

XP Investimentos
Corretora de Câmbio,
Títulos e Valores
Mobiliários S.A.

**Financial statements for the period
ended December 31, 2016 e 2015**

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Management report

To the

The Shareholders of

XP Investimentos Corretora de Câmbio, Títulos e Valores Mobiliários S.A.

Rio de Janeiro - RJ

We submit for your appreciation, the financial statements for the years ended December 31, 2016 and 2015, together with the explanatory notes and independent auditors' report.

We inform you that we maintained our operating policy during the period. Considering the regulations issued by the Central Bank of Brazil, we are at your disposal for any additional information you may require.

Risk management

Risk management is structured independently from business areas and reports directly to top management to ensure that there will be no conflict of interest and that duty segregation is adequate to corporate governance and market good practices.

Organization structure is outlined in accordance with recommendations made by the Basel Agreement, where policies, procedures and methodologies that are consistent with risk tolerance and business strategy are formalized and where several risks inherent to transactions and/or processes are monitored, including market, liquidity, credit, legal and operating risks.

These risk management processes are also associated to business continuity management processes, mainly regarding the formulation of impact analysis, continuity plans, disaster recovery plans, backup plans, crisis management, etc.

a. Market risk

Market risk management of transactions is conducted through policies, control procedures and previous identification of risks in new products and activities, aiming at maintaining market risk exposure at levels considered acceptable by the institution and complying with the business strategy and limits defined by the Risk Committee. After rules are formalized, Risk Department intends to control, monitor and ensure compliance with pre-established limits, and may refuse to receive and/or conduct requested transactions, fully or partially, through immediate communication to clients, in addition to intervening in case of non-compliance. It will report to the Committee all atypical events. Complete description of market risk management structure is available at the institution's head office.

b. Liquidity risk

The Liquidity Risk Management Policy was established based on the guidelines of Central Bank of Brazil, seeking to provide the permanent adequacy of management to the nature of the operations, the complexity of the products and the dimension of the exposure to liquidity risk of the Institution. The process of liquidity risk management establishes procedures of identification, measurement and control to the exposure to liquidity risk, considering the current market conditions and future forecasts in the preparation of scenarios for cash flow projections in different horizons of time, including intraday. Complete description of liquidity risk management structure is available at the Company's head office.

c. Operating Risk

The Company, in compliance with provisions of Article 4, paragraph 2, of the National Monetary Council (CMN) Resolution no. 3.380/2006, of June 27, 2006, has a structure of operating risk management that encompasses preparation of institutional policies, evaluation and monitoring of processes and procedures for risk mitigation, contingency plans and strategies to ensure business continuity, in addition to formalization of a single structure required by regulatory agency. Complete description of operating risk management structure is available at the Company's head office.

Rio de Janeiro, March 22, 2017.
Executive Board.

Members of the Executive Board

Julio Capua Ramos da Silva
Guilherme Dias Fernandes Benchimol

Jairo Luiz de Araujo Brito
Accountant
CRC RJ-110743/O-4



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Independent auditor's report on financial statements

To the
Management and Shareholders of
XP Investimentos Corretora de Câmbio, Títulos e Valores Mobiliários S.A.
Rio de Janeiro - RJ

Opinion

We have audited the financial statements of XP Investimentos Corretora de Câmbio, Títulos e Valores Mobiliários S.A. ("Company"), which comprise the balance sheet as at December 31, 2016 and the respective statements of income, changes in shareholders' equity and cash flows for the six month period and year then ended, as well as the summary of the significant accounting practices and other explanatory notes, including significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of XP Investimentos Corretora de Câmbio, Títulos e Valores Mobiliários S.A. as at December 31, 2016, the performance of its operations and its cash flows, for the six month period and year then ended, in accordance with the accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Central Bank of Brazil - BACEN.

Basis for opinion

Our audit was conducted in accordance with Brazilian and international standards on auditing. Our responsibilities, under those standards, are further described in the following section, titled "Auditor's Responsibilities for the Auditing of Financial Statements." We are independent in relation to the Company, according to the relevant ethical principles established in the Accountants' Professional Code of Ethics and the professional standards issued by the Federal Accounting Council, and we comply with the other ethical responsibilities according to these standards. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

Other information accompanying the financial statements and the auditor's report

The Company's management is responsible for such other information that comprises the Management Report.

Our opinion on the financial statements does not cover the Management's Report and we do not express any form of audit conclusion on such report.



Regarding the audit of financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is, on all material respects, inconsistent with the financial statements or with our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the performed work, we conclude that there is material misstatement in the Management Report, we are required to report such fact. We do not have anything to report on this respect.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Company's Management is responsible for the preparation and adequate presentation of these financial statements in accordance with the accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Central Bank of Brazil and for such internal controls as management determines is necessary to enable the preparation of these financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of financial statements, management is responsible for assessing the ability of the Company to continue as going concern, disclosing, as applicable, matters related to its going concern and the use of this basis of accounting in preparing the financial statements, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are the people responsible for overseeing the Company's financial reporting process.

Responsibilities of the auditor regarding the audit of financial statements

Our objectives are to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatements, regardless of whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but not a guarantee that the audit conducted in accordance with Brazilian and international auditing standards will always detect a material misstatements. Misstatements can arise from fraud or error and are considered material if, individually or aggregate, they could reasonably be expected to influence the economic decisions of users taken based on these financial statements.

As part of the audit conducted in accordance with Brazilian and international auditing standards, we exercise professional judgment and maintain our professional skepticism throughout the audit. In addition:

- Identify and assess the risks of material misstatement in the financial statements (regardless of whether any such misstatement is caused by fraud or error), we plan and perform audit procedures in response to such risks, and we obtain audit evidence that is appropriate and sufficient to underpin our opinion. The risk of not detecting material misstatement resulting from fraud is higher than that arising from error, once the fraud may involve the act of dodging the internal controls, collusion, falsification, omission or false intentional representations.
- Obtain an understanding of the internal controls relevant to the audit to design auditing procedures suitable to the circumstances, but not with the aim of expressing an opinion on the effectiveness of the Company's internal controls.



- Evaluate the adequacy of the accounting policies used and the reasonableness of the accounting estimates and the respective disclosures made by the management.
- Conclude as to the suitability of Management's use of the accounting basis for going concern and, based on the audit evidence obtained, as to whether there is a material uncertainty regarding events or conditions that could raise a significant doubt regarding the Company capacity for going concern. If we conclude that there is material uncertainty, we will call attention in our audit report to the respective disclosures in the financial statements or include any change in our opinion, if the disclosures are inappropriate. Our conclusions are based on the audit evidences obtained until the date of our report. However, future events or conditions may cause the Company not to continue as going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements represent the corresponding transactions and events in a manner that is consistent with the objective of proper reporting.

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

São Paulo, March 22, 2017

KPMG Auditores Independentes
CRC 2SP014428/O-6
Original report in portuguese signed by
João Paulo Dal Poz Alouche
Accountant CRC SP-245785/O-2

XP Investimentos Corretora de Câmbio, Títulos e Valores Mobiliários S.A.
Statements of financial position as at December 31, 2016 and 2015
(In thousands of reais)

Assets	Note	2016	2015
Current assets		4,424,312	2,216,361
Cash and cash equivalents	4	2,197	2,067
Interbank investments	4, 5a	1,191,303	419,531
Money market investments		1,191,303	419,531
Securities and derivative financial instruments	6a, 7	1,229,082	608,639
Own portfolio		761,241	361,734
Subject to repurchase clause		2,098	1,851
Derivative financial instruments		67,313	12
Subject to guarantees provided		398,430	245,042
Loans		-	420
Financing - securities		-	420
Other credits		1,981,301	1,168,471
Foreign exchange portfolio		551	23,821
Income receivable	8	21,897	5,813
Securities clearing accounts	9	1,878,077	1,075,349
Taxes and contributions recoverable	10	8,563	19,999
Tax credits	15	56,518	30,389
Other	10	18,421	13,774
(Allowance for other doubtful accounts)		(2,726)	(674)
Other assets		20,429	17,233
Prepaid expenses	12	20,429	17,233
Long-term assets		143,724	77,651
Securities and derivative financial instruments	7	16,975	327
Derivative financial instruments		16,975	327
Other credits		104,974	49,599
Income receivable	8	914	-
Tax credits	15	102,738	49,599
Other	10	1,322	-
Other assets		21,775	27,725
Prepaid expenses	11	21,775	27,725
Fixed assets		167,053	166,426
Investments	14a	116,409	130,725
Fixed assets for use	14b	24,561	15,622
Intangible assets	14c	26,083	20,079
Total assets		4,735,089	2,460,438

XP Investimentos Corretora de Câmbio, Títulos e Valores Mobiliários S.A.
Statements of financial position as at December 31, 2016 and 2015
(In thousands of reais)

Liabilities	Note	2016	2015
Current liabilities		3,972,413	2,021,573
Money market repurchase commitments	13	774,233	262,168
Own portfolio		2,097	1,851
Third-party portfolio		772,136	260,317
Derivative financial instruments		66,923	-
Derivative financial instruments	7	66,923	-
Other obligations		3,131,257	1,759,405
Collection and levy of taxes and alike		232	55
Foreign exchange portfolio		1,694	23,821
Social and statutory	16f, 24	106,968	66,728
Tax and social security	11	27,974	9,659
Securities clearing accounts	9	2,933,795	1,622,262
Other	10	60,594	36,880
Long-term liabilities		20,151	2,826
Derivative financial instruments		16,790	322
Derivative financial instruments	7	16,790	322
Other liabilities		3,361	2,504
Other	10	3,361	2,504
Deferred income		228	325
Shareholders' equity	16	742,297	435,714
Capital			
Domestic		408,045	232,834
Capital increase (pending approval)		-	55,211
Capital reserves		224,649	120,247
Profit reserves		109,740	27,428
Equity valuation adjustments		(137)	(6)
Total liabilities		4,735,089	2,460,438

See the accompanying notes to the financial statements.

XP Investimentos Corretora de Câmbio, Títulos e Valores Mobiliários S.A.

Statements of income

for the six-month period ended December 31, 2016 and years ended December 31, 2016 and 2015

(In thousands of reais, except earnings per share and quantity of shares)

		2016	2015
	Note	2nd Semester	Year
		Year	Year
Financial intermediation income		261,644	474,861
Loans		422	728
Securities income		250,103	455,640
Income from derivative financial instruments	7	10,658	17,144
Foreign exchange operations		461	1,349
		261,644	474,861
Financial intermediation expenses		(40,463)	(58,833)
Money market repurchase agreements	5b	(39,224)	(57,064)
Loans and onlendings		(3)	(9)
Allowance for doubtful accounts		(1,236)	(1,760)
		(40,463)	(58,833)
Gross income (loss) from financial intermediation		221,181	416,028
Other operating income/(expenses)		(29,708)	(91,728)
Service fee income	17	338,297	557,694
Personnel expenses		(40,958)	(81,253)
Other administrative expenses	20	(280,574)	(488,857)
Income (loss) from investments	14a	3,444	8,709
Tax expenses		(48,113)	(81,104)
Other operating income	18	15,234	24,516
Other operating expenses	19	(17,038)	(31,433)
		(29,708)	(91,728)
Operating income		191,473	324,300
Non-operating income		15	(1,183)
Income (loss) before taxation and profit sharing		191,488	323,117
Income and social contribution taxes	15d	(48,536)	(81,119)
Provision for income tax		(14,348)	(24,860)
Provision for contribution		(13,263)	(21,807)
Deferred tax assets		(20,925)	(34,452)
		(48,536)	(81,119)
Employee profit sharing	24	(79,530)	(132,248)
Net income for the semester/years		63,422	109,750
Net earnings per share:		0.02	0.04
		0.02	0.03

See the accompanying notes to the financial statements.

XP Investimentos Corretora de Câmbio, Títulos e Valores Mobiliários S.A.

Statement of changes in shareholders' equity

for the six-month period ended December 31, 2016 and years ended December 31, 2016 and 2015

(In thousands of reais)

	Capital	Capital increase	Capital reserves	Profit reserve		Equity valuation adjustment	Retained earnings	Total
				Legal reserve	Statutory reserve			
Balances at January 1, 2015	79,509	153,325	120,247	4,518	24,433	-	-	382,032
Capital increase approved (Note 16a)	153,325	(153,325)	-	-	-	-	-	-
Capital increase (Note 16a)	-	55,211	-	-	-	-	-	55,211
Adjustment to market value of financial assets available for sale	-	-	-	-	-	(6)	-	(6)
Net income for the year	-	-	-	-	-	-	87,221	87,221
Distribution of profit								
Payment of dividends	-	-	-	-	(24,433)	-	(64,311)	(88,744)
Formation of reserves	-	-	-	4,361	18,549	-	(22,910)	-
Balances at December 31, 2015	232,834	55,211	120,247	8,879	18,549	(6)	-	435,714
Changes in the year	153,325	(98,114)	-	4,361	(5,884)	(6)	-	53,682
Balances at January 1, 2016	232,834	55,211	120,247	8,879	18,549	(6)	-	435,714
Capital increase approved (Note 16b)	55,211	(55,211)	-	-	-	-	-	-
Capital increase (Note 16b)	120,000	-	-	-	-	-	-	120,000
Adjustment to market value of financial assets available for sale	-	-	-	-	-	(131)	-	(131)
Share premium reserve (Note 16c)	-	-	104,402	-	-	-	-	104,402
Net income for the year	-	-	-	-	-	-	109,750	109,750
Distribution of profit								
Dividends payable	-	-	-	-	-	-	(27,438)	(27,438)
Formation of reserves	-	-	-	-	82,312	-	(82,312)	-
Balances at December 31, 2016	408,045	-	224,649	8,879	100,861	(137)	-	742,297
Changes in the year	175,211	(55,211)	104,402	-	82,312	(131)	-	306,583
Balance at July 1, 2016	408,045	-	120,247	8,879	18,549	(22)	46,328	602,026
Capital increase	-	-	-	-	-	-	-	-
Net income for the semester	-	-	-	-	-	-	63,422	63,422
Adjustment to market value of financial assets available for sale	-	-	-	-	-	(115)	-	(115)
Share premium reserve (Note 16c)	-	-	104,402	-	-	-	-	104,402
Distribution of profit								
Dividends payable	-	-	-	-	-	-	(27,438)	(27,438)
Formation/Decrease in reserves	-	-	-	-	82,312	-	(82,312)	-
Balances at December 31, 2016	408,045	-	224,649	8,879	100,861	(137)	-	742,297
Changes in the semester	-	-	104,402	-	82,312	(115)	(46,328)	140,271

See the accompanying notes to the financial statements.

XP Investimentos Corretora de Câmbio, Títulos e Valores Mobiliários S.A.

Statements of cash flows

for the six-month period ended December 31, 2016 and years ended December 31, 2016 and 2015

(In thousands of reais)

	2016	2015
	2nd Semester	Year
	Year	Year
Cash flow from operating activities		
Net income for the period/year	63,422	109,750
Adjustments to net income		
Provision for income and social contribution taxes - Current and deferred	48,536	81,119
Allowance for other doubtful accounts	1,236	1,760
Provision for contingencies	2,238	2,400
Depreciation and amortization	17,038	33,836
Employee profit sharing	79,530	132,248
Income (loss) from interest	(3,444)	(8,709)
Adjusted net income	208,556	352,404
	214,735	214,735
Changes in operating assets and liabilities	75,532	(424,687)
(Increase) decrease in interest earning bank deposits	(675,432)	(772,136)
(Increase) in securities and derivative financial instruments (Assets and liabilities)	(131,044)	(553,700)
Decrease in credit operations	2,030	420
(Increase) decrease in other credits and assets	34,491	(790,869)
Increase in money market repurchase commitments	675,229	512,065
Increase in other liabilities	199,619	1,230,620
(Decrease) in deferred income	(48)	(97)
Income and social contribution taxes paid	(29,313)	(50,990)
	(26,810)	(26,810)
Net cash from/(used) in operating activities	284,088	(72,283)
Cash flow from investment activities		
Acquisition of property, plant and equipment	(6,476)	(17,144)
Disposals of property, plant and equipment	1,297	1,654
Acquisition of intangible assets	(9,343)	(12,462)
Disposal of intangible assets	-	799
Acquisitions of investments	-	(133,107)
Net cash from /(used) in investment activities	(14,522)	(27,952)
Cash flow from financing activities ^(a)		
Capital increase	-	120,000
Dividends paid	-	(20,000)
Net cash from /(used in) financing activities	-	100,000
Increase/(decrease) in cash and cash equivalents	269,566	(235)
Cash and cash equivalents at the beginning of the period/year	151,797	421,598
Cash and cash equivalents at the end of the period/year	421,363	421,363

^(a) There are significant operations relating to corporate restructuring that have not affected cash; thus, they are not presented in this Statement of Cash Flows. For more information, see note 16.

See the accompanying notes to the financial statements.

Notes to the financial statements

(In thousands of Reais, unless otherwise indicated)

1 Operations

XP Investimentos Corretora de Câmbio, Títulos e Valores Mobiliários S.A (Company) is a privately-held organization headquartered at Avenida das Américas 3.434, bloco 7 - 2º andar, Barra da Tijuca, Rio de Janeiro, engaged in conducting transactions within the ambit of BM&FBOVESPA S.A - Bolsa de Valores, Mercadorias e Futuros ("BM&FBOVESPA S.A") on its own and on behalf of third parties, in addition to managing investment club portfolios.

The final parent company of the Company is XP Controle Participações S.A., which indirectly holds 50.3288% (53.7483% on December 31, 2015) of the capital of the Company.

2 Presentation of the financial statements

a. Statement of conformity

The Financial Statements of the Company are Management's responsibility, have been prepared based on Brazilian accounting practices applicable to institutions authorized to operate by the Central Bank of Brazil ("BACEN"), and are being presented in conformity with the Chart of Accounts for Institutions in the National Financial System - COSIF.

The preparation of the financial statements in accordance with accounting practices adopted in Brazil requires that management uses its judgment in determining and recording accounting estimates. Significant assets and liabilities subject to these estimates and assumptions include provision for contingencies and valuation of securities and derivative financial instruments. The settlement of transactions involving these estimates may result in significantly different amounts due to the lack of precision inherent to the process of their determination. Company reviews the estimates and assumptions periodically.

In order to adjust to the international accounting standards, the Accounting Pronouncement Committee - CPC issued a few standards and their respective interpretations, which will be applicable to the financial institutions only when approved by BACEN. The accounting pronouncements already approved by BACEN:

- CMN Resolution No. 3.566/08 - Asset Impairment (CPC 01).
- CMN Resolution No. 3.604/88 - Statement of cash flows (CPC 03).
- CMN Resolution No. 3.750/09 - Disclosure regarding related parties (CPC 05).
- CMN Resolution No. 3.823/09 - Provisions, Contingent Liabilities and Assets (CPC 25).
- CMN Resolution No. 3.973/11 - Subsequent event (CPC 24).
- Resolution No. 3.989/11 - Share-based Payment (CPC 10 (R1)).
- Resolution No. 4.007/11 - Accounting Policies, Change in Estimates, and Correction of Errors - (CPC 23).
- Resolution No. 4.144/12 – Basic Conceptual Pronouncement (CPC 00 ((R1)) issued by the Accounting Pronouncement Committee - (CPC), applicable where not in conflict with the standards issued by the National Monetary Council or by the Central Bank of Brazil – BACEN.
- Resolution No. 4.424/15 – Employees' Benefits (CPC 33(R1)).

To the present date, it is not possible to estimate when the other CPC accounting pronouncements will be approved by BACEN nor is the application of the regulations will be on prospective or retrospective basis.

Authorization for the conclusion of these financial statements was granted by the Executive Board of the Company on March 22, 2017.

3 Description of significant accounting practices

a. Statement of income

Income (loss) from transactions is determined in conformity with the accrual basis of accounting for the year, income and expenses are recorded in income (loss) in the period which they occur and always simultaneously when they are correlated, regardless of receipt or payment.

b. Cash and cash equivalents

Cash and cash equivalents include Cash and cash equivalents, money market investment (Own portfolio), interbank deposits and any other short-term investments with high liquidity, promptly convertible into a known cash amount and not subject to a significant change of value, as well as held to cover short-term cash commitments and not for investments or other purposes.

Operations are considered short-term when they mature in the same or in a period lower than 90 days from the acquisition date.

c. Interbank investments and money market repurchase commitments

Are recorded at cost of investment or acquisition, plus income accrued up to the balance sheet date and when applicable, less any provision for devaluation.

d. Securities and derivative financial instruments

Methodology applied to measure market value (probable realization value) of securities and derivative financial instruments is based on economic scenario and pricing models developed by Management, which include capturing average prices practiced in the market, data disclosed by several class associations, stock exchanges and commodities and futures exchanges applicable on balance sheet base date. Therefore, upon effective financial settlement of these items, results may differ from estimates.

Securities are classified based on criteria for accounting and evaluation of securities portfolio defined by BACEN Circular Letter No. 3.068/01 in accordance with Management's intention into three specific categories, complying with the following accounting criteria:

Trading securities - Securities acquired for the purpose of being frequently and actively negotiated, adjusted to market value with the corresponding entry to income (loss) for the year.

Securities available for sale - Securities that are not for classified as "trading" or "held to maturity". These securities are mark-to-market, net of tax effects, is recorded in a separate shareholders' equity account. Realized gains and losses are recognized in income (loss).

Securities held to maturity - Securities for which Management has the intention and the financial capacity to maintain in portfolio to maturity are accounted for at acquisition cost, plus income accrued in contra account to income (loss) for the year.

Securities classified in the Trading Securities category maturing at least 12 months are classified in the current assets in balance sheet, regardless of the maturity as determined by BACEN Circular Letter No. 3068/01.

Derivative financial instrument transactions carried out by the Company are classified according to Management's aim, balances are calculated in balance sheet and contracts' base value is recorded in a memorandum accounts. Futures contract adjustments are calculated on a daily basis per type of asset and respective maturity and recognized in income (loss) for the period. Forward transactions are recorded at the spot market quoted value, and amounts payable or receivable are scheduled for a future date and adjusted to present value. Option premiums are accounted for at cost and marked-to-market.

e. Share loans and short position in shares

Share loan (borrower position) and short position in shares are conducted in stock and commodities exchange (BM&FBOVESPA) and are appraised at average sales prices of the respective assets practiced in the market, based on data disclosed by several trade associations and stock, commodities and futures exchange, plus, when applicable, commissions, costs and financial charges incurred to the balance sheet date. Interest from rental of shares is recognized in specific account in the result.

f. Allowance for other doubtful accounts

The Company only operates with credit operations destined to acquisitions of shares, through financing margin account of certain clients. Allowance for other doubtful accounts is formed with basis on expected losses in the realization of trade accounts receivable for transactions conducted in the sessions of the BM&FBOVESPA S.A., as well as Central Bank of Brazil guidelines (art. 6 of Resolution No. 2.682/99).

g. Securities clearing accounts (amounts payable and receivable)

Represented by transactions in the Stock and Commodities Exchange behalf and by order of third parties. Brokerage fees for these transactions are classified as income, and service provision expenses are recognized upon transactions occurrence.

The main captions that are included in this accounting group are:

- Cash of registry and settlement – represented by the registry of the operations conducted in stock exchanges on its own and on clients' behalf;
- Debtors/Creditors Account pending settlement – represented by debtor or creditor balances of clients, in view of the performance of operations with fixed-income securities, shares, goods and financial assets, pending settlement on the balance sheet date.
- Clients' deposits in view stock exchange operations and investments to be made with the Company. Are presented at the effective deposit value, less payments already made of stock exchange and investments, not subject to restatement.

h. Prepaid expenses

Refer to amounts paid for benefits or rendering of services are to occur in future periods, recorded in assets and recognized in income under the accrual basis.

i. Other assets

Are stated at cost, including, when applicable, income and monetary variations earned, less corresponding provisions for losses or realization adjustments.

j. Investments

Investments in subsidiaries are valued by the equity method of accounting and recorded in equity in income. The goodwill from business combination is shown at its cost value, and will be amortized in up to 7 years, observing the expectation of future results and is subject to the evaluation of the recoverable value in annual periods or when there is indication of impairment.

k. Property, plant and equipment

Recorded at the cost of acquisition. Depreciation is calculated on a straight-line basis at the rates of 20% p.a. for data processing and security systems and work in progress and 10% p.a. for furniture and equipment and installations.

I. Intangible assets

Intangible assets are measured at acquisition cost, less accumulated amortization. The amortization of software is calculated on a straight-line basis at annual rates that reflect their estimated useful life, whereas the list of clients (related to the agreement of transfer of the client base of Um Investimentos) is amortized based on the expected future profitability, with estimated conclusion on June 2019.

m. Asset impairment

CPC 01 (R1) - Asset Impairment establishes that the entities must perform regular analysis to verify the degree of recoverable value of its assets.

Non-financial asset impairment is recognized as loss when the book value of an asset or of a cash generating unit is higher than its recoverable or realization value. A cash generating unit is the smallest identifiable group of assets which generates cash flows substantially independent from other assets or groups of assets. Impairment losses, when applicable, are recorded in income (loss) for the period in which they were identified.

The book values of the non-financial assets are regularly reviewed at least once a year for indication of impairment or realization of those assets.

Accordingly, in compliance with the related standards, Management is not aware of any relevant adjustment that might affect the ability to recover the values recorded as of December 31, 2016 and 2015.

n. Other liabilities

Are stated at known or calculable amounts, plus, when applicable, the corresponding charges and monetary and exchange variations incurred through the balance sheet date.

o. Contingent assets and liabilities, provisions and legal obligations

Recognition, measurement and disclosure of contingent assets and liabilities and of legal obligations are conducted in accordance with criteria defined in CPC 25 – Provisions, Contingent Liabilities and Contingent Assets approved by the CMN Resolution No. 3.823/09, as follows:

- Contingent assets - Are not recognized in the financial information unless when the realization of gain is virtually certain and, in this case, the related asset is no longer a contingent asset and its recognition is appropriate.
- Contingent liabilities – are evaluated by legal advisors and Management, taking into consideration the possibility of loss in lawsuit or administrative proceeding that may generate a reliably measurable disbursement. Provisions are formed for lawsuits classified as probable losses by the legal advisors and disclosed in the notes, when the lawsuits are uncertain and depend on future events to determine if there is likelihood of disbursement; therefore, provisions are not recorded for them, but they are disclosed if classified as possible loss. and a provision is not recorded nor are they disclosed if classified as remote loss.
- Legal obligations (tax and social security) - refer to lawsuits challenging the legality and constitutionality of the federal taxes. The amount discussed is quantified, accrued and updated on monthly basis.

p. Income and social contribution taxes

The provision for income tax, when applicable, is recorded based on taxable income, at the rate of 15%, plus a surcharge of 10% on annual taxable income in excess of R\$ 240.

Law no. 13.169, enactment of Provisional Measure no. 675, was published on October 6, 2015 and raised Social Contribution on Net Income (CSLL) rate from 15% to 20% on taxable income generated in the period from September 1, 2015 to December 31, 2018 and 15% beginning as of January 1, 2019, in relation to financial institutions, legal entities engaged in private insurance, capitalization, and those referred to in items I to VII, IX and X of paragraph 1 of Article 1 of Supplementary Law no. 105, of January 10, 2001.

Deferred taxes were formed, on temporary differences, at the rate of 25% for income tax and 20% for social contribution, once that provision for taxable income will result in the full realization of tax credit before the rate of 20% becomes effective (as from January 1, 2019) and 25% (up to December 31, 2018).

q. Earnings per share

Income per share presented in the income (loss) is calculated based on the number of outstanding shares on balance sheet date.

4 Cash and cash equivalents

	2016	2015
Cash	2,197	2,067
Interbank investments	419,166	159,214
Total	421,363	161,281

5 Interbank investments

a. Money market repurchase commitments

	2016	2015
Own portfolio	419,166	159,214
National Treasury Bill - LTN	60,059	89,061
Financial Treasury Bill - LFT	97,070	-
National Treasury Notes - B Series	222,123	30,244
Debentures	39,914	39,909
Financed Operations	772,137	260,317
National Treasury Bill - LTN	-	260,317
National Treasury Notes - B Series	772,137	-
Total	1,191,303	419,531

Money market interbank investments, on December 31, 2016, mature in the first business day of the subsequent month and were practiced at a prefixed average rate of 13.65% p.a. (2015: 14.11% p.a.).

b. Income (loss) from Interbank investments

Classified in the income (loss) as securities income.

	2016	2015
	2nd Semester	Year
Own portfolio	17,018	17,258
National Treasury Bill - LTN	8,136	11,995
National Treasury Notes – NTN	7,315	12,160
Financial Treasury Bill - LFT	958	3,403
Debentures	609	801
Financed Operations	1,096	1,678
National Treasury Bill - LTN	(1)	(26)
Financial Treasury Bill - LFT	1,600	2,226
National Treasury Notes – NTN	(503)	(950)
Total	18,114	29,609

6 Securities

a. Asset position

	2016					
Trading securities	Without maturity	Up to 3 months	3–12 months	>12 months	Market value	Cost
Own portfolio	184,916	17,726	5,483	553,116	761,241	762,080
Fixed income securities	-	17,726	5,483	553,116	576,325	577,134
National Treasury Bill - LTN	-	2,922	189	3,211	6,322	6,308
Financial Treasury Bill - LFT	-	11,751	279	461,733	473,763	473,766
National Treasury Notes - B Series	-	-	113	6,754	6,867	6,728
National Treasury Notes - F Series	-	382	-	2,360	2,742	2,864
Bank deposit certificates	-	656	4,097	6,482	11,235	11,333
Certificates of Agribusiness Receivables	-	-	319	18,589	18,908	19,143
Certificates of real estate receivables	-	-	-	10,664	10,664	10,789
Financial Bills	-	-	-	869	869	880
Bills of exchange	-	97	92	198	387	388
Real estate credit note	-	-	66	119	185	183
Agribusiness credit bills (LCA)	-	1,918	328	6,373	8,619	8,774
Debentures	-	-	-	35,764	35,764	35,978
Variable income securities	22	-	-	-	22	52
Shares of listed companies	22	-	-	-	22	52
Investment Fund Quotas	184,894	-	-	-	184,894	184,894

Subject to purchase and sale commitments	-	-	-	2,098	2,098	2,098
Fixed income securities	-	-	-	2,098	2,098	2,098
Financial Treasury Bill - LFT	-	-	-	2,098	2,098	2,098
Subject to guarantees provided	-	12,038	-	386,392	398,430	398,455
Fixed income securities	-	12,038	-	386,392	398,430	398,455
Financial Treasury Bill - LFT	-	12,038	-	386,392	398,430	398,455
Securities	184,916	29,764	5,483	941,606	1,161,769	1,162,633

Trading securities					2015	
	Without maturity	Up to 3 months	3–12 months	>12 months	Market value	Cost
Own portfolio	180,400	118	7,052	174,164	361,734	362,488
Fixed income securities	-	118	7,052	174,164	181,334	182,047
National Treasury Bill - LTN	-	86	2	2,426	2,514	2,536
Financial Treasury Bill - LFT	-	-	1,377	128,298	129,675	129,656
National Treasury Notes - B Series	-	-	99	6,920	7,019	7,086
National Treasury Notes - F Series	-	-	-	348	348	280
Bank deposit certificates	-	-	5,531	5,783	11,314	11,314
Certificates of Agribusiness Receivables	-	-	-	3,404	3,404	3,655
Bills of exchange	-	-	-	96	96	96
Agribusiness credit bills (LCA)	-	32	43	394	469	469
Debentures	-	-	-	26,495	26,495	26,955
Variable income securities	1,162	-	-	-	1,162	1,203
Shares of listed companies	137	-	-	-	137	148
Receipt for loans	1,025	-	-	-	1,025	1,055
Investment Fund Quotas	179,238	-	-	-	179,238	179,238
Subject to purchase and sale commitments	-	-	-	1,851	1,851	1,851
Fixed income securities	-	-	-	1,851	1,851	1,851
Financial Treasury Bill - LFT	-	-	-	1,851	1,851	1,851
Subject to guarantees provided	-	-	-	245,042	245,042	245,008
Fixed income securities	-	-	-	245,042	245,042	245,008
Financial Treasury Bill - LFT	-	-	-	245,042	245,042	245,008
Securities	180,400	118	7,052	419,206	606,776	607,496

Securities classified in the Trading Securities category maturing at least 12 months are classified in the current assets as determined by BACEN Circular Letter No. 3068/01.

Securities' market value is based on price quotation on balance sheet date. If no market price quotation is available, the values are estimated based on quotations from distributors or pricing models.

Securities, including derivative financial instruments and interbank investments are under the custody of Companhia Brasileira de Liquidação e Custódia (CBLC), Balcão Organizado de Ativos e Derivativos - GETIP, SELIC or BM&FBOVESPA S.A., except investment fund quotas whose records are maintained by respective managers.

b. Liability position

	2016		2015	
	Cost	Market	Cost	Market
Variable income securities				
Shares of listed companies - Short position	-	-	7	7
Share loan – Borrower position	-	-	1,826	1,025
Current liabilities	-	-	1,833	1,032

The sold positions of shares and loans of shares contracted are presented in liabilities under Other Obligations – Securities clearing accounts – note 9.

The loans of shares – borrower position refer to operations with variable income securities classified in current liabilities as "Securities clearing accounts". The obligations were appraised based on average quotations of the securities disclosed by BM&FBOVESPA on the balance sheet date.

	2016				
	Up to 3 months	3–12 months	>12 months	Book value	Reference value
Liability position					
Swap					
TJLP x CDI	94	281	934	1,309	301,659
CDI x IPCA	-	-	174	174	6,500
IPCA x CDI	63,596	1,951	13,408	78,955	9,728,868
IGPM x CDI	159	248	2,274	2,681	260,000
CDI x IGPM	594	-	-	594	50,000
Derivative financial instruments - liabilities	64,443	2,480	16,790	83,713	10,347,027
	2015				
	Up to 3 months	3–12 months	>12 months	Book value	Reference value
Liability position					
Swap					
CDI x IPCA	-	-	225	225	6,500
CDI x IGPM	-	-	97	97	50,000
Derivative financial instruments - liabilities	-	-	322	322	56,500

Derivative financial instrument net income and expenses in the years are as follows:

	2016	2015
	2nd Semester	Year
Derivative financial instruments		
Options	(242)	(246)
Futures	10,404	16,661
Forward transactions	2	6
Swap	494	723
Total	10,658	17,144
		(8,608)

8 Income receivable

	2016	2015
Dividends receivable - Clear	2,069	-
Other receivables ^(a)	20,742	5,813
	22,811	5,813
Current	21,897	5,813
Long-term assets	914	-

^(a) Refers to amounts receivable from rebate of management and performance fees deriving from distribution of funds and also amounts receivable for the provision of services, which an average maturity of 30 days. There is no concentration of receivable balances for December 31, 2016 and 2015.

9 Securities clearing accounts

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
Clearinghouse transactions	1,474,544	1,599,597	966,194	915,428
Debtors/creditors for outstanding settlement - current account clients	400,596	1,327,804	107,204	691,482
Other credits - Securities clearing accounts	2,435	-	676	-
Commissions and brokerage fees payable	-	6,394	-	14,320
Share loan creditors (Note 6b)	502	-	1,275	1,025
Shares of listed companies - Short position (Note 6b)	-	-	-	7
Total	1,878,077	2,933,795	1,075,349	1,622,262

10 Recoverable taxes, other credits and other liabilities - Sundry

Assets	2016	2015
Salary advances	112	7
Advances to payments of our account	1,079	1,033
Advances for the acquisition of property, plant and equipment	-	283
Acknowledgment of debt with autonomous investment agent	3,770	1,994
Debtors in purchase of assets	-	28
Debtors due to guarantee deposits	4,021	1,912
Receivables from associated companies	965	3,062
Reimbursement of fund expenses	197	2,312
Reimbursement of rates of stock exchange operations	5,415	3,089
Other credits receivable	4,184	54
Total other credits – sundry	19,743	13,774
Taxes and contributions recoverable (a)	8,563	19,999
Total	28,306	33,773
Current	26,984	33,773
Long-term assets	1,322	-
	2016	2015
Liabilities		
Liabilities for assets and rights ^(b)	2,423	17,646
Personnel expenses payable	9,683	2,460
Amounts payable - Associated companies	5,423	1,592
Provision for lawsuits (Note 22)	3,361	2,504
Sundry creditors	214	29
Other liabilities ^(c)	42,851	15,153
Total	63,955	39,384
Current	60,594	36,880
Long-term assets	3,361	2,504

^(a) Refer mainly to unused values of prepaid income and social contribution taxes for the years 2016, 2015, 2014, 2013 and 2012, in the amount of R\$ 8,244 (R\$ 19,890 on December 31, 2015). Include, also, offsetable taxes (PIS, COFINS, CIDE, ISS) in the amount of R\$ 319 (R\$ 109 on December 31, 2015).

^(b) As of December 31, 2015, they refer to an additional earn-out installment provision due to acquisition of Clear Investimentos, in the amount of R\$10,730 (settled in 2016), and provision of agreement for the transfer of Um Investimentos client basis, in the amount of R\$ 6,916, both depending on achievement of certain goals.

^(c) Refer to amounts recorded as provision for autonomous investment agents, and suppliers in domestic and foreign currency amounting to R\$ 36,548 (R\$11,520 on December 31, 2015), and other administrative expenses in the amount of R\$ 6,303 (R\$ 3,633 on December 31, 2015).

11 Other liabilities - Tax and social security

	2016	2015
Deferred income and social contribution taxes	338	26
Taxes and contributions on outsourced services	3,749	1,856
Taxes and contributions on salaries	4,112	1,393
Provisions for income and contributions on income	4,685	-
Taxes on client retention	6,150	1,776
PIS and COFINS	5,189	2,613
ISS	3,469	1,498
Others	282	497
Total current	27,974	9,659

^(a) Refers substantially to IRRF (Withholding Income Tax), ISS (Service Tax), PIS and Cofins payable.

12 Other assets

On April 1, 2011, the Company contracted Wolwacz & Ruschel Ltda. ("WR"), company that operates in the Educational area, giving courses related to the financial market, in order to perform educational events related to its operation. The events include, without limitation, courses, seminars, workshops and lectures. The realization includes the creation, promotion and organization of the Event by WR with all the inherent costs.

Besides these services, WR offers projects of operating strategies to the variable-income market, which may be inserted as tools to be used by all the clients of the Company in the home broker. In addition, its educational services include the disclosure of the Company's trademark and the indication of the latter to the participants of the courses offered by WR who are interested in carrying out operations in the financial market.

Under the agreement, the Company paid the amount of R\$ 5,250, whose expense is being amortized over the life of the agreement, which is ten years.

During the first semester of 2014, the Company implemented a campaign of incentive to the attraction of new clients (Pan – Program of business acceleration) with its network of autonomous agents, offering prepaid remuneration mainly to increase the raising of funds and consequently increase income that will be generated over time for these investments.

This campaign establishes the payment of a financial incentive to activate new accounts and increase custody. Management classified these payments as prepaid expenses and, in accordance with technical study, are being recognized in income (loss) over four years on a straight-line basis.

Prepaid expense presents the following consolidated breakdown:

	2016	2015
Wolwacz & Ruschel Ltda.	2,360	2,888
Use licenses ^(a)	-	10,906
Pan – Program of business acceleration	29,789	19,598
Prepaid expenses ^(b)	10,055	11,566
Total	42,204	44,958
Current	20,429	17,233
Long-term assets	21,775	27,725
Total	42,204	44,958

^(a) As of December 31, 2015, refer to contracts for software license of use whose term is up to one year. On December 31, 2016, all licenses of use were recorded as intangible assets; changes in the period did not impact the Company's cash.

^(b) Includes substantially prepaid expenses related to new hires of traders, whose contractual term is up to 3 years.

13 Money market repurchase commitments

	2016	2015
Own portfolio	2,097	1,851
Financial Treasury Bill - LFT	2,097	1,851
Third-party portfolio	772,136	260,317
Financial Treasury Bill - LFT	-	260,317
National Treasury Notes - B Series	772,136	-
Total	774,233	262,168

14 Permanent asset

a. Investments

Information on the subsidiary is as follows.

	Company	Capital	Shareholders' equity	Net income	Interest
Clear CTVM	23,142	35,140	8,709	100%	

Changes in investment balance are in the following table:

Balance at December 31, 2015	130,725
Equity income (loss)	8,709
Adjustments of securities available for sale - Subsidiaries	(131)
Dividends receivable	(2,069)
Amortization - Goodwill based on future profitability	(12,314)
Amortization - Relationship with clients	(8,308)
Amortization - Technology	(86)
Amortization - Brand	(117)
Balance at December 31, 2016^(a)	116,409

^(a) Refer to investments in subsidiary in the amount of R\$ 33,071, goodwill on expected future profitability of R\$ 78,686 and intangibles of R\$ 4,652.

On July 24, 2014, the Company signed a Share Purchase Agreement ("Agreement") with the shareholders of Clear Corretora de Títulos e Valores Mobiliários S/A ("Clear"), amended on September 29, 2015 and on December 30, 2015, so as to regulate the acquisition of the total shares issued by Clear ("Operation"), being such operation conditioned to the approval by the Central Bank of Brazil.

The Central Bank of Brazil sent a letter to the Company on September 3, 2015, approving the realization of all the procedures required to close the operation. With this preliminary approval, on September 29, 2015, the operation was closed with the consequent payment of the base price of R\$ 55,000 (fifty-five million reais), restated by the DI rate variation from July 24, 2014 to September 3, 2015, whereby Clear became a wholly-owned subsidiary of the Company. Subsequently, the shareholders of Clear became shareholders of XP Controle Participações S/A, indirect parent company of the Company.

After completion, Central Bank of Brazil finally approved transaction on December 18, 2015, as disclosed in Official Gazette no. 243 of December 21, 2015, Section 3, page 99.

In addition to the base price and pursuant to the Agreement and further amendments, on December 30, 2015, Company paid an addition to the base price in the total certain and adjusted amount of R\$ 53,087 to the shareholders of Clear. Base price may be added of certain amounts depending on achievement of certain goals, therefore, on December 31, 2015, a provision of R\$10,730 was recorded for estimated fair value, as described in note 10.

Identified intangibles assets and their amortization periods are: Clients' relations in the amount of R\$ 11,078 (20 months), Technology R\$ 209 (36 months) and Brand 1,877 (240 months), and goodwill on future profitability in the amount of R\$ 91,000 (up to 2022).

b. Fixed assets for use

	Construction in process	Data processing system	Machinery and equipment	Security systems	Facilities	Total
Balance at 12/31/2015	-	5,425	4,692	533	4,972	15,622
Additions	4,470	7,171	604	-	4,899	17,144
Disposals/write-offs	(1,043)	(390)	(116)	-	(105)	(1,654)
Transfers	(2,366)	227	1,586	-	553	-
Accumulated depreciation	-	(2,888)	(709)	(75)	(2,879)	(6,551)
Balance at 12/31/2016	1,061	9,545	6,057	458	7,440	24,561
Balance at 12/31/2014		4,915	5,101	607	2,547	13,170
Additions	-	3,921	797	10	2,803	7,531
Disposals/write-offs	-	(1,343)	(279)	(11)	(119)	(1,752)
Transfers	-	23	16	-	53	92
Transfers	-	(2,091)	(943)	(73)	(312)	(3,419)
Balance at 12/31/2015	-	5,425	4,692	533	4,972	15,622

c. Intangible assets

	Software	Intangible assets developed internally	List of clients	Total
Balance at 12/31/2015	6,832	2,331	10,916	20,079
Additions	10,363	2,099	-	12,462
Accumulated amortization	(1,847)	(144)	(4,467)	(6,458)
Balance at 12/31/2016	15,348	4,286	6,449	26,083
Balance at 12/31/2014	6,061	2,671	-	8,732
Additions	2,274	815	10,916	14,005
Disposals/write-offs	(141)	(658)	-	(799)
Transfers	(92)	-	-	(92)
Accumulated amortization	(1,267)	(500)	-	(1,767)
Balance at 12/31/2015	6,835	2,328	10,916	20,079

On November 24, 2015, the Company signed an Agreement of Transfer of the Client Base with UM Investments, a company that operates in the same segment, with the purpose of transferring UM's client list to the Company together with the corresponding assets under custody, including all the rights related to these clients.

The contractual terms were agreed so as to enable such transfer of the client portfolio, with express non-compete clause, including commitment during the whole process of migration of that client base. As compensation for such transfer of the client base, the Company agreed to pay R\$ 10,916, which will be amortized in 43 months. Up to December 31, 2016, the residual balance payable was R\$ 2,423 (Note 10).

15 Income and social contribution taxes

a) Deferred taxes

Pursuant to Resolution No. 3.059/02, amended by Resolution No. 3.355/06, both of BACEN, the Company accounts for its deferred tax assets and liabilities ("tax credits" and "deferred tax obligations") derived from temporary differences observing the following conditions: (i) presentation of profit or taxable income history for the purpose of income tax and social contribution on net income, proven by occurrence of these situations in, at least, three of the last five years, period that should include current year; and (ii) expected generation of future income or taxable income for income tax and social contribution on net income purposes, in subsequent periods, based on internal technical study that demonstrates likelihood of occurrence of future obligations with taxes and contributions that permit realization of tax credit in at most ten years.

b) Origin of tax credits and deferred tax liabilities

	Balance at 31/12/2015	Formation (Realization)	Balance at 31/12/2016
Income and social contribution taxes deferred on:			
Provisions for commissions for agents and bonus	1,371	(1,239)	132
Mark-to-market - Securities and derivative financial instruments	660	52	712
Tax credit from goodwill on acquisition of investments	76,652	79,321	155,973
Allowance for doubtful accounts and provisions for contingencies	1,305	1,134	2,439
Total tax credits on temporary differences	79,988	79,268	159,256
Current	30,389		56,518
Long-term assets	49,599		102,738
Total	79,988		159,256
	Balance at 31/12/2014	Formation (Realization)	Balance at 31/12/2015
Income and social contribution taxes deferred on:			
Provisions for commissions for agents and bonus	4,401	(3,030)	1,371
Mark-to-market - Securities and derivative financial instruments	69	591	660
Tax credit from goodwill on acquisition of investments	92,182	(15,530)	76,652
Tax loss and negative basis of social contribution	3,605	(3,605)	-
Allowance for doubtful accounts and provisions for contingencies	195	1,110	1,305
Total tax credits on temporary differences	100,452	(20,464)	79,988
Current	32,317		30,389
Long-term assets	68,135		49,599
Total	100,452		79,988

(c) Estimated realization of tax credit assets

	Temporary differences		
	Income tax	Social contribution	Total deferred taxes
In years:			
Up to 1	31,399	25,119	56,518
1-2	27,237	21,790	49,027
2-3	14,868	8,921	23,789
3-4	14,026	8,416	22,442
4-5	4,675	2,805	7,480
Total	92,205	67,051	159,256
Present value - Selic	74,326	54,976	129,302

The value of total tax credits is R\$ 159,256 (R\$ 79,988 on December 31, 2015), and was calculated based on the expectation of realization of temporary differences presented in the previous table.

Profit projections that enable the generation of taxable basis include macroeconomic assumptions, foreign exchange and interest rates and estimate of new financial operations, among others, which may significantly vary in relation to effective data and values.

(d) Reconciliation of income and social contribution taxes

Reconciliation of consolidated income and social contribution taxes:

	2016	2015
Income (loss) before taxation and profit sharing	323,117	205,448
Employee profit sharing	(132,248)	(77,346)
Income before IR/CSLL calculated based on taxable income	190,869	128,102
(+) additions	-	563
(-) Exclusions	(8,709)	(2,382)
(=) Income Tax/Social Contribution on Net Income/adjusted income negative basis (A)	182,160	126,283
Current and deferred IR/CSLL * without effect of CSLL increase (B)	(81,119)	(50,659)
Effect of CSLL increase, Law No. 13.169/15 on tax credit (C)	-	9,778
Current and deferred income and social contribution taxes (B + C + D) = (D)	(81,119)	(40,881)
Effective rate = (B / A) * without effect of CSLL increase (B)	45%	40%

16 Shareholders' equity

a) Capital

Capital in the amount of R\$ 408,045 (R\$ 288,045 on December 31, 2015) is represented by 1,370,818,780 common shares (1,370,818,780 on December 31, 2015) and 1,420,772,854 preferred shares class C (1,287,839,797 on December 31, 2015), with no par value.

b) Capital increase

On May 25, 2016, the extraordinary shareholders' meeting approved the capital increase of the Company, upon issuance of 132,933,057 new preferred shares, nominative and with no par value, at the total issue price of R\$ 120,000. This capital increase was approved by BACEN on August 26, 2016.

As of December 30, 2015, the Special Shareholders' Meeting approved the capital increase of the Company, upon issuance of 59,092,960 new common shares, nominative and with no par value, at the total issue price of R\$ 40,058. This capital increase was approved by BACEN on March 14, 2016.

As of September 30, 2015, the Special Shareholders' Meeting approved the capital increase of the Company, upon issuance of 23,849,226 new common shares, nominative registered and with no par value, at the total issue price of R\$ 15,153.

On April 13, 2015, the Central Bank of Brazil homologated the capital increase approved at the Special Shareholders' Meeting - AGE of November 1, 2013, derived from the approval of the protocol and justification of the Appraisal Report at book value of the total shareholders' equity of XP Holding Financeira S.A., then integral parent company of the Company, and its subsequent merger by the Company. As result of the merger of the assets and cash investments, net of liabilities recorded at XP Holding Financeira S.A., the capital stock of the Company was increased by R\$ 153,325, upon issuance of 1,431,458,836 nominative shares with no par value, of which 715,739,643 are common shares and 715,719,193 are preferred shares class C.

(c) Capital reserve

In the second semester of 2016, XP Controle 2 (indirect parent company of the Company) conducted a corporate restructuring. The Spun-off Portion, formerly held by GA Financeira, represented by 2,042,276 registered common shares, with no par value, of the capital of XP Controle 2 was initially received in treasury and immediately attributed to GA XP Participação, the sole shareholder of GA Financeira, with no XP Controle 2 capital increase or decrease.

As of August 29, 2016, with the base date on July 31, 2016, during a Special Shareholders' Meeting, GA Financeira XP S.A. definitely approved all the terms and conditions of the "Protocol for Justification of Partial Spin-off" and "Appraisal Reports" of Astic BD Holding Financeira S.A.; accounting criterion was adopted to evaluate net assets of the merged company. The operation consisted in the merger of Astic Financeira by GA Financeira. As a result of this transaction, Astic Financeira was terminated in accordance with the law and for all legal ends and effects, so that GA Financeira succeeded Astic Financeira in all its rights and obligations, pursuant to the terms of Article 227 of Law no. 6.404/76. The merger of Astic Financeira by Financeira did not result in capital increase of GA Financeira, since GA Financeira holds the total shares of Astic Financeira.

In an Special Shareholders' Meeting held on August 30, 2016, the Company definitely approved all terms and conditions of "Protocol for Justification of Merger" and "Appraisal Report" of GA Financeira XP S.A.

The Spun-off Portion, formerly held by GA Financeira, represented by 2,042,276 registered common shares, with no par value, of the capital of XP Controle 2 will be initially received in treasury and immediately attributed to GA XP Participação, the sole shareholder of GA Financeira, with no XP Controle 2 capital increase or decrease.

As of August 29, 2016, with the base date on July 31, 2016, during a Special Shareholders' Meeting, GA Financeira XP S.A. definitely approved all the terms and conditions of the "Protocol for Justification of Partial Spin-off" and "Appraisal Reports" of Astic BD Holding Financeira S.A.; accounting criterion was adopted to evaluate net assets of the merged company. The operation consisted in the merger of Astic Financeira by GA Financeira. As a result of this transaction, Astic Financeira was terminated in accordance with the law and for all legal ends and effects, so that GA Financeira succeeded Astic Financeira in all its rights and obligations, pursuant to the terms of Article 227 of Law no. 6.404/76. The merger of Astic Financeira by Financeira did not result in capital increase of GA Financeira, since GA Financeira holds the total shares of Astic Financeira.

In an Special Shareholders' Meeting held on August 30, 2016, the Company definitely approved all terms and conditions of "Protocol for Justification of Merger" and "Appraisal Report" of GA Financeira XP S.A.

Downstream merger of GA Financeira into the Company increased capital of the latter by R\$104,402, due to tax credit deriving from goodwill paid by GA Financeira based on expected future earnings, client portfolio and other intangible assets. Accordingly, the Company recorded deferred tax asset as a contra-entry to special goodwill reserve upon merger, capital reserve. This transaction is subject to approval by the Central Bank of Brazil.

(d) Legal reserve

Stated at the rate of 5% of net income recorded in each balance sheet up to 20% of capital, as provided in corporate legislation.

(e) Statutory reserve

Statutory reserve for investment and expansion is stated at the remaining net income balance recorded in balance sheet after legal deductions aiming at ensuring funds for investments. This reserve cannot exceed the capital stock.

(f) Dividends and interest on own capital

To the shareholders is guaranteed a minimum compulsory dividend of 25% of the net income for the year, after the specific allocation.

Of the income (loss) for 2016, it was declared the minimum mandatory dividend of R\$ 27,438, payable in year 2017.

On December 29, 2015, the special shareholders' meeting approved the distribution of dividends in the amount of R\$ 20,000 to the retained earnings' account. The amount was paid on January 22, 2016.

On August 25, 2015, the special shareholders' meeting approved the distribution of dividends in the amount of R\$ 20,000 to the retained earnings' account. The amount was paid on September 1, 2015.

On July 21, 2015, the Special Shareholders' Meeting approved the distribution of dividends in the amount of R\$ 35,000, and R\$ 10,689 to the statutory reserve account and R\$ 24,311 and at retained earnings account. The amount was paid in 2015. The amount was paid on July 21, 2015.

On March 4, 2015, the Special Shareholders' Meeting approved the distribution of dividends in the amount of R\$ 20,000 to the statutory reserve account. The amount was paid on March 4, 2015.

17 Service fee income

	2016		2015
	2nd Semester	Year	Year
Income from distribution of investment fund quotas	28,910	47,933	25,671
Income from brokerage in stock exchange operations	196,004	340,840	207,386
Income from commissions of issuing securities	92,953	123,113	52,707
Income from loan commissions - BTC	3,132	6,977	5,287
Income from custody services	2,632	8,761	8,588
Income from onlendings of bank fees	263	881	962
Income from allocation of letter of guarantee	11,463	23,105	14,935
Other	2,940	6,084	3,366
Total	338,297	557,694	318,902

18 Other operating income

	2016		2015
	2nd Semester	Year	Year
Recovery of charges and expenses	2,240	2,883	630
Fines received ^(a)	11,022	18,715	6,810
Interest on arrears	1	554	3,314
Dividends	257	257	-
Other	1,714	2,107	501
Total	15,234	24,516	11,255

^(a) Income from collection of fine of 0.3% per day on the negative balance of the current account, derived from financial settlements of stock exchange operations generated by the clients.

19 Other operating expenses

	2016		2015	
	2nd Semester	Year	Year	Year
Operating errors ^(a)	(9,742)	(20,004)	(6,506)	
Losses with clients ^(b)	(1,165)	(4,297)	(3,251)	
Fines	(144)	(285)	(2,741)	
Other	(5,987)	(6,847)	(2,092)	
Total	(17,038)	(31,433)	(14,590)	

^(a) Operating errors result from indemnities paid to clients by the Company mostly derived from errors in the performance of orders caused by flaws in the system or people.

^(b) Refers to losses from defaulting clients deriving from transactions in stock exchange.

20 Other administrative expenses

	2016		2015	
	2nd Semester	Year	Year	Year
Expenses with water, energy and gas	(254)	(349)	(284)	
Rental expenses	(3,247)	(6,624)	(8,471)	
Expenses with communications	(3,676)	(6,674)	(5,662)	
Expenses for maintenance and preservation of assets	(820)	(2,152)	(1,339)	
Material expenses	(33)	(130)	(211)	
Data processing expenses	(37,671)	(66,051)	(38,753)	
Promotion and public relations expenses	(459)	(1,230)	(1,618)	
Advertising and publicity expenses	(26,482)	(41,187)	(6,933)	
Publishing expenses	(31)	(57)	(122)	
Insurance costs	(16)	(23)	(18)	
Outside service expenses	(4,834)	(9,526)	(6,903)	
Surveillance and security expenses	(22)	(81)	(152)	
Financial service expenses (note 21)	(174,288)	(299,075)	(162,572)	
Specialized technical service expenses	(8,089)	(15,510)	(9,394)	
Transportation expenses	(389)	(965)	(878)	
Travel expenses	(1,344)	(2,424)	(2,811)	
Depreciation and amortization expenses	(17,038)	(33,834)	(5,186)	
Other administrative expenses	(1,881)	(2,965)	(1,016)	
Total	(280,574)	(488,857)	(252,323)	

21 Expenses with financial system services

	2016		2015	
	2nd Semester	Year	Year	Year
Autonomous agents of Investments	(163,727)	(281,818)	(150,146)	
Fees for processing and custody services rendered ^(a)	(8,322)	(13,458)	(9,310)	
Commission paid to XP Securities	(367)	(858)	(1,728)	
Commission paid to XP Advisory	(753)	(753)	-	
Others	(1,119)	(2,188)	(1,388)	
Total	(174,288)	(299,075)	(162,572)	

^(a) Comprised of operating fees and charges and bank fees.

22 Provisions and contingent liabilities

	2016	2015
Provision for labor lawsuits (Note 10)	2,914	2,383
Provision for civil lawsuits (Note 10)	447	121
Total	3,361	2,504

Provision for labor lawsuits

The Company has several labor lawsuits. On December 31, 2016, there are provisions recorded for 13 labor lawsuits classified as probable loss in the amount of R\$ 2,914 (R\$2,383 as of December 31, 2015). Also, there are 10 lawsuits classified as possible loss, totaling R\$ 7,529 (R\$ 897 as of December 31, 2015), for which no provisions were recorded in accordance with prevailing accounting practices.

	2016		2015	
	2nd Semester	Year	Year	Year
Opening balance	2,545	2,383	1,598	
Formation	1,882	2,044	1,045	
Reversal/payments	(1,513)	(1,513)	(260)	
Closing balance	2,914	2,914	2,383	

Deposits as collateral	1,365	1,482
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Civil lawsuits

The Company has several civil lawsuits. As of December 31, 2016, a provision was formed in the amount of R\$ 447 (R\$ 121 on December 31, 2015) for 13 lawsuits classified as probable loss. In addition, on that date there are 97 lawsuits classified as possible loss in the amount of R\$ 36,675 (R\$ 12,249 on December 31, 2015), for which there is no provision in conformity with the prevailing accounting practices.

	2016	2015
	2nd Semester	Year
Opening balance	143	121
Formation	306	121
Reversal/payments	(2)	(489)
Closing balance	447	121

Labor contingent liabilities

In 2014, Company disbursed the amount of R\$ 210 to settle total payment in installments with municipality of Rio de Janeiro related to ISS charged on brokerage services for the period from January 1999 to December 2003. It is worth highlighting that the final deadline for such settlement was 2017.

In the same period, Company disbursed R\$ 2,568, relating to the debt for the assessment notice issued on July 28, 2011, due to the non-payment of income and social contribution taxes on the valuation of equity securities in the Stock Exchange, calculated up to the date of demutualization of BM&FBovespa. The amount paid was under responsibility of the former controlling shareholder and was duly repaid to Company.

In 2014, the Company was assessed by the Federal Revenue Service in respect to the obligation to collect pension contributions in view of payments as profit sharing to employees, allegedly, not in compliance with Law No. 10.101/00. Currently, lawsuit files are held by the Division of Tax Control and Monitoring, waiting for a voluntary appeal to be filed by Company. It is important to emphasize that there are favorable previous CARF decisions and legal opinions on this theme that support Company's defense. It is also possible that Company question this charge in Courts. The likelihood of loss was classified as possible in the amount of R\$ 15,529 (R\$ 12,571 as of December 31, 2015) in an assessment carried out by legal advisors hired by the Company.

23 Related party transactions

(a) Commercial contractual transactions with related parties

In the normal course of business, the Companies of XP Group carry out commercial and financial operations with the Company. These operations include: (i) the rendering of education, advisory and corporate consulting services; (ii) financial advisory and consulting in general; (iii) management of funds and provision of Portfolio Management services; (iv) provision for IT and data processing services; and (v) provision for insurance services.

Related party transactions were carried out at usual market values, terms and average rates and in commutative conditions.

The Company is directly controlled by XP Controle 3 Participações S/A, being indirectly controlled by XP Controle 2 and the final parent company is XP Controle Participações S/A..

Related-party transactions of the Company during the years ended December 31, 2016 and 2015 are as follows:

	2016	2015
	Assets	Assets
	Incomes	Incomes
	(Expenses)	(Expenses)

Parent companies

XP Controle e Participações S.A.

Accounts receivable	-	-	2,851	-
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XP Controle 2

Accounts receivable	5	-	-	-
Other income - merger of GA	-	257	-	-

XP Controle 3

Accounts receivable	3	-	-	-
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Subsidiaries

Clear

Accounts receivable	494	-	30	-
Dividends receivable	2,069	-	-	-
Purchase and sale commitments: Fixed - 13% p.a. on maturity	(2,097)	(1,219)	-	-

Companies related to the directors

XP Educação Assessoria Empresarial e Participações Ltda.

Accounts receivable	36	-	75	-
Suppliers	(25)	-	(12)	-
Technical advisory expenses	-	(91)	-	(444)

Tecfinance Informática e Projetos de Sistemas Ltda.

Accounts receivable	104	-	-	-
Suppliers	(3,599)	-	(1,296)	-
Development and maintenance of system expenses	-	(18,899)	-	(15,058)

Infostocks Informações e Sistemas Ltda.

Accounts receivable	50	-	34	-
Suppliers	(1,256)	-	(96)	-
Publicity broadcasting expenses	-	(7,180)	-	(893)

XP Gestão de Recursos Ltda.

Accounts receivable	137	-	26	-
Service fee income	-	122	-	29

XP Corretora de Seguros Ltda.

Accounts receivable	47	47	18	-
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XP Securities LLC

Suppliers	(67)	-	(188)	-
Expenses with financial system services	-	(367)	-	(1,728)

XP Finance Desenvolvimento de Negócios Ltda.

Accounts receivable	5	-	4	-
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Money & Markets Editora Ltda.

Accounts receivable	-	-	4	-
Publicity broadcasting expenses	-	-	-	(12)

XP Advisory Gestão de Recursos Ltda.

Accounts receivable	84	-	20	-
Suppliers	(476)	-	-	-
Commission expenses	-	(753)	-	-
Financial advisory	-	-	-	514

Total accounts receivable from subsidiaries

	3,034	-	3,062	-
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Total accounts payable subsidiaries

	(5,423)	-	(1,592)	-
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Total Purchase and sale commitments

	(2,097)	-	-	-
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Total	(4,486)	(28,083)	1,470	(17,592)
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(b) Directors' fees

	<u>2nd Semester</u>	<u>2016 Year</u>	<u>2015 Year</u>
Remuneration of key management personnel			
Directors' fees	(509)	(1,082)	(1,033)
Total	(509)	(1,082)	(1,033)

24 Profit sharing program

The Company has a profit sharing program to its employees. This program is not extensive to the Executive Board. The base dates of this participation are the months of June and December. For purposes of distribution, it was accrued in the second semester of 2016 the amount of R\$ 79,530, this year this amount was R\$ 132,248 (77,346 on December 31, 2015).

25 Operating Limits (Basel Agreement)

As of December 31, 2016, the Company had an index of 24.35% (17.81% as of December 31, 2015).

	2016			2015		
	Requirement	Situation	Margin (insufficiency)	Requirement	Situation	Margin (insufficiency)
Basel - total ^(a)	253,794	625,789	371,995	255,106	413,046	157,940
Property, plant and equipment ^(b)	312,895	72,587	240,308	207,364	63,623	143,741
Minimum capital ^(a)	1,500	408,045	406,545	1,500	288,045	286,545

^(a) The requirement refers to the minimum limit required.

^(b) This requirement refers to the maximum permitted limit.

26 Subsequent events

Acquisition of Rico Corretora

On November 29, 2016, a Contract for the Purchase and Sale of Securities and Other Covenants was signed, governing the acquisition of total equity capital of the holding company FLAFLU Participações S.A. and, indirectly, the acquisition of total equity capital of its wholly-owned subsidiary Rico Corretora de Títulos e Valores Mobiliários S.A. ("Rico") by XP Investimentos. The goal of XP Investimentos with such transaction is to expand its operations in the security brokerage and distribution market in the retail segment, by expanding the client base and absorbing the innovative technology in the online market developed by Rico, with a view to a complementarity positioning between the brands. Rico, according to its financial statements published on March 22, 2017, recorded (i) Financial Intermediation Income of R\$ 44,880 and Service Fee Income of R\$ 61,362 in 2016, totaling R\$ 106,242 and representing a growth of 63% compared to 2015, (ii) Operating Income, net of Statutory Profit Sharing, of R\$ 26,929 in 2016, an increase of 149% compared to 2015, and (iii) Net Income of R\$ 14,671 in 2016, an increase of 122% compared to 2015. The total amount to be disbursed by XP Investimentos in that transaction is R\$ 379,338, whereas a portion of this amount fixed value and another portion is monetarily updated by the DI variation plus 4% per annum up to the effective payment date. In January 6, 2017, the amount of R\$125,420, referring to the first installment of the transaction was paid, and the remaining balance payable, monetarily restated up to that date, is R\$ 260,841. This transaction was approved by the Administrative Council for Economic Defense (CADE); however, effective conclusion is subject to the Central Bank of Brazil's approval.

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