

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

**Financial statements for the
period ended June 30, 2017 and
2016**

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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 June 30, 2017 and the respective statements of income, changes in shareholders' equity and cash flows for the six month period 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 June 30, 2017, the performance of its operations and its cash flows, for the six month period 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.

**Emphasis - Purchase and sale agreements with Itau Unibanco S.A.**

We call the attention to note 1 to the financial statements, which describes that on May 11, 2017, XP Controle Participações S.A., parent company of the Company, G.A. Brasil IV FIP and DYNA III FIP entered into a share purchase and sale agreement with Itaú Unibanco S.A. for the disposal of interest in XP Investimentos S.A., a holding company that consolidates XP Group investments. Once all the previous conditions provided for in such agreement have been fulfilled, including, but not limited to the approvals of the applicable regulatory bodies, Itaú Unibanco S.A. will hold approximately 49% of the total capital of XP Investimentos S.A., with approximately 30% of the voting capital. XP Group control will remain with its current controlling shareholders. Our opinion is not modified in this respect.

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 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 management 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, August 16, 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

Management report

To 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 June 30, 2017 and 2016, 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.

i. Performance

In the first semester of 2017 XP CCTVM continued with your expressive growth, despite the political instability and the maintenance of the deteriorated economic scenario. The XP CCTVM maintained your growth expansion, presenting strong growth in all its operational indicators, including net borrowing, number of clients and assets under custody. Presenting the continued strength of its brand and its wide capacity of distribution of products, always maintaining the commitment to help the clients to invest of intelligent and safe form.

This performance was a constant result of the development of the open product platform, with a wide range of offerings, along with the advisory differentials of XP CCTVM and the continuous process of brand consolidation, with the greater knowledge and preference of XP CCTVM by the target audience.

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) Credit Risk

Credit risk management is under responsibility of the XP CCTVM's risk area, seeking to ensure compliance with the XP CCTVM's policy provisions and ensure that the established operational thresholds are met.

XP CCTVM establishes its credit policy based on the domestic scenario, based on the portfolio breakdown by security, by issuer, by rating, by economic activity and by the duration of the portfolio. And regarding the external scenario, based on interest rates, inflation, among others.

The credit analysis area also actively participates in this process and is responsible for credit risk rating of issuances and issuers with which XP CCTVM have or intend to have credit relations, or intend to recommend credit risk positions to clients. The credit analysis area is also responsible for the limits of client's credit risk positions.

The analyses are presented to the Credit Advisory Committee, whose function is to determine whether the assessed credits are eligible as counterparty risk. Regarding credits for distribution to the client base of XP CCTVM, credit limits are also determined for each issuer and structured issuance.

The review of credits assessed by the Credit Advisory Committee is carried out periodically by the Credit Analysis Area, in accordance with internal rules and methodologies.

The risk area is directly subordinated to the Chief Risk Officer, without any relation with the commercial area. The credit analysis area is also subordinated to the Chief Risk Officer, with the necessary independence to carry out its activities, since it does not participate in the definition of business strategies and does not perform market transactions of any kind.

d. 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.

iii. Policy of reinvestment of profit and dividends

Article 27 of XP CCTVM's Bylaws provides for that at least 25% of adjusted net income be distributed as a mandatory dividends. In 2017, an amount of R\$ 27,438 regarding the income (loss) of 2016 was paid.

The net income remaining after the formation of the legal reserve and the balance determined for the payment of dividends will be allocated to the Reserve for Investment and Expansion, whose purpose is to secure funds for investments, without prejudice to the profit retention.

iv. Investments

(a) Clear CTVM

Aiming to capture synergies in financial, operational and administrative expenses, XP CCTVM, at the Extraordinary Shareholders' Meeting held on June 30, 2017, approved the merger of Clear CTVM, pursuant to the "Merger Protocol and Justification Agreement" entered into on that same date.

The merger resulted in the extinction of Clear CTVM, that was succeeded by XP CCTVM in all its assets, rights and obligations.

(b) Rico CTVM

On November 29, 2016, a Contract for the Purchase and Sale of Securities and Other Covenants was signed, governing the acquisition of total capital of the holding company FLAFLU Participações S.A. and, indirectly, the acquisition of total capital of its wholly-owned subsidiary Rico Corretora de Títulos e Valores Mobiliários S.A. ("Rico") by XP CCTVM. The goal of XP CCTVM 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. The total amount disbursed by XP CCTVM in the transaction was R\$ 404,727. This transaction was approved by the Administrative Council for Economic Defense (CADE) and Central Bank of Brazil.

On August 10, 2017, the approval of the transfer of corporate control of Rico to XP CCTVM was published in the Federal Official Gazette.

(C) Purchase and sale agreements with Itau Unibanco S.A.

On May 11, 2017, XP Controle Participações S.A., the parent company of XP Group, G.A. Brasil IV FIP and DYNA III FIP entered into a share purchase and sale agreement with Itaú Unibanco S.A. for the disposal of interest in XP Investimentos S.A., a holding company that consolidates XP Group investments. Once all the previous conditions provided for in such agreement are fulfilled, including, but not limited to the approvals of the applicable regulatory bodies, Itaú Unibanco S.A. will hold approximately 49% of the total capital of XP Investimentos S.A., with approximately 30% of the voting capital. XP Group control will remain with its current controlling shareholders.

v. Other Information

XP CCTVM does not have debentures of its own issuance.

Rio de Janeiro, August 16, 2018.

The Board.

Board members

Julio Capua Ramos da Silva
Guilherme Dias Fernandes Benchimol

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

XP Investimentos Corretora de Câmbio, Títulos e Valores Mobiliários S.A.**Statements of income****For the six-month period ended June 30, 2017 and 2016***(In thousands of reais, except earnings per share and quantity of shares)*

	Note	2017	2016
Financial intermediation income		266,720	213,217
Loans		-	306
Securities income		248,192	205,537
Income from derivative financial instruments	7	17,113	6,486
Foreign exchange operations		1,415	888
Financial intermediation expenses		(51,435)	(18,370)
Money market repurchase agreements		(41,170)	(17,840)
Loans and onlendings		(10,814)	(6)
Allowance for doubtful accounts		549	(524)
Gross income (loss) from financial intermediation		215,285	194,847
Other operating income/(expenses)		(5,418)	(62,020)
Service fee income	18	405,220	219,397
Personnel expenses		(36,686)	(40,295)
Other administrative expenses	21	(332,917)	(208,283)
Income (loss) from investments	15a	5,592	5,265
Tax expenses		(55,181)	(32,991)
Other operating income	19	16,988	9,282
Other operating expenses	20	(8,434)	(14,395)
Operating income		209,867	132,827
Non-operating income		49	(1,198)
Income (loss) before taxation and profit sharing		209,916	131,629
Income and social contribution taxes	16d	(54,396)	(32,583)
Provision for income tax		(15,604)	(10,512)
Provision for contribution		(15,334)	(8,544)
Deferred tax assets		(23,458)	(13,527)
Employee profit sharing	25	(82,495)	(52,718)
Net income for the semester		73,025	46,328
Net earnings per share:		0.02	0.02

See the accompanying notes to the financial statements.

XP Investimentos Corretora de Câmbio, Títulos e Valores Mobiliários S.A.
Statements of financial position as at June 30, 2017 and 2016
(In thousands of reais)

Assets	Note	2017	2016
Current assets		5,614,151	3,285,889
Cash and cash equivalents	4	611	621
Interbank investments	4, 5a	980,904	247,880
Money market investments		980,904	247,880
Securities and derivative financial instruments	6a, 7	1,835,775	1,017,250
Own portfolio		1,188,016	502,866
Subject to repurchase clause		-	2,305
Derivative financial instruments		16,790	6,119
Subject to guarantees provided		630,969	505,960
Loans		-	2,030
Financing - securities		-	2,030
Other credits		2,768,858	2,013,910
Foreign exchange portfolio		3,398	3,134
Income receivable	8	31,282	19,270
Securities clearing accounts	9	2,183,220	1,920,129
Taxes and contributions recoverable	10	5,699	9,029
Tax credits	16	112,562	29,469
Other	10	435,190	34,369
(Allowance for other doubtful accounts)		(2,493)	(1,490)
Other assets		28,003	4,198
Prepaid expenses	12	28,003	4,198
Long-term assets		154,034	83,188
Securities and derivative financial instruments	7	48,188	4,339
Derivative financial instruments		48,188	4,339
Other credits		80,432	40,026
Tax credits	16	80,432	40,026
Other assets		25,414	38,823
Prepaid expenses	12	25,414	38,823
Fixed assets		140,815	168,307
Investments	15a	-	123,119
Fixed assets for use	15b	36,768	23,927
Intangible assets	15c	104,047	21,261
Total assets		5,909,000	3,537,384

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

Statements of financial position as at June 30, 2017 and 2016

(In thousands of reais)

Liabilities	Note	2017	2016
Current liabilities		4,660,035	2,930,829
Money market repurchase commitments	13	655,003	99,004
Own portfolio		-	2,300
Third-party portfolio		655,003	96,704
Interdependent relations		1,082	-
Borrowings		45,722	-
Loan - Domestic		45,722	-
Derivative financial instruments		11,454	6,036
Derivative financial instruments	7	11,454	6,036
Other obligations		3,946,774	2,825,789
Collection and levy of taxes and alike		189	325
Foreign exchange portfolio		3,579	6,296
Social and statutory	16f, 24	85,065	52,719
Tax and social security	11	83,761	19,119
Securities clearing accounts	9	3,740,277	2,673,031
Other	10	33,903	74,299
Long-term liabilities		233,306	4,253
Borrowings		183,429	-
Loan - Domestic		183,429	-
Derivative financial instruments		46,868	4,253
Derivative financial instruments	7	46,868	4,253
Other liabilities		3,009	-
Other	10	3,009	-
Deferred income		179	276
Shareholders' equity	16	1,015,480	602,026
Capital			
Domestic		608,045	288,045
Capital increase (pending approval)		-	120,000
Capital reserves		224,649	120,247
Income reserves		109,740	27,428
Equity valuation adjustments		21	(22)
Retained earnings		73,025	46,328
Total liabilities		5,909,000	3,537,384

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 June 30, 2017 and 2016

(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, 2016	232,834	55,211	120,247	8,879	18,549	(6)	-	435,714
Capital increase approved (Note 17b)	55,211	(55,211)	-	-	-	-	-	-
Capital increase (Note 17b)	-	120,000	-	-	-	-	-	120,000
Adjustment to market value of financial assets available for sale	-	-	-	-	-	(16)	-	(16)
Net income for the semester	-	-	-	-	-	-	46,328	46,328
Balances at June 30, 2016	288,045	120,000	120,247	8,879	18,549	(22)	46,328	602,026
Changes in the semester	55,211	64,789	-	-	-	(16)	46,328	166,312
Balances at January 1, 2017	408,045	-	224,649	8,879	100,861	(137)	-	742,297
Capital increase approved (Note 17b)	200,000	-	-	-	-	-	-	200,000
Adjustment to market value of financial assets available for sale	-	-	-	-	-	158	-	158
Net income for the semester	-	-	-	-	-	-	73,025	73,025
Balances at June 30, 2017	608,045	-	224,649	8,879	100,861	21	73,025	1,015,480
Changes in the semester	200,000	-	-	-	-	158	73,025	273,183

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 June 30, 2017 and 2016

(In thousands of reais)

	2017	2016
Cash flow from operating activities		
Net income for the period	73,025	46,328
Adjustments to net income		
Provision for income and social contribution taxes - Current and deferred	54,396	32,583
Allowance for other doubtful accounts	(549)	524
Provision for contingencies	3,980	162
Depreciation and amortization	15,308	16,798
Employee profit sharing	82,495	52,718
Income (loss) from interest	(5,592)	(5,265)
Adjusted net income	223,063	143,848
Changes in operating assets and liabilities	(479,336)	(500,219)
(Increase) decrease in interest earning bank deposits	117,133	(96,704)
(Increase) in securities and derivative financial instruments (Assets and liabilities)	(656,772)	(422,656)
decrease in Loans - Financing securities	-	(1,610)
(Increase) decrease in other credits and other assets	(516,765)	1,896
Increase in money market repurchase commitments	(2,252)	(163,164)
Increase in Interdependent relations	1,082	-
Increase in Borrowings	234,697	-
Securities clearing accounts (Assets and liabilities)	501,339	205,989
Increase in other liabilities	(117,629)	(2,244)
(Decrease) in deferred income	(49)	(49)
Income and social contribution taxes paid	(34,574)	(21,677)
Interest paid	(5,546)	-
Net cash used in operating activities	(256,273)	(356,371)
Cash flow from investment activities ^(a)		
Acquisition of property, plant and equipment	(14,866)	(10,668)
Disposals of property, plant and equipment	-	357
Acquisition of intangible assets	(7,275)	(3,119)
Dividends received	11,000	-
Net cash used in investment activities	(11,141)	(13,430)
Cash flow from financing activities		
Capital increase	200,000	120,000
Dividends paid	(27,438)	(20,000)
Net cash from financing activities	172,562	100,000
Decrease in cash and cash equivalents	(94,852)	(269,801)
Cash and cash equivalents at the beginning of the period	421,363	421,598
Cash and cash equivalents from Clear CTVM	129	-
Cash and cash equivalents at the end of the period	326,511	151,797

^(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 1.

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 (XP CCTVM) is a privately-held organization headquartered at Avenida das Américas 3.434, block 7 - 2° floor, Barra da Tijuca, Rio de Janeiro, engaged in conducting transactions within the ambit of B3 S.A on its own and on behalf of third parties, in addition to managing investment club portfolios.

The final parent company of XP CCTVM is XP Controle Participações S.A., which indirectly holds 31.8741% (57.1863% on June 30, 2016) of the capital of the XP CCTVM.

Corporate restructuring

The Extraordinary Shareholders' Meeting held on June 30, 2017, approved the merger of Clear CTVM by XP CCTVM, pursuant to the "Merger Protocol and Justification Agreement" entered into on that same date.

The merger resulted in the extinction of Clear CTVM, which was succeeded by XP CCTVM in all its assets, rights and obligations.

The merger was based on the book value of Clear CTVM on the base date of May 31, 2017, pursuant to the appraisal report summarized below:

Current assets and Long-term assets	141,522
Cash and cash equivalents	255
Interbank investments	101,673
Securities and derivative financial instruments	37,789
Other credits	1,785
Other assets	20
Fixed assets	118
Fixed assets for use and Intangible assets	118
Total Assets	141,640

Current liabilities and Long-term liabilities	113,275
Other obligations	113,275
Total Liabilities	113,275

Shareholders' equity	28,365
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Acquisition of Rico

On November 29, 2016, a Contract for the Purchase and Sale of Securities and Other Covenants was signed, governing the acquisition of total capital of the holding company FLAFLU Participações S.A. and, indirectly, the acquisition of total capital of its wholly-owned subsidiary Rico Corretora de Títulos e Valores Mobiliários S.A. ("Rico") by XP CCTVM. The goal of XP CCTVM 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. The total amount disbursed by XP CCTVM in the transaction was R\$ 409,574. The operation was approved by Administrative Council for Economic Defense (CADE) and by the Central Bank of Brazil, and published in the Federal Official Gazette on August 10, 2017.

Purchase and sale agreements with Itau Unibanco S.A.

On May 11, 2017, XP Controle Participações S.A., the parent company of XP Group, G.A. Brasil IV FIP and DYNA III FIP entered into a share purchase and sale agreement with Itau Unibanco S.A. for the disposal of interest in XP Investimentos S.A., a holding company that consolidates XP Group investments. Once all the previous conditions provided for in such agreement are fulfilled, including, but not limited to the approvals of the applicable regulatory bodies, Itau Unibanco S.A. will hold approximately 49% of the total capital of XP Investimentos S.A., with approximately 30% of the voting capital. XP Group control will remain with its current controlling shareholders.

2 Presentation of the financial statements

Statement of conformity

The Financial Statements of XP CCTVM 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. XP CCTVM 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 XP CCTVM on August 16, 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 period.

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 period.

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. 3.068/01.

Derivative financial instrument transactions carried out by XP CCTVM 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

XP CCTVM 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.

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.

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.

l. 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.

The goodwill from business combination is stated at its cost, 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.

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 June 30, 2017 and 2016.

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 - 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

	2017	2016
Cash	611	621
Interbank investments	325,900	151,176
Total	326,511	151,797

5 Interbank investments

(a) Money market investments

	2017	2016
Own portfolio	325,900	151,176
National Treasury Bill - LTN	95,575	-
Financial Treasury Bill - LFT	230,325	35,007
National Treasury Notes - B Series	-	106,152
Debentures	-	10,017
Financed Operations	655,004	96,704
National Treasury Bill - LTN	655,004	-
National Treasury Notes - B Series	-	96,704
Total	980,904	247,880

Money market interbank investments, on June 30, 2017, mature in the first business day of the subsequent month and were practiced at a prefixed average rate of 10.11% p.a. (2016: 14.11% p.a.).

(b) Income from securities purchased under agreements to resell

	2017	2016
Own portfolio	37,853	11,342
National Treasury Bill - LTN	11,603	3,282
National Treasury Notes – NTN	15,424	4,845
Financial Treasury Bill - LFT	10,522	3,023
Debentures	304	192
Financed Operations	1,149	153
National Treasury Bill - LTN	1	(2,529)
Financial Treasury Bill - LFT	1,137	3,129
National Treasury Notes – NTN	11	(447)
Total	39,002	11,495

6 Securities

a. Asset position

	2017					
Trading securities	Without maturity	Up to 3 months	3-12 months	>12 months	Market value	Cost
Own portfolio	296,573	361,226	12,553	517,664	1,188,016	1,188,803
Fixed income securities	-	361,226	12,553	517,664	891,443	892,230
National Treasury Bill - LTN	-	349,779	418	2,145	352,342	352,440
Financial Treasury Bill - LFT	-	9,322	161	404,182	413,665	413,514
National Treasury Notes - B Series	-	-	-	7,091	7,091	6,893
National Treasury Notes - F Series	-	-	-	-	-	-
Bank deposit certificates	-	685	2,596	16,989	20,270	20,522
Certificates of Agribusiness Receivables	-	-	478	26,230	26,708	27,110
Certificates of real estate receivables	-	-	-	26,588	26,588	26,870
Financial Bills	-	-	-	913	913	967
Bills of exchange	-	23	77	29	129	130
Real estate credit note	-	35	206	482	723	721
Agribusiness credit bills (LCA)	-	1,382	8,617	268	10,267	10,738
Debentures	-	-	-	32,747	32,747	32,325
Variable income securities	638	-	-	-	638	638
Shares of listed companies	638	-	-	-	638	638
Investment Fund Quotas ^(a)	295,935	-	-	-	295,935	295,935
Subject to purchase and sale commitments	83	-	36,002	594,884	630,969	630,621
Fixed income securities	-	-	36,002	594,884	630,886	630,538
Financial Treasury Bill - LFT	-	-	36,002	594,884	630,886	630,538
Variable income securities	83	-	-	-	83	83
Shares of listed companies	83	-	-	-	83	83

^(a) R\$ 295,511 refers to investments in quotas of exclusive investment funds - Caieiras I FIM CP IE, OConnor III FIM CP e Pedras Secas FIM CP IE.

	2016					
Trading securities	Without maturity	Up to 3 months	3-12 months	>12 months	Market value	Cost
Own portfolio	291,172	3,320	34,996	173,378	502,866	502,942
Fixed income securities	-	3,320	34,996	173,378	211,694	211,774
National Treasury Bill - LTN	-	2,299	4,018	-	6,317	6,219
Financial Treasury Bill - LFT	-	348	16,176	103,259	119,783	119,794
National Treasury Notes - B Series	-	192	1,106	4,461	5,759	5,730
National Treasury Notes - F Series	-	119	-	959	1,078	975
Bank deposit certificates	-	203	13,105	26,583	39,891	39,891
Certificates of Agribusiness Receivables	-	-	-	23,286	23,286	24,096
Financial Bills	-	-	-	3,317	3,317	3,317
Bills of exchange	-	-	62	483	545	545
Real estate credit note	-	73	152	46	271	271
Agribusiness credit bills	-	86	377	258	721	721
Debentures	-	-	-	10,726	10,726	10,215
Variable income securities	56	-	-	-	56	52
Shares of listed companies	56	-	-	-	56	52
Investment Fund Quotas	291,116	-	-	-	291,116	291,116
Subject to purchase and sale commitments	-	-	-	2,305	2,305	2,305
Fixed income securities	-	-	-	2,305	2,305	2,305
Financial Treasury Bill - LFT	-	-	-	2,305	2,305	2,305
Subject to guarantees provided	-	-	46,790	459,170	505,960	506,031
Fixed income securities	-	-	46,790	459,170	505,960	506,031
Financial Treasury Bill - LFT	-	-	46,790	459,170	505,960	506,031
Securities	291,172	3,320	81,786	634,853	1,011,131	1,011,278

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 - CETIP, SELIC or BM&FBOVESPA S.A., except investment fund quotas whose records are maintained by respective managers.

b. Liability position

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Variable income securities				
Shares of listed companies - Short position	64	64	-	-
Share loan – Borrower position	59	59	-	-
Current liabilities	123	123	-	-

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 B3 S.A on the balance sheet date.

c. Securities income

	<u>2017</u>	<u>2016</u>
Income from securities		
Fixed income securities	160,670	150,629
Variable income securities	(16,190)	(251)
Investment Funds	23,540	25,824
Total	168,020	176,202

7 Derivative financial instruments

Derivative contracts had their base values recorded in memorandum accounts and gains and losses recorded in the assets and liabilities as a counter entry in income accounts.

Market value of derivative financial instruments, composed of futures, options and forward and swap transactions, are recorded under the following criteria:

- **Futures** - based on adjustments recognized/paid on a daily basis.
- **Forward** - at the spot market quoted value, and amounts payable or receivable are scheduled for a future date adjusted to present value based on market rates disclosed by B3 S.A.
- **Options** - Average price on calculation date or, when not available, based on pricing models.
- **Swap** – under discounted cash flow method at rates disclosed by B3 S.A..

On June 30, 2017, XP CCTVM has equity position in derivatives in the amount of R\$ 64,978 (10,458 in 2016) in assets and R\$ 58.322 (10,289 in 2016) in liabilities.

	<u>2017</u>			<u>Reference value</u>
	<u>Up to 3 months</u>	<u>3–12 months</u>	<u>>12 months</u>	
Asset position				
Option premium				
Currency	1,699	-	-	9,310,697
Swap				
CDI x IPCA	-	721	1,281	526,000
CDI x IGPM	2,811	1,811	5,403	260,000
IPCA x CDI	-	-	18,620	944,100
IGPM x CDI	-	-	110	10,000
TJLP x CDI	468	2,846	22,774	701,661

Term					
Share	6,170	264	-	6,434	6,435
Derivative financial instruments - assets	11,148	5,642	48,188	64,978	11,758,893
					2016
	Up to 3	3-12	>12	Book value	Reference
	months	months	months		value
Asset position					
Swap					
CDI x TJLP	-	21	356	377	149,994
IGPM x CDI	-	1,578	2,820	4,398	260,000
CDI x IPCA	-	1,988	744	2,732	1,934,480
CDI x TJLP	-	125	-	125	49,998
IPCA x CDI	-	2,378	419	2,797	941,515
Term					
Shares	29	-	-	29	29
Derivative financial instruments - assets	29	6,090	4,339	10,458	3,336,016
					2017
	Up to 3	3-12	>12	Book value	Reference
	months	months	months		value
Liability position					
Option premium					
Currency	3,240	-	-	3,240	13,038,536
Swap					
CDI x IPCA	-	-	18,154	18,154	845,100
CDI x IGPM	-	-	103	103	10,000
IPCA x CDI	-	712	951	1,663	427,000
CDI x TJLP	358	2,541	22,325	25,224	701,661
IGPM x CDI	2,803	1,800	5,335	9,938	260,000
Derivative financial instruments - liabilities	6,401	5,053	46,868	58,322	15,282,297
					2016
	Up to 3	3-12	>12	Book value	Reference
	months	months	months		value
Liability position					
Swap					
TJLP x CDI	-	(17)	-	(17)	8,333
CDI x IPCA	-	(3,943)	(411)	(4,354)	992,015
IPCA x CDI	-	(1,977)	(2,816)	(4,793)	1,841,980
TJLP x CDI	-	(99)	(746)	(845)	353,498
CDI x IGPM	-	-	(280)	(280)	141,661
Derivative financial instruments - liabilities	-	(6,036)	(4,253)	(10,289)	3,337,487

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

	<u>2017</u>	<u>2016</u>
Derivative financial instruments		
Options	(164)	(4)
Swap Intermediation	340	-
Futures	15,741	6,257
Forward transactions	-	4
Swap	1,196	229
Total	<u>17,113</u>	<u>6,486</u>

8 Income receivable

	<u>2017</u>	<u>2016</u>
Custody fee	-	1,171
Clients	31,282	18,099
	<u>31,282</u>	<u>19,270</u>
Current	31,282	19,270

9 Securities clearing accounts

	<u>2017</u>		<u>2016</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Assets</u>	<u>Liabilities</u>
Clearinghouse transactions	1,909,200	1,772,298	1,615,463	1,683,398
Debtors/creditors for outstanding settlement - current account clients	264,908	1,930,549	303,950	986,081
Commissions and brokerage fees payable	-	37,015	-	3,552
Guarantee deposits	-	-	716	-
Transactions with financial assets and goods to be settled	-	292	-	-
Share loan creditors	9,112	59	-	-
Shares of listed companies - Short position	-	64	-	-
Total	<u>2,183,220</u>	<u>3,740,277</u>	<u>1,920,129</u>	<u>2,673,031</u>

10 Recoverable taxes, other credits and other liabilities - Sundry

	<u>2017</u>	<u>2016</u>
Assets		
Salary advances	1,617	1,143
Rico CTVM Advances (note 1)	409,574	-
Suppliers Advances	442	1,466
Acknowledgment of debt with Independent financial advisors	10,661	1,951
Debtors due to guarantee deposits	1,589	1,765
Receivables from associated companies	327	3,358
Reimbursement of fund expenses	472	267
Reimbursement of rates of stock exchange operations	8,457	3,089
Other credits receivable	2,051	21,330
Total other credits – sundry	<u>435,190</u>	<u>34,369</u>
Taxes and contributions recoverable ^(a)	5,699	9,029
Total	<u>440,889</u>	<u>43,398</u>
Current	441,157	43,398
Liabilities		
Liabilities for assets and rights ^(b)	2,209	13,646
Personnel expenses payable	5,977	9,857
Amounts payable - Associated companies	7,528	14,702
Provision for lawsuits (Note 23)	3,009	2,688
Sundry creditors	1,480	29,721
Other liabilities ^(c)	16,709	3,685
Total	<u>36,912</u>	<u>74,299</u>
Current	33,903	74,299
<u>Long-term assets</u>	3,009	-

^(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\$ 8,284 in 2016). Include, also, offsetable taxes (PIS, COFINS, CIDE, ISS) in the amount of R\$ 185 (R\$ 745 em 2016).

^(b) As of June 30, 2016, 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.

^(c) Refer to amounts recorded as provision for Independent financial advisors R\$ 9,588, and suppliers in domestic and foreign currency amounting to R\$ 6,037, and other administrative expenses in the amount of R\$ R\$ 1,084.

11 Other liabilities - Tax and social security

	2017	2016
Deferred income and social contribution taxes	1,257	284
Taxes and contributions on outsourced services	4,058	2,295
Taxes and contributions on salaries	2,122	3,556
Provisions for income and contributions on income	56,921	154
Taxes on client retention	9,419	5,936
PIS and COFINS	5,802	4,674
ISS	4,147	2,170
Others	35	50
Total current	83,761	19,119

12 Other assets

Prepaid expense presents the following consolidated breakdown:

	2017	2016
Wolwacz & Ruschel Ltda.	2,100	2,624
Pan – Program of business acceleration	30,994	24,138
Use licenses ^(a)	-	4,536
Prepaid expenses ^(b)	20,323	11,723
Total	53,417	43,021
Current	28,003	4,198
Long-term assets	25,414	38,823
Total	53,417	43,021

^(a) As of June 30, 2016, 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 XP CCTVM 's cash.

^(b) Includes substantially prepaid expenses related to new hires of traders, whose contractual term is up to 4 years.

(a) Wolwacz & Ruschel Ltda.

On April 1, 2011, XP CCTVM 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 XP CCTVM in the home broker. In addition, its educational services include the disclosure of XP CCTVM'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, XP CCTVM paid the amount of R\$ 5,250, whose expense is being amortized over the life of the agreement, which is ten years.

(b) Business Acceleration Program - PAN

During the first semester of 2014, XP CCTVM 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.

13 Money market repurchase commitments

	2017	2016
Own portfolio	-	2,300
Financial Treasury Bill - LFT	-	2,300
Third-party portfolio	655,003	96,704
Financial Treasury Bill - LFT	655,003	-
National Treasury Notes - B Series	-	96,704
Total	655,003	99,004

The amount of R\$ 41,170 was recognized on June 30, 2017 (R\$ 17,840 as of June 30, 2016) regarding expenses from Money market repurchase commitments.

14 Borrowings

On January 19, 2017, XP CCTVM raised a loan with Banco JP Morgan S.A. in the amount of R\$ 100,000, for which a bank credit note in the same amount was issued, which has the collateral guarantee of XP CCTVM, by means of a surety. The purpose of such fund-raising was to pay part of the acquisition amount of Rico Corretora (see note 1). This financing bears an interest rate of 111% of the accumulated variation of the Interbank Deposit Certificate (CDI) rate, maturing on July 8, 2019. Its amortization schedule provides for 7 equal, quarterly and consecutive installments of principal payment, the first on January 15, 2018 and the last on the maturity date. Interest is payable quarterly as of the date of issuance, with the first installment on April 19, 2017 and the last installment on the maturity date. This loan contains a covenant. Non-compliance with this covenant may require XP CCTVM to pay the loan before the date indicated. As of June 30, 2017 the restated amount of such loan is R\$ 102,223.

On April 7, 2017, XP CCTVM raised a loan with ItauUnibanco in the amount of R\$ 126,000. Such obligation bears interest rate of 113% of the accumulated variation of the Interbank Deposit Certificate (CDI) rate, maturing on March 8, 2021. The amortization will occur in 36 equal installments, with the first installment on April 6, 2018 and the last installment on the maturity date. Interest will be paid monthly after the issuance date. As of June 30, 2017 the restated amount is R\$ 126,928.

The amount of R\$ 10,814 was recognized on June 30, 2017 (R\$ 6 as of June 30, 2016) regarding expenses from borrowings.

15 Fixed assets

a. Investments

On June 30, 2017 with the merger of Clear CTVM by XP CCTVM the balances which used to be registered as "investments" now are presenting as "intangible".

	Investments	Goodwill based on future profitability	Clients Relationship	Technology	Brand	Total
Balance at December 31, 2016	33,071	78,686	2,770	122	1,760	116,409
Equity income (loss)	5,592	-	-	-	-	5,592
Dividends receivable	(8,931)	-	-	-	-	(8,931)
Adjustments of securities available for sale	(129)	-	-	-	-	(129)
Merges Adjustments - Clear	(29,603)	-	-	-	-	(29,603)
Amortization	-	(5,343)	(2,770)	(35)	(47)	(8,195)
Balance transferred to intangible assets on June 30 2017	-	73,343	-	87	1,713	75,143
	Investments	Goodwill based on future profitability	Clients Relationship	Technology	Brand	Total
Balance at December 31, 2015	26,561	91,000	11,078	209	1,877	130,725
Equity income (loss)	5,265	-	-	-	-	5,265
Adjustments of securities available for sale	(15)	-	-	-	-	(15)
Amortização	-	(7,748)	(4,985)	(52)	(71)	(12,856)
Balance at June 30, 2016	31,811	83,252	6,093	157	1,806	123,119

On July 24, 2014, XP CCTVM 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 XP CCTVM 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 XP CCTVM. Subsequently, the shareholders of Clear became shareholders of XP Controle Participações S/A, indirect parent company of XP CCTVM.

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, XP CCTVM 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), balance transferred to intangible assets due to the merger of Clear CTVM, see note 1.

b. Fixed assets for use

	Construction in process	Data processing system	Machinery and equipment	Security systems	Facilities	Total
Balance at 12/31/2016	1,061	9,545	6,057	458	7,440	24,561
Additions	2,046	3,925	1,811	1,673	5,411	14,866
Disposals/write-offs	-	-	-	-	-	-
Transfers	(961)	-	710	-	251	-
Accumulated depreciation	-	(1,482)	(610)	(43)	(524)	(2,659)
Balance at 06/30/2017	2,146	11,988	7,968	2,088	12,578	36,768
Balance at 12/31/2015	-	5,425	4,692	533	4,972	15,622
Additions	3,348	2,902	374	-	4,044	10,668
Disposals/write-offs	(14)	(305)	(38)	-	-	(357)
Transfers	(1,558)	(2)	1,539	-	21	-
Accumulated amortization	-	(1,350)	(208)	(38)	(410)	(2,006)
Balance at 30/06/2016	1,776	6,670	6,359	495	8,627	23,927

c. Intangible assets

	Intangible assets developed		Goodwill based on future profitability	Other Intangible assets	Total
	Softwares	internally List of Clients			
Balance at 12/31/2016	15,348	4,286	6,449	-	26,083
Additions	4,741	2,534	-	-	7,275
Disposals/write-offs	-	-	-	-	-
Transfers	-	-	73,343	1,800	75,143
Accumulated amortization	(2,088)	(190)	(2,176)	-	(4,454)
Balance at 06/30/2017	18,001	6,630	4,273	73,343	104,047
Balance at 12/31/2015	6,835	2,328	10,916	-	20,079
Additions	1,857	1,051	-	-	2,908
Disposals/write-offs	-	-	-	-	-
Transfers	-	-	-	-	-
Accumulated amortization	154	48	(1,928)	-	(1,726)
Balance at 06/30/2016	8,846	3,427	8,988	-	21,261

On November 24, 2015, XP CCTVM 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 XP CCTVM 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, XP CCTVM agreed to pay R\$ 10,916, which will be amortized in 43 months.

16 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, XP CCTVM 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 31/12/2016	Formation (Realization)	Balance at 30/06/2017
Income and social contribution taxes deferred on:			
Provisions for commissions for agents and bonus	132	16,983	17,115
Mark-to-market - Securities and derivative financial instruments	712	(2)	710
Tax credit from goodwill on acquisition of investments	155,973	(21,410)	134,563
Allowance for doubtful accounts and provisions for contingencies	2,439	(113)	2,326
Employee profit sharing	-	38,280	38,280
Total tax credits on temporary differences	159,256	33,738	192,994
Current	56,518		112,562
Long-term assets	102,738		80,432
Total	159,256		192,994
	Balance at 31/12/2015	Formation (Realization)	Balance at 30/06/2016
Income and social contribution taxes deferred on:			
Provisions for commissions for agents and bonus	1,371	(109)	1,262
Mark-to-market - Securities and derivative financial instruments	660	(191)	469
Tax credit from goodwill on acquisition of investments	76,652	(9,578)	67,074
Allowance for doubtful accounts and provisions for contingencies	1,305	(615)	690
Total tax credits on temporary differences	79,988	(10,493)	69,495
Current	30,389		29,469
Long-term assets	49,599		40,026
Total	79,988		69,495

(c) Estimated realization of tax credit assets

	Temporary differences		
	Income tax	Social contribution	Total deferred taxes
In years:			
Up to 1	62,534	50,028	112,562
1-2	21,099	15,337	36,436
2-3	14,142	8,485	22,627
3-4	11,045	6,628	17,673
4-5	2,310	1,386	3,696
Total	111,130	81,864	192,994
Present value - Selic	99,493	74,215	173,708

The value of total tax credits is R\$ 192,994 (R\$ 69,495 on June 30, 2016), 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:

	2017	2016
Income (loss) before taxation and profit sharing	209,916	131,629
Employee profit sharing	(82,495)	(52,718)
Income before IR/CSLL calculated based on taxable income	127,421	78,911
(+) additions	-	453
(-) Exclusions	(5,592)	(5,265)
(=) Income Tax/Social Contribution on Net Income/adjusted income negative basis (A)	121,829	74,099
Current and deferred IR/CSLL * without effect of CSLL increase (B)	(54,396)	(32,583)
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)	(54,396)	(32,583)

Effective rate = (B / A) * without effect of CSLL increase (B) **45%** **44%**

17 Shareholders' equity

a) Capital

Capital in the amount of R\$ 608,045 (R\$ 408,045 on June 30, 2016) is represented by 1,744,560,820 common shares 1,395,795,817 on June 30, 2016) and 1,744,560,820 preferred shares class C (1,395,795,817 on June 30, 2016), with no par value.

b) Capital increase

On June 16, 2017, the extraordinary shareholders' meeting approved the capital increase of XP CCTVM, upon issuance of 348,765,003 new preferred shares, nominative and with no par value, at the total issue price of R\$ 200,000. This capital increase was approved by BACEN on June 29, 2017.

As of May 25, 2016, the Special Shareholders' Meeting approved the capital increase of XP CCTVM, upon issuance of 24,977,037 new common shares 107,956,020, 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.

(c) Capital reserve

In the second semester of 2016, XP Controle 2 (indirect parent company of XP CCTVM) 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 Investimentos was initially received in treasury and immediately attributed to GA XP Participação, the sole shareholder of GA Financeira, with no XP Investimentos 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, XP CCTVM 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, XP CCTVM 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 XP CCTVM 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, XP CCTVM 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, paid on June 23, 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.

18 Service fee income

	2017	2016
Income from distribution of investment fund quotas	46,311	19,023
Income from brokerage in stock exchange operations	232,133	144,836
Income from commissions of issuing securities	106,481	30,160
Income from loan commissions - BTC	6,005	3,845
Income from custody services	179	6,129
Income from onlendings of bank fees	-	618
Income from allocation of letter of guarantee	8,675	11,642
Other	5,436	3,144
Total	405,220	219,397

19 Other operating income

	2017	2016
Direct Treasury Incentive Rents	4,151	-
Recovery of charges and expenses	736	643
Fines received ^(a)	9,140	7,693
Interest on arrears	-	553
Other	2,961	393
Total	16,988	9,282

^(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.

20 Other operating expenses

	2017	2016
Operating errors ^(a)	(5,086)	(10,262)
Losses with clients ^(b)	(1,135)	(3,132)
Fines	(160)	(141)
Liabilities exchange variation	(223)	-
Other	(1,830)	(860)
Total	(8,434)	(14,395)

^(a) Operating errors result from indemnities paid to clients by XP CCTVM 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.

21 Other administrative expenses

	2017	2016
Expenses with water, energy and gas	(227)	(95)
Rental expenses	(4,010)	(3,377)
Expenses with communications	(3,869)	(2,998)
Expenses for maintenance and preservation of assets	(666)	(1,332)
Material expenses	(33)	(97)
Data processing expenses	(50,266)	(28,380)
Promotion and public relations expenses	(1,526)	(771)
Advertising and publicity expenses	(33,297)	(14,705)
Publishing expenses	(57)	(26)
Insurance costs	(8)	(7)
Outside service expenses	(8,672)	(4,692)
Surveillance and security expenses	(49)	(59)
Financial service expenses (note 22)	(199,172)	(124,787)
Specialized technical service expenses	(10,241)	(7,421)
Transportation expenses	(412)	(576)
Travel expenses	(1,812)	(1,080)
Depreciation and amortization expenses	(15,308)	(16,798)
Other administrative expenses	(3,292)	(1,082)
Total	(332,917)	(208,283)

22 Financial service expenses

	2017	2016
Autonomous agents of Investments	(184,749)	(118,091)
Fees for processing and custody services rendered ^(a)	(11,956)	(5,136)
Commission paid to XP Securities	(236)	(491)
Commission paid to XP Advisory	-	-
Others	(2,231)	(1,069)
Total	(199,172)	(124,787)

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

23 Provisions and contingent liabilities

	2017	2016
Provision for labor lawsuits (Note 10)	2,141	2,545
Provision for civil lawsuits (Note 10)	868	143
Total	3,009	2,688

Provision for labor lawsuits

XP CCTVM has several labor lawsuits. On June 30, 2017, there are provisions recorded for 8 labor lawsuits classified as probable loss in the amount of R\$ 2,141 (R\$ 2,545 on June 30, 2016). Also, there are 13 lawsuits classified as possible loss, totaling R\$ 13,018 (R\$ 867 as of June 30, 2016), for which no provisions were recorded in accordance with prevailing accounting practices.

	2017	2016
Opening balance	2,914	2,383
Formation	2,854	162
Reversal/payments	(3,627)	-
Closing balance	2,141	2,545
Deposits as collateral	915	1,482

Civil lawsuits

XP CCTVM has several civil lawsuits. As of June 30, 2017, a provision was formed in the amount of R\$ 868 (R\$ 143 on June 30, 2016) for 6 lawsuits classified as probable loss. In addition, on that date there are 129 lawsuits classified as possible loss in the amount of R\$ 79,022 (R\$ 13,091 on June 30, 2016), for which there is no provision in conformity with the prevailing accounting practices.

	2017	2016
Opening balance	447	489
Formation	1,126	143
Reversal/payments	(705)	(489)
Closing balance	868	143

Labor contingent liabilities

In 2014, XP CCTVM 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, XP CCTVM 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 XP CCTVM.

In 2014, XP CCTVM 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 XP CCTVM. It is important to emphasize that there are favorable previous CARF decisions and legal opinions on this theme that support XP CCTVM's defense. It is also possible that XP CCTVM question this charge in Courts. The likelihood of loss was classified as possible in the amount of R\$ 15,922 (R\$ 12,571 as of December 31, 2015) in an assessment carried out by legal advisors hired by XP CCTVM.

24 Related party transactions

(a) Commercial contractual transactions with related parties

The main balances of assets and liabilities as of June 30, 2017, as well as the transactions that influenced the income (loss) for the period ended June 30, 2017, related to related party transactions derive from transactions among companies XP CCTVM and its subsidiaries, parent companies, related companies and with its partners and key management personnel.

In the normal course of business, the Companies of XP Group carry out commercial and financial operations with XP CCTVM. 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.

XP CCTVM 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 XP CCTVM during the semester ended June 30, 2017 and 2016 are as follows:

	2017		2016	
	Assets (Liabilities)	Incomes (Expenses)	Assets (Liabilities)	Incomes (Expenses)
<u>Parent companies</u>				
XP Controle e Participações S.A.				
Accounts receivable	-	-	2,851	-
XP Investimentos S.A.				
Accounts receivable	11	-	-	-
XP Controle 3				
Accounts receivable	8	-	-	-
<u>Subsidiaries</u>				
Clear				
Accounts receivable	-	-	164	-
<u>Companies related to the directors</u>				
XP Educação Assessoria Empresarial e Participações Ltda.				
Accounts receivable	13	-	12	-
Suppliers	(110)	-	(1,774)	-
Technical advisory expenses	-	(213)	-	(2,905)
Tecfinance Informática e Projetos de Sistemas Ltda.				
Accounts receivable	49	-	19	-
Suppliers	(4,833)	-	(9,246)	-
Development and maintenance of system expenses	-	(25,655)	-	(14,076)
Infostocks Informações e Sistemas Ltda.				
Accounts receivable	36	-	38	-
Suppliers	(2,533)	-	(3,456)	-
Publicity broadcasting expenses	-	(12,479)	-	(7,914)
XP Gestão de Recursos Ltda.				
Accounts receivable	72	-	191	-
Service fee income	-	42	-	35
XP Corretora de Seguros Ltda.				
Accounts receivable	48	-	35	-
XP Securities LLC				
Suppliers	(52)	-	(226)	-
Expenses with financial system services	-	(236)	-	(491)
XP Finance Desenvolvimento de Negócios Ltda.				
Accounts receivable	7	-	11	-
Money & Markets Editora Ltda.				
Accounts receivable	-	-	11	-

XP Holding Investimentos S.A.				
Accounts receivable	22	-	-	-
XP Advisory Gestão de Recursos Ltda.				
Accounts receivable	61	-	26	-
Financial advisory	-	-	-	(13)
Total accounts receivable from subsidiaries	327	-	3,358	-
Total accounts payable subsidiaries	(7,528)	-	(14,476)	-
Total	(7,201)	(38,541)	(11,118)	(25,364)

(b) Directors' fees

		2017	2016
Remuneration of key management personnel			
Directors' fees		(490)	(573)
Total		(490)	(573)

25 Profit sharing program

XP CCTVM 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, the amount of R\$ 82,495 (52,718 on June 30 2016).

26 Operating Limits (Basel Agreement)

As of June 30, 2017, XP CCTVM had an index of 25.55% (14.03% as of June 30, 2016).

	2017			2016		
	Requirement	Situation	Margin (insufficiency)	Requirement	Situation	Margin (insufficiency)
Basel - total ^(a)	310,041	856,372	546,331	373,353	530,624	157,271
Property, plant and equipment ^(b)	428,186	59,468	368,718	265,312	106,023	159,289
Minimum capital ^(a)	1,500	608,045	606,545	1,500	408,045	406,545

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

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

27 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 XP CCTVM's head office.

(c) Credit Risk

Credit risk management is under responsibility of the XP CCTVM's risk area, seeking to ensure compliance with the XP CCTVM's policy provisions and ensure that the established operational thresholds are met.

XP CCTVM establishes its credit policy based on the domestic scenario, based on the portfolio breakdown by security, by issuer, by rating, by economic activity and by the duration of the portfolio. And regarding the external scenario, based on interest rates, inflation, among others.

The credit analysis area also actively participates in this process and is responsible for credit risk rating of issuances and issuers with which XP CCTVM have or intend to have credit relations, or intend to recommend credit risk positions to clients. The credit analysis area is also responsible for the limits of client's credit risk positions.

The analyses are presented to the Credit Advisory Committee, whose function is to determine whether the assessed credits are eligible as counterparty risk. Regarding credits for distribution to the client base of XP CCTVM, credit limits are also determined for each issuer and structured issuance.

The review of credits assessed by the Credit Advisory Committee is carried out periodically by the Credit Analysis Area, in accordance with internal rules and methodologies.

The risk area is directly subordinated to the Chief Risk Officer, without any relation with the commercial area. The credit analysis area is also subordinated to the Chief Risk Officer, with the necessary independence to carry out its activities, since it does not participate in the definition of business strategies and does not perform market transactions of any kind.

d. Operating Risk

XP CCTVM, 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 XP CCTVM's head office.

28 Capital Management Structure

In compliance with Resolution No. 3,988, of BACEN, XP CCTVM adopted a capital management policy that constitutes a set of principles, procedures and instruments that ensure the capital adequacy of XP CCTVM in a timely, comprehensive and compatible with the Risks incurred by XP CCTVM according to the nature and complexity of the products and services offered to its clients. The structure description is available on our website <https://www.xpi.com.br/sobre-a-xp/compliance/>.

29 Other Information

On August 10, 2017, the purchase of Rico by XP CCTVM was published in the Federal Official Gazette.

* * *

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