FitchRatings

Fitch Affirms BTG's Group IDRs; Upgrades Banco BTG Pactual's National Scale Ratings

Fitch Ratings-New York-24 February 2017: Fitch Ratings has affirmed the Issuer Default Ratings (IDRs) of BTG Pactual S.A. (BTG Pactual) and its related entities: BTG Pactual Holding S.A. (BTGH) and BTGI Investments LP (BTGI).

At the same time, Fitch upgraded BTG Pactual and BTGH national ratings to 'A(bra)' from 'A-(bra)' with a Stable Outlook.

A full list of the actions taken is detailed at the end of this release.

KEY RATING DRIVERS

The upgrade of the national scale ratings reflects the local relativity adjustment on BTG Pactual's creditworthiness, to incorporate the bank's reduced refinancing risk and improved liquidity and capital stance, which are now more consistent to the 'A(bra)' rating category. This reflects management's successful efforts towards the repositioning of its franchise, only 14 months after the liquidity crisis that affected the bank.

The Outlook on the IDRs remains Negative and captures the challenges imposed by the current operating environment, which in Fitch's view continues to present a negative trend.

BTG Pactual's management demonstrated a satisfactory ability to address the bank's liquidity concerns, by building a large liquidity cushion and reinforcing its capitalization, through a timely and successful deleveraging process, which included the sale of core and non-core assets throughout 2015 and 2016. In Fitch's view, those were all key measures contributing to a greater restoration of investor's confidence and to the bank's increased capability of accessing long-term funding over the past quarters.

The sale of BSI, concluded on November 2016, and the spin-off of the commodities business were also important to reinforce BTG Pactual's capital and liquidity position, besides allowing it to pre-pay, during October 2016, the remaining portion of the funding facility obtained with FGC (local FDIC) during the liquidity crisis. Fitch also believes that BTG Pactual's recent announced intention to separate stock market listings for its investment bank and private equity businesses should also favor greater investor confidence, as it will formally separate and add more clarity to the bank's commercial activities separating them from its private equity and proprietary trading operations.

At December 2016, BTG's cash position amounted to BRL12.7 billion - even above pre-crises level and was enough to meet roughly 84% of its short-term liabilities. Accordingly, BTG Pactual's regulatory capital ratio improved to 21.5% in December 2016 (15.5% in December 2015), while Fitch Core Capital ratio stood at 17% at the same date (10.6% in December 2015).

In the long-run, however, Fitch recognizes that capital consumption may accelerate following the attainment of the bank's business goals. Still, management's intention to leverage under its less balance-sheet intensive businesses (Asset & Wealth Management and Investment Banking) may allow it to maintain improving internal capital generation, without necessarily compressing its capital base. The spin-off of the commodities division and the deleveraging of its Principal Investments division bodes well in the bank's strategy to reduce the group's market risk exposure and free-capital.

Fitch notes that BTG Pactual's overall performance is now naturally lower if compared to the bank's historical returns, as the bank still faces the challenge of repositioning its remaining existing business lines after its liquidity crises event. Over the last three years prior to the liquidity crises event, the group's structure benefited from an increasing diversification on its business franchise, expanding its leadership in the Latin American region, reinforcing its fee business through the acquisition of BSI and leveraging on corporate lending opportunities. After BTG's business reorganization, though, a relevant share of its revenues generations is now linked again to its trading units, which Fitch deems are more volatile.

Recent quarterly results suggests early signs of profitability development on the back of BTG Pactual's leaner structure coupled with the gradual improvement on the bank's client divisions. Nevertheless, Fitch does not rule out the possibility of a longer than expected weaker operating environment, which may postpone short-term business targets and delay BTG Pactual's capability to achieve targeted profitability improvements.

KEY RATING DRIVERS: BTGH

BTGH's IDR's and National Scale Ratings are equalized to those of its sole operating subsidiary, BTG Pactual. BTGH is a pure holding company and directly controls 70.3% of BTG Pactual. The equalization of the ratings is based on the high correlation between the probability of default for BTGH and the bank. Both are incorporated in the same jurisdiction, being overseen by Brazilian authorities.

Double leverage (equity investments in subsidiaries and BHC intangibles/equity) is acceptable at 117% in June 2016, and liquidity risk management is centralized at the bank. BTGH shares the same executives, controls and systems with BTG Pactual. They are supervised by the Central Bank of Brazil, which requires the entire group to be responsible for the liabilities and obligations of any group company. Nevertheless, BTGH's support and support floor ratings are assigned at '5' and 'NF', respectively, given BTGH's nature as a holding company, indicating that although possible, external support cannot be relied upon.

Most revenue derives from the equity pickup received from BTG Pactual, with low funding expenses and costs. Average return on equity has surpassed 20% each year, with exception of 2015 when it was 10.8%, as net income was affected by expenses related to the creation of provisions for contingencies.

KEY RATING DRIVERS: BTGI

BTGI's Long-Term IDR rating reflects its implicit and indirect support it receives from BTG Pactual. However, despite its evident links with the group (franchise, common management, relevance of its revenue stream and completely aligned business model), BTGI remains a 'sister company' of BTG within the organization structure, without being a direct subsidiary of BTGH. Hence, its rating remains one notch down from the rating of BTGH, the primary source of support to the entity.

The group's recent announced intention to split the stock market listing for its investment banking and merchant banking division does not alter our expectation that BTGI will continue to benefit from BTG Pactual's indirect support, through BTGH, should it be needed. They will remain sharing the same ultimate owners with majority control, and, in a stress situation, Fitch believes that BTGI may continue to rely on BTG Pactual's willingness to extend support. The group's partnership holds, directly or indirectly, 70.3% of both BTG Pactual and BTGI voting shares.

BTGI concentrates the bulk of the Principal Investment business, which includes the group's Merchant Banking (Private Equity investments), Global Markets (Proprietary Trading) and Real Estate (investment in Real Estate funds and other Real Estate Structures) divisions. Those areas were already planned to reduce in size and relevance in the group's business, and had their deleverage process accelerated after BTG Pactual's liquidity crises. At the end of 2016, BTGI had total equity of BRL2.1 billion, roughly 10% of BTG Pactual's consolidated equity.

During 2015 and 2016, Principal Investments division accumulated losses of BRL1.1 billion and BRL594 million, respectively, mainly due mainly due to negative contribution from private equity and real estate units. With the deleveraging of its principal investments, BTGI should become less important for the group while the volatility in the contribution of global markets business to earnings should fall.

RATING SENSITIVITIES
BTG Pactual IDRs and VR

The potential for an upgrade of BTG Pactual's IDRs remains limited in the short and medium term due to the challenges imposed by the current operating environment.

The bank's ratings could be downgraded in case of a steep deterioration of its profitability metrics to levels below an operating profit ROAA of 1% and/or Fitch Core Capital falls below 10%.

Though there is a lower risk of this scenario materializing, BTG Pactual's ratings could be downgraded in the event of any accusation of wrongdoings and/or official investigations are unveiled related to the bank's business and operations that result in pressures on the bank's reputation and further weaken its franchise and financial profile

BTG Pactual National Ratings

Further positive rating actions on the BTG Pactual's national scale ratings could arise if the entity sustains recent improvements on its business and funding franchise while maintaining satisfactory capitalization and preserving its credit metrics.

BTGH
Changes to the rating of BTG Pactual may lead to changes to BTGH's ratings. Also, an increase of its double leverage ratio above 120% or a deterioration of its debt service metrics may result in a downgrade of BTGH's ratings.

BTGI
Changes to the rating of BTG Pactual or BTGH may lead to changes to BTGI's ratings. Also, the company can be downgraded if Fitch has reason to believe that the

capacity or propensity of support from BTGH has changed, illustrated, for instance, by a lower level of management, operational and balance-sheet integration between BTG Pactual and BTGI.

In addition, a material deterioration of BTGI's financial profile where sustained losses and/or a significant increase of its leverage may hinder the overall financial profile of BTG Group, may trigger a rating downgrade.

Fitch has taken the following rating actions:

Banco BTG Pactual S.A.
--Long-Term Foreign and Local Currency IDRs affirmed at 'BB-', Negative Outlook;
--Short-Term Foreign and Local Currency IDRs affirmed at 'B';
--Viability Rating affirmed at 'bb-';
--Long-term National Rating upgraded to 'A(bra)' from 'A-(bra)'; Stable Outlook;
--Short-term National Rating upgraded to 'F1 ' from 'F2(bra)';
--Support Rating affirmed at '5';
--Support Rating Floor affirmed at 'NF';
--Senior unsecured notes, due in September 2017, foreign currency rating affirmed at 'BB-';
--Senior unsecured notes due in January 2020, foreign currency rating affirmed at 'BB-';
--Senior unsecured notes due in January 2034, foreign currency rating affirmed at 'BB-';
--Subordinated notes due in September 2022, foreign currency rating affirmed at 'B';
--Perpetual non-cumulative junior subordinated notes, foreign currency rating affirmed at 'B-'.

BTG Investments LP
--Long-Term Foreign and Local Currency IDRs affirmed at 'B+'; Negative Outlook;
--Support Rating affirmed at '4';
--Senior guaranteed notes affirmed at 'BB-'.

BTG Pactual Holding S.A.
--Long-Term Foreign and Local Currency IDRs affirmed at 'BB-', Outlook Negative;
--Short-Term Foreign and Local Currency IDRs affirmed at 'B';
--Long-term National Rating upgraded to 'A(bra)' from 'A-(bra)'; Outlook Stable;
--Short-term National Rating upgraded to 'F1(bra)' from 'F2(bra)';
--Support Rating at affirmed '5';
--Support Rating Floor affirmed at 'NF'.

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Additional information is available on www.fitchratings.com

Applicable Criteria

Global Bank Rating Criteria (pub. 25 Nov 2016)
(https://www.fitchratings.com/site/re/891051)
Global Non-Bank Financial Institutions Rating Criteria (pub. 15 Jul 2016)
(https://www.fitchratings.com/site/re/884128)
National Scale Ratings Criteria (pub. 30 Oct 2013)
(https://www.fitchratings.com/site/re/720082)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
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