Fitch Places Banco BTG Pactual and Subsidiaries on Rating Watch Negative

Fitch Ratings

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Fitch Ratings-Sao Paulo-26 November 2015: Fitch Ratings has placed Banco BTG Pactual S.A. (BTG Pactual) and its related entities on Rating Watch Negative (RWN) following the arrest of its CEO and main shareholder, Mr. Andre Esteves. A full list of rating actions is below.

KEY RATING DRIVERS
The RWN reflects the risks from the possible financial and business impact upon BTG Pactual and its subsidiaries related to the arrest of its CEO and main shareholder. In Fitch’s view, the wholesale funding nature of the bank and the dependence on its franchise to perform its normal business may be undermined. At present, there is not enough clarity on the reactions of the bank's fund providers, clients and counterparties; but Fitch will assess the material impact, if any, in the short and medium term on the bank's funding and business franchise. The company has already appointed Mr. Persio Arida as acting CEO but Fitch acknowledges the importance of Mr. Esteves as an active and charismatic CEO who oversees the operations and expansion of the bank; bringing uncertainty about an uneventful succession, if it should be required.

All the Long-term international and National ratings of the subsidiaries (in Brazil and abroad) included in this review are based on the support expected from BTG Pactual, hence, the RWN on the subsidiaries mirror that on the parent bank. BTG Pactual’s ‘bbb-’ Viability
Rating (VR) is also on Rating Watch Negative. However, Banco Pan's 'b' VR is currently unaffected given its low level and the fact that its retail loan business is less correlated with the franchise of BTG Pactual and its funding is mostly secured by funding lines of its other shareholder, Caixa Economica Federal (Caixa). BTG Pactual's Support Rating is unaffected; but the Support Ratings (where applicable) of its subsidiaries have been placed on RWN.

BTG Pactual's VR reflects its strong company profile as a leading investment bank in Latin America, strong profitability, adequate funding and capitalization, and the challenges imposed by its business model. It also considers the inherent volatility of some of the bank's revenue sources, higher market risk exposure and wholesale funding nature. Asset quality is pressured given the tough operating environment and concentrated nature of its loan book and regulatory capital and leverage ratios have deteriorated following the BSI acquisition but are expected to recover.

RATING SENSITIVITIES
BTG Pactual's ratings could be downgraded if the current situation undermines its funding profile, liquidity, or the volume of assets under management, resulting in a sizable reduction on its earnings, or its ability to continue to perform its strong pipeline of business in the short or medium term. A significant increase in its funding costs that hampers profitability may also result in a downgrade.

The ratings could be removed from RWN and reverted to its previous Outlook (Negative) once Fitch is comfortable about the stability of the aforementioned financial aspects of the company. The Negative Outlook mirrored that on the Brazilian sovereign (see 'Fitch Downgrades Brazilian Financial Institutions Following Sovereign Downgrade', 21 October 2015). It also reflected that BTG Pactual's Long-term ratings were constrained by the sovereign rating given its wholesale funded nature and the challenges imposed by the very challenging operating environment in Brazil.

BTG Pactual is a regional investment bank with a leadership position in Brazil and a growing franchise in Latin America, mostly focus on investment banking activities, assets management, securities and commodities trading and also, recently completed the acquisition of a private bank in Switzerland dedicated to serve high net worth people in Europe.

Fitch has placed the following ratings on Rating Watch Negative:

Banco BTG Pactual S.A.
--Long-term foreign and local currency IDRs 'BBB-';
--Short-term foreign and local currency IDRs 'F3';
--Viability Rating 'bbb-'
--Long-term National Rating 'AA(bra)';
--Short-term National Rating 'F1+(bra)';
--Senior unsecured notes, due in March 2016, foreign currency rating 'BBB-';
--Senior unsecured notes, due in July 2016, foreign currency rating 'BBB-';
--Senior unsecured notes, due in September 2017, foreign currency rating 'BBB-';
--Senior unsecured notes due in January 2020, foreign currency rating 'BBB-';
--Senior unsecured notes due in January 2034, foreign currency rating 'BBB-';
--Subordinated notes due in September 2022, foreign currency rating 'BB'.
--Perpetual non-cumulative junior subordinated notes, foreign currency rating 'B+'.

BTG Investimentos LP
--Long-term foreign and local currency IDRs 'BB+';
--Support Rating '2';
--Senior guaranteed notes 'BBB-'.

BTG Pactual Holding S.A.
--Long-term foreign and local currency IDRs 'BBB-';
--Short-term foreign and local currency IDRs 'F3';
--Long-term National Rating 'AA(bra)';
--Short-term National Rating 'F1+(bra)'.

Banco Pan S.A.
--Long-term foreign and local currency IDRs 'BB+';
--Short-term foreign and local currency IDRs 'B';
--Support Rating '3';
--Long-term National Rating 'AA-(bra)';
--Short-term National Rating 'F1+(bra)'.

Brazilian Finance & Real Estate S.A.
--Long-term foreign and local currency IDRs 'BB+';
--Short-term foreign and local currency IDRs 'B';
--Long-term National Rating 'AA-(bra)';
--Short-term National Rating 'F1+(bra)'.

Brazilian Mortgages Cia Hipotecaria
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--Long-term foreign and local currency IDRs 'BB+';
--Short-term foreign and local currency IDRs 'B';
--Long-term National Rating 'AA-(bra)';
--Short-term National Rating 'F1+(bra)'.

Brazilian Securities Cia de Securitizacao
--Long-term foreign and local currency IDRs 'BB+';
--Short-term foreign and local currency IDRs 'B';
--Long-term National Rating 'AA-(bra)';
--Short-term National Rating 'F1+(bra)'.

Pan Seguros S.A.
--National Insurance Financial Strength (IFS) AA-(bra);

BTG Pactual Colombia S.A.
--Long-term National Rating 'AA+(col)';
--Short-term National Rating 'F1+(col)'.

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Additional information is available on www.fitchratings.com

Applicable Criteria
Global Bank Rating Criteria (pub. 20 Mar 2015)
Global Non-Bank Financial Institutions Rating Criteria (pub. 28 Apr 2015)
Insurance Rating Methodology (pub. 16 Sep 2015)
National Scale Ratings Criteria (pub. 30 Oct 2013)
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