

MOODY'S

RATINGS

Rating Action: Moody's Ratings assigns Baa3 LT issuer rating to BTG Pactual Europe S.A., stable outlook

28 May 2025

LT deposit ratings are affirmed at Baa2

Paris, May 28, 2025 -- Moody's Ratings (Moody's) has today assigned long-term and short-term issuer ratings of Baa3/P-3 to BTG Pactual Europe S.A. (BTG Europe), together with affirming the long-term deposit ratings of BTG Europe at Baa2. We also affirmed the Baseline Credit Assessment (BCA) at ba3, the Adjusted BCA at ba1, the short-term bank deposit ratings at P-2, and the long-term Counterparty Risk (CR) Assessments at Baa1(cr) and long-term Counterparty Risk Ratings at Baa1. We also affirmed the short-term Counterparty Risk Assessments at Prime-2(cr) and short-term Counterparty Risk Ratings at Prime-2. The outlook on the long-term deposit ratings remain stable and the outlook on the long-term issuer ratings is stable.

RATINGS RATIONALE

BTG Europe's deposit and issuer rating of Baa2 and Baa3 reflects (1) the bank's unchanged BCA of ba3, (2) a very high assumption of affiliate support from its parent, Brazilian banking conglomerate Banco BTG Pactual S.A. (BTG, Ba1 Positive, ba1 BCA), leading to two notches of uplift to an Adjusted BCA of ba1, in line with the BCA of BTG, (3) the application of our Advanced Loss Given Failure (LGF) analysis, resulting in very low and low loss given failure, respectively, translating into two and one notches of uplift from the Adjusted BCA and (4) a low probability of support from the Government of Luxembourg (Aaa stable), where BTG Europe is headquartered, resulting in no additional uplift.

Baseline Credit Assessment

The affirmation of BTG Europe's BCA of ba3 reflects our view that BTG's plan to develop a fully-fledged midsize private banking franchise in Europe, as well as the European hub for BTG's Latin American clients, is currently on track.

While BTG Europe's profitability has so far been weak (net loss of €0.94 million in 2024), we expect the bank to break even in 2025, as i) Assets under Management (AuM) keep on growing at a fast pace (from €408 million at year-end 2023 to €1,674 million at year-end 2024, ii) the bank keeps onboarding new wealth management clients, in part due to the expansion of its distribution platforms, and iii) BTG Europe decreases its cost of funding. This will more than offset the increase in operating expenses, due to higher headcount related to the growth of the bank's business activities.

We still incorporate the strategy execution challenges in relation to the ambitious growth and franchise development plan through a two-notch negative qualitative adjustment for corporate behavior in the bank's BCA. The BCA also reflects the reputational, legal and operational risks inherent to the business model of a private bank. Besides, given BTG's small size and franchise, the bank is highly exposed to concentration risk, although such concentrations will progressively abate as the bank onboards new clients and grows in size.

BTG Europe's capitalization is high, as of 31 December 2024 its regulatory Common Equity Tier 1 (CET1) ratio was 65%, significantly above the minimum requirements of 13%. BTG made

capital injections of €55 million in September 2023, €150 million in January 2024 and €200 million in April 2025, in order to grow BTG Europe's lending activities across Europe alongside the planned AuM growth. We expect BTG Europe to maintain its capitalization at very strong levels while gradually deploying and growing its business activities.

Affiliate support and Loss Given Failure

BTG Europe benefits from a very high probability of support from its parent company, BTG. This is underpinned by its strategic importance in the development of a European franchise, its strong integration within the Brazilian group's European operations and existing Latin-American client base, as well as the parent's close involvement in all its subsidiary's strategic decisions. The very high probability of support also reflects BTG's ongoing support to its European subsidiary through capital injections. The very high support, combined with BTG's higher BCA of ba1, results in an Adjusted BCA of ba1, two notches above BTG Europe's BCA.

In addition, our Advanced LGF analysis as of year-end 2024 indicates a very low loss given failure for the deposit rating, together with a low loss given failure for the issuer rating, driven by the substantial amount of bail-in able deposits, resulting in a two-notch and one-notch uplift for these ratings.

OUTLOOK

The stable outlook on the long-term deposit and issuer ratings of BTG Europe reflects our expectation that a one-notch upgrade of BTG's BCA would not lead to a subsequent upgrade of the Adjusted BCA. The outlook also captures our expectation that while (i) BTG Europe is yielding synergies with BTG's current business in Europe, progressively leading to net profits in the next 12 to 18 months, and (ii) capital and liquidity buffers will remain high, the execution and concentration risks that will abide in the next 18 months will limit any upward pressure on the ba3 BCA.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

BTG Europe's deposit and issuer ratings could be upgraded as a result of a decrease in loss given failure, should depositors and senior creditors benefit from higher subordination than is currently the case.

We could upgrade the BCA if the bank successfully develops its wealth management and institutional fixed income sales business over the medium term, while diversifying and lengthening its funding profile. However an upgrade of the BCA would not necessarily result in an upgrade of the deposit and issuer ratings, unless the rating of the parent also improves.

Although unlikely at the moment, a downgrade of BTG's ratings could lead to a downgrade of BTG Europe's rating, all other things being equal. We could also downgrade the BCA as a result of subdued origination compared to targets, leading to lower-than-expected profitability.

The principal methodology used in these ratings was Banks published in November 2024 and available at <https://ratings.moodys.com/rmc-documents/432741>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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