



## **BANCO ABC BRASIL EARNINGS CALL**

**4<sup>th</sup> QUARTER OF 2022**

**February 9, 2023**

**Mr. Ricardo Moura:** Good morning, everyone. I'm Ricardo Moura, investor relations, strategy and proprietary M&A officer. Welcome to Banco ABC Brasil's earnings conference call on the 4th quarter of 2022.

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All contents, including recording and presentation, are available on our IR website. To better follow the presentations, I suggest that you download the content by scanning the QR Code displayed on the screen. And attention: at the end, we will take some time for questions and answers.

And present here by my side are Sérgio Lulia, our CEO, and Sérgio Borejo, our CFO. Welcome.

**Mr. Sergio Lulia:** Thank you, Moura. Good morning, everyone, and thank you very much for attending our earnings conference call.

**Mr. Sergio Borejo:** Good morning, folks. It's a pleasure to be here for another quarter.



**Mr. Ricardo Moura:** I now invite our CEO to talk about the earnings of ABC Brasil, bringing you the main financial and operational highlights. If you want to access the presentation, scan the QR Code on the screen. Sergio, please, it's all yours.

**Mr. Sergio Lulia:** Thank you, Moura. I'll start with the highlights of the 4th quarter of 2022 and the year as a whole. We ended the year with 27% growth in margin with clients compared to the previous year, which results from the gradual diversification of our product mix, client segments and channels. In the same period, the expanded credit portfolio grew by 14.7%. The Middle Market segment stands out with an annual expansion of 40%, surpassing the four billion Reais mark and already representing 9.6% of the expanded credit portfolio.

Services revenues grew by 18% compared to 2021, once again driven by record revenues of 145 million Reais from investment banking and the contribution from the insurance brokerage.

Finally, net income reached 800 million Reais, up by 40% relative to 2021, equivalent to an annualized return on equity of 16.2%. This represents an expansion of 343 basis points compared to the previous year.

Now, let's watch a video with our highlights.

Continuing our highlights regarding the expanded credit portfolio, we experienced 14.7% growth in 12 months, in line with the growth guidance for the year, which was between 12% and 16%.

In addition to the growth in Middle Market mentioned above, it is important to note the performance of the Corporate segment, with a 20% expansion in the last 12 months, reaching almost 57% of the expanded credit portfolio.

In the quarterly comparison, the performance highlight was the C&IB segment, which expanded by 7.8% in the period.

As we can see, the expanded credit portfolio continues to display a high diversification of industries, being well diluted and defensive. Its composition, combined with the origination of quality operations, has contributed to portfolio resilience throughout the economic cycles.

The macro sectors displaying the largest relative increases in share were energy, with an additional 2.8 percentage points, and agribusiness, with 0.9 percentage points, while the macro sectors with the greatest relative decreases were retail, down 1.2 points, and transportation and logistics, down 0.4 points.



Now, let's emphasize our financial margin with clients, which had its 14th consecutive quarter of expansion, as a result of the gradual diversification of our product mix and client segments.

The annualized spread with clients reached 4.3%, the 6th consecutive quarter above the 4% mark.

The spread with clients, as adjusted for the relevant provision, ended the quarter at 2.8%, a decrease of 80 basis points relative to the previous quarter, reflecting an increase in provision expenses that was mainly influenced by an isolated event involving the C&IB segment.

Moving on, note that in the 4th quarter we saw expansion in the three lines that make up our financial margin.

The margin with clients, our main financial margin line, ended the 4th quarter at 335 million, growth of 4% relative to the previous quarter and 27% relative to the same period of 2021.

Shareholders' equity remunerated at the CDI rate amounted to 139 million Reais for the quarter and 475 million for the year, in line with the evolution of the interest rate in the period.

The margin with market totaled 82.5 million Reais for the quarter and 294 million Reais for 2022.

As a result, we highlight that our managerial financial margin reached 557 million Reais in the 4th quarter, the 8th consecutive quarter of expansion, surpassing for the first time the amount of two billion Reais in the accumulated annual result.

Finally, the net interest margin (NIM) annualized rate ended the 4th quarter at 4.8%, contributing to a NIM of 4.6% for 2022, an increase of 90 basis points relative to 2021.

Now concerning our credit portfolio, transactions overdue for more than 90 days ended the quarter at 0.5% of the portfolio, below the historical average.

In the view by segment, there was an increase in the rate for the Middle Market segment of more than 2%. This trend was somewhat already expected, given the nature of the companies in that segment and the maturation of our portfolio.

The overdue in the Corporate and C&IB segment were stable compared to the previous quarter. It is important to point out that this level of overdue still does not capture the impact of the isolated event on the C&IB segment.



Following our presentation, the expanded provision expense ended the quarter at 115 million Reais, equivalent to 1.1% of the expanded portfolio. Out of that amount, approximately 13 million Reais were related to growth in the credit portfolio.

Most of this increase resulted from the event in the C&IB segment, which prompted an increase in specific provisions, in the amount of 67 million Reais. Additionally, funds were allocated to generic provisions previously set up in the amount of 50 million Reais, reaching a provisioning level around 30% for this case.

It is important to emphasize that we view this event as an isolated case of a large company, which is not directly related to the timing of the credit cycle.

Meanwhile, the PDD balance in relation to the portfolio percentage ended the quarter at 2.7%, an increase of 40 basis points for the quarter.

In the view by segment, Corporate and Middle Market kept up the levels of the previous quarter, resulting in a stable rate in the quarterly comparison.

In the C&IB segment, we made an increase due to the aforementioned situation.

Our coverage ratio reached 543%, 130 percentage points below the level observed for the previous quarter, but still very comfortable.

Turning now to service revenues, they reached 15.4% of total revenues for the quarter and 17% in the annual comparison. This performance was the result of record revenues of 145 million Reais from investment banking and the contribution from the fees and insurance brokerage line, which closed the quarter with growth of 67% relative to the same period in 2021, reflecting both the growing contribution from insurance brokerage and the increase in our client base.

In the expenses item, we can see that total expense grew by 48.5% in the annual comparison, while the average efficiency ratio for the year reached 38.4%, within the Guidance for the year.

As mentioned in previous quarters, the increase in total expenses was mainly impacted by the cycle of investments in several structuring initiatives, including the continued expansion of the Middle Market segment, the launch of new lines of business and the organization's innovation and digitization fronts.

However, we have already seen a slowdown of growth in expenses for the 4th quarter. We expect this trend to continue in 2023, while revenues will keep expanding at the same pace through the maturation of new initiatives and the capture of operating leverage, contributing to a gradual improvement in the efficiency ratio.

This will be one more lever contributing to our profitability.



Now for the evolution of our funding. At the end of December, the funding balance totaled approximately 45.6 billion Reais, growth of 1.7% for the quarter and 18.4% for 12 months.

We should stress that one of ABC's success factors is access to competitive funding, both in local and foreign currencies, with a good volume, interesting deadlines and competitive prices. This condition is supported by rating scores that are equivalent to the Brazilian rating by the leading market risk rating agencies or in one case, even a notch above the sovereign rating.

As you can see, we ended the quarter with reference equity of 6.4 billion Reais and shareholders' equity of 5.2 billion Reais.

The total BIS ratio reached 15.2%, and tier one capital remained stable at 13.1%, despite the growth of the asset base and higher provision expenses.

This stability of the capital base is a direct result of our higher level of profitability. We consider this current level of capitalization to be very comfortable and sufficient for us to continue executing our business plan.

Up on the screen now, the chart shows the evolution of our annual income. Recurring net income for 2022 reached 800 million Reais, a 40% increase relative to the previous year.

This trend can be explained mainly by the increase in margin with clients, but also in shareholders' equity remunerated at the CDI rate and in services revenues. And these increases were partially offset by an increase in administrative and provision expenses.

The annualized return for 2022 was 16.2%, an expansion of 343 points relative to 2021.

On a quarterly basis, recurring net income for the 4th quarter was 197 million Reais, while return on equity was 15.3%.

Had it not been for the one-off situation in the C&IB segment, net income would have been 226 million Reais, and return on equity would have been 17.5%.

And even considering that effect, our annualized return on equity for the 4th quarter was around 120 basis points higher than that for the same period of 2021.

We will now look at our earnings at the close of 2022 relative to the Guidance that had been announced for the year.

We reached annual growth of 14.7% in the expanded credit portfolio, driven by the expansion of the Middle Market segment, with annual growth of 40.1%, both within the Guidance provided.



Growth in expenses ended 2022 at 48.5%, above the Guidance of 30% to 40% that had been provided, as a result of higher inflation, as well as the expansion of our team of employees and investments in technology mainly focused on sales teams and digital transformation.

This higher growth in expenses was offset by a greater increase in revenues, contributing to the 2022 efficiency ratio reaching 38.4%, therefore within the Guidance that had been provided.

And now, to conclude, we present our Guidance for 2023.

Regarding the expanded credit portfolio, our Guidance is annual growth between 12% and 16%, again driven by the expansion of the Middle Market segment, with expected annual growth between 35 and 45%.

Regarding the Guidance for annual growth in expenses, which considers personnel expenses, other administrative expenses, and profit-sharing expenses, our forecast for 2023 is growth between 15% and 20%, substantially lower than the growth recorded in 2022.

We expect 2023 to see more growth in expenses and continued growth of revenues through the maturation of new initiatives and the capture of operating leverage. This is the rationale for defining the efficiency index Guidance, which we are projecting to be between 35% and 38% for 2023.

Well, these are the highlights that wanted to present, and we are now available to answer any questions you may have. Thank you very much.

**Mr. Ricardo Moura:** Thank you, Sérgio, for giving us an overview of the bank's earnings for the 4th quarter. I also thank everyone following us on the broadcast. Now, as I mentioned earlier, we will start our Q&A session.

### **Q&A Session**

**Mr. Ricardo Moura:** And for all of you watching us, feel free to ask questions and provide answers. To participate, just raise your hand by clicking on the icon at the bottom of the screen. We are available to answer all questions. Just a moment so I find out if there are any questions. Uh, the first--first question comes from Ricardo Buchpiguel, of BTG Pactual. Please.

**Mr. Ricardo Buchpiguel:** Good morning, everyone, and congratulations on the results. Yes, first, I'd like to understand how much ABC still needs to provision for the Americanas case this year, if you expect to provision 100% of the exposure and how much it would



be. Yeah, and, also, despite the scenario of an increase in PDD due to this specific case for the year, it would be possible for us, to see, uh, an increase in ROE due to the other factors that you mentioned, right? Higher interest rates, uh, Middle Market and other initiatives gaining traction, right? On another topic, ABC has been growing a lot, you know, including the portfolio in recent years and the expectation for this year. So, I'd like to understand, you know, if the bank is seeking to make any changes in its capital structure. I know you mentioned that you are so comfortable with--with the Basel ratio, but perhaps if you make some change related to the issue of Tier 2 or AT1 capital this year, changing the capital mix a little bit --if it would make sense, uh, even for this year, or the next, you know, to understand the outlook a little. Thanks.

**Mr. Sergio Lulia:** Well, Ricardo, thanks for your questions. In the case of Americanas, right? Yes, a provision was made, as we said, of 30%. This is our procedure for judicial reorganization cases, where at first you usually have very little information about the company's situation, so over time you assess the progress of the case and determine if and what additional provisions are needed. In this case, specifically, I think the level of information is still very low. No one knows exactly what the company's financial situation is, as data hasn't been disclosed. There's great expectation that the reference shareholders, who, after all, are responsible for the company's management and have always been very active, will show up somehow and try to address the situation. So we are going to monitor the development of this case, we are going to monitor the development of negotiations, and then, when we have a slightly higher level of information, that is when we will determine the level of provisions and if any additional provisions will be needed. If necessary, we'll do it as it's always been done and there'll be no problem. Uh, regarding the provision forecast for the year, it is too early to tell, obviously, as the year has just begun. I want to say that, as always, we have a portfolio that we consider to be very healthy and very well provisioned. Now, on the other hand, we don't underestimate the prospect of continuity in interest rates, as there's a slowdown in the economy, which may or may not get worse, in terms of the ceiling environment during the year. But I want to say that this is a world we can navigate, right? This is our market, it's something we've been doing our whole lives, and we're very calm about navigating further for this year. With regard to the other question, the capital structure. Look, we have, as I said earlier, a capital structure that we find very comfortable. Depending on whether or not the bank's growth accelerates, which will depend mainly, I think, on macroeconomic variables since, from an insider's point of view, we are very well prepared and equipped to continue growing at a stronger pace, so that recapitalization of dividends may be necessary, as we have already done in the past. That is, we distribute the dividends, and if we think there is a good opportunity for growth, we offer investors an opportunity for reinvestment. This decision hasn't been made yet. We will decide that in the course the year.

**Mr. Ricardo Buchpiguel:** No, crystal clear.



**Mr. Ricardo Moura:** Thank you very much, Ricardo. We will now move on to our next question, from Gustavo Schroden of Bradesco. Gustavo?

**Mr. Gustavo Schroden:** Good morning, everyone. Good morning, Sérgio, good morning, Borejo, good morning, Ricardo. Thank you for the opportunity. I would like to explore a little bit the question of how the environment is, and more specifically the Middle Market segment, and maybe a little above middle, right? I think that, whatever the specific case of Americanas that has already been mentioned, it seems that, at the beginning of the year, we started to see a series of, uh, let's say, another company has already filed for judicial reorganization. We can see in the newspaper another company already preparing to do some kind of restructuring, not necessarily a judicial reorganization, but already indicating that it needs to reorganize, anyway. Lots of news of companies facing some kind of, let's say, problem or difficulty running their business. And so I'd like to understand how you view this, right? And, again, regardless of Americanas, apparently it's a specific, isolated case there, of a different nature, right? I'm thinking here, more on the operational and business side, and in terms of the companies' indebtedness and cash generation capacity. I saw that your Guidance, and this is in my humble opinion--I personally found the Guidance aggressive concerning growth for medium-sized businesses. But I wanted to understand how you see this all. Is there a yellow flag here? Or is it part of the business? I wanted to understand that. Because we spent maybe a year and a half, two years, when the corporate segment in general, as well as the small ones, right? I think medium-sized and large companies are quite healthy, with very low default levels. And I think that at the beginning of this year, we had some unexpected news, and for less than, 45 days into the year. So, I would like to understand how you view this. Again, apart from the Americanas case, which I think is an isolated one.

**Mr. Sergio Lulia:** Gustavo, good morning, thanks for participating and for the question. As we see it, Americanas is not a case of deterioration of the economic scenario as you said, right? It's a case of fraud, okay? So that could have come out last year when we were much better. So it is independent of the cycle. These other cases, as you said, we went through a period, and we've been saying this in the latest releases, in which default was below the historical average. And that, when you're in this market, you know that one day it will return. In the Middle Market segment, specifically, we've already seen a relative worsening of the sector's performance, haven't we? Over the course of the second half of 2022, the delays grew, we had a delay in the Middle Market portfolio of around 1%, 1.2%. Now it's a little upwards of 2%, it has surpassed that 2% now, at the level established in our Business Plan. I mean, when we made a Business Plan for the Middle Market segment, we never considered that the segment would have spreads at this level, with a delay of at least 1%, right? So, it exceeded 2.5%, 2%, near 2.5%, and it appears to have stabilized. In the other segments, in Corporate and CIB, there are specific cases, but I will tell you that about the cases that have been disclosed so far, those we monitor, cases involving companies that are known and already were in a





slightly tighter financial situation. So there's no surprise there, you see? Here, it really is part of the business, and we don't see that as a big surprise. Overall, the portfolio remains very healthy. I think these cases of companies in a tighter situation in the Brazilian corporate universe are still very few. So we see that with relative tranquility. Now, on the other hand, I don't about the other side, there, financing conditions are tightening, aren't they? So, because of the events already announced, the capital market is a little more restrictive towards new issues. The capital market is an important vehicle, right? The financing of Brazilian companies since the pandemic has been a little less present. So, the day I saw a yellow flag, as you said, which is a certain amount of caution that is natural to have, and something we have seen on several other occasions. As for the expansion of the Middle Market segment, it is our belief that it's an aggressive guidance because it is based on new clients being gained mainly in regions where we are not present, right? So it's a matter of diluting the credit risk and increasing portfolio diversification both from a regional and industry point of view. And we think that, because we still have so little market share in this segment, even in a moment of greater caution with credit, like now, we can grow with quality, increasing the number of clients.

**Mr. Ricardo Moura:** Thank you, Gustavo. We are now moving on to our next question. Flavio Yoshida, Bank of America. Flavio, please.

**Mr. Flávio Yoshida:** Hello, everyone, how are you? Thanks for the opportunity. I'd like to stick to the issue that was just addressed. We see that the fees line has been very positive for ABC, I think specifically on the capital market side, and given the Americanas event, what we realize, I think, is especially about issues of fixed-income securities. I think it is a little more difficult for them to happen, and I think that ended up being a good driver for the 2022 earnings. I would like to understand your view a little bit, in terms of what you are expecting for this specific item for this year. And I think that also leads us to the expense side, right? What we see here, from talking to the companies that we cover, we recurrently see the efficiency issue being increasingly discussed. We saw your guidance, but I would like to understand if you think there might be some additional effort given that the economic scenario for the year is challenging. Thanks.

**Mr. Sergio Lulia:** Flávio, thank you. I'm going to answer the first question, and then I'm going to ask Borejo to help answering the second. The DCM market—structurally, we see how the market is expanding in Brazil, with an increasingly larger number of companies of different sizes being able to access it. This benefits us a lot because we serve companies from very large to the medium-sized to small ones, as you know. So it's a market in relation to which we really believe we are very well equipped, including now, at the beginning of the year, by restructuring our investment banking and making it more prominent. We are going to set up an independent company, a partnership, where investment banking executives will be shareholders of Banco ABC Brasil as part of this initiative, aiming to attract more and more quality professionals, offering them competitive conditions and compensation, and to expand this activity. Now, the situation



in the market right now is bad, right? Yes, due to the cases that have been announced, with a large involvement of those companies in the capital market, the capital market will contract, right? Funds or managers. A certain fear arose about the quality of their liabilities, and now they are more afraid of making new purchases, there is re-pricing going on in the secondary market, so the situation in this market is more difficult. Now, for the year, we have to wait and see, right? I mean, if I said anything on this matter, I think I would be standing on shaky grounds. Everything else is consistent, with no new cases, and I believe that this market will soon be making a comeback. Now, we're going to have to wait and see. On the expense issue, please help me here, Borejo.

**Mr. Sergio Borejo:** Okay, well, thanks for the question, Flávio. For the expense issue, that slowdown in growth for 2023 is something that we've even been talking about for some calls here with you, right? Well, we had a 2021 and 2022 in which several structural investments were made, teams were reorganized, processes were incorporated and several groups specifically working to improve and enhance the bank's services. That was done in these two years. What ends up happening now for 2022 is investments will continue to be made, but in a more moderate way, right? It's within the plan that we made two to three years ago. And we need to tighten it up a little more, there is room, as the bank has historically had a very diligent mechanism for adjusting expenses to its revenues. So I think we are very comfortable with this expense growth guidance that we have issued for next year. Improving the bank's operating leverage will be part of it as well.

**Mr. Ricardo Moura:** Thank you, Flávio. Moving on to our next question, then. Marlon Medina, from Banco JP Morgan. Marlon, please.

**Mr. Yuri Fernandes:** Hi, it's Yuri here. I think I have the wrong link here, guys. Good morning and congratulations on the year 2022, despite a more challenging quarter there, and these corporate cases, in fact, getting in the way. In that corporate case, Lulia, if I can just go back on it a little bit, I know it's very specific. It's another-it's two more questions, right? How about revenue recognition, right? The NII of this portfolio, you have already stopped accruing--you continue accruing another quarter. Is there any significant impact coming from that? And also about provisioning, I got your message, right? It will depend on how this evolves, it will depend on a capitalization, but if nothing happens, this credit is now theoretically in arrears, right? They must have stopped paying with the judicial reorganization going on. Is this going to be a regular process? If nothing happens, you go, "Look, two, three, four more months overdue, so I'm making provisions as recommended by the Central Bank," just so we understand a little, right? And another question, moving away from the Americanas issue, we saw that the other operating revenues and expenses came in strong, right? I think you had some expense reversal. I just wanted to understand what that was about. What happened? What about that? Should we look at this in some other quarters? Just so I understand. Thank you, guys.



**Mr. Sergio Lulia:** Okay, I'll start answering, and then I'll pass it on to Borejo for some help with that more specific part, right? As for our exposure to Americanas, all of it is a very short-term exposure. It was an exposure with maturities between February and June 2023. Therefore, nothing has matured yet, but it will soon, right? In such a case, what happens? ABC Brasil's provisioning criterion is either you do it based on delay, following the 2682 rule, or you do the worst of the two. So, if the company is downgraded, then, even if there is no delay, we promptly make the provision. You've seen this many times, when the coverage rate goes up a lot, some delay eventually appears. Or there is also the opposite, occasionally, there are clients who still think it's good, the transaction is, you can have guarantees, collateral, etc. But if it is delayed, we make provisions. In a case like this, the criterion will probably be the rating, right? So, we will have to wait until we have more clarity about the case soon. And having more clarity about the case and the ability to properly price the potential for recovery of this credit, the provisions that are necessary, if necessary, will be made immediately, right? Now, for those others, those have to go to Borejo.

**Mr. Sergio Borejo:** Well, in other operating revenues and expenses, the main item there is provisions for possible operating losses, which we set up over the course of the year for various event, and specifically in the 4th quarter, Yuri, some of those events did not happen. So we reversed part of these provisions. If we look at it year on year, the number is very similar, something we have seen for some quarters now. It's not exclusive. This was a slightly higher amount. But on the whole, the amount is very insignificant. So, if we compare year to year, the number is very similar. I think there is a four to five-million-Real difference from one year to the next. In the specific quarter, there was that reversal.

**Mr. Yuri Fernandes:** Great, everyone. Thank you very much.

**Mr. Ricardo Moura:** Thanks, Yuri. Our next question from Carlos Lopez, from HSBC. Carlos, please.

**Mr. Carlos Gomez-Lopez:** Hello?

**Mr. Ricardo Moura:** Could you speak up a little bit?

**Mr. Carlos Gomez-Lopez:** Yes. Can you hear me?

**Mr. Ricardo Moura:** Yes. Much better. Thank you.

**Mr. Carlos Gomez-Lopez:** Okay, my apologies. First, going back to asset quality and what you see going forward, we have seen other banks saying what we all know which asset quality has been very good, and I expect the normalization this year. Do you expect the normalization or are you concerned that given the level of interest rate, we could see the beginning of a path credit cycle, or this is just a normalization going back to where



what you would normally have? And does it make a difference whether interest rates are cut in the next few months, or it takes three or six months? How sensitive is your portfolio to the delay in interest rate reduction? And the second question is if you have any view about the upcoming tax reform and how it could affect you. Thank you.

**Mr. Sergio Lulia:** Ok, Carlos.

**Mr. Sergio Lulia:** Okay, Carlos, thanks for your questions. I will start and then Ricardo can help me out here. Well, in terms of asset quality, as I have described before, I think that we have right now a pretty, let's say, decent quality in our credit portfolio. In the middle market segment, specifically, there was some deterioration, but it was somehow predicted because we think that in this segment, the levels that we have right now of NPLs are the levels that we were projecting when we did our business plan in a way that we saw some deterioration. Now it seems to have stabilized and we expect for the rest of the year in the middle market specifically to continue to be as it is right now in the corporate and in the CIB, let's say when we are talking about larger companies, then they are more are idiosyncratic events. So it's more difficult to establish a certain percentage of NPLs on the overall portfolio because you are dependent on one name or another name. If you have two, three, four names in a year, it goes up. If you don't have, it stays very low. But what I can say from our experience in this 30 plus years doing business in this segment is that we had in the last two years abnormally low level of delinquencies. And, our expectations, at least when we did our budgets for 2023, was that delinquencies would come back to historical levels. We don't see a credit crunch. We think that overall, Brazilian large companies are not leveraged. They have low leverage. They have recovered well from the pandemics. They have had access to the capital markets in conditions of tenors and amounts that gave to them a debt profile that's much better than what it used to be, in a way that we are comfortable, but we are vigilant. So with a 13.75% interest rate and the economy decelerating, we have to be very cautious. And then, Ricardo.

**Mr. Ricardo Moura:** Okay, Carlos. I will switch to Portuguese just for - in benefit of the audience, so that they can follow us if you agree.

**Mr. Ricardo Moura:** On the tax reform issue, we have to understand exactly what is going to be proposed, is that right? Yeah, what we can say now is that, for example, on the income distribution issue, our distribution is currently made 100% out of interest on equity. So we have to see what the change will be there, but any taxation of dividends, for example, would bring that distribution close to or at the same level as the existing taxation on interest on equity for beneficial shareholders. I think this is the first point. Secondly, any changes would probably only apply from next year on. Thirdly, I think we have to look at the package, and not at specific items, and determine the potential impact it would have on our profitability, with profitability increasing, and also the effect of



interest on equity – it's smaller. So we have to wait a little to understand exactly what the effect is, but we have to take these concerns into account.

**Mr. Carlos Gomez-Lopez:** Thank you.

**Mr. Ricardo Moura:** Thank you Carlos for the question. Our next question, then, comes from Pedro Leduc, from Banco Itaú. Pedro, please.

**Mr. Pedro Leduc:** Hello, thank you all. Good morning. Going back to the Middle Market segment, which I think was a joy for a few years, and continues to be, but it scares me a little that, with a case like ours now, it has consumed or is going to consume more than half of provisions, right? You would naturally have to review the provisions in the course of the year. When I look at the Middle Market segment, it has grown for 3 or 4 quarters in a row, which is the average term of transactions. We are now at 317. This is for the medium term. Even above the AIB, at a time when it seems refinancing conditions are more difficult, and terms are being extended. At least that's what it looks like, okay? Am I getting this wrong or not? You can imagine it's difficult to monitor a major case. Imagine 2,300 clients getting smaller clients. Huh? With smaller tickets. This medium-term expansion surprises me. Honestly, I wanted to understand it, which is certainly an equation. Sometimes, you are able to offer bigger buildings that pay off, right? Usually, the longer the term, the higher premium. Then you can embed it in the transaction. Is that how you're looking at it? Do we perceive more risk? We are extending the deadline but charging more for it too.

**Mr. Sergio Lulia:** Well, Pedro, thanks for participating and thanks for the question. In this case, that's not it. For Middle Market, if we were to separate two sets of transactions, there would be transactions guaranteed by the FGI and the PAC, and there would be transactions falling outside of these programs. In transactions guaranteed by the FGI and the PAC, where we returned to after 2020, when there was that first transactions of that nature during 2021, there was practically nothing. In 2022, the program came back and did it with very good conditions for our clients, in terms of both rate and term, and the bank guarantee is clearly good. So, in these cases, which were programs we did a lot of business with in the 2nd half of 2022, the terms are longer, and they contaminate the average term of the portfolio. If you were to take our portfolio excluding this PAC and FGI component, I would say that it should have an average term of around 180 days, or even a little less. Now, for the risk return issue, no the bigger the segment, right? And you understand this very well: the bigger the tickets, big tickets have no risk-return account, because the loss, when it comes, is very severe. In the case of segments, where the average tickets are smaller, you can make such calculation. But I will tell you that in a slightly worse credit environment, there is no reason to justify an expansion, unless you have very good collateral, which in this case is the guarantee, which is granted by the guarantee fund.



**Mr. Ricardo Moura:** I'm happy to have complemented it too, Sérgio, here it's important to point out that, if you look at the average term of the Middle Market portfolio, for this quarter, you had it around 317 days, it has a certain stability in relation to the previous quarter, and the same quarter of last year. Last year it had 310 days. So there's a little time increase. but it is also not that significant.

**Mr. Pedro Leduc:** You can give an idea of how much that portfolio is at.

**Mr. Ricardo Moura:** Thank you, Pedro, for the question. Our next question comes from Lucas Martins from Prada. Lucas, please.

**Mr. Lucas Martins:** Good morning, everyone. Thank you, Sérgio. Thank you, Borejo. Thank you for the opportunity to ask questions. I would like to follow up on your question. We have three big cases of companies that are facing difficulties, one that has already been well discussed here, one involves a Telecom company, and a third one a retail company. The first question is about the supply chain of these companies. Are you monitoring it, How do you understand this supply chain and your exposure? And the second is about the spread. These new transactions with the credit market, and also the spread from Corporate and Middle Market, how do you view the granting of these new credits in relation to spreads? Are you succeeding in making spreads a little better or not? What does this scenario look like?

**Mr. Sergio Lulia:** Lucas, thanks for participating and for the question. I'll say the following: in the supply chains, which of course we monitor, we're always following up in some cases, at clients where we are present, we are in a better position to monitor clients. Where we are not present, which are some of these cases, we are not as able to monitor. But we're watching, right? And they are normally very good transactions, see? Except, as we saw in the case of fraud there, obviously, there is no good transaction where there's fraud. But this supplier-company relationship is a relationship that even companies in difficulties favor, because they know that when they disrupt their supply chain, the chances of their business becoming unfeasible are very big. So, in these cases, they are very calm, the positions are not relevant, and life goes on, right? With regard to spreads, I will tell you that there is an attempt, I think, by the banks to reprice this a little. We have not seen that specifically yet. Perhaps, due to the level of clients that we operate with, which are clients that usually have very good access to credit with us and with several other banks. And we are seeing a relatively constant building level. I think so, my opinion there, right? If these tighter credit conditions, tighter capital markets, and so on, continue for a few more months, it's possible they'll increase. But at the moment, we still don't see that.

**Mr. Ricardo Moura:** Thanks, Lucas, for the question. For our next question, Leonardo Abboud from Set Investimentos.



**Mr. Leonardo Abboud:** Hey, good morning, everyone, how are you? Thank you for your attention. Can you hear me?

**Mr. Ricardo Moura:** All right.

**Mr. Leonardo Abboud:** Great. Well, first of all, congratulations there, on the earnings. I'd like to understand a little about what's going on in the Middle Market segment in more strategic and specific terms. How is the Middle Market segment contributing to the company's ROE today? Is it running below or is it already approaching the ROI? Because this is a project that is still in progress. And when do you think that will contribute more to the company's ROE, in terms of how long in years?

**Mr. Sergio Lulia:** Good question, Ricardo. Look, I'm going to start, and then Borejo can give you more details, right? The Middle Market segment has moved past the break-even, hasn't it? I mean, today, it is no longer a segment that subtracts images from the bank, but it has not yet reached a level of profitability like the other segments. Which means the following: in 2022, for example, if it weren't for the Middle Market segment, ours would have been bigger than this one. In 2023, we already expect what has been budgeted, that it will reach the level of profitability of the other segments. And from 2024 onwards, it will probably surpass everything, and the level of profitability of the other segments will remain constant. It's a segment that, strategically, we think will never be the bank's main segment, from a credit exposure standpoint. It represents, more or less, almost 10% of the expanded portfolio, but already represents more than 20% of the margin with clients. This should continue to grow over the years, but, from the portfolio point of view, I think it will always be a segment where companies turn over 300 million to 4 billion Reais per year, right? Which is the segment that we have operated since the beginning of the organization, and we will continue to operate. Now, as we enter the Middle Market segment, we not only add profitability to the bank, from that year onwards, we also dilute the credit risk, and we begin to monitor these companies much earlier. And as these companies grow and develop and become successful, they start to be served by other segments that will have a much larger range of products, will add purposes, will add other things. So, I think it's a segment that, strategically, for us, is very important, and it's also here to stay.

**Mr. Sergio Borejo:** Perfect. No, I think that just complementing what Sérgio said, yes, this is a segment that also benefits from a scale, it is much more scalable today than it was last year and, especially, the previous year, right? A large part of this operating leverage that we talked about, that Sérgio mentioned at the beginning of the presentation, comes from the Middle Market, right? And with the maturation, over time, of the clients here, as they use the bank's services, the trend is for these services to gain penetration as well. So, when you put these three items like Sérgio did, we expect that now, in 2023, it will reach the bank's profitability and going forward, it will increase that profitability.



**Mr. Ricardo Moura:** Perfect. We're coming to the end of our broadcast of the earnings conference call for the 4th quarter of 2022. I'll give the floor to Borejo and Lulia, so they can make their final remarks. Borejo, please.

**Mr. Sergio Borejo:** I just want to thank you for participating, for another year, and I hope to see you all here for our next video conference.

**Mr. Sergio Lulia:** Likewise, I would like to thank everyone for participating. I think it was a very good year for the bank. It was a year when we diversified our sources of revenue and several areas grew. Despite this event at the end of the year, the bank displayed adequate profitability. The bank is capitalized, we have very well-assembled teams, with all the processes well developed. So, as we look at 2023, we also have great expectations and confidence that it will be a great year again. Thank you all and until next time.

**Mr. Ricardo Moura:** Thank you very much, Lulia and Borejo, for the presentation. I also appreciate everyone's participation. The presentation is available on the IR website. In addition, the broadcast will be available on our YouTube channel. If you want to listen to the audio of the broadcast, it is available on Spotify on ABC Brasil, and if you have any questions, our IR team is available to hear them. Thanks and have a nice day.