



BANCO ABC BRASIL 3Q21 EARNINGS CALL

November 05, 2021

Operator: Good morning everyone and thank you for waiting. Welcome to the third quarter of 2021 conference call of Banco ABC Brasil. With us here today we have Mr. Sergio Lulia Jacob, CEO, Mr. Sergio Borejo, Executive Vice President and CFO and Mr. Ricardo Moura, Investor Relations Director.

This event is being recorded and all participants will be in a listen-only mode during the Company's presentation. After Banco ABC Brasil remarks, there will be a question and answer session. At that time further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

This event is also being broadcast live via webcast and may be accessed through Banco ABC Brasil website at www.abcbrasil.com.br/ir, where the presentation is also available. Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded. Those following the presentation via the webcast may post their questions on our website. They will be answered by the IR Team after the conference is finished.

Before proceeding, let me mention that forward-statements are based on the beliefs and assumptions of Banco ABC Brasil management and on information currently available to the company. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur.

Investors and analysts should understand that conditions related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Sergio Borejo. Sergio, you may begin your presentation now.

Mr. Sergio Borejo: Good morning ladies and gentlemen and thank you for joining our conference call for the third quarter of 2021. In Slide 2, we present the financial highlights of the period:

The Net Interest Income reached 380.9 million Reais in the quarter, an increase of 10.2% over the previous quarter, and of 26.2% over the same period of 2020. The highlight was the Financial Margin with Clients, which totaled R\$263.7 million – the ninth consecutive quarter of growth – driven by changes in the product mix, including derivatives and energy trading, as well as by a higher relevance of the Middle segment within the portfolio.

Expanded Provision Expenses was 47.7 million Reais in the quarter, a decrease of 7.9% over the previous quarter and of 45.5% over the same period of 2020, consolidating the transition to a phase in the credit cycle with lower provision expenses.



Service Revenues reached 97.0 million Reais in the quarter - an increase of 33.6% over the 2Q21 - and 241.1 Reais million during the first nine months of 2021, the highest mark for this period in the Bank's history, driven by Investment Banking revenues.

The Net Income reached 151.5 million Reais in the quarter, an 11.1% increase quarter-over-quarter and 106.1% year-over-year - the first quarterly net income above 150 million Reais in the history of ABC Brasil.

The Return on Average Equity (ROAE) reached 13.4% in the third quarter, 110 basis points up versus the previous quarter and 630 bps up in comparison to the same period of 2020 - the fifth quarter of consecutive growth.

In Slide 3, we present the highlights of the period. Continuing the strategy of expanding our client base. In the Middle segment, we surpassed the milestone of 1,500 total clients and 1,000 clients with credit exposure and added 147 total clients and 74 clients with credit exposure in the quarter, equivalent to a 60% client base expansion within the last 18 months.

During the third quarter, three new initiatives started generating revenues: Insurance Brokerage, Private Payroll Loan and Credit to Enterprise (C2e). Regarding the Credit to Enterprise: In order to boost the offer of digital solutions, ABC Brasil launched its Credit to Enterprise (C2e), a credit solution directed to corporate clients and embedded in ecosystems, offering credit through digital channels - including marketplaces, ERPs, and softwares - based on the embedded finance concept. The offering is available through APIs, with high scalability and easy connectivity, working through automated processes from onboarding to the proposal and credit analysis. The product also relies on credit card receivables as collateral, integrated with all the receivable registration platforms, mitigating the current interoperability challenges in the market.

In Slide 4, we present the evolution of the expanded credit portfolio. The Expanded Credit Portfolio grew 5.9% in the quarter and 13.2% in 12 months. The Loan Portfolio grew at a consistent rate despite a moderate decrease in the C&IB segment, result of a more selective capital allocation.

The Middle segment continues to be one of our main growth drivers. In the quarter, this portfolio increased around 230 million Reais, a 9.7% increase versus the second quarter of 2021 and 74.3% in 12 months. The segment continues to grow its relative share, already accounting for 7.1% of the total Expanded Credit Portfolio. The Corporate segment presented a 4.5% increase versus the previous quarter, and 8.8% in 12 months, continuing to be our most representative client segment. In the C&IB, the Expanded Credit Portfolio had an increase of 7.1% in the quarter and of 12.1% in 12 months, driven by the growth in Guarantees Issued, a product that benefits from a lower capital allocation.

In Slide 5, some highlights of each segment. We concluded the quarter with a significant increase in total clients and clients with credit exposure. The highlight was the Middle segment again, which surpassed the mark of 1,500 total clients and 1,000 clients with



credit exposure, as a result of the addition of 140 total clients in the quarter and almost 700 in the last 12 months. In this segment, the ABC Link initiative already starts to contribute to the client origination. At the same time, the average exposure per client remained practically stable at 2.6 million Reais, while the average term decreased to 360 days.

In the Corporate segment, the Bank ended the third quarter of 2021 with 1,339 clients. Out of these, 949 had credit exposure, resulting in an average exposure of 18.8 million Reais per client. The Corporate portfolio ended the quarter with an average term of 389 days. Finally, in the C&IB segment, the Bank ended the third quarter of 2021 with 323 clients, of which 186 with credit exposure, resulting in an average exposure of 69.1 million Reais per client. The C&IB portfolio ended the quarter with an average term of 339 days.

In Slide 6, we present the sector segmentation of our Expanded Credit Portfolio. Our Expanded Credit Portfolio continues to show a high sector diversification, presenting a well-diversified and defensive loan portfolio. The sectors with the largest relative participation increases were: Energy Generation (+1.9 p.p.) and Agricultural Inputs (+0.6 p.p.), while the sectors with a reduction in relative participation were: Sugar & Ethanol (-0.6 p.p.) e Others (-0.5 p.p.). In addition, it is worth noting that the increased exposure to the energy sector is mainly related to supporting power generation companies focused on renewable sources, in line with sustainable practices and in a historically relevant sector for ABC Brasil.

In Slide 7, we present some indicators that reflect the quality of our credit portfolio. In the first graph, we present the Loans Overdue More Than 90 Days. As we can see, this ratio ended September accounting for 1.2% of the portfolio, stable in relation to the previous quarter and in line with the historical average - around to 1% over the credit cycle. This performance can be explained by a meaningful decrease of loans overdue in the C&IB segment and by the current benign credit environment that began in first quarter of 2021.

In the second graph, we present the Coverage Ratio - the ratio of the Loan Loss Reserve to Loans Overdue More Than 90 Days - reached 259 percent. This indicator also remained stable in relation to the previous quarter, presenting, in our analysis, an adequate level for the current credit environment, and in line with pre COVID-19 levels.

In Slide 8, we show the evolution of the Expended Provision Expenses and their main components. Loan Loss Provision Expenses reached 35.7 million Reais in the quarter - a decrease of 23.2% in relation to the previous quarter and of 44.7% when compared to the same period of 2020. The cost of credit was equivalent to 0.7% of the classified loan portfolio - a reduction of 0.2 percentage point over the previous quarter. Provision for the Devaluation of Securities (PDS) reached 4.8 million Reais in the quarter, an increase of 30.7% versus the previous quarter, and a reduction of 57.5% in relation to the third quarter of 2020.



Credit Recoveries and Provisions for Asset not for Own Use (BNDU), which presented amounts above the historical average in the previous quarter, are presenting again lower volumes. As a result, the Expanded Provision Expense, ended the quarter with 47.7 million Reais, equivalent to 0.5% of the expanded portfolio – a reduction of 0.1 percentage point compared to the previous quarter and 0.6 percentage point compared to the same quarter of 2020 – continuing with a more behaved level, which began in the first quarter of 2021.

In Slide 9, we present the evolution of our Funding. By the end of September, the Funding Balance reached 39.3 billion Reais, an increase of 10.3% in the quarter and of 10.2% in 12 months. One of the advantages of our business is the access to competitive funding, both in local and international currency, with good volumes and attractive maturities. This condition is supported by credit rating notes equivalent to or above that of the Brazilian sovereign. We believe that the quality of our funding becomes even more relevant in an environment of rising interest rates. We continue to see our ability to access quality funding as one of our major competitive strengths.

In Slide 10, we present the evolution of our Shareholders' Equity and Basel Ratio. The Bank ended September 2021 with a Reference Equity of 5.5 billion Reais, and a Shareholders' Equity of 4.6 billion Reais. In the quarter, the Basel Ratio reached 14.6% and Core Equity Tier 1 Ratio ended September at 11.9%, a decrease of 130 and 70 basis points, respectively. This reduction was due to the increase in risk-weighted assets – mainly by the growth of the expanded portfolio and occasional short-term transactions – as well to the redemption of part of outstanding Tier II, being partially offset by the appropriation of the result of the period.

In Slide 11, we present the evolution of the Net Interest Income. The Net interest income reached 380.9 million Reais in the third quarter of 2021, an increase of 10.2% compared to the previous quarter, and of 26.2% compared to the same period of 2020. The Financial Margin with Clients reached 263.7 million Reais in the third quarter of 2021, an increase of 8.9% in relation to the previous quarter and of 27.5% in relation to the same period of 2020. The Financial Margin with Clients will be further explored in the next slide.

The Financial Margin with Market reached 70.2 million Reais in the third quarter of 2021, a reduction of 6.3% in relation to the previous quarter and of 10.8% in relation to the same period of 2020. It is worth noting that, despite the decrease in the quarter, this line is still above historical levels, following the dynamic started in the third quarter of 2020.

The income from Shareholders' Equity Remunerated at CDI reached 47 million Reais in the third quarter of 2021, an increase of 64.8% over the previous quarter and of 188.4% over the same period of 2020, in line with the increase in the basic interest rate. It is important to note that for each 100 bps increase in the basic interest rate, there is an increase of approximately 40 bps in the ROE – given the "asset sensitive" nature of our



balance sheet. As a result, the annualized Net Interest Margin (NIM) reached 3.8% in the third quarter of 2021, an increase of 0.3 percentage point in relation to the previous quarter and of 0.6 percentage point in relation to the same period of 2020 – reaching the highest level since 2018.

In Slide 12, we present the evolution of margin and spread with clients. The Financial Margin with Clients reached 263.7 million Reais in the third quarter, an increase of 8.9% in relation to the previous quarter and of 27.5% in relation to the same period of 2020. This was again a new record and the ninth consecutive quarter of growth.

This expansion was supported mainly by the improvement of the product portfolio, with increased revenues from derivatives and energy trading, as well as by a higher relevance of the Middle Segment in the Expanded Credit Portfolio, which is gradually increasing its contribution through higher spreads.

The Margin with the Clients remains as the main line of the Financial Margin, contributing with approximately 70% of the total. The Spread with Clients in the quarter was above 4% for the first time since 4Q18, reaching 4.2% and growing 0.3 percentage point over the previous quarter and 0.5 percentage point over the same period in 2020. The Spread with Clients adjusted by Provisions ended the quarter at 3.6%, an increase of 0.2 percentage point over the previous quarter and of 1.2 percentage point over the same quarter of 2020, driven by lower Provision Expenses and in line with pre COVID-19 levels.

In Slide 13, we present the Service Revenues. Service Revenues were one of the highlights of the quarter, with growth in all its components. This line reached 97 million Reais in the third quarter of 2021, an increase of 33.6% in relation to the previous quarter and 42% in relation to the same period in 2020, surpassing the mark of 20% representativity of the Total Revenue.

Revenues from Investment Banking reached 39.1 million Reais in the third quarter of 2021, an increase of 88.2% over the previous quarter. In relation to the same period of 2020 – a quarter in which this line was especially affected by the effects of the COVID-19 – Investment Banking revenues increased by about 243.1%. In the accumulated 9 months, Investment Banking revenues totaled 80.7 million reais, the highest historical mark in the first 9 months of the year.

Revenues from Guarantees Issued reached 45.9 million Reais in the third quarter of 2021, an increase of 9.2% over previous quarter and a decrease of 6.3% from the same quarter of 2020.

Finally, Revenues from Commercial Banking and Insurance Brokerage Fees reached 12 million Reais in the quarter, an increase of 23.1% in relation to the previous quarter, and of 51.8% in relation to the same period of 2020, driven by the increase in the number of clients and transactions. The Insurance Broker, despite having started its operation in 3Q21, is already starting to contribute to the Service Revenues' increase.



In Slide 14, we present the change in Expenses and our Efficiency Ratio. Personnel Expenses, Other Administrative Expenses and Profit Sharing reached 148.9 million Reais in the third quarter of 2021, an increase of 4.2% in relation to the previous quarter and of 26.2% in relation to the same period of 2020. This was mainly driven by a 20% increase in the number of employees over the last 12 months – in order to support the development of structuring initiatives – as well as by the impact of the annual salary increase, which although already provisioned throughout the year – was beyond initial expectations.

The increase in expenses was more than offset by the revenues growth in the quarter. As a result, the Efficiency Ratio reached 33.3% in the third quarter of 2021, 2.2 percentage points down in relation to the previous quarter and 0.5 percentage point down in relation to the same period of 2020. Our expectation is that the ongoing process of scaling the new initiatives will contribute as a force reducing of the Efficiency Ratio. Our expectation is that the ongoing process of scaling the new initiatives will contribute as a force reducing of the Efficiency Ratio.

In the slide 15, we can see the 3Q21 Earnings Evolution in an annual comparison. The Recurring Net Income totaled 151.5 million Reais in the third quarter - an increase of 78 million Reais over the third quarter of 2020 – and an equivalent 11,1% increase vs. the previous quarter and 106,1% increase vs. the same period of previous year.

This result was mainly driven by the increase in Financial Margin with Clients; the decrease in Provision Expenses and the increase in the Shareholders' Equity Remunerated at CDI and being partially offset by the increase in Expenses, in line with the strategy of supporting new initiatives, as already mentioned in the previous slide; the increase in Income Tax and Social Contribution, resulting mainly from the higher profitability in the period, but also influenced by the increase in the statutory rate, which is in effect until the end of 2021. The Return on Average Equity (ROAE) reached 13.4% in the quarter, an increase of 1.1 percentage point over the previous quarter, and of 6.3 percentage points over the same period in 2020.

In Slide 16, we discuss the Banks' profitability. When compared to the previous quarters, the Recurring Net Income and the Return on Average Equity in the third quarter of 2021 continues to present a consistent gradual growth trend. The Recurring Net Income surpassed the 150 million Reais milestone for the first time in a quarter, while Return on Average Equity surpassed the 13% mark, the fifth quarter of consecutive growth. This improvement in profitability allows us to continue investing in new structuring initiatives, as shown in the next slide.

Finally, in Slide 17, we discuss the new initiatives. In the third quarter of 2021, three new initiatives started generating revenues: Insurance Broker, Private Payroll Loan and Credit to Enterprise (C2e). The Middle segment and the Energy Trading Company continue their expansion with the expectation of more relevant contribution to the Financial Margin over the next quarters.



The other initiatives are still in the process of gaining scale, while several others are being constantly evaluated by our team. The objective is that in the mid-term, and gradually, the recent initiatives will contribute to: diversify revenue sources; dilute fixed costs; and increase ABC Brasil's structural ROE.

These are the highlights we would like to present. Now we are available to answer the questions of the participants of this teleconference, thank you.

Q&A Session

Operator: Excuse me, ladies and gentlemen, we will now begin the questions and answers session. If you have a question, please press the * key followed by the 1 key on your touchtone phone now. If at any time you would like to remove yourself from the questioning queue, please press *2.

And our first question comes from Gustavo Schroden, Bradesco.

Mr. Gustavo Schroden: Hi. Hello, Sergio, Borejo, good to talk to you again. Congrats on the results. Very strong indeed. I have only one question here. It is regarding 22. Definitely, I mean, this quarter was a very strong quarter. The bank is in a very good shape as we could see, but regarding next year, we've seen this weaker expectation for GDP, on high inflation, on higher interest rates, so that I think that would be a very challenging year. So, my question is what should I expect in terms of our loan growth, credit activity? Do you think that the bank will continue with the same base of growth? And also, in terms of mix, do you think that the bank will continue improving mix, focusing on SME's as well? Or the bank should be more conservative next year? And also, what should we expect in terms of asset quality, right? We know that we've seen the companies in Brazil with very strong balance sheet, higher cash, higher cash, I mean, with liquidity and higher EBITDA margins. But next year will be a tough year. So, if you could share with us your view regarding next year and how should we think in terms of our bank, in terms of ABC performance next year in the credit and asset quality, it would be great. Thank you.

Mr. Sergio Lulia: Hi, Gustavo. This is Sergio Lulia speaking. Thanks for your attendance and for your question. Well, this is the main challenge ahead. As you have said, the perspectives in terms of GDP, inflation, interest rates and others are not optimistic, so the markets really estimating a very tough year, which is something that unfortunately we are used to have in Brazil. You know, we've been doing this business for more than 30 years and there were several years that were challenging, as 2022 seems to be. What I would say is that, and you've mentioned that, the Brazilian companies in general they are in good shape, I think they are not leveraged at all. If you get to the Middle market specifically, these companies, they were, I think, helped by the federal programs in 2020, the PEAC FGI program, in which they had access to long term funding at rates that they normally wouldn't access. So, this was very positive, and the companies are still benefiting from it.



And when we talk about larger companies, I think also in the last few years, since 2015 mainly, the capital markets and other lines of credit, international lines of credit coming from development agencies and even lines that were offered by the banks in Brazil, these companies now they have a debt profile that is much healthier than in other moments. This is not to say that the company will not be affected. Of course, when you have a combination of increased interest rates and a deceleration in the economy, you can expect some delinquencies to go up.

In relation to our portfolio, we don't see signs of deterioration yet. We see the companies having a good year. In many sectors, the companies are recovering the profits from 2020, so they are having a profitable year and we have a very comfortable level of provisions done in the three segments. Then it is a question of wait and see.

In the Middle market specifically, I continue, I believe I am very positive that we can continue to grow at strong paces because we are talking about acquiring new clients. So, we are not concentrating risk. We are not increasing the exposure per client, but rather we are diversifying risk in terms of segments, in terms of geography, in terms of the size of the companies. So, I believe that even if 2022 is a year more difficult than 2021, this process of expansion in the size of the balance sheet, and then the number of clients will continue as it happened in 2020 during the pandemic.

Mr. Gustavo Schroden: OK. No, no, very clear. Just got just one follow up here. So, I didn't understand exactly, so should we expect the loan growth, I mean, it's lower than or the same level of this year, of 21?

Mr. Sergio Lulia: Yeah, well, we are still finalizing our budget and the guidance will probably be released around year end, or the next release of results, but I would say that we expect a strong growth, but I don't know yet if it's going to be more or less than what happened 2021.

Mr. Gustavo Schroden: OK, OK. That's perfect. Thanks, Sergio, thank you.

Operator: Ladies and gentlemen, as a reminder, if you would like to pose a question, please press the * key followed by the 1 key on your touchtone phone.

This concludes today's question and answer session. I would like to invite Mr. Sergio to proceed with his closing statements. Please go ahead.

Mr. Sergio Lulia: So, I'd just like to thank you all for participating in our third quarter 2021 conference call, and we see you or listen you in the next in the next quarter. Thank you and stay well. Bye.

Operator: This concludes the Banco ABC Brazil conference call for today. Thank you very much for participation and have a good day.