

Investor Letter

1st Half 2026

*"When you got a job to do
You got to do it well"*

Excerpt from the song Live and Let Die, by Paul McCartney.

Period	Porto SFA (Flagship)	Porto SFA Institucional	Porto SFA Equity Hedge	Ibovespa	CDI
1H26	0.73%	2.67%	3.26%	6.76%	6.84%
Last 3 years	22.54%	27.61%	-	45.48%	44.04%
Last 5 years	17.44%	22.30%	-	33.95%	77.55%
Since inception	386.65% ¹	406.76% ¹	16.32% ²	221.50% ¹	22.20% ²

1: Since 05/31/2013

2: Since 12/31/2024

Introduction

Porto SFA FIF CIC Ações closed the first half up 0.73%. The Institucional share class gained 2.67%, while Equity Hedge, our multi-strategy fund, returned 3.26%, equivalent to 47.62% of the CDI. Since inception in 2013, Porto SFA FIF CIC has accumulated a return of 386.65%, versus 221.50% for its benchmark.

The first half of 2026 ended very differently from what seemed likely in January. The sequence of events reinforced an important principle of our process: we do not build the portfolio for a single scenario. We look for companies capable of weathering adverse environments without compromising their ability to create value.

Abroad, the year began with artificial intelligence companies still commanding investors' attention. On February 28, the United States and Israel launched strikes on Iran, starting a conflict that lasted throughout the half. The effects quickly reached energy and other commodity markets. Brent crude topped US\$100 in April, bringing back inflationary pressure that was barely reflected in the forecasts made at the start of the year. Then in July, after the half had closed, the forced liquidation of a large fund exposed to artificial intelligence companies triggered a new round of market volatility.

In Brazil, the effects of the external backdrop compounded rising electoral uncertainty. The process has been particularly turbulent, amid institutional tensions and a fiscal challenge that will require credibility from the next government. The problems are well known and, in our view, solvable, although the path to a solution is likely to remain noisy.

In an environment like this, our process does not change: we look for good businesses, run by competent people and offering a margin of safety for investment. We do not control the sequence of events, but we do control the quality of the businesses we choose, the price we pay, and the size of our positions.

It is with this yardstick that we look at Banco ABC Brasil, the central theme of this letter. It is a mid-sized bank with consistent execution that is still little followed by the market. Since its IPO in 2007, it has delivered a total shareholder return close to Itaú's and has gone through two credit cycles with delinquency at roughly one-third of the level seen across the system. Despite this track record, it currently trades below book value. More important than past returns is understanding what sustained them, why we believe profitability can improve in the short term, and how much of that improvement is already reflected in the price.

Allocations in the Financial Sector

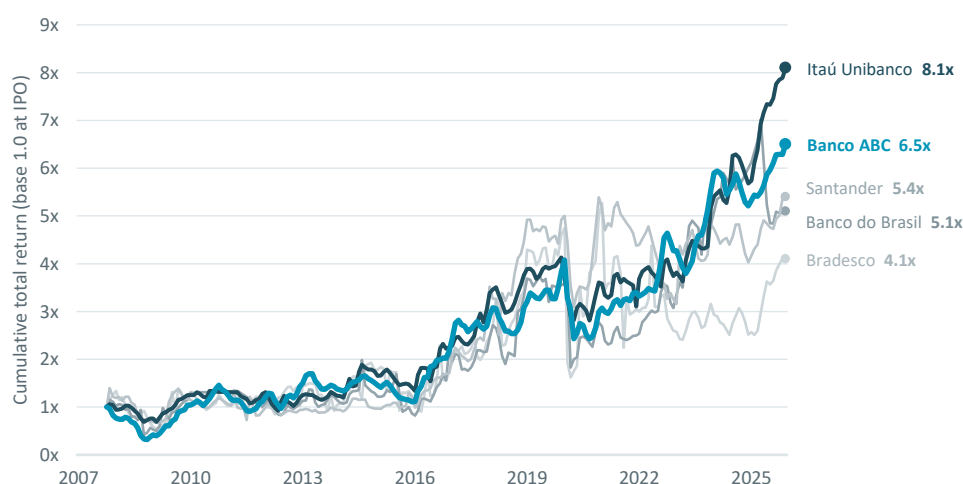
SFA Investimentos has always held financial sector companies, such as banks, insurers, exchanges, and brokerages, in its funds' portfolios. As we have said in previous letters, it is a sector in which we find, with some frequency, the type of company we look for: identifiable competitive advantages, governance that stands the test of time, and management that treats shareholders' capital with the same care it treats its own.

There is a structural reason for this. The Brazilian financial sector is made up of long-lived institutions that have navigated a particularly hostile political and macroeconomic environment, with successive currency crises, hyperinflation, debt moratoriums, economic stabilization plans, extreme interest rate volatility, sweeping regulatory changes and, more recently, a technological transformation that has redesigned the distribution of financial products. Managing financial assets in this environment is an exercise in survival before it is an exercise in profitability. We therefore believe that the good companies in the sector, especially those that have been in the market for many decades, have gone through a rigorous process of natural selection. The fittest survived and stood out, delivering adequate returns on invested capital across entire cycles; the less fortunate succumbed, were absorbed, or were liquidated.

For many years, SFA's funds have held companies such as Porto, B3, and Itaú Unibanco, positions that remained in the portfolio for years, some of them for more than a decade. In search of new opportunities, we decided to start from a simple and uncomfortable question: over the last ten years, which Brazilian financial sector companies actually delivered the highest return to shareholders? Not the best story, not the fastest loan growth, not the biggest balance sheet, but the highest total return, including price appreciation and reinvested distributions.

The result has an expected part and a surprising part. The expected part: Itaú Unibanco and Banco BTG Pactual rank among the best performers of the period, which is consistent with the quality and scale of both franchises. The surprising part: a mid-sized bank, thinly covered and rarely mentioned in market discussions, appeared side by side with Itaú in the table of cumulative returns since 2007: Banco ABC Brasil.

Total shareholder return since ABC's IPO (2007 = 1.0)



Source: SFA analysis based on market data. Total return (price plus reinvested distributions), indexed to 1.0 on the date of Banco ABC Brasil's IPO, in 2007.

Our initial view of ABC was that of a corporate lending bank for large companies: competent, conservative, predictable, and without much appeal. Banco ABC is good at what it does, but did not seem to have a story that justified attention. The chart above forced us to revisit that impression. A bank that delivers, over almost two decades, a return close to that of the country's largest private bank is not a supporting actor; it is a case that deserves to be understood in depth.

That is what we did. And what we found was an unusual combination: a traditional corporate lending bank, with relationships built over decades and risk management that is a benchmark in the market, executing its core business very well while pursuing a deliberate strategy to raise its return on capital through two distinct avenues: cross-selling financial products within a loyal client base, and expanding into the vast and underbanked market of mid-sized companies.

Banco ABC Brasil also brings together a set of characteristics we value: strategic direction set by a board made up mostly of former in-house executives, who remain relevant shareholders; a culture that has trained a large share of the corporate credit professionals in the Brazilian market; a track record of consistent returns across cycles; a solid

balance sheet; recurring and generous distributions; and, most importantly, a thesis in which we can identify a clear strategy with the potential to create more value in the future than the current price implies.

If we had to sum up the thesis in a single sentence, it would be this: Banco ABC does the essentials extraordinarily well, and the market pays **less** for it than its book value, as if the franchise were going to destroy value from here on. We believe the opposite.

Banco ABC as a Case of Compounding

There is one point worth making before we get into the analysis, because it organizes everything that follows. Banco ABC is an almost textbook example of what has come to be called the compounding effect, and the mechanism is worth describing, because it is simpler and more powerful than the expression suggests.

The bank generates profit. Part of that profit is distributed to shareholders, almost always in the form of interest on equity; the rest is retained and added to the institution's capital. In a bank, however, capital is not an accounting detail: it is the input that limits everything that can be done. Regulation defines how much credit an institution can carry based on the capital it holds, so every real retained directly expands its capacity to generate profit in the following year. That larger profit is once again split between distributions and capital, the larger capital again produces larger profit, and so on.

The strength of this arrangement lies not in speed, but in repetition. Between 2010 and 2025, ABC's recurring net income grew 11.3% a year almost without interruption, with a single significant break: the pandemic. Shareholders' equity, for its part, rose from R\$4.0 billion in 2019 to R\$7.3 billion in June 2026, and interest on equity declared per share tripled between 2015 and 2025, from R\$0.87 to R\$2.62. The bank has historically retained between 58% and 65% of its earnings and returned the rest to shareholders, a proportion that was reversed in 2025, when an exceptional 63% payout acknowledged that the capital base was already adequate for the planned growth.

For the short-term investor, this is boring: no single quarter in this series is exciting. For the long-term shareholder, it is precisely the point of the investment: they are paid today, in cash, through a stream of distributions yielding double digits on the entry price, while also owning a capital base that grows every year and will produce more profit and more distributions down the road. That is what compounding is, and it only works when profit generation is consistent and growing, which is precisely the characteristic that drew us to this case. Moreover, a bank with this consistency of results and with opportunities to increase its return on capital is being priced below its book value.

In this letter, we retrace the path that led us to this conclusion. We begin with the bank's history and its unusual shareholding structure, move on to the competitive advantages we see in the business, examine its balance sheet, funding, and credit quality, dissect its revenue diversification strategy and the relaunch of its middle market business, discuss the risks and their respective counterarguments, and end with the decisive point: the price.

The History of Banco ABC Brasil

Banco ABC Brasil was founded in 1989 as a joint venture between Arab Banking Corporation, an institution headquartered in Bahrain and controlled by government bodies of Abu Dhabi, Kuwait, and Libya, and Grupo Roberto Marinho, then the owner of Rede Globo. Each partner held 50% of the shares, and the institution was named Banco ABC Roma S.A. At the time, foreigners could not hold control of banks in Brazil, and partnering with a local shareholder was precisely the way around that legal restriction. From day one, the bank positioned itself in corporate lending and treasury, serving companies rather than individuals, a founding choice that has never been revisited.

The early years coincided with one of the most turbulent periods in the Brazilian economy. When ABC began operating in the local market, the country had just declared a debt moratorium, and Arab Banking Corporation itself was a creditor of the Brazilian government, one of the reasons behind the investment, on the logic that reinvesting in the country would be the best way to recover those funds. In 1991, a new management team took charge, now

including Brazilian executives, marking the beginning of structured local management. That date matters: the leadership lineage that runs the bank today traces back to it.

The shareholding turning point came in 1997. With Globo deciding to focus on media and the Brazilian market opening up to foreign investors, Arab Banking Corporation acquired Grupo Roberto Marinho's stake and became the controlling shareholder. In the same transaction, the bank's own executives acquired a minority stake, an alignment-of-interests design that remains one of the bank's hallmarks to this day. That was when the name changed to Banco ABC Brasil S.A., closing the chapter of the partnership with the Marinho family.

In 2007, Banco ABC Brasil completed its initial public offering and was listed on the Level 2 Corporate Governance segment of what was then BM&FBovespa, broadening its shareholder base and raising its standards of transparency and accountability. From then on, diversification took shape gradually: in 2013, the bank launched its investment banking operations, with Debt Capital Markets and mergers and acquisitions; in 2019, it resumed serving the Middle segment, focused on companies with annual revenue between R\$30 million and R\$300 million; in 2020, it launched the ABC Link platform and started ABC Brasil Energia; in 2021, it set up its insurance brokerage; in 2022, the credit recovery company Visio; and in 2023, it structured ABC Brasil Investment Bank as a partnership to attract and retain talent. In July 2025, it revised its client segmentation, extending the Middle band to companies with revenue of up to R\$500 million.

Year	Milestone
1989	Founding of Banco ABC Roma S.A., a 50/50 joint venture between Arab Banking Corporation and Grupo Roberto Marinho
1991	New management takes charge with Brazilian executives, the origin of the current management lineage
1997	Arab Banking Corporation acquires control; executives become minority shareholders; name changes to Banco ABC Brasil S.A.
2007	IPO on BM&FBovespa and listing on the Level 2 Corporate Governance segment
2013	Launch of investment banking operations (DCM and M&A)
2019	Relaunch of the Middle segment (revenue of R\$30 million to R\$300 million)
2020	Launch of the ABC Link platform and start of ABC Brasil Energia
2021	Establishment of the insurance brokerage
2022	Creation of the credit recovery company Visio
2023	Structuring of ABC Brasil Investment Bank as a partnership
2025	New client segmentation; Middle expanded to cover revenue of R\$30 million to R\$500 million
2026	Approval of the R\$314 million capital increase; Middle portfolio surpasses R\$5 billion

Source: SFA analysis based on bank documents and market disclosures.

Today, ABC Brasil is a publicly traded company listed on B3, with a structure that is unusual in the Brazilian market: it is one of very few Brazilian banks to combine international control with genuine local autonomy, supported by decision-making processes run by credit, treasury, investment, and management committees. With some 35 years of operations in the country, it remains controlled by Bank ABC, headquartered in Manama, and is present in 53 Brazilian cities. It is a multiple bank operating commercial, finance, investment, foreign exchange, and real estate credit portfolios, focused on mid-sized and large companies, while also offering solutions for individuals through its ABC Personal segment.

The Independence of the Brazilian Operation

One of the questions naturally asked about ABC concerns its controlling shareholder. Banco ABC Brasil is not directly controlled by any government: its controlling shareholder is Arab Banking Corporation, headquartered in

Bahrain. The link to Libya sits one level up in the ownership chain. Bank ABC's main shareholders are the Central Bank of Libya, with 59.37%, and the Kuwait Investment Authority, with 40.63%.

The relevant question for the Brazilian minority shareholder is not why this arrangement exists, but whether it has ever been tested. It has, in the worst possible way.

The Arab Spring, the wave of uprisings that swept the Arab world from 2010 onward, reached Libya as a civil war against Muammar Gaddafi in 2011. The timing was particularly delicate for Bank ABC: in December 2010, the Central Bank of Libya had bought the Abu Dhabi Investment Authority's 17.72% stake, raising its holding to 59.37% and taking majority control of the group just weeks before the conflict broke out. When the international community reacted to the regime's crackdown, the UN Security Council authorized a no-fly zone and imposed severe sanctions, an arms embargo, and asset freezes on Libyan institutions, including the Central Bank, the National Oil Corporation, and the sovereign wealth fund. In practice, Bank ABC's majority shareholder came under sanctions and was cut off from the international financial system.

The global impact was contained and temporary. Gaddafi was ousted and killed in October 2011 and, with the fall of the regime, the freeze on the bank's controlling shareholder was quickly reversed: on December 16, 2011, the U.S. Treasury issued General License No. 11, unblocking more than US\$30 billion in assets of the Libyan government and Central Bank, and on December 21 the European Union also unfroze the Libyan Central Bank's funds. The sanctions that remained fell on the sovereign wealth fund and on members of the ousted regime, not on the Central Bank, which, already under the new authorities, continued as Bank ABC's majority shareholder, a position it holds to this day.

The Brazilian operations came through the entire episode intact, and the reason is essentially structural. Banco ABC Brasil is a separate legal entity, incorporated in Brazil and regulated by the Brazilian Central Bank, locally capitalized and listed on B3 with a significant minority shareholder base. Unlike the rest of the group, it even kept its own brand identity as Banco ABC Brasil after the parent company unified its global brand as "Bank ABC" in 2015. The sanctions targeted Libyan sovereign assets at the top of the ownership chain, not the Brazilian subsidiary. The operations are ring-fenced by their own regulation, capital, and governance. Even with the government of its ultimate controlling shareholder ousted and briefly sanctioned, the bank in Brazil continued to operate normally, without interruption.

This autonomy also translates into operating practice and execution. Since 1991, the bank has been run by Brazilian executives with long experience in the financial sector, and its leadership has been built from people trained within the bank itself. The alignment of interests between the controlling shareholder and local management was designed at the time control was acquired, when the executives bought a minority stake, and was later broadened with the creation of the investment bank partnership. The result is a bank that, although it belongs to an international group, defines and executes its commercial strategy, credit policy, and product development with the Brazilian team firmly in the lead.

It is rare to be able to observe a shareholder stress test of this magnitude with a documented outcome. Controlling-shareholder risk exists and should not be ignored, but when it materialized in its most extreme form, the Brazilian structure behaved exactly as it should.

Governance, Culture, and Alignment

The bank's leadership is marked by a culture of homegrown executives, many of whom moved from the executive board to the Board of Directors. The current CEO, Sérgio Lúcia Jacob, took office in 2021, having joined the bank in 1991 and become a member of the Executive Committee in 1997, a career of more than three decades within the institution itself. He succeeded Anis Chacur Neto, who led the bank for ten years and now sits on the Board of Directors.

This model, in which experienced leaders rise through the operation and then move on to the governance body, has two consequences that we consider relevant for the long-term shareholder. The first is strategic continuity:

credit and capital allocation decisions do not change philosophy with every change of command, because those who arrive were trained by those who leave. The second is the quality of oversight: a board made up of people who spent years approving transactions on the credit committee asks questions that a purely formal board would not.

There is a cost to this arrangement. Banks run by homegrown teams tend to move more slowly. ABC entered the middle market late, pulled out, and came back later; it set up an investment bank almost a decade after its IPO; it arrived in insurance and energy when those markets were already established. Much of the criticism of the bank boils down to this, and we do not think it is unfair. But there is another side: this same slowness is the reason ABC went through 2014-2016 without its balance sheet deteriorating, while several niche banks focused on smaller companies simply ceased to exist. We would rather it be the last to arrive at the party, as long as it is also the last one left standing.

The Business Model: How Banco ABC Makes Money

Corporate lending is the heart of Banco ABC Brasil and the foundation on which its entire history was built. The institution grew alongside the businesses it helped grow, with lending as its flagship and long-term client relationships as its method, a philosophy the bank itself sums up in the concept of *Return on Relationship*. Rather than selling stand-alone products, ABC positions itself as a financial partner to mid-sized and large companies over many years, which generates revenue predictability and client loyalty.

In July 2025, the bank revised its client segmentation, moving to three bands. The composition of the portfolio clearly reflects its historical positioning and the direction in which it is moving.

Segment	Client annual revenue	% of portfolio	12-month growth
Large Corporate	above R\$4 billion	28%	below average
Corporate	R\$500 million to R\$4 billion	63%	+11.0%
Middle	R\$30 million to R\$500 million	9%	+28.7%
Expanded portfolio	—	100% — R\$56.5 billion	+8.3%

Source: Banco ABC Brasil 2Q26 earnings release.

Its offering combines corporate lending, sureties and guarantees, financing and government onlending, trade finance, and foreign exchange, as well as areas that have gained importance in recent years: the investment bank, with DCM and M&A operations; the energy trading company; and the insurance brokerage. The bank currently serves nearly 4,500 corporate clients.

It is also worth emphasizing what ABC deliberately is not. It is not a retail bank: it does not compete for individuals' checking accounts, has no significant branch network, does not run a credit card business at scale, and does not compete for low-cost funding through demand deposits. This absence is a choice that eliminates a source of profitability that the large banks enjoy, but it also eliminates an enormous source of fixed costs, granular credit risk, and exposure to technological disruption. While Brazilian retail banking was profoundly redesigned by digital entrants over the last decade, structured corporate lending has remained, in essence, the same business: relationship-based, information-driven, and intensive in human judgment.

It is also worth remembering that much of the risk premium the market assigns to Brazilian mid-sized banks stems from the trauma of 2011-2016, when institutions focused on payroll-deductible loans, auto loans, and smaller companies were decimated. ABC operates in a structurally different niche, with larger tickets, hard collateral, individualized analysis, and a client base it has known for decades.

Competitive Advantages

When we analyze companies in Brazil, we start from an uncomfortable observation: few have a wide moat, many have a narrow moat or none at all, and what matters is to assess honestly which sources of advantage apply and whether they tend to widen or narrow. Applying this framework to Banco ABC Brasil, our conclusion is that the bank

does not have a single large competitive advantage, but combines a set of narrow moats with a positive trend, which, at the right price, is enough for a good investment.

1 – Brand and Intangible Assets

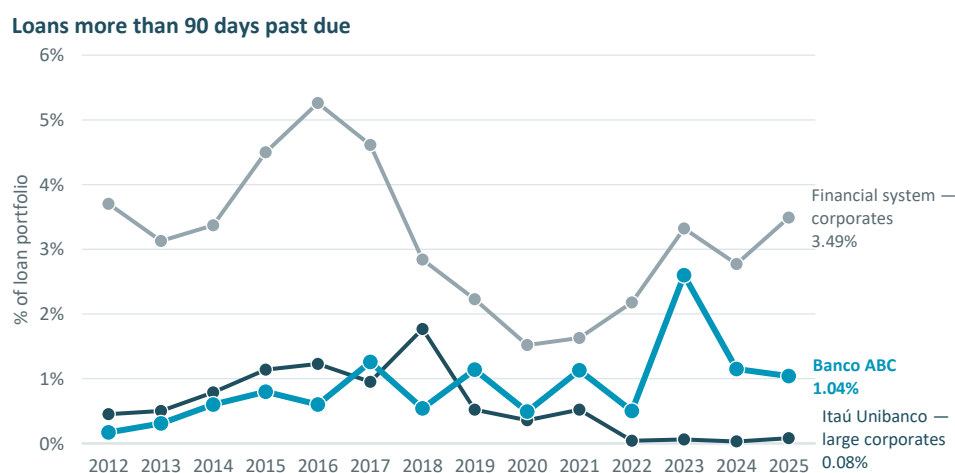
The reputation built over 35 years in the corporate segment, the AAA.br rating (the top of the national credit scale), and the backing of a large international controlling shareholder work, in the niche where ABC operates, as a real intangible asset. This is not a powerful retail brand capable of supporting pricing with end consumers. It is something more discreet and, in this market, more useful: when the CFO of a mid-sized company needs a surety bond to take part in a public tender, or when an institutional investor considers buying a financial bill, the issuer's reputation for soundness and credit discipline goes straight into the equation.

It is interesting to note that what stands out is not the rating itself, but the fact that a mid-sized bank shares the highest rating with much larger institutions, which signals credit strength disproportionate to its size and translates into lower funding costs.

There is also a more subjective intangible, and for that very reason harder to replicate: a culture organized around the bank's long-term sustainability, which permeates approval processes and strategic decisions. It is the same culture that explains the slowness criticized above and the resilience praised below.

2 – A Differentiated Process: Credit Analysis

The chart below covers fourteen years and two complete credit cycles: the 2014-2016 recession and the 2022-2023 deterioration, which pushed large Brazilian companies into judicial reorganization and brought down several niche banks. Throughout this period, Banco ABC's average delinquency was 0.88% of its loan portfolio, versus 3.18% for the financial system in corporate lending. The bank went through two full cycles with one-third of the system's delinquency.



Source: Banco ABC — SFA internal presentation (2012 to 2019), 4Q20 earnings release, and IR historical series spreadsheet (2021 to 2025); Itaú Unibanco — IR historical series spreadsheet, line “NPL 90 days – Large Companies – Brazil”; financial system — Central Bank of Brazil, SGS series 21086 (delinquency of the non-earmarked credit portfolio, corporates). December position of each year, measured on the loan portfolio.

The comparison with Itaú calls for care, because it is the most demanding of the three. Between 2012 and 2019, the two curves practically overlap: in some years ABC is better, in others Itaú, a bank with an incomparably larger risk structure, shows a better metric. From 2022 onward, Itaú decouples to the downside, with large-company delinquency close to zero, while ABC's rises. The explanation is not a deterioration in process but rather the composition of the portfolio. Itaú's large-company portfolio is comparable only to ABC's Large Corporate segment, where the bank's delinquency is also practically nil, at 0.06% in the second quarter of 2026. ABC's series in the chart covers the entire portfolio, which since 2019 has included the middle market, a segment that carries risk by definition and that Itaú classifies separately.

The year 2023 is the most informative test of all. It was ABC's worst year in the period, with 2.61% of the portfolio more than 90 days past due, the result of a handful of large, idiosyncratic cases that hit the entire Brazilian corporate credit market. Even in that year, the bank stayed below the system, which reached 3.31%. And the recovery was swift: 1.14% in 2024 and 1.04% in 2025. A credit process that, at its worst moment in fourteen years, delivers delinquency below the market average in a normal year is empirical evidence that the discipline is real.

A note: this series is measured on the loan portfolio, which is the basis on which Itaú and the Central Bank report their indicators and the only one that allows the comparison. In the other sections, we use the indicator that ABC itself highlights today, measured on the expanded portfolio, which includes guarantees provided and private securities and is therefore a larger denominator. The 0.59% for the second quarter of 2026 and this chart's 1.04% for 2025 describe the same metric, but with different methodologies.

3 – Switching Costs

Applied to Banco ABC Brasil, switching costs are consistent with its relationship-based, tailor-made model. Unlike a retail bank, ABC structures customized corporate credit, often contract by contract, combined with foreign exchange, guarantees, sureties, hedging derivatives, cash management, and investment banking services.

This combination creates stickiness through several simultaneous channels:

- **Information relationship.** The bank accumulates deep knowledge of the client's credit risk and operations (from its cash cycle to the idiosyncrasies of its sector) that a competitor would need to rebuild from scratch, under uncertainty and at a worse price.
- **Product bundling.** Credit, foreign exchange, guarantees, and capital markets come together; switching banks means dismantling several fronts at once, with significant operational and coordination costs.
- **Contractual frictions.** Covenants, hard collateral, amortization schedules, and outstanding letters of guarantee make exiting slow and expensive, even when it is economically desirable.
- **Availability risk.** Breaking off a structured banking relationship involves the risk of losing credit lines precisely when they are needed most, a risk no experienced treasurer takes for a few basis points.

It is important, however, not to overestimate this moat, and this letter would not be honest if it did. In the large-company segment, switching costs are not as strong. These companies work with multiple banks at the same time, run rate auctions, and have strong bargaining power, part of the reason ABC's historical return under the traditional model was compressed. Moreover, credit is, to a large extent, a commodity: if a competitor offers a materially lower rate, switching costs may not be enough to hold on to the client.

The most defensible reading, therefore, is that Banco ABC has, at best, a narrow moat based on switching costs, real and measurable in its low delinquency and the recurrence of its client base, but not an insurmountable barrier like that of a payment network or an institution with dominant scale.

In the middle market segment, however, which is the profitability avenue the bank has been prioritizing, mid-sized companies tend to maintain fewer banking relationships and to depend more on a "main" bank, which makes the relationship more exclusive and stickier than in Large Corporate. It is plausible to argue that ABC's shift toward Middle not only raises spreads, as we will discuss below, but also deepens its switching-cost moat, because it replaces low-stickiness clients with relatively stickier ones. A crucial point is that this advantage in Middle has yet to be earned: it is a challenge for our thesis, which is why we treat it as upside and a growth avenue. The return on capital from this avenue and the gain in switching costs, however, are a medium- to long-term thesis.

4 – Rational Oligopoly

The fourth pillar is not an advantage specific to ABC, but one of the structure of the market in which it operates. Structured corporate lending in Brazil is contested by a small number of institutions with a real ability to originate, analyze, price, and carry large transactions. It is not a market that is easy to enter: it requires regulatory capital, a

rating, long-term funding and, above all, a credit track record that can only be built over cycles. And Banco ABC takes part in the main loan syndicates in the Corporate and Large Corporate segments.

One practical consequence is that competition tends to be more disciplined than in retail. This does not mean there is no pressure on spreads. Risk-adjusted spreads in corporate lending are still not adequate, and abundant liquidity has delayed the repricing of loans. It simply means that, when the cycle turns, repricing tends to be collective and relatively fast, because the participants are few and know the same clients.

– Summary: A Narrow Moat with a Positive Trend

In short, ABC Brasil is best described as a bank with narrow moats in its Large Corporate business, anchored in a differentiated process and intangible assets, and not as a wide-moat franchise. Its competitive advantages protect its existing client base and the predictability of results, but are less effective at preventing large competitors from contesting new business.

As for the trend we see for its moats, a concept we consider more important than their current width, we believe that product diversification and the deepening of relationships through the middle market can gradually widen switching costs by making the bank more central to its clients.

The attributes that underpin the franchise:

Attribute	What it means in practice
Corporate bank	Exclusive focus on companies, without retail's exposure to digital disruption and granular risk
Relationship bank	Strong client loyalty, which enables cross-selling of financial products at no additional acquisition cost
Top-notch management	Homegrown executives with decades of experience and significant shareholdings
Partnership	Ownership model at the investment bank that attracts and retains talent aligned with shareholders
Benchmark in credit analysis	Committee-based process that sustains structurally low delinquency across cycles
Prudent growth	Consistent portfolio expansion without giving up comfortable capital levels and prudent provisioning

Source: SFA internal presentation on Banco ABC Brasil.

The Brazilian Banking Sector and Banco ABC's Place in It

It is worth placing ABC on the map of the Brazilian financial system, because much of the discount it carries comes from the "mid-sized bank" label, which lumps together institutions with radically different business models.

The Brazilian banking system is, in practice, three distinct markets that share the same regulation. The first is retail banking, dominated by four or five large-scale institutions, in which the decisive advantages are the distribution network, the demand deposit base, and the capacity to process volume, and in which the last decade brought the deepest disruption, with digital entrants capturing checking accounts, payments, and consumer credit. The second is specialized lending to individuals, such as payroll-deductible loans, auto loans, and credit cards, historically the territory of mid-sized banks and historically their graveyard: that is where the bankruptcies and liquidations of the last twenty years were concentrated. The third is structured corporate lending, which is where ABC operates.

This third market has economic characteristics distinct from the other two. Transactions are individualized, tickets are large, collateral is real and negotiated, and the credit decision depends on human judgment built over years of relationship. It is not a business that can be automated with an app, nor one in which an entrant with capital and technology gains share in two years. It is, on the other hand, a business with structurally compressed spreads at the top of the client pyramid, because large companies have direct access to the capital markets and bargaining power over the banks.

The practical consequence is that ABC is often measured with the wrong yardstick. When the market applies to the stock the discount it reserves for “mid-sized banks,” it is pricing a risk (the deterioration of a granular consumer credit portfolio in an adverse cycle) to which ABC is simply not exposed. And when it compares ABC to the large retail banks, it demands a scale the bank never intended to have.

A concrete consequence of this misclassification shows up in distributions, as we will show below: ABC currently leads the listed banking sector in dividend yield, at 10.9% over the last twelve months. In many cases, a yield of this magnitude signals market skepticism about the sustainability of the earnings that fund it. Here, it comes from a payout historically between 35% and 42%, applied to earnings that have grown 11.3% a year, almost without interruption, over the last fifteen years.

There is also a positioning point: in corporate lending, ABC competes with the large banks and with investment banks, but it competes with specific advantages against each group. Against the large banks, it offers decision-making agility and personalized service that a centralized committee structure cannot replicate. Against the investment banks, it offers its own balance sheet and the willingness to carry long-term credit risk. It is an intermediate positioning, and intermediate positionings tend to be fragile, but in this case it is sustained by a funding cost that very few competitors of the same size can match.

How We Analyze a Bank

Before getting into the specific case, it is worth spelling out the method. Banks are peculiar companies: the product they sell is money itself, their inventory is risk, and accounting allows them to bring revenue forward and defer losses with an ease that no other sector offers. This requires a specific analytical framework, and ours is organized around four questions.

1 – How Much Does the Money the Bank Sells Cost?

A bank buys money on the liability side and sells it on the asset side. The difference between the two prices, net of losses and costs, is its profit. It sounds obvious, but the implication is powerful: funding cost is a competitive advantage as legitimate as a brand or a patent, and much harder to replicate than one might think, because it depends on a rating, a track record, and trust accumulated over years. Two banks with the same portfolio and the same risk can have completely different profitability simply because of where, and at what price, they buy their funding.

2 – Is Risk Being Priced or Merely Deferred?

Loan growth is the easiest variable to manipulate in a bank: all it takes is loosening lending criteria, and the growth shows up the following quarter. The loss, however, only shows up two or three years later. That is why we always look at loan growth alongside migration between risk stages, the coverage ratio, and the cost of risk, and we are wary of any combination in which the portfolio accelerates while provisioning decelerates. In ABC’s case, the Middle portfolio grew 28.7% over twelve months while the sum of Stages 2 and 3 declined and the total portfolio’s 90+ day delinquency fell from 0.95% to 0.59%. That is the opposite of the signal that would worry us.

3 – Is Capital Scarce, and Is It Being Well Deployed?

Every real of credit consumes regulatory capital. A growing bank therefore depends on retaining earnings, issuing capital instruments, or calling capital from shareholders. This is where revenue diversification changes the nature of the business: an insurance brokerage or an M&A advisory business generates revenue while consuming practically no capital. By construction, every real of revenue shifted to these lines raises the return on equity. It is arithmetic.

4 – Does the Price Imply Value Creation or Destruction?

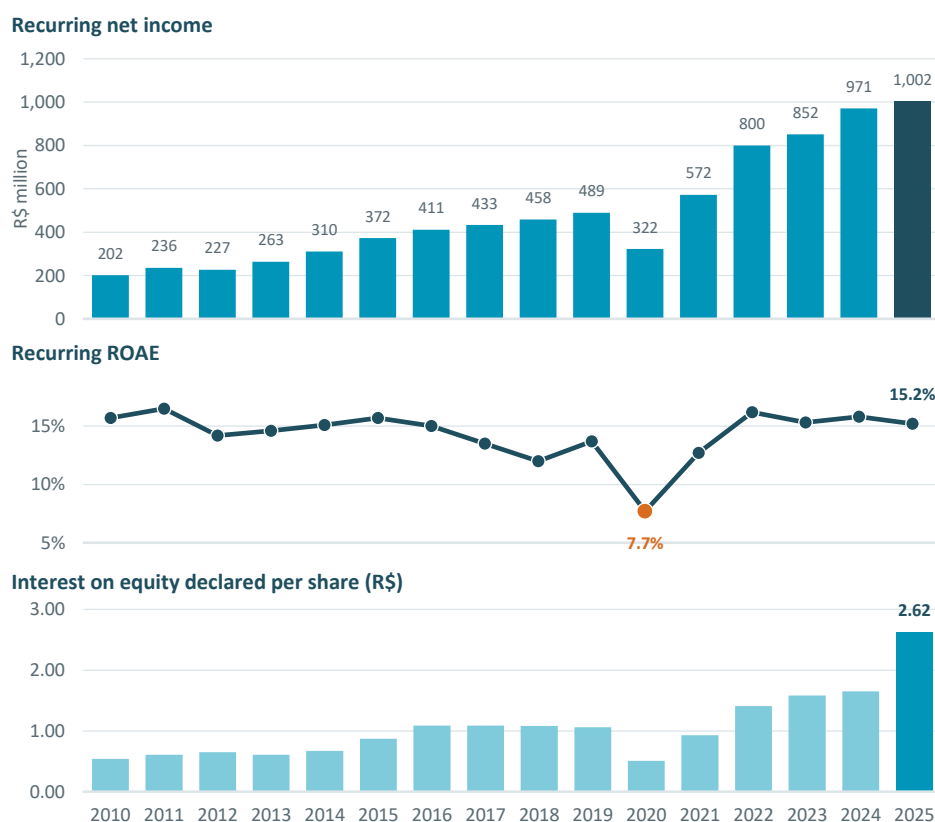
This is the question that ties the previous three together, and the one we use most at SFA. If a bank earns a return on equity above its cost of capital, it should be worth more than the equity it holds; if it earns below, it should

be worth less. The gap between market value and invested capital is therefore a direct measure of what the market believes the institution will do with its capital from here on. When that gap is negative for a financial institution with Banco ABC's quality and consistent delivery of results, we have a divergence between price and fundamentals.

Applying the four questions to Banco ABC: funding is cheap and long-term; risk is being priced, not deferred; half of client revenues no longer consume capital; and the price implies future value destruction at a franchise that today generates a consistent ROE of 14% to 16%. The first three answers describe a good bank, while the fourth turns a good bank into a good investment.

The Compounding Effect: Track Record of Results

In terms of earnings growth, Banco ABC has built one of the most consistent track records among the mid-sized banks listed on B3. The institution has delivered practically uninterrupted growth in recurring net income over almost two decades, with a single significant break: the pandemic.



Source: Banco ABC Brasil historical series spreadsheet (Results Center, 2Q26). Recurring net income rose from R\$202.2 million in 2010 to R\$1,002.0 million in 2025 (a compound annual growth rate of 11.3%). Distributions correspond to the gross interest on equity declared per share in each year.

This data set offers three takeaways:

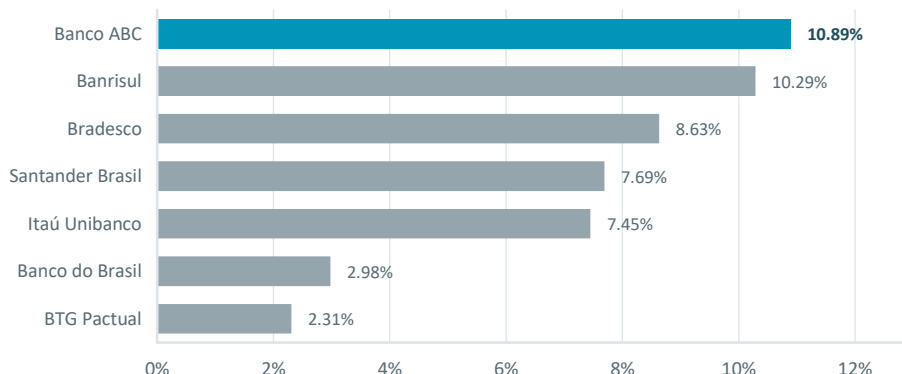
The first is the consistency of growth. Compound growth of 11.3% a year for fifteen years, in a country that during this period went through a deep recession, an impeachment, a pandemic, and two complete interest rate cycles, is not a trivial result. It does not come from one exceptional year pulling up the average: it comes from an accumulation of reasonable years, almost all of them positive. In 2025, the bank crossed the R\$1 billion mark in recurring net income for the first time, with R\$1,002.0 million, up 3.2% over 2024.

The second is the 2020 trough. ROAE fell to 7.7% that year, practically half its historical level. A superficial reading would say the bank is fragile. Our reading is different: the pre-diversification model, concentrated in Large Corporate and treasury, was structurally dependent on the level of the Selic rate. When the policy rate fell to 2% a year, the return on equity invested in treasury evaporated, and the credit spread on large companies, already narrow by nature, did not make up for it. The 2020 trough is therefore less a certificate of fragility than a diagnosis that the model at the time (pre-diversification) had a ceiling and a floor set by a variable the bank does not control.

The third is the recovery and what it contains. The return to the 15% to 16% range between 2022 and 2025 (with 15.2% at the close of last year) coincided with the ramp-up of the middle market and fee income. We will come back to this point later, because it is the backbone of the thesis.

When it comes to distributions, ABC has a stable and predictable payout policy, a characteristic valued by income-seeking investors. The bank has paid interest on equity in every year since 2008, and its payout ranged between 35% and 42% of earnings from 2021 to 2024. The year 2025 was exceptional in this respect: declared interest on equity totaled R\$630.8 million, equivalent to R\$2.62 per share and a payout of 63% of recurring net income (more than double, on a per-share basis, what the bank distributed in 2021). Over the last twelve months, the dividend yield reached 10.9%, placing ABC at the top of the listed banking sector.

Trailing twelve-month dividend yield — listed banks



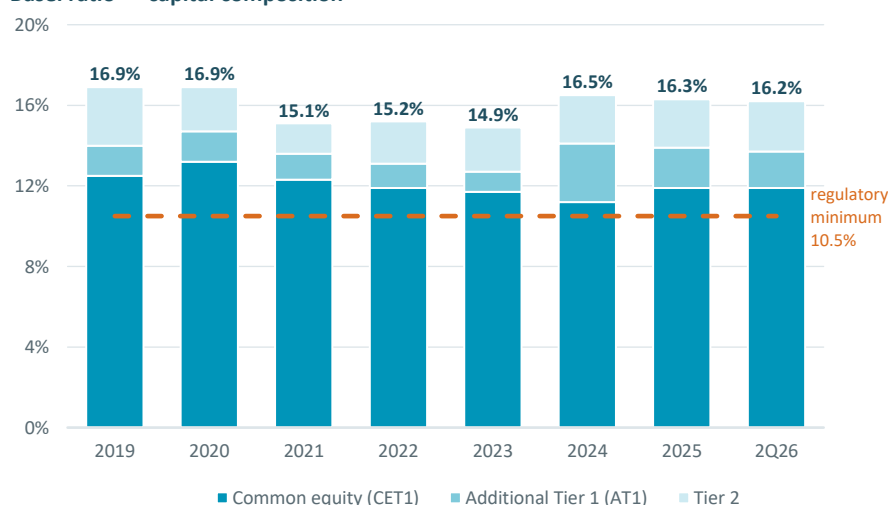
Source: SFA analysis based on market data, as of September 2026.

Bringing it all together from a total return perspective (price appreciation plus reinvested distributions), historical performance has been quite favorable, as the opening chart of this letter shows. Combining structural earnings growth, consistent profitability, a predictable flow of distributions, and a conservative risk stance, ABC has established itself as a case with a good balance between income and capital appreciation, which explains the stock's reputation as a "retirement portfolio stock."

Soundness: Capital, Risk, and Rating

Banco ABC Brasil's balance sheet is often cited as one of its main assets, supported by comfortable capital levels and consistent asset quality. It is a point on which there is practically no disagreement among the analysts who cover the stock, including those most skeptical about its valuation.

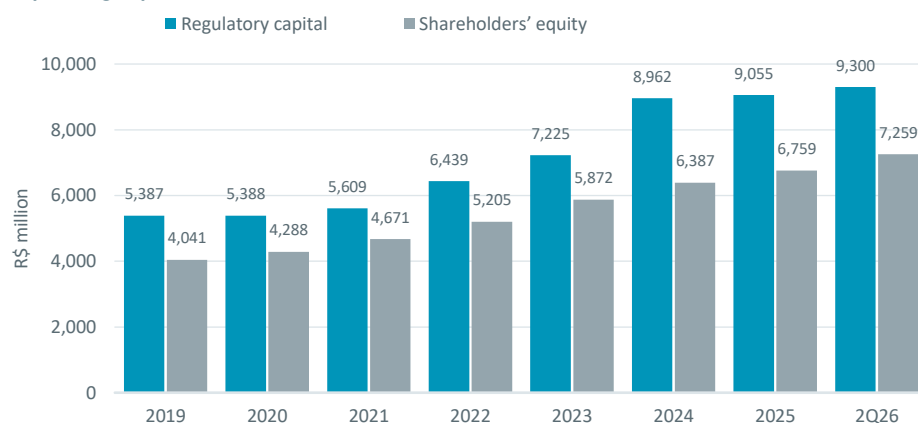
Basel ratio — capital composition



Source: Banco ABC Brasil historical series spreadsheet (Results Center, 2Q26). December position of each year; last data point as of June 30, 2026.

Since 2019, the Basel ratio has ranged between 14.9% and 16.9%, against a regulatory minimum of 10.5%: never less than four percentage points of headroom. At the end of the second quarter of 2026, the ratio stood at 16.2%, with Tier 1 capital of 13.7% (of which 11.9% was common equity, or CET1) and Tier 2 capital of 2.5%. An interesting point concerns Additional Tier 1 capital, which grew as a share of the mix (from 1.0% in 2023 to 2.9% in 2024) with the issuance of perpetual instruments. These levels are sustained by consistent earnings generation, with a large share of profits reinvested, and by deliberately conservative capital planning.

Expanding capital base



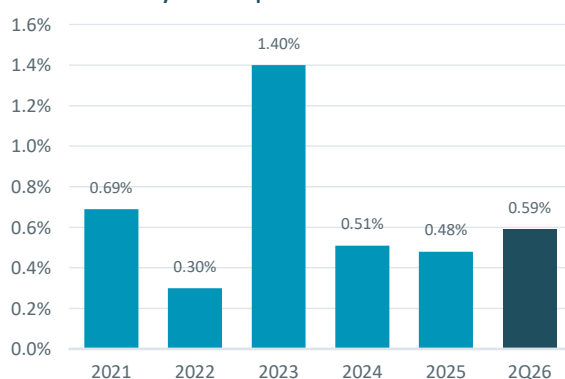
Source: Banco ABC Brasil historical series spreadsheet (Results Center, 2Q26). December position of each year; last data point as of June 30, 2026.

The capital base nearly doubled in six and a half years: shareholders' equity rose from R\$4.04 billion in 2019 to R\$7.26 billion in June 2026, and regulatory capital from R\$5.39 billion to R\$9.30 billion. The difference between the two columns, which widened significantly from 2024 onward, reflects the use of Additional Tier 1 and Tier 2 capital instruments, which make it possible to support portfolio growth without diluting shareholders in the same proportion. This is active, not merely passive, capital management.

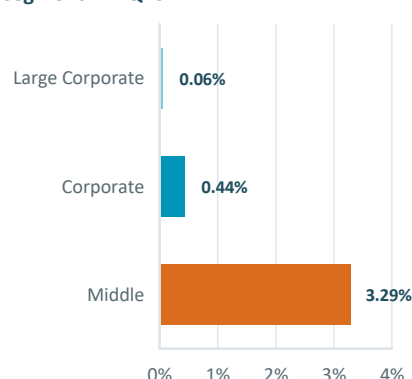
Portfolio Quality

Credit quality is the other pillar of soundness, and here the figures for the first half of 2026 are particularly good, although they need to be read carefully.

Past due over 90 days — total portfolio



By segment — 2Q26



Source: Banco ABC Brasil historical series spreadsheet (Results Center, 2Q26). December position of each year; last data point as of June 30, 2026. The company has reported the indicator on the expanded portfolio since 2021.

Loans more than 90 days past due represented 0.59% of the expanded portfolio at the end of the half, a level far below that of the system. The annual series shows why we consider this number reliable: the indicator stayed below 0.70% in five of the six years observed, with a single significant exception, 2023, when it reached 1.40% amid the worst moment of the Brazilian corporate credit cycle. In other words, even the bank's worst recent year produced delinquency below the system average. By 2024, the ratio had returned to 0.51%, and it ended 2025 at 0.48%. The portfolio classified in Stage 2 fell to 3.6%, Stage 3 rose marginally to 2.9%, and the sum of the two fell from 6.9% to 6.5% in the quarter. The coverage ratio remains at 377%, a very comfortable level.

The breakdown by segment (chart above, on the right) is the data point we consider most information-rich. In Large Corporate, delinquency is practically nil, at 0.06%; in Corporate, which accounts for 63% of the portfolio, it stands at 0.44%; and in Middle, at 3.29%. Middle is, by construction, the segment that carries risk, and that is precisely why it pays more. What matters is to monitor whether this 3.29% remains stable while the segment's portfolio grows almost 30% a year.

However, there is something we must always monitor: provisioning on Stage 3 fell from 82% to 76%, and the cost of risk from 0.8% to 0.6% (the latter, according to management itself, benefiting from above-average recoveries in the quarter). In other words, part of the half's apparent improvement has a nonrecurring component. An investor who projects a 0.6% cost of risk for the coming years will, in our view, be too optimistic. We work with a normalization toward the 0.8% to 1.0% range, consistent with a portfolio that is growing in the middle market.

Rating and Risk Perception

When it comes to ratings, ABC Brasil sits at the top of the national credit scale. Moody's Local Brasil affirms the bank's AAA.br ratings (the highest category on the domestic scale), complemented by a short-term rating of ML A-1.br, with a stable outlook. The agency highlights the consistency of metrics such as asset risk, profitability, and capitalization, already tested across different market conditions and economic cycles, as well as the well-established franchise in the wholesale segment and the high probability of support from the controlling shareholder.

Brazilian national credit rating scale — rated banks



Source: rating actions published by Moody's Local Brasil and the investor relations pages of each institution, as of September 2026. The national scale ranks issuers by relative credit quality within Brazil, and AAA.br is its highest notch.

The figure above is, for us, very important. Banco ABC Brasil sits on the same notch of the national credit scale as Itaú Unibanco, Bradesco, Banco do Brasil, Santander Brasil, and BTG Pactual, institutions whose assets are, in some cases, twenty times larger than its own. This is not about being close to the big banks: it is the same rating, on the same scale, assigned by the same agency. And the contrast with the lower notches shows that the scale has room: Banco BV and Sicoob at AA+.br, Agibank at AA.br, Banrisul at AA-.br. Being a mid-sized bank does not automatically put anyone at the top.

On the national scale, ABC matches the country's largest banks; it does not surpass them, because AAA.br is the ceiling and there is no notch above it. It is on the global scale that the two differences in the bank's favor appear. First, Moody's assigns ABC a positive outlook on its long-term foreign currency deposit rating, while the large Brazilian banks carry a stable outlook; in other words, ABC is the only one in the group whose rating is signaled to move up. Second, Fitch rates ABC at BB+, one notch above the BB assigned to Banco do Brasil and on the same level as Itaú Unibanco.

Banco ABC Brasil ratings:

Agency	Global scale	Outlook	National scale	Outlook
Moody's	Ba1	positive	AAA.br	stable
Fitch	BB+	stable	AAA (bra)	stable
S&P	BB	stable	brAAA	stable

Source: Banco ABC Brasil ratings page, updated on August 5, 2026. On the global scale, Brazilian banks' ratings are capped by the country's sovereign rating.

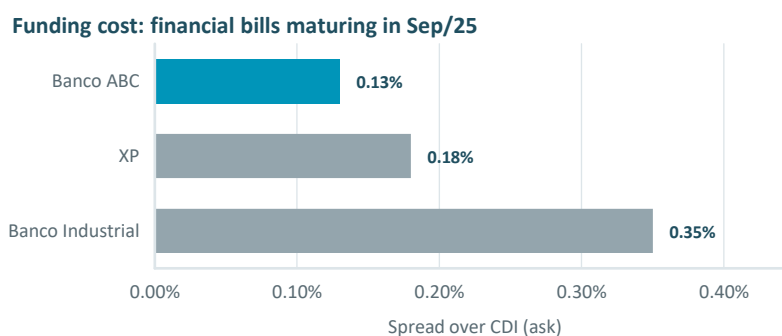
There is a structural reading behind these numbers. The global-scale ratings of any Brazilian bank are, in practice, capped by Brazil's sovereign rating: no institution in the country can be rated much above the government that regulates it and whose debt it holds. That is why Itaú, Bradesco, Banco do Brasil, and ABC all converge on the BB/Ba1 range abroad. The ceiling is the country, not the bank. On the national scale, by contrast, which compares Brazilian issuers with one another and strips out sovereign risk, the relative quality of each institution shows up clearly, and that is precisely where ABC sits at the table with the big banks.

The Moody's report is also useful for what it points to as a risk: maintaining portfolio quality while the bank expands its operations. That is exactly the central tension of the thesis we will discuss below: growing in Middle without credit deterioration. And it is fair to note that, on the national scale, the rating is already at the ceiling: there is nowhere to go but down, should profitability decline for a prolonged period or capital ratios approach regulatory minimums.

Funding: An Underestimated Aspect

If we had to pick the most underestimated aspect of Banco ABC Brasil, we would choose its funding structure. It is a dry subject that rarely makes headlines, yet it determines a large part of a wholesale bank's margin.

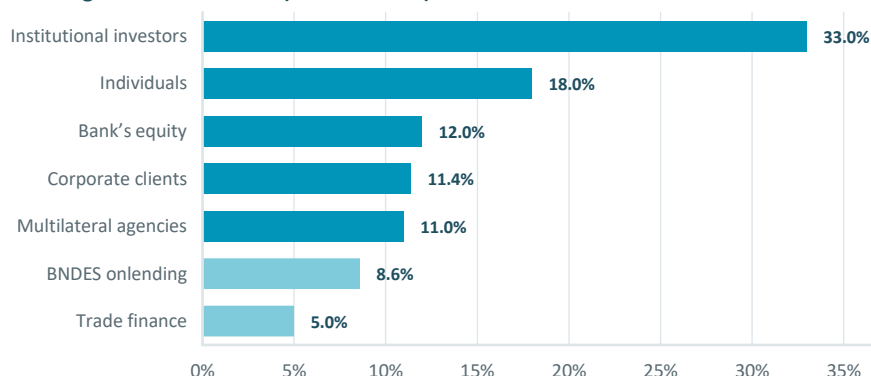
The logic is simple. A bank without a retail business has no free demand deposits; it has to buy its funding in the market. The price it pays for that funding (and, just as important, the tenor for which it can buy it) is the variable that separates a good wholesale bank from a mediocre one. And here ABC stands out in a measurable way.



Source: SFA internal presentation based on secondary market quotes.

The chart compares the spread over the CDI required by the market to hold financial bills from different issuers with equivalent maturities. ABC funds itself at 0.13% over the CDI; XP, at 0.18%; Banco Industrial, at 0.35%. These are differences that seem small when read in isolation but that, applied to a funding base of around R\$60 billion, represent hundreds of millions of reais in margin over a few years. This, naturally, reflects its AAA.br rating.

Funding structure — 2Q26 (≈ R\$60 billion)

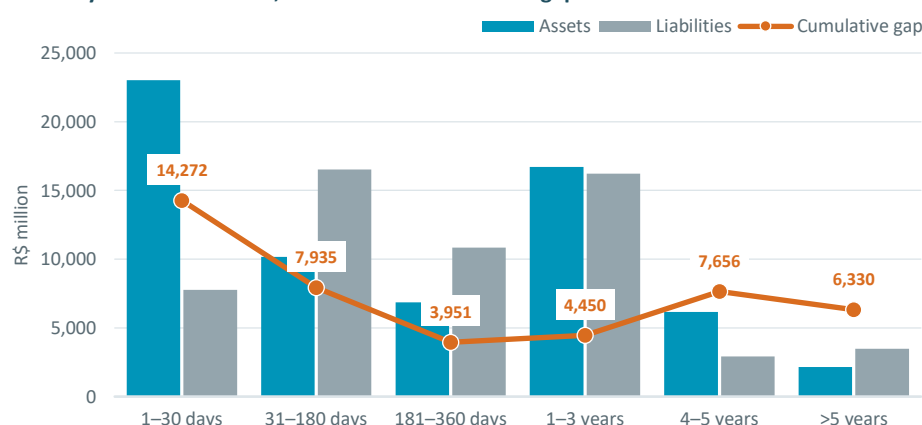


Source: SFA analysis based on the 2Q26 earnings presentation.

The structure is remarkably diversified. Institutional investors and individuals account for half of the funding; corporate clients contribute 11.4%, and here there is an elegant feature of the model, because the same client that borrows also leaves funds at the bank, which reduces the effective cost of the relationship. Multilateral agencies and BNDES onlending add up to almost 20%, typically long-term funding at a competitive cost. The bank's own equity funds 12% of its assets.

Just as relevant as the composition is the tenor. The bank consistently maintains a funding structure with maturities longer than the average maturity of its loan portfolio, which reduces refinancing risk and makes funding costs predictable.

Maturity mismatch: assets, liabilities and cumulative gap



Source: SFA internal presentation based on company data.

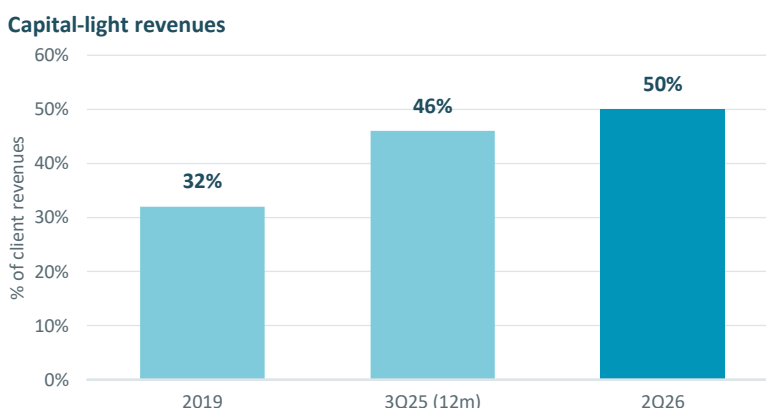
In the 31–180 day and 181–360 day buckets, more liabilities than assets come due; in other words, the gap in each of these buckets, viewed in isolation, is negative. This is normal for a bank, since maturity transformation is one of its economic functions. What matters is the cumulative gap, which adds up the differences between assets and liabilities bucket by bucket, starting from the shortest maturity. In the up-to-30-day bucket, it stands at a positive R\$14.3 billion, and this initial balance covers the negative gaps in the following buckets: the cumulative gap remains positive in every bucket and ends at R\$6.3 billion. In practice, the bank has enough immediate liquidity headroom to absorb a funding stress without having to sell assets at market prices. That is the operational definition of prudence.

A wholesale bank is, in essence, a machine for arbitraging credit risk and maturity. The quality of that machine is measured both by the consistency it earns on the asset side and by the cost it pays on the liability side. ABC has diversified, cheap, and long-term funding.

Revenue Diversification

Diversifying revenues beyond corporate lending is the central point of the thesis. It is worth spelling out why.

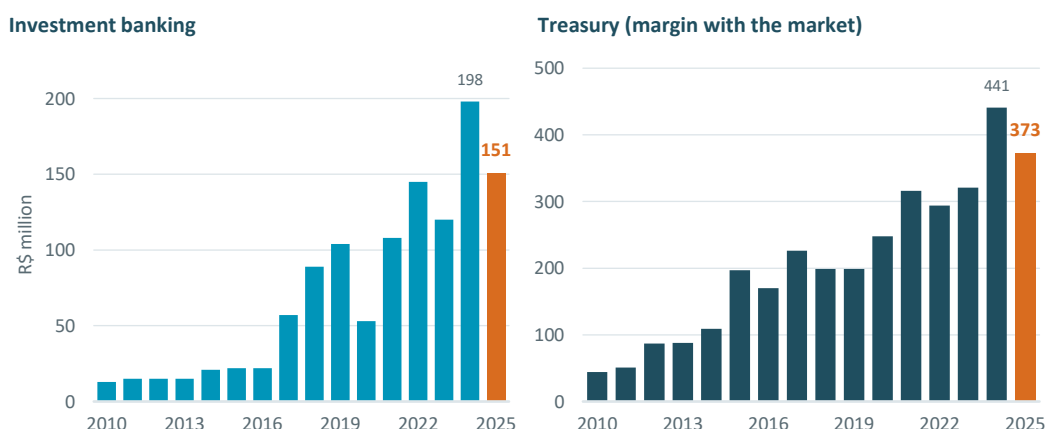
A bank has two ways to raise its return on equity. The first is to earn more per real of allocated capital, that is, to raise the spread. The second is to earn revenue that consumes no regulatory capital at all, or very little. The first is difficult in Large Corporate, because large companies have bargaining power. The second is a strategic choice, and it is exactly the choice ABC has been making for about five years.



Source: SFA analysis based on bank disclosures. Percentage of client revenues that consume little or no regulatory capital.

The share of capital-light revenues rose from 32% in 2019 to about 50% of client revenues in the second quarter of 2026. It is a structural transformation of the bank's economic model, not a margin adjustment. Every percentage point shifted in this way adds return on equity by construction, regardless of what happens to the credit cycle.

– Investment Banking and Treasury



Source: Banco ABC Brasil historical series spreadsheet (Results Center, 2Q26). Figures in R\$ million; the orange column highlights 2025.

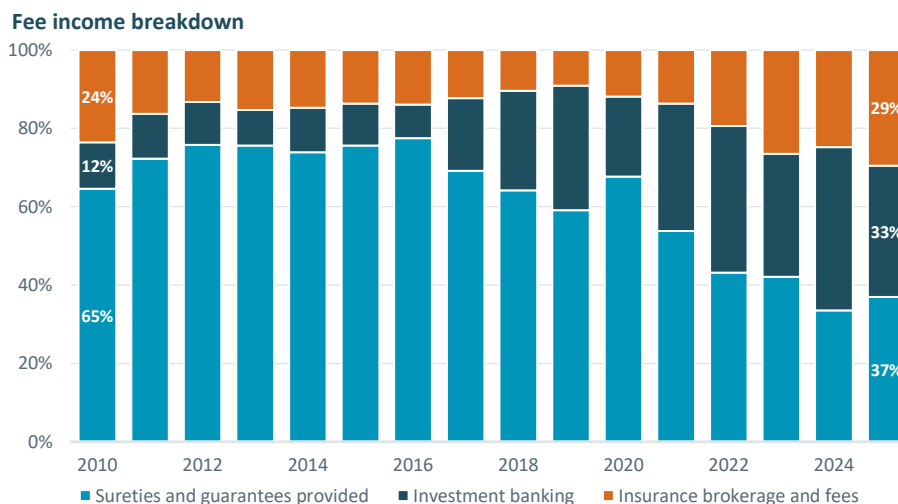
Investment banking revenue went from R\$12.7 million in 2010 to R\$197.6 million in 2024, a fifteenfold increase. The significant leap comes from 2017 onward, when the operation stops being an appendix and gains its own team, mandate, and balance sheet. ABC now ranks among the leading fixed income underwriters in the Brazilian capital markets and is also active in mergers and acquisitions advisory.

However, in 2025 revenue fell to R\$151.4 million, 23% below the record year, and the first half of 2026 was even weaker, at R\$49.0 million. Management acknowledges that the operation is below its potential and attributes the performance to the pace of the capital markets. We agree with the diagnosis, but note the consequence: this is the most volatile line of the diversification and should not be projected in a straight line.

The margin with the market (the treasury line) followed a similar trajectory, from R\$43.6 million in 2010 to R\$440.8 million in 2024, falling back to R\$373.1 million in 2025. The same interpretive care applies here: part of a wholesale bank's treasury revenue is structurally correlated with the level of interest rates and market volatility and is therefore less predictable than credit revenue. We do not treat it as recurring revenue of the same quality, and it is worth stressing that the bank's two most cyclical lines declined in the same year in which earnings hit a record.

We also note that the transition still faces fluctuations. Fee income totaled R\$452.1 million in 2025, 4.6% below the R\$474.1 million of 2024; it fell 13.7% in the first quarter of 2026, to R\$88.5 million, and recovered to R\$102.8 million in the second. A more active capital market would bring this line back to its record level. It is an unpriced option, but not a certainty.

– Insurance, Energy, and the New Generation of Revenues



Source: Banco ABC Brasil historical series spreadsheet (Results Center, 2Q26).

In the chart above, we can see that in 2010 two-thirds of the bank's fee income came from sureties and guarantees provided (an excellent product, tied to credit, but a single one); investment banking accounted for 12%, and insurance brokerage and fees for 24%. In 2025, guarantees fell to 37% of the line, investment banking rose to 33%, and insurance brokerage and fees reached 29%. There was no decline in the absolute value of guarantees: they grew from R\$69.8 million to R\$167.6 million over the period. What happened was the construction, alongside them, of two other revenue sources of comparable size, changing the mix. The insurance brokerage already works with more than twenty insurers, covering everything from performance bonds to credit insurance, and its revenue has grown without interruption over the last five years, including in 2025.

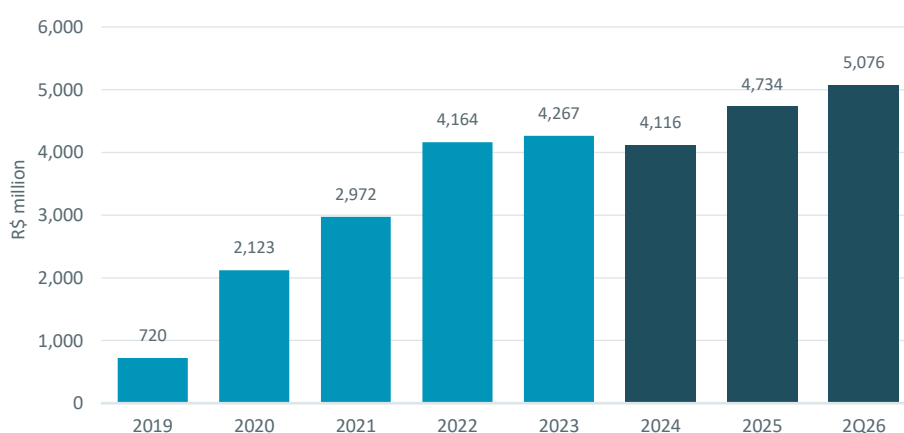
The pattern this chart shows is that the bank has demonstrated the ability to build, within its own client base, relevant revenue lines with no acquisition cost and no capital consumption. If it managed to do so twice, with investment banking and with insurance, the probability of doing it again with other products is materially greater than zero. The year 2020 marked the launch of the ABC Link platform and the start of ABC Brasil Energia; 2022 brought the credit recovery company Visio; and the bank even developed a carbon credit desk.

The mechanism behind this is cross-selling. It is not "catalog" cross-selling, of the kind a retail bank does through an app. It is the banker who has served that company for twelve years identifying that it will need an FX hedge for an import, a surety bond for a public contract, and a debenture issue to extend its liabilities, and then bringing three products into a relationship that already existed. That is why client loyalty and revenue diversification are not two separate advantages: they are the same advantage, seen from two angles.

The Middle Market: The Main Growth Avenue

The middle market is now Banco ABC Brasil's growth bet, but this is not the first time the bank has entered this segment.

Middle segment expanded credit portfolio



Source: Banco ABC Brasil historical series spreadsheet (Results Center, 2Q26). December position of each year; last data point as of June 30, 2026. Through 2023, the previous segmentation applies (annual revenue of R\$30 million to R\$300 million); from 2024 onward, the current one (R\$30 million to R\$500 million).

The current operation began in 2019, serving companies with annual revenue of R\$30 million to R\$300 million, a band later extended to up to R\$500 million. The trajectory speaks for itself: the portfolio went from R\$720 million at the end of 2019 to R\$5.08 billion in June 2026, a sevenfold increase. The chart also reveals the pace of this build-out, which was not linear. There was a very strong advance between 2019 and 2022, when the portfolio jumped from R\$0.7 billion to R\$4.2 billion; a stabilization between 2022 and 2024, with the segment practically stagnant at around R\$4 billion while the bank calibrated its models and digested an adverse credit cycle; and a resumption from 2025 onward, with growth of 28.7% in the twelve months ended in June, well above the 12% to 18% guidance set for the year. The segment now represents 9% of the expanded credit portfolio.

For a more rigorous comparison, it is worth mentioning that there is a methodological break between 2023 and 2024: the segmentation was revised and the Middle band was extended to revenue of up to R\$500 million, with clients reallocated between segments.

The strategic logic is twofold: to capture higher margins, raising profitability, and to diversify risk, since mid-sized clients help reduce the bank's exposure to large tickets, making the portfolio more granular. It is worth noting that these two goals pull in opposite directions from a credit risk standpoint (a higher margin is, by definition, compensation for higher risk), and reconciling them depends entirely on the quality of the process.

– The First Attempt, and Why It Failed

The word “relaunch” is intentional. ABC had already set up a middle market operation long before, in the mid-2000s: it built the structure around 2005, targeting companies with annual revenue between R\$30 million and R\$250 million, and by 2010 this segment already represented about 14% of the portfolio, versus 86% for Corporate. It was a period of geographic expansion, with business platforms opened in several markets across the country.

The first half of the 2010s was marked by the severe 2014-2016 recession and the resulting deterioration in credit quality among smaller companies. This brought down several niche banks focused on that clientele. During this period, ABC decided to pull back and refocus its efforts on Large Corporate, where its risk analysis expertise was deepest. The formal return to Middle only came in 2019.

We believe this episode deserves attention because it is the main counterargument to the thesis, and an investor who ignores it is being careless. So the question is not “Will Middle grow?”, since ABC's Middle segment is already growing. The question is: what has changed so that the result will be different this time?

– What Has Changed

We see three fronts:

- The operating model.** The first attempt relied on a tailor-made model, with every contract customized, an approach that simply does not scale. Serving thousands of mid-sized companies with manual processes is expensive, slow, and risky. This time, the bank made a structural change: it began calibrating its credit models with greater use of technology and third-party data, recalibrated its product offering and timing, and invested heavily in automated workflows and CRM systems to generate and qualify leads at scale. The investment cycle began in 2019 and, according to management, reached maturity from the end of 2021 onward.
- The product portfolio.** The bank became much more active in derivatives, cash management, and foreign exchange (products that were not previously part of its offering to Middle) and began using its platform to distribute third-party products, such as insurance. The ABC Link initiative brings in partner firms to extend its commercial reach. This range of products improves margin per client and dilutes the risk of a purely credit-based relationship. It is the difference between lending to a company and being its bank.
- The growth posture.** In 2024, faced with a more adverse scenario, deliberate caution in the segment contributed to the decline in total delinquency, reflecting disciplined growth that prioritizes quality over speed. The bank demonstrated, in practice, that it is willing to slow down Middle when the cycle calls for it, which is precisely what many of the niche banks that succumbed in the past decade lacked.

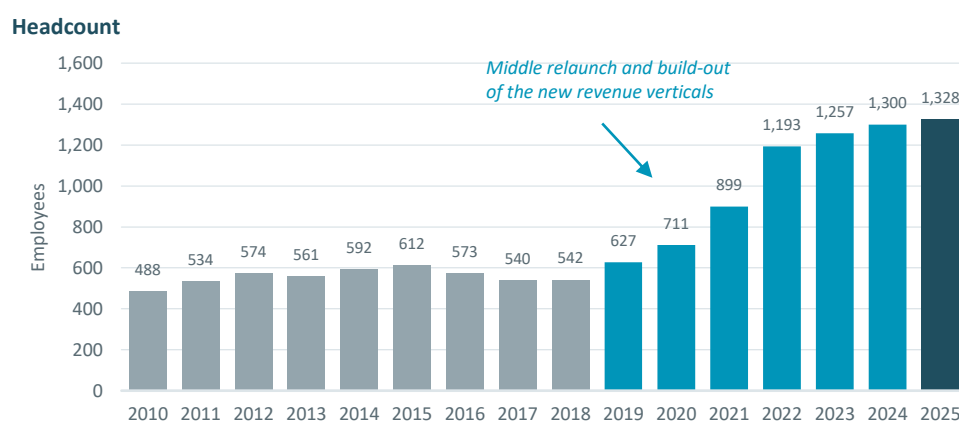
None of this eliminates the risk. The big test of 2026 and 2027 will be to expand Middle at the projected pace without deteriorating credit quality, in an environment of still-high interest rates. But technology, a product portfolio, and demonstrated prudence (absent or incomplete in the first foray) make this a structurally more sustainable growth avenue than the previous one.

We also note a signal that we consider positive and that goes unnoticed: Middle grew 28.7% over twelve months and, over the same period, 90+ day delinquency fell to 0.6% and the sum of Stages 2 and 3 declined. Growing fast with falling risk is the combination the first attempt failed to deliver. One half-year is not a trend, but it is the kind of evidence we were looking for.

Operating Leverage: The Cost That Has Already Been Paid

There is a view of Banco ABC that is quite common in the market and, in our opinion, mistaken: that the bank has a cost problem. The efficiency ratio ended 2025 at 39.2% and the second quarter of 2026 at 41.2%, above the 37.5% to 39.5% range promised in the guidance, with expenses growing 13.9% over twelve months against a target of 4% to 8%. Read in isolation, it is a bad number.

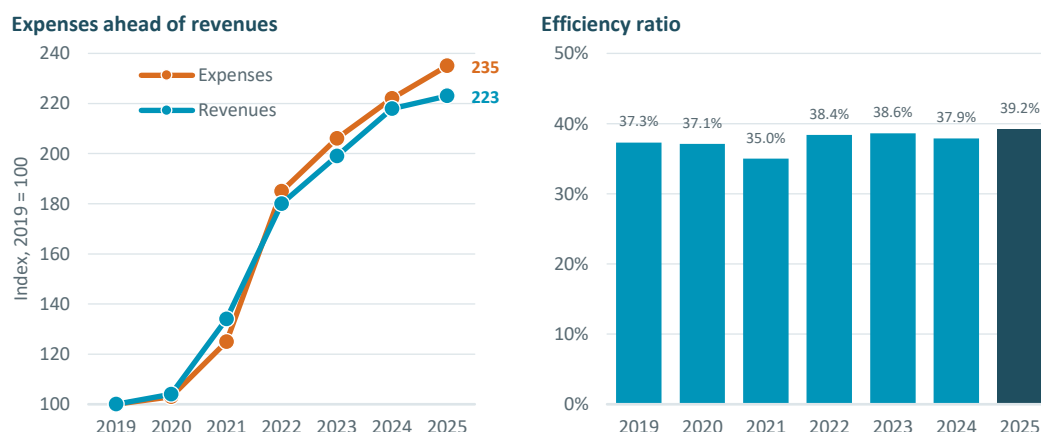
Read in context, it is something else. Look at what happened to the bank's headcount.



Source: 2010 to 2021, SFA internal presentation based on company data; 2022 to 2025, Banco ABC Brasil historical series spreadsheet (Results Center, 2Q26).

Between 2010 and 2018, ABC's headcount remained practically stable: it ranged between 488 and 592 people, with an intentional reduction between 2016 and 2017. From 2019 onward, it more than doubled, reaching 1,328 employees at the end of 2025 and 1,357 in the second quarter of 2026. This reflects the simultaneous build-out of a

middle market operation from scratch, a tripled investment bank, dedicated agribusiness and real estate verticals, an insurance brokerage, an energy trading company, and a credit recovery company. Note, however, the pace: between 2022 and 2025, headcount grew only 11%, versus 120% in the previous three years. The heavy hiring phase is over.



Source: Banco ABC Brasil historical series spreadsheet (Results Center, 2Q26). Indices with 2019 = 100; revenues and expenses as per the efficiency ratio breakdown disclosed by the company.

The left-hand panel is the snapshot of the investment. Between 2019 and 2025, the bank's revenues grew 123%, from R\$1.27 billion to R\$2.83 billion, and its expenses grew 135%, from R\$472 million to R\$1.11 billion. The twelve-percentage-point difference between the two curves is, literally, the cost of building the franchise, and it is what shows up in the efficiency ratio in the chart's right-hand panel: 37.3% in 2019, 39.2% in 2025, and 41.2% in the second quarter of 2026.

It is worth noting a detail the chart reveals and that is rarely mentioned: most of the gap opened up between 2021 and 2023, when expenses soared with the setup of the new structures. From 2023 onward, the two curves went back to running practically in parallel: revenues grew 12.2% and expenses 13.9% over the two-year period. ABC's efficiency problem is not getting worse; it has stabilized at the level to which the investment cycle took it.

The question for the investor is what to do with this information. There are two possible readings.

The pessimistic reading: the bank spent and did not deliver; the efficiency ratio deteriorated from 35.0% in 2021 to 39.2% in 2025; ROE fell from 16.2% in 2022 to 13.9% in the first half of 2026; diversification did not work.

The reading that seems to us more faithful to the facts: the bank made, all at once and over a five-year span, the set of foundational investments that will support the operation for the next ten. These investments are fixed costs in nature: the automated credit workflow for Middle, the CRM, the product platform, the investment banking team. Once built, the marginal cost of serving the next client is a fraction of the cost of serving the first. In other words, there is operating leverage, and that is why management signals that it intends to raise return on equity by two to three percentage points in the medium term.

We recognize that this is a reading and not a fact. What makes it verifiable is the future behavior of the revenue-to-expense relationship: if revenue starts growing faster than expenses in the coming quarters, the reading is confirmed; if the gap persists for another two or three years, it falls apart. It is one of the points we monitor most closely.

The Counterfactual: Would ROAE Be Better Without Diversification?

A skeptic would ask the following question: ABC spent heavily, saw its efficiency worsen and its ROE decline. Wouldn't it have been better to stay as it was, a lean, predictable Large Corporate and treasury bank with no adventures?

The bank does not disclose profitability by segment, so the reasoning that follows is based on spread dynamics and on the bank's own historical trajectory, not on an exact breakdown. With that caveat, the structural conclusion

seems clear to us: no. Without diversifying into revenues beyond credit, ABC's return would very likely be lower and more volatile, not better.

The argument is straightforward. The pre-diversification model is, by nature, a low-spread one: large companies work with dozens of banks, run rate auctions, and have bargaining power. That is precisely why the bank's ROE lagged its peers and collapsed to 7.7% when the interest rate cycle turned in 2020. The recovery to 15% to 16% coincides with the ramp-up of the middle market and fee income. In other words, diversification was the mechanism that lifted the bank out of a structurally lower return range and took it to a higher level, less dependent on the Selic rate.

That said, three observations rule out a simplistic answer.

- In the short term, diversification actually depressed returns. Middle carries more credit risk, so provisions rise when it accelerates; add the foundational investments, and recent profitability came under pressure: ROAE fell to 13.5% in the first quarter of 2026 before recovering to 14.3% in the second. In any single quarter, returns would look optically better without this spending. But that confuses the cost of building a higher-return franchise with the return itself.
- The traditional model delivered something that diversification partly sacrifices: predictability and minimal delinquency. Those who value a lower but extremely stable and defensive return may argue that the old mix was better on a risk-adjusted basis in certain scenarios. It is a matter of preference between return and volatility, not of absolute superiority.
- Execution is not yet proven. The thesis depends on Middle maturing with credit quality preserved and on revenue starting to grow faster than expenses. Neither is guaranteed.

Our position is the same as always: we look for companies that seek to expand value creation, even at the cost of some short-term volatility. In Banco ABC's case, we see a real opportunity for return and earnings expansion, and we knowingly accept the short-term noise that comes with this transition.

– The Decade in Summary

Over the decade, ABC went from an ROAE of about 15% to a trough of 7.7% in 2020 and back to 15% to 16% between 2022 and 2025, supported by a high Selic rate, cost discipline, credit quality and, above all, the shift toward higher-spread segments and capital-light revenues. The most plausible counterfactual is that, without diversifying, the bank would have a structurally lower return, more hostage to the interest rate cycle; more stable and defensive, yes, but not more profitable.

The paradox of the current moment is that the investment phase and higher provisioning for Middle are holding back returns in the short term, precisely in order to unlock the additional two to three percentage points that management is pursuing in the medium term. It is in this paradox, and in the price the market assigns to it, that the opportunity takes shape.

Breaking Down the Return

To understand what drives Banco ABC's return and, therefore, what needs to happen for it to rise, it is useful to break results down into their basic forces. Four of them explain practically the entire evolution of the bank's profitability over the last decade.

1 – First Force: The Credit Spread

The spread is directly linked to the client mix. In Large Corporate, it is structurally narrow, because the client has access to the capital markets and negotiates with dozens of banks. In Corporate, it is intermediate. In Middle, it is significantly wider, because mid-sized companies have fewer alternatives and value availability and speed as much as

price. That is the arithmetic reason why the mix shift is positive for profitability: every real of portfolio that leaves Large Corporate and goes into Middle earns more.

What we observed in the first half of 2026 is that this force is working, but is partly neutralized. The margin with clients grew 6.7% while the portfolio grew 8.3%; in other words, the mix improvement is being offset by price compression in corporate lending. That is why returns did not rise even though the mix improved.

2 – Second Force: The Revenue Mix

Distinct from the first, and more powerful in the long run. While the spread depends on who the client is, the revenue mix depends on what is sold to them. An insurance brokerage commission, a structuring fee on a debenture issue, or a cash management fee does not consume regulatory capital. Since return on equity is profit divided by capital, any revenue whose denominator is close to zero raises the ratio mechanically.

This is the force that has advanced the most: capital-light revenues went from 32% to about 50% of client revenues in seven years. And it is the force that is least talked about, because it does not show up in any single line of the income statement; it shows up in the composition.

3 – Third Force: Cost Discipline

Historically a strength of the bank: the efficiency ratio stayed between 35.0% and 38.6% in every year from 2019 to 2024, a competitive level even compared with much larger institutions. It is precisely this history that makes the current numbers, 39.2% in 2025 and 41.2% in the second quarter of 2026, a noteworthy deviation rather than a natural state. The bank knows how to operate at a 35% efficiency ratio; the question is when it will do so again.

4 – Fourth Force: Credit Quality

The quietest force and the most decisive one. A bank with 0.6% delinquency and 377% coverage converts practically all of its gross margin into earnings; a bank with 3% delinquency hands that same spread over to provisions. ABC has kept loans more than 90 days past due at levels consistently below 1% of the portfolio: the ratio stood at 0.95% in the worst quarter of the last year and a half and at 0.48% in the best. This means that provisioning has never been the variable that defined the bank's results.

The four forces point in the same direction, at different speeds. The revenue mix has already delivered; the client mix is delivering; credit quality is not a problem; and cost discipline is the only one currently subtracting. Since the first three are structural and the fourth is, in our reading, transitory, the asymmetry looks favorable to us.

– What This Implies for Future Returns

Combining the four forces, we arrive at the arithmetic path to the two to three percentage points of return expansion that management is signaling. Roughly one point comes from normalizing the efficiency ratio from 41% to around 38%. Another point comes from the continued mix shift, in both clients and revenues, at the pace of recent years. And the third, more uncertain, depends on a repricing of spreads in corporate lending, which is not under the bank's control.

– Concentration, Collateral, and Risk Design

An important question about any wholesale bank concerns concentration. Large tickets mean that a single client's default can move a quarter's results, a risk a retail bank does not face thanks to its millions of small contracts.

ABC manages this risk through three mechanisms. The first is sector diversification: the portfolio is spread across sectors of the economy in a deliberately balanced way, avoiding exposures that would be correlated in the same shock. Moody's Local highlights this point, stating that the bank's concentration is under control and its sector diversification adequate.

The second is the collateral structure. Unlike consumer credit, practically every significant corporate transaction at the bank comes with hard collateral, assigned receivables, personal guarantees, or financial covenants that trigger renegotiation before default. That is why migration between risk stages is, for ABC, a far more informative leading indicator than delinquency itself, and why we monitor it closely.

The third, and perhaps the most important, is the shift toward the middle market itself. By adding thousands of smaller tickets to the portfolio, the bank mechanically reduces its concentration. It is a positive side effect of the growth strategy that rarely enters the discussion: Middle not only raises the spread but also spreads out the risk that the Large Corporate model concentrated.

It is worth noting what the three 2Q26 quality measures say together. With 93.5% of the portfolio in Stage 1, 377% coverage, and 90+ day delinquency at 0.6%, the bank has provisions equivalent to more than three and a half times the volume of loans actually in default. This means it would take a very significant deterioration, not a bad quarter but a reversal of the cycle, for existing provisions to prove insufficient.

The New Verticals, One by One

ABC's revenue diversification is a set of specific businesses, each with its own economic logic. They are worth examining individually, because the quality of these revenues varies considerably and the market tends to treat them as a single block.

1 – Investment Bank

Set up in 2013 with Debt Capital Markets and M&A, and reorganized in 2023 as a partnership, the investment bank is the most relevant vertical in terms of revenue and the most cyclical in behavior. ABC ranks among the leading fixed income underwriters in the Brazilian market, which is not a trivial position for an institution of its size: it stems directly from the credit relationship, because the bank that already knows the issuer and already carries its risk is the natural candidate to structure the issue.

Revenue went from R\$12.7 million in 2010 to R\$197.6 million in 2024, falling back to R\$151.4 million in 2025 and totaling only R\$49.0 million in the first half of 2026. Management acknowledges that the operation is below its potential, awaiting a more active capital market. We treat this as optionality: we do not project a recovery in our numbers, but we recognize that a favorable issuance cycle would add high-margin revenue without significant capital consumption.

2 – Insurance Brokerage

Established in 2021, this is the vertical that impresses us most, not because of its absolute size but because of its regularity: the insurance brokerage and fees line went from R\$31.2 million in 2020 to R\$133.1 million in 2025, growing in every year of the period, including the one in which investment banking and treasury declined. It now accounts for 29% of fee income. It works with more than twenty insurers and covers everything from performance bonds to credit insurance. The economic logic is almost perfect for a wholesale bank: the client already exists, the banker already serves them, the product is distributed without capital, and the revenue is a recurring commission. It is the purest case of cross-selling within the client base.

3 – ABC Brasil Energia

Launched in 2020, the energy trading company serves companies that have migrated, or intend to migrate, to the free energy market. It is a lower-margin and more operational business than the previous ones, but it serves two purposes: it generates additional revenue per client and, above all, it increases the frequency of commercial contact with mid-sized companies, precisely the segment the bank wants to penetrate. We see this vertical both as a source of profit and as a tool for acquiring and retaining relationships.

4 – ABC Link

Launched in 2020, the platform brings in partner firms to extend the bank's commercial reach. It is ABC's answer to a structural problem: serving mid-sized companies spread across the country would require a branch network the bank does not have and does not want. The partner-based solution outsources reach without carrying the fixed cost. It is also, it should be said, the initiative with the most question marks, because quality control of origination through an outsourced channel has historically been the Achilles' heel of models like this.

5 – Visio

Created in 2022, the credit recovery company brings in-house a process that was previously outsourced or simply abandoned. For a bank with 0.6% delinquency, Visio is not a relevant source of revenue, but it is a risk management tool. The above-average recoveries that brought the cost of risk down to 0.6% in the second quarter of 2026 owe something to this structure.

6 – Agribusiness and Real Estate Verticals

Unlike the previous ones, these are not new companies but sector specializations within the credit operation. The logic is the same one that underpins the bank's credit analysis: sector-specific knowledge reduces information asymmetry, improves pricing, and makes it possible to compete in niches where the large banks apply standardized models. They are, in our reading, the most natural extensions of ABC's core competence.

The verticals and the quality of the revenue they generate:

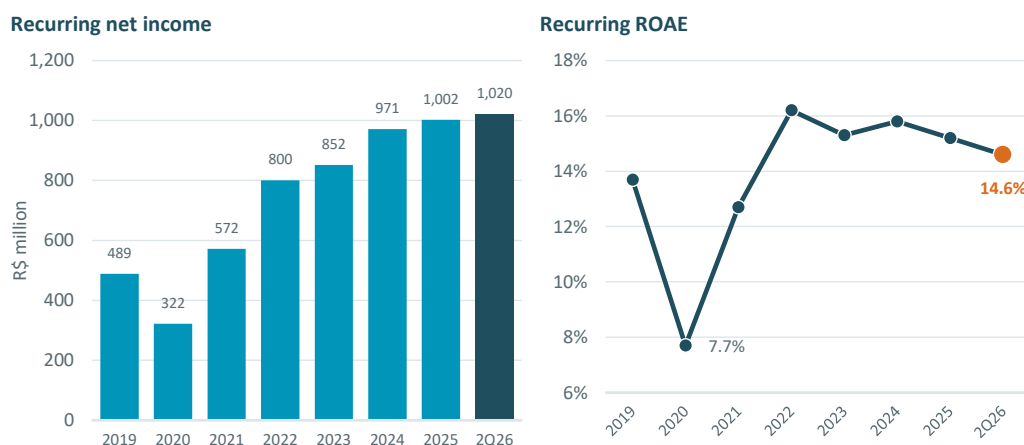
Vertical	Year	Capital consumption	Revenue predictability
Investment banking	2013	Low	Cyclical
Insurance brokerage	2021	None	High and recurring
ABC Brasil Energia	2020	Low	Medium
ABC Link	2020	Indirect (via credit)	Medium
Visio	2022	None	Countercyclical
Agribusiness and real estate	—	High (credit)	High
Sureties and guarantees	legacy	Low	High and recurring

Source: SFA analysis based on bank disclosures.

The overall reading of the table is what underpins the thesis: most of the revenues built over the last five years consume little or no regulatory capital, and a significant share of them is recurring. That is what took capital-light revenues from 32% to about 50% of client revenues, and it is what, if the trajectory is maintained, raises return on equity regardless of the credit cycle.

Banco ABC Today

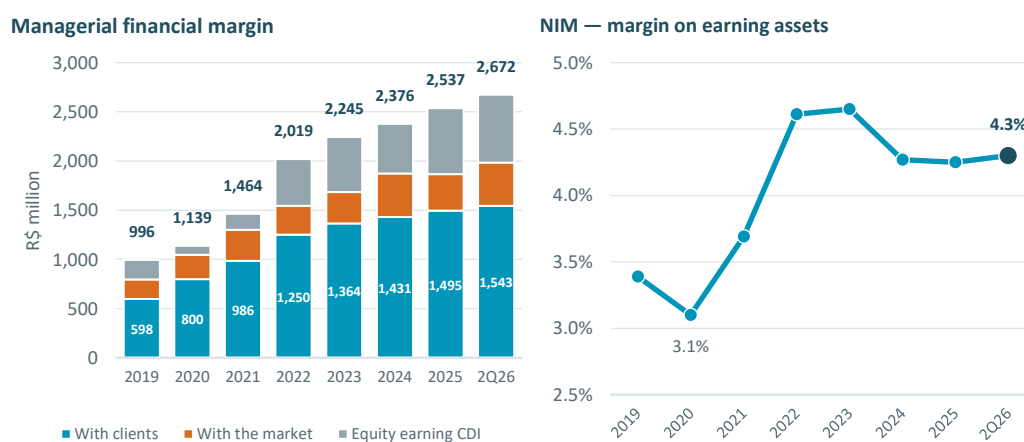
The half that just ended brought a set of numbers that illustrates the bank's transition phase well: solid portfolio and margin growth, improving credit risk, profitability below its historical standard, and expenses above what was promised.



Source: Banco ABC Brasil historical series spreadsheet (Results Center, 2Q26). The last data point corresponds to the twelve months ended June 30, 2026.

Recurring net income totaled R\$230.2 million in the first quarter and R\$257.3 million in the second, the latter up 5.4% year over year and 11.8% quarter over quarter. In the twelve months ended in June, the total reached R\$1,019.9 million, still above the R\$1,002.0 million of 2025. It is profitability, not earnings, that has slowed: ROAE fell from 15.2% for the full year to 14.6% in the twelve-month window, with quarterly readings of 13.5% and 14.3% in the half, after 16.3% in the fourth quarter of 2025.

It is a real slowdown, and there is no point in downplaying it. But it is worth noting that part of it is arithmetic rather than operational: shareholders' equity jumped from R\$6.76 billion to R\$7.26 billion between December and June because of the capital increase, enlarging the denominator before the capital had time to be deployed. In the annual reading of the chart above, what we see is a bank that remains in the 14% to 16% range to which it returned in 2022, not a bank in decline.



Source: Banco ABC Brasil historical series spreadsheet (Results Center, 2Q26). The last data point corresponds to the twelve months ended June 30, 2026; the annual NIM is the average of the quarterly readings in the period.

The managerial financial margin grew 9.1% year over year, reaching R\$659.2 million in the second quarter, and totals R\$2,672 million in the twelve-month window, versus R\$2,537 million in 2025 and R\$996 million in 2019. In six and a half years, the margin nearly tripled. The annual breakdown, in the left-hand panel, shows where this growth came from: the margin with clients rose from R\$598 million to R\$1,543 million; the margin with the market, the portion linked to treasury, from R\$198 million to R\$432 million; and the return on shareholders' equity invested at the CDI rate, from R\$200 million to R\$698 million.

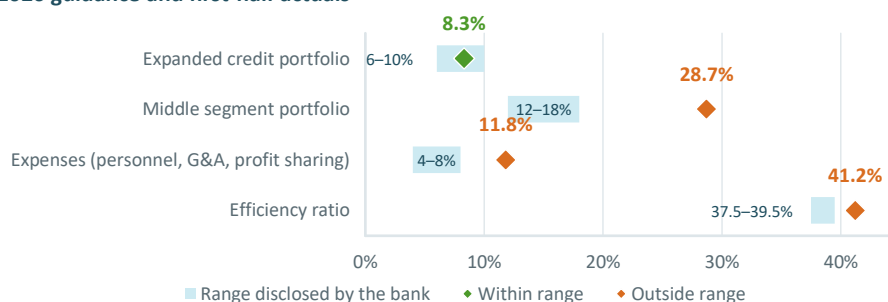
Three observations. First: in the half, the margin with clients grew 6.7%, below portfolio growth of 8.3%, a sign that the average spread remains under pressure. Second: the margin with the market is the least predictable line in the income statement, as the swings between 2022 and 2025 show, and we do not project a repeat of its recent performance. Third, and most important in the long view: the return on the bank's own equity at the CDI rate accounted for 26% of the margin in the twelve-month window, versus 20% in 2019; in other words, the weight of the

Selic rate in results has increased, not decreased. It is a reminder that the bank's decoupling from the interest rate cycle has advanced in fee income, but not yet in the financial margin.

In the annual reading of the right-hand panel, NIM went from 3.4% in 2019 and a floor of 3.1% in 2020, the year of a 2% Selic rate, to 4.3% in the twelve months ended in June, having reached 4.6% in 2022 and 2023. In other words, the bank now operates with a structurally higher margin than in the pre-diversification era, but still below the peak of the high-interest-rate cycle. In the quarter alone, NIM was 4.08%, practically the same level as a year earlier and well below the 4.74% peak in the fourth quarter of 2025; management expects a recovery in the second half, following the seasonal pattern in which the last quarter is the strongest of the year.

– Guidance: Where the Bank Is Delivering and Where It Is Not

2026 guidance and first-half actuals



Source: SFA analysis based on the guidance disclosed by the bank and 2Q26 figures.

The picture is quite clear. The expanded credit portfolio grew 8.3% year over year, comfortably within the 6% to 10% range. Middle grew 28.7%, well above the 12% to 18% range, good news with a footnote, because growing faster than planned in a higher-risk segment is exactly the kind of thing that requires monitoring. Expenses grew 11.8% in the half against a range of 4% to 8%, and the efficiency ratio stood at 41.2% against a range of 37.5% to 39.5%.

Thus, we note that the bank is delivering more volume than promised and more cost than promised. The thesis depends on the first converting into revenue before the second undermines profitability. And this is the main point we will be watching closely in the coming quarters.

Banco ABC Brasil key indicators — 2Q26:

Indicator	2Q26	Reference
Recurring net income	R\$257.3 million	+5.4% over 12 months
Annualized ROAE	14.3%	15.2% in 2025
Managerial financial margin	R\$659.2 million	+9.1% over 12 months
NIM	4.08%	4.74% in 4Q25
Fee income	R\$102.8 million	R\$88.5 million in 1Q26
Expanded credit portfolio	R\$56.5 billion	+8.3% over 12 months
Loans 90+ days past due	0.59% of the portfolio	coverage ratio of 377%
Shareholders' equity	R\$7.26 billion	R\$6.76 billion in Dec/25
Cost of risk	0.6%	0.8% in 1Q26
Basel ratio	16.2%	regulatory minimum of 10.5%
Tier 1 capital	13.7%	CET1 of 11.9%
Efficiency ratio	41.2%	guidance of 37.5% to 39.5%
Total funding	about R\$60 billion	average tenor longer than the portfolio's

Indicator	2Q26	Reference
Capital-light revenues	about 50%	32% in 2019
Corporate clients	4,467	—

Risks: What Could Go Wrong

Let us now turn to what could invalidate the thesis. These are the risks we consider material, in order of importance:

– Execution in the Middle Market

It is the number one risk, for the simple reason that the bank has already tried once and failed. An adverse credit cycle hitting companies with revenue between R\$30 million and R\$500 million would simultaneously test the recalibrated credit models, the automated workflows, and management's discipline. If the outcome of that test is a repeat of 2014-2016, the growth avenue becomes a liability and, worse, the bank will have spent five years and a balance sheet building it. We monitor this risk through the segment's delinquency and the pace of provisioning.

– Spread Compression in Corporate Lending

Abundant liquidity in the Brazilian capital markets has allowed large companies to finance themselves directly, at costs that bank credit cannot match. Market players point out that risk-adjusted spreads in corporate lending have not yet returned to adequate levels. If this situation persists, the margin with clients will keep growing below the portfolio, which is exactly what we saw in the half. The consequence is an ROE that settles at around 14% instead of rising to 16% or 17%.

– Expenses That Do Not Convert into Revenue

The entire optimistic reading of operating leverage depends on one premise: that the investments of the last five years are a fixed cost already paid. If, instead, expense growth proves structural, because serving Middle requires more people than expected or because competition for talent in investment banking puts pressure on payroll, the efficiency ratio will not return to the 37% range, and the return expansion simply will not happen.

– Sensitivity to Interest Rates and the Cycle

Despite diversification, ABC is still a bank. A cycle of sharp Selic cuts reduces the return on capital invested in treasury and compresses the margin with the market which, as we have seen, accounted for a significant part of the half's growth. A prolonged tightening cycle, on the other hand, pressures borrowers' ability to pay.

– Size, Liquidity, and Coverage

ABC is a mid-sized bank competing for space with much larger institutions, and its stock has modest liquidity compared with the large banks. This has two practical consequences: first, institutional investors moving in and out can shift the price disproportionately to the news flow; second, sell-side coverage is limited (seven firms cover the stock), which means fewer eyes on the thesis and fewer repricing triggers.

– Control Structure

We discussed above the resilience demonstrated during the Arab Spring, and we remain comfortable with the regulatory and financial ring-fencing of the Brazilian operation. Even so, it would be intellectually dishonest to rate as zero the risk that a deterioration at the ultimate controlling shareholder could affect the stock's risk perception, funding costs, or foreign investors' appetite. It is a risk of perception more than of substance, but perception moves prices.

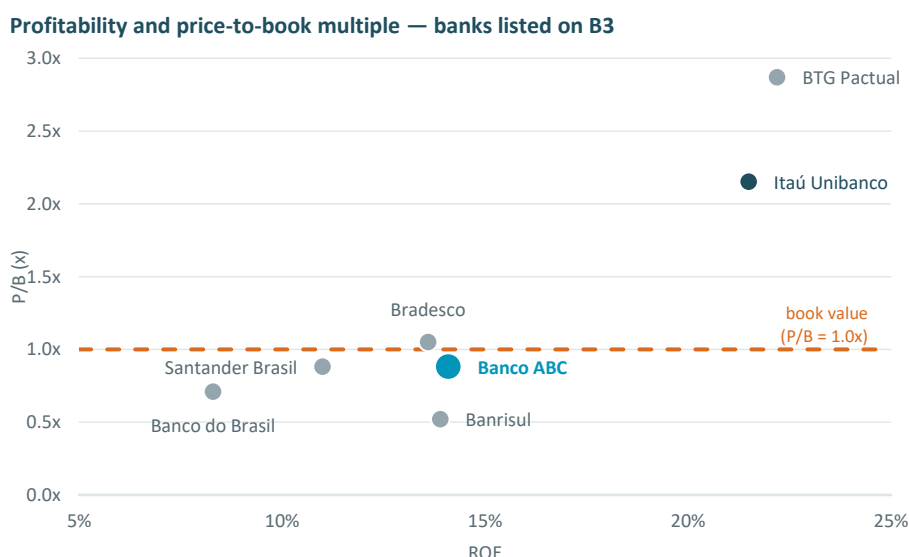
It is worth noting what we do not consider a relevant risk in this case: solvency. With a Basel ratio of 16.2%, 377% coverage, and a portfolio in which 93.5% of loans are in Stage 1, the debate about ABC is about the rate of return, not about capital preservation. This distinction is what allows us to hold the position calmly through the short-term noise.

Valuation: What the Price Is Saying

We now come to the point that, in our reading, turns a good bank into a good investment.

The stock trades at R\$24.80, with a market value of approximately R\$6.4 billion against shareholders' equity of R\$7.26 billion and a book value per share of R\$28.17 at the end of the second quarter. This corresponds to a P/E of around 6.3x, a P/B of 0.88x, therefore below its book value, and a trailing twelve-month dividend yield of 10.9%.

The fact that the stock trades below book value deserves to be looked at carefully, because it carries a rather strong implicit economic claim. In financial theory, an institution that consistently earns a return on equity equal to or above its cost of capital should be worth at least the equity it holds. The opposite, trading below book value, amounts to the claim that the institution will destroy value on every additional real of capital it retains.



Source: SFA analysis based on market data, as of September 2026.

Among the listed private banks, ABC offers a favorable combination of profitability and valuation. The bank delivers a higher ROE than Santander, despite trading at a similar multiple, and profitability close to Bradesco's, at a lower price-to-book multiple. That ROE, however, is only the current snapshot, and we expect profitability to expand in the short term, reinforcing the asymmetry between return and valuation.

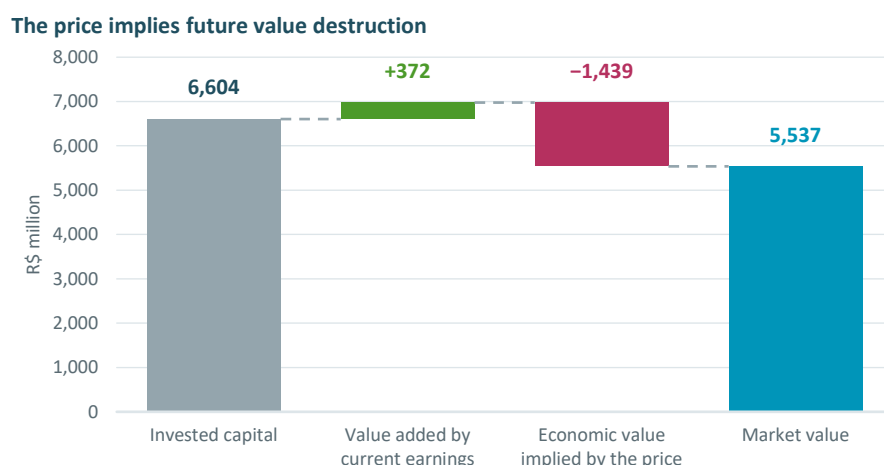
Multiples comparison — banks listed on B3:

Bank	P/E	P/B	ROE	Dividend yield
Banco ABC Brasil	6.3x	0.88x	15.2%	10.9%
Itaú Unibanco	10.0x	2.15x	23.4%	7.5%
BTG Pactual	13.0x	2.87x	26.9%	2.3%
Bradesco	7.7x	1.05x	14.8%	8.6%
Banco do Brasil	8.6x	0.71x	11.4%	3.0%
Banrisul	3.7x	0.52x	14.9%	10.3%

Source: SFA analysis based on market data, as of September 2026. Dividend yield for the last twelve months.

– How Much Value Destruction Does the Price Imply?

We like to translate the multiple into an economic question rather than a relative comparison. If the capital invested in the bank is known and its market value is observable, the difference between the two is a direct measure of what the market believes the franchise will do with its capital from here on.



Source: SFA analysis based on company data, using the prices prevailing when we built the analysis.

The reading is as follows:

The capital invested in the bank was approximately R\$6.6 billion, with current earnings, capitalized, adding about R\$372 million of economic value on top of that capital. In other words, the bank creates value today, albeit modestly. Together, capital and value added would suggest an economic value of about R\$7.0 billion.

The market, however, was paying R\$5.5 billion. The difference, of approximately -R\$1.4 billion, is the future value destruction implied in the price. It is the implicit claim that, over the coming years, ABC will deploy capital at a return below its cost of capital.

We do not see an institution about to destroy value, as priced. We see an institution that has just paid the cost of building two growth avenues and whose return does not yet reflect their benefits.

– What the IRR Implies

One way to stress-test the thesis is to ask: starting from the current price, what return does each combination of sustainable profitability and exit multiple produce? The table below runs this exercise over five years, assuming partial reinvestment of earnings and distribution of the excess.

Expected 5-year IRR from R\$24.00 per share						
Exit P/B	Sustainable ROE					
	13.0%	14.5%	16.0%	17.5%	19.0%	
	0.8x	15%	17%	18%	20%	22%
	1.0x	19%	21%	22%	24%	25%
	1.2x	23%	24%	26%	27%	29%
1.4x	26%	27%	29%	30%	32%	

Source: SFA analysis. Assumptions: book value per share of R\$28.17 (2Q26), equity growth of 6% a year, distribution of excess earnings, and an entry price of R\$24.80.

What this table shows is the asymmetry that interests us. In the table's most pessimistic scenario, with a sustainable ROE of 13.0% (below what the bank delivered in its weakest half-year in recent years) and the stock trading

at 0.8x book value five years from now, the internal rate of return is approximately 15% a year. That is not a capital loss.

In the central scenario, which we consider the most likely, that is, with ROE converging to 16% and the stock simply returning to trade at book value, the IRR is about 22% a year.

And if management delivers the two to three percentage points of return expansion it promises, taking ROE to the 17% to 18% range, and the multiple follows this profitability, the IRR rises to the 24% to 32% a year range.

Our divergence from the market consensus is not in the diagnosis of the business; on that point, there is broad agreement. It is in the time horizon. The market projects the next twelve months, in which spread compression and high costs remain visible. We project the period in which the platform that has been built begins to operate at a declining marginal cost.

Our Projections

Below we spell out the assumptions we work with, so that unitholders can follow the thesis and, above all, verify when it is wrong.

Assumption	Our projection
Dividend yield	above 10%
Estimated ROE from 2028 onward	above 15.5%
5-year net income growth	8% a year
Estimated 5-year IRR	22% a year

Source: SFA Investimentos projections. The entry multiple reflects the average cost at which we built our position, not the current share price.

What gives us confidence is not optimism about the cycle, but arithmetic about the mix. Half of client revenues already come from lines that consume little or no capital; the highest-spread segment is growing almost three times faster than the portfolio; and the cost base that supports both has already been built. If these three things remain true, returns rise by construction.

Five Questions We Asked

Over the course of our due diligence, five questions proved decisive. We set out the questions and answers below so that unitholders can follow our line of thinking, not just the conclusion.

1 – Why Does a Bank of ABC's Quality Trade Below Book Value?

The answer has three layers. The first is cyclical: the return fell to 13.5% in the first quarter of 2026, and the market extrapolates the most recent quarter. The second is structural: spreads in corporate lending are compressed and there is no clear sign of repricing, which limits visibility on margin expansion. The third is technical: the stock has modest liquidity and limited coverage, which reduces buying pressure even when valuation decouples from fundamentals.

None of these three reasons is irrational. But all three are about the next twelve months. Our disagreement is with the time horizon.

2 – Is Middle's Growth a Sign of Quality or of Looser Credit?

This is the question that worried us most, given the history of 2014-2016. The available evidence points to quality: over the same period in which Middle grew 28.7%, 90+ day delinquency stood at 0.6%, the sum of Stages 2 and 3 fell from 6.9% to 6.5%, and the coverage ratio remained at 377%. If the growth were coming from looser standards, we would expect to see stage migration ahead of delinquency, and we do not.

There is one caveat regarding timing: loan vintages with longer duration take more time to reveal their true behavior. The accelerated growth of recent months must be continuously tested. A very important point to monitor.

3 – Will Expenses Return to the Guidance Range?

We are not confident about the timing, and it is only fair to say so. Expenses grew 11.8% in the half against a range of 4% to 8%, and the efficiency ratio stands at 41.2% against a target of 37.5% to 39.5%. Management attributes the deviation to foundational investments and profit sharing.

What gives us comfort is not the promise, but the nature of the spending. An automated credit workflow, a CRM, and an investment banking team are expenses whose benefits are spread over years. So, if revenue is not growing faster than expenses within four to six quarters, we will revisit the thesis.

4 – Is the Controlling Shareholder a Risk?

It is a risk of perception more than of substance, and the distinction matters. In substance, the Brazilian operation is a separate legal entity, regulated by the Brazilian Central Bank, locally capitalized, and listed on B3, and this ring-fencing was tested in the most extreme episode possible, with the ultimate controlling shareholder under international sanctions, without any interruption of the local operation. In terms of perception, the ownership structure keeps some institutional investors away and may, at times of geopolitical tension, put pressure on funding costs or the multiple.

We treat this as a permanent component of the stock's discount, not as a risk that will resolve itself.

5 – What Would Make the Thesis Wrong?

Three things, in order of severity. First: Middle delinquency rising consistently for three or four consecutive quarters, with migration to Stage 3 and the cost of risk rising above 1.2%. This would invalidate the central premise that the model is different this time. Second: expenses continuing to grow faster than revenue for more than two years, which would turn the operating leverage argument into a rationalization. Third: further and prolonged spread compression in corporate lending, which would lock returns at around 13% to 14% regardless of the mix.

What We Will Monitor

We close with what is, for us, the most useful part of a letter: an objective list of what we will monitor in the coming quarters, with the thresholds that would lead us to revisit the position. Unitholders can follow these same indicators in the bank's quarterly disclosures.

Indicator	Status in 2Q26	What would confirm the thesis	What would invalidate it
Middle loans 90+ days past due	3.29% (total portfolio at 0.59%)	Stability with the segment's portfolio growing above 15%	Three to four consecutive quarters of increases, with migration to Stage 3
Cost of risk	0.6%, helped by recoveries	Normalization at around 0.8% with a growing portfolio	Sustainably above 1.2%
Revenue-to-expense relationship	Expenses +11.8%, revenue +8.2% in the half	Sign reversal within four to six quarters	Gap persisting for more than two years
Efficiency ratio	41.2% (39.2% in 2025)	Convergence to the 37.5% to 39.5% range	Settling steadily above 41%
Margin with clients per real of portfolio	Growing below the portfolio	Repricing of spreads in corporate lending	Further and prolonged compression
Capital-light revenues	About 50% of client revenues	Continued mix shift	Stagnation or reversal

Indicator	Status in 2Q26	What would confirm the thesis	What would invalidate it
ROAE	14.3% annualized	Convergence to 16% or more	Settling below 14% for more than a year
Basel ratio	16.2%, with a capital raise underway	Staying above 15% with a growing portfolio	Approaching regulatory minimums

Source: SFA analysis.

Finally, we note the events that could bring forward the stock's repricing: the maturing of the investment bank in a more active capital markets cycle, the completion of the capital raise underway, the convergence of the efficiency ratio to the promised range, and, most likely of all, simply the passage of time, as the build-out cost drops out of the comparison base and the revenue built with it remains.

Thesis Summary

Following the format we have adopted in previous letters, we summarize below our thesis on Banco ABC Brasil.

– Company Qualities

- Homegrown management, with decades of experience at the bank itself and significant shareholdings;
- Conservative risk culture, proven in adverse credit cycles;
- Governance with genuine local autonomy, tested in an extreme episode involving the ultimate controlling shareholder;
- Solid balance sheet, with comfortable capital, long-term and low-cost funding, and the highest rating on the national scale;
- Consistent track record of results, with compound growth of 11.3% a year over the last fifteen years, culminating in R\$1,002.0 million of recurring net income in 2025.

– Competitive Advantages

- Intangible assets (a 35-year reputation in wholesale banking, the AAA.br rating, and the backing of the international controlling shareholder);
- Differentiated process (expertise in credit origination and management, which sustains structurally low delinquency);

Beyond these moats, we can mention the concentrated market structure, with real barriers of capital, rating, and credit track record, and switching frictions, given the information relationship, product bundling, and contractual frictions;

– Thesis

- Short term: the bank is going through the low point of its investment cycle. Expenses have grown above guidance, the efficiency ratio stands at 41.2% against a target of 37.5% to 39.5%, and ROE has fallen to the 13.5% to 14.3% range. The market is pricing this moment as if it were permanent, leading the stock to trade at 0.88x book value. We believe this is a build-out cost, not a deterioration of the franchise.
- Medium term: the maturing of the middle market platform and the consolidation of capital-light revenues at around 50% of client revenues should lift return on equity to the 16% to 18% range, a move management itself signals as a goal of two to three percentage points.

- Long term: deepening relationships with a client base that pays for more products makes the bank more central to its clients and therefore widens its switching-cost moat, which is a notable competitive advantage. The moat trend, not its current width, is what supports the position.

– The Thesis from a Financial Standpoint

- Dividend yield above 10%, rewarding shareholders while the thesis plays out, with tax efficiency through interest on equity;
- Estimated IRR of 24% a year over five years in the central scenario, with a floor of around 10% a year in the conservative scenario, a favorable asymmetry;
- Capital protection anchored in a 16.2% Basel ratio, 377% coverage, and 93.5% of the portfolio in Stage 1.

Conclusion

Banco ABC Brasil combines the attributes that usually define a good investment in a bank: quality management, consistent results, and soundness. On the management side, the bank combines a conservative risk culture (which translates into one of the lowest delinquency levels in the sector, with loans more than 90 days past due at 0.59% of the portfolio) and a comfortable capital base, with a Basel ratio historically above 15% and well above the regulatory minimum. This tripod has sustained a consistent earnings track record: even after going through the pandemic trough, the bank rebuilt its profitability and delivered growing recurring net income over the decade, culminating in R\$1,002.0 million in 2025, with compound growth of 11.3% a year since 2010.

Beyond its soundness, what makes the thesis interesting is the room for profitability to grow to new levels. Historically concentrated in Large Corporate and treasury, the bank has been shifting toward structurally more profitable businesses: the middle market, which is growing almost three times faster than the total portfolio and carries wider spreads; and the diversification into capital-light revenues, which adds return without consuming capital. If this transition is well executed, ABC will go from being merely a solid and predictable bank to being a solid bank with structurally higher profitability. An attractive combination for our portfolio: a company that offers both defense and growth.

To these fundamentals we add valuation. The stock trades at 6.3x earnings and 0.88x book value, with a trailing twelve-month dividend yield of 10.9%. The market prices below book value an institution that has consistently delivered double-digit returns on capital for almost two decades, which only makes sense if one believes the franchise will destroy value from here on. This discount suggests that much of the skepticism about the recent slowdown is already priced in, leaving significant room for a rerating should the middle market and revenue diversification strategy unlock the expected profitability gains.

We acknowledge the counterpoints, and they are not trivial. The bank has tried the middle market once before and pulled back; spreads remain under pressure; expenses have grown more than promised; and the bank's mid-size and the stock's limited liquidity impose limits. We part ways with the skeptic on one specific point, and we state it clearly: the Middle avenue, combined with cross-selling within a loyal client base, is concrete, is working, and is not yet in the price.

While this thesis matures, we are rewarded with a generous and recurring stream of dividends and interest on equity, which, for a long-term investor, is the most comfortable way to wait. In short, what we have here is a solid and cheap asset: compressed multiples, a high yield, capital protection, and upside optionality if the expansion in profitability materializes. The essentials done well, and then some.

We appreciate your trust,

SFA Investimentos Team

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