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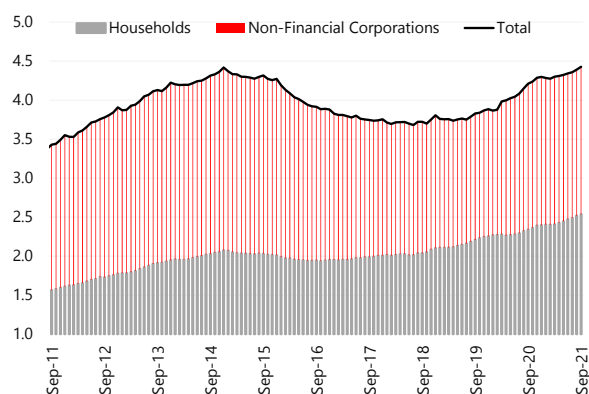
Credit to Companies Grew Due to Others

- The Brazil Central Bank (BCB) released data for September showing strong overall growth in credit to households and companies, in tandem with the reopening process as the pandemic is slowly brought under control.
- For households, the non-earmarked segment posted an increase of 0.5% MoM-sa, driven by credit card and vehicles purchases.
- For companies, the earmarked new loans segment posted an increase of 7.2% MoM-sa. To date, the Pronampe program has provided more than BRL22 billion to more than 240,000 micro and small companies.
- Finally, debt-service and debt-to-income ratios continue to rise, which we see as a risk for delinquencies as the economy recovers.

Total outstanding loans in the National Financial System (SFN) posted inflation-adjusted growth of 5.2% YoY in September to BRL4.4 trillion (2.6% MoM-sa), up 8.5% YoY for households (-0.5% MoM-sa) and up 6.0% YoY for non-financial corporations (3.4% MoM-sa).

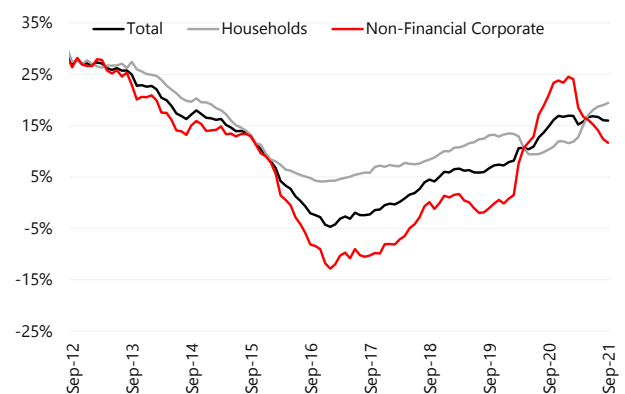
The growth rate of total outstanding loans has increased a bit, from 15.9% to 16.0%. In addition, credit to corporations fell to 11.6% from 12.2%, while the volume of credit for households continued to accelerate, rising to 19.4% from 18.8%.

Figure 1-A. Total Outstanding Balance of Credit Operations (inflation adjusted, BRL billion)



Sources: Brazilian Central Bank, Santander.

Figure 1-B. Total Outstanding Balance of Credit Operations – Growth Rate (%)



Sources: Brazilian Central Bank, Santander.

In the non-earmarked segment, household portfolios grew 9.8% YoY during September, (inflation adjusted). For corporations, growth in the balance of non-earmarked loans was up 0.8 p.p. from last month's figure (4.8% YoY), with working capital still presenting a negative variation (-2.4% YoY, inflation adjusted). In the earmarked

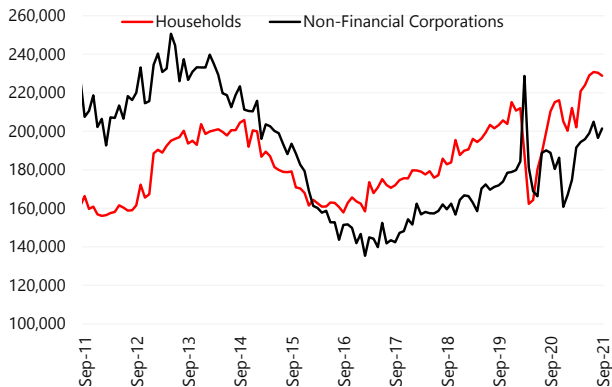
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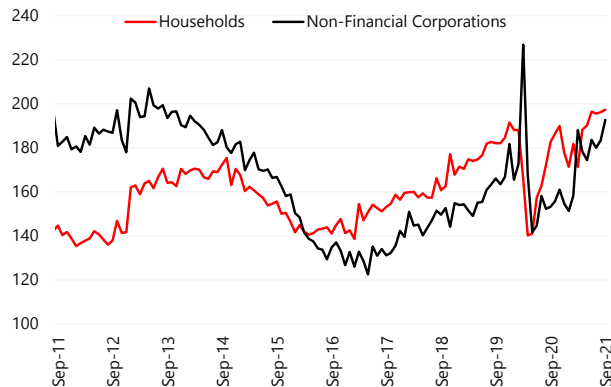
segment, households showed growth (6.5% YoY), but real estate financing still showed lower growth compared to early this year' figure (5.9% YoY, inflation adjusted). Corporations posted the first negative growth in 12 months (-4.3% YoY, inflation adjusted), with both rural credit and real estate financing presenting negative variations in 12 months (-15% and -16.4%, respectively – inflation adjusted).

Figure 2. New Operations – Non-Earmarked (inflation and seasonally adjusted, BRL billions)



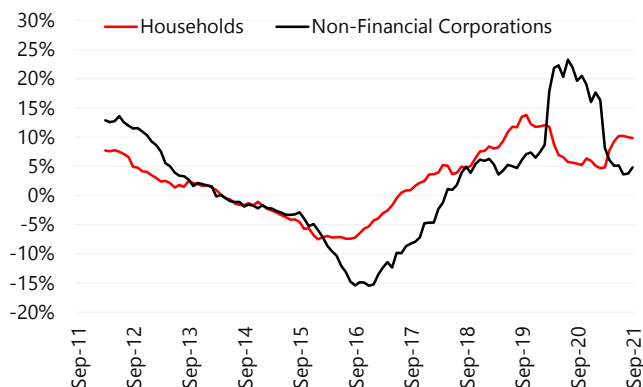
Sources: Brazilian Central Bank, Santander.

Figure 3. New Operations – Earmarked (inflation and seasonally adjusted, BRL billions)



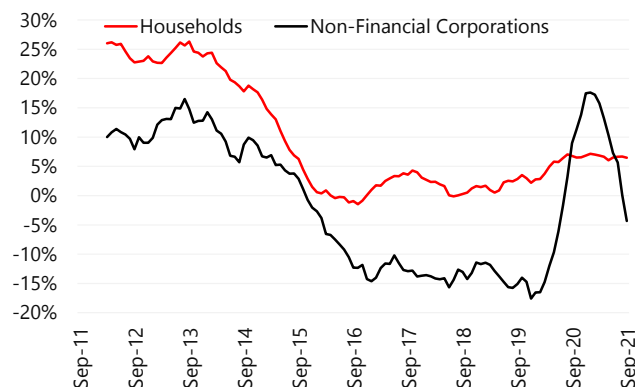
Sources: Brazilian Central Bank, Santander.

Figure 4. Outstanding Balance – Non-Earmarked (inflation adjusted) (% YoY)



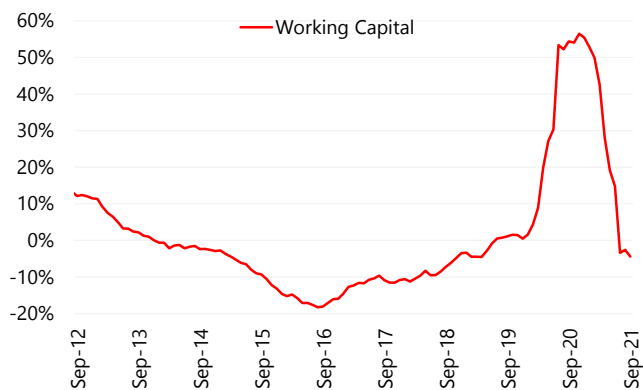
Sources: Brazilian Central Bank, Santander.

Figure 5. Outstanding Balance - Earmarked (inflation adjusted) (% YoY)



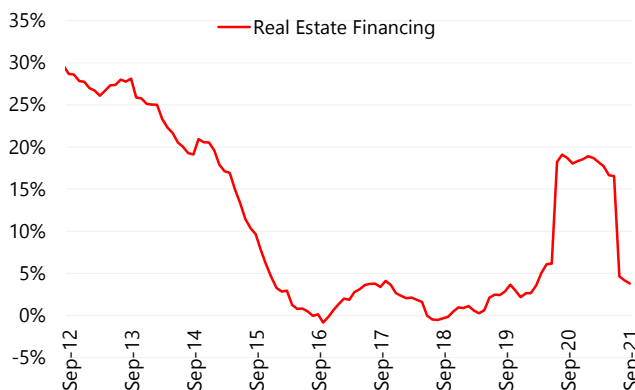
Sources: Brazilian Central Bank, Santander.

Figure 6. Outstanding Balance – Working Capital - Non-Earmarked (inflation adj) (% YoY)



Sources: Brazilian Central Bank, Santander.

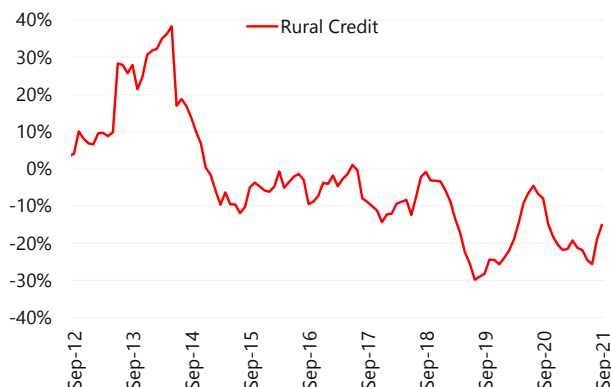
Figure 7. Outstanding Balance – Real Estate Financing for Households – Earmarked (inflation adj) (% YoY)



Sources: Brazilian Central Bank, Santander.

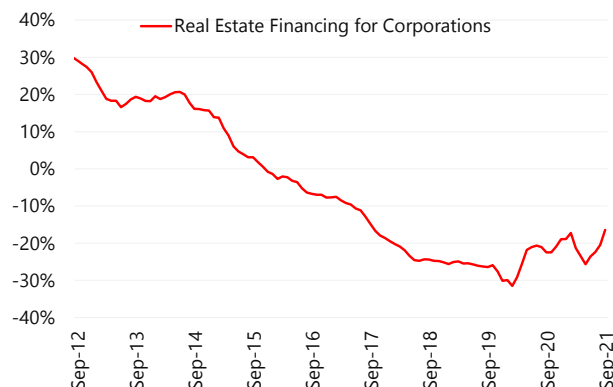


Figure 8. Outstanding Balance – Rural Credit - Earmarked (inflation adjusted) (% YoY)



Sources: Brazilian Central Bank, Santander.

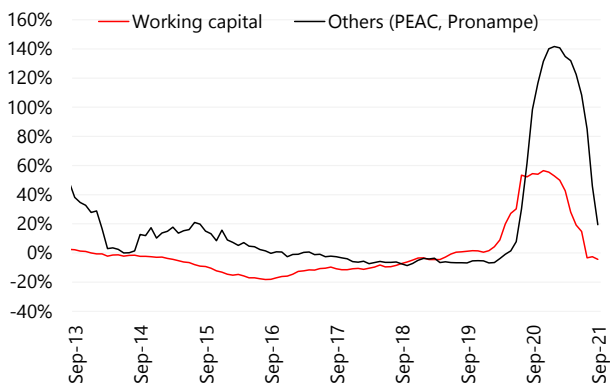
Figure 9. Outstanding Balance – Real Estate Financing for Corporations – Earmarked (inflation adj) (% YoY)



Sources: Brazilian Central Bank, Santander.

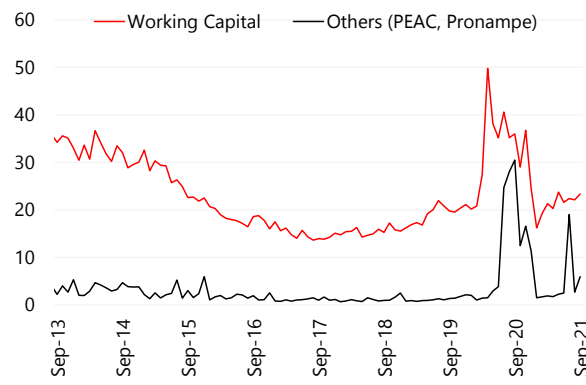
New loans adjusted for inflation and seasonality (BCB methodology) recorded an increase, 1.9% in September. For households, the **non-earmarked segment posted an increase of 0.5% MoM-sa. This result is mainly composed of credit card purchase and vehicle purchase.** In the earmarked segment, rural credit and real estate financing decreased (-9.1 and -6.4%, respectively). For companies, there was an increase of 5.1% MoM-sa in September in the non-earmarked segment. **The earmarked segment registered a significant increase of 7.2% MoM-sa after the last month fall (-48.6%). This result is mainly driven by Others (+122.8%).** To date, the Pronampe program has provided more than BRL22 billion to more than 240,000 micro and small companies.

Figure 10. Outstanding Balance – Non-Financial Corporations (inflation adjusted, % YoY)



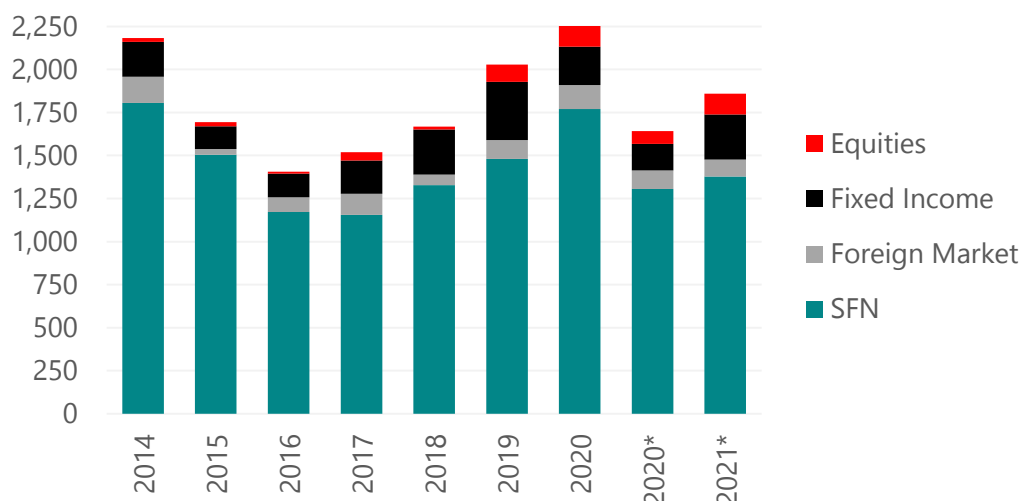
Sources: Brazilian Central Bank, Santander.

Figure 11. New Operations – Earmarked (inflation and seasonally adjusted, BRL billion)



Sources: Brazilian Central Bank, Santander.

Considering total corporate financing YTD through September 2021 (new loans in the SFN, debt and equity issues in the capital markets) vs. the year-ago period, issuances in the capital markets were 67.56% higher, while SFN concessions were up 5.46%. **As a result, total corporate financing was up 13.16% compared to the year-ago period.**


Figure 10. Total Corporate Financing (inflation adjusted, BRL billions)


*January to September.

SFN - exclude *conta garantida, cheque especial* (overdraft) and credit card.

Foreign Market - bonus, MTNs and securities.

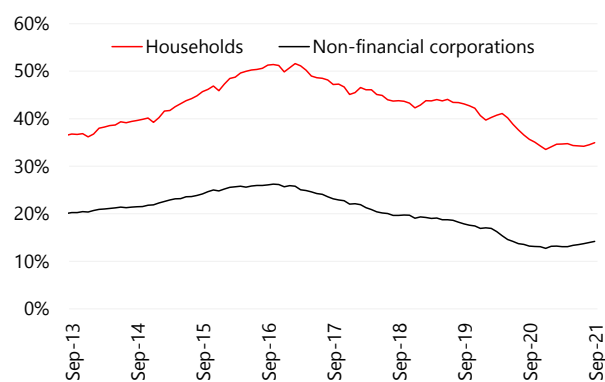
Fixed Income - Debentures, commercial papers, LFs, CRAs, CRIs e FIDCs.

Equity - IPO and follow-on.

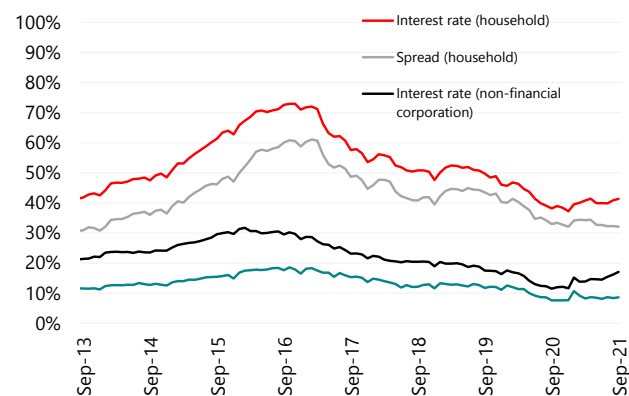
Sources: Brazilian Central Bank, Anbima, Santander.

Lastly, the Credit Cost Indicator (ICC) of non-earmarked loans to households increased 0.5 p.p. in September compared to August, to 35% p.a., and for corporations increased 0.2 p.p. to 14.2% p.a. The average interest rate for non-earmarked new loans was 41.3% p.a. for households (+0.5 p.p. from August) and 17.1% for corporations (compared to 16.2% p.a. in August). The spread on non-earmarked new loans was 32.1% for households (-0.2 p.p. from August) and 8.6% for corporations (+0.2 p.p. from August).

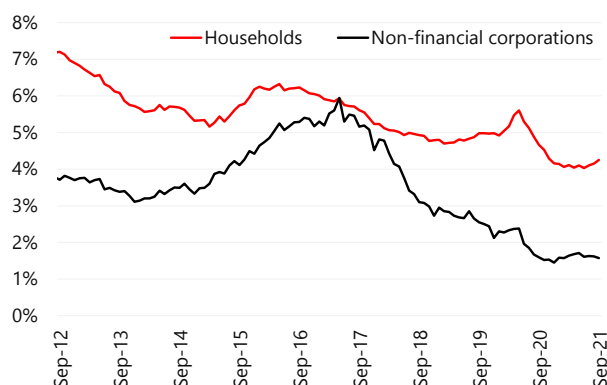
Still regarding non-earmarked loans, the seasonally adjusted default rate (% of 90-day past-due loans) was at 4.3% and 1.6%, respectively, for households and corporations. **Importantly, the household debt-service ratio continued to rise, reaching 59.2% in July, without real estate financing, the household debt-service is 36.5%. In addition, the debt-to-income ratio rose to 30.1% in July, without real estate financing the debt-to-income ratio is 27.6%. We see these figures as a risk for delinquencies as the economy recovers.**

Figure 11. Credit Cost Indicator (ICC) – Non-Earmarked (% p.a.)


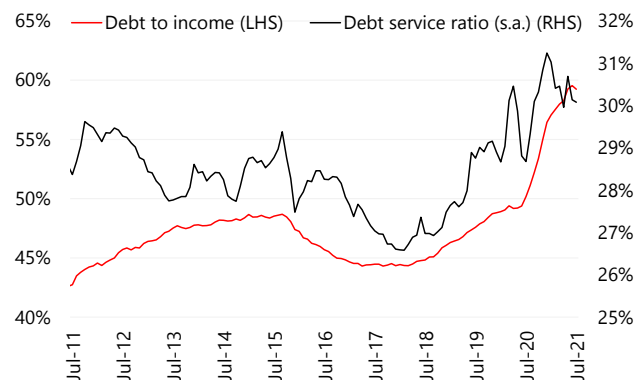
Sources: Brazilian Central Bank, Santander.

Figure 12. Average Interest Rate and Spread – Non-Earmarked (% p.a.)


Sources: Brazilian Central Bank, Santander.


Figure 13. Loans Due in 90 Days – Non-Earmarked (% s.a.)


Sources: Brazilian Central Bank, Santander.

Figure 14 – Household Debt-to-Income and Debt Service Ratio (%)


Sources: Brazilian Central Bank, Santander.

Figure 15. Indicators

Outstanding inf. adj. (YoY)	Nonearmarked			Earmarked			Total		
	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21
Households	10.2%	10.0%	9.8%	6.7%	6.7%	6.5%	8.6%	8.5%	8.3%
Non-financial corporations	3.6%	3.8%	4.8%	5.7%	0.1%	-4.3%	4.4%	2.4%	1.3%
Total	7.1%	7.0%	7.4%	6.3%	4.1%	2.1%	6.7%	5.8%	5.2%

New operations inf. adj. (MoM-sa)	Nonearmarked			Earmarked			Total		
	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21
Households	-0.5%	0.4%	0.5%	7.5%	-5.0%	-5.8%	0.8%	-0.1%	-0.7%
Non-financial corporations	-2.0%	1.9%	5.1%	141.5%	-48.6%	7.2%	3.0%	-4.1%	2.5%
Total	-0.7%	-0.2%	2.3%	56.9%	-31.4%	-1.6%	3.3%	-2.4%	1.9%

Interest rate	Nonearmarked			Earmarked			Total		
	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21
Households	9.2%	10.0%	9.5%	0.0%	0.0%	0.0%	7.6%	7.9%	8.0%
Non-financial corporations	14.6%	14.5%	14.5%	19.2%	19.1%	19.1%	39.8%	40.8%	41.3%
Total	7.0%	7.1%	7.3%	15.5%	16.2%	17.1%	28.9%	29.8%	30.6%

Spreads	Nonearmarked			Earmarked			Total		
	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21
Households	3.7%	3.5%	2.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Non-financial corporations	4.1%	4.2%	4.3%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
Total	4.0%	3.8%	3.8%	8.7%	8.4%	8.6%	8.7%	8.4%	8.6%

	Jul-21	Aug-21	Sep-21
Total Outstanding / GDP	52.2%	52.4%	52.9%
Total Outstanding under public control	43.8%	43.5%	43.2%
Total Outstanding under private control	56.2%	56.5%	56.8%

Sources: Brazilian Central Bank, Santander.



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