



EARNINGS CONFERENCE CALL BANCO ABC BRASIL
2020

August 10th, 2020

Operator: Good morning everyone and thank you for waiting. Welcome to the second quarter of 2020 conference call of **Banco ABC Brasil**. With us here today we have **Mr. Anis Chacur**, CEO, **Mr. Sergio Lulia Jacob**, Deputy CEO, **Mr. Sergio Borejo**, Executive Vice President and Investor Relations Officer and **Ricardo Moura**, Head of Investor Relations.

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

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

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

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

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



Mr. Sergio Lulia: Good afternoon ladies and gentlemen and thank you for joining our conference call for the first quarter of 2020.

This was the first full quarter that we have experienced the impacts of the COVID-19 pandemic. As long as we can infer at this point, the effects of this crisis were less severe than some scenarios initially considered.

The strategy defined by management included, on one hand, initiatives aiming at protecting the balance sheet (a higher liquidity position, a reinforcement in provisions and a more efficient use of capital), and on the other hand, initiatives aiming at supporting the good clients on its demands, being working capital line, hedges, trade finance, etc. The numbers reflect this strategy: there was an overall increase in liquidity, regulatory capital and coverage ratio – and at the same time, there was an increase in the margin with clients, services revenues, and even in the number of clients. Finally, there was an effort to contain costs, mainly reflected in Other Administrative Expenses and Variable Compensation.

In Slide 2, we present the highlights of our results in the second quarter of 2020: The Net Income reached 61.6 million Reais, a reduction of 23.9% over the previous quarter and of 50.8% over the same period in 2019. The Return on Average Equity (ROAE) was 6% in the second quarter of 2020, down 2 percentage points versus the previous quarter and 7 percentage points in comparison to the same period in 2019. The Financial Margin with Clients totaled 212.3 million in 2Q20, representing a 23.0% growth over 1Q20 and 54.3% over 2Q19. The Cost of Credit was 93.2 million in the quarter, representing 2.1% per year of the average Loan Portfolio and reflecting a conservative policy of towards provisioning, due to the pandemic.

The Expanded Credit Portfolio ended March 2020 with a balance of 32.1 billion Reais, an increase of 3.1% in relation to the previous quarter and 18.5% in 12 months. The Coverage Ratio ended the quarter at 294% versus 260% in the previous quarter, and versus 251% in the same quarter of 2019. Finally, the balance of Deferred Credit Transactions since the impact of the COVID-19 pandemic reached approximately 860 million Reais, equivalent to 4.7% of the Loan Portfolio.



In Slide 3, we present the evolution of the expanded credit portfolio. The Expanded Credit Portfolio grew 3.1% in the quarter and 18.5% in 12 months. In the Large Corporate segment, the expanded credit portfolio grew 6.7% in the quarter and 14.1% in 12 months. The Corporate segment presented a small reduction of 1.2% versus the previous quarter, and an increase of 22.6% in 12 months. Finally, the Middle segment presented the highest relative growth in the quarter, 9.7%, and an increase of 42.4% in 12 months. It is important to highlight that, the Loan Portfolio - considering all its segments - grew 34% year-over-year, as compared to the Brazilian Financial System's increase of 11.5% in the same period

In Slide 4, some highlights of each segment: In the Large Corporate segment, we ended the second quarter of 2020 with 402 clients, of which 249 had credit exposure, resulting in an average exposure of 58.8 million Reais per client. The Large Corporate portfolio ended the quarter with an average term of 367 days. In the Corporate segment, we ended the second quarter of 2020 with 1,036 clients. Of these, 732 had credit exposure, resulting in an average exposure of 17.3 million Reais per client. The Corporate portfolio ended the quarter with an average term of 426 days. Finally, in the Middle segment, we ended the second quarter of 2020 with 572 clients, of which 376 had credit exposure. The Middle portfolio ended the period with an average exposure per client of 2.6 million Reais and an average term of 256 days.

In the Large Corporate and Corporate segments, there was a more conservative approach towards credit concession, what resulted in some additional concentration in number of clients, and the respective increase in the average ticket per client and in average terms. In the Middle Segment, the entry of new clients with a distinct profile contributed for the reduction of the average ticket and average terms.

In slide 5, we present the sector segmentation of our Expanded Credit Portfolio: First, our Credit Portfolio continues to show a high sector diversification, and greater exposure to sectors, in our view, with a more defensive profile, including: agribusiness (such as grain chain, agriculture & livestock), infrastructure, energy generation and transmission, among others. Despite that, and as we have seen in



previous crises, companies within the same segment can be impacted very differently, depending on its management capabilities, market positioning, financial structure, etc. And it is in the correct diagnostics of the situation of each client that we concentrate our efforts. As a general rule, we can say that companies that were already in a fragile condition were the ones that suffered the most. Companies that started this crisis stronger, in general, are crossing this phase with fewer disruptions.

In slide 6, we present some indicators that reflect the quality of our credit portfolio: In the first graph, we present the Loans Overdue More Than 90 Days. As we can see, this indicator closed June representing 1.0% of the portfolio, in line with the level presented in the previous quarter.

In the second graph, as we can observe, this was a quarter with a low level of NPL formation in all segments. Up to now, with the information that we have available, and just highlighting that overall market conditions have been quite dynamic, the performance of NPLs does not show a meaningful deterioration of the credit portfolio quality.

In Slide 7, first graph, we can see that Loan Loss Reserves to Classified Loans reached 2.9% by the end of the second quarter, an increase of 0.3 percentage points in relation to the previous quarter. In the graph at the bottom, we present the Coverage Ratio. Even not experiencing an increase in NPLs, the Bank decided to reinforce its Loan Loss Reserves in the quarter, which resulted in an increase in the Coverage Ratio.

On slide 8, we continue analyzing the quality of the credit portfolio: We can see in the first graph that the Loans Loss Provisions Expenses reached 93.2 million reais in the second quarter of 2020, reflecting a conservative provisioning policy due to the COVID-19 pandemic. This cost of credit represented 2.1% of the loan portfolio - an increase of 0.7 percentage point over the previous quarter. From what one can infer, and despite still several uncertainties, the data currently available indicate that this level of quarterly Loan Loss Provisions should not experience further increases in the following quarters.

The second graph shows the percentage of the Loans Rated D-H that was 5.4% of the loan portfolio at the end of June 2020, an increase of



1.3 percentage points over the previous quarter and a decrease of 0.1 percentage points over the same period in 2019.

In Slide 9, we present the evolution of the Balance of Renegotiated Credits. Although the last quarter presented an increase of 80 bps in terms of Renegotiations as a percentage of the Loan Portfolio, moving from 166.1 million Reais to 301 million Reais, it is important to highlight that this index accounts for 1.7% of the Loan Portfolio, still below of its historical average. In terms of Deferred Loans, its volume reached 860 million Reais by the end of the quarter, equivalent to 4.7% of the Loan Portfolio. The good behavior of these two indexes, when jointly analyzed, show the good quality of the clients that composes our credit portfolio.

In Slide 10, we present the evolution of our Funding. By the end of June, the Funding Balance reached 34.8 billion Reais, an increase of 2.2% in the quarter; and of 25.4% in 12 months. The Liquidity Position of the Bank, closed the second quarter around 8 billion Reais, equivalent to 2x the Shareholders' Equity of the Bank and to about 40% of the sum of its Loan and Fixed Income Securities portfolios.

During the first month of the crises, different groups of fixed income investors presented different behaviors. The external funding had a good performance, both from multilateral agencies, as well as from international corresponding banks. On the domestic front, there was a substantial increase in funding volumes from corporates and from individuals, partially compensated by a reduction from institutional investors. About 2-3 months later, starting around July, there was a gradual recovery of the demand from institutional clients, now almost the same levels seen before the crisis.

In Slide 11, the evolution of our Shareholders' Equity and Basel Ratio. We ended June 2020 with a Reference Equity of 5.4 billion Reais, and a Shareholders' Equity of 4.1 billion Reais. We ended the quarter with a Basel Ratio of 15.72%, composed of 13.32% of Tier 1 capital, of which 10.82% was core capital and 1.50% additional capital, and 2.40% of Tier 2 capital. The most relevant factor in the increase of our Basel Ratio in the quarter was the less relevant impact of our policy of hedging and over-hedging the investments abroad



In addition, on August 6, we proposed a distribution of 33.8 million in Interest on Equity, with the option for existing shareholders to recapitalize the net proceeds, aiming at reinforcing the capital base. It is also important to highlight that both the Controlling Shareholder, as well as Senior Management have already committed to participate of the capital increase with its respective full pro-rata share.

In slide 12, we present the evolution of the Net Interest Income. The Net interest income reached 285.1 million Reais in the second quarter of 2020, an increase of 12.5% compared to the previous quarter, and an increase of 18.9% compared to the same period of 2019. The great highlight was the margin with clients, which will be detailed in the next slide.

The Financial Margin with Market reached 49.5 million Reais in the second quarter of 2020, an increase of 9.3% in relation to the previous quarter and stable in relation to the same period of 2019. The income from Shareholders' Equity Remunerated at CDI Rate was 23.2 million Reais in the second quarter of 2020, down 34.4% from the previous quarter and 55.9% from the same period in 2019. The annualized Net Interest Margin (NIM) was 3.0% in the second quarter of 2020, maintaining the same level as the previous quarter and falling 0.3 percentage points in relation to the same period of 2019.

The Financial Margin with Clients reached 212.3 million reais in the second quarter of 2020, up 23.0% compared to the previous quarter and 54.3% compared to the same period in 2019, driven mainly by higher volumes and a positive change in mix. It is important to highlight that the Margin with Clients has been growing consistently during the last 5 quarters. The Spread with Clients was 3.7% in the quarter, an increase of 0.5 percentage points over the previous quarter and 0.4 percentage points over the same period in 2019. The Spread with Clients adjusted to Loan Loss Provisions Expenses closed the quarter at 2.2%, an increase of 0.1-percentage point from the previous quarter and a decrease of 0.7 percentage point from the same period in 2019. We believe however that, with the crisis behind us, although a reduction in gross spreads is expected, there will be an even larger reduction in Loan Loss Provisions, resulting in a sustainable increase of the margin adjusted by risk.



In Slide 14, we present the Service Revenues. The Service Revenues reached 59.0 million Reais in the second quarter of 2020, an increase of 16.5% in relation to the previous quarter, and a decrease 32.4% in relation to the same period in 2019. During the quarter, there was an improvement in the three main line components – although especially the Investment Banking revenues continue to perform significantly below 2019 levels.

Looking at each of the components of Service Revenues, we have: Revenues from Guarantees Issued reached R\$ 41.1 million in the second quarter of 2020, an increase of 3.6% from the previous quarter and a decrease of 19.1% from the same period of 2019. Capital Markets and M&A revenues reached 9.9 million Reais in the second quarter of 2020, an increase of 64.9% in relation to the previous quarter and a decrease of 66.3% in relation to the same period of 2019. Finally, Revenues from Banking Tariffs reached 8.1 million Reais in the second quarter of 2020, an increase of 59.2% in relation to the previous quarter, and of 12.6% in relation to the same period of 2019.

In Slide 15, we present the change in Expenses and our Efficiency Ratio. Personnel and Other Administrative Expenses reached 85.2 million Reais in the second quarter of 2020, a reduction of 3.1% in relation to the previous quarter and an increase of 11.6% in relation to the same period of 2019. The efforts towards expense control were mainly concentrated in “Other Administrative Expenses, and in Variable Compensation. Regarding Personnel Expenses, there was a reduction in the pace its increase, when compared to the values estimated, at the same time that, the investments related to the innovation initiatives were maintained.

As a result of higher revenues and a decrease in expenses, the Efficiency Ratio reached 36.7% in the second quarter of 2020, a reduction of 7.1 percentage points in relation to the previous quarter, and of 1.1 percentage point in relation to the same period of 2019.

Finally, in Slide 16, we discuss the Banks’ profitability. The Recurrent Net Profit reached 61.6 million Reais in the second quarter of 2020, down 23.9% from the previous quarter and 50.8% from the same period in 2019. The Recurring Return on Average Equity (ROAE) was 6% per year in the second quarter of 2020, down 2 percentage points



versus the previous quarter, and 7 percentage points versus the same period in 2019. The restriction on payout distribution brought by resolution 4820 had a negative impact of 1.5 percentage point in the ROAE of the second quarter of 2020. This more conservative approach - aiming at preserving the Balance Sheet under an environment influenced by the COVID-19 - although having a short-term effect, in the view of Management, is the best strategy to position the Bank to seize medium and long term opportunities.

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

Q&A – 2020

Operator: Ladies and gentlemen, we will now begin the Question and Answer session. If you have a question, please press the star (*) key, followed by the one (1) key on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue, press star 2.

Our first question comes from Thiago Binsfeld, Itaú BBA.

Hold on one second, sir.

Mr. Thiago Binsfeld, you may proceed.

Mr. Thiago Binsfeld: Hi, everyone. Can you hear me?

Mr. Sergio Lulia: Yes, Thiago, we can hear you.

Mr. Thiago Binsfeld: Ok. Thank you. Yes, so, I have a couple of questions. First, on spread. This is a line that performed very well in 2Q. to what extent do you believe this is sustainable, this improvement? And what level do you believe that spreads will stabilize?

My second question is on funding. We continue to see an inflow in deposits and financial bills this quarter, so I would like to understand if you attribute that mostly to individuals or to institutional investors. So, these will be my questions. Thank you.

Mr. Sergio Lulia: Ok. Thiago, thank you for your questions. I understand that the line was not very clear, but I understand that the



first question was related to the spreads with clients and how we see going forward. Well, I think this... when we look at the gross spread, they came from 3.2% at December 19, maintained that level at 1Q and now went up to 3.7. I think here there are two main components. One component is really an increase in spreads, that was caused by the uncertain environment which is clear to all of us.

But the second component is related to the different mix of clients, the middle market, although it is still representing a very small percentage of our portfolio, but its participation is growing and the spreads there are better. There was also a participation of a different mix of products, meaning, mainly derivatives. We saw that with the volatility of the markets among these first few months, there was a big demand for companies to hedge their exposures against currencies or interest rates, or even commodity prices, and it has led to good opportunities of making good margins with those clients.

Going forward, we believe that, let's say if and when the situation normalizes, probably the gross spreads will start a movement of reduction. We do not know yet if they are going to go back to the levels that they were before the crisis, but it's possible that they go. But, at the same time, when you see here, we have published also on slide 13, the spread net of provisions. And you saw that, although the gross spreads have grown, the net spreads have decreased because of the increase in provisions. We consider that, once this crisis is over, the net spreads, although the gross spreads will come down, we feel the net spreads will go up because the reduction of provisions will be, in our view, more significant than the reduction in the gross spreads.

Relating to your second question, that was about funding, you know the funding... the funding, in the first moment, I think not all the companies, but the banks too, and when we look at what happened in 2008/2009 during the financial crisis, I think everyone tried to keep liquidity very high. Our liquidity, start to speaking, is super high. We don't carry any kind of negative [unintelligible - 0:26:53]. We've always had this conservative approach, in terms of liquidity in a way that we arrived at the crisis with a very strong cash position. We had at the time, if I'm not mistaken, BRL 6 to 7 billion in cash.



In the first moment, we were paying attention to the quality of the credit portfolio, to the situation of [broken audio – 0:27:20]. We took measures to reinforce our funding. In terms of funding sources, as I mentioned before, the international funding sources behaved very well. We withdraw new lines from multilateral agencies. We kept [unintelligible – 0:27:36] correspondent banks that was, you know, it was not unanimous. So, some banks become more restrictive, but some others they maintained their lines and improved their lines. We were accessing those lines, we are not accessing the full limits we had, in a way we could include our funding coming from international sources. And, on the domestic sources, we saw companies including their deposits with us. Also, individuals. And we saw a small retraction coming from local institutional investors, in my opinion, more because they were their leverage in the fund, and they had a need to be leveraged and we saw that happening in March, April, and even in the beginning of May. And once the situation normalizes, they resume their investments with the bank. In a way that our liquidity now is more than 8 billion, close to 9 billion. We think it's too exaggerated for this time. So, we are concerned that the crisis... that the worst of the crisis has passed, we'll probably take some measures to take this liquidity back to 6 billion, 6.5, because this extra cost of carrying 8-9 billion as liquidity is no longer needed.

Mr. Thiago Binsfeld: Ok. Thank you, Sergio. That was very clear. I appreciate.

Operator: The next question comes from Carlos Gomes, HSBC.

Mr. Carlos Gomes: Hello. Good morning and thank you for the call. Two questions from us. First on the tax rate, which was very high this quarter, we estimate about 38%. Can you explain exactly why that is? You also mentioned that your return on equity declined because of the restrictions to dividend payment. Is that because you could not stay with this much ROE as in other locations? And second, I would like to know if you could update us on your initiatives on the individual side, on the personal banking side. Thank you.

Mr. Sergio Borejo: Thank you, Carlos. This is Sergio Borejo speaking. Regarding the tax burden, there are two components. The one which... the first one was the increase of the social contribution by 5% applied



at the end of the last year. And the main component of this quarter is regarding to resolution 4820 that was issued by the Brazilian Central Bank, that limited the payment of interest on capital on dividends on 25% of the profit of the institution. So, you cannot utilize this full benefit of distributing the full long-term interest rate over equity. Just for you to have an idea, if you have the ability to distribute the full interest on capital in 2Q, the ROE would jump from 6.0% to 7.5%. So, that's the main reason.

Mr. Carlos Gomes: The second question was on personal banking, on ABC Pessoal, but before we go there, what should we expect in terms of IOC distribution in the second half?

Mr. Sergio Lulia: Carlos, this is Sergio Lulia speaking. In terms of IOC, for the time being, as Borejo mentioned, we are limited to distributing 25% of the profits. However, and I don't know if you have noticed, we have announced the distribution of this 25% for the first half, and we have simultaneously announced the recapitalization of the dividends as we have done before, from 2012-2018, in a way that we will increase the capital of the bank in the same amount as the net proceeds that are paid for the shareholders. And the bank associations in Brazil and even ourselves individually, we have filed a claim with the Central Bank asking them if they would authorize the payment of dividends in excess of 25%, provided that the institution recapitalize the dividends. This claim was made, we don't have an answer yet. What we can say is that, up to today we are going to be limited to 25%, except if the Central Bank authorizes this additional distribution followed by a recapitalization of the dividends.

This is the situation that we have right now, ok?

In relation to the personal banking, we've been developing, we are not releasing information in terms of number of clients, or volumes that we have captured there, but what I would say is that along this year, we have invested in eID, new capabilities to the personal banking platform. So, now until the end of the year, it's going to be a full transactional account, because until now it was just an investment account so that the clients could just buy investments from us, but he couldn't, for instance, make payments, or transfer his money to another banks, or whatever. And now we are working on implementing



these capabilities, some of them have been implemented lately, but the others will be implemented until the end of the year. We also expect to the new products, such as B2B fund, that can be acquired but those clients. But I would say that the personal banking initiative, from our side, we are focusing it more in terms of niche market that we can operate, instead of going to what we call "open sea" to try to compete with retail banks. We are developing a strategy that will be more clear to the market by the end of the year, in which personal banking will be to serve the individuals that are somehow correlated to our existing clients. So, such as the employees of the companies that are clients of the bank, or the shareholders, or whatever. So, it will be a product that will be complementary to the product that we already offer to the corporate clients.

Mr. Carlos Gomes: That's clear. Thank you very much.

Operator: Ladies and gentlemen, as a reminder if you would like to pose a question, please press star key followed by 1 on your touch-phone now.

This concludes today's Question and Answer session. I would like to invite Mr. Sergio Lulia to proceed with his closing statements.

Sergio, please go ahead.

Mr. Sergio Lulia: Ok. I would like to thank you all for participating in the 2Q conference results. Just to remind you that we are all here at your disposal should you have any further questions.

Thank you and have a nice day.

Operator: That does conclude the BANCO ABC BRASIL audio conference for today. Thank you very much for your participation, have a good day and thank you for using Chorus Call.