

**Audited Consolidated Financial
Statements**

Banco ABC Brasil S.A.

December 31, 2019 and 2018
with Independent Auditor's Report

Banco ABC Brasil S.A.

Consolidated Financial statements

December 31, 2019 and 2018

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São Paulo Corporate Towers
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A free translation from Portuguese into English of Independent Auditor's Report on financial statements prepared in Brazilian currency and in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Independent auditor's report on consolidated financial statements

To the Shareholders and management of Banco ABC Brasil S.A.

Opinion

We have audited the consolidated financial statements of Banco ABC Brasil S.A. (the "Bank"), which comprise the balance sheet as at December 31, 2019, and the related statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2019, and its consolidated financial performance and respective cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Bank and its subsidiaries in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled with the other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context of the financial statements taken as a whole.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these key audit matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the Banks's financial statements.

1. Technological environment

The Bank's operations rely on the appropriate operation of the technological structure and its systems, and, therefore, we considered the technological environment as a key component in our scope. As a result, we understand that this is a key audit matter. Given the Bank's business nature and volume of transactions, our audit strategy is based on the technological environment effectiveness.

The Bank considers that the success of its activities depends on the improvement and continuous enhancement and integration of its technological platforms necessary for good performance of its operations.

How our audit addressed this matter:

In the course of our audit, we engaged our technology team specialists to conduct IT general controls tests for systems considered significant in the audit context, focusing upon change management processes and logical access granting to users. We also conducted procedures in connection with the effectiveness of automatic controls, considered material, which support significant business processes and accounting records of operations.

Our tests related to design and operation of IT general controls, included automatic controls, considered as relevant in audit process, gave us support to keep the nature, time and extension planned of our substantive audit procedures.

2. Loans and advance to customers measured at amortized cost

As presented in Note 8, at December 31, 2019, gross balance of loans and advance to customers measured at amortized cost amount to R\$ 20,627,161 thousand, and the allowance for bad debt provision amount to R\$ 410,432 and the net balance is R\$ 20,216,729 thousand.

We consider this a significant area due to: (i) significance of the loan transaction balance, subject to loss assessment; (ii) guarantees received for loan transactions granted, which may impact the level of the allowance to be considered; (iii) the country's economic situation and the conditions of the market where borrowers operate, (iv) management's judgment in relation to ratings determining the minimum individual level of allowance per operation, credit borrower or economic group; and (v) process for recognition of revenue from interest on loan transactions; among others.

How our audit addressed this matter.

In our audit, we considered the understanding of the process established by management, and we performed tests related to: (i) origin of transactions; (ii) analysis and approval of credit transactions considering the established levels; (iii) (iii) analysis of guarantees received; (iv) timely update of borrower's information; (v) recognition of revenue from interest on operations under ordinary conditions; (vi) analysis of account policies and comparison of management's pricing models in relation to requirements of IFRS 9; (vii) test of models for a sample, including process of approval and review of assumptions to estimate expected loss; (viii) SPPI test for a sample of financial instruments recorded at amortized cost, and (ix) review of financial statements disclosures to confirm compliance with requirements of IFRS 9.

Based on the results of our audit procedures related to loans and advance to customers, which are consistent with management evaluation, we consider that the criteria and assumptions adopted by management, as well as the related disclosures in note 8 of the financial statements are acceptable in the context of the financial statements taken as a whole.

3. Evaluation of unquoted marketable securities and derivative financial instruments

The evaluation of unquoted marketable securities and derivative financial instruments was considered an area of focus in our audit due to the complexity of the pricing process, which is substantially based on judgments, estimates and methodology made by management.

At December 31, 2019, unquoted marketable securities amounted to R\$ 290,628 thousand. As regards unquoted derivative financial instruments, the balance recorded amounted to R\$ 256,589 thousand in assets and R\$ 226,089 thousand in liabilities. Bank disclosures are included in Note 7.

How our audit addressed this matter:

Our audit procedures included, among others, (i) understanding the process, methodology and assumptions established by management for pricing of unquoted marketable securities and derivative financial instruments; (ii) tests of key controls, including controls related to the registration of securities and their internal processing.

Additionally we conducted, based on sampling, the following procedures for selected operations: (i) confirmation of existence through checking of statements from custody agencies and/or agreements between the parties; (ii) with support of our specialists, we ran evaluation tests and evaluated the methodologies and assumptions used through comparison with models and independent market sources.

Based on the results of our audit procedures related to unquoted marketable securities and derivative financial instruments, which are consistent with management evaluation, we consider that the criteria and assumptions adopted by management, as well as the related disclosures in note 7 of the financial statements are acceptable in the context of the financial statements taken as a whole.

Other matters

Statements of value added

The statements of value added (SVA) for the year ended December 31, 2019, disclosed on note nº 26, prepared under the responsibility of Bank management, of which the presentation is required by law for listed companies and presented as supplementary information for purposes of IFRS, were submitted to audit procedures conducted together with the audit of consolidated financial statements.

To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by CPC 09 – Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in accordance with the criteria defined in abovementioned technical pronouncement and are consistent in relation to the overall consolidated financial statements.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's and its subsidiaries' financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and its subsidiaries' internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the scope and timing of the planned audit procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements, including applicable independence requirements, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



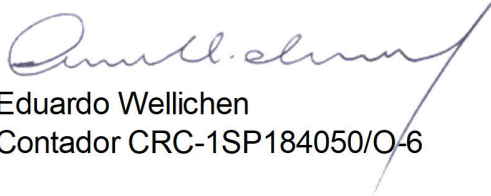
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From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Sao Paulo, March 27, 2020.

ERNST & YOUNG
Auditores Independentes S/S
CRC-25P034519/O-6

A handwritten signature in blue ink, appearing to read 'Eduardo Wellichen', is written over the printed name and title.

Eduardo Wellichen
Contador CRC-1SP184050/O-6

A free translation from Portuguese into English of consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)

Banco ABC Brasil S.A.

Consolidated balance sheets
December 31, 2019 and 2018
(In thousands of reais)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Assets			
Cash and reserve with Central Bank of Brazil	5	297,187	29,378
Financial assets measured at fair value through profit or loss		3,032,536	5,266,137
Marketable securities	7a	1,988,859	4,118,520
Derivatives	7 a/b	1,002,331	1,074,991
Loans and advances to customers	8	41,346	72,626
Derivatives used as fair value hedge	7 a/b	47,230	33,359
Financial assets measured at fair value through other comprehensive income		1,897,940	371,938
Marketable securities	7a	1,897,940	371,938
Financial assets measured at amortized cost		26,113,207	23,374,115
Repurchase agreements	6	4,268,581	5,809,890
Deposits with private banks	6	846,543	1,449,222
Marketable securities	7a	781,354	836,208
Loans and advances to customers	8	20,216,729	15,278,795
Other assets	10	1,188,726	991,598
Property and equipment in use and intangible assets		68,999	48,883
Total assets		32,645,825	30,115,408

See accompanying notes.

Banco ABC Brasil S.A.

Consolidated balance sheets
December 31, 2019 and 2018
(In thousands of reais)

	Notes	2019	2018
Liabilities			
Financial liabilities measured at fair value through profit or loss		1,123,065	1,343,566
Subordinated debt	7a / 11 / 12	284,544	274,552
Funding - Transfers abroad	7a / 11	76,897	97,205
Derivatives	7	761,624	971,809
Financial liabilities measured at amortized cost		26,797,653	24,526,272
Funding	11	26,797,653	24,526,272
Deposits		5,693,669	6,191,782
Repurchase agreements		1,092,483	717,527
Funds from acceptance and issue of securities		9,505,645	9,030,184
Interbranch accounts		47,732	28,235
Foreign borrowings		6,128,468	4,688,351
Onlendings in Brazil - government agencies		1,167,432	1,306,333
Funding - Transfers abroad		1,073,872	1,027,630
Subordinated debt	11/ 12	2,088,352	1,536,230
Other liabilities		657,525	506,722
Taxes	13	156,850	92,080
Other	14	500,675	414,642
Equity	23	4,067,582	3,738,848
Capital		2,565,892	2,470,313
Treasury stock		(76,935)	(35,569)
Capital reserve		45,651	45,466
Income reserve		1,509,091	1,236,955
Other comprehensive income		23,883	21,683
Total liabilities and equity		32,645,825	30,115,408

See accompanying notes.

Banco ABC Brasil S.A.

Consolidated income statements Years ended December 31, 2019 and 2018 (In thousands of reais)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Interest income		2,247,643	2,391,943
Interest expenses		(1,536,007)	(1,558,233)
Net interest income		711,636	833,710
Commissions and services	19	348,713	359,753
Net income from financial assets and liabilities	20	116,884	55,878
Income / (Loss) from foreign exchange operations and exchange variation		(34,773)	(259,669)
Other operating income (expenses)	21	(65,312)	(76,253)
Total commissions, services and other operating income (expenses)		365,512	79,709
Operating income		1,077,148	913,419
Loss on receivables - Loans and advances to customers	8	(124,539)	(139,336)
Loss on receivables - Other financial instruments	6/8	1,590	(3,380)
Recoveries on receivables	8	11,489	16,717
Net provisions		(111,460)	(125,999)
Total operating income after provisions		965,688	787,420
Payroll and social charges		(373,575)	(353,942)
Business promotion		(12,698)	(6,197)
Business travels		(9,668)	(10,172)
Communications		(4,586)	(3,944)
Premises		(8,528)	(19,279)
Depreciation and amortization		(22,812)	(12,181)
Other expenses	22	(94,215)	(68,495)
Total operating expenses		(526,082)	(474,210)
Income and social contribution tax expenses	16	57,788	103,265
Net income for the year		497,394	416,475
Earnings per share - Basic in R\$	23c	2.32	2.06
Earnings per share - Diluted in R\$	23c	2.30	2.04

See accompanying notes.

Banco ABC Brasil S.A.

Consolidated statements of comprehensive income
Years ended December 31, 2019 and 2018
(In thousands of reais)

	<u>2019</u>	<u>2018</u>
Net income for the year	497,394	416,475
Other revenues (expenses) recognized	2,200	1,260
Financial assets measured at fair value through other comprehensive income - Adjustment to market value	2,200	3,374
Foreign exchange gain (loss) on foreign investments - Net of taxes	-	(2,114)
Total recognized revenues and expenses	499,594	417,735
Total of comprehensive income	499,594	417,735

See accompanying notes.

Banco ABC Brasil S.A.

Consolidated statements of changes in equity
 Years ended December 31, 2019 and 2018
 (In thousands of reais)

	Capital	Treasury stock	Capital reserve	Legal reserve	Dividend equalization	Share repurchase	Retained earnings	Other comprehensive income	Total
Balances at December 31, 2017 (Restated)	2,291,065	(36,795)	35,196	165,502	820,425	55,000	-	20,423	3,350,816
Net change in Financial assets measured at fair value in other comprehensive income	-	-	-	-	-	-	-	3,374	3,374
Foreign exchange gain (loss) on foreign investments	-	-	-	-	-	-	-	(2,114)	(2,114)
Acquisition of treasury stock	-	1,226	-	-	-	-	-	-	1,226
Net income for the year	-	-	-	-	-	-	416,475	-	416,475
Capital raising	179,248	-	-	-	-	-	-	-	179,248
Interest on equity	-	-	-	-	-	-	(220,447)	-	(220,447)
Capitalização de reservas	-	-	-	-	-	-	-	-	-
Constitution of reserves - Management remuneration	-	-	10,270	-	-	-	-	-	10,270
Constitution of reserves	-	-	-	-	175,204	-	(175,204)	-	-
Balances at December 31, 2018	2,470,313	(35,569)	45,466	186,326	995,629	55,000	-	21,683	3,738,848
Net change in Financial assets measured at fair value in other comprehensive income	-	-	-	-	-	-	-	2,200	2,200
Acquisition of treasury stock	-	(41,366)	-	-	-	-	-	-	(41,366)
Net income for the year	-	-	-	-	-	-	497,394	-	497,394
Capital raising	95,579	-	-	-	-	-	-	-	95,579
Interest on equity	-	-	-	-	-	-	(225,258)	-	(225,258)
Allocation - Legal reserve	-	-	-	24,870	-	-	(24,870)	-	-
Constitution of reserves - Management remuneration	-	-	185	-	-	-	-	-	185
Constitution of reserves	-	-	-	-	247,266	-	(247,266)	-	-
Balances at December 31, 2019	2,565,892	(76,935)	45,651	211,196	1,242,895	55,000	-	23,883	4,067,582

See accompanying notes.

Banco ABC Brasil S.A.

Consolidated statements of cash flows
Years ended December 31, 2019 and 2018
(In thousands of reais)

	2019	2018
Operating activities		
Adjusted net income for the year	636,122	563,567
Net income for the year	497,394	416,475
Adjustment to net income:	138,728	147,092
Depreciation and amortization	22,812	12,181
Credit losses	122,949	142,716
Provision for contingent liabilities	(9,233)	(9,065)
Adjustment to market value of financial instruments available for sale	2,200	3,374
Foreign exchange gain (loss) on foreign investments	-	(2,114)
(Increase) / Decrease in operating assets	(2,909,332)	(1,874,210)
Repurchase agreements	1,351,671	(31,383)
Deposits with private banks	261,386	407,180
Derivative financial instruments	(13,871)	(29,836)
Loans and advances to customers	(5,062,473)	(1,395,095)
Financial assets measured at amortized cost	53,924	(334,437)
Financial assets measured at fair value through profit or loss	2,233,602	(26,806)
Financial assets measured at fair value through other comprehensive income	(1,527,841)	(282,943)
Other assets	(205,730)	(180,890)
Increase / (Decrease) in operating liabilities	1,648,803	1,956,982
Derivative financial instruments	(210,185)	743,887
Deposits	(498,113)	141,538
Repurchase agreements	374,956	(714,639)
Funds from acceptance and issue of securities	475,461	1,033,451
Interbranch accounts	19,497	(212)
Foreign borrowings	1,440,117	1,402,723
Onlendings in Brazil - government agencies	(138,901)	(285,001)
Funding - Transfers abroad	25,934	(390,642)
Taxes	64,770	(108,502)
Other liabilities	95,267	134,379
Cash flow (used in) / provided by operating activities	(624,407)	646,339
Investing activities		
Acquisition of fixed assets for use and intangible assets	(37,538)	(12,621)
Fixed asset in use and intangible asset disposals	3,210	132
Constitution of reserve	185	10,270
Cash (used in) investing activities	(34,143)	(2,219)
Financing activities		
Treasury stock	(41,366)	1,226
Interest on equity paid	(225,258)	(220,447)
Subordinated debts	562,114	634,649
Capital raising	95,579	179,248
Cash provided by financing activities	391,069	594,676
Increase / (Decrease) in cash and cash equivalents	(267,481)	1,238,796
At the beginning of the year	4,274,388	3,035,592
At the end of the year	4,006,907	4,274,388
Change in cash and cash equivalents	(267,481)	1,238,796

See accompanying notes.

Banco ABC Brasil S.A.

Notes to consolidated financial statements
December 31, 2019 and 2018
(In thousands of reais)

1. Operations

The Bank is a publicly-traded corporation and a subsidiary of The Bank ABC, based in Bahrain. In Brazil, the Bank is engaged in asset and liability operations inherent to multiple bank activities, being authorized to operate with commercial, foreign exchange, investment, credit and financing, and real state portfolios.

The Bank's operations are conducted through branches in Brazil and abroad through an overseas branch located in Georgetown, Cayman Islands.

The consolidated financial statements for the year ended December 31, 2019 were prepared and approved by the Company's Executive Board on March 27, 2020.

2. Accounting practices

2.1 Basis of preparation

The consolidated financial statements were prepared based on amortized cost, except for financial assets measured at fair value through other comprehensive income, derivative financial instruments and financial assets and liabilities designated at fair value through profit or loss, which were all measured at fair value.

The consolidated financial statements are presented in Brazilian Reais (R\$), which is the functional currency and of presentation of Banco ABC Brasil S.A. and its subsidiaries.

Declaration of compliance

The Bank's consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Bank published on February 6, 2020 its individual and consolidated financial statements prepared in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by Central Bank of Brazil (BACEN) "BRGAAP".

Banco ABC Brasil S.A.

Notes to consolidated financial statements
December 31, 2019 and 2018
(In thousands of reais)

The reconciliation between the balances presented in accordance with accounting practices adopted in Brazil applicable to financial institutions authorized to operate by the Central Bank of Brazil "BRGAAP" and International Financial Reporting Standards (IFRS), of equity and net income for the years ended December 31, 2019 and 2018, are shown below:

	<u>2019</u>	<u>2018</u>
Equity under BRGAAP	4,040,733	3,665,510
Provision for losses on loans and advances to customers (a)	19,317	44,948
Guarantees and responsibilities	9,941	17,119
Others	(2,409)	11,271
Equity under IFRS	4,067,582	3,738,848
Net income under BRGAAP	528,399	418,086
Provision for losses on loans and advances to customers (a)	(25,630)	1,348
Guarantees and responsibilities	(7,178)	4,218
Others	1,803	(7,177)
Net income under IFRS	497,394	416,475

a) *Provision for losses on loans and advances to customers*

With the adoption of IFRS 9, there has been a change in the calculation model of loss incurred (IAS39) for expected loss, considering prospective information. In BRGAAP is used the concept of expected loss in according with BACEN Resolution No. 2,682/99.

Banco ABC Brasil S.A.

Notes to consolidated financial statements
December 31, 2019 and 2018
(In thousands of reais)

Consolidation basis

The consolidated financial statements include the financial statements of Banco ABC Brasil S.A. and subsidiaries ABC Brasil Distribuidora de Títulos e Valores Mobiliários S.A. and ABC Brasil Administração e Participações Ltda., whose direct and indirect ownership interest at December 31, 2019, corresponds to approximately 100%.

The accounting practices adopted to record operations and in the evaluation of balance sheet elements by the Bank, including the operations of the foreign branch and subsidiaries included in consolidation were uniformly applied, and investments, rights, obligations and the results between the consolidated companies were eliminated.

2.2 Significant accounting judgments and estimates

In the process of preparing the financial statements of the Bank, management has resorted to professional judgment and used estimates to calculate certain amounts recorded in the financial statements. The most important use of judgment and estimates occurs in relation to:

Continuity of operations

Management assessed the Bank's ability to continue operating normally and is convinced that the Bank has the resources to continue its business in the future. Additionally, management is not aware of any material uncertainty which may generate significant doubts about its ability to continue operating. Therefore, the financial statements were prepared based on this principle.

Fair value of financial instruments, including derivatives

When the fair value of financial assets and liabilities recorded in the balance sheet can not be obtained in an active market, it is determined using a variety of valuation techniques including the use of mathematical models. The variables of these models are derived from observable market data whenever possible, but when market data is not available, judgment is needed to establish fair value. Judgment includes considerations about liquidity and variable models, such as volatility of long-term derivatives and discount rates, prepayment rates and assumptions related to default on notes secured by assets. The valuation of financial instruments is presented in more detail in Note 7.

Banco ABC Brasil S.A.

Notes to consolidated financial statements

December 31, 2019 and 2018

(In thousands of reais)

Impairment of loans and advances

The Bank reviews its loans and advances individually every balance sheet date to assess whether impairment losses must be recorded in the income statement. Judgment by management is required to estimate the amount and period of future cash flow to determine impairment losses. In estimating these cash flows, the Bank makes judgments regarding the financial situation of customer and the realizable value net of collateral. These estimates are based on assumptions of a number of factors and, therefore, actual results may vary, leading to future changes in the provision. Impairment of loans and advances to customers is disclosed in more details in Note 8.

Impairment of financial assets measured at fair value through other comprehensive income

The Bank reviews its debt instruments classified as fair value through other comprehensive income on each date of the financial statements to assess whether they are designated for impairment. This requires judgment similar to the individual assessment of loans and advances. The Bank also records impairment losses on equity investments classified as fair value through other comprehensive income in which there was a significant or prolonged decrease in fair value. The determination that it is considered "significant" or "prolonged" requires judgment. To reach this judgment, the Bank assesses, among other factors, the historical change in the share price, in addition to the duration and extent to which the fair value of the investment was less than its cost.

Deferred tax assets

Deferred tax assets are recognized on tax losses to the extent that it is probable that taxable income will be available during the period in which the losses may be used. Judgment is required to determine the amount of future deferred tax asset that should be recognized, based on the probable future taxable income flow and, together with tax planning strategies.

Banco ABC Brasil S.A.

Notes to consolidated financial statements

December 31, 2019 and 2018

(In thousands of reais)

3. Summary of significant accounting practices

a) Translation of balances in foreign currency

The consolidated statements are presented in Reais, the functional currency of the subsidiaries and the presentation of these statements.

Assets and liabilities are translated using the exchange rate at the balance sheet date. Income and expenses are translated at the average monthly exchange rate and the equity in earnings, in the income statement for the period.

b) Financial instruments - Initial recognition and subsequent measurement

(I) *Date of recognition*

All assets and liabilities are initially recognized at trade date, i.e. the date on which the Bank becomes a party to the contractual relationship of the instrument. This includes purchases or sales of financial assets that require delivery of the asset at a specified time established by regulation or market standard.

(II) *Initial recognition of financial instruments*

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired by management and their characteristics. All financial instruments are initially measured at fair value plus transaction costs, except in cases where financial assets and liabilities are recorded at fair value through profit or loss.

(III) *Financial assets and liabilities stated at fair value through profit or loss (FVTPL)*

Financial assets and liabilities classified in this category are those designated as such during initial recognition. The designation of a financial instrument at fair value through profit or loss upon initial recognition only takes place when the following criteria are met, and designation of each instrument is determined individually:

- The designation eliminates or significantly reduces the inconsistent treatment that would occur in the measurement of assets and liabilities or in recognizing gains and losses in different ways; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and their performance evaluated based on fair value, as a documented risk or investment management strategy; or
- The financial instrument has one (or more) embedded derivative (s), which significantly modifies the cash flows that would be required by the contract.

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- The Bank uses derivatives, such as interest rate swap and forward interest contracts, foreign exchange rate swap, foreign exchange forward contracts and interest rate, foreign exchange rate and share options. Derivatives are recorded at fair value and held as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivatives are included in 'net result from financial assets and liabilities'. Derivatives embedded in other financial instruments, such as the conversion option into a convertible instrument purchased, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not directly related to the main contract, as long as the main contract is not held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the main one are stated at fair value in the portfolio, with changes in fair value recognized in the income statement.

Financial assets and liabilities at fair value through profit or loss are recorded in the balance sheet at fair value. Changes in fair value are recorded in "Net result of financial assets and liabilities". Interest earned or incurred is appropriated in 'Interest income' or 'interest expense', respectively, using the effective interest rate. Dividend income is recognized as 'other operating income' when the right to payment is established.

(IV) Profit or loss - 'Day 1'

When the transaction amount is different from fair value from other observable transactions in an active market with the same instrument or based on a valuation technique whose variables include only observable market data, the Bank will immediately recognize the difference between transaction and fair value (profit or loss 'Day 1') in 'net result from financial assets and liabilities'. Where the fair value is determined not using observable market data, the difference between transaction price and the value of the model is only recognized in the income statement when the variables may be observable, or when the instrument is liquidated.

(V) Financial assets measured at fair value in other comprehensive income (FVTOCI)

After the initial measurement, financial instruments measured at fair value in other comprehensive income are subsequently measured at fair value. Unrealized gains and losses are recognized directly in equity, in the "Other comprehensive income" for adjustment to market value of financial assets measured at fair value through other comprehensive income, net of taxes.

When the investment is liquidated, the cumulative gain or loss previously recognized in equity is recognized in income statement in "net income from

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financial assets". When the Bank maintains more than an investment of the same type, they are considered as if they were written off using the concept of "average purchase cost". Changes in fair value and interest income or interest expense are recognized, according to contractual terms or when right to payment is established, are recorded in "Net result from financial assets and liabilities". Interest income or expense is recorded under "interest income and expense" respectively under the terms of the agreement or when the right to payment is established. Dividends received while it is held as a financial assets measured at fair value through other comprehensive income are recognized in the income statement as 'other operating income' when the right to receive payment is established.

Impairment of these financial instruments is recognized in the income statement under "net income from financial assets and liabilities" and written off from the 'reserves for adjustment to market value of 'financial assets measured at fair value through other comprehensive income'.

(VI) Amounts receivable from banks and loans and advances to customers

Receivables from banks and 'loans and advances to customers' include financial assets with fixed or determinable payments not quoted in an active market. After initial measurement, the amounts of receivables from banks and 'loans and advances to customers' are subsequently measured at amortized cost using the effective interest rate, net of provision for impairment. The amortized cost is calculated considering any discount or premium on acquisition of significant amounts and other charges and costs that are components of effective interest rate. Amortization is included in 'interest income' in the income statement. Impairment is recognized in the income statement in 'losses on receivables'.

The Bank has no loans and advances intended for sale.

(VII) Borrowings

Borrowings are measured at amortized cost using effective interest rate, except funding subject to hedge accounting (Note 12 and 13) disclosure at fair value. Amortized cost is calculated taking into consideration any discount or premium on issuance and significant costs that are components of the effective interest rate.

(VIII) Subordinated debt

This is stated at fair value through profit or loss, and such financial instrument is subject to hedge accounting as stated in Note 8. See hedge accounting criteria described in Notes 3g, 7b and 12.

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c) Write-off of financial assets and liabilities

(I) *Financial assets*

A financial asset (or applicable part of a financial asset or group of similar assets) is written off when:

- The right to receive cash flow from the asset has expired; or
- The Bank transferred the right to receive cash flow from the asset or assumed the obligation of paying the cash flow received, for the total amount, without significant delay, to a third party due to an onlending contract; and if:
- The Bank transferred substantially all the risks and rewards of the asset; or the Bank did not transfer or retained substantially all the risks and rewards from the asset, but has transferred control over the asset.

(II) *Financial liabilities*

A financial liability is written off when the obligation related to the liability is eliminated, cancelled or matures.

d) Repurchase agreements

Securities sold under repurchase agreement on a specific future date are not written off from the balance sheet, as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the balance sheet as an asset with the obligation of return, including interest appropriated as a liability in 'cash collateral of securities lent and repurchase agreements', reflecting the economic nature of the transaction as a Bank debt. The difference between sale and repurchase price is treated as interest expense and is appropriated over contract duration using the effective interest rate.

Conversely, securities purchased under resale agreements on a specific future date are not recognized in the balance sheet. The amount paid, including appropriated interest, is recorded in the balance sheet as cash collateral of borrowed securities and repurchase agreements, reflecting the economic nature of the transaction as a Bank loan. The difference between the purchase and resale price is recorded in 'Interest income' and is appropriated during contract term using the effective interest rate. If securities purchased under resale agreements are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale included in financial liabilities held for trading and measured at fair value, with any gain or loss included in 'net trading income (expense)'.

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e) Determination of fair value

The fair value of financial instruments traded in active markets at balance sheet date is based on quoted market or OTC price (sales price for long positions and purchase price for short positions), without any transaction cost deduction.

For all other financial instruments not traded in an active market, fair value is determined using appropriate valuation methods, which include the discounted cash flow method, comparison with similar instruments for which there are observable market prices, option valuation models, credit models and other known valuation models. Certain financial instruments are carried at fair value using valuation methods in which the current market transactions or observable market data are not available. For these financial instruments, the fair value is determined using a valuation method that was tested against prices or data of current market transactions and using the best estimates of the most appropriate model of the Bank. Models are adjusted to reflect the change in purchase and sale prices to reflect the cost of liquidating the position, to serve as contra entry of credit and liquidity changes and model limitations. An analysis of the fair value of financial instruments and more details about how they were measured are available in Note 7.

f) Impairment of financial assets measured at amortized cost

The new standard brings the concept of expected credit loss (including the use of prospective information) and classification into three stages. An asset will migrate from the stage of expected credit loss as credit risk deteriorates. If, in a subsequent period, the quality of a financial asset improves or the significant increase in previously identified credit risk reverses, the financial asset may return to the previous stage, unless it is a financial asset originated with credit recovery problems.

Stage 1 - Expected credit loss for 12 months: represents the possible delinquency events within 12 months. Applicable to financial assets without significant increase in credit risk and without credit originate recovery problems.

Stage 2 - Permanent expected credit loss over the life of the financial instrument: Applicable to financial assets with a significant increase in credit risk, but which did not originate with recovery problems.

Stage 3 - Permanent expected credit loss for assets with credit recovery problems: Applicable to financial assets considered to have credit recovery problems due to the occurrence of one or more events that have a detrimental impact on the estimated future cash flows of that asset. For financial assets that do not originate with recovery problems, but which later became troubled with recovery, it differs from stage 2 by recognizing interest income by applying the effective interest rate at amortized cost (net of provision) instead of the gross book value.

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(I) Financial assets recorded at amortized cost

For financial assets recorded at amortized cost (such as amounts receivable from banks, loans and advances to customers), the Bank evaluates individually whether there is objective evidence of impairment.

When there is objective evidence of impairment, the amount thereof is measured as the difference between the recorded asset value and the present value of estimated future cash flows (excepting expected future losses on receivables that have not yet been incurred).

The book value of the asset is reduced through the use of a provision and the amount of loss is recognized in income statement. Interest income continues to be appropriated on the net book value of the provision and is calculated based on the interest rate used to discount future cash flow used to measure the impairment loss. Interest income is recorded as part of "financial income". Loans and related provisions are written off when there is no likelihood of recovery and the entire guarantee was realized or transferred to the Bank. If the estimated impairment loss increases or decreases due to an event occurring after the impairment loss was recognized, the amount of impairment loss previously recognized is increased or decreased by adjusting the provision. If a future write-off is later recovered, the amount is credited to 'losses on receivables'.

The present value of estimated future cash flow is discounted at original effective interest rate of the financial asset. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. Calculation of present value of estimated future cash flow of the financial asset provided as collateral reflects the cash flow that can result from the settlement less costs to obtain and sell the guarantee, even if the settlement is not likely.

See Note 8 for details of impairment losses on financial assets carried at amortized cost and for an analysis of the provision for impairment losses of loans and advances to customers by type.

(II) Renegotiated loans

Where possible, the Bank seeks to restructure debts rather than to take possession of collateral. This may involve extending the term of payment and agreeing on new loan conditions. Once the terms are renegotiated, any impairment is measured using the original effective rate before the modification of the terms of the loan, which will no longer be considered delayed. Management performs ongoing review of loans renegotiated to ensure that all criteria are met

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and that future payments will occur. The loans continue to be subject to individual assessment of impairment, calculated using the original effective rate of the loan.

g) Hedge accounting

The Bank uses derivative instruments to manage exposure to interest rate, foreign exchange rate and credit risks, including the exposure generated by future transactions and firm commitments. To manage a specific risk, the Bank applies *hedge accounting* for transactions that fit into specific criteria.

At the beginning of the hedge relationship, the Bank formalizes the process through documentation of the relationship between the hedged item and hedging instrument, including the nature of risk, the hedge designation objective and strategy and the method that will be used to assess effectiveness of the hedge relationship.

Also at the beginning of the hedge relationship, a formal evaluation is made to ensure that the hedging instrument is highly effective in offsetting the designated risk in the hedging relationship. Hedges are formally evaluated every month. A hedge is expected to be highly effective if it offsets from 80% to 125% of the change in fair value or cash flow attributed to the risk being hedged during the hedging relationship period.

For the accounting and disclosure of hedge accounting structures as of December 31, 2019, the Bank used the option of IFRS 9 to maintain the practices determined by IAS 39.

(l) *Fair value hedge*

For designated and qualifying fair value hedges, the change in fair value of a hedging derivative is recognized in the income statement in 'net trading income'. However, the change in fair value of the hedged item attributed to the hedged risk is recorded as part of its book value and is also recognized in the income statement in 'net trading income'. (see Note 7)

If the hedging instrument expires or is sold, cancelled or exercised, or when the hedge position does not fit into hedge accounting conditions, the hedging relationship is terminated. For hedged items recorded at amortized cost, the difference between book value of the hedged item upon termination and the notional value is amortized over the remaining term of the original hedge using the effective rate. If the hedged item is sold, the unamortized fair value adjustment is immediately recognized in the income statement.

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h) Financial instruments - Net presentation

Financial assets and liabilities are presented net in the balance sheet if and only if there is a current legal and enforceable right of offsetting the recognized amounts and if there is the intention of offsetting, or of realizing the asset and settling the liability simultaneously. This is not usually the case in master netting agreements, for which the related assets and liabilities are presented separately in the balance sheet.

i) Recognition of revenues and expenses

Revenue is recognized to the extent that it is probable that the economic benefit will be transferred to the Bank and revenue can be reliably measured. The specific recognition criteria below must be met before revenue is recognized:

(I) *Interest income and expense*

For all financial instruments measured at amortized cost, interest earning financial assets classified as financial assets measured at fair value through other comprehensive income and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts the estimated future payments or receipts over the estimated life of the financial instrument, or a shorter period when appropriate, to the net book value of the asset or liability. The calculation takes into account all contractual terms of the financial instrument and includes any charge or incremental costs that are directly attributable to the instrument and are integral parts of the effective rate, but not of future losses on receivables. The book value of the financial asset or liability

is adjusted if the Bank revises its estimates of payment and receipt. The adjusted book value is calculated based on the original interest rate and the adjustment in the book value is recorded as 'Other operating income'. However, for a reclassified financial asset for which the Bank subsequently increases its estimate of future cash receipt as a result of increased probability of recovery of future cash receipts, the effect of the increase is recognized as an adjustment in the effective rate as from the date of change in the estimate.

Once the recorded value of a financial asset or a group of similar financial assets is written off due to impairment loss, interest income continues to be recognized using the interest rate used to discount the future cash flow used to measure impairment loss.

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(II) *Revenue from charges and commissions*

The Bank earns revenue from charges and commissions through various types of services it provides to its customers. Revenues from charges are segregated into the following categories:

Revenue from commissions and charges for services rendered

Commissions and charges received with services rendered are recorded in the income statement on the date of service completion. When such commissions and charges have a relationship with the term of the operations, revenues are recognized over the term of the related operations.

Revenue from charges for transaction services rendered

Charges arising from trading or participation in trading with third parties, for example, contract for the purchase of shares or other securities or the purchase or sale of a business, are recognized at the end of the transaction that generated the charge. Charges or components of charges that are probably related to specific performance are recognized after meeting the specific criteria.

j) Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statements include cash on hand, unrestricted current accounts with banks and available amounts receivable from banks or with original maturities of 90 days of application date.

k) Property and equipment

Property and equipment are recorded at cost excluding maintenance cost, less accumulated depreciation and impairment. Changes in estimated useful lives are accounted for as changes in the amortization method or period, and appropriately treated as changes in accounting estimates.

Depreciation is computed using the straight-line method to adjust the cost of property and equipment to their residual value over their estimated useful lives. The estimated useful lives of assets are as follows:

- Buildings 25 to 40 years
- Computer hardware 2 years
- Other furniture and equipment 2 to 4 years

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Property and equipment are written off upon disposal or when future economic benefits are no longer expected from use thereof. Any gain or loss generated on asset disposal (calculated as the difference between net revenue from disposal and asset book value) is recognized in 'other operating income' in the income statement for the year in which the asset is disposed of.

l) Intangible assets

Intangible assets of the Bank basically include the amount of software. An intangible asset is recognized only when its cost may be reliably measured and it is probable that expected future economic benefits will flow to the Bank.

m) Financial guarantees

In the normal course of business, the Bank provides financial guarantees through sureties. Financial guarantees are initially recognized in the financial statements as commitments in memorandum accounts. Any increase in liability associated with financial guarantees is recorded in the income statement in 'losses on receivables'. The premium received is recognized in the income statement in 'net revenue from charges and commissions' using the straight-line method based on the duration of the guarantee term.

n) Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate

can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

The recognition, measurement and disclosure of contingent assets and liabilities, and legal obligations are made according to the criteria described below:

Contingent assets - these are not recognized in the financial statements, except when there is evidence that provide a guarantee of realization thereof, about which no further appeals apply.

Contingent liabilities - these are recognized in the financial statements when, based on the opinion of legal counsel and administration, an unfavorable outcome on the judicial or administrative proceeding is probable, with a probable outflow of funds for the settlement of obligations and when the amounts involved are measurable with sufficient certainty. The contingent liabilities classified as possible losses by legal counsel are only disclosed in the notes to financial statements, while those classified as remote do not require provision or disclosure.

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o) Taxes

Provisions for income tax and social contribution, when due, are based on accounting profit, adjusted for additions and exclusions provided for in tax legislation. Deferred income tax and social contribution are calculated on the amount of temporary differences, whenever the realization of these amounts is deemed probable.

p) Treasury stock

The Bank's own equity instruments that were acquired (treasury stock) are deducted from equity and accounted for using the weighted average cost. Amounts paid or received on the sale, purchase, in the issue or cancellation of own equity instruments are recognized directly in equity. No gain or loss is recognized in profit or loss on the sale, purchase, in the issue or cancellation of own equity instruments.

q) Dividends (Interest on equity) of common and preferred shares

Dividends (interest on capital - JCP) of common and preferred shares are recognized as a liability and deducted from equity when approved by the shareholders of the Bank. Dividends and interest on equity at interim dates are deducted from equity when declared and are not subject to future decision by the Bank.

4. Information by segment

For managerial purposes, the Bank is organized into two operating segments based on business units and its activities as follows:

- a) **Commercial Activity** - It mostly comprises managing loans and other credit operations and deposit services and checking accounts to large and medium-sized corporate and institutional clients, and promoting capital market operations and other banking services.
- b) **Corporate and Treasury** - These comprise the financial results related to cost of own capital attributed to commercial activities, in addition to financial results of typical treasury activities, such as management of currency gap, rates and other arbitrage risks in foreign and domestic markets and results in managing proprietary positions. It also comprises other costs and corporate results, such as provisions for contingencies and indirect costs of activities, redistributing such costs to the commercial area.

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Management manages the operating results of the Bank's business units separately for the purposes of making decisions about resource allocation and performance evaluation. Segment performance is evaluated based on profit or loss from the operation, which considers, among other criteria, adjustment of deemed cost of own capital. The commercial segment absorbs the tax on results at a rate of 45%, and the difference in relation to total tax is allocated to the corporate and treasury segment.

No revenue from transactions with a single customer or counterparty reached 10% or more of total revenue of the Bank in 2019 and 2018.

On the measurement of operating segments results managerial reclassifications of expenses and costs for managing operating effects are considered, which can represent differences in classifications in the income statements lines compared to the financial statement prepared based on IFRS criteria.

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The following table presents managerial income statements related to the segments of the Bank:

	2019		
	Commercial Activity	Corporate and Treasury	Total
Operating income	966,112	111,036	1,077,148
Losses on receivables (net of recoveries)	(113,050)	1,590	(111,460)
Total operating income after provisions	853,062	112,626	965,688
Personnel expenses	(192,159)	(181,416)	(373,575)
Installations, depreciation and amortization	(4,919)	(17,893)	(22,812)
Other expenses	(25,438)	(104,257)	(129,695)
Allocated expenses	(103,064)	103,064	-
Total operating expenses	(325,579)	(200,503)	(526,082)
Income before taxes	527,483	(200,503)	439,606
Income and social contribution tax expenses	(210,993)	268,781	57,788
Net income for the year	316,490	180,904	497,394
	2018		
	Commercial Activity	Corporate and Treasury	Total
Operating income	849,379	64,040	913,419
Losses on receivables (net of recoveries)	(87,754)	(38,245)	(125,999)
Total operating income after provisions	761,625	25,795	787,420
Personnel expenses	(182,060)	(171,882)	(353,942)
Installations, depreciation and amortization	(5,956)	(25,504)	(31,460)
Other expenses	(26,405)	(62,403)	(88,808)
Allocated expenses	(167,555)	167,555	-
Total operating expenses	(381,976)	(92,234)	(474,210)
Income before taxes	379,649	(66,439)	313,210
Income and social contribution tax expenses	(170,842)	274,107	103,265
Net income for the year	208,807	207,668	416,475

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Geographic information

Bank operations are concentrated in Brazil but it also operates through its branch in Cayman Islands.

The balances of operations performed with third parties by the foreign branch at December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Assets		
Cash and Banks	213,912	6,593
Interbank short - term investments	314,707	612,343
Marketable securities and derivative financial instruments	2,586,404	3,457,916
Loans - net	4,150,492	1,941,850
Other assets	921,855	442,799
Total	8,187,370	6,461,501
Liabilities		
Demand deposits	216	46
Term deposits	151,874	188,751
Interbranch accounts	146	263
Foreign loans	5,390,203	4,104,230
Derivative financial instruments	35,996	163,708
Other liabilities	806,842	415,964
Total	6,385,277	4,872,962
Net income (loss)		
Operating income (loss)	231,504	331,315
Administrative expenses	(5,070)	(7,797)
Other operating income (expenses)	(13,147)	(294)
Total	213,287	323,224

In Brazil, the Bank has a business platform in 10 states (Rio Grande do Sul, Santa Catarina, Paraná, São Paulo, Rio de Janeiro, Minas Gerais, Goiás, Mato Grosso do Sul and Mato Grosso) and Federal district. The other Brazilian states are served by these platforms.

5. Cash and cash equivalents

Cash and cash equivalent components:

	<u>2019</u>	<u>2018</u>
Cash and banks	297,187	29,378
Interbank investments	3,709,720	4,245,010
Foreign investments	382,533	723,826
Other investments with maturity equal or less than 90 days	3,327,187	3,521,184
Total cash and cash equivalents	4,006,907	4,274,388

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6. Repurchase agreements and deposits with private bank

Repurchase agreements backed by federal securities in the amount of R\$ 4,268,581 (R\$ 5,809,890 in 2018) with maturity date until June 2020. Deposits with private banks in the amount of R\$ 846,543 (R\$ 1,449,222 in 2018) with maturity date until December 2020.

At December 31, 2019 and 2018, the balances of repurchase agreements and deposits with private banks are thus shown according to their stage classification and expected loss:

	2019	
	Stage 1	Total
Financial assets recorded at amortized cost		
Repurchase agreements	4,271,060	4,271,060
Repurchase agreements - expected credit loss	(2,479)	(2,479)
Subtotal - Repurchase agreements	4,268,581	4,268,581
Deposits with private banks	847,153	847,153
Deposits with private banks - expected credit loss	(610)	(610)
Subtotal - Deposits with private banks	846,543	846,543

	2018	
	Stage 1	Total
Financial assets recorded at amortized cost		
Repurchase agreements	5,817,015	5,817,015
Repurchase agreements - expected credit loss	(7,125)	(7,125)
Subtotal - Repurchase agreements	5,809,890	5,809,890
Deposits with private banks	1,449,545	1,449,545
Deposits with private banks - expected credit loss	(323)	(323)
Subtotal - Deposits with private banks	1,449,222	1,449,222

As of December 31, 2019 and 2018, there were no balances classified in stages 2 and 3.

The expected credit loss for repurchase agreements and financial deposits had the following transactions in the years ended December 31, 2019 and 2018:

	2019	2018
Balances at the beginning of the year	(7,448)	(4,458)
Constitution in the year	4,359	(2,990)
Balances at the end of year	(3,089)	(7,448)

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7. Classification of financial instruments

a) Measurement of financial instruments

The table below presents the position of asset financial instruments and the related fair value:

	2019			Total
	Public market quotes (Level 1)	Internal models (Level 2)	Internal models (Level 3)	
Financial Assets				
Financial assets stated at fair value through profit or loss				
Marketable securities				
Financial treasury bills - LFT	241,837	-	-	241,837
National treasury notes - NTN-B	139,761	-	-	139,761
National treasury notes - NTN-A	-	103,135	-	103,135
Financial treasury bills - LTN	9	-	-	9
Bank Deposit Certificate - CDB	-	5,460	-	5,460
Foreign government bonds	1,268,014	-	-	1,268,014
Debentures	47,091	40,085	-	87,176
Eurobonds	17,928	-	-	17,928
Certificate of Agribusiness Receivables - "CRA"	-	68,066	-	68,066
Public Company Shares	57,473	-	-	57,473
Loans and advances to customers	-	41,346	-	41,346
Derivatives	792,972	20,359	-	1,002,331
Subtotal - Financial assets stated at fair value through profit or loss	2,565,085	467,451	-	3,032,536
Financial assets measured at fair value in other comprehensive income				
Financial treasury bills - LFT	1,266,567	-	-	1,266,567
Eurobonds	14,335	-	-	14,335
National treasury notes - NTN-B	5,204	-	-	5,204
Debentures	161,388	22,03	-	183,891
Financial treasury bills - LTN	420,708	-	-	420,708
Promissory Notes - NP	-	10,033	-	10,033
Expected credit loss	(2,798)	-	-	(2,798)
Subtotal - Financial assets measured at fair value in other comprehensive income	1,865,404	32,536	-	1,897,940
Derivatives used as fair value hedge				
Derivatives	-	47,230	-	47,230
Subtotal - Derivatives used as fair value hedge	-	47,230	-	47,230
Total Financial Assets	4,430,489	547,217	-	4,977,706
Financial Liabilities				
Financial liabilities stated at fair value through profit or loss				
Subordinated debts	-	(284,544)	-	(284,544)
Funding - Transfers abroad	-	(76,897)	-	(76,897)
Derivatives	(535,535)	(226,089)	-	(761,624)
Subtotal - Financial liabilities stated at fair value through profit or loss	(535,535)	(587,530)	-	(1,123,065)
Total Financial Liabilities	(535,535)	(587,530)	-	(1,123,065)

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	2018			Total
	Public market quotes (Level 1)	Internal models (Level 2)	Internal models (Level 3)	
Financial Assets				
Financial assets stated at fair value through profit or loss				
Financial treasury bills - LFT	1,816,864	-	-	1,816,864
National treasury notes - NTN-B	235,254	-	-	235,254
National treasury notes - NTN-A	-	97,318	-	97,318
Financial treasury bills - LTN	399,165	-	-	399,165
Bank Deposit Certificate - CDB	-	5,106	-	5,106
Foreign government bonds	807,350	757,463	-	1,564,813
Loans and advances to customers	-	72,626	-	72,626
Derivatives	743,761	331,230	-	1,074,991
Subtotal - Financial assets stated at fair value through profit or loss	4,002,394	1,263,743	-	5,266,137
Financial assets measured at fair value in other comprehensive income				
Financial treasury bills - LFT	148,048	-	-	148,048
Eurobonds	15,044	-	-	15,044
National treasury notes - NTN-B	13,909	-	-	13,909
Debentures	131,878	28,837	-	160,715
Promissory Notes - NP	-	35,181	-	35,181
Expected credit loss	(959)	-	-	(959)
Subtotal - Financial assets measured at fair value in other comprehensive income	307,920	64,018	-	371,938
Derivatives used as fair value hedge				
Derivatives	-	33,359	-	33,359
Subtotal - Derivatives used as fair value hedge	-	33,359	-	33,359
Total Financial Assets	4,310,314	1,361,120	-	5,671,434
Financial Liabilities				
Financial liabilities stated at fair value through profit or loss				
Subordinated debts	-	(274,552)	-	(274,552)
Funding - Transfers abroad	-	(97,205)	-	(97,205)
Derivatives	(686,011)	(285,798)	-	(971,809)
Subtotal - Financial liabilities stated at fair value through profit or loss	(686,011)	(657,555)	-	(1,343,566)
Total Financial Liabilities	(686,011)	(657,555)	-	(1,343,566)

As of December 31, 2019, the balance of unquoted securities and loans and advances to customers is R\$ 290,628 (R\$ 996,531 on 2018). The fair value measurements of unquoted securities are obtained through valuation techniques that include data for assets that are not based on observable market variables.

See in Note 3 (e) details about the criteria adopted to determine fair value of financial instruments.

Measurement of fair value - level 1 is based on quoted prices (not adjusted) in active markets for identical assets or liabilities.

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Measurement of fair value - level 2 is based on other variables in addition to observable quoted prices included in level 1 for asset or liability, whether directly (i.e., as prices) or indirectly (i.e., based on prices).

Measurement of fair value - level 3 is based are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no changes to the level 3 on December 31, 2019 and 2018.

At December 31, 2019 and 2018 the balances of financial instruments are thus shown according to their stage classification and expected loss:

	2019	
	Stage 1	Total
Financial assets measured at amortized cost		
Financial instruments	782,899	782,899
Financial instruments - expected credit loss	(1,545)	(1,545)
Subtotal - Financial instruments	781,354	781,354
Financial assets measured at fair value in other comprehensive income		
Financial instruments	1.900.738	1.900.738
Financial instruments - expected credit loss	(2.798)	(2.798)
Subtotal - Financial instruments	1.897.940	1.897.940
	2018	
	Stage 1	Total
Financial assets measured at amortized cost		
Financial instruments	836,823	836,823
Financial instruments - expected credit loss	(615)	(615)
Subtotal - Financial instruments	836,208	836,208
Financial assets measured at fair value in other comprehensive income		
Financial instruments	372,897	372,897
Financial instruments - expected credit loss	(959)	(959)
Subtotal - Financial instruments	371,938	371,938

As of December 31, 2019 and 2018, there were no balances classified in stages 2 and 3.

The expected credit loss for financial instruments had the following transactions in the years ended December 31, 2019 and 2018:

	2019	2018
Financial assets measured at amortized cost		
Balances at the beginning of the year	(615)	(587)
Constitution in the year	(930)	(28)
Balances at the end of year	(1,545)	(615)

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Financial assets measured at fair value in other comprehensive income

Balances at the beginning of the year

Constitution in the year

Balances at the end of year

	2019	2018
	(959)	(597)
	(1,839)	(362)
	(2,798)	(959)

b) Derivative financial instruments

The table below presents the fair value of derivative financial instruments recorded as assets or liabilities with the related notional value:

	2019			2018		
	Assets	Liabilities	Notional value	Assets	Liabilities	Notional value
Derivatives held for trading						
Futures contracts	-	-	12,205,270	-	-	6,547,676
Swap contracts	130,411	(91,185)	6,725,033	89,913	(78,621)	3,978,288
Interbank market	25,882	(3,416)	1,242,305	12,243	(3,742)	800,755
Foreign currency	64,746	(38,682)	3,230,925	63,238	(53,068)	1,228,838
Fixed rate	30,817	(38,757)	1,977,175	14,387	(18,772)	1,930,893
Other	8,966	(10,330)	274,628	45	(3,039)	17,802
Option contracts	818,265	(565,651)	28,029,240	882,209	(807,946)	21,520,348
Purchase commitments	353,319	(241,557)	13,978,677	329,549	(303,606)	10,741,203
Foreign currency	351,303	(226,647)	13,818,911	329,549	(291,730)	10,507,786
Others financial assets	-	(14,679)	118,856	-	(11,876)	233,417
Stock	2,016	(231)	40,910	-	-	-
Sales commitments	464,946	(324,094)	14,050,563	552,660	(504,340)	10,779,145
Foreign currency	461,169	(323,093)	13,773,680	534,392	(502,249)	10,399,453
Others financial assets	3,762	(1,001)	268,243	18,268	(2,091)	379,692
Stock	15	-	8,640	-	-	-
Others financial instruments	53,655	(104,788)	8,783,577	102,869	(85,242)	6,879,833
Foreign currency	25,750	(74,784)	3,359,216	41,864	(22,032)	2,471,989
Others financial assets	27,905	(30,004)	5,424,361	61,005	(63,210)	4,407,844
Total	1,002,331	(761,624)	55,743,120	1,074,991	(971,809)	38,926,145

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Management decided to designate financial instruments below the statements for accounting hedge of the principal amount as well as the contractual interest portion.

Derivatives used as fair value hedge	Notional value	2019		
		Curve Yield	Market value	MTM
Hedge instruments				
Swap contracts	309,343	44,733	47,230	2,497
Subordinate loans	238,163	41,505	41,939	434
Foreign currency - US dollar - Assets position (1)	238,163	41,505	41,939	434
Liabilities due to transfers abroad	71,180	3,229	5,292	2,063
Foreign currency - US dollar - Assets position (1)	71,180	3,229	5,292	2,063
Subject to hedge	359,082	(359,082)	(361,579)	(2,497)
Subordinate loan (Note 12)	284,248	(284,248)	(284,682)	(434)
Liabilities due to transfers abroad (Note 11)	74,834	(74,834)	(76,897)	(2,063)

(1) Amounts updated until the balance sheet date.

Derivatives used as fair value hedge	Notional value	2018		
		Curve Yield	Market value	MTM
Hedge instruments				
Swap contracts	333,070	30,093	33,359	3,266
Subordinate loans	238,163	29,813	31,793	1,980
Foreign currency - US dollar - Assets position (1)	238,163	29,813	31,793	1,980
Liabilities due to transfers abroad	94,907	280	1,566	1,286
Foreign currency - US dollar - Assets position (1)	94,907	280	1,566	1,286
Subject to hedge	369,173	(369,173)	(372,439)	(3,266)
Subordinate loan (Note 12)	273,254	(273,254)	(275,234)	(1,980)
Liabilities due to transfers abroad (Note 11)	95,919	(95,919)	(97,205)	(1,286)

(1) Amounts updated until the balance sheet date.

Derivatives used as fair value hedge

In order to mitigate the risks arising from subordinated debt transactions, management decided to allocate the financial instruments referred to above to hedge the principal, as well as the amount of contractual interest.

Considering that the financial flow (Principal and Interest) of the item subject to Hedge (Subordinated Debt) and financial flows of allocated financial instruments (Swaps) are identical, the effectiveness expected from the allocation of hedge instruments and throughout the operation is in line with the requirements of the IAS 39 - Financial Instruments: Recognition and Measurement.

The effectiveness of the hedge portfolio at December 31, 2019 was in line with the established parameters (see Note 3 g).

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The notional value of derivative financial instruments, including the operation used as hedge instrument, by maturity, has the following breakdown at December 31, 2019 and 2018:

	2019						2018	
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Total	Total
Off Balance								
Futures contracts	2,716,435	3,961,917	1,471,117	1,317,855	2,076,010	661,936	12,205,270	6,547,676
Option contracts	984,046	338,261	879,322	13,045,095	12,777,157	5,359	28,029,240	21,520,348
Swap contracts	94,794	551,759	3,196,960	695,983	2,109,326	385,554	7,034,376	4,311,358
Others financial instruments	582,807	4,849,693	1,784,169	1,078,575	488,333	-	8,783,577	6,879,833
Total - 2019	4,378,082	9,701,630	7,331,568	16,137,508	17,450,826	1,052,849	56,052,463	-
Total - 2018	4,398,710	4,666,763	3,760,895	4,721,890	21,148,596	562,361	-	39,259,215

The unquoted derivative financial instruments where the pricing process is substantially based on the use of judgments and estimates has the amounts recorded in the Assets of R\$ 256,589 (R\$ 364,589 on 2018) and in the Liabilities of R\$ 226,089 (R\$ 285,798 on 2018).

8. Loans and advances to customers measured at amortized cost and expected credit losses

The balance of loans and advances to customers by industry and the related provision are as under:

	2019			
	Debt balance	% of debt balance in relation to total balance	Provision	Net amount
Agribusiness	5,227,170	25,34	(111,289)	5,115,881
Trade and Services	3,614,693	17,52	(34,337)	3,580,356
Construction and Infrastructure	2,397,746	11,62	(108,341)	2,289,405
Financial	1,152,216	5,59	(2,996)	1,149,220
Transformation industry	1,791,058	8,68	(29,567)	1,761,491
Industry and technology	2,971,475	14,41	(49,524)	2,921,951
Individuals	447,530	1,17	(19,885)	427,645
Transportation and logistics	1,499,764	7,27	(33,001)	1,466,763
Public utility	1,525,509	7,40	(21,492)	1,504,017
Total	20,627,161	100,00	(410,432)	20,216,729

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The credit assignments with substantial retention of risks and benefits are replaced its results recognized by the remaining term of operations. The financial assets objects of sales remain recorded as loans and the amount received as obligations for sales or transfer of financial assets. The assignments were as described below:

During the year ended December 31, 2019, in the Bank and consolidated assignments were made with substantial transfer of risks and benefits, in accordance with CMN Resolution No, 3,533/08, in the amount of R\$ 2,925 (R\$ 12,671 in 2018), the effect of these operations on the income was gain on year ended December 31, 2019 of R\$ 2,323 (R\$ 1,401 of gain in 2018),

The expected credit loss for loans and advances to customers had the following transactions in the years ended December 31, 2019 and 2018:

<u>Loans and advances to customers</u>	<u>2019</u>	<u>2018</u>
Balances at the beginning of the year	379,500	423,744
Constitution in the year	124,539	139,336
Credits offset as loss	<u>(93,607)</u>	<u>(183,580)</u>
Balances at the end of year	410,432	379,500

Movement of the expected credit loss by stage:

<u>Loans and advances to customers</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance as at 31 December, 2018	(49,380)	(22,538)	(307,582)	(379,500)
Transfer to Stage 1	-	436	461	897
Transfer to Stage 2	(1,386)	-	2,321	935
Transfer to Stage 3	(5,123)	(12,310)	-	(17,433)
Originated of Stage 1	-	1,386	5,123	6,509
Originated of Stage 2	(436)	-	12,310	11,874
Originated of Stage 3	(461)	(2,321)	-	(2,782)
Originated assets / Received assets or amortized	(7,082)	8,792	(126,249)	(124,539)
Loans written off the losses	-	-	93,607	93,607
Balance as at 31 December, 2019	(63,868)	(26,555)	(320,009)	(410,432)

At December 31, 2019, balance of renegotiated loans amounted to R\$ 163,287 (R\$ 356,752 in 2018), being total loan transactions renegotiated over the year ended December 31, 2019 amounted to R\$ 4,594 (R\$ 231,524 in 2018).

The amount of loans recovered for the year ended December 31, 2019, previously offset against the provision, was R\$ 11,485 (R\$ 16,717 in 2018).

The amount of overdue operations at December 31, 2019 is R\$ 259,068 (R\$ 129,637 in 2018), representing 1,26% (0,85% in 2018) of the total loan portfolio.

See position of loans and advances by maturity shown in Note (26) Risk Management.

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9. Contingent credit commitments

The balance of contingent credit commitments are described below:

	<u>2019</u>	<u>2018</u>
Contingent credit commitments (Financial guarantees and responsibilities)		
Guarantees provided to customers	9,202,915	10,532,910
Open import credit	53,211	117,957
Total	9,256,126	10,650,867

Guarantees provided to customers are subject to charges and counter-guarantees and recorded in memorandum accounts, On December 31, 2019, the balance of provisions for financial guarantees and liabilities was R\$ 35,194 (R\$ 24,321 in 2018) - (Note 14.a).

The balance of contingent credit commitments, by maturity, are as follows:

	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 6 months</u>	<u>6 to 12 months</u>	<u>1 to 3 years</u>	<u>Above 3 years</u>	<u>Total</u>
Contingent credit commitments	506,935	1,576,553	1,280,069	2,592,132	3,281,488	18,949	9,256,126
Total - 2019	506,935	1,576,553	1,280,069	2,592,132	3,281,488	18,949	9,256,126
Total - 2018	448,684	1,281,906	1,887,449	4,454,606	2,540,745	37,477	10,650,867

At December 31, 2019 and 2018 the balances of contingent credit commitments are thus shown according to their stage classification and expected loss:

	<u>2019</u>		
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Total</u>
Financial assets recorded at amortized cost			
Contingent credit commitments	9.198.710	57.416	9.256.126
Contingent credit commitments - expected credit loss	(31.177)	(4.017)	(35.194)
Subtotal - Contingent credit commitments	9.167.533	53.399	9.220.932
	<u>2018</u>		
	<u>Stage 1</u>	<u>Stage 2</u>	<u>Total</u>
Financial assets recorded at amortized cost			
Contingent credit commitments	10,650,867	-	10,650,867
Contingent credit commitments - expected credit loss	(24,321)	-	(24,321)
Subtotal - Contingent credit commitments	10,626,546	-	10,626,546

As of December 31, 2019 and 2018, there were no balance classified in stage 3.

The expected credit loss for contingent credit commitments had the following transactions in the years ended December 31, 2019 and 2018:

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	<u>2019</u>	<u>2018</u>
Balances at the beginning of the year	(24,321)	(23,668)
Constitution in the year	(10,873)	(653)
Balances at the end of year	(35,194)	(24,321)

Movement of the expected credit loss by stage:

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Total</u>
Contingent credit commitments			
Balance as at 31 December, 2018	(24,321)	-	(24,321)
Originated / Received or amortized	(6,856)	(4,017)	(10,873)
Balance as at 31 December, 2019	(31,177)	(4,017)	(35,194)

10. Other assets

The composition of other assets are described below:

	<u>2019</u>	<u>2018</u>
Foreign exchange portfolio	-	12,107
Tax credits (Note 16)	468,648	349,360
Negotiation and intermediation of securities	253,760	276,228
Debtors for the purchase of assets	17,793	9,557
Guarantee deposits	20,498	17,170
Other assets	248,377	288,886
Prepaid expenses	9,469	10,049
Assets recorded as right of use	80,599	-
Taxes and contributions to be offset	21,892	-
Others	67,690	28,241
Total	1,188,726	991,598

The foreign portfolio balance is mainly represented by advances received from customers to settle operations and by foreign exchange rate differences payable arising from foreign exchange purchases and sales to be settled.

The balance of trading and intermediation of securities is substantially represented by receivables arising from the settlement of operations with financial assets listed on stock exchanges.

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11. Funding

Breakdown of funding are as follows:

	<u>2019</u>	<u>2018</u>
Demand deposits	232,514	249,772
Interbank deposits	302,480	723,532
Time deposits	5,158,675	5,218,478
Linked to repurchase agreement	1,092,483	717,527
Real estate credit bills - LCI	1,054,755	1,177,337
Agribusiness credit bills - LCA	2,658,812	2,406,221
Financial bills - LF	5,760,929	5,394,941
Certificates of structured finance	31,149	51,685
Interbranch accounts	47,732	28,235
Foreign borrowings	6,128,468	4,688,351
Local onlendings	1,167,432	1,306,333
Onlendings - Foreign (1)	1,150,769	1,124,835
Subordinated debt (Note 12) (1)	2,372,896	1,810,782
Total	27,159,094	24,898,029

(1) Funding for transfers abroad and subordinated debt used as fair value hedges are shown in Notes 7 (b).

Interbank deposits, time deposits, real estate credit bills (LCI) and agribusiness credit bills (LCA) and financial letters (FL) are made at normal market rates.

Foreign borrowings include funds raised for use in foreign exchange transactions relating to export and import financing, as well as onlendings and financing in foreign currency.

Such obligations are subject to foreign exchange variation and interest in the international market and are updated by exchange variation and charges, calculated through to balance sheet date.

Local onlendings correspond to special funds and programs managed by official institutions, which are onlent to end borrowers and are restated by official indices and charges, calculated through to balance sheet date.

Foreign onlending are represented mainly by funds raised by the Bank with multilateral agencies (IFC - International Finance Corporation, IDB - Inter-American Development Bank, IIC - Inter-American Investment Corporation and PROPARCO - Societe de Promotion et de Participation pour la Cooperation Economique SA), which are passed onto final borrowers and are adjusted by the exchange rate variation and financial charges incurred through to the balance sheet date.

The compositions of the balance of borrowings - foreign onlendings at December 31, 2019 and 2018 are composed as follows:

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	<u>2019</u>	<u>2018</u>
Foreign Onlendings		
Subject to "Hedge accounting"		
Principal amount US\$ 18,5 million (US\$ 24,6 million in 2018)	74,402	95,365
Accrued interest	432	554
Subtotal	<u>74,834</u>	<u>95,919</u>
Adjustment to market value ("Hedge Accounting") - Notes 3,g,d and 7,b	2,063	1,286
Total	<u>76,897</u>	<u>97,205</u>
Other foreign onlendings	1,073,872	1,027,630
Total	<u>1,150,769</u>	<u>1,124,835</u>

Subordinated debt not subject to hedged accounting structure are measured at amortized cost in accordance with Note 3 Item VIII. The balance at December 31, 2019 is R\$ 1,073,872 (R\$ 1,027,630 in 2018).

12. Subordinated debt

The composition of the balance of subordinated debt at December 31, 2019 and 2018 are composed as follows:

	<u>2019</u>	<u>2018</u>
Subordinated debts subject to "Hedge accounting"		
Subordinated Notes US\$ 69,3 million (US\$ 69,3 million in 2018)	284,544	274,552
Subtotal	<u>284,544</u>	<u>274,552</u>
Others Subordinated debts		
Financial bills	1,375,488	1,287,312
Perpetual Financial Bills	480,067	-
Subordinated Notes US\$ 57,0 million (US\$ 62,7 million in 2018)	232,797	248,918
Subtotal	<u>2,088,352</u>	<u>1,536,230</u>
Total Subordinated debts	<u>2,372,896</u>	<u>1,810,782</u>

The composition of the balance of subordinated debt from subordinated notes issued abroad, at December 31, 2019 and 2018, are composed as follows:

	<u>2019</u>	<u>2018</u>
Subordinated debts subject to "Hedge accounting"		
Subordinated Notes		
Principal amount US\$ 49,3 million (US\$ 49,3 million in 2018)	198,625	190,942
Principal amount US\$ 20,0 million (US\$ 20,0 million in 2018)	80,614	77,496
Accrued interest	5,009	4,816
Subtotal	<u>284,248</u>	<u>273,254</u>
Deferred fund-raising expenses	(60)	(286)
Deferred hedge accounting P&L	(78)	(396)
Adjustment to market value ("Hedge Accounting") - Notes 3.g and 7.b	434	1,980
Total	<u>284,544</u>	<u>274,552</u>
	<u>2019</u>	<u>2018</u>

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Others Subordinated debts		
Subordinated Notes US\$ 57,0 million (US\$ 62,7 million in 2018)	229,524	242,791
Goodwill	(825)	1,846
Deferred fund-raising expenses	(19)	(74)
Accrued interest	4,117	4,355
Total	232,797	248,918

Funding in subordinated debt non-hedge, are measured at amortized cost in according with note 3 item VIII The balance as of December 31, 2019 is R\$ 2,088,352 (R\$ 1,536,230 in 2018).

The funds raised abroad of US\$ 300,0 million, with the principal amount of US\$ 49,3 million on December 31, 2019 (US\$ 49,3 in December 31, 2018) subject to hedged accounting structure, with maturing in April 2020 and annual interest rate of 7.9%, paid on a semiannual basis, On October 9, 2012, the Bank raised funds through the issuance of additional Subordinated Notes abroad in the amount of US\$ 100,0 million, in the principal amount US\$ 77,0 million on December 31, 2019 (US\$ 82,7 on December 31, 2018), with US\$ 20,0 million (US\$ 20,0 in December 31, 2018) subject to hedged accounting structure with same maturity and interest rates.

On the year ended December 31, 2019, the Bank made a partial repurchase of the subordinated notes issued on October 9, 2012, in the amount of US\$ 5,715. The total amount paid under the offer for the notes accepted for repurchase was US\$ 5,981.

Goodwill and discount for raising these funds, and direct expenses, are deferred throughout the maturities of the respective notes.

The balance of R\$ 1,375,488, related to capital through the issuance of financial bills with subordination clause, with maturity until August 2028.

The balance of R\$ 480,067, related to capital through the issuance of perpetual financial bills.

13. Tax liabilities

Breakdown of tax liabilities are described below:

	2019	2018
Provision for deferred taxes and contributions (Note 16)	156,850	63,616
Taxes and contributions payable	-	28,464
Total	156,850	92,080

14. Other liabilities

a) Breakdown of other liabilities are described below:

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	<u>2019</u>	<u>2018</u>
Foreign exchange portfolio	57,729	-
Provision for payments to be made	75,803	83,116
Provision for contingent liabilities (Note 18)	12,791	22,024
Deferred income (commissions on guarantees)	22,727	30,910
Securities trading and intermediation	87,077	149,707
Provision for financial guarantees provided (Note 9)	35,194	24,321
Taxes payable	4,181	1,694
Social and statutory	91,050	96,842
Lease liability	84,168	-
Others	29,955	6,028
Total	500,675	414,642

Securities trading and intermediation basically corresponds to amounts payable resulting from settlement of operations with stock-exchange registered financial assets.

15. Related parties

a) Subsidiaries and affiliates

The figures below refer to the Bank's transactions with related companies, Transactions with related parties were carried out using usual market rates and conditions on the transaction dates, In the years ended December 31, 2019 and 2018, the balances of transactions with related parties are as follows:

Transactions / Related parties	Maturity	Remuneration	2019		2018	
			Assets / (Liabilities)	Income / (Expenses)	Assets / (Liabilities)	Income / (Expenses)
Demand deposits						
ABC Brasil Adm, e Participações Ltda, (3)	No maturity	Without remuneration	(64)	-	(64)	-
ABC Brasil DTVM S,A, (3)	No maturity	Without remuneration	(136)	-	(136)	-
Marsau Comercial Exportadora e Importadora Ltda, (4)	No maturity	Without remuneration	(22)	-	(242)	-
Time deposits and Fund from acceptance and issue of securities						
Marsau Comercial Exportadora e Importadora Ltda. (4)	27/01/2020	1,8% y,y	(115)	-	-	-
Marsau Uruguay Holdings Sociedad Anonima (1)	29/01/2020	1,8% y,y	(1,124)	-	(21)	-
Management (4)	(a)	(a)	(35,215)	(2,390)	(32,438)	(2,317)
Borrowings						
Arab Banking Corporation (B,S,C) (2)	10/06/2020	0,2% y,y	(408,232)	(37)	(135,618)	(1,479)

(1) Direct controlling shareholder, (2) Indirect controlling shareholder, (3) Subsidiary, (4) Related party.

(a) CDB - Taxa de 98,50 % até 100,00% do CDI - Menor data inicial: 26/10/2018, Maior data de vencimento: 26/11/2021.
LCA / LCI - Taxa de 90,00 % até 105,00 % do CDI - Menor data inicial: 23/08/2017, Maior data de vencimento: 09/09/2022.
LCA - Taxa Prefixada 6,35% até 10,60% - Menor data inicial: 18/05/2018, Maior data de vencimento: 06/01/2023.
LCA - Taxa Prefixada de 7,00% até 7,00% + IPCA - Menor data inicial: 25/09/2015, Maior data de vencimento: 25/09/2020

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b) Fees of key members of management

In compliance with Resolution CMN No, 3,921/10, Banco ABC Brasil has implemented a Management Remuneration Policy applicable to the members of the Board of Directors, to the Executive Committee and to the Officers with no specific title (employees).

In brief, the policy has as main objectives: (i) complying with the regulations of the National Monetary Council and the Central Bank of Brazil (BACEN), which establish special rules for financial institutions such as Banco ABC; (ii) fixing the remuneration of those considered Managers of Banco ABC in compliance with the regulations referred to in item (i) above and, in particular, of those assuming this position according to the Bank's governance; (iii) aligning the remuneration of the Managers of Banco ABC with the Bank's risk management policy; (iv) avoiding behaviors that would raise risk exposure above the levels considered prudent in the short, medium and long-term strategies adopted by Banco ABC; and (v) creating a tool for attracting and retaining talents in key positions at Banco ABC.

The remuneration defined in the policy takes into account: (i) current and potential risks faced by Banco ABC; (ii) the overall results of Banco ABC, in particular recurring income (net book profit for the period adjusted for unrealized income and ignoring the effects of non-recurring events which are within the control of Banco ABC); (iii) Banco ABC's capacity for generating cash flow; (iv) the economic environment in which Banco ABC operates, and its trends; (v) long-term sustainable financial bases and adjustments to future payments as a result of the risks assumed, changes in the cost of capital and liquidity forecasts; (vi) the individual performance of the Managers based on the target agreement celebrated by each Officer, as provided for in the profit sharing agreement filed at the headquarters of Banco ABC; (vii) the performance of the business unit; and (viii) the relationship between the individual performance of the Managers, the performance of the business unit, the performance of Banco ABC as a whole and the risks assumed.

Variable remuneration shall be calculated as follows:

I - To Officers without specific designation:

- a) Up to 50% (fifty percent) of the amount determined in variable remuneration is immediately paid in cash on payment of profit sharing; and
- b) A minimum of 50% (fifty percent) of the amount determined for variable remuneration shall be deferred and paid in preferred shares of the Bank observing that the number of shares to be allocated to the managers will be determined by dividing the amount corresponding to deferred variable remuneration, net of withholding tax, by the unit share price, calculated by the average closing price of the preferred shares issued by Banco ABC Brasil, at the trading sessions of B3 S,A, - Brasil, Bolsa, Balcão on June (for the payment of variable remuneration for

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the first half) and December (for payment of the variable remuneration for the second half of the year), as applicable, except in cases where there are closed periods in those months, at which time the average will be calculated using the subsequent trading sessions.

II - To the members of the Executive Committee:

- a) 100% (one hundred percent) of the amount fixed for variable remuneration shall be paid in shares;
- b) 60% (sixty percent) of the variable remuneration shall be subject to sale restriction (lock up) for 6 months; and
- c) 40% (forty percent) of the variable remuneration shall be paid on a deferred basis, as provided for by Resolution CMN No, 3,921/10,

The delivery of shares relating to deferred variable remuneration allocated to managers shall only take place if, in the applicable period of deferment there is no (i) significant reduction in recurring profit realized; or (ii) losses posted by the institution or business unit; or (iii) evidence of errors in accounting and / or management practices that affect the income calculated in the variable remuneration rights acquisition period,

The total compensation of key members of management for the year ended in December 31, 2019 and 2018 are composed as follows:

	2019	2018
Fixed remuneration	21,931	22,765
Variable remuneration	15,467	14,411
Total short-term benefits	37,398	37,176
Share-based compensation	77,662	68,958
Total long-term benefits	77,662	68,958
Total	115,060	106,134

c) Summary of changes in the compensation plan

To meet the resolution of compensation plan of the Bank was authorized by CVM, privately, transfer shares of its own shares held in treasury for its executives,

In according to the compensation plan actions cited in Note 15,b, shares were granted to executives eligible, for settlement at the end of the vesting period, as shown below in number of shares:

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	<u>2019</u>	<u>2018</u>
At the beginning of the year	4,161,003	3,711,587
Set up	3,079,652	2,992,755
Shares granted	(3,235,666)	(2,543,339)
At the end of the year	<u>4,004,989</u>	<u>4,161,003</u>

16. Income and social contribution taxes

The nature, origin and movement of tax credits and deferred tax liabilities in the years ended December 31, 2019 are described below:

	<u>2018</u>	<u>Additions</u>	<u>Write-offs</u>	<u>2019</u>
Tax credits				
Temporary differences:				
Allowance for doubtful accounts	182,604	142,713	(143,449)	181,868
Provision for financial guarantees provided	15,882	9,555	(64)	25,373
Provision for assets on own use - BNDU	18,829	2,173	(1,914)	19,088
Adjustment to market value of securities and derivative financial instruments	90,022	203,296	(95,198)	198,120
Unrealized gain / (loss) from futures market operations	5,751	8,507	(3,820)	10,438
Others	28,166	35,647	(48,845)	14,968
Adjustment to market value - Financial assets measured at fair value in other comprehensive income	8,106	14,104	(3,417)	18,793
	<u>349,360</u>	<u>415,995</u>	<u>(296,707)</u>	<u>468,648</u>
Deferred taxes				
Temporary differences:				
Adjustment to market value of securities and derivative financial instruments	(50,307)	(125,764)	43,082	(132,989)
Unrealized results from futures market operations	(3,289)	(5,160)	2,767	(5,682)
Adjustment to market value - Financial assets measured at fair value in other comprehensive income	(9,875)	(14,545)	6,275	(18,145)
Others	(145)	(2)	113	(34)
Deferred taxes on foreign exchange variation	-	-	-	-
	<u>(63,616)</u>	<u>(145,471)</u>	<u>52,237</u>	<u>(156,850)</u>
Net balance	<u>285,744</u>	<u>270,524</u>	<u>(244,470)</u>	<u>311,798</u>

The social contribution rate was increased from 15% to 20% effective as of March 1, 2020, pursuant to Article 32 of Constitutional Amendment 103, published on November 13, 2019.

The accounting record of the tax credits in the financial statements was made at the rates applicable to the expected period of its realization and is based on the projection of future results and a technical study prepared in accordance to CMN Resolution nº 3,059/2002, with the amendments to the Resolution CMN nº 4,441/2015. The effect of the rate increase was R\$ 18,437 shown below.

Determination of income and social contribution tax expense for the years ended December 31, 2019 and 2018 are as follows:

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	<u>2019</u>	<u>2018</u>
Income after participation in profits and income before tax and social contribution	439,606	313,210
Income and social contribution taxes	177,321	143,839
Income net of realization and constitution of deferred liabilities net of tax credits in the year	24,736	73,552
Effect of the increase / decrease of CSLL rate the tax credit	(18,437)	-
Nondeductible expenses net of non - Taxable revenues	(66,589)	34,535
Interest on equity (Note 23b)	(90,103)	(99,201)
Other	(59,980)	(182,438)
Total income and social contribution taxes - Current	(33,052)	(29,713)
<u>Deferred taxes and contributions</u>		
Tax liabilities set up in the year	130,926	45,406
Tax liabilities realized in the year	(45,962)	(73,118)
Tax credits set up in the year	(400,204)	(275,958)
Tax credits realized in the year	290,504	230,118
Total deferred taxes and contributions	(24,736)	(73,552)
Total income and social contribution taxes	(57,788)	(103,265)

17. Profit sharing

An allowance for profit sharing was established based on the Variable Compensation Program set up by Banco ABC Brasil S,A, and its employees, that takes into consideration activities developed by the Bank in various areas, the degree of responsibility, the degree of influence on earnings, as well as qualitative and quantitative targets set with individual Bank employees.

18. Contingent assets and liabilities and legal, tax and social security obligations

The Bank and its subsidiaries are involved in judicial and administrative proceedings of tax, labor and civil nature, both as plaintiff or claimer, Note 3,n explains the criteria for recognizing and measuring these suits and proceedings.

a) Fiscal contingents

The bank is responsible for actions and processes whose losses are being considered with possible prognoses by our directors in the amount of R\$ 328,920 (R\$ 402,555 in 2018) and have not been provisioned, see below the main lawsuits whose probability of unfavorable outcome was assessed as possible:

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Fine - Service Tax ("ISS") - 2008 a 2011

This is an administrative proceeding in which the Bank discusses the release of 50% of fine, the assessment notices issued by the municipality of São Paulo, referring to the service tax on guarantees of income on the period from 2008 to 2011. The fine was launched on values whose enforceability was suspended as linked to the injunction where challenging the levy of this tax. The amount involved is R\$ 15,718 (R\$ 14,329 in 2018).

Social Security's Charges ("INSS")

The Bank is currently a defendant in a lawsuit related to payment of pension charges, mainly on profit sharing related to 2006 to 2014 exercises, amounting to R\$ 211,718 (R\$ 281,135 in 2018).

Unauthorized payment - COFINS

Refers to payment of COFINS without fines, as established in article 63 of Law No, 9,430/96. Awaiting appeal decision, Amount demanded totals R\$ 3,859 (R\$ 3,746 in 2018).

Income Tax (IRPJ) and Social Contribution Tax (CSLL) related to the deduction of income for the period of 2010 on loans operations

Collection of income tax and social contribution related deduction of losses on loans operations in result of 2010. The Bank has estimated the losses as effective, however, the Receita Federal considers that occurred anticipation of the deduction period provided for in Law 9,430/96. The value of the requirement amounts to R\$ 5,671 (R\$ 5,454 in 2018).

IRPJ - Deductibility PLR of the Board on the period from 2010 to 2014

It is collection of income tax of PLR on the deductibility paid to the board of directors for the period of 2010 to 2014. Awaiting judgment of the cases in the administrative sphere. The amount of requirement amounts to R\$ 86,295 (R\$ 82,509 in 2018).

IOF - Tax on Financial Transactions in credit assignment operations

Collection of Tax on Financial Transactions on credit assignment operations with co-obligation carried out in 2015, due to the lack of payment of the Tax on Financial Transactions in these operations, which are characterized by the tax authorities as

"securities discount" and subject to tax collection. Awaiting judgment at the administrative level. The requirement amounts to R\$ 1,073 (had no requirement in 2018).

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PIS - ABC Brasil Distribuidora de Títulos e Valores Mobiliários S.A.

This is an action filed by the Federal Government in the face of a final decision that recognized the claim of the Distribuidora to non-payment of the PIS contribution from July 1997 to December 1999 pursuant to EC 17/1997. The estimated amount of the contingency corresponds to R\$ 1,927 (R\$ 1,895 in 2018).

b) Labor

On December 31, 2019, labor lawsuits in progress classified by our legal counsel as probable loss totaled R\$ 8,960 (Note 18,d). The labor lawsuits classified as possible loss totaled R\$ 16,966 and were not provisioned.

c) Civil

On December 31, 2019, civil claims in progress classified by our legal counsel as probable loss totaled R\$ 2,325 (Note 18,d). The civil lawsuits classified as possible loss totaled R\$ 4,769 and were not provisioned.

d) Changes in provisions

	Banco e Consolidado			
	Tax and legal obligations	Labor	Civil	Total
At the beginning of the year	9,509	11,079	1,436	22,024
Set up / (Reversal)	(8,003)	4,037	889	(3,077)
Write-offs	-	(6,156)	-	(6,156)
At the end of the year	1,506	8,960 (a)	2,325 (b)	12,791 (c)

(a) vide nota 18.b, (b) vide nota 18.c, (c) vide nota 14.a.

19. Result of commissions and services

The result of commissions and services, in the years ended December 31, 2019 and 2018, are described below:

	2019	2018
Income from guarantees given	193,765	224,932
Fees related to credit operations	12,768	16,575
Revenue from collection services	19,206	16,790
Revenue from bank charges	3,508	10,357
Revenue from commissions and securities placement	113,509	88,834
Revenue from other services	5,957	2,265
Total	348,713	359,753

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20. Net result of financial assets and liabilities

The net result of financial assets and liabilities, for the years ended December 31, 2019 and 2018 are described below:

	2019		
	Fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Total
Derivative financial instruments	83,460	-	83,460
Marketable securities	38,211	(1,334)	36,877
Funding raising - Transfers abroad	(2,596)	-	(2,596)
Subordinated debt	(857)	-	(857)
Total	118,218	(1,334)	116,884

	2018		
	Fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Total
Derivative financial instruments	56,047	-	56,047
Marketable securities	16,703	12,486	29,189
Funding raising - Transfers abroad	(18,520)	-	(18,520)
Subordinated debt	(10,838)	-	(10,838)
Total	43,392	12,486	55,878

21. Other operating income (expenses)

Other operating income (expenses) for the years ended December 31, 2019 and 2018:

	2019	2018
Restatement of judicial deposits	484	482
Taxes on operating income - PIS / COFINS / ISS	(61,376)	(57,882)
FGC contribution expenses	(10,137)	(10,761)
Other revenues (expenses)	9,053	(17,697)
Loss for contingent credit commitments (Constituição)/Reversal of other provisions	(10,873)	(653)
(Constituição)/Reversal of provisions (Note 18.d)	(1,696)	
	9,233	10,258
Total	(65,312)	(76,253)

22. Other expenses

Other expenses, for the years ended December 31, 2019 and 2018:

	2019	2018
Specialized technical services	(21,472)	(13,971)
Third party services	(9,055)	(9,111)
Financial system services	(24,534)	(16,921)
Other administrative expenses	(14,870)	(8,226)
Data processing	(16,996)	(12,909)
Transportation expenses	(528)	(480)
Tax expenses	(6,760)	(6,877)
Total	(94,215)	(68,495)

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23. Equity

a) Capital

On December 31, 2019 capital comprises 218,359,057 registered and uncertified shares (211,132,950 in 2018), without par value, of which 109,496,432 common shares (106,634,935 in 2018) and 108,862,625 preferred shares (104,498,015 in 2018).

b) Dividends and interest on equity capital

As established in the Bank's articles of incorporation, shareholders are entitled to an annual dividend of not less than 25% of net income adjusted as provided for in applicable law. Such dividend can, alternatively, be distributed in the form of interest on equity.

For the years ended December 31, 2019 and 2018 shareholders resolved to distribute interest on equity, calculated according with established by Law 9,249/95, as follows:

2019		
<u>Resolution approval date</u>	<u>Interest on equity</u>	<u>Reduction in expenses with income and social contributions taxes</u>
06/26/2018	120,161	48,064
12/21/2018	105,097	42,039
Total - 2018	225,258	90,103

2018		
<u>Resolution approval date</u>	<u>Interest on equity</u>	<u>Reduction in expenses with income and social contributions taxes</u>
06/26/2018	108,002	48,601
12/21/2018	112,445	50,600
Total - 2018	220,447	99,201

Interest on equity is calculated on net equity accounts and limited to the long-term interest rate, conditioned to the existence of profit calculated before deduction or retained subscription earnings and income reserves in amount equal or two times higher its amount.

On December 21, 2018, the Board of Directors approved the proposal for distribution of interest on own capital on the gross value of R\$ 112,445, that represents a gross value of R\$ 0.5390 per ordinary and preferential shares.

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c) Earnings per share

i) Basic earnings per share:

The basic earnings is calculate by dividing the profit attributable to shareholders of the Company by the weighted average number of shares outstanding during the period, excluding shares purchased by the Company and held as treasury shares (Note 23 e).

	<u>2019</u>	<u>2018</u>
Net profit attributable to the Parent	497,394	416,475
Weighted average shares outstanding	214,035,041	201,684,066
Basic earning per share (Brazilian reais)	2,32	2,06

ii) Diluted earnings per share

The diluted earnings per share is computed similar to basic earnings per share, but with the adjustment made by assuming the conversion of potentially dilutive shares in the denominator.

	<u>2019</u>	<u>2018</u>
Net profit attributable to the Parent	497,394	416,475
Weighted average shares outstanding	216,707,006	204,443,256
Diluted earning per share (Brazilian reais)	2,30	2,04

d) Destination of earnings

i) *Income reserve - Legal reserve*

The establishment of compulsory legal reserve of 5% of net income for December 31, 2019 is of R\$ 24,870 (R\$ 20,824 in 2018).

ii) *Income reserve - Dividend equalization*

At the Annual and Special Shareholders' Meetings held on April 30, 2008, the shareholders approved the creation of the account Income Reserve for Dividend Equalization, to which the retained earnings account balance is allocated, limited to 80% of capital, the latter of which is set up to maintain the shareholder payment flow.

ii) *Income reserve - Repurchase of shares*

The reserve for repurchase of shares is set up to support the possible opening, after approval by the Board of Directors, of the program for repurchase of the Institution's shares, should market conditions indicate such possibility.

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e) Treasury shares

For the year ended December 31, 2019, based on authorization of the Board of Directors to acquire shares of Company for holding in treasury, 5,033,592 preferred shares were repurchased.

On December 31, 2019, the total value of shares repurchased in treasury is R\$ 76,935 equivalent to 4,312,461 preferred shares (R\$ 35,569 equivalent to 2,514,535 in 2018). The average cost per share repurchased treasury is R\$ 17.84.

Changes in treasury shares

	<u>2019</u>	<u>2018</u>
At the beginning of the year	2,514,535	3,169,156
Shares acquired	5,033,592	1,888,718
Shares delivered	<u>(3,235,666)</u>	<u>(2,543,339)</u>
At the end of the year	4,312,461	2,514,535

f) Capital increase

On March 13, 2019 was deliberate by the Board of Directors a capital increase of R\$ 95,578, corresponding to the issuance of 7,226,107 new shares, being 3,693,611 new common shares and 3,532,496 new preferred shares through the use of interest on shareholders' equity or cash payment, approved by the Central Bank of Brazil on April 12, 2019.

24. Other information

Offset and settlement of liabilities agreement - the Bank has an agreement on the offset and settlement of liabilities under the Brazilian National Financial System, in accordance with CMN Resolution No. 3,263/05, resulting in added guarantees of settlement of their assets with financial institutions that are party to the agreement. The Bank does not have compensation mitigation services as of December 31, 2019 (R\$ 102,025 on December 31, 2018).

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25. Risk management

Corporate risk

Objectives

The Bank understands that risk management is a process aimed at adding and preserving value for the institution, providing reasonable assurance that events that may affect it are identified and promptly managed according to its risk appetite.

For this purpose, it keeps structures dedicated to risk management activities that assess, monitor and report both the assumed risk and the risk appetite of the organization, proposing measures to enhance execution of processes, correct failures and avoid practices that do not abide by the required standards. Thus, it aims also to comply with Resolution No. 4,557 by the National Monetary Council, governing the activities of operational, market, credit and liquidity risk management structures and the environmental responsibility framework, respectively.

The framework developed aims at the achievement of objectives through actions to:

- Align risk appetite and strategy adopted;
- Make decisions considering existing risks;
- Reduce unforeseen operating losses;
- Identify and manage risks associated with the ventures;
- Provide integrated responses to multiple risks;
- Seize opportunities; and
- Improve capital allocation.

All areas and associates are liable for Corporate Risk Management, which must perform their activities as good as they can and timely identify control risks, failures, and deficiencies to areas to be able to solve them, It is performed therefore, in a centralized manner by the Vice-President for Credit and Risk Management.

Governance

The Bank, a publicly traded company with shares traded on the São Paulo Stock Exchange, at level II, believes that the Bank should be managed with main focus on adding value for shareholders without infringing the rights of stakeholders, and respecting the laws that regulate markets within accepted and recommended ethical standards.

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The Bank's governance structure is based on the regulations from the São Paulo Stock Exchange, the Brazilian Securities and Exchange Commission (CVM) and the Central Bank of Brazil, with bodies like the Board of Directors, Remuneration Committee, Audit Committee and Supervisory Board (non-permanent), as well as the internal bodies, such as the Board Risk Committee, Collegiate Board and other operating committees, as the Credit Committee and the Finance Committee.

The Board of Directors is responsible for defining the risk appetite of the institution, the approval of business strategies and the maintenance of high governance standards. It should ensure the effectiveness of the risk management framework, providing independence and resources for its proper functioning. It receives support from bodies and committees created for this purpose.

The Executive Board is responsible for enforcing Board of Directors resolutions and management of the institution's activities.

The risk management policies are disclosed on internal page (Intranet), where the rules are published and made accessible to all Bank employees.

Since the Bank operates with large and medium-sized corporate customers, it opted to create two independent credit extension structures, in order to be more efficient and accurate in analyses, the establishment of credit limits and definition of required guarantees.

Approval of the credit lines is the responsibility of the Credit Committee for customers in general and the Finance Committee for those of the financial sector, until the limits of their levels of authority. Above that, such approval is the exclusive prerogative of the Board Risk Committee.

The Bank has supported the Areas of Credit Management to ensure that risks are within the prescribed limits and that the guarantees are within the required coverage and quality.

The area of Risk Management monitors the credit point of view of portfolio concentration monitoring and evaluating the impact of adverse scenarios. Generated reports are regularly sent to the Risk Committee of the Board of Directors, the Audit Committee (presented on monthly meetings) and the Executive Board.

The business model of Banco ABC Brasil, focused on loans, financing, guarantees and derivative instruments with medium-sized and large customers, has a structure that is responsible for the entire credit management cycle, including but not limited to:

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- Evaluation of new customers;
- Review of credits already extended;
- Evaluation of new products;
- Adaptation of products to its target customers;
- Monitoring of concentrations;
- Release of operations within the approved conditions;
- Timely identification of weakness in economic and financial condition of customers;
- Analysis of the impact of changes in circumstances on portfolio quality;
- Adequacy of collateral provided by customers,
- Collection of amounts due;
- Collection suits, whether amicable or not; and
- Management of guarantees provided.

Credit risk management criteria

Credit risk management encompasses all related activities, from approval of credit lines until settlement, including accounting, allocation of economic and regulatory capital and issuing periodic managerial reports to the Executive Board and Board of Directors:

- Credit risk management is done both from the perspective of processes and products;
- The credit approval process for new or existing customers depends on the authority and responsibility defined for people, areas and committees involved;
- The credit extension process is governed by specific rules for the Corporate and Middle-Market portfolio, taking into account market conditions, the macroeconomic prospects, changes in products and sectorial or geographical concentrations;
- Credit risk is assessed both on its own merits, as the mitigating effect of guarantees, also evaluates the effectiveness of the transfer of credit risk;
- The limits are set by customer and financial group for all credit risk exposures, including counterparty, settlement and issuer risk, both for the trading and non-trading portfolios;
- There are specific processes and processes for management of credit portfolios and the monitoring of individual customers, including determination of appropriate provisions and reserves, and procedures for attributing and monitoring credit rating;
- There are mechanisms for monitoring risks, quality and concentration of the portfolios, which are used in the preparation of stress scenarios and specific reports;
- The counterparty risk arising from changes in market risk variables is identified and subject to regular reviews;

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- There is a formalized process for treatment of doubtful credits, indicating incumbents and classification of cases according to the stage of collection;
- All positions subject to credit risk are monitored, including off-balance sheet ones, which are recorded on a deemed risk basis, taking into account the likelihood and impact of the materialization of rights of receipt of the Bank;
- Large credit lines are approved by the Board Risk Committee, which also defines the levels of authority of local management;
- Credits prohibited are included in specific list and are consistent with the policies to prevent money laundering;
- New products are analyzed taking into account both the risk it brings to the Bank and to the customer, according to their needs and sophistication;
- The areas involved in the management and monitoring of credit risk are independent from the business areas and have the necessary structure to perform their activities; and
- Internal Audit, in accordance with the audit plan based on relevant risks, periodically reviews the credit risk management process (design and operational effectiveness of the internal control environment). The results are reported to the Executive Board, Audit Committee, Board of Directors and to Group Audit (controlling shareholder). Notes are monitored to ensure implementation within the agreed deadlines.

Rating

Banco ABC Brasil works with a rating scale applied to customers, complemented by the rating of each individual operation. The first derives from quantitative and qualitative factors relating to the customer and takes into account the industry, management quality, market positioning, support from parent company, the quality of information available and the figures in the financial statements. For the rating of the operation, the effect of associated guarantees is further considered.

Credit monitoring

The monitoring of credits is done steadily for dedicated area that accompanies the behavior of credit portfolios and guarantees, as well as information from third parties such as credit bureaus. The activity is supported by specific systems.

Credit review

There is specific area of Credit Review with the dual mission to verify the quality of the analyzes and to proceed with an interim assessment during the period of the lines. This area is independent of the Executive Board of Credit Analysis.

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Monitoring limit use of credit and guarantees

The framework of credit exposures is monitored constantly by area and dedicated systems. The same is true for the guarantees, which also has a specialized team to monitor the degree of coverage. The Committee shall meet guarantees in order to discuss, report and troubleshoot disability or quality of the collateral transferred.

Deemed risk

Derivative operations use the credit lines specifically approved for them in amounts related to a proportion of the notional value. This stems from the maturity of the operation and the volatility of the risk factors involved. Daily recalculation ensures that volatility shocks, amounts paid and term reduction are taken into account.

Credit recovery process

The Bank has specific processes for quick recovery of loans in default, and it also has a dedicated structure for this. The Credit, Commercial, Legal areas and the Credit Committee and Vice Chairs are directly involved and problem solving is monitored considering the specific characteristics of each case.

Responsibility of the committees

- *Board Risk Committee*: it is responsible for approving the credit risk management structure and the credit lines above the level of authority of the local Credit Committees;
- *Credit Committee - Corporate*: it is responsible for credit approval for corporate customers until its level of authority and the ratification of the rating assigned to customers and operations - all approvals must be by unanimous voting of its members, including managers of the Credit and Commercial areas and Chair and Vice Chairs;
-
- *Syndicated Operations Committee*: responsible for approving limits for underwriting operations;
- *Committee of LLP, which discusses* and validates the amount of provisioning for all operations of the Bank, also reviewing the rating by range of delay, guarantees provided, or significant facts that impact customer repayment capacity; and
- *BNDU Committee*: It proposes policies and strategies for sale of property and assets received from of loans or from performance guarantees.

Credit concentration

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a) Sectorial concentration

Managerial monitoring of sectorial concentration is based on classification that takes into account the correlation of the activities of each sector with the economic cycle, taking into account the needs and reality of the Bank, Exposure is monitored by the Risk Management and Credit Extension areas, the Executive Board and the Board of Directors for both the Large Corporate and the Corporate portfolios, It are based on the concentration of credit and advances portfolio and guarantees provided.

	Total		Large Corporate		2019 Corporate		Middle	
	Amount		Amount		Amount		Amount	
	(R\$ mil)	%	(R\$ mil)	%	(R\$ mil)	%	(R\$ mil)	%
Agribusiness	5,551,743	18,58	666,598	4,33	4,838,751	35,34	46,394	5,92
Trade and services	4,045,979	13,54	1,455,974	9,45	2,398,264	17,52	191,741	24,48
Construction and infrastructure	2,960,140	9,91	925,868	6,01	1,908,138	13,94	126,134	16,10
Financial	2,900,629	9,71	2,819,680	18,30	63,232	0,46	17,717	2,26
Transformation industry	2,898,204	9,70	1,867,963	12,12	913,300	6,67	116,941	14,93
Industry and technology	3,496,269	11,70	1,743,400	11,31	1,530,236	11,18	222,633	28,42
Individuals	513,627	1,72	158,128	1,03	355,499	2,60	-	0,00
Transport and logistics	2,448,712	8,19	1,367,885	8,88	1,042,576	7,61	38,251	4,88
Utilities	5,067,984	16,96	4,402,488	28,57	641,942	4,69	23,554	3,01
Total	29,883,287	100,00	15,407,984	100,00	13,691,938	100,00	783,365	100,00

	Total		Large Corporate		2018 Corporate		Middle	
	Amount		Amount		Amount		Amount	
	(R\$ mil)	%	(R\$ mil)	%	(R\$ mil)	%	(R\$ mil)	%
Agribusiness	5,090,983	19,35	879,353	5,92	4,163,866	38,61	47,764	7,27
Trade and services	3,275,714	12,45	1,170,372	7,87	1,954,735	18,12	150,607	22,73
Construction and infrastructure	2,687,546	10,22	1,095,200	7,37	1,473,155	13,66	119,191	18,03
Financial	2,761,621	10,50	2,707,275	18,21	31,837	0,30	22,509	3,48
Transformation industry	2,933,359	11,15	2,160,988	14,54	664,934	6,17	107,437	16,21
Industry and technology	2,833,951	10,77	1,364,902	9,18	1,309,357	12,14	159,692	24,24
Individuals	298,220	1,13	133,541	0,90	163,207	1,51	1,472	0,15
Transport and logistics	1,670,791	6,35	1,144,396	7,70	507,707	4,71	18,688	3,03
Utilities	4,756,977	18,08	4,208,789	28,31	516,037	4,78	32,151	4,85
Total	26,309,162	100,00	14,864,816	100,00	10,784,835	100,00	659,511	100,00

a) Credit risk concentration by financial instrument type

	(In mil of R\$)	
	2019	2018
Amount receivable from banks	5,118,213	7,266,560
Financial instruments	5,716,171	6,475,857
Loans and advances to customers	20,627,161	15,658,295
Subtotal	31,461,545	29,400,712
Guarantees provided and responsibilities	9,256,126	10,650,867
Total	40,717,671	40,051,579

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Credit portfolio quality

The portfolio of loans and advances to customers by credit quality is presented below, High quality credits are those fitting into Ratings 1 to 5, Rating 6 corresponds to prime quality, Ratings 7 to 11 correspond to sub-prime quality. At the end of 2019 and 2018, the portfolio classified as sub-prime coincided with that considered by management as involving possibility of impairment problems.

	(In million of R\$)	
	2019	2018
High quality	13,955,598	12,763,868
Prime quality	5,519,811	1,839,647
Sub-prime quality	946,759	545,929
Overdue credits	204,993	129,637
Total	20,627,161	15,279,081

Liquidity risk

Description

The liquidity risk is basically present in the following two forms:

- *Funding risk*: related to access to funds to honor obligations or expand activities; it presents a time component defined by occurrence of imbalances between cash inflows and outflows that may affect the Bank's payment capacity, taking into consideration different currencies and terms for settling its rights and obligations;
- *Market liquidity risk*: related to the capacity to operate in the markets, without causing significant changes in price or charge.

Liquidity risk is managed by the Finance Committee, composed of Chair and Vice Chairs and treasury, credit rating, risk management, fund raising and managerial information managers, Treasury implements the decisions of the Finance Committee

and manages, within the limits set for its operations, cash raising and application and mismatches between cash inflows and outflows over time, It is supported by the Risk Management area, which monitors the acceptable levels of liquidity in the present and future, and by the Financial Planning area, which holds the information for the control over cash positions. Daily reports generated are sent to Treasury, the Executive Board, Internal Audit, as well as Risk Management areas of the controlling shareholder, Weekly, the Finance Committee re-evaluates the strategy for the next period.

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The Internal Audit, in accordance with the audit plan based on relevant risks, periodically reviews the liquidity risk management process (design and operational effectiveness of the internal control environment). The results are reported to the Executive Board, Audit Committee, Board of Directors and to Group Audit (controlling shareholder). Notes are monitored to ensure implementation within the agreed deadlines.

Tools

- *Liquidity cushion*: cash position should be sufficient to face a serious stress situation as long as necessary for the actions taken to have the corresponding effect. The Financial Committee establishes such period in number of months and guarantees that the cash is higher than the amount calculated. The model takes into account and both take into account the liabilities falling due, redemption of applications, devaluation of government securities, margin call and assets renewal rate, among others;
- *Cash flow map*: it indicates the changes in cash position in time slots, serving to evaluate performance by product or customer type and adequacy of the temporal profile of borrowings to finance the Bank's asset portfolio;
- *Limits*: tool to ensure there is no concentration of investors, periods or a combination of both; and
- *Liquidity Contingency Plan*: A plan that indicates the actions to be taken in managing the portfolios, in Treasury activities, in reporting on crisis management and other situations, considering different scenarios and, in each of them, varying severity degrees,

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Tools

The balance sheet by maturity, for the years ended December 31, 2019 and 2018, are as follows:

Assets	2019							Total
	Up to 30 days	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Above 5 years	No maturity	
Cash and reserve with Central Bank of Brazil	297,187	-	-	-	-	-	-	297,187
Financial assets stated at fair value through profit or loss	1,902,998	30,860	96,831	449,961	541,845	10,041	-	3,032,536
Marketable securities	1,885,724	-	-	-	103,135	-	-	1,988,859
Derivatives	17,274	30,860	96,831	424,311	430,294	2,761	-	1,002,331
Loans and advances to customers	-	-	-	25,650	8,416	7,280	-	41,346
Financial assets measured at fair value in other comprehensive income	70,248	309	6,646	12,814	601,819	1,206,104	-	1,897,940
Marketable securities	70,248	309	6,646	12,814	601,819	1,206,104	-	1,897,940
Derivatives used as fair value hedge	-	-	41,939	-	5,291	-	-	47,230
Financial assets recorded at amortized cost	6,746,043	2,959,903	2,925,053	4,435,726	8,170,203	876,279	-	26,113,207
Repurchase agreements	4,268,581	-	-	-	-	-	-	4,268,581
Deposits with private banks	449,621	203,287	-	183,822	9,813	-	-	846,543
Marketable securities	249,866	-	-	-	462,685	68,803	-	781,354
Loans and advances to customers	1,777,975	2,756,616	2,925,053	4,251,904	7,697,705	807,476	-	20.216.729
Other assets	1,188,726	-	-	-	-	-	-	1,188,726
Property and equipment	-	-	-	-	-	-	68,999	68,999
Total Assets	10,205,202	2,991,072	3,070,469	4,898,501	9,319,158	2,092,424	68,999	32,645,825

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Liabilities	2019							Total
	Up to 30 days	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Above 5 years	No maturity	
Financial liabilities stated at fair value through profit or loss	16,364	64,594	417,997	263,971	360,139	-	-	1,123,065
Subordinated debt	-	-	284,544	-	-	-	-	284,544
Fund raising - Transfers abroad	-	-	76,897	-	-	-	-	76,897
Derivatives	16,364	64,594	56,556	263,971	360,139	-	-	761,624
Financial liabilities recorded at amortized cost	3,771,531	3,518,458	4,626,105	7,122,009	6,476,040	803,442	480,068	26,797,653
Fund raising	3,771,531	3,518,458	4,626,105	7,122,009	6,476,040	803,442	480,068	26,797,653
Deposits	1,144,086	799,993	692,335	2,573,163	393,547	90,545	-	5,693,669
Repurchase agreements	731,371	159,784	201,328	-	-	-	-	1,092,483
Funds – acceptance/ issue of securities	567,967	931,448	1,196,653	1,994,849	4,735,248	79,480	-	9,505,645
Interbranch accounts	27,939	11,953	7,840	-	-	-	-	47,732
Foreign borrowings	1,261,810	1,384,978	1,939,577	1,500,312	41,791	-	-	6,128,468
Onlendings in Brazil	26,525	128,104	63,634	290,089	506,008	153,072	-	1,167,432
Funding - Transfers abroad	2,708	101,519	301,066	616,915	51,664	-	-	1,073,872
Subordinated debt	9,125	679	223,672	146,681	747,782	480,345	480,068	2,088,352
Other liabilities	657,525	-	-	-	-	-	-	657,525
Taxes	156,851	-	-	-	-	-	-	156,851
Other	500,674	-	-	-	-	-	-	500,674
Equity	-	-	-	-	-	-	4,067,582	4,067,582
Total liabilities and equity	4,445,420	3,583,052	5,044,102	7,385,980	6,836,179	803,442	4,547,650	32,645,825

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Assets	2018							Total
	Up to 30 days	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Above 5 years	No maturity	
Cash and reserve with Central Bank of Brazil	29,378	-	-	-	-	-	-	29,378
Financial assets stated at fair value through profit or loss	3,431,695	79,018	81,896	748,480	817,942	107,107	-	5,266,138
Marketable securities	3,367,112	-	-	654,090	-	97,318	-	4,118,520
Derivatives	64,535	79,018	77,670	81,717	771,871	181	-	1,074,992
Loans and advances to customers	48	-	4,226	12,673	46,071	9,608	-	72,626
Financial assets measured at fair value in other comprehensive income	159,801	-	43,545	-	15,022	153,570	-	371,938
Marketable securities	159,801	-	43,545	-	15,022	153,570	-	371,938
Derivatives used as fair value hedge	-	-	-	-	33,359	-	-	33,359
Financial assets recorded at amortized cost	8,445,004	2,340,901	2,552,603	3,777,346	6,004,583	253,678	-	23,374,115
Repurchase agreements	5,809,890	-	-	-	-	-	-	5,809,890
Deposits with private banks	855,363	572,308	-	21,551	-	-	-	1,449,222
Marketable securities	349,814	-	-	-	486,394	-	-	836,208
Loans and advances to customers	1,429,937	1,768,593	2,552,603	3,755,795	5,518,189	253,678	-	15,278,795
Other assets	991,597	-	-	-	-	-	-	991,597
Property and equipment	-	-	-	-	-	-	48,883	48,883
Total Assets	13,057,475	2,419,919	2,678,044	4,525,826	6,870,906	514,355	48,883	30,115,408

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Liabilities	2018							Total
	Up to 30 days	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Above 5 years	No maturity	
Financial liabilities stated at fair value through profit or loss	75,091	81,855	75,899	80,443	1,029,842	436	-	1,343,566
Subordinated debt	-	-	-	-	274,552	-	-	274,552
Fund raising - Transfers abroad	-	-	-	-	97,205	-	-	97,205
Derivatives	75,091	81,855	75,899	80,443	658,085	436	-	971,809
Financial liabilities recorded at amortized cost	2,494,558	3,792,679	3,632,067	7,292,461	6,458,267	856,240	-	24,526,272
Fund raising	2,494,558	3,792,679	3,632,067	7,292,461	6,458,267	856,240	-	24,526,272
Deposits	762,988	1,119,681	1,102,110	2,889,234	317,769	-	-	6,191,782
Repurchase agreements	438,858	278,669	-	-	-	-	-	717,527
Funds – acceptance/ issue of securities	590,399	996,803	985,491	2,198,453	4,258,536	502	-	9,030,184
Interbranch accounts	693	3,107	994	23,441	-	-	-	28,235
Foreign borrowings	675,494	1,155,132	1,163,476	1,383,266	310,983	-	-	4,688,351
Onlendings in Brazil	24,675	142,306	189,800	241,364	586,306	121,882	-	1,306,333
Funding - Transfers abroad	-	96,981	181,026	555,478	194,145	-	-	1,027,630
Subordinated debt	1,451	-	9,170	1,225	790,528	733,856	-	1,536,230
Other liabilities	506,722	-	-	-	-	-	-	506,722
Taxes	92,080	-	-	-	-	-	-	92,080
Other	414,642	-	-	-	-	-	-	414,642
Equity	-	-	-	-	-	-	3,738,848	3,738,848
Total liabilities and equity	3,076,371	3,874,534	3,707,966	7,372,904	7,488,109	856,676	3,738,848	30,115,408

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Market risk

Description

Market risk is defined as the possibility of losses resulting from fluctuations in market values of positions held. The risks of operations subject to exchange variation, fluctuations in interest rates, share prices and commodity prices fit into this concept.

Market risk management is performed using inside information that the Risk Management area, which centralizes control activities and monitors the exposure of portfolios, provides daily to management, Treasury and Finance Committee members.

The Risk Management area further prepares specific reports to the Board of Directors and the Audit Committee, as part of the Committee's regular risk management monitoring activities and also discloses the Bank's risk appetite to the areas involved in market risk management and also participates in the approval process for new products or activities.

Treasury implements the decisions of the Finance Committee and manages the trading and non-trading portfolio positions within the limits set for its actuation. The Finance Committee formally discusses the exposures in its weekly meetings and outlines the strategy for the next period, and must always ensure that the limits are appropriate to the risk appetite and the market situation and act immediately in case of noncompliance.

The risk appetite is expressed in the form of limits, which are approved for each calendar year, or for shorter periods if necessary, by the Finance Committee, the Board Risk Committee, the Asset and Liability Committee and Board Risk Committee of the Arab Banking Corporation.

The market risk management structure adheres to the Bank's governance standards. The Treasury report ensures independence in relation to other business areas. The same happens with the Risk Management area, which reports to the CEO and the Board Risk Committee.

The Internal Audit, according to the audit plan based on relevant risks, periodically reviews the market risk management process (design and operational effectiveness of the internal control environment). The results are reported to the Executive Board, Audit Committee, Board of Directors and to Group Audit (controlling shareholder). Notes are monitored to ensure implementation within the agreed deadlines.

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Tools

The main market risk management tools used are:

- *Value-at-Risk (VaR)*: This indicator measures the value in monetary units of the largest loss that a portfolio can suffer in a given period for a predetermined level of statistical reliability. It can be calculated in various ways, but basically it takes into account the distribution of portfolio returns. The great advantage of the index is to allow comparison of the risk of different asset classes, taking into account the correlation between their returns and be a simple measure for establishing exposure limits. Daily reports generated show the VaR calculation for the different risk factors and the various terms (in case of interest rate), helping to identify concentration of risks in the portfolios and guiding more effective exposure management measures. Properly hedged positions contribute little to VaR magnitude, even in markets with high volatility. The calculation is based on a historic VaR model with observation window of one year, retention period of one day and reliability level of 99%, VaR, however, as mentioned in "stress tests" item below, does not consider the impact of extreme events, resulting from significant shocks that cause abrupt changes in prices and changes in the pattern of correlation of returns;
- *Sensitivity analysis (DV01)*: Fixed income indicator that shows the gain or loss on the parallel shift of 1bp (basis-point) in the forward structure of interest rates. It also serves to indicate risk concentration, taking into account that the effect of changing interest rates is more pronounced for longer maturities;
- *Stress tests*: Result of application of crisis scenarios in the portfolios. They can be historical scenarios, representing the effects of crises occurred, or hypothetical scenarios. Such scenarios should take into account changes in prices over a period of time appropriate to consider both the cumulative effect of shocks and that necessary for reversal or hedge of risk positions. It allows to take into account extreme but feasible events, which would be on the tail of the return distribution curves, as these are not considered in calculating VaR; and
- *Back-testing*: Tests in which there is comparison of daily returns of portfolios with the maximum losses forecast by VaR with a given reliability level. For example, for VaR with reliability level of 99%, in the remaining 1% of cases, the loss occurred should be less than the calculated VaR. The objective is to verify adherence of the model used for calculating VaR.

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The calculated amount is within the approved limits and presented the following changes:

	Average	Maximum	Minimum
2019	4.293	7.433	2.245
2018	3,489	6,746	1,597

The Bank also discloses a sensitivity analysis to market risk classes considered significant by management arising from financial instruments, in compliance with regulatory rules (CVM Rule No, 475). The table below demonstrates, in management's view, both the most likely scenario, as well as two additional scenarios. The probable scenario considers the prices set in contracts and capital allocation according to the Basel II rules. Scenario II considered a 25% increase in risk variables considered in accordance with the nature of financial instruments, Scenario III considered a 50% increase in the same variable. The scenario analysis was based on minimum capital required to cover the risk of exposure to interest and foreign exchange rates at December 31, 2019.

	Exposure		
	Probable Scenario	Scenario II	Scenario III
i) Interest rate			
Net exposure to fixed interest rates (RWAjur1)	10,741	13,607	16,472
Net exposure of currency coupons (RWAjur2)	30,750	32,296	33,843
Net exposure of index coupons (RWAjur3)	20,314	21,247	22,180
Total interest rate exposure (Note 27)	61,805	67,150	72,495
ii) Foreign exchange rate			
Total exposure purchased at exchange rates	28,195	31,651	35,106
iii) Index, shares and commodities			
Total exposure to index, shares and commodities	126,851	134,905	142,959

With respect to interest rate risk of the Non-trading Portfolio (Banking Book), the Bank applies tests to ensure that capital allocation is also sufficient to cover such risks, The results of procedures, at December 31, 2019, showed an exposure of R\$ 128,027. It results from the calculation of an interest rate shock applied to this portfolio. This results from the calculation of VaR of exposure to interest rate with retention period of one year. For purposes of sensitivity analysis, the risk of currency mismatch of this portfolio is considered in the position of exchange rates described immediately above,

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Operating risk

Description

The Bank recognizes that the operating risk is a specific category of risk and, as such, should be managed. Its scope should include the entire institution, involving all of its employees, and consider its processes, activities, systems, products and physical structure. Operating risk includes legal risks and has the support of the internal legal department.

Operating risk management is structured in three lines of defense. The first is the actuation of the manager of the areas responsible for the processes, systems or products. Secondly, risks are mapped, along with the related controls and mitigators, and monitored by the Risk Management area. Finally, the Audit is the ultimate monitoring level of the operating, business and support areas, as well as of other control and risk management areas.

Management is based on ongoing identification, evaluation, monitoring, control and mitigation of risks through specific tools. It is routinely monitored at the corporate level by internal and external audits and the Operating Risk Committee, constituted for this purpose. The effectiveness of actions is reinforced by timely communication to management, the involvement of employees and the efforts to disseminate the culture of risk management.

Methodology

The operating risk management model provides for:

- Identification, assessment, monitoring, control and mitigation of operating risk through management instruments and systems;
- Mapping of processes in a standardized and organized way based on the structure of the organization;
- Mapping of risk controls and structured in a systematic way for each mapped process (Risk and Control Matrix);
- Risk and controls assessment according to the institution's internal methodology and dedicated electronic system support;
- Key risk indicators;
- Databases of losses and incidents in connection with operating risk; and
- Communication of operating risk through management instruments, systems or specific forums;
- The Internal Audit, in accordance with the audit plan based on relevant risks, periodically reviews the operational risk management process (design and operational effectiveness of the internal control environment). The results are reported to the Executive Board, Audit Committee, Board of Directors and to Group

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Audit (controlling shareholder). Notes are monitored to ensure implementation within the agreed deadlines.

26. Statement of value added

Statement of value added for the year ended December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Determination of Value Added		
Net interest income	711,636	833,710
Result from commissions and services	348,713	359,753
Net result from financial assets and liabilities	116,884	55,878
Result from foreign exchange operations and exchange variation	(34,773)	(259,669)
Loss on receivables (net of recoveries)	(111,460)	(125,999)
Other administrative expenses	(58,292)	(51,773)
Other operating expenses	(152,767)	(137,871)
Value added	819,941	674,029
Value added to be distributed	819,941	674,029
Value distributed	819,941	674,029
Value added distribution		
Work remuneration	319,503	306,165
Personnel expenses	135,206	125,564
Benefits, social charges and training (except INSS)	39,786	37,376
Profit sharing	144,511	143,225
Government remuneration	3,044	(48,611)
Social security - INSS	54,072	47,777
Tax expenses (except IR and CSLL)	6,760	6,877
Income and social contribution tax expenses	(57,788)	(103,265)
Remuneration of shareholders	497,394	416,475
Interest on equity (Note 23.b)	220,447	220,447
Retained profits	276,947	196,028

The statement of value added is not required by the IFRS, but it is been presented as supplementary information in accordance with brazilian statutory legislation for public companies, and was derived from the Consolidated Financial Statements of the Bank prepared in accordance with the IFRS.

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27. Operating limit - Basel Accord

The Central Bank of Brazil, through Resolution No, 4,192/13 and 4,278/13, instituted the determination of the reference equity on a consolidated basis for the financial conglomerate and by Resolution No, 4,193/13 instituted calculating the minimum equity required for reference the Risk Weighted Assets (RWA), both with effect from October 2013. The capital adequacy ratio for December 31, 2019 calculated based on the prudential conglomerate is 16,89% (17,16% at December 31, 2018). The table below shows the calculation of the minimum equity required for the reference risk weighted assets (RWA) which was 8,00% on January 01, 2019 (8,63% at December 31, 2018).

	<u>2019</u>	<u>2018</u>
Credit risk	2,166,739	2,011,029
Interest rate	61,805	80,079
Commodities	121,645	90,623
Actions	5,205	18
Operating risk	167,918	139,469
Exchange risk	28,195	15,989
Required capital base (PRE)	2,551,507	2,337,207
Reference equity (PR)	5,387,009	4,651,280
Excess of equity in relation to limit	2,835,502	2,314,073
Conciliation Shareholders equity capital		
Shareholders equity capital	4,040,733	3,665,510
Subordinated Financial Bills - <i>Nível II</i>	905,779	1,006,321
Perpetual Financial Bills - <i>Nível I</i>	480,067	-
Other adjustments	(39,570)	(20,551)
Total Reference equity x Shareholders equity capital	5,387,009	4,651,280

28. Subsequent event

In recent weeks, the Administration has been following developments related to COVID-19, observing with due attention the government guidelines, World Health Organization and specialized advice. The Bank has been adopting several preventive measures to preserve the safety and health of its employees, as well as maintaining the operation. It is important to note that the duration of the population's seclusion in their homes, in addition to the extent and intensity that the virus may spread, means that, at this moment, the Bank does not have an estimate of the impacts of COVID-19 on its results in subsequent periods.