BANCO ABC BRASIL 1Q21 EARNINGS CALL

May 17, 2021

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

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

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

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

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

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

Mr. Borejo: Good morning ladies and gentlemen and thank you for joining our conference call for the first quarter of 2021. In Slide 2 we present the financial highlights of the period. The Net Income reached 122.4 million Reais in the 1Q21, an increase of 15.5% over the previous quarter, and 51.1% over the same period of 2020, confirming the continuation of the normalization process of the Bank's performance after the impact of the COVID-19 pandemic.

The Return on Average Equity (ROAE) was 11.3% in the first quarter of 2021, 130 bps up versus the previous quarter and of 330 bps up in comparison to the same period of 2020.

The Net Interest Income reached 315.9 million Reais in 1Q21 – with an expansion of all its lines in the quarter - presenting a 5.4% increase over the 4Q20 and 23.7% over the 1Q20. The highlight was the Financial Margin with Clients, which totaled 216.7 million Reais – the seventh consecutive quarter-over-quarter growth, and the fourth quarter to surpass the R$200 million mark.

The Expanded Provision Expenses - which includes the provisions for loans, corporate securities, guarantees issued and assets not for own use, as well as credit recoveries - was 49.3 million Reais in the quarter, a decrease of 48.9% over the previous quarter and 16.5% over the same period of 2020, demonstrating a clear inflection of trend in relation to previous quarters.

In Slide 3 we present the highlights of the period. Additionally, the Bank continues to focus on expanding its client base, mainly in the Middle segment, with a quarterly addition of 150 total clients, out of which 35 with credit exposure.

These figures already consider the new client segmentation, introduced in January 2021, with the following segments: Corporate & Investment Banking: (formerly Large Corporate): includes companies with annual sales above 4 billion Reais; Corporate: annual sales between 300 million and 4 billion Reais and Middle: annual sales between 30 million and 300 million Reais. The new segmentation aims to better serve similar groups of clients, with specific needs and characteristics.

In Slide 4, we can see the 1Q21 Earnings Evolution in an annual comparison. The Recurring Net Income reached 122.4 million Reais in the 1Q21, an increase of 51.1% compared to the 81.0 million Reais presented in the 1Q20, explained mainly by the increase in Financial Margin with Clients and with the Market and by the increase in Services Revenues. The results were partially offset by the increase in Income Tax and Social Contribution, as result of the higher profitability, and by the decrease in the Shareholders' Equity Remunerated at CDI, following the fall in the basic interest rate.

In Slide 5, we present the evolution of the expanded credit portfolio. The Expanded Credit Portfolio grew 3.2% in the quarter and 14.1% in 12 months. The Middle segment presented an increase of 4.9% versus the fourth quarter of 2020 and an increase of 163% in 12 months. The segment accounted for 10.2% of the Loan Portfolio and 6.3% of the Expanded Credit Portfolio. The increase in the gradual relevance of the Middle segment within the Bank's Expanded Credit Portfolio contributes to the fragmentation of its client base, risk diversification and maintenance of the spread. The Corporate segment presented a 1.3% increase versus the previous quarter, and of 6.7% in 12 months. Finally, in the C&IB (formerly called Large Corporate), the Expanded Credit Portfolio grew 5.5% in the quarter and 14.3% in 12 months.

In Slide 6, some highlights of each segment. The Middle segment increased the total clients base by 146 in the quarter, and by 619 in the year – an increase of 2.1x in 12 months, reaching almost 1,200 customers. At the same time, the average exposure per client was nearly stable at 2.8 million Reais. The Middle portfolio ended the quarter with an average term of 449 days. In the Corporate segment, the Bank ended the first quarter of 2021 with 1,291 clients. Of these, 996 had credit exposure, resulting in an average exposure of 17.1 million Reais per client. The Corporate portfolio ended the quarter with an average term of 430 days. Finally, in the C&IB segment, the Bank ended the first quarter of 2021 with 315 clients, of which 190 had credit exposure, resulting in an average exposure of 68 million Reais per client. The C&IB portfolio ended the quarter with an average term of 346 days.

In slide 7, we present the sector segmentation of our Expanded Credit Portfolio. First, our Expanded Credit Portfolio continues to show a high sector diversification, and larger exposure to sectors, in our view, with a more defensive profile, including: agribusiness (such as grains, agriculture & livestock), infrastructure, energy generation & transmission, among others. In addition, the sector breakdown was similar to the previous quarter.

In slide 8, we present some indicators that reflect the quality of our credit portfolio. In the first graph, we present the Loans Overdue More Than 90 Days. As we can see, this index ended March accounting for 0.3% of the portfolio, a 0.2 percentage point decrease versus the previous quarter, still substantially below the historical average - closer to 1%.

In the second graph, as we can observe, this was another quarter with a low level of NPL formation. Up to now, with the information that we have available, and just highlighting that overall market conditions have been quite dynamic, the performance of the NPL Formation continues to show well-behaved delinquency levels.

In Slide 9, first graph, we can see that, by the end of the first quarter, Loan Loss Reserves to Classified Loans reached 2.9%, an increase of 0.1 percentage point in relation to the previous quarter, mainly due to the constitution of an Additional Provision of 38.5 million Reais related to the Middle segment, in order to adjust reserve levels to the evolution of the profile of this specific segment, more focused on smaller clients, when compared to the other segments.

In the bottom graph at the bottom, we present the Coverage Ratio. The continued building of credit reserves, combined with the decrease in past due loans to levels significantly below the historical average, resulted in a material increase in the loan portfolio Coverage Ratio, reaching 1,156 percent.

In Slide 10, we present the evolution of the Balance of Renegotiated Credits. The Balance of Renegotiated Credits moved from 212.2 to 244.1 million Reais, an increase of 15%, equivalent to 1.1% of the classified loan portfolio, below the historical average.

The volume of Deferred Credit Transactions with the impact of the COVID-19 pandemic was reduced by 243 million Reais, closing the quarter at 554 million Reais (797 million in the previous quarter) – equivalent to 2.6% of the Loan Portfolio.

In Slide 11 we show the evolution of the Expended Provision Expenses and their main components. Loan Loss Provision Expenses reached 34.4 million Reais in the quarter – already including the Additional Provision related to the Middle segment – a decrease of 4.3% in relation to the previous segment and a decrease of 43.4% when compared to the same period of 2020. The cost of credit was equivalent to 0.6% of the classified loan portfolio – a decrease of 0.1 percentage point over the previous quarter. Provision for the Devaluation of Securities (PDS) reached 20.4 million Reais in the quarter, a decrease of 57.7% vs. the previous quarter, and of 32.0% in relation to the first quarter of 2020.

The Expanded Provision Expenses, which include Loan Loss Provision, as well as Provision for the Devaluation of Securities, Provision for Guarantees Issued, Provision of Assets not for Own Use, in addition to Credit Recoveries, reached 49.3 million Reais, equivalent to 0.6% of the expanded portfolio - compared to 1.1% in the previous quarter and to 0.8% in the same quarter of 2020. Important to mention that those figures already include approximately 45 million in Credit Reversions in the quarter.

In Slide 12, we present the evolution of our Funding. By the end of March, the Funding Balance reached 37.8 billion Reais, an increase of 5.7% in the quarter; and of 10.9% in 12 months. The Liquidity Position closed the first quarter around 11 billion Reais, equivalent to more than 2x the Shareholders´ Equity of the Bank and more than 40% of its Loan and Corporate Securities portfolios combined.

Regarding ESG, specifically on the funding side, in September 2020, we issued a 525 million Reais Social Bond with the IDB, focusing on the Middle Segment and on healthcare companies. Although the initial commitment considered reaching pre-agreed disbursement volumes in up to 2 years, we were able to achieve eligible transactions targets in only 3 months. This shows the strong capacity of our origination platform and reinforces our partnership with the IDB on the support of Social initiatives.

In Slide 13, the evolution of our Shareholders' Equity and Basel Ratio. The Bank ended March 2021 with a Reference Equity of 5.4 billion Reais, and a Shareholders' Equity of 4.4 billion Reais. The quarter experienced a decrease of 91 basis points in the Basel Ratio and of 65 in the Core Equity Tier 1 Ratio, mainly driven by the increase in the Expanded Credit Portfolio, and by a net redemption of Level II subordinated debt securities, while partially offset by the appropriation of the result of the period. It is worth mentioning that the recapitalization of 62.5 million Reais related to the 2nd half of 2020 proceeds, recently approved by the Central Bank, shall result in pro-forma increase of 18 bps in the Basel Index, reaching 16.12%.

In slide 14, we present the evolution of the Net Interest Income. The Net interest income reached 315.9 million reais in the first quarter of 2021, an increase of 5.4% compared to the previous quarter, and of 23.7% compared to the same period of 2020.

The Financial Margin with Market reached 82 million reais in the first quarter of 2021, an increase of 19.4% in relation to the previous quarter and of 78.2% in relation to the same period of 2020. This performance resulted from an increased market volatility on proprietary interest rate and currency positions.

The income from Shareholders' Equity Remunerated at CDI was 17.3 million reais in the first quarter of 2021, 8.2% up from the previous quarter and 51.3% down from the same period of 2020, in line with the basic interest rate movement. The Net Interest Income continues with the lowest contribution from the Shareholders' Equity Remunerated at CDI of its history. As a result, the annualized Net Interest Margin (NIM) reached 3.2% in the first quarter of 2021, stable in relation to the previous quarter and 0.2 percentage point up in relation to the same period of 2020.

In Slide 15, we present the evolution of margin and spread with clients. The Financial Margin with Clients reached 216.7 million Reais in the first quarter of 2021, the seventh consecutive quarter with growth – an increase of 0.7% in relation to the previous quarter and of 24.6% in relation to the same period of 2020. Adjusting the margin using the same number of days of the fourth quarter, this would result in additional revenues of about 5 million Reais.

This increase resulted from an increase in the average volume, driven by the expansion of clients and of the credit portfolio, and from an expansion in spreads, more than compensating the effect of fewer days in the quarter.

The Spread with Clients reached 3.5% in the quarter, down 0.2 percentage point down when compared to the previous quarter; and 0.2 percentage point up over the same period of 2020. The Spread with Clients adjusted by Provisions ended the quarter at 2.6%, an increase of 0.4 percentage point over the previous quarter and of 0.5 percentage point over the same quarter of 2020, driven by lower Provision Expenses.

In Slide 16, we present the Service Revenues. Service Revenues reached 71.6 million Reais in the first quarter of 2021, a decrease of 16.6% in relation to the previous quarter, and an increase of 46.1% in relation to the same quarter of 2020. Looking at each component, we can see that Revenues from Guarantees Issued reached 42.5 million Reais in the first quarter of 2021, a decrease of 9.6% from the previous quarter and an increase of 7.3% from the same quarter of 2020. Capital Markets and M&A reached 20.9 million reais in the first quarter of 2021, a decrease of 26.8% over the previous quarter. In relation to the same period of 2020 – a quarter in which this line was especially affected by the effects of the COVID-19 – Investment Banking revenues increased by about 4.8x. Finally, Revenues from Banking Tariffs reached 8.1 million Reais in the quarter, a decrease of 20.5% in relation to the previous quarter, and an increase of 60.2% in relation to the same period of 2020, driven by the increase in the number of clients and transactions.

In Slide 17, we present the change in Expenses and our Efficiency Ratio. The Personnel Expenses, Other Administrative Expenses and Profit Sharing reached 132.8 million reais in the first quarter of 2021. An increase of 3.1% in relation to the previous quarter and of 3.8% in relation to the same period of 2020.

This was mainly driven by the increase of 5.7% in Personnel Expenses on a quarterly basis, reflecting the 10% increase in headcount in the period, aiming at supporting the strategy of increasing the number of clients and products. And it was partially offset by a 6.6% drop in the 1Q21 in Other Administrative Expenses, reflecting cost optimization initiatives. As a result, the Efficiency Ratio reached 36.2% in the first quarter of 2021, 1.3 percentage points up in relation to the previous quarter and 7.5 percentage points down in relation to the same period of 2020.

Finally, in Slide 18, we discuss the Banks' profitability. The Recurrent Net Profit reached 122.4 million Reais in the first quarter of 2021, 15.5% up from the previous quarter and 51.1% up from the same period of 2020. The Recurring Return on Average Equity (ROAE) was 11.3% per year in the first quarter of 2021, 130 basis points up versus the previous quarter, and 330 basis points up versus the same period of 2020. And finally, we would like to reiterate the maintenance of our guidance for 2021, as previously announced in the earnings conference of the fourth quarter and full year of 2020.

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

Q&A Session

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

Our first question comes from the Webcast and is from Yuri Fernandes. He asks: Can you provide details on your Marketplace partnership? Are you already originating credit? Thank you.

Mr. Lulia: Hi Marcos, this is Sergio Lulia speaking. Thanks for your question. We are not originating yet, the initiative is developing well, but we are just finalizing the state in which the APIs are developed and are tested between the bank and the partner and the marketplace. We expect this phase of the project to be finish until the end of the month. And them, in June, by June or July, to start the NDP, with some credits being already originated by the platform. What I can say is that we are very positive with this project. We think we could design a very good experience to the clients that will access this platform to get loans, and we think that, therefore, will be successful. We will start testing by the middle of next month.

Operator: Our next question is too from Yuri Fernandes, and he asks: Cost and risk, can you please comment on your expectations for this year. Should we continue to seek cost of risk BCB2682 criteria running around 1%? Thank you.

Mr. Lulia: Hi Yuri. Yes. I think if you see in the first quarter, there were two things that we, better saying, there were two main aspects that will probably not be the same in the following quarters, and one of them, more or less upset the other. In one side, we did one additional provision of the market, and it was explained during Borejo presentation, where we are providing already for a possible deterioration in the future, when this credit portfolio becomes more mature. On the other hand, we had exceptionally high recoveries this quarter, from credits that we had provision in the past and we were able to receive. One amount is very similar to the other. So, we made 38 million in additional provision and we had 45 million in recoveries, from that credit that we had provided before. Therefore, one upsetting the other, you can assume that looking from now, nothing change on the economic environment. It is very likely that we have a cost of credit in this quarter, similar to the other that we have presented.

Operator: Thank you. Our next question is from the webcast too. Is from Antonio Ruete, from Bank of America. And he asks: Congratulations on the results and thank you for the opportunity to make a question. Could you please address your coverage ratio large corporate NPL contracted again? Busting coverage to 12 times. Should we expect this coverage to normalize in coming quarters? Thank you.

Mr. Borejo: Antonio, thank you for the question. This is Borejo speaking. As we mention in the call, the coverage ratio is a function. In one side you have the provisions and in the other you have the past due above 90 days. The fact is that the past due above 90 days is 0.3% of the portfolio, is very low. Our history shows something around 1%, more in line with the behavior of the portfolio. The fact is that the past 3 or 4 quarters, the portfolio is showing a very good resilience. We work to keep that, but this is very hard to maintain. I would say that the most conservative approach would be that you have some past due increasing in the coming quarters. Although, we don´t have anything that is concerning this moment. This level is considered a very low historical level.

Operator: Thank you. As a reminder, if you would like to post a question by audio, please press *1.

Since there is no more questions, this concludes this question-and-answer session. I would like to invite Mr. Sergio to proceed with his closing statements. Please Mr. Sergio, go ahead.

Mr. Borejo: Just would like to thank everyone for participating in our conference call regarding the first quarter results. And just wishing to see everyone in the next conference call and please be safe. Thank you. Bye bye.

Operator: That does conclude the Banco ABC Brasil audio conference for today. Thank you very much for you participation. Have a good day. Thank you for using Chorus Call and you may disconnect.