



EARNINGS CONFERENCE CALL BANCO ABC BRASIL

3Q20

November 5th, 2020

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

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

This event is also being broadcast live via webcast and may be accessed through Banco ABC Brasil website at www.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. Sergio: Good afternoon ladies and gentlemen and thank you for joining our conference call for the third quarter of 2020. We can say that this quarter experienced a gradual normalization of market conditions and economic activity. In this sense, we continued to grow our credit portfolio in the quarter, in which the Middle segment was the great highlight, helping the Bank to achieve the largest increase in the number of clients with credit transactions, in a single quarter, of its history. This event is one of the reasons for resuming the hiring of dedicated Officers to this Segment.

It is also important to highlight that this was the fifth consecutive quarter with growth in the Financial Margin with Clients. Despite that, we continued with our conservative



management approach, which included the further strengthening of provisions and the efficient use of capital. Added to a well-behaved level of NPLs, this led to a substantial increase in the Coverage Ratio.

Finally, we continued our focus on cost control – which when considered jointly (Personal Expenses, Administrative and Profit Sharing), presented a nominal decrease versus the same period of 2019 – even considering a 15% increase in the number of Employees during the last 12 months. We believe to have a well-provisioned balance sheet and a solid capital base, being well-positioned to support our clients in this economic recovery.

In Slide 2 we present the highlights of our results in the third quarter of 2020: The Expanded Credit Portfolio ended September 2020 with a balance of 32.9 billion reais, an increase of 2.7% in relation to the previous quarter, and 16.6% in 12 months. The highlight was the Middle segment, with an increase of 149 clients with credit exposure. The Financial Margin with Clients totaled 206.8 million in 3Q20, representing a 1.5% growth over 2Q20 and 31.1% over 3Q19 - the fifth consecutive quarter of Margin with Clients growth.

The Expanded Provision Expenses - which includes the provisions for loans, corporate securities, and guarantees issued, as well as credit recoveries - was 88.1 million Reais in the quarter. This amount represents a decrease of 6.8% over the previous quarter and an increase of 159.9% over the same period in 2019, still reflecting a conservative provisioning policy due to the COVID-19 pandemic, in line with the last two quarters. The balance of deferred credit transactions since the impact of the COVID-19 pandemic was approximately 850 million Reais, - a reduction of 10 million when compared to the previous quarter - and equivalent to 4.4% of the Loan Portfolio.

The Coverage Ratio ended the quarter at 523% (a significant increase versus the 294% achieved in the previous quarter, and 222% in the same quarter of 2019), a result of the relevant increase in the Loan Loss Provision (LLP) without an equivalent growth in loans overdue.

The Net Income reached 73.5 million Reais, an increase of 19.2% over the previous quarter, and a decrease of 40.3% over the same period in 2019. The Return on Average Equity (ROAE) was 7.1% in the third quarter of 2020, up 1.1 percentage point versus the previous quarter and down 5.4 percentage points in comparison to the same period in 2019. Excluding the effect of the Central Bank's Resolution 4,820 - which limited the distribution of dividends to 25% of the adjusted net income, resulting in an increase in the effective tax rate - the ROAE was 9.8%.

In Slide 3, we present the evolution of the expanded credit portfolio. The Expanded Credit Portfolio grew 2.7% in the quarter and 16.6% in 12 months. The Middle segment - the great highlight of the quarter - presented a strong growth of 53.1% versus the second quarter of 2020 - equivalent to more than 500 million Reais - and a growth of 111.3%



in 12 months. The Corporate segment presented a growth of 6.7% versus the previous quarter, and of 20.7% in 12 months. Finally, in the Large Corporate segment, the expanded credit portfolio dropped 3.6% in the quarter and grew 8.7% in 12 months.

In Slide 4, some highlights of each segment: In the Middle segment, we ended the third quarter of 2020 with 743 clients, of which 525 had credit exposure - enabling the Bank to register its biggest growth in the number of clients in a quarter, as well as in 12 months. The Middle portfolio ended the period with an average exposure per client of 2.8 million Reais. The average term of the Middle also had a significant increase, reaching 457 days – reflecting the increase of BNDES FGI lines, which have longer terms.

In the Corporate segment, we ended the third quarter of 2020 with 1,089 clients. Of these, 880 had credit exposure, resulting in an average exposure of 15.5 million Reais per client. The Corporate portfolio ended the quarter with an average term of 438 days.

Finally, in the Large Corporate segment, we ended the third quarter of 2020 with 407 clients, of which 239 had credit exposure, resulting in an average exposure of 59.0 million Reais per client. The Large Corporate portfolio ended the quarter with an average term of 355 days.

In slide 5, we present the sector segmentation of our Expanded Credit Portfolio: First, our Credit Portfolio continues to show a high sector diversification, and greater exposure to sectors, in our view, with a more defensive profile, including: agribusiness (such as grain chain, agriculture & livestock), infrastructure, energy generation, and transmission, among others. The sectors which experienced the most significant relative increases were: Heavy Construction (0,40%) and Energy Sale & Distribution (0,37%), while the ones with the most significant relative decreases were: Banks (-0,92%), e Agricultural Inputs (-0,50%). We haven't identified until now any sector in which the Bank has exposure with significant credit problems.

In slide 6, we present some indicators that reflect the quality of our credit portfolio: In the first graph, we present the Loans Overdue More Than 90 Days. As we can see, this indicator ended September representing 0.6% of the portfolio, down 0.4 percentage points versus the previous quarter. We observed a reduction in this indicator for all segments, especially the Large Corporate. In the second graph, as we can observe, this was another quarter with a low level of NPL formation in all segments. Up to now, with the information that we have available, and just highlighting that overall market conditions have been quite dynamic, the performance of NPL Formation continues to show well-behaved levels of delinquency.

In Slide 7, first graph, we can see that Loan Loss Reserves to Classified Loans reached 3.0% by the end of the third quarter, an increase of 0.1 percentage points in relation to the previous quarter. In the graph at the bottom, we present the Coverage Ratio. Maintaining a cautious and preventive approach, the Bank continued to strengthen its



provisioning level in the quarter, even not experiencing an increase in the volume of loans overdue. This resulted in a significant increase in the loan portfolio Coverage Ratio, above 500 percent, in our view a very comfortable level.

On slide 8, we continue analyzing the quality of the credit portfolio: We can see in the first graph that the Loan Loss Provisions Expenses reached 64.5 million reais in the third quarter of 2020, still reflecting a conservative provisioning policy due to the COVID-19 pandemic. This cost of credit represented 1.4% of the loan portfolio – a decrease of 0.7 percentage points over the previous quarter. The second graph shows the percentage of the Loans Rated D-H that was 5.2% of the loan portfolio at the end of September 2020, a decrease of 0.2 percentage point over the previous quarter, and 0.6 percentage points over the same period in 2019.

In Slide 9, we present the evolution of the Balance of Renegotiated Credits. The Balance of Renegotiated Credits went from 301.2 to 199.9 million Reais, a significant drop of 33.6% and corresponding to 1.0% of the loan portfolio, a level below the historical average. The drop in the volume of the renegotiated portfolio was mainly due to the repayment of some operations as part of the terms for a renegotiation.

The volume of Deferred Credit Transactions since the impact of the COVID-19 pandemic was reduced by 10 million Reais, totaling a balance of 850 million Reais in the 3Q20 (860 million in the previous quarter) – reaching 4.4% of the Loan Portfolio. The good behavior of these two indexes, when jointly analyzed, shows the good quality of the clients that composes our credit portfolio. From what can be observed, and still with a degree of uncertainty, the information available so far indicates that this quarterly level of Expanded Provision Expenses - which includes the Loan Loss Provision, the Provision for the Devaluation of Securities and the Provision for Guarantees Issued, deducting the Credit Recoveries - should not experience further increases in the next quarters.

In Slide 10, we present the evolution of our Funding. By the end of September, the Funding Balance reached 35.7 billion Reais, an increase of 2.4% in the quarter; and of 21.3% in 12 months. The Liquidity Position of the Bank closed the third quarter around 8.5 billion Reais, equivalent to approximately 2x the Shareholders' Equity of the Bank and about 40% of the sum of its Loan and Corporate Securities portfolios.

In Slide 11, the evolution of our Shareholders' Equity and Basel Ratio. We ended September 2020 with a Reference Equity of 5.3 billion Reais, and a Shareholders' Equity of 4.2 billion Reais. We ended the quarter with a Basel Ratio of 15.71%, composed of 13.56% of Tier 1 capital, of which 12.12% was core capital and 1.44% additional capital, and 2.15% of Tier 2 capital. This ratio was nearly stable in relation to the previous quarter.

In addition, October 19, we concluded the auction of non-subscribed remaining shares from the interest on capital recapitalization, reaching a capital increase of BRL 28.8



million, which will be added to the capital base after approval by the Central Bank of Brazil.

In slide 12, we present the evolution of the Net Interest Income. The Net interest income reached 301.7 million reais in the third quarter of 2020, an increase of 7.1% compared to the previous quarter, and of 14.0% compared to the same period of 2019.

The Financial Margin with Market – the great highlight of the period – reached 78.7 million reais in the third quarter of 2020, an increase of 43.8% in relation to the previous quarter and of 51.2% in relation to the same period of 2019, driven by the local interest rates, currencies and corporate securities markets.

The income from Shareholders' Equity Remunerated at CDI Rate was 16.3 million reais in the third quarter of 2020, down 29.9% from the previous quarter and 70.5% from the same period in 2019 – directly impacted by the fall in the basic interest rate.

The annualized Net Interest Margin (NIM) was 3.2% in the third quarter of 2020, rising 0.2 percentage point in relation to the previous quarter and falling 0.4 percentage points in relation to the same period of 2019.

In slide 13, we can see that the Financial Margin with Clients reached 206.8 million reais in the third quarter of 2020: Up 1.5% compared to the previous quarter and 31.3% compared to the same period in 2019. This result is due to both higher spreads and higher volumes – benefiting from the increase of 287 clients with credit exposure in the quarter, and 409 in 12 months - the biggest quarterly and annual positive variation in the Bank's history. It is worth noting that the margin with clients has been growing continuously over the last 5 quarters.

The Spread with Clients was 3.7% in the quarter, stable over the previous quarter and up 0.1 percentage points over the same period in 2019. The Spread with Clients adjusted by Provisions ended the quarter at 2.4%, an increase of 0.3 percentage point from the previous quarter and a decrease of 0.4 percentage point from the same period in 2019. As we imagined, even with the stability of gross spreads levels, the retraction in Provision Expenses resulted in an increase in the margin adjusted for losses.

In Slide 14, we present the Service Revenues. The Service Revenues reached 68.3 million Reais in the third quarter of 2020, an increase of 17.4% in relation to the previous quarter, and a decrease 10.8% in relation to the same period in 2019. Looking at each of the components of Service Revenues, we have:

Revenues from Guarantees Issued reached 49.0 million Reais in the third quarter of 2020, an increase of 19.3% from the previous quarter and of 0.5% from the same period of 2019.



Capital Markets and M&A revenues reached 11.4 million Reais in the third quarter of 2020, an increase of 25.8% in relation to the previous quarter - mainly boosted by the Capital Markets area - and a decrease of 42.0% in relation to the same period of 2019.

Finally, Revenues from Banking Tariffs reached 7.9 million Reais in the third quarter of 2020, a decrease of 1.8% in relation to the previous quarter, and of 3.0% in relation to the same period of 2019.

In Slide 15, we present the change in Expenses and our Efficiency Ratio. The Personnel Expenses, Other Administrative Expenses and Profit Sharing reached 117.9 million reais in the third quarter of 2020. An increase of 2.1% in relation to the previous quarter and a decrease of 0.4% in relation to the same period of 2019, even considering the increase of 15.2% in the number of employees compared to the same period last year.

The efforts towards expense control were mainly concentrated in Other Administrative Expenses, and Variable Compensation. Regarding Personnel Expenses, there was a reduction in its increase when compared to the values initially estimated, at the same time that the investments related to the innovation initiatives were maintained. As a result of higher revenues and a decrease in expenses, the Efficiency Ratio reached 33.8% in the third quarter of 2020, a reduction of 3.4 percentage points in relation to the previous quarter, and 2.9 percentage points in relation to the same period of 2019.

Finally, in Slide 16, we discuss the Banks' profitability. The Recurrent Net Profit reached 73.5 million Reais in the third quarter of 2020, up 19.2% from the previous quarter and down 40.3% from the same period in 2019.

The Recurring Return on Average Equity (ROAE) was 7.1% per year in the third quarter of 2020, up 1.1 percentage point versus the previous quarter, and down 5.4 percentage points versus the same period in 2019.

The greatest impact in the ROE in the quarter was the Central Bank's limitation on dividends distribution imposed by Resolution 4820. There was a negative impact of approximately 1.2 percentage point related to this limitation in the third quarter of 2020. In addition, there was an adjustment on the Interest on Capital provisioning for the first quarter of the year, made prior to the Resolution publication. This additional adjustment had an impact of approximately 1.5% in the ROE. Excluding these impacts, the ROE for the quarter was 9.8% p.a.

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



Q&A 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 Marcos Assumpção, Itaú BBA.

Mr. Assumpção: Hi, good afternoon everyone. The first question is regarding investment bank in revenues, if you can comment a little bit on the pipeline, what are the contracted revenue that you already are starting to build, as we had seen the pickup in this investment bank in activity in the past months.

The second question is just making a very back of the envelope calculation here, adjusting your return on equity for the IOC payments, and also by the potential reduction in long loss provisions going forward, theoretically we would see already the ROE of the bank around 14%, I don't know if it makes sense this type of calculation.

Mr. Lulia: Hi Marcos, this is Sergio Lulia speaking. Thanks for your question. I will answer the first one and Borejo answers the second one.

In relation to the investment banking pipeline, I think, as you know, there was a sudden stop after the pandemic started, then we saw the market recovering, in our case mainly in the debt capital market area, which is where the bulk of the revenues that we booked in the third quarter concentrated. We started our activity in the ECM, in the Equity Capital Market, there was just one transaction concluded so far, there are others in the pipeline, we don't know yet if we are going to be successful or not but this transaction that we concluded is going to be booked on the fourth quarter, and there are some initiatives in M&A and in project finance with a good pipe of transactions, but nothing more concrete to be announced.

So, let's say, the way we still right now, is... all the markets recovering with the fast to recovering coming from the Debt Capital Market, which is the remaining expertise in investment banking arena and is the one that we are posting more revenues. But in the other segments, the pipe I think more likely for us to conclude the main transaction in 2021 and not in 2020. For the second question I'll pass the word to Borejo.

Mr. Borejo: Hi Marcos, thanks for the question.

I think 14% is a little bit high. Honestly, when you take to decompose the two components, the IOC, the interest on capital that we already highlighted in the presentation, our ROE would be a little bit lower than 10%... 9.8%. Regarding the provisions, we made like 90, close to 90 million BRL, 88 million BRL in the quarter, our



level provisions like to lower too much to go to 14%. I think that is not... in this moment it is not feasible. If you take our historical behavior, for instance, let's say that provisions in... that's not a guidance, but let's say, taking the historical behavior, that the provision was close to 1, 1.2% of the credit and securities portfolio, that would reach right now something 23 billion BRL, 1.1% of that would be 250 million BRL, that divided by 4, would be close to 50 million BRL, I mean, the cost of credit to the quarter. So, we would have a reduction of close to 25, 30 million BRL in the quarter. If you take, subtract from that the tax burden, 30 million BRL, 50%... 15 million BRL. That would give us an extra 1.1, 1%... 1 p.p. over that ROE to be around 11%, I think, that is more feasible.

Mr. Assumpção: Alright, thank you very much, make sense. Thank you, Borejo.

Operator: Our next question comes from Carlos Gomez, HSBC.

Mr. Gomez: Hello and good morning. My first question refers to your expenses. I saw as one important item is the profit sharing. I noticed that in the first quarter was 40 million, you have reached to 30 million per quarter on the second and third. Do you expect it to keep at this level for the rest of the year on into next year? Or is it too early for you to decide?

Second, Borejo have said you intend to go ahead with your expansion strategy, that has costs, that's perfectly clear, originally you were giving us guidance for two years, for 2020 and 21 as to the higher expenses. At this point do you think that you will continue investing also in 2022 and beyond, or this is to stay concentrated in these two years? Thank you.

Mr. Borejo: Thank you Carlos for your question. It is important to highlight expenses in general, I mean, if you take the... first I am talking... I will divide that in three topics. First, the personal that increased close to 17% this year, that is basically, if you take last year's increase of employees, which is 15.2% and multiply the mandatory salary increase from that year, discussing between the banking union and the banks association that was close to 4.2%, just that two together would be higher than our increase in the personal line. So, in fact we have a kind of some efficiency gain there, the personal expenses increase as basically the increase of the number of employees.

When you take the administrative expenses, the only line that really represented a significant increase was technology, and that was a consequence of the investments we have been making and yes, that should continue next year.

And regarding the variable compensation, what we are seeing now is a reduction as you mentioned, but in fact the reduction should be higher. What we are doing now is the accrual of the deferred portion of the variable compensation from past years. Just for you have an idea, this year, I mean, the executive committee, variable compensation would be zero. So, what we are seeing in the variable compensation is just the accrual of what was the variable compensation from the previous years. Ok?



Mr. Gomez: Ok, that is clear, but would that implies for the coming quarters, on the coming years, should we continue to see accrual from periods in the third quarter and into next year, or we should see... you wanted to increase, you are not going to accrue at zero forever, right? Hopefully...

Mr. Borejo: No, we will have accruals this quarter, next quarter and etc., but the portion that should be, let us say, would be payed this year once is much lower, as I mentioned, zero for the executive committee, that should make it lower in the future quarters.

Mr. Gomez: Ok.

Mr. Borejo: Ok?

Mr. Gomez: Alright, that is clear on the particular aspect.

And, so, again, for next year, again, you should expect to accrue more, you continue expanding, so we should expect to continue – and there is nothing wrong with that – we should continue to see expenditures increase next year and the year after, I should expect.

Mr. Borejo: In the expenses yes, we probably... we don't have a guidance yet, we gave a guidance in the beginning of the year, we took it off, but once we are increasing the number of employees during the year, at the end of the year we will have more employees than the average, so the fact is that we should see some increase in the expenses for the next year but we don't know how much yet, at this point.

Mr. Gomez: Ok, very good. And I'm going to take the time to ask an extra question on asset quality. Most of the banks are waiting for October, November, December to see what the actual level of NPLs is, I know you have commented this, and I might have missed it earlier in the call. Can you tell us what your experiences, and what do you think you will have the full picture? In other countries they have told us it could be as late as the second or third quarter of next year. Do you think you will have a full view about who is expending, who is not before the end of the year?

Mr. Borejo: Sorry, Carlos, could you please repeat the last part of your question that we couldn't understand?

Mr. Gomez: Yes. I want to know when do you think that you will have an accurate picture about which companies are paying and which companies are not paying before the end of the year, if all the moratoriums will be finished by then, and you will know who is performing and who is not performing.

Mr. Borejo: No, I think we have this picture... No, I think no, I am sure we have this picture right now. We have the full knowledge of our credit portfolio, the provisions that we did where provisions that needed to be done because they are specific trades of companies that deteriorated along the crisis, so we did the provisions as we saw fit. We



didn't take the advantage of the measures undertaken by the Central Bank of Brazil when he allowed the banks to postpone transactions without increasing provisioning, we didn't do that. We postponed some transactions for clients that we believed are good clients, and that were passing through a more difficult moment because of the reduction of sales giving the pandemic, but they are companies that have good financial situation and they are totally adimplent to the bank and in the case of clients, where we analyzed and saw that their financial condition deteriorated along the crisis, provisions were made. And in this sense, I think our balance sheet now reflects this reality, the provisions were made, the NPLs for the moment are small, they can increase or not over time depending on the evolution of those clients, but we don't see, we don't need to wait until next year to see the reality of our clients.

Next year then the big question is? Is there going to be a second wave of contagion or not? And if there is a second wave, what will be the consequences? What we can work from now is with the forecast that foreign economies and others are making of a slow recovery of the economy for next year, our GDP growing between 2 and 3% when compared to 2020, and for that scenario it looks like that the worse have passed.

Mr. Gomez: Ok, that is very clear. Thank you so much.

Operator: This concludes today's question and answer session. I would like to invite Mr. Sergio Borejo to proceed with his closing statements. Mr. Sergio, please go ahead.

Mr. Borejo: Just thanking everyone for participating in our third quarter 2020 call, and we are at your disposal if you have any question, if something rises up later, please feel free to contact us at any time. Thank you so much.

Operator: That does conclude the Banco ABC Brazil audioconference for today. Thank you for your participation, have a good day and thank you for using Chorus Call.