

### Disclosure of Material Information

**To: Bahrain Bourse**

Arab Banking Corporation B.S.C would like to announce the following material information:

#### الإفصاح عن معلومات جوهرية

السادة / بورصة البحرين

تعلن شركة المؤسسة العربية المصرفية ش.م.ب عن الإفصاح عن معلومات جوهرية المبين تفاصيلها أدناه:

| Date                 | 14 May 2020   | التاريخ               |
|----------------------|---|-----------------------|
| Company Name         | Arab Banking Corporation B.S.C  | إسم الشركة            |
| Trading Code         | ABC   | رمز التداول           |
| Subject              | <u><a href="#">Fitch Revises Arab Banking Corporation's Outlook to Negative; Affirms IDRs</a></u>   | الموضوع               |
| Material Information | <p>Fitch Ratings - Dubai - 13 May 2020: Fitch Ratings has revised Arab Banking Corporation B.S.C.'s (ABC) Outlook to Negative from Stable, while affirming the bank's Long-Term Issuer Default Rating (IDR) at 'BBB-' and Viability Rating (VR) at 'bbb-'. A full list of rating actions is detailed below.</p> <p>The Negative Outlook reflects Fitch's assessment of material risks from low oil prices and the coronavirus pandemic that could result in further deterioration of ABC's operating environment (especially Brazil and the Arab countries, including the Gulf Cooperation Council countries (GCC)). Fitch recently revised the Brazilian and GCC banking sectors Outlook to Negative from Stable.</p> <p>The Negative Outlook on ABC's IDR reflects also Fitch's expectation of the bank's weaker asset quality, earnings and profitability over the next 12 to 18 months compared with when the ratings were last reviewed on 7 October 2019.</p> <p>KEY RATING DRIVERS<br/>IDRS AND VIABILITY RATING</p> | المعلومات<br>الجوهرية |

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|  | <p>ABC's Long-Term IDR is driven by the bank's standalone strength, as reflected by the VR of 'bbb-'.</p> <p>ABC's VR is constrained at a maximum of three notches above, but not capped by, the 'BB-' Bahraini sovereign rating because Fitch believes ABC would be little impacted by a sovereign default. According to Fitch's calculations, ABC would remain solvent following a Bahraini sovereign default, notably because its exposure to the Bahraini sovereign and other Bahraini counterparties is small as a proportion of its unconsolidated capital base.</p> <p>In addition, ABC has sufficient local-currency liquid assets to repay its small stock of local-currency debt in case of a sovereign default, and the bank's coverage of foreign-currency debt (excluding shareholder funding) by foreign-currency liquid assets is comfortable.</p> <p>Finally, Fitch believes that the Bahraini sovereign would not intervene and prevent ABC repaying its creditors in and outside Bahrain. Key factors, in Fitch's view, include Bahrain's openness to trade and lack of current- and capital-account restrictions, the country's willingness to regain its status as a regional financial hub, the financial sector's size, development and importance to the economy and Bahrain's need to maintain and boost external financial flexibility through strong GCC support (particularly Saudi Arabia and Kuwait) and international and regional confidence.</p> <p>ABC's VR reflects geographical diversification, competent management, appropriate responses to risks (as during the Brazilian crisis in 2016), above-peers' capitalisation, sound liquidity and stable funding. It also reflects ABC's small but niche franchise, higher risk appetite given loan concentration and exposure to less developed markets, volatile, but progressively stabilising, asset quality and low profitability.</p> <p><b>SENIOR UNSECURED DEBT</b></p> <p>The senior unsecured debt rating of ABC is aligned with its Long-Term IDR because Fitch views the likelihood of default on senior unsecured obligations as the same that of the bank.</p> <p><b>SUPPORT RATING AND SUPPORT RATING FLOOR</b></p> <p>ABC's Support Rating (SR) and Support Rating Floor (SRF) reflect Fitch's view of a moderate probability of support for the bank, if required, from the Kuwaiti authorities. Fitch's assessment takes into account a long record of support by the Kuwaiti authorities and a strong ability to provide it, as reflected by Kuwait's rating (AA/Stable). It also factors in the bank's low strategic importance in Kuwait, its limited operations in the Kuwait market (about 2% of credit risk exposures at end-2019) and the authorities' only minority ownership</p> |  |
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through Kuwait Investment Authority (29.7% ownership) the investment arm of the Kuwaiti sovereign. We are also not aware of any legal restrictions on support being provided by the Kuwaiti authorities to the bank.

ABC is majority-owned by the Central Bank of Libya (CBL; 59.4% ownership). We do not factor in support from CBL, which has historically been supportive of ABC, as its ability to provide extraordinary support, and the timeliness of its support, cannot be relied upon.

Fitch does not factor any domestic sovereign support into ABC's ratings as a wholesale bank in Bahrain.

#### RATING SENSITIVITIES IDRs AND VR

ABC's Long-Term IDR will move in line with the VR.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-A downgrade of the VR could arise from additional deterioration of the bank's operating environment, resulting from prolonged low oil prices and the coronavirus pandemic, as well as from an escalation of political and social unrest in ABC's markets (especially in Brazil and MENA).

-A material adverse impact on the credit profile of the Brazilian subsidiary from a sharp deterioration in the Brazilian real could also lead to a VR downgrade. Material deterioration in profitability and asset quality, especially at ABC's Brazilian subsidiary given its significance to the group's credit risk exposures and profitability, would have a negative impact on the rating.



-ABC's VR is constrained by the Bahraini sovereign rating. This reflects Fitch's view that ABC's sensitivity to a sovereign default, albeit low, is still present (considering market sentiment towards banks and the country where these are headquartered, which could for instance ultimately impact funding conditions) and results in a maximum number of notches between the bank's VR and the sovereign rating, which is already reached by ABC. This means that a downgrade of the Bahraini sovereign rating would result in a downgrade of ABC's VR.

-ABC's Short-Term IDR would be downgraded to 'B' in the event that the Long-Term IDR is downgraded one notch.

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|                                     | <p>Factors that could, individually or collectively, lead to positive rating action/upgrade:</p> <p>-The Outlook on the Long-Term IDR could be revised back to Stable if the impact of the pandemic on ABC's markets is short and the recovery swift. Fitch will also consider ABC's management responses to the current crisis in its assessment.</p> <p>-An upgrade of ABC's VR, and subsequent upgrade of the Long-Term IDR and debt ratings, is unlikely given the pressure arising from the coronavirus outbreak and the low oil prices and the impact this has on the markets that ABC is exposed to. An upgrade would also require an upgrade of the Bahraini sovereign.</p> <p><b>SENIOR UNSECURED DEBT</b></p> <p>The senior unsecured debt rating is sensitive to the same considerations that might affect ABC's Long-Term IDR.</p> <p><b>SRF AND SR</b></p> <p>ABC's SRF and SR are sensitive to a reduced willingness or ability of the Kuwaiti authorities to provide support to the bank. They would not be affected by a downward revision of Bahrain's Country Ceiling.</p> <p><b>BEST/WORST CASE RATING SCENARIO</b></p> <p>International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <a href="https://www.fitchratings.com/site/re/10111579">https://www.fitchratings.com/site/re/10111579</a>.</p> |                                |
| <b>Impact on Financial Position</b> | <p>-</p>  | <p>الأثر على المركز المالي</p> |
| <b>Previous relevant</b>            | <p>-</p>  | <p>إفصاحات سابقة ذات</p>       |

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| disclosures<br>(if any) |  | صلة (إن<br>وُجدت) |
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| Company Seal ختم الشركة  | Signature التوقيع   |
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