



Statement of the Chief Executive Officer



As a consequence of the global meltdown in financial markets and credit market dislocation, banking and financial institutions remained on edge alarmed by the systemic risk that would arise from the possible collapse of financial majors in the United States, Europe and the United Kingdom. Market turmoil was further exacerbated by over-leveraged investment banks and hedge funds trying to unwind speculative positions in international equities, commodities and securities. Solvency, liquidity concerns and short selling have driven valuations to unprecedented lows, which in turn have translated into mark-to-market revaluation losses as well as realised losses in investment portfolios. Policy makers around the world are faced with the daunting task of stabilizing the financial markets and averting a major economic recession. However, conditions remain very difficult and recovery is likely to be slow and painful.

In the core banking areas, the Bank continued with its steady performance showing all round business growth, good asset quality and a well-diversified portfolio.

Despite these adverse circumstances, the Bank's core areas of business continued to show growth in business volumes and profitability. However our profitability has been negatively impacted by mark to market losses on our managed funds portfolio resulting from the sharp decline in equity markets and the Bank's decision to take 100 % provision for investments in debt securities of institutions adversely impacted by the global financial crisis, where full recovery is in doubt. As a result, we ended the year satisfactorily profitable, albeit at levels below last year.

In the core banking areas, the Bank continued with its steady performance showing all round business growth, good asset quality and a well-diversified portfolio. We managed our liquidity efficiently based on our strategy of strong deposit mobilisation and applying highly selective lending criteria. We are also focussed on the sound management of risks, costs and leveraging our capital effectively.

In the domestic market, the Bank's long standing customer relationships, brand franchise and prudent risk philosophies ensured that in times of crisis, the Bank is considered as a safe haven by customers across all segments of society. The branch restructuring programme and expansion of our ATM network across the Kingdom of Bahrain enhanced our ability to provide convenient, competitively priced banking products and services to our customers. We continue to make investments in technology such as state of the art EMV compliant ATMs, Internet banking, Treasury Back Office system, Anti Money Laundering system, etc and remain committed to maintaining our competitive edge through technological initiatives for delivery of superior customer service while enhancing operational efficiency.

Our Business Banking units proactively solicited select business opportunities to meet the financing needs of corporates in the domestic and regional markets. The Bank successfully underwrote, lead managed, syndicated and participated in a US\$ 500 million dual currency, conventional cum Islamic term loan facility for Bahrain Mumtalakat Holdings, the investment arm of the Government of Bahrain. Similarly, the Bank syndicated, lead managed and participated in a term loan of BD 58 million to Ithmar Bank, besides participating in other transactions such as a US\$ 1 billion facility to MTCI (Zain), US\$ 3 billion facility to Qatar Investment Authority, etc.

The Bank achieved its growth and diversification objectives while adhering to its underlying risk philosophy, asset quality and credit ratings on exposures. During 2008, Capital Intelligence upgraded NBB's Long Term Foreign Currency rating to 'A' and Short Term Foreign currency rating to 'A1'. The Financial Strength Rating and Support Rating were confirmed at "A" and "1" respectively. These ratings are set at the country ceiling for Bahrain. Our dominant domestic franchise, capital adequacy ratios, sound asset quality, stable funding base, solid and consistent profitability record and compliance to high standards of corporate governance reinforce these ratings.

The market conditions that we have gone through over the last twelve months were the most difficult in recent years. However, we are encouraged by the opportunities that will open up for the Bank in the aftermath of these turbulent times, which we believe can be advantageous to us considering our heritage, history and brand image as a strong local bank. Notwithstanding the difficult environment, the medium term drivers of growth in the domestic and regional markets are expected to create financing requirements to fund infrastructure development,

tourism related projects and viable business ventures. We look forward positively to the resilience of the economy in Bahrain, its position as the gateway to the northern Gulf and the potential benefits from the economic integration of a GCC wide single market. Our strategy is to align NBB with those opportunities to achieve superior growth through diversification and enhancement of our presence in active segments of the domestic market.

NBB's long-standing commitment to a strong capital base, prudent risk philosophy, and clearly focused business strategies have enabled us to achieve a pre-eminent position in the market place. Capitalising on our core competencies, seasoned professional management and brand franchise, we look forward to translating the opportunities and market potential in Bahrain and the region into increased value for all our stakeholders. As market conditions in the near future will be tough, considering the impact of slowing economies around the world, we will remain vigilant in managing risk and agile in managing our business performance.

