

Announcement

To: Bahrain Bourse

National Bank of Bahrain B.S.C. would like to announce the following:

Date	21 December 2021
Company Name	National Bank of Bahrain B.S.C.
Trading Code	NBB
Subject	Third Quarter of 2021 Investors' Meeting Transcript
Announcement	Following the virtual investors' meeting held on Thursday 18 November 2021 from 1:00 PM to 2:00 PM, please find enclosed the meeting transcript.

Name	Russell Bennett
Title	Group Chief Financial Officer
Signature	
 Russell Bennett (Dec 21, 2021 08:53 GMT+3)	

NBB Investors' Meeting – 18th Nov 2021

Meeting Transcript

Hisham Abu Alfateh (Moderator):

Good afternoon, dear NBB Group stakeholders and welcome to our Investors' Meeting that is going to demonstrate our financial and non-financial results and accomplishments for the third quarter of the year 2021.

We are delighted to conduct this meeting after we had recently, on 10th November last week, produced a detailed Q3 video that demonstrated the Group's financial results and the Bank's ESG accomplishments, demonstrating our dedication towards maintaining our status as a responsible Banking Group.

Representing NBB Group in this Meeting as speakers are:

1. The Chief Executive Officer, Jean-Christophe Durand
2. The Chief Financial Officer, Russell Bennett
3. The Chief Human Resources & Sustainability Officer, Dana Buheji
4. The Financial Controller, Fatima AlKooheji

My name is Hisham Abu Alfateh and I am the Head of Corporate Communications. I will be the Meeting's Moderator and I would like to make the following points please before we start:

- This Meeting will be conducted in English language.
- The transcription of this Meeting will be published on Bahrain Bourse's website in both languages: English and Arabic.
- Questions are welcome in Arabic and English and they will be answered in the language they are asked in.
- All questions are welcomed and they are required to be written in the Questions section or the chat.
- Any comments are also welcome and they will also be required to be written

Without further ado, I would like to welcome Jean-Christophe Durand, the CEO of the National Bank of Bahrain, to give his welcome remarks. Mr. Jean-Christophe the microphone is yours.

Jean-Christophe Durand (CEO):

Dear stakeholders, dear investors, I am very pleased to be here today to welcome you to our second Investor's Call of 2021. It will be an occasion for the management team and we are presenting today, as a management team, to present our financials for the first 9 months of the year, the financials of the NBB Group. But also to share some of the achievements of the NBB Group in the third quarter of this year.

The achievements which demonstrate the fact that being profitable is one of our objectives, but also, we want to be profitable in a sustainable manner and very importantly, in a responsible manner.

And we take the ESG extremely seriously at management level, at the board level and obviously, at our shareholders' level. So without further ado, I will leave our CFO delivering the presentations and welcome any questions at the end of the session.

Welcome to all of you.

Hisham Abu Alfateh (Moderator):

Thank you very much Jean-Christophe Durand, the CEO of the National Bank of Bahrain, for the welcome remarks. I would like to welcome the Group Chief Financial Officer to start this meeting by explaining NBB Group's Financial Results. Russell, the floor is yours.

Russell Bennett (Group Chief Financial Officer):

Thank you very much Hisham.

It is my pleasure to present the results for NBB Group for the first 9 months of 2021. The presentation that we will go through is the same type of presentation as we delivered at the half year point in time.

Just a reminder that the yellow columns you will be seeing in the various charts represent the comparative year and the red columns will show the results for 2021. So let's start in the middle, with the net profit.

Net profit has increased from 43.1 to 45.8 million dinars for the first 9 months. That's an increase of 6%. This impressive result was achieved by a combination of an efficient balance sheet, and you can see that on the left hand side of the screen. The Net Interest Margin, or the NIM, shows how effectively we used that balance sheet and we can see here that the level of efficiency has gone up from 3.0% of last year to 3.1% this year. Which by comparison to our peers is a very impressive ratio. And on the far right hand side, we can see the contribution to revenue from non-balance sheet related sources. Non-balance sheet related income sources have now increased to just under 23% of the total revenue. That's an increase of 13% from the previous year's period.

We move on to page number 5 which shows us the income statement by Key Elements. We can see on the left hand side, that all the main income elements of our income statement have increased over 2020. This is particularly impressive if you recall that the comparative, which is the yellow bars, include at least 3 months of the pre-COVID world. COVID did not make its presence felt until April of 2020, so the comparative includes a normalized world where interest rates were higher, where there were no caps by the central bank on the fees that we could charge and the operating environment was much richer than it is today.

So with that backdrop in mind, we can look through the income statements starting on the left hand side. We can see that Net Interest Income is up by 3% to BD 89.2 million. That is a

combination of an improved NIM as we saw on the previous slide, as well as increased volumes throughout the organization.

Other income has increased by 21% during the period to BD 26.3 million. Other income again has seen contributions from around the Group and each of the business lines has contributed to that increase. Operating expenses are up by 8%. I do remember mentioning this time a quarter ago that a lot of this cost is actually what I referred to then as good cost, and I remind us of what those elements are. During 2021, we've invested in the Branch Network and we've rolled out better quality branches to our customers. We've launched an award winning retail app for our retail customers. We've also had internal investments in risk management systems, in the treasury systems, and also rolled out a new core banking system in our overseas locations in KSA and UAE. This then derives the all important operating profit. Operating profit is up 6% to BD 59.1 million.

We will continue our journey to the right. We then reach the loan provisions. Loan provisions were heavily increased in 2020 as we started to take buffers, precautionary buffers, in readiness of any outcome of the pandemic. Those provisions that we took in 2020 are still on the balance sheet and have not been used or released so they are still available for us as we go forward into the fourth quarter and into the next year. Consequently, the provision charge for loans is reflective of the increase in the assets size of our loan book. Other provisions relate to non-loan contingent provisions that our subsidiary BISB has taken. The BISB management team feel that it is the correct and prudent action to take provision against an ongoing legal case in the United States, however, they are confident that they will win this legal case and then return this money back to income. But as it stands, Net profit at the end of September increased by 6% to BD 45.8 million.

As mentioned, 2020 includes significant precautionary provision charges in readiness for the consequences of the pandemic. We can see that on the left hand side of page 6, where the FY 2020 Cost of Risk was 121 basis points. That has now dropped in 2021 to a more normalized level. Normal level is considered between 35 basis points and 50 basis points for the NBB Group. On the right hand side, we can see the various stages of our loans' potential maturity. Our loans would either fit into Stage 1, Stage 2 or Stage 3 depending on its risk parameters. Each stage of that loan's potential life cycle is well covered by provisions and in fact, for the Stage 3 we've increased coverage with either provisions or high quality collateral to have coverage at 92.1% of that underlying loans exposure.

On page 7, our Key Performance (KPI) Ratios remain very strong indeed. We will start on the left hand side with Return on Equity (ROE) at 11.7% which has increased by 10% over the full year of 2020. Into the middle of the slide, our Return on Assets has similarly increased by 17% to 1.4% and the Cost to Income ratio has increased to 48.8%. The Cost to Income is now the focus of management. The ratio is slightly higher than the normal past level for NBB Group. But to put this into perspective, the average for the Bahraini sector is 52.8% so we are still significantly below the sector, however, 48.8% is high for NBB, there are still some actions we can take whether they be on the revenue side or the cost side to embrace the synergies of joining the two banks together in 2020.

Page number 8 shows the Balance Sheet graphically. We will start on the left hand side. The Liquid Assets for NBB Group remain very strong and have actually increased by 34% during 2021. Liquid Assets in this context are items such as treasury bills, placements and cash. Loans have increased by 4% and that increase we can see witnessed throughout the group's organization structure. The Loan book growth has been funded by a managed decrease in the Investments Security's book. So Investment Security's have reduced by 9% to BD 1.1 billion. Overall, the Balance Sheet size or Total Assets has grown 4% to BD 4.5 billion. On the right hand side, we can see Liabilities and Equity. The Customer Deposits have increased by 8% in totality. On the next slide, we will look into the details of that break down, and equity has remained consistent with the prior year.

So on page number 9, the Group continues to be an attractive destination for depositors. This attraction increased in 2021 as we rolled out our new award winning retail digital app as we can see with a big improvement in Demand Deposit growth during 2021. Where there has been a 7% increase in those Demand Deposits. On the other side, on the right hand side of the screen, the longer term deposits are also up by 9% as we welcome new sources of longer term funding into the group.

On to page 10, and this is the last page from me, before I hand you back to Hisham, which shows the Regulatory Ratios. Each of which are looking exceptionally good and exceptionally strong. We will start on the left hand side. The NPLs are currently at 4.9%. The NPL Ratio, the smaller the better, and 4.9% is historically low for the group. The CAR, or Capital Adequacy Ratio, at 20.2% is significantly in advance of the requirement from the Central Bank of Bahrain. The small dip from the year end is a good sign that represents actual further business activities. And on the right hand side, we can see the two liquidity ratios. On the left of the screen, the LCR is the Liquidity Coverage Ratio. This ratio reports on the health of the short term liquidity of a bank's balance sheet and at 343% is significantly above the thresholds from the Central Bank. And on the right hand side, the Net Stable Funding Ratio at 147% represents the strength of the longer term liquidity structure of the bank. And 147% is comparatively a very strong ratio.

That concludes the NBB Group's 9 month Financial Results and back to you Hisham.

Hisham Abu Alfateh (Moderator):

Thank you very much Russell Bennett for the Financial Presentation of NBB Group. I would now like to welcome the Chief Human Resources & Sustainability Officer to take us through the NBB Bank's Non-Financial updates and accomplishments. Dana Buheji, the floor is yours.

Dana Buheji (Group Chief Human Resources & Sustainability Officer):

Thank you Hisham and welcome everyone on the call. I'll take you through the efforts or highlights from our efforts in Q3 in regards to sustainability for NBB Bank. We shared the video earlier which summarised the key achievements for the quarter.

We also have updated our website to reflect in a timely manner the disclosures with regards to sustainability, easily found by framework, by pillar within the framework. So we hope that this will be easy access information for everyone.

Hisham Abu Alfateh (Moderator):

As you have rightly mentioned, our website has a dedicated sustainability page that highlights the framework and every single accomplishment under those frameworks as well.

Dana Buheji (Group Chief Human Resources & Sustainability Officer):

So the first key achievement that we'd like to highlight is the Middle East's Best Bank for Corporate Responsibility Award we've received by Euromoney. Obviously, we're very proud of this award and recognition of a number of factors: our sustainability strategy was recognized and the way we've adopted it and endorsed it; contribution to the community and individuals especially during the difficult time of COVID; our efforts towards enhancing the Entrepreneurship ecosystem which is ongoing; our dedication towards our human capital in terms of our continuous efforts in development and training.

In line with our focus on the Entrepreneurship Ecosystem, we also launched our Financial Literacy Program for Small & Medium Enterprises (SMEs). This initiative is in line with our financial literacy efforts in general, whether it is within or externally. Our first session was done in coordination with the Ministry of Industry, Commerce and Tourism (MOICT). Throughout the program we hoped to touch on a number of topics such as transaction banking, structured finance, wages protection system (WPS) and taxation.

On the human capital perspective, we continue focusing on training and ensuring that there is plenty of opportunity for our team members to up-skill themselves through numerous initiatives. Till date 97% of our population have chosen to undergo some form of training this year. The average training per employee has reached 38 hours in Q3. Sustainability related training has actually gone up by 65% against the full year 2020. Around 300 of our employees have undergone some kind of sustainability awareness through training and to date, we are almost at 500 across the NBB bank.

We continue to support and partner up with Injaz through a number of initiatives. A relevant initiative which took place in Q3 was the launch of the Injaz app. This app specifically added a new angle to the offering. It supported and encouraged further volunteering by allowing volunteers to track the hours spent and their contribution towards the community. In addition to that, we also sponsored the Excellence in Digital Marketing Award Edition for the Annual Young Entrepreneurs Competition for Injaz.

A last highlight I'd like to share is with regards to our commitment towards responsible sourcing. We believe in partnering with the community and the local ecosystem. To date 77% of our suppliers are of local presence, 24% of which are from SMEs, 8% of which are SMEs owned by female entrepreneurs and 72% of the spend up to Q3 has been towards suppliers with a local presence in Bahrain. With that I conclude on sustainability. For further details, as I've mentioned, are on our website. Thank you.

Hisham Abu Alfateh (Moderator):

Thank you very much Chief Human Resources & Sustainability Officer of NBB Group, Dana Buheji, for the update.

Ladies and gentlemen, joining us now from NBB Group for the Questions and Answers session are:

1. The Chief Strategy Officer, Yaser Alsharifi
2. The Chief Risk Officer, Isa Maseeh
3. The Chief Executive of Corporate Institution and Investment Banking, Hisham Al Kurdi

I believe that we have the cameras now opened and you have all joined us on the screen as well. So thank you for your questions, ladies and gentlemen, I have got a few questions and just, please, you are welcome to ask as many questions that you'd like. Just a reminder that all the questions must be written.

Q&A

Question 1

Moderator: So I'll start, Dana, since we concluded the presentation with you, let me get you back on screen. There's a question and the question is asked by Katharina Dalka, then I'll move to Mr. Ali Al Tareef's question.

So the question to you Dana, actually, it's a mixture of Dana and Isa actually, Katherina Dalka, she wishes everyone good afternoon and she says her name is Katharina Dalka, Founder and CEO of StellarOne Advisory Tech based in London and Chairwoman of DYDON AI. Thank you for this great introductory presentation. I picked up information about ESG related due diligence, may I kindly ask you to share more information about the approach? This is indeed specifically interesting, in regards to the performance of investment portfolios.

So Dana, I think this is between you and Isa, but please feel free.

Dana: And probably Hisham as well if he'd like to contribute. But I think in general just to set the stage, our journey in sustainability, very very committed indeed and has been a young journey to date so we are keen on ensuring that we set the stage for every decision that we make with this regard. In line with that, we have started off and we've announced that in this year and I will leave the floor to Isa because it's within his space to talk to you about our efforts in incorporating ESG considerations in our internal policy and how we look at investments. And for Hisham to share with us evidence of our considerations to date that the team, I'm aware, are working on.

Moderator: Thank you Dana, Isa. The floor is yours.

Isa Maseeh: Thank you Hisham. Within the context of Risk Management, we announced earlier this year as well a new initiative that we've tied up sustainability excellence to work on further building ESG due diligence and analysis within our existing firm.

What we're effectively doing is we're working on development of due diligence toolkit score card focusing on screening companies based on their ESG performance evaluating the existing finance companies and projects under ESG performance, monitoring our existing finance companies and projects on ESG performance so we're effectively starting to build that into all of our credit and investment and decision processes all across the organization.

Moderator: Thank you very much. Mr. Hisham, would you like to add?

Hisham Al Kurdi: when she highlights the investment portfolios, I think she's talking about the propriety investments. Now the Treasury Capital Market policy includes in its commitment to engage in investments with clients, segment solutions as well as sales and distribution of securities that are ESG related. I mean that goes hand in hand with the efforts of the Coverage team and the Debt Capital Markets whenever our teams are involved in advising clients across the region and locally in Bahrain, when it comes to debt issuances or raising funding or investing or holding a portfolio. There are considerations as to the ESG angle and the purpose of the funds' utilization, so yes, we continue to look at these specific areas of the Debt Market. Obviously, this is not only on the Investment Portfolio side but they are also in our lending strategy as well. We've been having a look at few transactions. We've identified sectors such as health care, infrastructure, education as well, that we keep on looking at when it comes to the lending side of the business.

Moderator: Thank you very much Mr. Hisham.

Question 2

Moderator: Question from Mr. Tareef, I think Russell this is dedicated to you. "Many would agree that if NBB anticipates to be a market leader it has to be first a cost leader. I refer your kind attention to the condensed, consolidated interim Financials Page 3 and 12 to review note 13 Other Operating Expenses. I can see an escalation by approximately 20% to BD 26.9 million on the 30th of September 2021 compared to 30th September 2020 it was BD 22.3 million. Why did the professional fees, equipment expenses, and depreciation and amortization increase significantly? Don't you think this has adversely affected NBB's cost to income ratio? What are your proactive measures to improve NBB's efficiency ratio?" Russell?

Russell Bennet: Hello, a lot there to unpack.

I think there's probably going to be three comments to make to that. First, I did touch upon in the presentation the fact that expenses have gone up which is what I referred to as the good expenses. And that we've taken additional investments in the branch network that has a consequence and a cost. And the cost you will see through the depreciation line. We've also launched the new retail digital app and again, as a consequence of that is an increased depreciation charge which we will cover from future revenue sources as well, so obviously, those two cost basis should and will increase revenue eventually and pay for itself.

The additional treasury and risk system improvements also have a cost. They have a protection element to the group but the cost again is in the depreciation and amortization

line. Equipment Expenses I think was mentioned as well. As we move forward with technology, a lot of the technology now is cloud based rather than on premise CAPEX expenditure. So a lot of the subscription costs and licenses would be an annualized cost and that would go through the equipment expenses line item that Ali has pointed out. So expenses, absolutely, the costs are going up. The costs differ to what they were in the past, where we're moving away from CAPEX into Operating Expenses Cloud Based solutions etc.

Secondly, I would also comment that we have not yet seen the full benefit of the synergies of the coming together of the two banks. We joined elements of the two banks, obviously there's a time where the two banks can integrate more and look for further synergies. We won't necessarily see impact of that until next year once we've had time to react and a lot of these synergies will be accrued into the income statement over time. There is therefore downward pressure on the cost to income ratio which Ali is looking for.

My third and final comment on this will be on the other side of the ratio. We're focusing on the expense side of the ratio. This is a cost to income and I think the income side is going to be emphasized and the benefits of the synergies between the two organizations will be felt as we will move forward. So that will put upward pressure on revenues and consequently, that will bring down this efficiency, or the cost to income ratio, in the future.

Moderator: Thank you very much Russell. Thank you very much Isa, if I'm not mistaken, the next question could be yours and it talks about where do you see - - Let me recollect, ladies and gentlemen, the main objective of this meeting is to talk about past results and not future forward thinking speculations. Yet I will ask this question. Mr. Ali wants to ask this question to Isa, "Where do you see the cost of risk standing at the Year End 2021 and is it going to be similar to Q3 2021? I mean, we're seeing a trend and we're 45 days away from Year End, so Isa, choice is yours.

Isa Maseeh: As you noted, Hisham, I can't provide any forward looking guidance but going back to what Russell mentioned as well, our Cost of Risk has come back to a normalized level of 35 to 50 basis points. And despite in 2020 was predominantly on the back of the loan provisions taken on a pre-cautionary COVID basis where the focus was to be ready for any potential impact. Towards the loan deferrals end. So that 121 basis point level was on the back of COVID measures. We've now gone back to the normal level of 35 to 50 basis points. Which reflects our historical trends and levels.

Moderator: Thank you very much Isa.

Question 3:

Moderator: The third question, after which I will then go to another question that was asked by Mr. Mohammed Alhoori. The third and final question, "NBB is known to be at the forefront when it comes to sustainability and ESG compliance.

I am referring to the recently approved US 700 million financing by the OGM held on 30th of October 2021. Are you thinking of issuing a green bond, a loan or a sustainability link

financing?" JC, I believe this is a question that you could take?

JC: Sure. So first of all, the first part of the question which is actually an observation, it is very correct. We are the forefront when it comes to sustainability or ESG Compliance and our mission is to continue growing and always improving our ratings. We are working on different pillars and of course, the financing part of ESG we are looking closely at. Now, referring to the approved US 700 million financing envelope by the OGM in October, I should emphasize that it was not an envelope approved for a single specific transaction. But as an envelope, part of our growth strategy includes that we will be looking at, I would say, different opportunities in the future, including of course, sustainable linked financing of potential involvements. It's not a specific envelope but looking at green financing as it's full of sustainable financing is definitely something which is in our radar screen whether it's on the borrowing side or the lending side.

Moderator: Thank you very much JC. Much appreciated.

Question 4

Moderator: Mohammed Al Hoori asked three questions, thank you Mohammed, and again, two of them are forward thinking but I will ask them just so that we'll have full transparency. But I'll start with the first one.

Russell, I think this is for you. "Could you please indicate the YTD Return on Trading Book / Investments?"

Russell: Well, I would suggest that our level of trading securities is not significant to the group. It's not what we necessarily do. So I think for NBB Group it's not a ratio that is significant for the group. We don't have a big trading book is what I'm saying.

Moderator: Thank you very much. The next two questions are forward looking. Question No. 2 was "Could you please share your view on the expected growth for 2021 and 2022?" We are not in a situation to answer that. And the third question was "Where do you see the inflation reaching in 2022 and the impact on the interest rate?" Again, speculation and this is not a question that we can answer. Sorry Mohammed.

I don't see anymore questions. I believe we've answered these questions. If there are no more questions, I would say thank you very much to everyone for attending. On behalf of the National Bank of Bahrain Group we would like to thank you for attending the Investors' Meeting and most importantly, thank you for your questions, thank you for your feedback, thank you for all the observations and notes. Until we meet again in the next update, allow me to express our collective gratitude for your continued support.