

The Board of Directors of National Bank of Bahrain takes pleasure in presenting the 51st Annual Report of the Bank together with the Financial Statements for the year ended 31 December 2007.





Abdulla Ali Kanoo
Chairman

Overall Performance

The Bank pursued prudent policies, risk management strategies and tactical business plans to overcome the turmoil in global financial markets since July 2007 caused by the sub prime mortgage crisis, the housing market melt down in the United States and liquidity concerns. The pace of global economic growth continued albeit at a slower pace as fears of slowing down in major economies due to high energy and commodity prices and the impact of mark to market valuations of collateralised debt obligations and derivatives on the balance sheet of major banks and financial institutions remained a cause for concern. Across the globe monetary and fiscal policies pursued by sovereign states sought to stimulate growth and keep the threat of inflation at bay. In the region across the GCC states, governments made further progress on the path of economic and political reforms. The high levels of oil and gas prices led to significant fiscal and current account surpluses for the GCC states and also translated into larger investments in infrastructure projects and boosted regional business confidence. The GCC states continued to progress towards economic integration and taking further steps towards making the GCC a single market and economic bloc.

This year's financial results were gratifying, given external headwinds our industry faced in 2007 arising from the sub prime mortgage crisis and liquidity crunch impacting the financial markets. The Bank's robust business strategies and prudent risk philosophies ensured that we were not exposed to the sub prime mortgage crisis and the liquidity crunch that affected the industry. Consequently, the year saw sustained and solid growth for the Bank. Net Income for the year increased to BD 41.56 million up 12.75% from BD 36.86 million in 2006. We were successful in achieving higher returns for our shareholders, as reflected in the

increase in Earnings Per Share to 64.1 fils per share, as compared to 56.9 fils per share in the previous year.

The improvement in Net Income in 2007 was mainly due to an increase in Net Interest Margin from BD 38.59 million in 2006 to BD 42.17 million in 2007. The increase in Net Interest Income is mainly attributable to strong growth in loans and advances, customer deposits and improved yield on surplus liquidity deployment. Other Income at BD 22.86 million also reflected good growth (2006: BD 18.96 million), mainly through higher fee and commission income from the Bank's core banking activities, both domestically and in our overseas operations. Our treasury activities also contributed to growth in Other Income, with higher foreign exchange income and profits realized from activities in the local and international capital markets. The Bank's Treasury was very active throughout the year and played a prominent role in the local Bahraini Dinar market and participated in Government of Bahrain Treasury Bills and Islamic Sukuk issues while ensuring sufficient levels of liquidity and prudently managing the Bank's exposure to credit and market risk.

Our retail banking franchise remained at the forefront with both new and upgraded products and services. Corporate banking activities concentrated on top tier private and public sector companies within Bahrain and in the region generating steady deal flows and opportunities that were rewarding. We expanded our cross-border financing activities across the GCC states, participating in several syndicated facilities and bank club deals even as our trade finance activities grew as we strengthened our relationships with correspondents and forfaiting houses and also established new relationships.



Our efforts to grow the Bank's core business resulted in an increase in the Loans and Advances portfolio, which rose by 20.61 per cent from BD 784.31 million at the end of 2006 to BD 945.97 million at the end of 2007. Customer deposits also grew by 10.02 per cent from BD 1,199.78 million in 2006 to BD 1,319.95 million in 2007, with increases in the Bank's retail and corporate deposits.

The robust economic performance of the GCC states is expected to continue in the coming years with strong oil and gas prices, surpluses in fiscal and external current accounts, driving large investments in hydrocarbon and infrastructure projects. In line with other countries in the region, the Bahrain economy is also likely to benefit from the high oil prices, surplus Government budgets and infrastructure investments. We have focused primarily on generating organic growth through process improvement, increasing customer satisfaction and product innovation. At the same time, we have taken advantage of select opportunities presented to us to enter new markets. Our business strategies will remain focused on identifying opportunities thrown up by these developments and tapping those that meet our risk-reward criteria.

We have commenced implementation of our three-year Strategic Plan for the period 2007 - 2009 that is aimed at extending the boundaries of our core activities, ensuring the diversity of our income streams, maintaining our excellent track record of return on equity, earnings per share and operating efficiency, while retaining a prudent risk philosophy and conservative credit culture.

We are committed to serving our customers through our multiple delivery channels as we offer the most convenient

and largest banking network for our retail customers across Bahrain with the ATM network strategically located across the country, phone-banking services, direct sales representatives and a dedicated call centre. We keep our strategies well aligned with the country's policies as we strive to effectively contribute to national development and actively participate in the government's initiatives that are geared towards promoting economic diversification, stable economic growth and addressing the needs and requirements of our people. We remain fully committed to meeting the high expectations of our customers, shareholders and all other stakeholders.

Details of the Bank's financial position and performance are elaborated in the Financial Review section and the Financial Statements.

Recommended Appropriations

Based on the results, the Board of Directors has recommended for approval by the shareholders the following appropriations:

	Bahraini Dinars
Retained earnings as at 1 January 2007	57,513,888
2006 appropriations	(38,343,072)
2007 Net income	41,558,106
Total	60,728,922
Dividends (40%)	25,920,000
Donations and contributions	2,077,906
Directors' remuneration	350,000
General Reserve	19,440,000
Retained earnings carried forward after 2007 appropriations	12,941,016
Total	60,728,922

The Board has also proposed to the shareholders a bonus shares issue of BD 12.96 million at the rate of one additional share for every five shares held (20%). Consequently, the issued and fully paid share capital of the Bank is proposed to be increased to BD 77.76 million from BD 64.80 million. These shares will rank pari passu with all other shares for future dividends and distribution. This bonus share issue is proposed to be made through utilisation of BD 12.96 million from the General Reserve.

The Board has further proposed for approval by the shareholders, the transfer of BD 6.48 million from the General Reserve to the Statutory Reserve.

Donations and Contributions

This year, the Board is recommending the allocation of BD 2,077,906 to the Donations and Contributions programme, representing 5 per cent of 2007 profits available for distribution. The cumulative allocation under the programme, since its inception in 1980, is now BD 21.09 million.

Details of the Bank's Donations & Contribution programme are contained in the Corporate Social Responsibility section of the Annual Report.

Directors' Shareholding

Given below are details of the interests of individual Directors in the shares of National Bank of Bahrain. The interests of Directors in the shares of the Bank includes interests in the shares of the Bank held by their spouse(s) or dependent children or by any other person, the control of whose interests in such shares lies ultimately with the director:

As at 31 December	2007	2006
Number of shares held by Directors	35,051,349	28,709,440
As a percentage of the total number of shares	5.4%	5.3%

Acknowledgements

The Directors, on behalf of the shareholders, take this opportunity to express their gratitude and sincere appreciation to His Majesty King Hamad bin Isa Al Khalifa - the King of Bahrain, to His Highness Shaikh Khalifa bin Salman Al Khalifa - the Prime Minister, to His Highness Shaikh Salman bin Hamad Al Khalifa - the Crown Prince and Deputy Supreme Commander, Government ministries and institutions - especially the Ministry of Finance and National Economy and the Central Bank of Bahrain, for their guidance, kind consideration and support. The Directors would also like to thank departing Director Dr. Zakaria Hijris for his contribution and services during his tenure on the Board of Directors.

The Directors also extend their thanks and appreciation to the staff of the Bank whose dedicated service and commitment has played a vital role in the achievements of the Bank over the years and to all our valued customers and friends for their continuous support and the confidence reposed by them in the National Bank of Bahrain.

Abdulla Ali Kanoo

Chairman

15 January 2008

Hassan Ali Juma

Managing Director and
Chief Executive

