



# Board of Directors' Report



**The Board of Directors of National Bank of Bahrain takes pleasure in presenting the 52nd Annual Report of the Bank together with the financial statements for the year ended 31 December 2008.**

## Overall Performance

After years of strong growth, the world economy is entering a phase of major economic downturn as a result of the turmoil in the global financial markets. The U.S. sub-prime mortgage collapse that began in mid-2007 has snow-balled into a financial crisis that has witnessed the failure of some leading financial institutions, forced mergers/acquisitions in the financial services industry, counter-party risk aversion and general lack of confidence. As a result, many of the advanced economies are close to or moving into recession while growth rates are slowing down considerably in emerging economies. Across the globe, sovereign states have co-ordinated their efforts to promote monetary and fiscal policies to stimulate growth through substantial interest rate cuts, deposit protection schemes, currency swap lines and several other initiatives. The situation is likely to be volatile over the next few quarters and the process of recovery is expected to be slow and painful.

The high levels of oil and gas prices in the last few years that led to significant fiscal and current account surpluses for the GCC states have provided the resources for large scale investments in infrastructure and development projects. However, the sharp decline in oil price in the recent past will result in a slowdown in spending by GCC states. The projects underway in Bahrain are expected to be completed, as these are essential components of the national economic plan to position the country as the gateway to the northern Gulf. The Government continues to work towards diversifying the economy away from dependence

on oil to a more sustainable base such as financial services, tourism, and infrastructure development in order to create the required foundation for a stronger and more participative private sector.

Against this background, the Bank achieved realistic growth in the underlying commercial banking business as a result of prudent policies, risk management strategies and tactical business plans. This year's financial results reflect the improvement in our core

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business operations where we have done well. However, the turmoil in financial markets worldwide has affected valuations of our investments in managed funds. The Bank is standing on a solid financial platform after taking full provision for impairment in debt securities of institutions adversely impacted by the global financial crisis. Consequently, the results reflect a Net Income of BD 34.74 million in 2008 compared to BD 41.56 million in 2007. The Earnings Per Share is 44.7 fils for the year, as compared to 53.4 fils in the previous year.

The increase in Net Interest Income by 9.2 per cent to BD 46.06 million is mainly attributable to strong growth in loans and advances and customer deposits, despite lower yield on deployment of surplus liquidity in the background of falling interest rates

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worldwide. Other Income from core banking activities reflected good growth, mainly through higher fee and commission income, in both domestic and overseas operations. Despite higher foreign exchange income, our treasury activities were negatively affected by mark to market losses on investments in managed funds due to the overall volatility in equity markets. In view of the above, Other Income for the year was BD 16.60 million (2007: BD 22.86 million). The Bank's Treasury played an active role throughout the year in ensuring sufficient levels of liquidity and prudently managing the Bank's exposure to market risk.

Our retail banking deposit franchise benefited from greater recognition within the domestic market as a safe, secure and dependable institution to rely on during turbulent times. Meanwhile, we continued to meet customer expectations with both new and upgraded products and services to meet market demand. Corporate banking activities concentrated on top tier private and public sector companies within Bahrain and 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 club deals. As part of our regional expansion plans, we opened a branch in Riyadh, Saudi Arabia in January 2008 offering the full range of commercial and retail services.

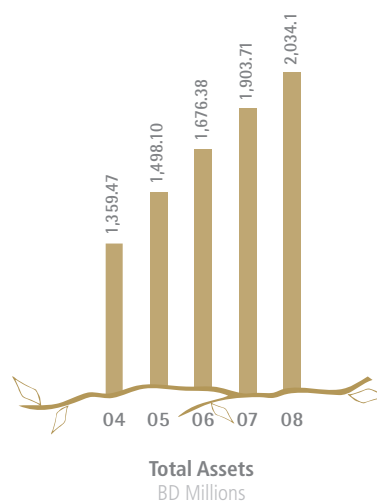
Our efforts to grow the Bank's core business resulted in an increase in the Loans and Advances portfolio by 15.8 per cent from BD 945.97 million at the end of 2007 to BD 1,095.71 million at the end of 2008. Customer deposits also grew by 15.1 per cent from BD 1,319.95 million in 2007 to BD 1,519.25 million in 2008, with increases in the Bank's retail and corporate deposits.

Bahrain's economy is expected to benefit from continued infrastructure investments and we are committed to generating domestic growth that is focused on improving our market share in active sectors of the national economy. We remain open to

taking advantage of opportunities and developments to enter new markets in the region while continuing with our strategy of financial prudence and expansion of new business opportunities that meet our risk-reward criteria.

We remain committed to serving our customers through multiple delivery channels including the largest network of branches and ATMs in Bahrain 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 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.





## Board of Directors' Report

### Recommended Appropriations

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

	<b>Bahraini Dinars</b>
Adjusted retained earnings as at 1 January 2008	61,294,157
2007 appropriations	(47,787,906)
2008 Net income	34,738,834
<b>Total</b>	<b>48,245,085</b>
Dividends ( 30 %)	23,328,000
Donations and Charities	1,736,942
Directors' remuneration	350,000
Retained earnings carried forward after 2008 appropriations	22,830,143
<b>Total</b>	<b>48,245,085</b>

### Donations and Charities

This year, the Board is recommending the allocation of BD 1,736,942 to the Donations and Charities programme, representing 5 per cent of 2008 profits available for distribution. The cumulative allocation under the programme, since its inception in 1980, is now BD 22.83 million.

Details of the Bank's Donations & Charities 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 Dember	<b>2008</b>	2007
Number of shares held by Directors	42,353,031	35,051,349
As a percentage of the total number of shares	5.4 %	5.4%

### 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 the Central Bank of Bahrain, for their guidance, kind consideration and support.

The Directors would like to thank Dr. Zakaria Hejres, who left the Board, for his contribution and services during his tenure on the Board of Directors. The Directors would like to take this opportunity to welcome Dr. Essam Abdulla Fakhro as the Deputy Chairman of the Board of Directors and look forward to his contribution towards the continued success of the Bank.

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

20 January 2009