

BOARD OF DIRECTORS' REPORT

As the year drew to a close there were clear signs of economic recovery and a general feeling of optimism that economies are likely to grow at a steady pace in 2010.

The Board of Directors of National Bank of Bahrain takes pleasure in presenting the 53rd Annual Report of the Bank together with the financial statements for the year ended 31 December 2009.

GENERAL OPERATING ENVIRONMENT

2009 was one of the most difficult years in the aftermath of the global financial crisis with many of the developed economies showing negative growth after years of strong growth. The Gulf Cooperation Council (GCC) countries have not been immune to the developments in the rest of the world with a considerable slow down in growth rates and investments. However, as the year drew to a close there were clear signs of economic recovery and a general feeling of optimism that economies are likely to grow at a steady pace in 2010. Economic growth has turned positive as wide-ranging public intervention has lowered uncertainty and systemic risk in financial markets. The triggers for this rebound are strong government policies across advanced and many emerging economies including guarantees for financial institutions, capital injections, provision of liquidity and intervention in credit markets that have supported demand and eliminated fears of a global depression.

Real-estate related activity, which along with the related downward pressure on bank balance sheets lies at the origin of the global downturn, may not see a strong rebound for some time. House prices are declining at a slower rate or beginning to stabilize in some advanced economies, but many markets still face the risk of further price declines.

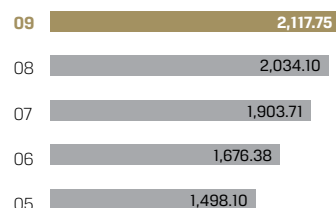
Timely policy responses by the authorities of the GCC countries brought about a measure of stability and cushioned the downturn across most of the GCC. The considerable financial reserves held by the Gulf states has enabled it to tackle the financial crisis better than most parts of the world and to also continue with most

of the planned development works. As a result, these economies are showing signs of growth, albeit at a lower level compared to the previous years. The crisis in Dubai towards the end of the year raised concerns on the future growth prospects for the region. However, timely intervention by Abu Dhabi has eased concerns about a potential debt default which could have had a major impact on the confidence of the international community in the region. The external environment is gradually improving, financing conditions are easing, oil prices are rising and OPEC is well positioned to meet a near-term rise in demand. Deposit growth and capital inflows are regaining strength while funding conditions in the banking systems in the region are also improving.

The timing of the Federal Reserve's pullback from an unprecedented level of monetary stimulus, deployed to combat the worst financial crisis since the Great Depression, will depend on inflation threats. As the Federal Reserve shifts its focus from spurring growth to heading off inflation, we are likely to see a reversal of trend in interest rates with a gradual increase. Future earnings for banks globally could be limited by the lingering loan losses from the housing bust and financial crisis.

OVERALL PERFORMANCE

Against the backdrop of the global financial crisis and a challenging regional environment, the Bank achieved realistic growth during the year in line with its long-term objective of delivering consistent returns without compromising on risks. The strategy during the year was to focus on increasing business in the domestic market resulting in increased earnings from growth in core banking businesses. The results reflect improvement in earnings while efficiently managing operating expenses. In line with the Bank's prudent approach to risk taking and considering the difficulties in the overall external credit environment, the Bank



TOTAL ASSETS
BD Millions

Against the backdrop of the global financial crisis and a challenging regional environment, the Bank achieved realistic growth during the year in line with its long-term objective of delivering consistent returns without compromising on risks.

on its own initiative decided to increase the level of general loan loss provisions with an emphasis on building a strong balance sheet. Accordingly, the results reflect a Net Profit of BD 42.82 million in 2009 compared to BD 34.74 million in 2008, an increase of 23.3 per cent. The Earnings Per Share is 55 fils for the year, as compared to 45 fils in the previous year.

The increase in Net Interest Income by 6.4 per cent to BD 49.02 million is mainly attributable to growth in loans and investments and efficient balance sheet management despite lower yield on surplus liquidity in the background of falling interest rates worldwide. Other Income at BD 23.26 million (2008: BD 16.60 million) reflected a growth of 40.1 per cent on account of good growth in core banking activities, higher foreign exchange income and profit on available for sale investments.

Our efforts to grow the Bank's core business resulted in an increase in the Loans and Advances portfolio by 5.1 per cent from BD 1,095.71 million at the end of 2008 to BD 1,151.42 million at the end of 2009. Customer deposits at BD 1,480.39 million reflect the stability and range of products designed to suit the Bank's retail and corporate clientele.

The Bank continued to cater to customer needs and expectations with both new and upgraded products and services. The focus of the Personal Banking Group was expansion of the retail footprint

with new/enhanced products and improvement in service delivery standards to reinforce our position as the largest network of branches and ATMs in the Kingdom. The priority for the Business Banking Group was continuous strengthening of existing customer relationship by providing a wide range of products and services with particular emphasis on supporting initiatives towards development of the Kingdom. The Treasury & Investment Group's concentration during the year was to maintain adequate liquidity while efficiently managing the Balance Sheet within the overall risk parameters.

We are committed to supporting domestic growth and improve our market share in active sectors of the national economy as Bahrain's economy expands with continued infrastructure investments as part of Vision 2030. As the nation charts its ambitious development plans we keep our strategies well aligned with the country's policies and aim 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:

	Bahraini Dinars
Retained earnings as at 1 January 2009	48,245,085
2008 appropriations	(25,414,942)
2009 Net income	42,822,114
Total	65,652,257
Dividends (35%)	27,216,000
Donations and contributions	2,141,106
Directors' remuneration	350,000
Retained earnings carried forward after 2009 appropriations	35,945,151
Total	65,652,257

DONATIONS AND CONTRIBUTIONS

This year, the Board is recommending the allocation of BD 2,141,106 to the Donations and Contributions programme, representing 5 per cent of 2009 profits available for distribution. The cumulative allocation under the programme, since its inception in 1980, is now BD 24.97 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	2009	2008
Number of shares held by Directors	46,027,992	46,297,673
As a percentage of the total number of shares	5.9 %	5.9 %

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 Royal Highness Shaikh Khalifa bin Salman Al Khalifa - the Prime Minister, to His Royal 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 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

21 January 2010