

BOARD OF DIRECTORS REPORT

The Board of directors is pleased to present the 30th Annual Report of the company to the distinguished shareholders with the balance sheet and income statement for the financial year ended 31 December 2006.

Newly elected Board of directors took charge of the company's affairs during 2006. They reviewed and reorganised the company's organisation structure and added new committees to assist the Board in carrying out its duties. In our present structure we have Operations Committee to oversee the insurance operations, Investment Committee to oversee the investment operations, Audit Committee to guide and review the audit function.

New guidelines and procedures that were restructured to improve efficiency and effectiveness of the company were implemented this year.

The Board played an active role in overseeing the training program including programs abroad that empowered the Bahraini staff to take up higher managerial responsibilities. Many Bahrainis took up additional responsibilities that came to them upon completion of training program and promotions.

The Board guided the management to develop the information technology to a level that prepares the company for the next level of interaction with customers and to provide services to them that would have great impact on their satisfaction and loyalty to the company.

Important business strategic alliances that were established with reputed Asian insurance players in the previous year has now developed into great business venture adding new products to the market, creating new dynamics to business relationships enabling cross selling

of other products. This year we entered into a new strategic alliance with an American company to sell extended warranties to consumer durables including vehicles. We believe that this alliance will also develop well in the coming years to reach out and serve wider customer base.

Insurance Market Developments

Softening trend of international market is continuing adding pressures on the insurance industry in Bahrain. In addition, due to new entrants to Bahrain market, the competitive environment is heating up deteriorating premium rates in almost all classes of business.

Company performance for the year 2006

Business results of the Company for the year 2006 are very encouraging. Gross premium grew to BD 9,035,554 for the year 2006 compared to BD 7,110,995 for the previous year, thus registering a growth of 27%.

Net earned premium has increased to BD 3,065,014 for 2006 from BD 2,355,737 for 2005 showing a growth of 30%.

Net commission income earned has declined to BD 512,763 for 2006 from BD 566,410 for 2005 showing a decline of 9%.

Results of various insurance activities before deducting general and administration expenses are as follows:

		2006	2005
Fire general risks & engineering	BD	411,832	440,232
Marine & aviation	BD	125,193	86,129
Medical & life	BD	214,318	40,967
Motor	BD	279,357	201,796
Total	BD	1,030,700	769,124

Investment and other income generated was BD 2,102,042 for the year 2006 compared to BD 2,054,212 for the previous year.

The general and administrative expenses were BD 577,972 for 2006 compared to BD 503,093 for the previous year.

The net profit for 2006 was BD 2,554,770 as compared to BD 2,320,243 for the previous year, representing a growth of 10% over the previous year.

Proposed distributions

The amount available for appropriation is BD 4,268,172 as follows:

Net profit for the year 2006	BD 2,554,770
Net retained earnings from previous year	BD 1,713,402
Total profit available for distribution	BD 4,268,172

The Board of Directors seeks the approval of the distinguished General Assembly on the following appropriations:

Transfer to statutory reserves	BD 255,477
Cash dividend of 20 fils per share	BD 630,000
Bonus issue of 1 share for every 20 held	BD 157,500
Directors' remuneration	BD 214,000
Retained earnings	BD 3,011,195
Total	BD 4,268,172

Corporate governance

In accordance with the Central Bank of Bahrain rulebook pertaining to public disclosure the company is required to make additional disclosure in respect of the constitution, profile of the Board of Directors and management, various committees and organisation structure. The required disclosures are as follows:

Constitution

A Board of directors elected by the body of shareholders, consisting of seven members, governs the company. They hold office for three years and are eligible for re-election thereafter. They derive their powers from the Bahrain Commercial Companies Law 2001, the memorandum and the articles of Association and the powers granted by the Body of shareholders at their general assembly. Their shareholding in the company is given in note 14. During the year 2006 the Board of Directors met four times.

Committees of the Board

The Board of Directors has delegated their powers to three committees to assist them in carrying out their directorial duties and to supervise more closely the management activities. These committees are Operations Committee, Audit Committee and the Investment Committee.

The Operations Committee consists of Mr. Sharif M. Ahamdi - Chairman and Mr. Dr. Osama Taqi Albaharna.

The Operation Committee is empowered to act on behalf of the company to supervise the company's insurance operations.

During the year 2006 Operations Committee held four meetings and its predecessor Executive Committee which held the responsibility of insurance operations along with investments met once.

The Investment Committee consists of Mr. Sofyan Adnan Khatib - Chairman and Mr. Abdulla Ebrahim Jamsheer.

The Investments Committee is empowered to act on behalf of the company in respect of investment decision. During the year 2006 Investment Committee held one meeting and its predecessor Executive Committee which held the responsibility of investments operations along with insurance operations met once. However, all investment decision are taken in writing by circulation.

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The Audit Committee consists of Mr. Adel Hassan Ali Alaali - Chairman and Mr. A. V. Babu.

The Audit Committee is in charge of the audit function of the company. The committee oversees the statutory auditor function. The internal auditor directly reports to the Audit Committee.

During the year 2006, the Audit Committee met 3 times

Capital Adequacy

The company regularly reviews the financial position of the company with respect to capital adequacy as required by the Central Bank of Bahrain rulebook. The rulebook specifies that the tier 1 capital should be at least BD 5 million and that the available capital of the company should be adequate to cover the minimum solvency margin. The rulebook sets the procedure in which tier 1 capital, available capital and required solvency margin is determined. Available capital and required solvency margin would depend on the financial position and the scale of operations of the company.

The capital of the company determined in accordance with the Central Bank of Bahrain rulebook as on 31 December 2006 as follows:

Minimum tier 1 capital required	BD	5.0 million
Tier 1 capital of the Company	BD	8.3 million
Minimum solvency margin required	BD	0.9 million
Available capital of the Company	BD	6.4 million

Accordingly, the available capital of the company is 7 times the required solvency margin.

Thanks and appreciation

On behalf of our shareholders, the Board of Directors would like to extend their sincere thanks and appreciation to HM King Hamad Bin Isa Al Khalifa, The King of the kingdom of Bahrain, HH Shaikh Khalifa Bin Salman Al Khalifa, the Prime Minister and HH Shaikh Salman Bin Hamad Al Khalifa, The Crown Prince and Commander-in-Chief of the Bahrain Defence Force.

The Board would also like to thank HE the Minister of Industry and Commerce and HE the Governor of Central Bank of Bahrain for their continuous support to the insurance industry in Bahrain and all Ministers, the private sector establishments and individuals who dealt with our company and placed their trust.

We also extend our thanks to all the distinguished shareholders for their trust and continuous encouragement to the Board. Our appreciation and sincere thanks go to the management and the employees for their loyalty and dedication.

Board of Directors
26 February 2007