

Board of Directors Report

The Board of directors is pleased to present the 31st Annual Report of the company to the distinguished shareholders with the balance sheet and income statement for the financial year ended 31 December 2007.

The current Board took charge of the company in 2006 and worked closely with the management and guided company to leap from strength to strength as evidenced by the phenomenal growth of 110% in shareholders equity during 2007.

New guidelines and procedures introduced by this Board improved efficiency and effectiveness of the company that has led to enhancement of its competitive edge in the market.

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 have actually taken up higher responsibilities after completing their training programs.

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.

We remained focused to serve existing customers effectively and successfully defended our market share in the face of severe competitive environment brought about by new entrants to the market. This was achieved during 2007 by establishing new customer service section to respond to customers needs and concerns more effectively, motor claim servicing center at Salmabad to provide focussed attention to customers' claims and a new branch at Sitra Mall to provide easy access to customers for our insurance services.

In 2007, a new Medical Product with partnership with leading medical underwriters and a new expatriate insurance scheme for an Asian expatriate community were introduced. Broker specific products also were designed and launched during the year. An agreement with a Bahrain based exchange company was signed for marketing expatriate schemes through their vast network of branches. Plans are under way to market company's other products through this channel.

Insurance Market Developments

Insurance market in Bahrain continues to remain extremely competitive brought about by new entrants - both traditional as well as Islamic with large capital base, as well as by soft re-insurance markets internationally, leading many regional companies to opt for facultative business from other countries in the region exposing themselves to un-chartered waters. Hurricane GONU in June 2007 impacted the results of all such companies who had exposed themselves excessively. But thanks to prudent and strict underwriting policy that the company has in place for accepting business from outside Bahrain, the impact this event had on our company was minimal.

Investment Market

Interest rates peaked and started receding during 2007. Turmoil in sub-prime real estate in US is continuing to cause rippled effects round the world, many international corporations are reporting substantial losses in the recent times. However, oil prices remained high throughout 2007 pouring substantial money supply in the economies of oil rich middle-eastern countries. This development had a salutary impact on the regions' economies as well as their stock markets. At Al Ahlia, we have successfully captured substantial portion of this market movement impacting favourably our financial position as well as the results for the year.

Company performance for the year 2007

Business results of the Company for the year 2007 are very encouraging. Gross premium grew to BD 9,860,283 for the year 2007 compared to BD 9,035,554 for the previous year, thus registering a growth of 9%.

Net earned premium has increased to BD 3,735,693 for 2007 from BD 3,065,014 for 2006 showing a growth of 22%.

Net commission income earned has increased to BD 527,067 for 2007 from BD 512,763 for 2006 showing a growth of 3%.

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

	2007	2006
Fire general risks & engineering	BD 351,907	411,832
Marine & aviation	BD 118,805	125,193
Medical & life	BD 280,841	214,318
Motor	BD 688,439	279,357
Total	BD 1,439,992	1,030,700

Investment and other income generated was BD 2,512,444 for the year 2007 compared to BD 2,102,042 for the previous year.

The general and administrative expenses were 650,466 for 2007 compared to BD 577,972 for the previous year.

The net profit for 2007 was BD 3,301,970 as compared to BD 2,554,770 for the previous year, representing a growth of 29% over the previous year.

The shareholders' equity has jumped to BD 20,666,917 as on 31st Dec 2007 from BD 9,847,515 as on 31st Dec 2006 showing a growth of 110%.

Proposed distributions

The amount available for appropriation is BD 6,313,283 as follows:

Net profit for the year 2007	BD 3,301,970
Net retained earnings from previous year	BD 3,011,313
Total profit available for distribution	BD 6,313,283

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

Transfer to statutory reserves	BD 330,197
Cash dividend of 50 fils per share	BD 1,653,750
Bonus issue of 1 share for every 10 held	BD 330,750
Directors' remuneration	BD 105,000
Retained earnings	BD 3,893,586
Total	BD 6,313,283

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 17. During the year 2007 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.

Board of Directors Report (continued)

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

During the year 2007 Operations Committee held six meetings

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 decisions.

During the year 2007 Investment Committee held two meetings. However, all investment decisions are taken in writing by circulation.

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 2007, the Audit Committee met three 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 2007 as follows:

Minimum tier 1 capital required	BD 5.0 million
Tier 1 capital of the Company	BD 10.7 million
Minimum solvency margin required	BD 0.9 million
Available capital of the Company	BD 12.4 million

Accordingly, the available capital of the company is 13 times greater than 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 & Deputy Supreme Commander.

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 27 January 2008