

SECTOR REPORT

Takaful Insurance in the UAE

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* References:

1. An Analysis of Islamic Takaful Insurance - A Cooperative Insurance Mechanism / By Ramin Cooper Maysami & W. Jean Kwon.
2. Development & Application of Islamic Insurance (Takaful) / By Prof. Dr. Mohd. Ma'sum Billah.

Concepts and Terms in Islam

Tabarru: Donation and contribution

Takaful (Islamic Insurance): A new concept of insurance that complies with Islamic principles. It is a type of a joint guarantee insurance mechanism based on the law of large numbers in which a group of society members pool their financial resources together against certain loss exposures.

Takaful (shared responsibility) is permitted and strongly encouraged in Islam. In contrast, the Sharia'a prohibits exploitation and risky investments because Muslim jurists generally view these activities as **gharra** (contracts in which the results are unknown, hidden or speculative in nature). Islam further states that the market must be a place for the exchange of products and services where all parties in each contract explicitly know the prices.

Zakat: A basic Islamic principle which means that all members of society should share equally the benefits afforded by that society and all are to help others who suffer from a misfortune (it obliges the rich to help the destitute and weaker members of society). Of course, neither an individual nor a state can gain from the misfortune of others.

Riba: Charging predetermined interest. Riba is also forbidden in Islam regardless of the purpose for which such a loan is made and the rate at which interest is charged. As a result, Islamic financial transactions are, at least in principle, interest-free. The application of riba principle, however, does not mean that capital is costless. Islam permits making a predetermined claim on the surplus from using capital for production. Therefore, a profit-sharing arrangement where the profit-sharing ratio is predetermined, not the rate of return, is allowed in Islam.

Murabaha: A contract whereby a financial institution buys goods for a customer from a third party and then resells the goods to the customer at a pre-agreed price on deferred payment terms.

Mudaraba and **musharaka** modes of financing: Under the mudaraba principle, an owner of capital may let an entrepreneur use his or her capital within Islamic guidelines and share in the profits with the entrepreneur. Both the owner and the entrepreneur are free to determine the extent of their profit-sharing ratio. However, only the owner of the capital will be responsible for all losses.

The musharaka mode of financing, in contrast, refers to an agreement in which two or more partners use their capitals jointly for investment and share in both profits and losses in proportion to their capital contribution or any other ratio they have agreed on.

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In practice, these two concepts can be applied to Islamic insurance such that an insured (acting as an owner of capital) enters into a mudaraba contract with the insurer (acting as an investor of the capital). The profit sharing ratio is what is known as the mudarib fees. The insurer may then enter into a musharaka reinsurance agreement on a profit/loss-sharing basis.

Note: *Mudarib fees* are in compliance with the mudaraba mode of financing because the shareholders (insurance company) act as the investor of the funds provided by the policyholders (owners of capital). In return, the shareholders receive a predetermined mudarib fee as a percentage of investment income.

Wakala fees, on the other hand, are paid by the policyholders to shareholders (insurance company) for the management of the insurance operations (performance fees) as a percentage of premiums earned (revenue) not income.

Overview of Islamic Finance and Islamic Insurance

Islamic finance is not new; it dates back to the period when Prophet Muhammad was alive almost 1,500 years ago.

As Islam flourished, commercial activities grew within the Islamic society and the need for regulations governing such activities became a necessity. These laws were further developed over the centuries especially with the entrance of huge western firms into the Islamic world. Progressively, Islamic financial institutions started to form their own identity during the 1960's. Since then, Islamic finance has grown rapidly and the level of sophistication of both Islamic financial institutions and products has risen to international levels.

To many, Islamic finance remains a rather ambiguous realm due to the general lack of knowledge on Islamic principles and prohibited practices by many individuals. However, Islamic finance has proven itself as a flexible tool in international finance and has obtained international recognition. Many devoted Muslims see it as an acceptable (halal) investment tool after they had been locked out of the investment scene which was dominated by conventional non-Sharia'a compliant products.

Several Islamic financial activities have surfaced throughout the past few decades such as Islamic banking, equity investments, sukuk, mortgages, leases, and insurance or takaful.

Takaful (Islamic insurance) is an alternative form of cover of which a Muslim can avail himself against the risk of loss due to misfortunes. Takaful is not a new concept, in fact it had been practiced by the Muhajrin of Mecca and the Ansar of Medina following the hijra of the Prophet. Furthermore, cooperative insurance was also present before Islam through the practices of (Al-Aqilah) among the ancient Arab tribes as a tribal custom. It became a tradition among the tribes that if any member of a tribe was killed by a member of a different tribe, the heir of the victim would be paid with an amount of blood money as a compensation by close relatives of the killer. Those close relatives were addressed as Aqilah in Arab terminology.

Islamic insurance, in its modern form, initially saw the light of day in Sudan in 1979 with the opening of "The Islamic Insurance Co." Saudi Arabia followed suit during the same year, launching "the Islamic Arab Insurance Company". By the late 1990s, Islamic insurance operations were present in most Islamic countries in addition to other non-Muslim countries with large Muslim populations.

Globally, Takaful premiums are estimated at around USD2 billion. The Middle East market is reported to grow at 15 - 20% per year.

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Takaful is founded on the cooperative principle and on the principle of separation between the funds and operations of shareholders, thus passing the ownership of the Takaful (insurance) fund and operations to policyholders.

The premiums collected from policyholders are considered as donations and they constitute the Takaful fund from which all claims are reimbursed.

At the end of each financial year, after the deduction of expenses, any remaining cash surplus will not be retained by the company or its shareholders, but returned to policyholders in the form of cash dividends or distributions.

Unlike conventional insurance, under Takaful, policyholders as well as shareholders benefit from profits generated from the Takaful income and investment assets.

Investment assets representing the Takaful fund that accumulate over the retained reserves, surpluses, and provisions are invested by shareholders who manage the company on behalf of policyholders. Shareholders are rewarded with a percentage of the profit on these investments (Mudarib fees).

Takaful Life Insurance

This type of insurance has a defined maturity period and works as a savings instrument whereby participants (policyholders) set their own target amount to accumulate over a certain period of time. It is also a protection mechanism in which all participants guarantee each other against certain misfortunes.

A takaful insurer credits premiums paid by the insured in two separate accounts; the individual account and the special account of each insured. The individual account, to which a major portion of the premium is allocated, is purely for savings and investment. The special account, where the balance of the premium goes, is to build up a reserve for the perils that might strike any of the insured. The insured, therefore, applies the concept of tabarru (donation and contribution) in the special account.

Takaful insurers invest the funds in the individual and special accounts in the form of mutual funds consisting primarily of stocks of Islamic financial institutions and any other company with halal (permitted) operations. A Sharia'a supervisory board monitors the investments made by the insurer and ensures that operations are in line with Islamic principles. These investment portfolios are usually made transparent in order for the insured to verify that neither insurance benefits nor investment returns come from unacceptable means.

Under a takaful insurance contract, a modified mudaraba mode of financing is created where the insured (acting as owner of capital) enters into a mudaraba contract with the insurer (acting as an investor of the capital). In sharing profits, takaful insurers and the insured share only the direct investment income, leaving the original premium contributions intact in both the individual and special accounts. Accordingly, the insurer does not have the right or priority to claim the investment income as his/her own. However, losses are borne only by the insured.

The insured pays a mudarib fee to the insurer in return for the investment efforts exerted by the insurer on behalf of the insured. This Mudarib fee may be a predetermined percentage of investment income (profit-sharing).

Wakala fees are also paid by policyholders (the insured) to shareholders (the insurer) for the management of the insurance operations, but are estimated as a percentage of premiums earned (revenue) not income (not profit-sharing).

Upon death, the insurer compensates the beneficiary the total amount of premiums paid by the deceased to the individual account and his/her share of surplus from the investment of premiums that have been credited into that account. From the special account, the insurer pays the beneficiary the outstanding takaful installments that would have been paid by the deceased had he/she survived until maturity of the plan. The net surplus allocated to the

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deceased that can be found from the most current valuation of his or her special account is also paid to the beneficiary. Surplus in this context refers to the insurer's net investment profit from the insured premium contributions after deducting benefit payments, operating expenses, and reserves for future claims.

If an insured survives to meet the target amount of savings that he/she determined at policy inception, the insured gets a refund of all the premiums that he/she has paid to the individual account plus his/her share of the investment income from that account. In addition, his/her share of surplus will be assessed from the special account.

If the insured surrenders his policy prematurely, he/she will get a refund of all the premiums paid plus his/her share of surplus from the individual account (after deducting administrative expenses) until the date of surrender. However, no refund from the special account is usually given in case of policy surrender.

TAKAFUL LIFE INSURANCE	Amount Received by the Insured (or his/her Beneficiaries)	
	From the individual account	From the Special Account
Death before maturity	*All premiums paid *Share of investment profit	*Outstanding installment premium payments which would have been paid had the deceased survived to maturity *Net surplus from most current valuation
At maturity	*All premiums paid *Share of investment profit	*Share of surplus
Policy Surrender	*Refund of all premiums paid *Share of investment profit	*No refund is usually made

Source: An Analysis of Islamic Takaful Insurance – By: Ramin Cooper Maysami & W. Jean Kwon

Takaful Non-life Insurance

Takaful insurers offer, mostly on an annual renewable basis, fire, automobile, liability, marine, workers' compensation, fidelity, and even crop insurance.

This type resembles a joint guarantee in which all participants contribute their own shares of premiums to a pool and mutually agree to indemnify those participants who suffer from an insured peril.

It is similar, but not exactly the same, as takaful life insurance: premiums are not allocated into two separate accounts but are pooled into a takaful fund managed by the insurer. The insurer acts as a trustee who invests the funds in Islamic-compliant tools then channels the investment income, less investment expenses, back to the fund. The insurer then settles all outstanding claims, deducts the operating expenses, and transfers part of the fund to relevant

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reserves. If there is any balance in the fund after these adjustments, the balance will be shared by the insurer and the insured according to an agreed profit-sharing formula. This surplus is normally distributed upon the expiry of the policy of each insured. If, however, the sum of the premiums and investment income is insufficient to meet these adjustments, those affected insured could be assessed for additional contributions - by policyholders.

Takaful Reinsurance (Retakaful)

For risk sharing and pricing purposes, conventional reinsurance transfers are commonly classified into proportional and non-proportional arrangements. In takaful reinsurance, however, non-proportional arrangements such as stop-loss arrangements may not be adequate because there exists uncertainty with respect to the assessment of losses. Islamic principles, on the other hand, demand clearly defined joint responsibility throughout the coverage period. Hence, takaful reinsurance is likely to be arranged on a pro-rata (proportional) basis, e.g., a quota share of surplus reinsurance, where the re-insurer becomes technically a coinsurer of the original risks. This may be portrayed as a musharaka mode of financing whereby the insurer enters into a musharaka reinsurance agreement on a profit/loss ratio sharing basis.

Takaful Income Statement

Due to the nature of takaful operations (joint guarantee and indemnity) and the mudaraba mode of financing (profit sharing between shareholders and policyholders), two separate accounts are held; one for shareholders and another for policyholders. Consequently, the balance sheet shows the assets and liabilities of both accounts.

The distribution of the investment income is allocated to each account according to the participant's share of funds (musharaka). Furthermore, the shareholders receive Mudarib fees (as a percentage of investment income) from policyholders for managing their investment.

Income Statement / Attributable to Policyholders

Underwriting income comprises of insurance premiums and commissions earned. Underwriting expenses are comprised of claims incurred and commissions paid.

Net Underwriting Income = *(Premiums Earned – Claims Incurred) + (Commissions Received – Commissions Paid)*

Wakala Fees are then deducted from the net underwriting income and are paid to shareholders who manage the insurance operations on behalf of policyholders.

Net Surplus (Deficit) from Insurance Operations = *Net Underwriting Income – Wakala Fees*

Policyholders are also entitled to receive the income earned from investment operations of the funds (premiums paid by policyholders) which are managed by shareholders on behalf of policyholders. In return, policyholders pay a "mudarib fee" to shareholders as a percentage profit share of investment income. The result of the above-mentioned formulae are the "net surplus (deficit) attributable to policyholders".

Net Surplus (Deficit) Attributable to the Policyholders = *Net Surplus (Deficit) from Insurance Operations + Investment Income – Mudarib Fee*

Income Statement / Attributable to Shareholders

Main sources of income are investment income and mudarib and wakala fees received. In addition, the financial results attributable to policyholders also have a direct effect on shareholders' net income.

Investment income represents the shareholders' share of total investment income in proportion to their contribution to the pool of funds created by shareholders and policyholders.

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The mudarib fees and wakala fees are income sources for shareholders and are paid to them by policyholders in return for the management of the investment fund and insurance operations respectively. These are the exact same figures shown as expenses in the income statement attributable to policyholders but are on the revenue side for shareholders.

When policyholders suffer a net deficit, shareholders (the insurer) are obliged to finance the policyholders' deficit in unprofitable years through loans and simultaneously maintain a provision against these loans. Installments into this provision (provision against loan to the policyholders' fund) appear as an expense in the shareholders' income statement and the provision itself is a liability in the shareholders' balance sheet. On the other hand, should policyholders achieve a net surplus, their result is incorporated as income in the shareholders' income statement, therefore reducing the "provision against loan to the policyholders' fund" on the liability side of the balance sheet.

We arrive at the net income attributable to shareholders after netting out all the remaining income statement accounts such as general and administrative and financing expenses. This is the same figure used for calculating the EPS.

Income Statement – Attributable to Shareholders

(+) Investment Income

(+) Mudarib Fees

(+) Wakala Fees

(+/-) Provision installment against loan to policyholders' fund

(-) General and Administrative expenses

(-) Financing expenses

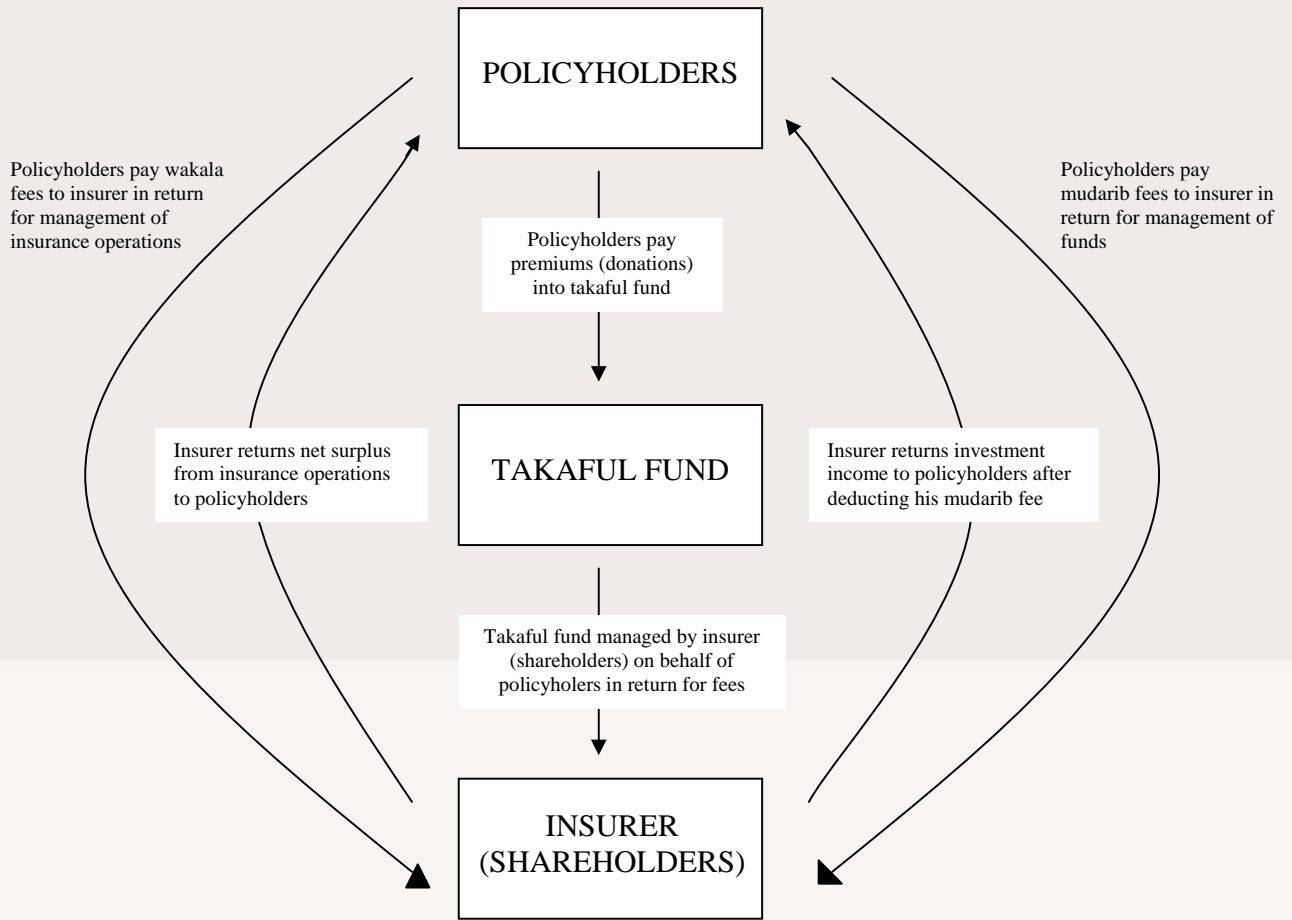
Net income attributable to shareholders

Takaful Market & Regulations in the UAE

A total of 49 insurance companies operate in the UAE, three of which are classified as Islamic insurance companies, two of which are listed on the DFM and one on the ADSM. The UAE government decided to open the market to foreign competition last year.

In the absence of a special independent insurance regulatory body in the UAE, malpractices are not uncommon in the insurance industry in general and in Islamic insurance in particular. Some insurance firms (Islamic and non-Islamic) tend to accept excessive stock market risks with no strict liquidity requirements, which put them at a higher risk exposure. Though the Ministry of Economy is currently in charge of monitoring the industry, lack of legislation remains a top challenge for business to flourish.

Takaful Operations Flowchart



Source: Jordinvest Research

Dubai Islamic Insurance & Reinsurance Company (AMAN)

Dubai Islamic Insurance & Reinsurance Company (AMAN) is a public shareholding company engaged in general and medical insurance business in accordance with the Islamic Sharia'a. It obtained the license to operate in March 2003 and commenced operations on April 8th, 2003.

Dubai Islamic Bank (DIB), along with other founding shareholders, subscribed 45% to Aman's capital (2.7 million shares of 6 million shares at AED10/share). The remaining 55% (3.3 million shares) were raised through an IPO at AED10/share. The IPO was oversubscribed five times.

Insurance operations cover motor, marine, fire, engineering, general accident, life and medical risks. AMAN also runs investment funds in line with Islamic principles.

Recent News:

AMAN upped its capital from AED60 million to AED200 million through a private placement of 14 million shares at AED10/share. The private placement, managed by DIB, started on May 25th, 2006 and closed on June 24th, 2006.

Non-UAE nationals (foreign ownership) will be allowed to hold up to 15% of the number of shares outstanding once the capital increase is completed.

As for profit distribution (to shareholders) in 2005, the company distributed a total of 15% in cash dividends and 15% as bonus shares. (The new number of shares becomes 6.9 million).

Policyholders, in the meantime, received 2% of the net profit.

2005 Highlights:

Income statement / Attributable to policyholders

Underwriting income soared by 157% from AED17.25 million in 2004 to AED44.35 million in 2005. Premiums earned contributed 82% to total underwriting income in 2004 and 2005 while commissions collected represented the remaining 18%.

Underwriting expenses rose at a higher rate during 2005 compared to 2004 as they jumped by 188%. Claims represented 84% of total underwriting expenses in 2004 and 2005 while commissions paid accounted for the remaining 16%.

As a result, net underwriting income grew by 68% in 2005 compared to 2004.

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Wakala fees reached AED13.37 million (25% of AED53.48 million) in 2004 and AED23.73 million (25% of AED94.92 million) in 2005. The resulting deficit from insurance operations reached AED16.19 million in 2005 compared to AED8.88 million in 2004.

Investment income attributable to policyholders for 2005 surged by an astonishing 503% compared to 2004 to settle at AED41.48 million versus AED6.88 million in 2004. Mudarib fees payable to shareholders also climbed by 503% in 2005 over the year before due to the fixed 25% fee and reached AED10.37 million in 2005 up from AED1.72 million in 2004.

Consequently, policyholders realized a net surplus of AED14.92 million in 2005, while they suffered a net deficit of AED3.72 million in 2004.

AMAN's Income Statement (Attributable to Policyholders)			
Underwriting Results	2003 (AED)	2004 (AED)	2005 (AED)
Underwriting Income	4,747,938	17,251,218	44,351,036
Underwriting Expense	-2,031,866	-12,760,265	-36,808,835
Net Underwriting Income	2,716,072	4,490,953	7,542,201
Wakala Fees	-5,606,471	-13,369,707	-23,731,056
Net Surplus from Insurance Operations	-2,890,399	-8,878,754	-16,188,855
Investment Income	366,693	6,884,137	41,478,558
Mudarib Fees	-91,673	-1,721,034	-10,369,640
Other Income	0	0	0
Net Surplus Attributable to Policyholders	-2,615,379	-3,715,651	14,920,063
Source: AMAN's Annual Reports			

Income Statement / Attributable to Shareholders

Net profit attributable to shareholders shot by 759% during 2005 compared to the year before. Growth came after the main sources of income: investment income, and mudarib and wakala fees received grew by 366%, 503% and 77% respectively during 2005 compared to 2004. In addition, the large positive earnings attributable to policyholders in 2005 relieved the shareholders from taking further provisions. Thus, the 2004 provisions appeared as income in 2005.

Investment income leveled at AED54.42 million in 2005 compared to AED11.24 in 2004.

Policyholders incurred a net deficit of AED3.72 million and AED2.62 million in 2004 and 2003, respectively, summing AED6.34 by 2004 year end. Shareholders (AMAN) were therefore obliged to finance the policyholders' deficit in 2003 and 2004 through loans and simultaneously maintained a provision against these loans. Consequently, a provision of AED2.62 million was deducted from the 2003 shareholders' income as an expense. Furthermore, policyholders suffered a deficit of AED3.72 million in 2004 which was also shown as an expense in that year. The AED6.34 million provision as of 2004 year end (2004: AED3.72 + 2003:AED2.62) was reversed and was incorporated as income in 2005. This is attributed to the

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impressive results realized in 2005 (AED14.92 million in net profit attributable to policyholders) which were sufficient to cover the previous years' total deficits of AED6.34 million.

Finally, after deducting the general and administrative expenses, AMAN's shareholders achieved a net profit of AED72.65 million in 2005 compared to AED8.50 million in 2004.

AMAN's Income Statement (Attributable to Shareholders)				
	2004 (AED '000)	2005 (AED '000)	Q1 2005 (AED '000)	Q1 2006 (AED '000)
Income				
Wakala Fees from Policyholders	13,370	23,731	3,414	9,685
Mudarib Fees from Policyholders	1,721	10,370		
Investment Income	11,240	52,418	2,239	-1,631
Other Income	28	6,331		
Total Income	26,359	92,850	5,653	8,054
Expenses				
G&A Expenses	-14,184	-20,198	-3,958	-5,724
Provision to Policyholders' Fund	-3,716	0		
Total Expenses	-17,900	-20,198	-3,958	-5,724
Net Profit for the Period	8,459	72,651	1,695	2,331
# of shares at AED 10 per share	6,000,000	6,000,000	6,000,000	6,000,000
EPS	1.41	12.11	0.28	0.39

Source: AMAN's Annual Reports

Q1 2006 Highlights

Income Statement:

Q1 2006 net profit grew by 38% to AED2.33 million compared to AED1.7 million posted in Q1 2005.

Unlike Q1 2005 - during which AMAN posted an investment income of AED2.2 million - investment income in Q1 2006 burdened the gross profit figure due to a loss of AED1.63 million.

However, the insurance profit (generated through insurance operations) in Q1 2006 was 184% higher than its figure in the corresponding period of 2005. It was also sufficient to offset the negative impact of the loss in investment income. As a result, total income increased to AED8 million during Q1 2006 compared to AED5.7 million in Q1 2005.

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Balance Sheet:

Financial assets at fair value (used for trading) plunged from AED193 million as of 2005 year end to AED166 million as of Q1 2006 (less by AED27 million or 14%). The drop is higher than the AED1.63 million in investment loss incurred during Q1 2006. This indicates that AMAN might be reducing its holdings in risky investments especially since Q1 2006 was not a profitable investment period. Cash balances, on the other hand, grew tremendously as of Q1 2006 and reached AED50 million compared to AED9.2 million as of 2005 year end (up 440% or AED40 million). This is a further indicator that AMAN might have liquidated some of its investments (which shrunk by AED27 million) and fed them into the cash account.

AMAN's Balance Sheet			
	2004	2005	Q1 2006
Non-Current Assets			
Property and Equipment	2,889,132	3,048,117	2,879,132
Current Assets			
Financial Assets at Fair Value (for trading)	35,803,687	192,681,508	165,636,200
Other Current Assets	58,401,674	53,168,700	49,200,730
Cash in Hand and at Bank	8,291,131	9,169,152	49,444,481
Total Current Assets	102,496,492	255,019,360	264,281,411
Total Assets	105,385,624	258,067,477	267,160,543
Current Liabilities			
Outstanding Claims Reserve	7,145,709	20,502,179	23,648,782
Unearned Premium Reserve	10,860,010	20,657,139	25,156,055
Other Current Liabilities & Reserves	19,338,634	41,227,987	40,344,876
Total Current Liabilities	37,344,353	82,387,305	89,149,713
Non-Current Liability			
Bank Finance – Long-term Portion	0	35,000,000	35,000,000
Policyholders' Fund			
Surplus in Policyholders' Fund	-6,331,030	8,416,567	8,416,567
Loan from Shareholders	6,331,030	0	0
Shareholders' Funds			
Share Capital	60,000,000	60,000,000	60,000,000
Statutory & Revaluation Reserve	1,714,150	16,244,410	16,244,410
Retained Earnings	327,121	38,019,195	40,349,854
Proposed Dividend	6,000,000	18,000,000	18,000,000
Total Shareholders' Funds	68,041,271	132,263,605	134,594,264
Total Liabilities and Shareholders' Funds	105,385,624	258,067,477	267,160,544

Source: AMAN's Annual Reports

Islamic Arab Insurance Co. (Salama / IAIC) and its Subsidiaries

The principal activity of the company is the writing of all classes of general insurance business, mainly motor insurance, in accordance with Islamic Sharia'a. The company aims to complete its product offerings by introducing medical and life insurance during 2006.

The company was re-branded in 2005 and went public in July 2005. The IPO raised its capital from AED50 million (500,000 shares at AED100/share) to AED1 billion (one billion shares at AED1/share). SALAMA was listed on the DFM and trading started as of Sep. 17th, 2005.

SALAMA issued its first annual report in 2005. This followed the acquisition of an 82.21% stake of Takaful and Re-Takaful International Investment Corporation (TARIIC) - Bahrain in January 2005. Later in the year, TARIIC, which became a subsidiary upped its capital from USD26 million to USD100 million. By the end of 2005, SALAMA's ownership in TARIIC reached 90.81%.

TARIIC is a holding company and does not carry out any commercial activities in Bahrain. However, it owns:

- 1- 59.55% of "Best-Re" in Tunisia – Best Re is the largest re-takaful company in the world and enjoys S&P rating "BBB" and A.M. Best rating "B++".
- 2- 52.66% of "Sosar Al Amame Assurance" in Senegal
- 3- 89.11% of "Al Baraka Oua Al Amame" in Algeria
- 4- 51.15% of "Egypt Saudi Insurance Home" in Egypt

SALAMA now relies more on investments it has made through utilizing the capital increase than on the traditional takaful insurance operations.

The company currently boasts the world's largest takaful and re-takaful network.

By October 2005, the company received approval from the Saudi Arabian Monetary Agency to establish a new company in Saudi Arabia (IAIC) - likely to start operations mid 2006 as a public co.

Recent news:

- SALAMA increases its stake in BEST-Re from 60% to 100% - May 2006.
- SALAMA increases its holding in TARIIC to 95% - May 2006.
- Distribution of 10% as bonus shares was approved – Distribution as of May 4th, 2006.
- SALAMA launches an Islamic reinsurance company in Saudi Arabia (IAIC) with a capital of SAR1 billion.
- GCC nationals can now hold shares in SALAMA – Approved as of February 2006.

2005 Highlights

SALAMA's Financial Highlights	2005 (AED)	2004 (AED)	% change
Gross Premiums Written	513,645,000	45,318,000	1033%
Net Premiums Earned	461,307,000	42,513,000	985%
Net Claims Incurred	269,008,000	30,792,000	774%
Net Profit	110,740,000	3,599,000	2977%
Prov. for Unearned Premium	82,143,000	16,932,000	385%
Gross Prov. for Outstanding Claims	307,245,000	15,976,000	1823%
Share Capital	1,000,000,000	50,000,000	1900%

Source: SALAMA's Annual Report

2005 Income Statement

Figures and profits for 2005 only reflect the results of five months of operations post IPO and are consolidated with TARIIC's financials. EPS for 2005 stood at AED0.23 on a weighted average basis of 484.66 million shares. The 2004 figures are not consolidated and are solely related to the parent company. EPS for 2004 was AED0.072 based on 50 million shares. Therefore, those two years are not comparable. As expected, the capital increase came with great benefits to shareholders who contributed the capital, while its effect on the policyholders' surplus was minimal.

SALAMA's Income Statement (Attributable to Policyholders)				
Underwriting Results	2004 (AED '000)	2005 (AED '000)	Q1 2005 (AED '000)	Q1 2006 (AED '000)
Underwriting Income	42,742	471,389	11,747	125,689
Underwriting Expense	-34,666	-396,113	-9,353	-101,259
Net Underwriting Income	8,076	75,276	2,394	24,430
Net Underwriting Income from Subsidiaries	0	-65,270	0	-20,340
Wakala Fees	-6,798	-8,030	-1,815	-3,052
Net Surplus from Insurance Operations	1,278	1,976	579	1,038
Investment Income	1,508	2,663	541	61
Mudarib Fees	-226	-399	-81	-9
Other Income	-971	29	9	0
Net Surplus Attributable to Policyholders	1,589	4,269	1,048	1,090

Source: SALAMA's Annual Reports

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SALAMA's Income Statement (Attributable to Shareholders)				
	2004 (AED '000)	2005 (AED '000)	Q1 2005 (AED '000)	Q1 2006 (AED '000)
Income				
Net Underwriting Income from Subsidiaries	0	65,270	0	20,340
Wakala Fees from Policyholders	6,798	8,030	1,815	3,052
Mudarib Fees from Policyholders	226	399	81	9
Investment Income	1,700	99,993	610	66,021
Other Income	0	11,629	0	510
Total Income	8,724	185,321	2,506	89,932
Expenses				
G&A Expenses	-6,675	-55,085	-1,644	-15,394
Finance Expenses	-39	-3,250	-18	-49
Provision for Charitable Donation	0	-2,795	0	0
Tax on Foreign Operations	0	-4,660	0	-604
Provision to Policyholders' Fund	1,589	4,269	1,048	1,090
Total Expenses	-5,125	-61,521	-614	-14,957
Net Profit before Minority Interest	3,599	123,800	1,892	74,975
Minority Interest	0	-13,059	0	-4,354
Net Profit for the year	3,599	110,741	1,892	70,621
# of shares at AED 1 per share	50,000,000	1,000,000,000	50,000,000	1,000,000,000
EPS	0.072	0.228	0.038	0.071

Source: SALAMA's Annual Reports

Although policyholders' surplus shot by 170% during 2005 compared to 2004, shareholders' profit grew at a much higher rate. Fueled by AED65 million in underwriting income from subsidiaries and AED100 million in investment income, net income attributable to shareholders in 2005 soared by 3,000% year-on-year to AED111 million versus AED3.6 million in 2004.

Net surplus attributable to policyholders reached AED4.27 million in 2005 compared to AED1.6 million in 2004. The 2005 net surplus also appears in the shareholders' income statement as income (because shareholders slashed their provision for policyholders' deficit by the same amount).

A sizeable portion of the AED75 million in net underwriting income came from SALAMA's subsidiaries (AED65 million) and not through SALAMA's policyholders. Thus, this income is the right of shareholders and not policyholders (since it came from a different pool than that of SALAMA's policyholders). Therefore, the AED65 million sum was deducted from the net underwriting income attributable to policyholders and added to the net income attributable to shareholders.

Wakala fees in 2005 amounted to AED8.03 million (15% of gross written premiums by SALAMA's policyholders only excluding subsidiaries). Wakala fees for 2004 stood at AED6.8 million which also represented 15% of gross written premium – the company had no subsidiaries in 2004.

Mudarib fees for 2005 netted AED0.4 million (15% of the AED2.66 million in net investment income attributable to policyholders) compared to AED0.226 million in 2004 (15% of AED1.5 million).

The company's investment income is allocated to shareholders according to the capital to total assets ratio (capital: shareholders / total assets: shareholders + policyholders). The remaining income is earmarked for policyholders.

Total investment income reached AED12.1 million in 2005 compared to AED3.2 in 2004. A sum of AED2.66 million and AED1.5 million were allocated to policyholders in 2005 and 2004, respectively, while the remainder - AED9.44 million in 2005 and AED1.7 million in 2004 - were distributed to policyholders.

Additionally, due to the capital increase - from AED50 million to AED1 billion - which took place in 2005, more funds became available for investment with income attributable to shareholders only and not policyholders. This income amounted to AED90.5 million during 2005 and had a zero balance in 2004.

As a result, total investment income attributable to shareholders rose to AED100 million in 2005 compared to AED1.7 million in 2004, up 5,782%.

Q1 2006 Income Statement

Q1 2006 results revealed an even more timid performance by policyholders, yet a stronger performance by shareholders.

Net surplus attributable to policyholders grew by a negligible 4% during Q1 2006 compared to Q1 2005. Furthermore, the Q1 2006 surplus of AED1.09 million comprised 26% of the 2005 surplus of AED4.27 million.

Shareholders' income, on the other hand, continued its upward trend during Q1 2006, growing by 3,633% compared to Q1 2005. Net profit to shareholders rested at AED70.62 million during Q1 2006, representing 64% of the 2005 net shareholders' income of AED110.74 million. Underwriting income from subsidiaries and investment income reached AED20.34 million and AED66 million, respectively, during Q1 2006.

Q1 2006 Balance Sheet

Q1 2006 balance sheet grew by 14% compared to 2005 year end.

Statutory deposits almost doubled from AED16.9 million at 2005 year end to AED33.2 million as of Q1 2006. The AED16.2 million increase came from TARIIC's subsidiary in Algeria "Al Barak Al Aman".

Other payables and accruals quadrupled during Q1 2006 due to a sum of AED150 million received by the company from RUSD Investment Bank for the purpose of investing. This amount was returned to RUSD subsequent to 31st March, 2006.

Amounts due from / to related parties both increased by more than 200% as of Q1 2006 compared to 2005.

The policyholders' fund balance closed at AED11.83 million as of Q1 2006 due to a surplus of AED1.09 million attributable to policyholders during the first three months of 2006. The balance stood at AED12.92 as of 2005 year end.

Investment in associates: A sum of AED51,964 million of the total AED60,055 million represents investment made in IAIC of KSA which was still under formation at the balance sheet date.

SALAMA's Balance Sheet			
	2004 (AED '000)	2005 (AED '000)	Q1 2006 (AED '000)
Non-Current Assets			
Property and Equipment	1,393	49,293	49,245
Available for Sale Investments	28,961	90,065	13,919
Other Non-Current Assets	18,636	292,072	312,465
Total Non-Current Assets	48,990	431,430	375,629
Current Assets			
Financial Assets at Fair Value (for trading)	0	70,202	48,132
Other Current Assets	45,339	733,578	1,051,059
Cash in Hand and at Bank	314	561,078	577,707
Total Current Assets	45,653	1,364,858	1,676,898
Total Assets	94,643	1,796,288	2,052,527
Current Liabilities			
Outstanding Claims Reserve	15,976	307,245	326,396
Unearned Premium Reserve	16,932	82,143	95,308
Other Current Liabilities	18,105	132,531	280,624
Bank Finance - Short Term Portion	112	7,609	8,942
Total Current Liabilities	51,125	529,528	711,270
Non-Current Liability			
Bank Finance - Long Term Portion	112	518	398
Policyholders' Fund			
Surplus in Policyholders' Fund	-17,190	-12,921	-11,831
Loan from Shareholders	17,190	12,921	11,831
Shareholders' Funds			
Share Capital	50,000	1,000,000	1,000,000
Statutory & Revaluation Reserves	5,804	23,733	24,683
Foreign Exchange Translation	0	-3,942	-5,250
Retained Earnings	-12,398	88,059	158,680
Total Shareholders' Funds	43,406	1,107,850	1,178,113
Minority Interest	0	158,392	162,746
Total Liabilities, Funds, and Minority Interest	94,643	1,796,288	2,052,527

Source: SALAMA's Annual Reports

Abu Dhabi National Takaful Company (TAKAFUL)

Abu Dhabi National Takaful Company - TAKAFUL is a national insurance company established in the UAE capital, Abu Dhabi in November 2003. TAKAFUL is a public shareholding company with shares listed on the ADSM. It aims to serve the growing need for Islamic insurance solutions by offering a comprehensive range of products and services.

TAKAFUL has a paid-up capital of AED60 million: the founding members are Abu Dhabi Islamic Bank - ADIB, Abu Dhabi Investment Company - ADIC, as well as a number of reputable UAE institutions and individuals.

Recent News

TAKAFUL plans to offer 49% of its equity to GCC nationals.

2005 Annual Report

This was the company's second annual report. Thus, any comparison between 2005 and 2004 results is baseless as 2004 was the company's first year in operation.

2005 Income Statement

Gross written contributions amounted to AED53.6 million in 2005 compared to AED13.7 million in 2004, a growth of 293%. On the other hand, takaful's operating profit attributable to policyholders reached AED4.65 million in 2005, 88% higher than the AED2.47 million posted in 2004.

Investment income attributable to shareholders grew by an outstanding 656% in 2005 over 2004, adding AED30 million to shareholders' income in 2005. Net profit attributable to shareholders settled at AED23.96 million in 2005 compared to AED0.22 million in 2004 overshadowing the 92% increase in general and administrative expenses in 2005.

Details on wakala fees and mudarib fees are not disclosed by TAKAFUL. Furthermore, the company does not show the breakdown of investment income between shareholders and policyholders.

Q1 2006 Income Statement

Q1 2006 gross contributions written by policyholders had further surged by 111% over Q1 2005, clocking in at AED20.6 while net surplus attributable to policyholders grew by 90% during the same period to settle at AED4 million. This result shows a clear improvement when compared to the 2005 full year net surplus of AED4.65 million attributable to policyholders.

Takaful Insurance in the UAE

Q1 2006 investment income retreated by 6% compared to the same period in 2005, resting at AED3.85 million. Nevertheless, fee-based income alongside the 90% increase in policyholders' surplus boosted the shareholders' total income by 35% in Q1 2006 to AED5 million from AED3.7 million in Q1 2005.

TAKAFUL's Income Statement (Attributable to Policyholders)				
Underwriting Results	2004 (AED '000)	2005 (AED '000)	Q1 2005 (AED '000)	Q1 2006 (AED '000)
Underwriting Income	3,464	12,850	2,616	7,019
Underwriting Expense	-1,140	-8,295	-1,098	-3,457
Net Underwriting Income	2,325	4,554	1,517	3,562
Wakala Fees	-927	-2,657	-288	-432
Net Surplus from Insurance Operations	1,398	1,897	1,229	3,131
Other Income	1,072	2,754	915	953
Net Surplus Attributable to Policyholders	2,470	4,651	2,144	4,084

Source: TAKAFUL's Annual Reports

TAKAFUL's Income Statement (Attributable to Shareholders)				
	2004 (AED '000)	2005 (AED '000)	Q1 2005 (AED '000)	Q1 2006 (AED '000)
Income				
Investment Income	3,954	29,909	4,082	3,853
Other Income	1,200	0		
Total Income	5,154	29,909	4,082	3,853
Expenses				
G&A Expenses	-5,525	-10,599	-2,529	-2,934
Provision to Policyholders' Fund	2,470	4,651	2,144	4,084
Other	-1,878	0		
Total Expenses	-4,933	-5,948	-385	1,149
Net Profit for the Year	221	23,961	3,697	5,002
# of shares at AED1 per share	60,000,000	60,000,000	60,000,000	60,000,000
EPS	0.004	0.399	0.062	0.083

Source: TAKAFUL's Annual Reports

2005 Balance Sheet / Q1 2006 Balance Sheet

Around AED28.2 million of investments in UAE quoted equity securities comprised 70.5% of the total AED40 million portfolio of available for sale investments in 2005. The year 2005 witnessed an AED17.7 million increase in the fair value of available for sale investments. On the other hand, Q1 2006 saw a devaluation of AED9.3 million in the fair value of the available for sale investments. Available for sale investments account balance stood at AED35.5 million by the end of Q1 2006 compared to AED40 million as of 2005 year end. The same amounts by which the

Takaful Insurance in the UAE

available for sale investments increased / decreased were also debited / credited under the shareholders' equity section of the balance sheet in the "investment revaluation reserve." The reserve increased by AED17.7 million in 2005 and went down by AED9.3 million in Q1 2006.

TAKAFUL's Balance Sheet			
	2004 (AED '000)	2005 (AED '000)	Q1 2006 (AED '000)
Non-Current Assets			
Property and Equipment	832	1,578	1,574
Statutory Deposits	7,500	7,500	7,500
Available for Sale Investments	3,487	39,954	35,460
Total Non-Current Assets	11,819	49,032	44,534
Current Assets			
Cash in Hand and at Bank	42,132	140,642	124,447
Other Current Assets	18,775	38,799	59,406
Total Current Assets	60,907	179,441	183,852
Total Assets	72,726	228,474	228,386
Current Liabilities			
Insurance Balances Payable	7,020	40,595	46,872
Other Payables and Accruals	3,676	81,743	82,840
Additional Reserve	1,839	5,498	5,368
Total Current Liabilities	12,535	127,836	135,080
Shareholders' Funds			
Share Capital	60,000	60,000	60,000
Statutory & General Reserve	22	13,618	13,618
Revaluation Reserve	-30	17,655	8,321
Retained Earnings	199	6,364	11,366
Proposed Dividend	0	3,000	0
Total Shareholders' Funds	60,191	100,637	93,305
Total Liabilities and Funds	72,726	228,474	228,386

Source: TAKAFUL's Annual Reports

Comparative Analysis

Q1 2006 sheds light on the risk exposure takaful companies are subject to due to their heavy reliance on stock markets as the main source of income for shareholders. This is further exacerbated by the fact that investments are not adequately diversified and are concentrated in the local UAE markets only. AMAN incurred an investment loss during Q1 2006 while TAKAFUL's investment income retreated by 6% during Q1 2006 compared to Q1 2005.

SALAMA, on the other hand, utilized its capital increase efficiently as it diversified its investment portfolio in both stock markets and in subsidiaries. It would not be reasonable to compare SALAMA's results in Q1 2006 to Q1 2005 as share capital and available funds for investment increased dramatically after Q1 2005. SALAMA achieved an investment income of AED66 million in Q1 2006 compared to AED100 million for the whole of 2005. In the meantime, income from subsidiaries reached AED20 million during Q1 2006 versus AED65 million in 2005.

Thus, SALAMA is the most diversified in terms of income attributable to shareholders as its subsidiaries contributed 35.2% to total income while its investments formed 54% of the total. The remaining 10.8% of income was derived from wakala and mudarib fees in addition to leasing income and others. The AED950 million capital increase carried out in July 2005 gave the insurer room to make high profitable investments such as its acquisition of TARIIC in October 2005 which helped boost the investment income attributable to shareholders to AED100 million during 2005. However, SALAMA's policyholders did not reap the benefits of the capital increase and the resulting high investment income as they have no claim over it.

Ratios Attributable to Shareholders 2005			
	SALAMA	AMAN	TAKAFUL
Net Profit (AED '000)	110,741	72,651	23,961
Return on Shareholders' Equity	10.0%	54.9%	23.8%
Return on Assets	6.2%	28.2%	10.5%
Investment Income / Total Income	54.0%	56.5%	86.5%
Wakala + Mudarib Fees / Total Income	4.5%	36.7%	n/a
Income from Subsidiaries / Total Income	35.2%	0.0%	n/a
Other Income / Total Income	6.3%	6.8%	n/a
Investment Income / Net Profit	90.3%	72.1%	124.8%
Net Profit / Total Income (Net Profit Margin)	59.8%	78.2%	69.3%

Source: Jordinvest's Calculations and Company Financials

Other traditional insurance companies in the UAE (non-Islamic) also have high exposure to securities' investments and stock market risks as they too suffered from investment losses during Q1 2006, which lowered their profit compared to Q1 2005. National General Insurance PLC (NGI) incurred a net loss of AED7.64 during Q1 2006 compared to a net profit of AED23.6 million in Q1 2005. Alliance

Takaful Insurance in the UAE

Insurance PLC (ALLI) suffered an investment loss of AED7.1 million in Q1 2006 against investment income of AED8.9 million during the same period of 2005. Finally, Dubai National Insurance & Reinsurance PLC (DNIR) investment income retreated from AED9.7 million in Q1 2005 to AED2.9 million in Q1 2006.

Traditional Insurers' Q1 2006 Results			
(AED '000)	NGI	ALLI	DNIR
Net Underwriting Income	5,780	4,698	4,203
Investment Income	-13,065	-7,064	2,913
Net Profit	-7,640	13,937	7,501
Source: Jordinvest's Calculations and Company Financials			

AMAN achieved the best results for both shareholders and policyholders during 2005 in comparison with the other insurers. However, the source of income for AMAN is clearly not sustainable as most of it was derived from securities investments. This is even more evident for policyholders as takaful insurance operations in 2005 resulted in a loss (deficit) and it was the investment income which inverted the total deficit into a surplus. AMAN realized the highest profit margin for policyholders and the highest ROE, ROA, and profit margin attributable to shareholders. On the other hand, SALAMA and TAKAFUL's income attributable to policyholders in 2005 was backed by investment income as both insurers had already achieved a surplus from takaful operations. Thus, the investment income came to push the net surplus to a higher level.

Q1 2006 saw a reversal in the results of AMAN as the company posted the lowest income attributable to shareholders of AED2.33 million only. Net income attributable to shareholders grew by 38% and 35% for AMAN and TAKAFUL respectively during Q1 2006 versus the same period last year.

Ratios Attributable to Policyholders 2005		
	SALAMA	AMAN
Net Surplus Attributable to Policyholders (AED)	4,269,000	14,920,063
Surplus (Deficit) in Policyholders' Fund (AED)	12,921,000	8,416,567
Net Underwriting Income (AED)	10,006,000	7,542,201
Net Surplus / Net Underwriting Income (Margin %)	42.7%	197.8%
Investment Income / Net Surplus	62.4%	278.0%
Underwriting Income / Net Surplus	234%	51%
Expenses & Other / Net surplus	-197%	-229%
Source: Jordinvest's Calculations and Company Financials		

The exact market shares of the three companies are hard to determine due to the absence of an insurance regulatory body. However, examining the wakala and mudarib fee-based income reveals that AMAN seems to be the market leader in terms of the number of takaful policyholders in the UAE (number of insured). AMAN received AED34 million in fees in 2005 (AED24 million in wakala fees and AED10 million in mudarib fees) and AED9.7 million during Q1 2006. Furthermore, the percentage of fee-based income to total shareholders' income for AMAN was the highest, highlighting the large size of insurance operations.

Takaful Insurance in the UAE

Investment income to policyholders in 2005 represented 44% of total investment income while the remaining 56% of total investment was attributable to shareholders. This indicates the contribution of policyholders and shareholders to the pool of funds or the size of takaful operations relative to capital.

SALAMA's size of takaful operations (number of policyholders) within the UAE is relatively small against its enormous capital. However, the size of takaful operations outside the UAE through SALAMA's subsidiaries is impressive. Wakala fees, which amounted to AED8 million in 2005 and AED3 million in Q1 2006, represent the fees paid solely by SALAMA's policyholders - excluding its subsidiaries. Further evidence is the small 2.6% stake of policyholders' investment income to total investment income in 2005, which reflects their minor contribution to the fund pool compared to shareholders. This same ratio was close to zero during Q1 2006.

Liquidity Ratios 2005			
	SALAMA	AMAN	TAKAFUL
Premiums Earned (AED '000)	471,389	44,351	12,850
Claims Incurred (AED '000)	396,113	36,809	8,295
Gross Underwriting Income (AED '000)	75,276	7,542	4,554
Cash & Cash Equivalents (AED '000)	561,078	9,169	140,642
Current Ratio	2.02	2.14	1.71
Net Loss Ratio	84.0%	83.0%	65%
Outstanding Claims Reserve - Gross (AED '000)	307,245	20,502	9,288
Outstanding Claims Reserve/Cash & Equivalents	55%	224%	6.6%
Outstanding Claims Reserve/Premiums Earned	65.2%	46.2%	72.2%
Outstanding Claims Reserve/Claims Incurred	77.5%	55.7%	112%
Source: Jordinvest's Calculations and Company Financials			

Outstanding claims reserve represents a liability in the balance sheet and is fed by the difference between claims recorded in the income statement and claims settled (paid) during the period. It consists primarily of an estimate of "outstanding claims" and "incurred but not reported claims- IBNR". This account is very sensitive and is usually estimated based on past loss ratios.

Examining liquidity by looking at the ratio of outstanding claims reserve to cash and cash equivalents unveils the weak liquidity position of AMAN at the end of 2005. However, the company increased its cash balances dramatically during Q1 2006 as cash levels stood at AED49.4 million and the ratio of outstanding claims to cash retracted to 48%. SALAMA also enhanced its liquidity position during Q1 2006 as the ratio of outstanding claims to cash rested at 56.5%. The same ratio for TAKAFUL was only 7.5% as of the end of Q1 2006 indicating its secure and superior liquidity status.

All three insurers' current ratios dropped slightly in Q1 2006 but remained within acceptable ranges. AMAN continued to carry the highest current ratio at 2.1x in Q1 2006, while SALAMA and TAKAFUL posted current ratios of 1.87x and 1.61x respectively during the same period.

Takaful Insurance in the UAE

Worth noting is that 2005 was an optimal year for TAKAFUL in terms of cash and liquidity as the insurer received positive cash flows from both operating and investing activities. No financing activities were registered in 2005 unlike 2004 which saw the AED60 million proceeds of the capital issue. Net cash increase in 2004 was AED42.13 million and was mainly attributed to the AED60 million issue of capital. 2005 net increase in cash surpassed that of 2004 by 134% rising by AED98.5 million mainly due to an AED91 million cash inflow from insurance operations.

Net cash outflows of AED16.2 million were registered for Q1 2006 for TAKAFUL lowering the level of cash balances to AED124.4 million from AED140.6 million as of 2005 year end. Both investing activities and insurance operations yielded negative cash flows of AED1.1 million and AED15 million respectively during Q1 2006.

Valuation Ratios			
	SALAMA	AMAN	TAKAFUL
P/E Trailing (x)	16.72	3.00	9.55
P/E Forward (x)	10.62	23.59	12.06
P/BV (x)	2.55	1.63	2.59
Market Cap (AED '000)	3,000,000	219,900	241,200
Source: Jordinvest's Calculations and Company Financials – Prices used as of July 31, 2006 – Latest earnings used are Q1 2006			

Due to the exceptional investment results achieved in 2005 and the correction that swept through the UAE and regional markets since the beginning of 2006, the outlook for the undiversified takaful companies seems rather bleak. Only SALAMA carries a forward P/E lower than its trailing P/E, indicating its earnings' growth potential during 2006. SALAMA is the most diversified insurer as income is sourced through various vehicles in several markets. The high trailing P/E for SALAMA of 17x is attributed to the large capital increase carried out in the second half of 2005. The trailing P/E was calculated using the new number of shares which only contributed to second-half 2005 earnings. AMAN's negative Q1 2006 results were clearly reflected on its outlook for the remainder of the year as it currently trades at the highest forward P/E of 24x.

Takaful Insurer	Country of Incorporation	Trailing P/E (x)
The Islamic Insurance Co	Jordan	9.40
Qatar Islamic Insurance Co	Qatar	12.40
Company for Cooperative Insurance	Saudi Arabia	7.53
Takaful International Co	Bahrain	15.76
Source: Company Financials and Jordinvest's Estimates – Prices used as of July 31, 2006 – Latest earnings used are Q1 2006		

Looking at regional peers and comparing their P/E multiples reveal that UAE's takaful companies trade within acceptable price ranges and lean towards the undervalued side.

Market Outlook

The growth potential for the Islamic insurance industry in the UAE is huge as 96% of the population is Muslim and only three Islamic insurance companies cater to their needs.

In light of growing demand for Sharia'a-compliant products, it is essential that Islamic insurance is properly explained to the public to convince them of the benefits all participants will reap once they join.

However, since the outlook for takaful business is closely linked to that of the stock market, intervention by regulatory bodies is necessary to monitor the risks undertaken by Islamic insurers. Islam prohibits undertaking excessive risks and any mismanagement of takaful operations and funds on behalf of both shareholders and policyholders.

Thus, an independent regulatory body specialized in Islamic insurance should be set up to help the sector flourish. Many misconceptions have surfaced due to the lack of solid and reliable information about the takaful industry. Restrictions on where the takaful industry can invest have thus far limited the potential of fund managers to achieve higher investment income. Finally, more Sharia'a-compliant investment vehicles need to be created in order for insurers to diversify their investments.

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