GCC Takaful Industry

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EXECUTIVE SUMMARY

I. Scope of the Report

This report caters to investors looking for investment opportunities in the Gulf Cooperation Council (GCC) Takaful (Islamic Insurance) industry. The focus of the report is on opportunities and challenges for growth of the industry, industry trends, financial performance, valuations, stock liquidity and governance & transparency.

The report covers eight of the largest GCC Takaful firms as well as comparative statistics on GCC conventional insurance companies and an international peer group.

The report also includes a chapter comparing the attractiveness of the eight Takaful firms from the clients', or fund participants', point of view.

II. Investment Rationale

The GCC Takaful industry is bucking the trend in the broader economy and continues to grow at a healthy pace. The leading Takaful firms in Saudi Arabia, the UAE and Bahrain, have performed relatively well, while those in Kuwait have had a somewhat challenging year in 2009. While there are reasons to remain cautious about economic growth in the near term, we expect the Takaful industry to continue to grow faster than GDP (non-oil) for the foreseeable future.

- Alpen Capital expects the GCC Takaful industry to grow at a CAGR of approximately 16.1% per annum in 2009 to 2012.

The key factors underpinning the growth potential are regulation, favorable demographics, growing affluence, growth in organized savings and Islamic finance, greater availability of Takaful and Islamic finance products and changing consumer habits. Despite Muslims constituting approximately one quarter of the global population, Takaful contributions account for less than half a percent of total insurance premiums.

- Alpen Capital expects the Takaful industry to continue to grow faster than conventional insurance.

In the period from 2006 to the third quarter of 2009, the top-8 GCC Takaful firms registered CAGR of 26.5% compared to 19.2% for their conventional peers.

The key challenge for the Takaful industry is to improve efficiency and to reach critical mass in order to benefit from economies of scale that is currently the privilege of only a handful of players. The largest GCC Takaful players are doing precisely that.

- In 2009, the average combined ratio of the top-8 GCC Takaful firms fell below the 90% mark for the first time.

Although the average combined ratio of the Takaful firms is very good by international standards, and is moving in the right direction, it remains well above the 73.3% recorded by the local conventional peer group, making it difficult to compete with conventional insurers purely based on price.

Like their conventional peers, the Takaful players are highly exposed to asset risk, with equities and real estate accounting for about 72% (median) of investments. Consequently, earnings of the sector are largely driven by the performance of local equity and real estate markets.

- The high risk asset profiles are at odds with norms in more developed and highly regulated insurance markets.

Insurance and Takaful regulation is gradually being enhanced across the GCC and we believe this will result in significant changes in how insurance companies are run, particularly in terms of investment strategy, enterprise risk management and governance. Last weeks increase in the minimum capital requirement for UAE insurance firms is one of many steps in this direction.

Given the high asset risk exposure, the profitability of the Takaful firms is primarily driven by investment returns and the performance of local equity and real estate markets. The performance of both Takaful and conventional insurers were good in the first nine months of 2009, mirroring the equity market recovery.

- The top GCC Takaful players reported an average ROE of 16.1% in the first nine months of 2009, compared to 21.1% for their conventional peers.

We expect the full year performance to be somewhat weaker, given that local equity markets gave up some of their gains in the fourth quarter of 2009.

The trend is for the conventional insurers to retain a larger portion of risk, while we see the opposite trend among Takaful firms. This may be a sign of the Takaful firms increasingly moving into more complex risk categories that requires reinsurance, but could also signal lesser constraint in Re-Takaful capacity.

- In the first nine months of 2009, the GCC Takaful firms ceded around 47% of premiums, compared to only 40% in 2008.

The GCC insurance and Takaful industries are very fragmented. The Takaful industry is characterized by a small number of large players and a large number of small operators and start-ups. Tawuniya of Saudi Arabia is by far the largest player with about one quarter of the GCC market. The biggest competitive threat to the incumbents comes from newly established Islamic windows or subsidiaries of established conventional insurance companies.

- New Takaful operators established in the GCC in the past three years have raised in excess of US$ 2 billion of capital.

Although there are some practical, regulatory and ownership related hurdles to mergers and acquisition in the industry, we feel strongly that the industry will consolidate. Size is important in this industry and the results for 2009 show that the large players are growing faster than the smaller ones and report stronger earnings.

Both global and GCC Islamic equities posted a stronger recovery than conventional stocks in 2009. At present, GCC Takaful stocks are trading at a premium to the largest listed global insurers but at a discount to their local conventional counterparts (Chapter 3).

- The largest GCC Takaful stocks are trading at an average P/E ratio of 18.8 times and P/BV ratio of 1.9 times.

The premium of GCC over international insurance stocks is justified given the stronger growth potential. The Takaful stocks appear favorably priced relative to their conventional counterparts. This is particularly true for Takaful firms operating under the Mudaraba model (predominant in Saudi Arabia) where the operator (and shareholders) shares in the profits of both underwriting and investment activities as opposed to receiving a fixed commission. The largest Takaful stocks reviewed are also more liquid than the conventional peers that tend to be closely held.

The unconventional structure of Takaful operators, limited transparency and lack of uniformity in structure, fees, profit sharing mechanism, funding surplus or deficit, profitability/efficiency, provision of Qard facility and funding/credit profile, makes it challenging for prospective participants to choose a Takaful operator. Alpen Capital has attempted to make this choice a little easier by comparing eight of the largest Takaful players on some of the most relevant criteria for a prospective client (See chapter 5 and Chart 26).

For those unfamiliar with the Takaful concept, you may prefer to read chapter 7 first, which provides a primer of the concept and a market overview.

GCC TAKAFUL INDUSTRY GROWTH

1.1. Growth Illustration

There have been a number of studies estimating the size and the growth of the GCC Takaful industry. Although the estimates vary somewhat, it is clear that the industry has been growing rapidly and is continuing to grow faster than conventional insurance. The growth potential of the industry remains strong, particularly in view of very low insurance (Takaful and conventional) penetration levels in the region.

Alpen Capital expects the GCC Takaful market to continue to grow faster than GDP (non-oil). Based on the current macroeconomic outlook, and a set of assumption detailed below, we expect the market to grow approximately at nominal and real CAGR of 20.7% and 16.1% respectively in 2009 to 2012 (See chart 1). The performance of the industry in the first nine months of 2009, with double digit top-line growth in each quarter on an aggregate basis (Q3 being the strongest), supports the growth estimate.

1.2. Assumptions

We have estimated the GCC Takaful markets in the respective countries separately. Our central scenario is based on the following assumptions:

- We assume contribution levels are driven by growth in non-oil GDP. Furthermore, we has seen the Takaful penetration rate (i.e. contributions as a percentage of non-oil GDP) grow steadily year after year. For 2009 to 2012, we have assumed that the penetration rates continue to grow at the same pace as over the past four years. The actual and assumed pace of growth is higher in Saudi Arabia and Bahrain than in the other GCC countries.

- We have used IMF's October 2009 forecast for GDP growth, while adjusting down the UAE growth forecast to 1.5% in line with comments by IMF officials following the Dubai World debt standstill announcement.

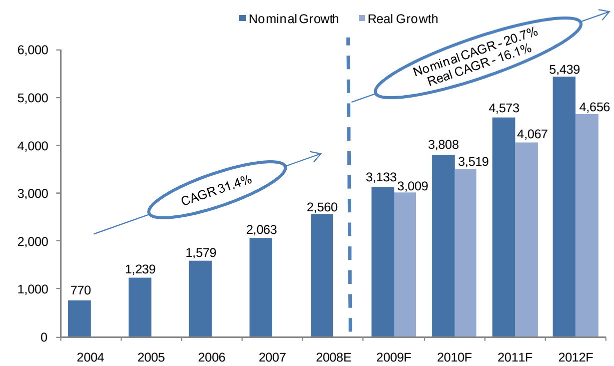
The link to non-oil GDP is not precise. In 2008 the two measures were very closely aligned, but in preceding years the Takaful industry has grown at a faster pace than non-oil GDP.

1.3. Growth Drivers

Some of the key reasons for an increase in the GCC insurance penetration rates towards global averages include the introduction of regulation for health and building insurance, favorable demographics, growth in organized savings, greater availability of Takaful products, growing affluence and changing consumer habits.

It is also worth noting that family Takaful, or life insurance, is currently underrepresented in all of the GCC countries and likely to grow at a relatively faster pace than general Takaful.

Chart 1: GCC Takaful market (US$ million)



Source: Alpen Capital, 2004 to 2008 data from Ernst & Young, *E=Estimate, F=Forecast

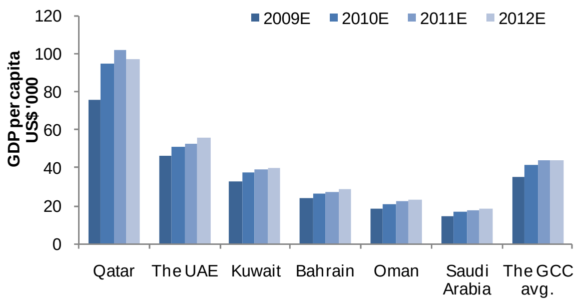
1.3.1. Favorable demographics

The GCC has a young and rapidly growing population, with a median age of 26.3 years. It has been growing annually at 3.4% over the past five years, and is forecast to grow at 2.9% in 2009 to 2012 to reach 42.2 million according to IMF. Some of the contributing factors include a significant decline in mortality rates, an improvement in average life expectancy across the region and a continued inflow of expatriates, albeit at a slower pace than in the recent years.

1.3.2. Rising per capita GDP

With an average per capita GDP of US$43,650 in 2008, the GCC is one of the most affluent economies of the world. Mainly driven by a sharp rise in oil prices, the overall income levels of residents have more than doubled in the last five years. The average per capita GDP is expected to grow at a CAGR of 7.4% in 2009 to 2012 according to IMF (See chart 2).

Chart 2: GDP per capita in the GCC (US$ '000)



Source: IMF World Economic Outlook, Oct. 2009; E= Estimates; % indicates 4-year CAGR

1.3.3. Economic diversification

Persistent efforts by the GCC governments to diversify their economies away from oil have resulted in high value insurable projects across the region. Currently, projects worth around US$2.3 trillion (MEED, Jan 4, 2010) are planned or underway in the GCC with the UAE and Saudi Arabia accounting for about 70%.

1.3.4. Regulation

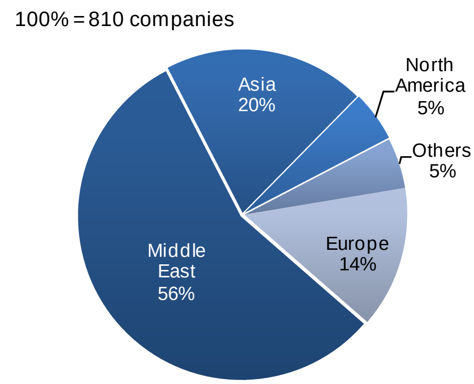
The implementation of mandatory third party motor and health insurance in the GCC has and will continue to underpin growth in demand for general Takaful. Saudi Arabia was among the first GCC countries to mandate medical insurance for expatriates in January 2006. This was later extended to Saudi nationals. As a result, health insurance in the country has more than tripled since 2006 reaching SR4,805 million (US$1,282 million) in 2008, accounting for 44% of the total insurance premiums. All other GCC countries are either planning to or have already taken initiatives in the same direction. Within the Emirates, Abu Dhabi took the lead by introducing mandatory health insurance for expatriates in July 2006 and eventually covered all nationals. Dubai is expected to follow suit in 2010.

1.3.5. Growth in Islamic Finance

Growth in Islamic Finance and the number of institutions promoting Islamic Finance has boosted Takaful growth, as financing and mortgage products create a natural demand for family Takaful, or life insurance. According to Standard & Poor's, Islamic banking assets in the GCC reached $285 billion at year-end 2008, amounting to a market share of 22% of total banking assets, compared with less than 10% in 2003, while Ernst & Young says Islamic Finance has grown by 15-20% per annum over the past ten years.

With over half of the world's Islamic Finance institutions located in the Middle East (See chart 3), the GCC countries plus Iran constitute the epicenter of the global Islamic Finance and Takaful industries.

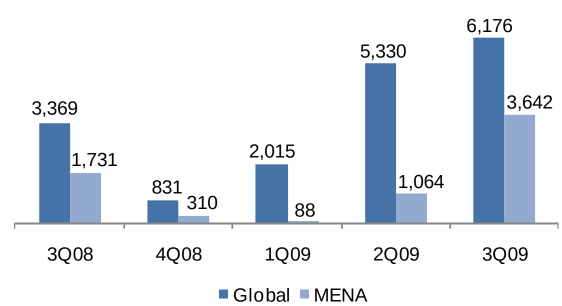
Chart 3: Global Islamic Finance market



Source: Shariah-Fortune, April 2009

For Takaful to continue to grow there is also the need for attractive regional Shariah compliant investment opportunities with suitable risk, maturity and liquidity profiles. The MENA Sukuk (Islamic bond) market rebounded strongly in the third quarter of 2009, more than doubling year on year (See chart 4), marking the end of three quarters of record low issuance volumes. It is questionable however if the Sukuk market can sustain its momentum after the confidence loss created in the aftermath of the Dubai World debt standstill.

Chart 4: Sukuk issuance, US$ million



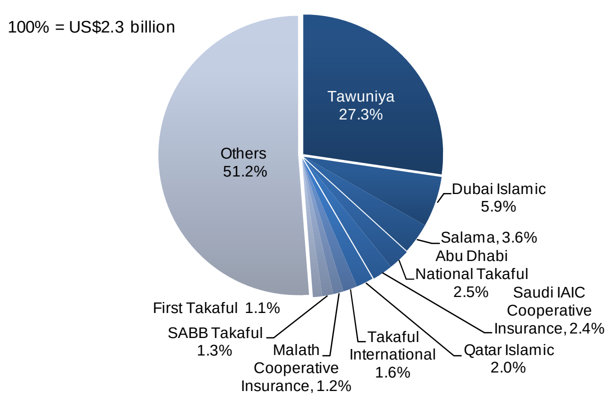
Source: Zawya, Sukuk Quarterly Bulletin, Q3 2009

2. GCC TAKAFUL FINANCIAL PERFORMANCE

2.1. Competitive landscape

The GCC Takaful industry is characterized by a small number of large players and a large number of small or newly incorporated companies. Saudi Arabia is the largest market, accounting for approximately 79% of gross Takaful contributions in 2008. The Company for cooperative insurance (Tawuniya) is the largest player with roughly one quarter of the GCC market. All other players account for less than 6.0% of the market (See chart 5).

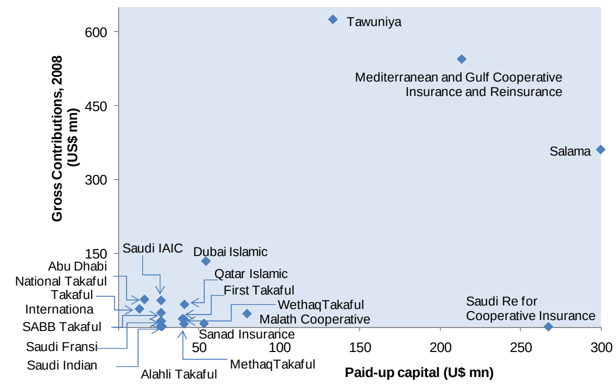
Chart 5: GCC Takaful market, 2008



Source: Alpen Capital, contributions originating from the Middle East only, to the extent information is available

Not only are the incumbent Takaful players growing, but there are also many new entrants to the industry. Over 30 new Takaful operators have been established in the GCC countries in the last three years, with a total paid up capital in excess of US$ 2 billion. This includes Saudi-based operators that previously conducted business in the country under a conventional structure, but excludes new Takaful windows. Some of this capital is still to be put to use as the Takaful businesses needs some time to develop (See chart 6).

Chart 6: Paid up capital vs. gross contribution, 2008



Source: Alpen Capital

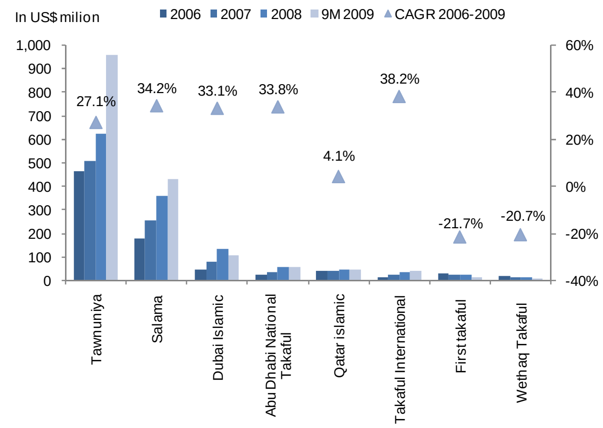
Saudi Arabia has seen many new Takaful entrants as conventional insurers have converted to Takaful following the Saudi Arabian Monetary Agency's (SAMA) directive. For example Mediterranean and Gulf Cooperative Insurance (Medgulf) reported gross contributions of US$272.6 million in the first half of 2009, its first year of operation as a Takaful player, making it the second largest Takaful player in the GCC after Tawuniya.

2.2. Financial performance

In the following sections we analyze the financial performance of the eight largest GCC Takaful operators with at least three years of financial statements available. This group is referred to as the 'Takaful peer group' throughout the report.

The average top-line CAGR for the Takaful peer group was 26.5% in 2007 to Q3 2009. All companies posted positive growth rates except for First Takaful and Wethaq Takaful, both of which are based in Kuwait and faced with very strong competition in the local market both from conventional insurers and new entrants to the Takaful market (See chart 7).

Chart 7: Gross contribution (US$ million)

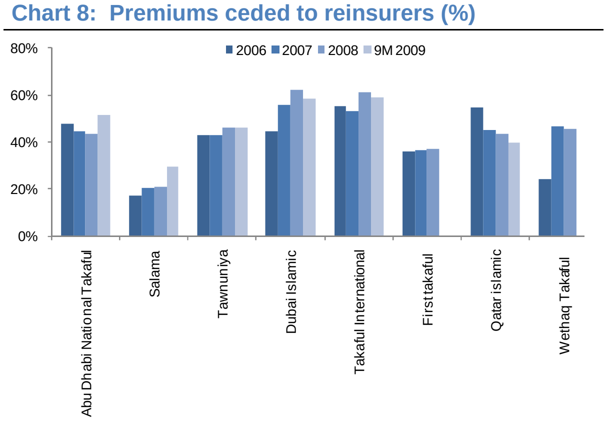


Source: Company website, Zawya

The results of the first three quarters of the year indicate that the growth rate will remain strong in 2009. We expect to see some regional variation however, with stronger performance by Abu Dhabi- than by Dubai-based insurers for example.

Insurance companies in the region have a tendency to reinsure most complex or long tailed risk. Due to limited Re-Takaful capacity, this is more challenging for Takaful operators. In 2008, the GCC Takaful peer group ceded on average 40.4% of premiums, compared to 37.7% in 2006 (See chart 8). The trend of low risk retention continued in the first nine months of 2009 with 47.4% of premiums ceded. This could be a sign that Takaful operators are increasingly moving into more complex and long tailed risk categories that have so far been dominated by conventional insurers. Re-Takaful capacity is clearly important for the continued development of the primary Takaful industry.

Chart 8: Premiums ceded to reinsurers (%)

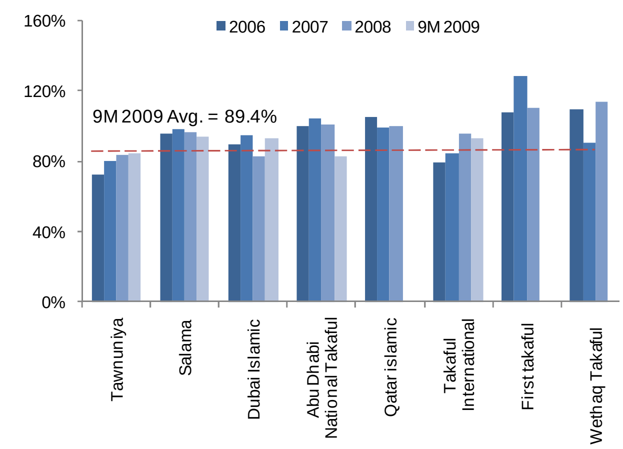


Source: Company website, Zawya, Wethaq Takaful and First Takaful do not disclose quarterly reinsurance numbers, Qatar Islamic number represent 1H 2009

Profitability

Over the last three years, GCC Takaful companies have exhibited higher expense ratios than their conventional counterparts mainly due to lack of economies of scale and comparatively lower use of technology. The ratio is moving in the right direction however with the median below 90% mark for the first time in the first nine months of 2009 (See chart 9).

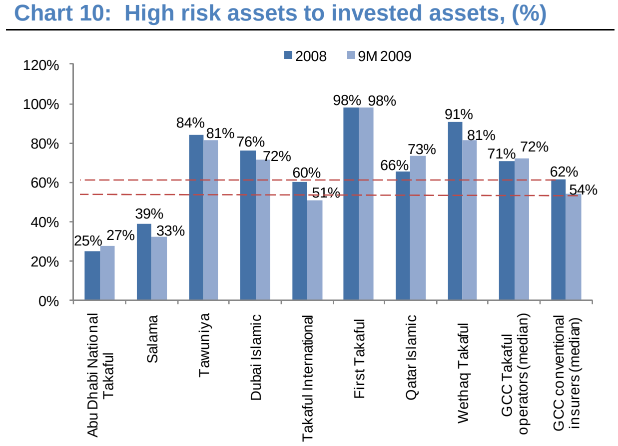
Chart 9: Combined ratio (%)



Source: Company website, Zawya

The Takaful players are somewhat constrained in their choice of Shariah compliant assets. Typically, assets include listed equities, short term placements with Islamic financial institutions (*Mudaraba or Wakala*) and real estate. The GCC conventional insurers, on the other hand, have a more diverse choice including bonds, placements with conventional banks, money market and index funds, private equity etc.

Chart 10: High risk assets to invested assets, (%)

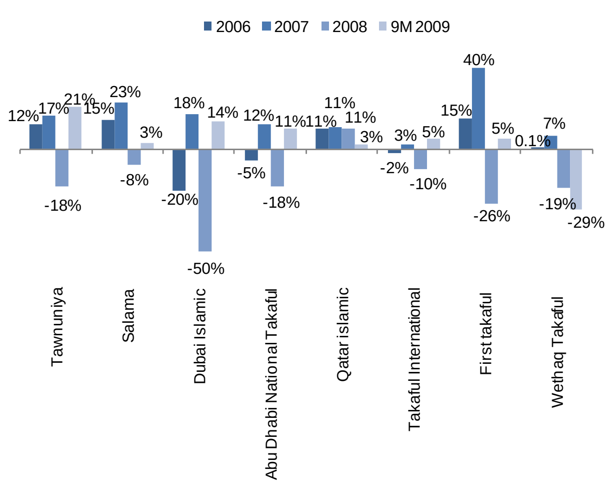


Source: Company websites, Zawya

Exposure to risky assets (equities and real estate) amongst the Takaful operators was around 72% (median), at the end of September 2009 compared to 54% for the conventional peer group (See chart 10). Such holding would normally be capped at 10% to 20% of total assets under more sophisticated regulatory regimes. High asset risk exposure is a bigger issue for the incumbents than for the more recently established Takaful operators. We expect investment profiles to change significantly over the coming years in response to the adoption of more sophisticated regulation with capital requirements based on both insurance, counterpart and asset risk exposures.

The investment performance has been quite volatile, reflecting the high concentration on local equities and real estate. Almost all players, except Qatar Islamic Insurance Co, posted negative returns in 2008 and positive returns in the first nine months of 2009 in line with the direction of the overall equity market. The average investment return (including fair value changes taken directly to equity) for the first nine months of 2009 was 4.1%, compared to a negative return of 17.2% in 2008 (See chart 11). Some of the gains in the first nine months of 2009 have been lost in the final quarter following recent market turbulence following the Dubai World debt standstill announcement.

Chart 11: Investment return (incl. FV changes) (%)



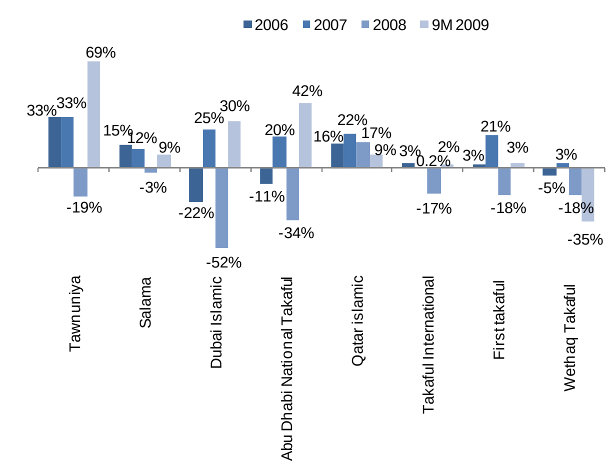
Source: Company websites, Zawya

The investment performance outlined includes revaluation gains and losses taken directly to equity. Some insurers have designated certain assets as 'available-for-sale' which means the revaluation gains and losses on these assets are not reflected in the profit and loss statement, but taken directly to equity. A Mudaraba fee is normally based only on gains and losses reflected in the income statement, which means there can be a disconnect between the investment performance of the participants' fund and the fee paid to the Mudarib.

Shareholder return

The overall return on shareholders' funds (ROE) closely mirrors the investment performance of the Takaful players. The peer group reported a good average ROE of 16.1% in the first nine months of 2009, compared to a negative return of 17.9% in 2008 when equity markets performed poorly. The group posted positive returns of 17.1% and 4.1% in 2007 and 2006 respectively. The volatility is a reflection of the high asset risk of the companies (See chart 12).

Chart 12: Return on equity (%)

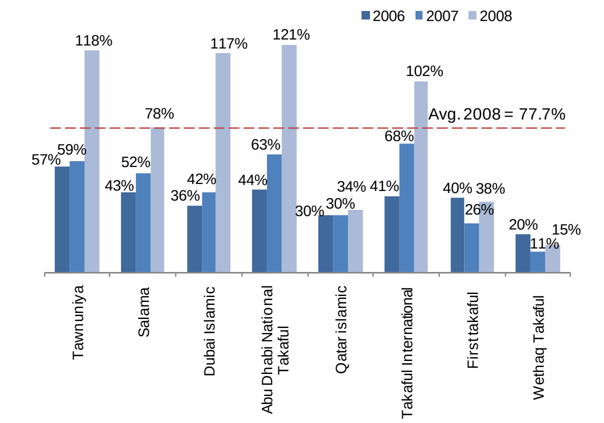


Source: Zawya, Company filings, ROE is based on total comprehensive income

Capital Adequacy and Leverage

Gross underwriting leverage (net contributions to shareholder funds) increased to 77.7% in 2008 from 38.7% in 2006, indicating that the GCC Takaful insurers have been gradually assuming higher levels of underwriting risk (See chart 13). A high ratio, signals strong growth and is desirable from an equity standpoint, but may cause concerns from a credit standpoint, particularly if growth is in new lines of business or areas where limited claims history exist.

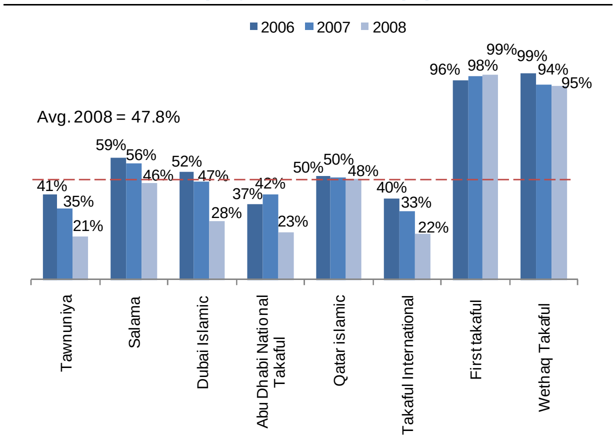
Chart 13: Net Contribution/Equity (%)



Source: Company website, Zawya

A more static measure of leverage is the equity to total assets ratio. This ratio has also declined over the past three years with an average of 47.8% at the end of 2008, indicating increasing leverage amongst the peer group (See chart 14). This is not a concern for us however, given that the industry is considered to be well capitalized to begin with. Neither of the two leverage measures serve as a good proxy for credit quality since the highest rated players (Tawuniya and Salama) score relatively weak on both measures, with market position, efficiency, profitability and asset composition carrying greater weight in the overall credit assessment.

Chart 14: Total Equity/Total Assets (%)



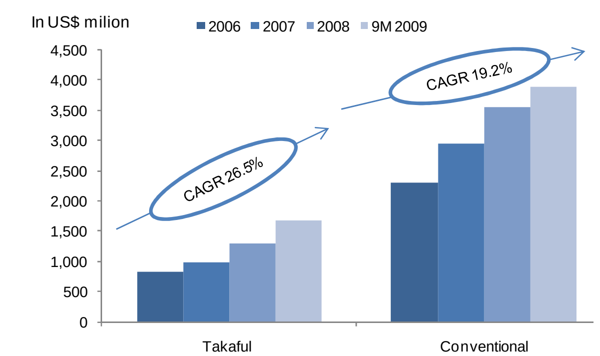
Source: Company website, Zawya

2.3. Takaful vs. Conventional insurers

We established in previous chapters that the Takaful industry is growing rapidly and that profitability is improving. To put this into perspective, we have done a comparison of our Takaful peer group to the top-14 conventional GCC insurers[1].

The top-line of the Takaful peer group grew at an average CAGR of 26.5% in 2007 to Q3 of 2009, outperforming the conventional peer group which grew by 19.2% (See chart 15).

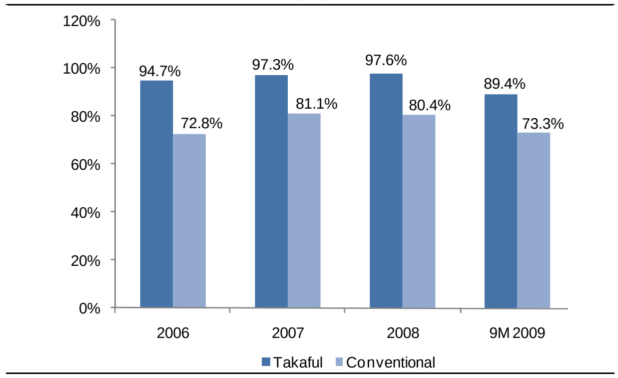
Chart 15: Gross premium/contribution (US$ million)



Source: Alpen Capital, Top-8 Takaful and Top-14 GCC conventional insurers

The average combined ratio for the Takaful players was 89.4% in the first nine months of 2009 compared to only 73.3% for their conventional peers, highlighting the challenge the Takaful players face in competing with conventional insurance products based on price (See chart 16).

Chart 16: Combined ratio (%)



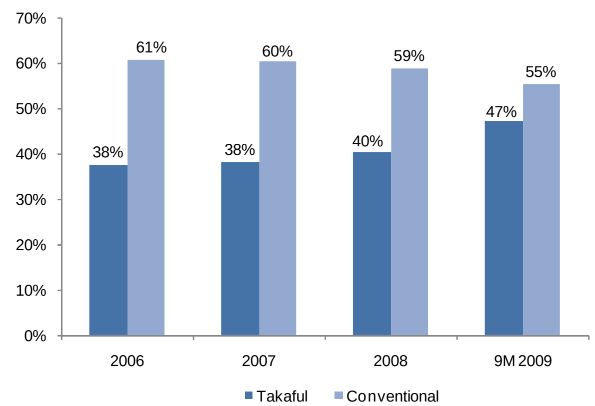
Source: Alpen Capital, Top-8 Takaful and Top-14 conventional GCC insurers, average values

[1] Qatar insurance, Oman Insurance, Abu Dhabi National Insurance, Gulf Insurance, Arab Insurance Group, Arab Orient Insurance, Qatar General Insurance and Reinsurance, Al Ain Ahlia Insurance, Al Buhaira National Insurance, Emirates Insurance, Dhofar Insurance, Al Sagr National Insurance, Bahrain Kuwait Insurance, Al Ahleia Insurance

This higher combined ratio of the Takaful players is accounted for by significantly higher administrative expenses, albeit to some extent off-set by a lower claims ratio. The combined ratio of the Takaful players is trending downward however, with improvements in efficiency and increasing scale of operations. The long term trend has been the opposite in the conventional space, largely due to increasing competition and relatively low margins for motor insurance.

In the first nine months of 2009, the GCC Takaful operators ceded around 47% of premiums, compared to 55% for the GCC conventional peers. The difference can be explained by the respective product focus and the lack of Re-Takaful capacity in certain lines of business (See chart 17).

Chart 17: Reinsurance ratio (%)

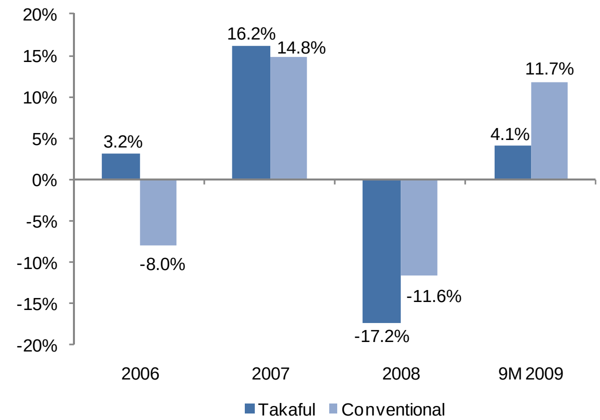


Source: Alpen Capital, Top-8 Takaful and Top-14 conventional GCC insurers, average values

The trend is for the conventional insurers to retain a larger portion of risk, while we see the opposite trend in Takaful. We think this is a sign of the Takaful players increasingly moving into more complex risk categories that requires reinsurance.

The investment performance of the GCC Takaful players has been quite volatile, reflecting the high concentration on equities and real estate in investment portfolios. The performance mirrors that of their conventional peers that have similar, albeit slightly lower, concentration to high risk assets (See charts 18).

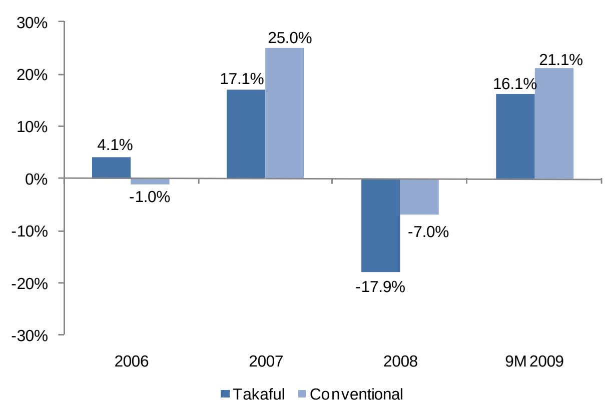
Chart 18: Investment return (%)



Source: Alpen Capital, Top-8 Takaful and Top-14 conventional GCC insurers, average values

The overall return on equity follows the same pattern, driven primarily by investment returns. The conventional insurers have performed slightly better than the Takaful firm in the last three years. In the first nine months of 2009, the conventional insurers posted an average return on equity of 21.1%, compared to 16.1% for the Takaful firms (See chart 19). We expect the full year performance to be somewhat weaker, given that local equity markets gave up some of their gains in the fourth quarter of 2009.

Chart 19: Return on equity (%)



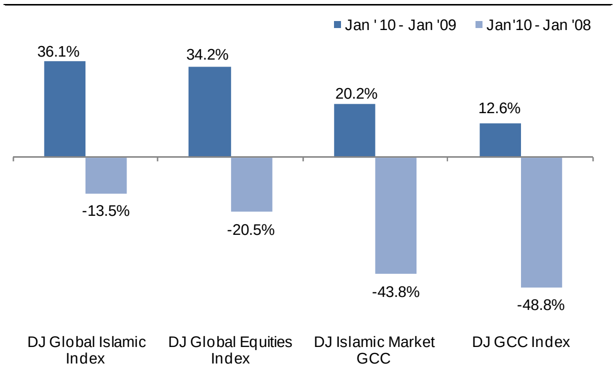
Source: Alpen Capital, Top-8 Takaful and Top-14 conventional GCC insurers, average values

3. VALUATIONS

The valuation section should be read in the context of limited free floats and extremely low stock liquidity of some of the GCC Takaful firms. The P/E and P/B ratios are calculated based on share prices sourced from Bloomberg and includes some stocks that have not traded for weeks, or months, in some instances.

The global financial turmoil has affected valuations for all asset classes across all industries and regions. Nevertheless, GCC Islamic equities have posted a stronger recovery than conventional stocks. The Dow Jones Islamic Market Index, which measures performance of Shariah compliant stocks in the GCC, yielded a positive return of 20.2% over the past year, compared to a return of 12.6% for the equivalent conventional index (See chart 20).

Chart 20: Stock market one year return*



Source: Bloomberg, *as at Jan. 8, 2010

Conventional and Islamic global equities have performed better than the GCC equivalents, suggesting there may be a greater upside in the GCC markets.

Some 30 new Takaful operators have been established in the GCC countries in the last two years, with a total paid up capital of around USD 2 billion. This includes Takaful and Re-Takaful, public and private players, Saudi-based operators that previously conducted business in the country under a conventional structure, but excludes new Takaful windows. The majority of the new entrants have chosen to list on one of the regional stock exchanges. Subscription levels and first day stock price gains on listings suggest strong investor interests in the sector.

The average first day stock price change on listing was a hefty 309% for Takaful firms listed in 2009 and 232% for those listed in 2008. With the global and regional investor demand gradually improving, more Takaful firms may resort to equity offerings (See chart 21).

Saudi Arabia and the UAE continue to attract new players. With an average offering size of US$28.0 million, Takaful operators in Saudi Arabia and the UAE have raised about US$370 million since January 2008. Although listing of Takaful operators in Saudi Arabia is mainly driven by regulation, oversubscription levels and first day stock price gains on listings suggests strong investor interests in the sector.

Chart 21: Takaful IPOs in the GCC, 2008-2009

Company	Country	Listing date	Size of Offering (US$ million)	Over-subscription	1st day change
ACE Arabia Cooperative Insurance	Saudi Arabia	July 29, 2009	10.67	11.35 x	662.5%
AXA Cooperative Insurance Company	Saudi Arabia	July 27, 2009	21.33	5.71 x	267.0%
Al Rajhi Company for Cooperative Insurance	Saudi Arabia	July 13, 2009	16.00	8.98 x	670.0%
Weqaya Takaful Insurance and Reinsurance	Saudi Arabia	June 20, 2009	21.33	3.30 x	288.0%
Green Crescent Insurance Company	The UAE	March 26, 2009	38.37	76.92 x	32.0%
Dar Al Takaful	The UAE	August 4, 2008	15.50	89.58 x	437.5%
Takaful Al Emarat - Insurance	The UAE	July 20, 2008	23.14	51.00 x	376.7%
United Cooperative Assurance Company	Saudi Arabia	June 21, 2008	21.34	12.56 x	192.5%
Saudi Reinsurance Company	Saudi Arabia	May 24, 2008	106.69	3.66 x	105.0%
BUPA Arabia	Saudi Arabia	May 17, 2008	42.68	9.22 x	257.5%
Methaq Takaful Insurance Company	The UAE	May 1, 2008	23.14	43.60 x	136.9%
Al Alamiya for Cooperative Insurance Company	Saudi Arabia	December 8, 2009	16.00	7.49 x	285.0%
Gulf General Cooperative Insurance Company	Saudi Arabia	Not Announced	21.33	10.15 x	-
Buruj Cooperative Insurance Company	Saudi Arabia	Not Announced	13.87	11.40 x	-

Source: Zawya, IPO Monitor

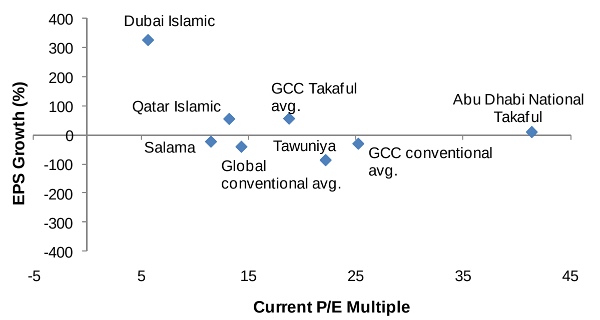
At present, GCC Takaful operators are trading at a premium to a peer group composed of global insurers[2], but at a discount to their local conventional counterparts[3]. While, the GCC Takaful operators reported stronger earnings growth, their average P/E multiple of 18.8x (times) is below that of

[2]Allianz, CNP Assurance, MetLife Inc., Travelers Companies Inc., Zurich Financial Services, American International Group (AIG) Inc, Aegon NV, Assicurazioni Generali SPA, Aviva Plc, AXA, ING Groep NV, Prudential plc

[3]Oman Insurance, Al Buhaira National, Al Ain Ahlia, Al Sagr National Insurance, Bahrain Kuwait Insurance, Dhofar Insurance, Emirates Insurance, Gulf Insurance, Qatar General Insurance & Reinsurance and Qatar Insurance Company

the GCC conventional stocks of 25.2x (See chart 22). The Takaful players appear cheap in relation to their local conventional peers on this metric, given their higher average earnings growth.

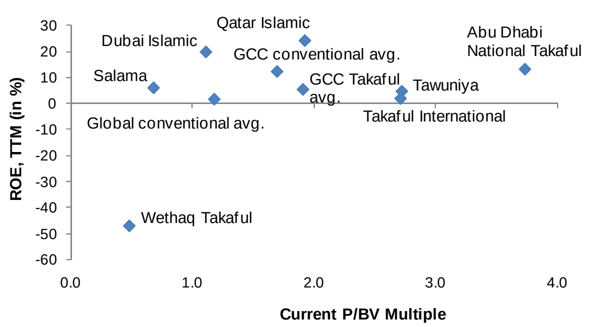
Chart 22: P/E vs. EPS growth (TTM)



Source: Bloomberg, as at Jan. 10, 2010, companies with negative earnings on shareholders' account and exceptionally high P/E excluded, average excludes outliers

The GCC insurers are trading at higher price to book value than the international peer group, but also benefit from a higher average return on capital. The Takaful players appear a bit expensive compared to their local conventional peers on this metric however (See chart 23).

Chart 23: P/BV vs. Return on Equity (TTM)

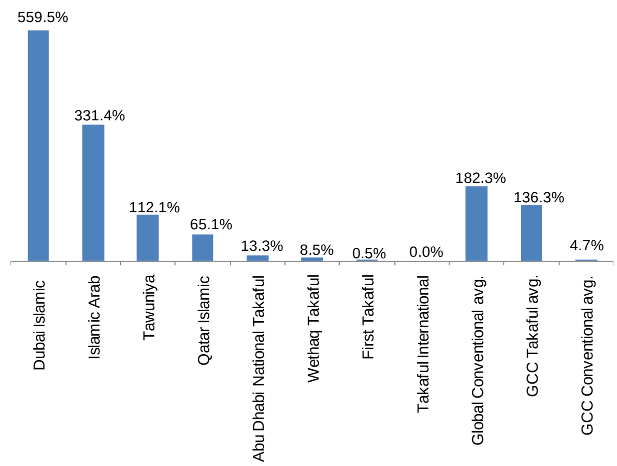


Source: Bloomberg, as at Jan. 10, 2010, excl. First Takaful, average excludes outliers

3.1. Stock Liquidity

The liquidity of the GCC Takaful stocks wary greatly, with some of the larger stock being very liquid and the smaller trading very infrequently. Dubai Islamic Insurance Co. scores the highest with a turnover velocity[4] of 559.5% followed by Salama of 331.4%. The average turnover velocity of the GCC Takaful players is lower than the global conventional peer group, but significantly higher than the GCC conventional[5] insurers, which tend to be closely held (See chart 24).

Chart 24: Turnover Velocity (%)



Source: Bloomberg, Traded volume, Jan. 1, 2009 to Jan. 8, 2010, Market cap. based on latest available stock price

[4] Turnover Velocity = Annual traded volume/Market capitalization

[5] Abu Dhabi National Insurance, Al Ahleia Insurance, Al Ain Ahlia Insurance, Al Sagr National Insurance, Arab Insurance, Bahrain Kuwait Insurance, Dhofar Insurance, Emirates Insurance and Gulf Insurance

4. GOVERNANCE & TRANSPARENCY

Good governance and transparency standards are a key requirement for most retail as well as institutional investors. According to the International Financial Corporation sound corporate governance practices increases valuations by 20-30%, result in higher credit ratings and improves access to finance.

The governance and transparency standards of the GCC Takaful players are comparable to their local conventional peers, but below their global conventional counterparts (See chart 25). Most of the companies are listed on a regional stock exchange, which means they report quarterly results with relatively detailed disclosure on the financial performance. The commentary to the financial statements is Spartan however and none of the companies hold investor calls. Most of the larger Takaful players are rated by an international rating agency, commonly Standard & Poor's or AM Best (See chart 40). The rating agencies provide an unbiased, and often the best informed and most comprehensive, source of information about the performance of the companies in question.

Our analysis of the top-8 GCC Takaful players indicates the following weaknesses in transparency and governance:

- Limited financial information is available on the respective websites and investors often have to look to the local stock exchanges for audited financial statements
- Generally, about three years of historical financial information is available compared to over ten years for the global conventional insurers. This is a function of the relatively short life span of many of the Takaful players
- None of the GCC Takaful players, except Tawuniya, appear to have a dedicated investor relations department to handle investor queries
- Few of the companies provide detailed disclosure of underwriting performance by product line and country
- Limited information is available on the composition of investment portfolios and investment strategy. Only Tawuniya and Qatar Islamic Insurance Company disclose investment portfolios of shareholders and policyholders separately
- Only Tawuniya and Takaful International have designated Independent Directors on the Board
- None of the companies appear to have adopted the advise of IFSB (Islamic Financial Services Board), an international standard setting organization, to create a Governance Committee
- The terms and conditions of a Qard facility are not publicly disclosed

The requirements of Shariah compliance and the structural and operational requirements that this imposes on Takaful operators (see chapter 7.1) gives rise to a number of governance related issues. There is an information asymmetry and misalignment of incentives between the Takaful operator and the fund participants. The Takaful operator has a duty to both shareholders and fund participants in his capacity as custodian and manager of their respective assets. The conflict arises in that actions aimed at maximizing the return on shareholders' capital may at times have the opposite effect on the participants' fund. This issue does not arise in conventional and co-operative insurance companies, since these are run exclusively in the interest of shareholders and policyholders respectively.

The presence of a Shariah Board and the requirement to run operations in line with Islamic principles are designed to overcome these issues. The Qard loan also plays an important role in aligning the interests of shareholders and fund participants. The Takaful operator cannot be contractually obliged to provide the Qard loan, however, since this a benevolent loan, so this requirement has to be enforced by the regulator. The terms and conditions of the Qard facility are important to understand for a prospective Takaful participant, but are rarely disclosed by the Takaful operator.

To address this issue the IFSB has called on Takaful operators to create a Governance Committee. The committee should comprise an independent director, a Shariah scholar, an independent actuary and a representative of the Takaful participants. The role of the committee is principally to monitor that fees charged by the operator are appropriate, that the underwriting performance is sound and that the Takaful operator is in a position to provide liquidity back-stop to the fund as and when required. None of the GCC Takaful operators surveyed appear to have established a Governance Committee. Tawuniya has the most comprehensive Corporate Governance charter published on its website detailing the roles and responsibilities for the Board and its Committees (including Audit, Investments and Executive).

Chart 25: Corporate governance and transparency

		Transparency & Governance								
Name	Country	Financial statements on website	Frequency of reporting on website	Investor relations contact	Fee disclosure	Investment portfolio and strategy disclosure	Board independence	Board committees	Rating	Overall score
GCC Takaful Insurers										
Abu Dhabi National Takaful Company	UAE	●	◔	◑	●	◑	○	○	○	◑
Tawuniya/ Company for Cooperative Insurance	Saudi Arabia	◕	●	●	●	◑	●	●	●	●
Dubai Islamic Insurance and Reinsurance Company	UAE	◔	◔	◑	●	◑	○	○	●	◑
First Takaful Insurance Company	Kuwait	○	○	◑	●	○	○	○	●	◔
Islamic Arab Insurance Company (Salama)	UAE	●	●	◑	●	◑	○	○	●	◕
Qatar Islamic Insurance Company	Qatar	◕	●	◔	◑	◑	○	○	●	◕
Takaful International Company	Bahrain	◕	◔	◑	◔	○	●	◑	●	◑
Wethaq Takaful Insurance Company	Kuwait	○	○	○	●	◑	○	○	●	◔
GCC Conventional Insurers										
Abu Dhabi National Insurance	UAE	●	●	◑	N.A.	◑	○	○	●	◑
Al Ain Ahlia Insurance Company	UAE	●	◔	◑	N.A.	◑	○	○	◑	◔
Arab Orient Insurance	UAE	◔	●	◕	N.A.	◑	○	○	◑	◑
Bahrain Kuwait Insurance Company	Bahrain	●	◔	◑	N.A.	◑	●	●	●	◕
Dhofar Insurance Company	Oman	◕	●	◑	N.A.	○	○	○	○	◔
Gulf Insurance Company	Kuwait	◑	●	◑	N.A.	◑	○	●	●	◕
Oman Insurance Company	UAE	○	○	◕	N.A.	◑	○	○	●	◔
Qatar Insurance Company	Qatar	●	●	●	N.A.	◑	○	●	●	◕
Global Conventional Insurers										
Aegon NV	Netherlands	●	●	●	N.A.	●	●	●	●	●
American International Group (AIG) Inc.	US	●	●	●	N.A.	●	●	●	●	●
Allianz SE	Germany	●	●	●	N.A.	●	●	●	●	●
Assicurazioni Generali SPA	Italy	●	●	●	N.A.	●	●	●	●	●
Aviva PLC	UK	●	●	●	N.A.	●	●	●	●	●
AXA	France	●	◑	●	N.A.	●	●	●	●	●
CNP Assurance	France	●	●	●	N.A.	●	●	●	●	●
ING Groep NV	Netherlands	●	●	●	N.A.	●	●	●	●	●
MetLife Inc	US	●	●	●	N.A.	●	●	●	●	●
Prudential PLC	UK	●	●	●	N.A.	●	●	●	●	●
Travelers Companies Inc.	US	●	●	●	N.A.	●	●	●	●	●
Zurich Financial Services	Switzerland	●	●	●	N.A.	●	●	●	●	●

○ Unfavorable ◔ Somewhat Unfavorable ◑ Somewhat Attractive

◕ Attractive ● Very Attractive

Source: Bloomberg, S&P, Alpen Capital

5. WHICH TAKAFUL OPERATOR TO CHOOSE?

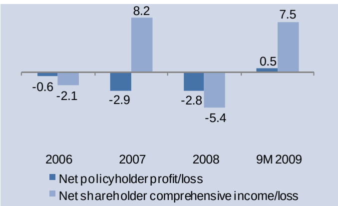
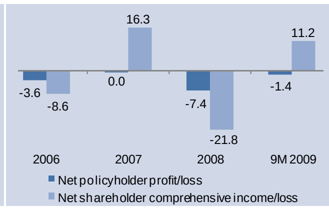
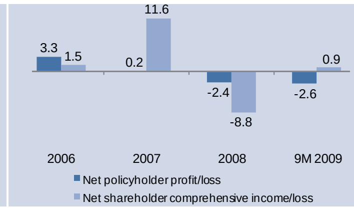
Prospective Takaful participants have a challenging task in choosing the best Takaful operator to engage with. We believe the most critical factors to consider for participants include:

- The overall profitability of the Takaful operator (shareholders' and participants' income statements), which is a reflection of its underwriting and investment performance
- The level of Wakala and Mudaraba fees, reflecting the operator efficiency and willingness to share profits with participants
- Fund deficit or surplus, which is a reflection of the two previous points
- Mechanism for sharing fund surpluses
- The availability, size, and terms and conditions of a Qard facility
- The claims paying ability of the Takaful operator (i.e. the credit rating)
- The level of transparency with regards to fees, Qard facility, investment strategy and governance

We have summarized what we feel is the relevant information on the Takaful peer group on the two following pages (See chart 26).

Other relevant factors that are beyond the scope of this report include the type of risks covered under a particular policy, excess, customer service levels etc.

Chart 26: Comparative performance of GCC Takaful operators

<table>
<tr><th>Company / Parameter</th><th>Abu Dhabi National Takaful</th><th>Dubai Islamic Insurance and Reinsurance</th><th>First Takaful Insurance</th><th>Islamic Arab Insurance (Salama)</th></tr>
<tr><td>Profitability (US$ million)</td>
<td>
</td>
<td>
</td>
<td>
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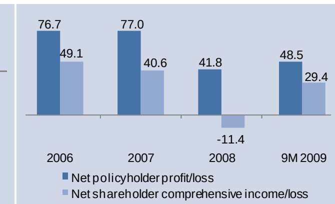
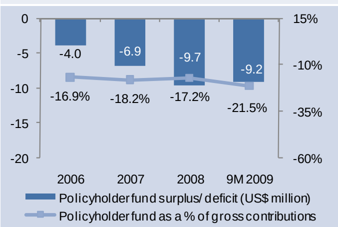
<td>
</td></tr>
<tr><td>Fees (%)</td>
<td>Wakala Fee: 17%-20%
Mudarib Share: 30%</td>
<td>Wakala Fee: 25%
Mudarib Share: 25%</td>
<td>Wakala Fee: not applicable
Mudarib Share: 28%</td>
<td>Wakala Fee: 15% for non-life, non-medical, 5%-15% for medical cover
Mudarib Share: 15%</td></tr>
<tr><td>Policyholder fund status (US$ million)</td>
<td>
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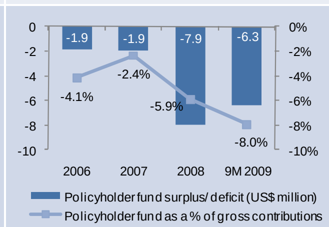
<td>
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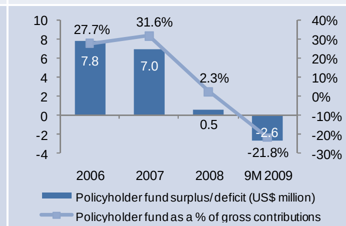
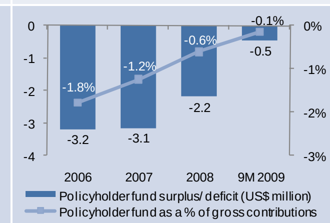
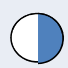
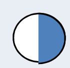
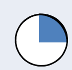
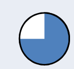
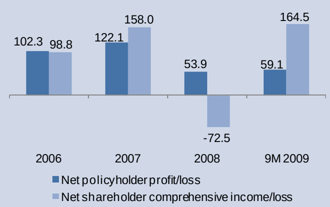
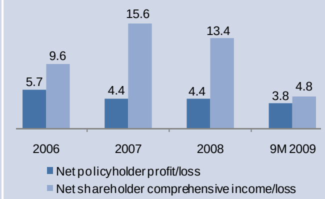
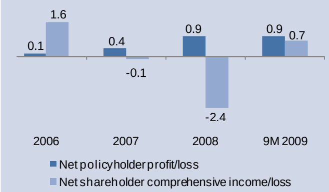
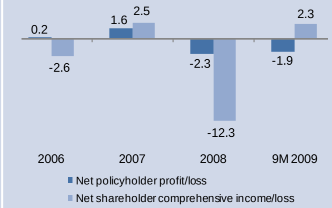
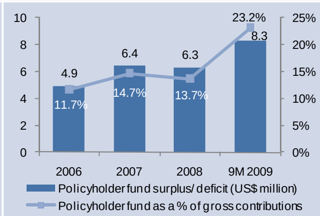
<td>
</td>
<td>
</td></tr>
<tr><td>Transparency & Governance score</td>
<td></td>
<td></td>
<td></td>
<td></td></tr>
<tr><td>Financial Strength Credit Rating</td><td>Not rated</td><td>BBB/Negative (S&P)</td><td>BBB-/Stable (S&P)</td><td>BBB+/Stable (S&P)</td></tr>
<tr><td>Comments</td>
<td>Relatively high fees and big fund deficit. Not rated and average T & G score. Overall profitability is good however</td>
<td>Relatively high fees and big fund deficit. Rated investment grade by S&P and average T & G score. Overall profitability is good</td>
<td>Fund has turned into deficit and earnings weak in 2009. Rated investment grade by S&P, but weak T & G score</td>
<td>Fund deficit narrowing. Moderate fees and good profitability. Strong rating from S&P and good T & G score</td></tr>
</table>

<table>
<tr><th>Company / Parameter</th><th>Tawuniya</th><th>Qatar Islamic Insurance Company</th><th>Takaful International</th><th>Wethaq Takaful Insurance</th></tr>
<tr><td>Profitability (US$ million)</td>
<td>
</td>
<td>
</td>
<td>
</td>
<td>
</td></tr>
<tr><td>Fees (%)</td>
<td>Wakala Fee: not applicable
Mudarib Share: 90%</td>
<td>Wakala Fee: 25% (of net premiums)
Mudarib Share: 65%</td>
<td>Wakala Fee: ca 16% (General), ca 18% (Family)
Mudarib Share: 25% (General), 5% (Family)
Fees estimated by Alpen Capital</td>
<td>Wakala Fee: Up to 20%
Mudarib Share: Up to 20%</td></tr>
<tr><td>Policyholders fund status (US$ million)</td>
<td>The policyholder fund has never been in deficit. 10% of insurance surplus is distributed to policyholders</td>
<td>
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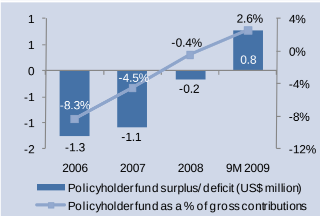
<td>
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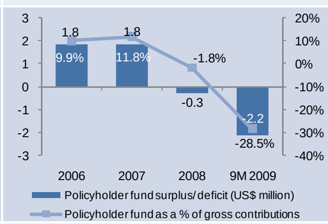
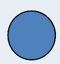
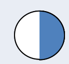
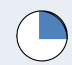
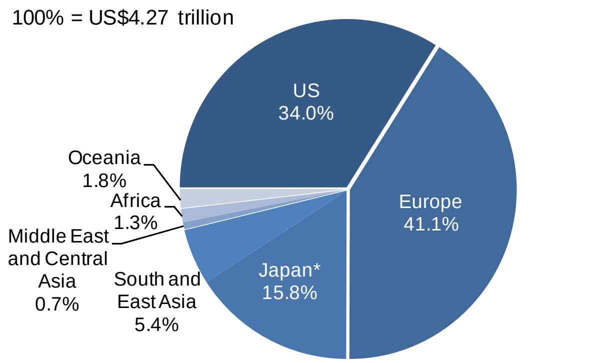
<td>
</td></tr>
<tr><td>Transparency & Governance score</td>
<td></td>
<td></td>
<td></td>
<td></td></tr>
<tr><td>Credit Rating</td><td>A/Negative (S&P)</td><td>Baa2/Stable (Moody's)</td><td>BBB/Stable (S&P)</td><td>BB/Negative (S&P)</td></tr>
<tr><td>Comments</td>
<td>Fees regulated by SAMA. Good profitability. The highest rated of the peer group and the strongest T & G score</td>
<td>Good profitability and significant fund surplus. Above average fees. Good rating by Moody's and good T & G score</td>
<td>Good profitability and fund in surplus. Moderate fees. Good rating by S&P and average T & G score</td>
<td>Weak profitability has caused fund deficit. Moderate fees. The lowest rating in the peer group and weak T & G score</td></tr>
</table>

Source: Company Financial Statements, Alpen Capital, Shareholders' net comprehensive income/loss: Includes fair value changes taken to equity after adjusting for Qard provisions

6. MIDDLE EAST INSURANCE INDUSTRY

While insurance is one of the fastest growing sectors in the Middle East economies, the industry remains relatively small and underdeveloped. The Middle East and Central Asia accounted for only 0.7% of the global insurance market (gross premiums/contributions written) of US$4.3 trillion in 2008 (See chart 27).

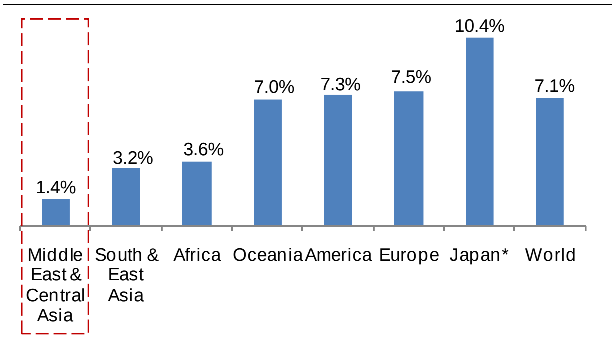
Chart 27: Gross premium written, 2008



Source: Swiss Re, June 2009, *Includes newly industrialized Asian economies

The relatively small size of the Middle East insurance industry is a reflection of a low average insurance penetration (gross premium written as a percentage of GDP) of only 1.4% compared to a global average of 7.1% (See chart 28).

Chart 28: Global insurance penetration, 2008 (%)



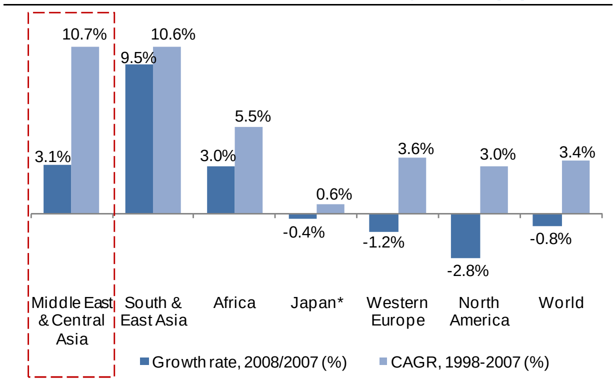
Source: Swiss Re, June 2009, *Includes newly industrialized Asian economies

Some of the reasons for the low penetration include a high income disparity, a young local population with a good social safety net, very small pension and long term savings industry, expatriate population that is more inclined to remit savings to home countries, oil revenues accounting for the majority of GDP, part of which has been invested abroad rather than in local economies and minimal regulation. Incompatibility of conventional insurance with Islamic principles has also impeded the growth of the industry.

The low penetration suggests that there is significant room for growth for the industry. Regulation, greater affluence, favorable demographics, growth in organized savings, greater availability of Takaful products and changing consumer habits are some of the key drivers for the industry. The emergence of a young, affluent and educated Muslim population along with a continued flow of expatriates underpins growth for the industry.

According to Swiss Re, non-life insurance premiums in the Middle East and Central Asia grew at a CAGR of 10.7% in 1998 to 2007 and 3.1% in 2008, far outpacing the global average of 3.4% and -0.8% respectively (See chart 29).

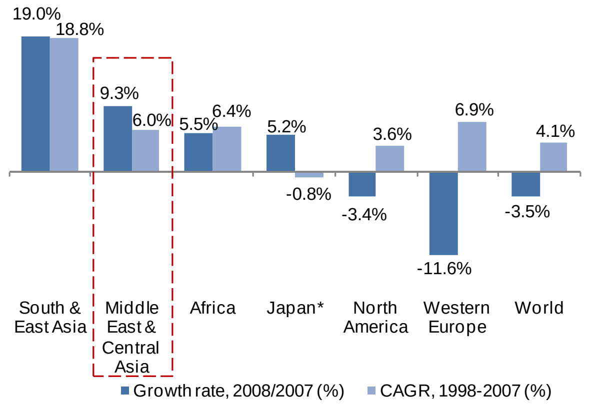
Chart 29: Non-life insurance market growth, (%)



Source: Swiss Re, June 2009, *Includes newly industrialized Asian economies

Life insurance premiums in the Middle East and Central Asia grew at a CAGR of 6.0% in 1998 to 2007 and 9.3% in 2008, well above the global average of 4.1% and -3.5% respectively (See chart 30). Evidence from the developed world shows that non-life insurance grows faster at the early stages of the development of the insurance industry, whereas the life insurance industry develops at a later stage. It is worth noting that life insurance accounted for about 58% of all insurance products sold globally in 2008, compared to only 26% in the Middle East.

Chart 30: Life insurance market growth, (%)



Source: Swiss Re, June 2009, *Includes newly industrialized Asian economies

Total insurance premiums in the Middle East and Central Asia grew 4.7% in 2008, compared to a decline of 2.0% globally.

We expect the Middle East insurance industry to witness strong growth on the back of rising penetration levels over the medium to long-term. Our assertion is underscored by the fact that insurance penetration levels in the region can still grow by over five times before reaching the global average. We expect the growth in life Takaful to outpace that in general Takaful in line with historic precedence from developed markets.

7. TAKAFUL INDUSTRY

7.1. What is Takaful?

Takaful is the Islamic version of conventional insurance. It is based on the concept of cooperation and mutual assistance, whereby a group of participants agree to support one another jointly against a specified loss. The participants make voluntary contributions (Tabarru) to a fund (participants' fund), which in turn provides financial aid to those that suffer a loss. The Takaful operating model is a hybrid between a conventional and a cooperative insurance company and therefore subject to some unique issues. Varying interpretations of Shariah law have led to the emergence of different Takaful models, namely Wakala, Mudaraba and a hybrid model combining the two concepts. The hybrid model is the most widely used in the United Arab Emirates and Bahrain while the Mudaraba model is prevalent in Saudi Arabia and the Wakala model extensively used in Malaysia. The principal differences between conventional and Takaful insurance are highlighted below (See chart 31).

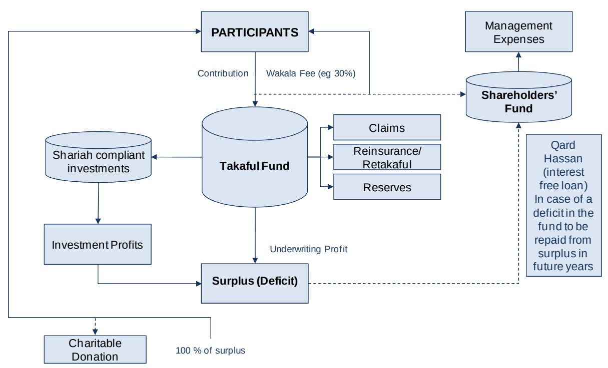
Chart 31: Conventional insurance vs. Takaful

	Conventional	Takaful
Basis of Contract	• Risk transfer from policyholder to insurance company	• Cooperative risk sharing between the policyholder and insurance company
Responsibility of policyholders/ Takaful participants	• Policyholders pay a premium to the insurer • All underwriting surplus transferred to shareholder's account	• Participants make contributions to the scheme • All underwriting surplus distributed among the policyholders, who are also liable for any deficit
Management status	• The insurer manages a policyholders' fund, and, if required, shareholders' fund	• Takaful operator acts as administrator of the scheme and pays the Takaful benefits from the policyholders' fund • In the event of a shortfall in the policyholders' fund, the Takaful operator is expected to provide an interest-free loan to cover the deficiency
Access to capital	• Access to share capital and debt with the possible use of subordinated debt	• Access to share capital by Takaful operator but not to debt, barring an interest-free loan to cover a deficiency in the policyholders' fund
Investment of funds	• Interest based bonds and fixed-income investments • No restrictions except for those imposed for prudential reasons	• Only interest (*Riba*) free investments are permitted • Investments prohibited in *Haram* industries like those related to alcohol, tobacco, pork products etc
Regulations	• Statutes • Case laws/ Judicial precedents • Legal literatures	• Conventional framework plus: • Shariah provisions • Fatwa (Juristic opinions) • Shariah Supervisory Board decisions • Shariah case laws
Forfeiture	• Paid premiums are forfeited in case of a breach of the utmost good faith	• Contributions paid are never forfeited in a Takaful contract

Source: Alpen Capital

Under the Wakala model, the Takaful operator acts as an operating agent (Wakil) for the policyholders. In return for management and investment services of the Takaful fund, the Wakil receives commission based on policyholders' contributions. The Wakil does not share in underwriting and investment profits or losses. In case of a deficit in the Takaful fund, the Wakil is required to provide an interest free loan (*Qard-Al-Hasan*) to the fund, which is repaid as future contributions and/or investment returns reduce and eventually eliminate the deficit (See chart 32).

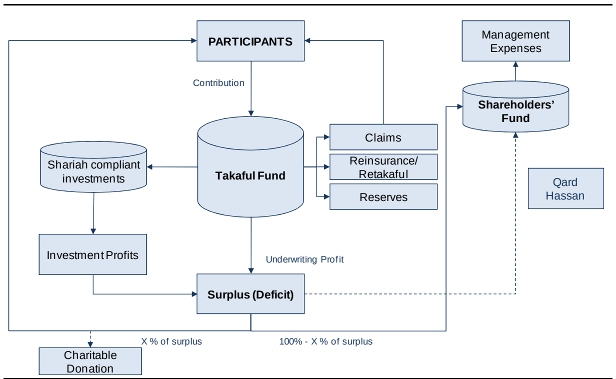
Chart 32: Wakala Model



Source: QED Actuaries & Consultants Limited

Mudaraba is a profit sharing model wherein the Takaful operator (Mudarib or Entrepreneur) receives a percentage of the underwriting surplus and investment profits for managing the underwriting and investment activities of the Takaful operations on behalf of the participants (Rab al Mal or Capital Providers). Similar to the Wakala model, the Mudarib is required to provide an interest free loan to the policyholders' fund in case of a deficit. Although this model mitigates some of the principal-agent problems by aligning the interests of shareholders and participants, some scholars oppose it on the basis that the Mudarib is assuming underwriting risk in that his remuneration is tied to the underwriting performance (See chart 33).

Chart 33: Mudaraba Model

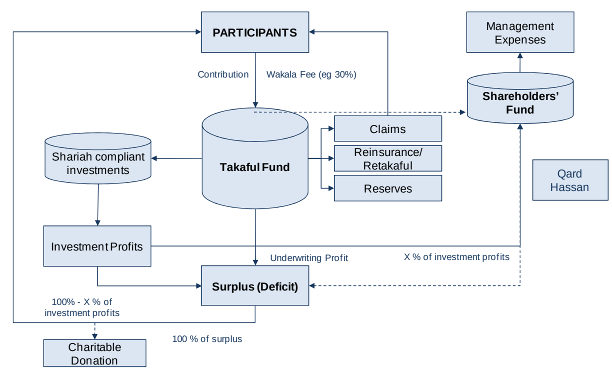


Source: QED Actuaries & Consultants Limited

The hybrid model uses both the principles of Wakala and Mudaraba, whereby the operating agent receives a fixed commission on the policyholders' contributions and a percentage of profits earned on investments. The administrative costs of underwriting are covered by the Wakala fee and the investment management costs are covered by the Mudaraba fee (See chart 34).

All Takaful models involve a clear segregation of assets and liabilities of shareholders and participants respectively. Unlike conventional insurance, the shareholders are not liable for any deficits in the participants' fund – this is the sole responsibility of the participants. In countries where mutual companies or co-operatives are recognized by law, this vehicle is used to hold the policyholders' fund. This entity is separate from, but contractually linked to the Takaful operator company. In countries were the law does not permit the incorporation of companies without share capital, these are treated as 'funds under management' of the Takaful operator.

Chart 34: Hybrid Model



Source: QED Actuaries & Consultants Limited

The Takaful model is largely untested in a bankruptcy scenario. In theory, the shareholders are not liable for a deficit in the participants' fund. In practice, however, any Qard loan to the fund is charged as a provision or expense in the shareholders' income statement. The Qard loan is normally, but not always, recorded as an asset for shareholders and a liability of policyholders' in the financial statements, making it difficult to determine the 'true' participant fund status based on the audited financial statements.

7.2. Pricing policy

SAMA requires Saudi Takaful operators to allocate 90% of underwriting and investment profits to the shareholders with the remaining 10% retained by the policyholders. Despite the 90% Mudaraba fee, around half of the listed Saudi Arabian Takaful operators recorded a net loss for the shareholders' account in the first half of 2009, principally due to lack of economies of scale for the young industry. The relatively high share of profits allocated to shareholders means there is a strong incentive for shareholders to choose a pricing strategy that gives rise to a surplus, while participants' will prefer lower contributions and no surplus.

Takaful operators in the United Arab Emirates, Bahrain and Qatar, mainly operating under the hybrid model tend to charge a Wakala fee of 10% to 30% of gross premiums written, depending on the type of risk being underwritten. Motor and medical policies attract fees at the lower end of the range. Fees vary significantly amongst Takaful operators, however, with the Wakala fee on motor policies ranging from 10% to 25%. The Mudaraba fee typically ranges from 15% to 30% of investment income. The hybrid model is more attuned to shareholders' interest, in the early stages of operations, when the underwriting business is likely to be loss making, and for competitive lines of insurance with low profitability. As the industry matures, however, there may be more upside for shareholders under the Mudaraba model.

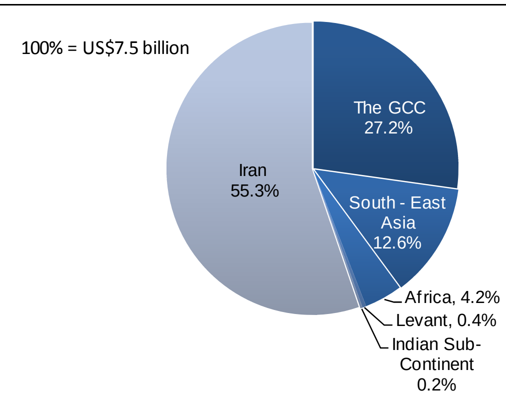
The wide range of Wakala fees (for the same risk type) suggests there are challenges in assessing underwriting risk and determining pricing policies. The GCC Takaful industry is perceived to be relatively unsophisticated in the use of technology and automation in the underwriting and distribution processes. It is probable that the slower pace of growth and the increasing competition in the near term will prompt Takaful operators to implement measures to increase efficiency and sophistication in their operations. For example, Dubai-based newcomer Noor Takaful recently launched the GCC's first online, real-time Takaful service, offering instant motor and travel quotations and cover over the Internet.

There is no incentive for the shareholders to generate an underwriting surplus under the Wakala model. A sample of GCC Takaful players operating under this model (non-Saudi) shows that 67% recorded a deficit in the participant's funds at September 2009. The sample also shows a positive correlation between the size of the fund deficit and the level of the Takaful operators' fees. A Wakala fee at the higher end of the range (25 to 30%) is normally associated with a participant fund deficit and a fee at the lower end (10 to 15%) is associated with a surplus. The same sample showed that 89% of the Takaful operators recorded a net comprehensive profit (adjusted for provisions related to a Qard loan) in the shareholders income statement for the same period. It should be noted that the first nine months of 2009 was a relatively benign period for profitability of GCC Takaful operators, with positive investment returns.

7.3. Takaful market

The first Takaful company, The Islamic Insurance Company of Sudan, was established in 1979 and the first Re-Takaful company, BEST Re, was launched in Tunis in 1985. The same year the Grand Council of Islamic Scholars declared Takaful a Shariah-acceptable alternative to traditional insurance. The global Takaful industry is estimated at over USD 8 billion in 2008, with the major markets including the GCC (Gulf Cooperation Countries), Iran, Malaysia and Indonesia.

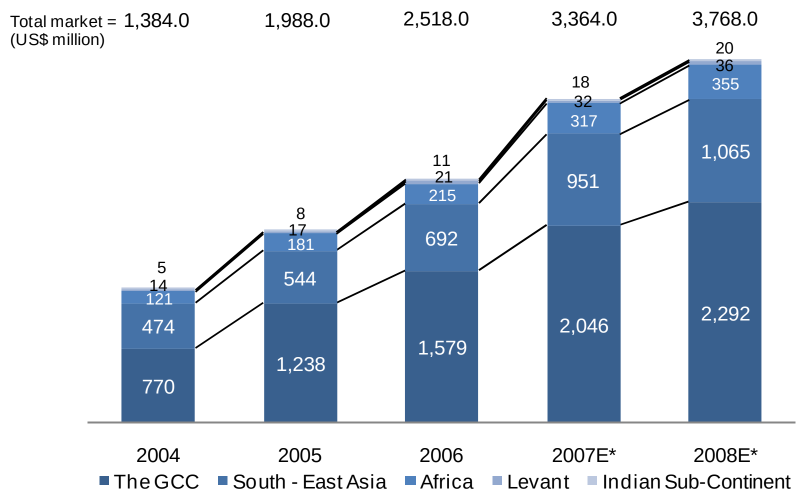
Chart 35: Global Gross Takaful Contributions (2007)



Source: World Takaful Report, 2009, Ernst & Young

Although the global Takaful industry is making good progress in terms of acceptance and uptake outpacing the growth of conventional insurance, its untapped market potential remains enormous. Despite Muslims constituting approximately a quarter of the global population, Takaful contributions account for less than half a percent of total insurance premiums. According to Ernst & Young, global gross Takaful contributions (excluding Iran) grew at a CAGR of 28.5% in 2004 to 2008 reaching US$3.8 billion in 2008. The GCC and South-East Asia dominate the global Takaful market with gross Takaful contributions of US$2.3 billion and US$1.1 billion respectively in 2008. Gross Takaful contributions in the GCC alone grew at a CAGR of 31.4% in the same period (See chart 36).

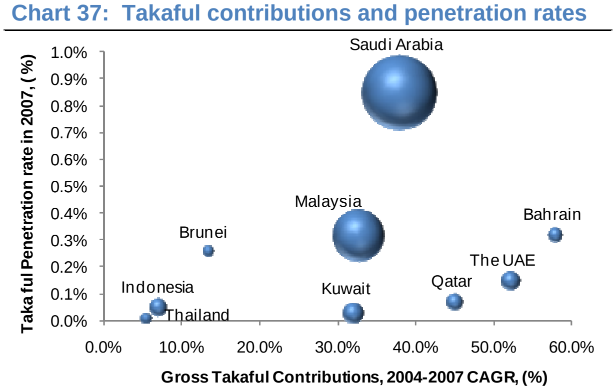
Chart 36: Global Takaful Market, US$ million



Source: The Islamic Funds and Investment Report, 2009, Excluding Iran, *E= Estimate

Saudi Arabia, Iran and Malaysia are the largest markets for Takaful products globally (See chart 37). Besides Iran, Saudi Arabia has reached the highest penetration rate, due to a regulatory induced squeeze out of conventional insurance. Takaful contributions today account for 25% to 30% of the total insurance market in the GCC.

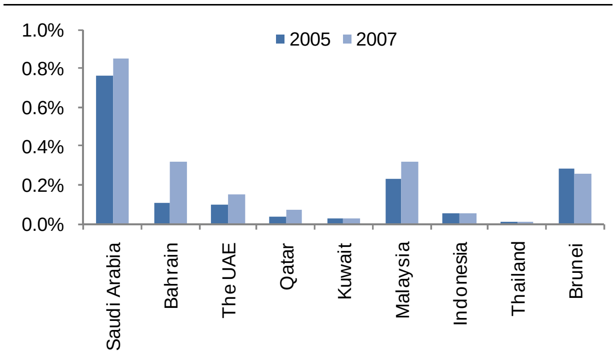
Chart 37: Takaful contributions and penetration rates



Source: Ernst & Young, Size of bubbles represent gross Takaful contributions in 2007

Average Takaful penetration[6] in the GCC grew from 0.21% in 2005 to 0.28% in 2007 compared to South-East Asia where the penetration rate increased from 0.14% to 0.16%. The growth in penetration varied by country, with Takaful penetration in Bahrain almost tripling in the period compared to no visible change in Kuwait (See chart 38).

Chart 38: Takaful penetration rates (%)



Source: The World Takaful Report 2009

7.4. Product lines

Takaful products can be broadly grouped under two primary categories: General and Family Takaful. Health Takaful sometimes fall under one or the other category.

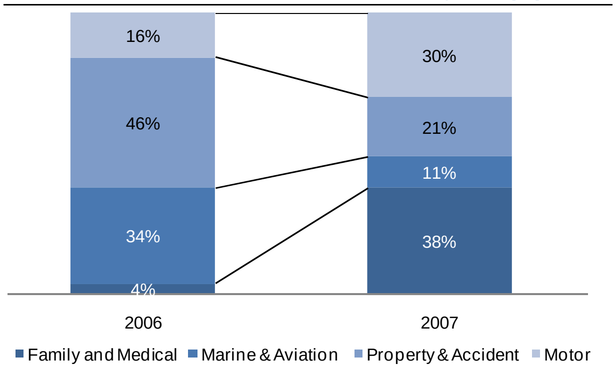
[6] Takaful penetration = Gross contributions as a percentage of nominal GDP

Within the Middle East, the Takaful market is dominated by general Takaful - particularly, motor, health, property and accident insurance. Growth in these areas has been fueled by regulation in areas of motor and health and significant investment by the GCC governments in developing the regions infrastructure, creating the need to insure risks associated with large infrastructure, utility and energy projects.

Penetration levels of family Takaful remains relatively low across the GCC however. Apart from lack of awareness about life insurance in general, this can be attributed to high income disparity, a very small pension and long term savings industry, an expatriate population that is more inclined to remit savings to home countries, a shortage of qualified human resource and Takaful compliant IT solutions and operating infrastructure. The uptake of family Takaful has increased in the recent past however.

Regulation is the key driver for growth in Takaful and conventional insurance products, with motor and health insurance recording the fastest growth rates in recent years. (See chart 39).

Chart 39: MENA Takaful contributions by line (%)



Source: The World Takaful Report 2009

Historically, GCC Takaful insurers focused on developing commercial lines of insurance owing to higher premiums and profits. Commercial lines will continue to benefit from the significant projects pipeline in the region and underpin the markets overall momentum. However, lately the focus has shifted towards developing personal lines of insurance which remains underdeveloped. Personal lines tend to be less exposed to cyclical market swings.

7.5. Regulation

Insurance regulation in the GCC is relatively basic. Takaful operators are generally free to determine their investment strategy and the current capital requirements tend not to be linked to the underwriting, credit, asset and market risk exposure of the company. A transparent, sophisticated and user friendly regulatory framework is important in attracting new entrants to the market and in providing confidence for existing and potential insurance and Takaful customers. Bahrain is considered the role model for the region with the most sophisticated regulatory framework. Bahrain has also been chosen as the regional hub by many international and regional insurers, a testament to its regulatory standards.

Despite relatively low regulatory minimum capital requirements, GCC insurers are generally considered to be well capitalized. This is primarily due to the fact that most insurers write predominantly short tailed business, and tend to reinsure a significant proportion of risks. The minimum capital requirement ranges from about USD10 to USD54 million among the GCC countries (lower for Kuwait, but regulation about to be updated) and applies to conventional insurers and Takaful alike. Many of the newly established Takaful operators in the region have paid up capital well in excess of the regulatory minimum, suggesting this is insufficient for larger players and those active in reinsurance.

In contrast to the GCC, Malaysia has a robust regulatory framework in place for Takaful operators. The biggest difference is that Malaysia has specific legislation in place governing the Takaful industry, Moreover, the Malaysian government if favorably inclined towards the industry. Notably, to propel cross border expansions, the Malaysian Budget for the year 2010 grants tax exemptions for Takaful profits derived from overseas operations.

The rating agencies (Standard & Poor's, AM Best, Moody's Investors Service and Fitch Ratings) are to an extent bridging the gap in the regulatory framework, by conducting a similar type of analysis to the regulatory authorities and expressing opinions on the credit standing and claims paying abilities of the Takaful operators. Most of the Takaful operators that are not already rated are either already in discussion with a rating agency or in the process of obtaining a rating. Standard & Poor's and AM Best have the highest rating penetrations in the GCC Takaful and conventional insurance industries (See chart 40).

Chart 40: Rated Insurance Companies in the GCC

Issuer Name	Country	Standard & Poor's	AM Best	Moody's Investors Service
ACR Re Takaful Holdings Limited	Bahrain	nr	bbb-/Sta/--	nr
ACR ReTakaful MEA B.S.C.	Bahrain	nr	a-/Sta/--	nr
Arab Insurance Group B.S.C.	Bahrain	nr	bbb+/Sta/--	nr
Bahrain Kuwait Insurance Co. B.S.C.	Bahrain	BBB/Sta/--	nr	nr
Bahrain National Insurance Co B.S.C.	Bahrain	BBB+/Sta/--	nr	nr
Hannover ReTakaful B.S.C.	Bahrain	A/Stable/--	nr	nr
Life Insurance Corp (Intl) B.S.C.	Bahrain	nr	bbb+/Sta/--	nr
Takaful International Co. B.S.C.	Bahrain	BBB/Sta/--	nr	nr
Trust International Insurance & Reinsurance Co. B.S.C.	Bahrain	BBB+/Sta/--	a-/Sta/--	nr
Al Ahleia Insurance Co. S.A.K.	Kuwait	BBB+/Neg/--	nr	nr
Al Fajer Retakaful Insurance Co K.S.C.C.	Kuwait	nr	bbb+/Sta/--	nr
First Takaful Insurance Co.	Kuwait	BBB-/Sta/--	nr	nr
Gulf Insurance Co. K.S.C.	Kuwait	BBB+/Sta/--	nr	nr
Kuwait Insurance Co S.A.K.	Kuwait	BBpi/--/--	nr	nr
Kuwait Reinsurance Co. K.S.C	Kuwait	BBB/Pos/--	nr	nr
The Arab Investment and Export Credit Guarantee Corp	Kuwait	AA-/Sta/--	nr	nr
Warba In. Co. K.S.C.	Kuwait	BBBpi/--/--	nr	nr
Wethaq Takaful Insurance Co. K.S.C.	Kuwait	BB/Neg/--	nr	nr
National Life & General Ins Co S.A.O.C.	Oman	nr	bbb+/Neg/--	nr
Oman United Insurance Co. S.A.O.G.	Oman	BBB-/Sta/--	nr	nr
Al Khaleej Insurance & Reinsurance Co. Q.S.C.	Qatar	BBBpi/--/--	nr	nr
Doha Insurance Co. Q.S.C.	Qatar	BBB+/Sta/--	nr	nr
Qatar General Ins. & Reins. Co. S.A.Q.	Qatar	BBBpi/--/--	bbb+/Pos/--	nr
Qatar Insurance Co. S.A.Q.	Qatar	A/Stable/--	nr	nr
Qatar Islamic Insurance Company	Qatar	nr	nr	Baa2/Sta/--
Malath Cooperative Insurance and Reinsurance Co.	Saudi	BBB/Sta/--	nr	nr
Saudi Re for Cooperative Reinsurance Co.	Saudi	BBB+/Sta/--	nr	nr
Tawuniya / The Company for Cooperative Insurance	Saudi	A/Neg/--	nr	nr
Abu Dhabi National Insurance Co. (P.S.C.)	UAE	A-/Sta/--	nr	nr
Al Ain Ahlia Ins. Co.	UAE	BBBpi/--/--	nr	A3/Sta/--
Al Buhaira National Insurance Co. (P.S.C.)	UAE	BBB/Neg/--	nr	nr
Al Dhafra Insurance Co. (P.S.C.)	UAE	BBBpi/--/--	nr	nr
Al Sagr National Insurance Co.	UAE	BBBpi/--/--	nr	nr
Alliance Insurance (P.S.C.)	UAE	nr	a-/Sta/--	nr
Arab Orient Insurance Co. (P.S.C.)	UAE	A-/Sta/--	nr	nr
Dubai Islamic Insurance & Reinsurance Co. (Aman)	UAE	BBB/Neg/--	nr	nr
Emirates Insurance Co. (P.S.C.)	UAE	BBB+/Sta/--	nr	nr
Gulf Reinsurance Limited	UAE	nr	a-/Sta/--	nr
International General Insurance Holdings Ltd	UAE	nr	bbb-/Sta/--	nr
Islamic Arab Insurance Co. (P.S.C.) (Salama)	UAE	BBB+/Sta/--	a-/Sta/--	nr
National General Insurance Co. (P.S.C.)	UAE	BBB/Sta/--	nr	nr
Oman Insurance Co. (P.S.C.)	UAE	BBB/WNeg/--	a/Sta/--	nr
Ras Al-Khaimah National Ins Co.	UAE	BBBpi/--/--	nr	nr
Takaful Re Ltd.	UAE	BBB/Sta/--	nr	nr

Source: Standard & Poor's, Moody's Investors Service and AM Best. Issuer ratings as of 11 Jan., 2010

In the following sections we summarize the key features of Takaful regulation in the GCC countries (Also see chart 41).

- **Bahrain:** The Central Bank of Bahrain (CBB), the country's insurance regulator, recently enhanced the reporting requirements for Takaful operators. The CBB is also looking at tweaking the present rules and regulations, particularly the solvency requirements for the Takaful operators. The CBB mandates the Takaful operators to maintain separate accounts for each Takaful fund and business category complying with the Accounting and Auditing Organization for Islamic and Financial Institutions (AAOIFI) standards. The CBB advocates the usage of the hybrid Takaful model - *Wakala* for underwriting and *Mudaraba* for investments and mandates the operators to fully disclose the Wakala fees and Mudaraba profit share rates. Besides a minimum capital requirement, the CBB also requires Takaful operators to meet a capital test linked to the volume and type of underwriting risk retained and the concentration of assets and counterparty exposures.

- **Kuwait:** The Ministry of Commerce and Industry regulates the Kuwaiti insurance market and has drafted a new insurance law by January 2009, yet to be tabled in Parliament, to replace the insurance law of 1961. The new insurance law is expected to increase the minimum capital requirement for insurers to US$55 million from the present US$525,000 for the local insurers. The new law is also expected to carry a separate code for Takaful companies focusing on areas like policyholders' funds, *Qard Al Hasan*, Shariah supervisory board etc.

- **Qatar:** The Qatar Financial Centre Regulatory Authority (QFCRA) has laid down provisions and rules for Takaful operators in the Islamic Finance Rulebook and the Prudential Insurance Rulebook (PINS) applicable to entities located in the QFC. Moreover, PINS also contains a separate section titled "Additional requirements for Takaful Entities" which applies to Islamic Financial institutions and Islamic windows. These require Takaful entities to maintain separate Takaful funds for each business as well as identify the assets and liabilities for each Takaful fund. Though, the QFCRA does not recommend any particular model to be followed by a Takaful operator, every Takaful operator must have a written policy (in accordance with AAOIFI standards) to determine the surplus or deficit arising from its Takaful business and distributing the same between the policyholders and shareholders. The minimum capital requirement is the higher of US$10 million for direct insurers or figure calculated based on the nature and extent of insurance and investment risk exposures.

- **Saudi Arabia:** The Saudi Arabian Monetary Agency (SAMA), regulator of the Saudi Arabian insurance market, mandates all insurance companies to be established in a cooperative manner. SAMA also directs the cooperative insurance companies to distribute 10% of the net surplus of insurance surplus to policyholders directly or in the form of a reduction in premiums for the following year. The remaining 90% of the net surplus is transferred to the shareholders.

  SAMA also mandated all insurance companies (existing and new) to obtain a license by March 2008 to underwrite business or exit the market. Notably, to obtain a license a company must be established as a joint stock company, invest at least 20% of policyholder funds in government bonds and 20% in bonds issued by Saudi-authorized banks. As a result, as of August 2009, out of the 43 companies operating in Saudi Arabia in 2008, 25 insurance and reinsurance companies were fully licensed to operate in the Kingdom and 6 companies have been approved to be established by the Council of Ministers.

  The UAE: Insurance regulation in the UAE is presently minimal and undergoing revisions. A new insurance law came into force in August 2007 thereby establishing the Insurance commission, a new regulatory body for locally incorporated companies. However, requirements for Takaful companies have not been decided yet. On the contrary, the Dubai International Financial Services Center (DIFC), an offshore financial center, requires Takaful firms operating within the DIFC to operate not according to the Prudential Insurance Rule book (followed by conventional insurers) and to fulfill the requirements of the Islamic Financial Services Rulebook (IFS).

Chart 41: Insurance and Takaful regulation

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	The UAE	Malaysia
Regulator	Central Bank of Bahrain (CBB)	Ministry of Commerce and Industry	Oman Capital Markets Authority	Qatar Financial Center Authority (QFCRA) for entities registered at the QFC	Saudi Arabian Monetary Agency	Insurance Companies Division at UAE Ministry of Economy. Dubai Financial Services Authority for entities registered at the DIFC	Bank Negara Malaysia (BNM))
Association	Bahrain Insurance Association	Kuwait Insurance Companies Union	Oman Insurance Association (under formation)	N.A.	N.A.	Emirates Insurance Association	Malaysian Takaful Association
Regulatory Law or Reference Work	Insurance Rulebook, April 2005	Insurance Law, 1961	Insurance Companies Law, March 1979	Emiri Decree No. 1/1966, QFCRA regulations	Cooperative Insurance Companies Control Law, 2003	Federal Law No. 9 of 1984 concerning insurance companies Federal Law No. 6 of 2007 regarding the incorporation of the insurance authority and work regulation	Takaful Act of 1984
Capital Requirement	BHD 5 million (US$10 million) Reinsurance: BHD 10 million (US$20 million)	Local insurers: KD150,000 (US$525,000) Foreign Insurers: KD225,000 (US$786,500)	OMR5 million (US$13 million)	US$10 million, Reinsurance US$20 million	SR100 million (US$27 million), Reinsurance: SR200 million (US$54 million)	AED100 million (US$27.2 million) Reinsurance AED250 million (US$68.1 million)	RM100 million (US$28 million)

Source: Respective Regulatory Authorities

7.6. Opportunities

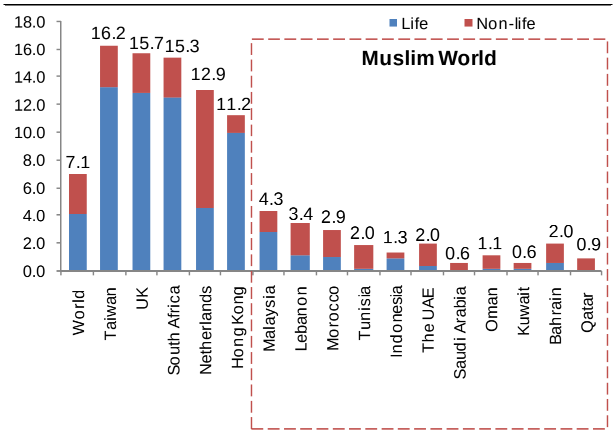
7.6.1. Low penetration for Takaful products

According to re-insurer Swiss Re, insurance penetration (both life and non-life) in the Muslim countries is extremely low compared to the global average (See chart 42). In 2008, the ratio of written premiums to GDP in Muslim countries was just 1.4% of the GDP, compared to a global average of 7.1%.

Given the apparent *Shariah* restrictions on purchasing conventional insurance, the potential for Takaful sector to grow in these Muslim countries is tremendous. Home to more than 40 million of the world's 1.6 billion Muslims, the GCC makes up for roughly 2.5% of the potential Muslim demand.

Regulation, greater affluence, favorable demographics, growth in organized savings, greater availability of Takaful products and changing consumer habits are some of the key drivers for the industry.

Chart 42: 2008 premiums in % of GDP



Source: Swiss Re 2009

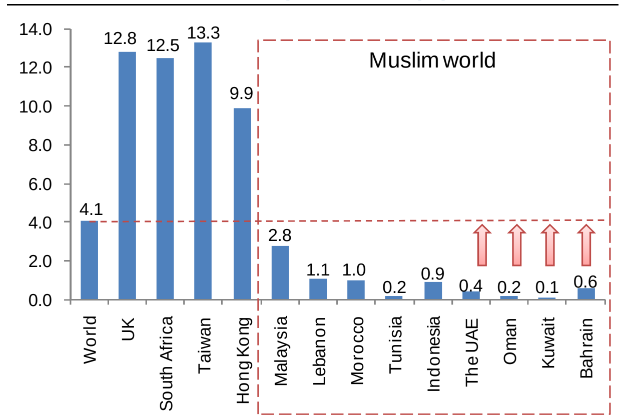
7.6.2. Low Family Takaful penetration

Penetration in family Takaful still lags far behind general and health Takaful in the GCC region, as the lack of awareness about its benefits (social as well as individual) amongst the Muslim population still pose a challenge (See chart 43).

However, demand for personal lines of insurance, such as life insurance and savings protection, is expected to grow, primarily on the back of the increasing per capita income, driven by continued economic growth in the GCC. Moreover, as the large young population in the region ages and becomes more aware of the concepts of financial planning, family Takaful should see a further boost in demand.

High inflation rates in the GCC may also help improve demand for life insurance, as people look for cost-effective ways to maximize returns on their savings. We have seen global reinsurers establish Re-Takaful operations in the GCC and international insurers enter into joint ventures with local Takaful operators to promote Family Takaful. These tie-ups help the operators leverage marketing, actuarial and administrative capabilities of a larger international operational platform. In November 2008, Abu Dhabi National Takaful Company (Takaful) formed a joint venture with Zurich Financial Services to create a new family takaful business. Other Takaful operators such as T'azur, a Bahrain based company launched its family and general insurance product range in July 2009. Recently in November 2009, Pak-Qatar family takaful also announced plans to expand its operations into GCC countries.

Chart 43: Life insurance penetration (%)



Source: Swiss Re 2009

7.6.3. Bancatakaful

Takaful products in the GCC region are primarily sold through direct sales channels, rather than brokers and agents. Bancatakaful does however account for a significant portion of sales offering an attractive and cost effective distribution channel, especially for personal lines (i.e. medical, motor, home and life). In turn, Islamic banks generate cross-selling opportunities by bundling Takaful with other financial products and generate fee based income. Already, very popular in Malaysia, Bancatakaful is slowly catching up in the GCC as well. Notably, SABB Takaful, one of the new entrants in Saudi Arabia, has rolled out a three year strategic plan to grow its bancatakaful business.

The most prevalent Bancatakaful strategies:

- Islamic banks' forming or acquiring Takaful subsidiaries. Abu Dhabi Islamic Bank which holds around 40% of Abu Dhabi National Takaful Company (ADNTC) provides an example. According to the Company management, Bancatakaful constitutes approximately 28% of the total portfolio (i.e. gross contributions) of ADNTC. In January, 2009, ADNTC was awarded the Best Bancatakaful Operator of the Year at the Islamic Business & Finance Awards. Similarly, according to Qatar Islamic Insurance, a majority of its Takaful products are sold through Islamic banks.

- Joint venture between Islamic banks and insurance companies wherein both the parties co-design the products and the bank is responsible for marketing and distribution. An example being the joint venture between Bahrain's Ahli United Bank and Legal & General Group (UK) to form two separate family and general Takaful firms in Bahrain expected to start operations by the end of 2009.

- A Takaful operator acts as product designer and the bank acts as a marketer and distributor. The Takaful product can either be branded as the Takaful operators' or the banks' product. Examples being the partnerships between Salama and National Bank of Fujairah in the UAE and between Al Ahli Takaful and National Commercial Bank in Saudi Arabia.

To leverage the potential of Bancatakaful, banks as well as Takaful operators, need to invest in developing dedicated sales teams offering Takaful products and offer sales incentives at par with conventional products. There is also a need to design customized long term investment-linked savings and pension products for bancatakaful customers. Moreover, the Takaful operators and the banks need to invest in technology to deliver high customer service standards thereby increasing customer retention.

7.6.4. Balance sheet restructuring

Many insurers in the GCC, more so conventional than Takaful, demonstrate a fundamental weakness in how assets and liabilities are managed. It is quite common for the Board to take direct responsibility for the asset side of the balance sheet and to let management run the liability side, or the underwriting business. This means the management is not in a position to effectively manage the duration and liquidity matching of assets and liabilities, and the overall risk exposure of the company. In addition, most insurers have accumulated significant stock portfolios over time, some with shareholder links, which are difficult to dispose of.

This poses both challenges and opportunities. The biggest criticism by rating agencies of GCC insurers is that they are unsophisticated in their investment strategies. That said, one of the salient points is that most insurers are considered overcapitalized. An obvious solution is to spin-off part of the existing stock and real estate portfolios, impose a set of strict investment, asset-liability matching, leverage and liquidity targets as well as dividend policy on the insurers and put management in charge of both assets and liabilities including the overall enterprise risk management. In many cases, this would leaved the insurer with its credit rating intact or improved and shareholders with a share in an investment company with a portfolio of un-levered, and unencumbered assets.

We feel strongly that this would also be well received by bank lender to the insurance industry, many of which have avoided the sector in recent years due to low transparency and aggressive and unpredictable investment strategies.

7.6.5. Consolidation

The GCC Takaful industry is ripe for restructuring, as the markets are very fragmented, with a small number of large players and a large number of very small operators and start-ups. Some of the smaller operators are finding it difficult to compete with larger conventional and Takaful operators that benefit from economies of scale and large distribution networks. Start-up costs are particularly high in the life segment, which is characterized by greater complexity and requires relatively highly qualified staff for sales, underwriting and investment management functions.

7.6.6. Cross border expansion

Realizing the immense potential of Takaful, the GCC Takaful operators have expanded their operations abroad, either via joint ventures or acquisitions, primarily in the Middle East, North Africa, Turkey and Pakistan. Some notable initiatives include:

- **October 2009:** Kuwait's First Takaful Insurance has announced plans to establish joint ventures in Saudi Arabia and Turkey to increase its footprint.
- **August 2009:** Bahrain based Solidarity Group launched Solidarity Saudi Takaful Company in Saudi Arabia. The IPO for Solidarity Saudi Takaful is expected to open in the second half of 2009.
- **July, 2009:** T'azur, a Bahrain based Takaful insurer, announced plans to enter Saudi Arabia, the UAE and Qatar in the near term and Turkey and Egypt in the longer term.
- **July, 2009:** Salama partnered with AXA to offer employee benefit plans to corporate clients in the UAE.
- **May, 2009:** Salama announced plans for acquisitions in a number of markets, including Turkey. Notably, it had allocated US$200 million for overseas acquisitions in January 2008.
- **March 2009:** Solidarity Group of Bahrain launched a subsidiary in Egypt. The subsidiary, Solidarity Family Takaful, offers personal insurance like family Takaful products to the Egyptian market. Solidarity Egypt was established with a paid up capital of EGP30 million (US$5.5 million).
- **November 2008:** Abu Dhabi National Takaful Company (Takaful) formed a joint venture with Zurich Financial Services to create a new family takaful business. The new entity, Zurich Takaful, will be based in the DIFC.
- **February 2007:** Dubai Islamic Insurance and Reinsurance Company (AMAN) agreed to provide operational and management assistance to Boubyan Takaful Insurance Company, Kuwait. AMAN helped Boubyan to set up the administrative and technical structure, manage its operations and help in auditing and follow up.

7.6.7. Solvency II

In order to match international best practices, the insurance regulatory authorities in the GCC are advising Takaful operators (and conventional insurers) to adopt Solvency II capital adequacy norms, the updated set of regulatory requirements for insurance companies operating in the EU. The move is also necessitated by the lack of a standardized international Takaful regulatory regime.

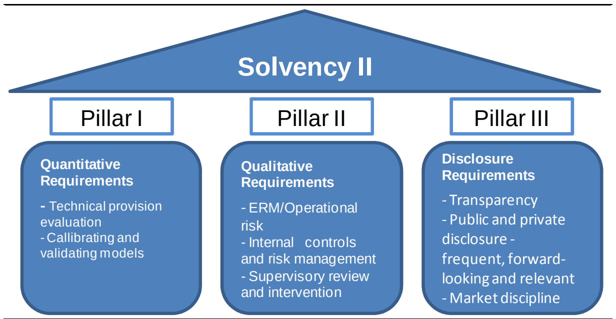
Expected to be implemented by 2012, the Solvency II rules limit the amount of risk that insurance companies can underwrite in relation to their capital base. Moreover, the rules advise insurers to develop stochastic models and deterministic scenario analysis for risk management and regulatory solvency and reporting requirements. The new rules also forces insurers to make significant changes to their financial reporting systems including market consistent valuation of assets and liabilities and greater public disclosure of financial statements.

The risk based capital approach to a Takaful operator would be applied to both policyholders' and shareholders' funds to ascertain their financial strengths individually. Notably, the shareholders funds must exhibit higher financial strength than policyholder's funds since shareholders need to make good any deficit in the policyholders' fund through a *Qard al Hasan*. Given the relatively short track record of the Takaful companies in the region, few have accumulated surpluses in the policyholder's funds.

The GCC insurers are generally considered to be well capitalized, given their short tailed nature of insurance risk in question and relatively high reinsurance ratios. That said, the regional insurers are exposed to significantly higher assets risk due to limited local investment opportunities and somewhat aggressive and unsophisticated investment strategies.

The eventual implementation of unified rules and regulation along the lines of Solvency II will make it easier for Takaful players to expand cross borders and is likely to trigger some level of consolidation in the industry (See chart 44).

Chart 44: Three Pillars of Solvency II Regulations



Source: Central Bank of Bahrain, May 2009

7.6.8. Takaful products for non-Muslims

The opportunities for the Takaful industry lie beyond that of addressing the needs of religiously devote Muslims. With potential conflicts of interest and agency problems adequately addressed, it can be argued that the Takaful operating model is fairer and more ethical and therefore advantageous to the customer over the conventional insurance model. Notably, Takaful products are popular also amongst Non-Muslim communities in Malaysia and some 2/3 of European insurance companies are in fact mutual or cooperatives (about 1/4 of premiums sold). According to a study conducted by AMICE, the mutual and cooperative segment grew its relative market share in Europe in 2000 to 2004. Takaful operators with ambition to tap into markets beyond the Muslim community can look to Malaysia and the European mutual and cooperative insurance industry for cues.

In order to take on conventional insurance on other than religious grounds, the Takaful industry needs to address a number of key issues, namely:

- Takaful operators need to provide a high level of transparency in terms of its fee structure, Qard facility, investment strategy and governance framework.
- Efficiency has to be raised across the industry, through consolidation, bancassurance, joint-ventures and other modes of cooperation amongst industry participants, to effectively compete with conventional insurers based on product, price and service.
- Product innovation is critical in promoting growth and maintaining profitable product lines.
- Takaful operators should be held to some minimum service standards and there must be ways for participants to seek redress for mis-selling, inadequate investment performance etc.
- Regulatory authorities and industry organizations should work towards standardization in areas of operational model, governance, enterprise risk management, regulation and disclosure.
- To attract customers from beyond the Muslim community, the marketing should emphasize social and ethical benefits of the operating model, rather than faith based compliance.

7.7. Challenges

7.7.1. Limited Islamic investment opportunities

Takaful operators are somewhat constrained in their investment opportunities. The most common investment class for global insurers is investment grade rated bonds. The bond market is however not well developed in the Middle East, primarily due to a small local market for such instruments. The pension fund industry is very small, and the insurance industry has traditionally invested in equities and real estate only. There is also no regulatory requirement dictating the asset allocation of insurance companies and Takaful operators. To make matters worse, the global economic recession, triggered by flaws in the US mortgage backed securitization market and a subsequent confidence crisis in the global banking industry, resulted in a return to basics in the global bond markets. This had a negative effect on the Sukuk market, since Sukuks are considered 'structured' in nature. Negative comments by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) on the Shariah compliance of certain Sukuks, also had a dampening effect of both the supply and demand for the instruments, as did the default on Sukuks issued by the Saudi-based Saad Group and Kuwait-based The Investment Dar Company. Global Sukuk issuance reached a mere $9.3 billion in the first seven months of 2009 compared with $11.1 billion during the same period in 2008 according to data from Standard & Poor's. Malaysia accounted for 45% of the issuance while Saudi Arabia accounted for 22%.

That said, there has been a marked yield contraction on bonds issued out of the GCC in the last couple of months, mirroring a similar trend around the globe. Issuance so far has been confined to government related entities and some select banks, but we foresee increasing issuance, first by financial institutions, and later by private corporations. The recent successful issuance of a Sukuk by the Dubai government was an encouraging sign and we feel that the regional Sukuk market is set for a strong recovery in 2010. This will bring opportunities for the Takaful operators to de-risk and diversify their investment portfolios.

The investment performance of the GCC Takaful players has been quite volatile, reflecting the high concentration on equities and real estate and single assets and counterparts in their investment portfolios. Nevertheless, the performance mirrors that of their conventional peers that have similar concentration on high risk assets (See chapter 2.3).

7.7.2. Lack of Retakaful capacity

Availability of Retakaful capacity is important for the continuing growth of the primary Takaful industry. Lack of capacity for specialty lines and higher risk infrastructure projects has been a major challenge for regional Takaful companies.

There are currently only 8 full-fledged Re-takaful operators in the GCC; Takaful Re - Dubai (paid up capital of US$125 million), ACR Retakaful MEA - Bahrain (US$300 million), Hannover Retakaful B.S.C - Bahrain (US$54 million), Al Fajer Retakaful - Kuwait (US$174.3 million), Saudi Reinsurance - Saudi Arabia (US$266.7 million), Takaful Re - The UAE (US$125 million), Swiss Re and Daman, which is jointly owned by the government of Abu Dhabi (80%) and Munich Re (20%),

Due to limited Retakaful capacity, Takaful operators are forced to reinsure with conventional players. In the first nine months of 2009, the GCC Takaful operators ceded around 47% of gross premiums (See Chapter 2.2). Although it is generally permissible by the Shariah scholars to resort to conventional reinsurance, when no cost effective Retakaful alternative is available, the modus operandi is largely criticized.

7.7.3. Low, but improving, efficiency

The GCC Takaful insurers score way below their conventional peer in terms of efficiency (as measured by the combined ratio). According to a study by Alpen Capital, the average combined ratio (expenses/net premiums written) for the top-8 GCC Takaful players was 89.4% in the first nine months of 2009 compared to only 73.3% for their conventional peers, highlighting the challenge the Takaful players face in competing with conventional insurance products based on price (See Chapter 2.3). The main reasons cited are lack of economies of scale, inability to effectively diversify their risks, and comparatively lower use of technology by Takaful operators, partially offset by lower claims ratios.

It is worth noting however that the average expense ratio for the Takaful peer group has been trending downward over the past three years, whereas the same ratio for the conventional peers has been trending upward, gradually narrowing the gap between the two.

Although, the primary focus of Takaful is not profit maximization, continued underwriting profitability plays a vital role in attracting capital to the industry.

7.7.4. Increasing competition

GCC Takaful operators face competition from conventional peers, foreign players entering the market and from new entrants. The GCC insurance landscape is still dominated by conventional insurers which underwrite a majority of large risks. Both foreign players and conventional local players have an advantage in terms of economies of scale. Takaful operators have the advantage of lower customer churn and a higher growth rate in the Takaful segment. Foreign players also benefit from strong product innovation, technical and marketing capabilities, efficiency, brand recognition, strong capital backing and experience. Global players present in the regional Takaful market include AIG Takaful-Enaya, Hanover Re, Allianz Takaful, T'azur Company and ACR Retakaful.

Some 30 new Takaful operators have been established in the GCC in the last two years, with a total paid up capital of around USD 2 billion. This includes Saudi-based operators that previously conducted business in the country under a conventional structure, but excludes new Takaful windows.

The GCC Takaful industry is also witnessing conventional insurers launching Takaful windows or converting from conventional to Takaful. Notably, Arab Orient Insurance Company, Al Buhaira Insurance Company, Abu Dhabi National Insurance Company, Qatar Insurance Company, Doha Insurance Company have either already launch or are in the process of launching Takaful operations, while Al Khaleej Insurance is in the process of converting itself into a Takaful operator.

7.7.5. Limited transparency

The GCC Takaful operators are falling short of industry best practice in terms of transparency and governance practices. Public disclosures of financial statements, investment strategy and portfolio composition and risk management practices being followed. Moreover, few Takaful operators have Independent Directors or a governance committee as per the recommendations of the Islamic Financial Services Board (See chapter 4, Corporate Governance).

Improved levels of transparency and governance would not only please fund participants, but would also be welcome by rating agencies, regulators, reinsurance counterparts and minority shareholders and have a positive impact on stock valuations.

7.7.6. Lack of standardization

There is little regulatory cohesion amongst the Muslim countries either in terms of insurance industry or Islamic finance supervision and regulation. For example, a Takaful operator active in multiple jurisdictions is required to establish separate participants' fund and administrative infrastructure surrounding the fund for each country of operation. SAMA requires Saudi Takaful operators to follow the Mudaraba model, whereas the Central Bank of Bahrain (CBB) requires Bahraini Takaful operators to follow the hybrid model. Products need to be tailored to the local market needs and there is still some confusion and lack of knowledge amongst the Muslim population about the Takaful operating model and product features. The regulator has a role to play here in setting minimum qualification standards for Takaful sales professionals and the operators need to invest in training. Notably, the CBB requires minimum qualifications for insurance professionals in the Bahrain, strengthening the confidence in and the public perception of the industry. Bahrain, Malaysia and Pakistan are the only regions with comprehensive Takaful laws or regulation in place.

7.7.7. Shortage of qualified personnel

The GCC faces a severe shortage of qualified Islamic finance personnel needed to promote and supervise Takaful products. For example, only 33% of management and 45% of the total workforce in Saudi Arabian insurance companies are Saudi nationals. SAMA has stipulated a minimum 'Saudisation ratio' of 30% during the first year of operation for newly licensed insurance companies to encourage the development of a national workforce for the industry. According to Unicorn Investment Bank, around 6,000 to 8,000 personnel are involved in insurance activities in the GCC compared to 80,000 personnel working in Malaysia in the Takaful industry alone. With growth estimates for Takaful remaining optimistic, there is an urgent need to invest in training and retaining qualified personnel.

7.7.8. Slowdown in economic growth

The global economic recession has led to a large number of projects being put on hold or cancelled, thereby reducing the potential insurable property in the GCC. According to MEED, projects in the GCC worth about US$574 billion (as of Jan 10, 2010) are either on hold or have been cancelled, 79% of which are located in the UAE. An increasing number of projects being put on hold or cancelled slow down growth of general Takaful in the GCC in the near term.

Appendix: Company Profiles

Abu Dhabi National Takaful Company (TKFL DH Equity)

PERFORMANCE SUMMARY*

(US$ million)	2007	2008	% change
Gross premium written	37.7	56.4	49.7
Net premium earned	17.8	24.4	37.1
Underwriting profit	4.2	6.4	51.9
Underwriting profit margin (%)	23.8	26.4	-
Net profit	2.9	3.2	9.6
ROE (%)	20.4	(34.1)	-
ROA (%)	4.3	4.1	-
Credit Rating **: Not rated**			

*Zawya

COMPANY DESCRIPTION

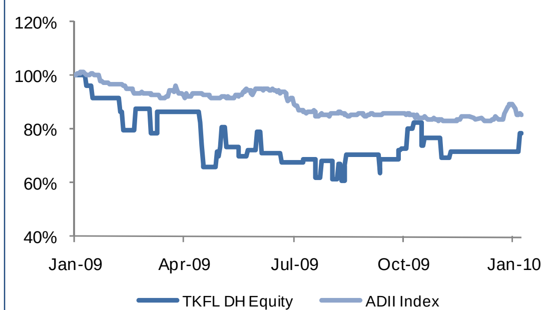
Established in 2003, Abu Dhabi National Takaful Company (TKFL) is a public shareholding company that carries out Takaful and Re-Takaful activities in the United Arab Emirates. The Company operates in two main business segments namely, underwriting of general Takaful business including fire, marine, medical, money, motor, general accident, engineering, property and family Takaful. It also undertakes investments in the Emirates equity market and places short term investments with banks.

Recent Events:

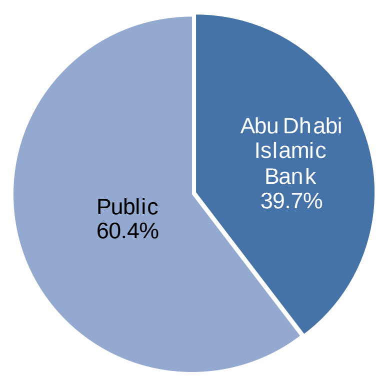
- Gross contributions written for the first nine months of 2009 increased 5.4% year-on-year to US$42.6 million. However, the company reported a net loss of US$2.2 million in the 2009 period compared to net profit of US$3.8 million in the same period in 2008
- In November 2008, TKFL signed an agreement to establish a joint venture company with Zurich Financial Services Group (Zurich) and create a new family Takaful business. The new insurance company, Zurich Takaful Company Limited, is to be based in the Dubai International Financial Centre. Zurich will control 51% and TKFL 49% of company

STOCK DATA

	AED
Bloomberg Ticker:	TKFL DH
Exchange Ticker:	TKFL.ADSM
Price (January 6, 2010)	5.72
52 Week High/Low	7.27/4.39
Mkt. Cap (AED million)	377.5
(US$ million)	102.7
Enterprise value (AED million)	260.3
(US$ million)	70.8



SHAREHOLDER STRUCTURE



KEY INSURANCE RATIOS (%)

	2006	2007	2008
Claims ratio	59.5	75.6	74.9
Combined ratio	99.9	104.2	100.6
Investment return*	4.3	7.4	7.3

*Excluding fair value changes taken directly to equity

Dubai Islamic Insurance and Reinsurance Company (AMAN UH Equity)

PERFORMANCE SUMMARY*

(US$ million)	2007	2008	% change
Gross premium written	80.7	134.2	66.3
Net premium earned	31.3	45.2	44.3
Underwriting profit	12.2	18.5	51.0
Underwriting profit margin (%)	39.1	40.9	-
Net profit	11.3	(9.1)	-
ROE (%)	24.5	(51.9)	-
ROA (%)	8.4	(6.2)	-
S&P Credit Rating**: BBB/Negative/--**			

*Zawya

COMPANY DESCRIPTION

Established in 2002, Dubai Islamic Insurance and Reinsurance Company (AMAN) is a UAE-based public shareholding company engaged in provision of insurance and reinsurance activities based on the Islamic Shariah principles. Aman is listed on the Dubai Stock Exchange and its ownership is diversified.

The company's products and services include fire, engineering, general accident, liabilities, marine, motor, health care, family Takaful, bancassurance, group life & disability, mortgage life, credit life and credit shield.

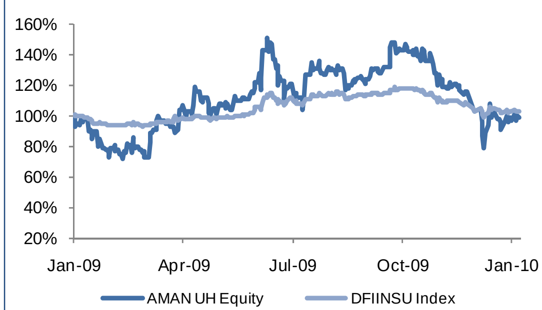
Aman's main market is the UAE. It also owns 100% of Aman Bahrain Islamic Company (Abic) based in Bahrain and 20% of Boubyan Insurance Takaful Company based in Kuwait.

Recent Events:

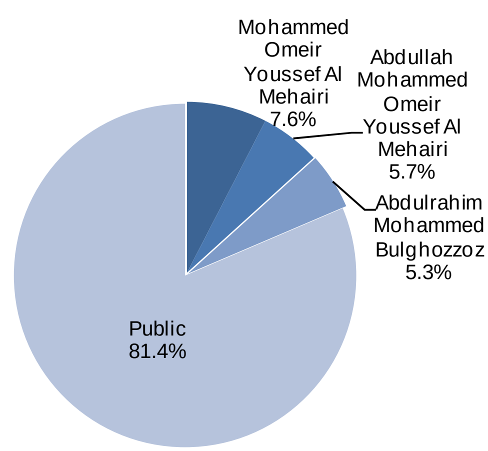
- Gross contributions reached US$79.7 million in the first nine months of 2009, an increase of 7.1% year-on-year. AMAN reported a net profit of US$7.2 million for the 2009 period compared to a net loss of US$3.2 million for the same period in 2008
- In May 2009, Dubai Islamic Bank announced the launch of Al Islamic Takaful program developed by FWU, a global leader in Takaful expertise, along with AMAN
- In May 2009, AMAN was awarded 'Best Takaful operator of the year 2009' at the Middle East Insurance Awards ceremony
- In December 2008, AMAN launched a new health insurance scheme for customers in the UAE

STOCK DATA

	AED
Bloomberg Ticker:	AMAN UH
Exchange Ticker:	AMAN.DFM
Price (January 7, 2010)	0.99
52 Week High/Low	1.57/0.7
Mkt. Cap (AED million)	198.0
(US$ million)	53.9
Enterprise value (AED million)	170.7
(US$ million)	46.5



SHAREHOLDER STRUCTURE



KEY INSURANCE RATIOS (%)

	2006	2007	2008
Claims ratio	56.1	57.7	49.0
Combined ratio	89.2	94.9	82.3
Investment return*	(10.7)	11.7	(23.2)

*Excluding fair value changes taken directly to equity

First Takaful (FTI KK Equity)

PERFORMANCE SUMMARY*

(US$ million)	2007	2008	% change
Gross premium written	23.4	24.8	6.2
Net premium earned	14.9	15.6	4.9
Underwriting profit	(3.7)	(1.4)	-
Underwriting profit margin (%)	(24.9)	(8.7)	-
Net profit	6.9	1.0	(86.2)
ROE (%)	21.3	(17.9)	-
ROA (%)	12.4	1.9	-
S&P Credit Rating**: BBB-/Stable/--**			

COMPANY DESCRIPTION

Established in 2000, First Takaful Insurance Company (FTIC) is the oldest and largest Takaful firm in Kuwait. It offers general insurance and re-insurance services, including marine & aviation, fire, health & life and motor insurance. According to S&P, First Takaful is the market leader in the Kuwaiti Takaful market with a market share of 23%.

FTIC has a 20% stake in new Saudi Arabian insurer Weqaya Takaful Insurance Co.

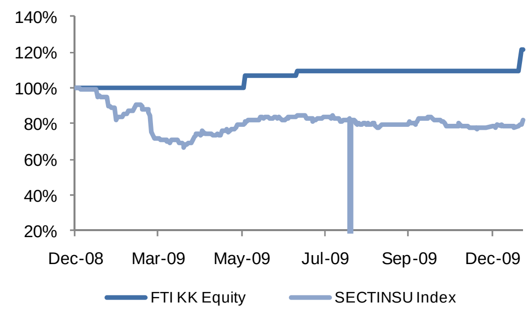
Recent Events:

- Gross contributions for the first nine months of 2009 were US$11.6 million, a decrease of 12.6% year-on-year. Similarly, net income declined to US$1.7 million in the first half of 2009, compared to US$5.2 million in the same period in 2008
- In September 2009, Standard and Poor's assigned a 'BBB-' rating to First Takaful Insurance

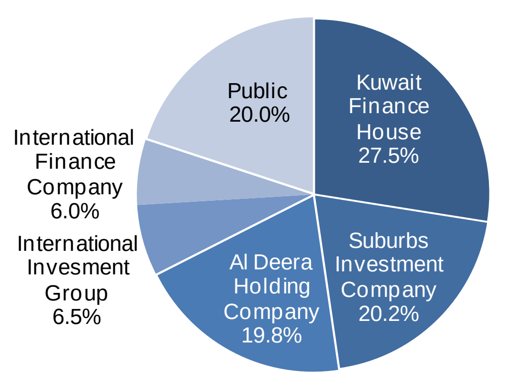
STOCK DATA

	KWD
Bloomberg Ticker:	FTI KK
Exchange Ticker:	FTI.KSE
Price (December 30, 2009)	0.5
52 Week High/Low	0.5/0.3
Mkt. Cap (KWD million)*	50
(US$ million)	174.1
Enterprise value (KWD million)	49.9
*(US$ million)**	173.6

* As of Dec. 30, 2009



SHAREHOLDER STRUCTURE



KEY INSURANCE RATIOS (%)

	2006	2007	2008
Claims ratio	72.7	83.5	58.8
Combined ratio	107.4	128.1	110.1
Investment return*	27.6	28.6	0.8

*Excluding fair value changes taken directly to equity

Islamic Arab Insurance (SALAMA UH Equity)

PERFORMANCE SUMMARY*

(US$ million)	2007	2008	% change
Gross premium written	254.1	361.2	42.2
Net premium earned	201.7	285.8	41.7
Underwriting profit	32.3	44.7	38.7
Underwriting profit margin (%)	16.0	15.7	-
Net profit	41.7	(2.8)	-
ROE (%)	12.5	(3.3)	-
ROA (%)	6.6	(0.4)	-
S&P Credit Rating**: BBB+/Stable/--**			

*Zawya

COMPANY DESCRIPTION

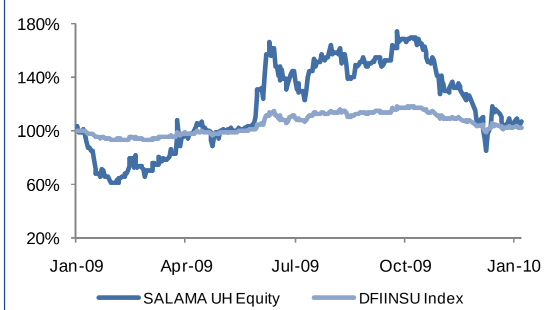
Established in 1979, Islamic Arab Insurance Company (Salama) is a UAE based public shareholding company that provides life and non-life insurance products and services in accordance with Islamic Shariah principles. Salama has a paid-up capital of AED1.1 billion (US$300 million) and is listed on the Dubai Financial Market. Best RE, one of Salama's subsidiaries based in Tunis, is the world's largest Re-Takaful company operating in more than 60 countries. Saudi IAIC Cooperative Insurance Company - SALAMA was approved as a public listed company in the Kingdom of Saudi Arabia in October 2006. Salama is also present in Algeria, Jordan, Egypt and Senegal.

Recent Events:

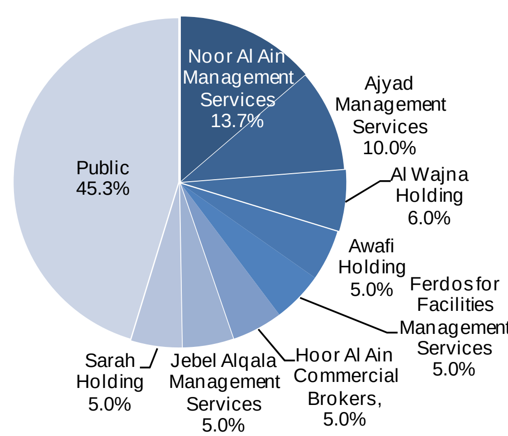
- Gross contributions written for the first nine months of 2009 increased 23.1% year-on-year to US$325.0 million. However, net profit decreased by 22.5% year-on-year to US$18.5 million
- In August, 2009, Salama was awarded the "Best Takaful Provider" award for 2009 by Global Finance Magazine, New York and "Best Takaful Company" award at International Takaful Awards, London
- In July 2009, Salama entered into a strategic alliance with Dubai Bank to expand its portfolio of Takaful products
- In July 2009, Salama tied up with Emirates Investment Services to offer a more comprehensive range of Shariah compliant investments through its insurance products
- In June 2009, Salama partnered with AXA to offer Group Life solutions to its UAE clients
- In May 2009, Salama tied-up with Credit Agricole Asset Management group to offer a range of Shariah-compliant funds to investors

STOCK DATA

	AED
Bloomberg Ticker:	SALAMA UH
Exchange Ticker:	SALAMA.DFM
Price (January 7, 2010)	0.89
52 Week High/Low	1.47/0.49
Mkt. Cap (AED million)	979.0
(US$ million)	266.5
Enterprise value (AED million)	553.9
(US$ million)	150.8



SHAREHOLDER STRUCTURE



KEY INSURANCE RATIOS (%)

	2006	2007	2008
Claims ratio	54.3	57.2	59.0
Combined ratio	95.8	97.9	96.2
Investment return*	14.5	21.2	(2.9)

*Excluding fair value changes taken directly to equity

Qatar Islamic Insurance Company (QISI QD Equity)

PERFORMANCE SUMMARY*

(US$ million)	2007	2008	% change
Gross premium written	43.8	46.1	5.4
Net premium earned	24.0	26.2	9.0
Underwriting profit	3.6	4.6	27.9
Underwriting profit margin (%)	15.0	17.6	-
Net profit	12.2	18.8	54.3
ROE (%)	22.0	17.1	-
ROA (%)	8.6	11.8	-
Moody's Credit Rating: **Baa2/Stable/--**			

* Zawya

COMPANY DESCRIPTION

Established in 1995, Qatar Islamic Insurance Company underwrites Takaful and Family Takaful products for individuals and small businesses in Qatar. The company's products include motor, marine, fire, engineering, general accident, electronics and computer hardware/software, money/banking, personal and professional liability, life and medical insurance.

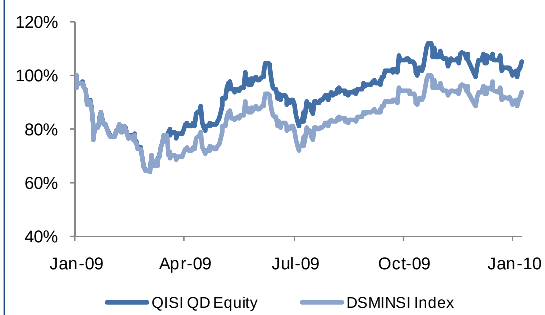
Recent Events

- Gross contributions for the first nine months of 2009 were US$35.7 million, a decrease of 5.3% year-on-year
- In October 2009, QIIC launched an innovative insurance scheme for women against risks of breast and uterus cancer
- In October 2009, QIIC became one of the first insurance provider in the Middle East to offer online motor insurance services
- In September, 2009, Syrian Islamic Insurance Company (in which QIIC owns 54%) was officially launched with a capital of SP1 billion (US$21.7 million)
- In May 2009, Qatar Islamic Insurance signed an insurance contract worth QAR 31.2 million for all vehicles of the Ministry of Interior

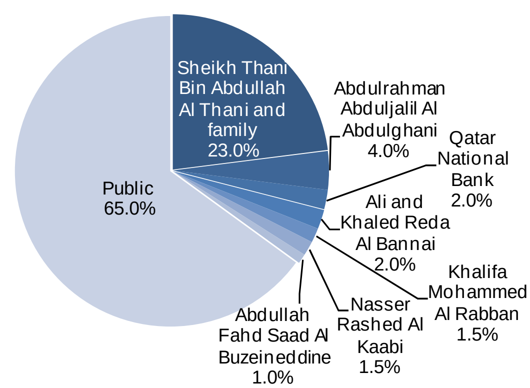
STOCK DATA

	QAR
Bloomberg Ticker:	QISI QD
Exchange Ticker:	QISI.DSM
Price (January 7, 2010)	33.7
52 Week High/Low	36.9/22.6
Mkt. Cap (QAR million)	505.5
(US$ million)	138.8
Enterprise value (QAR million)	-
(US$ million)	-

Source: Zawya



SHAREHOLDER STRUCTURE



KEY INSURANCE RATIOS (%)

	2006	2007	2008
Claims ratio	80.5	62.1	87.5
Combined ratio	104.8	98.8	99.6
Investment return*	10.8	8.4	14.4

*Excluding fair value changes taken directly to equity

Takaful International Company (TAKAFUL BI Equity)

PERFORMANCE SUMMARY*

(US$ million)	2007	2008	% change
Gross premium written	24.4	37.2	52.6
Net premium earned	11.5	14.5	26.0
Underwriting profit	4.5	5.6	23.9
Underwriting profit margin (%)	39.1	38.5	-
Net profit	0.2	0.3	28.9
ROE (%)	0.2	(16.8)	-
ROA (%)	0.4	0.5	-
S&P Credit Rating: **BBB/Stable/--**			

*Zawya

COMPANY DESCRIPTION

Formerly known as the Bahrain Islamic Insurance Company, Takaful International Company (TIC) was established in 1989. TIC offers Islamic insurance services to both personal and corporate clients. Its main Takaful offerings include motor, property and casualty, family Takaful and healthcare.

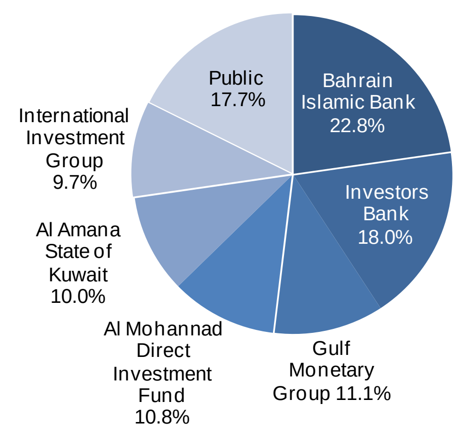
Recent Events:

- Gross contributions reached US$30.2 million in the first nine months of 2009, an increase of 3.2% year-on-year. TIC reported a net profit of US$0.25 million for the 2009 period, an increase of 12.3% year-on-year
- In September 2009, TIC insured the US$6.6 billion (BHD 2.5 billion) urban residential development project by Albilad Real Estate Investment Company
- In September 2009, it launched the “Takaful Hotline (80008050)” service to facilitate effortless insurance services for its corporate and individual clients
- In August 2009, it announced plans to increase the paid up capital by BD1 million (US$2.6 million) to BD6.25 million (US$16.25 million) through a rights issue to support business expansion and to enhance the underwriting capacity

STOCK DATA

	BHD
Bloomberg Ticker:	TAKAFUL BI
Exchange Ticker:	TAKAFUL.BSE
Price (January 10, 2010)	0.29
52 Week High/Low	-
Mkt. Cap (BHD million)	18.1
(US$ million)	48.1
Enterprise value (BHD million)	-
(US$ million)	

SHAREHOLDER STRUCTURE



KEY INSURANCE RATIOS (%)

	2006	2007	2008
Claims ratio	63.4	65.1	67.6
Combined ratio	79.5	84.6	95.4
Investment return*	(10.5)	3.6	4.2

*Excluding fair value changes taken directly to equity

The Company for Cooperative Insurance (TAWUNIYA AB Equity)

PERFORMANCE SUMMARY*

(US$ million)	2007	2008	% change
Gross premium written	509.4	626.0	22.9
Net premium earned	291.9	338.9	16.1
Underwriting profit	58.2	55.5	(4.5)
Underwriting profit margin (%)	19.9	16.4	-
Net profit	139.9	17.9	(87.2)
ROE (%)	32.9	(18.6)	-
ROA (%)	11.0	1.3	-
S&P Credit Rating: **A/Negative/--**			

*Zawya

COMPANY DESCRIPTION

Established in 1986 in Saudi Arabia, the Company for Cooperative Insurance (Tawuniya) is the largest Takaful operator in both Saudi Arabia and the GCC as a whole. Tawuniya offers motor, medical, fire and property, accident, casualty, engineering, marine, aviation and energy insurance.

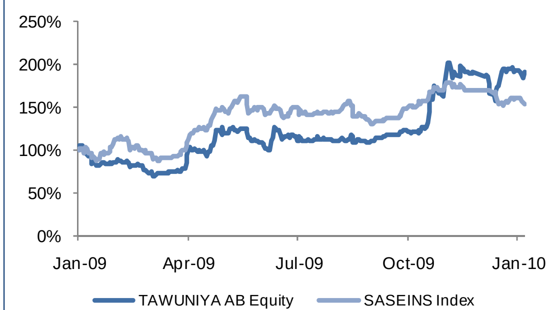
Originally wholly state-owned, the company was floated on the Riyadh Stock Exchange (Tadawul) in December 2004. The state-controlled General Organization for Social Insurance and the Public Pension Agency has been long-standing majority shareholders, with a combined share holding of approximately 46.5%.

Recent Events:

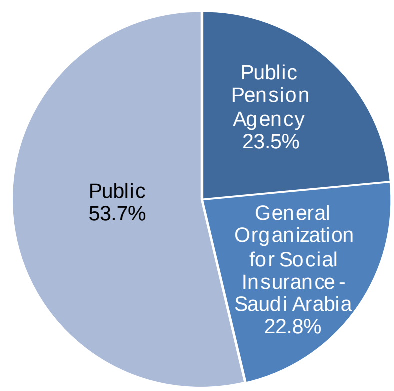
- Gross contributions for the first nine months of 2009 of US$719.6 million increased by 40.2% year-on-year
- In August 2009, Tawuniya won a contract worth SAR507.1 million (US$135.2 million) to provide health insurance to Saudi Telecom's employees

STOCK DATA

	SAR
Bloomberg Ticker:	TAWUNIYA AB
Exchange Ticker:	8010.SSE
Price (January 6, 2010)	71.0
52 Week High/Low	77.0/26.8
Mkt. Cap (SAR million)	3,550.0
(US$ million)	946.6
Enterprise value (SAR million)	3,494.7
(US$ million)	931.9



SHAREHOLDER STRUCTURE



KEY INSURANCE RATIOS (%)

	2006	2007	2008
Claims ratio	61.5	66.3	75.0
Combined ratio	71.9	80.1	83.6
Investment return*	8.6	14.4	-4.7

*Excluding fair value changes taken directly to equity

Wethaq Takaful Insurance Company (WETHAQ KK Equity)

PERFORMANCE SUMMARY*

(US$ million)	2007	2008	% change
Gross premium written	15.6	16.9	8.4
Net premium earned	8.3	9.2	10.7
Underwriting profit	(1.3)	(0.5)	-
Underwriting profit margin (%)	(15.6)	(5.5)	-
Net profit	2.1	(9.6)	-
ROE (%)	3.4	(17.8)	-
ROA (%)	2.7	(13.0)	-
S&P Credit Rating**: BB/Negative/--**			

*Zawya

COMPANY DESCRIPTION

Established in July 2000, Wethaq Takaful Insurance Company KSCC (Wethaq) is engaged in co-operative insurance and reinsurance activities conducted in accordance with Islamic Shariah. The company is focused on the Kuwaiti market and is present in general, life and medical insurance. Products and services include motor, general accident, property, marine, life and medical insurance. The Company was listed on the Kuwait Stock Exchange in 2004.

The Investment Dar (Dar) owns 67.9% of Wethaq. Dar is an Islamic financial institution created in 1994 investing in various sectors, including automobiles, banking, consumer finance, takaful insurance, asset management, real estate, mergers and acquisitions, and transport and logistics. In September 2009 Dar was placed under administration of the Central Bank of Kuwait. Other major shareholders include Gulf Investment House, First Investment Company, and Warba Insurance Co.

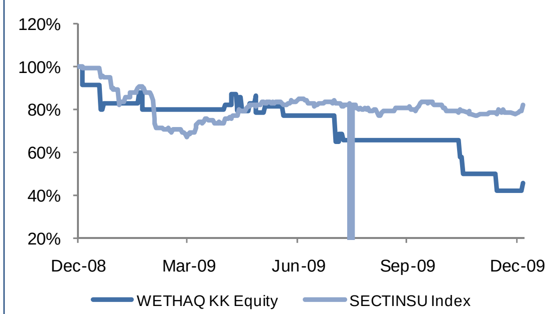
Wethaq has a subsidiary in Egypt of which it owns 60% and owns 0.5% of Dubai-based reinsurer Takaful Re Ltd.

Recent Events:

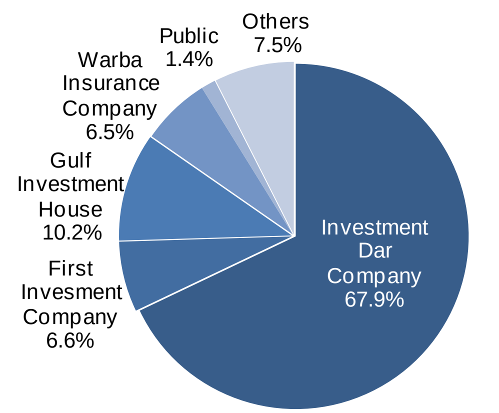
- In the first nine months of 2009, Wethaq reported an increase in net loss of US$16.3 million compared to a net loss of US$2.6 million in the same period in 2008.
- In September 2009, Standard & Poor's lowered its long-term counterparty credit and insurer financial strength ratings on Wethaq to BB from BB+ due to uncertainties regarding the impact of the troubles at parent company Investment Dar on Wethaq, and Wethaq's weakening financial and business profile. The downgrade also reflected a marginal competitive position and aggressive investment strategy. Factors supporting the rating are good risk-based capital adequacy and adequate operating performance. The outlook for Wethaq was set to be negative.

STOCK DATA

	KWD
Bloomberg Ticker:	WETHAQ KK
Exchange Ticker:	WETHAQ.KSE
Price (December 13, 2009)	0.058
52 Week High/Low	0.11/0.05
Mkt. Cap (KWD million)	6.4
(US$ million)	22.2
Enterprise value (KWD million)	-
(US$ million)	-



SHAREHOLDER STRUCTURE



KEY INSURANCE RATIOS (%)

	2006	2007	2008
Claims ratio	110.6	69.0	56.2
Combined ratio	109.0	90.0	113.3
Investment return*	6.2	6.0	(14.8)

*Excluding fair value changes taken directly to equity