

National Takaful Company, Watania Management Discussion and Analysis For the year ended 31 December 2017

Watania management is pleased to present the following financial analysis to its stakeholders for the Financial Year ended 31 December 2017:

Summary of Financial Performance:

(in AED '000)	FY17	FY16	Y-o-Y (%)
Gross Written Contribution	271,228	200,167	35.5%
Net Retained Contribution	168,425	130,326	29.2%
Net Earned Contribution	151,023	86,043	75.5%
Net Claims	(95,507)	(55,141)	73.2%
Net Commission Expense	(15,402)	(4,537)	239.5%
Other Underwriting Expenses - net	(7,213)	(4,104)	75.7%
Policyholders' Investment Income	925	137	578.2%
Underwriting Profit	33,826	22,398	51.0%
General & Administrative Expenses	(30,015)	(29,511)	1.7%
Profit from insurance operations	3,811	(7,113)	153.6%
Shareholders' Investment Income	3,805	7,498	-49.3%
Net Profit for the year	7,616	385	1880.1%

Operating Ratios:

	FY17	FY16	Y-o-Y (%)
<i>Net Claims Ratio</i>	63.2%	64.1%	-0.8%
<i>Net Commission Ratio</i>	10.2%	5.3%	4.9%
<i>Net Underwriting Expense Ratio</i>	4.2%	4.6%	-0.4%
<i>Expense ratio</i>	19.9%	34.3%	-14.4%
<i>Combined operating ratio</i>	97.5%	108.3%	-10.8%

Gross and Net Written Premium

The Gross Written Premium for FY17 increased by 35.5% over FY16 due to increase in its Motor and Medical premium. The segmentation strategy in both these lines have worked well for the Company over the last 2 years. However, the retention ratio came down from 65% in FY16 to 62% in FY17 due to change in the reinsurance structure in Medical insurance where the Company moved from full retention to Quota share in order to de-risk the portfolio. The Company targets to keep its overall retention level at 65%.



Claims and other operating Ratios

The Claims ratio in both – Motor and Medical – the high contributing lines continues to show improvement in 2017 vis-à-vis the previous year due to which the overall claims ratio showed further improvement in 2017 falling by 80-bps over 2016. Focus on improving the productivity and exercising tight control on all the expenses led to a drop of 42% in the expense ratio percentage - 19.9% in FY 2017 from 34.3% in FY 2016. The improvement in claims ratio and expense ratio led to a significant improvement in combined operating ratio which improved to 97.5% in 2017 from 108.3% in 2016.

Investment Income

Policyholders investment income improved significantly from AED 137k in FY16 to AED 925k due to increase in the investment book and better portfolio mix. However, the Shareholder's investment income suffered in 2017 due to the impairment loss booked on revaluation of its investment property (AED 1.4mn) and a one-off income booked in the equity portfolio in 2016.

Net profits

The Company achieved net profit of AED 7.6 million in 2017 compared to AED 0.4 million in 2016. The return on equity for the year 2017 was 9%.

Balance Sheet

Total invested assets as at the period end stood at AED 189.8 million as compared to AED 149.26 million as at Dec 31, 2016 showing a growth of 26.3%

Shareholders' equity amounted to AED 85.1 million as against AED 79.2 million in year 2016.

Basic earnings per share stands at AED 0.05 as against loss per share of 0.002 during the same period last year.

Outlook

Despite being a challenging year in the context of overall global pressures on the economy, Watania could continue the tone which was set in 2016 and posted strong underwriting results and net profit in 2017. Prudent and selective underwriting, focus on right product and segmentation along with superior customer services were the prime factors for this strong financial performance. The Company is committed to follow its "Back to Basics" strategy which has been instrumental in turning around the company's operational and financial performance. We believe that with the guidance of the Board, support from its distribution partners and all key stakeholders and motivation of the team the Company will continue to achieve the goals set in the years ahead.



Chief Financial Officer



Chief Executive Officer