

National Takaful Company, Watania Management Discussion and Analysis For the period ended 31 December 2015

Watania management would like to present the following financial analysis to its stakeholders for the Annual Statements pertaining to year ended 31 December 2015.

Takaful Operations

Gross Contribution Written:

Our gross contribution written during the year stood at AED 209.39 million which shows an increase of 10% from AED 190.90 million of 2014. This top line increase was mainly led by motor, medical and property lines.

Contribution Retention:

The overall retention ratio in 2015 stood at 52% as compared to 39% in 2014. The overall increase in retention is mainly driven by consumer line which are generally more retained.

Net Underwriting Results:

Watania loss from takaful operations during the year was AED 49.65 million in 2015 as compared to a loss of AED 21.19 million in 2014. The main contributor towards poor performance was group of motor policies written during the first half of Year 2015. The company's overall loss ratio is 102% in 2015 as compared to a loss ratio of 75% in Year 2014.

The management has taken firm action to realign and re-price its motor portfolio during second half of year 2015. The major portion of the motor loss reflects the servicing of the run-off loss making motor accounts.

In addition to the above, Watania has further strengthened its technical provisions in 2015 in line with United Arab Emirates (UAE) Insurance Authority requirements on technical provisions. This resulted to one time negative impact on company's bottom line.

Financial Results

General and Administrative expenses:

The company's expenses for the year remained at AED 30.90 million as compared to AED 28.51 million last year. The management has developed cost containment strategy which is in place to ensure that expenses are maintained at the targeted levels. The management is hopeful that cost containment initiative shall reflect positively in year 2016 financial results.



Net Investment Income:

Net investment income stood at AED 5.64 million which shows a declining trend as compared to last year of AED 10.69 million. Adverse sukuk and equity market performance coupled with declining interest rates in a low oil price environment were the major reasons for lower investment income. During the year, the company acquired residential investment properties at a prime location in Abu Dhabi to further diversify its investment portfolio.

The uncertainties surrounding growth in developed world, slump in commodity prices and continued talks of hard landing in China will keep the global and especially the regional capital markets volatile in 2016 as well. The company plans to diversify its investments, avoid riskier assets and keep the investment income stable in 2016.

Net Results

Due to the reasons mentioned above, the company made a loss of AED 40.16 million in 2015 as compared to a loss of AED 9.80 million in 2014.

Balance Sheet

Total assets at the end of the year amounted to AED 356.52 million as against AED 357.11 million last year

Cash and cash equivalents including restricted bank deposits stands at AED 49.28 million in 2015 as compared to AED 36.49 million in 2014.

Takaful contract liabilities at the end of year 2015 reached AED 182.83 million as against AED 161.59 million in year 2014. This change is attributable to the increase in business volume and compliance of relevant sections of UAE Financial regulations for Takaful insurance companies on Technical Provisions.

Shareholders equity amounted to AED 80.02 million in year 2015 as against last year's figure of AED 120.18 million in year 2014.

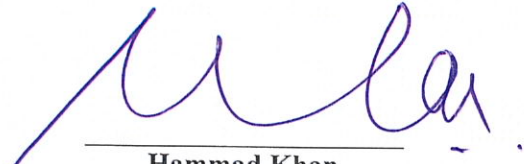
Basic loss per share for year 2015 remained at AED 0.28 as against 0.07 in year 2014.

Outlook

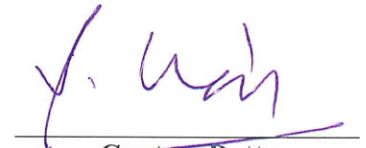
2016 will be a challenging year with anticipated continued economic slowdown, poor investment climate coupled with implementation of UAE Insurance Authority Financial Regulations that will impact companies both operationally and financially. We do welcome new UAE insurance financial regulations and believe that the impact of these reforms will bring more discipline and a stronger risk management culture in the UAE insurance sector.



In such a scenario, focusing on profitable segments, prudent underwriting, customer service, operational cost efficiencies and effective risk and claims management will be the key to success. We believe that that inspite of these challenges, we will find and avail opportunities that will generate positive results in 2016.


Hammad Khan
Chief Financial Officer




Gautam Datta
Chief Executive Officer