

National Takaful Company, Watania Management Discussion and Analysis For the year ended 31 December 2016

Watania management is pleased to present the following financial analysis to its stakeholders for the Annual Statements pertaining to year ended 31 December 2016.

Takaful Operations

Gross Contribution Written:

Following the difficult performance in 2015 where the Company incurred significant losses the Board and the Management implemented changes in the Organization structure and a renewed focus on operational profitability. The Company adopted a “Back to Basics” approach to business that involved – takaful solutions at right price, good and consistent claims service and tight control on costs. This resulted in lower gross revenue but a significant increase in underwriting surplus.

Our gross contribution written during the year stood at AED 200.2 million as compared to AED 209.4 million of 2015. During the first half of year 2016 of the year top line reduced by 35% compared to the same period last year due to pruning of loss making accounts in motor and medical. However, the second half of the year 2016 reported a growth of 112% as compared to the same period last year which was achieved through focused segmentation strategy driven by new pricing approach, improved service levels and widening up of our distribution channels.

Contribution Retention:

The overall retention ratio in 2016 stood at 65% as compared to 52% in 2015. The overall increase in retention is mainly driven by focusing on those segments that allows the Company to maintain higher retained line. These segments are insurances for SME industries, Medical and Motor.

Takaful Operations Results:

The Company registered net takaful income of AED 21.0 million for 2016 as compared to net takaful loss of AED 17.2 million during the same period last year. The management implemented a segmentation strategy adjusting the prices for profitable and non profitable segments. At the same time customer service platform was enhanced. This resulted in generating significant underwriting surplus in Motor. All the product lines of the Company witnessed a rise in their underwriting income for the year.

Watania’s net loss from takaful operations during the year was AED 14.1 million in 2016 as compared to a loss of AED 49.6 million in 2015. The company’s overall net loss ratio is 64% in 2016 as compared to a net loss ratio of 102% in Year 2015. The company’s technical provisions are fully compliant with United Arab Emirates (UAE) Insurance Authority regulations.

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Financial Results

General and Administrative expenses:

The company's expenses for the year 2016 remained at AED 29.4 million as compared to AED 30.9 million in year 2015. We have strengthened our doubtful debt provisions by AED 1.0 million in 2016, which is reflected within general and administrative expenses. The Company shall continue to explore ways to leverage the resource base of Al Madina Takaful through shared services structure to reduce operating expenses. During the year, the key areas in which expenses were synergized were reinsurance, investments, risk survey and actuarial services.

Net Investment Income:

Regional Investment climate in 2016 can best be described as volatile. The year started with a fall in asset prices, especially equities and sukuk, on the back of falling oil prices. Thereafter, we witnessed decent recovery towards the end of Q1 and early part of Q2 followed by stability till Q3 of year 2016. The last quarter of the year 2016 witnessed increase in interest rates which impacted the sukuk prices negatively.

In spite of the above challenges, the company generated total net investment income of AED 7.5 million in 2016 compared to AED 5.6 million in 2015. Though the investment market is expected to remain volatile in Year 2017, we believe that some positive impact of recovery in oil prices from its lows of 2016 would be felt in the capital markets. The company will continue to diversify its investment book further which will help in achieving stable investment returns.

Net Results

Due to the reasons mentioned above, the Company made a net profit of AED 0.4 million in 2016 as compared to a loss of AED 41.4 million in 2015. This is indeed a remarkable turnaround of the Company's operational and financial performance in one fiscal year.

Balance Sheet

Total assets at the end of the year amounted to AED 322.9 million as against AED 356.5 million last year.

Cash and cash equivalents including restricted bank deposits stands at AED 92.2 million in 2016 as compared to AED 55.2 million in 2015.

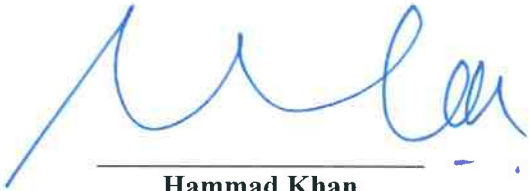
Takaful contract liabilities at the end of year 2016 reached AED 174.6 million as against AED 182.8 million in year 2015.

Shareholders equity amounted to AED 79.2 million in year 2016 as against last year's figure of AED 80.0 million in year 2015.

Basic earnings per share for year 2016 remained at AED 0.002 against loss per share of 0.28 in year 2015.

Outlook

Watania believes that 2017 will be another challenging year due to global pressures on the economy and country's continued efforts in reducing budget deficits. However the Company is optimistic about its growth prospects in terms of gross revenue and profitability on the back of the foundation built in 2016. The Company will continue to maintain its "Back to Basics" strategy which has been instrumental in the turnaround in 2016 and is confident of maintaining this trend in 2017 and beyond.



Hammad Khan
Chief Financial Officer



Gautam Datta
Chief Executive Officer