

National Takaful Company, Watania Management Discussion and Analysis For the period ended 30 September 2017

Watania management is pleased to present the following financial analysis to its stakeholders for the nine months' period ended 30 September 2017.

Takaful Operations

Gross Contribution Written and Retention:

The company achieved Gross Contributions of AED 193.6mn during 9MFY17 which was higher by 29.1% as compared to the same period last year. The growth in premium was led by Motor and Medical lines of business. Net earned contribution grew significantly by 89.8% y-o-y to AED 109.8mn due to higher retention ratio of 63.1% as compared to 61.6% during the same corresponding period. Realignment of company's property casualty & engineering portfolio coupled with increase in motor and medical were the primary reason for overall increase in the retention ratio.

Takaful Operations Results:

Net Takaful income grew to AED 36.3mn in 9MFY17 from AED 13.9mn in 9MFY16, delivering a y-o-y growth of 161.4%. The net commission expense was not included as part of Takaful operations in compliance with Takaful Regulations. Growth in net takaful income was mainly driven by Motor and Medical segment with overall contribution of 84% to the total net takaful income. The company maintains adequate technical provisions and are fully compliant with United Arab Emirates (UAE) Insurance Authority regulations.

Financial Results

General and Administrative expenses:

The Company maintained strict control on its operating expenses which resulted in y-o-y decrease of 8.5% in 9MFY17. This along with increase in net earned contribution led to a significant drop in its expense ratio (operating expense as a % of net earned contribution) to 18.7% in 9MFY17 from 38.9% in 9MFY16. Combined operating ratio was at 98.36% during the period under review led by improved underwriting performance and reduction in operating expenses.

Net Investment Income:

Net investment income during 9MFY17 was AED 4.0 million as compared to AED 6.9 million during the same period last year. Continuous pressure on the regional capital markets, declining rentals yields and low occupancy levels in the real estate sector and limited investment avenues are the major reasons for decline. The company had booked a one-off equity income of AED 2.8mn which was booked in 9MFY16.



Net Results:

The Company made a net profit of AED 5.8 million during the nine months of 2017 as compared to a loss of AED 1.3 during the same period last year backed by strong operational performance and continued focus on cost element.

Balance Sheet

Total assets at the end of the period stood at AED 402.2 million as against AED 322.9 million as at Dec 31, 2016 thus showing a growth of 24.5%.

Cash and cash equivalents including restricted and wakala bank deposits stands at AED 84.4 million as compared to AED 92.23 million as at Dec 31, 2016.

Total invested assets as at the period end stood at AED 188.4 million as compared to AED 149.26 million as at Dec 31, 2016 showing a growth of 26.3%

Takaful contract liabilities at the end of period stood at AED 216.7 million as against AED 174.7 million as at Dec 31, 2016.

Shareholders' equity amounted to AED 83.5 million as against AED 79.2 million in year 2016.

Basic earnings per share stands at AED 0.04 as against loss per share of 0.01 during the same period last year.

Outlook

Despite being a challenging year in the context of overall global pressures on the economy, results so far are encouraging and Company is confident to register further growth in terms of gross revenue and profitability through focus on right product and segmentation along with superior customer services. 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. We believe that with the guidance of the Board, support from its distribution partners and motivation of the team the Company will continue its progress to end the year on a positive note.



Chief Financial Officer



Chief Executive Officer