

الكويت في : 2020/07/8

المحترم

السادة / شركة بورصة الكويت

- دولة الكويت -

تحية طيبة وبعد ،،،

الموضوع : الإفصاح عن نتائج التصنيف الائتماني

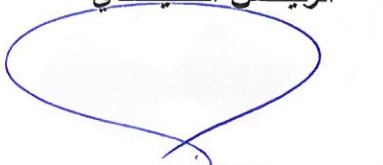
شركة وثاق للتأمين التكافلي ( ش.م.ك.ع. ) للعام 2020

بالإشارة إلى الموضوع أعلاه ، وحرصاً من شركة وثاق للتأمين التكافلي على تحديث البيانات والمعلومات الخاصة بالشركة لديكم ، فإننا نرفق لكم طي كتابنا هذا تقرير التصنيف الائتماني ( B سالب ) الصادر عن وكالة التصنيف العالمية ( S&B GLOBAL ) بتاريخ 2020/04/30 ، وكذلك النموذج رقم ( 9 ) الخاص بالإفصاح عن التصنيف الائتماني .

وتفضلوا بقبول وافر التقدير والاحترام ،،،

عبد الرحمن فهد السويدان

الرئيس التنفيذي


شركة وثاق للتأمين التكافلي [ ش.م.ك.ع. ]  
Wethaq Takaful Insurance Company [K.S.C.]

المرفقات :

- 1 - ملحق رقم ( 9 ) نموذج الإفصاح عن التصنيف الائتماني .
- 2 - تقرير التصنيف الائتماني الصادر عن وكالة S&B GLOBAL بتاريخ 2020/04/30

نموذج الإفصاح عن التصنيف الائتماني

2020/07/08	التاريخ
شركة وثاق للتأمين التكافلي (ش.م.ك.ع)	اسم الشركة المدرجة
وكالة أس أند بي جلوبال	الجهة المصدرة للتصنيف
(ب) سالب	فئة التصنيف
خسارة مصحوبة بتراجع الأداء التشغيلي ومستوى السيولة	مدلولات التصنيف
تعكس النظرة السلبية إمكانية إعادة تقييم التصنيف خلال الأشهر الـ 12 المقبلة لمراقبة حدوث تحول في أداء الشركة التشغيلي وتحقيق دخل إيجابي	انعكاس التصنيف على أوضاع الشركة
سالية	النظرة المستقبلية
ضعف أداء الاكتتاب وركود سوق التأمين وارتفاع المطالبات في قطاع السيارات بسبب فيضانات المياه لعام 2018، بالإضافة الى التأثير المحدود لوباء COVID-19 يتوقع انخفاض في الاكتتاب	ترجمة التصريح الصحفي أو الملخص التنفيذي

Research Update:

# Kuwait-Based Wethaq Takaful Insurance Co. K.S.C. Downgraded To 'B-' On Weaker Capital Adequacy; Outlook Negative

April 30, 2020

## Overview

- Wethaq Takaful Insurance Co. K.S.C.'s (Wethaq's) capital adequacy weakened in 2019, largely due to a significant net loss for the year driven by further deterioration in its operating performance.
- A further drop in the liquidity ratio, which was already unfavorable, has become a major rating constraint after the release of the results.
- Furthermore, unresolved audit qualifications from 2017 and 2018 indicate financial reporting deficiencies, which negatively affect Wethaq's liquidity, capital adequacy, and governance assessments.
- We are therefore lowering our ratings on Wethaq to 'B-' from 'B'.
- The negative outlook reflects the possibility of a downgrade over the next 12 months if we do not observe a turnaround in Wethaq's operating performance, leading to positive net income.

## Rating Action

On April 30, 2020, S&P Global Ratings revised its long-term insurer financial strength and issuer credit ratings on Kuwait-based Wethaq Takaful Insurance Co. K.S.C. (Wethaq) to 'B-' from 'B'. The outlook is negative.

## Outlook

The negative outlook reflects the possibility of a downgrade over the next 12 months if we do not observe a turnaround in Wethaq's operating performance, leading to positive net income. The absence of a turnaround is likely to put further pressure on capital adequacy and/or liquidity.

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## Downside scenario

We could lower the ratings in the next 12 months if:

- Wethaq's liquidity position deteriorates further or if it becomes a severe risk to the company's ability to meet its financial obligations in a timely manner; or
- Wethaq is unable to resolve its accounting issues with auditors, which could lead to investment losses and further volatility in its capital adequacy and liquidity; or
- Operating performance does not materially improve in 2020.

## Upside scenario

We could revise our outlook to stable in the next 12 months if:

- Wethaq is able to resolve its accounting issues, which could improve its liquidity and capital and earnings;
- Wethaq demonstrates a sustainable trend of improving operating performance.
- Wethaq manages to improve its liquidity position.

## Rationale

The rating action follows Wethaq's publication of its 2019 results, which show significant underwriting losses that have resulted in a policyholder fund deficit of Kuwaiti dinar (KWD) 1.7 million. Wethaq's shareholders' equity (net of the deficit from policyholders' operations) deteriorated by KWD1.5 million to KWD3.8 million (about \$12 million), from KWD 5.3 million in 2018--the difference between policyholder deficit and drop in net shareholders equity is mainly attributable to foreign-exchange gains on investment property. Given the small absolute size of capital, the KWD1.5 million drop in net shareholders' equity led to a downward revision of our capital and earnings assessment on Wethaq and, in turn, a direct negative effect on our financial risk profile assessment.

In 2019, Wethaq's cash and bank deposits significantly decreased to KWD1.4 million from KWD2.3 million in 2018. This led to a further drop in the liquidity ratio, which was already unfavorable, to less than 1x. We therefore view lower liquidity levels as one of the major rating constraints.

Wethaq's 2019 report, similar to 2018, includes two qualified opinions: One on doubtful debts of KWD1.88 million without provisions, and a second for investment property under its Egyptian subsidiary with no financial statement. We continue to write-off the audit qualification amount of KWD1.88 million as provision for doubtful debt in our forecast. Given the significance, these audit qualifications indicate governance weaknesses, in our view.

We also lowered our competitive position assessment on Wethaq to reflect consistently poor underwriting performance and a small idling market share. In 2019, the net combined ratio (loss and expense) weakened further to 169% (five-year average 2015-2019 about 120%) due to higher claims in the motor business from Kuwait's 2018 floods. We expect the combined ratio to improve in 2020-2022.

In our view, the COVID-19 pandemic will have a limited effect on underwriting performance. Motor insurance contributes about 64% of Wethaq's premium income and with fewer cars on the road

due to lockdowns claims are expected to drop. With minimal exposure to medical and business-interruption policies, we believe the COVID-19 pandemic would not have a significant negative effect on Wethaq's operating performance. On the investment side, Wethaq had about 28% of its total investments in equity (including private equity) at year-end 2019. Any material reduction in the value of Wethaq's equity portfolio from current levels could further weigh on its capital adequacy and liquidity.

Despite 16% growth in 2018 and 2019, Wethaq remains a very small player in the Kuwaiti property/casualty (P/C) market, with gross premiums written of KWD5.8 million (\$18.6 million) in 2019 and a market share of 1.0%-1.5%. With the outbreak of COVID-19 in early 2020, we expect growth in 2020-2021 to be muted or even negative, posing a further challenge for the company to maintain its market position and turnaround profitability.

## Ratings Score Snapshot

### RSS Table

	To	From
Business Risk Profile	Weak	Fair
Competitive position	Weak	Fair
IICRA	Intermediate Risk	Intermediate Risk
Financial Risk Profile	Vulnerable	Weak
Capital and earnings	Marginal	Fair
Risk exposure	High Risk	High Risk
Funding structure	Neutral	Neutral
Anchor	b-	b+
Modifiers		
Governance	Moderately Negative	Moderately Negative
Liquidity	Less than Adequate	Less than Adequate
Comparable ratings analysis	0	0
Financial Strength Rating	B-	B

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

### Downgraded

	To	From
<b>Wethaq Takaful Insurance Co. K.S.C.</b>		
Issuer Credit Rating	B-/Negative/--	B/Stable/--
Financial Strength Rating	B-/Negative/--	B/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceld/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352). Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.



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