

الكويت في : 2022/12/7

المحترمين

السادة / شركة بورصة الكويت
دولة الكويت

السلام عليكم ورحمة الله وبركاته ،،،

الموضوع : الإفصاح عن نتائج التصنيف الائتماني

لشركة وثاق للتأمين التكافلي (ش.م.ك.ع) للعام 2022

بالإشارة إلى الموضوع أعلاه ، وحرصاً من شركة وثاق للتأمين التكافلي على تحديث البيانات والمعلومات الخاصة بالشركة لديكم ، فإننا نرفق طي كتابنا هذا تقرير التصنيف الائتماني (B 2) مع نظرة مستقبلية مستقرة ، الصادر عن وكالة التصنيف العالمية شركة موديز ، وكذلك النموذج رقم (9) الخاص بالإفصاح عن التصنيف الائتماني .

وتفضلوا بقبول وافر التحية ،،،

عبد الرحمن خليفة الشايجي

رئيس مجلس الإدارة



شركة وثاق للتأمين التكافلي (ش.م.ك.ع)
Wethaq Takaful Insurance Company | K.S.C.P.



المرفقات:

- ملحق رقم (9) نموذج الإفصاح عن التصنيف الائتماني.
- تقرير التصنيف الائتماني الصادر عن وكالة موديز بتاريخ 2022/12/5.

نموذج الإفصاح عن التصنيف الائتماني

التاريخ	2022/12/05
اسم الشركة المدرجة	شركة وثاق للتأمين التكافلي (ش.م.ك.ع.)
الجهة المصدرة للتصنيف	شركة موديز
فئة التصنيف	ب 2- نظرة مستقرة
مدلولات التصنيف	تعكس النظرة المستقبلية المستقرة توقعات وكالة التصنيف بأن ستمضي الشركة قدماً بتوازن نمو أعمالها مع تحديات الحفاظ على انضباط الاكتتاب، وكذلك الحفاظ على مستويات كافية من رأس المال. كما تعتقد وكالة التصنيف أن مخاطر الهبوط المرتبطة بتعليق وثاق الأخير لتداول أسهمها من قبل هيئة أسواق المال قد خفّت، على الرغم من أن تحديات الحوكمة ستظل تشكل مخاطر على ملفها الائتماني.
انعكاس التصنيف على أوضاع الشركة	من الممكن استمرار أعمال الشركة بشكل مربح وزيادة الحصة السوقية، مما سيؤدي إلى تحسين مستمر في أداء الاكتتاب والربحية الإجمالية، وفي حالة زيادة مستويات رأس المال، بالإضافة إلى تحسن جودة لأصول المستثمرة من المحتمل أن يؤدي ذلك إلى إستبعاد أي مخاطر.
النظرة المستقبلية	مستقرة
ترجمة التصريح الصحفي أو الملخص التنفيذي	على الرغم من ضعف رسملة الشركة فالوكالة تتوقع أن تكون هذه الرسملة كافية لتغطية مدفوعات مطالباتها على أساس الاحتياطيات الحالية وعدم تكبدها المزيد من الخسائر التي يمكن أن يكون لها تأثير سلبي أكثر على قدرتها على دفع المطالبات. وعلى الرغم من عدم وجود ديون مستحقة على الشركة، إلا أن الوكالة تعتبر مرونتها المالية مقيدة، ومع ذلك، يتم التخفيف إلى حد ما من نقاط الضعف هذه من خلال وجود الشركة في البورصة المحلية، مما يوفر طريقاً محتملاً لزيادة رأس المال الجديد.

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's assigns B2 insurance financial strength rating to Wethaq Takaful Insurance Company; stable outlook

5 December 2022

Limassol, December 5, 2022 – Moody's Investors Service ("Moody's") has today assigned a B2 Insurance Financial Strength Rating (IFSR) to Wethaq Takaful Insurance Company KSCC (Wethaq). The outlook is stable. Based in Kuwait, Wethaq is a small property and casualty insurer, underwriting predominantly general accident, fire, marine and life & medical business in accordance with Islamic Shariah, as approved by Fatwa and Shariah Supervisory Board.

RATINGS RATIONALE

Wethaq's B2 IFSR reflects its (i) weak capitalization and significant accumulated loss, (ii) modest market share in Kuwait with its ability to grow profitably hampered by fierce competition, (iii) high dependence on brokers and fronting partners for generating new business, which elevates its underwriting expense profile, (iv) concentrated client exposures that increases product risk, (v) significant exposure to high-risk assets that weigh on its relatively weak capital base, and (vi) volatile profitability. In addition, Wethaq's credit profile is weakened by governance challenges related to its overall risk management and recent reporting and compliance issues that resulted in a temporary suspension of trading in its shares.

These challenges are partially offset by Wethaq's (i) mid-tier market position for Takaful insurance in Kuwait, (ii) predominance of short tail business that reduces reserving risk, (iii) status as a listed insurer that helps attract fronting and co-insurance business, and (iv) relatively benign operating conditions in Kuwait, with potential for robust growth in the Takaful market that provide opportunities for new business.

Wethaq is the tenth largest player in the Kuwaiti Shariah-compliant market, with a 2.6% market share in terms of gross premium written in 2021, although it has a relatively weak position in the overall market, ranked 26th with a 0.5% market share among all insurance companies including conventional insurers. The company's premium volume has been on a declining trend, impacted by the coronavirus pandemic and the tighter regulatory framework for both the insurers and the brokers, with reported gross premiums written (GPW) of KWD2.6 million in 2021, down from approximately KWD4 million in 2020, and KWD1.9 million in the first nine months of 2022, compared to KWD2.2 million in September 2021. Wethaq expects premiums to grow further going forward, on the back of some new contracts it has recently won. While such growth would help reverse Wethaq's declining market share, Moody's expects the company to face challenges in achieving sustained profitable growth in a highly competitive market, as conventional insurers increasingly focus their attention toward the Takaful market, which benefits from growing demand in Kuwait.

The company's distribution channels are limited, with brokers accounting for around 75% of its premium volume, including its fronting and co-insurance business that is sourced via brokers. Wethaq's status as one of the six listed insurers in Kuwait, enables it to attract fronting business from other smaller insurers which are not able to access the market directly due to a regulatory requirement that insurers be listed on the stock exchange. While this benefits Wethaq, it also increases the company's dependence on underwriting controls at the fronting partners and the related broker commission leads to very high business acquisition costs. Accordingly, underwriting

expenses represented around 170% of Wethaq's net premiums written in 2021, a significant drag on its underwriting profitability. While Wethaq benefits from relatively modest product risk, given its predominant focus on short tail property lines, it also has some significant client concentration with its top ten clients accounting for around 42% of GPW in 2021.

Wethaq's asset quality is constrained by the significant exposure to real-estate and equity investments which together with unquoted securities drive an elevated ratio of high risk assets (HRA) to shareholders' equity of 110% in 2021, albeit having improved from 142% in 2020. The bulk of these HRA are in the form of investment properties in Egypt (B2 negative), which also exposes the company to foreign exchange risk. More positively, Wethaq's invested assets also include bank placements with the largest Islamic bank in the country (Kuwait Finance House K.S.C.P., A2 stable long-term deposit rating).

Although Wethaq's gross underwriting leverage (GUL) appears to be low at 1.6x as of December 2021, its capital adequacy has been volatile with limited cushion above upcoming regulatory capital requirements expected to be implemented in Kuwait, as well as weak quality of capital given that it is mainly supported by high risk assets. The rating agency believes that the company's capitalisation is not sufficiently resilient to stress, and is vulnerable to asset price movements or continued underwriting losses. The company has recently written-down two items/assets that are due from its policyholders amounting in total approximately KWD8 million, against its capital base, which resulted in the reduction of its reported total equity in the shareholders' balance sheet to around KWD4.1 million in September 2022 from around KWD12.3 million in December 2021. This has also triggered a going concern reference in the auditor's report as of September 2022, which elevates the company's need for additional capital.

Nonetheless, despite its weak capitalization, Moody's expects that Wethaq's capitalization is sufficient to cover its claim payments based on current reported reserves and absent it incurring further losses which could have a more negative impact on its claims paying ability.

Moreover, the company's internal capital generation capability is relatively weak, as its profitability has been volatile in the last few years, with a 5-years (2017-21) average return of capital (ROC) of -17.4% and a combined ratio (COR) of 123%. The company expects to have a surplus from its insurance operations in 2022, although lower compared to KWD324,827 posted in 2021 and with a relatively weak first nine-months 2022 performance (KWD23,532 net surplus compared to KWD108,125 in September 2021).

Despite Wethaq not having debt outstanding, Moody's considers its financial flexibility to be constrained, given the parent company's (The Investment Dar) weak financial position and Wethaq's track record of under-performance that would challenge its ability to raise capital from external investors on a commercial basis. However, these weaknesses are somewhat mitigated by the company's listing on the local stock exchange, which provides a potential route for raising new capital.

The IFSR also takes into account Wethaq's governance as part of Moody's environmental, social and governance (ESG) considerations. While the company is focused on improving its underwriting discipline and profitability, governance and risk management frameworks related to its invested assets and capital management are underdeveloped. In addition, the Capital Markets Authority (CMA) in Kuwait has recently (17 November 2022) reinstated the trading of the company's shares, which were suspended from trading on 5 October 2022 due to the qualification of its auditor's report for an extended period of time in its financial statements. Although the company has recently taken

decisive action and addressed this issue, it still highlights additional governance risks related to its compliance and reporting.

OUTLOOK

The stable outlook reflects Moody's expectation that going forward Wethaq will balance business growth with the challenges of maintaining underwriting discipline, as well as maintain adequate levels of capital. The rating agency believes that the downside risks linked to Wethaq's recent suspension in trading of its shares by the CMA have abated, although governance challenges will continue to pose risks to its credit profile.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATING

The following factors could exert upward pressure to the company's IFSR:

- The company continues to write new profitable business and grows its market share, indicating no reputational damage from the recent suspension of trading of its shares
- Sustained improvement in its underwriting performance and overall profitability
- If capital levels increase to a level comfortably in excess of upcoming regulatory capital requirements, eliminating any going concern risk referenced in its auditor's report
- Invested assets' quality improves with a lower share of real-estate and listed equities

Conversely, the following factors would lead to a downgrade of the rating:

- Its franchise weakens further with a reduced ability to book new profitable business
- Inability to meet regulatory capital requirements, including upcoming revised capital requirements once they are implemented
- Persistent net losses, as a result of underwriting or investment losses, that result in further capital erosion
- Asset quality deteriorates further as a result of increased dependence on real-estate, equities or other illiquid assets

ASSIGNED RATING

..Issuer: Wethaq Takaful Insurance Company KSCC

Assigned:

....Insurance Financial Strength Rating, Assigned B2

Outlook Action:

....Outlook, Assigned Stable

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Property and Casualty Insurers Methodology published in August 2022 and available at <https://ratings.moodys.com/api/rmc-documents/391814>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moody.com/rating-definitions>.

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The rating has been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moody.com/documents/PBC_1288235.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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