CORPORATE GOVERNANCE REPORT 2010

CORPORATE GOVERNANCE REPORT

Arig is committed to follow international Best Practices of Corporate Governance. We firmly believe that there is a link between strong ethical standards, good governance and the creation of shareholders value. In our communication with stakeholders and the general business community, we aim to be fully transparent through high standards of disclosure.

BAHRAIN CORPORATE GOVERNANCE CODE

The Ministry of Industry and Commerce, Kingdom of Bahrain, has issued the Bahrain Corporate Governance Code (“Code”) in March 2010, which became effective 1 January 2011.

The Company has conducted a detailed gap analysis and is pleased to advise that most of the requirements of the Code are already being met. For the remainder, Arig has initiated appropriate steps to ensure compliance with the Code by the end of 2011.

FRAMEWORK

The Company through its Board of Directors has established a governance framework which includes formalized policies, procedures, guidelines and relevant management reporting requirements.

Arig’s governance practices are reviewed on a regular basis to incorporate necessary improvements from time to time. Accordingly, relevant changes to this framework will be made throughout 2011 to meet all remaining requirements of the Code.

THE BOARD OF DIRECTORS

The Board is elected by the shareholders of the Company in accordance with the provisions of the Articles of Association of the Company and the General meeting of shareholders shall be competent to terminate any Board member. The Board is ultimately responsible for the overall direction, supervision and control of the Company and regularly assesses the Company’s competitive position and approves its strategic and financial plans. The Board also oversees the corporate governance process continually, in order to ensure good standards of governance within the Company. In terms of Risk Management, the Board reviews and assesses the adequacy of the management of risks.

The current Board was elected by shareholders at the general assembly in March 2008 for a fixed term of three years valid until the Annual General Meeting due in 2011. Formal Board Procedures enhances Board development that includes induction training to new directors, continuing development and self evaluation. Names of the current directors together with their biographical details are set out in page 28.

Members of the Board are all non-executive and five out of eight members are independent non-executive directors (excluding resigned member) in accordance with the requirements of Appendix A of the Code. The Board formally reviewed and evaluated its own performance together with the performance of the individual Directors, as required by the Code.

BOARD COMMITTEES

Whilst significant matters are dealt with by the Board, the Board Committees have been delegated with the responsibility to assist the Board in carrying out its duties and to enhance the effectiveness of the Board. The Executive Committee serves to assist the Board to co-ordinate, guide and monitor the management and performance of the Company whereas the Audit Committee supports the Board in fulfilling its oversight responsibility with regard to financial reporting, the system of internal control and the process for monitoring compliance with laws and regulations. The Board Committees periodically meet to achieve its objectives and also perform self evaluation to assess the effectiveness of their functioning. The Board has also approved the formation of Nomination & Remuneration Committee, to be constituted during 2011.

BOARD MEETINGS

The Board is required to meet at least 4 times a year in accordance with the applicable regulations and Articles of Association. The number of meetings held during 2010 and attendance at these meetings (including Board Committees) is disclosed as follows:

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Directors	Board meetings (5)	Executive Committee meetings (5)	Audit Committee meetings (4)
Khalid Ali Al Bustani*	4	N	N
Khalid Jassim Bin Kalban*	4	5	N
Dr. Fouad Abdul-Samad Al Falah*	4	N	3
Hamed Saleh Al Saif**	4 (4)	4 (4)	N
Mohamed Khalifa Al Fahad Mehairi*	5	N	4
Sultan Ahmed Al Ghaith*	5	5	N
Abdul Aziz Abdullah Al Zaabi	4	4	N
Fathi Emhimed El Hagi	5	N	N
Majed Ali A Omran Al Shamsi	5	N	4

- *Figures in brackets indicate number of meetings applicable to the director*
- *N - Not member*
- ** - Independent non-executive directors*
- *** - Resigned from the Board effective from 8 November 2010*

MANAGEMENT

There is a clear division of responsibility between the Chairman and the Chief Executive Officer. The Chairman of the Board, Mr. Khalid Al Bustani, is responsible for leadership of the board, ensuring its effectiveness in all aspects of its role and setting its agenda, taking into account the issues relevant to the group and the concerns of all board members.

The Chief Executive Officer (CEO) is responsible for the executive leadership and day-to-day management of the Company. The CEO is assisted by the General Management team which is responsible for implementing Board strategies and monitoring the day-to-day operations of the Company. This team is headed by the CEO and includes General Manager, Reinsurance, Deputy General Manager, Finance & Administration (who is also appointed as Corporate Secretary) and Assistant General Manager, Reinsurance as members. Names of members of the General Management team together with their biographical details are set out in page 29.

DIRECTORS' REMUNERATION & KEY MANAGEMENT COMPENSATION

Directors' remuneration is determined in accordance with the requirements of the Bahrain Commercial Companies Law and provisions of Articles of Association, which is approved by the shareholders in the AGM. Directors' remuneration includes remuneration, allowances & reimbursement of expenses etc. Compensation to General Management is determined by the Board of Directors, in accordance with the terms of employment which includes salaries, allowances, reimbursement of expenses, post employment benefits and performance related incentives (information as set out in page 71). Detailed information as required by the Code in this regard is held at Company's premises on behalf of the shareholders.

ORGANIZATIONAL STRUCTURE

The Company has put in place a detailed organizational structure (as set out in pages 26 & 27) giving appropriate thrust to its strategies and management developments. In addition to the positive business developments, this organizational structure also focuses on enhanced customer relations and effective internal communications.

MANAGEMENT COMMITTEES

In order to assist the CEO in monitoring and guiding the functional areas within the Company, various internal management committees are being operated. The Enterprise Risk Management Committee, acts in an advisory capacity and lays focus on the overall risk management framework for the Company. In addition to this, there are various internal management committees in the areas of Reinsurance Management, Human Resources Development, Information Technology, Retrocession and Security Evaluation. These internal management committees comprise members drawn from various departments with relevant expertise and meet regularly to review their activities and monitor developments.

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SUCCESSION PLANNING

The Company recognizes the significance of a structured succession planning and over the years, has made successful initiatives to identity, develop and promote the best fit personnel for various managerial positions within the Company, which yielded positive results. The Company also operates a structured Talent Management programme which comprises leadership development programs for identified employees, on a long term basis. During the year, the Company conducted detailed Training Need Analysis for the employees to structure their training programmes. The Company also uses Graduate Development programmes to identify and nurture talents within the Kingdom of Bahrain.

KEY PERSONS DEALING & INSIDER TRADING

Arig has established its own Corporate Policy on Key Persons Dealing/Insider Trading in compliance with the Bahrain Bourse guidelines on key persons dealing and insider trading regulations issued by the Central Bank of Bahrain. The Audit Committee monitors the implementation of such Policy. During the year, the Company has complied with relevant reporting and monitoring requirements, as stipulated by these regulations, wherever applicable. Details of Arig shares held by members of the Board (including their representatives) and General Management, including their spouses, children or other persons under their control are:

	Directors	General Management
Shares held at 1 January 2010	43,099,181	9,166
Add: Shares transferred to the Board of Directors and General Management during the year	-	-
Less: Shares transferred by the Board of Directors and General Management during the year	-	-
Shares held at 31 December 2010 *	43,099,181	9,166

** includes 30,466,862 shares transferred by Ministry of Finance, UAE to Emirates Investment Authority, UAE, a sole entity responsible for managing UAE federal government stakes across GCC.*

INVESTOR RELATIONS

Arig places considerable importance in maintaining active investor relations through open, fair and transparent communications. The Company ensures timely dissemination of information to its investors and other stakeholders through various media. A dedicated shareholder affairs unit supervised by an investor relations officer is responsible for maintaining active interaction with the shareholders. Arig's website (www.arig.net), including a separate shareholders portal, provides detailed information to the stakeholders on corporate governance, financial information and other important disclosures.

The Annual General Meeting of shareholders is held within three months of the close of the financial year in accordance with legal and regulatory requirements, notice and information of which is released well in advance to the shareholders, regulators, stock exchanges as well as in Company's website. Copies of the Annual Report and Accounts are made available to shareholders at least one week before the meeting to ensure that shareholders have the opportunity to discuss the business performance of the Company with the Board of Directors.

CORPORATE SOCIAL RESPONSIBILITY

Arig seriously values its commitment to the local community in which it operates and the social responsibility which comes with that. It embodies this through its Corporate Social Responsibility (CSR) program. This program focuses Arig's efforts and enables all of its staff to understand the Company's wider role in economic development, and improving the quality of life of its workforce, their families and that of the local community and society at large. Arig operates its CSR program via a focused Corporate Social Responsibility Committee. During 2010, Arig has supported the needy families on various occasions and also initiated a program to financially support a deserving University student for the full graduation program.

CAPITAL AND SHARES

Arig's authorised capital comprises 500 million ordinary shares of US$ 1 each. The issued, subscribed and paid up capital is US$ 220 million. The shares are held by over 4,800 shareholders spread across in various countries across GCC and the shares are negotiable by people of all nationalities on the stock exchanges where Arig is listed. Arig's shares are listed in the Bahrain Bourse, Dubai Financial Market and the Kuwait Stock Exchange. Global Depositary Receipts, equivalent to 10 ordinary shares each, are listed on the London Stock Exchange. Details of major shareholders and the shareholding pattern are set out in page no 58 of the Annual Report.

COMPLIANCE

The Company has a separate Compliance function to handle all regulatory requirements stipulated by the Central Bank of Bahrain, Ministry of Industry and Commerce, Bahrain and mandatory requirements of the stock exchanges where Arig is listed. DGM – Finance & Administration, is responsible for this function. During 2010, no penalties were imposed on Arig by any regulatory authority for non-compliance with applicable legal or regulatory requirements.

INTERNAL CONTROL

The Board is ultimately responsible for the system of internal controls within the Company. Necessary policies, guidelines, procedures, approval limits and performance monitoring mechanisms have been established with periodical reviews and updates to these procedures, wherever necessary. The Chief Executive Officer (CEO) sets the "tone at the top" that affects integrity and ethics and other factors of a positive control environment. The CEO provides leadership and direction to General Management and reviewing the way they are controlling the business. Appropriate Authority limits for underwriting, claims and other operational areas have been approved by the Board. Any material transactions (i.e. in excess of the approved authority limits of the General Management) and all transactions with the related parties are conducted on arms length basis.

These internal controls are processes, effected by Arig's board of directors, management and other personnel, is designed to provide reasonable assurance regarding the achievement of various objectives that include effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations.

On behalf of the Board, the Audit Committee periodically reviews the control framework and the assessments of these internal controls from the evaluations carried out by the internal audit function and external auditors. Based on the advices of the Audit Committee, the Board ensures an appropriate control environment within the Company.

ENTERPRISE RISK MANAGEMENT

Arig has made considerable progress in adopting Enterprise Risk Management (ERM) within the Company, since its embarkation in 2006. Risk management forms part of Arig's core values and the Company lays emphasis on adopting a structured and holistic risk management framework, in order to identify, control, mitigate and manage the risks across the Company.

Formed under the direct supervision of the CEO, the independent committee for Enterprise Risk Management (ERM committee) comprising of competent individuals within the Company, has undertaken various initiatives in establishing a formal risk management framework. This framework, as approved by the Board during 2010, provides conceptual guidance in directing various risk management processes and to promote proper risk culture within the Company.

As part of the established risk management practices, the ERM Committee also facilitates regular reviews of relevant risks across the Company through development of Risk Registers thereby prioritizing the impact of these risks for effective risk management. During 2011, the Company is also in the process of deploying a sophisticated risk management application with the assistance of a leading international consultancy firm, in order to ensure systematic monitoring and ongoing reporting of risk management activities within the Company.

The Company continues to benefit from the application of Dynamic Financial Analysis and Capital Modelling carried out by external actuaries and the results are actively applied in business planning process and determination of capital consumption.

The Company has effective processes of risk management which are being carried out by individual functional departments. Appropriate risk management mechanisms have been incorporated within policies and guidelines that govern the functioning of these departments and periodically, the Executive Committee reviews the efficacy of the risk management practices and controls which are being implemented within the Company. A brief of Company's exposure to various risks and relevant risk management practices is narrated as below:

Underwriting Risks:

Underwriting risks emanate from significant changes in the underlying business and the deviation from expected figures due to changes in market cycle, acceptances, catastrophes, pricing and reserving risks. Armed with proper underwriting guidelines, improved pricing tools and prudent reserving practices (as reviewed by professional actuaries), Arig's underwriting risks are effectively and prudently managed.

Financial Risks:

Financial risk is the risk of assets and/or liabilities that are negatively affected by movements in financial markets, interest rates, foreign exchange rates, credit risks (due to default in insurance and/or non insurance related settlements) etc.. The Company has established adequate internal controls, security evaluations and necessary investment policies and guidelines, in order to address all these financial risks pro-actively.

Operational Risks:

Operational risks are the potential losses arising from inadequate or failed internal processes, people, systems, external events or non-compliance with regulatory requirements resulting in financial penalties or inability to operate properly. The Company has appropriate operational mechanisms, including procedures and controls that are balanced to counter and manage these probable risks.

Detailed risk management practices followed by the Company are set out in the notes attached to the financial statements, wherever required.

EXTERNAL AUDITORS

External auditors are appointed by the shareholders at their General Assembly. The current auditors, KPMG, Bahrain were appointed as external auditors for the first time for the year 2005 and being eligible for re-election, were reappointed for the financial year 2010, based on the recommendations of the Board.

SECURITY RATINGS

Arig has been rated by A.M. Best and during the year, A.M. Best has affirmed the financial strength rating of B++ (Good) and the issuer credit rating of "bbb+" and

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the outlook for both ratings are stable. The ratings reflect the Company's solid business position in the Middle East regional reinsurance market, the strong risk-adjusted capitalisation and strengthening risk management, as well as the improving technical performance. An offsetting factor is related to the potential downward pressure on the prospective level of capitalisation following the growth plans in the international business. In A.M. Best's opinion, ARIG maintains a strong business profile in the Middle East, where it is recognized as a prominent regional reinsurer, while it is increasing its international book of business.

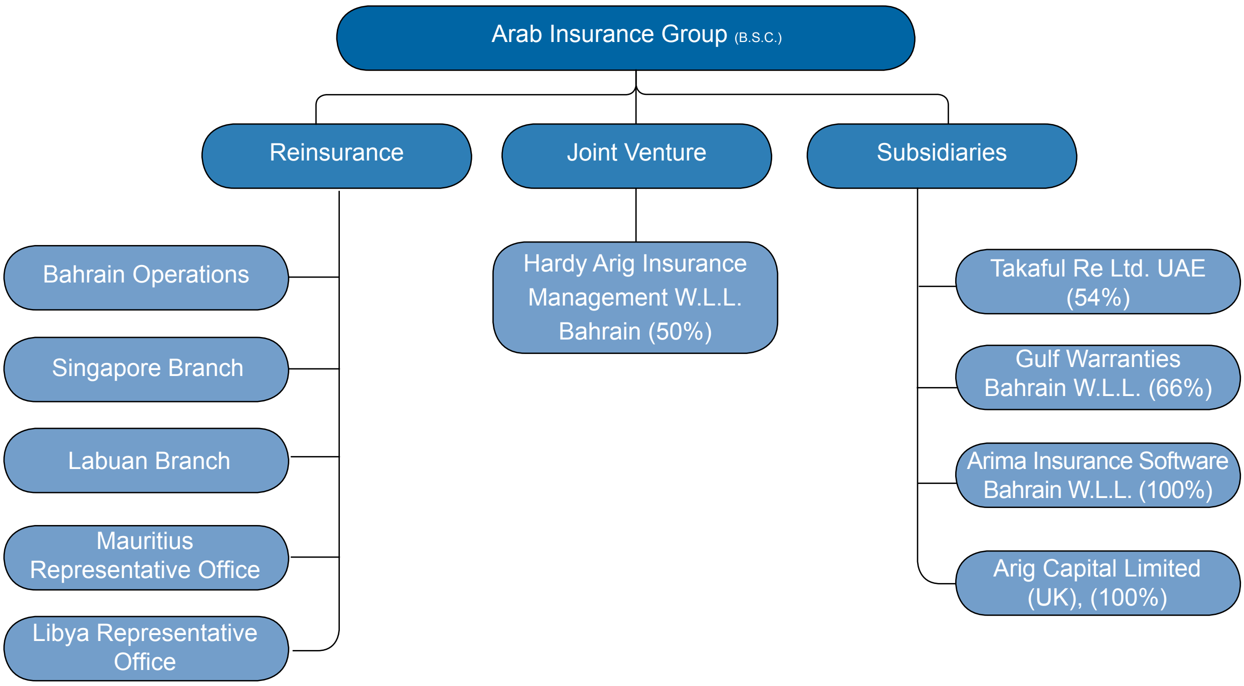
SOLVENCY

Solvency margin requirements are determined in accordance with the regulatory requirements established by the Central Bank of Bahrain and are calculated with reference to a prescribed premium and claims basis. Where these calculations result in solvency margin requirements falling below the minimum fund size prescribed by regulations, such minimum fund size is considered as the required margin of solvency. Summarised solvency position of the Company as at 31 December 2010 is given below:

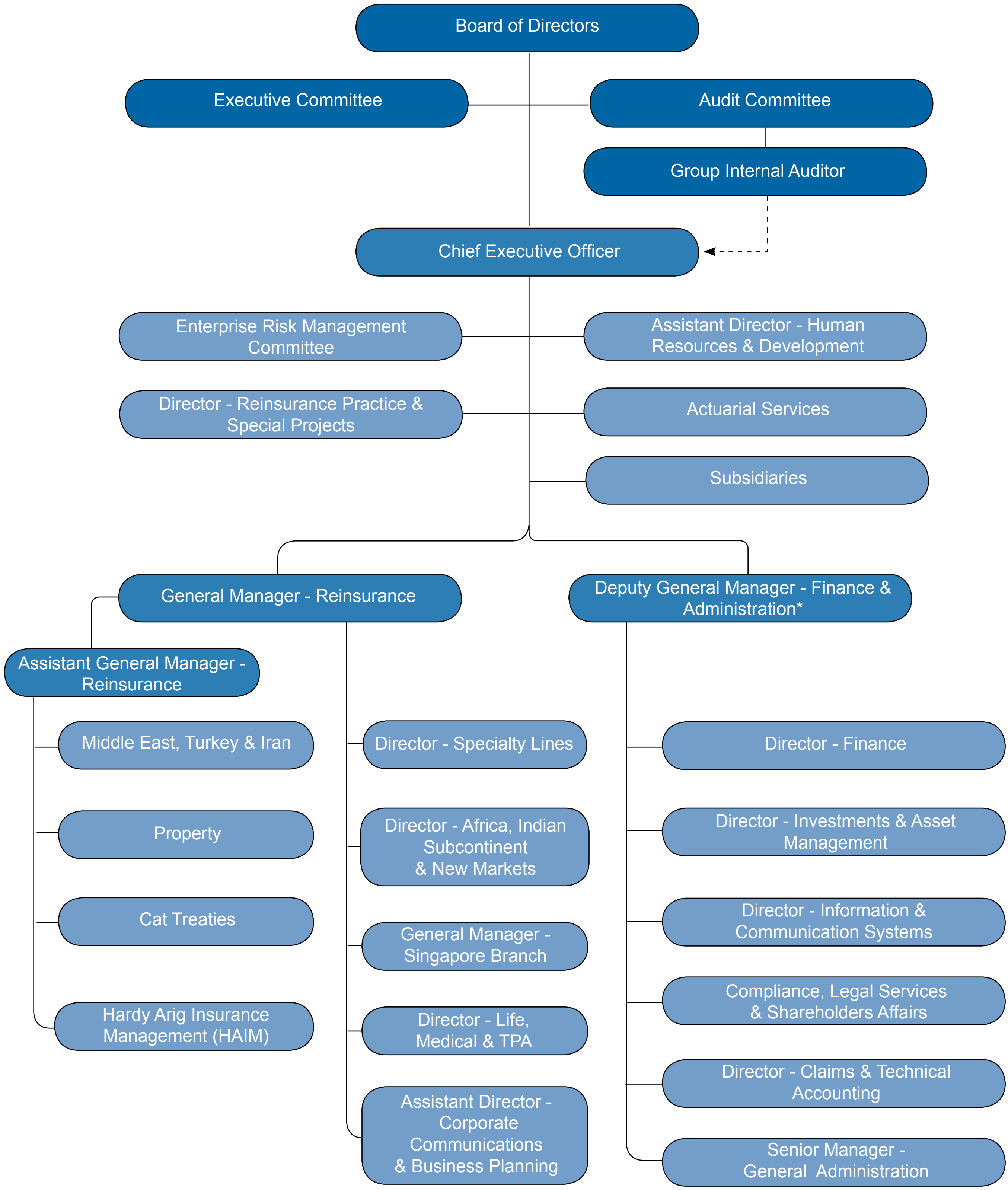
(US$ '000)

	2010	2009
Capital available	161,367	158,412
Required margin of solvency	43,478	51,103
Total excess capital available over the required margin of solvency	117,889	107,309

ARIG GROUP STRUCTURE



ORGANIZATION CHART



* Also nominated as Compliance Officer and Money Laundering Reporting Officer

BIOGRAPHIES OF BOARD MEMBERS & GENERAL MANAGEMENT

BOARD MEMBERS

Khalid Ali Al Bustani
Chairman

B.Sc. in Computer Engineering, Boston University, USA; MBA, Leicester University, UK.

Khalid Ali Al Bustani is Assistant Under Secretary for International financial relations in the Ministry of Finance in the United Arab Emirates. He is Chairman of the Board of Directors since May 2004, prior to which he was Vice Chairman of the Board of Directors from June 2003. Khalid Ali Al Bustani has been a Director and Chairman of the Executive Committee from October 2002 to April 2004. He is also Chairman of Takaful Re Ltd.

Khalid Jassim Bin Kalban
(representing Dubai Investments, UAE)
Vice Chairman and Chairman of the Executive Committee

*B.Sc., Metropolitan State College, USA; Associate degree of Arts with Business Management as major subject, Arapa*hoe Community College, USA.

Khalid Jassim Bin Kalban is Vice Chairman of the Board of Directors since April 2005. He has been a Director of the Company since May 1998 and is Chairman of the Executive Committee since May 2004. Khalid Jassim Bin Kalban is the Chairman of Union Properties and National General Insurance and Chief Executive Officer and Managing Director of Dubai Investments, in the UAE. He also serves on the boards of several companies in the UAE and other countries including Takaful Re Ltd, Emirates National Bank of Dubai in the UAE.

Dr. Fouad Abdul-Samad Al Falah
Director and Chairman of the Audit Committee

*B.A., The Ameri*can University, Lebanon; M.A. and Ph.D, The American University, USA

Dr. Al Falah has served as Director of the Company since October 2003. He was Chairman & Director General of Public Authority for Youth & Sports, Kuwait until November 2008. Dr. Al Falah has also served as Third Secretary at the Kuwait Ministry of Foreign Affairs. He is in the Board of Gulf Union Insurance and Reinsurance company in Bahrain. Now he is an Assistant Professor at The College of Administrative Sciences-Department of Public Administration, Kuwait University.

Hamed Saleh Al Saif
Director and Member of the Executive Committee
(resigned from the Board effective from 8 November 2010)

*B.Com in B*usiness Administration, Beirut Arab University, Lebanon.

Hamed Saleh Al Saif has been a Director of the Company since April 2001. Hamed Saleh Al Saif was Vice Chairman of the Board of Directors from May 2004 to April 2005. He was Chairman & Managing Director of Kuwait & Middle East Financial Investment company in Kuwait until May 2008. He has resigned from the Board effective 8 November 2010, after his appointment Director General of Kuwait Stock Exchange.

Mohamed Khalifa Al Fahad Al Mehairi
Director and Member of the Audit Committee

BBA, Boston University, USA

Mohamed Khalifa Al Fahad Al Mehairi has served as Director of the Company since October 2002. He is currently the Chief Executive Officer of Musanada, a PJSC company in the UAE. Prior to this, Mr. Al Mehairi was the Director General of the Federal Customs Authority of the UAE, and involved in a number of related government committees.

Sultan Ahmed Al Ghaith
Director and Member of the Executive Committee

B.Sc., UAE University, UAE

Sultan Ahmed Al Ghaith has been a Director of the Company since October 2004. He was Undersecretary & Director General of General Pension & Social Security Authority, UAE, until April 2008. He serves on the boards of Takaful Re Ltd & Emirates Co-operative Society.

Abdul Aziz Abdullah Al Zaabi
(representing Real Estate Bank, UAE)
Director and Member of the Executive Committee

Business Administration, San Jose State University, USA

Abdul Aziz Al Zaabi has been the Director of the Company since 2005. He is the Chief Executive Officer of Real Estate Bank, UAE. He also serves on the boards of Takaful Re Ltd., National Bank of Ras Al Khaimah, RAK Properties, Islamic Development Bank and other organisations in the UAE.

Fathi Emhimed El Hagie
(representing Central Bank of Libya, Libya)
Director

High Banking Diploma in Banking Studies, from Arab Institute of Banking Studies, Jordan

Fathi Emhimed El Hagie is the Manager, Banking Operations Department of Central Bank of Libya, Libya. Fathi Emhimed Hagie has been a Director of the Company, since March 2008.

BIOGRAPHIES OF BOARD MEMBERS & GENERAL MANAGEMENT

Majed Ali A Omran Al Shamsi
(representing Ministry of Finance, UAE)
Director & Member of Audit Committee

B.com., Emirates University, United Arab Emirates

Majed Ali A Omran Al Shamsi is the Director of International Relations Department, the Ministry of Finance in the United Arab Emirates. Majed Ali A Omran Al Shamsi has been a Director of the Company, since March 2008.

GENERAL MANAGEMENT

Yassir Albaharna
Chief Executive Officer

MBA (High Honours) & M.Eng. (Manufacturing), Boston University, Boston; B. Eng. (Mechanical), McGill University, Montreal; Fellow & Chartered Insurer, Chartered Insurance Institute, London.

Yassir Albaharna joined Arig in 1987 and held a variety of underwriting and managerial positions throughout his career. Heading up the new management team, Yassir was appointed CEO in April 2006. He also serves as Chairman of Arima Insurance Software (Bahrain), Gulf Warranties (Bahrain) and Arig Capital Limited (London). Yassir further holds Board memberships in Takaful Re (Dubai International Financial Center), Hardy Arig Insurance Management (Bahrain), Arab Jordanian Insurance Group (Amman), Federation of Afro-Asian Insurers & Reinsurers (Cairo) and FAIR Oil & Energy Insurance Syndicate (Bahrain). Yassir is also Vice Chairman of the Bahrain Insurance Association and a member in the Boards of the International Insurance Society (New York), Bahrain's Specific Council for Vocational Training - Banking Sector and Bahrain's Human Resources Development Fund - Banking & Financial Sector.

Andreas Weidlich
General Manager - Reinsurance

Graduate in Economics; Free University of Berlin, Germany

Prior to joining Arig in April 2006, Andreas held senior managerial positions at Allianz Risk Transfer (Bermuda), Allianz Reinsurance Asia Pacific, Singapore and at Munich Re in Munich & Singapore. Andreas is furthermore an Executive Director and Chief Executive Officer in Hardy Arig Insurance Management WLL, Bahrain.

Nagarajan Kannan
Deputy General Manager - Finance & Administration

Fellow member of the Chartered Insurance Institute, UK (FCII) & Chartered Institute of Management Accountants, UK (FCMA); Associate member of The Institute of Company Secretaries of India (ACS) & The Institute of Cost & Works Accountants of India (AICWA)

Nagarajan Kannan joined Arig in April 1989 and has been part of the General Management Team since April 2007. He currently holds Board memberships at ARIMA Insurance Software, Hardy Arig Insurance Management WLL, Gulf Warranties WLL and Arig Capital Limited, UK. Prior to joining the Company, he served in leading insurance and manufacturing companies in India.

Salah Al Maraj
Assistant General Manager - Reinsurance

Bachelor of Arts; Kuwait University, Kuwait

Salah Al Maraj joined the Company in May 1982. He held senior underwriting positions before being appointed to the General Management in October 2009. Among others, Salah holds immediate responsibility for Arig's core markets in the Middle East and neighbouring territories.