CORPORATE GOVERNANCE REPORT

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 shareholder 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 Company follows the Bahrain Corporate Governance Code ("Code"). This Corporate Governance Report is also included as a separate item as part of agenda for the Annual General Meeting.

Framework

The Company through its Board of Directors maintains a governance framework in all areas of company's operations that 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.

The Board of Directors

The members of the Board are elected and can be terminated by the shareholders of the Company in accordance with the provisions under the Articles of Association. The Board holds the ultimate responsibility for the overall direction, supervision and control of the Company. It regularly assesses the Company's financial and commercial performance and approves its business plan. The Board continuously oversees the corporate governance processes in order to ensure good standards within the Company. The Board further reviews and assesses the adequacy of the management of all risks the Company may be exposed to.

The current Board was elected by the shareholders at the Annual General Meeting in March 2011 for a term of three years. Formalized Board procedures enhance the professional development of the Board members and include induction training to new directors, continuous learning and self-evaluation. The names of the current directors and biographical details are set out in page 30.

Members of the Board are all non-executive and five out of nine members are independent non-executive directors. The Board formally reviews and evaluates its own performance together with the performance of the individual Directors, as required by the Code.

Board committees

While principal matters are handled by the Board, separate Committees are mandated to assist the Board in carrying out its duties in an efficient manner. The Executive Committee aids in the co-ordination, guidance and monitoring of the Company's management and performance. The Audit Committee oversees financial reporting, internal controls and compliance with consideration of all applicable laws and regulations. The Nomination & Remuneration Committee is tasked to review the nomination and compensation of the Board of Directors and the members of the Company's General Management. All Board Committees meet periodically to achieve their objectives and to assess their own efficiency.

Board meetings

According to the Articles of Association and local regulations, the Board is required to meet at least 4 times in a year. In addition to the five meetings held in person during 2013, the Board approved quarterly results through circulation of a resolution.

The following table lists the number of meetings held during 2013, including Board Committees, and the individual attendance:

CORPORATE GOVERNANCE REPORT

Directors	Board meetings (5)	Executive Committee meetings (4)	Audit Committee meetings (4)	Nomination & Remuneration Committee (4)
Khalid Ali Al Bustani*	5	N	N	N
Khalid Jassim Bin Kalban*	4	4	N	4
Dr. Fouad AA Alfalah*	5	N	4	4
Sultan Ahmed Al Ghaith *	5	4	N	4
Abdulaziz Abdulla Alzaabi*	4	3	3	N
Fathi M A Elhagie	5	N	N	N
Majed Omran Al Shamsi	4	3	N	N
Mariam Mohamed Alameeri	5	N	4	N
Saif Abdulrahman Al Shamsi	4	N	N	N

- *N - Not member*
- ** - Independent non-executive directors*

Management

Responsibilities of the Chairman and the Chief Executive Officer are separated. The Chairman of the Board is responsible for the 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) executes leadership in the day-to-day management of the Company. The General Management team headed by CEO is responsible for the implementation of the Board strategies and the monitoring of its day-to-day operations. The team includes the General Manager - Reinsurance, General Manager - Finance & Administration, and Assistant General Manager – Reinsurance, as its members. The names of members of the General Management team are set out in page 32 together with their biographical details.

Directors’ and General Management compensation

The Directors’ remuneration is determined in accordance with the Bahrain Commercial Companies Law and the provision under the Company’s Articles of Association, and is approved by the shareholders. Directors’ compensation includes remuneration, allowances & reimbursement of expenses. The compensation of the General Management is determined by the Board of Directors based on the recommendations of the Nomination and Remuneration Committee, where salaries, allowances, reimbursement of expenses, post-employment benefits and performance related incentives are discussed (further information please see page 80). Details as required under the Code are held at Company’s premises for the availability of the shareholders.

Organizational structure

The Company has put in place a detailed organizational structure (shown on page 29) to serve the company purpose, its strategic development and internal controls.

Management committees

In order to assist the CEO in guiding and monitoring the functional departments within the Company, a number of internal management committees are operative. These would include the areas of Reinsurance Management, Human Resources Development, Information Technology, Retrocessions and Security Evaluation. Members are drawn from within the Company and in accordance to their relevant areas of expertise.

CORPORATE GOVERNANCE REPORT

Succession planning

The Company recognizes the value of its human resource and the significance of ensuring qualified and orderly successions. It operates a succession planning framework covering key positions within the Company, and talent development programs based on periodical training needs analyses. Arig also conducts a graduate development program to grow professional talent that is native to the Kingdom of Bahrain.

Key persons dealing in Arig securities

Arig has an established policy with regard to key persons dealing in Arig securities, which complies with the Bahrain Bourse guidelines issued by the Central Bank of Bahrain. During the year, the Company has complied with relevant reporting and monitoring requirements as they are stipulated under these regulations.

Following are the details of Arig shares held by members of the Board, including their representatives, and members of the General Management, including their spouses, children or other persons under their control:

	Directors	General Management
Shares held at 1 January 2013	101,157,073	9,166
Add :Shares acquired during the year	-	-
Less : Shares transferred during the year	-	-
Shares held at 31 December 2013	101,157,073	9,166

Investor relations

Arig makes considerable effort to maintain active investor relations through open, fair and transparent communication. A dedicated shareholder affairs unit supervised by an investor relations officer is responsible for the timely dissemination of all relevant information to its stakeholders. The company's website (www.arig.net) provides detailed information on corporate governance, business and financial information and includes a secure portal for shareholders.

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 to the Annual General Meeting is released well in advance to shareholders, regulators and stock exchanges. Copies of the Annual Report and accounts are made available at least one week prior to the meeting ensuring that shareholders have sufficient time to prepare for the discussion of the Company's performance with the Board Directors.

Corporate social responsibility

Arig aspires to be a good corporate citizen. The Company operates a corporate social responsibility program, which directs its efforts towards worthy projects and individuals in need in Bahrain.

Capital and shares

Arig's authorized capital is comprised of 500 million ordinary shares with a nominal value of US$ 1 each. The issued, subscribed and paid-up capital is US$ 220 million. Shares are held by more than 4,700 shareholders mostly throughout the GCC countries. They are negotiable by people of any nationality through the stock exchanges where Arig is listed: the Bahrain Bourse and the Dubai Financial Market. Furthermore, Global Depositary Receipts, each equivalent to 10 ordinary shares, are registered on the London Stock Exchange. Further shareholding information is given on page no. 63 of this Annual Report.

Compliance

The Company has a separate compliance unit headed by the Compliance Officer. This unit ensures that Arig meets all regulatory requirements stipulated by the Central Bank of Bahrain, the Bahrain Ministry of Industry and Commerce, and the authorities regulating the Branch Offices in Singapore & Labuan. It also makes sure that the Company is in compliance with all rules and regulations of the stock exchanges where Arig is listed. There were no penalties incurred during the year 2013 other than a SGD 1,250 fine paid by Singapore Branch for a one day delay in filing the 2012 annual return.

Internal control

The Board is holding the ultimate responsibility for the functioning of all internal controls within the Company. A network of policies, guidelines, procedures, authorization levels and performance monitoring is operative in all areas of the Company's operations, including periodical reviews and updates, where appropriate. All significant authority limits for underwriting, claims and other operational areas were reviewed and approved by the Board. In daily operations, the CEO safeguards the application of all control mechanisms. He further ensures that a positive control environment is maintained through ethical corporate behaviour and personal integrity. He provides leadership and direction to General Management and reviews the way the business is controlled. All transactions with related parties, are conducted at arm's length.

On behalf of the Board, the Audit Committee periodically reviews the application of the Company's internal control framework and the assessments of these controls from the evaluation reports produced by Arig's internal and external auditors. The Committee then advises the Board of Directors on the status and effectiveness of the Company's control environment and necessary action taken by the management to strengthen any identified control weaknesses.

Enterprise Risk Management (ERM)

Arig applies a corresponding ERM regime that aims at closely monitoring the risks the Company could be exposed to and their potential effects on capital as well as financial and operational performance. Regular reviews by all layers of Arig's senior and middle management are carried out to assess the development and trends in the Company's exposures and, whenever possible and reasonable, introduce measures to mitigate the potential for negative effects.

The Company maintains an ERM framework under the responsibility of a Risk Officer who reports to the GM – Finance & Administration. The status quo is kept in a Risk Register, the positions of which are reviewed and actively managed with the goal to keep the use of capital at risk at efficient performance levels without over-exposing the shareholders' equity interest.

Arig makes use of leading international actuarial firms for independent professional advice who assist in maintaining its Internal Capital Adequacy (ICA) model, which will consider and quantify the capital amount required to support all identified risk exposures that are incurred as part of the Company's business operations.

Our key risk categories are underwriting risk, reserve risk, credit risk, market risk and operational risks. Property reinsurance with its exposure to natural and man-made catastrophes represents the largest class in Arig's book; therefore it comes as no surprise that underwriting risk dominates the quantum of our risk exposures. It is followed by reserve risk, which is a reflection of the Company's 34 year operating history and former activities in discontinued underwriting lines. Operational risks rank third and followed by Market risk, i.e. the risk of changes in the financial markets. Credit risk takes the least amount of capital funding.

The Company has a number of risk avoidance and mitigation strategies in place to manage its key risk exposures.

- *Risk Appetite Statemen*t - First and foremost, Arig maintains a defined statement of its risk appetite expressing its maximum tolerance to losses for each of the main risk categories. The Risk Appetite Statement represents a key document in guiding the Company's business conduct and it has been ratified by the Board of Directors.

- *Underwriting risk* is contained through a mixture of underwriting guidelines that are system- and management controlled, pricing tools and (re-) insurance covers with highly rated retro markets to cap peak exposures.

- *Reserving risk* is managed through regular internal and external reviews to ensure that reserving is prudent and adequate. Our internal reviews are supported by an annually conducted, detailed survey and report by professional actuaries.

- *Market risk* exposure is controlled by a basket of investment guidelines and policies that would include maximum allocations to asset classes, trend analyses, and performance monitoring tools, including stop loss disposal orders.

- *Credit risk* is managed by stringent counter-party checks and Arig's preference to deal with solid and, for the most part, highly rated market entities. At the same time, cash flow is monitored through ageing analyses and outstanding payments are actively pursued by all levels in the organization

- Finally, *operational risks* represent a basket of individual exposures, most of them relatively moderate in amount, which the Company closely monitors and strives to reduce individually. The risk of business interruption caused by political violence received Arig's full attention and is quickly mitigated through the establishment of a warm site at the Company's subsidiary's offices in Dubai. With contingency plans in place, this warm site can be upgraded to a hot site within the span of a few days, should a situation ever call for it.

External auditors

External auditors are appointed by the shareholders through the General Assembly. The current auditors, KPMG of Bahrain, being eligible for re-election, were reappointed for the Financial Year 2013 based on the recommendation of the Board.

CORPORATE GOVERNANCE REPORT

Security ratings

Through its most recent rating published on Arig on 19th of December 2013, A.M. Best reaffirmed the Company's investment grade status with a Financial Strength Rating of 'B++ (Good)' and Issuer Credit Rating of "bbb+"; the outlook for both ratings has been revised from 'stable' to 'positive', reflecting Arig's "improving underwriting performance stemming from enhanced underwriting discipline and risk selection." In Best's opinion, "the ratings reflect the Company's robust capitalization and strong regional business profile."

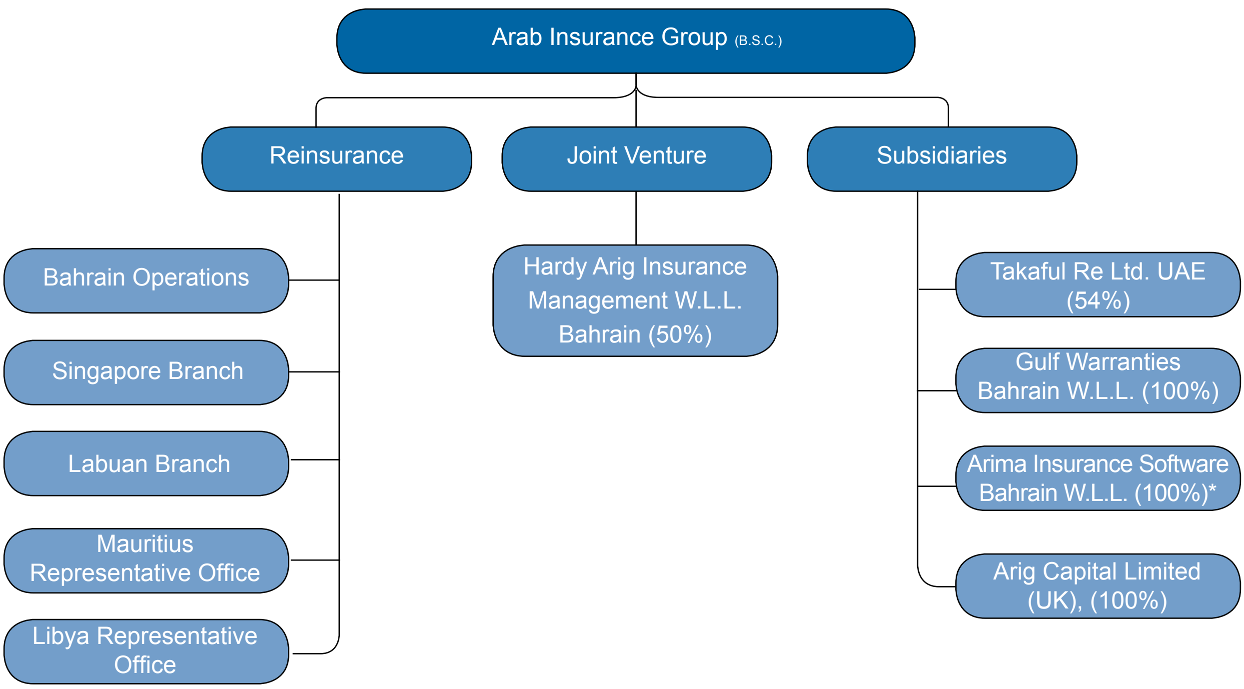
Solvency

Statutory Solvency requirements are determined by Arig's regulator in Bahrain, the Central Bank of Bahrain, and the regulators of its Branches in Singapore and Labuan. In Bahrain, minimum solvency is defined with reference to a prescribed premium and claims basis. The solvency position of the Company including its Branches as at 31 December 2013 is given below:

(in US$ '000)

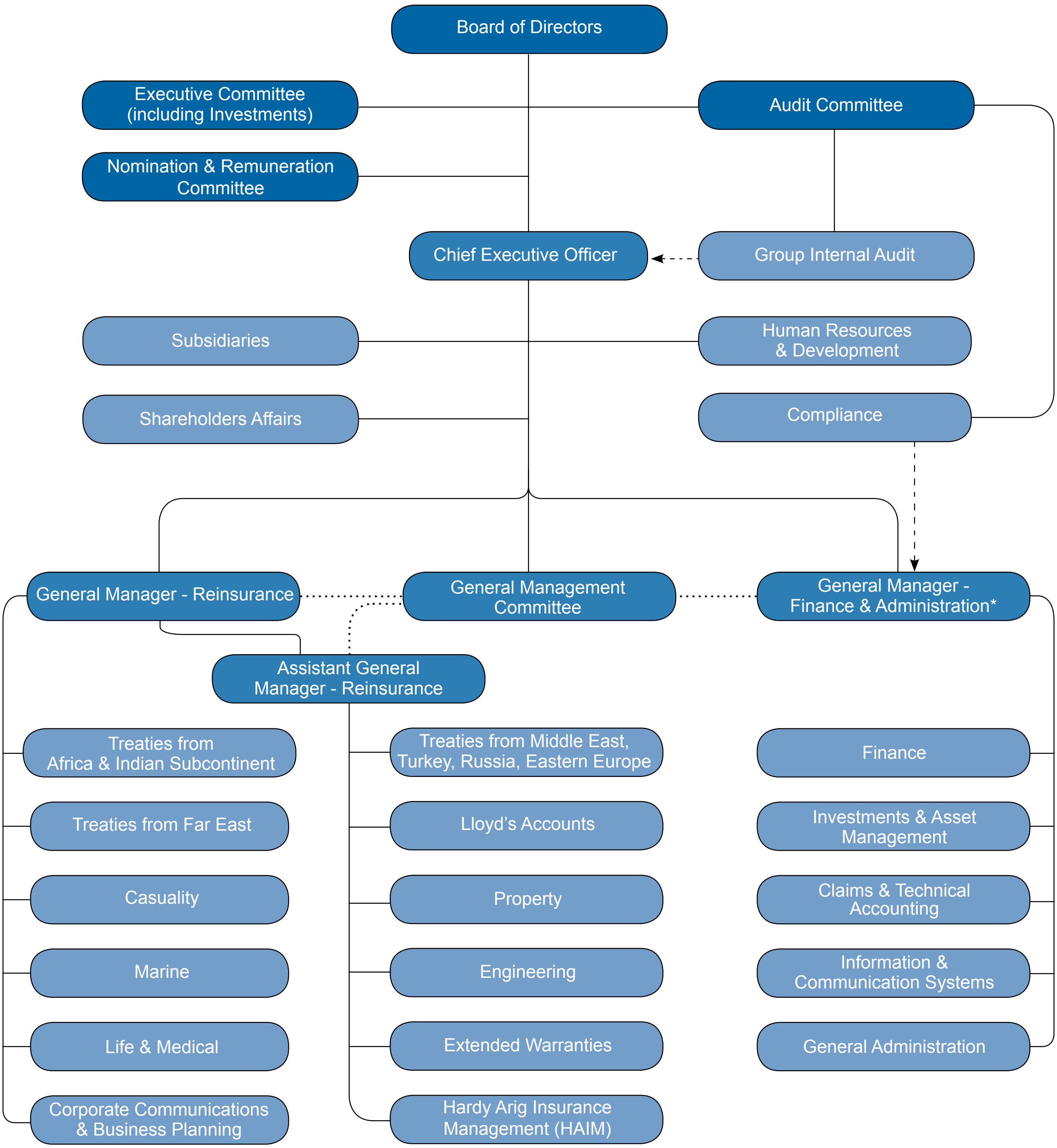
	2013	2012
Capital available	**171,742**	147,307
Required margin of solvency	**40,976**	38,820
Total excess capital available over the required margin of solvency	**130,766**	108,488

ARIG GROUP STRUCTURE



* During December 2013 Arig entered into an agreement to sell 51% share in its subsidiary Arima Insurance Software W.L.L.

ORGANIZATION CHART



* Also designated as Corporate Secretary

BIOGRAPHIES OF BOARD MEMBERS

BOARD MEMBERS

Khalid Ali Al Bustani
Chairman

B. Sc. 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 Albustani 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
Vice Chairman of the Board, Chairman of the Executive Committee and the Nomination & Remuneration Committee

B.Sc., Management Major Metropolitan State College, Denver, Colorado,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 the Chairman of the Executive Committee since May 2004. He is also the Chairman of the Nomination & Remuneration Committee. Khalid Jassim Bin Kalban is the M.D. & CEO of Dubai Investments PJSC in UAE. He is also the Chairman of Union Properties PJSC, UAE. He also serves on the boards of several companies in the UAE and other countries including, Al Thuraya Satellite Telecommunications Co., National General Insurance, Takaful Re Ltd. in UAE, First Energy Bank in Bahrain and Islamic Bank of Asia in Singapore.

Dr. Fouad A A Alfalah
Director and Chairman of the Audit Committee and Member of the Nomination & Remuneration Committee

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

Dr. Fouad Alfalah has served as Director of the Company since October 2003 and is the Chairman of the Audit Committee since April 2005. He was Chairman & Director General of Public Authority for Youth & Sports, Kuwait until November 2008. He 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. Currently he serves as an Assistant Professor at the College of Administrative Sciences-Department of Public Administration, Kuwait University.

Sultan Ahmed Al Ghaith
Director and Member of the Executive Committee and the Nomination & Remuneration Committee

B.Sc., UAE University, UAE

Sultan Ahmed Al Ghaith has been a Director of the Company since October 2004. He was Under-Secretary & Director General of General Pensions & Social Security Authority, UAE, until April 2008. He serves on the boards of Takaful Re Ltd., Emirates Co-operative Society and the Consumer Cooperative Union in UAE.

Abdulaziz Abdulla Al Zaabi
Director and Member of the Executive Committee & the Audit Committee

Business Administration, California State University, San Jose, USA

Abdulaziz Abdulla Al Zaabi has been the Director of the Company since 2005. He serves on the boards of Takaful Re Ltd, National Bank of Ras Al Khaimah, RAK Properties and other organisations in the UAE.

Fathi M A Elhagie
(Representing Central Bank of Libya)

Director

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

Fathi M A Elhagie is the Manager, Banking Operations Department of the Central Bank of Libya, Libya. He has been a Director of the Company, since March 2008.

Majed Omran Al Shamsi
(Representing Emirates Investment Authority, UAE)
Director and Member of the Executive Committee

Bachelor of Administrative Sciences, Emirates University, United Arab Emirates

Majed Omran Al Shamsi is the Director of International Financial Relations Department, the Ministry of Finance in the United Arab Emirates. He has been a Member of the Board of Directors, since March 2008.

BIOGRAPHIES OF BOARD MEMBERS

Saif Abdulrahman Al Shamsi
(Representing General Pensions & Social Security Authority (GPSSA), UAE

Director

Holds a Bachelor Degree in Political Science and Business Administration, UAE University, United Arab Emirates

Saif Abdulrahman Al Shamsi is currently the Assistant Governor for Monetary Policy & Financial Stability Affairs with the Central Bank of the United Arab Emirates. He has held several positions within the Central Bank since he joined in the year 1981. He has been a Member of the Board of Directors, since April 2012.

Mariam Mohamed Alameeri
(Representing Real Estate Bank, UAE)

Director & Member of the Audit Committee

Mariam Alameeri is currently the Assistant Under-Secretary for Financial Administration in the Ministry of Finance in UAE. She is also a Board Member in the Insurance Authority in UAE. She has been a Member of the Board of Directors, since March 2011.

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, UK.

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), Arig Capital Limited (London), and FAIR Oil & Energy Insurance Syndicate (Bahrain). Yassir further holds Board memberships in Takaful Re (Dubai International Financial Centre), Hardy Arig Insurance Management (Bahrain), the International Insurance Society (New York), GlobeMed (Bahrain), Federation of Afro-Asian Insurers & Reinsurers (Cairo), Association of Insurers and Reinsurers of Developing Countries (Philippines), Specific Council for Vocational Training - Banking Sector (Bahrain) as well as Board of Trustees of Human Resources Development Fund - Banking & Financial Sector (Bahrain).

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, Bahrain.

Nagarajan Kannan
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 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, Gulf Warranties, GlobeMed (Bahrain) and Arig Capital Limited (UK) .Prior to joining the Company, he served in leading insurance and manufacturing companies in India. During the year 2013 Kannan was appointed General Manager, Finance & Administration from his previous position.

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.