

# 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 its operations, which includes formalised policies, procedures, guidelines and relevant management reporting requirements. Arig's governance practices are reviewed on a regular basis and amended 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 2017 for a period of three years and its term will end at the 2020 Annual General Meeting. Formalised 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. Three out of six-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 Audit and Risk Committee oversees financial reporting, internal controls, risk management and compliance. The Nomination and 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 also annually assess their own efficiency.

### Board Meetings

According to the Articles of Association and local regulations, the Board is required to meet at least four times in a year. In addition to the seven meetings held in person during 2017, the Board approved the first and the second quarter results through circular resolution.

The following table lists the number of meetings held during 2017, including Board Committees and the individual attendance:

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Directors	Board Meetings (7) **	Audit & Risk Committee (4) **	Nomination & Remuneration Committee (2) **
Saeed Mohammed AlBahhar *	7	N	2
Mohamed Saif AlHameli	6	N	N
Mohamed Saif AlSuwaidi	7	N	2
Wael Ibrahim Abu Khzam	6 <sup>(6)</sup>	3 <sup>(3)</sup>	1 <sup>(1)</sup>
Ahmed Saeed AlMahri *	6 <sup>(6)</sup>	3 <sup>(3)</sup>	1 <sup>(1)</sup>
Dr. Bader Abdulla AlJaberi *	6 <sup>(6)</sup>	3 <sup>(3)</sup>	1 <sup>(1)</sup>

• *N-Not a member*

• *\* - Independent Non-Executive Director*

• *\*\* - Board members retired in 2017 attended one meeting*

## Management

Responsibilities of the Chairman and the Chief Executive Officer (CEO) 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 Company and the concerns of all Board members.

The 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, Deputy 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 31 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 and 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, and includes salaries, allowances, reimbursement of expenses, post-employment benefits and performance related incentives (for further information please see page 76). Details as required under the Code are held at Company's premises for the availability of the shareholders.

## Organisational Structure

The Company has put in place a detailed organisational structure (shown on page 29) to achieve the Company's objectives, 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, in addition to Group Management Committee.

These include the areas of Reinsurance Management, Information Technology and Retrocession. Members are drawn from within the Company and in accordance with their relevant areas of expertise.

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### Succession Planning

The Company recognises 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 analysis. The Nomination & Remuneration Committee is in charge of reviewing and approval of the succession plan.

### Policy on the Employment of Relatives

As required by the CBB Rulebook, the Company has formulated a policy on the employment of relatives of the approved persons.

### 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 and the Rulebook Volume 6 (Capital Markets) 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 2017	101,240,717	9,166
Add: Shares acquired during the year	-	-
Less: Shares held by Directors / General Management retired during the year	459,178	9,166
Shares held at 31 December 2017	100,781,539	-

### Investor Relations

Arig makes considerable effort to maintain active investor relations through open, fair and transparent communication. A dedicated shareholder affairs unit is responsible for the timely dissemination of all relevant information to its stakeholders. The Company's website ([www.arig.net](http://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 90 days of the end 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 of 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 authorised 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 4,500 shareholders mostly throughout the GCC countries. These are tradable by people of any nationality through the stock exchanges where Arig is listed: the Bahrain Bourse and the Dubai Financial Market. Further shareholding information is given on page no. 63 of this Annual Report.

### Compliance

Arig has established a Board approved comprehensive compliance framework covering all rules and regulations applicable to the Company's business operations. The Company has a separate compliance unit headed by a Compliance Officer who reports to the Audit and Risk Committee of the Board of Directors. This unit ensures that Arig meets all regulatory requirements stipulated by the Central Bank of Bahrain and the Bahrain Ministry of Industry and Commerce. 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 2017.

### 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, authorisation 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 are 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 and Risk 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

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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 the Risk Management function and 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 the Head of Risk Management who reports to the Audit and Risk Committee of the Board of Directors. 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, market risk, operational risk, credit risk and liquidity risk. 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 long-standing operating history and former activities in discontinued underwriting lines. Market risk, i.e. the risk of changes in the financial markets, ranks third and followed by operational risks. 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 Statement* - 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 which is reviewed periodically and approved by the Board of Directors.
- *Underwriting risk* is contained through a mixture of underwriting guidelines that are system and

management controlled, pricing tools and reinsurance covers with highly rated retro markets to cap peak exposures.

- *Reserve 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 estimation 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.
- *Operational risk* represents 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 was quickly mitigated through the establishment of a warm site at the Company's subsidiary's office in Dubai. With contingency plans in place, this warm site can be upgraded to a hot site, should a situation ever call for it.
- *Credit risk* is managed by stringent counter-party checks and Arig's preference is to deal with solid and, for the most part, highly rated market entities. At the same time, receivables are monitored through ageing analysis and outstanding balances are actively pursued.
- Finally, *liquidity risk* represents the actual or perceived loss to the Group arising from a potential inability either to meet claims, investments or operational obligations. Arig's investment, claims management and liquidity risk management policies give due consideration to liquidity risk management and as a matter of prudence Arig maintains liquid assets well above its annually modelled liquidity requirements.

### External Auditors

External auditors are appointed by the shareholders through the General Assembly. PricewaterhouseCoopers ME Limited of Bahrain were appointed as external auditors for the Financial Year 2017 based on the decision of the General Assembly, as delegated to the Board.

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## Security Ratings

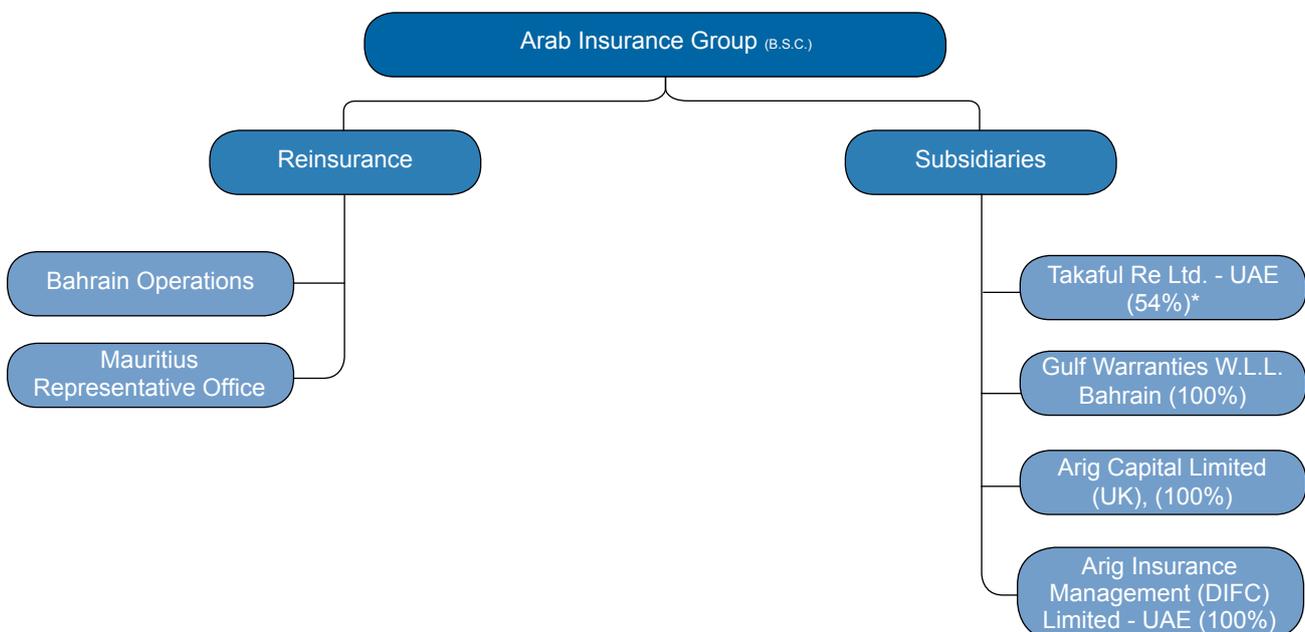
A.M. Best through its most recent rating published on Arig on 22 November 2017, has reaffirmed the Company's investment grade status with a Financial Strength Rating of "A- (Excellent)" and the Long-Term Issuer Credit Rating as "a-". The outlook for both ratings is stable. In Best's opinion, "ratings reflect Arig's balance sheet strength, which is categorised as very strong by A.M. Best, as well as its adequate operating performance, neutral business profile and appropriate enterprise risk management."

## Solvency

Statutory Solvency requirements are determined by Arig's regulator in Bahrain, the Central Bank of Bahrain. The minimum solvency is defined with reference to a prescribed premium and claims basis. The solvency position of the Company as at 31 December 2017 is given below:

	(in US\$ '000)	
	2017	2016
Capital available	202,119	203,389
Required margin of solvency	36,315	38,074
Total excess capital available over the required margin of solvency	<b>165,804</b>	<b>165,315</b>

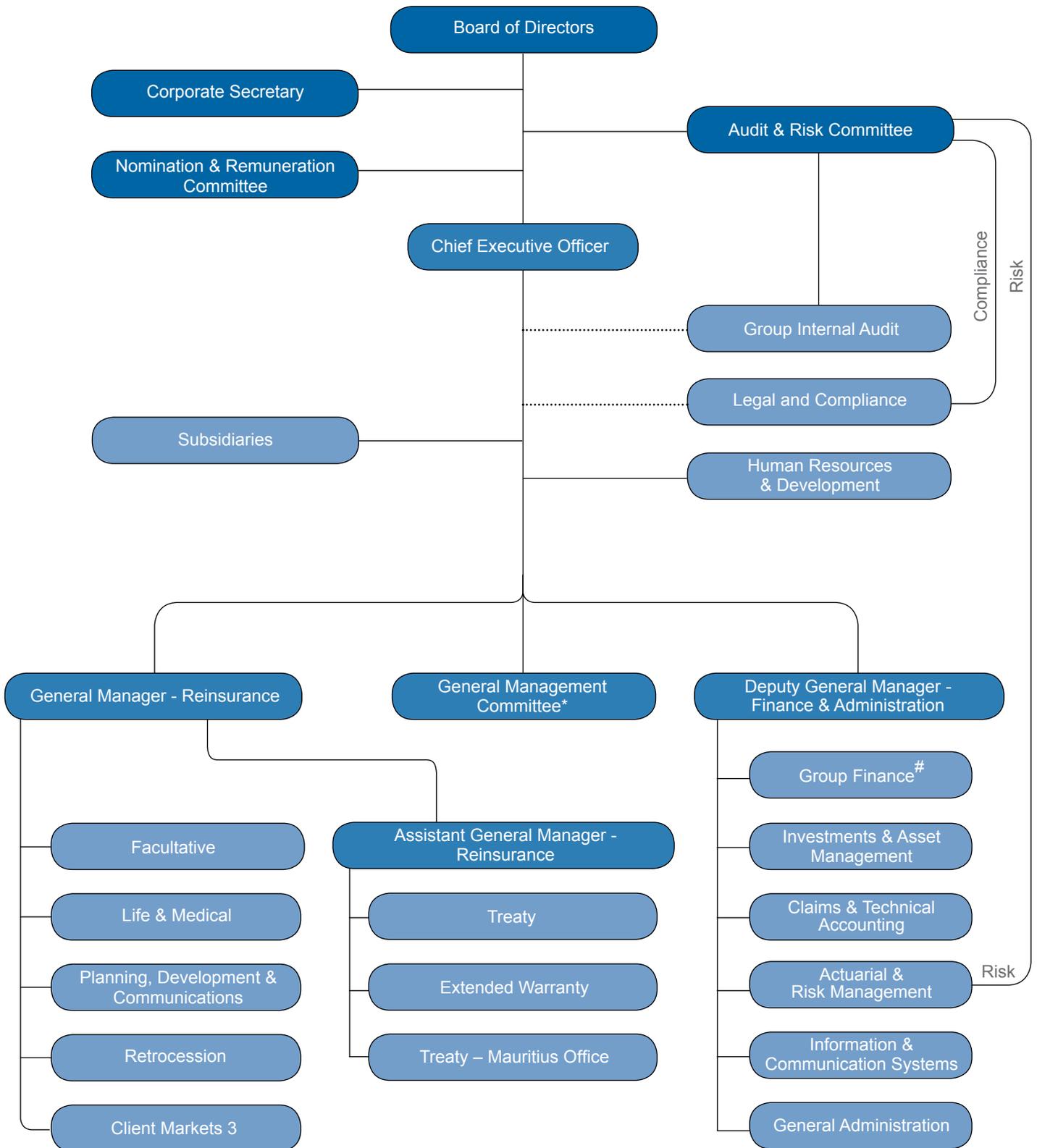
## ARIG GROUP STRUCTURE



\* Takaful Re Ltd. stopped writing business and is in run-off since December 2015

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ORGANISATION CHART



\* General Management Committee members are CEO, GM – Reinsurance, DGM – Finance & Administration and AGM - Reinsurance  
 # Shareholders affairs now merged with Group Finance

## BIOGRAPHIES OF BOARD MEMBERS

## BOARD MEMBERS

**Saeed Mohammed AlBahhar**

(Representing Emirates Development Bank, U.A.E.)  
Chairman of the Board and member of the Nomination and Remuneration Committee

*B.Sc. Economics, Jacksonville University, U.S.A.*

Saeed Mohammed AlBahhar has been a member of the Board of Directors, since 25 March 2014 and Chairman of the Board since 12 June 2017. He holds directorship on the Boards of the Emirates Development Bank, Takaful Re Ltd, U.A.E., Arab Satellite Organisation, K.S.A. and Hellas-Sat Cyprus.

**Mohamed Saif AlHameli**

(Representing General Pensions & Social Security Authority (GPSSA), U.A.E.)  
Vice Chairman of the Board

*M.Sc., California State Polytechnic University, U.S.A.*

Mohamed Saif AlHameli has been a member of the Board of Directors since 25 March 2014 and Vice Chairman since 12 June 2017. He also serves as Acting General Manager and the Executive Director of Investments in General Pensions & Social Security Authority (GPSSA), U.A.E.

**Mohamed Saif AISuwaidi**

(Representing Emirates Investment Authority, U.A.E.)  
Director and member of the Nomination and Remuneration Committee

*Bachelor of Commerce from U.A.E. University, U.A.E.*

Mohamed Saif AISuwaidi has been a member of the Board of Directors since 25 March 2014. Further to Arig, he holds directorship on the Boards of the Emirates Investment Authority, Emirates Integrated Telecommunication Company, U.A.E.

**Ahmed Saeed AlMahri**

Director and Chairman of the Audit & Risk Committee and member of the Nomination & Remuneration Committee

*Bachelor in Accounting and General Administration, United Arab Emirates University*

Ahmed Saeed AlMahri has been a member of the Board of Directors since 20 March 2017. He served as Deputy General Manager of Financial Affairs, Abu Dhabi Police.

**Dr. Bader Abdulla AlJaberi**

Director and Chairman of the Nomination & Remuneration Committee and member of the Audit & Risk Committee

*Ph.D. in Philosophy in Management and Planning, University of Wales & B.A. (Education) in Psychology, UAE University*

Dr. Bader Abdulla AlJaberi has been a member of the Board of Directors since 20 March 2017. He is currently employed as Director of Studies and Researches with Ministry of Justice, Abu Dhabi. He also serves as Vice-Chairman at Mezyad Medical Center, Vice Chairman at Al Ahlia Co-operative Society & Services, UAE and Director at Al Sala Al Muhafidha LLC, Oman.

**Wael Ibrahim Abu Khzam**

(Representing The Central Bank of Libya)  
Director and member of the Audit and Risk Committee and Nomination and Remuneration Committee

*BSc in Accounting, Tripoli University & Master in Banking Finance, Libyan Academy*

Wael Ibrahim Abu Khzam has been a member of the Board of Directors since 20 March 2017. He is currently employed as the Deputy Director of the Risk Management Department at the Central Bank of Libya.

## BIOGRAPHIES OF GENERAL MANAGEMENT

## 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, U.K.*

Yassir joined in 1987 and held a variety of underwriting and managerial positions throughout his professional career. He was appointed as CEO in 2006. Yassir also serves as Chairman of Arig Capital Limited (London), Chairman of Gulf Warranties (Bahrain), Chairman of Arig Insurance Management DIFC (Dubai), Chairman of Gulf Warranties Insurance Services (Riyadh), Managing Director of Takaful Re (DIFC), Board member of Arima Insurance Software (Bahrain) and Board member of GlobeMed (Bahrain). In addition, he is Chairman of the Federation of Afro-Asian Insurers & Reinsurers (Cairo), Chairman of FAIR Oil & Energy Insurance Syndicate (Bahrain), Chairman of FAIR Non-Life Reinsurance Pool (Istanbul), President of the Association of Insurers and Reinsurers of Developing Countries (Manila), Board member of the International Insurance Society (New York) and Board member of Bahrain Institute of Banking and Finance.

**Firas El Azem**

General Manager, Reinsurance

*Diploma equivalent to MBA from the University of Cologne, Germany*

Firas El Azem joined Arig in January 2017 as General Manager - Reinsurance and brings with him over 25 years of experience in insurance and reinsurance. He started his professional career with Munich Re in 1991 and later became the CEO of its Kuala Lumpur Branch before moving to the Middle East in 2006 as General Manager of a number of Insurance/Takaful companies in Syria, Kuwait, and Arig's subsidiary, Takaful Re in U.A.E. He is currently a Board member of Arig Insurance Management DIFC (Dubai).

**Samuel Verghese**

Deputy General Manager, Finance & Administration

*Bachelor of Commerce from Osmania University, India and an Associate member of The Institute of Chartered Accountants of India.*

Samuel Verghese joined Arig in March 1997 in the finance department and assumed the role of Director, Finance in January 2008. He has joined General Management Team in January 2017. He currently holds Board memberships at Arima Insurance Software (Bahrain), Gulf Warranties (Bahrain), GlobeMed (Bahrain) and Arig Capital Limited (London). Prior to joining the Company, he held various managerial positions in companies in India.

**Rachid Mechouet**

Assistant General Manager, Reinsurance

*Bachelor in Economics and Masters in Finance and Insurance from the Institute of Development Financing, Tunis*

Rachid Mechouet joined Arig in November 2010 in the Claims and Technical Accounting department and assumed the role of Director. He has joined General Management Team in January 2017. He has more than 25 years of reinsurance experience having worked with CCR (Algeria), Arig (Tunis) and Med Re (London).