

## CORPORATE GOVERNANCE REPORT

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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 formalized 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. 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 20.

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 eleven meetings held in person during 2019, the Board approved the second quarter results through circular resolution.

The following table lists the number of meetings held during 2019, including Board Committees and the individual attendance:

Directors	Board Meetings (11)	Audit and Risk Committee (8)	Nomination and Remuneration Committee (7)
Saeed Mohammed AlBahhar *	11	N	7
Mohamed Saif AlHameli	11	N	N
Mohamed Saif AlSuwaidi	11	N	7
Ahmed Saeed AlMahri *	11	8	7
Dr. Bader Abdulla AlJaberi *	11	7	7
Wael Ibrahim Abu Khzam	11	8	7

\* - Independent Non-Executive Director  
• N- Not a member

## 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 Deputy General Manager – Finance and Administration, and Assistant General Manager – Reinsurance as its member.

The Board has decided to end the contract of the CEO on 5 June 2018 and appointed the Deputy General Manager – Finance and Administration as acting CEO until a new CEO takes charge.

The names of members of the General Management Team are set out in page 21 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 refer page 73). 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 19) 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, and Retrocession. Members are drawn from within the Company and in accordance with their relevant areas of expertise.

## 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 and Remuneration Committee is in charge of reviewing and approval of the succession plan. However, currently some of the key positions remain vacant until the Shareholders consider and decide on the Board's recommendation to cease reinsurance business which is subject to the regulatory approvals.

## 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 1-1-2019	100,781,539	-
Add: Shares acquired during the year	-	-
Less: Shares reclassified during the year*	11,000,000	-
Shares held at 31-12-2019	89,781,539	-

\*Emirates Development Bank

## 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.

### 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 4,425 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 57 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, Commerce and Tourism. 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 financial penalties incurred during the year 2019.

Company has carried out a gap analysis for the Bahrain's Personal Data Protection Law (PDPL) and is in the process of complying with the requirement. It is also reviewing the Cyber Security regulations introduced during the fourth quarter 2019 under the Risk Management Module of Volume 3 of the CBB Rulebook and is in the process of complying with it.

During the year 2019 the Central Bank of Bahrain carried out an onsite inspection and reported governance practices that are not in line with regulations.

CBB suspended trading of Arig shares from 14 May 2019 till 6 October 2019. The share trading resumed on 7 October 2019 after Arig responded to the issues raised in the CBB's examination report. Arig's press release dated 14 October 2019 provides further details.

### 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 management at various levels safeguards the application of all control mechanisms and ensures that a positive control environment is maintained. 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 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 actions that are to be taken by management to strengthen any identified control weaknesses.

### Business Strategy

The Board reviewed the past performance for 20 years and arrived at a decision to recommend cessation of underwriting business subject to the approval of the Central Bank of Bahrain and shareholders in the Extraordinary General Meeting.

Arig's performance in 2018, prompted AM Best to review the rating in early 2019. An imminent downgrade by one or two notches was indicated and since any further downgrade would impact Arig negatively, a decision to withdraw from the rating was taken. In addition, the Lloyds portfolio, which was contributing almost half of the non-life portfolio, will be discontinued effective 1 January 2020, due to the significant inception to date losses.

### Enterprise Risk Management (ERM)

Arig applies an 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 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 (currently vacant) who reports to the Audit and Risk Committee of the Board of Directors. The Risk Register is 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.

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 of the reserves to ensure that prudent and adequate reserves are carried.
- *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 exposures which jeopardizes the operational capabilities of the Company. These multiple exposures are closely monitored and a continuous effort to mitigate it.

The risk of business interruption received Arig's full attention and will be quickly mitigated through the use of cloud computing facility from Microsoft called Azure Site Recovery (ASR). It allows Arig to replicate all production Virtual Machines (VM's) to a protected space on Azure 24/7 over two 100mbps lines. All business systems can be accessed remotely via Citrix within a very short period of time.

- *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. KPMG Fakhro of Bahrain were appointed as external auditors for the Financial Year 2019 based on the decision of the General Assembly, as delegated to the Board.

### Security Ratings

AM Best on 28 March 2019 affirmed the Financial Strength Rating (FSR) to B++ (Good) and downgraded the Long-Term Issuer Credit Rating (ICR) to "bbb" from "bbb+". The outlook of the FSR has been revised to negative from stable while the outlook of the Long-Term ICR remains negative. Concurrently, AM Best has withdrawn these Credit Ratings (ratings) as Arig has voluntary withdrawn from the interactive rating process.

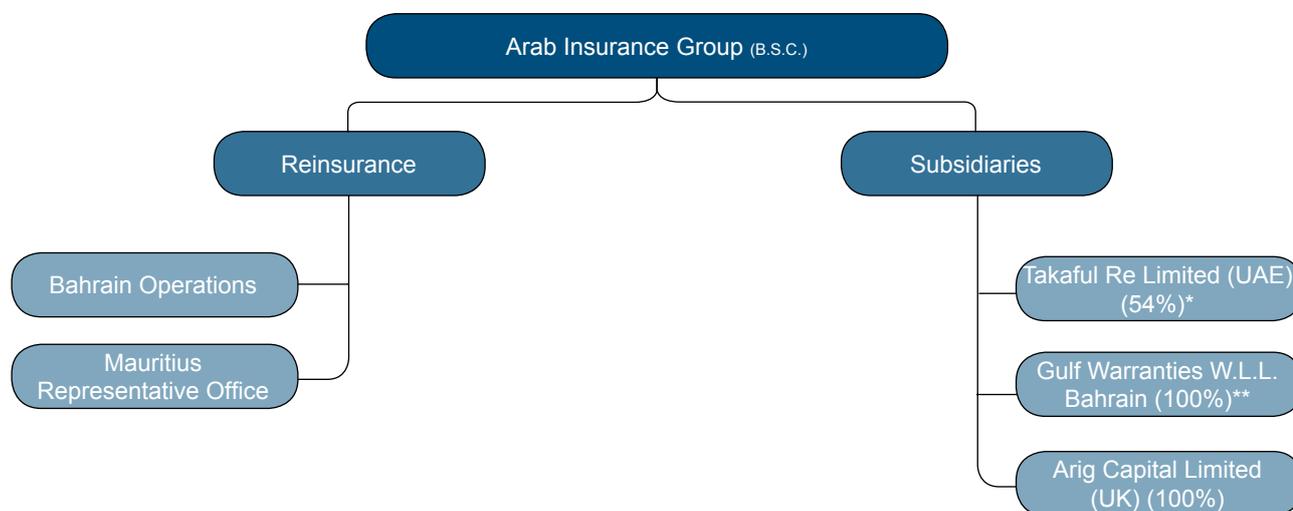
The rating at the time of withdrawal, according to AM Best, reflects Arig's balance sheet strength, which AM Best categorises as very strong, as well as its marginal operating performance, neutral business profile and marginal enterprise risk management.

### Statutory 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 premiums and claims basis. The solvency position of the Company as at 31 December 2019 is given below:

	(in US\$ '000)	
	<b>2019</b>	2018
Capital available	171,809	153,238
Required margin of solvency	32,472	36,177
Total excess capital available over the required margin of solvency	139,337	117,061

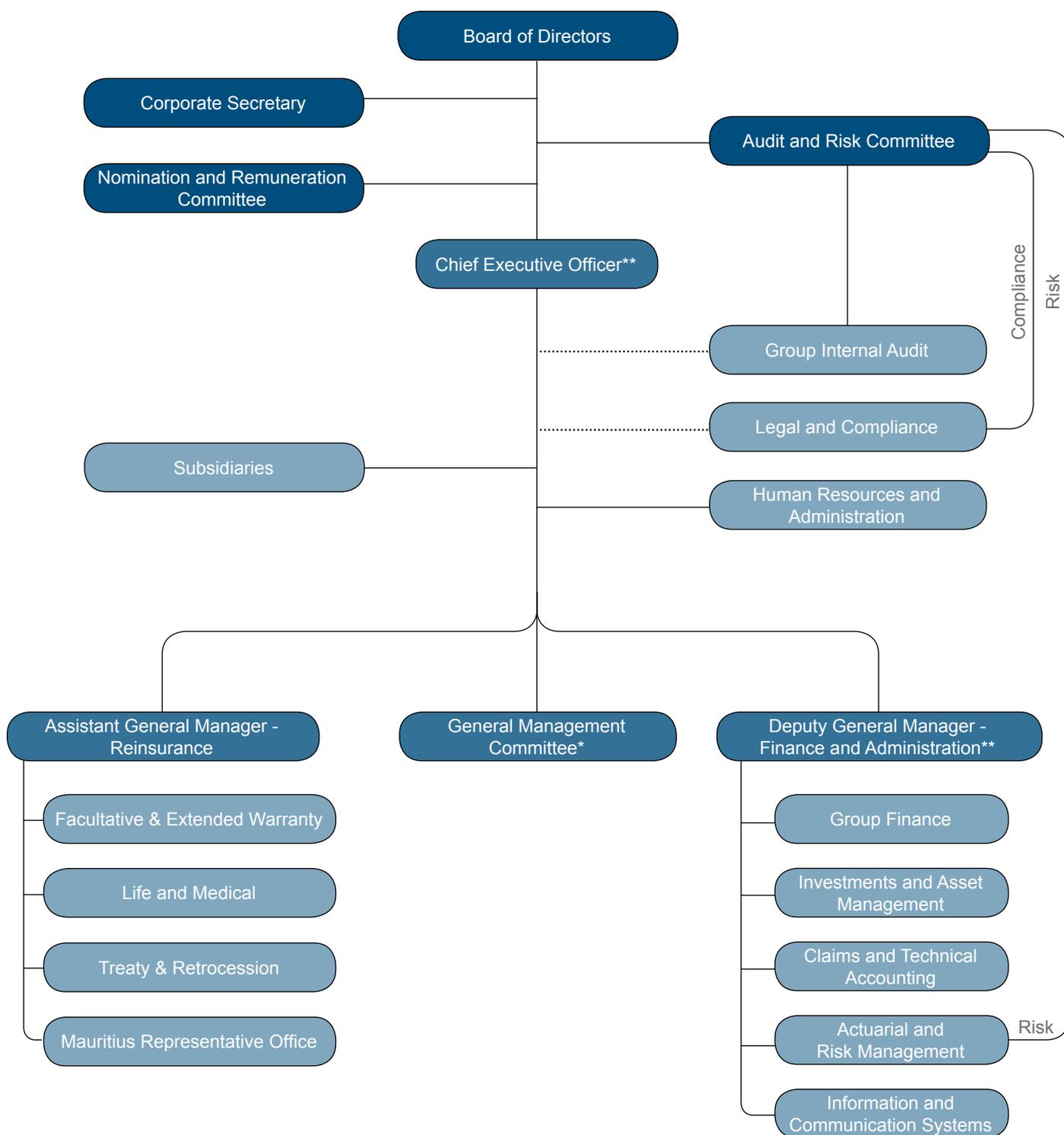
**ARIG GROUP STRUCTURE**



\* Takaful Re Limited stopped writing business and is in run-off since April 2016.

\*\* During 2019, Gulf Warranties W.L.L. has been placed under voluntary liquidation.

ORGANISATION CHART



\* General Management Committee members are CEO, DGM - Finance and Administration and AGM - Reinsurance

\*\* DGM - Finance and Administration is currently the Acting CEO