Explanatory Statement to Agenda item No: 3 of the Extraordinary General Assembly meeting to be held on 13/08/ 2020 – Cessation of Business

This Explanatory Statement is an important document and should be read in conjunction with the invitation to the Extraordinary General Meeting to be held on 13/08/2020

Background to the Board's recommendation to cease business:

The Board of Directors (Board) evaluated Arig's past performance, the current state-of-affairs, prospects in relation to the shareholders expectations and also considered the options evaluated by the strategy consultant and decided to put forward the following recommendation to the Shareholders:

i. Cease writing further reinsurance business;
ii. Empower the Board to either carry out an orderly run-off of the existing portfolio internally or by appointing a third party to carry out the run-off including sale of portfolio;
iii. While the company is under run-off, explore the possibility of finding a buyer to take over the company; and
iv. Authorise the Board to take all action as required to preserve and enhance Shareholder value.

The explanatory statement provides the background for the recommendation of the Board and the proposed steps to implement the recommendation.

a. In May 2019, when the Board took the decision to recommend cessation of reinsurance business, Arig's past performance over a twenty-year period ending 31 Dec 2018 showed that Shareholders of Arig had lost a total sum of US$ 174 million (Annexure 1). This loss is without considering losses directly recorded in the Shareholders equity. If these losses are considered, the total loss suffered by Shareholders over the past twenty years is US$ 203 million (Annexure 2) i.e. the return on average shareholders' equity is a loss 4.1% per annum.

   If the results of 2019 are considered

   Arig's past performance over a twenty-one year period ending 31 Dec 2019 showed that Shareholders of Arig had lost a total sum of US$ 156 million (Annexure 1). This loss is without considering losses directly recorded in the Shareholders equity. If these losses are considered, the total loss suffered by Shareholders over the past twenty one years is US$ 171 million (Annexure 2) i.e. the return on average shareholders' equity is a loss 3.3% per annum.

b. The loss from reinsurance operations (underwriting result before investment income) produced a loss of US$ 471 million over the past twenty years ending 31 December 2018. After considering investment income allocated to reinsurance, the loss is around US$ 225 million over the past 20-year period. The cumulative loss will be US$ 206 million if 2019 year results are considered. (Annexure 3).

c. Two downgrades from the rating agency over a period 9 months makes it challenging to write any meaningful business volumes or quality risk.

d. Lloyds portfolio, which was contributing almost half of the non-life portfolio, was discontinued due to the significant loss from inception to 2018 of US$ 49 million. With the loss of a major portion of the business and the cost base being the same, the operating cost ratio would be unsustainable. The inception to 2019 details of loss are provided in (Annexure 4).

e. The reinsurance rates are depressed and Arig's core market is suffering from low rates caused by overcapacity. The market continues to operate below technical level (pricing is too low to operate profitably) which makes it difficult to write meaningful quality business.

f. The significant loss suffered in 2018 of US$ 55.3 mil, due to

   i. underwriting losses from Lloyds participation: US$ 27.2 million
   ii. provision for fraud and its consequences uncovered in GWL a subsidiary supporting reinsurance business: US$ 21.5 million
   iii. US$ 8 million loss from the Arig Parent Company.
   iv. US$ 2.2 million loss from GWL (over and above US 21 million provision)
   v. US 3.6 million profit from TRL

   which eroded 25% of the issued capital and forced the Board to revisit the strategy.

g. The Board had appointed a leading strategy consultant to review and recommend strategic options. They have carried out the initial review during October 2016 and provided an updated review during May 2017. Subsequent to Board meeting on 13 May 2019 (where the recommendation to cease reinsurance business was made), the Consultant was requested to update the review and the report was submitted in September 2019. The study evaluated the current reinsurance market conditions globally as well as regionally where Arig operates and highlighted the challenges faced by Arig as detailed below:

   i. Arig faces increasing difficulties in attracting global business due to lack of "A" rating, capital and global scale.

   ii. Arig also suffered from lack of diversification and reliance on Lloyds business which exposed its capital to risky markets and global catastrophes.

   iii. Deficit of underwriting talent

   Further, the consultant evaluated various strategic options available for Arig and recommended options as detailed below:

Strategic Decision & Option recommended by Consultant

Strategic Options	Sub-Options	Key Implications	Decision
Growth Options	1. Grow organically	Expensive options requiring size & carrying high execution risks making them non-viable	Dropped
	2. Grow Inorganically (Re Ins. Acquisition/Merger)		Dropped
	3. Grow through a partnership Reinsurance		Dropped
	4. Expand to primary market or asset management		Dropped
Recovery Options	5. Refocus on profitable volumes and delist	Recovery phase required by pressing investor & regulators' expectations	Dropped
	6. Refocus positions for equity value without delisting		Dropped
	7. Runoff through in-house team & 3rd parties		**Shortlisted**
	8. Reinsure full portfolio and risks to move forward		Dropped
Ceasing Options	9. **Runoff through sale of portfolio to specialists**	Mandatory onboarding of shareholders and regulator	**Shortlisted**
	10. Sale of license or business to a reinsurer		**Opportunistic**
	11. Sale to a financial investor or fund manager		**Opportunistic**
	12. Do nothing until potential full deterioration		Dropped

The consultant after considering Arig's strategic and market position along with the expectations of the shareholders, identified two runoff routes (internal run-off or run-off through sale of portfolio) and an opportunistic sale as viable strategic options going forward.

Board’s recommendation to Shareholder:

The Board of Directors, after evaluating the various options including those suggested by the consultant, would like to put forward the following recommendation to the Shareholders to consider and approve:

I. Cease writing further reinsurance business;
II. Empower the Board to either carry out an orderly run-off of the existing portfolio internally or by appointing a third party to carry out the run-off including sale of portfolio;
III. While the company is under run-off, explore the possibility of finding a buyer to take over the company; and
IV. Authorise the Board to take all action as required to preserve and enhance Shareholder value.

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