

# CORPORATE GOVERNANCE REPORT

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Arab Insurance Group B.S.C. ("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.

Arig was Established on 9 June 1980 as a reinsurance company. As at 31st December 2020, Arig has an authorized capital of US\$ 500 million and paid-up capital of US\$ 220 million.

## Central Bank of Bahrain – Rulebook Volume 3 – High Level Control

The Company follows the Corporate Governance requirements as laid down in Volume 3 of the Central Bank of Bahrain Rulebook. This Corporate Governance Report is also included as a separate item as part of agenda for the Annual General Meeting.

## Shareholders

Arig shares are listed on Bahrain Bourse and Dubai Financial Market (DFM) – UAE. However, as approved by the Shareholders during the Annual General Meeting held on 28th March 2019, and the Extraordinary General Meeting held on 13th August 2020, the process of delisting Arig shares from DFM has commenced during the year 2020 after obtaining necessary approvals from the relevant regulators. As announced through Company's website, Bahrain Bourse and DFM, the last trading day of Arig shares in DFM was 11th January 2021.

Arig held two shareholders meeting during the year, Annual General Meeting on 20th April 2020, and the Extraordinary General Meeting (EGM) on 13th August 2020. During the EGM it was resolved to cease writing new reinsurance business. The shareholders meetings were held online based on the exemption offered by the regulators due to COVID-19 situation.

Further shareholders details as set out in the Notes of the Consolidated Financial Statements (Note 21, i(a), i(b) and i(c)). As set out in page 58.

## 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

Commercial Companies Law of Bahrain and the Central Bank of Bahrain (CBB) regulations. 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 ended at the 2020 Annual General Meeting. However, due to COVID-19 condition the Central Bank of Bahrain has extended the term of the current Board until end of September 2021. 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 Volume 3 of the CBB Rulebook.

## 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 & Risk Committee oversees financial reporting process, Company's system of internal controls, risk management and compliance with laws 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 also annually assess the Committees' 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 and 50% of the Board meeting to be held in Bahrain. During the year 2020, Board met one time in person in Bahrain and six times virtually through online (Zoom) meeting. Due to COVID-19 condition, Directors were unable to travel to Bahrain, and hence the requirement to conduct 50% of the Board meeting in Bahrain could not be complied with.

The following table lists the number of meetings held during 2020, including Board Committees and the individual attendance:

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Directors	Board Meetings (7)	Audit and Risk Committee (6)	Nomination and Remuneration Committee (7)
Mr. Saeed Mohammed AlBahhar *	7	N	7
Mr. Mohamed Saif AlHameli	6	N	N
Mr. Mohamed Saif AlSuwaidi	7	N	7
Mr. Ahmed Saeed AlMahri *	7	6	7
Dr. Bader Abdulla AlJaberi *	7	6	7
Mr. Wael Ibrahim Abu Khzam	7	5	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, considering the issues relevant to the Company and the concerns of all Board members.

The Acting CEO executes leadership in the day-to-day management of the Company. The General Management team headed by Acting 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 Assistant General Manager – Reinsurance retired from services on 4th October 2020 due to superannuation.

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 & Remuneration Committee, and includes salaries, allowances, reimbursement of expenses, post-employment benefits and performance related incentives. (for further information refer page 74). Details as required under the CBB Rulebook are held at Company's premises for the availability of the shareholders.

### Organizational Structure

The Company has in place a detailed organizational structure (shown on page 19) to achieve the Company's objectives, its strategic development and internal controls. However, due to the shareholders' decision to cease reinsurance operations, the Board is evaluating the need to fill up all vacant positions.

### Management Committees

In order to assist the CEO in guiding and monitoring the functional departments within the Company, several internal management Committees are operative.

### Succession Planning

The Company recognises the value of its human resource and the significance of ensuring qualified and orderly successions. The Nomination & Remuneration Committee oversees reviewing and approval of the succession plan. However, currently some of the key positions remain vacant due to the approval by the Shareholders to cease writing new reinsurance business.

### 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 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:

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Particulars	Directors (including Corporate Directors)	General Management
Shares held at 1-1-2020	89,781,539	-
Add: Shares acquired during the year	-	-
Less: Shares sold during the year	-	-
Shares held at 31-12-2020	89,781,539	-

## 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 was held within 90 days of the end of the financial year in accordance with legal and regulatory requirements. Notice to the Annual General Meeting was released well in advance to shareholders, regulators and stock exchanges. Copies of the Annual Report and accounts were 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.

As required by the Bahrain Bourse Board resolution No:3 of 2020, issued on 27th April 2020, the unclaimed dividend by the shareholders until 30 June 2020 have been transferred on 31 July 2020 to "Investors Protection Guarantee Fund" maintained by Bahrain Clear. External Auditors have reviewed, reconciled and certified the unclaimed dividend as required by the Bahrain Bourse resolution.

## 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 4,395 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. Arig shares are being delisted from Dubai Financial Market with the last trading date set as 11 January 2021. Further shareholding information is given on page 58 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 & 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 following all rules and regulations of the stock exchanges where Arig is listed. There were no financial penalties incurred during the year 2020.

## Internal Control

The Board is holding the ultimate responsibility to oversee the functioning of all internal controls within the Company. Management is responsible for the design and operation of internal controls through a network of policies, guidelines, procedures, authorisation levels. 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. However, during the year there are no transactions with related parties as defined in the CBB Rulebook.

On behalf of the Board, the Audit & Risk Committee periodically oversees 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. The shareholders have accepted the Board recommendations and resolved to cease writing new reinsurance business.

As approved by the shareholders, Arig is in the process of carrying out the following:

- Carry out an orderly run-off of the existing portfolio internally or by appointing a third party to carry out the run-off including the sale of portfolio;
- While the Company is under portfolio run-off, explore the possibility of finding a buyer to take over the Company.

Shareholders have authorized the Board to take all action as required to preserve and enhance Shareholder value.

## 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 are carried out to assess the development and trends in the Company's exposures and,

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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 & 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; 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.

Arig's adoption of Cloud technologies for 24/7 Disaster Recovery in 2017, using Azure Site Recovery, enabled switching from Data Center based system to on-cloud replicas within minutes and allowed for several recovery points within the previous few days. When the COVID-19 pandemic started, switching to remote work required zero additional work or special preparation. Arig already had in place full remote access with multi-factor authentication, as well as full unified communications on any device, since 2008. All staff could access the

systems remotely right way. Arig's adoption to the latest technologies ensured best service possible while optimizing costs for the shareholders.

- **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 re-appointed as external auditors for the Financial Year 2020 based on the decision of the General Assembly, as delegated to the Board. Shareholders can obtain the details of the External Auditor fees upon request.

External Auditors were engaged in addition to the External Audit, the Agreed Upon Procedures (AUP) which are to be carried out only by External Auditors and the XBRL online certification. Shareholders can obtain the details of such service fees paid to the External Auditors for the above non-audit services, upon request.

### Security Ratings

AM Best on 28 March 2019 had withdrawn the Credit Ratings (ratings) based on Arig's voluntary withdrawal from the interactive rating process.

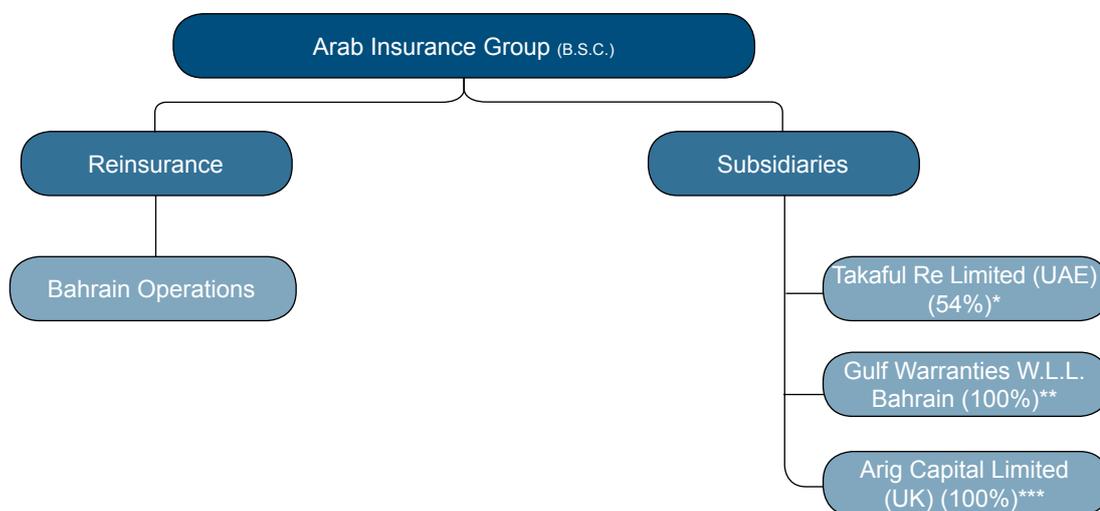
The rating at the time of withdrawal was, the Financial Strength Rating (FSR) B++ (Good) and Long Term Issuer Credit Rating (ICR) "bbb" with the outlook for both FSR and ICR "negative".

### 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 premium and claims basis. The solvency position of the Company as at 31 December 2020 is given below:

	(in US\$ '000)	
	2020	2019
Capital available	188,983	171,809
Required margin of solvency	25,214	32,472
Total excess capital available over the required margin of solvency	163,769	139,337

### ARIG GROUP STRUCTURE

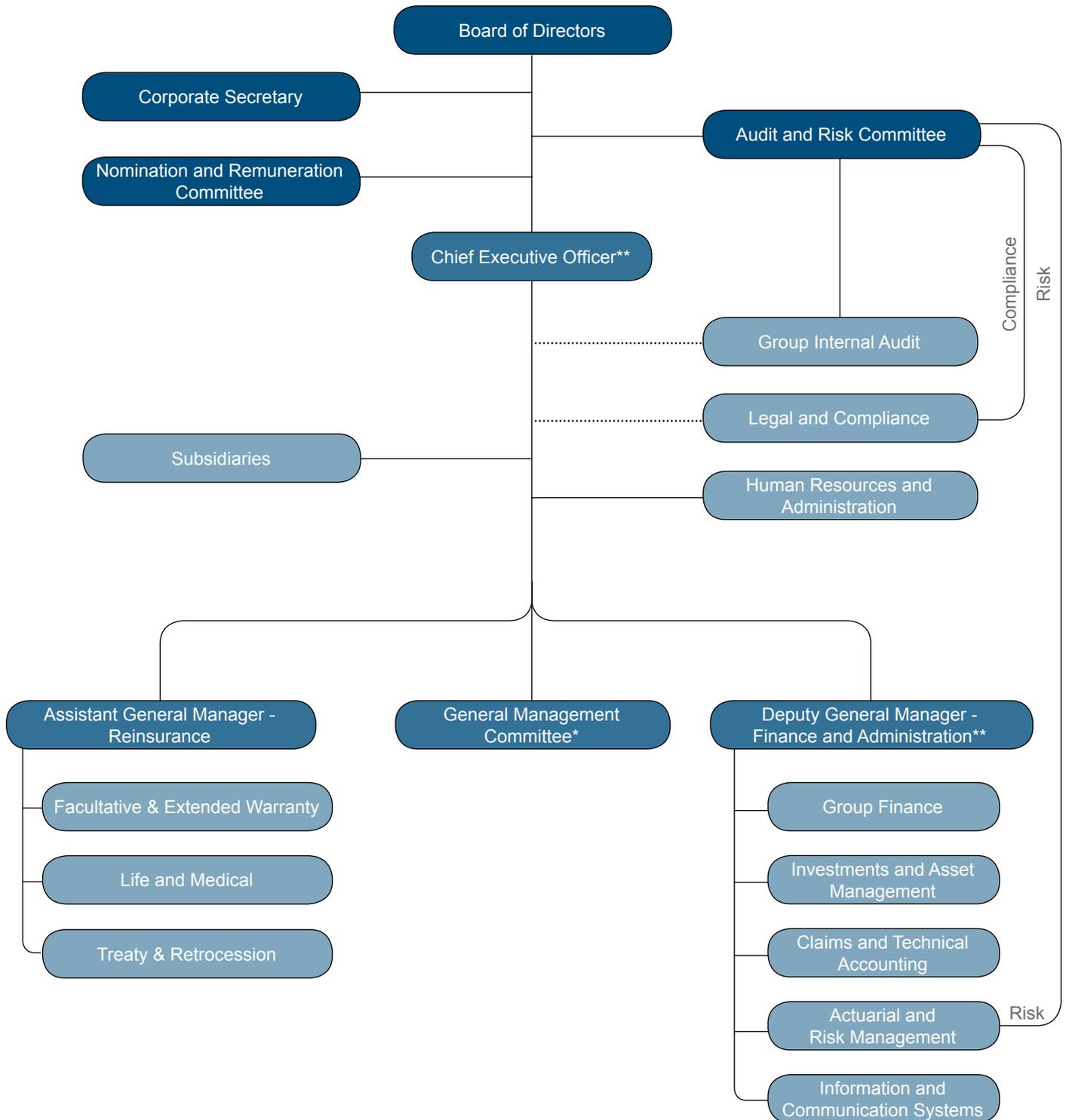


\* Takaful Re Limited stopped writing business and is in run-off since April 2016.

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

\*\*\* During 2020, Arig Capital Limited (UK) was placed under run-off.

ORGANISATION CHART



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

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

## BIOGRAPHIES OF BOARD MEMBERS

### BOARD MEMBERS

#### **Saeed Mohammed AlBahhar**

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 the position of Chairman in Takaful Re Limited, and directorship on the Board of Arab Satellite Organisation, K.S.A.

#### **Mohamed Saif AlHameli**

(Representing General Pensions and 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 Director General of the General Pension and Social Security Authority (GPSSA), U.A.E.

#### **Mohamed Saif AlSuwaidi**

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

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

Mohamed Saif AlSuwaidi has been a member of the Board of Directors since 25 March 2014. Further to Arig, he is currently holding the position of Executive Director of Asset Management at Emirates Investment Authority. Previously, he also served as Executive Director of the Fixed Income Department at Abu Dhabi Investment Authority "ADIA". He has been holding directorship on the Board of Emirates Integrated Telecommunication Company, U.A.E. since 2012.

#### **Ahmed Saeed AlMahri**

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

*Ph.D. in Philosophy in Management and Planning, University of Wales and 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 engaged as an Expert of Strategic Planning & Organizational Excellence in the Ministry of Justice, Abu Dhabi.

In the past, he served as Vice Chairman at Mezyad Medical Center, Vice Chairman at Al Ahlia Co-operative Society and Services, UAE, Director of Al Asala Al Muhafidha L.L.C., 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

*B.Sc. in Accounting, Tripoli University and 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 a Director of the Risk Management Department at the Central Bank of Libya.

## BIOGRAPHIES OF GENERAL MANAGEMENT

### GENERAL MANAGEMENT

#### **Samuel Verghese**

Acting CEO and Deputy General Manager, Finance and 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 joined General Management Team in January 2017. He currently holds Board memberships at Arima Insurance Software (Bahrain), Arig Capital Limited (UK), GlobeMed (Bahrain) and Senior Executive Officer and Director of Takaful Re Limited (DIFC). Prior to joining the Company, he held various managerial positions in companies in India.

#### **Rachid Mechouet**

Assistant General Manager, Reinsurance  
(Retired from services on 4<sup>th</sup> October 2020)

*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 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).