OPERATING AND FINACIAL REVIEW

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Acting Chief Executive Officer

BUSINESS REVIEW

Reinsurance Performance

Arig reported US$ 1.0 million insurance revenue for the year 2025 (2024: insurance revenue US$ 1.6 million). The decrease in insurance revenue was mainly due to lower recognition of the contractual service margin of the life portfolio and risk adjustments for contracts not measured under premium allocation approach. Insurance service expenses were negative US$ 4.5 million for the year 2025 (2024: positive US$ 7.9 million) mainly due to unfavorable claims experience.

Overall insurance service results for the Group was a loss of US$ 4.7 million (2024: profit US$ 7.0 million) primarily due to expenses being attributed to insurance contracts after adjusting gains in claims incurred.

INVESTMENTS

The Financial Markets

The year 2025 was another year of consolidation for the global economy. Economic growth was steady and inflation was contained. Major central banks continued to reduce short-term rates. The US Federal Reserve decreased its benchmark Fed Funds rate by 75 basis points, bringing it to 3.75%. The ECB and the Bank of England also reduced their lending rates.

These conditions had a positive effect on the equity markets. The Morgan Stanley Global Equity Index rose 19.5% in the year.

Yields on US government securities and deposit rates dipped but continued to remain attractive. It was a favorable environment for cash and fixed-income investors like Arig.

Investment Strategy and Performance

Arig's portfolio places a premium on liquidity and safety to service volatile reinsurance liabilities.

In 2025, we continued to invest exclusively in short-term US Treasuries. Proceeds from maturing Treasuries and corporate bonds were reinvested in five-year US Treasuries. By adopting this strategy, we have minimized portfolio risk and enhanced liquidity while locking into an acceptable rate of return for the portfolio.

The parent Company's investment income was US$ 11.8 million (2024: US$ 14.2 million). Group Investment income was US$ 12.3 million (2024: US$ 14.7 million). The overall yield on the Group Investment Portfolio was 3.5% (3.9% in 2024).

Outlook

Arig will continue to manage the current low-risk portfolio in line with the Company's current priorities and our standing obligations to policyholders and shareholders. Our overarching objectives continue to be conservative portfolio allocation, capital preservation, and liquidity at short notice.

SUBSIDIARIES

Takaful Re Limited (TRL)

The Group's Islamic reinsurance subsidiary TRL, in run-off since April 2016, reported a loss of US$ 0.5 million (2024: loss US$ 0.1 million) for the year. Group's share in the loss was US$ 0.3 million (2024: loss US$ 0.06 million).

TRL's investments yielded an average return of 2.8% (2024: 2.1%) with investment earnings of US$ 0.5 million (2024: US$ 0.5 million). The Company's investments assets were almost entirely held in cash and short-term Islamic deposits.

Gulf Warranties (GW)

Gulf Warranties, the Group's subsidiary under liquidation, reported a profit of US$ 0.5 million to the Group's results for the year (2024: profit US$ 3.6 million) due to the release of provisions following the reassessment of liabilities.