Welcome to our Annual Report

Message from the Chairman

It gives me great pleasure to present to our stakeholders, our first Annual Report, providing an overview of the impact our activities have had to date.

This Annual Report sets out the activities of African Risk Capacity Ltd (ARC Ltd) as at 31 December 2020.

ARC Ltd is the financial affiliate of the African Risk Capacity (ARC), a Specialised Agency of the African Union, established to help African governments improve their capacities to better plan, prepare, and respond to extreme weather events and natural disasters.

Through collaboration and innovative finance, the ARC Group enables countries to strengthen their disaster risk management systems and access rapid and predictable financing when disaster strikes to protect the food security and livelihoods of their vulnerable populations.

The ARC Group provides Member States with capacity building services and access to state-of-the-art early warning technology, contingency planning, and risk pooling and transfer facilities.

More specifically, we measure our impact in three areas:

- Beneficiary engagement;
- Disaster management;
- Contribution to the insurance industry

The report does not merely provide an overview of activities and moneys disbursed, it is also situated within a wider lexicography of commercial insurance practice and sustainable development, which has at its heart the achievement of the United Nations Sustainable Development Goals, and our own comprehensive Inclusive Growth Strategy alongside the SDGs.

Our work would not be possible without our donors, and the many stakeholders who support our work with their generosity of time and insight.

Yours sincerely,

Abdoulie Janneh
Chairman of ARC Ltd Board

What to expect

Section 1, an Overview of ARC Ltd, provides an insight into the core activities of the organisations, details about the spheres in which it operates, the staff, funders.

Next we provide, in Section 2, Mission, Vision and Values of ARC Ltd, our approach to achieving the three dimensions of impact, with particular attention to both the commercial and developmental impact.

In Section 3, Company Profile, we present our board and staff, our most valued assets.

In Section 4, Our Impact, we provide an overview of how we have measured up in achieving our mission and the lessons we have learnt from this. We also include the views from those we serve, our beneficiaries, and those who support us, our partners.

In Section 5, Looking Ahead, we share our enthusiasm for the opportunities that lie ahead of us and our strategy and next steps for growth.

Finally, in Section 6, Financials, we present our story in numbers.

“It gives us great pleasure to present to our stakeholders, our first Annual Report, providing an overview of the impact our activities have had to date.”
Africa is particularly vulnerable to the ravages of climate change, which has increased the frequency and severity of weather-related natural disasters. The impact of climate change is being disproportionately borne by small to medium scale farmers.

ARC was set up as an innovative risk financing mechanism to meet the unique needs of Africa. Since its inception, ARC has improved its Member States’ sophistication and understanding of risks and developed bespoke solutions to transfer the risk to global reinsurance markets.

The adage by Tulley that ‘Persistence and resilience only come from having been given the chance to work through difficult problems’, resonated with ARC Ltd in 2020. Covid-19 has tested our resilience and adaption to the changing environment. As we remain resolve that the challenges we are facing are surmountable in the long term, the immediate impact has been significant.

Amidst enormous uncertainty we have been reminded of the increasing relevance of planning and preparedness to buffer the impact of disasters such as the Coronavirus Pandemic. This year has forced us to dig deep and treat the challenges as opportunities to reposition our business, and to co-create solutions with our Member States to proof the future against the increased threat of food insecurity on our vulnerable populations.

As we look to the next five years, the new strategy of Inclusive Growth builds on past successes and will enable us to better meet the needs of Africans through an expanded product range and a broader client base.

Africa faces numerous risks from natural disasters; we will leverage the invaluable experience we have gained through providing drought insurance cover to expand the perils that we insure to include tropical cyclones and floods. This expanded product offering provides more holistic protection to Africans, helps to close the protection gap and to build resilience in communities.

Historically, ARC Ltd only insured national governments but starting this year we will broaden the client base to include subnational governments such as states, provinces, etc, and small to medium scale farmers, through aggregators.

“‘This year has forced us to dig deep and treat the challenges as opportunities. We will leverage the invaluable experience we have gained through an expanded product range... that provides more holistic protection to Africans, helps to close the protection gap and builds resilience in communities.”

Lesley Ndlovu, 
CEO, ARC Ltd
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Overview of ARC Ltd

ARC Ltd is the financial affiliate of the Specialised Agency of the African Union (ARC Agency) operating across the African continent and providing an index-based weather risk insurance pool and early response mechanisms.

Established in Bermuda in 2014 as a Class-2 mutual insurance company.

Working closely with ARC Agency as the ARC Group (ARC), we provide ex-ante solutions to improve current responses to drought, food security emergencies and other natural catastrophes across the continent while building capacity within African Union Member States to manage catastrophe risks by directly linking funds to pre-defined contingency plans.

With a BBB+ Fitch Rating, ARC Ltd has one of the largest balance sheets dedicated to weather-related risks in Africa.

Our Journey

- **2012**
  - Establishment of the African Risk Capacity

- **2014**
  - Creation of ARC Ltd and first drought risk pool with four participating countries: Kenya, Mauritania, Niger and Senegal
  - $26.3m paid in claims to Senegal, Niger and Mauritania

- **2015**
  - New countries join the drought risk pool: Mali, The Gambia and Malawi
  - $8.1m payout to Malawi

- **2016**
  - Six drought insurance policies: Mauritania, Niger, Senegal, The Gambia, Mali and Burkina Faso

- **2020**
  - Largest risk pool in the history of ARC with 21 insurance policies
  - $28m drought claims paid to Senegal, Madagascar and Zimbabwe
  - Launch of the Tropical Cyclone product
  - ARC Group Strategy 2020-2024 adopted

- **2021**
  - Launch of the pastoral drought product + Piloting Outbreak & Epidemics and Flood products
  - Return to profitability after two consecutive years of losses

- **2025**
  - Provide coverage for 150m Africans
  - ARC governance reform framework to streamline operations
Our Member States

In 2020 ARC is led by 34 African Union Member States. These Member States set the direction of the African Risk Capacity’s disaster risk management research and policy, and they have access to ARC’s disaster risk management tools services, and ARC Ltd’s risk transfer services.

Memorandum of Understanding signing countries:
24 countries have active MoUs with the African Risk Capacity Agency to bolster their national disaster risk management systems and undergo preparations to join the ARC Ltd risk pool. Benin, Burkina Faso, Chad, Comoros, Côte d’Ivoire, Djibouti, The Gambia, Ghana, Guinea, Kenya, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Nigeria, Rwanda, Senegal, Sudan, Togo, Uganda, Zambia and Zimbabwe are signing countries.

We set out the details of the impact of our engagement with our beneficiaries on pages 32 to 56.

Class A Members:
African countries upon participation are specified as Class A Members of the Company. Under the byelaws of the Company, Class A Members are those ARC Agency Member States holding a Certificate of Good Standing from the ARC Agency and which have purchased a current policy from ARC Ltd.

13 Class A Members:
Burkina Faso, Chad, Côte D’Ivoire, Kenya, Madagascar, Malawi, Mali, Mauritania, Niger, Senegal, The Gambia, Togo and Zimbabwe have each taken out at least one drought insurance policy since inception.

Payout recipients:
Malawi, Zimbabwe, Côte d’Ivoire, Madagascar, Mauritania, Niger and Senegal.

“ARC Ltd provides us with a strong partnership in our quest to meet the needs of the vulnerable populations that we serve.”

CERTIFICATES OF GOOD STANDING
ARC Ltd provides insurance to ARC Agency Member States that have a Certificate of Good Standing granted by the Governing Board of the ARC Agency (the Board), which determines the criteria for granting Certificates of Good Standing to ARC Member States. (the CGS Criteria).

According to the CGS Criteria a country must be a signatory to the ARC Treaty, and have a Contingency Plan approved by the Board detailing the use of an ARC Ltd insurance payout, as required by the Treaty. All eligible countries must also have completed a review and customisation of Africa RiskView, be up to date in its financial obligations to the ARC Agency, and comply with its approved contingency plans when using an ARC Ltd payout, as outlined in the Compliance Rules adopted by ARC, which may also establish additional CGS Criteria, as they deem appropriate.

Our Footprint

Benin
Burkina Faso
Burundi
Central African Republic
Chad
Comoros
Côte d’Ivoire
Djibouti
Gabon
The Gambia
Ghana
Guinea
Guinea Bissau
Kenya
Lesotho
Liberia
Libya
Madagascar
Malawi
Mali
Mauritania
Mozambique
Niger
Nigeria
Republic of Congo
Rwanda
Sahwari Arab Democratic Republic
Sao Tome and Principe
Senegal
Sierra Leone
Sudan
Togo
Zambia and Zimbabwe
Our Funders

Bye-laws define the class members of the Company from A to D (with donors falling into Class B through D). There are two Class C members, UK Foreign, Commonwealth and Development Office (FCDO) and the German Development Bank (KfW) who have been members since ARC Ltd’s inception in 2014. Both are capital contributors with a maximum fixed term of 20 years with no interest but expectation of the capital being returned.

The UK Foreign, Commonwealth and Development Office (FCDO) [formerly the Department for International Development (DFID)] has contributed \textbf{UK£30 million} of capital to ARC Ltd.

Kreditanstalt fur Wiederaufbau (KfW) through the Federal Ministry for Economic Cooperation and Development (BMZ has contributed \textbf{$48 million} to ARC Ltd’s capital.

FCDO Interview

\textbf{Nicola Jenns}

Climate Change Advisor for Africa

The United Kingdom (through the Foreign, Commonwealth and Development Office) has been a Class C member of the ARC Insurance Company Ltd (ARC Ltd) since its establishment. Alongside our fellow Class C member, Germany, the UK has supported ARC Ltd to develop and diversify its portfolio and consolidate its position as a central pillar of adaptation and resilience in Africa.

ARC Ltd has enabled rapid drought responses by its members, including a landmark payment to Senegal, accompanied by the largest ever drought early action payment to NGOs through the Start Network’s Replica policy in Senegal.

A 10-year evaluation of ARC Ltd’s operations funded by the UK on behalf of ARC Ltd’s members is continuing. An impact evaluation of the response in Senegal will be conducted (alongside the process audit, beneficiary spot check and financial audit) to learn from that response and help disseminate best practice to other members.

Over the coming year, we hope to see ARC Ltd offering insurance against additional perils (such as tropical cyclones) and continuing to develop its operations and partnerships across the region.

“Alongside Germany, the United Kingdom has supported ARC Ltd to develop and diversify its portfolio and consolidate its position as a central pillar of adaptation and resilience in Africa.”
Support towards equity and product development

Germany is a strong supporter of the African Risk Capacity in pursuing the joint goal of building climate resilience in Africa. Since ARC Ltd's inception in 2013, Kreditanstalt für Wiederaufbau (KfW) on behalf of the Federal Ministry for Economic Co-operation and Development has provided €70 million of equity and grant funding to support ARC and its products. This includes an equity-type loan to capitalise ARC Ltd, and funding for institution building and the development of the tropical cyclone and flood products.

Advocating for ARC Ltd on the political stage

Since 2015, Germany has been an advocate for ARC Ltd on the political stage within the Global Partnership InsuResilience. Furthermore, KfW has been a key supporter of the ARC Ltd Replica programme which allows humanitarian actors, such as the WFP and the Start Network, to benefit from the ARC programme and align their activities and insurance coverage to the countries.

Support during the Covid-19 era

Most recently, Germany has launched the first premium subsidy funding which enables countries in Southern Africa to build resilience against droughts and tropical cyclones during Covid-19.

KfW Interview

Veronika Bertram
Senior Portfolio Manager

“Since ARC Ltd’s inception in 2013, KfW has provided EUR70 million of equity and grant funding to support ARC and its products.”
Vision, Mission and Values

Vision

The company’s vision is to be the development partner of choice, leading innovative Disaster Risk Management solutions for climate resilience in Africa.

Mission

To promote harmonised resilience solutions for protecting African lives and livelihoods vulnerable to natural disasters caused by climate change and other perils of importance to the continent.

We will achieve our mission through diversifying our markets and product portfolio, by:

- Sustainably growing through expanding our geographical footprint, aligning our product offering to our customers’ needs and leveraging partnerships to create an African owned insurance company that builds resilience;
- Achieving our long-term goal to create a more diversified portfolio comprising not only sovereign but non-sovereign customers, a larger and strong customer base;
- Achieving our immediate goal to cover 150 million Africans by 2025.

In line with the above, the direction that ARC Ltd is now taking is to raise additional capital from other potential stakeholders to remain sustainable as we scale up.

Values

- ✔️ Excellence
- ✔️ Integrity
- ✔️ Innovation
- ✔️ Service
The aim of ARC is to improve the timeliness of responses and build capacity within African Union Member States to better plan, prepare and respond to drought and other catastrophe risks by directly linking funds to defined contingency plans while tackling the impact of natural disasters on vulnerable people and wider developments.

Key Aims

Benefits of our model include rapid response funding, decreased dependence on external aid and significantly decreasing countries’ emergency contingency fund requirements.

Leading with a commercial perspective

- Rapid response funding for natural disasters – ARC links early warning signs to early response.
- Traditional disaster relief efforts provide funding once the disaster has proven to be damaging, at which point lives and livelihoods are already lost, assets depleted at the detriment of development gains previously made.
- The advantages of a risk pooling facility as an early response mechanism prove that with one dollar spent on early intervention from ARC saves 2 dollars spent after a crisis.

Addressing continental dependency on external aid

- Large fund requirements for countries of emergency contingency funds – Approaching the market as a group reduces the individual premiums required.
- Preliminary studies indicate that disaster risk that is pooled among nations and managed as a group, rather than borne by each country individually, can see a reduction of up to 50% in the emergency contingent funds needed on the continent.

Developmental perspectives on achieving the SDGs

ARC gives African governments in supporting populations’ basic human rights of life, livelihood and shelter while contributing to the realisation of the SDGs set out in the report.

As an initiative of the African Union which serves the countries of the continent, ARC provides an African solution to one of the continent’s most pressing challenges – drought and exposure to extreme weather events.

Goals

One dollar spent on early interventions from ARC saves 2 dollars after a crisis.
How we reach our goals

Our approach to practically achieving our organisational mission and vision contemplates a programme of consolidating our membership and supporting the implementation of our programmes and assistance through capacity building. This is summarised below.

Consolidating ARC’s membership
- ARC’s broad base beneficiaries are AU Member States who have signed an establishment agreement with ARC Agency thus becoming Members of the agency.
- Member States access ARC’s disaster risk management facilities and contribute to ARC’s governance through the Conference of Parties.
- Scoping missions are conducted to identify how ARC’s services can effectively assist Member States in optimising their disaster response systems.
- Increasing technical capacity.

Capacity building
- ARC Agency engages Member States in an MoU agreement that commits resources from each party to undertake the capacity building programme.
- The capacity building programme engages the ARC Agency Secretariat and Member States with training on risk modelling, contingency planning and risk transfer.
- Both parties determine how to create efficiencies in disaster response and determine what type of instruments would best allow governments to access funds.
- Through the Capacity Building Programme countries prepare to pool and transfer their risk to ARC Ltd and can apply for a Certificate of Good Standing from the ARC Agency Governing Board.

Disaster management leadership
- ARC provides leadership on disaster management and transfers this knowledge through training in contingency planning, risk modeling and access to technology. This knowledge is primarily shared through the capacity building programme.

Contingency planning
- Country specific contingency plans are created in partnership with MoU countries to prepare for extreme weather events before they occur.
- ARC Agency works closely with countries to explore existing contingency funding mechanisms and scales up existing social protection programmes.
- Contingency plans investigate a country’s drought profile (present day and historical data), address institutional arrangements including those in place and arrangements needed, define risk transfer parameters, model scenarios and effective interventions.

Risk Transfer
- The programme also provides support for governments to make an informed decision on natural disaster risk transfer to ARC Ltd and take part in the pool.
- Ensuring coverage through ARC Ltd’s Risk Pools for efficient transfer to international reinsurance markets.
We are committed towards achieving the Sustainable Development Goals (SDGs) in the areas in which we operate and beyond.

SDG #1 & 2 (Zero Hunger) – in the period under review (2014 - 2020), a total of 2.1 million people were supported through weather index insurance and Cash Transfers aimed at enhancing the risk coping strategies of the covered populations.

SDG #8 (Decent Work and Economic Growth) – the company contributed towards economic growth through the investment of the retained premiums in the period under review from a low of $2.7 million in the year 2014 to a high of $14.3 million in the year 2015.

SDG #13 (Climate Action) – ARC provides an objective measure of climate change and channels financing from the private sector to Member States for climate adaptation.

SDG #15 (Life on Land) – in the period under review, the company contributed towards the support of 600,000 animals through animal feed supplementation with an estimated quantity of 14,180 metric tonnes in animal feeds. In addition to the animal’s supplements, a total of $2.4 million was spent towards enhancing animal life.

SDG #17 (Partnerships for the Goals) – the number of countries participating in the insurance pool has been fluctuating, starting with four in 2014, recording a low of three participants in 2018 and a high of 12 participants in the year 2019.

At the heart of our activities are the Sustainable Development Goals

Given projected increases in global temperatures, which are likely to cause longer and more intense disasters, in addition to greater weather variability across parts of sub-Saharan Africa, the risks facing many of the world’s most exposed households – those that rely on rain-fed agriculture for their livelihoods – are more pressing than ever.

The fundamental risk-pooling mechanism that underlies ARC has been recognised at the highest levels of climate negotiations as a new and important adaptation tool for countries to utilise. The 18th session of the Conference of the Parties (COP 18) of the United Nations Framework Convention on Climate Change’s (UNFCCC) Decision on loss and damage, taken in 2012 in Doha, emphasises the importance of risk transfer and risk sharing through regional collaboration as a crucial element to climate change adaptation.

ARC addresses a number of related aspects of the Decision:

• Implements a regionally-driven risk transfer and risk-sharing mechanism;
• Supports comprehensive climate risk management approaches, including scaling up and replicating good practices and pilot initiatives;
• Addresses the loss and damage associated with the adverse effects of climate change, including slow onset events and extreme weather events;
• Strengthens and promotes regional collaboration, centres and networks on strategies and approaches. The mechanism can provide greater benefits where there are existing systems that can be quickly scaled-up to address transient needs. From this base level of investment, in which chronic risks are addressed and households are able to begin to accumulate assets and secure livelihoods, sound risk management becomes critical.

In order to protect the resilience achieved through investments, countries need to ensure that future shocks, mild or severe, do not erode such gains, and that the number of households falling into poverty, or depleting their assets, does not grow. This is where a tool such as ARC can offer the most value, providing dedicated contingency funds that can scale up safety net systems in a reliable, timely manner, allowing them to remain solvent and sustainable, protecting hard-won gains for households, and reducing the country’s reliance on emergency appeals.

Read more at: https://www.africanriskcapacity.org/climate-change-and-resilience/

We are also committed to mitigating the effects of climate change

“The fundamental risk-pooling mechanism that underlies ARC has been recognised at the highest levels of climate negotiations as a new and important adaptation tool for countries to utilise.”
OUR COMPANY PROFILE
Board of Directors

Money: Abdoulaye Janneh, Chairman

Abdoulaye Janneh is a Gambian national with extensive international and Africa experience and is fluent in English and French. He has been Executive Director at the Mo Ibrahim Foundation since 2012. He is also the former UN Under-Secretary-General and Executive Secretary of the Economic Commission for Africa. Prior to this, he served as Assistant Secretary-General and UNDP Regional Director for Africa, in charge of managing UNDP’s largest Regional Bureau, covering 46 countries in sub-Saharan Africa with a complement of over 1,500. Janneh is an active player in promoting African development and responding to the continent’s national and regional priorities. Throughout his career, he has been an active player in enhancing partnership building for Africa.

Non-executive Director

Ms Delphine Traoré Maïdou, Non-Executive Director

Delphine Traoré Maïdou is from Burkina Faso and speaks English and French. She is Chief Operating Officer of Africa Allianz and remains a non-executive member of the Board of Allianz Global Corporate Speciality (AGCS) Africa, where she was formerly CEO. Maïdou was integral in expanding the team and the range of insurance solutions for corporate clients across the sub-Saharan Africa region. She also has extensive international experience in insurance and was also head of market management for Canada at AGCS. She has received numerous awards for her leadership and vision. She also serves as President of the Insurance Institute of South Africa and is a member of the African Risk Capacity’s Outbreak and Epidemic (O&E) Advisory Panel. She holds a Bachelor’s in Business/Accounting from Pittsburgh and an MBA in Insurance Management from Boston University School of Management.

Non-executive Director

Mr Jürgen Meisch, Non-Executive Director

Jürgen Meisch, who founded Achalm Capital GmbH in April 2014, and is the sole shareholder, previously had a career of more than 30 years in the global financial services industry. For 10 years he was Chief Financial Officer and member of the Executive Board of the large German insurance group Gothaer (2004-2014) where he was responsible for asset management, financial product, reinsurance and the group’s international operations. Offshore, he served as Assistant Secretary-General and UNDP Regional Director for Africa, in charge of managing UNDP’s largest Regional Bureau, covering 46 countries in sub-Saharan Africa with a complement of over 1,500. Janneh is an active player in promoting African development and responding to the continent’s national and regional priorities. Throughout his career, he has been an active player in enhancing partnership building for Africa.

Non-executive Director

Dr Jennifer Blanke, Non-Executive Director

Jennifer Blanke is an expert on economic development and is the former Vice President for Agriculture, Human and Social Development of the African Development Bank Group (AfDB). Prior to that she held various roles at the World Economic Forum in Geneva including that of Chief Economist, overseeing economic research activities and analysis, and represented the World Economic Forum externally on key global economic issues (with a particular focus on economic development and inclusive growth). Before joining the World Economic Forum, she worked as a management consultant in the banking and financial sector for Eurogroup (Matsos Group) in Paris. Blanke holds a Master’s in International Affairs from Columbia, and a PhD in International Economics from the Graduate Institute, Geneva. She has served on the Canadian government’s Council of Economic Growth. Blanke is also a renowned public speaker and author, fluent in English and French.

Non-executive Director

Ms Ladé Araba, Non-Executive Director

Ladé Araba is a senior development finance executive with over 17 years of experience. She is the Managing Director for Africa at Convergence Finance. She previously served as Technical Adviser to the former Minister of Finance of Nigeria and was the Head of the Strategic Monitoring Unit. Araba was Technical Adviser to UNICEF and also a Senior Investment Officer at the AfDB, where she played key roles in deal origination and appraisal on several infrastructure projects across Africa, collectively valued in excess of $2 billion. Araba was an Enterprise Development Specialist at the UN Food and Agriculture Organization (FAO). She holds an MBA degree from Thunderbird School of Global Management and a dual Bachelor of Business Administration degree in Management Information Systems and International Business from the University of Oklahoma. A native English speaker, she is fluent in French and Italian.

Non-executive Director

Ms Sabata Koné-Thiam, Non-Executive Director

Based in Côte d’Ivoire, Sabata Koné-Thiam has been the Managing Director of UBA Côte d’Ivoire since June 2019. She previously held the position of Deputy Managing Director of UBA Côte d’Ivoire between September 2015 and May 2019. Holder of a Master’s degree in Economics from the University of Montreal, Koné-Thiam is a seasoned banker with more than 22 years of experience in commercial and investment banking, and has occupied senior positions in major international financial groups such as HSBC and Citibank. She had a 12-year tenure with HSBC including six years as Regional Director for West Africa. She was awarded the ‘Bank of the Year in Africa’ prize in 2019 by the Banker magazine for performance and innovation. She has risen to become an influential woman in the Ivorian financial ecosystem. Koné-Thiam speaks fluent French and English.

Non-executive Director

Mr Philip Pettersen, Non-Executive Director

Philip Pettersen is a professional Board member and a Chartered Director. He currently serves on the Board of Africa Reinsurance Corporation South Africa Ltd, Regis Holdings Limited, International Assurance PCC Limited (Mauritius) and Ivory Holdings (Pty) which includes first Equity Insurance Group and SATIB. Pettersen has been in financial services for 46 years and worked in South Africa, London, Switzerland and Bermuda. During this period he has worked for Alexander Forbes (MD Forbes Re) and was MD of Nelson Hurst Reinsurance (now Lockton) and thereafter became the Head of ‘New Solutions’ at Partner Re in Switzerland. This experience was further enhanced by working as a Lloyds broker with Benfield Group. In 2006 he moved to Bermuda as MD of Towers Perrin Re. Pettersen is a member of the South African Institute of Directors (SA) and is a fellow of both the UK Chartered Insurance Institute and the Insurance Institute of South Africa.

Non-executive Director

Dr Michel Jarraud, Advisor to the Board

Michel Jarraud was the Secretary-General of the World Meteorological Organization from 2004-2015. Before joining the WMO Secretariat as Deputy Secretary-General in January 1995, Jarraud spent time at the prestigious European Centre for Medium-Range Weather Forecasts (ECMWF) serving as Deputy Director of the Centre from 1991, and also held roles in weather prediction research. Jarraud began his career with the French National Meteorological Service, Météo-France, as a researcher in 1976. He is also a fellow of the American Meteorological Society (AMS), a member of the Société Météorologique de France, the UK’s Royal Meteorological Society and the African Meteorological Society, as well as an Honorary Member of the Chinese Meteorological Society. Jarraud holds a degree of Ingénieur de l’Ecole Polytechnique in mathematics and physics from École Polytechnique and a degree of Ingénieur de la Météorologie from École de la Météorologie Nationale. He speaks French and English.
Interview

Wise Chigudu
Director from 2013–2020

Agriculture is one of Africa’s most important economic sectors, making up 23% of the continent’s GDP.

In sub-Saharan Africa, it provides work for nearly 60% of the economically active population. Given projected increases in global temperatures as a result of climate change, which are likely to give rise to longer and more intense droughts, in addition to greater weather variability across parts of sub-Saharan Africa, the risks facing many of the world’s most exposed households – those that rely on rain-fed agriculture for their livelihood – are more pressing than ever.

ARC has managed to put the ownership of the disaster risk management squarely into the hands of African countries through linking early warning to early response. This has required the quick mobilisation of funds to implement pre-planned response activities.

Further, the parametric insurance facility offered by ARC Limited has enabled member countries to respond swiftly and effectively to drought situations.

While the financial payouts by ARC Limited tend to get the headlines, other great impacts of the ARC initiative include:

The sharing of risks between African countries, providing a platform for African nations to work together against the risk of disaster. The mutual nature of the ARC pool allows African countries to share each other’s burdens, in the true African spirit of ‘ubuntu’.

The capacity building that is carried out prior to countries taking the insurance policy. ARC continues to provide African countries, including some that do not have an insurance policy, capacity building workshops and technical assistance in preparing for disaster situations. The same frameworks used in responding to drought are now applied to other disasters.

The numbers speak for themselves! In just over six years of operations, 62 policies have been signed by the ARC Member States with US$92 million paid in premiums for cumulative insurance coverage of US$660 million and the protection of over 72 million people in the vulnerable populations of participating countries. ARC Ltd made $64 million payouts to the governments of Senegal, Niger, Mauritania, Malawi, Côte d’Ivoire, Zimbabwe, Madagascar, the Start Network and WFP. These funds have gone towards assisting over 3.5 million people.

What distinguishes ARC from other response mechanisms is its timely nature. ARC Ltd responds much earlier than the traditional approaches, saving livelihoods and reducing drought response costs. This unique value proposition, against the increased frequency of climate related disasters, will continue to reaffirm ARC’s relevance in the years to come.

“ARC has managed to put the ownership of the disaster risk management squarely into the hands of African countries through linking early warning to early response.”
Lesley Ndlovu is the former CEO of AXA Africa Specialty Risks, a Lloyd’s of London insurance syndicate and has extensive international experience spanning 14 years across corporate finance, audit, tax advisory, insurance and investment management sectors in several countries including Bermuda, Singapore, France and the United Kingdom.

Ndlovu is a graduate of the University of Oxford in England and the Institut Européen d’Administration des Affaires (INSEAD) in France.

He is a CFA charter holder, a member of the Institute of Chartered Accountants of England & Wales and a member of the Institute of Directors.
OUR IMPACT

Since 2014, ARC Ltd has collected over **USD 100 million** of premium and provided **USD 720 million** of insurance coverage for the protection to **72 million people**.

In addition, ARC Ltd has paid out an incredible **USD 65 million** in claims to countries in need of drought relief to benefit **3.8 million** vulnerable populations in participating countries.
How we have created impact

This section sets out how we define impact and the metrics we use to measure it.

This is supported by testimonials and case studies from our beneficiaries and partners.

At ARC Ltd, we measure our impact by evaluating if we have effectively served the needs of the vulnerable populations in the participating Member State countries from disasters and climate-related risks. We also aim to strengthen the commercial capacity of insurance markets in Africa in the context of an increasingly turbulent world with a growing number of extreme weather events and economic headwinds.

We serve vulnerable populations in conjunction with our funders, Replica partners and other stakeholders that support us in the design and delivery of our products and services towards achieving the SDGs.

In the next sections, we define the growth and commercial impact numbers. Further, we present the impact from the beneficiary perspective; in the pages that follow, we set out how these formulations of impact are practically created by drawing on testimonials and case studies with our beneficiaries and partners.

We also present case studies from beneficiaries and views of our partners. We look at the ways in which our partnerships with organisations like USAID, The African Development Bank, SCOR SE support the wider economic development, commercial impact and inclusive economic growth our work aims to achieve. We also look closely at the direct impact on the livelihoods of beneficiaries in Madagascar and also in Zimbabwe and Senegal, where we work closely through our Replica programme with the World Food Programme and Start Network respectively.

Further we showcase our support from advocacy partnerships such as the InsuResilience Secretariat, which ascertains some key challenges for countries implementing disaster risk financing and makes available risk data which allows for the uptake of climate and disaster risk financing and insurance solutions.

We give reflection from our former Board member, Dr Frannie Leautier, about the ways in which ARC’s commitment to diversity and inclusion, particularly in the dimension of gender, informs design, delivery and measurement of our programmes.

We hope these testimonials and case studies from our stakeholders and partners demonstrate the ways in which that impact is made real.
Views from AFDB:

by Atsuko Toda
Acting VP for Agricultural Finance and Rural Development Resilience and Food Security

In March 2017, the African Development Bank signed a Memorandum of Understanding (MoU) with the African Risk Capacity (ARC), setting out a framework for the collaboration between the two parties. The MoU stipulated that the two parties shall co-operate in preparing, developing, and implementing projects, programmes and technical assistance in areas such as climate and risk resilience in participating countries.

In October 2018, the Bank approved a framework document for the implementation of the Africa Disaster Risk Financing Programme (ADRiFi), in collaboration with ARC. The overall goal of ADRiFi is to enhance the resilience and response to climate shocks in African countries by improving the management of climate disaster risks.

A key aspect of ADRiFi is to support the countries to participate in a regional risk pool and pay premiums to ARC.

Proposed impacts of ADRiFi include: (i) efficient and timely first-response delivery to targeted beneficiaries affected by disasters (financed from national resources), and (ii) strengthened resilience to drought-linked disasters in participating countries.

These impacts are to be achieved through a comprehensive capacity building programme, designed to assist the countries to quantify and manage their climate risk, and to make informed decisions regarding transferring risk to the market through insurance, as part of a holistic national risk management strategy for African countries.

In the medium to long-term, ADRiFi aims to stimulate the demand for risk transfer products, and eventually create a more attractive market for the private sector. The implementation of ADRiFi is promoting the development of the market for innovative extreme weather insurance products.

The initiative is expected to be instrumental in transferring layers of the African risk to the international market through reinsurance companies. ADRiFi is therefore contributing to the development of the global reinsurance markets, thereby demonstrating an ever-increasing appetite by the market/private sector for the risk that ARC is bringing to the table.

In the future, the ADRiFi Team will explore a private sector-led financing instrument that promotes bridging the private sector to support capital risk. This could complement grant funds and donor subsidies which are drying up.

“In the medium term, the Africa Disaster Risk Financing Programme aims to stimulate the demand for risk-transfer products, and eventually create a more attractive market for the private sector alongside innovation in extreme weather insurance products.”
Views from USAID:

by Lara Evans
Social Protection Advisor, Center for Resilience, USAID Bureau for Resilience and Food Security

Besides our support on the ground, the funds we extend have assisted over 2.1 million people and 925,000 livestock.

Governments have used ARC Ltd funding to scale up cash transfers, subsidise livestock feeds, replenish depleted food reserves, and distribute emergency food supplies.

Since 2015, USAID has partnered to support the African Risk Capacity Group to improve the global response to climate-related food security emergencies.

Given the frequency and intensity of climatic events around the world, and the magnitude of these disasters in driving higher rates of food insecurity, migration and conflict, a key USAID priority is building resilience and mainstreaming disaster risk management and ex-ante financing into programming and policies.

The fight against disasters and building resilience

The fight against negative social and economic impacts caused by disasters requires multiple strategies.

ARC Ltd has been a critical partner in this regard through the provision of solutions aimed at:

- Improving financial protection measures such as the sovereign level parametric insurance which helps in mitigating the negative social and economic impacts caused by disasters.
- Helping governments and communities build resilience to respond more effectively to global food security crises in the future.

ARC is well positioned to help sovereigns and communities better manage the risks that they face.
This section discusses the activities and results under the intervention programmes of our operations in four dimensions:

our mission fulfilment; the wider impact from the beneficiary perspective; a snapshot of the insured sovereigns; and the growth and medium and long term outlook over the period.

Our mission fulfillment

ARC Ltd has recorded many positive impacts through its three-pronged value proposition: climate change and resilience, food security and risk management, and contingency planning.

The positive externalities generated by ARC Ltd are discussed below in relation to the SDGs.

People interactions

Enabling livelihoods with cash transfers and strategic grain reserves (SDG #2 & SDG #3) – Member States have been capacitated to upscale cash transfers and replenish strategic grain reserves for sovereigns for food security.

Drought episode

Support towards climate action (SDG #13) – ARC assisted member countries to cope with severe weather patterns (drought). In the year 2015, Senegal, Mauritania and Niger received a total of $26.3 million in support towards severe weather patterns, benefitting more than 407,000 people and more than 14,000 animals.

In the year 2019, Senegal received $23.1 million to support more than 975,000 people affected with drought whereas Côte d’Ivoire received $739,000 which benefited about 33,000 people (about 6,500 households). This promoted food security, leading to reduced hunger (SDG #2 & SDG #3) and ultimately improving risk coping strategies and thus contributing towards eradication of poverty (SDG #1).

Livestock interventions

Support to life on land (SDG #15) – ARC assisted member countries to support life on land through subsidising livestock feed for pastoralists.

The economic impact of our contribution to the Sustainable Development Goals is set out in detail on Page 22 of this report and highlights that a dollar spent with ARC Ltd has 2 times the impact.

The insured Member States

Claims paid

Since inception, ARC Ltd has paid out an incredible USD 65 million in claims to countries in need of drought relief to benefit 3.8 million vulnerable populations in participating countries.

In our commitment to demonstrate the value of ex-ante parametric insurance, insurance claims are paid within 10 working days and represent the first amount of money available to governments on the ground to commence relief operations.
Replica Programme

At a time when the humanitarian funding gap continues to widen, African Risk Capacity seeks to contribute to solutions for better allocating international resources in a cost-effective and timely manner.

By matching country policies, international resources would be used more cost-effectively through participation in ARC’s government-led risk management system while doubling the coverage of climate risk insurance.

Countries lacking financial and operational capacity for greater coverage expansion beyond that purchased by themselves would benefit from UN Agencies and other humanitarian actors, providing both increased insurance-based funding and scaled, coordinated, and timely operational execution.

ARC’s Replica Coverage operates under three principles: A Plan to Build Government Capacities Over Time: Through insurance and its in-country capacity building programme, ARC Agency provides expertise to and incentives for governments to invest in their emergency planning and response capacities.

The payment of premiums from the national budget is simply the last step in a process of building both financial and political ownership and accountability. In order properly to align incentives, countries would only be eligible to receive matching insurance after their second year of participation in the ARC insurance system.

Humanitarian actors alongside the governments in this process would align otherwise potentially distorted incentives between national financing and programmes and international efforts.

Government Ownership of Planning and Response: In order to be eligible to take out an insurance contract, all participating governments must seek approval for their operations plans from ARC’s Peer Review Mechanism (PRM). While an international organization or NGO plan may not go through the full technical process in-country, the plans for use of funds flowing from replica coverage must still be approved by the government as part of its broader drought-, flood-, or cyclone-response plan submitted to ARC in order for replica coverage to be purchased.

Alignment with Global Policy: In order to ensure harmonisation with post-2015 global policy (in climate change, humanitarian financing, and disaster risk reduction), the ARC Agency Governing Board will form a high level consultative group with the heads of relevant UN and other humanitarian agencies participating in the replica coverage programme.

ARC Member States currently pay premiums through national budget processes and receive payouts for pre-approved contingency plans from ARC Ltd. Based on premium affordability, the share of coverage against total disaster funding requirements can be less than 100% with the remainder largely sourced through the other financing mechanisms such as reserves and contingency funds, catastrophic bonds and humanitarian aid appeals.

By building on ARC’s government-led risk management infrastructure, the stage can be set for the evolution of the traditional appeals-based model for managing predictable natural disaster risks, switching to a largely ex ante system embedded at the sovereign level, thereby freeing up humanitarian funds for complex risks that cannot be easily managed by governments nor financed by insurance-like instruments.
Replica programme in Senegal supports Ndouff village with food and cash transfers
Senegal purchased drought coverage for the season 2018/2019. The total premiums paid amounted to $5.7 million: the government paid $3.1 million whereas the Replica partner paid $2.6 million. By payment of the premiums, more than 500,000 vulnerable people were insured.

Upon experiencing drought conditions Senegal qualified for a total payout of $23.1 million which was paid on time. The payouts went towards food, cash transfers and nutritional supplements for children under five years old.

Impact
The interventions had multiple impacts on the population and contributed towards the attainment of the SDGs:

• Eradication of hunger and through provision of food the provision of food contributed towards the attainment of SDG #2. The food rations ensured that vulnerable people had food even after experiencing drought. There was notable improvement to maternal and child health and an eventual reduction in malnutrition related diseases;
• Protection of livelihoods and good health and well-being: with the protection of their livelihoods assured, the population would inevitably attain good health and well-being;
• Stronger resilience to climatic shocks: the communities built a stronger resilience to climatic shocks, allowing them to lead normal lives amidst the everchanging climate

“Children can now grow strong and healthy and families can build a better future.”

The fruitful and ground-breaking partnership between Start Network and ARC Ltd began in 2018 when Start Network was invited to be part of the ARC Ltd programme as a Replica partner, with the role of replicating insurance policies taken by local governments. Start Network is made up of more than 50 aid agencies across five continents, ranging from large international organisations to national NGOs. Since becoming a Replica partner, alongside the World Food Programme, Start Network has played a key role in this programme, specifically in Senegal, where an insurance product and programme was offered by ARC Ltd to Start Network and the Senegalese government.

Through the programme, Start Network has strengthened the relationship between civil society and the sovereign state, building a symbiotic working relationship that grows our joint knowledge and capacity of risk management and macro-insurance. The programme has also protected hundreds of thousands of families against the negative impacts of drought year on year. In 2018, Start Network purchased complementary insurance policies in Senegal that released a total of $231 million payout that enables Start Network NGO members and the local government to jointly deliver early and proactive lifesaving assistance to Senegalese families in advance of a predicted severe drought.

The impacts of the 2020 lean season were then felt even more strongly by the most vulnerable communities in Senegal due to the detrimental impacts of the Covid-19 pandemic, but thanks to the assistance distributed ahead of the most critical time, the detrimental effects were mitigated.

Throughout the payout process, the implementation phase, and the closeout and reporting thereof, the cooperation between Start Network and ARC Ltd has been productive. The protocols agreed in advance between all three parties (ARC Ltd, Start Network and the Senegalese government) were respected and adhered to, ultimately enabling timely and rapid disbursements of funds and humanitarian actions.

A comprehensive programme evaluation is currently ongoing, and results on the efficacy of this process and best practices from Senegal will be shared to be replicated in other ARC countries in years to come. Start Network hopes to remain a key partner of ARC Ltd and sovereign states in the Replica programme as it grows and expands.

“As we grow the evidence base for early humanitarian action, we hope to build a strong culture of innovative and effective climate-risk management in African countries.”
Case Study: Madagascar

Long-term solution to combat drought in the south of the country
The south of Madagascar is continually ravaged by drought, which severely affects livelihoods in the region. The main districts affected are Beloha, Bekily and Ambovombe. People in the region have no option but to drink dirty, unhealthy water, even when they know the consequences of drinking such water. As a result, the children get sick and weaker and with the passage of time their health deteriorates. The situation is grave and there is not even water for washing.

Life on the Land
Due to prolonged drought, life on the land has been severely affected. Crops planted by the community cannot grow as there is no water in the ground. The community has no food and is forced to eat the red cacti, a plant which has the potential to make the children sick, and even die.

Effect on coping strategies
The severity of the drought and the resulting famine has forced people to sell their possessions to survive and fend off hunger. But in reality what kills people is the drought, as the absence of rain causes the famine, and the southern region of Androy has consistently received below average rainfall.

Receipt of aid
Communities in the affected regions have received food from Fonds D’Intervention Pour Le Development (FID) and Programme Alimentaire Mondial (PAM). They have also received the FIAVOTA* subsidy.

The future looks brighter
The community remains hopeful that through the insurance mechanism they will have a better solution than having to sell their possessions and livestock in order to survive. It is hoped that the insurance mechanisms will provide answers to their immediate difficulties, while also enabling them to plan for the long term.

“The community remains hopeful that through the insurance mechanism, they will have a better solution than having to sell their livestock and possessions.”
Madagascar and ARC have been collaborating since 2015 through capacity building by ARC technicians to take ownership of the drought insurance mechanism. The technicians have mastered the development of the drought risk profile through the use of the African RiskView software, the development of an operational plan and the identification of risk transfer parameters.

Steps into insurance country introductions
In order to strengthen collaboration and to prepare the country’s introduction into the insurance mechanisms, Madagascar undertook the following in 2018:

• The country ratified the agreement establishing the institution of the Pan-African Mutual Risk Management Organisation ARC;
• It has also amended its insurance code to be able to join ARC mutual insurance;
• Following lobbying by ARC, Madagascar received support from the African Development Bank (AfDB) for the payment of its insurance premium of $500,000 for five years on a declining basis.

Thus, Madagascar joined the insurance pool to insure its 2019–2020 agricultural season.

Payments received from ARC and application
Due to the insufficient rainwater in the south of Madagascar, which is the insured area, the payment of $2,126,400 was triggered. This sum is allocated to:

• Food assistance to 15,000 households through unconditional cash transfers;
• Nutritional support to 2,000 children and 1,000 pregnant and breastfeeding women;
• Water supplies to 84,000 vulnerable households.

Obtaining this indemnity led to confirmation that the parameterisation undertaken by the National ARC Working Group is reliable. The performance of the Africa RiskView (ARV) model has also been demonstrated. And it was deduced that the software can be part of the early warning tools.

Politically positive
Politically, this payment also demonstrated to decision-makers the importance and relevance of the insurance mechanism to deal with disaster risks.

Currently, the collaboration has been extended to other products, on which the technical team of ARC conducts research and development models including the cyclone and flood products. As a large island that is very vulnerable to tropical cyclones and their effects, Madagascar is particularly interested in these products.

“Madagascar’s collaboration with ARC helped to strengthen its financial protection strategy against disasters.”

Case Study: Madagascar Government

Mbolatiana Andriamiarinosy
ARC Government Co-ordinator

“Madagascar’s collaboration with ARC helped to strengthen its financial protection strategy against disasters.”
Case Study: Replica Programme in Zimbabwe – WFP

Emily Jones
Climate Risk Financing Programme Policy Officer

The ARC Replica initiative, which began in mid-2017, increased the engagement of the World Food Programme (WFP) and ARC Ltd, giving WFP the much-needed collaboration of working together.

Collaborative opportunities
The drought modelling software that is used to underpin ARC’s drought risk insurance policies was born out of WFP’s Vulnerability, Analysis and Mapping Unit. The software has made it possible for ARC to undertake accurate and reliable drought mapping initiatives.

Dual relationship
WFP shares a harmonious dual relationship with ARC Ltd as an underwriter for the ARC Replica insurance policies and as a collaborating partner in the ARC Replica programme design and improvement. Some key results of the relationship include:

• Adjustments in the duration of data series for pricing and in the quality of the index. Using the revised data series, ARC Ltd adjusted the risk profile for Mali and Burkina Faso offering them an optimised product;
• Improvements to timeliness of issuing policies have been noted. This, however, requires the combined efforts of different stakeholders and has the potential to lead to more policies being signed and eventual timely settlement of premiums.

Opportunities for improvement
Improvements can be made in the following areas:

• Basis risk events – ARC Ltd should explicitly state its policy on basis risks events, highlighting that it would not pay for such events. Having made commercial payments in the past has created some expectations and these need to be handled well;
• Rules on Risk Transfer Parameters – lessons can be drawn out of West Africa and Zimbabwe and attending to the following would enhance the relationship with the insured;
• Lessons out of West Africa – in West Africa, the rules were shared only after the ARV profiles had been customised, leading to dissatisfaction among some sovereigns on the performance of the product and at this stage there was no room to make changes;
• Lessons from Zimbabwe – the Zimbabwe case was better handled as the risk transfer parameters were communicated before work on the ARV customisation began. This approach should be encouraged as it lays out the expectations.
Our Key Activities and Results

Our core activities
Below are the key activities that underpin ARC Ltd’s core underwriting business:

- Undertaking model reviews for each country participating in the drought pool;
- Developing and implementing an approach for ensuring the quality of country level customisation of risk models;
- Conducting risk-transfer workshops in every participating Member State, hence reinforcing capacity and insurance knowledge within governments;
- Structuring, underwriting and administrating insurance policies while transferring part of the risk to international reinsurance markets;
- Solicit on behalf of Members States premium finance to access sovereign risk insurance;
- Support the appetite and development of local insurance markets for parametric agricultural micro and meso insurance through providing technical and financial capacity;
- Amounts received by governments and Replica partners are utilised in accordance with the pre-agreed final implementation plan. This allows for rapid execution of operations and enforces transparency and accountability.

Financial result
ARC Ltd has two main income sources:

Underwriting Income
Premiums paid – Since inception, ARC Ltd has recorded a total Gross Written Premium (GWP) amount of $103 million.

In the financial year 2020, ARC Ltd has collected $21.1 million of GWP. Of premium written on sovereign policies, 29% were collected from Member States’ governments and 71% originated from premium financing by partners (KfW, USAID and AfDB) through premium subsidy and Replica programs via WFP and Start Network.

Investment Income
Since inception, ARC Ltd has earned a total net investment income of $9.4 million.

In 2020, the company has recorded an net investment income of $1.4 million.

“ARC Ltd has recorded many positive impacts through its three-pronged value proposition: climate change and resilience; food security and risk management; and contingency planning.”
Diversity and Inclusion

Diversity and inclusion is at the heart of ARC Ltd’s organisational values, particularly with regard to gender. This is because closing the gender gap is central to achieving the Sustainable Development Goals (SDGs).

In addition, women have a central role in agriculture and disaster response for food security and economic growth. ARC Ltd upholds the gender equality principle in all its activities within the organisation and engagement with members, and is guided by the ARC Agency’s gender strategy.

We systematically incorporate gender inclusion into our operations and policies. In this perspective, the goal of our gender strategy is to transform disaster risk management (DRM) approaches to ensure gender equity and equality for the vulnerable people in ARC Member States.

After due consultations with ARC’s staff, partners and stakeholders across the continent and beyond on how to achieve the Agency’s goal on gender equality, ARC has chosen to adopt a mainstreaming approach to ensure that gender issues are systematically integrated in its operations.

This includes, but is not limited to, building the capacity of partners to integrate gender in DRM processes by supporting Member States to conduct DRM targeted gender analyses, using our gender audit methodology.

We also engage in sustained policy dialogue and advocacy for a gender to enable a gender-sensitive culture of insurance as well as other DRM financing mechanisms including social protection programmes.

ARC Ltd will continue to explore ways and means of supporting activities aimed at ‘building back better’ which are identified in our gender audit processes.

“...We systematically incorporate gender inclusion into our operations and policies. In this perspective, the goal of our gender strategy is to transform disaster risk management (DRM) approaches to ensure gender equality for vulnerable women and men in ARC Member States.”

Interview

Dr Frannie Leautier
Former Board Member

African Risk Capacity Ltd (ARC Ltd) is a unique financial institution providing insurance for climate-related food security emergencies. It is a wholly owned affiliate of the specialised agency of the African Union (AU), known as African Risk Capacity (ARC).

Food security and climate-related risks impact rural areas, small and medium enterprises, and women and children more severely in Africa for a variety of reasons.

First, because most rural residents and women are heavily dependent on the agricultural sector.

Second, the majority of small and medium enterprises in the food value chain, many of which are owned or led by women, suffer severe consequences during periods of droughts and floods when the food markets and input supply chains are disrupted.

Third, most rural dwellers and women engaged in food and nutrition value chains, have limited access to financial products including insurance that would protect them from climate-related risks. Without protective instruments, rural families bear risks of hunger, poor maternal health, elevated infant mortality and malnutrition.

Recognising these challenges, ARC Ltd embarked on a focused execution of strategy, increasing impact on small holder farmers, women and children.

Under its then CEO, Dolika Banda, ARC Ltd led a strategy of visible impact seen from the payout of $231 million to Senegal in 2019.

The payout reached more than 350,000 vulnerable people with food distribution, direct cash transfers, and nutritional supplements for children under five years old. Because the communities could protect their assets during a severe drought crisis, they were able to build resilience and become more ready to handle future climate shocks. Furthermore, maternal health improved and malnutrition decreased. On the governance side, the enterprise sought to bring in highly talented professionals onto its Board. Today the firm has a highly effective and engaged Board, the majority of them being women.

Under the leadership of the new CEO, Lesley Ndlovu, an exciting strategy is under execution, seeking to broaden reach, diversify products to cover drought, floods and pandemics, and scale up impact and footprint by making people dependent on agriculture in Africa, climate resilient through smart insurance.

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Strength in Partnerships

- Public Sector: leveraging African Union links to promote Disaster Risk Management and Financing within Member States and advocating for favourable regulatory environments. ARC has also active and engaged partnerships with regional bodies such as ECOWAS, IGAD or SADC.
- Technical partners to support the development of parametric insurance products and ensuring that the most fit and up to date models are used by our stakeholders. We have established partnerships with companies such as Pula, Vandersat, Agritask, Centre for Disaster Protection or Descartes Underwriting amongst others.
- Insurers and financial institutions: ARC have an extensive network of partner insurance companies and banks on the continent. This is also embodied at regional and continental with active and engaged partnerships with forums such as AIO, FANAF or OESAI.
- Reinsurers: we expand our coverage through technical and commercial partnerships with African and global established reinsurance companies including Africa Re, SCOR, Swiss Re, AXA, Zep Re or Continental Re.

Development partners: we capitalise on political, financial and technical support from our development partners such as FCDO, KfW, USAID, START NETWORK, WFP, the AfDB, IDF and Insuresilience network.
Long-lasting partnerships to close the protection gap

About SCOR
SCOR is the fourth largest reinsurer globally, offering its clients a diversified and innovative range of solutions and services to control and manage risk. In applying ‘The Art & Science of Risk’, SCOR’s team of experts contribute to the welfare and resilience of society, striving to close the protection gap.

Challenges in developing resilient agricultural insurance programmes
The are many challenges in Africa inhibiting implementation and development of resilient agriculture insurance programmes. As a response to the challenges, ARC Ltd offers a very pragmatic macro-level solution where the product is structured in close engagement with participating countries and communities.

SCOR’s relationship with ARC Ltd
SCOR has been a reinsurance partner of ARC Ltd since their inaugural risk pool was established in 2014-15.

Technical exchanges
Throughout this journey, SCOR’s experts have regular technical exchanges with ARC on product structuring and continuous improvements. It is heartening to see the increasing trust the countries in Africa, as well as multilateral organisations (NGOs), are showing in ARC’s offerings. Of the various initiatives in Africa, ARC’s approach on sovereign risks is quite unique in the sense that it operates at macro level and the response payouts are made very quickly after a disaster. This also encourages the countries to make the shift from ex-post disaster aid to ex-ante disaster risk financing through insurance, making the budgeting process much easier and thus reducing dependence on international aid in case of a disaster.

“In case of a triggered event, a quick payout ensures rapid deployment of resources and relief payments to alleviate the situation.”

SCOR’s continued support to ARC Ltd
In 2020, SCOR became the leader on the ARC Ltd reinsurance programme, an aspect that confirms SCOR’s support for ARC Ltd’s key initiatives:

- To broaden the base of their offerings to cover more risks and increase their reach;
- Develop new techniques and enhance the penetration of insurance on the continent.

SCOR will stand side by side with ARC Ltd to contribute towards converting such initiatives into successful cases.

Views from: SCOR SE

by Swapnil Soni
Senior Underwriter, Agriculture Unit
Membership of InsuResilience Group

As a member of the InsuResilience Group Partnership (the Partnership), ARC Ltd has been engaging with the InsuResilience Secretariat as a key partner following the Partnership’s Vision 2025, the aim of which is to strengthen the resilience of poor and vulnerable people in the face of climate and disaster risk.

Through a rich and ongoing dialogue with members of the Partnership, the InsuResilience Secretariat ascertains some key challenges for countries implementing disaster risk financing and makes available risk data which allows for the uptake of climate and disaster risk financing and insurance solutions (CDRFI).

Through our collaboration with ARC Ltd, key strategies to overcome the challenges faced by implementers of disaster risk financing can be identified:

• Dialogue – ARC Ltd co-hosted and contributed towards the dialogue meeting held in Cape Town, South Africa, for disaster risk financiers;
• Exchange of information among stakeholders – the dialogue allowed for exchange of information between the insurance sector and government officials from the African continent. The discussion delved into the risk modelling gaps and the opportunities therein;
• Presentation of research findings – ARC Ltd, in conjunction with the University of Cape Town, undertook research on risk modelling which provided useful insight to both government representatives and insurance experts.

The future outlook:

• ARC Ltd will remain a valuable contributor to the overall InsuResilience Vision 2025;
• Being a pioneer in CDRFI, ARC Ltd is well positioned to share their experiences (lessons learnt) and propose best practice to strengthen global efforts towards Vision 2025.

“ARC Ltd is well poised to take a leadership role, at the continental level, to strengthen the insurance sector’s engagement in CDRFI.”
LOOKING AHEAD

ARC Ltd’s five-year plan is to scale to a $100 million insurance company with the capacity to provide coverage for 150 million Africans.

The company plans to achieve this growth across four different planks – market penetration, product development, diversification and market growth.
Inclusive Growth

Despite the successes of the drought insurance product, ARC Ltd is still not at scale and not yet financially sustainable. We need to scale up the business to meet our impact goals, and plan to do so on a sustainable path led by an inclusive growth strategy.

In this regard, we see significant opportunities that exist in the market to leverage our operations.

This would require growing into a US$100m insurer in the next five years that better builds the resilience of the most vulnerable people in Africa.

Seizing these opportunities requires an inclusive growth mindset to cover both sovereign and non-sovereign clients.

ARC Ltd aims to leverage capacity to bring cover to 150 million Africans by 2025. We aim to achieve this by:

• R&D capacity in developing and reviewing indices for parametric purpose
• Strong direct relationship with governments and extensive network of Country Engagement Managers
• Using policy advocacy to build sustainable partnerships
• Reputation at continental scale.
• Strength of Directors’ experience and networks
• Strengthening local insurance markets

For the benefit of African States and their vulnerable populations.

“Seizing these opportunities requires an inclusive growth mindset to cover both sovereign and non-sovereign clients.”

Towards covering 150 million Africans by 2025

Market penetration
We plan to increase the current customer base participation and mitigate the loss of market share to existing and new competitors by increasing sovereign buy-in of existing products with our sovereign stakeholders. We are also aiming to expand the Replica programme by increasing the buy-in of existing products from stakeholders such as our existing partners and new NGOs. We will also increase our market penetration by increasing the number of countries and replica partners overall.

Product development
We are constantly developing and rolling out new sovereign insurance products including in areas such as pastoral drought; tropical cyclones; floods and outbreaks and epidemics where we work with sovereign and Replica partners. First steps taken in achieving this include the pastoral drought programme in Kenya and tropical cyclone programme in Mozambique.

Diversification
Expansion of business activities to include reinsurance by providing access to smallholder farmers at scale through the agriculture value chain so that stakeholders are aggregators, insurers and reinsurers. This also encompasses retrocession and co-reinsurance by underwrite on a co-reinsurance and retro basis whereby stakeholders are reinsurers which serve SDG #17 (partnerships for the goals) by building out ARC Ltd’s partnership programmes. First steps taken towards this goal include the National Agricultural Insurance Scheme with Rwanda, Togo, Nigeria and Uganda; the $1 million equity investment into Pula (agricultural insurance aggregator); and Co-reinsurance and retrocession with Africa Reinsurance Corporation, Zep Re (PTA Reinsurance Company) and Continental Reinsurance and Swiss Re.

Market growth
Part of our five-year plan includes expanding to new market segments including:

• Micro/meso direct insurance - direct insurance to stakeholders of the agricultural chain with value chain stakeholders;
• Supranational policies with stakeholders are regional institutions such as SADC, ECOWAS);
• National agricultural insurance schemes and calling up of safety net programmes - stakeholders are sovereigns.
• First steps taken towards achieving this have been initiated in Nigeria and Kenya.
2020 in numbers

- **US$21** of GROSS WRITTEN PREMIUM
  + 30% from 2019

- **60%** NET LOSS RATIO
  236% in 2019

- **96%** COMBINED RATIO
  231% in 2019

- **US$2M** NET PROFIT
  ($8m) Loss in 2019
### Income Statement since inception

<table>
<thead>
<tr>
<th>Appendix A - Summary</th>
<th>Statement of Income / (Loss) and Comprehensive Income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>African Risk Capacity Insurance Company Limited</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Statement of Income / (Loss) and Comprehensive Income</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Underwriting Income</strong></td>
<td></td>
</tr>
<tr>
<td>Gross premiums written</td>
<td>21,142,493</td>
</tr>
<tr>
<td>Change in unearned premiums</td>
<td>(6,712,978)</td>
</tr>
<tr>
<td><strong>Gross earned premiums</strong></td>
<td>14,429,615</td>
</tr>
<tr>
<td>Reinsurers’ share of premiums</td>
<td>(12,448,375)</td>
</tr>
<tr>
<td><strong>Net earned premiums</strong></td>
<td>4,145,241</td>
</tr>
<tr>
<td>Commission income</td>
<td>1,126,556</td>
</tr>
<tr>
<td><strong>Change in unearned commission</strong></td>
<td>(428,852)</td>
</tr>
<tr>
<td><strong>Net earned commission</strong></td>
<td>697,704</td>
</tr>
<tr>
<td><strong>Policy acquisition costs</strong></td>
<td>(44,525)</td>
</tr>
<tr>
<td><strong>Change in deferred acquisition costs</strong></td>
<td>34,657</td>
</tr>
<tr>
<td><strong>Net policy acquisition costs</strong></td>
<td>(11,868)</td>
</tr>
<tr>
<td><strong>Underwriting expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Claims paid</td>
<td>(3,723,665)</td>
</tr>
<tr>
<td>Reinsurers’ share of claims</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net underwriting expense</strong></td>
<td>(3,723,665)</td>
</tr>
<tr>
<td><strong>Net underwriting income / (loss)</strong></td>
<td>(46,525)</td>
</tr>
<tr>
<td><strong>Unrealised gain / (loss) on foreign exchange</strong></td>
<td>150,000</td>
</tr>
<tr>
<td><strong>Unrealised gain / (loss) on other investments</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Net underwriting income / (loss)</strong></td>
<td>677,704</td>
</tr>
<tr>
<td><strong>Total comprehensive profit / (loss) for the year</strong></td>
<td>1,905,963</td>
</tr>
</tbody>
</table>

### Financial Position since inception

<table>
<thead>
<tr>
<th>Appendix B - Summary</th>
<th>Statement of Financial Position</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>African Risk Capacity Insurance Company Limited</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Statement of Financial Position</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>26,351</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>176,144</td>
</tr>
<tr>
<td>Reinsurance assets</td>
<td>5,323,592</td>
</tr>
<tr>
<td>Insurance receivables</td>
<td>3,005,216</td>
</tr>
<tr>
<td>Deferred policy acquisition costs</td>
<td>34,657</td>
</tr>
<tr>
<td>Accrued investment income</td>
<td>304,466</td>
</tr>
<tr>
<td>Marketable investments</td>
<td>67,647,333</td>
</tr>
<tr>
<td><strong>Investment in Pula Advisors GmbH</strong></td>
<td>2,000,000</td>
</tr>
<tr>
<td>Investment receivables</td>
<td>5,100</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>29,801,948</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>104,549,707</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Class C Members’ redeemable Capital</td>
<td>68,660,757</td>
</tr>
<tr>
<td>Unearned premium liabilities</td>
<td>7,825,746</td>
</tr>
<tr>
<td>Claims liabilities</td>
<td>1,153,197</td>
</tr>
<tr>
<td>Reinsurance premiums payable</td>
<td>5,318,229</td>
</tr>
<tr>
<td>Deferred commission income</td>
<td>428,852</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>85,783,138</td>
</tr>
<tr>
<td><strong>Members’ Equity</strong></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>250,000</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>7,825,746</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>22,743,880</td>
</tr>
<tr>
<td><strong>Total Members’ Equity</strong></td>
<td>18,766,569</td>
</tr>
<tr>
<td><strong>Total Liabilities and Members’ Equity</strong></td>
<td>104,549,707</td>
</tr>
</tbody>
</table>
The Board of Directors
ARC Ltd.
c/o Marsh Management Services (Bermuda) Limited
Power House
7 Par-la-Ville Road
Hamilton HM 11

Attention: Paul Gatutha

March 16, 2020

Reference: DCG/RN/cmh 0.1541834.001

Subject: ARC Ltd.

Dear Recipients,

We enclose one signed copy of the financial statements of ARC Ltd., for the year ended December 31, 2020.

Very truly yours,

Chartered Professional Accountants
ARC Ltd. (formerly African Risk Capacity Insurance Company Limited)
(Incorporated in Bermuda)

Audited Financial Statements
For the year ended December 31, 2020

(Expressed in U.S. Dollars)
Independent auditor’s report

To the Members of ARC Ltd.

Our opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of ARC Ltd. (formerly African Risk Capacity Insurance Company Limited) (the Company) as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited
The Company's financial statements comprise:

- the statement of financial position as at December 31, 2020;
- the statement of income and comprehensive income for the year then ended;
- the statement of changes in members’ equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

Responsibilities of management and those charged with governance for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

**Auditor’s responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Ltd.
Chartered Professional Accountants

Hamilton, Bermuda

March 16, 2021
<table>
<thead>
<tr>
<th></th>
<th>December 31, 2020</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Fixed assets (note 5)</td>
<td>26,351</td>
<td>16,191</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>176,144</td>
<td>35,484</td>
</tr>
<tr>
<td>Reinsurance assets (note 9 and 12)</td>
<td>5,553,592</td>
<td>319,686</td>
</tr>
<tr>
<td>Insurance receivables (note 8)</td>
<td>3,005,316</td>
<td>92</td>
</tr>
<tr>
<td>Deferred policy acquisition costs</td>
<td>34,657</td>
<td>-</td>
</tr>
<tr>
<td>Accrued investment income</td>
<td>304,466</td>
<td>662,431</td>
</tr>
<tr>
<td>Marketable investments (note 6)</td>
<td>67,647,333</td>
<td>81,534,159</td>
</tr>
<tr>
<td>Investment in Pula Advisors AG (note 7)</td>
<td>2,000,000</td>
<td>-</td>
</tr>
<tr>
<td>Investment receivables</td>
<td>-</td>
<td>5,100</td>
</tr>
<tr>
<td>Cash and cash equivalents (note 10)</td>
<td>25,801,848</td>
<td>8,628,155</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>104,549,707</strong></td>
<td><strong>91,201,298</strong></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Class C Members’ Returnable Capital (note 11)</td>
<td>68,660,757</td>
<td>66,531,960</td>
</tr>
<tr>
<td>Unearned premium liabilities (note 12)</td>
<td>7,825,746</td>
<td>1,112,868</td>
</tr>
<tr>
<td>Claims liabilities (note 13)</td>
<td>1,153,197</td>
<td>2,404,775</td>
</tr>
<tr>
<td>Reinsurance premiums payable</td>
<td>5,518,229</td>
<td>2,848,500</td>
</tr>
<tr>
<td>Deferred commission income</td>
<td>428,852</td>
<td>-</td>
</tr>
<tr>
<td>Investment payables</td>
<td>1,000,000</td>
<td>5,099</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>1,196,357</td>
<td>340,678</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>85,783,138</strong></td>
<td><strong>73,243,880</strong></td>
</tr>
<tr>
<td><strong>Members’ Equity</strong></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Reserve fund (note 14)</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>(1,759,663)</td>
<td>(3,665,626)</td>
</tr>
<tr>
<td>Accumulated other comprehensive income:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Class C Members’ equity grant (note 11)</td>
<td>20,276,232</td>
<td>21,373,044</td>
</tr>
<tr>
<td><strong>Total Members’ Equity</strong></td>
<td><strong>18,766,569</strong></td>
<td><strong>17,957,418</strong></td>
</tr>
<tr>
<td><strong>Total Liabilities and Members’ Equity</strong></td>
<td><strong>104,549,707</strong></td>
<td><strong>91,201,298</strong></td>
</tr>
</tbody>
</table>

Approved by the Board of Directors

The accompanying notes are an integral part of these audited financial statements.
ARC Ltd. (formerly African Risk Capacity Insurance Company Limited)
Statement of Changes in Members’ Equity
For the year ended December 31, 2020

<table>
<thead>
<tr>
<th></th>
<th>For the year ended December 31, 2020</th>
<th>For the year ended December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>Reserve Fund</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, beginning of the year</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Balance, end of the year</td>
<td><strong>250,000</strong></td>
<td><strong>250,000</strong></td>
</tr>
<tr>
<td><strong>Retained earnings</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, beginning of the year</td>
<td>(3,665,626)</td>
<td>4,575,479</td>
</tr>
<tr>
<td>Net income / (loss) for the year</td>
<td>1,905,963</td>
<td>(8,241,105)</td>
</tr>
<tr>
<td>Balance, end of the year</td>
<td><strong>(1,759,663)</strong></td>
<td><strong>(3,665,626)</strong></td>
</tr>
<tr>
<td><strong>Other comprehensive income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, beginning of the year</td>
<td>21,373,044</td>
<td>22,276,189</td>
</tr>
<tr>
<td>Changes during year:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant – Department for International Development (note 11)</td>
<td>(364,145)</td>
<td>(188,775)</td>
</tr>
<tr>
<td>Grant – the Climate Adaptation Platform PCC with respect to ARC Investment Company (KfW) (note 11)</td>
<td>(732,667)</td>
<td>(714,370)</td>
</tr>
<tr>
<td>Balance, end of the year</td>
<td><strong>20,276,232</strong></td>
<td><strong>21,373,044</strong></td>
</tr>
<tr>
<td>Total Members’ Equity</td>
<td>18,766,569</td>
<td>17,957,418</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of these audited financial statements.
The accompanying notes are an integral part of these audited financial statements.
### Statement of Cash Flows

**For the year ended December 31, 2020**

<table>
<thead>
<tr>
<th>Cash flows from operating activities</th>
<th>For the year ended</th>
<th>For the year ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2020</td>
<td>December 31, 2019</td>
</tr>
<tr>
<td><strong>Net loss for the year</strong></td>
<td>1,905,963</td>
<td>(8,241,105)</td>
</tr>
<tr>
<td><strong>Adjustments for:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>9,436</td>
<td>7,962</td>
</tr>
<tr>
<td>Realized gain on sale of investments</td>
<td>(123,354)</td>
<td>(900,473)</td>
</tr>
<tr>
<td>Realized loss on foreign exchange</td>
<td>1,025,746</td>
<td>276,394</td>
</tr>
<tr>
<td>Unrealized gain on investments</td>
<td>(1,380,212)</td>
<td>(4,043,637)</td>
</tr>
<tr>
<td>Unrealized gain on forex on investments</td>
<td>(222,958)</td>
<td>(1,800,009)</td>
</tr>
<tr>
<td>Amortization expense</td>
<td>311,001</td>
<td>395,272</td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>(1,887,609)</td>
<td>(2,778,441)</td>
</tr>
<tr>
<td>Unrealized gain on investments</td>
<td>1,031,985</td>
<td>1,530,000</td>
</tr>
<tr>
<td><strong>Changes in assets and liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>(140,660)</td>
<td>926</td>
</tr>
<tr>
<td>Reinsurance assets</td>
<td>(5,233,906)</td>
<td>(243,186)</td>
</tr>
<tr>
<td>Insurance receivables</td>
<td>(3,005,224)</td>
<td>258,963</td>
</tr>
<tr>
<td>Investment receivables</td>
<td>5,100</td>
<td>30,812</td>
</tr>
<tr>
<td>Deferred policy acquisition costs</td>
<td>(34,657)</td>
<td>-</td>
</tr>
<tr>
<td>Unearned premium liabilities</td>
<td>6,712,878</td>
<td>1,112,868</td>
</tr>
<tr>
<td>Claims liabilities</td>
<td>(1,251,578)</td>
<td>2,337,575</td>
</tr>
<tr>
<td>Reinsurance premiums payable</td>
<td>2,669,729</td>
<td>2,848,500</td>
</tr>
<tr>
<td>Deferred income</td>
<td>428,852</td>
<td>-</td>
</tr>
<tr>
<td>Investment payables</td>
<td>994,901</td>
<td>4,081</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>855,679</td>
<td>102,635</td>
</tr>
<tr>
<td><strong>Net cash provided by / (used) in operating activities</strong></td>
<td>2,671,112</td>
<td>(9,100,863)</td>
</tr>
</tbody>
</table>

### Cash flows from investing activities

<table>
<thead>
<tr>
<th></th>
<th>For the year ended</th>
<th>For the year ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>December 31, 2020</td>
<td>December 31, 2019</td>
</tr>
<tr>
<td>Interest received</td>
<td>2,245,574</td>
<td>2,872,796</td>
</tr>
<tr>
<td>Purchase of marketable investments</td>
<td>(43,329,770)</td>
<td>(55,981,166)</td>
</tr>
<tr>
<td>Proceeds from sales of investments</td>
<td>53,996,072</td>
<td>61,141,079</td>
</tr>
<tr>
<td>Proceeds from maturities of marketable investments</td>
<td>3,610,301</td>
<td>7,047,300</td>
</tr>
<tr>
<td>Investment in Pula Advisors AG</td>
<td>(2,000,000)</td>
<td>-</td>
</tr>
<tr>
<td>Purchase of fixed assets</td>
<td>(19,596)</td>
<td>(2,090)</td>
</tr>
<tr>
<td><strong>Net cash provided by investing activities</strong></td>
<td>14,502,581</td>
<td>15,077,919</td>
</tr>
</tbody>
</table>

| Increase in cash and cash equivalents                    | 17,173,693         | 5,977,056          |
| Cash and cash equivalents – Beginning of year            | 8,628,155          | 2,651,099          |
| **Cash and cash equivalents – End of year**              | 25,801,848         | 8,628,155          |

The accompanying notes are an integral part of these audited financial statements.
1. **The Company and its activities**

ARC Ltd. ("the Company"), formerly African Risk Capacity Insurance Company Limited, was incorporated under the laws of Bermuda on November 27, 2013 and is registered as a Class 2 insurer under The Insurance Act 1978, amendments thereto and related regulations ("The Act"). It is managed in Hamilton, Bermuda by Marsh Management Services (Bermuda) Ltd. and has its place of business in Bermuda. The Company’s registered address is 7 Par-la-Ville Road, Hamilton, Bermuda.

ARC Ltd. (formerly African Risk Capacity Insurance Company Limited) was established under the remit of the African Risk Capacity Agency ("ARC Agency"), which was established as a Specialised Agency by the African Union (AU). The Company is part of the African Risk Capacity (ARC) initiative of the AU, an initiative designed to improve current responses to drought food security emergencies and other natural catastrophes. The aim of ARC is to improve the timeliness of responses and build capacity within AU Member States to manage drought and other catastrophe risks by directly linking funds to defined contingency plans. ARC is an African continent-wide, index-based weather risk insurance pool and early response mechanism, which offers an African solution to one of the continent's most pressing challenges. There is a Memorandum of Understanding and Cooperation between ARC Agency and ARC Ltd. (formerly African Risk Capacity Insurance Company Limited).

ARC Ltd. (formerly African Risk Capacity Insurance Company Limited) is a mutual insurance company that provides drought, flood and tropical cyclone insurance cover to participating African countries, which are specified as Class A Members of the Company, upon participation. Under the Bye-Laws of the Company, Class A Members are those ARC Agency Member States holding a Certificate of Good Standing from the ARC Agency and which have purchased a current policy. The Bye-Laws also define the other class members of the Company: Class B Members are those who provide capital to the Company without expectation of re-payment, Class C Members are those that provide capital with a maximum fixed term of twenty years with no interest but expectation of the capital being returned ("Returnable Capital") and Class D Members are those who provide capital with an expectation of investment return.

The average number of employees of the Company during the period was eight (2019: five).

The current Members of this mutual insurance company consist of nine Class A Members and two Class C Members. There are no Class B or D members during the period end, or at the date of approval of these financial statements. During the year, there were also one additional participant in ARC Replica Insurance Program namely, the United Nations World Food Programme. The replica partner holds insurance policies not as Class A Members per the Company Bye-laws, but acquire insurance policies for the benefit of African countries some of which are current Class A members.

The Class A Members participating in the drought insurance risk pool in the current financial period are Cote D'Ivoire, The Gambia, Madagascar, Togo, Zambia, Malawi, Mauritania, Niger and Zimbabwe each having taken out at least one drought insurance policy. There was one tropical cyclone policy issued to Madagascar as at the date of approval of these financial statements.

The Class C Members are donor entities:

- the UK's Foreign, Commonwealth and Development Office (FCDO) which was formerly known as the Department for International Development ("DFID") before the merger with UK’s Foreign and Commonwealth Office on 1 September 2020, and
- KfW.
1. **The Company and its activities (continued)**

Effective September 28, 2020, the Climate Adaptation Platform PCC transferred its rights and obligations, in particular, its interest and membership in the Company to KfW through an amendment to the original Class C Membership and Commitment agreement. The amendment agreement effectively changed the Class C Member from, KfW acting through the PCC to KfW acting directly as a Class C member. Up to and until the execution of the amendment agreement, the Climate Adaptation Platform PCC was a KfW-funded capital investor and Member in ARC Ltd. (formerly African Risk Capacity Insurance Company Limited).

The policies written provide drought risk coverage to the respective African country. The level of payout to the countries is based on a risk modelling calculation engine called *Africa RiskView* (*ARV*), developed and used specifically for this purpose. *ARV* utilises variable rainfall data, in addition to other fixed data, to determine a drought response cost, on a parametric basis.

The Company has specific coverage limits for each of the participating countries and replica partners as follows:

<table>
<thead>
<tr>
<th>Country / Replica Partner</th>
<th>2019/20 policy year Coverage Limit</th>
<th>2020/21 policy year Coverage Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Drought policies</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mauritania</td>
<td>N/A</td>
<td>$6.4m</td>
</tr>
<tr>
<td>Senegal</td>
<td>$20.0m</td>
<td>N/A</td>
</tr>
<tr>
<td>The Gambia</td>
<td>$1.7m</td>
<td>$1.1m</td>
</tr>
<tr>
<td>Mali</td>
<td>$15.0m</td>
<td>N/A</td>
</tr>
<tr>
<td>Togo – North</td>
<td>$4.5m</td>
<td>$1.5m</td>
</tr>
<tr>
<td>Togo – South</td>
<td>N/A</td>
<td>$1.3m</td>
</tr>
<tr>
<td>Cote d’Ivoire – North</td>
<td>$4.0m</td>
<td>$4.3m</td>
</tr>
<tr>
<td>Cote d’Ivoire – Centre</td>
<td>$4.0m</td>
<td>$8.0m</td>
</tr>
<tr>
<td>Niger</td>
<td>$5.3m</td>
<td>$7.0m</td>
</tr>
<tr>
<td>Chad</td>
<td>$1.2m</td>
<td>N/A</td>
</tr>
<tr>
<td>Madagascar</td>
<td>$2.5m</td>
<td>$2.8m</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>$5.3m</td>
<td>$13.4m</td>
</tr>
<tr>
<td>Senegal Replica / Save the Children Fund</td>
<td>$17.0m</td>
<td>N/A</td>
</tr>
<tr>
<td>The Gambia / World Food Programme</td>
<td>$3.5m</td>
<td>$2.2m</td>
</tr>
<tr>
<td>Burkina Faso / World Food Programme</td>
<td>$7.0m</td>
<td>$4.4m</td>
</tr>
<tr>
<td>Mali / World Food Programme</td>
<td>$12.6m</td>
<td>$15.0m</td>
</tr>
<tr>
<td>Mauritania / World Food Programme</td>
<td>$9.2m</td>
<td>$6.4m</td>
</tr>
<tr>
<td>Zimbabwe / World Food Programme</td>
<td>$1.1m</td>
<td>$10.3m</td>
</tr>
<tr>
<td>Zambia</td>
<td>N/A</td>
<td>$7.1m</td>
</tr>
<tr>
<td>Malawi</td>
<td>N/A</td>
<td>$15.5m</td>
</tr>
<tr>
<td><strong>Tropical cyclone policy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Madagascar</td>
<td>N/A</td>
<td>$9.9m</td>
</tr>
</tbody>
</table>

For the 2019/20 policy year, the Company retained $28,500,000 of the total underwritten exposure. Above this retention, the Company has purchased reinsurance cover for the next $57,500,000. The Company comes back on risk above the $86,000,000 limit. In respect of the 2020/21 policy year, the Company obtained a 50% Quota Share Treaty Reinsurance coverage as well as a Stop Loss Reinsurance contract. Under the Quota Share Treaty, the Company retains a 50% Quota Share for any one risk and cedes 50% of the risk to the reinsurance market up to a maximum underwriting limit of USD 30,000,000. Under the Stop Loss reinsurance, the Company retains risk up to the greater of 110% of Gross Net Retained Premium or $6,888,750. Above this retention, the Company has Stop Loss reinsurance coverage up to a limit of $40,706,250. The reinsurance agreement allows for re-alignment of attachments and limits of the reinsurance programme should the underlying portfolio change. The company retained $2,000,000 of the total underwritten exposure for the tropical cyclone policy and purchased reinsurance cover for the next $7,900,000.

In addition, the Company also implemented its inclusive growth strategy encompassing the non-sovereign business which focuses on developing micro and meso insurance programs within the Company’s Class A member states. Five policies were issued under the non-sovereign and the perils written are similar to those currently insured by the Company i.e. drought, tropical cyclone and flooding. There is no reinsurance coverage for the non-sovereign business.
2. **Basis of preparation**

These audited financial statements of the Company are prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. They have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity or areas where assumptions are significant to the financial statements are disclosed in Note 4. The financial statements have been prepared for the individual company only. The Company presents its Statement of Financial Position broadly in order of liquidity.

i. **Standards, amendments and interpretations to existing standards, expected to apply to the Company, that are not yet effective and have not been early adopted by the Company**

IFRS 17 "Insurance Contracts" effective for years beginning on or after January 1, 2023 replaces the existing transitional arrangements of IFRS 4 and for the first time establishes a single common framework for the recognition, measurement and disclosure of insurance contracts and investment contracts with discretionary participation features. The measurement model of IFRS 17 requires entities to measure groups of insurance contracts based on estimates of discounted future cash flows with an explicit risk adjustment for non-financial risks ("fulfilment cash flows") as well as a contractual service margin, representing the expected (i.e. unearned) profit for the provision of insurance coverage in the future.

Furthermore, the standard fundamentally changes the presentation in the statement of income and introduces the new concept of insurance revenue instead of the existing disclosure of gross written premium. Insurance revenue is reported when it is earned by recognizing in each period the changes in the liability for providing coverage for which the insurance entity receives compensation as well as the part of the premiums that covers acquisition costs. Receipts and payments relating to savings components are not recognized as revenue or as profit or loss in the statement of income. Insurance finance income and expenses result from discounting effects and financial risks. The Company will assess the impact of IFRS 17.

IFRS 9 "Financial Instruments", effective January 1, 2018 replaces the existing IAS 39 "Financial Instruments: Recognition and Measurement". The standard contains requirements governing classification and measurement, impairment based on the new expected credit loss impairment approach and general hedge accounting. The new classification requirements result in more financial instruments being measured at fair value through profit or loss.

In September 2016, the IASB published “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. Under the deferral approach provided for in the amendments, entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4 are granted an optional temporary exemption from recognizing their financial instruments in accordance with IFRS 9 until IFRS 17 comes into force. The Company reviewed the application requirements based on the financial statements as at December 31, 2015 with a positive outcome and decided to make use of the deferral approach. Since the review of the application requirements, there has been no change in business activity that would have necessitated a re-evaluation of the predominant activity.

The effective date of IFRS 9 has been extended further to 1 January 2023 in order to align with the effective date of IFRS 17. IFRS 9 shall only be adopted by the Company when IFRS 17 is so adopted. In addition to the accounting principles described above, the IASB has issued the following standards, interpretations and amendments to existing standards with possible implications for the financial statements of the Company, application of which was not yet mandatory for the period under review and which are not being applied early by the Company. Initial application of these new standards is not expected to have any significant implications for the Company’s net assets, financial position or result of operations:
2. **Basis of preparation (continued)**

- Annual Improvements to IFRS Standards 2018 – 2020 Cycle -Effective for years beginning on or after January 1, 2022
- Phase 2 amendments to IFRS 9, IAS 39 and IFRS 7 for IBOR reform -effective for year beginning on or after January 1, 2021 (on or after January 1, 2023 for IFRS 9 amendments).

The impact on the Company’s financial statements in the year of adoption is uncertain at this point in time.

3. **Summary of significant accounting policies**

Outlined below are the significant accounting policies adopted by the Company:

(a) **Cash and cash equivalents**

The Company considers all time deposits and highly liquid instruments with an original maturity of ninety days or less as cash equivalents (note 10).

(b) **Financial instruments**

Financial assets and financial liabilities are recognised on the Statement of Financial Position when the Company becomes a party to the contractual provisions of the financial instruments. All financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent years is dependent upon the classification of the financial instrument as amortised cost, fair value through Other Comprehensive Income, fair value through profit or loss, loans and receivables, or other financial liabilities.

The Class C Members’ contributions, which are recognised in financial liabilities, have been initially and subsequently at year end recognised at fair value. This financial commitment to the Class C Members has been subsequently measured at the higher of (i) the amount determined in accordance with IAS 37 and (ii) the amount initially recognised less any cumulative amortization in accordance with IAS 18. As disclosed in note 11, the fair value of the Class C contributions has been calculated using discounted cash flow analysis.

All of the Company’s investments in equities, fixed maturities and investments in funds are classified as fair value through profit or loss and are carried at fair value as at the Statement of Financial Position date. The fair value of investments in fixed maturities is based on quoted market prices, either of the security itself where it is actively traded, or of similar instruments traded in active markets. For the investments in funds, the units of account that are valued by the Company are its interest in these funds and not the underlying holdings of such funds. Fair value of investments in funds is based on their reported net asset value.

Unrealized gains and losses on investments are reflected within the Statement of Income and Comprehensive income.

Investment income is stated net of investment management, custody and portfolio reporting fees. Interest income is recognized on the accrual basis and includes the amortization of premium or discount on fixed interest securities purchased at amounts different from their par value.

Gains and losses on investments are included in income when realized. Investments are recorded on a trade date basis and the cost of securities sold is determined on the first-in, first-out basis.

IFRS 7, “Financial instruments – Disclosures” (amended), requires enhanced disclosures about fair value measurement and liquidity risk. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:
3. Summary of significant accounting policies (continued)

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The cash and cash equivalents and marketable investments consist of a combination of level 1 and 2 assets. The investment in Pula Advisors AG is classified as a level 3 asset. The Class C Members’ returnable capital is a level 2 liability and there are no level 1 or level 3 liabilities.

(c) Impairment of financial assets
The Company determines that financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in market price, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows. If the investments are determined to be impaired, a loss is considered realized and charged to income in that year.

Fair value through profit or loss debt securities and receivables are considered impaired when there is objective evidence of impairment as a result of a loss event that has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

(d) Insurance contracts
The Company enters into insurance contracts that transfer significant insurance risk. Once the policyholder has provided a signed policy and insurance premium invoice, the Company then recognizes the underlying premium amounts. The insurance policies written provide that the contract can be deemed void, and the Company shall have no obligation to the policyholders, or the coverage can be reduced, should the policyholder not pay the underlying premium stated in the policy contract within an agreed timeframe. Further to this, should the policyholder’s premium payment be less than the amount in the contract, the Company may, at its discretion, reduce the coverage or offset such a shortfall against any claim payout for that policyholder.

The Company has entered into reinsurance contracts and cedes insurance risk in the normal course of business. These contracts reinsure the underlying drought-related loss portfolio consisting of all participating countries as listed in Note 1 above. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims liabilities or settled claims associated with the reinsurer’s policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has an impact that can be measured reliably. Any impairment losses are recorded in the Statement of Income. Gains or losses on buying reinsurance are recognized in the Statement of Income immediately at the date of purchase and are not amortized. Ceded reinsurance arrangements do not relieve the Company from its obligations from policyholders. Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.
3. Summary of significant accounting policies (continued)

Recognition and measurement

i) Gross premiums written and unearned premiums
The Company records premiums at the policy inception date, on an accrual basis and earns premium income over the term of the risk year on a pro-rata basis. The risk year for each respective policyholder is the defined growing season in that particular country, noting that one country may have and be covered by more than one growing season, in which case separate policies are issued and premiums collected for each growing season. The portion of the premiums related to the unexpired portion of the risk years at the end of the financial year is reflected in unearned premiums.

Adjustments to premiums are taken into income in the year in which they are determined.

(d) Insurance contracts (continued)

ii) Policy acquisition costs
Acquisition costs are comprised of agents’ commissions, premium taxes and other expenses that relate directly to the acquisition of premiums. These costs are deferred and amortised over the earning pattern of the premiums to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses and investment income.

iii) Reinsurance premiums ceded and deferred reinsurance premiums
The Company recognises premiums ceded at the policy inception date and expenses them consistently with the underlying premiums written. The portion of the premium ceded related to the unexpired portion of the risk years at the end of the financial year is reflected in deferred reinsurance premiums.

iv) Reinsurance and reinsurance balances recoverable
The Company reflects reinsurance balances in the Statement of Financial Position on a gross basis to indicate the extent of credit risk related to reinsurance. Expected reinsurance recoveries on unpaid claims and claims expenses are recognised as assets in the Company’s Statement of Financial Position, where applicable. At year end, there are no provisions for doubtful reinsurance balances receivable.

v) Commission income
Commission income consists of ceding commission, reinsurance taxes and other income that relate directly to the ceding of premiums. Commission received is deferred and recognised as revenue over the year during which the reinsurance contract is in place.

vi) Claims liabilities and claims expenses
Provision for claim payouts to policyholders is made in accordance with the Company’s reserving policy. The reserving policy states that the risk year covered for each policy is the underlying growing seasons, identified within each policy. Within each growing season, the only variable data impacting on whether a claim payout is required and the level of that payout is the rainfall data, which is maintained within the risk modelling calculation engine ARV used by the Company. The rainfall data is recorded into ARV on a dekadai (a dekad being a year of days 1-10, 11-20 and 21-month-end for each month of a year, a year thus comprising 36 dekads) basis, using data from the National Oceanic and Atmospheric Administration (“NOAA”) of the US Government. A range of possible outcomes are generated within ARV after each new dekad rainfall amount is added as the growing season progresses. The average of the final response cost value distribution is used as the estimated claim payout, calculated at the end of the third and final dekad for each calendar month. The accuracy of the respective estimated claim payouts is only reasonably ascertained after the ‘planting window’ for a given growing season has closed. The planting window is the year, within each of the respective
3. Summary of significant accounting policies (continued)

   vi) Claims liabilities and claims expenses (continued)
   growing seasons, that farmers sow their crops. It is a critical year of time that has a significant impact
on the harvest at the end of each growing season. For those policyholders that have reached the end
of the planting window by the year end, reserves will be calculated as above and there is the possibility
of identifying a guaranteed minimum claim liability at that time. However, initially, estimation and
recording of the claims liabilities is calculated on a monthly basis using the expected loss ratios on
the contracts. The directors and management believe that the claims liability amount thus calculated
and recorded is adequate. Claims are charged to the Statement of Income and Comprehensive Income
as incurred.

(e) Foreign currencies:

   a. Functional and presentation currency
      Items included in the financial statements are measured using the currency of the primary economic
environment in which the entity operates (the “functional currency”). Accordingly, the financial statements
are presented in United States (“US”) Dollars.

   b. Transactions and balances
      Foreign currency transactions are translated into the Company’s functional currency using the exchange
rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from
the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and
liabilities denominated in foreign currencies are recognised in the Statement of Income. The Returnable
Capital from PCC / KfW is denominated in US Dollars, however the DFID Returnable Capital is denominated
in a foreign currency, Great Britain Pounds (GBP). Therefore, in accordance with IAS 21, this foreign
currency monetary item has been translated at the year end using the closing rate.

(f) Investment income
   Investment income is comprised of interest and dividend income, which is accrued to the date of the
Statement of Financial Position.

4. Critical accounting estimates and judgments

The preparation of financial statements required management to use judgment in applying its accounting
policies and estimates and assumptions about the future. Estimates and judgments are continuously evaluated
and are based on historical experience and other factors, including expectations about future events that are
believed to be reasonable under the circumstances. The following discusses the most significant accounting
judgments and estimates that the company has made in the preparation of the financial statements:

   a. Claims liabilities
      The claims liabilities are calculated in accordance with the accounting policy as described in Note 3
(d). This is considered to be a critical accounting estimate, given that there is judgment involved in the
reserving policy established and utilised by the Company. This judgment is based on the expertise
and experience of management and with consideration of the specific data available and data
parameters utilised by the risk modelling calculation engine ARV.

   b. Fair value
      The fair value of financial instruments held by the Company approximates carrying value due to its
liquid and short-term nature. The fair value of financial instruments that are actively traded in organised
financial markets is determined by reference to quoted market bid prices for assets and offer prices for
liabilities, at the close of business on the Statement of Financial Position date. If quoted market prices
are not available, reference is also made to broker or dealer quotations.
4. Critical accounting estimates and judgments (continued)

b. Fair value (continued)

For financial instruments where there is not an active market, the fair value is determined by using valuation techniques. Such techniques include using recent arm’s length transactions, reference to the current market value of another instrument which is substantially the same and/or discounted cash flow analysis. For discounted cash flow techniques, estimated future cash flows are based on management’s best estimates and the discount rate used is a market related rate for a similar instrument.

Class C Members’ Returnable Capital is recognised in financial liabilities. These debt contributions from the two current Class C Members are interest free loans, based on the characteristics described in the ‘Class C Membership and Capital Contribution Agreement’ (CCA) and the Company Bye-Laws. In accordance with IAS 32, these contributions are more in the nature of debt rather than equity and thus have been recognised in financial liabilities. These zero-interest rate loans have been provided by the two donor entities, DFID and PCC / KfW, with the requirement that in 20 years or earlier, in accordance with the executed CCA, these loans will be repaid at initial par value. These loans are measured at their fair value. The fair values of these financial liabilities have been determined through discounted cash flow analysis, using a discount rate of 2%. This 2% discount rate is based on the interest rate plus service charge applied to 20-year loans (25-year maturity but with 5 year grace year) made by the International Development Association (“IDA”) under ‘Blend’ terms effective July 1, 2016. IDA is the part of the World Bank Group which provides development finance to the poorer countries of the world.

In addition, the GBP denominated DFID loan has been revalued for reporting purposes using the closing rate, as described in note 3.

Short term financial assets comprise cash and cash equivalents, marketable investments and accrued investment income. The carrying value of these is a reasonable estimate of their fair value as determined by independent third party financial institutions.

5. Fixed Assets

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2020</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>16,191</td>
<td>22,063</td>
</tr>
<tr>
<td>Cost of additions</td>
<td>19,596</td>
<td>2,090</td>
</tr>
<tr>
<td>Depreciation charge</td>
<td>(9,436)</td>
<td>(7,962)</td>
</tr>
<tr>
<td><strong>Net book value</strong></td>
<td><strong>26,351</strong></td>
<td><strong>16,191</strong></td>
</tr>
</tbody>
</table>

The net book value consists of computers and computer equipment of $5,642 (2019: $3,740), software of $9,520 (2019: $0) and office furniture of $11,189 (2019: $12,451).


### 6. Marketable investments

<table>
<thead>
<tr>
<th>Subclass</th>
<th>December 31, 2020</th>
<th>Carrying value December 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset-backed bonds</td>
<td>5,315,230</td>
<td>5,870,159</td>
</tr>
<tr>
<td>Commercial mortgage bonds</td>
<td>4,874,383</td>
<td>4,964,434</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>37,754,644</td>
<td>40,947,636</td>
</tr>
<tr>
<td>Equities</td>
<td>1,022,106</td>
<td>1,075,592</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>9,701,591</td>
<td>11,828,473</td>
</tr>
<tr>
<td>US and International government bonds</td>
<td>2,861,886</td>
<td>2,961,039</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>61,529,840</strong></td>
<td><strong>67,647,333</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Subclass</th>
<th>Cost December 31, 2019</th>
<th>Carrying value December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset-backed bonds</td>
<td>6,043,164</td>
<td>5,974,703</td>
</tr>
<tr>
<td>Commercial mortgage bonds</td>
<td>3,366,657</td>
<td>3,387,132</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>56,803,683</td>
<td>56,951,360</td>
</tr>
<tr>
<td>Equities</td>
<td>3,859,684</td>
<td>4,409,418</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>2,892,375</td>
<td>3,403,640</td>
</tr>
<tr>
<td>International government bonds</td>
<td>5,485,863</td>
<td>5,494,921</td>
</tr>
<tr>
<td>US government bonds</td>
<td>1,704,720</td>
<td>1,703,586</td>
</tr>
<tr>
<td>Derivatives</td>
<td>13</td>
<td>209,399</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>80,156,159</strong></td>
<td><strong>81,534,159</strong></td>
</tr>
</tbody>
</table>

#### December 31, 2020

<table>
<thead>
<tr>
<th>Subclass</th>
<th>Cost</th>
<th>Amortization</th>
<th>Unrealized gain &lt; 1 year</th>
<th>Unrealized loss &lt; 1 year</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset-backed bonds</td>
<td>5,315,230</td>
<td>(86)</td>
<td>582,445</td>
<td>(27,431)</td>
<td>5,870,158</td>
</tr>
<tr>
<td>Comm. mortgage bonds</td>
<td>4,874,383</td>
<td>(1,273)</td>
<td>141,321</td>
<td>(49,996)</td>
<td>4,964,435</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>37,754,644</td>
<td>(80,532)</td>
<td>3,286,199</td>
<td>(12,675)</td>
<td>40,947,636</td>
</tr>
<tr>
<td>Equities</td>
<td>1,022,106</td>
<td>-</td>
<td>53,486</td>
<td>-</td>
<td>1,075,592</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>9,701,591</td>
<td>-</td>
<td>2,12,688</td>
<td>-</td>
<td>11,828,473</td>
</tr>
<tr>
<td>Government bonds</td>
<td>2,861,886</td>
<td>(8,211)</td>
<td>110,099</td>
<td>(2,735)</td>
<td>2,961,039</td>
</tr>
<tr>
<td>Derivatives</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>61,529,840</strong></td>
<td><strong>(90,102)</strong></td>
<td><strong>6,300,431</strong></td>
<td><strong>(92,837)</strong></td>
<td><strong>67,647,333</strong></td>
</tr>
</tbody>
</table>
The carrying value of debt securities by contractual maturity is shown below:

<table>
<thead>
<tr>
<th>Maturity</th>
<th>December 31, 2020</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due within 1 year</td>
<td>19,458,934</td>
<td>7,993,448</td>
</tr>
<tr>
<td>Due within 1 to 5 years</td>
<td>29,439,196</td>
<td>42,970,115</td>
</tr>
<tr>
<td>Due over 5 years</td>
<td>5,845,138</td>
<td>22,548,139</td>
</tr>
<tr>
<td></td>
<td>54,743,268</td>
<td>73,511,702</td>
</tr>
</tbody>
</table>

Credit ratings for bonds held by the Company as at December 31, 2020 range from AAA to B+ (2019: AAA to B+) as set out by Standard & Poor's.

The following table presents the analysis of the Company's investments by level of input as required by IFRS 7:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset-backed bonds</td>
<td></td>
<td>5,870,158</td>
<td>5,870,158</td>
</tr>
<tr>
<td>Commercial mortgage bonds</td>
<td></td>
<td>4,964,435</td>
<td>4,964,435</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td></td>
<td>40,947,636</td>
<td>40,947,636</td>
</tr>
<tr>
<td>Equities</td>
<td>1,075,592</td>
<td></td>
<td>1,075,592</td>
</tr>
<tr>
<td>Mutual funds</td>
<td></td>
<td>11,828,473</td>
<td>11,828,473</td>
</tr>
<tr>
<td>Government bonds</td>
<td></td>
<td>2,961,039</td>
<td>2,961,039</td>
</tr>
<tr>
<td>As at December 31, 2020</td>
<td>1,075,592</td>
<td>66,571,741</td>
<td>67,647,333</td>
</tr>
<tr>
<td>As at December 31, 2019</td>
<td>5,908,224</td>
<td>75,625,935</td>
<td>81,534,159</td>
</tr>
</tbody>
</table>
6. Marketable investments (continued)

In relation to the Derivatives, at the year end the Company held currency forward buys and sells with the notional values of $nil and $ nil, respectively (2019: $47,678 and $16,686,961), which had a fair value of $nil (2019: $209,399). The maturity date for these currency forwards was February 20, 2020. The Company held futures with a notional value of $22,425,828 (2019: $nil), which had a fair value of $nil (2019: $nil). The Company did not hold any swaps and options as at the year end.

7. Investment in Pula Advisors AG

The Company invested in 6.98% of the common shares and 16.67% of Series A preferred shares of Pula Advisors AG, a Swiss limited liability company engaged in the core business of providing consulting services and project management in the field of sustainable development. The directors of the Company do not consider that ARC Ltd is able to exercise significant influence over Pula Advisors AG due to the level of shareholding in the company. The purchase consideration was $2,000,000, which approximates fair value of the investment as at year end, as the investment subscription was completed in December 2020. As at December 31, 2020 the Company had settled $1,000,000 under the Series A Financing Round and the final $1,000,000 payable under the secondary Share Purchase Agreements (SPAs) was still outstanding. The $1,000,000, which is disclosed under investment payables on the Balance Sheet, was fully settled in January 2021.

8. Insurance receivables

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2020</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables from Class A Members</td>
<td>5,662,705</td>
<td>3,673,382</td>
</tr>
<tr>
<td>Receivables from non-sovereign business</td>
<td>359,625</td>
<td>-</td>
</tr>
<tr>
<td>Less: Provision for doubtful debts</td>
<td>(3,017,014)</td>
<td>(3,673,290)</td>
</tr>
<tr>
<td></td>
<td>3,005,316</td>
<td>92</td>
</tr>
</tbody>
</table>

The provision for doubtful debts consists of $443,834; and $2,573,180 which was provided for Burkina Faso and Niger, respectively (2019: $1,100,110; and $2,573,180 for Burkina Faso and Niger, respectively). A provision for doubtful debts of $656,276 which was recognized during the year ended December 31, 2018 in respect of a receivable from Burkina Faso was reversed during the current year as Burkina Faso partially settled their premiums in arrears.

9. Reinsurance assets

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2020</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinsurance share of unearned premiums / deferred reinsurance premiums</td>
<td>4,461,042</td>
<td>315,771</td>
</tr>
<tr>
<td>Reinsurance claims receivable</td>
<td>1,092,550</td>
<td>-</td>
</tr>
<tr>
<td>2020/20 Reinsurance premium overpayment</td>
<td>-</td>
<td>3,915</td>
</tr>
<tr>
<td></td>
<td>5,553,592</td>
<td>319,686</td>
</tr>
</tbody>
</table>
10. **Cash and cash equivalents**

The Company considers all time deposits and highly liquid instruments with an original maturity of ninety days or less as cash equivalents.

<table>
<thead>
<tr>
<th>December 31, 2020</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
</tr>
<tr>
<td>Cash at bank with Bank of Butterfield</td>
<td>12,855,896</td>
</tr>
<tr>
<td>Cash at bank with First National Bank</td>
<td>65,300</td>
</tr>
<tr>
<td><strong>Marketable investments:</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents with BNY Mellon</td>
<td>12,650,904</td>
</tr>
<tr>
<td>Cash and cash equivalents with investment brokers</td>
<td>229,748</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents</strong></td>
<td><strong>25,801,848</strong></td>
</tr>
</tbody>
</table>

The range of interest rates earned during the year was between 0% and 10% (2019: 0% and 12.75%). Cash is held in Bermuda with Bank of Butterfield, which was rated BBB+ (2019: BBB+) at the year end. Cash is held in South Africa with First National Bank, a division of FirstRand which was rated BB (2019: BB) at the year end. Cash and cash equivalents are held in the United Kingdom with one custodian, Bank of New York Mellon, which was rated AA- (2019: AA-) at the year end. There are securities held as collateral in the amount of $785,000 (2019: $28,364). This collateral is required by the investment broker for particular trades. In addition, cash and cash equivalents of $229,749 (2019: $291,984) are held in restricted margin accounts with Goldman Sachs in the United States, which was rated A-1 at the year end. Accordingly, management considers there to be limited credit risk associated with cash and cash equivalent balances.

11. **Class C Members’ Returnable Capital**

The two Class C Members contributed Returnable Capital with a maximum fixed term of 20 years to the Company. These contributions were made on March 17, 2014 from PCC / KfW (USD 48,405,000) and DFID (GBP 30,000,000) with a maturity date of March 17, 2034 under the CCA. The CCA provides that this Capital will be paid and returned in the afore-stated currencies and may be withdrawn early by the relevant Member, or returned early by the Company to such Member, in accordance with the relevant clause of the CCA and the Company’s Bye-Laws. The Class C Member Capital Commitment is returnable or may be withdrawn subject to the Company complying with its solvency margin, liquidity ratio, and all requirements of the Insurance Act and satisfying the obligations of the policyholders. The two Class C Members have equivalent interests in the Company, having both subscribed to one interest each, as per the CCA.

<table>
<thead>
<tr>
<th></th>
<th>DFID GBP</th>
<th>DFID USD</th>
<th>PCC / KfW USD</th>
<th>Total USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial fair value of capital commitment</td>
<td>30,000,000</td>
<td>49,929,600</td>
<td>48,405,000</td>
<td>98,334,600</td>
</tr>
<tr>
<td>Reserve fund - statutory capital requirement</td>
<td>(125,000)</td>
<td>(125,000)</td>
<td>(250,000)</td>
<td></td>
</tr>
<tr>
<td>Impairment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total value of capital commitment</td>
<td>49,804,600</td>
<td>48,280,000</td>
<td>98,084,600</td>
<td></td>
</tr>
<tr>
<td>Equity grant</td>
<td>(16,203,410)</td>
<td>(15,704,823)</td>
<td>(31,908,233)</td>
<td></td>
</tr>
<tr>
<td>Accretion</td>
<td>4,837,200</td>
<td>4,689,497</td>
<td>9,526,697</td>
<td></td>
</tr>
<tr>
<td>Net movement on equity grant</td>
<td>(11,366,210)</td>
<td>(11,015,326)</td>
<td>(22,381,536)</td>
<td></td>
</tr>
</tbody>
</table>
11. **Class C Members’ Returnable Capital (continued)**

<table>
<thead>
<tr>
<th></th>
<th>DFID GBP</th>
<th>DFID USD</th>
<th>PCC / KfW USD</th>
<th>Total USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net value of loan</td>
<td>38,438,390</td>
<td>37,264,674</td>
<td>75,703,064</td>
<td></td>
</tr>
<tr>
<td>Foreign exchange movement</td>
<td>(7,042,307)</td>
<td>-</td>
<td>(7,042,307)</td>
<td></td>
</tr>
<tr>
<td><strong>Fair value of loan December 31, 2020</strong></td>
<td>31,396,083</td>
<td>37,264,674</td>
<td>68,660,757</td>
<td></td>
</tr>
<tr>
<td><strong>Fair value of loan December 31, 2019</strong></td>
<td>29,999,953</td>
<td>36,532,007</td>
<td>66,531,960</td>
<td></td>
</tr>
<tr>
<td>Net movement on loan for 2020</td>
<td>1,396,130</td>
<td>732,667</td>
<td>2,128,797</td>
<td></td>
</tr>
<tr>
<td>Net movement on equity grant</td>
<td>11,366,210</td>
<td>11,015,326</td>
<td>22,381,536</td>
<td></td>
</tr>
<tr>
<td>Foreign exchange movement</td>
<td>2,105,304</td>
<td>-</td>
<td>2,105,304</td>
<td></td>
</tr>
<tr>
<td><strong>Fair value of equity grant December 31, 2020</strong></td>
<td>9,260,906</td>
<td>11,015,326</td>
<td>20,276,232</td>
<td></td>
</tr>
<tr>
<td><strong>Fair value of grant December 31, 2019</strong></td>
<td>9,625,051</td>
<td>11,747,993</td>
<td>21,373,044</td>
<td></td>
</tr>
<tr>
<td>Net movement on grant for 2020</td>
<td>(364,145)</td>
<td>(732,667)</td>
<td>(1,096,812)</td>
<td></td>
</tr>
</tbody>
</table>

The foreign exchange amounts shown in the above table totaling $9,147,612 which is for the year March 17, 2014 to December 31, 2020, (March 17, 2014 to December 31, 2019: $10,179,596) are netted off against the foreign exchange movements for the current year (up to October 2020) and prior years on the GBP denominated marketable investments and cash and cash equivalents in the Statement of Income. In the prior years, the initial GBP capital commitment was hedged for foreign exchange purposes with the GBP assets included in marketable investments and cash and cash equivalents. The GBP investments portfolio was liquidated in October 2020 and all marketable investments are held in one USD investments portfolio. In respect of the equity grant accretion totaling $9,526,697, this is netted off against the Class C loan write up in the Statement of Income. The amounts equate and there is a nil impact on the Statement of Income.

The subsequent fair value of the capital commitments have been calculated using discounted cash flow analysis. The interest rate ascertained from recent arm’s length transactions which are substantially the same as these Class C loans is 2% (2019: 2%). This interest rate was used to calculate the fair value of these loan commitments at the year end. In relation to the DFID Capital Commitment, the foreign exchange rate used on initial measurement was the spot exchange rate of GBP to USD on March 17, 2014 (GBP 1 : USD 1.66432). On subsequent measurement at year end, the spot exchange rate on December 31, 2020 was used (GBP 1 : USD 1.3590). In relation to the accretion of DFID loan, an average rate over the year from initial receipt of the loan to the year end was used (GBP 1 : USD 1.44077).

The Class C Members have terms of redemption for all or part of the returnable capital provided to the Company, which are established under the Company Bye-Laws and contractually confirmed in the ‘Return of Funds’ clause in the CCA. A Class C Member ceases to be a Member of the Company on the date that its capital is completely withdrawn from the Company and returned to that Class C Member, under Bye-Law 4.4.3.

Bye-Law 5 states: “Class C Member Capital is returnable or may be withdrawn subject to the Company complying with its solvency margin, liquidity ratio, and all requirements of the Insurance Act and satisfying its obligations to its Policy-holders provided that the Company shall use its best endeavours promptly to (and procure that any necessary third party shall) execute and deliver all such documents and perform such acts as may be required for the purpose of such compliance, as follows:

- Each Class C Member has the right to have its initial capital returned at the end of the term in accordance with its Capital Commitment Agreement;
- Each Class C Member will have its initial Capital returned prior to the end of the term set forth in its Capital Commitment Agreement, with seventy (70) Business Days prior written notice, if two-thirds of the Class A Members vote to return the Capital to such Member prior to the end of such term;
11. Class C Members’ Returnable Capital (continued)

- If the Conference of the Parties, decides to discontinue the Company in Bermuda and continue the Company in a jurisdiction outside of Bermuda, each Class C Member will have the right to withdraw the entire amount of its initial Capital prior to the date of continuation. For the avoidance of doubt, the Company will only be discontinued once the initial Capital provided by the Class C Member that has requested the withdrawal of its Capital has been fully repaid;
- If the Company is deemed Financially Unsustainable each Class C Member will have the right to withdraw the entire amount of its Capital as it appears in the Capital C Account upon giving written notice to the Company. If the Company is deemed Financially Unsustainable, no further Policy will be issued;
- If there is a Legal Violation which cannot be cured in twenty-two (22) Business Days, each Class C Member will have the right to withdraw the entire amount of its Capital as it appears in the Capital C Account upon giving written notice of its intent to withdraw its Capital to the Company. If a Class C Member indicates that it will withdraw its Capital because of a Legal Violation, the Company will not issue Policies until the respective Class C Member has been repaid. The Company shall repay the Class C Member as soon as legally possible; or
- If a Class A Member is given a new Certificate of Good Standing (or holds a Policy under an existing Certificate of Good Standing) and a Class C Member objects, acting reasonably, to such Class A Member’s participation in the Company, such Class C Member may provide the Company with a 155 Business Day written notice of its intent to withdraw its Capital and may subsequently withdraw the entire amount of its Capital as it appears in the Capital C Account at the end of such Class A Member’s paid Policy term. If the Class C Member gives written notice to the Company that it will withdraw its Capital because of a Legal Violation, the Company will not issue Policies until the Capital has been repaid to such Class C Member. The Company shall repay the Class C Member as soon as legally possible.
- The Members, acting reasonably, may remove a Class B Member or Class C Member in accordance with this Bye-Law 5.7. Before a Class B Member or Class C Member is removed, the Members must consult with the relevant Class B Member or Class C Member, and allow that Member to cure the issue giving rise to its potential removal, within seventy (70) Business Days of written notice of such issue being given to that Member by the other Members. The removal of a Class B Member or Class C Member requires a two-thirds affirmative vote of the Class A Members and two-thirds vote of the Class B Members and Class C Members voting together (excluding the Class B Member or Class C Member whose membership is under consideration). If the Members vote to remove a Class B Member or C Member from the Company membership, the relevant Class B Member will have the entire amount of its then-current Capital returned to it and the relevant Class C Member will have its initial Capital returned to it, within seventy (70) Business Days of the date of such vote."

At the date of approval of these financial statements, none of these criteria have been met that would trigger a redemption.

12. Unearned premium liabilities

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2020</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening balance</td>
<td>1,112,868</td>
<td>-</td>
</tr>
<tr>
<td>Premiums written</td>
<td>21,142,493</td>
<td>16,049,587</td>
</tr>
<tr>
<td>Premiums earned</td>
<td>(14,429,615)</td>
<td>(14,936,719)</td>
</tr>
<tr>
<td></td>
<td>7,825,746</td>
<td>1,112,868</td>
</tr>
<tr>
<td><strong>Reinsurers’ share</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening balance</td>
<td>(315,771)</td>
<td>-</td>
</tr>
<tr>
<td>Reinsurance premiums written</td>
<td>(12,448,375)</td>
<td>4,554,000</td>
</tr>
<tr>
<td>Reinsurance premiums earned</td>
<td>8,303,104</td>
<td>4,238,229</td>
</tr>
<tr>
<td></td>
<td>(4,461,042)</td>
<td>(315,771)</td>
</tr>
</tbody>
</table>
12. **Unearned premium liabilities (continued)**

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2020</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net of reinsurance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening balance</td>
<td>797,097</td>
<td>-</td>
</tr>
<tr>
<td>Net premiums written</td>
<td>8,694,118</td>
<td>11,495,587</td>
</tr>
<tr>
<td>Net premiums earned</td>
<td>(6,126,511)</td>
<td>(10,698,490)</td>
</tr>
<tr>
<td></td>
<td>3,364,704</td>
<td>797,097</td>
</tr>
</tbody>
</table>

The unearned premium liabilities are all due within one year after the year end.

13. **Claims liabilities**

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2020</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance - net</td>
<td>2,404,775</td>
<td>67,200</td>
</tr>
<tr>
<td>Add: Opening reinsurance recoverable</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Opening balance - gross</td>
<td>2,404,775</td>
<td>67,200</td>
</tr>
<tr>
<td>Claims incurred current year</td>
<td>2,245,747</td>
<td>26,557,313</td>
</tr>
<tr>
<td>Claims incurred prior year</td>
<td>1,477,918</td>
<td>(67,200)</td>
</tr>
<tr>
<td></td>
<td>3,723,665</td>
<td>26,490,113</td>
</tr>
<tr>
<td>Claims paid current year</td>
<td>(1,092,550)</td>
<td>(24,085,338)</td>
</tr>
<tr>
<td>Claims paid prior year</td>
<td>(3,882,693)</td>
<td>(67,200)</td>
</tr>
<tr>
<td></td>
<td>(4,975,243)</td>
<td>(24,152,538)</td>
</tr>
<tr>
<td>Closing balance - gross</td>
<td>1,153,197</td>
<td>2,404,775</td>
</tr>
<tr>
<td>Less: Closing reinsurance recoverable</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Closing balance - net</td>
<td>1,153,197</td>
<td>2,404,775</td>
</tr>
</tbody>
</table>

The claims liabilities are all due within one year after the year end. The claims incurred of $3,723,665 (2019 $26,490,113) represents the total estimated incurred claims to the year end, which has been determined by the reserving model used by the Company.
13. Claims liabilities (continued)

<table>
<thead>
<tr>
<th>Claims development: At the end of the year</th>
<th>December 31, 2020</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1,153,197</td>
<td>$2,404,775</td>
</tr>
</tbody>
</table>

Any claim payouts are made shortly after the end of the underlying risk years for each respective policyholder. The risk years, as explained in Note 3 (d), are the growing seasons for each participating country. Practically, this means that within four weeks of the growing season ending, any relevant claim payout shall be made, subject to conditions around Financial Implementation Plan (“FIP”) and other required documentation being in order. Claims paid for the current year ($4,975,243) represent four (4) claim payouts to Cote D’Ivoire North Region $2,185,100 ($1,092,550 recovered under the Quota Share Treaty), Madagascar $2,126,803, Zimbabwe $1,465,602 and World Food Programme / Zimbabwe replica policy $290,288. (2019: Senegal ($12,522,508), Save the Children Fund / Senegal Replica Policy ($10,657,657), Cote D’Ivoire Central Region ($738,040) and Mauritania ($167,133)). The gross claims liabilities of $1,153,197 due at the end of the period are in respect of the tropical clone policy for Madagascar $909,091 and non-sovereign business $244,106. The reserves with respect to the drought policies are $Nil (2019: Zimbabwe ($624,248) and Madagascar ($1,780,527)).

14. Reserve Fund

In accordance with the Company’s Memorandum of Association, the reserve fund consists of $250,000 of capital contribution, which was funded in equal amounts by DFID and PCC / KfW.

15. Trust Funds

A trust was established on July 17, 2015 under an agreement between KfW and Appleby Trust (Mauritius) Limited (now Estera (Mauritius) Limited), as trustee of this 'ARC TA Facility Purpose Trust’. This trust fund, which is unsecured, amounts to €1,395,000. On application to the trustee and under the terms of a Financing Agreement and a Separate Agreement, the Company has the right to reimbursement of certain costs, from this trust account, subject to certain conditions. During the year ended December 31, 2020, there has been one reimbursement request totaling $150,000 in relation to this Trust (2019: $211,371), which was submitted to and paid by the Trustee.

A Separate Agreement between ARC Ltd and the aforementioned trustee was also signed on October 20, 2020 for subsidization of ARC Ltd insurance premiums for African member states and the total grant amounts to €11,000,000. On application to the trustee, the Company has the right to submit a disbursement request for premium subsidization after qualified African countries sign an insurance contract, and if applicable, pay their portion of the premium. During the year ended December 31, 2020, premium subsidy grant disbursements received by the Company amounted to $6,956,211.

16. Investment income

<table>
<thead>
<tr>
<th>Investment income</th>
<th>December 31, 2020</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest and dividend income</td>
<td>1,887,609</td>
<td>2,778,441</td>
</tr>
<tr>
<td>Amortization of bonds</td>
<td>(311,001)</td>
<td>(395,272)</td>
</tr>
<tr>
<td>Realized gain on investments</td>
<td>173,660</td>
<td>774,149</td>
</tr>
<tr>
<td>Unrealized (loss) / gain on derivatives</td>
<td>(50,305)</td>
<td>126,324</td>
</tr>
<tr>
<td><strong>Gross investment income</strong></td>
<td><strong>1,699,963</strong></td>
<td><strong>3,283,642</strong></td>
</tr>
<tr>
<td>Less: Investment managers, custody and portfolio fees</td>
<td>(292,809)</td>
<td>(339,508)</td>
</tr>
<tr>
<td><strong>Net investment income</strong></td>
<td><strong>1,407,154</strong></td>
<td><strong>2,944,134</strong></td>
</tr>
</tbody>
</table>

Interest rates on investments ranged from 0% to 10% (2019 – 0% to 12.75%) during the year.
17. Expenses and reimbursements

<table>
<thead>
<tr>
<th>Description</th>
<th>December 31, 2020</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member costs</td>
<td>$46,263</td>
<td>$146,893</td>
</tr>
<tr>
<td>Board costs</td>
<td>$142,626</td>
<td>$275,547</td>
</tr>
<tr>
<td>Corporate secretarial and regulatory fees</td>
<td>$16,084</td>
<td>$13,930</td>
</tr>
<tr>
<td>Legal fees</td>
<td>$84,202</td>
<td>$41,306</td>
</tr>
<tr>
<td>Insurance</td>
<td>$78,287</td>
<td>$51,834</td>
</tr>
<tr>
<td>Bank charges</td>
<td>$11,955</td>
<td>$9,401</td>
</tr>
<tr>
<td>External audit</td>
<td>$88,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Internal audit</td>
<td>$8,112</td>
<td>$13,357</td>
</tr>
<tr>
<td>Insurance manager’s fees</td>
<td>$298,500</td>
<td>$280,003</td>
</tr>
<tr>
<td>Executive management and administration</td>
<td>$1,766,609</td>
<td>$1,593,514</td>
</tr>
<tr>
<td>Reinsurance broker fees</td>
<td>$183,333</td>
<td>$135,495</td>
</tr>
<tr>
<td>Communications</td>
<td>$14,046</td>
<td>$2,699</td>
</tr>
<tr>
<td>Depreciation</td>
<td>$9,436</td>
<td>$7,962</td>
</tr>
<tr>
<td>Reversal of provision for doubtful debts</td>
<td>($656,276)</td>
<td>($3,082,691)</td>
</tr>
<tr>
<td><strong>Total general and administration expenses</strong></td>
<td>$2,091,177</td>
<td>($410,750)</td>
</tr>
<tr>
<td>Executive recruitment</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Consultancy</td>
<td>$192,153</td>
<td>$60,000</td>
</tr>
<tr>
<td><strong>Total once-off and start-up costs</strong></td>
<td>$192,153</td>
<td>$60,000</td>
</tr>
<tr>
<td><strong>Reimbursements from Trust:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General and administration</td>
<td>($150,000)</td>
<td>($211,371)</td>
</tr>
<tr>
<td><strong>Total reimbursements from Trust</strong></td>
<td>($150,000)</td>
<td>($211,371)</td>
</tr>
</tbody>
</table>

18. Related party transactions

The Company provides insurance coverage to Class A Members, as described in note 1. The premiums and related transactions with these Class A Members are thus related party transactions. In addition, as described in note 11 above, the two Class C Members provided Returnable Capital to the Company. These financial liabilities are also related party transactions, given that ARC Ltd. (formerly African Risk Capacity Insurance Company Limited) is a mutual company.

Remuneration during the year in respect of the Board of Directors is in the form of a fixed Honorarium of $10,000 (2019: $10,000) per annum per Director.

There were seven Directors on the Board and one Advisor to the Board at the beginning and end of the year. The total Honorarium paid during the year was $96,333 (2019: $80,000). The total amount of travel and subsistence expenses reimbursed to Directors, or to entities who have paid on behalf of respective Directors, for the year was $8,380 (2019: $23,559).
18. **Related party transactions (continued)**

GeoSY Ltd. and 10 Development Consulting LLC provided key management personnel services to the Company and the final invoicing received from these two relates parties was for September 2019 and July 2020, respectively. In accordance with IAS 24, GeoSY and 10 Development Consulting were deemed to be related parties. The Company was invoiced or re-charged the following expenses by GeoSY and 10 Development Consulting during the period: $84,750 (2019: $198,438) key management personnel remuneration, $8,226 (2019: $42,486) management personnel travel and subsistence. The amount of $nil (2019: $9,500) due to 10 Development Consulting is included in accounts payable and accrued liabilities at the period end.

Effective, August 2020 the Company entered into an agreement with GP3 Institute Trust, a non-profit which provides Legal Advisory and Governance Support Services for public private corporation initiatives within the United Nations Sustainable Development Goals framework. The Company’s Legal Secretary service is provided by the GP3 Institute Trust. The Company provides grant funding to GP3 Institute in recognition of the legal and governance services provided to the Company. The amount of $67,892 (2019: $nil) representing grant funding due to GP3 Institute is included in accounts payable and accrued liabilities at the year end. ARC Ltd’s Legal Secretary is an independent contractor of GP3 Institute.

19. **Taxation**

Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Bermuda government exempting it from all local income, withholding and capital gains taxes until March 31, 2035. At present time no such taxes are levied in Bermuda.

20. **Capital Risk management and statutory financial data**

(a) **Bermuda**

ARC Ltd. (formerly African Risk Capacity Insurance Company Limited) is a mutual insurance Company, registered as a Class 2 Insurer under the Bermuda Insurance Act 1978 and Related Regulations (“the Act”). In accordance with the Act, statutory capital and surplus at the year end was $87,216,525 (2019: $84,453,895) and the amount required to be maintained by the Company was $1,469,412 (2019 $1,749,559). The Company has met the minimum solvency margin requirement at the year end. In addition, a minimum liquidity ratio must be maintained whereby relevant assets, as defined by the Act, must exceed 75% of relevant liabilities. The ratio was met at the year end.

Under the Act, the Company is required to prepare Statutory Financial Statements. The Bermuda Statutory accounting regulations allow the recognition of Class C Member Capital as Statutory Capital, as opposed to debt financial liabilities or equity grant under the IFRS. The Members’ equity is comprised of the reserve fund, retained earnings and Class C equity grant. The Company’s objectives when managing ‘capital’ are to comply with the minimum capital and surplus requirements of the Act and to safeguard the Company’s ability to continue as a going concern.

In disclosure note 11, there is reference to “Financially Unsustainable”, which is a term taken directly from the Company’s Bye-Laws. Financially unsustainable is defined in the Bye-Laws as a reduction of capital which endangers the Company’s capacity to maintain its claim-paying capacity in a financially sustainable manner as measured by the ECR ratio. The ECR ratio is the Enhanced Capital Requirement under Bermuda Insurance regulations. Should the statutory capital of the Company decrease to a level below 150% of the ECR, then this would be deemed “financially unsustainable”. At no point to the date of approval of these financial statements has the Company been Financially Unsustainable, based on the above definition.
20. **Capital Risk management and statutory financial data (continued)**

The difference between the Company’s statutory capital and surplus and Members’ equity as per these financial statements is as shown in the below table.

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2020</th>
<th>December 31, 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory capital and surplus</td>
<td>87,216,525</td>
<td>84,453,895</td>
</tr>
<tr>
<td>Adjust for: Non admitted items for Statutory purposes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>176,144</td>
<td>35,484</td>
</tr>
<tr>
<td>Deferred policy acquisition costs</td>
<td>34,657</td>
<td>-</td>
</tr>
<tr>
<td>Adjust for: Class C Members’ returnable capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DFID – Initial contribution treated as equity capital</td>
<td>(49,929,600)</td>
<td>(49,929,600)</td>
</tr>
<tr>
<td>Less: DFID initial contribution treated as equity grant</td>
<td>9,260,906</td>
<td>9,625,051</td>
</tr>
<tr>
<td>PCC / KfW – Initial contribution treated as equity capital</td>
<td>(48,405,000)</td>
<td>(48,405,000)</td>
</tr>
<tr>
<td>Less: PCC / KfW initial contribution treated as equity grant</td>
<td>11,015,326</td>
<td>11,747,992</td>
</tr>
<tr>
<td>Forex revaluation of GBP capital contribution</td>
<td>9,147,611</td>
<td>10,179,596</td>
</tr>
<tr>
<td>Reserve fund – Initial contribution designated as share capital</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td><strong>Members’ equity</strong></td>
<td><strong>18,766,569</strong></td>
<td><strong>17,957,418</strong></td>
</tr>
</tbody>
</table>

(b) **Participating African Countries**

ARC Ltd has been granted approval for issuance of the Insurance Policies recognised in these Financial Statements in each of the participating Class A Member countries via a written letter of exemption from national insurance laws and regulations.

21. **Management of insurance and financial risk**

The Company is exposed to a range of risks through its financial assets, financial liabilities and insurance liabilities. This section summarises these risks and the way the Company manages them.

a. **Insurance risk**

The risk under an insurance contract is the risk that an insured event will occur, including the uncertainty of the amount of any resulting claim. The principal risk the Company faces under such contracts is that provisions for claims liabilities are estimates which are subject to variability, and the variability could be material in the near term. The variability arises because the amount of rainfall, which impacts on the ultimate settlement of claims, has not yet been fully determined as it is a future event. Provision for claims liabilities are based on all relevant information available to the Company. Methods of estimation are used which the Company believes produce reasonable results given current information.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. The Company only insures the drought risks of participating African member states; therefore, there is a concentration of insurance risk within the industry sector and broadly within the territories the Company serves.

The variability of risks is improved by the use of reinsurance arrangements. Similar to other insurance companies, in order to minimise financial exposure arising from large claims (from, for example, correlated drought events affecting multiple insured countries), the Company, in the normal course of business, will enter into agreements with other parties for reinsurance purposes.
21. Management of insurance and financial risk (continued)

To minimise its exposure to significant losses from reinsurer insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers.

Furthermore, the financial strength and managerial and technical expertise as well as historical performance, wherever applicable, are thoroughly reviewed by the Company. Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders and as a result the Company remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the reinsurance agreements.

Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for ascertaining the underlying policy benefits and are presented in the Statement of Financial Position as reinsurance assets.

b. Financial risk

i. Market risk

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currency exchange rates. Management assesses that, there is minimal risk of significant losses due to exchange rate fluctuations, based on the fact that the GBP denominated financial liability and grant equity are hedged by the GBP denominated marketable investments. All premium and risk exposures are denominated in USD.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company currently funds its insurance liabilities with a portfolio of cash accounts and fixed term deposits. Short-term insurance liabilities are not directly sensitive to the level of market interest rates as they are undiscounted and contractually non-interest bearing. The Company manages interest rate risk by matching the cash flows profile of assets and liabilities.

ii. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. For all classes of financial assets held by the Company (including accrued investment income and cash and cash equivalents), other than those relating to reinsurance contracts as described in note 3 (d) above, the maximum credit risk exposure to the Company is the carrying value as disclosed in the financial statements at the date of the Statement of Financial Position. The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables. The Company does not hold any collateral in relation to its credit risk. The reinsurers all have a rating of at least A- (2019: A-).
21. Management of insurance and financial risk (continued)

iii. Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet its commitments associated with financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash and deposits and the availability of funding through an adequate amount of committed credit facilities. The Company’s cash and cash equivalents have a maturity profile that ensures that it is able to meet liabilities arising from claims received. The Company shall also mitigate future liquidity risks by holding highly liquid financial assets which may be sold quickly in response to needs for liquidity. The Company holds derivatives, whose maturities are disclosed in Note 6.

iv. Prepayment risk

At December 31, 2020, the Company held $4,964,435 (2019: $3,387,132) of its fixed income portfolio in commercial mortgage bonds. The assets are exposed to prepayment risk, which occurs when holders of underlying loans increased the frequency with which they prepay the outstanding principal before the maturity date and/or re-finance at a lower interest rate cost. The adverse impact of prepayment is more evident in a declining interest rate environment. As a result, the Company will be exposed to reinvestment risk, as cash flows received by the Company will be accelerated and will be reinvested at the prevailing interest rates.

v. Price risk

At December 31, 2020, the Company’s marketable investments were subject to general market and price risk. The impact of movements in pricing are set out below:

<table>
<thead>
<tr>
<th></th>
<th>Carrying value</th>
<th>Effect of 0.5% increase in interest rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Fair value through profit or loss investments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset-backed bonds</td>
<td>5,870,159</td>
<td>5,315,230</td>
</tr>
<tr>
<td>Commercial mortgage bonds</td>
<td>4,964,434</td>
<td>4,874,383</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>40,947,636</td>
<td>37,754,644</td>
</tr>
<tr>
<td>Equities</td>
<td>1,075,592</td>
<td>1,022,106</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>11,828,473</td>
<td>9,701,591</td>
</tr>
<tr>
<td>Government bonds</td>
<td>2,961,039</td>
<td>2,861,886</td>
</tr>
<tr>
<td></td>
<td>67,647,333</td>
<td>61,529,840</td>
</tr>
<tr>
<td></td>
<td>81,534,159</td>
<td>80,156,159</td>
</tr>
</tbody>
</table>

22. Ex-Gratia Payment

The Company made an ex-gratia payment of $nil (2019: $2,400,000) to Mauritania and this was approved by the Members of the Company on January 19, 2019.
23. **Covid 19**

The Company is closely monitoring developments relating to the COVID-19 pandemic which emerged in Quarter 1 2020. The Company has performed a scenario analysis on the COVID-19 impact and developed counter measures to ensure business continuity under the prevailing environment. Management has reviewed the composition of its current assets and believes that the Company has sufficient liquid assets to meet its liabilities. Furthermore, management has also assessed the COVID-19 impact on the Company's investment portfolio and, at this time, consider that the risk is not pervasive as appropriate measures have been instated to streamline the investment portfolio management process.

At the time of signing these financial statements, the impact of COVID-19 is uncertain due to ever changing circumstances, but the Company will continue to monitor developments and respond as appropriate. Management have also reviewed the potential impact of COVID-19 on the Company's underwriting performance and at the date of approval of the financial statements, are satisfied that Company's capital remains within the Company's risk appetite range.

24. **Approval of the financial statements**

These financial statements were approved by the Board of Directors on March 16, 2021. Management does not have the power to change or amend the financials after the date of approval by the Board of Directors.
Acknowledgments

ARC Ltd would like to thank the following individuals for their contributions:

• Dolika Banda (Former CEO)
• Simon Young (Former CEO)

Former Board Members:

• Dele Babade
• Lars Thunell
• Richard Wilcox
• Hans-Peter Gerhardt
• Vincent Rague
• Amadou Diallo

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