



The Board of Directors  
African Risk Capacity Insurance Company Limited  
c/o Marsh Management Services (Bermuda)  
Power House  
7 Par-la-Ville Road  
Hamilton HM11

Attention: Paul Gatutha

December 6, 2019

Reference: RN/DCG/cd 0.1420097.001

**Subject: African Risk Capacity Insurance Company Limited**

Dear Recipients,

We enclose one signed copy of the financial statements of African Risk Capacity Insurance Company Limited, for the period ended September 30, 2019. We draw your attention to Appendix A attached, which includes matters that the auditor is required to communicate to those charged with governance in accordance with generally accepted auditing standards.

Very truly yours,

*PricewaterhouseCoopers Ltd.*

Chartered Professional Accountants

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T: +1 (441) 295 2000, F: +1 (441) 295 1242, [www.pwc.com/bermuda](http://www.pwc.com/bermuda)*

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**African Risk Capacity Insurance Company Limited**  
(Incorporated in Bermuda)

Audited Financial Statements  
**For the nine month period ended September 30, 2019**

(Expressed in U.S. Dollars)



## **Independent auditor's report**

To the Members of African Risk Capacity Insurance Company Limited

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### **Our opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Risk Capacity Insurance Company Limited (the Company) as at September 30, 2019 and its financial performance and its cash flows for the period 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 September 30, 2019;
- the statement of changes in members' equity for the period then ended;
- the statement of income and comprehensive income for the period then ended;
- the statement of cash flows for the period then ended; and
- the notes to the audited financial statements, which include a summary of significant accounting policies.

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### **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 Ethics Standards Board for Accountants' Code of Ethics for Professional 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.



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## **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.

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## **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.

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*Private Home Coopers Ltd.*

**Chartered Professional Accountants**

**Hamilton, Bermuda**

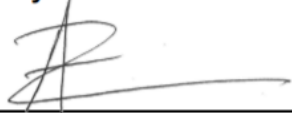
**December 4, 2019**

# African Risk Capacity Insurance Company Limited

Statement of Financial Position  
As at September 30, 2019

	September 30, 2019	December 31, 2018
	\$	\$
<b>Assets</b>		
Fixed assets (note 5)	18,214	22,063
Sundry receivables and prepaid expenses	95,795	36,410
Reinsurance assets (note 8 and 11)	1,205,483	76,500
Insurance receivables (note 7)	3,125,151	259,055
Accrued investment income	753,254	756,786
Marketable investments (note 6)	90,081,728	87,668,920
Investment receivables	290,408	35,912
Cash and cash equivalents (note 9)	17,384,820	2,651,099
<b>Total Assets</b>	<b>112,954,853</b>	<b>91,506,745</b>
<b>Liabilities</b>		
Class C Members' Returnable Capital (note 10)	64,105,530	64,098,816
Unearned premium liabilities (note 11)	3,932,911	-
Claims liabilities (note 12)	25,308,040	67,200
Reinsurance premiums payable	4,383,000	-
Investment payables	218,942	1,018
Accounts payable and accrued liabilities	568,234	238,043
<b>Total Liabilities</b>	<b>98,516,657</b>	<b>64,405,077</b>
<b>Members' Equity</b>		
Reserve fund (note 13)	250,000	250,000
Retained earnings	(6,821,278)	4,575,479
Accumulated other comprehensive income: Class C Members' equity grant (note 10)	21,009,474	22,276,189
<b>Total Members' Equity</b>	<b>14,438,196</b>	<b>27,101,668</b>
<b>Total Liabilities and Members' Equity</b>	<b>112,954,853</b>	<b>91,506,745</b>

Approved by the Board of Directors



Director



Director

The accompanying notes are an integral part of these audited financial statements.

# African Risk Capacity Insurance Company Limited

## Statement of Changes in Members' Equity

For the nine month period ended September 30, 2019

	For the period ended September 30, 2019	For the period ended September 30, 2018
	\$	\$
<b>Reserve Fund</b>		
Balance, beginning of the period	250,000	250,000
<b>Balance, end of the period</b>	<b>250,000</b>	<b>250,000</b>
<b>Retained earnings</b>		
Balance, beginning of the period	4,575,479	13,093,609
Net loss for the period	(11,396,757)	(3,186,954)
<b>Balance, end of the period</b>	<b>(6,821,278)</b>	<b>9,906,655</b>
<b>Other comprehensive income</b>		
Balance, beginning of the period	22,276,189	24,181,659
Changes during period:		
Grant – Department for International Development (note 10)	(734,230)	(824,998)
Grant – the Climate Adaptation Platform PCC with respect to ARC Investment Company (KfW) (note 10)	(532,485)	(523,974)
<b>Balance, end of the period</b>	<b>21,009,474</b>	<b>22,832,687</b>
<b>Total Members' Equity</b>	<b>14,438,196</b>	<b>32,989,342</b>

The accompanying notes are an integral part of these audited financial statements.

# African Risk Capacity Insurance Company Limited

## Statement of Income and Comprehensive Income For the nine month period ended September 30, 2019

	For the period ended September 30, 2019	For the period ended September 30, 2018
	\$	\$
<b>Underwriting income</b>		
Gross premiums written (note 11)	14,346,208	4,814,683
Change in unearned premiums	(3,932,911)	(1,417,451)
<b>Gross earned premiums</b>	<b>10,413,297</b>	<b>3,397,232</b>
Reinsurers' share of insurance premiums (note 11)	(4,383,000)	(2,578,500)
Reinsurers' share of change in unearned premiums	1,201,568	759,014
<b>Reinsurers' share of gross earned premiums</b>	<b>(3,181,432)</b>	<b>(1,819,486)</b>
<b>Net premiums</b>	<b>7,231,865</b>	<b>1,577,746</b>
<b>Underwriting expenses</b>		
Claims (note 12)	(25,240,840)	(59,730)
Net underwriting expense	(25,240,840)	(59,730)
<b>Net underwriting (loss) / income</b>	<b>(18,008,975)</b>	<b>1,518,016</b>
General and administrative expenses (note 16)	1,075,435	(2,191,335)
Once-off and start-up costs (note 16)	-	(187,748)
Ex-gratia payment to policyholder (note 21)	-	(2,400,000)
Net investment income (note 15)	2,085,112	1,115,627
Unrealized gain / (loss) on other investments	3,903,764	(883,775)
Unrealized gain on foreign exchange	560,167	200,166
Realized loss on foreign exchange	(1,012,260)	(357,905)
<b>Net loss for the period</b>	<b>(11,396,757)</b>	<b>(3,186,954)</b>
(Write down of) Equity grant from Class C Members (Note 10)	(1,266,715)	(1,348,972)
<b>Total comprehensive loss for the period</b>	<b>(12,663,472)</b>	<b>(4,535,926)</b>

The accompanying notes are an integral part of these audited financial statements.



# African Risk Capacity Insurance Company Limited

## Statement of Cash Flows

For the nine month period ended September 30, 2019

	For the period ended September 30, 2019	For the period ended September 30, 2018
	\$	\$
<b>Cash flows from operating activities</b>		
Net loss for the period	(11,396,757)	(3,186,954)
Adjustments for:		
Depreciation	5,939	5,444
Realized loss / (gain) on sale of investments	(559,670)	411,832
Realized loss on foreign exchange	1,012,261	357,905
Unrealized loss / (gain) on investments	(3,903,764)	883,775
Unrealized loss / (gain) on forex on investments	695,569	1,246,207
Amortization expense	305,091	479,192
Interest and dividend income	(2,153,618)	(2,256,058)
Unrealized forex movement on DfID capital contribution	(1,260,000)	(1,462,500)
Changes in assets and liabilities		
Prepaid expenses	(59,385)	(17,926)
Reinsurance assets	(1,128,983)	(759,014)
Insurance receivables	(2,866,096)	(3,774,315)
Investment receivables	(254,496)	-
Unearned premium liabilities	3,932,911	1,417,451
Claims liabilities	25,240,840	59,730
Reinsurance premiums payable	4,383,000	(2,799,000)
Investment payables	217,924	190,001
Accounts payable and accrued liabilities	330,191	(290,162)
Net cash generated / (used) in operating activities	12,540,957	(9,494,392)
<b>Cash flows from investing activities</b>		
Interest received	2,157,150	2,195,880
Purchase of marketable investments	(41,431,078)	(33,051,979)
Proceeds from sales of investments	37,660,291	28,286,050
Proceeds from maturities of marketable investments	3,808,491	5,778,342
Purchase of fixed assets	(2,090)	(1,648)
Net cash provided by investing activities	2,192,764	3,206,645
Increase/ (decrease) in cash and cash equivalents	14,733,721	(6,287,747)
Cash and cash equivalents – Beginning of period	2,651,099	10,680,677
<b>Cash and cash equivalents – End of period</b>	<b>17,384,820</b>	<b>4,392,930</b>

The accompanying notes are an integral part of these audited financial statements.

# African Risk Capacity Insurance Company Limited

Notes to the Audited Financial Statements

September 30, 2019

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## 1. *The Company and its activities*

African Risk Capacity Insurance Company Limited ("the Company" or "ARC Ltd.") 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 IAS 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. 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.

ARC Ltd. 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 five (2018: four).

The current Members of this mutual insurance company consist of seven 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 period, there were also two additional participants in ARC Replica Insurance Program namely, the United Nations World Food Programme and Save The Children UK – START Network. The replica partners hold 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 insurance risk pool in the current financial period are Senegal, Cote D'Ivoire, Mali, Togo, The Gambia, Niger and Chad, each having taken out at least one drought insurance policy. There has not been any issuance of tropical cyclone policies at the date of approval of these financial statements.

The Class C Members are donor entities:

- the UK Department for International Development ("DFID"), and
- the Climate Adaptation Platform PCC with respect to ARC Investment Company ("PCC / KfW").

The Climate Adaptation Platform is a special purpose entity established by PCC/KfW, the German Development Bank, to facilitate overseas development assistance funding to address challenges in developing countries associated with climate change adaptation and extreme weather events. The Climate Adaptation Platform is the PCC/KfW-funded capital investor and Member in ARC Ltd.

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.

# African Risk Capacity Insurance Company Limited

## Notes to the Audited Financial Statements

September 30, 2019

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### 1. The Company and its activities (continued)

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

<b>Country / Replica Partner</b>	<b>2018/19 policy period Coverage Limit</b>	<b>2019/20 policy period Coverage Limit</b>
Burkina Faso	\$6.0m	N/A
Senegal	\$25.0m	\$20.0m
The Gambia	\$3.3m	\$1.7m
Mali	N/A	\$15.0m
Togo	N/A	\$4.5m
Cote D'Ivoire – North	N/A	\$4.0m
Cote D'Ivoire – Centre	N/A	\$4.0m
Niger	N/A	\$5.3m
Chad	N/A	\$1.2m
Senegal Replica / Save the Children Fund	N/A	\$17.0m
The Gambia / World Food Programme	N/A	\$3.5m
Burkina Faso / World Food Programme	N/A	\$7.0m
Mali / World Food Programme	N/A	\$12.6m
Mauritania / World Food Programme	N/A	\$9.2m

For the 2018/19 policy period, the Company retained \$3,000,000 of the total underwritten exposure. Above this retention, the Company has purchased reinsurance cover for the next \$27,000,000. The Company comes back on risk above the 30,000,000 limit. In respect of the 2019/20 policy period, the Company retains \$28,000,000 of the total underwritten exposure. Above this retention, the Company has purchased reinsurance cover for the next \$57,000,000. The Company comes back on risk above the \$85,000,000 limit. The reinsurance agreement allows for re-alignment of attachments and limits of the reinsurance programme should the underlying portfolio change.

### 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/after January 1, 2021. New standard on accounting for insurance contracts, replacing IFRS 4, Insurance Contracts.
- IFRS 9 "Financial Instruments" shall only be adopted by the Company when IFRS 17 "Insurance Contracts" is so adopted.

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

# African Risk Capacity Insurance Company Limited

Notes to the Audited Financial Statements

September 30, 2019

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## 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 9).

(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 periods 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 period 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 9, the fair value of the Class C contributions has been calculated using discounted cash flow analysis.

All of the Company's investments in 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:

- 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. There are no level 3 assets. The Class C Members' returnable capital is a level 2 liability and there are no level 1 or level 3 liabilities.

# African Risk Capacity Insurance Company Limited

Notes to the Audited Financial Statements

September 30, 2019

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## 3. Summary of significant accounting policies (continued)

### (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 period.

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 period. 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 recognised in the Statement of Income immediately at the date of purchase and are not amortised. Ceded reinsurance arrangements do not relieve the Company from its obligations from policyholders. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

### *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 period on a pro-rata basis. The risk period 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 periods at the end of the financial period is reflected in unearned premiums.

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

# African Risk Capacity Insurance Company Limited

Notes to the Audited Financial Statements

September 30, 2019

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## 3. Summary of significant accounting policies (continued)

### (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. There are no policy acquisition costs during the period end.

#### 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 periods at the end of the financial period 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. As at period 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 period during which the reinsurance contract is in place. There is no commission income during the period end.

#### 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 period 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 dekadal (a dekad being a period 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 period, within each of the respective growing seasons, that farmers sow their crops. It is a critical period 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 period 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.

# African Risk Capacity Insurance Company Limited

Notes to the Audited Financial Statements

September 30, 2019

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## 3. Summary of significant accounting policies (continued)

### (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 period-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 period 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.

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.

# African Risk Capacity Insurance Company Limited

## Notes to the Audited Financial Statements

September 30, 2019

### 4. Critical accounting estimates and judgments (continued)

#### b. Fair value (continued)

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 period) 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 (e).

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

	September 30, 2019	December 31, 2018
	\$	\$
Opening balance	22,063	27,617
Cost of additions	2,090	1,648
Depreciation charge	(5,939)	(7,202)
Net book value	18,214	22,063

The net book value consists of computers and computer equipment of \$4,567 (2018: \$4,840), software of \$0 (2018: \$0) and office furniture of \$13,647 (2018: \$17,223).

### 6. Marketable investments

	Cost	Carrying value
	September 30, 2019	September 30, 2019
	\$	\$
Asset-backed bonds	5,777,711	5,614,546
Commercial mortgage bonds	3,145,916	3,120,942
Corporate bonds	65,366,726	63,738,522
Equities	3,995,339	4,279,867
Mutual funds	3,115,870	3,359,999
International government bonds	5,553,135	5,357,988
US government bonds	4 253 614	4,304,250
Derivatives	12	305,614
	91,208,323	90,081,728



# African Risk Capacity Insurance Company Limited

Notes to the Audited Financial Statements

September 30, 2019

## 6. Marketable investments (continued)

	Cost December 31, 2018 \$	Carrying value December 31, 2018 \$
Asset-backed bonds	6,575,515	6,440,945
Commercial mortgage bonds	2,694,551	2,665,058
Corporate bonds	71,169,778	67,565,327
Equities	3,368,731	3,161,721
Mutual funds	3,351,494	2,702,725
International government bonds	3,953,210	3,758,739
US government bonds	1,351,943	1,357,248
Derivatives	51	17,157
	<u>92,465,273</u>	<u>87,668,920</u>

September 30, 2019	Cost \$	Amortization \$	Unrealized gain < 1 year \$	Unrealized loss < 1 year \$	Fair value \$
Asset-backed bonds	5,777,711	(1,699)	3,842	(165,308)	5,614,546
Comm. mortgage bonds	3,145,916	9,471	5,119	(39,564)	3,120,942
Corporate bonds	65,366,726	(633,785)	953,425	(1,947,844)	63,738,522
Equities	3,995,339	-	428,201	(143,673)	4,279,867
Mutual funds	3,115,870	-	254,199	(10,070)	3,359,999
International govt. bonds	5,553,135	(4,812)	115,095	(305,430)	5,357,988
US government bonds	4,253,614	5,709	48,892	(3,965)	4,304,250
Derivatives	12	-	313,692	(8,090)	305,614
	<u>91,208,323</u>	<u>(625,116)</u>	<u>2,122,465</u>	<u>(2,623,944)</u>	<u>90,081,728</u>

December 31, 2018	Cost \$	Amortization \$	Unrealized gain < 1 year \$	Unrealized loss < 1 year \$	Fair value \$
Asset-backed bonds	6,575,515	7	25,238	(159,815)	6,440,945
Comm. mortgage bonds	2,694,551	11,180	15,819	(56,492)	2,665,058
Corporate bonds	71,169,778	(786,043)	211,308	(3,029,716)	67,565,327
Equities	3,368,731	-	30,679	(237,689)	3,161,721
Mutual funds	3,351,494	-	1,692	(650,461)	2,702,725
International govt. bonds	3,953,210	(15,600)	18,046	(196,917)	3,758,739
US government bonds	1,351,943	(1)	5,306	-	1,357,248
Derivatives	51	-	21,708	(4,602)	17,157
	<u>92,465,273</u>	<u>(790,457)</u>	<u>329,796</u>	<u>(4,335,692)</u>	<u>87,668,920</u>

# African Risk Capacity Insurance Company Limited

## Notes to the Audited Financial Statements

September 30, 2019

### 6. Marketable investments (continued)

The carrying value of debt securities by contractual maturity is shown below:

	September 30, 2019	December 31, 2018
	\$	\$
Due within 1 year	6,987,245	8,151,234
Due within 1 to 5 years	49,695,328	47,667,231
Due over 5 years	25,453,675	25,986,009
	<u>82,136,248</u>	<u>81,804,474</u>

Credit ratings for bonds held by the Company as at September 30, 2019 range from AAA to BB+ (2018: 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:

	Level 1	Level 2	Total
	\$	\$	\$
<b>As at September 30, 2019: Fair value through profit or loss investments:</b>			
Asset-backed bonds	-	5,614,546	5,614,546
Commercial mortgage bonds	-	3,120,942	3,120,942
Corporate bonds	-	63,738,522	63,738,522
Equities	3,866,118	413,749	4,279,867
Mutual funds	-	3,359,999	3,359,999
International government bonds	-	5,357,988	5,357,988
US government bonds	4,304,250	-	4,304,250
Derivatives	-	305,614	305,614
	<u>8,170,368</u>	<u>81,911,360</u>	<u>90,081,728</u>
<b>As at September 30, 2019</b>	<b>8,170,368</b>	<b>81,911,360</b>	<b>90,081,728</b>
	<u>4,518,969</u>	<u>83,149,951</u>	<u>87,668,920</u>
<b>As at December 31, 2018</b>	<b>4,518,969</b>	<b>83,149,951</b>	<b>87,668,920</b>

There are no level 3 investments held by the Company.

In relation to the Derivatives, at the period end the Company held currency forward buys and sells with the notional values of \$109,593 and \$15,687,950, respectively (2018: \$310,863 and \$11,778,435), which had a fair value of \$305,614 (2018: \$(3,936)). The maturity date for these currency forwards was October 16, 2019. The Company held futures with a notional value of \$nil (2018: \$18), which had a fair value of \$nil (2018: \$21,094). The Company did not hold any swaps and options as at the period end.

# African Risk Capacity Insurance Company Limited

## Notes to the Audited Financial Statements

September 30, 2019

### 7. Insurance receivables

	September 30, 2019 \$	December 31, 2018 \$
Receivables from Class A Members	6,798,441	7,015,036
Less: Provision for doubtful debts	(3,673,290)	(6,755,981)
	3,125,151	259,055

The provision for doubtful debts consists of \$1,100,110; and \$2,573,180 which was provided for Burkina Faso and Niger, respectively (2018: \$1,100,110; \$2,573,180; and \$3,082,691 for Burkina Faso and Niger and Senegal, respectively). A provision for doubtful debts of \$3,082,691 which was recognized during the year ended December 31, 2018 in respect of the Senegal receivable was reversed during the current period as management anticipates that this receivable will be set off against the guaranteed payout for the Senegal country policy (Note 12).

### 8. Reinsurance assets

	September 30, 2019 \$	December 31, 2018 \$
Reinsurance share of unearned premiums / deferred reinsurance premiums	1,201,568	-
2018/19 Reinsurance premium overpayment	3,915	76,500
	1,205,483	76,500

### 9. 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.

	September 30, 2019 \$	December 31, 2018 \$
Cash at bank with Bank of Butterfield	14,215,591	488,750
Cash at bank with First National Bank	4,533	49,755
<i>Marketable investments:</i>		
Cash and cash equivalents with BNY Mellon	2,897,887	1,883,186
Cash and cash equivalents with investment brokers	266,809	229,408
Cash and cash equivalents	17,384,820	2,651,099

The range of interest rates earned during the period was between 0% and 0.5% (2018: 0% and 0.5%). Cash is held in Bermuda with Bank of Butterfield, which was rated BBB+ (2018: 'BBB') at the period end. Cash is held in South Africa with First National Bank, a division of FirstRand which was rated BB (2018: 'BB') at the period end. Cash and cash equivalents are held in the United Kingdom with one custodian, Bank of New York Mellon, which was rated AA- (2018: 'AA-') at the period end. In addition, cash and cash equivalents are held in margin accounts with Natwest in the United Kingdom, which was rated A-2 at the period end, as well as with Goldman Sachs in the United States, which was rated A-1 at the period end. Accordingly, management considers there to be limited credit risk associated with cash and cash equivalent balances.

The Company considers the GBP denominated marketable investments, cash and cash equivalents as a foreign exchange hedge against the GBP denominated capital commitment from DFID, which is split between a financial liability and an equity grant, as outlined in Note 10.

# African Risk Capacity Insurance Company Limited

Notes to the Audited Financial Statements

September 30, 2019

## 10. 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 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.

	DFID GBP	DFID USD	PCC / KfW USD	Total USD
Initial fair value of capital commitment	30,000,000	49,929,600	48,405,000	98,334,600
Reserve fund - statutory capital requirement		(125,000)	(125,000)	(250,000)
Impairment		-	-	-
Total value of capital commitment		49,804,600	48,280,000	98,084,600
Equity grant		(16,203,410)	(15,704,823)	(31,908,233)
Accretion		3,893,839	3,774,945	7,668,784
Net movement on equity grant		(12,309,571)	(11,929,878)	(24,239,449)
Net value of loan		37,495,029	36,350,122	73,845,151
Foreign exchange movement		(9,739,621)	-	(9,739,621)
<b>Fair value of loan September 30, 2019</b>		<b>27,755,408</b>	<b>36,350,122</b>	<b>64,105,530</b>
<i>Fair value of loan December 31, 2018</i>		<i>28,281,179</i>	<i>35,817,637</i>	<i>64,098,816</i>
Net movement on loan for 2019		(525,771)	532,485	6,714
Net movement on equity grant		12,309,571	11,929,878	24,239,449
Foreign exchange movement		(3,229,975)	-	(3,229,975)
<b>Fair value of equity grant September 30, 2019</b>		<b>9,079,596</b>	<b>11,929,878</b>	<b>21,009,474</b>
<i>Fair value of grant December 31, 2018</i>		<i>9,813,826</i>	<i>12,462,363</i>	<i>22,276,189</i>
Net movement on grant for 2019		(734,230)	(532,485)	(1,266,715)

The foreign exchange amounts shown in the above table totaling \$12,969,596 which is for the period March 17, 2014 to September 30, 2019, (March 17, 2014 to December 31, 2018: \$11,709,595) are netted off against the foreign exchange movements for the current and prior periods on the GBP denominated marketable investments and cash and cash equivalents in the Statement of Income. This reflects that the initial GBP capital commitment is hedged for foreign exchange purposes with the GBP assets included in marketable investments and cash and cash equivalents. Similarly, in respect of the equity grant accretion totaling \$7,668,784, 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% (2018: 2%). This interest rate was used to calculate the fair value of these loan commitments at the period 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 period end, the spot exchange rate on September 30, 2019 was used (GBP 1 : USD 1.232). In relation to the accretion of DFID loan, an average rate over the period from initial receipt of the loan to the period end was used (GBP1 : USD 1.44077). The spot exchange rates are the 'London end of day rates' sourced from Thomson Reuters.

# African Risk Capacity Insurance Company Limited

Notes to the Audited Financial Statements

September 30, 2019

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## 10. Class C Members' Returnable Capital (continued)

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;
- 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 as it appears in the Capital C Account in accordance with this Bye-Law 5.6, no further Policies will be issued 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.

# African Risk Capacity Insurance Company Limited

Notes to the Audited Financial Statements

September 30, 2019

## 11. Unearned premium liabilities

	September 30, 2019	December 31, 2018
	\$	\$
<b>Gross</b>		
Opening balance	-	-
Premiums written	14,346,208	4,814,683
Premiums earned	(10,413,297)	(4,814,683)
	3,932,911	-
<b>Reinsurers' share</b>		
Opening balance	-	-
Reinsurance premiums written	(4,383,000)	(2,578,500)
Reinsurance premiums earned	3,181,432	2,578,500
	(1,201,568)	-
<b>Net of reinsurance</b>		
Opening balance	-	-
Net premiums written	9,963,208	2,236,183
Net premiums earned	(7,231,865)	(2,236,183)
	2,731,343	-

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

## 12. Claims liabilities

	September 30, 2019	December 31, 2018
	\$	\$
Opening balance - net	67,200	-
Add: Opening reinsurance recoverable	-	-
Opening balance - gross	67,200	-
Claims incurred current year	25,308,040	67,200
Claims incurred prior period	(67,200)	-
	25,240,840	67,200
Claims paid current year	-	-
Claims paid prior period	-	-
	-	-
Closing balance - gross	25,308,040	67,200
Less: Closing reinsurance recoverable	-	-
Closing balance - net	25,308,040	67,200

The claims liabilities are all due within one year after the period end. The claims incurred of \$25,308,040 (2018 \$67,200) represents the total estimated incurred claims to the period end, which has been determined by the reserving model used by the Company.

# African Risk Capacity Insurance Company Limited

Notes to the Audited Financial Statements

September 30, 2019

## 12. Claims liabilities (continued)

	September 30, 2019	December 31, 2018
	\$	\$
<i>Claims development:</i> At the end of the period	25,308,040	67,200

Any claim payouts are made shortly after the end of the underlying risk periods for each respective policyholder. The risk periods, 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. The claims liabilities of \$25,308,040 due at the end of the period are in respect of three (3) guaranteed payouts of \$12,305,394, \$10,473,716 and 738,540 to Senegal, Save the Children Fund (Senegal replica policy) and Cote D'Ivoire Centre, respectively. The remaining balance represents the earned claims (incurred but not reported) for The Gambia (\$978,322); Mauritania (\$809,490) and Burkina Faso (\$2,578).

## 13. 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.

## 14. 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 period ended September 30, 2019, there have been no reimbursements in relation to this Trust (2018: \$0), which was submitted to and paid by the Trustee.

## 15. Investment income

	September 30, 2019	September 30, 2018
	\$	\$
Interest and dividend income	2,153,619	2,256,058
Amortization of bonds	(305,091)	(479,192)
Realized loss on investments	271,315	(389,521)
Unrealized gain / (loss) on derivatives	222,539	(22,311)
Gross investment income	2,342,382	1,365,034
Less: Investment managers, custody and portfolio fees	(257,270)	(249,407)
Net investment income	2,085,112	1,115,627

Interest rates on investments ranged from 0% to 11.42% (2018 – 0% to 11%) during the period.

# African Risk Capacity Insurance Company Limited

Notes to the Audited Financial Statements

September 30, 2019

## 16. Expenses and reimbursements

	September 30, 2019	September 30, 2018
	\$	\$
Member costs	106,887	80,201
Board costs	187,740	111,610
Corporate secretarial and regulatory fees	10,550	9,939
Legal fees	25,026	31,317
Insurance	38,284	42,352
Bank charges	6,596	9,858
External audit	74,999	75,000
Internal audit	13,357	13,000
Insurance manager's fees	210,003	210,000
Actuarial and loss reserve specialist fees	-	4,500
Executive management and administration	1,211,046	1,412,462
ARV license and support costs	-	55,000
Reinsurance broker fees	113,694	112,194
Communications	3,135	18,458
Depreciation	5,939	5,444
Reversal of provision for doubtful debts	(3,082,691)	-
Total general and administration expenses	(1,075,435)	2,191,335
Executive recruitment	-	34,982
Consultancy	-	152,766
Total once-off and start-up costs	-	187,748

## 17. 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 10 above, the two Class C Members provided Returnable Capital to the Company. These financial liabilities are also related party transactions, given that ARC Ltd. is a mutual company.

Remuneration during the period in respect of the Board of Directors is in the form of a fixed Honorarium of \$10,000 (2018 : \$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 period. The total Honorarium paid during the period was \$75,000 (2018: \$63,335). The prepaid expenses balance includes \$17,500 (2018: \$nil) in respect of Honorarium. The total amount of travel and subsistence expenses reimbursed to Directors, or to entities who have paid on behalf of respective Directors, for the period was \$14,293 (2018: \$33,992).

GeoSY Ltd. and 10 Development Consulting LLC provide key management personnel services to the Company. In accordance with IAS 24, GeoSY and 10 Development Consulting are deemed to be related parties. The Company was invoiced or re-charged the following expenses by GeoSY and 10 Development Consulting during the period: \$198,438 (2018: \$342,625) key management personnel remuneration, \$42,486 (2018: \$52,798) management personnel travel and subsistence, and \$nil (2018: \$2,265) office costs. The amount of \$50,991 (2018: GeoSY - \$24,901) due to GeoSY and 10 Development Consulting is included in accounts payable and accrued liabilities at the period end.



# African Risk Capacity Insurance Company Limited

## Notes to the Audited Financial Statements

September 30, 2019

### 18. 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.

### 19. Capital Risk management and statutory financial data

#### (a) Bermuda

ARC Ltd. 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 period end was \$78,469,931 (2018: \$91,164,074) and the amount required to be maintained by the Company was \$2,530,804 (2018 \$447,237). The Company has met the minimum solvency margin requirement at the period 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 period 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 10, 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

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.

	September 30, 2019	December 31, 2018
	\$	\$
Statutory capital and surplus	78,469,931	91,164,074
<i>Adjust for: Non admitted items for Statutory purposes</i>		
Prepaid expenses	73,795	36,410
<i>Adjust for: Class C Members' returnable capital</i>		
DFID – Initial contribution treated as equity capital	(49,929,600)	(49,929,600)
Less: DFID initial contribution treated as equity grant	9,079,596	9,813,826
PCC / KfW – Initial contribution treated as equity capital	(48,405,000)	(48,405,000)
Less: PCC / KfW initial contribution treated as equity grant	11,929,878	12,462,363
Forex revaluation of GBP capital contribution	12,969,596	11,709,595
Reserve fund – Initial contribution designated as share capital	250,000	250,000
<b>Members' equity</b>	<b>14,438,196</b>	<b>27,101,668</b>

# African Risk Capacity Insurance Company Limited

Notes to the Audited Financial Statements

September 30, 2019

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## 19. Capital Risk management and statutory financial data

### (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.

## 20. 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.

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.

# African Risk Capacity Insurance Company Limited

Notes to the Audited Financial Statements

September 30, 2019

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## 20. Management of insurance and financial risk (continued)

### *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- (2018: A-).

### 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 September 30, 2019, the Company held \$3,120,942 (2018: \$2,665,058) 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.

# African Risk Capacity Insurance Company Limited

## Notes to the Audited Financial Statements

September 30, 2019

### 20. Management of insurance and financial risk (continued)

#### v. Price risk

At September 30, 2019, the Company's marketable investments were subject to general market and price risk. The impact of movements in pricing are set out below:

	Carrying value	Cost	Effect of 0.5% increase in interest rates
	\$	\$	\$
<b>As at September 30, 2019:</b>			
<i>Fair value through profit or loss investments:</i>			
Asset-backed bonds	5,614,546	5,777,711	(66,935)
Commercial mortgage bonds	3,120,942	3,145,916	(26,933)
Corporate bonds	63,738,522	65,366,726	(792,076)
Equities	4,279,867	3,995,339	-
Mutual funds	3,359,999	3,115,870	-
International government bonds	5,357,988	5,553,135	(83,877)
US government bonds	4,304,250	4,253,614	(53,107)
Derivatives	305,614	12	-
<b>As at September 30, 2019</b>	<b>90,081,728</b>	<b>91,208,323</b>	<b>(1,022,928)</b>
<b>As at December 31, 2018</b>	<b>87,668,920</b>	<b>92,465,273</b>	<b>(850,658)</b>

### 21. Ex-Gratia Payment

The Company made an ex-gratia payment of \$nil (2018: \$2,400,000) to Mauritania and this was approved by the Members of the Company on January 19, 2018.

### 22. Approval of the financial statements

These financial statements were approved by the Board of Directors on December 4, 2019. Management does not have the power to change or amend the financials after the date of approval by the Board of Directors.