African Risk Capacity Insurance Company Limited

(Incorporated in Bermuda)

Audited Financial Statements

For the nine month period ended September 30, 2017

(Expressed in U.S. Dollars)

Independent auditor's report

To the Members of African Risk Capacity Insurance Company Limited

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, 2017, and its financial performance and its cash flows for the 9 month 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, 2017;
- the statement of changes in members' equity for the nine month period ended September 30, 2017;
- the statement of income and comprehensive income for the nine month period ended September 30, 2017;
- the statement of cash flows for the nine month period ended September 30, 2017; and
- the notes to the audited financial statements, which include a summary of significant accounting policies.

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.

Responsibilities of management 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.

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.

Other Matter

This report, including the opinion, has been prepared for and only for the Company in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants
Hamilton, Bermuda

December 18, 2017

African Risk Capacity Insurance Company Limited

Statement of Financial Position
As at September 30, 2017

	September 30, 2017	December 31, 2016
	$	$
Assets		
Fixed assets (note 5)	27,118	2,050
Prepaid expenses	75,794	10,150
Reinsurance assets (note 8 and 11)	1,045,024	-
Insurance receivables (note 7)	4,997,556	4,609,481
Investment receivables	274,586	-
Accrued investment income	798,321	571,788
Marketable investments (note 6)	94,501,557	79,085,771
Cash and cash equivalents (note 9)	6,720,137	22,919,717
Total Assets	**108,440,093**	**107,198,957**
Liabilities		
Class C Members' Returnable Capital (note 10)	63,994,057	60,791,515
Unearned premium liabilities (note 11)	2,255,419	-
Claims liabilities (note 12)	-	8,105,846
Reinsurance premiums payable	4,050,000	2,463,750
Investment payables	734,653	-
Accounts payable and accrued liabilities	427,489	665,618
Total Liabilities	**71,461,618**	**72,026,729**
Members' Equity		
Reserve fund (note 13)	250,000	250,000
Retained earnings	12,318,028	10,489,239
Accumulated other comprehensive income:		
Class C Members equity grant (note 10)	24,410,447	24,432,989
Total Members' Equity	**36,978,475**	**35,172,228**
Total Liabilities and Members' Equity	**108,440,093**	**107,198,957**

Approved by the Board of Directors

Amadou Diallo Director

Wise Chipeda 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, 2017

	For the period ended September 30, 2017 $	For the period ended September 30, 2016 $
Reserve Fund		
Balance, beginning of the period	250,000	250,000
Balance, end of the period	**250,000**	**250,000**
Retained earnings		
Balance, beginning of the period	10,489,239	5,937,758
Net income for the period	1,828,789	4,714,065
Balance, end of the period	**12,318,028**	**10,651,823**
Other comprehensive income		
Balance, beginning of the period	24,432,989	27,792,187
Changes during period:		
Grant – Department for International Development (note 10)	491,158	(1,995,515)
Grant – the Climate Adaptation Platform PCC with respect to ARC Investment Company (KfW) (note 10)	(513,700)	(505,457)
Balance, end of the period	**24,410,447**	**25,291,215**
Total Members' Equity	**36,978,475**	**36,193,038**

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, 2017

	For the period ended September 30, 2017 $	For the period ended September 30, 2016 $
Underwriting income		
Gross premiums written	8,740,902	11,310,491
Change in unearned premiums	(2,255,419)	5,446,538
Gross earned premiums	**6,485,483**	**16,757,029**
Reinsurers' share of insurance premiums	(3,222,000)	(5,408,000)
Reinsurers' share of change in unearned premiums	1,045,024	(824,076)
Reinsurers' share of gross earned premiums	**(2,176,976)**	**(6,232,076)**
Net premiums	4,308,507	10,524,953
Underwriting expenses		
Claims (note 12)	-	(6,783,237)
Net underwriting expense	-	(6,783,237)
Net underwriting income	**4,308,507**	**3,741,716**
General and administrative expenses (note 16)	(3,922,402)	(1,389,483)
Once-off and start-up costs (note 16)	(114,279)	(350,973)
Reimbursements from Special Trust (note 16)	332,986	576,938
Net investment income (note 15)	1,138,593	849,977
Unrealized gain on investments	157,269	1,368,165
Unrealized gain on foreign exchange	654,423	1,517,427
Realized loss on foreign exchange	(726,308)	(1,599,702)
Net income before taxation	**1,828,789**	**4,714,065**
Taxation	-	-
Income for the period	**1,828,789**	**4,714,065**
(Write down of) Equity grant from Class C Members (Note 10)	(22,542)	(2,500,973)
Total comprehensive income for the period	**1,806,247**	**2,213,092**

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, 2017

	For the period ended September 30, 2017	For the period ended September 30, 2016
	$	$
Cash flows from operating activities		
Net income for the period	1,828,789	4,714,065
Adjustments for:		
Depreciation	2,142	1,202
Realized gain on sale of investments	(187,427)	(23,922)
Realized loss on foreign exchange	823,542	1,011,263
Unrealized gain on investments	(157,269)	(1,368,165)
Unrealized (gain)/loss on foreign exchange on investments	(3,824,040)	3,731,293
Amortization expense	412,150	465,078
Interest and dividend income	(1,604,166)	(1,551,628)
Unrealized forex movement on DfID capital contribution	3,180,000	(5,247,000)
Changes in assets and liabilities		
Prepaid expenses	(65,644)	7,772
Reinsurance assets	(1,045,024)	824,076
Insurance receivables	(388,075)	(6,748,526)
Investment receivables	(274,586)	4,497,332
Unearned premium liabilities	2,255,419	(5,446,538)
Claims liabilities	(8,105,846)	6,783,237
Reinsurance premiums payable	1,586,250	1,049,687
Investment payables	734,653	(4,265,807)
Accounts payable and accrued liabilities	(238,129)	(57,137)
Net cash used in operating activities	(5,067,261)	(1,623,718)
Cash flows from investing activities		
Interest received	1,377,633	1,517,045
Purchase of marketable investments	(51,747,065)	(38,122,475)
Proceeds from sales of investments	33,852,073	32,800,127
Proceeds from maturities of marketable investments	5,412,250	4,195,025
Purchase of fixed assets	(27,210)	(713)
Net cash (used in) / provided by investing activities	(11,132,319)	389,009
Cash flows from financing activities		
Returnable Capital from Members	-	-
Non-returnable Capital from Members	-	-
Net cash provided by financing activities	-	-
Decrease in cash and cash equivalents	(16,199,580)	(1,234,709)
Cash and cash equivalents – Beginning of period	22,919,717	19,111,204
Cash and cash equivalents – End of period	**6,720,137**	**17,876,495**

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

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.

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.

There were three employees of the Company during the period end.

The current Members of this mutual insurance company consist of six 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.

The Class A Members participating in the insurance risk pool in the current financial period are Burkina Faso, Mali, Mauritania, Senegal and The Gambia, each having taken out a drought insurance policy. There has not been any issuance of replica or 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 Adapation 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.

1. The Company and its activities (continued)

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

Country	*2016/17 policy period Coverage Limit*	*2017/18 policy period Coverage Limit*
Burkina Faso	$10m	$7.0m
Mali	$15m	$13m
Mauritania	$10m	$7.5m
Niger	$30m	N/A
Senegal	$25m	$21.1m
The Gambia	$5m	$7.0m

For the 2016/17 policy period, the Company retained $7,000,000 of the total underwritten exposure. Above this retention, the Company had purchased reinsurance cover for the next $53,000,000. The Company comes back on risk above the $60,000,000 limit. In respect of the 2017/18 policy period, the Company retains $6,000,000 of the total underwritten exposure. Above this retention, the Company has purchased reinsurance cover for the next $41,000,000. The Company comes back on risk above the $47,000,000 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 and interpretations effective in 2017 but no material impact to the Company's operations

- Amendments to IAS7, "Statement of Cash Flows", effective January 1, 2017. Amendments require additional disclosure about movements in liabilities arising from financing activities.

ii. 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

The impact on the Company's financial statements in the period 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 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, in accordance with IFRS 9. Further to IFRS 9, paragraph 4.2.1 (d), 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 10, 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.

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.

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.

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.

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. In accordance with IFRS 9, section 4.2.1 (d), 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, 2017 $	December 31, 2016 $
Opening balance	2,050	2,953
Cost of additions	27,210	713
Depreciation charge	(2,142)	(1,616)
Net book value	27,118	2,050

The net book value consists of computers and computer equipment of $6,273 (2016: $1,137), software of $280 (2016: $913) and office furniture of $20,565 (2016: Nil).

6. Marketable investments

	Cost September 30, 2017 $	Carrying value September 30, 2017 $
Asset-backed bonds	7,714,067	7,794,728
Commercial mortgage bonds	4,164,425	4,194,150
Corporate bonds	67,068,749	65,884,647
Federal mortgage and agency bonds	240,000	239,474
International government bonds	10,165,891	10,234,174
US government	5,835,826	5,796,212
Certificates of deposit	250,000	250,000
Derivatives	3,751	108,172
	95,442,709	94,501,557

6. *Marketable investments (continued)*

	Cost December 31, 2016 $	Carrying value December 31, 2016 $
Asset-backed bonds	8,703,582	8,397,873
Commercial mortgage bonds	2,138,745	1,979,611
Corporate bonds	55,112,823	50,682,535
Federal mortgage and agency bonds	240,000	239,472
International government bonds	11,268,030	11,007,522
US government	6,430,384	6,399,541
Certificates of deposit	490,000	490,000
Derivatives	(8,618)	(110,783)
	84,374,946	79,085,771

September 30, 2017	Cost $	Amortization $	Unrealized gain < 1 year $	Unrealized loss < 1 year $	Fair value $
Asset-backed bonds	7,714,067	1,452	198,464	(119,256)	7,794,728
Comm. mortgage bonds	4,164,425	(542)	119,658	(89,391)	4,194,150
Corporate bonds	67,068,749	(655,776)	1,173,624	(1,701,950)	65,884,647
Federal mort./agency bonds	240,000	-	-	(526)	239,474
International govt. bonds	10,165,891	(16,294)	272,512	(187,935)	10,234,174
US government	5,835,826	(2,543)	-	(37,071)	5,796,212
Certificates of deposit	250,000	-	-	-	250,000
Derivatives	3,751	(381)	124,443	(19,641)	108,172
	95,442,709	(674,084)	1,888,701	(2,155,770)	94,501,557

December 31, 2016	Cost $	Amortization $	Unrealized gain < 1 year $	Unrealized loss < 1 year $	Fair value $
Asset-backed bonds	8,703,582	6,416	20,251	(332,376)	8,397,873
Comm. mortgage bonds	2,138,745	37	9,096	(168,267)	1,979,611
Corporate bonds	55,112,823	(717,416)	358,636	(4,071,508)	50,682,535
Federal mort./agency bonds	240,000	-	-	(528)	239,472
International govt. bonds	11,268,030	(7,043)	40,382	(293,847)	11,007,522
US government	6,430,384	(821)	1,383	(31,405)	6,399,541
Certificates of deposit	490,000	-	-	-	490,000
Derivatives	(8,618)	800	59,262	(162,227)	(110,783)
	84,374,946	(718,027)	489,010	(5,060,158)	79,085,771

6. Marketable investments (continued)

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

	September 30, 2017 $	December 31, 2016 $
Due within 1 year	12,007,896	9,168,068
Due within 1 to 5 years	57,059,388	53,871,247
Due over 5 years	25,434,273	16,046,456
	94,501,557	79,085,771

Credit ratings for bonds held by the Company as at September 30, 2017 range from AAA to BBB- (2016: AAA to BBB-) 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 $
As at September 30, 2017: *Fair value through profit or loss investments:*			
Asset-backed bonds	-	7,794,728	7,794,728
Commercial mortgage bonds	-	4,194,150	4,194,150
Corporate bonds	-	65,884,647	65,884,647
Federal mortgage and agency bonds	-	239,474	239,474
International government bonds	-	10,234,174	10,234,174
US government bonds	5,796,212	-	5,796,212
Certificates of deposit	-	250,000	250,000
Derivatives	-	108,172	108,172
As at September 30, 2017	5,796,212	88,705,345	94,501,557
As at December 31, 2016	6,399,541	72,686,230	79,085,771

There are no level 3 investments held by the Company.

In relation to the Derivatives, at the period end the Company held currency forwards with the notional value of $5,508,895 (2016: $5,016,396), which had a fair value of $105,387 (2016: $(100,137)). The maturity date for these currency forwards was October 10 and October 11, 2017. The Company held futures with a notional value of $0, which had a fair value of $7,805. The Company held swaps with a notional value of $238,000 and a fair value of $(5,019), with a final maturity of June 20, 2022.

7. Insurance receivables

	September 30, 2017 $	December 31, 2016 $
Receivables from Class A Members	7,570,736	4,986,663
Less: Provision for doubtful debts - Niger	(2,573,180)	(377,182)
	4,997,556	4,609,481

8. Reinsurance assets

	September 30, 2017 $	December 31, 2016 $
Reinsurance share of unearned premiums / deferred reinsurance premiums	1,045,024	-
	1,045,024	-

Further explanatory information in relation to the credit risk associated with reinsurers is included in Note 20.

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, 2017 $	December 31, 2016 $
Cash at bank with Bank of Butterfield	5,579,614	16,726,363
Marketable investments:		
Cash and cash equivalents with BNY Mellon	770,298	6,031,895
Cash and cash equivalents with investment brokers	370,225	161,459
Cash and cash equivalents	6,720,137	22,919,717

The range of interest rates earned during the period was between 0% and 0.5% (2016: 0% and 0.5%). Cash is held in Bermuda with Bank of Butterfield, which was rated BBB (2016: ‘BBB‘) 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- (2016: ‘AA-’) at the period end. In addition, cash and cash equivalents are held in margin accounts with Royal Bank of Scotland in the United Kingdom, which was rated A-3 at the period end, as well as with Goldman Sachs in the United States, which was rated A-1 at the period end. The cash and cash equivalents held at Royal Bank of Scotland and Goldman Sachs is restricted. Accordingly, management considers there to be limited credit risk associated with cash and cash equivalent balances.

In accordance with IFRS 9, 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.

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		2,439,822	2,365,317	4,805,139
Net movement on equity grant		(13,763,588)	(13,339,506)	(27,103,094)
Net value of loan		36,041,012	34,940,494	70,981,506
Foreign exchange movement		(6,987,449)	-	(6,987,449)
Fair value of loan September 30, 2017		**29,053,563**	**34,940,494**	**63,994,057**
Fair value of loan December 31, 2016		*26,364,718*	*34,426,797*	*60,791,515*
Net movement on loan for 2017		2,688,845	513,697	3,202,542
Net movement on grant		13,763,588	13,339,506	27,103,094
Foreign exchange movement		(2,692,647)	-	(2,692,647)
Fair value of grant September 30, 2017		**11,070,941**	**13,339,506**	**24,410,447**
Fair value of grant December 31, 2016		*10,579,783*	*13,853,206*	*24,432,989*
Net movement on grant for 2017		491,158	(513,700)	(22,542)

The foreign exchange amounts shown in the above table totaling $9,680,096 which is for the period March 17, 2014 to September 30, 2017, (March 17, 2014 to December 31, 2016: $12,860,099) 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 $4,805,139, 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, in accordance with IFRS 9, paragraph 5.4.3. The interest rate ascertained from recent arm's length transactions which are substantially the same as these Class C loans is 2% (2016: 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, 2017 was used (GBP 1 : USD 1.34165). 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 1.45228). The spot exchange rates are the 'London end of day rates' sourced from Thomson Reuters.

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 the these criteria have been met that would trigger a redemption.

11. Unearned premium liabilities

	September 30, 2017 $	December 31, 2016 $
Gross		
Opening balance	-	8,215,759
Premiums written	8,740,902	11,310,491
Premiums earned	(6,485,483)	(19,526,250)
	2,255,419	-
Reinsurers' share		
Opening balance	-	(2,172,635)
Reinsurance premiums written	(4,050,000)	(5,408,000)
Reinsurance premiums earned	3,004,976	7,580,635
	(1,045,024)	-
Net of reinsurance		
Opening balance	-	6,043,124
Net premiums written	4,690,902	5,902,491
Net premiums earned	(3,480,505)	(11,945,615)
	1,210,397	-

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

12. Claims liabilities

	September 30, 2017 $	December 31, 2016 $
Opening balance - net	8,105,846	1,323,609
Add: Opening reinsurance recoverable	-	-
Opening balance - gross	8,105,846	1,323,609
Claims incurred current year	-	8,106,846
Claims incurred prior period	-	(1,323,609)
	-	6,783,237
Claims paid current year	-	(1,000)
Claims paid prior period	(8,105,846)	-
	(8,105,846)	(1,000)
Closing balance - gross	-	8,105,846
Less: Closing reinsurance recoverable	-	-
Closing balance - net	-	8,105,846

The claims liabilities are all due within one year after the period end. The claims incurred of $Nil (2016 $6,783,237) represents the total estimated incurred claims to the period end, which has been determined by the reserving model used by the Company.

12. Claims liabilities (continued)

	September 30, 2017 $	December 31, 2016 $
Claims development: At the end of the period	-	8,105,846

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 $8,105,846 due at the end of the prior year are in respect of Malawi. During the current year, the Company paid the outstanding claim to Malawi. There are no claim liabilities at the period end.

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 in the prior period 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 EUR 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, 2017, there has been one reimbursement request totaling $332,986 in relation to this Trust (2016: 576,938), which was submitted to and paid by the Trustee.

15. Investment income

	September 30, 2017 $	September 30, 2016 $
Interest income	1,604,165	1,551,628
Amortization of bonds	(412,150)	(465,078)
Realized gain / (loss) on sales of investments	(20,341)	73,449
Realized gain / (loss) on derivatives	207,768	(49,527)
Gross investment income	1,379,442	1,110,472
Less: Investment managers, custody and portfolio fees	(240,849)	(260,495)
Net investment income	1,138,593	849,977

Interest rates on investments ranged from 0% to 8.5% (2016 – 0% to 8.5%) during the period.

16. Expenses and reimbursements

	September 30, 2017 $	September 30, 2016 $
Member costs	10,266	36,039
Board costs	98,555	113,782
Corporate secretarial and regulatory fees	10,235	9,713
Legal fees	6,379	103,575
Insurance	34,569	23,576
Bank charges	7,486	5,624
External audit	75,009	74,997
Internal audit	168,454	37,539
Insurance manager's fees	210,000	195,002
Actuarial and loss reserve specialist fees	-	4,500
Underwriter fees	114,919	186,317
Executive management and administration	838,397	402,092
ARV license and support costs	30,000	65,000
Reinsurance broker fees	105,617	84,681
Communications	14,375	45,844
Depreciation	2,142	1,202
Provision for doubtful debts - Niger	2,195,998	-
Total general and administration expenses	3,922,402	1,389,483
Insurance license and service provider procurement	-	-
Executive recruitment	107,294	95,004
Consultancy	6,665	33,952
Tropical cyclone product development	-	222,017
Office set-up	320	-
Total once-off and start-up costs	114,279	350,973
Reimbursements from Trust:		
General and administration	65,000	17,500
Once-off and start-up costs	267,986	559,438
Total reimbursements from Trust	332,986	576,938

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 per annum per Director.

Throughout the period there were seven Directors. During the period ended September 30, 2017, the total paid was $35,000, representing first six months Honorarium for the seven Directors. The accrued expenses balance includes $17,500 in respect of Directors' Honorarium for seven Directors. 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 end was $33,325.

GeoSY Ltd. provides key management personnel services to the Company. In accordance with IAS 24, GeoSY is deemed to be a related party. The Company was invoiced or re-charged the following expenses by GeoSY during the period end: $336,875 key management personnel remuneration, $40,801 other personnel renumeration, $50,231 management personnel travel and subsistence, and $556 office costs. The amount of $36,687 due to GeoSY is included in accounts payable and accrued liabilities at the period end.

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 $100,896,734 (2016 $95,953,588) and the amount required to be maintained by the Company was $1,103,780 (2016 $1,180,498). 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.

19. 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.

	September 30, 2017 $	December 31, 2016 $
Statutory capital and surplus	100,896,734	95,953,588
Adjust for: Non admitted items for Statutory purposes		
Prepaid expenses	75,794	10,150
Adjust for: Class C Members' returnable capital		
DFID – Initial contribution treated as equity capital	(49,929,600)	(49,929,600)
Less: DFID initial contribution treated as equity grant	11,070,941	10,579,784
PCC / KfW – Initial contribution treated as equity capital	(48,405,000)	(48,405,000)
Less: PCC / KfW initial contribution treated as equity grant	13,339,506	13,853,206
Forex revaluation of GBP capital contribution	9,680,100	12,860,100
Reserve fund – Initial contribution designated as share capital	250,000	250,000
Members' equity	36,978,475	35,172,228

(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.

20. Management of insurance and financial risk (continued)

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 (c) 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-.

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.

20. Management of insurance and financial risk (continued)

iv. Prepayment risk

At September 30, 2017, the Company held $4,433,624 (2016: $2,219,083) of its fixed income portfolio in mortgage backed securities. 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 September 30, 2017, 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% change in interest rates $
As at September 30, 2017:			
Fair value through profit or loss investments:			
Asset-backed bonds	7,794,728	7,714,067	(57,153)
Commercial mortgage bonds	4,194,150	4,164,425	(53,083)
Corporate bonds	65,884,647	67,068,749	(1,404,798)
Federal mortgage and agency bonds	239,474	240,000	(889)
International government bonds	10,234,174	10,165,891	(182,036)
US government bonds	5,796,212	5,835,826	(50,006)
Certificates of deposit	250,000	250,000	(429)
Derivatives	108,172	3,751	(182)
As at September 30, 2017	94,501,557	95,442,709	(1,748,576)
As at December 31, 2016	79,085,771	84,374,946	(724,749)

21. Approval of the financial statements

These financial statements were approved by the Board of Directors on December 18, 2017. Management does not have the power to change or amend the financials after the date of approval by the Board of Directors.