African Risk Capacity Limited

INTEGRATED ANNUAL REPORT 2021

African Risk Capacity Limited

ARC LTD. AFRICA'S FIRST SOVEREIGN PARAMETRIC DEVELOPMENT INSURER

CONTENTS

ABOUT OUR REPORT

This report, our first Integrated Annual Report, provides an overview of how African Risk Capacity Limited (ARC Ltd.) creates and delivers value. It differs from previous annual reports in that its compilation and narrative reflect the organisation's efforts to represent performance, not only in terms of financial information, but also in terms of how value is created, delivered and governed, thereby providing a broader context for performance data and business operations.

The report reflects a complete and balanced view of the financial and operational performance of the organisation, our opportunities and risks, alongside our strategic priorities for the year ahead.

We have endeavoured to present a coherent, consistent and concise description of ARC Ltd.'s strategy, our operations, our business environment, and the impact of our activities on all our stakeholders.

REPORTING BOUNDARY

This integrated report presents a balanced and fair account of ARC Ltd. for the financial year ending 31 December 2021. It focuses on the material matters relating to our strategy, our business model, the context in which we operate, our performance and governance, and the material risks and opportunities arising from them.

The report reflects on ARC Ltd.'s core activities and disbursements during the year, evaluates how we create value in the short-, medium- and long-term and on best practice within the parameters of commercial insurance and sustainable development.

REPORTING FRAMEWORK

The report was prepared in line with the principles and requirements of the International Sustainability Standards Board's Integrated Reporting framework.

Our Annual Financial Statements, from page 55 to 81, were prepared in accordance with the International Financial Reporting Standards (IFRS), and in the manner required by Bermuda Monitory Authority (BMA).

HOW TO NAVIGATE OUR REPORT

The following icons illustrate where you can find more information about our approach, activities and mandate and how they interconnect with our Capitals:

Capital	
Financial Capital	FC
Intellectual Capital	IC
Human Capital	HC
Manufactured Capital	MC
Social and Relationship Capital	SC
Natural Capital	NC

For more on our Capitals, see page 7.

ABOUT OUR REPORT continued

MATERIALITY

We consider an issue to be material if it has the potential to impact our ability to fulfil our mandate sustainably or influence decisions by our donor partners and other stakeholders. Our material matters, described on page 32, were determined by a review of the ARC Ltd. Inclusive Growth Strategy (page 24); our interaction with our six capitals (page 7); our social, economic and environmental operating environment (page 12); and through engagement with stakeholders to better understand their expectations and concerns (page 35).

This report is our story; it explains who we are, what we are working towards (page 6), and how we deliver disaster risk management to protect food security and livelihoods of vulnerable populations (page 17). It outlines the material risks, challenges and opportunities we anticipate along the way (page 32) and illustrates how ARC Ltd. consistently creates value (page 40).

FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements based on expectations and assumptions pertaining to future events. These statements reflect both known and as yet unknown risks, uncertainties and other important factors that could cause our actual results, performance or achievements to be materially different in future. However, our business is rooted in an ever-changing environment with new risks constantly emerging.

ARC Ltd. undertakes no obligation to publicly update or revise these forward-looking statements to reflect events or circumstances after the date of this document, or to reflect the occurrence of anticipated events. The forward-looking statements have not been reviewed or reported on by the auditors.

DIRECTORS' STATEMENT OF RESPONSIBILITY

While executive management, assisted by the reporting team, was responsible for the preparation of this Integrated Report, the Board of Directors (the Board), supported by the audit, finance and risk committee, acknowledges its responsibility for ensuring the integrity of this Integrated Report. The Board has applied its collective mind to the report's presentation and preparation and believes it to fairly represent those issues that are material to ARC Ltd.'s ability to create value and believes that it has been prepared in accordance with the International Sustainability Standards Board's Integrated Reporting framework.

2021 HIGHLIGHTS

18,1 MILLION INDIVIDUALS COVERED

(2020: 11,7 MILLION)

35 MEMBERS (2020: 34)

(59%) PROFIT RATIO

193% COMBINED RATIO

25 MEMORANDUMS OF UNDERSTANDING (MoUs) (2020: 23)

28 POLICIES WRITTEN

ACHIEVED THE HIGHEST LEVEL OF PREMIUMS FOR TWO CONSECUTIVE YEARS

AWARDED BBB+ FITCH RATING

6 COUNTRIES RECEIVED DROUGHT COVER HELD BY REPLICA PARTNERS

12 COUNTRIES PARTICIPATED IN THE SOVEREIGN DROUGHT PROGRAMME

14 PAYOUTS (SOVEREIGN AND REPLICA PARTNERS*) TOTALLING USD 59,6 MILLION

(2020: USD 2,2 MILLION)

USD 21,7 MILLION PAYOUT WAS TRIGGERED FOR THE DROUGHT IN MALI

AWARDED 1ST PLACE IN INTERNATIONAL RATINGS FOR ENVIRONMENTAL, SOCIAL AND GOVERNANCE

* *Sovereign partners are African Union member governments which have taken out parametric insurance for their countries, while Replica partners are humanitarian agencies which have taken out a matching policy on behalf of a country.*

USD 59,6 MILLION
TOTAL PAYOUTS
(2020: USD 2,2 MILLION)

USD (5,2) MILLION
NET LOSS
VS BUDGETED PROFIT OF USD 2,2 MILLION

USD (4,3) MILLION
NET UNDERWRITING LOSS
VS BUDGETED INCOME OF USD 1,7 MILLION

USD 30,8 MILLION
GROSS WRITTEN PREMIUM
(2020: USD 21,1 MILLION)

USD 11,5 MILLION
NET INVESTMENT INCOME
(2020: USD 1,4 MILLION)

USD 124,3 million paid in claims from 8 risk pools since 2014
USD 1 billion of risk transferred
30 million people/year covered
5 million people directly benefited from claims

FIVE-YEAR REVIEW

2021

- **14** payouts totalling **USD 59,6 million**
- **USD 21,7 million** to support the drought in Mali
- **USD 10,7 million** to support the tropical cyclone in Madagascar
- **USD 14,2 million** drought in Malawi
- Gross written premium up by **46%**

2020

- **USD 28 million** drought claims paid to Senegal, Madagascar and Zimbabwe
- Gross written premiums up by 30% from 2019
- **Launch of tropical cyclone product**

2019

- Senegal, Côte d'Ivoire, Madagascar and Zimbabwe received **USD 26 million** from ARC to assist in providing early action to support more than **7 million** people affected by the 2019 agriculture season

2018

- **USD 2,4 million** 1st of its kind received by the Mauritanian government in response to a progressively severe drought
- **Funds subsidised livestock**

2017

- **USD 8,1 million** to Malawi from a premium of **USD 4,7 million**. Funds were used to support **800,000** Malawians and scale-up on cash transfers and replenishing its strategic grain reserves

WHO WE ARE

African Risk Capacity Limited (ARC Ltd.) is a specialist insurance company that provides parametric insurance cover to African countries against extreme weather events and natural disasters. It is the financial affiliate of the African Risk Capacity Group (ARC), a specialised agency of the African Union (AU).

The ARC Group was established in 2012 to help African governments strengthen their capacity to better plan, prepare, and respond to the ever-increasing frequency and severity of drought, food security emergencies and other natural disasters across the African continent.

Two years later, in 2014, ARC Ltd. was established as Africa's first disaster insurance pool that aggregates risk by issuing insurance policies to participating member states and transferring risk to international markets.

The ARC mechanism brings together three critical elements of disaster risk management – early warning, preparedness and early action.

Capacity-building programmes are a cornerstone of the ARC business model and set us apart from other parametric insurers. This model delivers critical support to member states, helping them to better plan for and manage climate-related risks, and in so doing transform their disaster risk management architecture from reactive to proactive.

In 2021, we extended our service offering beyond sovereign business to provide micro-insurance for smallholder farmers through aggregators, successfully integrating disaster risk management and financing at a micro, meso and macro level.

ARC Ltd. became the first African company to join the UN-convened Net-Zero Asset Owner Alliance in September 2021. Today, the organisation has the largest balance sheet dedicated to climate risks in Africa and a BBB+ Fitch Rating.

We received the global insurance industry's top overall environmental, social, and governance (ESG) score by Sustainalytics in July 2021, testimony to the efficacy and sustainability of our parametric insurance model.

OUR DONORS AND PARTNERS

It is through the support of our donors and partners that ARC Ltd. is able to do the work that we do, helping to make a difference in the lives of vulnerable populations across the continent.

Their expertise and capital have been fundamental in supporting our efforts to help AU countries to become more self-sufficient and implement functioning disaster management and funding systems so that they can cope more effectively with future disasters.

You can read what they have to say about our performance over the past year on pages 17, 26 and 41.

RESPONSE TO COVID-19

Safeguarding the health of our employees while ensuring that our business continued to run without disruption during lockdown was of the utmost importance to ARC Ltd. We also needed to provide an uninterrupted service to our clients. We accomplished this by providing our team with remote working support and ensuring that all direct engagement was in compliance with health regulations. Only critical travel with relevant medical and travel insurance was permitted.

Covid-19 compelled us to streamline processes and fine-tune our IT and technology capabilities. Supported by systems enhancements, we were able to remotely deliver on key functions such as risk transfer parameter workshops, which were traditionally held face-to-face in-country.

We also increased our focus on employee wellbeing. To support staff through these challenging and unprecedented times, personal, family, health and financial counselling was provided through our KAELO wellness support services.

OUR VISION

To be the development partner of choice, leading innovative disaster risk management solutions for climate resilience in Africa.

OUR MISSION

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

OUR VALUES

Excellence

We challenge ourselves and our colleagues to produce the highest-quality products and services.

Integrity

We act in the best interests of the countries we serve, supported by comprehensive data, and through open and frank discussions with all stakeholders.

Innovation

We continuously look for new ways to deliver needs-based creative solutions for our clients.

Service

We identify needs, are genuinely helpful, and take prompt action to resolve problems collaboratively.

WHO WE ARE continued

OUR CAPITALS

FC

Financial Capital
- Investments
- Financial reserves
- Premiums

HC

Human Capital
- Employees
- Board and organisational culture
- Funders
- Partners
- Auditors and underwriters

SC

Social and Relationship Capital
- Regulators
- Legislators
- Member states
- Media
- Communities

IC

Intellectual Capital
- Researched best practice
- Regional benchmarking
- Strategy and operational frameworks
- Investment management
- Information technology and systems
- HR practice and initiatives
- Business intelligence

MC

Manufactured Capital
- Development of new products/distribution channels (ARC Group lead)
- ARV system
- Non-sovereign underwriting system (NSB), Dynamics 365, SAGE X3
- IT security systems

NC

Natural Capital
- Water usage
- Energy usage
- Carbon emissions

OUR BUSINESS STRUCTURE

The ARC Insurance Company Limited (ARC Ltd.), as an affiliate of the ARC Group, (ARC Agency) provides commercial insurance through risk pooling and risk transfer. ARC Ltd. is registered in Bermuda, with a branch office in South Africa.

Agency

Specialised Agency of the African Union
- Managed by member states
- Political engagement
- Capacity building
- Operational monitoring

Insurance Company Limited

Regulated Commercial Insurance Company
- Carries ARC's risk pooling and insurance functions
- Transfers risk to markets
- Other financials – asset management functions
- Established in Bermuda on an interim basis

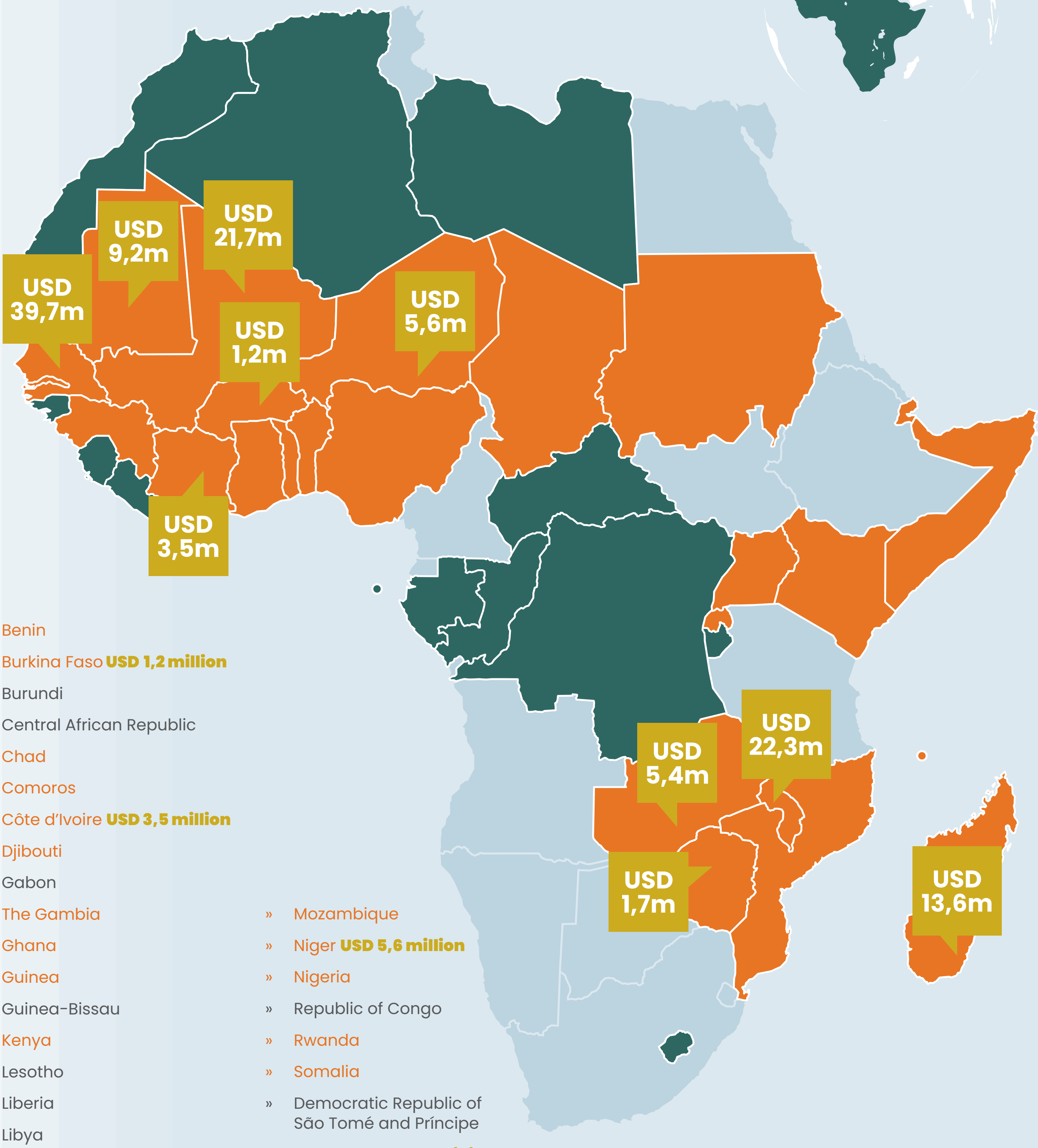
OUR MEMBER STATES

At financial year end, the ARC Group had a total of 35 member states and MoUs with 25 countries. Once these countries have completed the capacity-building programme and receive a certificate of good standing, they then become eligible to join the ARC Ltd. risk pool. We gained one additional member in the year under review, namely Sudan.

African governments which hold a certificate of good standing from the ARC Agency and have active insurance policies with ARC Ltd. are classified as Class A members. Class A members must be signatories to the ARC Treaty and have a Board-approved contingency plan detailing how an insurance payout would be applied in the event of a disaster.

All member states are required to have customised Africa RiskView (ARV), ARC Ltd.'s drought risk modelling platform that translates and quantifies satellite-based rainfall information; and be up-to-date with their premiums. These countries enjoy access to our disaster risk management tools and services. (Read more about how we utilise technology on page 25).

OUR FOOTPRINT



- Benin
- Burkina Faso **USD 1,2 million**
- Burundi
- Central African Republic
- Chad
- Comoros
- Côte d'Ivoire **USD 3,5 million**
- Djibouti
- Gabon
- The Gambia
- Ghana
- Guinea
- Guinea-Bissau
- Kenya
- Lesotho
- Liberia
- Libya
- Madagascar **USD 13,6 million**
- Malawi **USD 22,3 million**
- Mali **USD 21,7 million**
- Mauritania **USD 9,2 million**
- Mozambique
- Niger **USD 5,6 million**
- Nigeria
- Republic of Congo
- Rwanda
- Somalia
- Democratic Republic of São Tomé and Príncipe
- Senegal **USD 39,7 million**
- Sierra Leone
- Sudan
- Togo
- Uganda
- Zambia **USD 5,4 million**
- Zimbabwe **USD 1,7 million**

Member states without MoUs	
Member states which have signed MoUs	
Cumulative historical payouts	

OUR CAPITAL CLASSES

ARC Ltd. has four capital classes, categorised as A through D members.

Class A Members

These comprise our member states. Premiums paid by Class A members contribute to capitalisation.

Class C Members

The United Kingdom and Germany are Class C members. They provide seed capital in the form of interest-free loans, refundable within a period of 20 years, through the UK Foreign, Commonwealth and Development Office (FCDO) and Federal Ministry for Economic Cooperation and Development (BMZ). Both countries have been part of ARC Ltd. since inception.

UK Foreign, Commonwealth and Development Office (FCDO) (formerly the Department for International Development (DFID))

Capital contribution:

USD 50 million

Kreditanstalt für Wiederaufbau (KfW), the German Development Bank, through the Federal Ministry for Economic Cooperation and Development (BMZ)

Capital contribution:

USD 48 million

Other capital classes: B and D

Class B members are contributors who provide grants for no return, while Class D members make equity available for a return. These two categories are currently not active and will be pursued as part of our growth strategy.

PREMIUM FUNDING PARTNERS

Premium support partners

Premium support partners assist member countries to purchase policies and include the following organisations:

OUR DONORS AND PARTNERS

Class A members of ARC Ltd.:

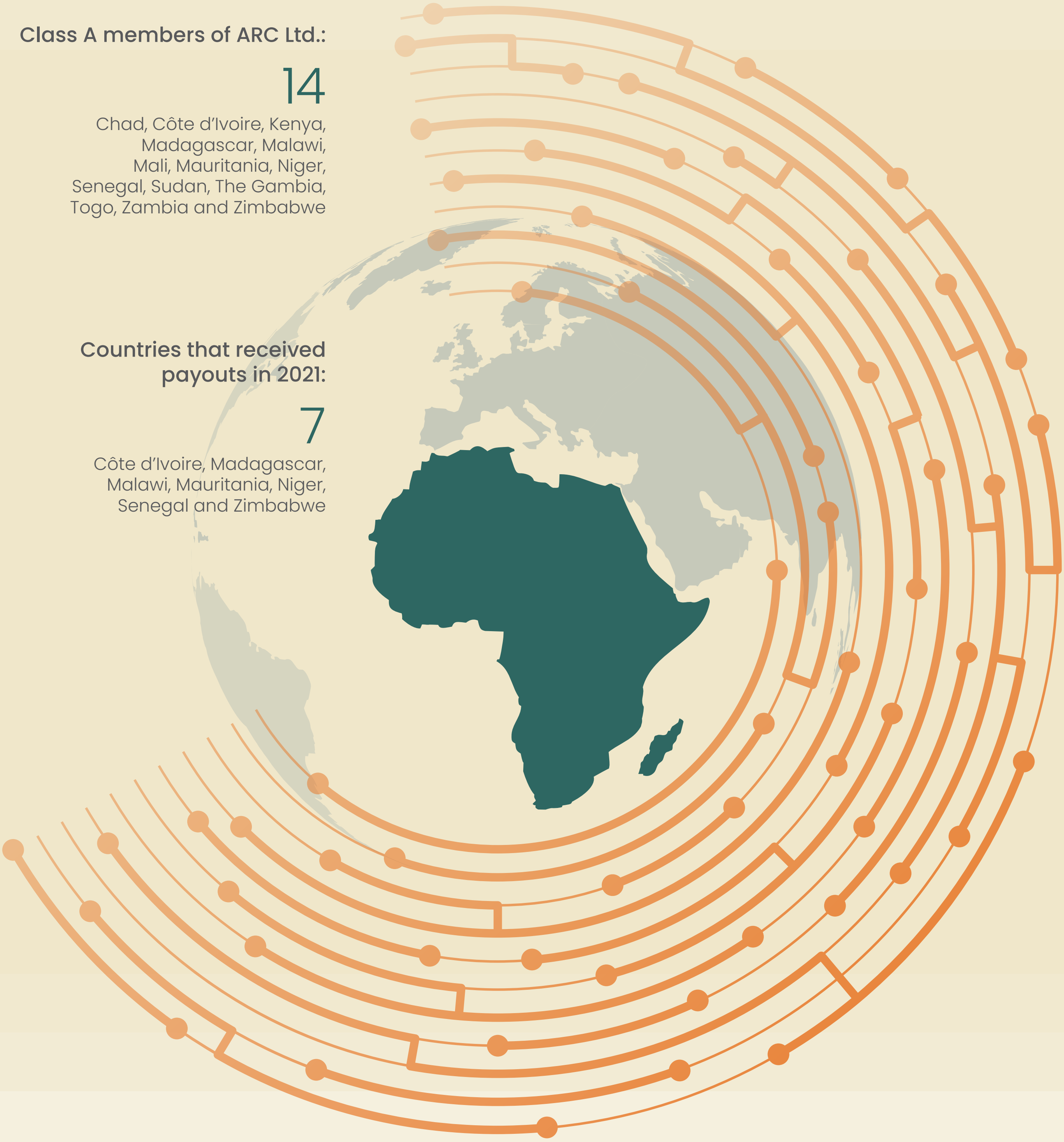
14

Chad, Côte d'Ivoire, Kenya, Madagascar, Malawi, Mali, Mauritania, Niger, Senegal, Sudan, The Gambia, Togo, Zambia and Zimbabwe

Countries that received payouts in 2021:

7

Côte d'Ivoire, Madagascar, Malawi, Mauritania, Niger, Senegal and Zimbabwe



Details on how ARC Ltd. adds value to our beneficiaries are set out on pages 27 to 28.

OUR OPERATING ENVIRONMENT

Parametric insurance has been around for over 20 years and accounts for approximately 15% of issued catastrophe bonds in a USD 100 billion market.

In Africa, however, disaster risk management (DRM) and disaster risk financing (DRF) are still in their infancy. Historically, governments in sub-Saharan Africa have responded to natural disasters by waiting until after an event occurs before launching an international donor appeal. This has resulted in uncoordinated relief efforts and funding that often arrives too late to respond effectively to the situation, culminating in loss of life and livelihoods, damage to infrastructure, disruption of services, poor health and malnutrition, and accelerated migration.

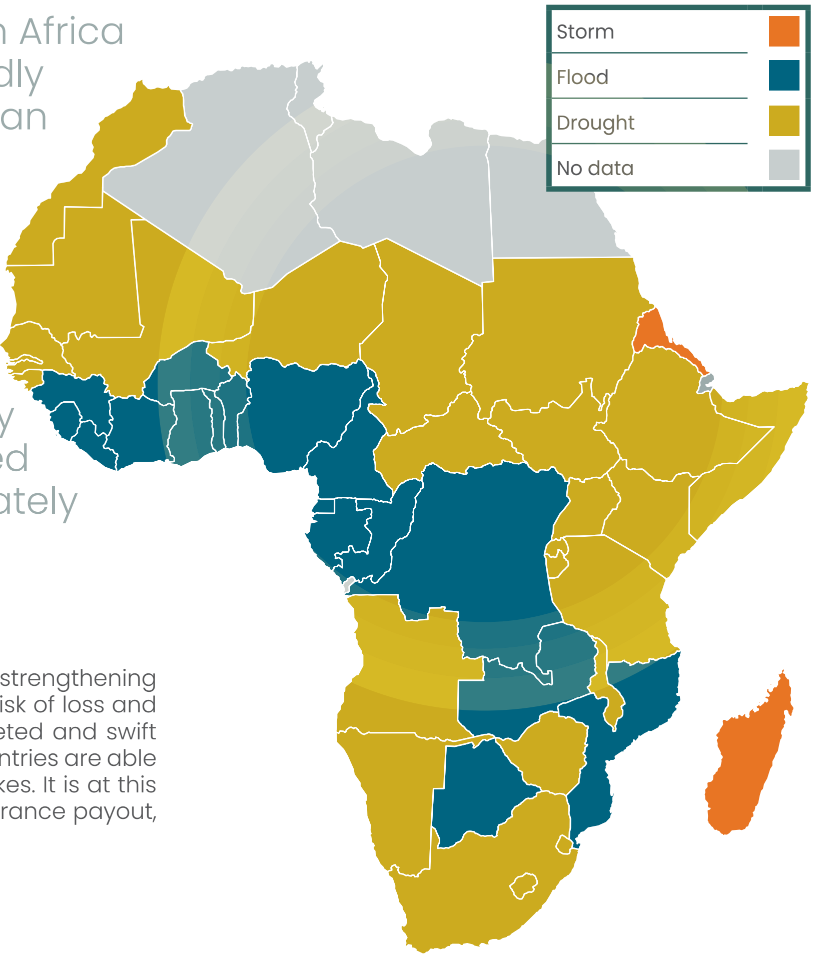
The importance of the humanitarian sector in this equation cannot be understated, however, and ARC Group's Replica Programme affords humanitarian agencies the opportunity to take out a matching policy on behalf of a country; an approach that has proven to offer tangible value in augmenting the resilience of these countries.

The aim of ARC Group's Replica Programme is to build on its government-led risk management infrastructure, supporting the evolution of the traditional appeals-based model for managing predictable natural disaster risks, to switch to a largely ex-ante system embedded at sovereign level. The Replica philosophy is driven by two principles – to build government capacity over time and to promote government ownership of planning and response.

Despite growing awareness of these concepts, we are frequently challenged by fiscal constraints, a limited insurance culture, inadequate government policies, multiple and competing macro-economic factors, changes in the political landscape and a limited understanding of parametric insurance by key decision-makers in the countries in which we operate. Covid-19 has exacerbated this situation even further.

However, as global warming and climate change continue to trigger extreme weather events as well as natural disasters such as droughts, cyclones and pandemics, governments are beginning to appreciate the need for and importance of a proactive approach to protect their populations against these looming threats.

Temperatures in sub-Saharan Africa have increased far more rapidly over the past four decades than in the rest of the world, and extensive areas of the region are expected to exceed 2°C of warming by 2100, while droughts and floods have become more frequent and severe. Poorer countries, many of whom are reliant on rain-fed agriculture, are disproportionately affected.



ARC Group plays a critical role in this environment, strengthening the capacity of member states to minimise the risk of loss and damage from these events, and providing targeted and swift access to finance, tools and products so that countries are able to respond and rebuild quickly once disaster strikes. It is at this point that ARC Ltd. disburses the parametric insurance payout, before impact is severe.

Source: https://openknowledge.worldbank.org/bitstream/handle/10986/36332/9781464818059.pdf?sequence=10&isAllowed=y

MESSAGE FROM THE CHAIRMAN

It is my privilege to present the ARC Ltd. Integrated Annual Report and Annual Financial Statements for the financial year ended 31 December 2021, on behalf of the Board.

Last year, in addition to the ongoing impact of the Covid-19 pandemic, African countries battled multiple concurrent disasters resulting from extreme weather patterns, with limited resources. In fact, natural disasters in sub-Saharan Africa (including drought) have increased at a much faster rate than in the rest of the world, with devastating consequences.

The UN's GAR Special Report on Drought for 2021 warned that drought may well be the next pandemic as Africa faces "exponential collateral damage" posing systemic risks to its economies, infrastructure investments, water and food systems, public health, agriculture, and livelihoods, and threatening to erode the modest developmental gains of recent years. (Read more about the impact of climate change on sub-Saharan Africa on page 12).

HIGHLY REGARDED ORGANISATION

ARC Ltd., as an affiliate of the ARC Group, is one of the most highly regarded organisations in the industry on the African continent. Yet, despite the success of our drought and tropical cyclone insurance products we are not yet at scale, constrained by poor product diversification and a limited client base. Furthermore, the extent of ARC Ltd.'s involvement in the governance and oversight of the ARC model and insurance functions exposes us to financial risks and presents further barriers to upscaling. Our organisation thus finds itself at a critical juncture as a development insurer in AU countries.

"Despite the many challenges, ARC Ltd. has served its constituency admirably during the year under review and I believe we are now well positioned to leverage existing opportunities in the market."

If we are to safeguard our financial sustainability and enjoy a stable insurance portfolio, we must evolve into a USD 100 million insurer over the next five years to be able to cover both sovereign and non-sovereign clients. This demands an inclusive growth mindset.

A NEW CONCEPT

Disaster risk management and financing through parametric insurance is a relatively new concept in Africa. It is hampered by a number of macro-economic factors, inadequate government policies and a limited culture of insurance. Nevertheless, as the frequency and severity of disasters continue to worsen, the need for parametric insurance is undeniable.

Our support of capacity building through the ARC Group is a key vehicle through which ARC Ltd. is achieving one of our strategic objectives – strengthening disaster risk management on the continent – and we will amplify our efforts to assist AU member states to mitigate the risk of natural disasters

MESSAGE FROM THE CHAIRMAN continued

Sovereign risk insurance is but one piece of the resilience puzzle towards expanding risk financing initiatives. It must form part of a larger matrix of financing tools to safeguard against the impact of disaster risk.

It is evident that our future success is inextricably linked to ongoing collaboration with the AU, our member states, development partners and regional and continental authorities. I have no doubt that together we will continue to add even more value across the continent in the years to come as our inclusive growth strategy takes root.

This is the spirit of *ubuntu*; of humanity to others, and a fundamental philosophy across Africa.

ACKNOWLEDGEMENTS

To our member states and beneficiaries, we greatly value your confidence in our organisation to provide targeted financial protection against hard-to-insure losses, and appreciate your receptive attitude to parametric insurance solutions for the benefit of your people, economy and countries.

To our donors and the many stakeholders, thank you for giving so generously of your time, support and guidance. Without you our efforts to build disaster risk management solutions for climate resilience in Africa would not be possible.

I would also like to commend the sterling work of our management team and staff. We have been through a challenging few years, due in part to Covid-19 but also as a result of our steps to refresh and realign our strategy and business. Your dedication and hard work have helped set us on the path of transformation that I believe will lead to the relevant, effective, sustainable and value-creating organisation in whose future we all believe.

Lastly, as Chairman, I would like to express my appreciation to the ARC Ltd. Board and its sub-committees. We are also incredibly grateful to the ARC Group Board, DG and team for their unwavering support over the past year. My sincere gratitude for your ongoing input and guidance.

Abdoulie Janneh

Abdoulie Janneh

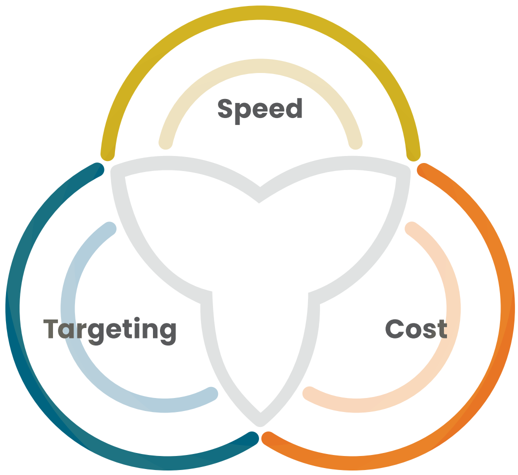
Chairman, ARC Ltd. Board

CREATING VALUE

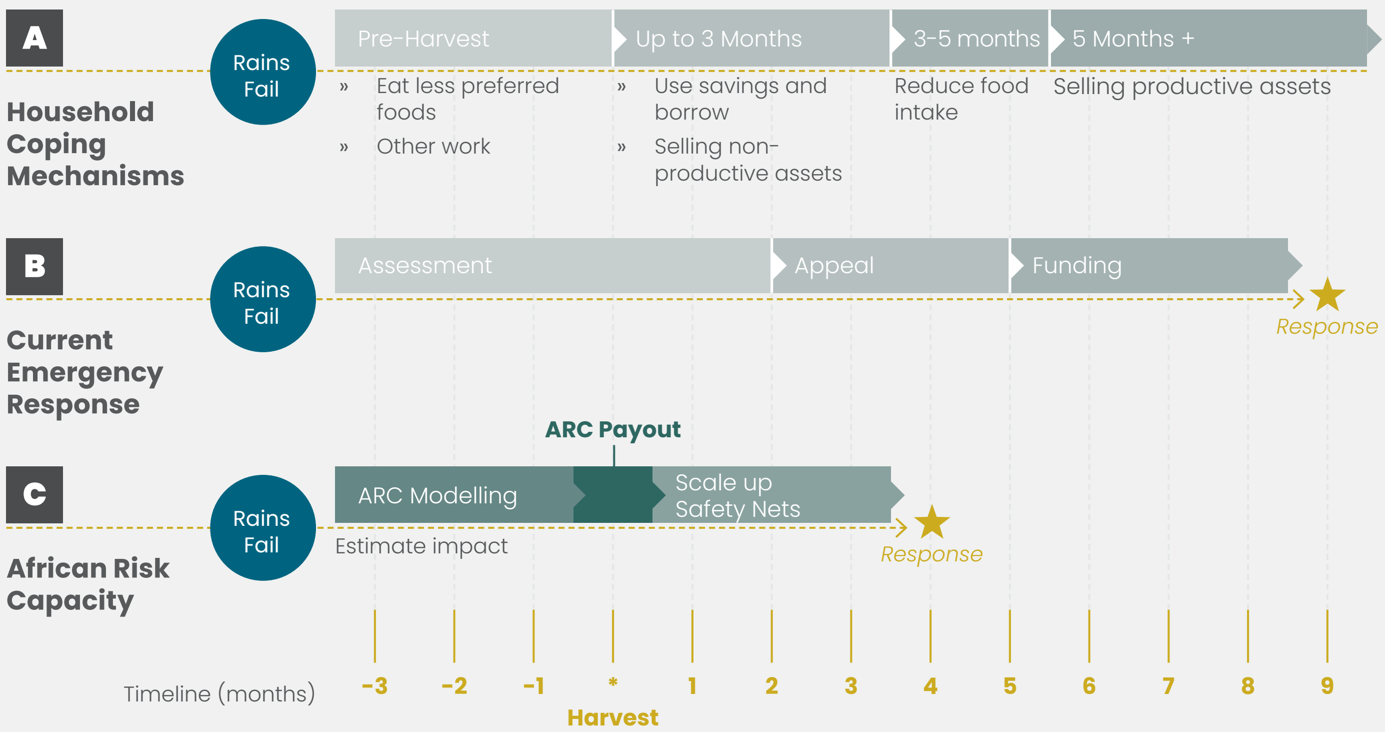
The ARC approach provides a significant economic benefit compared to traditional emergency response mechanisms, driven by the triad of early, quick and targeted interventions.

Our cost-benefit analysis found that for every USD 1 spent on an ARC insurance premium, there is an economic gain of almost USD 2 for the participating country.

KEY FEATURES OF THE ARC MECHANISM



CHANGING THE RESPONSE MECHANISM



Source: Clarke/Hill, Cost-Benefit Analysis of the African Risk Capacity Facility.

As the commercial arm of the ARC Group, ARC Ltd. supports member states with risk pooling and transfer facilities, providing them with the means to strengthen their disaster risk management systems and quickly access financing to protect their vulnerable populations in the event of a natural disaster.

CREATING VALUE continued

The benefit of pooling disaster risk among countries is that it reduces the costs of individual premiums since the risk is shared by the Group. It is estimated that risk pooling can reduce emergency contingent funds by up to 50%.

To date, ARC Ltd. has established eight risk pools. The growth has been gradual and steady, starting with four countries participating in the 2014/2015 risk pool, to 13 countries in the 2021/2022 pool. We have written a total of 90 policies since inception.

OUR IMPACT (IN USD)

Côte d'Ivoire

- 0,7 MILLION (2019/2020)
- 2,2 MILLION (2020/2021)
- 0,6 MILLION (2021/2022)

Madagascar

- 2,1 MILLION (2019/2020)
- 11,5 MILLION for Drought and Tropical Cyclone in 2021/2022

Mali

- 21,7 MILLION (2021/2022) Government & Replica

Burkina Faso

- 1,2 MILLION (2021/2022) Replica

Zambia

- 5,4 MILLION (2021/2022)

Senegal

- 16,5 MILLION (2014/2015)
- 67,000 (2018/2019)
- 23,2 MILLION (2019/2020) Government & Replica

Malawi

- 8,1 MILLION (2015/2016)
- 14,2 MILLION (2021/2022)

Mauritania

- 6,3 MILLION (2014/2015)
- 167,133 (2019/2020)
- 2,8 MILLION (2021/2022) Government & Replica

Zimbabwe

- 1,75 MILLION (2019/2020) Government & Replica

Niger

- 3,5 MILLION (2014/2015)
- 2,1 MILLION (2021/2022)

Payouts have been used to assist affected households through food distribution, cash transfers and supporting livestock through subsidised livestock feed programs.

Veronika Bertram

Kreditanstalt für Wiederaufbau (KfW/BMZ)

ARC's value lies in its systemic approach starting with analysis, the development of a concrete financial product and finally contingency planning before and during a disaster.

It was a successful year in terms of the number of participating countries and beneficiaries and we appreciate that ARC has enhanced its offering to humanitarian agencies and intermediaries in the agricultural sector.

We'd like to see ARC providing many more products in the future and a more systematic and efficient way of creating solutions for the all the differing needs required to build resilience at sovereign and subnational stakeholder level. Adapting to the pace of this evolving and competitive environment is crucial.

We increasingly see the need to co-finance premiums to build resilience, and we urge countries to take ownership of the ARC mechanism and make it part of their own disaster risk management.

If anything, 2021 showed this work is not always easy in the face of political challenges, and that technical issues in the field of index insurance need to be well managed.

I'd like to thank the ARC team, and in particular the teams engaging with the countries on the ground, and the member countries themselves for working to better manage disaster risk and make a difference in the lives of poor and vulnerable people.

ADDING VALUE

BUILDING BACK BETTER

As a specialised agency of the AU, the ARC mandate and strategy are aligned with a number of global DRM policy frameworks. These include the AU Agenda 2063, the Sustainable Development Goals, (SDGs), the Paris Agreement on Climate Change and the Sendai Framework for Disaster Risk Reduction 2015-2030.

Priority 4 of the Sendai Framework speaks of enhancing disaster preparedness for effective response to enable communities to "build back better" in recovery, rehabilitation and reconstruction, and guides Africa's disaster risk management and reduction. This philosophy is a cornerstone of our business methodology.

Furthermore, the ARC concept has proven to be an effective tool in enabling progress on several of the SDGs.

SDG #1 (No Poverty)

In the period under review ARC supported 90 million people (2020: 72 million) through its weather index insurance and cash transfers aimed at enhancing the risk-coping strategies of member states.

SDG #2 & SDG #3 (Zero Hunger & Good Health and Well-being)

Member states have been capacitated to upscale cash transfers and replenish strategic grain reserves for sovereigns for food security.

SDG #13 (Climate Action)

ARC provided assistance to member countries to cope with the fall-out of drought conditions. This promoted food security, leading to reduced hunger (SDG #2 & SDG #3) and ultimately improved risk-coping strategies, thereby contributing towards eradication of poverty (SDG #1).

SDG #17 (Partnerships for the Goals)

The number of countries participating in the insurance pool has fluctuated, starting with four in 2014 and jumping to 14 by 2021. There are currently 35 member states that have signed the ARC Treaty with marginal room for growth of the risk pool.

The economic impact of our contribution to the SDGs and the value received by countries participating in the risk pool are demonstrated in more detail in our case studies on pages 18, 30, 38 and 42.

CASE STUDY: BURKINA FASO

Climate change events have only added to Burkina Faso's woes. Its geographical position means it has a dry tropical climate, with weather patterns alternating between a short rainy season and a long dry season. The country generally experiences low rainfall (in the north for only two months a year) and water retention of the soil is low.

THE HUMANITARIAN CRISIS

The West African country of Burkina Faso, with its population of 18,6 million, has been ravaged by violence and humanitarian atrocities since 2015, enacted by armed Islamist groups, state security forces in pushback efforts, and pro-government militias. This has left the country in abject poverty and food insecurity.

According to UN refugee agency statistics, 1,447,026 people were displaced in September last year, with the World Food Programme (WFP) flagging Burkina Faso as one of the world's fastest-growing displacement crises. Famine is looming and vulnerable families exceed two million. Malnutrition is rampant among children under five, as well as among pregnant or breastfeeding women.

Impact of climate change

Climate change has been manifesting with high temperatures and a greater prevalence of drought. Drought conditions, which persisted from May to December last year, affected crops and cereal harvesting in December.

Mitigating the impact

Burkina Faso signed up for a parametric climate-change insurance contract in 2019 through an ARC Ltd. Replica policy. This partnership with the WFP ensures a proactive approach to disaster risk management. Covering weather-related perils, it helps Burkina Faso determine its immediate requirements and coverage amount.

Together with the government, we developed a contingency plan guiding how the payouts would be used. In the event of a natural disaster, the government is asked for a final implementation plan to ensure funds are received by the intended beneficiaries. This step also expedites disbursement.

In collaboration with the WFP, Burkina Faso has benefited from other initiatives tackling hunger and malnutrition, and which are strategically aligned with similar government policies and rolled out in a coordinated way. They include resilience-building work with communities to future-proof them, as well as help them cope with current challenges; agricultural activities to help farmers protect their livelihoods and production; the development of community assets; improved market access; support for children's schooling; and nutritional and school-feeding programmes to prevent malnutrition.

Total ARC Ltd. payouts

The May 2021 to December 2021 drought triggered a payout of close to USD 1,2 million to the WFP, to combat hunger and malnutrition in Burkina Faso

MILESTONES

ARC Ltd. Africa's first sovereign parametric development insurer

USD 124.3m in payouts

Paid to drought affected countries by four risk pools since 2014

2015

Payout benefited an estimated
1,3m
500k

USD 26,3m
Mauritania, Niger and Senegal

2017

USD 8,1m
Payout received by Malawi

2018

Funds were used to support
800k
Malawians and scale-up on cash transfers and replenishing its strategic grain reserves

USD 4,7m

2019

USD 2,4m
First of its kind received by the Mauritania Government in response to a progressively severe drought

Funds subsidised livestock

2020

+USD 16m
This is the total amount paid to Replica Partners in 2019 and 2020

USD 6m
Payouts to Madagascar, Zimbabwe, Côte d'Ivoire

Senegal and Côte d'Ivoire received
USD 26m
From ARC to assist in providing early action to support more than
7m people
affected by the 2019 agriculture season

2021

USD 59.6m
14 Payouts (Sovereign and Replica Partners)

MESSAGE FROM THE CEO

It gives me great pleasure to present ARC Ltd.'s first Integrated Annual Report to stakeholders. This year's report touches on our six capitals and forms the baseline from which we will track future progress and performance.

2021 was a year of impact; a year that reflected our *raison d'être* and commitment to making a difference in the lives of the vulnerable populations we cover, like no other.

"ARC Ltd. made the highest payouts in Pool 8, amounting to USD 59,7 million and benefiting over 5 million people."

This is the highest payout amount since inception. The flip side of these payouts was a net loss of USD 5,2 million (2020: USD 1,9 million profit), mainly due to underwriting losses pertaining to the high claims activity during the year (Read more about our performance on page 36).

Unlike traditional insurers for whom high payouts equate to risk, as a development insurer this is cause for celebration and reflects that the ARC mechanism saves lives, protects economies, and secures development gains. The concept works well.

We remained on track in pursuit of our key priorities, focusing on increasing premium support to member states to increase coverage of vulnerable communities. Gross written premiums doubled, our highest level for two consecutive years, and we secured USD 22 million for Pool 8 as well as USD 70 million in long-term support and reinsurance capacity.

Our eighth year in business, 2021, found ARC Ltd. at a turning point. While our credibility and capacity to act as a development insurer in our member state countries is indisputable, our limited product range, coupled with insufficient clients to achieve adequate diversification and a stable insurance portfolio, has stunted our growth.

"The ARC Group strategy serves as our north star, guiding ARC Ltd. in our efforts to become the development partner of choice, leading innovative pan-African disaster risk management solutions for climate resilience in Africa."

MESSAGE FROM THE CEO continued

We have a mandate to accelerate immediate- and long-term growth and stand poised to unlock the significant opportunities that exist in the market.

In 2021 we took several steps to deliver on these strategic goals, as outlined below:

PRODUCTS TO MEET COUNTRY-SPECIFIC NEEDS

I am satisfied that the development of our long-awaited flood product has been expedited by the ARC Group and that it will be launched in September 2022. Poor product diversification has constituted a major threat for ARC Ltd. and the addition of a flood insurance product has the potential to double existing business.

However, there is a need for greater flexibility and a customised offering that suits country-specific needs. We must also endeavour to scale business in non-treaty countries following our successful non-sovereign business pilot in 2020, and leverage partnerships for distribution and underwriting. (Read more about non-sovereign business on page 39).

UPSCALE TO REMAIN RELEVANT

Towards the latter half of the financial year, we worked hard to scale up. We strengthened our workforce to support growth and deliver to clients and invested in additional skills to support underwriting, risk management, and the development of micro/meso insurance programmes. ARC Ltd. also invested in automation to prepare for the anticipated increase in country participants. (Read more on page 44).

PREMIUM AFFORDABILITY

Premium affordability continued to hamper us, as governments wrestled with numerous concurrent needs and competing priorities. Premium financing support of member states is therefore needed to protect hard-won gains.

There is already external partner appetite to further fund the ARC concept as an attractive way to achieve climate change adaptation and resilience goals, and the Group has proposed a premium support facility (PSF) to fund USD 500 million in insurance premiums over the next five to ten years. This will certainly move the needle of disaster risk management from largely reactive to more proactive on the African continent.

DECISIVE ACTION FOR A PROACTIVE DISASTER RISK RESPONSE

One of the key tools to strengthen disaster risk management is through our support of ARC Group's capacity-building programmes. These programmes augment understanding and promote ownership of disaster risk management and financing for member states.

Importantly, our risk profiling, disaster modelling and contingency planning processes have significantly improved the capacity and preparedness of member states to deal with natural disasters.

GOVERNANCE AND OVERSIGHT OF THE ARC MODEL

The extent of ARC Ltd.'s involvement in the governance and oversight of the ARC model and insurance functions have up until now exposed us to financial risks and present barriers to scaling. In the year ahead, we will take urgent action to exploit opportunities and eliminate threats, while striving to become more competitive.

REMARKABLE TURNAROUND AND RECOVERY

ARC Ltd. achieved its highest level of premiums for two consecutive years. Growing interest in parametric insurance, coupled with the support of our Class C members and other donors through premium financing, has helped to maintain existing member states and to expand country participation in ARC Ltd.'s insurance pools.

This is truly a remarkable turnaround and recovery from the start of the year.

Revenue too has grown substantially, and we almost doubled the number of written policies over the past three years, including Replica policies, jumping from 16 in 2019 to 28 in 2021. We also surpassed our 2020 investment income by 10,1 million (2020: USD 1,4 million). The overall return for the year on the portfolio was 4,4%.

This underscores the fact that our ongoing reviews of and revisions to our investment strategy against a volatile market have paid off, with investment performance showing significant improvements as our investment income was driven by fixed income debt and realised gains from the sales of our equity instruments to settle claims.

We remain cautiously optimistic about the economic outlook, with volatility expected to be a key feature of the equity and bond markets in the face of stricter measures expected to be implemented by the US Federal Reserve Bank in 2022.

While we have kept within our operating budget over the last three years, this is set to increase by approximately 23% in line with a significant uptick in revenue from USD 16 million in 2019/2020 to USD 32 million in 2022.

MESSAGE FROM THE CEO continued

LOOKING AHEAD

While participation in our sovereign risk pool increased during the year, and the number of people we assisted in sub-Saharan Africa grew, the need for closer collaboration between both the public and private sectors is vital if we are to reach even more people and close the protection gap, build a resilient continent able to respond to extreme weather events and, in so doing, protect the economic development gains made over the last few years.

In the wake of accelerating global climate change, food insecurity and epidemics, there is growing relevance and urgent need for parametric insurance.

There is no time to lose. ARC Ltd. must act now.

ACKNOWLEDGEMENTS

I would like to extend my heartfelt thanks to our donors and partners. It is through your collaboration and financing that ARC Ltd. is able to achieve our important and much-needed work.

ARC Ltd. has a resilient, experienced and agile team and I am proud of each of you. Thank you for your commitment and hard work in a year beset by the ongoing challenges of Covid-19 and for the way in which you continued to serve and advise our customers.

I am optimistic about our prospects for the year ahead and am convinced that we will continue to go from strength-to-strength. We will spare no effort in translating our inclusive growth strategy into success.

Lesley Ndlovu

Chief Executive Officer

OUR STRATEGY

The landscape in which the ARC Group operates has changed dramatically since the development of the ARC Group Strategy 2020–2024 in 2019. Not only were AU countries ill-equipped to deal with the Covid-19 pandemic, but resources were diverted to fund response efforts, leaving many member states unable to pay their premiums and resulting in uncertain pool participation, which threatened future funding prospects for other natural disasters.

As a result, the Group reviewed and realigned its strategy to better navigate the challenges presented by this rapidly changing ecosystem. At the same time, ARC Ltd. developed its Inclusive Growth Strategy 2025 to underpin the Group strategy.

Not only does our refreshed strategy complement member countries' pre-existing disaster risk management strategies, it also strengthens their ability to better rebuild when disaster strikes.

OUR STRATEGIC OBJECTIVES

The ARC Ltd. strategy is based on ARC Group's three objectives: Innovate, Strengthen and Grow. These strategic objectives serve as the springboard for and guiding force behind our four priorities: market penetration, product development, market development and diversification. (Read more about our priorities on page 25).

These guiding principles are fundamental to ARC Ltd.'s Inclusive Growth Strategy 2025 and together they will enable us to realise the ARC Group's vision of becoming a USD 100 million insurer.

ARC GROUP OBJECTIVES

INNOVATE
A dynamic approach to innovation

STRENGTHEN
Strengthening disaster risk management on the continent

GROW
Increased scalability and sustainability of ARC operations and insurance coverage

ARC LTD. INCLUSIVE GROWTH STRATEGY PRIORITIES

MARKET PENETRATION
Increase the current customer base participation and mitigate the loss of market share to existing and new competitors

PRODUCT DEVELOPMENT
Expand to new market segments by leveraging our technical expertise

MARKET DEVELOPMENT
Develop and roll out new sovereign insurance products

DIVERSIFICATION
Enlarge business activities to grow reinsurance, co-reinsurance and retrocession reinsurance

ACTIVITIES TO ACHIEVE OUR STRATEGIC OBJECTIVES & PRIORITIES

Premium financing

Micro/Meso insurance

Flood, outbreaks and epidemics and contingency funds

OUR STRATEGY continued

AGENCY LEAD, LIMITED SUPPORT

Markets \ Products	Existing	New
Existing	**Market penetration** » Increase Sovereign buy-in » Increase Replica buy-in » Expand to new countries and Replica	**Product development** » Development of new products (pastoral drought, tropical cyclone, flood, O&E)
	GROW	INNOVATE
New	**Market development** » National Insurance Schemes (NAIS) » Scaling up of safety net programmes (eg. HSNP in Kenya) » Sub-national Micro/Meso Direct Insurance » Supranational policies » Economic Community of West African States (ECOWAS)	**Diversification** » Aggregators » Co-reinsurance » Retrocession » Consulting from DRM and DRF, Value Chain optimisation, other Insurance applications
	STRENGTHEN	INNOVATE

LIMITED LEAD, AGENCY SUPPORT

OUR STRATEGIC APPROACH TO CREATING VALUE

Parametric insurance is designed to rapidly provide liquidity following a catastrophic event. Its significance in the face of escalating climate change and disasters, and the subsequent effects on vulnerable populations in particular, cannot be overstated.

Diversification

ARC Ltd. has not grown to the extent we had hoped or need to maintain a viable business, however, and it is imperative that we diversify our markets and product portfolio in the year ahead.

Key to our growth will be further development of our non-sovereign business and the acquisition of new clients in addition to sovereign clients, launching new products and maintaining underwriting discipline. Similarly, strategic relationships with international reinsurers and multi-lateral banks will be important to unlock these growth opportunities.

"Our focus will be on sustainable growth through the expansion of our geographical footprint, aligning our product offering with customer needs and leveraging partnerships to raise additional capital."

Underwriting income dipped during 2021 as countries and Replica partners shifted their priorities in response to Covid-19. Similarly, loss in investment income declined while operational challenges brought on by lockdown increased. (Read more about how scaling our Replica programme is central to our growth on page 12).

The role of technology

Thanks to the fast-paced digital revolution, we are able to create and manage increasing amounts of data and improve our risk insights using technology.

Africa RiskView, ARC Ltd.'s satellite weather surveillance system, helps us to develop precise risk profiles for member states, determine the magnitude of the parameters and confidently underwrite new risks. This process is entirely generated by data, making the insurance process fully transparent and highly scalable. Guaranteed insurance payouts are made within 10 days of an event.

Delivering on strategic objectives

Priority 1 – Premium Financing: the commitment of premium financing of almost USD 100 million from partners and growth of ARC insurance programmes through premium support.

Priority 2 – Micro/Meso insurance: continued expansion of insurance programmes to protect micro/meso farming communities.

Priority 3 – Flood and contingency fund: implementation of a contingency fund that could trigger payouts equal to contributions to the fund, for events below the attachment point of insurance policies.

Hans Ramm

Swiss Agency for Development and Cooperation (SDC)

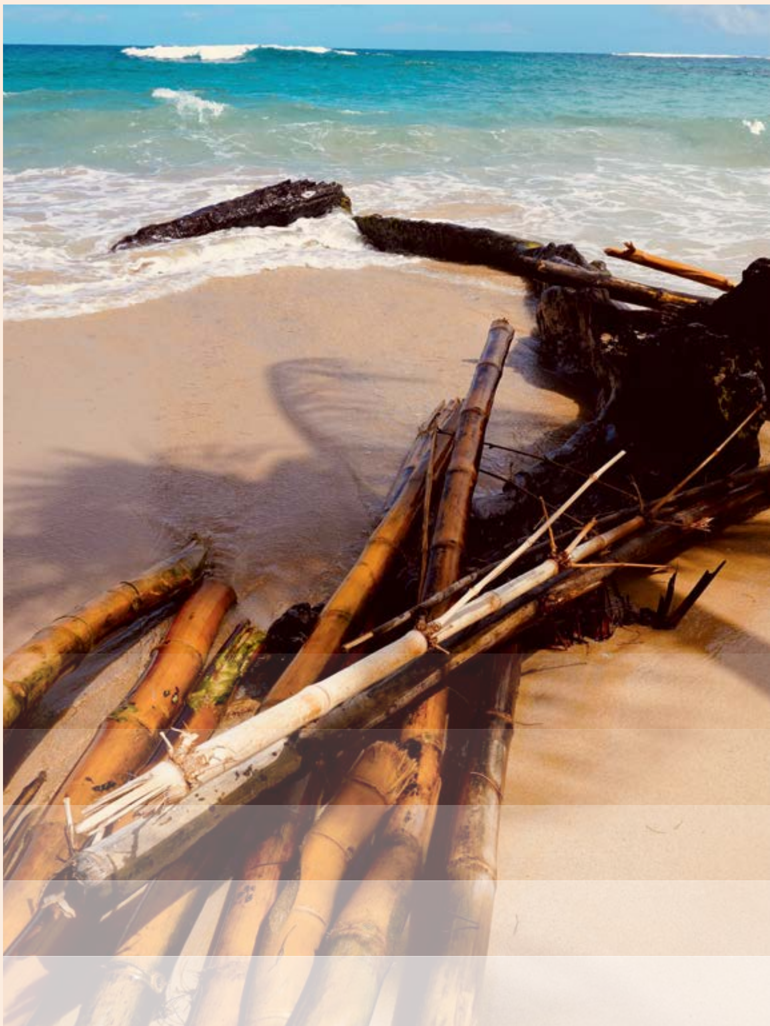
There is no system quite like ARC Ltd.'s comprehensive risk management and risk transfer initiative for the continent. In fact, there is no alternative system in sight for building greater resilience against natural disasters and the outbreak of epidemics.

A shift from ex-post humanitarian relief towards ex-ante risk management is proving effective and efficient; all too often, traditional funding mechanisms are too late for small-scale farmers who have to sell off their assets to ward off poverty and food insecurity.

Parametric insurance is demand-driven and I am pleased that the AU is beginning to take increasing ownership for protecting their countries against natural disasters, and I would urge countries who are not yet become members to make budget allocations for premiums for ARC Ltd. products in their national budgets.

As donors, we want to be assured that payouts reach the poor and vulnerable communities they are intended to protect. ARC Ltd. lives up to its governance promises and payouts to member states are verified by independent audits demonstrating our values of excellence and integrity underpinned by transparency. The organisation's results and impact to date are reassuring. Nevertheless, there is work to be done in the year ahead; risk diversification is key, and products must come to market more rapidly. In addition, private sector mechanisms will help to obviate funding gaps, but we do need more countries to sign the treaty. One way would be to structure different risk levels and seek funding solutions for those risk segments. I would further suggest that membership fees be considered.

There is growing relevance of ARC Group in the wake of accelerating global climate change, food insecurity and epidemics. At the same time there is infinite potential for ARC Ltd., and I look forward to seeing the organisation thriving and growing in the year ahead, led by an active and dynamic Board.



OUR BUSINESS MODEL

As the commercial arm of ARC Group, ARC Ltd. aims to mitigate hardships following an extreme weather event by proactively predicting disasters and providing the requisite insurance to help governments introduce safety nets rather than address full-scale ruin.

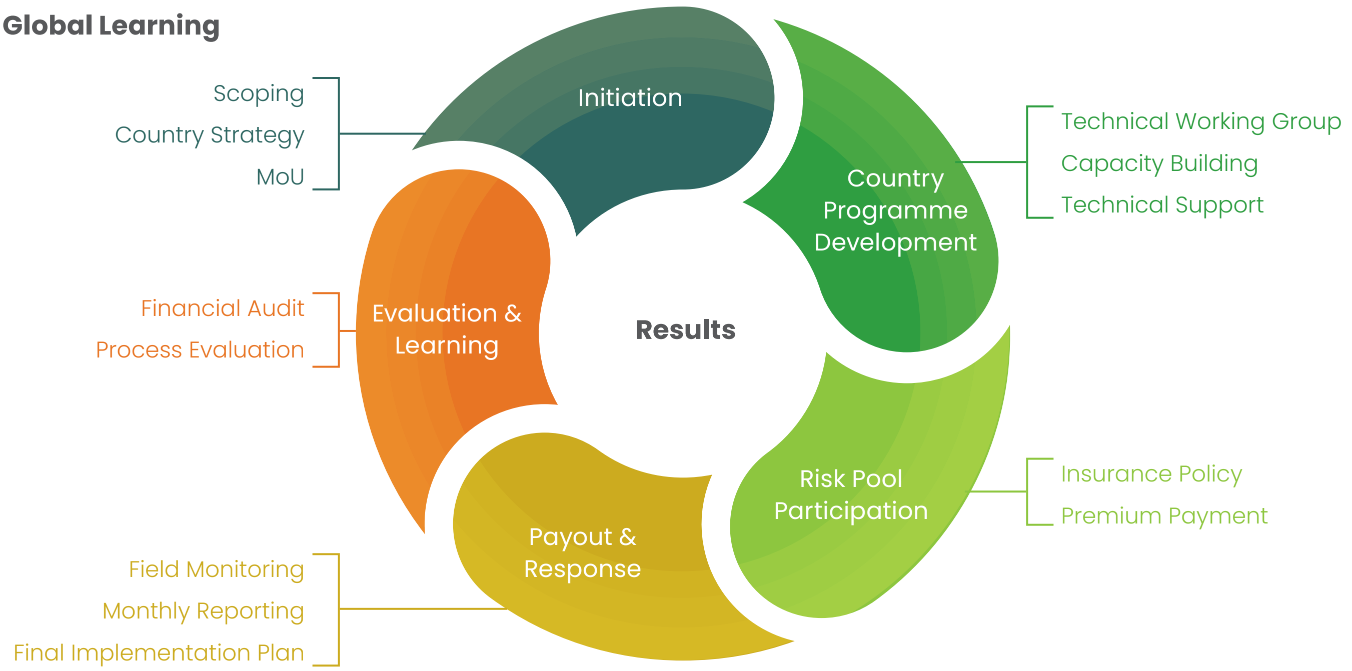
Our capacity-building programmes are one way in which we do so. Recognising that African countries need support, we focus on strengthening their capacity, building their insurance knowledge base and, consequently, their disaster preparedness. This approach makes ARC Ltd. unique in the world of parametric insurance operations.

Over the years, ARC Ltd. has built a skilled team and developed a best-in-class proprietary risk and underwriting model that allows us to deliver tailored parametric insurance to our member states. We are authorised to operate as a local insurer with exemption from local laws and regulations in countries that have signed the ARC Treaty. This gives us a distinct advantage.

Ongoing research into natural disasters and their associated risks are the mainstay of our service offering.

THE ARC PROCESS

The diagram below illustrates the role of ARC Ltd. and how it fits in with the ARC Group process:



OUR UNDERWRITING PROCESS

- Review model for each country in the drought pool
- Customise country-level risk model
- Conduct risk transfer workshops with member states
- Lobby for premium finance to access sovereign risk insurance
- Underwrite and administer policies, including partial risk transfer risk to international reinsurance markets
- Encourage development of local agricultural micro- and meso-parametric insurance through technical and financial capacity building
- Season monitoring after administering policies and provide end of season reports (MDRC) for all countries after the end of the season
- Ensure that amounts received by governments and Replica partners are utilised in accordance with a pre-agreed final implementation plan
- Rapid execution of operations and enforces transparency and accountability

OUR VALUE-CREATING BUSINESS MODEL

CAPITALS	INPUTS
FC FINANCIAL » Capital base supported by donors » Operations support » Investments » Premiums	» ARC Group engagement and support » Equity of USD 12 million » Assets under management USD 145 million » Budgeted investment income by USD 2,5 million » Donor financing » Capital requirement cover » One of the largest balance sheets dedicated to weather-related risks in Africa
MC MANUFACTURED » ARV Model (ARC Group) » Underwriting System (Remetrica) » Dynamic 365: Underwriting Sales System » SAGE X3: Accounting System » IT Security Systems	» Early warning model » Top parametric insurer serving the African continent » Technologically advanced with scalable potential
IC INTELLECTUAL » Proprietary risk and underwriting model » Technology and data system » Skilled and experienced staff » Strategic and operational frameworks » Investments	» Top parametric insurer serving the African continent » Strong strategic partnerships » Technologically advanced with scalable potential » Innovative culture » Skilled and committed staff » Research-based solutions
HC HUMAN » 12 employees » Board » Organisational culture » Partners and donors » Auditors and actuaries	» Our primary capability is to manage climate risk. We deliver solutions to clients via products, services and indices
SC SOCIAL & RELATIONSHIP » African governments and member states » Humanitarian organisations » Staff » Media	» Highly regarded parametric insurer » Solid, long-standing relationships of trust with member states, funders and regulators » Contribute to resilience and DRM on the continent » While our direct social impact is limited, we remain committed to responsible stewardship of resources
NC NATURAL » Water and energy usage	» While our direct impact is limited, we remain committed to responsible ESG stewardship

ACTIVITIES

- Capacity-building support
- Payout of claims
- Financial reserves management
- Stakeholder engagement and communications
- Growing Replica partners
- Risk management

- Parametric risk modelling and monitoring
- Business planning
- Enterprise risk management
- Underwriting
- Accounting

- Research
- Risk profile development
- Premium growth, growing our client base to include sub-sovereigns, non-governmental organisations
- Manage climate risk

- Strategic planning
- Implementation of strategy
- Building partnership
- Fiduciary compliance
- Capital optimisation and presentation

RESULTS

- **USD 30 million** earned in premiums
- **USD 59,6 million** paid out in claims
- **100%** of payouts made within 10 days
- **USD 5,2 million** loss (2020: USD 1,9 million net profit)
- **46%** premium growth (2020-2021),
- Secured **USD 22 million** for Pool 8
- **5 million** people benefited
- **USD 70 million** in long-term support and reinsurance capacity
- **Return on capital** (Class C members)
- **Return on premium** (Reinsurers)
- **Professional** development, security of tenure, opportunities for growth (Staff)
- A **BBB+** Fitch rating
- Top **ESG score**

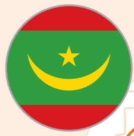
CASE STUDY: MAURITANIA

"Mauritania, a lower-middle-income country in north-west Africa, is buckling under food insecurity. It is situated in the Sahel region – a semi-arid region of Africa bordered by the Sahara Desert."

CRIPPLED BY COMPOUNDED FACTORS

Mauritania, a lower-middle-income country in north-west Africa, is buckling under food insecurity. It is situated in the Sahel region – a semi-arid region of Africa bordered by the Sahara Desert – as are Burkina Faso, Chad, Mali and Niger. Mauritania has been grappling with the economic impact of Covid-19, displacement caused by extremist groups, and drought. Since September 2021, the country has also accepted more than 76,000 refugees, mainly Malians, who are being sheltered in the south-eastern region.

The majority of the poor in Mauritania (74%) live in rural areas. Around 9,8% of Mauritania's children suffer from malnutrition and, according to USAID, more than 660,000 people are expected to face crisis levels – or worse – of food insecurity during 2022. This is close to a 40% increase compared to 2021, and the highest level of food insecurity in Mauritania since 2012. An unprecedented humanitarian crisis is looming.



DROUGHT AND ENVIRONMENT

Mauritania relies on agriculture to survive; with many smallholder farmers depending on seasonal workers, the bulk of whom are women. Last year Mauritania experienced below-average and poorly distributed rainfall during what was supposed to be the rainy season. This resulted in below-average harvest and pasture production. The prolonged drought has seen a further destruction of harvests, livestock starving to death and a shortage of land for grazing. A knock-on effect of the drought has been soaring food prices. Compounding the hardship in the country are environmental issues such as desertification, deforestation, bush fires and ecosystems being degraded.

PLANNING AHEAD

The crisis in Mauritania underlines the importance of insurance instruments, which make funds and resources available for recovery efforts after a disaster. The government understands this, as well as the need to plan ahead and build resilience. To this end, it signed up for an ARC-Replica policy, through which it partners with the World Food Programme (WFP).

This policy helps the Mauritanian government to boost its capacity to anticipate, prepare and respond to natural disasters caused by extreme weather events and extend its climate insurance coverage to reach more of its vulnerable citizens.

"The low rainfall in June to November 2021 prompted a USD 1,14 million payout from ARC Ltd. to the WFP for the provision of food assistance in Mauritania. As a result, the country is able to rebuild and recover sooner, rather than later. This is not ARC Ltd.'s first payout to Mauritania for a drought-related crisis. More than USD 8 million in insurance payouts were disbursed previously to reduce the prevalence of food insecurity."

OUR MATERIAL MATTERS AND RISKS

"ARC Ltd. is the only comprehensive risk management and risk transfer initiative on the African continent designed to help build resilience against natural disasters and the outbreak of epidemics. There is no alternative system in Africa."

MATERIAL MATTERS

However, during the year under review a number of matters were identified as being material to the ability of ARC Ltd. to continue operating sustainably while fulfilling our mandate.

RISK MANAGEMENT

ARC Ltd. achieves its strategic objectives by assuming risk but, without careful management and monitoring, these risks have the potential to threaten our key resources and undermine stakeholder trust. At worst, these risks could necessitate a request for callable capital or even threaten the existence of ARC Ltd.

The Board, through the audit and risk committee, is responsible for the overall governance of risk and is mandated to regularly review ARC Ltd.'s risk management practices to optimise the risk-return trade-off.

During 2021, ARC Ltd.'s risk appetite statements were amended to reflect the ARC Ltd. Inclusive Growth Strategy. These statements include quantitative measures including tolerance limits on metrics measuring capital adequacy, profitability, liquidity underwriting risk, market risk and credit, and qualitative statements, which address operational risks, reputational and regulatory risks.

OUR TOP RISKS

In the year under review, ARC Ltd. identified six top risks that were deemed material to our ability to achieve our Inclusive Growth Strategy and create value over time, as well as a detailed description of how we will mitigate these risks. (Read more about our strategy and about how we create value on pages 24 and 28, respectively).

OUR MATERIAL MATTERS AND RISKS continued

ARC LTD. TOP RISKS

#	RISK	DESCRIPTION	TREND	OUR RESPONSE
1	**Underwriting Risk – Climate Change** FC IC SC HC	Climate change and global warming continue to pose significant risks in 2022. The risk of more frequent and severe extreme weather events due to climate change is the key risk ARC Ltd. is facing. This can be evidenced by the significant payouts made in 2021.		ARC Ltd.'s Inclusive Growth Strategy is a comprehensive plan detailing our market and product diversification and aims to diversify the effects of drought claims with flood claims. ARC Ltd. also focused on understanding how these risks affect underwriting and pricing. The underwriting criteria used to consider these risks were consequently reviewed.
2	**Underwriting Risk – Basis Risk Events** FC IC SC HC	Basis risk is the difference between an insured's loss and the payout expected from the parametric policy. This risk could arise due to model error or incorrect parameterisation. Basis risk could result in significant reputational risk.		ARC Ltd. conducts ground truthing exercises where model-generated payouts are compared to conditions on the ground at the end of each season. ARC Ltd. enhances its season monitoring procedures at the end of every season to improve its basis risk detection time.
3	**Strategic Risk – Risk of Insufficient Pool Growth** FC IC SC HC	The risk that the ARC Ltd. pool does not grow. This could be due to the limited number of countries that make up the continent and therefore a potential market, as well as failure to interact effectively with this narrow market. A lack of extensive, regular interaction could result in a failure to comprehend the disaster risk tools in the ARC Ltd. arsenal and perpetuate the perception of expensive premiums. This will result in unsustainable level of expenses and inadequate capital accumulation to repay Class C capital.		ARC Ltd.'s Inclusive Growth Strategy is a comprehensive strategy that details the Company's market and product diversification that aims to reduce dependency on sovereign market for growth and sustainability. The strategy also details a plan for premium financing that addresses the affordability of premiums by sovereign clients.
4	**Underwriting Risk – Model Error** FC IC SC HC	There is a risk that the systems supporting rainfall reporting, accumulation monitoring and control fail to capture complete, up-to-date and accurate data elements.		ARC Ltd. enhances its season monitoring procedures at the end of every season to improve the procedures that govern its underwriting process. The policy wording and dispute resolution mechanisms in the event of any indeterminable failures, were improved.
5	**Operational Risk – Outsourcing Risk** FC HC	Key functions such as research and development that are normally carried out by an insurance company have been outsourced to our affiliate, ARC Agency. As a critical outsourcing provider any failure on the part of the Agency could significantly disrupt operations within ARC Ltd.		ARC Ltd. enhances its season monitoring procedures at the end of every season to enhance underwriting and other outsourced operational procedures. We further revisit the documentation of processes and procedures to take into account any new functions or enhancements.
6	**Operational Risk – Cyber Risk** FC IC HC	Cyber risk is the risk of a security breach of ARC Ltd.'s information technology systems affecting the availability or integrity of information, resulting in a financial loss or business disruption and thus significantly affecting the brand.		A rapid risk assessment is conducted annually and includes recommendations on keeping cyber risk at bay. Staff also receive annual training to enhance cyber security awareness.

OUR MATERIAL MATTERS AND RISKS continued

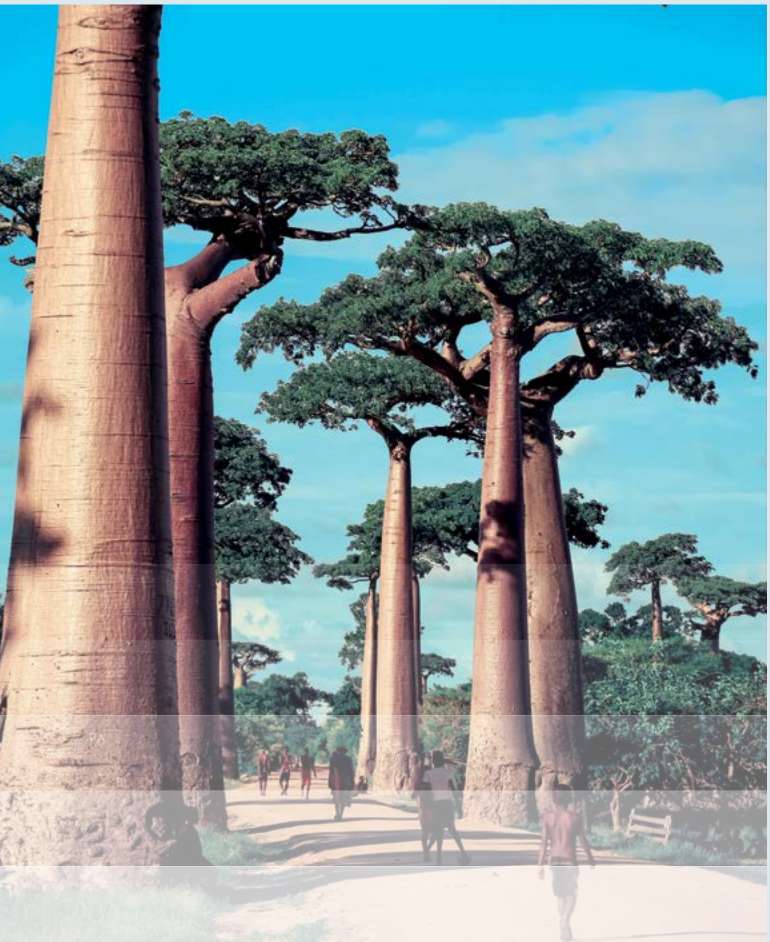
OUR PRIORITIES

Following the analysis of our risks and material matters, ARC Ltd. has identified three priorities that will enable us to achieve our vision:

1	**PRODUCT DIVERSIFICATION**
2	**MARKET GROWTH**
3	**PREMIUM FUNDING**

In order to achieve these priorities, the primary focus of ARC Ltd. during the year under review was to raise additional capital from other potential stakeholders to remain sustainable as we scale up.

"Our immediate goal is to cover 150 million Africans by 2025."



PRODUCT DEVELOPMENT

A diversified portfolio comprising a larger and stronger customer base of sovereign and non-sovereign customers is essential to our continued existence. The availability of a flood product would double the existing business and significantly increase diversification.

Similarly, while sovereign policies have demonstrated their ability to pay out funds to countries in their moment of needs, in most cases, they are nowhere near able to match a country's full liquidity needs. The development of market-driven solutions will enable us not only to transfer some of the risk retained by government to local private insurance companies, but also to reduce the risk profile of sovereign governments.

Additionally, complementary disaster funding instruments such as a contingency fund and a catastrophe (CAT) bond will also improve client confidence and choice while laying the foundation for growth.

MARKET GROWTH

The historically limited number of countries participating regularly in the insurance pool poses a real threat to ARC Ltd. and is not financially sustainable. Between 2017 and 2021, only six new countries joined the pool, only two new countries signed MoUs and just one country signed the ARC Treaty.

Another barrier to scaling is the size of our existing market. Of the 55 countries in Africa, 35 are signatories to the ARC Treaty but by year end, 25 had signed an MoU and embarked on the capacity-building programme to become eligible to participate in the insurance pool.

We are exploring amending the onboarding process to make it easier for countries to join ARC Ltd. in either the sovereign or non-sovereign risk pool.

PREMIUM FUNDING

The affordability of insurance premiums remains a barrier to pool participation and a strategy to identify and secure additional donor partners for premium financing is a crucial piece of the puzzle, since premium financing has the potential to significantly expand the market, and is critical to scaling the business. So too is the drive to expand the number of Replica partners in fundraising windows beyond our existing partners – Start Network and the World Food Programme (WFP).

In addition, competing products and guaranteed funding through the World Bank could significantly reduce our market and underscores the importance of securing premium financing and new donor partners.

ARC Ltd. envisages that at least 50% of premiums will be funded by premium financing subsidies in 2022. (Read more about premium financing on page 36).

Of further concern, although not immediate, is the risk of donors recalling capital loans if the organisation does not meet its development objectives. This step would render the business unsustainable. Currently our interest free capital loans are to be paid in 2034.

ENGAGING OUR STAKEHOLDERS

We are committed to optimising the quality of our stakeholder relationships through structured engagement that seeks to understand and respond to the needs and expectations of all our stakeholder groups.

In line with this commitment, ARC Ltd. held our first-ever retreat for members and partners in November 2021. The two-day event was an opportunity to connect and share opinions, challenges and lessons learnt with a view to fostering stronger and more productive long-term partnerships.

STAKEHOLDER OVERVIEW

The stakeholder groups listed are those we believe are material to achieving our strategic objectives and that impact the profile and competitiveness of ARC Ltd.

STAKEHOLDER	FREQUENCY OF ENGAGEMENT	CHANNEL	ISSUE/S
ARC member states and beneficiaries	Continuous throughout the year	**ARC Agency**	Insurance product offering and other capacity-building services
Class A and Class C members	Minimum quarterly or as needed	**ARC Ltd. Chief Operating Officer**	Business performance update and reporting
Board	Minimum quarterly or as needed	**ARC Ltd. Chief Executive Officer**	Business performance update, reporting, strategic guidance
Funding partners	Minimum quarterly or as needed	**ARC Ltd. management**	Business performance update and reporting
Reinsurers	Continuous throughout the year	**Chief Underwriting Officer**	Reinsurance placements

OUR PERFORMANCE

ARC Ltd. recorded positive growth during the year with regard to the number of countries in the risk pool, gross written premiums, coverage and premium support. In addition, investment income improved, despite an underwriting loss. We increased recorded strong financial performance delivered through our two main sources of income.

KEY NUMBERS AT A GLANCE

NET INVESTMENT INCOME

USD 11,5 MILLION

(2020: USD 1,4 MILLION)

46%

PREMIUM GROWTH (2020-2021)

USD 22 MILLION

SECURED FOR POOL 8 – **35%** KFW/BMZ, **12%** AFDB/ADRIFI, **9%** USAID/WFP, **17%** MDTF

USD 70 MILLION

SECURED FOR LONG-TERM SUPPORT – **USD 30 MILLION** FCDO, **USD 20 MILLION** KFW/BMZ, **USD 7,5 MILLION** SDC, **USD 12 MILLION** USAID, CANADA

REVENUE GREW BY 46% FROM LAST YEAR

USD 30,8 MILLION

(2020: USD 21,1 MILLION)

NUMBER OF WRITTEN POLICIES, INCLUDING REPLICA POLICIES, ALMOST DOUBLED OVER THE PAST THREE YEARS, FROM

16 TO 28

SURPASSED OUR 2020 INVESTMENT INCOME BY

USD 10,1 MILLION

(2020: USD 1,4 MILLION)

Financial sustainability was a key priority for ARC Ltd. and by year end we had made a remarkable turnaround after a slow start.

Total earned premium was USD 29,8 million (2020: USD 14,4 million), slightly above the targeted USD 21 million. Gross investment income climbed to USD 11,6 million, considerably outperforming last year's figure of USD 1,7 million. This performance underscores the efficacy of our revised investment strategy which cushioned the impact of a volatile market.

Net investment income of USD 11,4 million was recorded (2020: USD 1,4 million).

Our opening balance for marketable investments and cash equivalents for the year was USD 93,5 million. This amount increased by a pleasing 17,6% to a closing value of USD 110 million and reflects business growth and the efficient management of working capital.

HIGHEST LEVEL OF PREMIUMS FOR TWO CONSECUTIVE YEARS

ARC Ltd. collected USD 30,8 million in gross written premiums (GWP) during the year (2020: USD 2,1 million). Of the premiums written on sovereign policies, 26% (2020: 29%) were collected from the governments of member states, while 44% (2020: 79%) is attributed to premium financing from our partners KfW/BMZ, USAID and AfDB, through premium subsidies and our Replica programme via WFP and Start Network.

Ideally, we would like to see more multi-year premiums being taken out to secure sustained support and therefore sustainable solutions for member states who will then be able to build the cost of disaster risk management into national budgets.

PREMIUM CATEGORY	Country	Partners
Amount contributed	8,160,614	13,699,232
Total premium for Pool 8	30,825,155	30,825,155
%	**26%**	**44%**

OUR PERFORMANCE continued

In total, **ARC Ltd.** has collected **USD 134 million** in premiums since our establishment in 2014 and provided insurance cover of **USD 900 million** to protect **90 million** vulnerable people. In addition, we have paid out USD **124,3 million** in claims to countries in need of drought relief to benefit over **5 million** vulnerable populations in participating countries.

PRODUCT DIVERSIFICATION

Increased pool participation and premium support is not enough, and product diversification, specifically in the form of a flood product, is urgently needed. Development of this product was expedited during the year, and it will be launched in September 2022. Other internal and external key drivers of growth include the addition of excess rainfall to the tropical cyclone product and new indices for the drought product.

The value of market expansion and diversification is evident in the case of Madagascar, which took out tropical cyclone insurance and benefited from a USD 2,4 million payout. (Read about how parametric insurance helped Madagascar on page 38).

UNDERWRITING PERFORMANCE

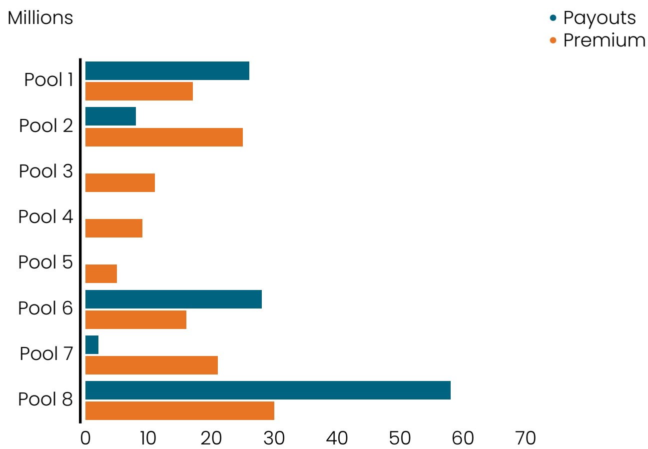
Risk Pool 8 recorded the largest premium growth since the inception of ARC Ltd., to reach a high of USD 30,4 million (excluding non-sovereign business). This was a 47% increase on Pool 7's USD 20,7 million gross written premium. Premium financing has been instrumental in this performance, with the generous assistance from KfW/BMZ, SDC, US AID, ADRiFi, AfDB MDTF and FCDO.

PREMIUMS BY COUNTRY 2021

COUNTRY	PREMIUM USD millions
Burkina Faso	0,6
Côte d'Ivoire	1,6
The Gambia	0,9
Madagascar	2,5
Malawi	3,0
Mali	3,0
Mauritania	2,5
Niger	1,4
Senegal	4,9
Sudan	1,5
Togo	1,0
Zambia	1,0
Zimbabwe	6,5
Total	**30,4**

Note: these figures exclude non-sovereign business which makes up the remaining USD 0,4 million.

Pool 8 was also characterised by having the highest payouts ever in the history of ARC Ltd., and claims are forecasted to exceed USD 58 million, equating to a projected loss ratio of 192%.

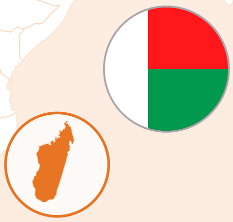


This adverse claims experience resulted in a net underwriting loss of USD 4,4 million, compared to a profit of USD 3,1 million in the previous year when claim activity was more subdued. This loss has, however, been reduced significantly by our reinsurance programme, which consists of a 50% quota share treaty reinsurance coverage and a stop loss reinsurance contract, whereby reinsurers will absorb in excess of USD 29 million in claims for the 2021 underwriting year.

Total reinsurance premiums of USD 18,8 million (2020: USD 12,5 million) were recognised in the accounts. Claims recoverable of USD 18,5 million (2020: USD 51,1 million) were booked pursuant to the terms of the respective reinsurance contracts.

CASE STUDY: MADAGASCAR

"The beginning of 2022 saw Madagascar decimated by a series of extreme weather events. Tropical Storm Ana in January was rapidly followed by four events in February: Cyclone Batsirai, Tropical Storm Cliff around the same time, which was circulating, but thankfully did not make landfall, Tropical Storm Dumako and another, Cyclone Emnati. "



FOUR DISASTER CLIMATE EVENTS IN TWO MONTHS

Due to its geographical position, Madagascar is one of the African countries hardest hit by the impact of climate change. Cyclones batter the island nation up to four times a year.

SEQUENCE OF EVENTS

Ana made landfall on 22 January near the south-eastern city of Mananjary, 530km from the capital Antananarivo, leaving 55 people dead and displacing more than 70,000.

Tropical Cyclone Batsirai, which made landfall on 5 February, was one of the worst cyclones to hit the country in 30 years. It left 121 people dead and more than 61,500 displaced – including 37,500 children – in central and southern Madagascar.

Just 10 days later, Tropical Storm Dumako arrived, leaving another 14 people dead and displacing about 3,000.

Cyclone Emnati arrived on the south-eastern side of Madagascar, where Batsirai had been just three weeks earlier. Thousands of people were evacuated, but luckily the cyclone did not cause any casualties or damage.

COUNTING THE COST

The devastation of these cyclones and storms was immense. Over and above the many lives lost, the floods and winds destroyed buildings and infrastructure, and villages and towns were cut off – some were left without electricity or water supply. Many houses, because they are built of earth, were turned into mud during the flooding, often collapsing on people. Social services, such as schools and clinics, were severely damaged or destroyed.

COMING TO MADAGASCAR'S AID

Shortly after Tropical Cyclone Batsirai, ARC Ltd. made a payout of USD 10,7 million to enable the country to start rebuilding.

BARRIERS TO REBUILDING

Natural disasters, such as cyclones and drought, put the country continually on the back foot. This leaves its government unable to rebuild properly, depletes its coffers, causes food insecurity and exacerbates poverty. The southern part has been experiencing the worst drought in decades and its 30 million people are facing famine.

"Madagascar was the first African country to take up ARC Ltd.'s sovereign parametric cyclone insurance protection, which was launched in 2020. It took out a policy for a premium of USD 2 million, fully co-financed by KfW/BMZ Development Bank and ADRiFi multi-donor trust fund (MDTF), with an aggregate coverage limit of USD 11,7 million."

DROUGHT COVER

Madagascar had previously taken out ARC Ltd. drought insurance, 100% financed by the African Development Bank in 2019/2020. The country received a USD 2,13 million payout in July 2020 to cover anticipated losses to livelihoods due to crop failure in the previous season. A total of 600,000 affected people were helped, and bankruptcy among farmers was prevented. Early interventions of this parametric insurance include unconditional cash transfer and cash-for-work for 15,000 vulnerable households, nutritional support for 2,000 children under five years, and water supply for 84,000 households.

TOTAL PAYOUTS

At the end of April 2022, ARC Ltd. had paid out USD 797,049 to Madagascar. The drought season is ongoing but on 10 April 2022 a guaranteed payout of USD 0,76 million to Madagascar was confirmed.

Madagascar is an early adopter of parametric insurance, recognising that this coverage allows it to respond swiftly on the ground, save lives and have the means to rebuild.

MARKET EXPANSION INTO NON-SOVEREIGN BUSINESS

We successfully completed a pilot of our non-sovereign micro/meso insurance business in four countries – (Burkina Faso, Senegal, Côte d'Ivoire and Zambia) – in 2021. This has positioned ARC Ltd. to grow market share and extend the benefits of our insurance product to populations not reached through existing sovereign products.

Since the local insurance market has low penetration rates and exclusively provides products such as health, life, and car insurance to urban populations, there is vast potential to expand activities to rural communities to help protect assets and businesses. Working through aggregators at a meso level, we began to upskill them, empowering them to commercialise some of our micro-insurance products and alleviate insurance risk for governments.

The micro/meso product demonstrated excellent revenue potential in spite of the high costs of development and commercialisation, attributed to a competitive market and low insurance penetration.

OPERATING EXPENSES

More efficient ways of working, a decrease in travel due to Covid-19, and effective cost controls kept operating expenses below budget against revenue growth, despite significant investments in IT, the Enterprise Resource Planning software system, and human resources, which were required to meet our inclusive growth strategy.

DELIVERING VALUE

"To demonstrate the value of ex-ante parametric insurance, we pay insurance claims within 10 working days; this represents the first amount of money available to governments to commence relief operations."

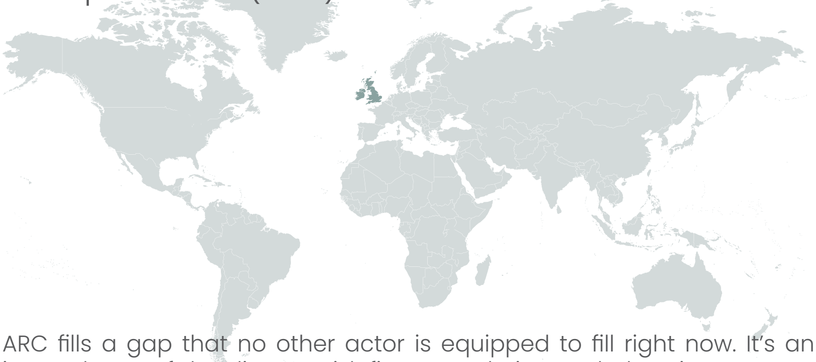
We measure our impact by evaluating how effectively we have served the needs of the vulnerable populations in the participating member state countries.

ARC Ltd. gross payouts are derived from actual rainfall estimates from season start-up to the latest dekadal (10-day) precipitation observed. We apply previously observed rainfall data starting in 2001, which is then used to provide estimates of drought response costs and payouts.

We also aim to strengthen the commercial capacity of insurance markets in Africa through our micro/meso product. **(See page 34 for more detail).**

Lloyd Cameron and Mark Davies

UK Foreign, Commonwealth and
Development Office (FCDO)



ARC fills a gap that no other actor is equipped to fill right now. It's an integral part of the disaster risk finance solution and plays its part very well. But it's not a silver bullet.

The direct link between an insurance payment and the final implementation plans is unique to ARC globally and a real benefit. The trick is to make sure those plans are rigorously designed and followed up to ensure they are applied as stated.

The ARC business model will have to evolve to match a changing ecosystem. Worsening climate disasters will increasingly challenge the model, and ARC Ltd. will have to look at its attachment point and adapt, while maintaining its focus as a Company. As disasters become more frequent, there is need to provide coverage beyond/below the attachment point.

The scale of premium subsidies that donors are providing is fantastic in terms of incentivising more countries to take out more policies and drive behaviour change and is indicative of the valuable service that ARC offers. It's important that the model evolves over the coming years and that member states do not become reliant on premium support, but take ownership of the ARC solution.

In addition, we would like to see a greater choice of products and in-built flexibility to provide different levels of support.

We often underappreciate ARC Ltd.'s role in building bridges with the traditional insurance sector, bringing in brokers and the reinsurance market, to demonstrate the viability of the African insurance market. Risk layering is important; it puts countries in a position to assess their risks and come up with a credible system and process to decide how to best respond.

Risk finance is a key component of responding to climate risk, and ARC's achievements in the past year demonstrate that the mechanism works. The challenge now is to expand the range of member countries and to build the business at a meso level; there is much potential to be tapped.

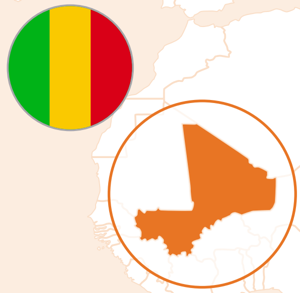
The value in ARC has been the proof of concept and we commend ARC Ltd. for their efforts in reaching the most vulnerable. The organisation has started a conversation on sovereign insurance, and this is the start of DRF becoming more common. Replica too is exciting, and ARC is the only regional player to offer it.

To the member states: ARC is yours, we encourage you to be proactive, ask for what you need, drive improvements yourselves.

CASE STUDY: MALI

A DECADE OF POLITICAL INSTABILITY

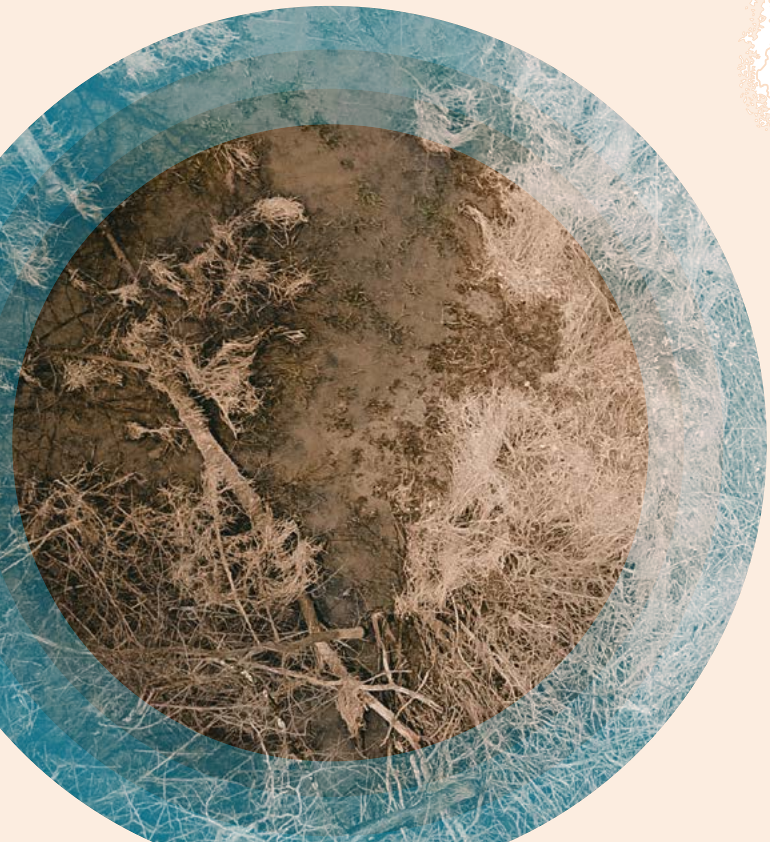
The last 10 years in Mali have been characterised by conflict and political insecurity. The country has been rocked by three military coups during this time and human rights violations have increased at the hands of armed Islamist groups and Mali's own security forces. The violence and conflict have led to 400,000 people being displaced, the highest in its recent history. More than half are women and 65% are younger than 18, according to Swiss NGO CARE, which works in Mali. It has called Mali "one of the world's biggest forgotten crises", where people have had to become used to a life of fear and uncertainty.



Economic fallout

The World Food Programme (WFP) estimates that as many as 78% of Malians are poor, the majority living in the highly populated areas of the south. Around three-fifths of the population are rural. The Covid-19 pandemic, coupled with the socio-political crisis and plummeting agricultural production, forced the economy into a recession in 2020.

Mali is an agricultural economy – both subsistence and commercial. Most of the working population is involved in subsistence farming but climate change has caused frequent drought and flooding. Cereal production has decreased, while the lack of pastures and water for livestock has forced some farmers to sell their animals and give up their livelihoods. Around 1,9 million people are at risk of severe food insecurity.



Drought and food insecurity

Mainly in the regions of Kayes, Gao, Mopti, Segou and Timbuktu, malnutrition is evident and affects 30,4% of children under five, leading to stunted growth[1]. Meanwhile, Mali's population continues to grow rapidly (in 2018 the fertility rate was 5,88 children per woman, according to the World Bank).

A climate insurance policy

Since 2017, the WFP has supported a climate insurance policy for Mali to help fund an early emergency response to disaster. It also promotes resilience and provides financial protection to vulnerable populations when perils, such as Mali's drought, occur. The ARC Replica programme complements and supports the efforts of the government in Mali to fight food insecurity and malnutrition. The government strategy is to provide half-rations to populations in food crisis situations. However, the ARC Replica programme requires the government and partners, such as the WFP, to develop a contingency plan outlining how insurance payouts will be used.

[1] *https://www.usaid.gov/sites/default/files/documents/tagged_Mali-Nutrition-Profile.pdf*

"With the climate insurance payout, the WFP can provide early food assistance through cash transfers to 161,000 women, men and children affected by climate shocks. More than 20,000 children aged six to 23 months, and pregnant women and breastfeeding mothers, will receive nutritional support and services. To help boost communities' resilience to climate shocks, 23,000 people will benefit from community programmes."

The payout benefits

These include the building of pastoral wells, water towers and fishponds to help diversify production and sources of livelihoods and reduce the impact of future droughts. For every USD 1 paid out, there is also a USD 2 impact on the economy.

Total ARC Ltd. payouts

In March 2022, drought-stricken Mali received its first-ever ARC Ltd. climate risk insurance payout totalling USD 7,1 million, paid over to the WFP. This means that more than 204,000 vulnerable people will benefit.

CHIEF OPERATING OFFICER'S REPORT

2021 was notable for significant growth in partnerships and enhanced premium support. This allowed for more direct financing through the ARC Ltd. premium support facility, the multi-donor trust fund and the Replica programme, corresponding with increased opportunities to tell our story.

Despite the challenges of working remotely, and the closure of our Sandton physical office, 2021 proved to be one of our best years based on the number of policies written.

At the same time, we enhanced our systems and human resource capabilities to ensure that polices were aligned with best practice for effective service delivery. A new finance manager, legal counsel, and a pricing and product manager were appointed, which saw the ARC Ltd. team grow from nine to 12 – the largest growth in staff numbers since inception.

During the year under review, we conducted a benchmarking exercise of salaries and short-term incentives to align the team's remuneration and incentives with international best practice and to the ARC Group. This was aimed at ensuring equity and equality in our retention and recruitment processes. Unfortunately, being a development organisation, we were unable to fully match remuneration, but I am satisfied that we have narrowed the gap substantially. (Read more about our human resources on page 45).

Growth in the organisation went hand-in-hand with improved systems, which helped us be agile during the Covid-19 pandemic. The necessity of working remotely meant that ARC Ltd. staff had to be able to work effectively and efficiently wherever they found themselves. During this time we identified a number of gaps in our IT and technology systems and an IT company was contracted to enhance cyber and data security. This function was previously managed inhouse.

The implementation of ARC Ltd.'s accounting system, Sage, will be finalised by the end of the 2022 financial year and key functions such as HR, underwriting and accounting will then be fully automated and integrated.

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

SOCIO-ECONOMIC IMPACT OF COVID-19

The socio-economic implications of Covid-19 have remained a risk for ARC Ltd. since the ongoing pandemic required some countries to divert funds to address Covid-19-related matters, leaving them unable to buy policies or pay premiums. (Read more about our risks on page 32).

In addition, some of our risks pertain more to the internal challenge of aligning ARC Ltd., a private development organisation, with the same priorities as the public-facing ARC Agency. Consideration must always be given to balancing commercial integrity with social impact in a way that embodies our unique approach to creating value.

CHIEF OPERATING OFFICER'S REPORT continued

OUTLOOK

The political environment in AU countries may result in a smaller pool in the year ahead. For example, Burkina Faso, Sudan and Mali are facing sanctions and are therefore precluded from participating in the pools.

It is clear, however, that a retention-only approach will shrink the size of our risk pool. If we are to thrive, a more aggressive and targeted marketing campaign to secure more and diversified business is essential.

Similarly, the long-awaited launch of our flood product will yield more premiums and deliver on country demands. In the short-term, however, ARC Ltd.'s priority is to manage the funds we receive for premium support and ensure that funds are appropriately directed and efficiently disbursed.

Furthermore, stakeholder engagement, historically face-to-face, had to be conducted virtually. This put a damper on stakeholder relationships as certain issues could not be addressed remotely. (Read more about stakeholder relations on page 35).

Our **strong ESG rating** in 2021 was a significant accomplishment, as was our **BBB+ Fitch rating**. Both speak volumes about our standing in the insurance sector. We may be small, but **ARC Ltd. is doing big things, and we're proud of our impact**.

HUMAN RESOURCES

Human resources form the central pillar of our human and intellectual capitals. Our small team of experts are instrumental in our ability to fulfil our mandate and deliver on our strategy.

Performance and talent management

Performance appraisals were conducted in line with ARC Ltd.'s strategic goals, and underpinned by a performance management framework that focuses on growth and Human Capital development, as well as the way in which we live our values.

Staff were assessed against key performance areas and development opportunities and were put in place to develop skills pertaining to individual job and career paths.

Remuneration

ARC Ltd. was not in a financial position to pay bonuses or provide short-term incentives this year, however, intrinsic rewards in the form of development opportunities are in place to ensure that our staff remain motivated and incentivised.

Gender breakdown

SIX MALES

SIX FEMALES

Age analysis

The majority of our staff are between the ages of **25 and 48**, with an **average age of 36**.

Manpower costs

Manpower costs rose during the year due to an increase in staff numbers as part of our strategic intent to build capability to deliver increased business volumes.

A NEW APPROACH TO COMMUNICATION

Proactive, compelling and effective communication is fundamental to encourage more countries to participate in and fully realise the value of ARC Ltd. We worked tirelessly to ramp up communications and increase the visibility of ARC Ltd., leveraging our advocacy partnerships with InsuResilience, the African Insurance Organisation (AIO), the Federation of African National Insurance companies (FANAF), the Organisation of Eastern and Southern Africa Insurers (OESAI) and the Net Zero Alliance networks to share the impact that ARC Ltd. has on vulnerable populations, with all stakeholders.

We are also proud to have been accepted as a member of the World Economic Forum during the year under review, and look forward to actively participating in its various international platforms and the advocacy opportunities this affords us.

NEW WAYS OF ENGAGING PARTNERS

In 2021 we held the inaugural Members and Partners Retreat, where for the first time Class C, Class A and funding partners gathered, to openly discuss the opportunities and challenges experienced in our operating environment.

CHIEF UNDERWRITING OFFICER'S REPORT

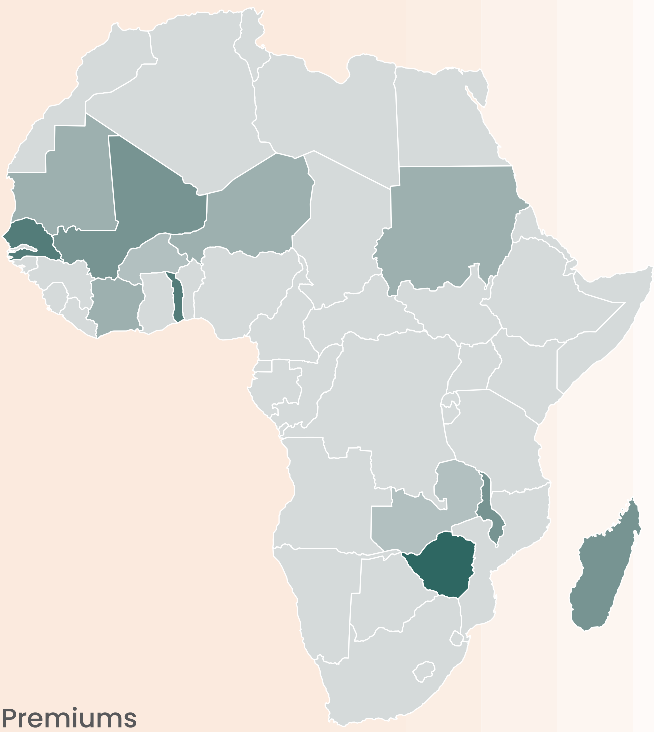
GROUND-BREAKING GROWTH FOR POOL 8

Risk Pool 8 delivered groundbreaking growth, recording a total of 28 written policies amounting to a gross premium of USD 30,8 million since the Company's inception in 2014.

Policies	2021	2020	2019
Replica	8	5	6
Sovereign	20	12	10
	28	**17**	**16**

SOVEREIGN POOL COMPOSITION

Pool 8 pool composition



Premiums

600,000 → 6,500,000

POOL 8A

Risk Pool 8A with its season start from March to December saw Sudan joining the pool for the first time. In total, 18 policies were issued – 12 to sovereign nations and six to Replica partners (humanitarian role players), Start Network and WFP to humanitarian role players.

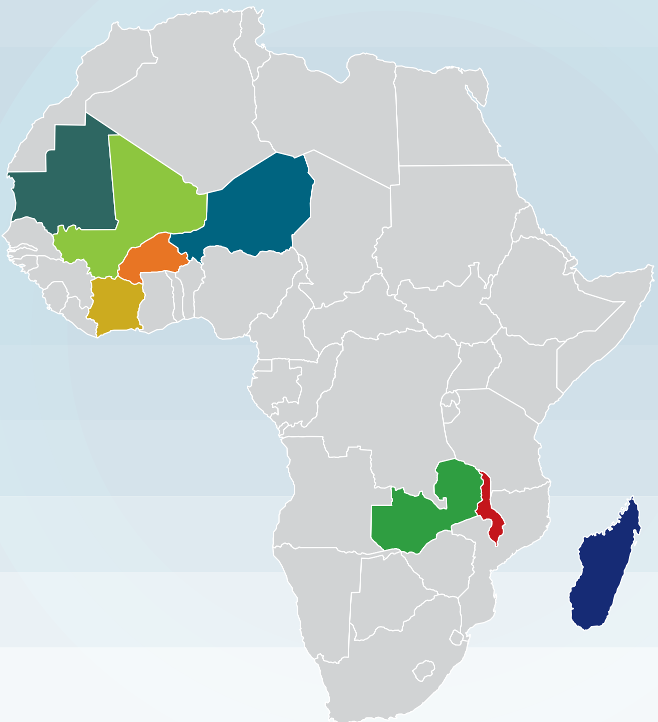
"ARC Ltd. insured 19,52 million people and provided total insurance cover of USD 195 million for Pool 8."

About 59% of the sovereign policies for Pool 8A of the sovereign policies for Pool 8A were significantly subsidised by donor funding from KfW/BMZ, USAID, ADRiFi and the AfDB Multi-Donor Trust Fund (MDTF).

A major challenge during the year was the failure of the ARC2 satellite rainfall datasets, which delayed claim settlements for some of countries that were using this dataset. A resolution was reached in April 2022 to adopt an alternative weighted average settlement basis for the affected member states to avoid taking the lengthy route of selecting an independent data validation agent.

CHIEF UNDERWRITING OFFICER'S REPORT continued

Total payouts Pool 8



Country	Type	USD millions
Mali	Sovereign	14,5
	Replica	7,1
	Total	**21,6**
Mauritania	Sovereign	1,7
	Replica	1,1
	Total	**2,8**
Niger	Sovereign	2,1
Burkina Faso	Replica	1,2
Côte d'Ivoire	Sovereign	0,6
Total payout		**28,5**

POOL 8B

The highlight for Risk Pool 8B was the return of Malawi to the pool. It last participated in Risk Pool 2. Moreover, Malawi selected subnational triggering risk transfer to address localised drought spells and insured a total of four cluster policies that covered different regions in the country.

In total, USD 12,9 million was written in premiums and 10 policies were issued, including a tropical cyclone policy to Madagascar. In a first for ARC Ltd., two Replica policies were issued to WFP and Start Network as Replica partners for Zimbabwe, under the co-Replica mechanism.

Close to 92% of the East and Southern Africa sovereign policies for Pool 8B were subsidised by donor funding. By the time of the release of the report the season had closed with Pool 8B payouts guaranteed as below:

TOTAL PAYOUTS POOL 8B

Country	Type	USD millions
Madagascar	Sovereign (Drought)	11,5
Malawi	Sovereign (Drought)	14,2
Zambia	Sovereign (TC and Drought)	5,4

Madagascar was the only country to take out a policy for the ongoing tropical cyclone season. Their USD 2 million premium was fully co-financed by KfW/BMZ and ADRiFi MDTF, with an aggregate coverage limit of USD 11,7 million.

The Madagascar tropical cyclone policy triggered in February 2022. ARC Ltd. paid out USD 10,7 million for Tropical Cyclone Batsirai, which ravaged the island in February 2022, causing loss of lives and severe economic losses.

Read more about how we are making a difference in our case studies on page 18, 30, 38 and 42.

LOOKING AHEAD

1. Growth in underwriting will be driven by a number of related factors:
   a. New countries joining the ARC mechanism
   b. Premium financing
   c. New coverages – flood, excess rainfall for tropical cyclone
   d. Offering a wider choice of drought indices
2. Reinsurance is a key component of our business model and will continue to play a leading role. The most important drivers of efficient reinsurance model are diversification in terms of regions of countries insured and scale in terms of average premiums per country. These two factors are inevitably linked to the growth drivers in the first bullet point.
3. ARC Ltd.'s credit rating is also of significant importance particularly in the sub-sovereign space where regulators and other stakeholders view financial strength as an indicator of the reliability of a(re)insurance partner.
4. Other trends that ARC Ltd. will be focusing on in the future are sustainable financing and insurance linked securities (ILS) to attract social and green capital. This will be in addition to our traditional stakeholders in the development space who we will be liaising with for premium financing, advocacy and capital support.

SAFEGUARDING VALUE

OUR APPROACH TO GOVERNANCE

Governance constitutes a central pillar of all of ARC Ltd.'s Financial, Intellectual and Human Capital. The Board's roles and responsibilities are detailed in our governance structure on the next page.

EVALUATION OF BOARD MEMBERS

As the governing body of the Company, it is paramount that the Board functions efficiently and that Board members are evaluated before their terms are renewed.

Two Directors whose terms were up for renewal at the Annual General Meeting in March 2021 were evaluated in a process based on an Institute of Directors' evaluation framework. The anonymous evaluation was conducted, reviewed and reported by Deloitte Bermuda, ARC Ltd.'s internal auditor and overseen by a former Company Board member with knowledge of the performance of both Directors. The evaluation was successful and revealed strong scores for both Directors. The Board Chair also evaluated the overall Board performance for 2020 and found it to be satisfactory.

BUSINESS PLAN AMENDMENT FILED

During the year under review the Board approved the amendment of the Company's business plan to include non-sovereign business activities and flood coverage once the R&D on the flood model was complete. The amendment was filed with the Bermuda Monetary Authority (BMA) and approved.

OUR GOVERNANCE STRUCTURES

Board responsibilities

The Board is responsible for ensuring a sustainable future for the organisation. It achieves this by exercising the necessary care and oversight to ensure it is well managed, that regulatory provisions are adhered to, that the principles of good corporate governance are applied, and that the organisation is not faced with any avoidable or unnecessary risks.

The committees below assist the Board in discharging its duties and responsibilities. The Board reviews the mandate and terms of reference of each committee each year.

GOVERNANCE COMMITTEE	AUDIT & RISK COMMITTEE	FINANCE & INVESTMENT COMMITTEE	UNDERWRITING & REINSURANCE COMMITTEE
Responsibilities	**Responsibilities**	**Responsibilities**	**Responsibilities**
» Provide oversight on matters relating to ARC Ltd. governance practices and policies » Make recommendations in light of OECD Principles of Corporate Governance and other relevant governance international standards applicable to development institutions, subject to Bermuda/BMA legal and regulatory requirements » Evaluate the composition of the Board to ensure it possesses the requisite diversity, perspectives, experiences, skills and judgment to effectively pursue its duties » Oversee the recruitment of the CEO and other Board appointments » Periodically review the performance of the CEO, the Board and Directors » Oversee and approve Board and staff remuneration policies	» Ensure that the organisation's accounts and accounting policies present a full and true account of the financial affairs of ARC Ltd. » Provide oversight on operational risks and effectiveness of risk mitigation strategies » Assess the effectiveness of the external and internal auditor function » Provide oversight of compliance with the company's code of ethics/conduct » Monitor and review regulatory and legal processes, procedures and compliance	» Provide oversight and guidance on the Company's financial viability and on the diversification of funds invested » Ensure stewardship of public funds » Oversee the planning, budgeting and management of operational costs » Ensure investments made are socially responsible and sustainable	» Provide oversight and guidance on the organisation's underwriting processes and procedures » Monitor underwriting performance » Oversee the solvency and capitalisation requirements according to solvency rules, including the consideration of insurance and reinsurance risks » Review Africa Riskview calculation engine validation reports, including review and challenge of assumptions, calibration and outputs for decision-making and proposed changes
Focus areas 2021	**Focus areas 2021**	**Focus areas 2021**	**Focus areas 2021**
» Housekeeping matters and on delivering cost efficiency related to the business growth of the Company » Explore the possibility of shared services between ARC Agency and ARC Ltd.	» Adoption of the 2020 Annual Audited Financial Statements (IFRS and Statutory) and successful management of the process of designing, overseeing and revising the Company risk mapping and risk appetite framework » Design of the risk register, directed by Deloitte. The process involved the Legal, Underwriting, Finance & Operations departments, and covered topics such as governance risks and market and credit risks	» Revised the draft Investment Guidelines 9.0 to allow ARC Ltd. to invest in loans and infrastructure debt (in particular for clean energy infrastructure). Major re-allocations will be approved by the Finance and Investment Committee.	» Development of the Risk Management Protocol for non-sovereign business (NSB), learning lessons from the NSB pilot » Tropical cyclone reinsurance optimisation strategy for season 2021/2022

OUR BOARD MEMBERS

1. MR. ABDOULIE JANNEH
CHAIRMAN

Other directorships:	Mo Ibrahim Foundation, The Africa Forum of Former Heads of State, President of the Governing Board and Directeur Général of the African Governance Institute (AGI), International Lawyers of Africa (ILFA), Global Integrity, AO Alliance Foundation, TrustAfrica
Term ends:	April 2024

2. MS. DELPHINE TRAORÉ
NON-EXECUTIVE DIRECTOR

Other directorships:	Allianz Africa, AGRA (Alliance for a Green Revolution in Africa), AfricaRe (Africa Reinsurance Corporation)
Term ends:	April 2024

3. DR. JENNIFER BLANKE
NON-EXECUTIVE DIRECTOR

Other directorships:	Sanitation and Hygiene Fund, Syngenta Foundation for Sustainable Agriculture, International Science Program, The Graduate Institute of International and Development Studies, Women Political Leaders (WPL), Carnegie Council for Ethics in International Affairs, Brazil-Africa Institute, Fourth Sector Group
Term ends:	April 2023

4. MR. JÜRGEN MEISCH
NON-EXECUTIVE DIRECTOR

Other directorships:	Kommunalkredit AG, Metzler Pensionsfonds AG, Metzler Sozialpartner Pensionsfonds AG, Allspring Global Investments
Term ends:	April 2023

5. MS. LADÉ ARABA

EXECUTIVE DIRECTOR

Other directorships:	AlphaMundi Group Limited, Equality Fund, Green Outcomes Fund
Term ends:	April 2023

7. MR. PHILLIP PETTERSEN

NON-EXECUTIVE DIRECTOR

Other directorships:	Africa Reinsurance Corporation South Africa Limited, International Assurance PCC Limited (Mauritius), Ivory Holdings (Pty) Ltd and subsidiaries, FEP Investments (Pty) Ltd and subsidiaries, South African Tourism Brokers (SATIB) (Pty) Ltd.
Term ends:	April 2023

6. MS. SARATA KONÉ-THIAM

NON-EXECUTIVE DIRECTOR

Other directorships:	UBA Côte d'Ivoire
Term ends:	April 2023

8. DR. MICHEL JARRAUD

ADVISOR TO THE BOARD

Other directorships:	Secretary General: World Meteorological Organization, Centre for International Environmental Studies (CIES)
Term ends:	Ongoing

OUR BOARD MEMBERS continued

GENDER DIVERSITY

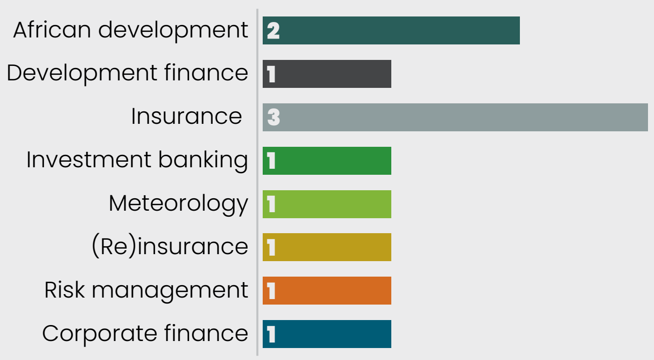
50% MALE

50% FEMALE

AVERAGE AGE

59

KNOWLEDGE, SKILLS AND EXPERIENCE



Number of executive committee members with expertise and experience in each area.

BOARD AND COMMITTEE MEETING ATTENDANCE

Board meeting attendance

BOARD

The Board met four times in FY2021

Name	No of meetings attended
Abdoulie Janneh, Chairperson	2/4
Delphine Traoré Maïdou	3/4
Dr Jennifer Blanke	4/4
Jürgen Meisch	4/4
Ladé Araba	4/4
Michel Jarraud	4/4
Phillip Pettersen	4/4
Sarata Koné-Thiam	4/4

BOARD SUB-COMMITTEES

Governance Committee

The committee met once in FY2021

Name	No of meetings attended
Abdoulie Janneh, Chairperson	1/1
Dr Jennifer Blanke	1/1
Ms Ladé Araba	1/1

AUDIT AND RISK COMMITTEE

The committee met twice in FY2021

Name	No of meetings attended
Phillip Pettersen, Chairperson	2/2
Dr Jennifer Blanke	2/2
Sarata Koné-Thiam	2/2

FINANCE & INVESTMENT COMMITTEE

The committee met three times in FY2021

Name	No of meetings attended
Jürgen Meisch, Chairperson	3/3
Ladé Araba	3/3
Delphine Traoré Maïdou	3/3

UNDERWRITING & REINSURANCE COMMITTEE

The committee met six times in FY2021

Name	No of meetings attended
Delphine Traoré Maïdou, Chairperson	6/6
Abdoulie Janneh	1/6
Phillip Pettersen	6/6

* *In addition, there was one joint Finance & Investment and Underwriting Committees meeting.*

2022 FOCUS

Parametric insurance is growing rapidly and at the end of 2021 made up around 15% of issued catastrophe bonds in a USD 100 billion market. This number is expected to climb as extreme weather events and natural disasters continue to mount. We therefore must hold our string position in the market and be ready to meet the demands of our member states.

There are many significant opportunities for growth in the year ahead. Launching flood, outbreaks and epidemic products, contingency fund, raising additional capital, premium finance and boosting direct in-country engagement lie at the heart of our endeavours which are underpinned by our immediate goal: to cover
150 million Africans by 2025.

Other new business initiatives that are underway include developing new business in West Africa where our team is working on structuring and operationalising insurance programmes in Côte d'Ivoire and Senegal. The objective is to launch a pilot in both countries in 2022.

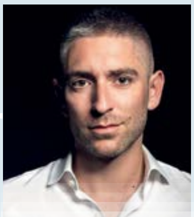
Over and above operational and technical thrust, we will increasingly seek ways to position ARC Ltd. in the media and among stakeholders in 2022 and leverage our compelling story.

AFRICAN RISK CAPACITY LIMITED MANAGEMENT TEAM

CEO Lesley Ndlovu is supported in carrying out the work of ARC Ltd.

Lesley Ndlovu
Chief Executive Officer

Malvern Chirume
Chief Underwriting Officer



David Maslo
Head of Business Development

Atabong Njoya Forbin
Finance Manager

Anais Symenouh
Associate Legal Counsel

Gloria Womitso
Senior Technical Underwriting Analyst

Nicole Muteba
Programme Manager

Ange Chitate
Chief Operating Officer

Tim Nielander
Senior Legal Adviser

Lorraine Njue
Head of Actuarial

Jackline Muthengi
Product and Pricing Manager

Wesley Chitsike
Actuarial Analyst

Marie-Helen Kanga
Graduate Intern

African Risk Capacity
Limited

ARC LTD. (FORMERLY AFRICAN RISK CAPACITY INSURANCE COMPANY LIMITED)

(INCORPORATED IN BERMUDA)

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

INDEPENDENT AUDITOR'S REPORT

To the Members of ARC Ltd.,

OUR OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of ARC Ltd. (formerly African Risk Capacity Insurance Company Limited) (the Company) as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

WHAT WE HAVE AUDITED

The Company's financial statements comprise:

» the Statement of Financial Position as at 31 December 2021;

» the Statement of Changes in Equity for the year then ended;

» the Statement of Income and Comprehensive Income for the year then ended;

» the Statement of Cash Flows for the year then ended; and

» the notes to the financial statements, which include significant accounting policies and other explanatory information.

BASIS FOR OPINION

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

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

Independence

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

PricewaterhouseCoopers Limited, Chartered Professional Accountants, P.O. Box HM 1171, Hamilton HM EX, Bermuda
T: +1 (441) 295 2000, F:+1 (441) 295 1242, www.pwc.com/bermuda

INDEPENDENT AUDITOR'S REPORT continued

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

» Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

Hamilton, Bermuda

19 May 2022

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	2021 USD	2020 USD
Assets		
Fixed assets (note 5)	178,981	26,351
Prepaid expenses	354,544	176,144
Reinsurance assets (note 9 and 13)	23,074,999	5,553,592
Insurance receivables (note 8)	9,065,728	3,005,316
Deferred policy acquisition costs	106,782	34,657
Accrued investment income	390,521	304,466
Marketable investments (note 6)	65,884,977	67,647,333
Investment in Pula Advisors GmbH (note 7)	2,000,000	2,000,000
Cash and cash equivalents (note 10)	44,150,939	25,801,848
Total assets	**145,207,471**	**104,549,707**
Liabilities		
Class C members' returnable capital (note 11)	69,917,563	68,660,757
Unearned premium liabilities (note 12)	8,860,521	7,825,746
Claims liabilities (note 13)	30,238,578	1,153,197
Reinsurance premiums payable	7,731,315	5,518,229
Deferred commission income	613,380	428,852
Investment payables (note 6)	14,999,730	1,000,000
Accounts payable and accrued liabilities	746,874	1,196,357
Total liabilities	**133,107,961**	**85,783,138**
Members' equity		
Reserve fund (note 14)	250,000	250,000
Retained earnings	(7,021,673)	(1,759,663)
Accumulated other comprehensive income: Class C members' equity grant (note 11)	18,871,183	20,276,232
Total members' equity	**12,099,510**	**18,766,569**
Total liabilities and members' equity	**145,207,471**	**104,549,707**

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

Approved by the Board of Directors

Director

Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	2021 USD	2020 USD
Reserve fund		
Balance, beginning of the year	250,000	250,000
Balance, end of the year	**250,000**	**250,000**
Retained earnings		
Balance, beginning of the year	(1,759,663)	(3,665,626)
Net (loss)/income for the year	(5,262,010)	1,905,963
Balance, end of the year	**(7,021,673)**	**(1,759,663)**
Other comprehensive income		
Balance, beginning of the year	20,276,232	21,373,044
Changes during year:		
Grant – Department for International Development (note 11)	(659,756)	(364,145)
Grant – The Climate Adaption Platform PCC with respect to ARC Ltd.'s investment company, KfW/BMZ (note 11)	(745,293)	(732,667)
Balance, end of the year	**18,871,183**	**20,276,232**
Total members' equity	**12,099,510**	**18,766,569**

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

STATEMENT OF INCOME AND COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 USD	2020 USD
Underwriting income		
Gross premiums written (note 12)	30,825,155	21,142,493
Change in unearned premiums	(1,034,775)	(6,712,878)
Gross earned premiums	**29,790,380**	**14,429,615**
Reinsurers' share of insurance premiums (note 12)	(18,779,770)	(12,448,375)
Reinsurers' share of change in unearned premiums	944,849	4,145,271
Reinsurers' share of gross earned premiums	**(17,834,921)**	**(8,303,104)**
Net premiums	**11,955,459**	**6,126,511**
Commission income	2,227,973	1,126,556
Change in unearned commission	(184,528)	(428,852)
Net earned commission	**2,043,445**	**697,704**
Policy acquisition costs	(161,548)	(46,525)
Change in deferred acquisition costs	72,125	34,657
Net policy acquisition costs	**(89,423)**	**(11,868)**
Underwriting expenses		
Claims (note 13)	(18,296,531)	(3,723,665)
Net underwriting expense	**(18,296,531)**	**(3,723,665)**
Net underwriting (loss)/income	**(4,387,050)**	**3,088,682**
General and administrative expenses (note 17)	(4,466,650)	(2,091,177)
Once-off and start-up costs (note 17)	(348,372)	(192,153)
Net investment income (note 16)	11,482,119	1,407,154
Unrealised (loss)/gain on other investments	(5,823,363)	1,380,212
Unrealised (loss)/gain on foreign exchange	145,116	(811,008)
Realised loss on foreign exchange	(2,003,810)	(1,025,747)
Net (loss)/income for the year	**(5,262,010)**	**1,905,963**
Write down of equity grant from Class C members (Note 11)	(1,405,049)	(1,096,812)
Total comprehensive (loss)/income for the year	**(6,667,059)**	**809,151**

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	2021 USD	2020 USD
Cash flows from operating activities		
Net (loss)/income for the year	(5,262,010)	1,905,963
Adjustments for: Depreciation	15,499	9,436
Realised gain on sale of investments	(6,499,478)	(123,354)
Realised gain on forwards and derivatives	(3,780,353)	–
Realised loss on foreign exchange	2,003,810	1,025,746
Unrealised loss on investments	5,823,363	(1,380,212)
Unrealised gain on forex on investments	–	(222,958)
Amortisation expense	294,802	311,001
Interest and dividend income	(1,619,432)	(1,887,609)
Unrealised forex movement on FCDO capital contribution	(148,243)	1,031,985
Changes in assets and liabilities		
Prepaid expenses	(178,400)	(140,660)
Reinsurance assets	(17,521,407)	(5,233,906)
Insurance receivables	(6,060,412)	(3,005,224)
Investment receivables	–	5,100
Deferred policy acquisition costs	(72,125)	(34,657)
Unearned premium liabilities	1,034,775	6,712,878
Claims liabilities	29,085,381	(1,251,578)
Reinsurance premiums payable	2,213,086	2,669,729
Deferred income	184,528	428,852
Investment payables	13,999,730	994,901
Accounts payable and accrued liabilities	(449,483)	855,679
Net cash provided by operating activities	**13,063,631**	**2,671,112**
Cash flows from investing activities		
Interest received	1,539,006	2,245,574
Purchase of marketable investments	(91,422,215	(43,329,770)
Proceeds from sales of investments	63,984,043	53,996,072
Proceeds from maturities of marketable investments	31,352,755	3,610,301
Investment in Pula Advisors	–	(2,000,000)
Purchase of fixed assets	(168,129)	(19,596)
Net cash provided by investing activities	**5,285,460**	**14,502,581**
Increase in cash and cash equivalents	18,349,091	17,173,693
Cash and cash equivalents – Beginning of year	25,801,848	8,628,155
Cash and cash equivalents – End of year	**44,150,939**	**25,801,848**

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

NOTES TO FINANCIAL STATEMENTS

1. THE COMPANY AND ITS ACTIVITIES

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

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

ARC Ltd. (formerly African Risk Capacity Insurance Company Limited) is a mutual insurance Company that provides drought, flood and tropical cyclone insurance cover to participating African countries, which are specified as Class A Members of the Company, upon participation. Under the Bye-Laws of the Company, Class A members are those ARC Agency Member States holding a Certificate of Good Standing from the ARC Agency and which have purchased a current policy. The Bye-Laws also define the other class members of the Company: Class B members are those who provide capital to the Company without expectation of re-payment, Class C members are those that provide capital with a maximum fixed term of 20 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 11 (2020: eight).

The current members of this mutual insurance company consist of 12 Class A members and two Class C members. There are no Class B or D members during the period end, or at the date of approval of these financial statements. During the year, there were two participants in ARC Replica Insurance Programme namely, the United Nations World Food Programme and the 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 drought insurance risk pool in the current financial period are Côte d'Ivoire, Senegal, The Gambia, Mali, Madagascar, Togo, Zambia, Malawi, Mauritania, Niger, Sudan and Zimbabwe each having taken out at least one drought insurance policy. There was one tropical cyclone policy issued to Madagascar as at the date of approval of these financial statements.

The Class C members are donor entities:

- the UK's Foreign, Commonwealth and Development Office (FCDO) which was formerly known as the Department for International Development (DFID) before the merger with UK's Foreign and Commonwealth Office on 1 September 2020; and
- KfW/BMZ.

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

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

NOTES TO FINANCIAL STATEMENTS continued

1. THE COMPANY AND ITS ACTIVITIES continued

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

Country/Replica Partner	2020/2021 policy year Coverage Limited	2021/2022 policy year Coverage Limit
Drought policies		
Mauritania – Agriculture	USD 6,4 million	USD 3,1 million
Mauritania – Pastoral	N/A	USD 4,0 million
Senegal	N/A	USD 25,0 million
The Gambia	USD 1,1 million	USD 2,5 million
Mali	N/A	USD 15,0 million
Togo – North	USD 1,5 million	USD 3,0 million
Togo – South	USD 1,3 million	USD 2,5 million
Côte d'Ivoire – North	USD 4,3 million	USD 4,3 million
Côte d'Ivoire– Centre	USD 8,0 million	USD 9,1 million
Niger	USD 7,0 million	USD 7,0 million
Sudan – Crop	N/A	USD 4,2 million
Sudan – Rangeland	N/A	USD 3,0 million
Madagascar	USD 2,8 million	USD 2,5 million
Zimbabwe	USD 13,4 million	USD 13,1 million
Zambia	USD 7,1 million	USD 5,3 million
Malawi	USD 15,5 million	USD 15,9 million
Senegal Replica/Save the Children Fund	N/A	USD 11,1 million
The Gambia/World Food Programme	USD 2,2 million	USD 2,1 million
Burkina Faso/World Food Programme	USD 4,4 million	USD 3,0 million
Mali/World Food Programme	USD 15,0 million	USD 7,4 million
Mauritania/World Food Programme – Crop	USD 6,4 million	USD 2,1 million
Mauritania/World Food Programme – Rangeland	N/A	USD 2,7 million
Zimbabwe/World Food Programme	USD 10,3 million	USD 7,8 million
Zimbabwe/Start Network	N/A	USD 13,1 million
Tropical cyclone policy		
Madagascar	USD 9,9 million	USD 11,6 million

NOTES TO FINANCIAL STATEMENTS continued

1. THE COMPANY AND ITS ACTIVITIES continued

In respect of the 2020/21 and 2021/22 policy years, the Company ARC obtained a 50% Quota Share Treaty Reinsurance coverage as well as a Stop Loss Reinsurance contract. Under the Quota Share Treaty, the Company retains a 50% Quota Share for any one risk and cedes 50% of the risk to the reinsurance market up to a maximum underwriting limit of USD 25,000,000 (2020: USD 30,000,000) for any One Risk and USD 38,500,000 for any One Risk specifically applicable to Senegal. Under the Stop Loss reinsurance, the Company retains risk up to the greater of 110% of Gross Net Retained Premium or USD 12,375,000 (2020: USD 3,360,000). Above this retention, the Company has Stop Loss reinsurance coverage up to a limit of USD 54,375,000 (2020: USD 30,030,000). The reinsurance agreement allows for re-alignment of attachments and limits of the reinsurance programme should the underlying portfolio change. The Company retained USD 1,998,371 (2020: USD 2,000,000) of the total underwritten exposure for the tropical cyclone policy and purchased reinsurance cover for the next USD 9,691,629 (2020: USD 7,900,000).

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

2. BASIS OF PREPARATION

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

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

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

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

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

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

In September 2016, the IASB published Applying IFRS 9 Financial Instruments with IFRS 4, "Insurance Contracts". Under the deferral approach provided for in the amendments, entities whose predominant activity is issuing insurance contracts within the scope of IFRS 4 are granted an optional temporary exemption from recognising their financial instruments in accordance with IFRS 9 until IFRS 17 comes into force. The Company reviewed the application requirements based on the financial statements as at 31 December 2015 with a positive outcome and decided to make use of the deferral approach. Since the review of the application requirements, there has been no change in business activity that would have necessitated a re-evaluation of the predominant activity. The effective date of IFRS 9 has been extended further to 1 January 2023 in order to align with the effective date of IFRS 17. IFRS 9 shall only be adopted by the Company when IFRS 17 is so adopted.

NOTES TO FINANCIAL STATEMENTS continued

2. BASIS OF PREPARATION continued

In addition to the accounting principles described above, the IASB has issued the following standards, interpretations and amendments to existing standards with possible implications for the financial statements of the Company, application of which was not yet mandatory for the period under review, and which are not being applied early by the Company. Initial application of these new standards is not expected to have any significant implications for the Company's net assets, financial position or result of operations:

» Annual Improvements to IFRS Standards 2018–2020 Cycle – Effective for years beginning on or after 1 January 2021

» Phase 2 amendments to IFRS 9, IAS 39 and IFRS 7 for IBOR reform – effective for year beginning on or after 1 January 2022

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Cash and cash equivalents

The Company considers all time deposits and highly liquid instruments with an original maturity of 90 days or less as cash equivalents (note 10).

(b) Financial instruments

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

The Class C members' contributions, which are recognised in financial liabilities, have been initially and subsequently at year end recognised at fair value. This financial commitment to the Class C members has been subsequently measured at the higher of (i) the amount determined in accordance with IAS 37 and (ii) the amount initially recognised less any cumulative amortisation in accordance with IAS 18. As disclosed in note 11, the fair value of the Class C contributions has been calculated using discounted cash flow analysis. All of the Company's investments in equities, fixed maturities and investments in funds are classified as fair value through profit or loss and are carried at fair value as at the Statement of Financial Position date. The fair value of investments in fixed maturities is based on quoted market prices, either of the security itself where it is actively traded, or of similar instruments traded in active markets. For the investments in funds, the units of account that are valued by the Company are its interest in these funds and not the underlying holdings of such funds. Fair value of investments in funds is based on their reported net asset value.

Unrealised 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 recognised on the accrual basis and includes the amortisation 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 realised. 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); and

» Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

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

(c) Impairment of financial assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

(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 recognises the underlying premium amounts. The insurance policies written provide that the contract can be deemed void, and the Company shall have no obligation to the policyholders, or the coverage can be reduced, should the policyholder not pay the underlying premium stated in the policy contract within an agreed timeframe. Further to this, should the policyholder's premium payment be less than the amount in the contract, the Company may, at its discretion, reduce the coverage or offset such a shortfall against any claim payout for that policyholder.

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

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has an impact that can be measured reliably. Any impairment losses are recorded in the Statement of Income. Gains or losses on buying reinsurance are 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 year on a pro-rata basis. The risk year for each respective policyholder is the defined growing season in that particular country, noting that one country may have and be covered by more than one growing season, in which case separate policies are issued and premiums collected for each growing season. The portion of the premiums related to the unexpired portion of the risk years at the end of the financial year is reflected in unearned premiums.

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

ii) Policy acquisition costs

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

iii) Reinsurance premiums ceded and deferred reinsurance premiums

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

iv) Reinsurance and reinsurance balances recoverable

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

v) Commission income

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

vi) Claims liabilities and claims expenses

Provision for claim payouts to policyholders is made in accordance with the Company's reserving policy. The reserving policy states that the risk year covered for each policy is the underlying growing seasons, identified within each policy. Within each growing season, the only variable data impacting on whether a claim payout is required, and the level of that payout is the rainfall data, which is maintained within the risk modelling calculation engine ARV used by the Company.

The rainfall data is recorded into ARV on a dekadal (a dekad being a year of days 1-10, 11-20 and 21-month-end for each month of a year, a year thus comprising 36 dekads) basis, using data from the National Oceanic and Atmospheric Administration (NOAA) of the US Government. A range of possible outcomes are generated within ARV after each new dekad rainfall amount is added as the growing season progresses. The insurance policies provide the remedy of using a mutually agreed alternative data set to determine claim payouts in the case of NOAA data failure or if the NOAA data has been deemed unfit.

NOTES TO FINANCIAL STATEMENTS continued

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

The average of the final response cost value distribution is used as the estimated claim payout, calculated at the end of the third and final dekad for each calendar month. The accuracy of the respective estimated claim payouts is only reasonably ascertained after the "planting window" for a given growing season has closed. The planting window is the year, within each of the respective growing seasons, that farmers sow their crops. It is a critical time of year that has a significant impact on the harvest at the end of each growing season. For those policyholders that have reached the end of the planting window by the year end, reserves will be calculated as above and there is the possibility of identifying a guaranteed minimum claim liability at that time. However, initially, estimation and recording of the claims liabilities is calculated on a monthly basis using the expected loss ratios on the contracts. The Directors and management believe that the claims liability amount thus calculated and recorded is adequate. Claims are charged to the Statement of Income and Comprehensive Income as incurred.

(e) Foreign currencies:

i) 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.

ii) Transactions and balances

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

(f) Investment income

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

(a) Claims liabilities

The claims liabilities are calculated in accordance with the accounting policy as described in note 3(d).

This is considered to be a critical accounting estimate, given that there is judgment involved in the reserving policy established and utilised by the Company. This judgment is based on the expertise and experience of management and with consideration of the specific data available and data parameters utilised by the risk modelling calculation engine ARV.

(b) Fair value

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

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

Class C Members' Returnable Capital is recognised in financial liabilities. These debt contributions from the two current Class C members are interest free loans, based on the characteristics described in the "Class C Membership and Capital Contribution Agreement" (CCA) and the Company Bye-Laws. In accordance with IAS 32, these contributions are more in the nature of debt rather than equity and thus have been recognised in financial liabilities. These zero-interest rate loans have been provided by the two donor entities, DFID and PCC/KfW/BMZ, 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 five-year grace year) made by the International Development Association (IDA) under "Blend" terms effective 1 July 2016. IDA is the part of the World Bank Group which provides development finance to the poorer countries of the world.

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

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

NOTES TO FINANCIAL STATEMENTS continued

5. FIXED ASSETS

	2021 USD	2020 USD
Opening balance	26,351	16,191
Cost of additions	168,129	19,596
Depreciation charge	(15,499)	(9,436)
Net book value	178,981	26,351

The net book value consists of computers and computer equipment of USD 18,828 (2020: USD 5,642), software of USD 154,572 (2020: USD 9,520) and office furniture of USD 5,581 (2020: USD 11,189).

6. MARKETABLE INVESTMENTS

	Cost 2021 USD	Fair value 2021 USD
Asset-backed bonds	7,664,179	7,666,089
Commercial mortgage bonds	4,708,109	4,821,190
Corporate bonds	47,638,991	47,915,013
Equities	465,805	481,990
Mutual funds	–	–
US and International government bonds	5,113,803	5,000,695
	65,590,887	**65,884,977**

	Cost 2020 USD	Fair value 2020 USD
Asset-backed bonds	5,315,230	5,870,159
Commercial mortgage bonds	4,874,383	4,964,434
Corporate bonds	37,754,644	40,947,636
Equities	1,022,106	1,075,592
Mutual funds	9,701,591	11,828,473
US and International government bonds	2,861,886	2,961,039
	61,529,840	**67,647,333**

NOTES TO FINANCIAL STATEMENTS continued

6. MARKETABLE INVESTMENTS continued

31 December 2021	Cost USD	Amortisation USD	Unrealised gain <1 year USD	Unrealised loss <1 year USD	Fair value USD
Asset-backed bonds	7,664,179	(106,146)	128,571	(20,515)	7,666,089
Commercial mortgage bonds	4,708,109	(6,776)	127,104	(7,247)	4,821,190
Corporate bonds	47,638,991	(651,985)	1,382,822	(454,815)	47,915,013
Equities	465,805	–	16,185	–	481,990
Mutual funds	–	–	–	–	–
US and International government bonds	5,113,803	(63,905)	24	(73,409)	5,000,695
	65,590,887	**(828,812)**	**1,678,888**	**(555,986)**	**65,884,977**

31 December 2020	Cost USD	Amortisation USD	Unrealised gain <1 year USD	Unrealised loss <1 year USD	Fair value USD
Asset-backed bonds	5,315,230	(86)	582,445	(27,431)	5,870,158
Commercial mortgage bonds	4,874,383	(1,273)	141,321	(49,996)	4,964,435
Corporate bonds	37,754,644	(80,532)	3,286,199	(12,675)	40,947,636
Equities	1,022,106	–	53,486	–	1,075,592
Mutual funds	9,701,591	–	2,126,881	–	11,828,473
US and International government bonds	2,861,886	(8,211)	110,099	(2,735)	2,961,039
	61,529,840	**(90,102)**	**6,300,431**	**(92,837)**	**67,647,333**

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

	2021 USD	2020 USD
Due within 1 year	22,550,488	19,458,934
Due within 1 to 5 years	31,548,323	29,439,196
Due over 5 years	11,304,176	5,845,138
	65,402,987	**54,743,268**

Credit ratings for bonds held by the Company as at 31 December 2021 range from AAA to B+ (2020: AAA to B+) as set out by Standard & Poor's.

NOTES TO FINANCIAL STATEMENTS continued

6. MARKETABLE INVESTMENTS continued

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

	Level 1 USD	Level 2 USD	Total USD
As at 31 December 2021: *Fair value through profit or loss investments:*			
Asset-backed bonds	–	7,666,089	7,666,089
Commercial mortgage bonds	–	4,821,190	4,821,190
Corporate bonds	–	47,915,013	47,915,013
Equities	481,990	–	481,990
Mutual funds		–	
Government bonds	–	5,000,695	5,000,695
As at 31 December 2021	**481,990**	**65,402,987**	**65,884,977**
As at 31 December 2020	**1,075,592**	**66,571,741**	**67,647,333**

The Company held futures with a notional value of USD 23,711,217 (2020: USD 22,425,828), which had a fair value of USD nil (2020: USD nil). The Company did not hold any currency forward buys and sells, swaps and options as at the period end.

As at 31 December 2021 investment payables amounted to USD 14,999,730 (2020: USD 1,000,000) related to unsettled investment purchases.

7. INVESTMENT IN PULA ADVISORS GMBH

In December 2020, the Company invested in 6,98% of the common shares and 16,67% of Series A preferred shares of Pula Advisors AG, a Swiss limited liability company engaged in the core business of providing consulting services and project management in the field of sustainable development. The Directors of the Company do not consider that ARC Ltd. is able to exercise significant influence over Pula Advisors AG due to the level of shareholding in the Company. The purchase consideration was USD 2,000,000, which in management's view is an approximate fair value of the investment as at the period end.

8. INSURANCE RECEIVABLES

	2021 USD	2020 USD
Receivables from Class A members	12,521,472	5,662,705
Receivables from non-sovereign business	311,270	359,625
Less: Provision for doubtful debts	(3,767,014)	(3,017,014)
	9,065,728	**3,005,316**

The provision for doubtful debts consists of USD 443,834, USD 2,573,180 and USD 750,000 which was provided for Burkina Faso, Niger and Sudan, respectively (2020: USD 443,834 and USD 2,573,180 for Burkina Faso and Niger respectively).

9. REINSURANCE ASSETS

	2021 USD	2020 USD
Reinsurance share of unearned premiums/deferred reinsurance premiums	5,405,891	4,461,042
Reinsurance claims recoverable	17,669,108	1,092,550
	23,074,999	**5,553,592**

10. CASH AND CASH EQUIVALENTS

The Company considers all time deposits and highly liquid instruments with an original maturity of 90 days or less as cash equivalents.

	2021 USD	2020 USD
Cash at bank with Bank of Butterfield	1,201,947	12,855,896
Cash at bank with First National Bank	4,033	65,300
Marketable investments:		
Cash and cash equivalents with BNY Mellon	40,170,229	12,650,904
Cash and cash equivalents with investment brokers	2,774,730	229,748
Cash and cash equivalents	44,150,939	25,801,848

The range of interest rates earned during the year was between 0% and 10% (2020: 0% and 10%). Cash is held in Bermuda with Bank of Butterfield, which was rated BBB+ (2020: BBB+) at the year end. Cash is held in South Africa with First National Bank, a division of FirstRand which was rated BB (2020: BB) at the year end. Cash and cash equivalents are held in the United Kingdom with one custodian, Bank of New York Mellon, which was rated AA- (2020: AA-) at the year end.

In addition, cash and cash equivalents of USD 2,774,730 (2020: USD 229,748) are held in restricted margin accounts with Goldman Sachs in the United States, which was rated A-1 (2020: A-1) at the year end. There are securities held as collateral in the amount of USD 858,000 (2020: USD 785,000). This collateral is required by Goldman Sachs for particular trades. Accordingly, management considers there to be limited credit risk associated with cash and cash equivalent balances.

11. CLASS C MEMBERS' RETURNABLE CAPITAL

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

11. CLASS C MEMBERS' RETURNABLE CAPITAL continued

	DFID GBP	DFID USD	PCC/ KfW/ BMZ 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)
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		5,605,968	5,434,790	11,040,758
Net movement on equity grant		(10,597,442)	(10,270,033)	(20,867,475)
Net value of loan		39,207,158	38,009,967	77,217,125
Foreign exchange movement		(7,299,562)	–	(7,299,562)
Fair value of loan 31 December 2020		**31,907,596**	**38,009,967**	**69,917,563**
Fair value of loan 31 December 2020		31,396,083	37,264,674	68,660,757
Net movement on loan for 2021		511,513	745,293	1,256,806
Net movement on equity grant		10,597,442	10,270,033	20,867,475
Foreign exchange movement		(1,996,292)	–	(1,996,292)
Fair value of equity grant 31 December 2020		**8,601,150**	**10,270,033**	**18,871,183**
Fair value of grant 31 December 2020		9,260,906	11,015,326	20,276,232
Net movement on grant for 2021		(659,756)	(745,293)	(1,405,049)

The foreign exchange amounts shown in the above table totaling USD 9,295,854 which is for the year 17 March 2014 to 31 December 2021, (17 March 2014 to 31 December 2020: USD 9,147,612) are netted off against the foreign exchange movements for the current year (up to October 2020) and prior years on the GBP denominated marketable investments and cash and cash equivalents in the Statement of Income. In the prior years, the initial GBP capital commitment was hedged for foreign exchange purposes with the GBP assets included in marketable investments and cash and cash equivalents. The GBP investments portfolio was liquidated in October 2020 and all marketable investments are held in one USD investments portfolio. In respect of the equity grant accretion totaling USD 11,040,758, 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 has 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% (2020: 2%). This interest rate was used to calculate the fair value of these loan commitments at the period end. In relation to the FCDO Capital Commitment, the foreign exchange rate used on initial measurement was the spot exchange rate of GBP to USD on 17 March 2014 (GBP 1: USD 1.66432). On subsequent measurement at year end, the spot exchange rate on 31 December 2021 was used (GBP 1: USD 1.347). In relation to the accretion of FCDO loan, an average rate over the period from initial receipt of the loan to the period end was used (GBP 1: USD 1.37408).

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.

11. CLASS C MEMBERS' RETURNABLE CAPITAL continued

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 policyholders 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.

12. UNEARNED PREMIUM LIABILITIES

	2021 USD	2020 USD
Gross		
Opening balance	7,825,746	1,112,868
Premiums written	30,825,155	21,142,493
Premiums earned	(29,790,380)	(14,429,615)
	8,860,521	**7,825,746**
Reinsurers share		
Opening balance	(4,461,042)	(315,771)
Reinsurance premiums written	(18,779,770)	(12,448,375)
Reinsurance premiums earned	17,834,921	8,303,104
	(5,405,891)	**(4,461,042)**
Net of reinsurance		
Opening balance	3,364,704	797,097
Net premiums written	12,045,385	8,694,118
Net premiums earned	(11,955,459)	(6,126,511)
	3,454,630	**3,364,704**

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

NOTES TO FINANCIAL STATEMENTS continued

13. CLAIMS LIABILITIES

	2021 USD	2020 USD
Opening balance – net	1,153,197	2,404,775
Add: Opening reinsurance recoverable	–	–
Opening balance – gross	1,153,197	2,404,775
Claims incurred current year	37,398,720	2,245,747
Claims incurred prior year	(566,194)	1,477,918
	36,832,526	**3,723,665**
Claims paid current year	(7,160,142)	(1,092,550)
Claims paid prior year	(587,003)	(3,882,693)
	(7,747,145)	**(4,975,243)**
Closing balance – gross	30,238,578	1,153,197
Less: Closing reinsurance recoverable	(17,669,108)	–
Closing balance – net	12,569,470	1,153,197

The claims liabilities are all due within one year after the year end. The claims incurred of USD 36,832,526 (2020: USD 3,723,665) represents the total estimated incurred claims to the year end, which has been determined by the reserving model used by the Company.

	2021 USD	2020 USD
Claims development: At the end of the year	30,238,578	1,153,197

Any claim payouts are made shortly after the end of the underlying risk years for each respective policyholder. The risk years, as explained in note 3(d), are the growing seasons for each participating country. Practically, this means that within four weeks of the growing season ending, any relevant claim payout shall be made, subject to conditions around Financial Implementation Plan (FIP) and other required documentation being in order. Claims paid for in the current period of USD 7,747,145 (2020: USD 4,975,243) represent one (1) claim payout to Mali replica policy of USD 7,136,192 and six (6) claim payments under the non-sovereign line of business: (2020: Madagascar (USD 2,126,803), Zimbabwe (USD 1,465,602) and World Food Programme/Zimbabwe replica policy (USD 290,288)). The gross claims liabilities of USD 30,238,578 (2020: USD 1,153,197) due at the end of the year are in respect of 9 drought claims (USD 29,825,478), Madagascar tropical cyclone claim (USD 302,783) and non-sovereign business (USD 110,317) (2020: Madagascar (USD 909,091) and non-sovereign business (USD 244,106)).

14. RESERVE FUND

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

NOTES TO FINANCIAL STATEMENTS continued

15. TRUST FUNDS

A trust was established on 17 July 2015 under an agreement between KfW/BMZ and Appleby Trust (Mauritius) Limited (now Estera (Mauritius) Limited), as trustee of this "ARC TA Facility Purpose Trust". This trust fund, which is unsecured, amounts to €1,395,000. On application to the trustee and under the terms of a Financing Agreement and a Separate Agreement, the Company has the right to reimbursement of certain costs, from this trust account, subject to certain conditions. During the year ended 31 December 2021, there has been one reimbursement request totaling USD 140,000 in relation to this Trust (2020: USD 150,000), which was submitted to and paid by the Trustee subsequent to the year end.

A Separate Agreement (to a Grant Agreement) between ARC Ltd. and the aforementioned trustee was also signed on 20 October 2020 for subsidisation of ARC Ltd. insurance premiums for African member states and the total grant amounts to €11,000,000. On application to the trustee, the Company has the right to submit a disbursement request for premium subsidisation after qualified African countries sign an insurance contract, and if applicable, pay their portion of the premium. During the year ended 31 December 2021 premium subsidy grant disbursements received by the Company amounted to USD 4,654,061, which is included in gross premiums written in the Statement of Income.

16. INVESTMENT INCOME

	2021 USD	2020 USD
Interest and dividend income	1,619,432	1,887,609
Amortisation of bonds	(294,802)	(311,001)
Realised gain on investments	6,499,478	173,660
Realised gain/(loss) on derivatives	3,780,353	(50,305)
Gross investment income	11,604,461	1,699,963
Less: Investment managers, custody and portfolio fees	(122,342)	(292,809)
Net investment income	**11,482,119**	**1,407,154**

Interest rates on investments ranged from 0% to 10% (2020: 0% to 10%) during the year.

NOTES TO FINANCIAL STATEMENTS continued

17. EXPENSES AND REIMBURSEMENTS

	2021 USD	2020 USD
Member costs	204,143	46,263
Board costs	247,644	142,626
Corporate secretarial and regulatory fees	16,124	16,084
Legal fees	117,377	84,202
Insurance	126,665	78,287
Bank charges	19,919	11,955
External audit	92,520	88,000
Internal audit	20,800	8,112
Actuarial and loss reserve specialist fees	14,500	–
Insurance manager's fees	280,000	298,500
Executive management and administration	2,310,677	1,766,609
Reinsurance broker fees	200,469	183,333
Communications	50,313	14,046
Depreciation	15,499	9,436
Provision/(Reversal) of provision for doubtful debts	750,000	(656,276)
Total general and administration expenses	**4,466,650**	**2,091,177**
Consultancy	348,372	192,153
Total once-off costs	**348,372**	**192,153**
Reimbursements from Trust:		
General and administration	(140,000)	(150,000)
Total reimbursements from Trust	**(140,000)**	**(150,000)**

NOTES TO FINANCIAL STATEMENTS continued

18. RELATED PARTY TRANSACTIONS

The Company provides insurance coverage to Class A members, as described in note 1. The premiums and related transactions with these Class A members are thus related party transactions. In addition, as described in note 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. (formerly African Risk Capacity Insurance Company Limited) is a mutual company.

Remuneration during the period in respect of the Board of Directors is in the form of an annual fixed Honorarium of USD 20,000 for Board Chair, USD 18,000 for Board Committee Chair, USD 15,000 (2020: USD 10,000) per Director and USD 10,000 for the Board Advisor.

There were seven Directors on the Board and one Advisor to the Board at the beginning and end of the year. The total Honorarium paid during the year was USD 111,000 (2020: USD 96,333). The total amount of travel and subsistence expenses reimbursed to Directors, or to entities who have paid on behalf of respective Directors, for the year was USD14,470 (2020: USD 8,380).

10 Development Consulting LLC provided key management personnel services to the Company and the final invoicing received from this related party was for July 2020. In accordance with IAS 10, "Development Consulting", was deemed to be a related party. The Company was invoiced or re-charged the following expenses by 10 Development Consulting during the period: USD nil (2020: USD 84,750) key management personnel remuneration and USD nil (2020: USD 8,226) management personnel travel and subsistence.

Effective, August 2020 the Company entered into an agreement with GP3 Institute Trust, a non-profit which provides Legal Advisory and Governance Support Services for public private corporation initiatives within the United Nations Sustainable Development Goals framework. The Company's Legal Secretary service is provided by the GP3 Institute Trust. The Company provides grant funding to GP3 Institute in recognition of the legal and governance services provided to the Company. The amount of USD 10,217 (2020: USD 26,000) representing grant funding due to GP3 Institute is included in accounts payable and accrued liabilities at the period end. GP3 Institute is not considered a related party as ARC Ltd.'s Legal Secretary is an independent contractor of GP3 Institute.

19. TAXATION

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

20. CAPITAL RISK MANAGEMENT AND STATUTORY FINANCIAL DATA

(a) Bermuda

ARC Ltd. (formerly African Risk Capacity Insurance Company Limited) is a mutual insurance Company, registered as a Class 2 Insurer under the Bermuda Insurance Act 1978 and Related Regulations (the Act).

In accordance with the Act, statutory capital and surplus at the year-end was USD 81,555,747 (2020: USD 87,216,525) and the amount required to be maintained by the Company was USD 1,804,539 (2020: USD 1,469,412). The Company has met the minimum solvency margin requirement at the year end. In addition, a minimum liquidity ratio must be maintained whereby relevant assets, as defined by the Act, must exceed 75% of relevant liabilities. The ratio was met at the year end.

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

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

20. CAPITAL RISK MANAGEMENT AND STATUTORY FINANCIAL DATA continued

(a) Bermuda 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:

	2021 USD	2020 USD
Statutory capital and surplus	81,555,747	87,216,525
Adjust for: Non admitted items for statutory purposes		
Prepaid expenses	354,544	176,144
Deferred policy acquisition costs	106,782	34,657
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	8,601,150	9,260,906
PCC/KfW/BMZ – Initial contribution treated as equity capital	(48,405,000)	(48,405,000)
Less: PCC/KfW/BMZ initial contribution treated as equity grant	10,270,033	11,015,326
Forex revaluation of GBP capital contribution	9,295,854	9,147,611
Reserve fund – Initial contribution designated as share capital	250,000	250,000
Members' equity	**12,099,510**	**18,766,569**

(b) Participating African Countries

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

21. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

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

(a) Insurance risk

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

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

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

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.

21. MANAGEMENT OF INSURANCE AND FINANCIAL RISK continued

(a) Insurance 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(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- (2020: 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 31 December 2021, the Company held non-interest-bearing. USD 4,821,190 (2020: USD 4,964,435) 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.

21. MANAGEMENT OF INSURANCE AND FINANCIAL RISK continued

(b) Financial risk continued

v) Price risk

At 31 December 2021, 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 USD	Cost USD	Effect of 0.5% increase in interest rate USD
As at 31 December 2021:			
Fair value through profit or loss investments:			
Asset-backed bonds	7,666,089	7,664,179	(15,715)
Commercial mortgage bonds	4,821,190	4,708,109	(2,652)
Corporate bonds	47,915,013	47,638,991	(743,983)
Equities	481,990	465,805	–
Mutual funds	–	–	–
Government bonds	5,000,695	5,113,803	(75,942)
As at 31 December 2021	**65,884,977**	**65,590,887**	**(838,292)**
As at 31 December 2020	**67,647,333**	**61,529,840**	**(594,132)**

22. SUBSEQUENT EVENTS

The Madagascar tropical cyclone policy triggered in February 2022 and was settled for USD 10,714,206 (2020: USD 1,998,371 net to ARC Ltd.). At the year-end 2021, this policy was reserved at USD 302,738 and had an unearned premium reserve of USD 1,423,368.

23. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on 19 May 2022. Management does not have the power to change or amend the financials after the date of approval by the Board of Directors.

NOTES

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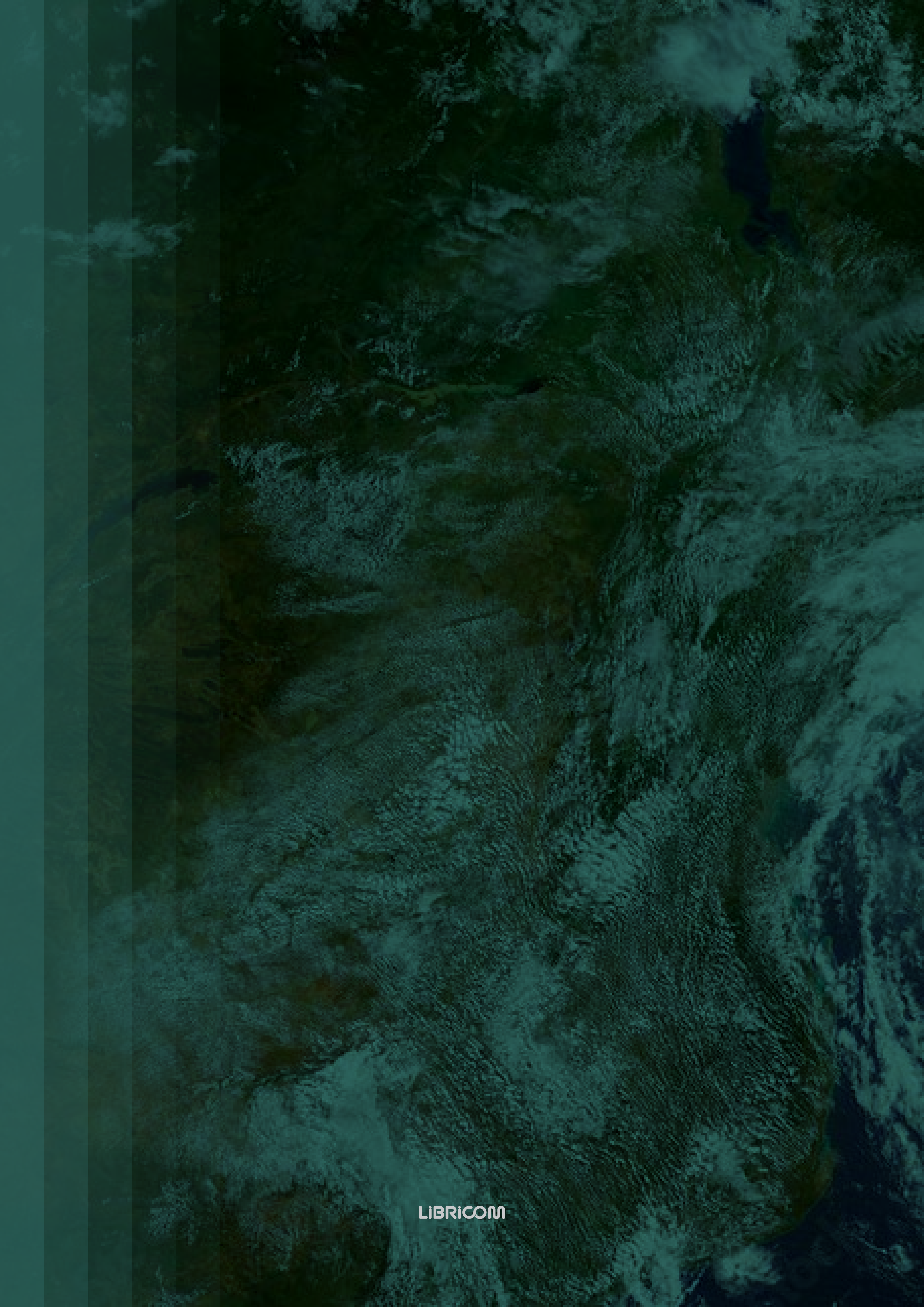
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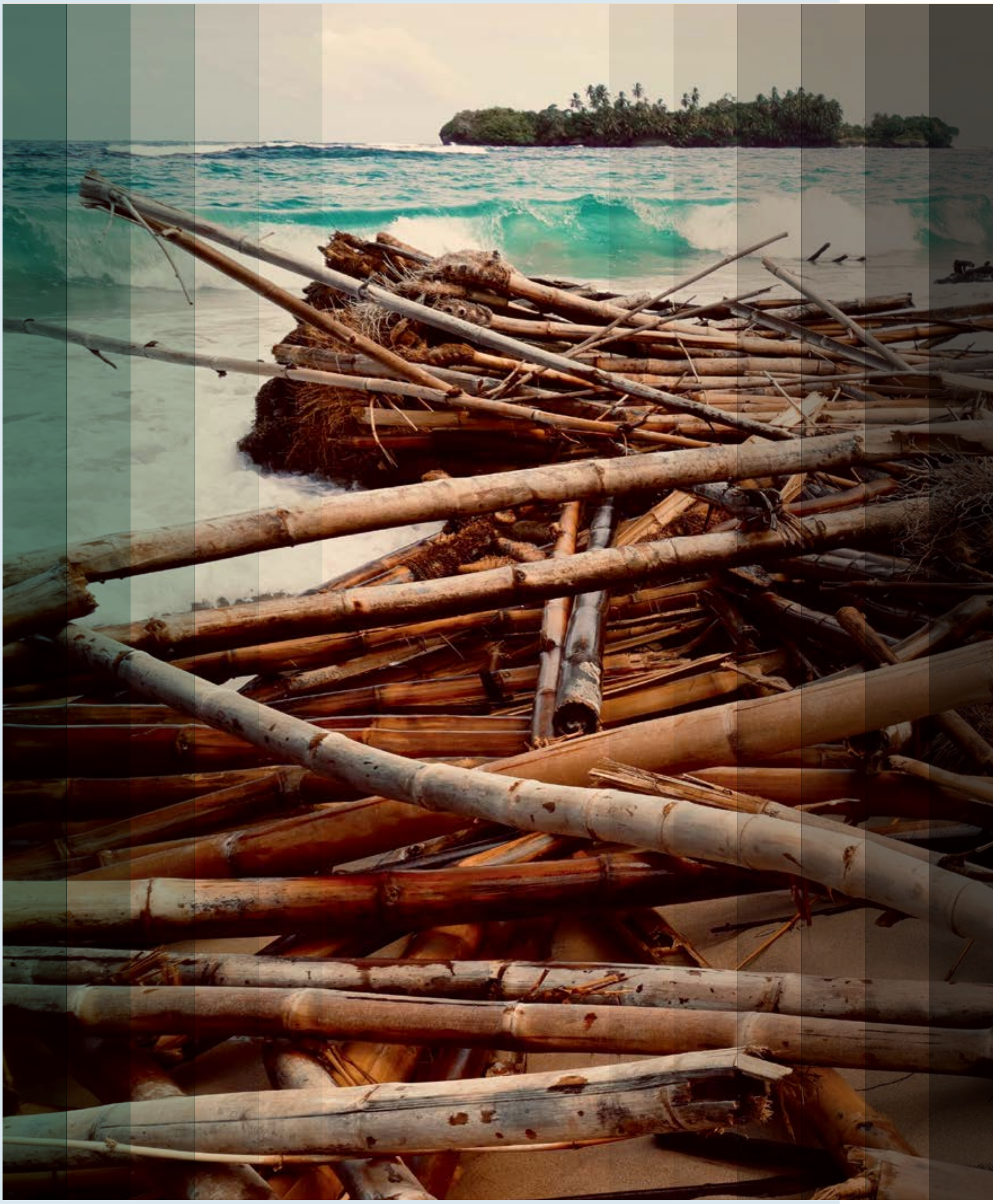

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