

Manager's Report and Financial Statements as at 31 December 2022

Summary

The Company reported a net loss of \$25.3 million for the twelve months ended 31 December 2022. The net loss consisted of \$11.5 million in net earned premium, \$1.0 million in net earned commission and policy acquisition costs, incurred net claims of \$29.2 million, other underwriting income of \$384K, \$4.4 million investment loss and general and admin expenses of \$4.5 million.

During the year, the Company elected to enforce strict underwriting protocols, which entailed policy withdrawals due to non-payment of premiums for some territories, thus losing a total of gross written premium of \$5.5 million. Also, following the data failure experienced in risk pool 8, the Company adjusted its policy wording to be clear on dealing with such instances of erroneous data and data failure which took longer than expected which led to delays in issuing policy documents to member states thus leading to the non-renewal of the Replica Start Network policy for Senegal.

The Company was unable to secure a quota share reinsurance cover on the drought program due to the following: (i) Model scepticism from the reinsurance markets due to model sensitivity during the sowing window and how sowing failures are picked up; (ii) The recent ARC2 NOAA data failure in 2021; and (iii) The triggered guaranteed payouts for some territories before policies were effectively placed on risk.

In November 2022, the Company registered as a Segregated Account Company (SAC) to facilitate the entering into a new line of business, namely the Outbreaks and Epidemics Insurance Program (O&E Program). The first pilot program managed through the Outbreaks and Epidemics Segregated Account is for the benefit of the Government of Senegal and is fully reinsured.

The Company's incurred net claims increased by \$10.9 million compared to prior year and this is largely driven by claims on the drought policy of \$8.1 million from Mali on the 2022/23 policy year and \$2.0 million net claims from tropical cyclone recorded during the year.

The Company's investment portfolio shows YTD return of -4.13% performing below its customized benchmark of 3.18%. The negative performance was mainly attributable to rising global interest rates and rising inflation felt worldwide. The investment manager's outlook remains cautious going to 2023 as elevated inflation and continued Fed tightening impact corporate fundamentals and economic growth.

Income Statement

Earned Premium were \$11.5 million (2021: \$12.0 million) for the twelve-month period to 31 December 2022 reflecting a slight decrease compared to prior year. The decrease was mainly attributable to the decrease in gross premium written during the 2022-23 renewal due to the strict underwriting protocol enforced by the Company and delay in issuing policy documents to member states offset by decrease on reinsurers share of insurance premiums due to non-placement of quota share reinsurance cover on the drought program.

The Company obtained a stop loss reinsurance contact for the 2022/23 policy year for a total reinsurance premium of \$2.3 million. There was a \$531k reinsurance premium adjustment on the expiring 2021/22 policies that was booked during the year. Also, an aggregate excess of loss reinsurance contract for \$2.0 million was obtained by the Company to cover the tropical cyclone policy for Madagascar and Comoros and 100% Quota Share Treaty Reinsurance coverage for the O&E pilot program.

Premium written are recognized on a pro-rata basis over the term of the risk period while reinsurance premium are recognized consistently with the underlying premium written.

Country	31-Dec-22	31-Dec-21
Cote D'Ivoire	\$0	\$1,577,489
Togo	\$1,000,000	\$994,625
Mali	\$0	2,037,216.00
Senegal	\$0	3,375,681.00
Niger	\$1,400,000	\$1,396,940
Mauritania	\$1,500,000	\$1,499,665
The Gambia	\$332,245	\$480,000
Sudan	\$0	1,500,000.00
Zambia	\$1,500,000	\$1,000,000
Malawi	\$3,000,000	\$3,000,000
Zimbabwe	\$300,000	\$2,500,000
Madagascar	\$500,000	\$499,859
Tchad	\$500,000	\$0
Total - sovereign drought policies	<u>\$10,032,245</u>	<u>\$19,861,475</u>
Madagascar	\$2,500,000	\$1,998,371
Comoros	\$500,000	
Total - Tropical cyclone	<u>\$3,000,000</u>	<u>\$1,998,371</u>
Save the Children Fund - Zimbabwe	\$1,000,000	\$0
Save the Children Fund - Senegal	\$0	\$1,499,842
World Food Programme replica policies - The Gambia, Burkina Faso, Mali, Mauritania, Zimbabwe and Madagascar	\$7,110,887	\$4,500,000
Start Network - Zimbabwe	\$1,000,000	2,500,000.00
	<u>\$9,110,887</u>	<u>\$8,499,842</u>
Non-sovereign policies	\$470,292	\$465,467
Outbreaks and Epidemics pilot program	\$508,130	\$0
Gross Written Premium for 2022/23	<u>\$23,121,554</u>	<u>\$30,825,155</u>

Net earned commission decreased by \$1.0 million compared to prior year due to non-placement of the quota share reinsurance on the drought program during the current policy year.

Net underwriting expense of \$29.2 million during the full year to 31 December 2022 consisted of paid claims of \$46.2 million, an increase in reserves of \$3.7 million and reinsurance recoveries of \$20.7 million. Claims paid for the year represent claims on the drought program to Mali (\$8.0 million) on 2022-23 policy year and Madagascar (\$800k), Mauritania (\$1.7 million) and Mauritania replica policy (\$1.1 million), Burkina Faso (\$1.2 million), Malawi (\$14.2 million), Cote D'Ivoire (\$647k), Zambia (\$5.4 million), Niger (\$2.1 million) on 2021-22 policy year, claims payout of \$10.7 million to Madagascar on tropical cyclone program and eight (8) claim payouts under the non-sovereign line of business of \$200k.

Other underwriting income of \$384K represents amount of expenses recharged which O&E cell incurred during the year.

General and admin expenses were \$4.5 million for the year ended 31 December 2022, slightly down by \$211k compared to \$4.7 million in the prior year. During the year, the Company was able to collect a bad debt that was expensed in the prior year.

Realized investment loss of \$4.3 million was mainly attributable to negative performance of the Company's portfolio due to rising of global interest rate and elevated inflation experienced worldwide.

Unrealized loss on investment of \$176k comprised of negative performance on the Company's portfolio due to rising interest rates and inflation but was offset by strong performance of US dollar during the year.

Balance Sheet

Other Receivable represents amount collectible from WFP in relation to expenses incurred by the company in managing the O&E pilot program.

Reinsurance assets consist of unearned premium on the premium ceded (\$4.5 million) and reinsurance recoverable (\$784k) on claims paid by the Company. Decrease on the reinsurance asset was mainly due to the Company not being able to secure a quota share reinsurance cover on the drought program during the year and collection of all reinsurance recoveries on the Pool 8 claims paid.

Insurance Receivable of \$7.2 million is largely relates to policies issued during the last quarter of the year.

Marketable Investments decreased by \$35.6 million compared to prior year. The Company made a drawdown of \$22.4 million and \$11.4 million in January and June respectively to settle outstanding claims. The Company's year to date return was -4.13% performing below its customized benchmark of 3.18%.

Investment in Pula Advisors GmbH Management have assessed the approximate fair value of the investment to be \$316k, a decrease of \$1.7 million compared to the purchase consideration of \$2 million.

Cash and cash equivalents of the Company as at 31 December 2022 is valued at \$44.7 million. The components are set out below:

	Payden & Rygel	Bank of Butterfield	HSBC	FNB	Total
<i>Marketable Securities</i>					31-Dec-22
Bonds	26,626,147	-	-	-	26,626,147
Equities	3,698,902	-	-	-	3,698,902
Total	30,325,049	-	-	-	30,325,049
<i>Cash and Cash equivalents (CCE)</i>					
Money Market Funds	19,110,291	-	-	-	19,110,291
Cash	3,600,751	21,825,032	117,103	12,794	25,555,680
Total CCE	22,711,042	21,825,032	117,103	12,794	44,665,971
Accrued interest	376,202	-	-	-	376,202
Total portfolio	53,412,293	21,825,032	117,103	12,794	75,367,222

Class C Members' Returnable Capital represents contribution from two Class C members which is a returnable capital with a maximum fixed term of 20 years.

Unearned premium liabilities are attributable to unexpired portion of the premium base on the term of the risk period.

Claims liabilities consist of IBNR reserves amounting to \$19.4 million (2021: \$15.7 million) and claims payable of \$804k (2021: \$14.5 million). Decreased on the claims liabilities is mainly due to settlement of claims payable in prior year offset by increased on IBNR reserve due to Pool 9B policies added during the last quarter of the year.

Reinsurance premium payable decreased by \$3.7 million is mainly attributable to the Company not being able to place a quota share reinsurance cover for the policy year 2022-23.

Deferred income other is made up of grant received from Swiss Agency for Development and Cooperation (SDC) as base capital for the O&E Segregated Account less operating expenses incurred during the year by the O&E cell not yet billed to SDC.

Accounts payable and accrued liabilities includes \$1.3 million payable to Cote D'Ivoire as a return premium since they were not included in the Pool 9 cover due to delay in their premium settlement.

Regulatory Capital Review

ARC Ltd. has a wide margin of safety under both the statutory test and internal ECR criteria. The capital and surplus held by the Company exceeds the minimum regulatory requirement under the Bermuda Insurance Act as a Class 2 insurer and the minimum requirement established in the bye-laws (150% of Class 3A Enhanced Capital Requirement-ECR), as shown on the table below:

	Required - Class 2	Required - Class 3A	150% of ECR	ARC capital & surplus
Dec 31, 2022	\$1,944,097	\$13,484,120	\$20,226,180	\$52,120,302

ARC Ltd

31-Dec-22

Consolidated IFRS Management Accounts

	Unaudited 31-Dec-22	Audited 31-Dec-21
<u>Income Statement</u>	USD	USD
Gross premiums written	23,121,554	30,825,155
Change in unearned premiums	(335,831)	(1,034,775)
Gross earned premiums	22,785,723	29,790,381
Reinsurers share of insurance premiums	(10,393,082)	(18,779,770)
Reinsurers share of change in unearned premiums	(904,125)	944,849
Reinsurers share of gross earned premiums	(11,297,207)	(17,834,921)
Net earned premiums	11,488,516	11,955,460
Commission income	830,065	2,227,973
Change in unearned commission	255,702	(184,528)
Net earned commission	1,085,767	2,043,445
Policy acquisition costs	(57,714)	(161,548)
Change in deferred acquisition costs	(34,497)	72,125
Net policy acquisition costs	(92,212)	(89,423)
Claims paid	(46,239,142)	(22,283,114)
Movement in claims liabilities	(3,718,003)	(14,549,412)
Reinsurers' share of claims	20,737,084	18,535,995
Net underwriting expense	(29,220,061)	(18,296,531)
Other underwriting income	384,511	-
Net underwriting loss	(16,353,479)	(4,387,049)
General and admin expenses	(4,723,174)	(4,065,022)
(Provision) / reversal of provision for doubtful debts	750,000	(750,000)
Once off expenses	(490,583)	-
Reimbursements	-	140,000
Total general and admin expenses	(4,463,757)	(4,675,022)
Interest and dividends	1,458,375	1,619,431
Realized loss on forex	(10,261)	(2,003,810)
Realized (losses)/gains on investments	(5,460,689)	6,499,478
Bonds amortization	(171,069)	(294,802)
Investment management, custody and portfolio fees	(92,800)	(122,342)
Realized investment (loss)/income	(4,276,445)	5,697,955
Unrealized gains on forwards and derivatives	1,514,789	3,780,353
Unrealized loss on investments	(4,968,242)	(5,823,363)
Unrealized gain on forex	3,277,813	145,116
Unrealized loss on investments	(175,640)	(1,897,894)
Net loss	(25,269,321)	(5,262,010)
Net Investments (loss)/income	(4,452,085)	3,800,061

ARC Ltd

31-Dec-22

IFRS Management Accounts

<u>Income Statement</u>	Unaudited		Audited	
	31-Dec-22		31-Dec-21	
	USD		USD	
	General Cell	O&E Cell	General Cell	O&E Cell
Gross premiums written	22,613,424	508,130	30,825,155	-
Change in unearned premiums	148,633	(484,463)	(1,034,775)	-
Gross earned premiums	22,762,057	23,667	29,790,381	-
Reinsurers share of insurance premiums	(9,884,952)	(508,130)	(18,779,770)	-
Reinsurers share of change in unearned premiums	(1,388,589)	484,464	944,849	-
Reinsurers share of gross earned premiums	(11,273,541)	(23,666)	(17,834,921)	-
Net earned premiums	11,488,516	0	11,955,460	-
Commission income	784,841	45,224	2,227,973	-
Change in unearned commission	298,819	(43,117)	(184,528)	-
Net earned commission	1,083,660	2,106	2,043,445	-
Policy acquisition costs	(57,714)	-	(161,548)	-
Change in deferred acquisition costs	(34,497)	-	72,125	-
Net policy acquisition costs	(92,212)	-	(89,423)	-
Claims paid	(46,239,142)	-	(22,283,114)	-
Movement in claims liabilities	(3,718,003)	-	(14,549,412)	-
Reinsurers' share of claims	20,737,084	-	18,535,995	-
Net underwriting expense	(29,220,061)	-	(18,296,531)	-
Other underwriting income	-	384,511		
Net underwriting loss	(16,740,097)	386,618	(4,387,049)	-
General and admin expenses	(4,538,663)	(384,511)	(4,065,022)	-
(Provision) / reversal of provision for doubtful debts	750,000	-	(750,000)	-
Once off expenses	(290,583)	-	-	-
Reimbursements	-	-	140,000	-
Total general and admin expenses	(4,079,246)	(384,511)	(4,675,022)	-
Interest and dividends	1,458,375	-	1,619,431	-
Realized loss on forex	(10,261)	-	(2,003,810)	-
Realized (losses)/gains on investments	(5,460,689)	-	6,499,478	-
Bonds amortization	(171,069)	-	(294,802)	-
Investment management, custody and portfolio fees	(92,800)	-	(122,342)	-
Realized investment (loss)/income	(4,276,445)	-	5,697,955	-
Unrealized gains on forwards and derivatives	1,514,789	-	3,780,353	-
Unrealized loss on investments	(4,968,242)	-	(5,823,363)	-
Unrealized gain on forex	3,277,813	-	145,116	-
Unrealized loss on investments	(175,640)	-	(1,897,894)	-
Net loss	(25,271,428)	2,107	(5,262,010)	-
Net Investments (loss)/income	(4,452,085)	-	3,800,061	-

ARC Ltd

31-Dec-22

Consolidated IFRS Management Accounts

	Unaudited	Audited
	31-Dec-22	31-Dec-21
<u>Balance Sheet</u>	USD	USD
Fixed assets	203,818	178,981
Prepaid expenses	225,843	354,544
Other Receivable	372,727	-
Reinsurance assets	5,285,598	23,074,999
Insurance receivables	7,251,729	9,065,728
Deferred policy acquisition costs	72,285	106,782
Accrued investment income	376,202	390,521
Marketable investments	30,325,049	65,884,977
Investment in Pula Advisors GmbH	315,675	2,000,000
Cash and cash equivalents	44,665,971	44,150,938
Total assets	89,094,897	145,207,471
Class C Members' Returnable Capital	67,848,325	69,917,563
Unearned premium liabilities	9,196,352	8,860,521
Claims liabilities	20,224,803	30,238,578
Reinsurance premium payable	3,991,010	7,731,315
Deferred commission income	357,678	613,380
Deferred income - other	488,216	
Investment payables	-	14,999,730
Accounts payable and accrued liabilities	2,418,410	746,875
Total liabilities	104,524,794	133,107,962
Reserve fund	250,000	250,000
Retained earnings	(32,290,995)	(7,021,674)
Class C Members' equity grant	16,611,098	18,871,183
Total members' equity	(15,429,897)	12,099,509
Total liabilities and members' equity	89,094,897	145,207,471

ARC Ltd

31-Dec-22

IFRS Management Accounts

Balance Sheet

	Unaudited 31-Dec-22 USD		Audited 31-Dec-21 USD	
	General Cell	O&E Cell	General Cell	O&E Cell
Fixed assets	203,818	-	178,981	-
Prepaid expenses	225,843	-	354,544	-
Other Receivable	-	372,727	-	-
Due from O&E cell	372,727	-	-	-
Reinsurance assets	4,801,134	484,464	23,074,999	-
Insurance receivables	7,251,729	-	9,065,728	-
Deferred policy acquisition costs	72,285	-	106,782	-
Accrued investment income	376,202	-	390,521	-
Marketable investments	30,325,049	-	65,884,977	-
Investment in Pula Advisors GmbH	315,675	-	2,000,000	-
Cash and cash equivalents	43,657,841	1,008,130	44,150,938	-
Total assets	87,602,303	1,865,321	145,207,471	-
Class C Members' Returnable Capital	67,848,325	-	69,917,563	-
Unearned premium liabilities	8,711,888	484,463	8,860,521	-
Claims liabilities	20,224,803	-	30,238,578	-
Reinsurance premium payable	3,528,103	462,906	7,731,315	-
Deferred commission income	314,561	43,117	613,380	-
Deferred income - other	-	488,216	-	-
Investment payables	-	-	14,999,730	-
Due to General Cell	-	372,727	-	-
Accounts payable and accrued liabilities	2,406,625	11,784	746,875	-
Total liabilities	103,034,306	1,863,214	133,107,962	-
Reserve fund	250,000	-	250,000	-
Retained earnings	(32,293,101)	2,107	(7,021,674)	-
Class C Members' equity grant	16,611,098	-	18,871,183	-
Total members' equity	(15,432,004)	2,107	12,099,509	-
Total liabilities and members' equity	87,602,303	1,865,321	145,207,471	-