

SLECIC

ANNUAL REPORT – 2016

SRI LANKA EXPORT CREDIT INSURANCE CORPORATION

The Sri Lanka Export Credit Insurance Corporation (SLECIC) is an enterprise established by Act No. 15 of 1978 which also outlines a set of objectives that guide the operations of the organization.

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Our Vision

“To be the catalyst in the promotion and development of international trade”

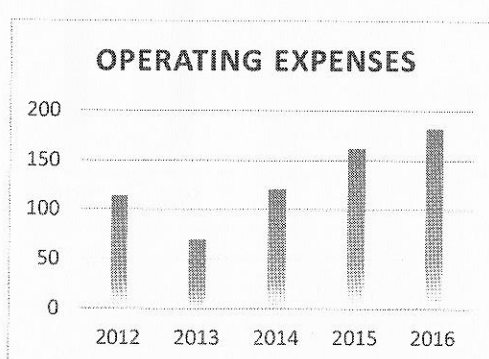
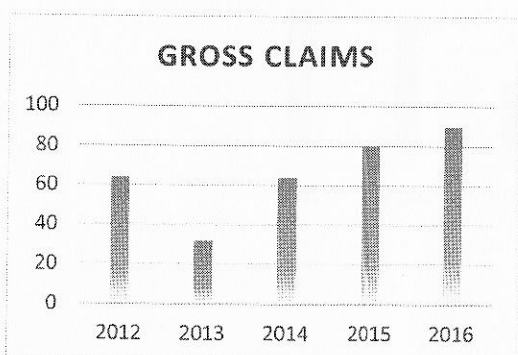
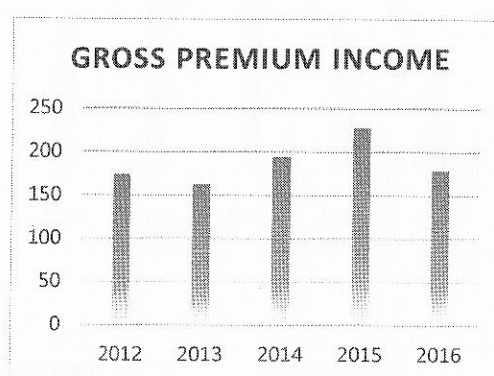
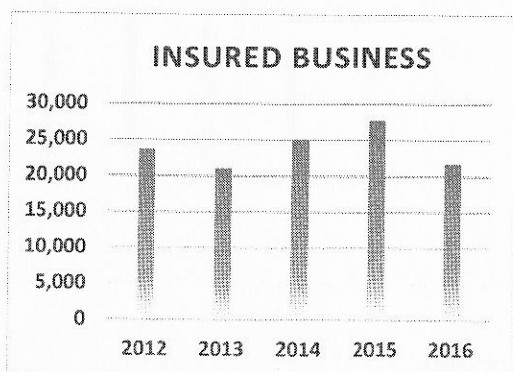
Our Mission

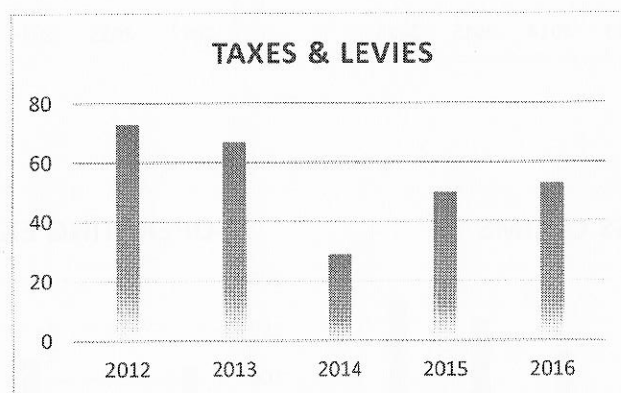
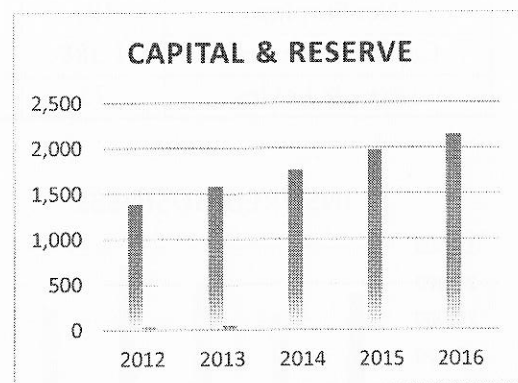
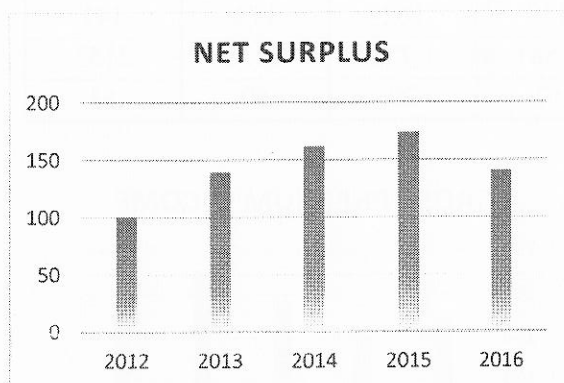
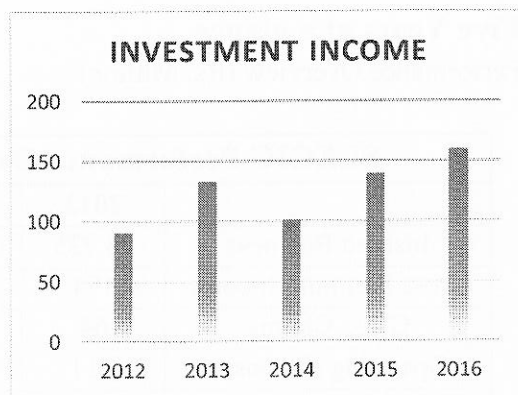
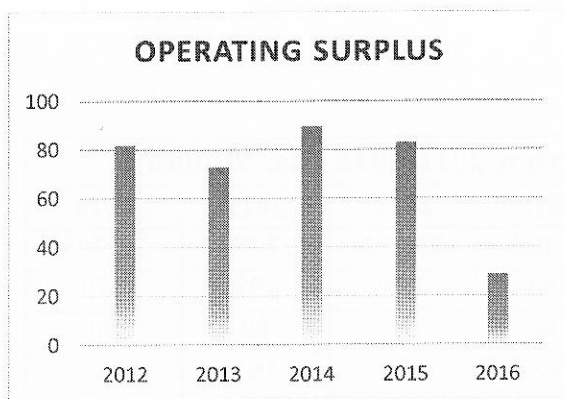
“We are in the business of providing information, support and protection for exporters, banks, other financial institutions and importers. We strive to exceed customer expectations by offering superior personalized services”

Five Years at a glance

Performance Overview (Rs. Million)

SLECIC Performance Overview 2011-2015 (Rs. Million)					
	2012	2013	2014	2015	2016
Insured Business	23,735	21,076	25,173	27,721	21,795
Gross Premium Income	174	163	195	228	179
Gross Claims	64	32	64	80	90
Operating Expenses	114	70	121	162	183
Operating Surplus	82	73	90	83	29
Investment Income	91	133	101	140	160
Net Surplus	101	139	162	174	141
Capital & Reserve	1,388	1,581	1,758	1978	2153
Taxes & Levies	73	67	29	50	53





Chairman's Review

World Economy

A series of unexpected events jeopardized global growth in 2016. From the Chinese stock market crash in January to the oil price dropping to USD 27/bbl in Q1, to the Brexit vote in June, to the busy political scene in emerging markets, to the US elections outcome in November. All defied expectations. Along with the rise in populist and protectionist votes, global trade volume growth reached its lowest level since 2009 (+1.9%).

In the US, activity was on hold ahead of the Presidential elections as both consumers and companies were in a “wait-and-see” mode. GDP growth should end at +1.6% in 2016, mainly due to a slowdown in private consumption, low investment growth, and weak export performance.

Latin American countries continued to suffer from the fall in commodity prices which shrank exports and resulted in wide trade and public imbalances. The regional GDP contracted for the second consecutive year (-0.9%). Runaway inflation afflicted Argentina, Brazil, and Colombia. Along with the impact of social discontent, consumer confidence dropped amid a volatile employment environment and poor business climate. In Brazil, this situation was made worse by the population's distrust of the political elite after President Dilma Rousseff was impeached. Recession continued for a second consecutive year in 2016.

In the UK, the initial Brexit shock was short lived as political uncertainty was lower than expected and the policy-mix has been increasingly supportive. However, the strong sterling depreciation has triggered a rise in input costs and thus a deterioration in firms' profitability. Moreover, higher uncertainty implied a significant decline in new investments since the Brexit vote (at least until UK's exit, presumably in 2019).

In the Eurozone, growth reached +1.7% in 2016, helped by dynamic private consumption and recovering firms' investments as deflationary pressures faded away and profitability is rising. In addition, the European Central Bank (ECB) announced in December 2016, It will purchase assets for longer, until the end of 2017, albeit a lower amount (€60 billion per month instead €80 billion). An accommodative ECB will continue to serve as a true safety net for the region. In Germany, domestic demand continued to drive growth (+1.8% in 2016) while net exports were more balanced. In France, growth decelerated slightly in 2016 for the first time since 2008, the unemployment rate had fallen for the third consecutive month in December 2016. In Italy, the year ended on a mitigated note given the sluggish growth, the banking system issues, the high levels of public debt. Spain's year was marked by strong growth (+3.3% in 2016) despite continued political instability. **In Eastern Europe, growth accelerated to +1.2% in 2016 due to sustained expansion among the EU members of the region, mainly Romania, Bulgaria, Slovakia, and Poland.** Challenges have arisen for Turkey given the geopolitical issues and tightening financing conditions. Challenges remain for CIS countries

dependent on oil, although pressures eased in the second half of 2016. In Russia, GDP contracted for the second consecutive year (-0.2%).

In Africa and the Middle East, the majority of countries have been impacted by low oil prices in 2016. National savings were cut by large amounts (about 25% of GDP in Saudi Arabia). Fiscal consolidation was needed amid low oil prices while monetary policy tightened to overcome exchange rate depreciation pressures. While OPEC agreed in November 2016 to cut oil production, Gulf Cooperation Council (GCC) members decided to compete for market share before reaching an agreement on a quota. The modalities of implementation of such an agreement are still uncertain.

In Asia, preliminary estimates indicate a +4.8% growth in 2016 – a slight slowdown from +4.9% in 2015. The Chinese stock market crash in January 2016 was a reminder of financial volatility, the excessive stock of corporate debt (170% of GDP), and still significant overcapacity. However, public support remained strong with a focus on the fiscal side, and Chinese growth proved resilient in 2016 (+6.7%). Japan's recovery still seems to be fragile, as GDP grew by +1.0% in 2016, with rising private consumption and favourable policy mix. India's real GDP growth was +7.2% in 2016, one of the highest in Asia and the world, underpinned by solid domestic demand and accommodative monetary policy.

Sri Lankan Economy

In 2016, the Sri Lankan economy grew by 4.4 per cent in real terms, amidst numerous global and domestic challenges. Unfavourable weather conditions that prevailed during the year adversely impacted economic activity, primarily in the Agriculture sector.

Export Performance

Earnings from exports contracted in 2016 for the second consecutive year, mainly owing to the downward movement in commodity prices in the international market and modest economic recovery in Sri Lanka's major export destinations. Export earnings declined mainly due to lower agricultural exports, which account for around one fourth of total exports. Earnings from agricultural exports declined by 6.3 per cent to US dollars 2,326 million in 2016, reflecting lower exports of many categories under agricultural products.

Earnings from tea exports, which declined by 17.7 per cent in 2015, reduced further by 5.3 per cent in 2016 to US dollars 1,269 million, recording the lowest level since 2009. The demand for tea contracted mainly due to the lower demand by major tea export destinations, especially Middle East and Russia, as a result of lower income levels experienced by these countries due to relatively low oil prices and increased geopolitical tensions.

The reduction in export earnings from spices and minor agricultural products also contributed significantly to the lower earnings from agricultural exports. Export earnings from spices

declined by 16.0 per cent to US dollars 317 million in 2016, as against an increase of 42.7 per cent recorded in 2015, due to significant reduction in export volumes of pepper and cloves, by 50.8 per cent and 66.6 per cent, respectively.

Earnings from the exports of coconut products increased by 4.0 per cent to US dollars 366 million due to increased non kernel products, such as fresh nuts, fibre and coconut shells and ekels, despite a significant decline in earnings from coconut oil exports, under kernel products, owing to lower prices.

Despite the decline recorded in rubber export prices, earnings from rubber exports, which declined continuously since 2012, increased by 25.0 per cent to US dollars 33 million in 2016, reflecting an increase in export volumes, by 55.8 per cent to 16 million kilograms. Export earnings from rubber products increased marginally by 0.9 per cent as a result of higher earnings from rubber gloves and rubber tyres.

Export earnings from seafood, which declined significantly in 2015 due to restrictions on market access to the EU since January 2015, increased by 4.0 per cent to US dollars 170 million in 2016, after the lifting of the ban on seafood exports from Sri Lanka to the EU in June 2016. Earnings from industrial exports, which account for around three fourths of total export earnings, contracted by 1.0 per cent to US dollars 7,940 million in 2016 in comparison to the previous year.

Export earnings from petroleum products, which mainly comprise bunker and aviation fuel, declined by 23.3 per cent to US dollars 287 million in 2016, partly due to higher competition from other regional players, such as Singapore and India.

Export earnings from gems, diamonds and jewellery declined by 17.4 per cent to US dollars 274 million in 2016 in comparison to the previous year, reflecting lower global demand.

Earnings from textiles and garments exports, which account for 47 per cent of total exports, increased by 1.3 per cent in 2016. The USA and the EU continued to be the two largest buyers of Sri Lankan garments, in both volume and value terms.

Earnings from exports of services grew by 11.6 per cent to US dollars 7,138 million in 2016, in comparison to US dollars 6,397 million in 2015. The key growth driver within trade in services was earnings from tourism, followed by exports of transport and telecommunications, computer and information services.

Direction of Trade

The USA remained the main export destination in 2016, accounting for 27.3 per cent of total export earnings.

The UK continued to be the second largest export destination, registering 10.1 per cent of total export earnings and one third of export earnings from the EU. The main export destinations within the EU, other than the UK, were Germany, Italy, Belgium, Netherlands and France.

Garments, rubber products, tea, food, beverages and tobacco, and spices were the main exports to Germany and Italy, which were the fourth and fifth largest export destinations.

Iran emerged as the top buyer of Sri Lankan tea in 2016 surpassing Russia. Other major buyers for tea were Iraq, Turkey and the UAE. These countries together contributed to 45.2 per cent of earnings from the export of tea in 2016.

Earnings from tourism

The Sri Lankan tourism industry, a major foreign currency earner in the economy, continued its growth momentum during 2016. Earnings from tourism grew by 18.0 per cent to US dollars 3,518 million in 2016, in comparison to US dollars 2,981 million in 2015

Workers' remittances

Workers' remittances, grew at a modest rate of 3.7 per cent to US dollars 7,242 million, as against US dollars 7,007 million in the previous year. The relatively low growth in workers' remittances can be attributed to the fall in the income levels in countries in the Middle Eastern region as a result of persistently low oil prices and geopolitical uncertainties.

Exchange Rate Movements

In 2016, the rupee depreciated against all major currencies except the pound sterling, which depreciated substantially following the Brexit vote on 23 June 2016. Accordingly, reflecting the movements in the cross currency exchange rates against the US dollar in international markets, the rupee depreciated against the euro by 0.32 per cent, the Indian rupee by 1.72 per cent, the Japanese yen by 7.05 per cent, while appreciating against the pound sterling by 16.04 per cent

Performance of SLECIC

The Sri Lanka Export Credit Insurance Corporation(SLECIC) provides a wide range of facilities to Sri Lankan exporters of goods and services who trade with overseas buyers on credit terms .Therefore ,SLECIC facilitate exporters to trade safely with the lowest possible risk and assists them with their credit management needs.

Financial Results

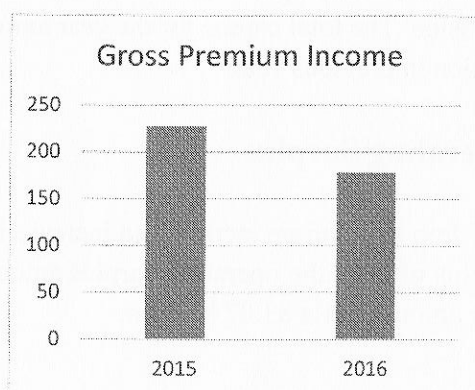
I am pleased to note that during the year the Corporation was able to relieve the financial burden of exporters by paying claims worth of Rs. 88 million, representing 24 percent increase from Rs. 71 million worth claims paid in 2015.

Financial results at a glance (Rs. Million) Year ending 31st December 2016

	2015	2016
Gross Premium Income	227.5	178.64
Operating Surplus	83.07	29.37
Net Claims	70.75	87.98
Investment Income	139.52	159.90
Capital & Reserves	1978.15	21.53.07
Net Surplus	174.07	141.11
Taxes & Levies	50.43	53.21

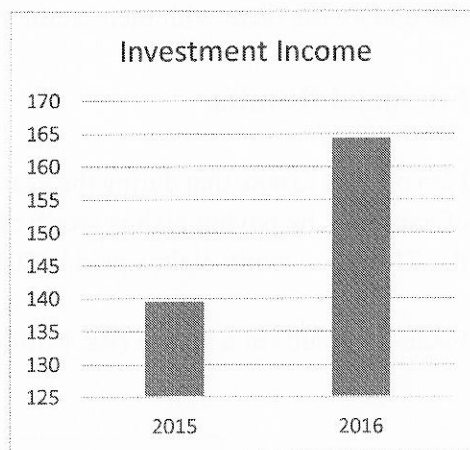
Premium Income

The premium rate structure is based on the no profit no loss principle. During the period under review, the Gross Premium Income reduced by 21.48 percent over the last year amounting to Rs 178.64 million. The reason for this negative growth was partly due to decline in exports in 2016 as a result of global economic conditions. The substantial drop in declarations by some of our key accounts also contributed to drop of premium income in 2016.



Investment Income

A significant proportion of the investment portfolio was in government securities and the interest rates of such securities continued to receive low yields during the year under review. The other income which mainly consist of investment income, has managed to a greater extent to cushion the drop in premium income. The investment income for 2016 accounted for Rs 159.90 million of the total income as against the last year income Rs.139.52, **has been increased** by 14.6 percent in 2016. The main reason for this growth is the general increase in interest rates during the year.



Other Operational income

The other operational income consists of all types of fees charged on our facilities, Bizinfo income and repayment of claims paid. It has recorded a total income of Rs 28.77 million **as against** the last year's income of Rs 15.57 million. The repayment of claims paid of Rs 15.29 million in 2016 compared to **that of** Rs 4.79 million received in 2015 has led to the substantial growth of 86 percent over the last year.

Claims

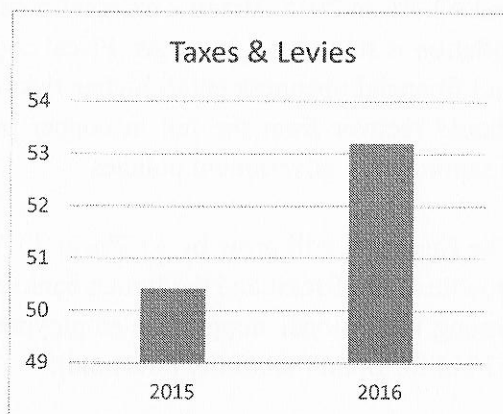
The total claims expenditure consists of two components namely; the specific and contingent provision. The total claims for the year amounted to Rs 87.98 million as compared to Rs 70.75 Million in previous year.

Operating Surplus

The drop in premium income and increase in claims have adversely impacted on the operating surplus of 2016. the operating surplus amounted to Rs 29.38 Million as compared to previous year amount of Rs 83.07 Million.

Contributions to the Government Revenue

SLECIC continued to contribute to the government revenue during the year under review, despite challenging business conditions. SLECIC was required to build an adequate fund over the years from their earnings to cushion the future liabilities with a view to facilitate this objective, the legislators at that time exempted SLECIC from paying various taxes to the Government. **However, due to the present tax structure, SLECIC is being asked to contribute the government taxes accordingly.**



In 2016, SLECIC contributed Rs.53.20 million to the government revenue. Despite the drop in premium income and profits, VAT on financial services has marginally increased compared to last year mainly due to increase in VAT rate from 11 % to 15 % in 2016. The income tax has shown a significant increase from Rs 14.69 million in 2015 to Rs 25.21 million in 2016 reflecting the substantial increase in investment income recorded for 2016.

Net Surplus

Despite of the considerable drop in premium, the Corporation has managed to achieve a total net surplus of Rs 141 Million mainly on the grounds of controlling costs and increasing other revenue such as repayment of claims paid and investment income.

Outlook for 2017- A world in slow motion

In 2017, activity growth may pick up but the pace will be slow. Growth is forecasted to reach +2.8%. This slight pick-up may be due to a large extent to the acceleration in the US, the exit from recession in Russia and Brazil, and the resilience in Europe and Asia.

Indeed, the US and China could take a more aggressive stance on trade and investment whereas Europe will be keener on balancing growth and politics. In emerging markets, the absence of a broad-based acceleration will increase selectivity: Private sector spending will be pivotal in some countries (e.g. Russia and India); the business cycle may be limited by ongoing adjustments (Brazil and South Africa) in others; while another group of countries may even face growing imbalances (e.g. Mexico and Turkey).

The US would benefit from a fiscal boost leading to a +2.3% GDP growth in 2017. Robust consumer confidence coupled with a near full employment labour market and rising wages means that the economy will run the risk of slight overheating in 2017. The fiscal stimulus will push inflation expectations and thus US long-term yields higher.

In Latin America, the pendulum will slowly swing back to positive territory. Argentina and Brazil are set to exit recession, bringing regional growth from -0.8% in 2016 to +1.4% in 2017 and +2.3% in 2018. Brazil's external position has demonstrated a marked improvement and inflation is set to meet its target. Fiscal constraints pose the new challenges. In Mexico, trade and financial openness entail higher risks due to the dependence on the US. Chile's growth should recover from the fall in copper prices amid weak confidence and the population's disapproval of government policies.

The Eurozone will grow by +1.7% in 2017 and will continue to face its usual set of teething troubles from Brexit and the Italian banks situation to a busy election year for pivot countries. Strong institutional stopgaps in employment while oil prices remain favourable, below USD 63/bbl for Brent (neutrality threshold).

The sterling and new incoming investments will struggle the most as a climate of uncertainty hangs over the UK as the government triggered Article 50 and started EU exit negotiations. Inflation is expected to reach +2.5% in 2017, up from +0.8% in 2016 and wage growth is set to decrease to +1.4% (down from +2.3% in 2016). Hence, private consumption, the main driver of UK growth, will slow down to +1.6% in 2017 (from +3.0% in 2016).

In Germany, it is expected that domestic demand will continue to drive growth while net exports will be more balanced. GDP growth will stabilize at +1.7% in 2017 and 2018, supported by an acceleration in public spending and investment in 2016.

In Eastern Europe, GDP growth should remain sustained in EU member countries (+2.8% in 2017). There will be a modest recovery in Russia (+1.3%) after two consecutive years of recession.

Currencies will remain under pressure, while fiscal vulnerability is more severe in certain oil exporting economies – Nigeria, Libya, Sudan, Angola and Algeria. After a three-year commodity shock, some countries will have to adjust, and some to default. In the Middle East, GDP growth should slightly pick up to +2.3% in 2017, driven by the modest acceleration in activity in Saudi Arabia (+1.5% from +1.4% in 2016).

GDP growth in the Asia Pacific region is set to remain broadly stable in 2017 (around +4.8%) compared to 2016. Still, the region achieves faster GDP growth rates than global average.

These are driven by supportive macroeconomic policies, a continued rise in private consumption and a lower manufacturing deflation. Nevertheless, growth is not healthy yet, as high private debt and poor bank asset quality hinder monetary policy transmission channels. Though China will address its fragilities (e.g. credit risk and excess capacities) to avoid volatility, strong public support and cautiously accommodative monetary policy will help reach +6.3% growth this year.

Acknowledgement

I wish to thank the **export community** of Sri Lanka, especially the clients of SLECIC and the commercial banks for the continued trust they have **kept with SLECIC** over the years. You have made us grow to what we are today.

I wish to thank the Honourable Finance Minister for his guidance and the keen interest he has shown in the activities and growth of SLECIC during the period under review. I also appreciate the guidance & support of Hon. State Minister of Finance.

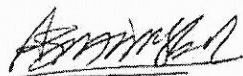
The Board of Directors continued to guide us in numerous ways with expertise in ideas and innovative thinking. Their dedication and commitment to SLECIC is greatly appreciated.

I thank the Secretary, Additional Secretaries and other officers of the Ministry of Finance for the cooperation extended to us towards fulfilling its duties of SLECIC. I also thank the officials of the Central Bank of Sri Lanka, the Department of Commerce and members and officials of the many trade chambers for the support extended to SLECIC. A special word of thanks is also due to the Sri Lankan missions abroad and in particular the Trade Attaches for their cooperation extended to SLECIC.

I also appreciate the technical support extended by Commonwealth Secretariat in building capacity of the Export Credit Insurance Industry during the year.

My sincere thanks go to officials of the Berne Union Secretariat and our overseas counterparts and other business partners who have readily assisted us when called upon to do so. Their combined wealth of knowledge and resources in technical areas of Export Credit Insurance has been a tower of strength to SLECIC.

The dedication and enthusiasm shown by our staff made it possible for the Corporation to enhance its corporate activities and thereby meet operational objectives more comprehensively. I am therefore most appreciative of the trust and confidence placed in me by the entire staff of SLECIC and their co-operation. So I express my sincere thanks to all the members of the staff of SLECIC for their dedication and commitments towards achieving the goals and objectives of SLECIC.



A.S. M Misbah.

Chairman & Managing Director

The Board of Directors

Mr. A. S. M. Misbah

Chairman & Managing Director

Attorney at Law

Mr. A. K. Seneviratne

Additional Secretary

Ministry of Industry and Commerce

Mrs. Amila Dahanayake

Secretary to the Governor

Central Bank of Sri Lanka

Mrs. K. S. Dayarathne

Assistant Director

Department of Treasury Operations

Ministry of Finance

Mr. Suresh M. Paranavitana

Chief Officer – Life

Sri Lanka Insurance Corporation Ltd

Senior Management of SLECIC

<i>Mr. A. S. M. Misbah</i>	-	<i>Chairman & Managing Director</i>
<i>Mr. D. H. J. Ranasinghe</i>	-	<i>General Manager</i>
<i>Mrs. R. M. U. N. Peiris</i>	-	<i>Deputy General Manager</i>
<i>Mr. Dammika Aluthge</i>	-	<i>Assistant General Manager</i>
<i>Mr. Mohan Silva</i>	-	<i>Assistant General Manager</i>
<i>Mrs. Mayuri Mudalige</i>	-	<i>Assistant General Manager</i>

Products & Services of SLECIC

Export Credit Insurance, branded as the Seller's Risk and Credit Guarantees to banks constitute the main thrust of services provided by SLECIC to the well-being of the exporter community in the country. Our services protect the financial security of exporters whilst enabling them to expand the scope of their operations by making it easier to obtain loans from commercial banks without much hassle and inconvenience.

Seller's Risk

Seller's Risk is the fundamental cornerstone of our products and services to the exporter community. Seller's Risk serves the purpose of protecting the exporter from the risk of non-payment or delayed payment by the overseas buyer due to commercial and political risks.

Commercial Risks

- Insolvency and bankruptcy
- Payment default
- Contract repudiation

Political Risks

- Delays in foreign exchange remittance
- Cancellation of import license
- Import ban
- Payment moratorium
- War, revolution, riot and natural disasters

Of the wide range of policies offered by the corporation, the most popular is its Whole Turnover cover policies. Tailor made facilities are also available to cater for the unique needs of specific sectors.

Following are the categories of Export Credit Insurance offered to exporters.

Seller's Risk Insurance Policy-WHOLE TURNOVER - ALL BUYERS

Insurance to protect the exporter from commercial risk & political risk. Under this we will cover the total shipments on deferred payment terms.

Seller's Risk Insurance Policy-BUYER SPECIFIC

Insurance to protect the exporter from commercial risk & political risk of one or more specific buyers.

Seller's Risk Insurance Policy-COUNTRY SPECIFIC

Insurance to protect the exporter from commercial risk & political risk of buyers of a specific country.

Seller's Risk Insurance Policy-POLITICAL RISK

Insurance to protect the exporter from political risk of a specific country.

Seller's Risk Insurance Policy-GLOBAL COVER

Insurance is provided for off-shore export companies' domicile in Sri Lanka.

Seller's Risk Insurance Policy-SUBSIDIARY RISK

Cover the risk of the exporters of a subsidiary company domicile in another country where the parent company is in Sri Lanka.

Seller's Risk Insurance Policy-COVERING ULTIMATE BUYERS

Insurance to protect Sri Lankan exporters, covering commercial & political risk of ultimate buyers where shipments have been effected to a fully owned subsidiary in the buyer's country.

Seller's Risk Insurance Policy-CONSIGNMENT OF STOCKS

Cover the Sri Lankan exporter on commercial risk & political risk of consignment of stocks.

Seller's Risk Insurance Policy-ENTREPOT TRADE

Cover the commercial risk & political risk of a Sri Lankan exporter arising from entrepot trade.

Seller's Risk Insurance Policy-SELLER'S RISK COMPREHENSIVE SERVICE POLICY

Insurance to protect the service sector exporters from the commercial risk & political risk.

Seller's Risk Insurance Policy-DOMESTIC CREDIT INSURANCE

Insurance to protect the policy holder from commercial risk associated with dispatching goods & rendering services to their buyers in Sri Lanka.

Export Credit Guarantees offered to Banks

The credit guarantees to banks mitigate the losses suffered by banks on account of non-payment of advances by the exporter owing to protracted default and insolvency of exporters. Our credit guarantees to banks facilitate the financial requirements of exporters by removing the necessity to place collaterals and expensive deposits. SLECIC undertakes to reimburse 66.66% to 85% of losses suffered by banks, caused by insolvency of exporters or protracted default on their part.

Following are the categories of Export Credit Guarantees offered to banks.

Pre Shipment Credit Guarantees (Individual)

Individual counter party risk can be covered up to 66.66% in Rupees and other foreign currencies. These guarantees facilitate financial institutions to grant pre shipment facilities to exporters against letters of credit or confirmed orders for purchasing of raw materials, manufacturing and processing of goods and packing of exports.

Post Shipment Credit Guarantees (Individual)

These guarantees are offered to commercial banks. These guarantees ensure exporters can access banks to obtain finance in order to meet their working capital requirements at the post shipment stage by way of purchase, negotiate or discount of export bills.

Whole Turnover Pre/Post Shipment Credit Guarantees

These guarantees facilitate banks to cover the entire export credit portfolio granted by way of Pre/Post shipment advances to the exporter or an indirect exporter at a higher coverage and a lower premium rate.

Export Production Credit Guarantees

This scheme facilitates financial institutions to finance working capital to producers to manufacture goods and services for exporters without much emphasis on collaterals.

Export Performance Guarantees

This is a counter guarantee issued to commercial banks against the guarantees and bonds that they issue on behalf of their clients to overseas buyers or government authorities guaranteeing the due performance of contracts entered into for the export of goods and services from Sri Lanka. The areas include benchmark performance export contracts via construction work as well as the export of goods and services.

Export Performance Credit Guarantee covering the due performance of Freight Forwarders

This guarantee is a counter guarantee issued to a bank, in consideration of the bank issuing a bank guarantee to an airline that extends credit facilities to a freight forwarder.

Export Performance Guarantees covering ATA Carnet System

These guarantees are issued to the International Chamber of Commerce (ICC) Sri Lanka for exporters to obtain ATA Carnet documents from ICC – Sri Lanka. ATA Carnet is an international customs document that permits duty free temporary import of goods abroad for a specific purpose for a specified period of time.

Whole Turnover Bank Guarantee covering Cost of Passage Advances to Sri Lankans going abroad for Employment “APARA”

This guarantee scheme extends coverage to banks on entire Pre – departure loans granted to Sri Lankans going abroad for employment.

Other Services

BiZinfo – Credit and financial information

This product provides Credit and Status reports on overseas customers of Sri Lankan exporters and importers to the banking sector. SLECIC functions as a provider of Credit and Status reports from a network of principals worldwide.

Export Credit Insurance

The value of credit insurance as a risk mitigation tool in cross-border trade has gained in global recognition which has led to increased demand for the product.

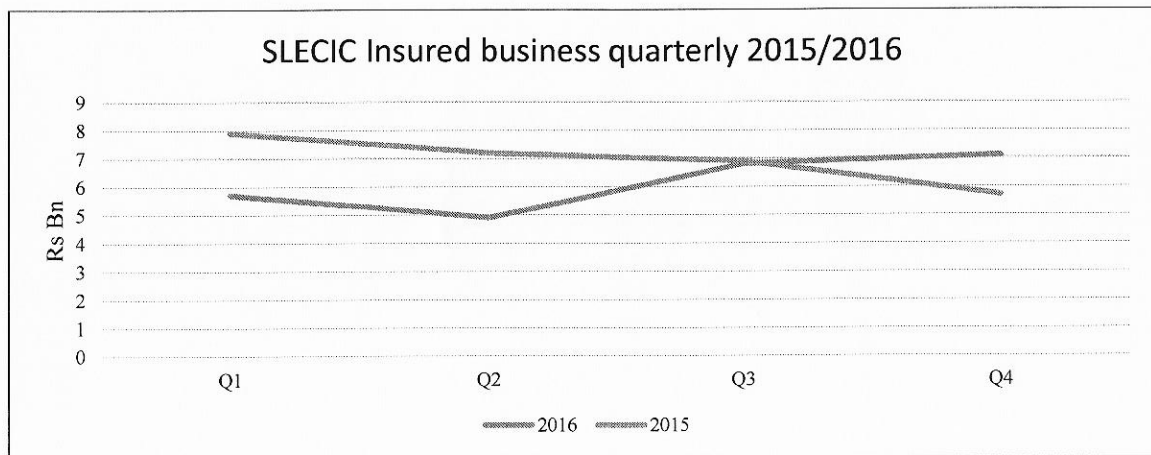
In Short Term business, covered exports represent the turnover or the value of shipments made while being covered under a credit insurance policy. Covered exports are not identical with credit limits issued. During the year under review, SLECIC put its weight behind all types of exporters, backing over twenty-five billion rupees worth of exports through its Export Credit Insurance.

Insured Business

The total insured business showed a decline of 12 percent, reaching Rs 24.5 billion for the period of January to December 2016, compared to the Rs. 27.7 billion in the corresponding period in 2015.

Analyzing the insured business quarterly it is visible that during the first 3 quarters insured business has decreased compared to the same period in 2015. However in the Q4 insured business has recorded a 25% growth compared to the q4 in 2015 returned to growth trend.

	2015	2016	Growth/ Decline
Q1	7.9	5.7	-28%
Q2	7.2	4.9	-32%
Q3	6.9	6.8	-1%
Q4	5.7	7.1	25%
Total	27.7	24.5	-12%

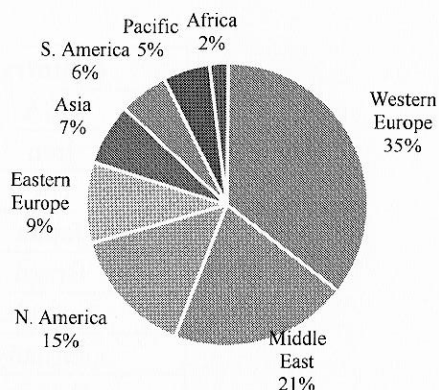


Insured business – Region wise

Insured business in high risk volatile regions has been increased over the recent past enabling exporters to enter into new markets with the support of export credit insurance.

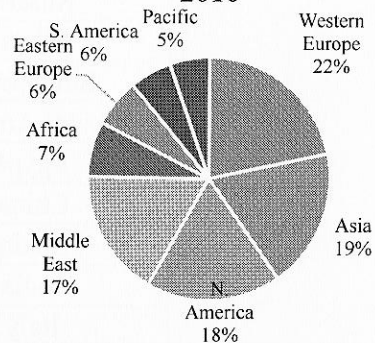
In 2010 Western Europe region held a share of 35% but in 2016 it contributed 22% only. SLECIC has increased the exposure in Asian region from 7% to 19% during the last 5 years.

**Insured Business regionwise
2010**

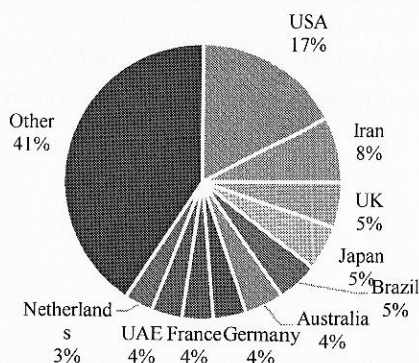


In 2010 African region contributed only 2% to the total insured business and in 2016 African region contributed 7% as SLECIC has underwritten more business in this region to facilitate exporters despite the rising security issues and economic instability.

**Insured Business regionwise -
2016**



Top 10 markets of SLECIC 2016



SLECIC has a quite large exposure on volatile high risk markets and Iran holds 8% of the total insured business in 2016 whereas Brazil, UAE, Russia, Libya, Saudi Arabia, & Turkey hold 5%, 4%, 3%, 3%, 3%, 1% respectively. Altogether these markets hold 27% of the total insured business of SLECIC in 2016.

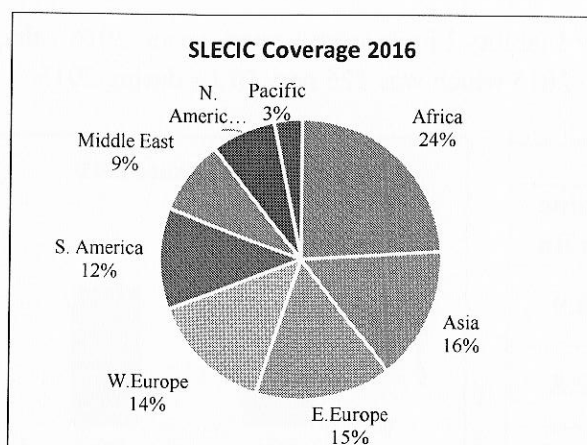
Top 20 markets of SLECIC Jan- Des 2016

Top 20 markets hold approx. 83% of the total insured business of SLECIC in 2016 recording an Rs 20 Bn.

Country	Insured Business Rs Mn
USA	4221
Iran	1901
UK	1306
Japan	1305
Brazil	1155
Australia	1090
Germany	946
France	894
UAE	869
Netherlands	822
Russia	805
Libya	759
Singapore	742
Saudi Arabia	682
Egypt	651
China	622
Spain	539
India	434
Italy	356
Turkey	340
others	4091
Total	24530

At present SLECIC covers political risk of 162 countries under “Sellers’ Risk policy” including the Middle East countries despite the political uncertainties in the region to support the Sri Lankan exporters.

Distribution of coverage across 8 regions by 2016 is shown in the chart.



Region	No of countries
Africa	39
Asia	25
E.Europe	25
W. Europe	23
Central America	19
Middle East	14
North America	12
Pacific	5
Total	162

Credit Limits

Underwriting is a comprehensive system of insurance risk assessment, which includes assessing the level of risk, as well as defining the extent and conditions of insurance coverage. The purpose of underwriting is to identify risks and the possibility of insuring against them (and under what conditions), in accordance with the Agency's underwriting policy.

A wide range of information sources are used while carrying out underwriting work in order to identify the level of risk, both in terms of the insured party, as well as of a particular project.

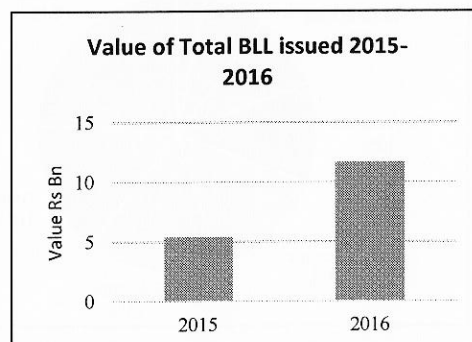
The Corporation continued to support exporters by issue of Seller's Risk Insurance cover, underwriting buyers and countries and by issuing credit limits on creditworthy buyers.

Credit limits represent the amounts an insurer has committed to insure. These are credit limits on buyers, set by the insurer, which are influenced by various factors.

New Credit Limits Issued

In 2016, SLECIC has issued 460 new Buyer Liability Limits were issued during 2016 value of Rs 8.9 Bn. It is a 41% growth compared to 2015 which was 325 new BLLs during 2015.

	2015		2016	
	No	Value Rs Bn	No	Value Rs Bn
New BLL issued	325	3.7	460	8.9
BLL Enhancement	126	1.7	87	2.8
Total	451	5.4	547	11.7



Export Credit Guarantees

Export Credit Guarantees of SLECIC do not involve the actual provision of funds to exporters. It is to safeguard export financing banks against losses resulting from financing to exporters. By providing the necessary support to financial institutions, they are thereby encouraged to participate more actively in financing the export sector. Like last year, the Pre Shipment Credit Guarantee Scheme continues to play the most popular guarantee among banks.

Direct Export Performance Guarantee Covering the ATA Carnet System

The ATA Carnet is an international customs documents that permits duty free and tax free temporary import of goods and commercial samples can be effectively exported for use in trade fairs, exhibitions and for trade promotional purposes and imported duty free for a specified period.

ATA Carnet cover commercial samples, Professional equipments and goods for presentations or use at trade fairs, shows, exhibitions and the like. If an exporter wishes to cross borders with commercial samples and exhibits for trade fairs, ATA Carnet will save his or her time in customs clearance and expedite journey.

The Corporation continued to issue Direct Export performance Guarantee covering the ATA carnet System to the International Chamber of Commerce – Sri Lanka (ICC-SL) enabling exporters, especially the Gem and Jewellery sector to obtain the ATA Carnet custom document without collateral security.

During the period under review, the Corporation has issued Demand Guarantees to ICC-SL to the value of Rs 25.97 Million.

Cost of Passage – APARA

SLECIC operates a bank guarantee scheme covering Cost of Passage advances for migrant workers. This was introduced in May 1992 to cover advances granted by commercial banks for the purchase of air tickets of migrant workers and operated with a coverage of 60 percent of the guaranteed loss. From time to time, modifications were introduced to make the scheme flexible and accessible to migrant workers and bankers and to minimise the documentation introduced Whole turnover credit Guarantee in 2001.

Presently, SLECIC covers the entire pre-departure loans irrespective of the loan category and covers higher percentage (85 percent) of the guaranteed loss to financial institutions without collaterals. Export of services is an area of vital importance as a significant part of foreign exchange earnings of Sri Lanka is contributed by Sri Lankans going abroad for employment.

So the SLECIC bank guarantee covering the cost of passage intend to alleviate some constraints faced by migrant workers regarding their air passage and related expenses and cushion the risk of the banks in granting facilities to this sector.

This scheme was branded as APARA since 2004 and which was partly intended for discharging our Social Responsibility towards the society as a whole has been identified as having immense export potential.

During the period under review, SLECIC assisted 557 applicants to obtain bank loans to the value of Rs 101.68 Million from financial Institutions and facilitated many Sri Lankans from all parts of the country to go abroad for employment

International Relations

In the context of globalization, trade patterns of economic blocs are under the dynamic, reciprocal influence of their counterparts. To cope up with international market changes, the exchange and cooperation between the Corporation, local trade associations and overseas export credit agencies (ECAs) have been growing, strengthening the links and communication as well as helping exporters manage country and buyer risks.

International Union of Credit & Investment Insurers

The Corporation is a member of the International Union of Credit & Investment Insurers (Berne Union), the leading international association for the export credit and investment insurance industry.

Members are both private companies, offering worldwide risk management solutions and state backed export credit agencies, focusing upon the support of national exports and outward investments.

The Sri Lanka Export Credit Insurance Corporation (SLECIC) the government sole Export Credit Agency (ECA) operating in Sri Lanka with the mandate for development and promotion of exports of the country, has obtained the full membership of the Berne Union in 1983 with a view to gain access to the latest developments and best practices of export credit insurance and investment. Representatives of the Corporation attended the Berne Union Committee Meeting and Annual General Meeting held in Poland and Portugal respectively.

The Regional Co-operation Group (RCG)

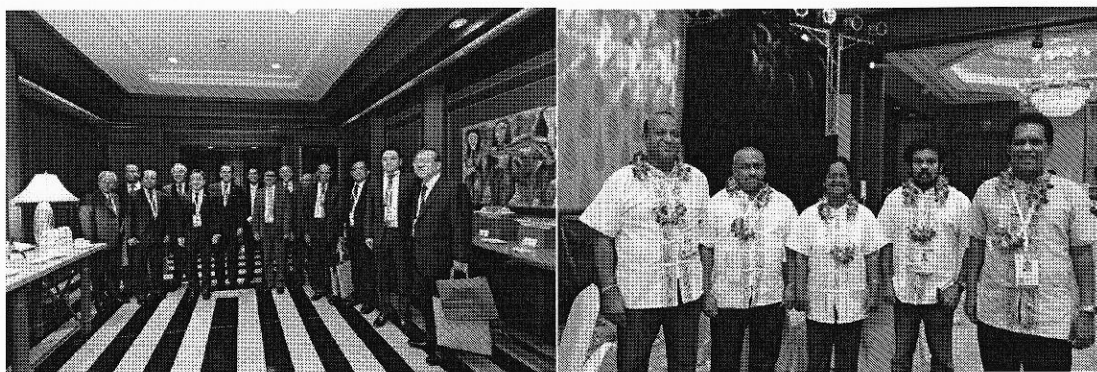
The Regional Co-operation Group (RCG) is the group 12 member institutions of the Berne Union which was formed in 1991 to develop the international relationships among the members in Asian Region.

The Regional Co-operation Group (RCG) of the Berne Union which consists of Asian Export Credit Agencies from Australia, India, China, Indonesia, Japan, Malaysia, Singapore, Sri Lanka, South Korea, Taiwan, Thailand and Hong Kong.

Apart from participating in the RCG Meetings held concurrently with the Berne Union Meetings, representatives also attended CEOs Meeting held every year. At these meetings members exchanged ideas on important current global issues affecting the Credit Insurance market and shared expert advice on topics of common interest.

Asian Credit Supplementation Institution Confederation (ACSIC)

Asian Credit Supplementation Institution Confederation (ACSIC) has been the largest Asian Cooperative body for the Small & Medium Sized Enterprises (SMEs) since 1987. At present there are 11 countries with 16 member institutions. The objective of ACSIC is to promote the sound development of Credit supplementation system for SMEs in the Asian Region through exchange of information, discussions and interchange of personnel among small business credit supplementation institutions in Asia. The Chairman & Managing Director, A.S.M. Misbah and the General Manager, Dilruk Ranasinghe represented at this year's Chief Delegates Meeting held in Thailand and SLECIC was elected as a member of ACSIC at the Chief Delegate Meeting.



Association with the Asian Exim Banks Forum

The Asian Exim Bank Forum (AEBF) is a voluntary and informal grouping with no membership fees or other obligations. The Asian Exim Bank Forum includes ten regular member institutions from Australia, China, India, Indonesia, Japan, Korea, Malaysia, Philippines, Thailand and Vietnam. The Asian Development Bank is a Permanent Observer since 1999. Our interaction with member institutions enable us to receive 4 training opportunities during the year and received technical assistance from the Asian Development Bank for two delegates

Memorandum of Understanding with the Iranian Export Credit Agency

SLECIC signed a MOU with Iranian Export Credit Agency during the Berne Union Annual general Meeting, which was held in Lisbon, Portugal, from 23 to 27 October 2016. Signing of the Memorandum with Iranian Export Credit Agency will extend the scope of both institutions for cooperation in the promotion of exports of goods and services within the mutual trade exchange, as well as opportunities for cooperation in the form of obtaining information on Iranian buyers as well as to find out reinsurance capacities as and when required.



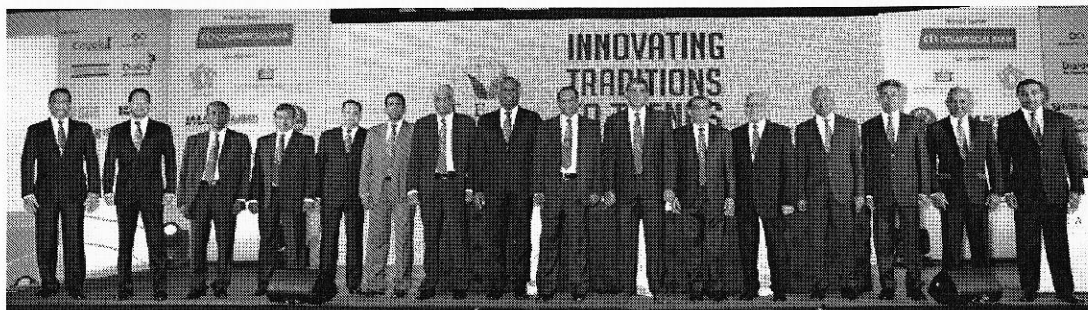
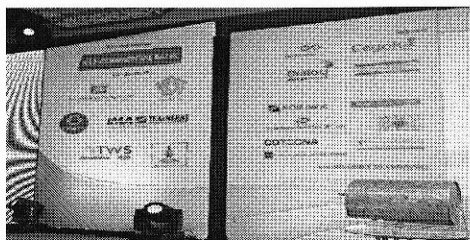
Marketing and Awareness

The marketing initiatives of SLECIC focused on a customer oriented approach. Activities launched were closer to the customer needs. The aim was to improve quality services, speed and delivery of credit insurance and of course customer service and satisfaction

In addition, seminars and workshops were conducted to policyholders. By maintaining close contact with our clients and understanding their needs we were able to navigate the development of new products and modify most of procedures in servicing clients in recent years.

The series of discussions that were held between our executives and officials of commercial banks enabled SLECIC to clarify issues and explain the benefit of export credit insurance and guarantee products of SLECIC .

We are in close association with trade and industry chambers and export promotion institutions to promote our export support services. In this regard SLECIC **has organized ,participated** and sponsored various seminars and workshops held many parts of the country .



NCE Awards -2016

The Corporation has been associated with NCE Awards by extending principal sponsorship for “service providers to export sector” this year’s NCE Awards Ceremony.





Claims Paid

SLECIC has paid Rs 87 Million net claims during 2016 which is a 24% increase compared to 2015.

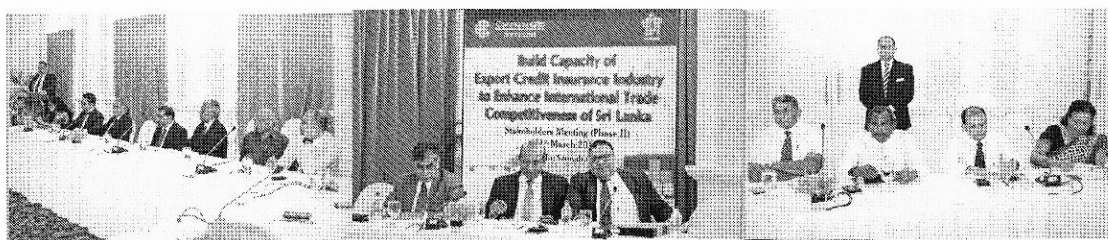
Payments of the claims helped our exporters to continue their export activities whilst banks were ready to reimburse such exporters of the claims paid. Analysis by events of loss, revealed that protracted defaults remained the main cause for the event of loss amounting for the majority of claims paid under credit insurance

From the inception to the current financial year, Corporation had paid claims to the value of Rs.756.19 million, which shows SLECIC's commitment to commercial risk mitigation. These claim payments were made through internally generated funds, without any recourse to any public funds.

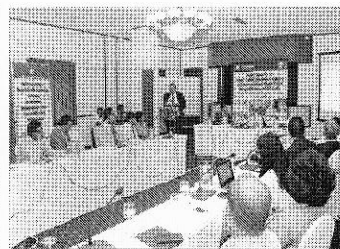
Capacity Building Program

Capacity Building of Export Credit Insurance Industry to enhance international Competitiveness of Sri Lanka commenced in late 2013 with the financial assistance of the Commonwealth Secretariat and Technical collaboration of the Export-Import (EXIM) Bank of India continued in 2016 as well.

This programme is carried out under two phases and under the phase I, consultative team was able to benchmark the Corporation with the regional Export Credit Insurance Agencies and identified the gaps. Based on the study, EXIM team submitted the report with recommendations covering the three areas such as Export Finance Policy, SLECIC Products, SLECIC –Strategy and organisation. Considering the recommendations made by the team, the SLECIC has made certain changes with regards to its products & process to support the Sri Lankan exporters.



In light of the 2016 Budget announcement of the setting up of Exim Bank in Sri Lanka and other related policy measure measures, the scope of the Phase II of SLECIC project revised under the Phase II, module related to the institutional framework for export finance substantially changed to address the setting up of the Exim bank. Accordingly, Phase II of Capacity Building project was concluded in July 2016 and held a stakeholder workshop to communicate the findings, recommendations of the project. Based on the study, EXIM team submitted the report with recommendations covering the three areas such as Export Finance Policy, Products, Strategy and which some of them have already taken into action. During this workshops the concept of EXIM Bank was discussed among the participants where advantages and practical issues of establishing a EXIM Bank were discussed.



Corporate Social Responsibility

Corporate Social Responsibility (CSR) is essentially about how corporates manage business processes in order to have a positive impact on the society Corporate Social responsibility has become a integrate part of SLECIC value system

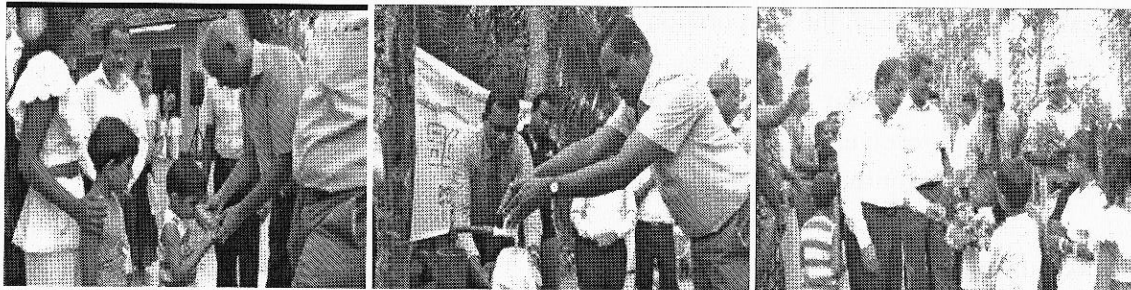
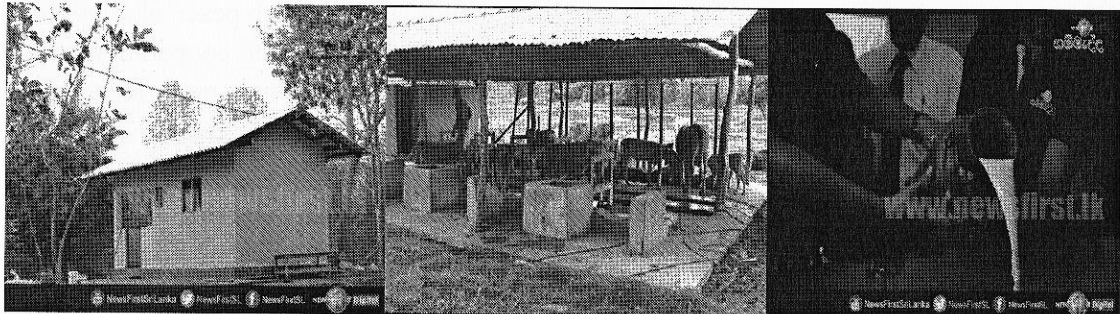
As our commitment to the Sri Lankan community, the Corporation looked for opportunities throughout the year to actively fulfil its role as a responsible Corporate Citizens of Sri Lanka. To this end it is responded to the Honourable Minister's request to support News 1st "Gammadda 100 Day "Initiative to serve the people in under developed areas in their Infrastructure social and educational issues. The News 1 st have identified a number of issues faced by people, which are believed to be need of the hour and they intend to provide immediate solutions for the same. After obtaining necessary approval, SLECIC opted to support four of these projects by way of contributing Rs. 4.0 Million considering the merits of this programme



Batticaloa –Pulipaindal Elephant Fence Project



Embilipitiya Udawalawa Gangeyaya Pjobject



Corporate Culture, Training and development

Our commitment to a high standard practice is reflected in a culture of accountability, honesty and integrity, which drives the Corporation forward and will translate into long term success. This is in recognition of the fact that a business is only as good as the people who work for it and that the quality of those people is importantly shaped by the corporate culture of honesty, reliability and constant improvement.

The Corporation's culture encourages staff input in decision making and development of new initiatives for ways of enhancing service quality. Such initiatives foster commitment and personal involvement in the welfare of the Corporation as a whole.,

SLECIC continued to invest substantially in training. Training goes hand in hand with staff development ensuring that people at every level are familiar with new industry trends and development. Training is structured in keeping with this needs based approach.

Looking Ahead

Business Acquisition and Retention

The prevailing trading environment remains challenging and the Corporation will look to assist exporters in capturing every opportunity and growing their business with peace of mind. In the New Year, the Corporation will continue to strengthen relationships and cooperation with its business partners including banks, trade-supporting organizations, and trade and industry associations; and carry out publicity and marketing activities to reach out to more exporters.

Soft commodity prices, increasingly divergent monetary policies across major economies, and weaker growth along with low inflation in the Eurozone, Japan and China etc. are significantly influencing the global economy.

Against this backdrop, the Corporation will continue to devote resources to helping exporters cope with the challenges and manage their risk portfolios

To strengthen its credit information network and improve the speed and reliability of the information it receives so as to speed up the underwriting process, the Corporation will continue to look for the most effective credit information sources available in the coming year

The future

As we look forward, we will seek to expand our understanding of all of those stakeholders on whom, as a business, we have an impact – and continue to address the sustainability and challenges our industry faces. We will continue to be open and transparent in informing our stakeholders of the way that we conduct ourselves within our professional and financial environment.

Let's grow together

Growth is at the forefront of all our business goals like our customers .SLECIC is also focused on the revenue targets .But for SLECIC to grow we need to help our entire stake holders to reach their target.

We are focussing everything we do to help you so that they can be more accessible and effective in quickly assisting you .When you want to sit down and discuss current or future buyers, we are there with a detailed understanding of the buyer and to support in a language you understand.

At SLECIC your business growth is paramount to our success, so let's grow together.

AUDIT COMMITTEE REPORT FOR THE YEAR ENDED 31ST DECEMBER 2016.

The Audit and Management Committee of the Sri Lanka Export Credit Insurance Corporation (SLECIC) came into effect in November 2002 and is chaired by a Non-Executive Director representing the Ministry of Finance. The Committee comprised of Four Members, the Non-Executive Directors of the Corporation. On invitation a representative from the Auditor General's Department attends the meetings as an observer.

The members of the committee were; Ms. K. S. Dayarathne – Chairman of the Committee, Board Director of SLECIC, Assistant Director, Department of Treasury Operations – Ministry of Finance, Mr. A. K. Senewiratne – Board Director of SLECIC, Additional Secretary, Ministry of Industry and Commerce, Mrs. A. Dahanayake, - Board Director of SLECIC, Secretary to the Governor – Central Bank of Sri Lanka and Mr. S. Paravithana, Board Director of SLECIC, Chief Officer – Life Insurance, Sri Lanka Insurance Corporation Ltd.

The Audit Committee held Four Meetings during the year 2016. It functioned in accordance with the Terms of Reference stipulated for such committees by the Department of Public Enterprises. The Committee assisted the Board of Directors in discharging its responsibilities over the accounting and financial reporting process and audit of financial statements of the Corporation in terms of reliability and integrity of the financial statements, adequacy and effectiveness of internal controls and compliance with statutory and regulatory requirements.

In the period under consideration, the Committee regularly reviewed the External Audit Reports by the Auditor General's Department and took numerous steps to improve the internal controls of the Corporation based on the recommendations contained in the said reports. The audits carried out by Internal Auditor were also reviewed by the Committee and followed up the recommendations for corrective measures.

The Committee laid especial emphasis on the compliance by SLECIC of laws, rules and regulations applicable to the Corporation and reviewed the level of adherence to the requirements stipulated by the Treasury and other relevant Circulars issued by relevant Government Authorities to ensure a satisfactory level of compliance.



K. S. Dayarathne (Ms)
Chairman - Audit Committee
Sri Lanka Export Credit Insurance Corporation

SRI LANKA EXPORT CREDIT INSURANCE CORPORATION (SLECIC)

**Annual Financial Statements
for the year ended
December 31, 2016**

Sri Lanka Export Credit Insurance Corporation (SLECIC)

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SRI LANKA EXPORT CREDIT INSURANCE CORPORATION

Annual Financial Statements - 2016

Statement of Comprehensive Income

For the year ended 31st December

	Note	31.12.2016 Rs.	31.12.2015 Rs.
Income			
Gross Earned Premium Income	1	184,060,260.66	229,218,996.68
Other Operational Income	2	28,770,323.13	15,569,639.28
Total Operating Income		212,830,583.79	244,788,635.96
Direct Cost of Operations			
Less : Net Claims	3	87,988,752.95	70,752,423.75
Status Reports		6,239,821.57	3,757,881.60
		94,228,574.52	74,510,305.35
Net Operating Income		118,602,009.27	170,278,330.61
Operating Expenses			
Less : Establishment Expenditure	4	16,530,471.62	15,078,976.51
Administrative Expenditure	5	54,067,635.98	56,782,415.77
Selling & Marketing Expenditure	6	13,558,491.64	14,269,276.31
Finance Charges	7	970,040.77	1,079,060.76
Corporate Social Responsibility		4,100,000.00	-
Total Operating Expenses		89,226,640.01	87,209,729.35
Operating Surplus		29,375,369.26	83,068,601.26
Add : Other Comprehensive Income	8	164,347,740.24	140,717,294.41
Surplus Before Value Added Tax (VAT)		193,723,109.50	223,785,895.67
Less : Value Added Tax on Financial Services		12,397,483.25	10,020,083.78
Net Surplus Before Income Tax		181,325,626.25	213,765,811.89
Less : Income Tax		25,214,051.46	14,689,680.71
Net Surplus after Income Tax & before Appropriations		156,111,574.79	199,076,131.18
Less : Special Levy		15,000,000.00	25,000,000.00
Net Surplus for the Year		141,111,574.79	174,076,131.18

SRI LANKA EXPORT CREDIT INSURANCE CORPORATION

Annual Financial Statements - 2016

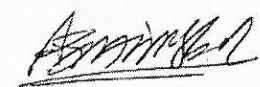
Statement of Financial Position

	Note	As at 31.12.2016 Rs.	As at 31.12.2015 Rs.	As at 01.01.2015 Rs.
ASSETS				
Cash and cash equivalents	9	7,595,725.14	6,718,734.77	7,584,466.57
Foreign currency savings accounts	10	4,190,782.38	3,598,346.44	4,676,484.64
Treasury trust fund		19,728,052.90	18,601,102.28	17,490,144.89
Investment fund		6,219.99	8,155,200.44	5,962,556.69
Short term financial investments	11	997,681,542.12	1,631,544,016.32	1,378,542,835.55
Long term financial investments	12	1,133,848,834.87	321,047,482.64	79,576,868.60
Interest receivable	13	122,155,092.24	96,256,412.54	84,915,930.99
Property proceeds receivable		-	-	208,973,030.00
Trade Debtors		3,110,193.36	1,991,121.16	3,610,218.55
Sundry Debtors, Deposits and Pre-payments	14	5,160,381.00	4,269,796.63	4,376,172.47
Property, Plant & Equipment	15	83,416,385.39	78,078,693.35	86,272,847.60
Stock of Stationery & Consumables		227,929.18	223,774.46	235,243.44
Library materials		39,527.50	39,527.50	39,527.50
Total Assets		2,377,160,666.07	2,170,524,208.53	1,882,256,327.49
LIABILITIES				
Outstanding claims	16	154,753,697.11	126,405,784.37	91,798,735.74
Premium Advances		4,603,367.06	3,209,763.24	2,357,904.62
Sundry Creditors, Accrued Expenses & Provisions	17	51,341,533.35	48,703,418.01	19,690,199.49
Staff gratuity payable	18	13,383,532.50	14,052,089.75	10,480,917.75
Total Liabilities		224,082,130.02	192,371,055.37	124,327,757.60
EQUITY				
Stated Capital	19	30,000,000.00	30,000,000.00	30,000,000.00
Reserves	20	2,123,078,536.05	1,948,153,153.16	1,727,928,569.89
Total Equity		2,153,078,536.05	1,978,153,153.16	1,757,928,569.89
Total Liabilities & Equity		2,377,160,666.07	2,170,524,208.53	1,882,256,327.49

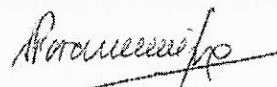
The Accounting Policies and Notes to the Accounts form an integral part of these Financial Statements.

The Board of Directors is responsible for the preparation and presentation of these Financial Statements

The Financial Statements were approved by the Board of Directors and signed on their behalf



A.S.M. Misbah
Chairman & Managing Director



S. Paranavithana
Director

February 28, 2017

SRI LANKA EXPORT CREDIT INSURANCE CORPORATION

Annual Financial Statements - 2016

Cash Flow statement for the Year ending 31st December 2016

	Year Ending 31.12.2016 Rs.	Year Ending 31.12.2015 Rs.
Inflows from Operating Activities		
Profit Before Taxation	181,325,626	213,765,812
Adjustments for Non- Cash Items		
Depreciation	8,512,731	8,524,280
Provision for Gratuity	1,067,738	3,571,172
Provision for Claims	87,988,753	70,752,424
Exchange Gain	27,044,933	47,861,160
(Profit)/Loss on disposal of assets	-3,258,998	-1,194,785
VAT on FS	12,397,483	10,020,083
Transfers from/(to) Reserves	-5,424,544	-1,712,708
Net Compensation on Investment Property	-	-42,026,970
Operating Profit before Working Capital Changes	309,653,722	309,560,468
Decrease/(Increase) in Trade and Other Receivables	-27,921,386	-9,613,007
Decrease / (Increase) in Inventories	-4,155	11,469
Increase/ (decrease) in Trade and Other Payables	-28,404,075	8,372,384
Cash Generated from Operations	253,324,106	308,331,314
Claims Paid	-59,640,840	-36,145,375
Payment of VAT on FS	-10,575,783	-12,165,321
Income Tax Paid	-9,586,907	-16,051,750
Gratuity Paid	-1,736,295	0
Net Cash Flow from Operating Activities	171,784,281	243,968,868
Cash Flow from Investing Activities		
Purchase of Fixed Assets	-1,657,005	-330,127
Transfer to Long/Short Term Investments	-178,938,878	-494,471,795
Transfer from/to Foreign Currency Savings Account	-592,436	1,076,138
Transfer to / from Treasury Trust Fund	-1,126,952	-1,110,957
Transfers from/to Investment Fund	8,148,980	-2,192,644
Net Sale proceeds of Fixed Assets	3,259,000	1,194,785
Compensation received on Investment property	-	251,000,000
Net Cash Flow from Investing Activities	-170,907,291	-244,834,600
Net Increase in Cash & Cash Equivalents	876,990	-865,732
Cash & Cash Equivalents at the beginning of the period	6,718,735	7,584,467
Cash & Cash Equivalents at the end of the period	7,595,725	6,718,735

Annual Financial Statements - 2016
Statement of Changes in Equity As At 31st December 2016

	Capital Contributed Rs.	General Reserve Rs.	Revaluation Reserve Rs.	Investment Fund Rs.	Exchange Equalisation Rs.	Technical Replacement Rs.	Unearned Premium Rs.	Total Rs.
Balance as at 1st January 2015	30,000,000.00	1,540,640,975.06	36,940,386.35	58,507,949.05	54,803,859.53	6,644,192.04	30,391,207.86	1,757,928,569.89
Transferred from Revaluation Reserve		4,750,000.00	-4,750,000.00					0.00
Net Profit for the Year 2015		174,076,131.18						174,076,131.18
Transferred during the year		6,644,192.04			47,861,159.85	-6,644,192.04	-1,712,707.76	46,148,452.09
Balance as at 31st December 2015	30,000,000.00	1,726,111,298.28	32,190,386.35	58,507,949.05	102,665,019.38	0.00	28,678,500.10	1,978,153,153.16
Transferred from Revaluation Reserve		4,750,000.00	-4,750,000.00					0.00
Net Profit for the Year 2016		141,111,574.79			27,044,933.31	0.00	-5,424,544.42	141,111,574.79
Transferred during the year 2016			12,193,419.21					33,813,808.10
Balance as at 31st December 2016	30,000,000.00	1,871,972,873.07	39,633,805.56	58,507,949.05	129,709,952.69	0.00	23,253,955.68	2,153,078,536.05

SRI LANKA EXPORT CREDIT INSURANCE CORPORATION

Annual Financial Statements - 2016

Notes to the Annual Financial Statements for 2016

Note	31.12.2016 Rs.	31.12.2015 Rs.
1 Gross Earned Premium		
Pre-shipment Credit Guarantee	12,047,682.25	23,654,070.60
Post Shipment Credit Guarantee	2,628,208.86	4,214,290.34
Export Performance Guarantee	804,086.00	2,460,550.00
Cost of Passage Guarantee (APARA)	5,708,407.25	8,416,895.16
Export Payments Insurance Policy (Seller's Risk)	157,447,331.88	188,760,482.82
	<u>178,635,716.24</u>	<u>227,506,288.92</u>
Decrease in Unearned Premium	1a. <u>5,424,544.42</u>	<u>1,712,707.76</u>
	<u>184,060,260.66</u>	<u>229,218,996.68</u>
1a Unearned Premium		
Export Payments Insurance Policies Gross Unearned Premium		
Balance as at 1st January	22,866,629.19	23,966,036.74
Premium written during the year	157,447,331.88	188,760,482.82
Premium earned during the year	<u>160,238,263.04</u>	<u>189,859,890.37</u>
Balance as at 31st December	<u>20,075,698.03</u>	<u>22,866,629.19</u>
Credit Guarantee Gross Unearned Premium		
Balance as at 1st January	5,811,870.91	6,425,171.12
Premium written during the year	21,188,384.36	38,745,806.10
Premium earned during the year	<u>23,821,997.62</u>	<u>39,359,106.31</u>
Balance as at 31st December	<u>3,178,257.65</u>	<u>5,811,870.91</u>
Total Reserve as at 31st December	23,253,955.68	28,678,500.10
Total Reserve as at 1st January	28,678,500.10	30,391,207.86
Total Reserve for Unearned Premium	<u>-5,424,544.42</u>	<u>-1,712,707.76</u>
2 Other operational Income		
Guarantee, Policy, Administrative, Processing and BLL Fees	8,051,453.77	7,762,387.48
BizInfo Income	5,426,214.84	3,014,689.51
Repayment of Claims Paid	15,292,654.52	4,792,562.29
	<u>28,770,323.13</u>	<u>15,569,639.28</u>
3 Net Claims Paid		
Claims Provision as at end of the year - Specific	127,465,168.17	92,585,165.80
Claims Provided in the previous years	<u>44,580,723.05</u>	<u>23,281,942.13</u>
Claims for the Year 2016	82,884,445.12	69,303,223.67
Less : Excess Provision made in previous year	<u>1,785,915.60</u>	<u>9,089,068.85</u>
	81,098,529.52	60,214,154.82
Add : Excess Provision on recoverables from Reinsurer	0.00	0.00
Net Claims for the year 2016 - Specific	81,098,529.52	60,214,154.82
Contingent Provision - 2016 (Please refer Note 17)	<u>6,890,223.43</u>	<u>10,538,268.93</u>
	<u>87,988,752.95</u>	<u>70,752,423.75</u>

SRI LANKA EXPORT CREDIT INSURANCE CORPORATION

Annual Financial Statements - 2016

Notes to the Annual Financial Statements for 2016

Note		31.12.2016 Rs.	31.12.2015 Rs.
4	Establishment Expenditure		
	Rates	813,120.00	609,840.00
	Water	128,466.28	100,884.60
	Electricity	1,612,015.66	1,426,656.20
	Telephone	1,017,036.97	871,123.53
	E-Mail & Internet	649,354.08	573,975.00
	Security	389,888.19	317,191.87
	Depreciation - Building	4,750,000.00	4,750,000.00
	Motor Vehicles	1,803,154.00	1,832,758.00
	Office Equipment	93,109.69	173,905.44
	Computers & Printers	1,253,980.00	1,228,830.00
	Furniture & Fittings	384,635.19	393,181.19
	Software	227,851.77	145,605.62
	Insurance - Building - Office Premises (Nawam Mwt)	115,402.51	115,098.46
	Motor Vehicles	230,922.92	307,531.79
	Office Equipment, Furniture & Fittings	8,367.30	14,827.32
	Repairs & Maintenance - Building	26,600.00	54,707.00
	Motor Vehicles	878,663.18	454,561.81
	Office Equipment	214,604.86	76,847.21
	Computers & Printers	407,304.01	363,644.47
	Software	819,514.69	764,077.99
	Furniture & Fittings	125,400.00	1,200.00
	Hiring of Motor Vehicles	58,500.00	0.00
	Maintaining Office Premises	522,580.32	502,529.01
		16,530,471.62	15,078,976.51

SRI LANKA EXPORT CREDIT INSURANCE CORPORATION

Annual Financial Statements - 2016

Notes to the Annual Financial Statements for 2016

Note	31.12.2016 Rs.	31.12.2015 Rs.
5 Administrative Expenditure		
Salaries & Allowances	26,528,037.74	25,629,403.04
Other Staff Benefits	11,474,604.17	15,213,129.63
Recruitment, Local training & Subscriptions to educational inst.	351,204.56	190,652.22
Tea & Related Expenses	676,032.53	556,355.20
Employees Provident Fund	6,848,099.61	6,624,221.37
Employees Trust Fund	856,012.91	828,027.89
Gratuity	1,067,737.75	3,571,172.00
Employee Compensation	0.00	507,602.66
Foreign Training	2,170,872.25	231,021.21
Directors Fees	570,000.00	383,250.00
Travelling, Transport & Subsistence	357,825.50	117,732.00
Postage	172,057.00	202,637.82
Annual Report & Other Printing	503,458.28	136,672.37
Stationery	226,588.79	301,243.63
Fuel	834,315.00	774,477.00
External Audit Fees	154,428.07	233,100.00
Internal Audit Fees	281,194.18	266,918.73
Professional, Legal & Consultancy Fees	100,555.00	228,692.00
Entertainment	81,667.71	35,200.00
General Expenses	25,130.00	10,650.00
Stamp Duty	11,625.00	11,325.00
News Papers, Books & Magazines	22,230.00	29,756.00
News Papers Notifications	0.00	23,976.00
Anniversary Expenses	666,137.22	675,200.00
Valuation of Fixed Assets	87,822.71	0.00
	54,067,635.98	56,782,415.77
6 Selling & Marketing Expenditure		
Promotional Investments	1,941,154.88	1,681,491.94
Advertising - Print & Electronic Media		
Adverting in Newspapers, Magazines, Journals and Radio	704,785.59	472,836.31
Printing Cost on - Brochures, Forms, Applications etc.	4,159.21	111,355.14
Business Travel (Foreign) & Conferences	6,538,703.75	8,110,591.97
Client Meetings, get-together	130,486.60	81,612.50
Fuel Cost	395,235.00	367,470.00
Annual Compliments, Greeting Cards & Gifts	134,427.43	184,321.71
Subscriptions to Business Institutions &		
Corporate Memberships	198,859.18	142,811.74
Subs. To Int. Professional & Export Related Orgn	3,278,582.00	3,115,035.00
Exporters / Bank Clients Programs	0.00	1,750.00
International relations	232,098.00	0.00
	13,558,491.64	14,269,276.31

SRI LANKA EXPORT CREDIT INSURANCE CORPORATION

Annual Financial Statements - 2016

Notes to the Annual Financial Statements for 2016

Note		31.12.2016 Rs.	31.12.2015 Rs.
7	Finance Charges		
	Bank Charges	340,155.77	310,570.76
	Stamp Duty	40,550.00	46,225.00
	Nation Building Tax	589,335.00	722,265.00
		<u>970,040.77</u>	<u>1,079,060.76</u>
8	Other Comprehensive Income		
	Interest on Staff Loans	102,372.17	86,873.44
	Investment Income	159,903,943.53	96,817,731.39
	Profit on Disposal of Fixed Assets	3,258,998.00	1,194,785.09
	Treasury Bill Interest on Gratuity Fund	525,838.62	352,854.60
	Interest on Gratuity Savings Account	4,559.80	4,369.16
	Other Income	552,028.12	233,710.73
	Net Compensation on Investment Property	0.00	42,026,970.00
		<u>164,347,740.24</u>	<u>140,717,294.41</u>
8 (a)	Investment Income		
	Treasury Bills / Bonds	100,167,885.39	56,340,270.62
	Call Deposit	783,645.59	982,381.09
	SMIB Deposit	34,143.81	32,957.35
	Debentures	19,154,179.09	7,593,882.57
	US Dollar Fixed Deposits	28,969,976.14	28,281,450.43
	US Dollar Savings	99,098.63	97,053.18
	Euro Fixed Deposit	908,591.29	935,734.90
	Temporary Surplus Trust Fund	1,194,910.01	1,093,407.54
	Dividends	65,000.00	60,000.00
	SLR Fixed Deposit	8,247,426.49	1,107,091.26
	Interest on Investment Fund	279,087.09	293,502.45
		<u>159,903,943.53</u>	<u>96,817,731.39</u>

SRI LANKA EXPORT CREDIT INSURANCE CORPORATION

Annual Financial Statements - 2016

Notes to the Annual Financial Statements for 2016

Note	31.12.2016 Rs.	31.12.2015 Rs.	01.01.2015 Rs.
9 Cash & Cash Equivalent			
Cash at Bank			
Hatton National Bank Current Accounts	3,521,855.56	3,208,657.52	2,680,436.98
Hatton National Bank Call Deposit Account	3,159,164.60	2,706,790.26	4,582,000.00
Bank of Ceylon Current Account	783,130.33	557,436.04	320,779.55
People's Bank Current Account	130,574.65	244,850.95	250.04
	<u>7,594,725.14</u>	<u>6,717,734.77</u>	<u>7,583,466.57</u>
Cash in Hand	1,000.00	1,000.00	1,000.00
	<u>7,595,725.14</u>	<u>6,718,734.77</u>	<u>7,584,466.57</u>
10 Foreign Currency Savings Accounts			
Bank of Ceylon - US Dollar Account	1,270,507.39	849,661.36	2,200,079.20
People's Bank - US Dollar Account	2,895,456.75	2,724,004.61	2,451,108.24
EURO Savings Account	24,818.24	24,680.47	25,297.20
	<u>4,190,782.38</u>	<u>3,598,346.44</u>	<u>4,676,484.64</u>
11 Short Term Investments			
Treasury Bills	274,298,676.23	635,029,190.84	789,978,164.07
US Dollar Fixed Deposits	688,004,199.59	616,700,409.53	518,378,155.16
EURO Fixed Deposit	28,364,449.61	27,304,806.16	27,027,998.52
SLR Fixed Deposits	0.00	346,000,000.00	37,000,000.00
Gratuity savings account	116,172.33	111,612.53	107,243.37
Tresury Bills on Gratuity savings	6,898,044.36	6,397,997.26	6,051,274.43
	<u>997,681,542.12</u>	<u>1,631,544,016.32</u>	<u>1,378,542,835.55</u>
12 Long Term Investments			
Debentures	562,000,000.00	192,000,000.00	42,000,000.00
Shares in Ingrin Ltd	10.00	10.00	10.00
Shares in Credit Information Bureau	123,700.00	123,700.00	123,700.00
Treasury Bonds	571,725,124.87	128,923,772.64	37,453,158.60
	<u>1,133,848,834.87</u>	<u>321,047,482.64</u>	<u>79,576,868.60</u>
13 Interest Receivable			
Treasury Deposit	67,154,144.92	67,154,144.92	67,154,144.92
Treasury Bills/Bonds	37,980,291.83	13,656,328.01	5,049,127.36
Debentures	3,604,982.14	3,319,475.28	295,397.80
US Dollar Fixed Deposits	12,731,562.33	11,076,889.16	11,305,744.21
Temporary Surplus Trust Fund	619,740.19	551,780.80	569,330.65
Gratuity Funds - Treasury Bills	63,010.89	37,219.37	31,087.60
SLR Fixed Deposits	0.00	460,575.00	511,098.45
Euro Fixed Deposit	1,359.94	0.00	0.00
	<u>122,155,092.24</u>	<u>96,256,412.54</u>	<u>84,915,930.99</u>

SRI LANKA EXPORT CREDIT INSURANCE CORPORATION

Annual Financial Statements - 2016

Notes to the Annual Financial Statements for 2016

Note

	31.12.2016 Rs.	31.12.2015 Rs.	01.01.2015 Rs.
14 Sundry Debtors, Deposits & Pre Payments			
Advances on Export Bill Discounting Facility	34,958,636.11	34,958,636.11	34,958,636.11
Less : Provision for Doubtful Debts	34,958,636.11	34,958,636.11	34,958,636.11
	0.00	0.00	0.00
Staff Loans & General Advances	2,463,613.15	2,342,576.41	1,959,933.86
Sundry Deposits	108,837.50	108,837.50	108,837.50
State Mortgage & Investment Bank Deposit	880,545.31	849,815.88	820,154.26
Refundable Deposits	6,500.00	6,500.00	6,500.00
Sundry Debtors	25,821.25	770.00	770.00
Withholding Tax Recoverable	400,553.57	86,054.12	89,610.70
Pre-payments	873,502.22	591,788.54	956,181.26
BizInfo Income Receivable	393,993.60	283,454.18	358,490.00
Dishonoured Cheques	7,014.40	0.00	75,694.89
	5,160,381.00	4,269,796.63	4,376,172.47
14 (a) Sundry Deposits			
Sri Lanka Telecom	57,700.00	57,700.00	57,700.00
Associated Newspapers of Ceylon Ltd	27,625.00	27,625.00	27,625.00
Data Net Electronic Telecommunication System	15,000.00	15,000.00	15,000.00
ICLP Arbitration Centre	8,512.50	8,512.50	8,512.50
	108,837.50	108,837.50	108,837.50
15 Property, plant & equipment - Please refer attachment (Page 13)			
16 Outstanding Claims			
Specific Provision	127,465,168.17	92,585,165.80	63,311,477.10
Contingent Provision for Claims			
Balance as at 1st January	33,820,618.57	28,487,258.64	23,975,626.29
Utilisation during the year	13,422,313.06	5,204,909.00	12,937,445.64
Charge for the year	6,890,223.43	10,538,268.93	17,449,077.99
Balance provision as at 31st December	27,288,528.94	33,820,618.57	28,487,258.64
Total Provision for Claims	154,753,697.11	126,405,784.37	91,798,735.74

SRI LANKA EXPORT CREDIT INSURANCE CORPORATION

Annual Financial Statements - 2016

Notes to the Annual Financial Statements for 2016

Note	31.12.2016 Rs.	31.12.2015 Rs.	01.01.2015 Rs.
17 Sundry Creditors, Accrued Expenses and Provisions			
Sundry Creditors			
Final Payment Due	0.00	18,176.46	18,176.46
General VAT (Charged from Policy Premium)	4,683.00	57,306.03	30,594.00
Staff Medical Fund	351,588.00	327,248.00	303,408.00
Refundable Deposits	1,502,500.00	2,106,256.12	1,444,756.12
Accrued Expenses			
Employees Provident Fund	1,484,810.30	1,491,796.97	1,192,944.99
Employees Trust Fund	123,734.20	124,316.20	99,412.00
Salary Recovery	0.00	0.00	2,044.00
PAYE Tax	42,147.00	62,925.00	213,187.00
Stamp Duty	13,850.00	13,675.00	15,300.00
Nation Building Tax	68,770.00	11,985.00	32,465.00
Other Payables	5,594,854.51	9,423,658.04	3,062,219.88
Charges on Status Reports	931,973.75	400,460.00	335,520.00
Provisions			
Audit Fees Payable	880,333.92	1,988,670.92	1,755,570.92
Income Tax Payable	17,506,990.64	1,879,846.49	3,241,916.12
VAT on Financial Services	6,719,148.03	4,897,447.78	7,042,685.00
Annual Report Printing Charges	1,116,150.00	899,650.00	900,000.00
Special Levy Payable	15,000,000.00	25,000,000.00	0.00
	51,341,533.35	48,703,418.01	19,690,199.49
18 Gratuity Payable			
Movement in the Account			
Balance as at 1st January	14,052,089.75	10,480,917.75	8,651,512.75
Paid during the year	1,736,295.00	0.00	602,904.14
Provision for the year	1,067,737.75	3,571,172.00	2,432,309.14
Balance as at 31st December	13,383,532.50	14,052,089.75	10,480,917.75
19 Capital Employed			
Capital Contributed - Treasury	30,000,000.00	30,000,000.00	30,000,000.00
20 Reserves - Please refer attachment (Page 14)			
21 Exchange Rate			

The following exchange rates have been used to convert the foreign currency as at end December 2016

US Dollars	-	147.84
Euro	-	154.93

SRI LANKA EXPORT CREDIT INSURANCE CORPORATION

Annual Financial Statements - 2016

Notes to the Annual Financial Statements for 2016

22 Disclosure on revaluation of Fixed Assets

- Effective date of revaluation

Building	31.12.2009
Motor Vehicles	31.12.2016
Computers and Printers	31.12.2016
Office Equipment	31.12.2016
Furniture and Fittings	31.12.2016

- Valuation was carried out by the Government Valuation Department
- Valuation has been done as accurately as possible after inspection and observation and considering all the relevant factors that affect the value.
- The value arrived by the revaluation is the market value of the assets.
- Carrying value of the revalued assets under the cosr model.

Building	12,478,340.55
Motor Vehicles	5,285,134.00
Computers and Printers	530,147.00
Office Equipment	93,282.31
Furniture and Fittings	173,966.48

23 Contingent Liabilities

(a) Lawsuits against the Corporation

- Southern Son Teas (Pvt) Ltd Vs Sri Lanka Export Credit Insurance Corporation ; HC (CIVIL) 193 2004 (I)
The case was instituted by the exporter on a rejection of a claim for a value of Rs.17.02 Million in the Commercial High Court of Colombo
Present Position : The judgement was given in favour of the exporter and exporter was required to fulfil certain conditions prior to receipt of the compensation. Since the exporter has so far failed to meet the stipulated conditions the payment is withheld.

(b) The total liability underwritten by the Corporation as at 31st December 2016.

- Export Payments Insurance Policies in Force	Rs.	19,496,000,000.00
- Credit Guarantees in Force	Rs.	6,735,725,588.00
Maximum Liability	Rs.	26,231,725,588.00

24 Investment Fund Account

An Investment Fund Account was established in November 2011 to transfer funds equivalent to the total of 8% of the Value Added Tax on Financial Services and 5% of the Income Tax on an annual basis on a Treasury Directive. Since the Corporation is not involved in lending funds, as per the guidelines issued by the Central Bank of Sri Lanka, the funds in the Investment Fund Account has been invested in Treasury Bonds over 7 years. The Corporation has invested a sum of Rs.45.54 Million with a face value of Rs.51 Million in over 7 years Treasury Bonds and these investments have been listed under the Long Term Investments.

25 Related Party Interest

There were no related party interest during the year 2016.

SRI LANKA EXPORT CREDIT INSURANCE CORPORATION

Property Plant and Equipment - 2016

Note 15

Item	Assets at Cost/Revaluation as at 01.01.16 Rs	Additions 2016 Rs	Disposals 2016 Rs	Nett Value as at 30.12.2016 Rs	Depreciation as at 01.01.16 Rs	Depreciation 2016 Rs	Depreciation on Disposals	Accumulated Depreciation As at 31.12.16 Rs	WDV (before new revaluation) As at 31.12.16 Rs	Revaluation Reserve (new) As at 31.12.16 Rs	Revalued Net Book Value As at 31.12.16 Rs
Buildings	95,000,000.00	-	-	95,000,000.00	28,500,000.00	4,750,000.00	-	33,250,000.00	61,750,000.00	-	61,750,000.00
Motor vehicle	18,156,575.49	-	3,125,000.00	15,031,575.49	11,068,284.49	1,803,154.00	3,124,998.00	9,746,440.49	5,285,135.00	8,114,865.00	13,400,000.00
Software	6,200,449.77	472,500.00	-	6,672,949.77	5,667,651.35	227,851.77	-	5,895,503.12	777,446.65	-	777,446.65
Computers & Printers	8,480,818.21	964,999.99	-	9,445,818.20	6,731,691.21	1,253,980.00	-	7,985,671.21	1,460,146.99	2,346,853.00	3,806,999.99
Furniture & Fittings	8,204,272.28	13,120.00	-	8,217,392.28	6,182,187.35	384,635.19	-	6,566,822.54	1,650,569.74	1,156,233.52	2,806,803.26
Office Equipment	1,522,425.87	206,385.49	-	1,728,811.36	1,336,033.87	93,109.69	-	1,429,143.56	299,667.80	575,467.69	875,135.49
TOTAL	137,564,541.62	1,657,005.48	3,125,000.00	136,096,547.10	59,485,848.27	8,512,730.65	3,124,998.00	64,873,580.92	71,222,966.18	12,193,419.21	83,416,385.39

SRI LANKA EXPORT CREDIT INSURANCE CORPORATION

Annual Financial Statements - 2016

Statement of Changes in Reserves As At 31st December 2016

	General Reserve Rs.	Revaluation Reserve Rs.	Investment Fund Rs.	Exchange Equalisation Rs.	Technical Replacement Rs.	Unearned Premium Rs.	Total Rs.
Balance as at 1st January 2015	1,540,640,975.06	36,940,386.35	58,507,949.05	54,803,859.53	6,644,192.04	30,391,207.86	1,727,928,569.89
Transferred from Revaluation Reserve	4,750,000.00	-4,750,000.00					0.00
Net Profit for the Year 2015	174,076,131.18						174,076,131.18
Transferred during the year	6,644,192.04			47,861,159.85	-6,644,192.04	-1,712,707.76	46,148,452.09
Balance as at 31st December 2015	1,726,111,298.28	32,190,386.35	58,507,949.05	102,665,019.38	0.00	28,678,500.10	1,948,153,153.16
Transferred from Revaluation Reserve	4,750,000.00	-4,750,000.00					0.00
Net Profit for the Year 2016	141,111,574.79						141,111,574.79
Transferred during the year 2016		12,193,419.21		27,044,933.31	0.00	-5,424,544.42	33,813,808.10
Balance as at 31st December 2016	1,871,972,873.07	39,633,805.56	58,507,949.05	129,709,952.69	0.00	23,253,955.68	2,123,078,536.05

SRI LANKA EXPORT CREDIT INSURANCE CORPORATION (SLECIC)

Significant Accounting Policies

General Information

Sri Lanka Export Credit Insurance Corporation was established by the Sri Lanka Export Credit Insurance Corporation Act No. 15 of 1978 and commenced commercial operations on 8th February 1979.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

01. Basis of Preparation

1.1 Principal Activities and Nature of Operations

Principal activities of the Corporation are undertaking risks in export trade and issue of guarantees related to the export marketing activities.

1.2 Basis of measurement

The Balance sheet, Income and Expenditure account, changes in equity and cash flows together with accounting policies and notes (Financial Statement) of the Corporation as at 31st December 2016 and for the year ended, complies with the Sri Lanka Accounting Standards. These Financial Statements are presented in Sri Lankan Rupees. The Financial Statements are prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the Financial Statements.

1.3 Use of Estimates and Judgments

The preparation of Financial Statements are in conformity with LKAS (Lanka Accounting Standards) which requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments on the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

1.4 Going Concern

When preparing the Financial Statements, we have made an assessment of the liability of the organization to continue as a going concern in the foreseeable future. We do not foresee a need for liquidation or cessation of trading, taking into account all available information about the future.

02. Comparative Information

The accounting policies have been consistently applied by the Corporation and are consistent with those used in the previous year.

03. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements, and have been applied consistently by the Corporation.

3.1 Foreign Currency Transactions

Items included in the financial statements are measured using Sri Lanka rupees (LKR). Foreign Currency transactions are translated into the reporting currency using the rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the income statement. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated to Sri Lankan Rupees at the foreign exchange rate ruling at that date. Foreign exchange gains and losses from the translation of monetary assets and liabilities denominated in foreign currencies are recognized separately into an exchange rate equalization reserve in the Balance Sheet.

3.2 Property, Plant and Equipment

a) Recognition and Measurement

Property, Plant and Equipment are stated at cost/revaluation less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost materials, direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Where an item of Property, Plant and Equipment comprise major components having different useful lives, they are accounted for as separate items of Property, Plant and Equipment.

Gains and losses upon disposal of items of Property, Plant and Equipment are determined by comparing the proceeds from disposal with the carrying amount of Property, Plant and Equipment, and are recognized net within “Other Operating Income” in the Income Statement.

b) Depreciation

The provision for depreciation is calculated using a straight line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives of all Property, Plant and Equipment other than freehold land.

The principal annual rates used are as follows.

1. Building	05%
2. Office Equipment	25%
3. Motor Vehicles	20%
5. Furniture & Fittings	10%

An amount equal to the excess of the annual depreciation charge on revalued assets over the notional historical cost depreciation charge on those assets is transferred annually from the surplus in the revaluation to the Accumulated Profit. The assets’ carrying amount is written down immediately to its recoverable amount if the assets’ carrying amount is greater than its estimated recoverable amount.

c) Disposal

Gains and losses on disposals are determined by comparing the proceeds with carrying amount and are recognized in determining operating profit or loss in the Income Statement. When revalued assets are sold, the amount included in the revaluation reserve is transferred to retained earnings.

d) Impairment

The carrying value of property, plant and equipment is reviewed for impairment either annually or when events or changes in circumstances indicate the carrying value may not be recoverable. If such indication exists and where the carrying value exceeds the estimated recoverable amount the assets are written down to their recoverable amount. Impairment losses are recognized in the income statement unless it reverses a previous revaluation surplus for the same asset.

e) Profit / Loss from Sales of Property, Plant and Equipment

Any gains or losses on retirement or disposal of Property, Plant and Equipment are recognized in the period in which the sale occurs and is classified as other Comprehensive Income.

3.4 Capital Work in Progress

Capital expenses incurred during the year, which are not completed as at the Balance Sheet date are shown as advance payments, whilst the capital assets which have been completed during the year and put to use have been transferred to Property, Plant and Equipment.

3.5 Intangible Assets

Intangible assets that are acquired by the Corporation, which have substantial useful lives, are measured at cost less accumulated amortization and accumulated impairment losses. Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products implemented and controlled by the Corporation are recognized as intangible assets.

a) Basis of Recognition

An intangible asset is recognized if it is probable that the future economic benefits that are attributable to the assets will flow to the entity and cost can be measured reliably and carried at cost less accumulated amortization and accumulated impairment losses.

b) Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodies in the specific assets to which it relate. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in the income Statement as incurred.

c) Retirement and Disposal

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use and subsequent disposal.

d) Amortization

Amortization is recognized in the income Statement on a straight-line basis over the estimated useful lives of intangible Assets, from the date that they are available for use.

e) Impairment

The carrying amounts of the Corporation's assets are reviewed at each balance sheet date to determine where there is any indication of impairments. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the Income Statement.

3.6 Investment Properties

Property that is held for long-term yields or for capital appreciation for both and that is classified as investment property. After initial recognition investment property is carried at cost.

3.7 Short term Investments

a) Short term Investments in Local currency

The Corporation has made short term surplus funds in Government Treasury bills and other fixed income investments and accounted at cost except for the foreign currency denominated fixed deposits which are valued at the exchange rate prevailing on the Balance Sheet date. The interest accrued on these investments is recognized in the income statement.

b) Short term Investments in Foreign currency

The funds required to meet future claims obligation in foreign currency have been set aside and deposited in foreign currency account earning interest. The interests accrued have been recognized in the Income statement translated at the rate prevailing at the date of the transaction. The values of the investments recognized in the financial statement are translated at the rate prevailing at the Balance Sheet date.

3.7.1 Risk arising from Financial Instruments

The short term and long term investments comprise of investments made in Treasury Bills, Treasury Bonds, State Bank Fixed Deposits and Debentures. Debentures carry the interest rate risk, reinvestment risk, default risk and liquidity risk. As the fixed deposits are held up to maturity it carries only the default and liquidity risks except for the foreign currency denominated fixed deposits which are exposed to the risk of currency fluctuations in addition to the other risks inherent to the local currency fixed deposits. In the context of holding these investments in state banks, all the stated risks are at its minimal except for foreign currency value fluctuation risk.

3.8 Trade and Other Receivables

Trade and other receivables are stated at the amount estimated to be realized. Provision has been made in the Financial Statements for bad and doubtful debts which are outstanding for more than three years period.

3.9 Inventories

Inventories comprised of stock of stationery and consumable items. Inventories are valued at lower of cost or net realizable value, after making provision for obsolete and repairable items. Net realizable value is the price at which inventories can be sold in the ordinary course of business.

3.10 Cash and Cash Equivalents

Cash and Cash Equivalents are defined as cash in hand and short term highly liquid investments, readily convertible to known amounts of cash for the purpose of cash flow statement, cash and cash equivalents consist of cash in hand and net of outstanding bank overdrafts, short term borrowings and short term investments.

3.11 Cash Flow Statements

The Cash Flow Statements have been prepared using the indirect method in accordance with Lanka Accounting Standard (LAKAS) No. 09 –Cash Flow Statements.

4 Employee Benefits

a) Defined Benefit Plan – Retirement Gratuity

The liability for Retirement Benefit Obligation under the payment of Gratuity Act, No. 12 of 1983 is a defined benefit plan covering employees of the organization. In order to meet this liability a provision is carried forward in the balance sheet equivalent to an amount calculated based in a half month salary of the last month of the financial year of all employees for each completed year of service commencing from the first year of service. The resulting difference between the brought forward provision at the beginning of a year and the carried forward provision at the end of a year is dealt with in the income statement. The amounts so recognized have been invested separately.

b) Define Contribution Plan

Employee's Provident Fund & Employee's Trust Fund. Employees are eligible for Employees Provident Fund contribution and Employees Trust Fund contributions in line with respective statutes and regulation.

5. Liabilities and provisions

Liabilities and provisions are recognized in the Balance sheet when there is a present legal /constructive obligation as a result of the past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits. Obligations payable at the demand of the creditor or within one year of the Balance Sheet date are treated as current liabilities in the Balance Sheet. Liabilities payable after one year from the Balance Sheet date are treated as non- current liabilities in the Balance Sheet.

a) Trade and Other Payables

Trade and other payables are stated at their cost.

b) Exchange Rate Equalization Reserve

Premium received in foreign currencies in respect of Pre/Post Shipment Credit Guarantees issued to Commercial banks have been deposited in the interest bearing savings /investments. The exchange rates are fluctuating on daily basis. The Values of savings and investments are also changing from time to time. These investments are set aside to meet any future claims obligation payable in foreign currencies. If the gains or losses arising out of the fluctuations in value charged to the income statement the results may represent misleading financial results. Hence the fluctuations in value of the currencies have been recognized as a separate reserve. Any future changes in the value of the investments will be charged and adjusted against this reserve.

c) Contingent Provision for Claims

Our past experiences in claims pay-out ratio for cost of passage guarantees have been in the range of 30 percent of premium received. The premium received will have a claim liability, spread over a period of 3 years from the date of premium received. In keeping with the past experience a provision up to 30 percent of the premium received spread over the three years period on the proportion of 15%, 10% and 5% respectively for cost of passage Credit Guarantees have been provided as a provision for contingent claims.

The provision may be adjusted every year to keep pace with the balances reflecting as at the end of the year.

Provisions for other products have been created according to the following basis.

Seller's Risk Insurance Policy	15%
Direct Guarantee on the ATA Carnet System	02%
Pre Shipment Credit Guarantee	12%
Post Shipment Credit Guarantee	05%

d) Provision for Reported Claims

Claims reported have been recognized and taken into account when creating this provision. A specific provision for claims have been made on the situations prevailed as at the Balance Sheet date where reasonable. Evidences and assurances are available as to the fact that there is a probability that a claim would have to be made. The payment of claims subsequently will be set off against the provision made. The continuity of the provision made will be based on the existence of the probable occurrences of a liability for claims.

e) Reserve for Unearned Premium on Unexpired Risk

Premium written and received during the year under review and the unexpired risk on the premium so collected will spread over the cover period in which part of the premium is related to the next financial year. A reserve has been created by segregating the proportionate premium for the cover period after the end of the current financial year in keeping with industry norms. In determining the reserve 1/365 method have been applied.

In recognition of the reserve actual cover period on unexpired risks have been taken into account on the premium collected on Export Payments Insurance Policies. 15% of the premium collected on the guarantees during the year under review have been set aside as a reserve for the unexpired risks considering the complexity, nature and quantum of risks associated within the cover period.

6. Revenue**6.1 Premium Income**

Revenue received from the Premium Income has been recognized on 'Accrual Basis' by taking account of all the declarations submitted up to the end of the year. Transfer of risks and rewards vary depending on the individual terms of the contract. All the expenditure items are accounted on 'Accrual Basis.' The accounting policies applied are consistent with those applied in the previous years.

6.2 Other Operating Income**a) Profit & Loss from Sale of Property, Plant and Equipment.**

Any gains or losses on retirement or disposal of Property, Plant and Equipment are recognized in the period in which the sale occurs and is classified as other Operating Income.

6.3 Expense Recognition

a) Revenue Expenditure

The profit earned by the Corporation as shown in the Income Statement is after providing for all known liabilities and for depreciation of Property, Plant and Equipment.

For the purpose of presentation of the Income Statement, the Directors are of the opinion that the function of expenses method present fairly the elements of the enterprise's performance, hence this presentation method is adopted.

b) Capital Expenditure

Expenditure incurred for the purposes of extending or improving assets of a permanent nature by means to carry on the business or for the purposes of increasing the earning capacity of the business has been treated as Capital Expenditure.

Gains or losses of revenue nature on the disposal of property, plant and Equipment have been accounted for in the Income statement.

6.4 Taxation

Income Tax Expenses

Income tax expenses for the year comprise of tax on Investment Income. Income tax is recognized in the Income Statement for the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted on the reporting date, and any adjustments to tax payable in respect of previous years. Provision for taxation is based on the investment income for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No.10 of 2006 and the amendments thereto.

6.5 Borrowing costs

Borrowing costs are recognized as an expense in the year in which they are incurred.

6.6 Comparative information

Comparative information has been reclassified where necessary to confirm to the current year's presentation.

6.7 Commitments and Contingencies

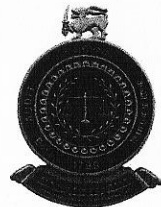
Contingencies are possible assets or obligations that arise from a past event and would be confirmed only on the occurrences or non- occurrence of uncertain future events, which are beyond the Corporation's control.

6.8 Events Occurring After the Balance Sheet Date

All material post Balance Sheet events have been considered disclosed and adjusted where applicable.



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මගේ අංකය
எனது இல.
My No.

TRE/D/ECI/01/16/20

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

28 July 2017

The Chairman,

Sri Lanka Export Credit Insurance Corporation

Report of the Auditor General on the Financial Statements of the Sri Lanka Export Credit Insurance Corporation for the year ended 31 December 2016 in terms of Section 14(2) (c) of the Finance Act, No. 38 of 1971.

The audit of financial statements of the Sri Lanka Export Credit Insurance Corporation for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 20(2) of Sri Lanka Export Credit Insurance Corporation Act, No. 15 of 1978. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act had been issued to the Chairmen of the Corporation on 27 June 2017.

1.2 Management's Responsibility for the Financial Statements

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



1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements 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 Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Sri Lanka Export Credit Insurance Corporation as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instance of non-compliance were observed.

Reference to Laws, Rules, Regulations	Non-compliance
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka, Financial Regulation 571	Action in terms of financial regulations had not been taken in respect of balances of Rs.336,500 included in the refundable deposit balance remained since the year 2011 and 2012.
(b) Section 24 of Public Finance Circular No.PF/PE/6 dated 31 January 2000 and paragraph 2 of the Public Enterprises Circular No.03/2016 dated 29 April 2016.	Instead of remitting the PAYE Tax recovered from the employees of the Corporation and payable by them, a sum of Rs.879,809 had been paid out of the Corporation Fund for the year under review. Although this matter had been indicated by the Audit Reports in the previous years, no action had been taken in that respect.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results for the year under review had been a surplus of Rs.141,111,575 as compared with the surplus of Rs.174,076,131 for the preceding year, thus observing a deterioration of Rs.32,964,556 in the financial results of the year under review as compared with the preceding year. Decrease of operating income, including the insurance premium revenue by Rs.31,958,052 had mainly attributed to this deterioration.

In analyzing the financial results of the years, the surplus of the year 2012 amounting to Rs.145,304,938 had decreased to Rs.141,111,575 in the year under review with fluctuations. However, in re-adjusting the employee remuneration, taxes paid to the Government and depreciation on non-current assets to the financial results the contribution of the Corporation in the year 2013 had improved by 18 per cent as compared with the year 2012. Although a 20 per cent improvement in the year 2015 had indicated as compared with year 2014, it had become a deterioration of 12 per cent in the year 2016 as compared with the year 2015.

4. **Operating Review**

4.1 **Performance**

In terms of Section 5 of the Sri Lanka Export Credit Insurance Corporation Act, No. 15 of 1978, the objectives of the Corporation are as follows.

- (a) To issue insurance policies to exporters of goods and services against non-receipt or delayed receipt of payments and to issue guarantees to the financial institutions to facilitate the granting of pre-shipment and post-shipment finance.
- (b) To issue guarantees, to give financial assistance and to provide re-finance facilities for loan facilities granted by financial institutions to persons in connection with goods exported from Sri Lanka or for the due performance of any service to be rendered to such persons within or outside Sri Lanka.
- (c) To provide guarantees to exporters against losses that may be sustained in undertaking market survey, policies and any other promotional measures in foreign countries and to undertake market studies abroad for promotion of exports and to conduct seminars and courses on various aspects.
- (d) To act as agent of the Government on its own account to provide insurance and guarantees undertake such responsibilities and discharge such functions as are considered by Government as necessary in the National interest, to help exporters to diversity and expand exports, find new markets and sell their goods abroad and to discharge such other functions as the Corporation may consider necessary for the achievement of any of its objects.

The following observations are made in the achievement of the above objectives.

- (a) In comparing the number of insurance policies and guarantees expected to be issued according to the Action Plan and actuals during the year 2016, by the Corporation with the preceding year figures the issue of all insurance policies had decreased in the year 2015 ranging from 41 per cent to 68 per cent and it ranged from 53 per cent to 97 per cent in the year under review.
- (b) Although 29 years had elapsed after commencement of the Corporation, the preparation of a manual in respect of the payment of compensation for insurance policies and guarantees which is a main operating activity and more useful for the institutional capacity development had been failed even in the year under review.
- (c) The ascertainment of technical assistance from the international community to train the staff of the Corporation on the issue of Export Credit Guarantee Insurance Corporation Policies (ECGC) stated in the Action Plan as a most required function in order to improve the international relationship for the betterment of the Corporation had not been achieved even in the year under review.
- (d) A sum of Rs.157,447,332 had been received as the total insurance premium income in the year 2016 from 120 exporters out of which a sum of Rs.121,908,362 or 77 per cent thereof had been received from 21 Exporters. Of the total premiums, a sum of Rs.35,205,311 or 22 per cent had been received from one exporter. The income of Rs.62,984,389 received from that exporter in the previous year had decreased by Rs.27,779,078 or 11 per cent in the year under review. As such, it is observed that the propagation and regularization of the awareness of exporters in order to improve the productivity and the existence of the Corporation is topical.

- (e) A provision of Rs.225,000 at Rs.75,000 per year had been made only for the years from 2012 to 2014 for the printing of annual report issued by the Marketing Division. Even though this report, made available to stakeholders such as clients of the Corporation, financial institutions and local and foreign interested parties should be issued with updated information meaningfully and periodically for the users, reports up to the year 2016 had not been printed and no provision had also been made since the year 2015 therefor.

4.2 Transactions of Contentious Nature

The following observations are made.

- (a) Without paying attention on the matters stated in the quality reports of a foreign buyer, a credit limit of Rs.12.5 million had been approved for 2 exporters amounting to Rs.6 million and Rs.6.5 million with effect from 24 April 2015 and 24 June 2015 respectively for exports made to a sole trading entity, established recently with a capital of Euro 116,000 (Rs.17 million) and 2 employees. As that foreign buyer had evaded the payment for the first export of one exporter and the first and the second export of the next exporter, compensations totaling Rs.8,686,319, comprising a sums of Rs.3,704,335 and Rs.4,981,984 had been paid respectively.
- (b) The capital of a buyer of goods in a newly formed British business enterprise had been only £ 1000 sterling (about Rs.200,000) and the number of employees had been limited to 4 Disregarding the adverse position stated in the quality reports in respect of the buyer, a credit limit of Rs.15,000,000 had been granted. A compensation of Rs.9,504,000 had to be paid by the Corporation as the buyer had defaulted the payment for the first export of the Exporter.

- (c) On the decision of Board of Directors No.7/88 dated 19 September 1988, the existed medical benefit scheme available for the betterment of the Corporation had been revised and the approval of the Ministry had not been obtained therefor even up to now. Furthermore, information regarding the outset and under which approval this Scheme was initiated was not available in the relevant file. Only sums of Rs.30 to Rs.80 had been recovered monthly from the salaries of the employees and the recommendation and approval had been given by a committee consisting of three officers of the Corporation in the reimbursement of medical bills under this scheme. A sum of Rs.2,650,729 had been paid to 38 employees of the Corporation during the year under review under this Scheme.

4.3 Personnel Administration

The following observations are made.

- (a) As a Scheme of recruitments and promotion had not been introduced in terms of Public Enterprises Circular No.PED/12 OF 02 June 2003, there was no system of promoting the staff for the higher posts who had more than 15 years' service experience and qualifications.
- (b) Acting appointments had been given to two officers who held the post of Deputy General Manager (operations) and Executive (Marketing) to act in the 2 posts of Deputy General Manager (Marketing) and Manager (Marketing) during the period from 2009 to December 2016 and a sum of Rs.420,547 had been paid to them for the year 2016 as acting allowances in addition to the salaries of their substantive posts. Action had not been taken to fill those vacancies.

- Weaknesses in systems and controls observed in audit were brought to the attention of the Chairman of the Corporation from time to time. Special attention is needed in respect of the following areas of control.



Area of System and Control

Observations

(a) Evaluation process of the foreign buyers

A sufficient attention had not been paid in the evaluation of quality reports and the determination of credit limits.

(b) Personnel Administration

Non-regularization of recruitments and promotion of employees.

(c) Operations Control

Not reaching the targets set in the action plan.

H.M. Gamini Wijesinghe

Auditor General

Sgd./ H.M. GAMINI WIJESINGHE
Auditor General

