INTEGRATED REPORT 2017

YOUR EXPORT RISK PARTNER


ESTABLISHED IN 2001
ECIC
EXPORT CREDIT INSURANCE CORPORATION OF SOUTH AFRICA SOC LTD

Contents

Acronyms and abbreviations

Basel III	A comprehensive set of reform measures designed to improve the regulation, supervision and risk management within the banking sector
ATI	African Trade Insurance Agency
B-BBEE	Broad-based Black Economic Empowerment
Berne Union	International Union of Credit and Investment Insurers
BI	Black Industrialist
BRICS	Countries of Brazil, Russia, India, China and South Africa
CA(SA)	Chartered Accountant (South Africa)
CEO	Chief Executive Officer
CIC	Credit Insurance Committee
CPI	Consumer Price Index
CRR	Concentration Risk Reserve
DBSA	Development Bank of Southern Africa Limited
DFI	Development Financial Institutions
ECA	Export Credit Agency
EU	European Union
FSB	Financial Services Board
Government	The government of the Republic of South Africa
IASB	International Accounting Standards Board
IBNR	Incurred but not yet reported
ICIEC	Islamic Corporation for the Insurance of Investment and Export Credit
ICT	Information and Communications Technology
IDC	Industrial Development Corporation of South Africa Limited
IFRS	International Financial Reporting Standards
IMU	Interest Make-up
IT	Information technology
MIGA	Multilateral Investment Guarantee Agency
NDP	National Development Plan
NEPAD	New Partnership for Africa's Development
OECD	Organisation for Economic Cooperation and Development
PAA	Public Audit Act of South Africa, 25 of 2004
PFMA	Public Finance Management Act, 1 of 1999
Prague Club	Grouping of Export Credit Agencies from emerging market economies
SADC	Southern African Development Community
SAM	Solvency Assessment and Management
SARB	South African Reserve Bank
SMART	Specific Measurable Achievable Realistic and Timebound principles
SOE	State-Owned Entity
the dti	Department of Trade and Industry
UPP	Unearned premium provision
URP	Unexpired risk provision
USA	United States of America

Foreword by the Minister of Trade and Industry

Dr Rob Davies

In this environment of a subdued global economy and underperforming global trade growth, it cannot be over-emphasised that South Africa's economic growth path is inextricably linked to the economic development of the continent.

Our overriding priority is to promote African regional integration. The aim is to increase intra-Africa trade and support industrialisation through the creation of large regional markets that can support the development of regional value-chains.

SADC has developed its road map towards a regional Industrial Development Action Plan. When South Africa assumes the SADC Chair later this year, we will use the opportunity to drive the regional industrial programme.

In 2015, the amount of South African merchandise exports sold to other African countries was just shy of 30 percent. This underscores the strategic importance of the African market for South African value-added exports. The voluntary Code of Conduct for South African companies operating in the rest of the continent forms an important basis for developing deep and lasting regional value-chain partnerships.

As we pursue the facilitation of exports and cross-border investments into the rest of Africa, the complementary efforts of Trade Invest Africa and the ECIC are critical in helping our exporters and investors to access new markets and business opportunities.

The imperative to transform our economy and broaden participation means that we must encourage and support the beneficiaries of the Black Industrialist programme and other emerging exporters to connect themselves into the regional value-chains.

I would like to congratulate the ECIC for its resilience in riding out the challenges posed by weak global commodity prices and encourage it to redouble its efforts to drive South African exports into frontier markets.

Dr Rob Davies
Minister: Department of Trade and Industry

OUR BUSINESS

About this report

This integrated annual report attempts to provide the shareholders and key stakeholders of the Export Credit Insurance Corporation of South Africa SOC Ltd (ECIC) with a transparent summary of our financial and sustainability performance and a balanced appraisal of the material issues that affected our ability to create value.

Material issues are strongly aligned with the company's strategic objectives and identified risks. The ECIC Board and Executive team engage regularly in processes that identify material issues, such as risk identification, strategy development and stakeholder engagement to respond timeously and appropriately to such issues.

In addition, an independent service provider facilitated a materiality workshop to assess the a) significance of the economic, environmental and social impact of various issues and b) degree of stakeholder concern about each issue. We will extend this process into our stakeholder engagement activities in future.

Determining the contents of this report was guided by the following:

- The usefulness of the report for stakeholders (aligned with their interests and expectations).
- The purpose and nature of the ECIC's core business.
- The importance of reporting credibly.
- The availability of data for the reporting period.

This report sets out how the company's strategy, governance, performance and prospects, in the context of its external environment, create value over time. In preparing the report, management and the Board considered the Companies Act, 71 of 2008, and other applicable legislation, as well as the King Report on Corporate Governance for South Africa 2009 (King III).

The report was written under the guidance of our Audit Committee and recommended for approval to the ECIC Board on 27 July 2017. The Board approved and submitted the report to our sole shareholder, the South African government, represented by the Department of Trade and Industry (**the dti**), as well as other entities, including National Treasury, the Auditor-General of South Africa and Parliament.

Scope and boundary

This report concerns the operations of the ECIC for the period 1 April 2016 to 31 March 2017 and includes, where applicable, the company's activities in other countries. There are no other company subsidiaries or group companies and the scope and boundary of the report has not changed materially compared to that of last year.

Assurance

The ECIC is satisfied with the quality of the information contained in and reporting processes used for the preparation of this report. This assurance comes from our own internal processes and we do not deem it necessary to conduct third party assurance over any information in the report. Assurance statements relating to the Audit Committee can be viewed in the Governance section in the report.

Key principles

The ECIC was also guided by various acts, frameworks and guidelines to identify the contents for this report. We regard these as important to the nature of our business, the sector in which we operate and the emerging best practices associated with integrated reporting. These are:

- National Treasury Guide "Preparation of the Annual Report for Public Entities"
- Public Finance Management Act (PFMA), 1 of 1999
- Companies Act, 71 of 2008
- International Integrated Reporting Council (IIRC) <IR> Framework
- King III Report on Corporate Governance for South Africa (2009)
- The GRI G4 Guidelines for Sustainability Reporting
- RSA Government National Development Plan 2030.

We intend to comply fully, over time and in the context of our business, with these content guidelines. The level of compliance and/or alignment reported on here is our best attempt, at the time of writing, to address the requirements of each guideline.

The principles of the International Integrated Reporting (<IR>) Framework (<IR> Framework) also informed the preparation of the report. According to this framework, an integrated report should describe organisational activities in terms of two fundamental concepts: firstly, value creation for the organisation and its principal stakeholders and, secondly, the six capitals of the <IR> Framework.

We have started incorporating the following principles in our reporting process and embarked on a training and workshop process to increase alignment with the following reporting principles over time:

- Value creation
- The Six Capitals
- Strategic focus and future orientation
- Connectivity of information
- Materiality
- Conciseness
- Reliability and completeness
- Consistency and comparability
- Stakeholder inclusiveness
- Sustainability context
- Completeness
- Balance.

Who we are

Business profile

Founded 16 years ago on 2 July 2001, the ECIC's mandate is to facilitate international trade by providing commercial and political risk insurance to South African exporters of capital goods and services to support medium- and long-term loans advanced by banks and other financial institutions. In executing this mandate, the ECIC contributes to South Africa's key policy objectives of inclusive economic growth, job creation and competitiveness in the global market. A particular focus is emerging markets in Africa that are considered too risky for conventional insurers.

Our insurance products are formulated to protect all parties involved in cross-border projects, from the institutions that provide financing, to the foreign buyers and the exporters. It is not uncommon for a single project to be linked to multiple ECIC policies that cover both commercial risk (the risk that a buyer will not honour contractually-agreed payments for whatever reason) and political risk (the risk that a project fails due to the actions of the project's host government).

Strategically, the ECIC differentiates itself from competitors through substantial experience in and an appetite for insuring against political risk in Africa and underwriting large, long-term projects with flexible terms and conditions to suit project-specific needs and cash-flow profiles.

Our role in South Africa

The ECIC insures South African exporters who offer their products and services in international and emerging markets in Africa. The overarching goal – and mandate from the South African government as its sole shareholder – is to ensure that South African exporters attract foreign buyers. In return, this secures foreign direct income, stimulates economic growth and creates local jobs.

Strategic advantages

The ECIC's strategic advantages over traditional insurers and more conservative export credit agencies are:

- A substantial appetite for, and experience in, providing cover for political risk in Africa, a continent regarded as politically volatile
- The ability to underwrite large projects that span a decade or more
- The ability to meet the specific needs and cash-flow profile of a project.

General information about the ECIC

Registered name: Export Credit Insurance Corporation of South Africa SOC Ltd

Registration number/s: ECIC is a registered Financial Services Provider: FSB No. 30656

Founded: 2 July 2001

Enabling act: Export Credit and Foreign Investments Insurance Act (1957, as amended)

Shareholder: South African government, represented by **the dti**

Registered head office address: Block C7 & C8 Eco Origins Office Park, 349 Witch Hazel Avenue, Highveld Ext 79, Centurion 0157, South Africa

Postal address P.O. Box 7075, Centurion 0046, South Africa

Contact telephone numbers: +27 (0)12 471 3800

Email address: info@ecic.co.za

Website: www.ecic.co.za

External auditor's name and address:
KPMG Inc.- KPMG Crescent, 85 Empire Road, Johannesburg

Name of bank and bank address: First National Bank, Fehrsen Street, Steven House, Brooklyn, Pretoria

Full name and designation of Company Secretary:
Lindelani Mphaphuli, Company Secretary

Contact person for this report: Clarinda Simpson

Designation: Chief Financial Officer

Telephone: +27 (0)12 471 3800

Email: csimpson@ecic.co.za

Reporting period: 1 April 2016 - 31 March 2017

Reporting cycle: Annually

Date of last report: 2016

Organisational value chain

The ECIC's value chain is typical of a services organisation and the company is analysing its role in creating or diminishing value in every phase. Using the Six Capitals lens enables the company to identify opportunities to create additional value or mitigate impacts.

Supply chain

- The procurement of goods and services at the ECIC is centralised, and led by the Chief Financial Officer.
- Increasing our spend with small-, medium- and micro-enterprises (SMMEs), especially black-owned and black women-owned enterprises is a priority.
- Special emphasis is placed on enterprise and supplier development, as well as socio-economic development aligned with **the dti** codes.
- Estimated payments to suppliers for the 2016/17 financial period amounted to R91,216 million with a B-BBEE procurement spend of 91%. The B-BBEE verification assessment was conducted for 2017 and the company is compliant to the B-BBEE Act with a level 4 contributor
- The ECIC's supply chain consists of an estimated 250 suppliers, situated within South Africa and Africa and in international cities such as in New York and London.
- Our suppliers consist mainly of fund managers, asset consultants, investment managers, management consultants, auditors and travel agencies, as well as service suppliers of human resources and training, marketing and advertising, ICT, accessories and computers, stationery, cleaning materials, catering and venue hiring, transportation/deliveries, office furniture, office maintenance and security, accounting and tax, enterprise development and donations, general merchandise and printing.

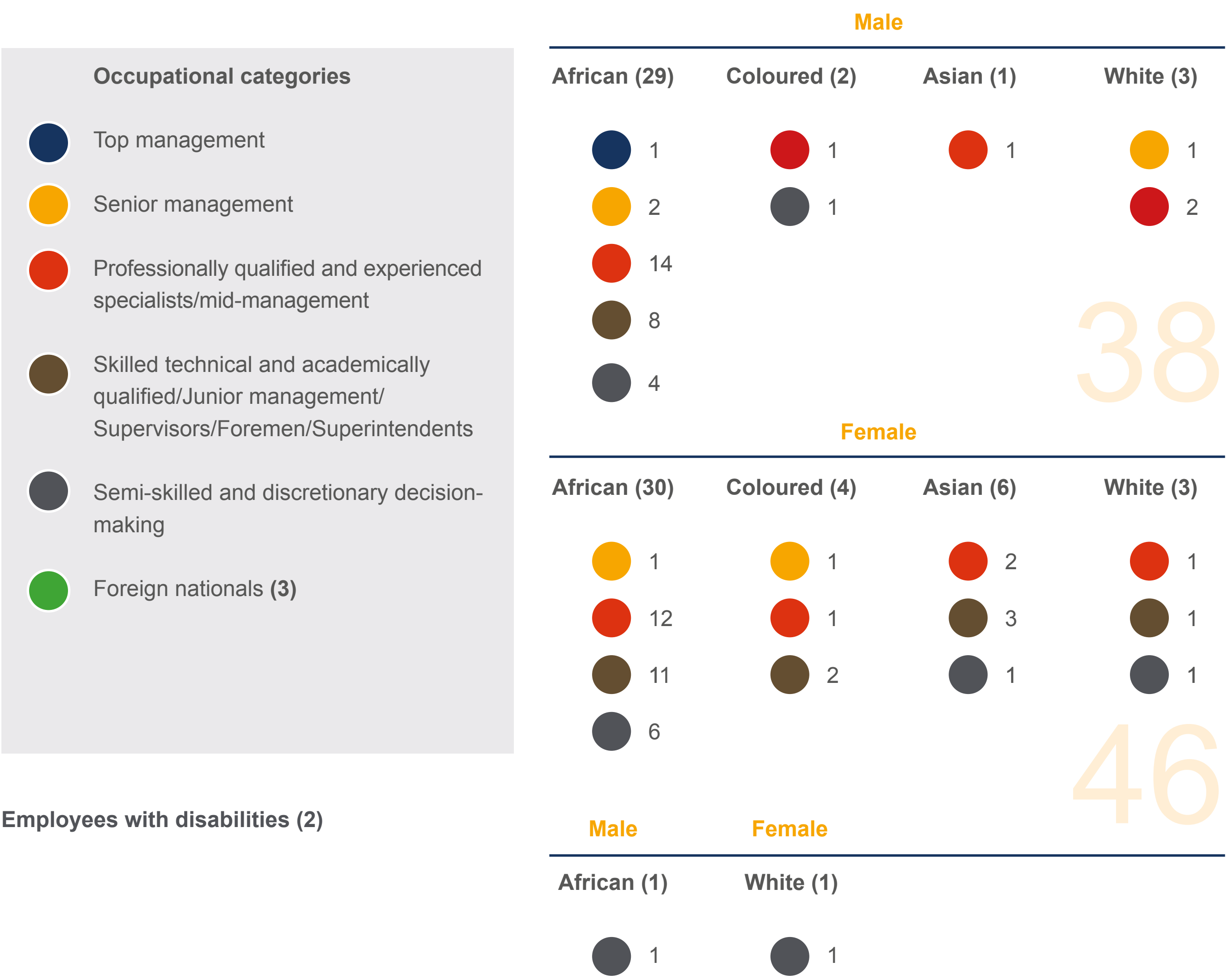
Our people

We rely on the ingenuity, resourcefulness and shared passion for innovation of our talented workforce to help us create a successful and sustainable organisation. Our commitment to employees is centred around the provision of skills development opportunities for professional growth and development, which the company's leadership supports.

Employees have various mechanisms through which to report and discuss issues and while there is no real requirement for collective bargaining, employees have forums that ensure communication with Executive Management and the Board.

Our staff composition for the 2016/17 financial year and the profiles of male and female employees are reflected in Figure 1.

Figure 1: Staff composition and profiles of male and female employees at the ECIC as at 31 March 2017.



What we do

Business model

The ECIC's business model can be explained in terms of the relationships between its inputs, operating environment, outputs and outcomes.

Inputs

Capitals

Human capital	Financial capital	Intellectual capital	Social and relationship capital

Components of value creation

Workforce	Finance	Reputation and brand	Partnerships
The ECIC has a complement of 84 full-time employees	The ECIC's initial seed capital of R1.5 billion grew to R3.5 billion in 2016/17. This supports a total insurance exposure of R22.6 billion	The ECIC is an expert in underwriting political risk in Africa and provides a unique solution that is unmatched in the private sector	The ECIC builds partnerships with a range of stakeholders, such as governments (local and foreign), financial institutions, export councils and their members and multilateral institutions

Strategic objectives

Workforce	Finance	Reputation and brand	Partnerships
• Improve knowledge and skills	• Decrease cost-to-revenue ratio • Increase revenue • Increase the capital base	• Improve product offering • Improve business processes • Improve business development	• Increase strategic partnerships • Improve communication and stakeholder management • Increase stakeholder/ customer satisfaction

Outputs

Incorporating brands, products and services.

Functional institution products

Buyer's credit cover	Financial credit insurance cover	Performance bond insurance cover	Lines of credit cover
Protects financial institutions from losses suffered when foreign buyers do not pay because of political and commercial risk events.	Provides political risk cover to South African financial institutions that have provided medium- to long-term commercial loans to foreign enterprises and governments.	Provides comprehensive political and risk cover for performance bonds issued for the export of goods and/or services by any South African exporter. Cover is limited to 90 percent of the value of the performance bond.	Provides comprehensive political and commercial risk cover to enable local financial institutions to on-lend or co-finance with foreign banks to support small and medium transactions below US$20 million.

Exporter products

Exporter's insurance cover	Supplier credit insurance cover	Small and medium transactions cover	Insurance cover for boat builders
Covers losses suffered by South African exporters due to: • The buyer cancelling the contract before the exporter can deliver the goods or services • Political events in the buyer's country preventing the delivery of work or products for a period of six months.	Covers losses suffered by South African exporters who extend credit to foreign buyers and are not repaid due to political or commercial risk events.	Provides comprehensive political and commercial risk cover for South African exporters and financial institutions engaging in transactions below US$20 million. Prospective applicants must meet pre-approved underwriting criteria.	Provides cover for working-capital loans extended to boat builders, as well as insurance for payment guarantees issued to the boat buyer while the boat is still under construction. This is in line with **the dti**'s Industrial Policy Action Plan, which has identified the boat-building industry as a labour-intensive strategic industry.

Lease of equipment cover	Return of plant cover
Provides political and commercial risk cover for equipment on operational or financial lease outside South Africa. Cover is for financial institutions/leasing companies and exporters.	Designed for contractors whose plant and machinery are to be returned to South Africa after use on project sites. Cover is limited to 90% of the book value for damages or inability to ship the equipment out of the host country due to defined political risk events.

Investor products

Investment insurance cover	Commercial loan investment insurance cover
Provides political risk insurance to South African companies or individuals investing equity or shareholder loans in foreign entities.	Protects against a foreign borrower being unable to make repayments on an undisputed debt, even if this is due to insolvency.

Outcomes

Developmental outcomes

The government's National Development Plan promotes local procurement and industrial growth to stimulate jobs and ensure the economic well-being of all South Africans. The ECIC covers projects that often aim to develop regional or continental industries or infrastructure.

Market outcomes

The strengthening of emerging markets could affect the ECIC's financial viability and ability to support South Africa's export-related economic growth. The ECIC's Board, therefore, is constantly seeking to diversify its products to ensure business growth and sustainability.

Social and natural-environment outcomes

Export credit agencies are at times criticised for supporting projects that exploit the local population and destroy the natural environment. The ECIC adheres to the International Organisation for Economic Cooperation and Development protocols and guidelines regarding its social and environmental responsibilities.

The Credit Insurance Committee also reviews the environmental impact of all applications before making a recommendation. All projects financed by the ECIC must adhere to the World Bank's safeguard policies governing environmental and social issues.

Industry-related outcomes

The ECIC strives to be a responsible corporate citizen that provides the skills and financial resources to develop the country and the industries in which it operates (corporate social initiatives on page 45).

Guaranteed rates of exchange

The South African Reserve Bank provides guaranteed rates of exchange to local contractors to compensate for unfavourable Rand/$ exchange rate fluctuations that could occur between the ordering and delivery of goods or services. An additional premium is charged on the ECIC's products that includes a guaranteed rate of exchange.

Our strategic and operating environment

Registered as a financial services provider (FSP 30656) and regulated by the Financial Services Board (FSB) in terms of the Short-Term Insurance Act, 53 of 1998, we strive to follow best practice in our operations, policies and procedures.

South Africa's legislative framework for corporate entities also applies to the ECIC. As a Schedule 3b entity under the Public Finance Management Act (PFMA), 1 of 1999 (as amended), we are first and foremost subject to legislation applicable specifically to state-owned entities.

The ECIC is governed by the following key acts

- The Export Credit and Foreign Investments Insurance Act, 78 of 1957 (ECIC founding act)
- The PFMA, augmented by Treasury Regulations to ensure transparency, accountability and the sound management of revenue, expenditure and assets and liabilities in publicly owned entities
- The Companies Act, 71 of 2008, which came into effect in 2011. The company maintains all the governance structures and arrangements required by the act.

The ECIC ensures that it remains up-to-date on emerging legislation, standards and regulations that may materially affect its operations. The ECIC did not receive any requests during the past financial year for information in terms of the Promotion of Access to Information Act, 2 of 2000.

Non-binding guidelines

The ECIC is an active participant in the Berne Union and the Prague Club, an information-exchange network for new and maturing insurers of export credit and investment.

The political and economic environments of target economies

The ECIC has an internal research department that uses the company's own country rating methodology to assess risk in a country. We track country ratings through international credit agencies and liaise closely with the Department of International Relations and Cooperation (DIRCO) regarding the political environment in countries where the ECIC carries, or plans to carry risk.

Export projects must have at least 70 percent local content (for projects outside Africa) or at least 50 percent local content, supplemented by at most 20 percent content from the host African country or any other African country (for projects on African soil) to qualify for ECIC cover.

Risk and materiality

Risk framework

The nature of the ECIC's underwritten transactions exposes the company to risks across different geographies and jurisdictions, and are underpinned by regulatory requirements locally and in the destination countries. Consequently, the need for prudent and proactive risk management in forecasting and predicting potential risk events is imperative. The ECIC continuously manages risk to ensure that underlying projects remain viable and exposure is within the approved obligor and country and/or industry limits.

The ECIC's investment risk is managed by preserving capital while considering the prevailing inflation rate and earning a return. The company's risk management framework is premised on policies that mitigate major risks in the ECA universe. The policies calibrate minimum business control requirements and provide a consistent approach to risk identification, management and reporting. While the enterprise risk management system is being enhanced, the existing system identifies strategically important risks for the risk register and Board's attention. Every employee, manager and executive is responsible for risks that affect their areas of responsibility.

The Risk Committee of the Board has the delegated responsibility of reviewing the effectiveness of the risk management system and report to the Board in this regard.

The Board's risk oversight

The ECIC Board uses the three lines of defence to ensure that risk is managed circumspectly throughout the company. The company's operations are at the forefront of risk management while pursuing its strategic objectives.

All business processes and decisions during daily business activities must adhere to sound risk management principles. This approach ensures early risk detection and identification and the implementation of commensurate remedial action.

The risk management function oversees risk management and reports independently to the Executive management, Board committees and the Board. The function formulates risk management policies and procedures, aligned with the Board-approved risk appetite of the various business areas.

The internal audit function provides independent assurance on the adequacy and effectiveness of the ECIC's overall system of internal control and risk governance structures. The Board is satisfied that the combined assurance approach effectively surfaces and escalates relevant risks that require Board attention.

Risk management

In its role of supporting South African exports, the company ensures that the entire value chain is sustainable and without surprises. We have defined the following four pillars within which to manage export credit risks effectively:

- Pillar I - Country risk
- Pillar II - Underwriting risk
- Pillar III - Investment risk
- Pillar IV - Operational risk

Pillar I: Country risk

The ECIC's insurance policies offer commercial and political risks protection to its clients, and country risk forms a significant pillar in that protection. In this regard, the company manages socio-political, legal and economic risk emanating from individual countries by applying, *inter alia*, international best practice in assessing and pricing country risk. This includes methodologies from the Organisation for Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF), among others. In that regard, the sovereign's ability and willingness to repay debt and affinity to acquire and/or confiscate private entity assets without compensation, are assessed. Information sharing among ECAs at the Berne Union meetings also provide invaluable opportunities to further understand country risk from peers.

Pillar II: Underwriting risk

Underwriting risk is managed by assessing the entire project value chain. The analysis and mitigation of underwriting risk makes use of insurance reserving techniques, credit risk assessment, technical risk assessment, analysis of market risk of project output, including price and quantity, as well as potential substitution or technological advancement risks inherent in a sector. The ECIC uses technical advisors (TA) and competent persons (CP), as well as forecasting and analytical techniques, to forecast project viability.

Pillar III: Investment risk

Premium income earned from underwriting is invested with fund managers to retain sufficient funds to remain sustainable. A liability cognisant investment strategy applies, to invest in asset classes that mimic the behaviour of underlying liabilities. The alignment of liability to asset classes is achieved through asset liability management (ALM) to derive and communicate a strategic asset allocation (SAA) to respective fund managers. While prudent investment performance measurement should be undertaken over time, the company has developed risk management tools to monitor manager performance against selected benchmarks and the level of risk-taking in achieving set targets. These enable early intervention before adverse styles result in unsustainable loss of value.

Pillar IV: Operational risk

The ECIC's operational risk management is approaching a level of maturity after several iterations of risk and control self-assessment (RCSA) over the past few years. Risks arising from operational activities are categorised under people, systems and processes. The ECIC adopted the Committee of Sponsoring Organisations (COSO) and ISO 31000 best practices to assess both risk and opportunity in managing operational risk.

Global environmental scan

The company carries out a global environmental scan of the economic and monetary projections and geopolitical views of countries that affect local export value chains or are potential destinations for South African capital goods and investments.

The International Monetary Fund (IMF) adjusted its 2017 forecast for global growth to 3.5%, premised on manufacturing and trade gains in Europe, Japan and China, although a broad-based recovery could be hampered by protectionist policies. The chronically weak economic growth in advanced economies is expected to benefit from a cyclical recovery in global manufacturing and trade that started to gain momentum in the middle of 2016. Japan's 2017 growth is projected at 1.2%, whilst the Eurozone and China are expected to grow at 1.7% and 6.6%, respectively.

The US economic growth is projected at 2.3%. This represents a substantial increase from 1.6% in 2016, which was underpinned by optimism about the policies of the new administration. Following the Federal Reserve rates hike in March 2017, continued strength in the US economy could see further tightening over the next twelve months. This could see a rise in yields and value erosion on the ECIC US dollar bonds investment portfolio. The ECIC has opened the bands for US dollar denominated Emerging Markets (EM) bonds but there is still a need for alternative investment instruments to create diversification in the portfolio.

Britain's growth forecast of 2.0% for 2017 is very dependent on how its exit from the European common market is managed. Despite a strengthening in growth among advanced and emerging market economies, the IMF projects a fragile recovery. This could affect oil and commodity exporters who are starting to benefit from a commodity price recovery, including sub-Sahara Africa, Russia and Brazil.

Strong global economic growth and political stability is a bellwether for increased exports and investments from South Africa. Most commodity-based exports from sub-Saharan Africa are dependent on an increased demand from China and the advanced economies. South African engineering is important for commodity extraction and infrastructure development on the continent to facilitate exports.

How the Board manages risk

Enterprise risk management

Previously, the corporation managed these four risk pillars in a distinct and disparate manner. However, the ECIC has adopted an Enterprise Risk Management (ERM) approach with a holistic view of risks throughout the company and its ecosystem. The key elements of developing and integrating ERM have included a continuous scanning of the environment and aligning internal processes and decisions accordingly.

The ERM approach identified the need for a business development or deal origination capability to respond to regional developments in the export credit industry.

Going forward, risk owners and risk champions have been appointed to roll out ERM throughout the company and map out a key process with key risk indicators (KRIs) for all critical processes. The ECIC uses quantitative techniques and data mining to analyse trends and new developments and respond appropriately. Early warning signals and tripwires ensure the early detection of risks and/or opportunities.

Risk governance

The Board of Directors provides the ECIC with, *inter alia*, risk oversight. The Chief Risk Officer (CRO), in liaison with the ECIC executives, articulates the company's risk appetite and makes recommendations to the Risk Committee and Board for approval. Any potential limit breaches are communicated to the Board proactively.

The risk appetite is cascaded down to individual business units and processes with specific KRIs for each risk-taking area. Persistent risks that pose strategic risks or threats are captured in a corporate risk register and reported every quarter to the Risk Committee and Board.

The current risk appetite of has a quantitative and qualitative measure. The quantitative measure is expressed as a regulatory capital measure, also known as the solvency capital required (SCR) cover. The qualitative measure is crafted as reputational risk. While these two measures are broad and at a comparatively high altitude, they translate into meaningful risk measures at a granular level.

The table below is an excerpt from the risk appetite statement:

Core principle	Risk appetite statement	Risk tolerance
Self-sustaining on a stand-alone basis	The ECIC will grow its business by maintaining a SCR cover ratio of between 130% and 200%	The SCR cover ratio will remain between 130% and 300%
Protect brand and reputation	The ECIC will manage or avoid situations/actions that could harm its reputation and/or brand	N/a

While the regulatory requirement for solvency cover is currently at 1-time, the corporation has set itself a conservative lower limit of 1.3-times and upper limit of not more than 3-times. These parameters prevent taking unnecessarily high risks while allowing optimum returns on investment capital.

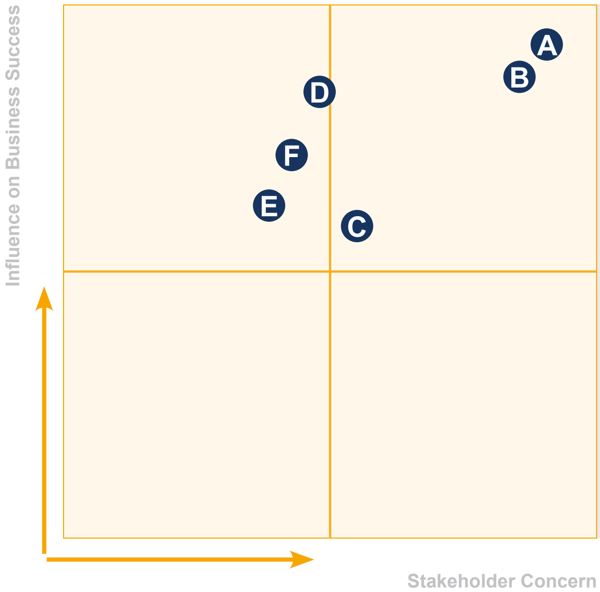
Materiality process

In the opinion of the Board, the information in this integrated annual report is the most relevant or "material" to the interests of our shareholder and key stakeholders. The Board and management involved with the ECIC's governance evaluated the source information with two questions in mind: "Who is our reporting aimed at?" and "Which decisions can they make from our reporting?"

The ECIC's robust and systematic approach to identifying and managing material issues rests on Board and governance processes guided primarily by our risk framework. The Executive team participated in a materiality workshop, facilitated by an independent sustainability consultant, to incorporate best practice reporting standards and processes in this year's integrated annual report. The principal objectives of the workshop were to identify and map the impact and significance of a full range of issues material to the ECIC and its key stakeholders on a matrix.

The material issues are described in this report and will be included, with our strategic objectives, as focal areas for management and performance assessments in future (refer to the strategy section of this report for further information).

Material issues map



MI **Material issues**

A & C: Government and credit rating downgrades.
B: Risk perceptions based on IMU liability.
D: Opportunities around the launch of the ECIC EXIM Bank.
E: Internal capacity.
F: Limited investment options.

These material issues were regarded by management as most material to the organisation and its key stakeholder groups.

A key objective of the integrated reporting process is to develop and report on value creation over time. Value creation in this context is dependent on various resources that are influenced by the organisation's external environment and stakeholder relationships. The ECIC has prioritised certain material issues and strategic objectives and it is important for us to understand the extent to which these issues and our activities impact our key stakeholders and create or erode value. Our analysis of performance below includes an indication - by way of a positive or negative score out of ten (on a dial) - of impact and value creation or erosion (or potential value creation or erosion).

Material issues

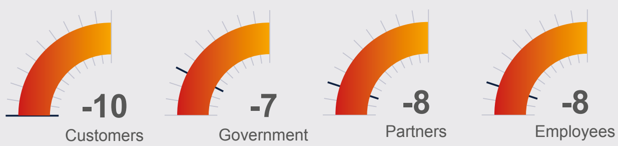
MI Government and credit rating downgrades

The ECIC insures on behalf of Government. The difference between the ECIC's net balance sheet and exposure book is guaranteed by Government as a contingent liability on Government's budget.

Any Government downgrade also downgrades and reclassifies the ECIC with a higher risk profile. This can cause an automatic loss of business, since our customers cannot use us (based on our rating). Credit rating downgrades mean that customers have to hold more capital against the ECIC, which makes it expensive for them to work with us.

This is a meaningful competitiveness factor for the ECIC.

Stakeholder impact and value creation



MI

Risk perceptions based on IMU liability

The ECIC's interest make-up (IMU) funding was insufficient to cover obligations and, as directed by Government, we took on the liability of approximately R2 billion. Although Government guarantees any balance sheet shortfall, the increased risk created a negative perception among the banks about the ECIC's sustainability as a profitable, high-performance organisation that can provide long-term stakeholder value, while the higher interest rates make our lending less competitive.

Stakeholder impact and value creation

MI

Internal capacity

The ECIC needs a competent and competitive workforce to implement our business strategy and strategic objectives. Our change in strategy and the development of an EXIM bank will require new skills and systems. The risk of insufficient capacity is potentially great, while there is significant shared value in sufficient internal capacity. Value creation includes meeting client expectations, creating knowledge-sharing platforms and new products, facilitating employee growth and development and new skills for EXIM bank new business, Memorandum of Understanding (MoU) with international agencies and outperforming competitors.

Stakeholder impact and value creation

MI

Opportunities around the launch of ECIC EXIM Bank

The transformation of the ECIC into an export/import (EXIM) bank will open up business with a wide range of supported clients, from those involved in large projects to initiating small and medium enterprises (SMEs) into international trade. The focus of such a bank will be on a sustainable and developmental, rather than only commercial, return on investment to customise our offerings to SMEs and support our development role as a state-owned entity. This includes advancing money on a loan below $10 million to smaller companies that require export loans and/or the development of new product ranges.

The impact and value creation of the EXIM bank initiative includes opportunities to differentiate the ECIC from its competitors, improve our services to exporters and access a new customer base.

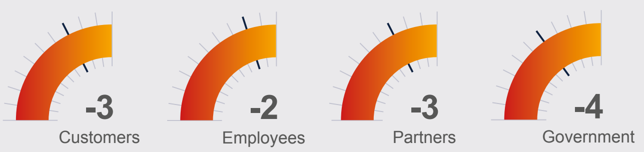
Stakeholder impact and value creation

MI

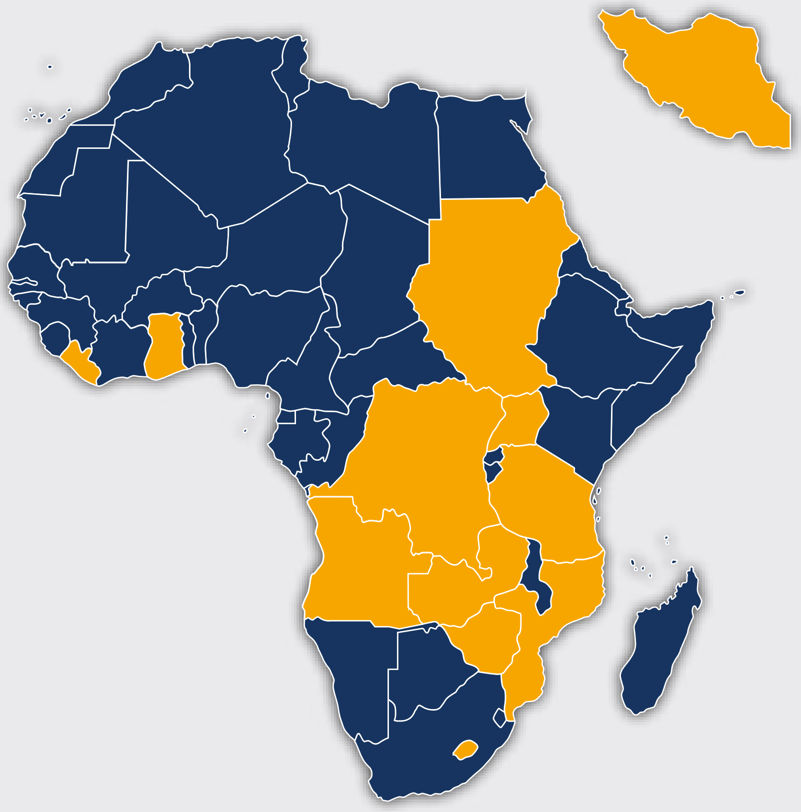
Limited investment options

Our concerns are increasing about the investment options available to the ECIC. During 2016/17, we approached National Treasury for approval to broaden our investments in a limited range of US$ instruments, such as equity, property and derivatives to reduce risk and increase the potential for new capital inflows. We look forward to their feedback in the forthcoming financial year.

Stakeholder impact and value creation



Where we operate



ECIC exposure in its top 10 countries as at 31 March 2017		
Countries	**Value (ZAR)**	**Exposure (%)**
Ghana	6,852,699,250	30.35
Zambia	4,267,913,952	18.90
Zimbabwe	2,671,064,523	11.83
Iran	2,059,364,700	9.12
Mozambique	1,907,199,563	8.45
Tanzania	1,510,200,780	6.69
Liberia	1,151,763,636	5.10
Lesotho	1,090,352,042	4.83
Uganda	301,940,788	1.34
Sudan	298,396,378	1.32

This map and table depicts the top 10 countries in which the ECIC has exposure. A full list of countries is available on page 84.

"Human capital represents the knowledge, skills, abilities, experience, intelligence, training, judgement and wisdom of our employees as the capacity hub of the ECIC to ensure that we deliver against our mandate."

Engaging and supporting our people

As a leader in export credit and insurance, the right people with the right skills, values and behaviour will help us deliver our mandate to grow the ECIC and the South African economy.

Our Human Capital focus is on empowering our people in professional and personal growth by creating a quality work environment in which we share values to build a performance-driven culture of collegiality, tolerance and reciprocity. We provide the necessary tools, processes and resources to encourage and enable employees to meet and exceed client and stakeholder expectations and work productively and with pride.

We encourage peer recognition and reward our people for hard work and commitment to set the stage for performance excellence.

What we strive for

Vision

We are committed to sustainable business growth through innovative solutions, operational and service excellence, business development and strategic partnerships.

Mission

We strive to provide export credit and investment insurance solutions that support South African capital goods and services by applying best practice risk management principles.

Values

Our business conduct reflects our values of:

- Accountability, through transparent and responsible decisions and actions
- Excellence, through a commitment to performance at the highest level and the continuous improvement of our skills and business practices
- Innovation, by encouraging open-mindedness and supporting innovation, new ideas and processes that continuously improve our company
- Integrity, through conducting every aspect of our business with honesty, integrity and fairness
- Teamwork, by working together as a team internally and collaborating with our stakeholders and customers externally.

Our achievements as a team far outweigh what we accomplish as individuals. Our values are reinforced by the ECIC Code of Ethics and Business Conduct (the Code) and are reflected in our policies and procedures. Our values and policies reflect the ECIC's commitment to avoiding environmental and social harm. This precautionary approach is applied informally throughout the organisation.

External principles and Charters

South Africa is a signatory to the OECD Convention on anti-bribery measures and the ECIC is bound by the terms thereof. The ECIC has adopted an environmental policy applicable to supported transactions which incorporates the Equator Principles.

Industry involvement

The ECIC is a:

- Member of the Berne Union
- Member of BRICS ECA Forum
- Member of Abidjan Union
- Member of NEPAD AVID Desk
- Non-OECD (Organisation for Economic Co-operation and Development) observer at the OECD Working Party on Export Credits
- Participant in the International Working Group discussions towards an internationally inclusive framework on Export Credits for the OECD and non-OECD countries.

LEADERSHIP REVIEW AND STAKEHOLDERS

Message from the Chairperson

In recent years, continued slow global economic growth has reinforced the importance of foreign direct investment in emerging markets to help boost their economies. In the African region, increasing intra-Africa trades and exports are already delivering tangible results, including accelerated infrastructure and industrial development.

Mr Motshoanedi Lesejane

The establishment in 2016 of the free trade zone between Kenya, Egypt, Nigeria and South Africa (KENSA), as the four largest economies on the continent, will also help to increase the momentum of this rapidly growing intra-regional trade. Currently this trade accounts for less than 15 percent of all trade within the African continent and a third of South Africa's trade within the African region. This confirms the significant value of further expanding and diversifying the country's export initiatives into Africa and escalating the ECIC's export trade and cross-border investments.

Despite challenging conditions in 2016, I take pride in the ECIC's continued and robust support for our local exporters to establish themselves in new markets, and commitment to entrenching South Africa's position in export markets in Africa.

In an era where governance and capital management are critical attributes for institutions in the global financial system, the ECIC's culture of adherence to sound governance principles has become pervasive throughout the organisation and resulted in meaningful growth towards an institutional maturity.

Strategic partnering

The Board fully appreciates the extent to which the ECIC's future and interests are intertwined with those of the society in which it operates. During the past year, we reached important new agreements with stakeholders, entered into new partnerships and are optimising our existing footprint to entrench a culture of performance excellence.

As a member of the World Economic Forum (WEF) Africa Regional Partnership, the ECIC has access to a forum where the foremost political, business and other global leaders shape regional and industrial economic agendas. The ECIC was invited and attended the Afreximbank Annual General Meeting in the Seychelles, the Trade and Export Finance (TXF) Africa 2017 Conference in Kenya and the International Union of Credit & Investment Insurers (Berne Union) meetings, bilateral exchanges and training workshops. These international platforms give visibility to the ECIC brand among capital project sponsors and major role players in the international trade finance industry.

Establishing and entrenching strategic partnerships with industry peers and major role players remain a priority to identify and unlock project opportunities, share knowledge and expertise and learn from global best practices.

Challenges

Government support for the interest make-up (IMU) fund, which has been integral to the ECIC's facilitation of globally competitive South African exports since its establishment in 2001, was discontinued in 2015. During the reporting period, the ECIC and **the dti** agreed that the company absorbs the existing R2 billion IMU commitment to resolve legacy payments and not to accept any further IMU commitments.

As a result, the ECIC is exploring a proactive, deal-origination business model as an important paradigm shift to ensure that it remains effective and relevant as a key export agency. I have every confidence that in reviewing its post-IMU strategic direction, we will rise to the challenge of charting a sensible and sustainable way forward.

Governance

On behalf of the ECIC Board, I take pride in the way in which the company has embraced compliance with governance principles and the adoption of business best practice in its operational culture. We welcome the King IV Report on Corporate Governance and look forward to reporting in terms of the new code in the forthcoming financial year. A checklist of the ECIC's compliance with the King III principles is available on its website at http://www.ecic.co.za/About-Us/Corporate-Reports.

Outlook

In the face of a declining economic growth forecast for sub-Saharan Africa, as well as a rising buoyancy in emerging markets in Africa, the ECIC's role in escalating exports into the rest of the continent remains critical. In that role, we can ensure that local exporters participate in the regional supply value chain to boost intra-Africa trade and investment.

I am confident that the ECIC is well-equipped and well-positioned to deal with the material risks and challenges within its wider economic environment. This includes offering local exporters and buyers of South African capital goods and services funding and insurance support packages that encourage innovation and new product development to remain internationally competitive. We enter the 2017/18 financial year with a renewed determination to strengthen the ECIC's capacity deliver its mandate, work with partners and help to grow the South African economy.

Acknowledgements

I would like to thank my fellow Board members for their insight and guidance and the executive team and staff for their unwavering commitment to achieving sustainable business growth through innovation, excellence and ongoing development. Their achievements during the past year attest to this loyalty and dedication.

A special word of appreciation goes to Fagmeedah Petersen-Lurie, whose term expired on 30 March 2017, and the members of DIRCO, **the dti**, National Treasury and SARB, for their valuable contributions to the work of the Board.

On behalf of the Board and the ECIC, I thank those integral to our *raison d'être* and without whom we could not succeed: our clients, the South African exporters, banks and development finance institutions, for their continued patronage and support.

Motshoanedi Lesejane
Chairperson
27 July 2017

Chief Executive Officer's overview

Mr Kutoane Kutoane

The financial health of an export credit insurance agency such as the ECIC is inextricably linked to the health of the economy in which it operates. Ultimately, weak growth leads to contraction, which is the situation in which South Africa found itself in 2016. This again emphasised the importance of the ECIC's role in supporting South African companies to create or expand a footprint in Africa and other emerging markets.

Financial performance

The ECIC ended the 2016/17 financial year on a strong footing, with 88 percent of all annual targets implemented successfully. Due to the technical nature of our work, some positions require scarce skills and are more difficult to fill. This resulted in our target of filling 85% of all vacancies within 90 days not being fully achieved (achieved 83%). We also fell short of our target to increase equity due to the impact on the ECIC of a R2 billion Interest Make-up (IMU) liability.

A robust analysis of capacity and financial strength during the past year indicated that the ECIC could absorb the IMU liability and still continue as a vibrant entity. The underwriting profit of R584 million reduced the loss due to the IMU liability absorption to R1.5 billion, which is less than the full impact.

Table 1: Premiums, claims and underwriting profit summary 2012/13-2016/17 (R'000)

% movement	2016/17	% change	2015/16	2014/15	2013/14	2012/13
Insurance premium revenue	**144,262**	-64.98%	411,894	1,788,350	130,642	718,047
Change in unearned premiums	**333,687**	94.30%	171,738	-1,396,118	175,199	-294,855
Change in unexpired risks	**-1,994**	-105.32%	37,471	-12,233	-41,698	-61,299
Net insurance premium revenue	**475,955**	-23.37%	621,103	379,999	264,143	361,893
Underwriting profit	**584,199**	-5.10%	615,603	366,649	360,459	380,010
Claims paid	**0**	0.00%	0	0	0	11,206
Investment income	**135,374**	-46.77%	254,300	277,102	243,750	297,814

Table 2: Asset growth, 2012/13–2016/17 (R'000)

% movement	2016/17	% change	2015/16	2014/15	2013/14	2012/13
Equipment	**8,010**	-20.0%%	10,020	7,062	4,978	699
Financial assets through profit and loss	**6,685,902**	-5.47%	7,072,663	2,582,549	4,993,017	2,180,082
Trade and other receivables	**1,578,303**	-15.99%	1,878,702	1,554,050	428,722	557,090
Intangible assets	**3,653**	-17.93%	4,451	2,243	0	0
Cash and cash equivalents	**284,614**	-35,31%	439,960	3,817,639	122,950	2,223,410
Current tax receivable/ (payable)	**-55,563**	-309.55%	26,516	1,020	-17112	-62,115
Total assets	**8,560,482**	-9.24%	9,432,312	7,964,563	5,549,667	4,961,281
Total equity	**3,569,876**	-31.97%	5,247,856	4,324,239	3,736,967	3,224,871

The discontinuation of the government's additional support for the IMU fund gave rise to a revision of our business model to mitigate the negative impact on our banking and other financing partners, especially the competitiveness of South African exporters in the region and beyond.

Operational performance during 2016/17

The ECIC and the Minister of Trade and Industry (**the dti**), Dr Rob Davies, signed an Amended and Restated Agreement to address certain operational challenges.

A key operational change relates to our ability to now offer insurance cover to non-South African registered banks and financial institutions, as well as foreign registered or domiciled companies willing to support South African export or meet South African content requirements.

During the reported period, a number of exciting outputs included the launch of a new "Lease and Return of Plant" insurance cover product and delivery of two research reports, one on trade and investment opportunities in Cuba and the other a comprehensive assessment of the sub-Saharan Africa power sector.

We also secured Board approval for a needs-specific underwriting framework for black industrialists to support their export-related business endeavours. Overall, we have supported projects with a cumulative value of USD 479 million and launched a new Master Risk Bond Policy to simplify and increase deal-flow with partner financial institutions.

Despite the negative performance of our investment portfolio due to the volatility in financial markets during the 2016/17 financial year, we outperformed the weighted ZAR and USD benchmark return.

Strategic partnerships, projects and stakeholder interaction

The ECIC's proactive and customised marketing campaign culminated in four successful interventions that increased our interaction with stakeholders and contributed towards brand awareness, industry positioning and business development.

We continued our active pursuit of strategic engagements with other South African Development Finance Institutions, such as the Industrial Development Corporation (IDC) and the Development Bank of South Africa (DBSA), as well as with Trade Invest Africa, a newly established dti initiative.

This collaboration contributes to greater cohesion in export credit and investment offerings to the benefit of the South African companies.

During our participation as a country in the World Economic Forum in Davos, Switzerland last year, we nailed our colours to the mast by joining the sustainable investment forum that looks at sustainability investments.

The ECIC is very conscious of aligning ourselves with the principles of 'clean' investments that do not irresponsibly add to environmental deterioration.

Our engagements with African countries focused on those with stated objectives of pursuing business development opportunities and establishing bilateral relations. These interactions are helpful in creating an environment of trust for a mutually gainful pursuit of intra-Africa trade opportunities.

As a member of the International Association of Export Credit Agencies (IAECA) or Berne Union as it is commonly known, we can access industry data and benchmark ourselves against global best practice.

While we align ourselves with the standards, rules and regulations of the Organisation for Economic Co-operation and Development (OECD), not all are suitable to emerging market enterprises and we adhere only to those that do not impede our ability to be effective. We participate in an international working group (IWR) that is relooking OECD standards to create greater flexibility and relevance for smaller income countries.

We concluded a co-operation agreement with The Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC). This multilateral export credit agency (ECA) has members in many Islamic countries, including West and North Africa and the Middle East.

Our people first

The ECIC continued with an organisation-wide initiative to enhance the underwriting skills of our people by implementing a training plan and collaborating with other ECAs and Afreximbank. Our focus is on enhancing the ECIC knowledge bank and creating platforms for employees to exchange information, keep abreast of the latest trends and developments in the financial and export trade sectors locally and around the world. The impact of this focus played a prominent role in developing the new insurance products referred to above.

We managed and resolved two formal grievances during the past year, while two unresolved disciplinary matters were pended for resolution in the period going forward.

Supporting national priorities

Our continued facilitation of exporting locally manufactured capital goods and related services to the rest of Africa and the world supports the government's Industrial Policy Action Plan (IPAP) and National Development Plan (NDP). Recent examples include boat transactions and locomotive, wagon and gas projects, which all fall within the IPAP priority areas and contribute to achieving the NDP export growth targets.

We also continue to focus on broadening participation in the South African economy through coordinated funding and insurance arrangements with financial institutions and accepting an increasing number of smaller transactions under the Small to Medium Transactions (SMT) programme. Our export credit transactions achieve between 50-70 percent South African content as prescribed by new South African content policy. Projects outside Africa require at least 70%, while content for those in Africa could combine local and South African and other African region countries on a 50/20 percentage basis.

Key challenges

Diversifying our investment mandate beyond USD-denominated bonds into complementary asset classes, such as USD-denominated equities and property, as well as using derivatives for efficient portfolio and currency management, will alleviate the adverse effects of foreign bond prices on our assets. The effects of ascendance of the new US president is a case in point. Our application in this regard is being considered by our shareholder and we look forward to its conclusion in the near future.

A future perspective

The level of new business underwritten for the 2017 financial year and a healthy pipeline of transactions confirm the relevance of the ECIC as the vehicle that facilitates export trade and cross-border investment.

Our forward trajectory intersects three top priorities. We intend to transform the ECIC into an export/import (EXIM) bank with a wide range of supported clients, from those involved in large projects to facilitating the initiation of small and medium enterprises (SMEs) into international trade. We will also reposition the ECIC as a central point of entry on the African continent for risk management solutions in the emerging economies that call for greater responsibility in managing, utilising and benefitting from our environment (green economy), oceans (ocean economy) and a digitised world (digital economy). And finally, we will build a strong talent base within the organisation to achieve these goals.

Reinventing the ECIC as an EXIM bank is especially exciting. The focus of such a bank on a sustainable and developmental, rather than only commercial, return on investment that will allow us to customise offerings to SMEs and support our development role as a state-owned entity.

I believe that we are currently well-positioned to move into the 2017/18 financial year with a clear intent to further improve our support to both exporters and the economy. We look forward to even greater success in the forthcoming period.

Acknowledgements

We cannot renew our 'licence to operate', locally or within the African region, without the understanding and support of people critical to our success, progress and survival. In this regard, I especially want to thank our Board for wise and insightful guidance in steering the ECIC towards governance excellence and optimum performance.

I always remain highly appreciative of the unqualified commitment of the ECIC's management team and employees whose contributions consistently drive our ability to perform above and beyond expectations. I also thank our suppliers for their continued and loyal support and look forward to continuing these relationships in the years ahead.

On behalf of all at the ECIC, I thank our shareholder ministry, **the dti**, and all the relevant government departments for their support in creating an enabling environment conducive to our business growth and development.

And, once again, we express our sincerest appreciation to our development partners for their continued and active participation in and support for the ECIC in its endeavours to drive progress and prosperity for our country and the countries in our region.

Kutoane Kutoane
Chief Executive Director
27 July 2017

At a glance

100%
of skills and training implementation target achieved

Financial assets
6,685,902

R22, 575, 678
total insurance exposure

2
new products launched

Investment portfolio, including cash - Decreased from
R7.5 billion to **R7 billion**

Total staff complement - Increased by
21,7% to **84**

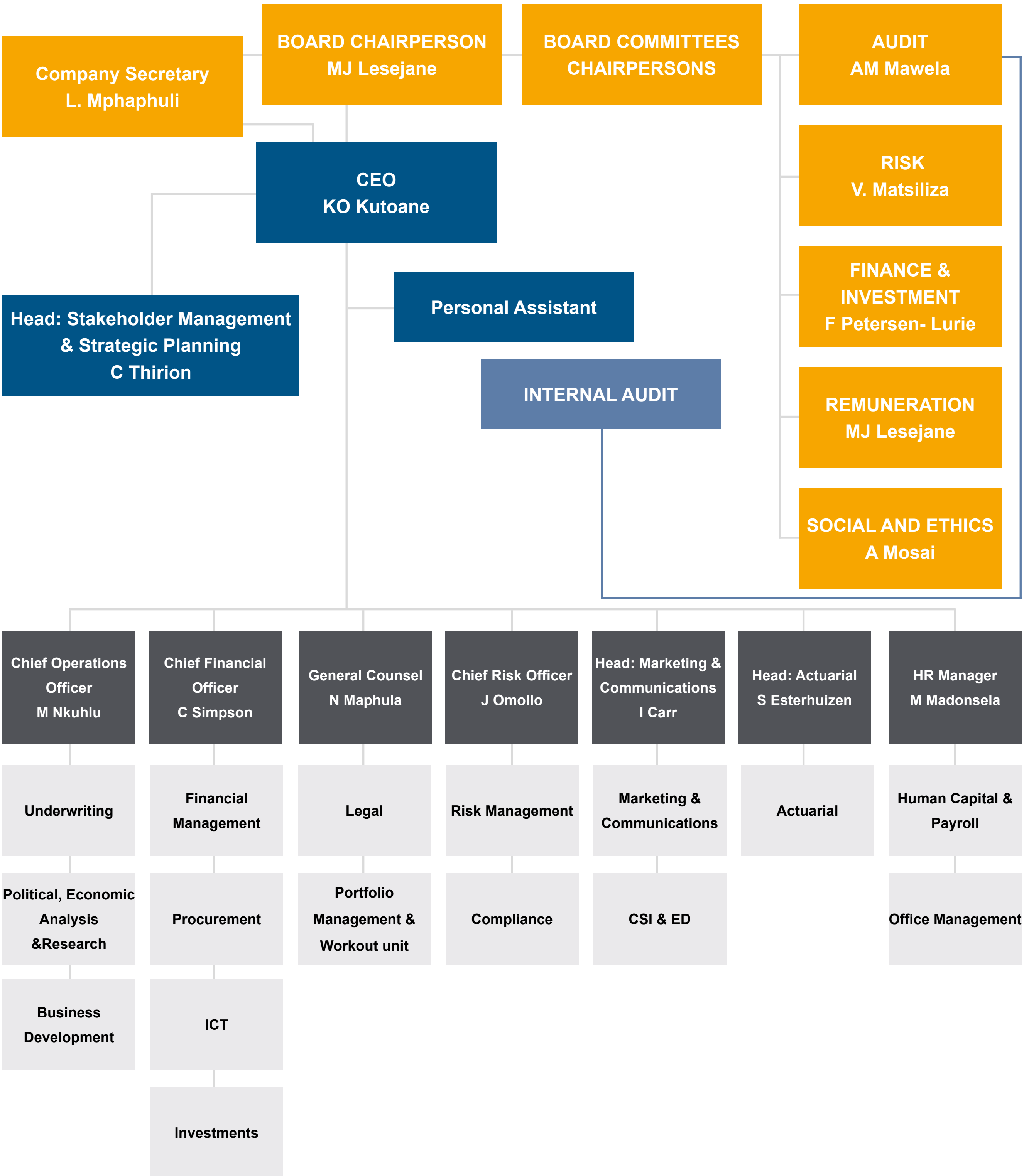
Solvency ratio - Decreased from
1389% to **865%**

Insurance policy growth
Two policies were written during the 2016/17 financial year, which brings current and active ECIC policies to a total of

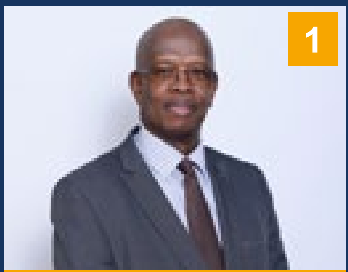
45

Corporate Structure

HIGH LEVEL ORGANISATIONAL STRUCTURE – MARCH 2017



Board of Directors



Motshoanedi Lesejane

Independent non-Executive Director

Kutoane Kutoane

Chief Executive Officer

Vuyelwa Matsiliza

Independent non-Executive Director

Abel Mawela

Independent non-Executive Director

Ernest Moagi

Non-Independent non-Executive Director
(alternate to Pumla Ncapayi, **the dti**)

Willem van der Spuy

Non-Independent non-Executive Director
(alternate to Pumla Ncapayi, **the dti**)

1
Qualifications: Chartered Accountant (South Africa) (CA(SA)), Fellow Chartered Management Accountant, Certificate in Control Self-Assessment, Chartered Director (South Africa)
Expertise: Auditing, corporate governance, finance, risk management and finance management
Age: 61
Years of service: 7
Positions on other Boards: Mokwalo Training and Consulting Services (sole owner and director), Mokwalo Trading and Investments (sole owner and director), 1Surance Brokers Limited (director), Government Pension Administration Agency (chairperson), National Treasury (Audit Committee member), Small Enterprise Development Agency (Chair, Audit Committee)

2
Qualifications: MA (Economics), Advanced Management Programme, Programme on Investment Appraisal and Management, Advanced Global Credit and Trade Finance
Expertise: Project finance, international trade finance, economics and investment management
Age: 48
Years of service: 4
Positions on other Boards: Rapidcap Investment (Pty) Ltd (founder and director), MunAng Technologies (Pty) Ltd (director)

3
Qualifications: MBL
Expertise: Treasury management, project finance, corporate finance and investment management
Age: 50
Years of service: 4
Positions on other Boards: Board member at Chris Hani Development Agency (CHDA) and the Co-operative Banks Development Agency (CBDA)

4
Qualifications: MBA
Expertise: Auditing, accounting and corporate governance
Age: 56
Years of service: 5
Positions on other Boards: Molodi Consulting (founder and executive director), The Innovation Hub (non-executive director), Morale Financial Services (managing director)

5
Qualifications: Bachelor of Commerce
Expertise: Accounting
Age: 44
Years of service: 4
Positions on other Boards: None

6
Qualifications: BA (Politics, Philosophy and International Relations), BA Honours (International Relations)
Expertise: International Trade Policy, Export and Investment Promotion and Facilitation, Foreign Economic Representative
Age: 44
Years of service: Term began 1 December 2016
Positions on other Boards: None

Andiswa Mosai

Independent non-Executive Director

Pumla Ncapayi

Non-independent non-executive director

Siobhain O'Mahony

Independent non-Executive Director

Fagmeedah Petersen-Lurie

Independent non-Executive Director

Lefentse Radikeledi

Non-independent non-Executive Director
(National Treasury)

Lindelani Mphaphuli

Company Secretary

7

Qualifications: BSocSci (Social Work), Master's Diploma (Human Resource Management), Management Advanced Programme, Governance Development Programme

Expertise: Human resources contracts, professional services, recruitment and remuneration management

Age: 43

Years of service: 3

Positions on other Boards: Mosaic Project and Services (founder and managing director), 24 Café West Coast (partner), Sedibeng Media and Communications Group (director)

8

Qualifications: BCom (Economics and Business Management), Postgraduate Diploma (Business Management), Diploma (Trade Law and Policy)

Expertise: Trade policy development, international trade and investment

Age: 41

Years of service: 6

Positions on other Boards: Brand South Africa (trustee)

9

Qualifications: BSc (Hons) (Actuarial Science), Fellow of the Actuarial Society of South Africa, Fellow of the Institute and Faculty of Actuaries

Expertise: Actuarial valuations, asset-liability matching, capital adequacy requirements and calculations, analytics, pricing and profitability (banking), loyalty programme design and modelling

Age:30

Years of service: 4

Positions on other Boards: None

10

Qualifications: BSc (Actuarial Science), Chartered Financial Planner, Postgraduate Diploma (Management Practice), Fellow of the Financial Planning Institute, Accredited member of the Institute of Directors

Expertise: Investment, finance, governance, insurance and employee benefits

Age: 41

Years of service: 4

Position on other Boards: Telkom SOC (director), Gauteng Cricket Board NPO (lead independent director), Equra Health (Pty) Ltd (lead independent director)

11

Qualifications: MEcon (Economic Development), Executive Development Programme, Secondary Education Diploma, Certificate in Mineral Economics, Certificate in Contract Negotiations

Expertise: Finance and regulation

Age: 51

Years of service: 3

Positions on other Boards: None

12

Qualifications: BA (Law), LLB, LLM, Diploma in Tax Practice, Executive Leadership Programme

Expertise: Law, finance, governance and treasury

Age: 46

Years of service: 8

Position on other Boards: None

Executive management

Kutoane Kutoane

Chief Executive Officer

Mandisi Nkuhlu

Chief Operating Officer

Clarinda Simpson

Chief Financial Officer

John Omollo

Chief Risk Officer

Ntshengedzeni Maphula

General Counsel

1

Qualifications: MA (Economics), Advanced Management Programme, Programme on Investment Appraisal and Management, Advanced Global Credit and Trade Finance

Expertise: Project finance, international trade finance, economics and investment management

Age: 48

Years of service: 4

Positions on other Boards: Rapidcap Investment (Pty) Ltd (founder and Director), MunAng Technologies (Pty) Ltd (Director)

2

Qualifications: Advanced Management Programme Bachelor of Laws (LLB), Executive Leadership Programme

Areas of expertise: Law and finance

Age: 49

Years of service: 11

Positions on other boards: None

3

Qualifications: CA(SA)

Areas of expertise: Finance, auditing and financial management

Age: 43

Years of service: 1

Positions on other boards: Armscor (non-Executive Director)

4

Qualifications: MBA, Wits, Certified Public Accountant of Kenya (CPA II, III)

Areas of expertise: Risk Management, Project & Structured Finance, Banking, FI Credit Ratings and Investment Risk

Age: 49

Years of service: 6

Positions on other boards: None

5

Qualifications: Master of Law (LLM) (General), Master of Law (International Trade and Foreign Investments)

Areas of expertise: Cross-border financing, export credit insurance, political risk, international trade, foreign investments and project finance

Age: 46

Years of service: 12

Positions on other boards: None

Mmapula Madonsela

Head of Human Resources

Linda van Tonder

Head of Investments

Sias Esterhuizen

Head of Actuarial

Noluthando Mkhathazo

Head of Finance

Gqamile Nkabinde

Head of Procurement

Ismail Carr

Head of Marketing and Communications

Chris Thirion

Head of Stakeholder Engagement

Benoit Fugah

Head of Political and Economic Analysis and Research

Portia Gumbo-Dube

Head of Business Development

Kimmy Moodley

Head of Underwriting

Thembi Mahaye

Head of Portfolio Management

Nolita Cokoto

Head of Information and Communication Technology

Key stakeholders

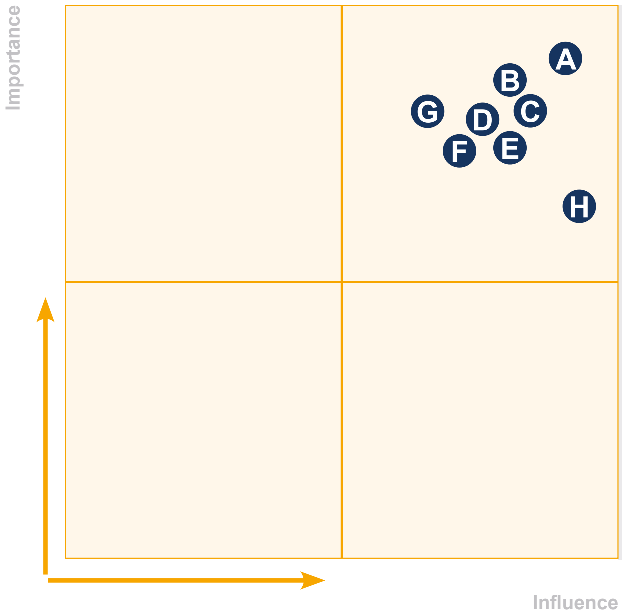
Stakeholder identification

The ECIC's stakeholder engagement strategy reaches out across a broad spectrum of identified stakeholders whose unique environments add value to stimulating the export of capital goods and services.

A stakeholder workshop was conducted by an independent consultant to identify key stakeholders and related issues.

The workshop helped to ensure that our systems promote and record stakeholder engagements and responses and that we understand their interests and expectations.

During the past year, we intensified our stakeholder interaction to embed mutual trust and respect and identify and optimise business development opportunities. This included a number of interactions between the CEO and ambassadors from various countries to solidify relationships and explore mutual benefits from complementary and reciprocal initiatives.



Stakeholder mapping

A: Key government departments
B: Parliament
C: Financial Services Board (regulator)
D: Customers
E: Partners
F: Governments of importing countries
G: Employees
H: The media

Stakeholder engagement

The implementation of our 2016/17 stakeholder engagement strategy is summarised in Table 3.

Table 3: Implementation of the 2016/17 stakeholder engagement strategy

Key stakeholder group	Nature of engagement	Issues raised and actions taken
Public sector		
Portfolio Committee on Trade & Industry	Critical stakeholder Convey value of the ECIC to SA economy	Expose members and the ECIC Board to successful projects
Department of Trade & Industry (the dti)	Shareholder and important stakeholder Objective is information sharing, pursuing business opportunities in Africa and fostering cooperation	Focus on dti stakeholders: Capital Project Feasibility Programme (CPFP) - the ECIC part of Adjudication Committee and Chief Audit Executive Forum attended with Outsourced Risk and Compliance Assessment (Pty) Ltd (ORCA) Trade Invest Africa focus in 2017/18
Department of International Relations & Cooperation (DIRCO)	Important stakeholder Political policy perspective, sharing country information in terms of risk ratings, access to business opportunities with Department of International Relations and Cooperation (DIRCO) intervention	The ECIC to become part of DIRCO diplomats' training panel

Key stakeholder group	Nature of engagement	Issues raised and actions taken
Department of Public Enterprises (DPE)	Important stakeholder Establishes relationships and interaction with key government stakeholders (SOEs) and provides access to DPE business dealings in Africa The ECIC is a permanent invitee to Africa Steering Committee meetings	Exposure to SOE capital and services projects abroad through Africa Steering Committee to support governments' Africa development initiatives
Embassies in targeted African countries	Creating stakeholder platforms through embassies that focus on trade representatives Ten African countries part of initiative, another five to be added Platform to create trust and understand needs and mindsets	Identify potential business opportunities and disseminate via stakeholder platforms to relevant SA businesses through business or export councils Initiate outward selling missions to specific countries Establish Ambassadors' Engagement Initiative as structured engagement programme between CEO and ambassadors of identified African countries to concretise business development structures
Regulators	Interaction with FSB from stakeholder rather than regulatory perspective proven mutually valuable	Pursue interaction with regulators
Communities, media and employees	Address these stakeholders through CSR programmes, marketing and communication structures and internal communication Close cooperation between stakeholder management and marketing and communication essential	Continue cooperation with the ECIC's Marketing and Communication function
Private sector		
Financial Institutions (FIs) and Development Financial Institutions (FDIs)	FIs: Board-approved Master Risk Bond Policy to increase and simplify deal-flow; focus on advance payment guarantees for contractors DFIs: **the dti** and Development Bank of SA (DBSA) aware of and using the ECIC	FIs: Expand to include working capital for black industrialists Submitted to eight FIs for input and adoption DFIs: Establish platform to manage the ECIC's reputation effectively
NEPAD Business Foundation - African Investment and Integrated Desk (AVID)	The ECIC an AVID founding member to drive SA Inc concept. Three-year contract commenced in 2015. Participating in SCMs, marketing and special events.	Assess continued financial support in terms of Return on Investment
Export Councils	Important stakeholder platform Advocacy meetings with Export Council members	Create direct interaction with Export Council members; establish platforms for interaction to raise issues pertinent to respective businesses
Insurance brokers **Reinsurance brokers**	Important stakeholder Reinsure major deals that exceed the ECIC's capacity, realign concentration risk, increase insurance capacity in SA market, align capital reserves with FSB requirements	Pursue objective of introducing reinsurance as risk management tool Establish reinsurance structures and solid working relationships to benefit local exporters
Manufacturers and exporters	Breakfast programme for regular interaction between the ECIC and industry CEOs	Create platform for access to CEO to increase understanding of the ECIC's role and function
BRICS	BRICS ECA CEOs Forum - important platform for cooperation, product coordination and information sharing	Participating in Working Group deliberations on range of issues, incl. product offerings, operational practices and cooperation

STRATEGY AND PERFORMANCE

The ECIC fulfils its mandate through an annually renewed shareholder's compact with the South African government, represented by the Minister of Trade and Industry. The compact serves to:

- delineate and clarify the respective shareholder and Accounting Authority responsibilities
- assign key performance areas with specific targets to our strategic objectives
- enable a performance assessment annually against the allocated indicators.

The ECIC's strategy is aligned with the National Development Plan, which guides government imperatives, and **the dti**'s strategic priorities. We also align our organisational competencies and capabilities to give effect to the strategy.

Our strategy is ultimately informed by our three primary objectives, which are directed at profit and performance, customer value and social value. Within this context we manage the business against our strategic objectives and our material issues, using risk and value creation as lenses through which to view all issues and opportunities. The Board and executive management have processes in place to evaluate the ECIC's external competitive environment and identify the challenges and opportunities. These processes were complemented recently by the adoption of certain sustainability and integrated reporting practices and principles to broaden our scope of view and provide us with best-practice aligned methodologies.

The 2016/17 strategic plan maintained the ten previously-developed strategic objectives with an emphasis on strategic partnerships, business growth and operational excellence.

Our management approach to our objectives and key business issues will evolve as we embrace integrated reporting principles more fully. We need to integrate our functional centre processes in order to reflect integrated thinking. Integrated reporting is a relatively new journey for us and we are aware that we have a long way to go.

Our performance in this report is evaluated under the headings of our three primary objectives (POs) and we have assessed performance against strategic objectives (SOs). We used the stakeholder impact and value creation lenses to do this, and where relevant, linked performance to one or more of the Six Capitals of the <IR> Framework.

Over time we will be bringing our material issues into alignment with our strategic objectives, and vice versa and this aspect of our analysis and reporting will develop over time. Relevant material issues have been linked to strategic objectives in the matrix on the following page. The Six Capitals lens has also been used to highlight value creation in our value chain (further information on page 35).

PRIMARY AND STRATEGIC OBJECTIVES

	MATERIAL ISSUES					CAPITALS					
	Government and credit-rating downgrades	Risk perceptions based on IMU liability	Opportunities around the launch of ECIC EXIM bank	Internal capacity	Limited investment options	Financial	Productive	Intellectual	Human	Social & Relationship	Natural
PROFIT AND PERFORMANCE (PO)											
Objective 1: Improve knowledge and skills to develop a competent and competitive workforce that delivers on the business strategy and achieves the ECIC's objectives. (SO)			●	●			●	●	●		
Objective 4: Improve business processes to promote efficiencies in the delivery of services and products cost-effectively. (SO)			●	●		●	●		●		
Objective 6: Improve business development by proactively attracting business from new and existing customers to facilitate more exports and cross-border investments. (SO)	●	●	●		●	●	●	●			
Objective 7: Decrease the cost-to-revenue ratio in line with industry benchmarks and the ECIC's objectives. (SO)	●		●	●		●	●				
Objective 8: Increase revenue to achieve business growth and a stronger capital base. (SO)	●	●	●		●	●					
Objective 9: Increase the capital base to support the growth and sustainability of the business. (SO)	●	●	●		●	●					
CUSTOMER VALUE (PO)											
Objective 2: Improve product offering by increasing the ECIC's product range to better meet customer needs and address market gaps. (SO)			●	●		●	●	●			
Objective 3: Increase strategic partnerships to access new markets through collaboration by leveraging our partners' resources and knowledge base and removing constraints. (SO)	●	●	●		●	●		●			
SOCIAL VALUE (PO)											
Objective 5: Improve communication and stakeholder/customer management to create awareness and understanding of the ECIC's mandate and unlock business opportunities by communicating effectively. (SO)	●	●	●				●			●	
Objective 10: Increase stakeholder/customer satisfaction to ensure that satisfaction targets are met. (SO)	●	●								●	

Table 4: Performance against predetermined objectives - 2016/17

Output	Performance measure and indicator	Target for 2016/17	2016/17 performance	Target achieved
Improve knowledge and skills				
Skills audit and implementation of annual training plans	% of training plans implemented	100%	100%	✓
Implement a workforce plan	% number of vacancies filled within 90 days	85%	83% *	X
Increase product range				
Research and identify new opportunities	Number of research projects to identify new opportunities	Two	Two	✓
Develop and test new products	Number of products developed and approved	One	One	✓
Increase strategic partnerships				
Establish standing funding and insurance arrangements with financiers to increase deal flow	Develop a draft framework structure to establish arrangement with financier to increase deal flow	Framework Agreement approved by Board	Framework Agreement approved by Board	✓
Leverage existing partnerships to generate knowledge-sharing programmes	Number of programmes	Eight	Thirteen	✓
Improve business processes				
New business system	% implementation of business system	Identification and sourcing of business processes and management information system	EXCO approved the appointment of the service provider to develop the management information system	✓
Bespoke underwriting guidelines for Black Industrialists (BI) projects as well as working capital support programme for exporting BIs	Percentage of referred BI projects approved	Develop the framework and revise underwriting criteria to support BI projects	Board approved the Underwriting Framework for the support of the BI programme	✓
Improved communication and stakeholder/customer management				
Develop targeted local and international marketing and communication initiatives	Number of marketing Initiatives	Two	Four	✓
Advocacy programme with key government stakeholders	Number of engagement sessions with key government stakeholders	Ten	Twenty	✓
Improved business development				
Business Development Plan	Percentage implementation of Business Development Plan	75%	85%	✓
Decrease cost-to-revenue ratio				
Decrease cost-to-revenue	Cost-to-revenue ratio	35%–30% cost-to-revenue ratio	20%	✓

Output	Performance measure and indicator	Target for 2016/17	Performance for 2016/17	Target achieved
Increase revenue				
Increase premium revenue	Value of projects approved	USD350m-USD400m	USD479m	✓
Execution of the investment strategy	Performance against portfolio benchmark	Meet or exceed weighted ZAR and USD portfolio benchmark return for the year	The weighted ZAR and USD portfolio return of -3.4% outperformed the benchmark return of -4.4% by +1.1%	✓
Increase capital base				
Increase capital base	% increase in basic own funds/ equity	10%	-32%**	X
Increase stakeholder/customer satisfaction				
Triennial brand survey	Brand survey satisfaction index	Implement 80% of identified survey findings	100%	✓
Biennial customer survey	Customer satisfaction index	Implement 80% of identified survey findings	100%	✓

* The four remaining vacancies were put on hold due to an organisational structure review in preparation of becoming an Exim Bank

** The shareholder's requirement to assume the IMU liability resulted in a negative impact of circa R2 billion on the Income Statement. This reduced profit before tax and a subsequent negative impact on growth in equity. A 6% growth in equity was recorded with the IMU liability impact having been carved out. Important to note is that although the ECIC took on board the IMU liability of circa R2 billion, it recorded a loss of circa R1,7 billion only and will be able to claw back in future. This clearly indicates the vibrancy of the ECIC in achieving a post-IMU underwriting income of R584 million.

We discuss our performance in this report under the headings of three primary objectives (POs), each of which consists of the related strategic objectives (SOs) against which our performance for the 2016/17 financial year has been measured (as summarised in the Performance table above).

PO Profit and performance

Goal: Build sufficient capacity to maintain and sustain business to achieve financial independence from government and become self-sustainable.

Current strategic objectives (SOs):

- Improve knowledge and skills
- Improve business systems
- Improve business development
- Decrease cost-to-revenue
- Increase capital base
- Increase revenue

Proactively embedding sufficient capacity will enable us to meet client expectations, increase efficiency, attract business, maximise capital inflows and decrease costs and productivity. This foundation to increasing our capital base will support our growth and sustainability move us along a trajectory towards financial independence from government and self-sustainability.

Material issues relevant to Profit and Performance Objectives:

- Government and credit rating downgrades
- Risk perceptions based on IMU liability
- Opportunities around the launch of the ECIC EXIM bank
- Internal capacity
- Limited investment options

SO Improve knowledge and skills

Our strategic objective is to develop a competent and competitive workforce to implement our business strategy and achieve our objectives. Improving our knowledge and skills base is a strategic imperative and remains a priority. Our change in strategy, and the development of an EXIM bank will require new skills and systems. The risk of not building sufficient capacity proactively, is potentially great, while there is significant shared value in building the internal capacity to achieve this objective.

Our focus is on meeting client expectations and creating platforms for employees to exchange information and keeping abreast of financial and export trade trends and developments locally and around the world. The impact of our training and education interventions are increasingly featuring more prominently in new product development. We believe that this is a win-win situation for employee growth and development and the ability of the organisation to outperform its competitors.

The Executive Management Committee, as delegated by the Board, monitors and reviews employee training and education on an ongoing basis.

Training costs in 2016/17 amounted to R5.2 million (2015/16: R2.2 million) and included bursaries.

We implemented our 2016/17 training plan in full. The plan was informed by behaviours and capabilities required for the medium-term and targeted formal and informal training to embed employee development aligned with priority business needs. These ranged from specialist finance, management, leadership and interpersonal skills.

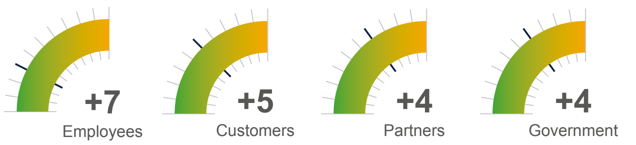
Specific training interventions included underwriting skills through, *inter alia*, collaboration with other ECAs and Afreximbank, as well as participation in parallel training workshops at international events, such as the Trade and Export Finance (TXF) Africa 2017 Conference in Kenya and International Union of Credit & Investment Insurers (Berne Union) meeting in Warsaw mentioned previously in this report.

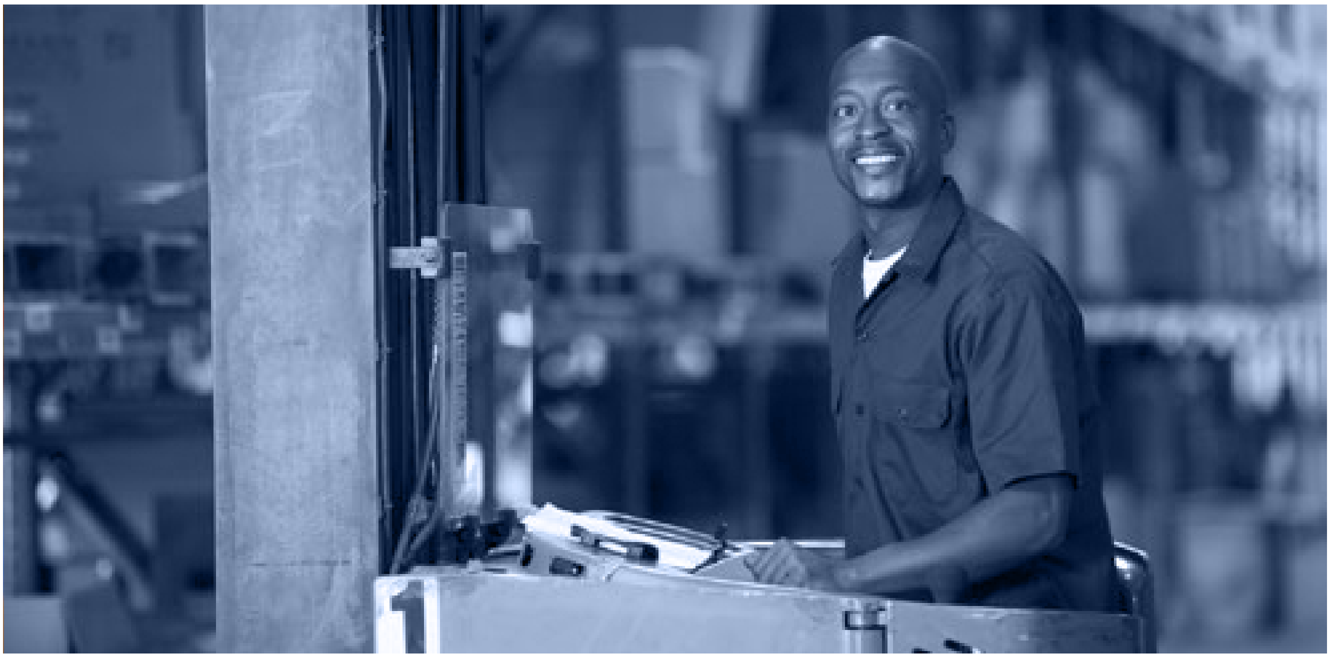
We granted bursaries to 23 students in 2016 to study actuarial science, engineering, economics and accounting at different local universities. Some of our graduates are employed at companies such as Ernst & Young, Liberty, Discovery and First National Bank. Fourteen of the initial 23 students remain in the programme, while the intake for the 2018 academic year will be concluded by November 2017.

2016/17 TARGETS

Implement annual training plan fully (100%)	**Target achieved**
Fill 85% of vacancies in 90 days	**Partially (83%) achieved**

Stakeholder impact and value creation





SO Improve business systems

We aim to improve our ICT systems and business processes to increase efficiency and productivity, improve turnaround times and deliver products and services cost-effectively. We will develop/procure a safe and effective system for trading new products in future.

Process automation is prioritised as a key strategic intervention that requires in-house technology (digitalisation) to improve turnaround times and process efficiency. The implementation of a Management Information System (MIS) in the year ahead as a central document repository will be critical to promoting knowledge management and providing underwriting lifecycle oversight.

We approved a revised Underwriting Framework that contains criteria to accommodate and address the specific needs of Black industrialists in their export-related business endeavours more effectively. The Black Industrialists Programme is a **dti** initiative that supports the Industrial Policy Action Plan (IPAP) in encouraging black industrialists to participate as manufacturers in key sectors of the South African economy.

2016/17 TARGETS

Identification and sourcing of business processes and management information system	**Target achieved**
Develop the framework and revise underwriting criteria to support BI projects	**Target achieved**

Stakeholder impact and value creation

SO Improve business development

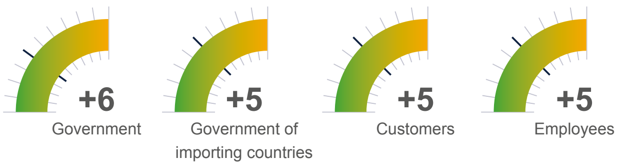
Our aim is to attract business proactively from new and existing customers through participation in, *inter alia*, conferences, trade shows and export councils to increase exports and cross-border investments and promote the ECIC's new product offerings among target audiences in key markets.

2016/17 TARGETS

Implement Business Development Plan	**Target achieved**

Our four-person business development team is making good progress in developing strategic relationships with clients and stakeholders on the African continent, specifically in the SADC region, East Africa and West Africa. This supports our strategy to grow the ECIC portfolio in West Africa and East Africa and entrench our strong footprint in SADC. Continued interaction with, *inter alia*, exporters, financial institutions and advisors added to a growing pipeline of business opportunities for our clients who use the broad spectrum of our products.

Stakeholder impact and value creation



SO Decrease cost-to-revenue ratio

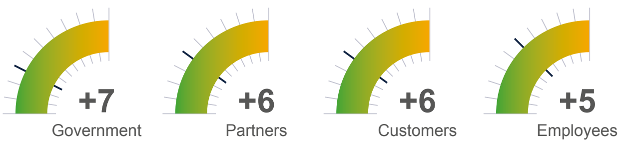
We aim to maintain an acceptable cost-to-income ratio consistent with industry benchmarks and our objectives. Since writing new business drives our revenue (earned in terms of the cover risk profile of the contract), our success is ultimately a function of our ability to retain earnings at decent margins by maximising capital inflows and decreasing costs. We are targeting a maximum 35% cost-to-revenue ratio to become self-sustainable without funding from government.

2016/17 TARGETS

35-30% cost-to-revenue ratio	**Target achieved**

The long-term nature of the majority of ECIC contracts results in most revenue from new business being earned only in later years. While the volume of new business written varies significantly from year-to-year, revenue earned remains relatively stable. The Board reviews our initiatives to reduce the cost-to-revenue ratio, while the meticulous monitoring of expenditure against budget forms part of each manager's performance contract. The average cost-to-revenue ratio, excluding net investment income recorded for 2016/17, was 20%.

Stakeholder impact and value creation



SO Increase capital base

We aim to increase the capital base that supports the growth and sustainability of our business. A sufficient level of capital is required to support the growth and sustainability of the business. Our capital base is, therefore, interlinked with many other issues, which allows us to increase our product offerings. It is central to our objective of being self-funded.

2016/17 TARGETS

10% increase in basic own funds/equity	**Target not achieved**

We used the standard formula under the current regulatory and proposed Solvency Assessment and Management (SAM) framework to track and report on our capital base. In preparation for the Insurance Law Amendment Bill being passed into law, insurers under the supervision of the Financial Services Board must implement the SAM framework, which will form part of the law and will introduce a new risk-based solvency and risk management regime.

The SAM framework requires insurers to hold sufficient capital to support the underwriting and other risks assumed by the organisation. To address this requirement, the ECIC undertook an own risk and solvency assessment to identify the risk exposures and test the sufficiency of the capital to support it. This assessment also informed the ECIC's risk appetite framework and strategic plan.

While we met the solvency requirement under the current and SAM framework for 2016/17, we did not achieve the growth target in available capital due to absorbing the IMU liability, which negatively impacted available capital.

Stakeholder impact and value creation

SO Increase revenue

We aim to increase our revenue to achieve business growth and a stronger capital base. Our target is self-sustainable financial independence from government. This will enhance stakeholder perceptions, reduce risk and create a platform for resilience and competitiveness. We must grow our revenue while maintaining minimum margins to achieve this.

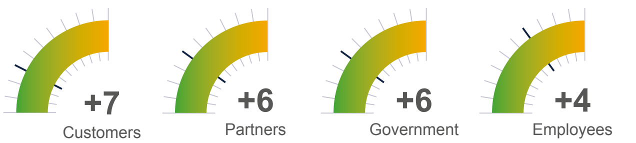
2016/17 TARGETS

Revenue from approved projects USD 350-400 million	**Target achieved**
Meet/exceed weighted ZAR and USD portfolio benchmark return	**Target achieved**

The ECIC's Investment Portfolio yielded a net investment return of R135 million for the financial year (net of manager fees, excluding currency effect). Buoyed by strong domestic equity manager performance and high allocations to bonds and cash, our domestic portfolio returned 6.3% over the year (net of fees), outperforming the 4.6% benchmark with +1.7%. The ECIC offshore portfolio returned -0.1%, a marginal negative return (net of fees in US dollar terms), outperforming the -0.6% benchmark with +0.7%. Including the effect of the currency, the combined and weighted domestic and offshore portfolio returned -3.4%, outperforming the corresponding benchmark return of -4.4% by +1.1%.

During 2016/17, the ECIC approved projects to the value of US$479 million (2015/16: US$377.1 million). We expect these projects to contribute to sustainable underwriting profit in the future. Underwriting profit for the year under review declined by 5% to R584 million (2015/16: R616 million), due to a delay in the MTN Iran renewal and DBSA Snel project that did not materialise.

Stakeholder impact and value creation



Investment strategy

The ECIC undertakes an asset-liability matching exercise annually to set its investment strategy. Assets are allocated and managed by external asset managers, selected and secured for their specialised skills, professional teams and suitable investment processes and styles.

The Rand- and US dollar-denominated assets accrue from the ECIC's income and outflows in the two currencies. As at 31 March 2017, the allocation to Rand and US dollar assets were 37.4% and 62.6%, respectively.

During the year, we adjusted the strategic asset allocation (SAA) to a more conservative stance by allocating 15% of the domestic equity exposure to cash, which is yielding more secure and stable returns. No asset manager changes were made during the year.

89% of the appointed asset managers outperformed their respective market benchmarks.

Table 5: SAA as at 31 March 2017 and associated changes effective 1 December 2016

SA Portfolio	SAA before 1 December 2016	Current SAA
Equity (%)	55.92	40
Property (%)	4.39	5
Corporate bonds (%)	1.89	5
Government bonds (%)	31.58	30
Cash (%)	6.22	20

USD Portfolio	SAA before 1 December 2016	Current SAA
Equity (%)	-	Pending approval
Property (%)	-	
Corporate bonds (%)	25	25
Government bonds (%)	62.14	62.5
Cash (%)	12.86	12.5

PO

Customer value

Goal: To drive customer value, experience and retention through innovation and relevance.

Current strategic objectives (SOs):

- Increase product range
- Increase strategic partnerships

Stakeholder identification and engagement raises awareness and helps to identify business and investment opportunities. The ECIC Board constantly seeks to diversify products to grow and sustain the business. We also support **the dti**'s Black Industrialist programme by offering bespoke underwriting criteria to increase participation in the local economy. Relationships with international export credit agencies and development finance institutions help to develop our skills base and access to international markets.

Material issues relevant for Customer Value Objectives:

- Government and credit rating downgrades
- Risk perceptions based on IMU liability
- Opportunities around the launch of the ECIC EXIM bank
- Internal capacity
- Limited investment options

SO

Increase product range

We aim to increase our product range to meet customer needs, address market gaps and remain competitive in dynamic market conditions. There is an opportunity for the ECIC to become an EXIM (Export-Import) bank. Smaller companies require loans for export and the EXIM Bank could advance money on loans below $10 million. This new product will diversify our business activities, increase our resilience and competitiveness, differentiate us among new customers and create opportunities to offer exporters a better service.

2016/17 TARGETS

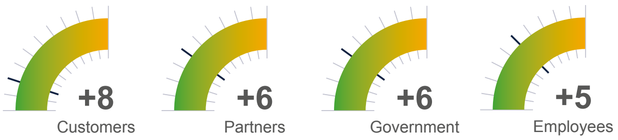
Implement two new research projects to identify new opportunities	Target achieved
Develop, test and approve one new product	Target achieved

We expanded our range of products to include insurance for lease of equipment and return of plant and machinery to South Africa. This product will assist smaller exporters who supply equipment for temporary use in specific projects. Going forward, we will continue to review our product range to look at areas for further refinement and research new ones that may be required to close market gaps.

Our strategic objective is to increase the ECIC's product range to cover customer needs, address market gaps and ensure that we remain competitive and relevant in this dynamic business environment that we operate in. We have expanded our range of products to include insurance for lease of equipment and return of plant and machinery to South Africa. This product in particular will assist the smaller exporters who supply equipment for temporary use in specific projects. Going forward, we will continue to review our product range to look at areas for further refinement and research new ones that may be required to close the market gaps.

For further information on material issues please consult page 15-16.

Stakeholder impact and value creation



SO

Increase strategic partnerships

We intend to leverage our local and international public and private sector strategic partner networks to access new markets and advance our business reach. Increasing strategic partnerships impacts directly on our ability to generate revenue. Engaging with African countries, embassies and partners, such as the Afreximbank or the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), creates trust and opens doors to new business. Stakeholder identification and engagement raises awareness about the ECIC's work and helps it identify business and investment opportunities. In addition, knowledge-sharing relationships with international export credit agencies and development finance institutions help the ECIC develop its skills base, knowledge and access to international markets.

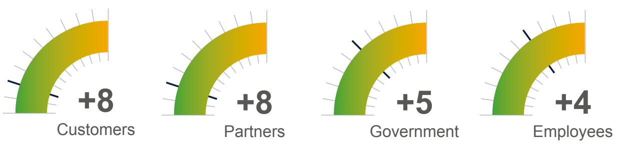
2016/17 TARGETS

Draft financier framework to increase deal flow	Target achieved
Implement eight knowledge-sharing programme	Target achieved

We implemented 13 knowledge-sharing programmes in 2016/17 to increase the competence and competitiveness of our workforce and continued to interact closely with foreign governments to identify business opportunities abroad. Our plans to diversify into the Middle East led to a Memorandum of Understanding with the ICIEC, a multilateral agency that provides investment and export credit insurance to Islamic countries, to explore insurance and reinsurance opportunities in that market.

We are negotiating a Master Risk Bond Policy with financial institutions to increase and simplify deal flows and continue to structure deal flows to improve their support for small and medium transactions. Going forward, this will remain a priority to ensure that we improve the approval turnaround times and conclusion of policy documentation between the ECIC and financial institutions.

Stakeholder impact and value creation



Social value

Goal: Create meaningful, substantial social value for a wide range of stakeholders as essential to earning and maintaining our licence to operate.

Current strategic objectives:

- Improve communication and stakeholder/customer management
- Increase stakeholder/customer satisfaction

As a responsible corporate citizen, the ECIC adheres to the international Organisation for Economic Cooperation and Development protocols and guidelines in managing its social and environmental responsibilities. Our Corporate Social Responsibility (CSR) programme supports community development and education, as well as skills development in mathematics, science and technology. We also support projects that aim to develop regional or continental industries or infrastructure.

Material issues relevant to creating social value:

- Government and credit rating downgrades
- Risk perceptions based on IMU liability
- Opportunities around the launch of the ECIC EXIM bank

Improve communication and stakeholder/customer management

Our strategic objective is to attract business proactively from new and existing customers to increase exports and cross-border business. The focus of our marketing and communication strategy is on creating brand awareness and an understanding of our mandate in local and international markets to unlock business opportunities aligned with national priorities. Raising our profile among key stakeholders builds trust and increases business, particularly among the six banks that provide the major proportion of our business. We will widen that market with a strategically targeted brand promotion campaign.

2016/17 TARGETS

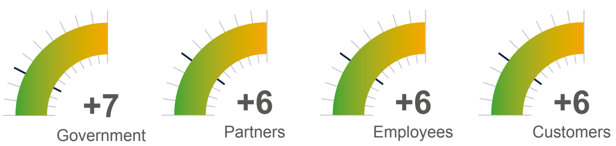
Implement two targeted marketing and communication initiatives	**Target achieved**
Engage with 10 key government stakeholders	**Target achieved**

During 2016/17, we launched two integrated marketing and communication campaigns across a number of broadcast, online, digital, radio and outdoor media platforms. Billboards were placed strategically around major airports in South Africa and in key countries such as Zambia, Ghana, Ethiopia and Tanzania. Broadcast media platforms included Business Day TV and CNBC Africa.

We supported these campaigns with participation in local and international sponsorships and trade and industry conferences. These included the ICC Banking Commission, Manufacturing Indaba East Africa, Africa Ports Evolution, Global Trade Review (GTR), Africa Invest Mining Indaba, the Africa Energy Indaba, TXF Africa in Kenya and the World Economic Forum in Kigali, Rwanda.

The ECIC was featured in more than 15 local and international print publications, *inter alia*, Engineering News, Mining Weekly, JSE Indicator, The Herald (Zimbabwe), Zambian High Commission, NEPAD Yearbook, Berne Union Yearbook, African Decisions, Public Sector Manager, as well as Sawubona and the British Airways inflight magazines.

Stakeholder impact and value creation



Increase stakeholder/ customer satisfaction

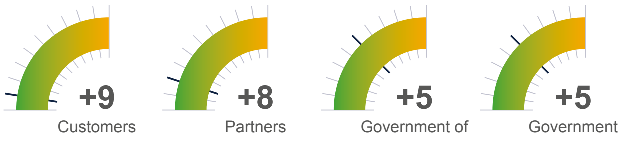
Our strategic objective is to maintain high levels of stakeholder and customer satisfaction to reinforce the ECIC as a professional, service- and success-orientated business committed to responding to customer needs. A continued focus on service delivery, brand awareness and performance monitoring, using mechanisms such as the IPSOS market survey, will help us to achieve success.

During the reporting period, we implemented a 100% of the findings from the 2015/16 brand and customer satisfaction surveys, conducted every third and second year, respectively. Addressing "Low Brand Awareness", identified by the IPSOS brand survey, was linked directly to the implementation of our marketing and communication campaigns.

2016/17 TARGETS

Implement 80% of identified triennial brand survey findings	**Target achieved**
Implement 80% of identified biennial customer satisfaction survey findings	**Target achieved**

Stakeholder impact and value creation

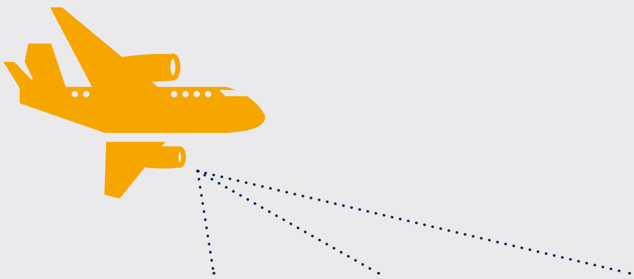


Climate change and environment

Environmental sustainability is an increasingly important pillar of the ECIC's sustainability foundation. Climate change, energy security, water scarcity and the low-carbon agenda are issues that not only affect South Africa but also the large majority of regions in which we operate.

We are committed to improving our environmental data collection and analysis systems to compare performance over time. In future reporting, we will attempt to quantify this natural capital impact. The ECIC's environmental impact results from our operational activities, mainly energy use and travel and the actual, or potential, environmental impacts of our investments or projects.

Flights (km)



Total	Total local	Total international
2 527 303	209 285	2 318 018

Electricity (kWh)

Total Usage
203 092

Reporting on these impacts will improve over time as we incorporate systems to record key data. This report deals only with direct impacts from our operational activities.

We are increasingly discussing the economic risks associated with climate change through our materiality process and will revisit this to include this issue more expansively in our strategic approach. Climate change risks in our investment markets associated with, *inter alia*, extreme weather conditions, community displacement, labour migration, agri-production variances and economic depression are increasingly necessary for the ECIC to asses.

Corporate social responsibility (CSR)

CSR reflects an organisation's value system in the way it conducts business, creates stakeholder value, impacts on the environment and surrounding communities and affects employee morale.

Our CSR programme creates opportunities for employees to contribute time or money to help those less fortunate. Our education interventions are helping to improve the teaching quality of mathematics, science and accounting at a basic education level and increase the number of learners who enrol in mathematics- and science-related qualifications at tertiary level.

During the year under review, the ECIC contributed R6.2 million towards community upliftment, education and skills development projects and programmes throughout the country. We partnered with the Nelson Mandela Foundation (NMF) in 2016 to build a vegetable and fruit tree garden at the Ubuhle Christian School, a farm school in Bronkhorstspruit on Mandela Day. Our employees worked alongside learners, educators and the NMF-endorsed Food & Trees for Africa.

Funding from the ECIC helps Axium Education to provide mathematics, science and English after-school lessons to 200 Grade 8-12 learners from six schools in Mqanduli. Thus far, 21 BSc students graduated in mathematics and science in 2016. One of the graduates, Zuko Sogoni, was the first in the Eastern Cape school to achieve distinctions in all seven subjects, including 99% in physical science.

Our 2013 partnership with the MSLA has been funding after-school tutorials in mathematics, science and leadership for 82 learners for a four-year period from Grade 9 to Grade 12. The learners will complete their studies at the end of 2017.

A computer laboratory for 25 people was completed at the Sea View Senior Secondary School in Mqanduli in 2016. Educators at the school received E-beam training in the use of the audio-visual equipment and collaborative software.

The Nkosinathi Foundation for blind and partially-sighted people in the Eastern Cape is an ECIC community development project. We funded the purchase of audio-visual equipment in 2015 to rehabilitate their blind and partially-sighted clients. The equipment provides blind, low-vision and older clients with portable access to printed material with human-sounding voices.

Six ECIC-funded students are completing a three-year Yacht and Boat-building Programme at the False Bay Technical and Vocational Education and Training (TVET) College in Cape Town. They will graduate with National Qualification Framework (NQF) Level 4 Certificates at the end of 2017.

The ECIC's Enterprise and Supplier Development (ESD) enterprise (export) development programmes are aligned with the broad-based black economic empowerment (BBBEE) legislative framework and aims to bolster export growth, supplier diversity, economic inclusivity and competitiveness. Through these programmes we support black-owned SMMEs, Exempted Micro Enterprises (EMEs) and Qualifying Micro Enterprises (QMEs) through preferential procurement to qualifying suppliers. Our partnership with the Small Enterprise Development Agency (SEDA) also enables us to assist SMMEs with a comprehensive and sustainable business development plan.

The focus of our Exporter Development programme is on supporting and developing SMMEs in the manufacturing sector that are exporting or have the potential to export goods to foreign markets. Through the programme, we invested R8,4 million in 17 SMMEs during the past financial year.

Our Supplier Development programme supports SMMEs from different sectors in the ECIC's supply chain to become more competitive in their industries and sectors. Our investment in these SMMEs is aligned with the B-BBEE compliance scorecard and will increase supplier diversity and service quality.

GOVERNANCE

Governance Report

The Board is responsible for the governance and compliance framework of the ECIC.

Compliance with laws, rules, codes and standards

The ECIC operates in a highly regulatory environment. The Board ensures that it complies with applicable laws and considers adherence to non-binding rules, codes and standards. A dedicated compliance function identifies applicable legislation, regulatory requirements and related amendments, analyses its impact on the business and facilitates compliance monitoring and control using a risk-based approach. The function collaborates with other risk assurance providers and internal functions, including Operations.

The governance committees escalate material regulatory issues to the Board and corrective action is taken to address identified non-compliance.

Legal and regulatory universe

The ECIC is listed as a Schedule 3B public entity in terms of the Public Finance Management Act, 1 of 1999, as amended (PFMA). The company was reconstituted in terms of the Export Credit and Foreign Investment Insurance Act, 78 of 1957, as amended, and incorporated in terms of the Companies Act, 71 of 2008, as amended. South Africa's legislative framework for corporate entities also applies to the ECIC although the PFMA supersedes all other legislation apart from the Constitution.

The company is also registered as a financial services provider and must comply with applicable insurance regulations, such as the Short-Term Insurance Act, 53 of 1998, as amended by the Financial Services Laws General Amendment Act, 45 of 2013. An Export Credit Insurance Agreement with the Minister and annually renewed Shareholder's Compact, both with the Minister of Trade and Industry, governs the ECIC business conduct, as required by the PFMA. The ECIC also subscribes to the King Report on Corporate Governance, 2009 (King III).

Public Finance Management Act (PFMA)

Compliance with the PFMA drives transparency, accountability and sound management of revenue, expenditure, assets and liabilities in public entities. The ECIC Board, as the Accounting Authority, takes effective and appropriate steps to prevent irregular, fruitless and wasteful expenditure. The ECIC's Materiality and Significance Framework is reviewed annually. Compliance with PFMA reporting, according to section 55(2)(b), is disclosed on page 56 of this report.

Alignment with King III

The Board has adopted the principles of openness, integrity and accountability as espoused in the King Code on Corporate Governance (King III). The extent of our compliance with applicable King III governance principles and recommendations during the past year is available online. The Board has noted and welcomes King IV, released on 1 November 2016, which replaces King III in its entirety.

Board of Directors and its composition

The ECIC is governed by a unitary Board of Directors who, collectively, have the required experience and business acumen to guide the company's strategy and governance. The Board consists of nine directors, including six independent non-executive directors, two non-independent non-executive directors (government representatives) and the CEO as an executive director. All directors have a fiduciary duty to exercise due care and skill in carrying out their responsibilities. The Board is accountable to the shareholder for the ECIC's activities and performance.

Board Charter

The Board Charter is reviewed annually and sets out the responsibilities of the Board, its directors and the ECIC management. The charter ensures that the Board exercises full control over significant matters, including the ECIC's vision, mission and values; strategic objectives, business plans, annual budget, dividend policy and performance monitoring against set objectives, organisational design, the integrated report and annual financial statements.

Chairman and Chief Executive Officer

The roles of the Chairman and Chief Executive Officer (CEO) are separated. The Chairman is an independent non-executive director who ensures that the Board is efficient, focused and operates as a unit. The responsibility for managing the ECIC's business is delegated to the CEO, as the executive director accountable to the Board.

Delegation of authority

The Board confers authority on management through the CEO in terms of approved authority levels. A delegation of authority document, updated as required, regulates the delegation of authority to Board committees and management.

Independence of directors

The Board Charter supports independent and objective decision-making with no director holding unfettered decision-making powers. Director "independence" is aligned with King III, while non-executive directors who represent government departments are not considered as independent. None of the directors have contractual or family relationships with the company, nor do they participate in company incentive schemes or charities that benefit from donations by the ECIC. This ensures fair, unbiased and unfettered judgements about matters that affect the company.

Company Secretary and Secretariat

The Company Secretary guides directors to discharge their legal and regulatory responsibilities in the best interests of the company. Duties include providing directors with timely and unrestricted access to information, director training, induction and evaluation and meeting agendas and minutes.

Appointment policy

Board vacancies are publicly advertised and candidates are subject to security clearance. Director recruitment is in accordance with **the dti**'s Policy Framework and the Procedures on Oversight and Governance of Public Entities and Statutory Institutions. The policy provides a generic set of principles, procedures and processes that promote good corporate governance and strengthen **the dti**'s oversight responsibilities over its group of entities.

The shareholder appoints the directors (and CEO) to, typically, serve for three years. A retiring director can be reappointed at the shareholder's discretion.

Board meetings

The Board develops an annual work plan that covers its mandate and sets meeting dates and agendas. Meetings are scheduled a year in advance and special meetings are convened as required. Directors who cannot attend meetings can participate through telephone conference calls. Executive Management Committee members attend meetings to report on relevant matters. The Board met 11 times during the year on 14 April (special meeting), 26 April, 30 June, 28 July, 29 September, 24 October and 30 November 2016 and 26 January, 6 March (special meeting), 9 March and 30 March 2017.

Board documentation is available digitally through a Board portal. This increased communication, decision-making and boardroom efficiency, reduced paper consumption and resulted in significant bottom-line savings.

Table 6: Board committees, members and meeting attendance for the period 1 April 2016 to 31 March 2017

Board and Committee Attendance	Board	Audit	Risk	Fin & Invest	Remuneration	Social & Ethics
Non-Executive Board Members						
Motshoanedi Johannes Lesejane (Chair)	10/11*				2/3*	3/4
Andiswa Mosai	10/11	8/8			2/3	4/4*
Lefentse Radikeledi	11/11	7/8		5/5		
Pumla Ncapayi Ernest Moagi[1] Willem van der Spuy[2]	6/11			2/6	1/3	
Abel Mawela	8/11	6/8*	3/4		3/3	
Fagmeedah Petersen-Lurie[3]	10/10	8/8	4/4	6/6*	3/3	
Vuyelwa Matsiliza	4/11		4/4*			
Siobhain O'Mahony	4/11			5/6		3/4
Executive Board Member						
Kutoane Kutoane (CEO)	11/11					3/4

1 Alternate to Pumla Ncapayi – term ended 30 November 2016
2 Alternate to Pumla Ncapayi – term began 1 December 2016
3 Term ended 30 March 2017
* Chairperson of committee

Director induction, orientation and ongoing education

A comprehensive director orientation, induction and training programme is implemented on an ongoing basis to inform new directors about their duties and responsibilities. Existing Board members are encouraged to, and do, participate in the induction programme. The orientation programme is structured to improve directors' understanding of the ECIC's legislative framework, governance processes, delegation of authority and business operations.

Board members attend regular internal and external briefing sessions to broaden their understanding of the ECIC's operations and keep Board committees informed about new legislation and regulations, as well as local and international industry developments, technology issues, risk management and corporate governance best practices. Director mentoring or coaching is available, when required.

Independent advice

The Board recognises the need for directors to take independent professional advice at the company's expense according to an agreed procedure. No individual director exercised this right during the period under review.

Board and director evaluations

An annual evaluation process assesses the effectiveness of the Board and Board committees and identifies major operational weaknesses and/or the relative skills mix and other considerations for effectiveness. The Board submits its evaluation and progress report annually to **the dti**.

Board and committee performance were evaluated this year through questionnaires compiled by the internal auditor and edited by the Company Secretary. All ten directors, including the alternate director, completed the questionnaire.

Whilst satisfied with the size, diversity and composition of the Board, director and development-orientation, delegation to Board committees and selection of committee members, the feedback highlighted the need for:

- Information Technology (IT) governance experience at Board level
- an improved information flow between management and Board
- improvement in the quality of Board meeting packs and meetings
- improved skills on the management team
- focus on strategic Board oversight rather than operational involvement
- managed expectations of directors and management
- integration of committees with overlapping mandates.

The overall performances of the Chairman, Company Secretary, Board and committees were viewed as satisfactory.

The CEO's performance is also reviewed annually by the Board and Executive team and feedback given by the Chairman.

The Board, under the leadership of the Chairman, remains committed to the process, which has been embraced as a valued feedback mechanism. The Board also proposed that the next Board evaluation, due to be conducted internally, should be complemented with face-to-face interviews to address identified shortcomings in the methodology used for the last two evaluations.

Information technology governance

The Audit Committee and Risk Committee monitor IT governance by:

- considering the efficacy of IT controls, policies and processes and their risk to financial reporting and the effectiveness of financial controls
- monitoring initiatives to manage IT risks appropriately to mitigate threats to operational continuity.

Values and ethics

The ECIC's values support its Code of Ethics and Business Conduct. Directors and employees are required to declare potential conflicts of interest between organisational obligations and personal interests. Should these arise, members are required to recuse themselves during the discussion of the related matter at meetings.

Board Committees

In terms of the Memorandum of Incorporation and/or the Companies Act, 71 of 2008, the Board has, effectively and efficiently, established committees and delegated responsibilities. The committees are governed by Board-approved Terms of Reference (ToR) that define the composition, role, responsibilities and delegated authority of each committee. The respective ToRs are aligned with regulatory requirements and governance best practice. Board Committee Charters are reviewed annually, as recommended by King III.

Board committees are the Audit, Risk, Social and Ethics, Finance and Investment, and Remuneration Committees. The Board remains ultimately accountable for the proper fulfilment of committee functions, except for the statutory functions of the Audit Committee and the Social and Ethics Committee. Committee chairpersons report to the Board on their deliberations and recommendations.

Audit Committee

The Audit Committee is constituted as a statutory committee in terms of the Companies Act, 71 of 2008, and is also responsible for all other duties assigned to it by the Board. During the year under review, the committee consisted of three independent, non-executive directors and one representative of National Treasury appointed by the shareholder at the annual general meeting. The Audit Committee met eight times during 2016/17 on 26 April, 15 June, 28 July, 29 September, 24 October and 17 November 2016 and 26 January and 14 March 2017.

The committee operates in terms of a formal charter and Board-approved annual work plan. The external and internal auditors attend committee meetings, have unrestricted access to the committee and chairman and can address the Audit Committee at each meeting without the presence of management.

The Audit Committee has not recommended the engagement of an external assurance provider on material sustainability issues to the Board as it regards the internal assurance as adequate, given the maturity of existing processes.

The committee believes that it has complied with its legal and regulatory responsibilities for the year under review (refer to Audit Committee Report).

Assurance statements

The Audit Committee is satisfied that:

- the ECIC complied with its legal, regulatory and other responsibilities
- correct and up-to-date quarterly returns, required by the PFMA and Treasury Regulations, were lodged with **the dti**
- accounting policies and financial statements are appropriate and comply with International Financial Reporting Standards and the requirements of the Companies Act, 71 of 2008
- the internal auditor, Outsourced Risk and Compliance Assessment (Pty) Ltd, was suitably independent
- internal controls and risk management measures, including internal financial controls, are effective, as outlined in the internal auditor's written assessment
- internal financial controls and risk management measures (including internal financial controls) are effective and form a sound basis for reliable financial statements
- the committee executed its duties in terms of the requirements of King III. Instances where these requirements have not been applied is provided on page 54 to 55
- the external auditor was appointed in line with sections 25(1)(b), (2), (3) and (4) of the Public Audit Act, 25 of 2004
- the external auditor is independent in accordance with King III, which considers previous appointments, other work undertaken for the ECIC and possible conflicts of interest as described by the Independent Regulatory Board for Auditors
- the external auditor provided suitable assurance that internal governance processes within the ECIC support and demonstrate its claim to independence.

Risk Committee

The Risk Committee is responsible for the risk identification, evaluation, monitoring and management that vests in management. The committee assists the Board by ensuring that risk management processes and controls effectively identifies and monitors key risks in an integrated and timely manner and are implemented appropriately.

The committee supports the Board in discharging its IT governance duties and oversees the implementation of new, applicable regulatory developments, such as the Own Risk Self-Assessment (ORSA). Committee members serve on the Audit, Finance and Investment, Remuneration, and Social and Ethics Committees for ease of collaboration on risk issues. The committee met four times during the review period on 23 June, 8 September and 14 November 2016 and 9 March 2017.

Activities in 2016/17

The committee:

- advised the Board on the overall risk appetite, tolerance and strategy within its existing and future macroeconomic and financial environments
- advised the Board, prior to decision-making, on the risks and implications of proposed strategic transactions on the company's risk appetite and tolerance levels, which included the sourcing of independent external advice, where appropriate
- regularly reviewed and approved Risk Register measures and methodology
- set Risk Dashboard standard to monitor critical risks accurately and timeously
- advised the Board on existing risk exposures (Portfolio Report) and future risk strategy
- received and considered all risk matters reported by the Board and/or committees
- reviewed reports of material breaches of risk limits and the adequacy of proposed actions
- ensured that appropriate resources were available to manage risk and that those responsible had access to the necessary information to perform their function effectively

- had oversight responsibility for the Business Continuity and Disaster Recovery Plan
- evaluated the adequacy and effectiveness of the enterprise risk management system
- reviewed risk policies, including the underwriting risk policy and operational risk policy.
- monitored the company's ICT framework and strategy.

The committee believes that it discharged its obligations adequately during the year and that all material risks were identified, quantified and, where possible, mitigated.

Finance and Investment Committee

The Finance and Investment Committee comprised three independent non-executive directors and one non-independent non-executive director (**the dti** representative). Meetings are also attended by the statutory actuary and investment managers on invitation. The committee met six times during the year on 2 June 2016, 1 September 2016, 20 September 2016, 3 November 2016, 30 November 2016 and 2 March 2017.

Activities in 2016/17

The committee undertook, among others, the following activities:

- reviewed investment policies
- oversaw the development of the investment strategy
- oversaw and guided the implementation of the company's asset managers' mandates
- monitored asset managers' and the statutory actuary performance
- provided information to the Board on the achievements and challenges experienced by the company's fund managers and the economic outlook locally and globally
- monitored investments to ensure optimal returns
- oversaw the local mandates, selection of new managers and termination of managers
- monitored the absorption of the IMU liability onto the company's books
- reviewed and oversaw the utilisation of the annual budget
- helped the Board ensure that the ECIC's investment portfolio is adequately managed.

Remuneration Committee

The Remuneration Committee consists of the Board shareholder representative and Board Chair, as well as the Audit Committee, Social and Ethics Committee and Finance and Investment Committee chairpersons. Three meetings were held during the year on 23 June and 17 November 2016 and 22 March 2017.

Areas of responsibility

The Remuneration Committee considers, among others, overall remuneration matters to ensure that these are fair and in line with the corporate remuneration philosophy. It also considers Board and executive succession and determines the Board's induction and continuing development programme.

Activities in 2016/17

Some of the matters that the Remunerations Committee addressed during the reporting period included:

- taking account of business performance and recommended the 2015/16 short-term incentive pay-outs
- reviewing the company's remuneration policies and monitoring their implementation and effectiveness
- developing the year's human resources strategic plan
- reviewing the performance of the CEO and members of the Executive Management Committee.

Remuneration report

This remuneration report is prepared in accordance with the Companies Act, King III and the Financial Services Board Notice 158.

Remuneration philosophy

The ECIC's business demands exceptional, high-performing individuals. Remuneration, reward and recognition play a key role in attracting, engaging, motivating and retaining the right employees. The remuneration philosophy directs that employee remuneration and reward are in line with market norms and individual and team goals aligned with those of the corporation to achieve sustainable improvement.

Board remuneration

As prescribed in the Export Credit and Foreign Investment Insurance Act, 78 of 1957, the Minister of Trade and Industry determines the remuneration of non-executive Board members. Board members receive an annual retainer, a fee for attending Board and committee meetings and compensation for all costs incurred in carrying out their Board duties.

Annual cost of living adjustments on the fees are granted after a Board evaluation report is submitted to the Minister of Trade and Industry. (refer to the annual financial statements).

Government department representatives who serve on the Board are not remunerated for their services as directors in line with the Public Service Act, 1994.

Executive and staff remuneration

Employees are remunerated on a cost-to-company basis (refer to the annual financial statements). In addition to guaranteed pay, the ECIC offers employees annual, short-term employee incentives annually, based on Board approval.

Guaranteed pay

Guaranteed pay consists of base pay and benefits, such as medical aid and provident funds. The ECIC uses the Paterson grading system based on factors such as decision-making, responsibility and judgements to determine job-linked pay scales. Pay scales are pinned at the 50th percentile for general positions and 70th percentile for critical and scarce-skills positions. The ECIC also benchmarks itself annually against industry peers. Deviations are negotiated through the Remuneration Committee with approval by the Board. Remuneration is reviewed annually.

Short-term incentives

Board-approved short-term incentives are payable annually, depending on the financial sustainability of the ECIC. The scheme rewards performance based on a “balanced scorecard” performance appraisal. Bonuses are discretionary. The short-term incentive scheme was last reviewed in December 2015 to align it with market practice.

Where necessary, the Remuneration Committee uses the services of an external adviser to track market trends related to all employee levels. The ECIC’s benefits comply with legislation and are aligned with the applicable local benchmarks.

Looking ahead

The ECIC will continue to review and roll out improved employee remuneration practices. Salary benchmarking will be improved in 2018 to improve talent identification and growth among existing employees.

Social and Ethics Committee Statutory Report

The Social and Ethics Committee is constituted as a statutory committee of the Board under section 72(4) of the Companies Act, 71 of 2008 (read with Regulation 43 of the Companies Regulations). This report will be presented at the Company’s Annual General Meeting during the 2017/18 financial year. The committee met four times during the year on 26 May, 25 August and 30 November 2016 and on 9 March 2017.

Responsibilities

The committee fulfils its functions and responsibilities in terms of the Companies Regulations 2011 and, from time to time, other Board-assigned functions. These responsibilities are documented in the committee’s Terms of Reference and annual work plan.

Activities in 2016/17

The committee received several management reports and considered the following matters within its mandate:

- confirmation that the ECIC’s business conduct is aligned with the applicable UN Global Compact Principles and OECD Recommendations Against Corruption regarding human rights, labour standards, the environment and anti-corruption
- the corporate social investment programme
- progress against the ECIC’s employment equity plans
- consumer relationships to ensure that industry-specific consumer protection legislation and policies (ie FAIS, Short-Term Insurance Act) are in place and compliance managed
- performance against **the dti**’s generic Broad-based Black Economic Empowerment scorecard to achieve the highest rating possible.

The committee focused specifically on:

- stakeholder engagement (pages 31-32 of this report)
- marketing and communication initiatives (page 43 of this report)
- CSI and supplier enterprise development initiatives (page 45 of this report)
- remedial actions for the improved occupational health and safety of employees and visitors.

Ethical conduct overview

The Fraud Prevention Policy, Whistle-Blowing Policy and Code of Ethics and Business Conduct are in place and were reviewed to combat corruption, manage identified fraudulent activities and ensure that the essential features of ethical conduct are governed and managed effectively. These policies are communicated adequately to staff.

Compliance

The ECIC’s conduct is guided by a number of policies, including:

- The Code of Ethics and Business Conduct
- The Honesty and Integrity Requirements Policy
- The Conflict of Interest Management Policy
- The Financial Intelligence Centre Act, 38 of 2001 (requires reporting suspicious and unusual transactions to the Financial Intelligence Centre)
- The Gifts Policy (requires employee to declare gifts above a certain threshold)

- The Procurement Policy (details conduct during supply-chain processes).

The committee is of the view that the ECIC assigned the necessary importance to its environmental, social and ethical governance responsibilities and aligned its initiatives with the Company's business strategy.

No substantive legislative or regulatory non-compliance or transgressions of codes of best practice that fall within the committee's mandate were brought to its attention. The committee has no reason to believe that any such non-compliance or non-adherence occurred.

Plans for 2017/18

The committee recognises the dynamic nature of its environmental, social and ethics mandate and will ensure that relevant policies, plans and programmes are in place to promote and sustain social and economic development, good corporate citizenship, environmental responsibility, fair labour practices and good consumer relations. Going forward, the focus will be on ethics management, performance oversight and industry peer-benchmarking.

Other Governance Structures

Credit Insurance Committee

The Credit Insurance Committee was a statutory committee established in terms of the Export Credit and Foreign Investments Insurance Act, 78 of 1957, to evaluate insurance applications, claims and salvage actions. An amended agreement with the Minister during the reporting period placed the committee, which previously functioned independently, under Board control.

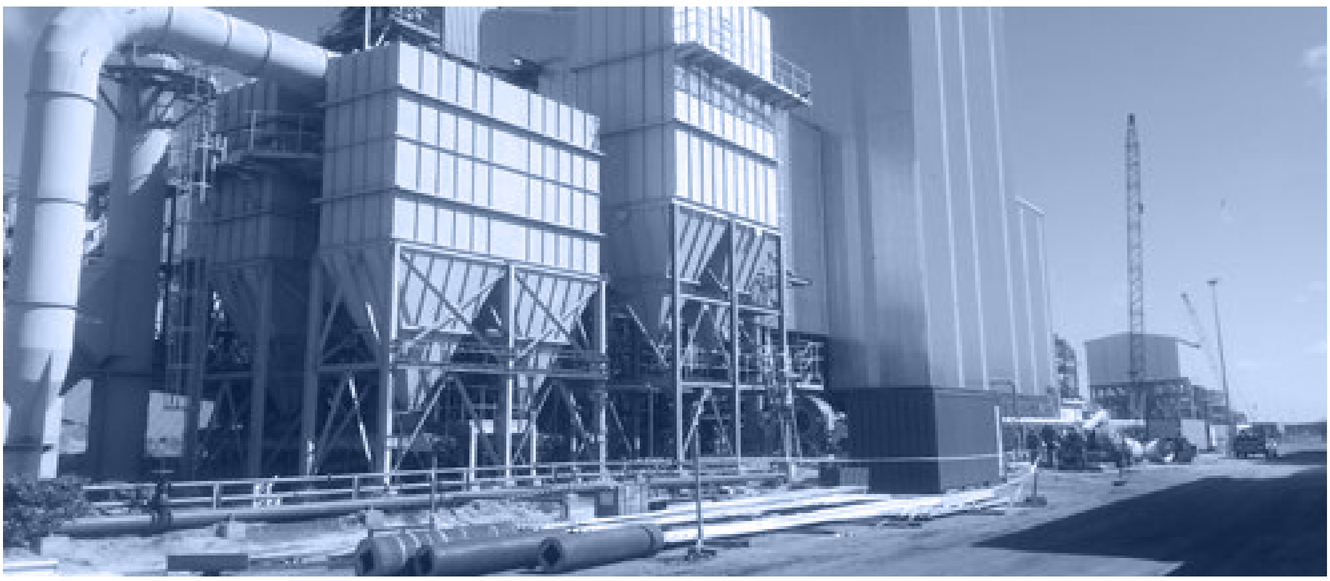
Executive Management Committee

The Executive Management Committee (Exco) is chaired by the CEO and includes the Chief Operations Officer (COO), Chief Financial Officer (CFO), General Counsel (GC) and Chief Risk Officer (CRO). The Company Secretary serves as Exco secretary. The CEO co-opted the Actuarial, Marketing and Communications, Human Resources and Stakeholder Management and Strategy managers onto Exco. The committee's five focus areas are administration, operations, projects, enterprise risk management and ICT.

Activities in 2016/17

The Executive Management Committee met at least once a month to ensure effective operational decision-making and management oversight and attend to matters delegated by the Board. These included:

- developing the company's strategy and budget for Board consideration and approval
- ensuring effective day-to-day operations in accordance with approved strategies, policies and procedures
- evaluating insurance cover applications and considering amendments, waivers or consents
- monitoring the status, salvage and claims of projects
- monitoring and reviewing employee development such as staff training, personal development and management development.
- identifying, mitigating, monitoring and reporting on enterprise-wide risks
- overseeing stakeholder relationships
- overseeing the effective management of ICT resources
- approving corporate social investment and funding for enterprise supplier development projects
- monitoring progress against Corporate performance targets.



King III Compliance

The ECIC is committed to good governance and guided by the King Reports on Corporate Governance in its business conduct. During the 2016/17 financial year, we adhered to the best of our ability to the governance principles in King III. Going forward, our governance practices will take cognisance of the requirements in King IV.

Approach to compliance

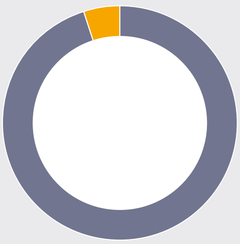
The ECIC bases its approach to risk management on a zero-tolerance approach towards non-compliance with governance principles as espoused in the King Code on Corporate Governance, 2009 (King III). Our performance against the principles are reflected in a checklist that is available on our website at http://www.ecic.co.za/About-Us/Corporate-Reports

Alignment with King III

The ECIC Board has adopted the principles of openness, integrity and accountability as espoused in King III. During the year under review, the ECIC continued to improve its compliance with applicable King III governance principles and recommendations. The Board has noted and welcomes the King IV Report on Corporate Governance for South Africa 2016 (King IV), released on 1 November 2016, which replaces King III in its entirety.

The Board was satisfied with the application of the King III recommendations and, when required, the alternative measures put in place to address compliance.

The ECIC has implemented 95% of the recommendations and complied partially with the rest (5%).



Compliance with King III 2016/17

Applied 95%

Partially applied 5%

Not applied 0%

Governance elements with partial compliance

Approach to non-compliance with governance principles

	Governance element	Principles	Comments	Control document/ procedure	Owner
1.3	Ethical foundation	The Board should ensure that the company's ethics are managed effectively	The Board appointed the Social and Ethics Committee to help meet ethical requirements in formalising and strengthening the ECIC's internal ethics framework and defining appropriate structures.	Social and Ethics ToRs	Compliance Officer
			Embedding this in business processes (*inter alia*, including adherence to an ethical standard in individual performance assessments) will be an ongoing endeavour	Code of Ethics and other Ethics Policies	
			The company's ethics performance will be assessed, monitored, reported and disclosed in the new year	Ethics and Compliance Awareness Programme	

	Governance element	Principles	Comments	Control Document/ Procedure	Owner
2.5	Responsible corporate citizen	The Board should ensure that the company is and is seen to be a responsible corporate citizen	Refer to Principle 1.3	Refer to Principle 1.3	Refer to Principle 1.3
5.5	Establishment of IT as part of Risk Management Framework	IT should form an integral part of the company's risk management	IT governance is a standing Board agenda item and risks relating to IT are assessed on a regular basis	ICT Governance Charter	Chief Financial Officer
9.3	Transparency and accountability	Sustainability reporting and disclosure should be independently assured	The ECIC is refining its integrated reporting process	Annual Integrated Report	Company Secretary Stakeholder Management
			Assurance for identified areas will be considered in future		Chief Financial Officer
			An analysis of the GRI standards will be considered in future and adopted as is suitable and applicable		

Directors' responsibility statement and approval of the Annual Financial Statements

FOR THE YEAR ENDED 31 MARCH 2017

The Board of Directors is responsible for the preparation, integrity and fair presentation of the financial statements. The external auditor is responsible for auditing the financial statements. The Board acknowledges its duty to ensure balanced content and fair presentation that provides a comprehensive assessment of the ECIC's performance for the financial year ended 31 March 2017.

In terms of the Companies Act (2008), the directors are required to maintain adequate accounting records and to prepare annual financial statements that fairly present the company's financial position at year end and the results and cash flows for the year.

To enable the Board to discharge its responsibilities, management has developed and continues to implement standards and systems of internal controls to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain the accountability of the ECIC's assets. The Board has ultimate responsibility for this system of internal controls and reviews the effectiveness of its operations, primarily through the Audit Committee.

The internal controls include risk-based systems of accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with sound business practices and the ECIC's written policies and procedures.

As part of internal controls, the company's internal audit function conducts inspections, financial and specific audits. The external auditor is responsible for reporting on the company's financial statements. The financial statements were audited by the independent auditor, KPMG Inc., who were given unrestricted access to all financial records and related data, including minutes of meetings of the Board and committees of the Board. The directors believe that all representations made to the independent auditor during their audit were valid and appropriate.

The ECIC's annual financial statements are prepared in accordance with International Financial Reporting Standards and incorporate responsible disclosures in line with the accounting policies. The appropriate accounting policies are consistently applied except as otherwise stated and supported by reasonable and prudent judgments and estimates.

The performance information fairly reflects the operations, actual output against planned targets for performance indicators as per the ECIC's strategic plan and annual performance plan for the financial year ended 31 March 2017. The performance information has been reported on in accordance with the requirements of the guidelines on annual reports as issued by National Treasury.

Based on the information received from management, as well as the internal and external auditors, nothing has come to the attention of the directors to indicate a material breakdown in the systems of internal control during the year under review.

Disclosure in terms of section 55(2)(b) of the PFMA:

- Material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the year: refer to note 22.1 of the annual financial statements.
- Any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure: there were no instances where the ECIC sustained material losses.
- Any losses recovered or written off: no material losses were recovered or written off other than in the ordinary course of business.
- Any financial assistance received from the state and commitments made by the state on behalf of the ECIC: no such financial assistance was received.

The directors have a reasonable expectation that the ECIC has adequate resources to operate in the foreseeable future and have adopted the going-concern basis in preparing the financial statements.

The financial statements of the ECIC for the year ended 31 March 2017 that appear on pages 61 to 112 were approved by the Board of Directors on 27 July 2017 and are signed on its behalf by:

MJ Lesejane

A Mawela

Audit Committee Report

This is the Audit Committee's report for the financial year ended 31 March 2017. The Audit Committee is an independent statutory committee whose membership is appointed at the annual general meeting.

Terms of reference

The committee has adopted its formal terms of reference as approved by the Board. The committee has discharged these responsibilities and conducted its affairs in compliance with these terms of reference.

Roles and responsibilities

Governance of risk

The committee fulfils an oversight role on financial reporting risks, internal financial controls, compliance risks, fraud risk as it relates to financial reporting and IT risks as these relate to financial reporting.

Internal audit

The committee is responsible for the appointment, compensation, retention and oversight of the internal auditor, who is responsible for reviewing and providing assurance on the adequacy of the internal control environment.

This function is outsourced to Outsourced Risk and Compliance Assessment (Pty) Ltd. The committee approved the risk-based internal audit plan for 2016/17. The engagement partner of the internal audit firm has unrestricted access to anyone in the organisation and reports the findings of the internal audit work to the committee on a regular basis. Internal audit reports functionally to the committee chairperson and operationally to the Head: Stakeholder Management. The committee is satisfied with the effectiveness of these arrangement for internal audit.

During the year under review, the committee met with the external and internal auditors without management being present. The committee considers internal audit to be functioning effectively and to have addressed material risks pertinent to the ECIC in its audit.

External audit and non-audit services

The 2017 financial year was the first year of the tenure of KPMG as external auditor. The committee is satisfied with the independence and objectivity of KPMG, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought from and provided by KPMG that internal governance processes within the firm support and demonstrate its claim to independence.

To assess the effectiveness of the external auditor, the committee considered KPMG's fulfilment of the agreed audit plan and variations from the plan, and the robustness and perceptiveness of KPMG in its handling of key accounting treatments and disclosures. The committee, in consultation with Executive Management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2017 financial year.

Any non-audit services to be provided by the external auditor is governed by a formal written policy and all such services are to be pre-approved by the committee to ensure that such services do not impair the independence of the external audit firm. The non-audit services rendered by the external auditor during the year ended 31 March 2017 comprised tax advisory services, tax compliance services and general advisory services. The non-audit related fees totalled R275 000.

The committee has recommended, for approval at the Annual General Meeting, the reappointment of KPMG as registered auditor for the 2018 financial year.

The committee has met with the external auditor to ensure there were no unresolved issues.

Financial statements and accounting practices

The committee has reviewed the accounting policies and the financial statements of the ECIC and is satisfied that they are appropriate and comply with the International Financial Reporting Standards and the requirements of the Companies Act.

Internal financial controls

A high-level review of the design, implementation and effectiveness of the company's internal financial controls was performed as per the internal audit plan. The review aimed to provide comfort on financial reporting controls, which are relied on in preparing the annual financial statements. Based on information and explanations given by management and the internal auditor, and discussions with the independent external auditor on the results of their audit, the committee believes the system of internal control for the review period was adequate, efficient and effective.

Finance function

Clarinda Simpson was appointed on 16 May 2016 as the Chief Financial Officer.

The committee is satisfied that Clarinda Simpson has the appropriate expertise and experience to meet the responsibilities of the Chief Financial Officer role. Furthermore, the committee has considered and satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function.

Integrated reporting

The committee has reviewed the integrated report of the ECIC for the year ended 31 March 2017 and submits that management is presenting an appropriate view of the entity's position and performance.

The quality of the in-year management and monthly/ quarterly reports submitted in terms of legislation

The committee is of the opinion, based on the information and explanations provided by management as well as the results of audits performed by the internal and external auditors, that the financial information provided by management to users of such information is adequate, reliable and accurate.

Evaluation of financial statements

The committee has evaluated the annual financial statements of the ECIC for the year ended 31 March 2017. It has also reviewed:

- The external auditor's report.
- The external auditor's management report and management's responses thereto.
- Any changes in accounting policies and practices.
- The ECIC's compliance with applicable legal and regulatory provisions.
- Information on predetermined objectives included in the annual report.
- The quality and timeliness of the financial information availed to the Audit Committee for oversight purposes during the year.
- Any significant adjustments resulting from the audit.

Significant matters that the Audit Committee has considered in relation to the annual financial statements, and how these were addressed by the committee

With effect from 29 September 2016 the accrued and unpaid interest make-up obligations of the Minister and/or dti transferred to the ECIC. The IMU scheme is an interest rate incentive scheme whereby the company subsidises the interest rates charged to their clients. The IMU scheme was established to facilitate and encourage South African export trade.

At a valuation date, the IMU liability is calculated using a discounted probability weighted cash flow approach. Future IMU payments are based on the agreed/contracted drawdown and repayment schedules for the existing agreements updated with actual drawdowns and repayments at a valuation date. Payments are expected to be made until October 2029 (based on the current contracts). These payments are denominated in US Dollars and the US Treasury Bills Yield Curve is used to discount the payments to the present valuation date. The future IMU payments will cease if the ECIC insurance policy linked to the IMU agreement receives an insurance claim. This means there is a probability that the future payments will not occur. Therefore, future IMU payments are contingent on the insurance policy surviving (i.e. not receiving a claim).

The committee requested Deloitte to review the valuation of the IMU liability. The review is part of Deloitte's responsibility as ECIC's Statutory Actuary. The committee also requested Senior Counsel and KPMG to review the income tax consequences in respect of the interest make-up payments. The outcomes of both reviews have been used to ensure fair presentation of the IMU liability in the annual financial statements of the ECIC for the year ended 31 March 2017.

Summary of main activities undertaken by the Audit Committee during the financial year under review

The committee performed the following activities during the year:

- reviewed the company's integrated report and processes and recommended the same to the board for approval.
- approved the engagement letters, audit plan and budget for the external audit firm and the internal audit firm.
- considered the ECIC's annual financial statements.
- reviewed accounting policies and practices and consider any significant changes or departure from accounting policies and practices.
- reviewed the basis on which the company has been determined a going concern.
- reviewed the policy for non-audit services to be rendered by the external auditor to the company and pre-approving the contracts for non-audit services to be rendered by the external auditor.
- considered and recommended the quarterly performance reports to **the dti** for the Board's approval.
- received and investigated anonymous tip-off reports.
- reviewed the finance function and the Chief Financial Officer's performance.

The arrangements in place for combined assurance and the committee's views on its effectiveness

The committee reviewed, and recommended to the Board for approval, the Combined Assurance Plan, on the understanding that when King IV comes into effect the Plan would implement the 5 lines of defence. King IV expands on the King III's combined assurance model to incorporate all assurance providers to enable an effective control environment to strengthen decision making.

It is the committee's responsibility to evaluate the adequacy of assurance provided and to increase or decrease the level of assurance to satisfy them that risks are managed appropriately.

Conclusion

Based on information provided by management, internal audit and external audit, the committee considers that these statements comply, in all material respects, with the requirements of the PFMA, and the basis of preparation as set out in the accounting policies in note 1.2 of the annual financial statements. The committee concurs that adopting the going-concern assertion in preparing the annual financial statements is appropriate.

At its special meeting on 27 July 2017, the committee recommended the approval of the annual financial statements to the Board.

Abel Makalene Mawela
Chairperson: Audit Committee
Date: 27 July 2017

Certificate by the Company Secretary

I certify that, in respect of the reporting period, the company has, to the best of my knowledge and belief, lodged with the Companies and Intellectual Property Commission (CIPC) all returns and notices required in terms of the Companies Act, 71 of 2008 as amended, and that all such returns appear to be true, correct and up-to-date.

L Mphaphuli
Company Secretary
Date: 27 July 2017

SUMMARISED FINANCIAL STATEMENTS

INDEX

(Registration number 2001/013128/30)
Annual Financial Statements for the year ended March 31, 2017

The reports and statements set out below comprise the annual financial statements presented to the shareholder:

These annual financial statements have been prepared by Clarinda Simpson CA(SA), Chief Financial Officer.

The annual financial statements set out on pages 67 to 112, which have been prepared on the going concern basis, were approved by the board of directors on 27 July 2017 and were signed on its behalf by:

MJ Lesejane
Authorised Director

K Kutoane
Authorised Director

Directors' Report

Nature of business
The ECIC is a self-sustained, state-owned, national export credit agency that is supervised and regulated by the FSB.

The Corporation's main business is to promote trade with countries outside the Republic by providing for insurance on behalf of the Government of South Africa of contracts in connection with export transactions, investments and loans or similar facilities connected with such transactions.

Share capital
There has been no change in the authorised or issued share capital during the financial year.

Corporate governance
The Board of Directors embraces the principles of King III and endeavours to comply with these recommendations as far as possible. The ECIC's adherences to these principles are outlined in the Governance section of this report.

Board of Directors
The current directors are reflected on pages 27 to 28. During the 2016/2017 financial year, there were the following resignations and appointments:

- Mr E Moagi (non-independent, non-executive) resigned on 30 November 2016 as an alternate director to Ms P Ncapayi
- Mr Willem van der Spuy (non-independent, non-executive) was appointed on 1 December 2016 as an alternate director to Ms P Ncapayi
- Ms F Petersen (independent non-executive) resigned on 30 March 2017

Financial results
The financial results of the ECIC are fully disclosed on pages 67 to 112.

Performance against pre-determined objectives
The corporate strategic objectives and targets are developed and approved by the Board of Directors. The tables that appear on pages 36 to 37 compare the planned and related actual performance for 2016/17 on the high-level corporate strategic objectives, and indicate the degree to which the ECIC met or exceeded its strategic objectives for the year under review.

Dividends
No dividend has been declared for the current and previous financial year.

Taxation status
The ECIC pays tax in terms of the Income Tax Act of 1962, as amended. The Corporation is also subject to and complies with all other South African taxes, including employees' tax and value-added tax.

Changes in accounting policies
The accounting policies applied during the year ended 31 March 2017 are in all material respects consistent with those applied in the annual financial statements for the year ended 31 March 2016, as no changes in accounting policies were effected in this financial year.

Events after the reporting period
The directors are not aware of any matters or circumstances arising since the end of the financial year, which will have a significant effect on the operations of the Corporation, the results of its operations or its financial position.

Going concern
The Board of Directors believes that the ECIC will continue to be a going concern in the foreseeable future. For this reason, the directors have adopted a going-concern basis in preparing the financial statements.

Audit Committee information
The names of the Audit Committee members and attendance records are reflected on page 48 of this annual report.

Litigation
The directors are not aware of any litigation against the Corporation.

Related-party transactions
The related-party transactions are specified in the Notes to the Annual Financial Statements on pages 107 to 108.

Independent auditor's report to Parliament and the shareholder of Export Credit Insurance Corporation of South Africa SOC Limited

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Export Credit Insurance Corporation of South Africa SOC Limited ("the company") set out on pages 67 to 112, which comprise the statement of financial position as at 31 March 2017, the statement of comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Export Credit Insurance Corporation of South Africa SOC Limited as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa.

Basis for opinion

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

We are independent of the company in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (IRBA Code) and other independence requirements applicable to performing audits of the financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (Parts A and B).

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

Other information

The board of directors, which constitutes the Accounting Authority is responsible for the other information. The other information comprises all the information included in the Annual report which includes the Directors' Report, the Audit Committee Report, and the Certificate by the Company Secretary as required by the Companies Act of South Africa. The other information does not include the financial statements, our auditor's report thereon, the selected objectives included in our report on the audit of the Performance against predetermined objectives 2016/17 ("annual performance report") and our report on audit of compliance with legislation.

Our opinion on the financial statements and the selected objectives included in our report on the audit of the annual performance report and our report on audit of compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. No material inconsistencies were identified.

Responsibilities of board of directors, which constitutes the Accounting Authority

The board of directors, which constitutes the Accounting Authority, is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa and for such internal control as the Accounting Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibility for the audit of the financial statements

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

As part of an audit in accordance with the ISAs, we exercise professional judgment and maintain professional scepticism throughout our audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the company's compliance with respect to the selected subject matters.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accounting Authority.
- Conclude on the appropriateness of the Accounting Authority's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the Accounting Authority with a statement that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence, and where applicable, related safeguards.

Report on the audit of the annual performance report

Introduction and scope

In accordance with the Public Audit Act of South Africa and the general notice issued in terms thereof we have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. We performed procedures to identify findings but not to gather evidence to express assurance.

Our procedures address the reported performance information which must be based on the approved performance planning documents of the company. We have not evaluated the completeness and appropriateness of the performance indicators established and included in the planning documents. Our procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, our findings do not extend to these matters.

We evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the Performance Management and Reporting Framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the company for the year ended 31 March 2017:

Objectives	Pages in the annual performance report
Objective 2: Increase product range	36 - 37
Objective 6: Improve business development	36 - 37
Objective 8: Increase revenue	36 - 37

We performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. We performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

We did not identify any material findings on the usefulness and reliability of the reported performance information for the objectives stated above.

Report on the audit of compliance with legislation

Introduction and scope

In accordance with the Public Audit Act of South Africa and the general notice issued in terms thereof we have a responsibility to report material findings on the compliance of the company with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express assurance.

We did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the Public Audit Act of South Africa.

Internal control deficiencies

We considered internal control relevant to our audit of the financial statements, annual performance report and compliance with legislation, however the objective is not to express any form of assurance thereon. We did not identify any significant deficiencies in internal control. We do not express an opinion on the effectiveness of the company's internal control.

Other reports

We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the matters reported on the company's financial, performance and compliance related matters. The reports noted do not form part of our opinion on the financial statements or our findings on the reported performance information or compliance with legislation.

We were engaged to perform the following audit related services:

- The audit of the annual short- term insurance return for the year ended 31 March 2017 for submission to the Financial Services Board in terms of the Short-term Insurance Act, 1998. Our audit opinion on the short- term insurance return was issued on 31 July 2017.

KPMG Inc.
Registered Auditor

Malherbe

Per Antoinette Malherbe
Chartered Accountant (SA)
Registered Auditor
Director
14 August 2017

KPMG Inc.
85 Empire Road,
Parktown
2193

Statement of Financial Position

AS AT 31 MARCH 2017

	Note(s)	2017 R '000	2016 R '000
Assets			
Equipment	6	8,010	10,020
Intangible assets	7	3,653	4,451
Financial assets at fair value through profit and loss	8	6,685,902	7,072,663
Trade and other receivables	9	1,578,303	1,878,702
Cash and cash equivalents	10	284,614	439,960
Current tax receivable	25	-	26,516
Total assets		**8,560,482**	**9,432,312**
Equity and liabilities			
Equity			
Share capital and premium	11	316,051	316,051
Capital adequacy requirement	12	417,722	375,009
Retained earnings		656,603	1,933,635
Foreign currency translation reserve		2,179,500	2,623,161
Total equity		**3,569,876**	**5,247,856**
Liabilities			
Insurance contract liabilities		3,236,519	4,110,712
Provision for unearned premiums	13.1	2,552,331	3,177,325
Provision for unexpired risks	13.2	159,109	173,333
Provision for claims reserves	13.3	525,079	760,054
Deferred tax	14	23,044	43,357
Employee benefit liability	15	3,627	3,281
Trade and other payables	16	38,831	27,106
Current tax payable	25	55,563	-
Liability for interest make-up	17	1,633,022	-
Total liabilities		**4,990,606**	**4,184,456**
Total equity and liabilities		**8,560,482**	**9,432,312**

Statement of Comprehensive Income

	Note(s)	2017 R '000	2016 R '000
Insurance premium revenue		144,262	411,894
Change in unearned premiums	13.1	333,687	171,738
Change in unexpired risks	13.2	(1,994)	37,471
Net insurance premium revenue		**475,955**	**621,103**
Assessment fees		3,316	14,030
Net investment income	19	135,374	254,300
Profit/ (loss) on exchange differences	20	241,850	(501,611)
Other income		142	21
Net income		**856,637**	**387,843**
Claims incurred		**246,342**	**76,167**
Insurance benefits and claims		76,692	89,888
Salvages received		76,692	89,888
Change in claims reserves	13.3	169,650	(13,721)
Commission paid		(622)	(228)
Operating expenses	22	(160,130)	(113,807)
Interest expense		(8)	(2)
Expense for interest make-up	17	(2,032,445)	-
Corporate social investment		(13,852)	(4,416)
(Loss)/Profit before taxation		**(1,104,078)**	**345,557**
Taxation	23	(130,241)	(357,059)
Loss for the year		**(1,234,319)**	**(11,502)**
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Currency translation differences	21	(443,661)	935,119
Other comprehensive (loss)/profit for the year net of taxation		**(443,661)**	**935,119**
Total comprehensive (loss)/profit for the year		**(1,677,980)**	**923,617**

Statement of Changes in Equity

	Share capital and premium R '000	Foreign currency translation reserve R '000	Capital adequacy requirement R '000	Total reserves R '000	Retained earnings R '000	Total equity R '000
Balance at April 1, 2015	**316,051**	**1,688,042**	**1,001,853**	**2,689,895**	**1,318,293**	**4,324,239**
Loss for the year	-	-	-	-	(11,502)	(11,502)
Effect of translation to presentation currency	-	935,119	-	935,119	-	935,119
Total comprehensive Loss for the year	**-**	**935,119**	**-**	**935,119**	**(11,502)**	**923,617**
Transfer from capital adequacy requirement	-	-	(626,844)	(626,844)	626,844	-
Balance at April 1, 2016	**316,051**	**2,623,161**	**375,009**	**2,998,170**	**1,933,635**	**5,247,856**
Loss for the year	-	-	-	-	(1,234,319)	(1,234,319)
Effect of translation to presentation currency	-	(443,661)	-	(443,661)	-	(443,661)
Total comprehensive loss for the year	**-**	**(443,661)**	**-**	**(443,661)**	**(1,234,319)**	**(1,677,980)**
Transfer to capital adequacy requirement	-	-	42,713	42,713	(42,713)	-
Total contributions by and distributions to owners of company recognised directly in equity	**-**	**-**	**42,713**	**42,713**	**(42,713)**	**-**
Balance at March 31, 2017	**316,051**	**2,179,500**	**417,722**	**2,597,222**	**656,603**	**3,569,876**
Note(s)	11		12			

Statement of Cash Flows

	Note(s)	2017 R '000	2016 R '000
Cash flows from operating activities			
Cash (used)/generated in operating activities	24	(132,080)	45,168
Interest received on financial assets designated at fair value		154,516	207,908
Dividends received		46,273	22,338
Interest paid		(8)	(2)
Taxation paid	25	(68,476)	(377,548)
Net cash (outflow)/inflow from operating activities		**225**	**(102,136)**
Cash flows from investing activities			
Acquisition of fixed assets	6	(936)	(3,160)
Sale of property, plant and equipment		-	98
Purchase of intangible assets	7	-	(1,576)
Sale of financial assets		374,727	1,627,390
Purchase of financial assets		(497,311)	(5,081,986)
Net cash outflow from investing activities		**(123,520)**	**(3,459,234)**
Decrease in cash and cash equivalents		**(123,295)**	**(3,561,370)**
Cash and cash equivalents at the beginning of the year		439,960	3,817,639
Effect of translation on cash and cash equivalents		(50,008)	217,780
Unrealised foreign exchange gain/(loss) on cash and cash equivalents		17,957	(34,089)
Total cash and cash equivalents at end of the year	10	**284,614**	**439,960**

Accounting Policies

1. Presentation of Financial Statements

1.1 General Information

The ECIC is a state-owned entity incorporated in South Africa. The nature of risk underwritten by the company in pursuant to its objectives as set out in the Export Credit and Foreign Investment Insurance Act of 1957, as amended are set out in note 3.

The principal accounting policies are set out below. These policies have been consistently applied to all years presented unless otherwise stated. Current and future changes in accounting policies will include the following;

New standards, amendments and interpretations issued but not effective for the financial year beginning after 1 January 2017 and not early adopted.

Disclosure Initiative (Amendments to IAS 7) requires new disclosure that helps users to evaluate changes in liabilities arising from financing activities. This may result in additional disclosures for the statement of cash flows for the Company. The effective date of this standard is for annual periods beginning on or after 1 January 2017.

Recognition of deferred tax assets for unrealised losses (Amendments to IAS 12): The amendments clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

IFRS 9, ‘Financial instruments: It is expected that IFRS 9 will change the classification of financial assets to either amortised cost, fair value through profit or loss or fair value through other comprehensive income. In addition, IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. A detailed assessment of the impact has not been made. The effective date of this standard is for annual periods beginning on or after 1 January 2018.

IFRS 17 Insurance Contracts. IFRS 17 addresses the recognition, measurement, presentation and disclosure of insurance contracts issued, reinsurance contracts held and investment contracts with discretionary participation features. The standard contains guidance on when to separate components in an insurance contract and account for them in terms of another standard. The components that have to be separated (subject to certain criteria) are embedded derivatives, distinct investment components and distinct goods and non-insurance services.

The standard requires an entity to identify portfolios of insurance contracts and to group them into the following groups at initial recognition:

- Contracts that are onerous
- Contracts that have no significant possibility of becoming onerous subsequently; and
- The remaining contracts in the portfolio.

Groups of insurance contracts should be measured at initial recognition at the total of the following:

- The fulfilment cash flows which comprise estimates of future cash flows, an adjustment to reflect the time value of money and the financial risks and a risk adjustment for non-financial risk; and
- The contractual service margin which represents the profit in the group of insurance contracts that will be recognised in future periods.

The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of:

- The liability for remaining coverage (fulfilment cash flows related to future service and the contractual service margin) and
- The liability for incurred claims (fulfilment cash flows related to past service).

Accounting Policies

An entity may simplify the measurement of a group of insurance contracts using the premium allocation approach if certain criteria are met.

The new standard will have a significant impact on the financial statements when it is initially applied which will include changes to the measurement of insurance contracts issued and the presentation and disclosure. A detailed assessment of the impact has not been made.

The standard is effective for annual periods beginning on or after 1 January 2021 and has to be applied retrospectively. Early adoption is permitted. The company is expecting to adopt IFRS 17 in its financial statements for the year ending 31 March 2022. The company will in future periods estimate the impact of IFRS 17 on its financial statements.

IFRS 16 Leases - IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases

IFRIC 22 Foreign Currency Transactions and Advance Consideration - IFRIC 22 clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. IFRIC 22 is effective for annual reporting periods beginning on or after 1 January 2018. Earlier application is permitted

Of the above amendments, only IFRS 17 will have a material impact on the company's financial statements.

1.2 Basis of preparation

The annual financial statements of the company are prepared on the going concern basis in accordance with the International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act, 2008. As at 31 March 2017 the company was solvent with total assets exceeding total liabilities by R3 569 876. The Capital Adequacy Requirement as prescribed by the Short-Term Insurance Act was met.

The annual financial statements are prepared on the historical cost basis, adjusted by the revaluation of financial assets that are measured at fair value and translation of functional currency to the presentation currency as explained in the accounting policies below. While the company is domiciled in South Africa its functional currency is US Dollar with the Rand as its presentation currency, rounded to the nearest thousand.

The financial statements of Export Credit Insurance Corporation of South Africa SOC Ltd has been authorised for issue by the board of directors on 27 July 2017.

1.3 Use of estimates and judgements

The preparation of the annual financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, 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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates. The most significant judgements, estimates and assumptions relate to insurance contract liabilities, valuation and tax treatment of the liability for interest make-up and the recoverability of trade and other receivables are detailed in note 2.

Accounting Policies

1.4 Recognition and measurement of insurance contracts

Insurance contracts are those contracts under which the company accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if the insured event adversely affects them. Such contracts may also transfer financial risk.

1.4.1 Gross written premiums

Gross written premiums comprise the premiums on insurance contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period. Premiums are recognised in the period in which conditions to the policy are met. Premiums are disclosed gross of commission to intermediaries and exclude applicable taxes.

The earned portion of premiums written is recognised as revenue. Premiums are earned from the date of attachment of risk, over the period of the policy, based on the underlying risk underwritten.

1.4.2 Unearned premium provision

A provision for unearned premiums is created for that portion of premiums written in the current and past financial years which is attributable to subsequent years. The earned portion of premiums written is recognised as revenue, based on the pattern of risks underwritten. The provision is computed separately for each insurance contract.

1.4.3 Unexpired risk provision

An unexpired risk provision is made for any deficiencies where the provision of unearned premiums is expected to be insufficient, on the current pricing basis, to meet expected claims and expenses of policies in force at the reporting date. The provision is computed separately for each insurance contract. In addition, a provision is made for the concentration of risk within the insurance portfolio. This provision explicitly considers the concentration of both political and commercial risk and is determined through reference to a notionally well diversified benchmark portfolio.

1.4.4 Claims incurred

Claims incurred represents:

- Claims paid (net of applicable recoveries) during the year including related expenses,
- Changes in provisions for claims reported but not settled at the financial year-end,
- Changes in provisions for claims incurred prior to the financial year end but not yet reported.

A provision is made for the estimated cost of claims incurred but not settled at the financial year-end less anticipated recoveries. Provision is also made for the expected cost, net of anticipated recoveries, of claims incurred at the financial year-end but not reported until after that date.

Claims outstanding are assessed on an individual contract basis, making allowance for the effect of internal and external events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Outstanding claims are not discounted.

While the directors consider that the gross provisions for claims are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events which may result in significant adjustments to the amounts provided.

Claims and loss adjustment expenses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. They include direct and indirect

Accounting Policies

claims settlement costs and arise from events that have occurred up to the end of the reporting period even if they have not yet been reported to the company. Refer to note 2 for additional information.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material.

The methods used, and the estimates made, are reviewed annually by management and independent consultants.

1.4.5 Salvages

An asset for salvages receivable is recognised once recovery is probable. Otherwise, salvages are recognised only when received.

A sovereign contract is a contract in which the borrower is a government i.e. central government, central bank, municipalities, state owned entity or any government ministry.

Recovery is deemed probable when the following conditions are met for sovereign contracts:
- There is a signed agreement; and
- At least two successive payments have been received by the company in terms of the agreement.

A project finance contract is a contract where repayment of the covered loan is dependent on cash flows from the financed project structure.

Recovery is deemed probable when the following conditions have been met for project finance contracts:
- There is a signed restructuring agreement;
- The payment on the revised agreement is up to date;
- The operation generated positive cash flows for a continuous period of 12 months; and
- Performed at a minimum of 75 percent of the intended capacity.

A corporate finance contract is a contract where repayment of the covered loan amount is the responsibility of the sponsor of the transaction.

Recovery is deemed probable when the following conditions have been met for a corporate finance contract:
- There is a signed restructuring agreement;
- The payment on the revised agreement is up to date; and
- The loan covenants on the policy are met.

1.4.6 Liability adequacy test

The net liability recognised for insurance contracts is tested for adequacy by discounting current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability. Where a shortfall is identified, an additional provision is made and the company recognises the deficiency in the profit or loss in that year. Liability adequacy tests are performed at reporting date.

1.4.7 Capital adequacy requirement

In terms of the Financial Services Board notice 169, the company is required to raise additional capital to compensate for the different aspects of risk ranging from market risk, credit risk and liquidity risk on assets covering its insurance liabilities. The notice prescribes the amount which should be recognised on the statement of financial position. The transfer to the reserve is treated as an appropriation in the statement of changes in equity.

Accounting Policies

1.5 Foreign currency translation

Functional and presentation currency
Presentation currency is the currency used for the presentation of these financial statements. The US Dollar is the functional currency and the South African Rand is the presentation currency for the company, the functional currency being the currency of the primary economic environment in which the company operates. The services offered by the company are predominantly priced in US Dollars.

Translation from functional to presentation currency
The company uses the South African Rand as its presentation or reporting currency. The South African Rand is the presentation currency of its shareholder. The annual financial statements are translated from the functional currency to the presentation currency using the average rate for statement of comprehensive income items and the closing rate for the statement of financial position items, comprising both monetary and non-monetary items.

The exchange differences arising from translating income and expenses at the exchange rates applicable at the date of transaction and the closing rate, and the assets and liabilities translated at the closing rate different to the opening rate or the spot rate at the date of initial recognition, shall be recognised in equity as a foreign currency translation reserve.

Transactions and balances
Foreign currency transactions are translated into functional currency using the spot rate at the dates of the transactions. Foreign currency gains and losses resulting from settlement of such transactions and from translation at year end and exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in profit and loss.

Monetary items are units of currency held, assets and liabilities to be received or paid in a fixed or determinable number of units of currency. Non-monetary items are all other assets and liabilities other than monetary items.

Non-monetary items are initially translated at the historic rate of conversion when they were acquired or the spot rate applicable at the date of conversion of the functional currency.

1.6 Equipment and intangible assets

1.6.1 Equipment

Equipment is stated at historical cost less accumulated depreciation and impairment. Historic cost includes all expenditure that is directly attributable to the acquisition of an asset and to bringing it to a working condition for its intended use. Depreciation is calculated to write off the cost of the assets to residual value on a straight-line basis over their expected useful lives.

Equipment is depreciated over the following periods:

Computer equipment	3 years
Furniture and fittings	6 years
Office equipment	6 years
Vehicles	5 years

The assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

The carrying amount of equipment is derecognised on disposal or where no future economic benefits are expected from its use or disposal.

Accounting Policies

The gain or loss arising from the derecognition of an item of equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.6.2 Intangible assets

Intangible assets are stated at historical cost less accumulated amortisation and impairment. Amortisation is calculated to write off the cost of the intangible assets to residual value on a straight-line basis over its expected useful lives.

Intangible assets are amortised over the following periods:

Computer software	3 years

The intangible assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate.

1.7 Financial assets and liabilities

The company classifies its financial assets into the following categories: financial assets designated at fair value through profit and loss and trade and other receivables.

Financial assets designated at fair value through profit and loss
These assets are managed and their performance is evaluated on a fair value basis. Information about the financial assets is provided internally on a fair value basis. The company's investment strategy is to invest in fixed or variable rate instruments such as bonds and equity, and to evaluate them with reference to their fair value. Assets included in this portfolio are designated on initial recognition.

Trade and other receivables
Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the company intends to sell in the short term or that it has designated at fair value through profit and loss.

Financial liabilities
Financial liabilities represent liability for interest make-up and trade and other payables.

1.7.1 Initial measurement

Financial instruments are initially recognised at fair value, plus, for financial instruments not at fair value through profit and loss, any directly attributable transaction costs.

Purchases and disposals of financial assets are recognised on trade date the date on which the company commits to purchase or sell the asset. Transaction costs for FVTPL are recognised in profit or loss.

1.7.2 Subsequent measurement

Financial assets designated at fair value through profit or loss
Financial assets designated at fair value through profit or loss are subsequently carried at fair value.

The fair value of listed financial assets is calculated using stock exchange quoted bid prices at close of business on the reporting date.

Realised and unrealised gains and losses arising from changes in fair value of financial assets during a reporting period are recognised in the profit or loss for that period.

Accounting Policies

Unlisted financial assets are shown at fair value, which is calculated by reference to expected future cash flows, discounted by applicable risk adjusted discount rates for similar instruments. If the fair value cannot be determined for unlisted investments, it is stated at cost less impairment. Debt securities are measured at fair value based on the market rate of an equivalent non-convertible bond.

Trade and other receivables
Trade and other receivables are measured at amortised cost using the effective interest method, less provision for impairment.

Cash and cash equivalents
Cash and cash equivalents are measured at amortised cost using the effective interest method. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Investments normally only qualify as cash equivalent if they have a short maturity of three months or less from the date of acquisition.

Trade and other payables
Trade and other payables are recognised when the company has a present obligation arising from past events the settlement of which is probable to result in an outflow of economic benefits.

Trade and other payables are stated at amortised cost using the effective interest method.

Liability for interest make-up
Liability for interest make-up is measured at fair value which is determined on a discounted probability weighted cash flow basis of all future IMU payments on existing agreements using a US Treasury Bills Yield Curve.

1.7.3 Gains and losses on subsequent measurement

Gains and losses arising from a change in fair value of financial instruments are included in profit or loss in the period in which the change arises as part of net investment income.

1.7.4 Derecognition

Financial assets are derecognised when the company loses control over the contractual rights that comprise the asset and consequently, transfers the substantive risks and benefits associated with the asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is settled or waived.

1.7.5 Offset

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the company has a legally enforceable right to set off the recognised amounts, and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.7.6 Impairment

Financial assets
Financial assets other than those carried at fair value through profit and loss, are assessed for indicators of impairment at each reporting date. If any such indicators exist the carrying value is reduced to the estimated recoverable amount by means of a charge to the profit or loss. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted. The impairment is recognised through an allowance account.

Accounting Policies

For other financial assets such as trade receivables, the company considers notified disputes and collection experience to determine which receivables are impaired.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised such as improved credit rating, the previously recognised impairment loss is reversed if it does not exceed what the amortised cost would have been had the impairment not been recognised. The amount of the reversal is recognised through the profit or loss.

Non-financial assets

The carrying amount of the company's non-financial assets, other than deferred tax assets, is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets. Impairment losses are recognised in profit and loss.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The amount of the reversal is recognised through the profit or loss.

1.8 Provisions

A provision is recognised in the statement of financial position when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

A provision is measured as the present value of management's best estimate of the expenditure required to settle the obligation at the reporting date.

1.9 Share capital and premium

Shares are classified as equity when there is no obligation to transfer cash or other assets. All issued ordinary shares and share premium are classified as equity.

Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from proceeds.

1.10 Taxation

Tax expenses

Taxation on the profit and loss for the year comprises current and deferred tax. Income tax is recognised in profit and loss except to the extent that it relates to items recognised directly in equity in which case the related taxation is also recognised in equity.

Accounting Policies

Current tax assets and liabilities

Current tax is calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the reporting date, and any adjustment of tax payable for previous years. Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities/(assets) for the current and prior periods are measured at the amount expected to be paid to/(recovered from) the tax authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

Deferred tax is recognised in full, using the balance sheet method, providing for temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities using tax rates enacted or substantially enacted at the reporting date. Deferred tax is charged to the statement of comprehensive income except to the extent that it relates to a transaction that is recognised directly in equity.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised.

1.11 Investment income

Dividends are recognised when the right to receive payment is established, meaning on the last day for registration in respect of listed securities and when declared in respect of unlisted securities. Dividend and interest accrued from financial assets designated at fair value through profit or loss are recognised in the profit or loss as part of investment income.

Interest on financial assets is accounted for using the effective interest method.

1.12 Employee benefits

Pension obligation

The company uses a defined contribution pension plan. Under a defined contribution pension plan the company pays a fixed contribution into a separate entity. The company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee services in the current and prior periods.

Leave pay

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. Provision is made for the estimated liability of this leave as a result of services rendered by employees up to the reporting date.

Performance bonus

The performance bonus is based on performance ratings and other factors, including economic conditions, risk exposure and performance (and consequently, the ability to pay bonuses without compromising good governance practices).

Employee entitlements to bonuses are recognised when they accrue to employees. Provision is made for the estimated liability of this bonus as a result of past performance by the employees up to the reporting date.

Accounting Policies

1.13 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is accounted for according to the nature of the expense and disclosed separately in the annual report. Measures are implemented to ensure that such expenditure does not re-occur and where possible the expenditure is recovered. Cases of a criminal nature are reported to the responsible authorities.

In instances where recovery is not possible, such fruitless and wasteful expenditure will be written-off and removed from the note on approval by the Accounting Authority.

1.14 Irregular expenditure

When confirmed, irregular expenditure must be recorded in the notes to the financial statements. The amount to be recorded in the notes must be equal to the value of the irregular expenditure incurred unless it is impracticable to determine the value thereof.

Irregular expenditure is removed from the note when it is either (a) condoned by the relevant authority; (b) transferred to receivables for recovery; (c) or it is not condoned and is irrecoverable. A receivable related to irregular expenditure is measured at the amount that is expected to be recovered and must be de-recognised when the receivable is settled or subsequently written off as irrecoverable.

In instances where recovery is not possible, such irregular expenditure will be written-off and removed from the note on approval by the Accounting Authority.

1.15 Contingent liabilities

Contingent liabilities are disclosed when there is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not within the control of the corporation; or when there is a present obligation that arises from past events but is not recognised because:

- it is not probable that an outflow of resources will be required to settle the obligation; or
- the amount of the obligation cannot be measured reliably.

1.16 Commitments

Commitments are disclosed when there is a contractual arrangement or an approval by management in a manner that raises a valid expectation that the corporation will discharge its responsibilities, thereby incurring future expenditure that will result in the outflow of cash.

1.17 Events after the reporting date

Recognised amounts in the financial statements are adjusted to reflect significant events arising after the reporting date, but before the financial statements are authorised for issue, provided there is evidence of conditions that existed at the reporting date. Events after the reporting date that are indicative of conditions that arose after the reporting date are dealt with by way of a note.

1.18 Assessment fees

Assessment fees are recognised as income on approval of an application for cover by executive management. These are fees received for assessing applications for insurance cover.

Notes to the Annual Financial Statements

2. Critical accounting estimates and judgements

Critical estimates and judgements in applying the accounting policies are described below:

Insurance contract liabilities

The company's estimates for reported and unreported losses are continually reviewed and updated, and adjustments resulting from this review are reflected in profit or loss. The process relies on the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events.

The underlying risks are highly variable due to unpredictable political and commercial factors and the heterogeneity of risks by country, size, term and sector.

In addition, although claim amounts are high, the number of contracts issued is low. Therefore, standard statistical techniques, such as the chain ladder method, are inappropriate and estimates are made on a contract by contract basis.

The company's process for determining significant reserving assumptions is outlined in note 13.4.

Salvages

Management considers the amount of salvages at reporting date. Each potential salvage is assessed individually and where the recognition criteria are met, an appropriate amount is recognised as receivable after careful consideration.

Unearned Premium Provision (UPP)

The UPP refers to the amount of premium booked that remains unearned at the reserving date. It is therefore intended to cover against future claims incurred and is dependent on the policy's earning pattern. To the extent that premiums are insufficient to cover the future claims risk, the UPP might therefore also be insufficient. In this case an additional reserve must be established in the form of the Unexpired Risk Provision (URP) to cover the shortfall in UPP resulting from premium/ pricing deficiency.

The basic UPP calculation is calculated on a policy-by-policy level according to the risk profile of each policy.

While the risk of concentration manifests at a portfolio level, premium reserves would be the first port of call in mitigating such risk. If the premiums are insufficient to cover the total claims risk (i.e. including the risk stemming from concentration) the reserve shortfall should then be addressed through the URP.

The UPP for credit insurance is earned through the determination of earning curves for the credit insurance contracts such that these curves reflect the risk profile of the contracts in place at the reporting period.

The UPP for the investment guarantee policies is determined by applying the standard 365th's method, assuming the risk profile is uniform over the term of the contract.

Therefore, the extent to which the Concentration Risk Reserve (CRR) can form part of the UPP depends on the overall sufficiency of premiums. Furthermore, the company cannot defer more premiums than it has actually written.

Incurred But Not Reported (IBNR) claims provision

The ECIC holds an IBNR for contracts where management, on the basis of information gathered during the monitoring process, believes that there is a probability of a claim occurring and being reported.

Notes to the Annual Financial Statements

Indicators that a claim will arise are often triggered by events such as:

- The occurrence and a high probability that a non-payment of a scheduled instalment under the insured contract (protracted default) would occur,
- The occurrence and high probability that a political cause of loss (e.g. war, change in law sabotage, transfer restriction, inconvertibility) will occur,
- The occurrence and a high probability that commercial causes of loss (e.g. insolvency or an act of insolvency) will occur. A rating scale is applied in assigning the probability of loss.

The loss given default (LGD) assumptions have been made for the difference risk events covered by the corporation. The IBNR is calculated by taking the sum at risk at the point in time multiplied by the Likelihood factor (the portion of the claims waiting period that has passed) and multiply by the LGD.

Liability for interest make-up

Interest make-up is an export incentive scheme. This allows local banks and other financiers to offer buyers of South African export goods and services financing for projects at internationally competitive rates.

The fair value of the liability is determined on a discounted probability weighted cash flow basis of all future IMU payments on existing agreements. The IMU payments stretch out to 2029, and discounted to allow for time value of money using a US Treasury Bills Yield Curve. The IMU payments will cease if the ECIC insurance policy linked to the IMU agreement receives an insurance claim through which the loan facility is paid in full. This means there is a probability that the future payments will not occur, and this probability is linked to the likelihood of a claim occurring on the insurance policy. This means that future IMU payments are contingent on the insurance policy surviving (i.e. not receiving a claim). The likelihood of a claim occurring can also be referred to as a probability of defaulting on the loan (PD). For the IMU liability calculations it is assumed that the PD of the applicable project will be constant throughout the contract duration. The PD for each project is determined by considering the applicable risk premium. The projected IMU payments are determined by multiplying the IMU rate with the projected outstanding balance of the facility. The IMU rate is a function of the applicable liquidity premium, funding margin, earnings margin and the statutory costs

The liability is not tax deductible as it is an existing liability which was taken over from **the dti** (see note 28). However, foreign exchange gains and losses arising from currency movement are taxable or deductible for taxation purposes.

Recoverability of trade and other receivables

The company assesses its trade and other receivables for recoverability at the end of each reporting period. In determining whether a provision for doubtful debts should be recorded in profit or loss, the company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The provision for doubtful debts is calculated on a project basis, based on indicators present at the reporting date.

3. Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out below:

3. 1 Nature of risk covered

The principal objective of the company is to facilitate and encourage South African export trade by underwriting bank loans and financial assets outside the country, in order to enable foreign buyers to purchase capital goods and services from South Africa.

Notes to the Annual Financial Statements

The company thus enters into contracts of insurance with, or for the benefit of, persons carrying out business in South Africa in the course of trade with countries outside South Africa, primarily for medium to long-term export credit and investment insurance.

Cover is provided on capital contracts for political risks, and where unavailable in the private sector, commercial risk. Two main types of policies are available:

- a contractor's policy, which protects the contractor against buyer default during the development phase, and
- a financier's policy, which protects the lender against buyer default during the loan repayment phase.

The majority of the company's exposure is to financier policies.

In addition to the policies described above, the company also provides investment guarantees to cover political risk on South African offshore financial assets. The insured amount equals the capital investment less dividends to date.

Furthermore, political risk cover is provided to financiers who finance non-shareholders' loans to foreign entities.

Underwriting is complex and requires specialised staff. The same applies to claims assessors, where staff are not only required to process complex claims, but are also involved in recovering losses from collateral securities and litigation.

The nature of claims and the longer tail nature of business make the calculation of provisions a critical element in the company's financial reporting process.

The return to shareholders under this business arises from the total premiums charged to policyholders less the amounts paid to cover claims (net of recoveries) and the expenses incurred by the company. There is scope for the company to earn investment income owing to the time delay between the receipt of premiums and the payment of claims.

The event giving rise to a claim typically occurs with the insolvency, liquidation and protracted default of a buyer or a political event in a foreign country that gives rise to default payment. Claims are notified to the company in terms of specific policy conditions.

Risk factors include:

- Country,
- Industry,
- Private company, government or parastatal,
- Length of repayment term,
- Source of financing the repayment,
- Guarantees provided,
- Whether initial repayments have already been met.

4. Insurance risk management

The risk under any one insurance contract is the possibility that a policyholder suffers a loss due to the occurrence of an insured event to trigger a claim. By the very nature of an insurance contract, the amount and likelihood of the claim is uncertain.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated.

Notes to the Annual Financial Statements

Insured events are uncertain and the actual number and cost of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The company has developed its insurance underwriting strategy to diversify the spread of insurance risk accepted to reduce the variability of the expected outcomes.

The company manages its insurance risk through underwriting processes, approval procedures for transactions, pricing guidelines and monitoring of emerging issues including claims development. An explicit provision is held for the concentration of political and commercial risk in the ECIC portfolio.

Underwriting risk is the risk that actual claims experience varies from expected claims due fluctuations in timing, frequency and severity of claims. This risk is managed primarily through sensible pricing, product design and risk selection. The company therefore monitors and reacts to changes in the general economic and business environment in which it operates. An additional liability is recognised for contracts which are onerous.

When there are indicators that claims might arise, an IBNR is raised for the expected claim amount. The legal unit would assess a claim once it has been lodged, and the board approves the claim for settlement. The amount settled on a claim is limited to exposure of unpaid amounts as per the repayment schedule.

Risk relating to salvages is managed by engaging the client and entering into a restructuring agreement after the claim has been settled; other viable legal options are followed. The legal unit follows up on the signed agreements to ensure compliance.

4.1 Concentrations of insurance risk

The total country exposure (Sum at risk) of the insurance portfolios is as follows:

	2017 R '000	2016 R '000
Angola	48,867	834,745
Democratic Republic of Congo	36,608	166,707
Ghana	6,852,699	5,616,847
Iran	2,059,365	2,276,946
Ethiopia	163,538	-
Mozambique	1,907,200	2,883,748
Nigeria	60,238	101,365
Liberia	1,151,764	1,474,370
Lesotho	1,090,352	526,651
Sierra Leone	155,530	505,268
Sudan	298,396	312,645
Tanzania	1,510,201	2,360,285
Uganda	301,941	323,886
Zambia	4,267,914	5,143,149
Zimbabwe	2,671,065	3,300,797
	22,575,678	**25,827,409**

Notes to the Annual Financial Statements

4.2 Claims development

The company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The claims liability comprises a provision for claims notified but not yet paid, and a provision for claims incurred but not reported.

In terms of IFRS 4, an insurer need only disclose claims run-off information where uncertainty exists about the amount and timing of claims payments not resolved within one year. The corporate does not have any recent claim payments (past 5 years) that can be compared with estimates to indicate run-off.

For the sensitivity analysis and change in assumptions on the insurance liabilities refer to note 13.4.

5. Financial risk management

Financial risk management

The company is exposed to a range of financial risks through its financial assets, financial liabilities and insurance liabilities. In particular, the key financial risk is that in the long term its investment proceeds are not sufficient to fund the obligations arising from its insurance contracts.

The company's risk management objective is to ensure that risk is managed prudently. The company has established a risk management strategy. Appropriate risk limits have been set and approved by the board of directors.

The Risk Committee is responsible for providing oversight over the effectiveness of the company's risk management system.

Transactions in financial instruments result in the company assuming financial risks. These include market risk, liquidity risk and credit risk. Each of these financial risks is described below, together with ways in which the company manages these risks.

The categories and classes of assets and liabilities have been disclosed in note 18.

5.1 Market risk

Market risk can be described as the risk of a change in the fair value of a financial instrument brought about by changes in interest rates, equity prices and foreign exchange rates. The objective of market risk management is to manage market risk exposures within acceptable parameters.

The company would be exposed to market risk in instances where the proceeds from its financial assets are not sufficient to fund insurance obligations.

The board has established the Finance and Investment Committee to provide oversight over the company's investment management activities. The investment policy statement sets out the investment strategy and investment guidelines that must be followed to ensure that the Corporate Strategy is achieved within its risk appetite.

Notes to the Annual Financial Statements

The fair values of financial assets and liabilities with the carrying amounts in the statement of financial position are as follows:

	2017 R'000		2016 R'000	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets designated at fair value through profit and loss	6,685,902	6,685,902	7,072,663	7,072,663
Listed equities	1,121,401	1,121,401	1,378,756	1,378,756
Listed preference shares	2,976	2,976	2,775	2,775
Money market	795,355	795,355	670,811	670,811
Listed bonds	4,766,170	4,766,170	5,020,321	5,020,321
Trade and other receivables	1,578,303	1,578,303	1,878,703	1,878,703
Cash and cash equivalents	284,614	284,614	439,960	439,960
Trade and other payables	(12,154)	(12,154)	(12,287)	(12,287)
Liability for interest make-up	(1,633,022)	(1,633,022)	-	-
	6,903,643	**6,903,643**	**9,379,039**	**9,379,039**

5.1.1 Currency risk

Currency risk is the risk arising from fair value and /or changes in future cash flows of financial instruments fluctuating from their expected values as a result of changes in exchange rates. This arises from a mismatch between the currencies of assets and liabilities of the company.

The company is exposed to currency risk for transactions that are denominated in a currency other than the company's functional currency of US Dollar. This is due to the company's revenues being denominated in US Dollar. To minimise the impact of currency risk, the company matches the currency of liabilities with the currency of assets.

The company is exposed to fluctuation in the balances or transactions that are denominated in Rand. This is due to the company's functional currency being the US Dollar, though its operations are domiciled in South Africa.

The company's exposure to Rand foreign currency risk at the reporting date was as follows:

	2017 R '000	2016 R '000
Cash and cash equivalents	60,706	388,006
Financial assets at fair value through profit and loss	2,363,295	2,368,368
Trade and other receivables	10,899	3,214
Insurance contract liabilities	(22,843)	(27,551)
Other liabilities	(42,458)	(19,502)
	2,369,599	**2,712,535**

The following exchange rates were applied:		
US Dollar to SA Rand exchange rates:		
Closing rate	13.4599	14.8820
Average rate	14.0655	13.7700

Notes to the Annual Financial Statements

A 10 percent increase or decrease in the Rand against the US Dollar at the reporting date would have increased or decreased equity and profit or loss by amounts reflected below. The analysis assumes all other variables stay the same.

	Profit/(loss) after tax		Equity	
	10% increase	10% decrease	10% increase	10% decrease
2017	(583,161)	712,304	(253,660)	253,660
2016	(720,399)	876,887	(315,694)	315,694

5.1.2 Interest rate risk

Interest rate risk is the risk arising from fair value and/or future cash flows of a financial instruments fluctuating from their expected values as a result of changes in market interest rates.

The company has exposure to fixed-rate financial assets whose value is impacted by changes in interest rates. The company's insurance liabilities are also impacted by changes in the interest rates because it provides insurance cover for loan agreements whose values are also impacted by changes in interest rates. The Finance and Investment Committee continuously monitor this risk and advises the board where a change in investment strategy is warranted. The company's fixed interest rate portfolio is managed by external fund managers who are continuously monitored.

The sensitivity analysis for interest rates illustrates how changes in the interest rates will impact on the fair values of assets and liabilities.

A change of 100 basis points in the interest rate at the reporting date would have increased or decreased equity and profit or loss after tax by amounts reflected below, the analysis assumes that all other variables remained the same.

	Profit/(loss) after tax		Equity	
	100 BP Increase	100 BP Decrease	100 BP Increase	100 BP Decrease
2017	(95,793)	43,062	(95,793)	43,062
2016	(161,366)	72,665	(161,366)	72,665

5.1.3 Market (or equity) price risk

Market price risk is the risk that actual fair values of equities may fluctuate from expected values as a result of changes in market prices. The company's exposure to equities is capped and defined in the investment policy. The company's exposure to equities is set at a maximum level of investment assets. The Finance and Investment Committee actively monitors the equity investment portfolio to ensure that there is no breach of the set parameters. The committee contracts the services of fund managers to manage the equity investment portfolio.

Financial liabilities are not impacted by changes in the market or equity price.

Notes to the Annual Financial Statements

The table below reflects the company's exposure to equity risk.

	Note(s)	2017 R '000	2016 R '000
Basic resources		252,632	231,788
Industrials		69,501	76,597
Consumer goods		105,165	317,768
Telecommunications		15,619	24,365
Financials		221,158	518,685
Health		32,803	46,864
Consumer services		255,118	134,328
Technology		7,649	6,066
Commodity-linked		5,805	6,291
Energy		1,000	16,004
Real estate		154,951	-
Total	8	**1,121,401**	**1,378,756**

Equities are listed with the JSE Limited. A 5 percent increase or decrease in equities at the reporting date would increase or decrease equity and profit or loss after tax by amounts as reflected below.

	Profit/(loss) after tax		Equity	
	5% increase	5% decrease	5% increase	5% decrease
2017	43,510	(43,510)	43,510	(43,510)
2016	53,496	(53,496)	53,496	(53,496)

5.2 Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company is exposed to daily cash requirements to meet operational expenses as well as claims as they fall due.

The company has established an operational cash task team which meets on a weekly basis to review weekly and rolling monthly cash forecasts. The task team is mandated to ensure that funds which are intended to meet operational expenses are made available when required.

The company's investment strategy is set on the principles of matching the term of financial liabilities and assets. The finance and investment task team monitors adherence to liquidity requirements.

Notes to the Annual Financial Statements

The liquidity profile of all financial assets and liabilities is reflected below:

2017	Within 1 year	Within 1 and 5 years	Greater than 5 years	Total
Financial assets	**R**	**R**	**R**	
Financial assets	2,391,820	2,051,407	2,242,675	6,685,902
Trade and other receivables	531,095	556,686	490,522	1,578,303
Cash and cash equivalents	284,614	-	-	284,614
	3,207,529	**2,608,093**	**2,733,197**	**8,548,819**
Financial liabilities				
Trade and other payables	12,154	-	-	12,154
Insurance contract liabilities	501,653	1,815,707	919,159	3,236,519
Liability for interest make-up	352,147	918,320	672,087	1,942,554
	865,954	**2,734,027**	**1,591,246**	**5,191,227**

2016	Within 1 year	Within 1 and 5 years	Greater than 5 years	Total
Financial assets	**R**	**R**	**R**	
Financial assets	1,993,575	3,922,993	1,156,095	7,072,663
Trade and other receivables	296,228	1,040,125	542,349	1,878,702
Cash and cash equivalents	439,960	-	-	439,960
	2,729,763	**4,963,118**	**1,698,444**	**9,391,325**
Financial liabilities				
Trade and other payables	12,287	-	-	12,287
Insurance contract liabilities	446,750	2,432,353	1,231,609	4,110,712
	459,037	**2,432,353**	**1,231,609**	**4,122,999**

5.3 Credit risk

Credit risk is the risk of financial loss resulting from a counterparty or customer’s failure to meet its contractual obligations. The company is exposed on the following levels:

- Amounts due from insurance policyholders and other trade debtors,
- Salvages receivable,
- Financial assets and cash and cash equivalents.

The company limits the levels of credit risk that it accepts by placing limits on its exposure to a single counterparty or group of counterparties.

Exposures to third parties are monitored as part of the credit control process which takes into account among other things sector limits, counterparty limits and country limits. Reputable financial institutions are used for investing and cash handling purposes. All money market instruments and cash and cash equivalents are placed with institutions that have long term credit ratings of at least A.

Financial assets placed with fund managers are governed by investment mandates which provide for counterparty limits, counterparty type, concentration limits and investment grade. The carrying amount of assets included on the statement of financial position represents the maximum credit exposure.

Notes to the Annual Financial Statements

Accounts receivable

The company's insurance debtors are limited to parties with a valid insurance policy. These are followed up on a regular basis. Another component of accounts receivable relates to assessment fees which are only charged to policies which have been assessed to avoid high volumes of bad debts. Impairment allowance is raised only after an assessment of each individual balance.

Financial assets and cash and cash equivalents

Where possible the company has defined minimum acceptable counterparty credit ratings on financial assets being managed by fund managers. The Finance and Investment Committee also fulfils an oversight role in ensuring adherence to defined credit ratings.

5.3.1 Credit rating

The following table provides information on the credit quality of the company's financial and insurance assets.

2017 R	AAA- A+	A- BBB+	BBB and lower	Not Rated	Total
Financial assets designated at fair value through profit and loss	4,860,412	637,195	55,788	1,132,507	6,685,902
Trade and other receivables	-	-	-	1,578,303	1,578,303
Cash and cash equivalents	225,693	37,030	-	21,891	284,614
	5,086,105	**674,225**	**55,788**	**2,732,701**	**8,548,819**

2016 R	AAA- A+	A- BBB+	BBB and lower	Not Rated	Total
Financial assets designated at fair value through profit and loss	5,043,172	360,687	54,418	1,614,386	7,072,663
Trade and other receivables	-	-	-	1,878,702	1,878,702
Cash and cash equivalents	439,961	-	-	-	439,961
	5,483,133	**360,687**	**54,418**	**3,493,088**	**9,391,326**

A National rating was applied to all South African investments, while a National equivalent of the International ratings were applied to all foreign investments. Credit ratings on an instrument level is reflected, and where not available the issuer rating.

Notes to the Annual Financial Statements

5.3.2 Financial and insurance assets are neither past due nor impaired

The analysis for financial instruments that are neither past due nor impaired and/or individually impaired at the reporting date was as follows:

2017	Neither past due nor impaired R	Past due but not impaired R	Individually impaired R	Provision for doubtful debt R	Net carrying amount
Trade and other receivables	1,565,970	12,265	518	(450)	1,578,303
2016					
Trade and other receivables	1,830,208	48,488	11	(5)	1,878,702

5.3.3 Age analysis of trade and other receivables and premium debtors that are past due but not impaired

2017	<30 days R	31- 90 R	91-120 R	Greater than 120 R	Total R
Trade and other receivables	1,521	3,769	1,672	5,303	12,265
2016					
Trade and other receivables	-	-	-	48,488	48,488

5.3.4 Reconciliation of the provision for doubtful debt

2017	Opening balance	Additions	Closing balance
Provision for doubtful debt	(5)	(445)	(450)

2016	Opening balance	Additions	Closing balance
Provision for doubtful debt	(5)	-	(5)

5.4 Financial risk management

The company recognises equity and reserves as capital. For internal management purposes the company refers to the statutory solvency requirements as prescribed by the Financial Services Board (FSB). Refer to solvency ratio in note 31.

The company submits quarterly and annual returns to the FSB in terms of the Short-term Insurance Act, 1998 (the Act). The company is required to maintain, at all times, a statutory surplus asset ratio as defined in the Act. The returns submitted by the company to the regulator showed that the company met the minimum capital requirements throughout the year.

The company defines its capital as share capital, statutory reserves and retained earnings. The company is required to raise additional capital to compensate for the different aspects of risk ranging from market risk, credit risk and liquidity risk on assets covering its insurance liabilities. The transfer to the reserve is treated as an appropriation in the statement of changes in equity. The reserve can be utilised only with the prior permission of the Registrar of Short–term Insurance.

Regulatory capital has to be calculated based on Solvency Assessment and Management (SAM) interim measures until the new insurance bill is enacted.

Notes to the Annual Financial Statements

6. Equipment

	2017			2016		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Furniture and fittings	8,621	(3,834)	4,787	9,293	(3,126)	6,167
Motor vehicles	178	(94)	84	197	(73)	124
Office equipment	3,969	(1,887)	2,082	4,188	(1,644)	2,544
Computer equipment	3,843	(2,786)	1,057	3,698	(2,513)	1,185
Total	**16,611**	**(8,601)**	**8,010**	**17,376**	**(7,356)**	**10,020**

Reconciliation of equipment - 2017

	Opening balance	Additions	Depreciation	Translation effect	Closing balance
Furniture and fittings	6,167	226	(1,052)	(554)	4,787
Motor vehicles	124	-	(29)	(11)	84
Office equipment	2,544	189	(410)	(241)	2,082
Computer equipment	1,185	521	(536)	(113)	1,057
	10,020	**936**	**(2,027)**	**(919)**	**8,010**

Reconciliation of equipment - 2016

	Opening balance	Additions	Disposals	Depreciation	Translation effect	Closing balance
Furniture and fittings	4,639	1,485	-	(876)	919	6,167
Motor vehicles	127	-	-	(29)	26	124
Office equipment	1,212	1,229	-	(321)	424	2,544
Computer equipment	1,084	446	(7)	(557)	219	1,185
	7,062	**3,160**	**(7)**	**(1,783)**	**1,588**	**10,020**

7. Intangible assets

	2017			2016		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software, other	4,097	(444)	3,653	4,530	(79)	4,451

Reconciliation of intangible assets - 2017

	Opening balance	Amortisation	Translation effect	Closing balance
Computer software, other	4,451	(390)	(408)	3,653

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Translation effect	Closing balance
Computer software, other	2,243	1,576	(76)	708	4,451

Notes to the Annual Financial Statements

8. Financial assets at fair value through profit and loss

	2017 R '000	2016 R '000
8.1 At fair value through profit or loss - designated		
Listed equities	1,121,401	1,378,756
Bonds	4,766,170	5,020,321
Money market	795,355	670,811
Preference shares	2,976	2,775
	6,685,902	**7,072,663**

8.2 Maturity profile of financial assets

2017	Within 1 year	1 and 5 years	More than 5 years	Total
Financial assets	R	R	R	
Bonds	514,796	2,008,699	2,242,675	4,766,170
Money market	752,647	42,708	-	795,355
Listed equities	1,121,401	-	-	1,121,401
Preference shares	2,976	-	-	2,976
	2,391,820	**2,051,407**	**2,242,675**	**6,685,902**

2016	Within 1 year	1 and 5 years	More than 5 years	Total
Financial assets	R	R	R	
Bonds	86,409	3,777,817	1,156,095	5,020,321
Money market	525,635	145,176	-	670,811
Listed equities	1,378,756	-	-	1,378,756
Preference share	2,775	-	-	2,775
	1,993,575	**3,922,993**	**1,156,095**	**7,072,663**

8.3 Fair value hierarchy of financial assets at fair value through profit or loss

Level 1		
Listed equities	1,121,401	1,378,756
Bonds	4,766,170	5,020,321
Listed preference shares	2,976	2,775
Money market	575,971	-
	6,466,518	**6,401,852**
Level 2		
Money market	219,384	670,811
	6,685,902	**7,072,663**

Included in the level 1 category are financial assets that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted on active market if quoted prices are readily available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arms-length basis.

Included in the level 2 category are financial assets measured using valuation techniques based on assumptions supported by prices for an observable current market transaction. However, these prices are not determined in an active market. Inputs used in the valuation techniques include quoted market prices, interest rates, observable yield curves and credit spreads.

Notes to the Annual Financial Statements

8.4 Reconciliation of financial assets through profit and loss

2017	Opening balance	Interest, dividends and management fees	Total gains/ losses in statement of comprehensive income	Purchases	Sales	Foreign exchange loss	Closing balance
Financial assets	7,072,663	180,857	(65,489)	316,454	(374,727)	(443,856)	6,685,902

2016	Opening balance	Interest, dividends and management fees	Total gains/ losses in statement of comprehensive income	Purchases	Sales	Foreign exchange loss	Closing balance
Financial assets	2,582,549	213,311	24,056	4,914,344	(1,627,390)	965,793	7,072,663

	2017 R '000	2016 R '000
9. Trade and other receivables		
Trade receivable due from related parties	528	6,551
Other receivables	6,481	5,586
Premium receivables	1,485,980	1,759,426
Salvages receivable	85,314	107,139
	1,578,303	**1,878,702**
10. Cash and cash equivalents		
Cash at bank and on hand	126,486	255,808
Short-term deposits	158,128	184,152
	284,614	**439,960**

The aggregate interest rate on cash at bank and on hand at the reporting date was 0.59 percent. (2016 0.62 percent).

	2017 R '000	2016 R '000
11. Share capital and premium		
Authorised		
10 000 000 ordinary shares of R1 each	10,000	10,000
Issued		
100 ordinary shares at R 1 each	-	-
Share premium (100 ordinary shares issued at a premium of R3 160 504 each)	316,051	316,051

The unissued shares are under the control of the directors until the forthcoming annual general meeting.

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000
12. Capital adequacy requirement		
Balance at the beginning of the year	375,009	1,001,853
Transfer to/(from) capital adequacy requirement	42,713	(626,844)
	417,722	**375,009**

The company is required to raise additional capital to compensate for the risk of loss arising from insurance, market, credit, operational and liquidity risk on assets covering its insurance liabilities.

Regulatory capital is based on the Solvency Assessment and Management interim measures capital calculation effective as of 1 January 2012. The capital adequacy requirement is included in the statement of financial position.

The capital adequacy requirement is calculated as the higher of the solvency capital requirement and the minimum capital requirement.

Premium revenue written from one financial period to the next is subject to significant volatility. The premium revenue written in the current financial year is significantly less than that written in the previous financial year, resulting in a significant decrease in the insurance risk capital charge.

13. Insurance contract liabilities

13.1 Provision for unearned premiums

Balance at beginning of year	3,177,325	2,779,345
Amount transferred to the statement of comprehensive income	(333,687)	(171,738)
Premium refund	(1,270)	(21,690)
Foreign exchange gain	(877)	(3,161)
Foreign currency translation (gain)/loss	(289,160)	594,569
Balance at end of year	**2,552,331**	**3,177,325**

Maturity profile R	Within 1 year	1 to 5 years	More than 5 years	Total
2017	501,653	1,290,628	760,050	2,552,331
2016	446,750	1,672,299	1,058,276	3,177,325

13.2 Provision for unexpired risks

Balance at beginning of year	173,333	176,558
Amount transferred from/(to) the statement of comprehensive income	1,994	(37,471)
Foreign exchange loss/(gain)	451	(1,394)
Foreign currency translation (gain)/loss	(16,669)	35,640
Balance at end of year	**159,109**	**173,333**

Due to the nature of the gross provision for unexpired risks, no maturity profile is presented.

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000
13.3 Provision for claims reserves		
Balance at beginning of year	760,054	611,022
Incurred but not reported claims reserve	760,054	611,022
Amount transferred to the statement of comprehensive income	(169,650)	13,721
Change in estimate	(169,650)	13,721
Incurred but not reported claims reserve	(169,650)	13,721
Foreign currency translation (gain)/loss	(65,325)	135,311
Incurred but not reported claims reserve	(65,325)	135,311
Balance at end of the year	525,079	760,054
Outstanding claims reserve	-	-
Incurred but not reported claims reserve	525,079	760,054

Maturity profile R	Within 1 Year	1 to 5 years	More than 5 years	Total
2017	-	525,079	-	525,079
2016	-	760,054	-	760,053

13.4 Assumptions, change in assumptions and sensitivity

The methods and assumptions that have the greatest effect on the measurement of insurance contracts provisions are:

- Claim provisions are not discounted for the time value of money.
- The cost of claims incurred but not yet reported is individually assessed for each contract. The probability of default is estimated by experienced underwriters using systematic processes taking into account updated information on specific country and project risk.
- The unearned premium provision reflects the risk profile of contracts and is a function of the amount at risk and the probability of default. The probability of default is assumed to increase over the term of the contract in line with increased uncertainty.
- A concentration risk provision is held; this is calculated by comparing the expected spread of claims in the ECIC's portfolio with the expected spread of claims in a well-diversified portfolio.
- The unexpired risk provision allows for inadequacy in the pricing basis with regard to the premium set at the inception of the contract. Such inadequacy of the pricing basis would normally only be discovered subsequent to writing the policy. It is thus appropriate to allow for a change in reserves as soon as there is general evidence that there has been inadequate pricing. This would occur if the pricing process is updated or if political or commercial risk on a contract is changed.

Change in assumptions

The assumptions and methodologies used in the calculation of the technical provisions are reviewed at the reporting date and the impact of any resulting changes in estimates is reflected in the statement of comprehensive income as they occur.

Notes to the Annual Financial Statements

Sensitivity analysis

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the company's estimates. The company believes that the liability for claims reported in the statement of financial position is adequate. However, it recognises that the process of estimation is based on certain variables and assumptions which could differ when claims arise.

The table presented below demonstrates the sensitivity of insurance contract liabilities estimates to particular movements in assumptions used in the estimation process:

2017	Insurance Contract Liability R	Change %
Reported value	3,236,519	
CRR LGD at 90%	3,206,863	(0.9)
Exchange rate set 10% higher	3,550,273	9.7
Exchange rate set 10% lower	2,907,545	(10.2)
Discount IBNR at 7.5%	3,156,102	(2.5)
Discount IBNR at risk free rate	3,200,245	(1.1)
Discount claims provisions at 7.5%	3,536,519	-
IBNR "Upwards" stress	3,453,483	6.7
IBNR "Downwards" stress	3,100,591	(4.2)

2016	Insurance Contract Liability R	Change %
Reported value	4,110,712	
CRR LGD at 90%	4,077,541	(0.8)
Exchange rate set 10% higher	4,501,195	9.5
Exchange rate set 10% lower	3,687,805	(10.3)

	2017 R '000	2016 R '000
Discount IBNR at 7.5%	3,946,054	(4.0)
Discount IBNR at risk free rate	4,060,320	(1.2)
Discount claims provisions at 7.5%	4,110,712	-
IBNR "Upwards" stress	4,270,984	3.9
IBNR "Downwards" stress	3,963,007	(3.6)

Notes to the Annual Financial Statements

	Notes	2017 R '000	2016 R '000
14. Deferred tax			
Deferred tax liability		(23,044)	(43,357)
Reconciliation of deferred tax liability			
Provisions		9,798	5,568
Unexpired risk reserve		821	1,049
Fair value loss on financial assets		(33,646)	(50,147)
Payment received in advance		149	203
Other		(166)	(30)
		(23,044)	**(43,357)**

15. Employee benefit liability

2017	Opening balance	Additions	Leave taken	Leave paid	Closing balance
Other provisions	3,281	5,338	(3,791)	(1,201)	3,627

2016	Opening balance	Additions	Utilised during the year	Reversed during the year	Closing balance
Other provisions	3,209	3,993	(3,090)	(831)	3,281

16. Trade and other payables

	Notes	2017 R '000	2016 R '000
Sundry creditors and accruals		12,062	12,195
VAT		-	249
Bonus provision		26,677	14,570
Amount due to related party (refer to note)	28	92	92
		38,831	**27,106**

Notes to the Annual Financial Statements

17. Liability for interest make-up

The ECIC has assumed the IMU liability in its financial results from 01 October 2016 based on the approvals obtained from the FSB, the dti and the Minister of Finance. The ECIC is now the principal in terms of all IMU obligations and no longer acting as an agent as per note 28.

The fair value of the liability is determined on a discounted probability weighted cash flow basis of all future IMU payments on existing agreements.

The IMU payments stretch out to October 2029; hence, discounting the cash flows to allow for time value of money is appropriate. The cash flows are denominated in US Dollars, hence a US Treasury Bills Yield Curve is used.

The IMU payments will cease if the ECIC insurance policy linked to the IMU agreement receives an insurance claim through which the loan facility is paid in full. This means there is a probability that the future payments will not occur, and this probability is linked to the likelihood of a claim occurring on the insurance policy. This means that future IMU payments are contingent on the insurance policy surviving (i.e. not receiving a claim). The likelihood of a claim occurring can also be referred to as a probability of defaulting on the loan (PD).

For the IMU liability calculations, it is assumed that the PD of the applicable project will be constant throughout the contract duration. Below are the inputs used to calculate the PD for each project:

- upfront insurance premium calculated using the pricing formula and applying a combined ratio to remove the profit margin
- the outstanding balance of the loan facility, i.e. the ECIC's exposure
- the insurance contract term in quarters

The drawdown and repayment schedules used in calculating the PD is the latest profile applicable and not the profile used for IMU payment if there has been restructuring. The reason is that this is a true reflection of probability of a claim.

The derived PD is then used to determine the probability of an insurance contract surviving (i.e. not claiming) to the time the IMU payment is due. When multiplied by the IMU payment at quarter end, this provides a probability weighted future cash flow.

	2017 R '000	2016 R '000
Additional liability	2,021,307	-
Unwind of interest	11,138	-
Payments	(328,494)	-
Foreign exchange gain	(70,929)	-
	1,633,022	-

The contractual amount to be paid is R 1,942,554,000 which is R 309,531,000 higher than the carrying amount.

The ECIC faces currency risk relating to this liability as the IMU grants received from **the dti** are in Rands while the obligations are payable in US Dollar results in a mismatch. This is managed by converting the IMU grants into US Dollars and funding the shortfall from the US Dollar assets.

Notes to the Annual Financial Statements

Sensitivity analysis

The table presented below demonstrates the sensitivity of liability estimates to particular movements in assumptions used in the estimation process:

Base IMU Liability	1,633,022	
	2017 R '000	2016 R '000
Increase PDs by 10%	1,618,180	(0.9%)
Decrease PDs by 10%	1,648,099	0.9%
Increase discount rates by 10%	1,621,792	(0.7%)
Decrease discount rates by 10%	1,644,439	0.7%
IMU Cash Flows (Discounted, no probabilities)	1,795,109	9.9%

Fair value hierarchy of financial liabilities at fair value through profit or loss

This liability has been classified as a level 3 as the fair value is determined using valuation techniques based on assumptions neither supported by prices from observable current market transactions in the same instrument nor based on available market data. The instruments classified in this level were valued by discounting future cash flows.

Reconciliation of financial liabilities at fair value through profit or loss measured at level 3

Reconciliation of financial liabilities at fair value through profit or loss measured at level 3 - 2017

	Opening balance	Unwind of interest	Issues	Settlements	Foreign exchange gain	Closing balance
Liability for interest make-up	-	11,138	2,021,307	(328,494)	(70,929)	1,633,022

Notes to the Annual Financial Statements

18. Categories of assets and liabilities (Figures in Rand thousand)

	Note(s)	Financial assets at fair value through profit or loss	Trade and other receivables	Financial assets and liabilities at amortised cost	Other non-financial assets and liabilities	Total	Current assets and liabilities	Non-current assets and liabilities
Categories of assets and liabilities - 2017								
Assets								
Equipment	6	-	-	-	8,010	8,010	-	8,010
Intangible assets	7	-	-	-	3,653	3,653	-	3,653
Financial assets at fair value through profit and loss	8	6,685,902	-	-	-	6,685,902	2,391,820	4,294,082
Trade and other receivables	9	-	-	1,578,303	-	1,578,303	531,095	1,047,208
Cash and cash equivalents	10	-	-	284,614	-	284,614	284,614	-
		6,685,902	**-**	**1,862,917**	**11,663**	**8,560,482**	**3,207,529**	**5,352,953**
Liabilities								
Provision for unearned premiums	13.1	-	-	-	2,552,331	2,552,331	501,653	2,050,678
Provision for unexpired risks	13.2	-	-	-	159,109	159,109	-	159,109
Provision for claims reserves	13.3	-	-	-	525,079	525,079	-	525,079
Deferred tax	14	-	-	-	23,044	23,044	-	23,044
Employee benefit liability	15	-	-	-	3,627	3,627	3,627	-
Trade and other payables	16	-	-	12,154	26,677	38,831	38,831	-
Liability for interest make-up	17	1,633,022	-	-	-	1,633,022	346,668	1,286,354
Current tax payable	25	-	-	-	55,563	55,563	55,563	-
		1,633,022	**-**	**12,154**	**3,345,430**	**4,990,606**	**946,342**	**4,044,264**

Notes to the Annual Financial Statements

	Note(s)	Financial assets at fair value through profit or loss	Trade and other receivables	Financial assets and liabilities at amortised cost	Other non-financial assets and liabilities	Total	Current assets and liabilities	Non-current assets and liabilities
Categories of assets and liabilities - 2016								
Assets								
Equipment	6	-	-	-	10,020	10,020	-	10,020
Intangible assets	7	-	-	-	4,451	4,451	-	4,451
Financial assets at fair value through profit and loss	8	7,072,663	-	-	-	7,072,663	1,993,575	5,079,088
Trade and other receivables	9	-	-	1,878,702	-	1,878,702	296,228	1,582,474
Cash and cash equivalents	10	-	-	439,960	-	439,960	439,960	-
Current tax receivable	25	-	-	-	26,516	26,516	26,516	-
		7,072,663	**-**	**2,318,662**	**40,987**	**9,432,312**	**2,756,279**	**6,676,033**
Liabilities								
Provision for unearned premiums	13.1	-	-	-	3,177,325	3,177,325	446,750	2,730,575
Provision for unexpired risks	13.2	-	-	-	173,333	173,333	-	173,333
Provision for claims reserves	13.3	-	-	-	760,054	760,054	-	760,054
Deferred tax	14	-	-	-	43,357	43,357	-	43,357
Employee benefit liability	15	-	-	-	3,281	3,281	3,281	-
Trade and other payables	16	-	-	12,287	14,819	27,106	27,106	-
		-	**-**	**12,287**	**4,172,169**	**4,184,456**	**477,137**	**3,707,319**

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000
19. Net investment income		
Dividend income		
Dividends received	46,273	22,338
Other investment income		
Interest received	152,548	207,183
Realised gains on disposal of financial assets	8,099	54,194
Change in fair value of financial assets	(73,588)	(30,138)
Sundry income	74	-
Interest received on cash and cash equivalents	1,968	723
	89,101	**231,962**
	135,374	**254,300**

20. Profit/(loss) on exchange differences

The foreign exchange differences arise as a result of revaluing rand monetary net assets from historic rates to closing rate.

Effect of translation on cash and cash equivalents	17,957	(34,089)
Effect of translation on net assets (excluding insurance contract liabilities and cash and cash equivalents)	(12,805)	36,756
Effect of translation on investments	236,272	(508,833)
Unrealised loss from revaluation of insurance contract liabilities	426	4,555
	241,850	**(501,611)**

21. Currency translation differences

The currency translation difference arises because the presentation currency (ZAR) is different to the functional currency (US$). This difference represents the changes in the foreign exchange movement between the historic rate and the closing rate on the non-monetary net assets.

Retained income	932,218	522,193
Gross unearned premium reserve	8,601	(347)
Fixed assets	(1,318)	2,336
Payments in advance	(734)	1,035
Technical reserves movement	(5,510)	100,935
Foreign exchange gain/(loss)	(1,376,918)	308,967
	(443,661)	**935,119**

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000
22. Net operating expenses		
Net operating expenses are arrived at after taking into account:		
External auditors' remuneration		
Audit fees for the current year	1,356	1,231
	1,356	**1,231**
Internal auditors' remuneration	869	824
Depreciation and amortisation		
Equipment	2,027	1,783
Intangible assets	390	76
	2,417	**1,859**
Directors' emoluments		
Remuneration paid to executive directors	4,520	3,596
Remuneration paid to non-executive directors	1,062	1,359
	5,582	**4,955**
Employee costs		
Salaries	54,288	42,254
Prior year bonus (over provision)/under provision	-	(13,984)
Provision for bonus for current year	25,432	14,570
	79,720	**42,840**
Operating leases		
Equipment	365	173
Property rental	5,344	5,372
	5,709	**5,545**
Remuneration to non-employees		
Actuarial services	996	1,168
Consulting services	4,445	2,613
Legal services	1,491	689
	6,932	**4,470**
General administrative expenses	38,207	33,745
	38,207	**33,745**
Total operating expenses (excluding portfolio fees)	**140,792**	**95,469**
Investment portfolio management fee	19,338	18,338
	19,338	**18,338**
Total operating expenses	**160,130**	**113,807**

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000
22.1. Disclosure as required by section 55 of PFMA		
Fruitless and wasteful expenditure		
Opening balance	1	69
Additions	10	1
Recovered	-	(63)
Write-off	-	(6)
	11	**1**

The additions result from interest incurred on late payment of corporate travel credit card (R7,000) and CIPC annual return (R1,000) and refreshments paid for meetings cancelled (R2,000).

	2017 R '000	2016 R '000
Irregular expenditure		
Add: Irregular expenditure – relating to prior years	2,234	-
Add: Irregular expenditure – relating to current year	2,626	-
	4,860	**-**

All the expenditure incurred was for valid business requirements of the ECIC.

23. Taxation

	2017 R '000	2016 R '000
Major components of the tax expense		
Current		
Local income tax - current period	150,555	352,052
Deferred		
Deferred tax - current year	(20,314)	5,007
	130,241	**357,059**

	2017	2016
Reconciliation of the tax expense		
Reconciliation between applicable tax rate and average effective tax rate.		
Current year's charge as a percentage of profit before taxation	(11.80)%	104.98 %
Disallowable expenses - IMU	36.61 %	- %
Disallowable expenses - other	0.25 %	(0.02)%
Exempt income - dividends	(0.72)%	0.49 %
Translation effect	3.42 %	(77.03)%
Other	0.24 %	(0.42)%
	28.00 %	**28.00 %**

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000
24. Cash (used)/generated in operating activities		
(Loss) / profit before taxation	(1,104,078)	345,557
Adjustments for:		
Profit on sale of assets	-	(70)
Interest received	(154,516)	(207,908)
Interest paid	8	2
Dividends received	(46,273)	(22,338)
Depreciation and amortisation	2,417	1,859
Other non-cash items	3	16
Fair value loss on financial assets	73,588	30,138
Realised gain on disposal of financial assets	(8,099)	(54,194)
(Profit) / loss on foreign exchange	(241,850)	501,611
Provision for unearned premiums	(333,687)	(171,738)
Provision for unexpired risks	1,994	(37,471)
Provision for outstanding claims	(169,650)	13,721
Trade and other receivables	131,798	(349,359)
Liability for interest make-up	1,703,951	-
Trade and other payables	11,968	(4,730)
Movements in provisions	346	72
	(132,080)	**45,168**

25. Taxation paid

Balance at beginning of the year	26,516	1,020
Current tax for the year recognised in profit or loss	(150,555)	(352,052)
Balance at end of the year	55,563	(26,516)
	(68,476)	**(377,548)**

26. Commitments

Operating leases		
Minimum lease payments due		
- within one year	5,336	5,336
- in second to fifth year inclusive	5,336	10,671
	10,672	**16,007**

Operating lease payments represent rentals payable by the company for its office properties. The lease was negotiated for five years and rentals escalate by 10% annually at the anniversary date (1 December) of the contract.

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000

27. Retirement benefits

Defined contribution plan

The company contributes to the Sanlam Umbrella Fund, which is a defined contribution plan registered in terms of the Pension Funds Act, 1956. Membership is compulsory for all full-time employees. As with all defined contribution funds, the liabilities equal the assets at all times and therefore no actuarial valuation is required.

	2017 R '000	2016 R '000
The total contribution	5,507	4,227

28. Related parties

Identity of related parties

The company has a related party relationship with its shareholder, fellow government entities and its directors and executive officers. The sole shareholder is the government of South Africa through the Department of Trade and Industry (the dti).

Transactions with key management personnel

Details of directors' emoluments are disclosed in the directors' report. Key management personnel for purposes of related party information are defined as directors.

Department of Trade and Industry (the dti)

The dti offered the interest make-up dispensation in order to allow local banks and other financiers to offer buyers of South African export goods and services financing for projects at internationally competitive rates. The IMU dispensation was administered by the ECIC on behalf of the dti until 01 October 2016 when it took over as the principal (see note 17). The movement in the trust account is reconciled as follows.

	2017 R '000	2016 R '000
Balance at beginning of year	2,625	117,742
Receipts from the dti	206,088	165,447
Payments to financial institutions	(209,021)	(282,957)
Interest	112	2,539
Professional services	(58)	(146)
Forex movement	669	-
Transfer to the ECIC	(415)	-
Balance at end of year	**-**	**2,625**

South African Reserve Bank

Guaranteed rates of foreign exchange are obtained from the South African Reserve Bank (SARB) and provided to South African contractors to eliminate the impact of currency fluctuations in their pricing during the delivery phase of projects. Exchange risk premiums are charged by the SARB for this cover. The company, on behalf of the SARB, administers exchange risk policies. The movement in the account is reconciled as follows.

	2017 R '000	2016 R '000
Balance at beginning of year	92	67
Premiums (net of commissions)	-	25
Balance at end of year	**92**	**92**

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000

Government guarantee

In terms of Export Credit and Foreign Investments Insurance Act 1957, as amended, the government of South Africa acts as a guarantor for the liabilities of the company.

Other related party transactions

The following transactions were entered into with the government of South Africa through its various departments and entities on commercial terms and conditions:

	2017 R '000	2016 R '000
Statement of comprehensive income effects:		
Premium		
Industrial Development Corporation of South Africa SOC Ltd	16,018	18,726
Development Bank of Southern Africa SOC Ltd	47,719	56,430
Assessment fees		
Development Bank of Southern Africa SOC Ltd	-	350
Industrial Development Corporation of South Africa SOC Ltd	-	10
Public Investment Corporation	10	-
Other income		
South African Revenue Service (Interest)	-	2
Insurance Sector Education and Training Authority (INSETA)	304	-
Taxation		
South African Revenue Service (Income tax)	150,555	352,052
Statement of financial position effects:		
Financial assets		
Bonds - Parastatals	62,060	106,022
Bonds - National government	571,050	810,450
Trade and other receivables		
Industrial Development Corporation of South Africa SOC Ltd	260	6,153
Development Bank of Southern Africa SOC Ltd	183	398
Insurance Sector Education and Training Authority (INSETA)	74	-
South African Revenue Service (Value added tax)	260	-
South African Revenue Service (Income tax)	-	26,516
Total assets	**633,887**	**949,539**
Liabilities		
Trade and other payables		
Industrial Development Corporation of South Africa SOC Ltd	-	746
South African Revenue Service (Value added tax)	-	249
South African Revenue Service (Income tax)	55,563	-
	55,563	**995**

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000

29. Directors' and executives' emoluments

Non-executive

	2017 R '000	2016 R '000
MJ Lesejane	209	230
TT Ngcobo (retired)	-	14
A Mawela	207	236
S O'Mahony	90	159
F Petersen-Lurie	253	298
V Matsiliza	71	185
A Mosai	232	237
	1,062	**1,359**

Executive remuneration

2017	Basic salary	Bonus paid	Provident fund	Cellphone allowance	Acting allowance	Total
K Kutoane - Chief Executive Officer (Director)	3,274	1,246	-	32	-	4,552
L Mphaphuli - Company Secretary	1,366	519	216	24	-	2,125
M Nkuhlu - Chief Operations Officer	2,226	974	205	24	-	3,429
C Simpson - Chief Financial Officer (appointed: May 2016)	1,596	-	167	21	-	1,784
L Mosupye - Chief Risk Officer (resigned: July 2016)	529	558	80	8	17	1,192
S Esterhuizen - acting Chief Risk Officer	-	-	-	-	14	14
N Maphula - General Counsel	1,539	503	220	24	-	2,286
J Omollo - Chief Risk Officer (appointed: December 2016)	505	-	81	8	41	635
	11,035	**3,800**	**969**	**141**	**72**	**16,017**

2016	Basic salary	Bonus	Provident fund	Cellphone allowance	Acting allowance	Total
K Kutoane - Chief Executive Officer (Director)	3,066	530	-	38	-	3,634
L Mphaphuli - General Counsel	1,282	239	200	24	-	1,745
M Nkuhlu - Chief Operations Officer	2,088	473	188	24	-	2,773
S Mudau - Chief Financial Officer (resigned: December 2015)	1,586	223	139	18	-	1,966
L Mosupye - acting Chief Financial Officer	1,425	296	221	24	46	2,012
S Esterhuizen - acting Chief Risk Officer	-	-	-	-	39	39
N Maphula - acting General Counsel	-	-	-	-	39	39
	9,447	**1,761**	**748**	**128**	**124**	**12,208**

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000

30. Contingent asset and liability

Contingent asset

The company has a possible salvage relating to the claim settled in the previous year. A portion of the possible salvage did not meet the recognition criteria as at the reporting date; the total amount which may be recognised in future is R 610 million.

31. Solvency note

	2017 R '000	2016 R '000
Regulatory solvency ratio	865%	1389%

The degree to which the available capital can cover the capital adequacy requirement.

32. Events after the reporting period

There were no other events that have occurred subsequent to the financial year-end that materially affected the annual financial statements of the corporation.

33. Underwriting results

	2017 R '000	2016 R '000
Insurance premium revenue	144,262	411,894
Change in unearned premiums	333,687	171,738
Change in unexpired risks	(1,994)	37,471
Net insurance premium earned	475,955	621,103
Claims incurred	**246,342**	**76,167**
Claims paid net of salvages	76,692	89,888
Salvages received	76,692	89,888
Change in claims reserves	169,650	(13,721)
Assessment fees	3,316	14,030
Commission paid	(622)	(228)
Operating expenses	(140,792)	(95,469)
Underwriting results	**584,199**	**615,603**
Investment income	135,374	254,300
Portfolio management fees	(19,338)	(18,338)
Foreign exchange loss	241,850	(501,611)
Other income	142	21
Interest expense	(8)	(2)
Corporate social investment	(13,852)	(4,416)
Expense for interest make-up	(2,032,445)	-
(Loss) profit before taxation	**(1,104,078)**	**345,557**
Taxation	(130,241)	(357,059)
(Loss) profit for the year	**(1,234,319)**	**(11,502)**

Notes to the Annual Financial Statements

	2017 R '000	2016 R '000
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Foreign currency translation reserve	2,179,500	2,623,161
Other comprehensive income for the year net of taxation	**2,179,500**	**2,623,161**
Total comprehensive income for the year	**945,181**	**2,611,659**

34. Financial results based on South African rand functional currency

The financial statements are prepared based on the US dollar functional currency. Below is the statement of financial position and statement of comprehensive income on the rand functional currency basis for information purposes:

Statement of financial position

	2017 R '000	2016 R '000
Assets		
Property, plant and equipment	6,007	7,106
Intangible assets	3,265	3,655
Other financial assets	6,685,902	7,072,663
Trade and other receivables	1,577,700	1,877,365
Cash and cash equivalents	284,614	439,961
Current tax receivable	-	26,516
Total assets	**8,557,488**	**9,427,266**
Equity and liabilities		
Equity		
Share capital and premium	316,051	316,051
Capital adequacy requirement	417,722	375,009
Retained income	2,840,720	4,567,956
Total equity	**3,574,493**	**5,259,016**
Liabilities		
Insurance contract liabilities	3,228,908	4,094,500
Provision for unearned premiums	2,544,720	3,161,113
Provision for unexpired risks	159,109	173,333
Provision for outstanding claims	525,079	760,054
Provisions	3,627	3,281
Trade and other payables	38,831	27,112
Current tax payable	55,563	-
Deferred tax	23,044	43,357
Liability for interest make-up	1,633,022	-
Total liabilities	**4,982,995**	**4,168,250**
Total equity and liabilities	**8,557,488**	**9,427,266**

Notes to the Annual Financial Statements

	Notes	2017 R '000	2016 R '000
Statement of comprehensive income			
Insurance premium revenue		144,262	411,894
Change in unearned premiums		325,770	169,630
Change in unexpired risks		(3,199)	36,058
Net insurance premium revenue		**466,833**	**617,582**
Assessment fees		3,316	14,030
Net investment income	19	135,374	254,300
(Loss)/profit on exchange differences	20	(190,397)	442,932
Other income		142	21
		415,268	**1,328,865**
Claims incurred		**237,506**	**67,240**
Claims paid net of salvages		76,692	89,888
Salvages received		76,692	89,888
Change in claims reserves		160,814	(22,648)
Expenses			
Commission paid		(622)	(228)
Operating expenses	22	(160,130)	(113,807)
Interest expense		(8)	(2)
Corporate social investment		(13,852)	(4,416)
Expense for interest make-up		(2,032,445)	-
(Loss)/profit before taxation		(1 554 283)	1 277 652
Taxation	23	(130,241)	(357,060)
(Loss)/profit for the year		**(1,684,524)**	**920,592**
Total comprehensive (loss) income for the year		**(1,684,524)**	**920,592**

35. Dividend payable

No dividends were paid or declared in the current financial year

36. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

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