# ANNUAL FINANCIAL STATEMENTS 2021


ESTABLISHED IN 2001

ECIC

EXPORT CREDIT INSURANCE CORPORATION OF SOUTH AFRICA SOC LTD

YOUR EXPORT RISK PARTNER

YOUR EXPORT RISK PARTNER


**Export Credit Insurance Corporation of South Africa SOC Ltd**

**Financial statements**
for the year ended 31 March 2021

**These financial statements were supervised by:**

N Mkhathazo CA (SA)
*Chief Financial Officer*

These financial statements have been prepared in compliance with the applicable requirements of the Companies Act 71 of 2008

# General Information

| | |
|---|---|
| **Country of incorporation and domicile** | South Africa |
| **Nature of business and principal activities** | Export credit and investment insurance |
| **Directors** | D Dharmalingam (Independent non-executive director & Chairperson)<br>V Matsiliza (Independent non-executive director)<br>S O'Mahony (Independent non-executive director)<br>S Mayekiso (Independent non-executive director)<br>L Mothae (Independent non-executive director)<br>D Subbiah (Independent non-executive director)<br>L Mataboge (Non-independent non-executive director)<br>K Kutoane (Chief Executive Officer) |
| **Business address** | 349 Witch Hazel Avenue<br>Eco Park Origins<br>Building C7 & C8<br>Centurion<br>0063 |
| **Bankers** | First National Bank |
| **Auditors** | SizweNtsalubaGobodo Grant Thornton Inc.<br>Chartered Accountants (S.A.) Registered Auditors |
| **Company Secretary** | C Kgoale |
| **Company registration number** | 2001/013128/30 |

# Index

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





# Audit Committee Report

This is the Audit Committee's report for the financial year ended 31 March 2021. The Audit Committee ('the 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 information and communications technology ('ICT') 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 SAB&T Chartered Accountants Incorporated t/a Nexia SAB&T effective from 01 October 2020. The committee approved the risk-based internal audit plan for the 2021 financial year. 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 manager in the office of the Chief Executive Officer ('CEO'). The committee is satisfied with the effectiveness of this arrangement for internal audit.

During the year under review, as when the need arose, the committee met with the external and internal auditors without management present. The committee considers internal audit to be effectively functional and to have addressed material risks pertinent to the Export Credit Insurance Corporation of South Africa ('the Corporation' or 'ECIC') in its audit.

### External audit and non-audit services

The 2019 financial year was the first year of the tenure of the consortium of SizweNtsalubaGobodo Grant Thornton Inc and AM PhakaMalele Inc as the Corporation's external auditors. The committee is satisfied with the independence and objectivity of the external auditors, 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 Auditor-General of South Africa (AGSA) so 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 the external auditors' fulfilment of the agreed audit plan and variations from the plan, as well as the robustness and perceptiveness of the external auditors in their 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 2021 financial year.

Any non-audit services to be provided by the external auditors are 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 firms.

The committee has recommended, for approval at the Annual General Meeting, the reappointment of the consortium of SizweNtsalubaGobodo Grant Thornton Inc. and AM PhakaMalele Inc. as external auditors of the Corporation for the 2022 financial year.

The committee has met with the external auditors 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 Corporation and is satisfied that they are appropriate and comply with the International Financial Reporting Standards, the requirements of the Companies Act and Public Finance Management Act (PFMA).

## Internal financial controls

A high-level review of the design, implementation and effectiveness of the Corporation'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 period under review was adequate, efficient and effective.

## Finance function

The committee is satisfied that the Chief Financial Officer has the appropriate expertise and experience to meet the responsibilities of the role. Furthermore, the

# Audit Committee Report

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 Corporation for the year ended 31 March 2021 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

Based on the information and explanations provided by management as well as the results of audits performed by the internal and external auditors, the committee is of the opinion 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 2021. It has also reviewed:

- The external auditors' report;
- The external auditors' management report and management's responses thereto;
- Any changes in accounting policies and practices;
- The Corporation'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 committee for oversight purposes during the year; and
- Any significant adjustments resulting from the audit.

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

No significant matters were identified during the audit.

### Summary of main activities undertaken by the committee during the financial year under review

The committee performed the following activities during the year:

- Reviewed the Corporation's integrated report and processes and recommended the same to the board for approval;
- Approved the audit plan and budget for the external audit firm and the internal audit firm;
- Considered the Corporation'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 Corporation has been determined a going concern;
- Considered the progress of the implementation of the IFRS 9 and IFRS 17 project plan;
- Considered and recommended for Board's approval the quarterly performance reports to be submitted to the Department of Trade, Industry and Competition (the dtic); and
- 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 in line with King IV to implement the 3 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 International Financial Reporting Standards, the requirements of the Companies Act and the PFMA, and the basis of preparation as set out in the accounting policies in note 1.3 of the annual financial statements. The committee concurs that adopting the going-concern assumption in preparing the annual financial statements is appropriate.

At its meeting on 26 July 2021, the committee recommended the approval of the annual financial statements to the Board.

Ms Lerato Mothae

**L. Mothae**

*Chairperson*



# Directors' Responsibility Statement and Approval of the Annual Financial Statements

The external auditor is responsible for auditing the financial statements whereas the Board of Directors ('Board') is responsible for the preparation, integrity and fair presentation of the financial statements. The Board acknowledges its duty to ensure balanced content and fair presentation that provides a comprehensive assessment of the Corporation's performance for the financial year ended 31 March 2021.

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 Corporation'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 Corporation'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 Corporation's written policies and procedures.

As part of internal controls, the Corporation's internal audit function conducts inspections, and financial and specific audits. The external auditors are responsible for reporting on the Corporation's financial statements. The financial statements were audited by the independent auditors, the consortium of SizweNtsalubaGobodo Grant Thornton Inc. and AM PhakaMalele 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 auditors during their audit were valid and appropriate.

The Corporation'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 judgements and estimates.

The performance information fairly reflects the operations, actual output against planned targets for performance indicators as per the Corporation's strategic plan and annual performance plan for the financial year ended 31 March 2021. 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 23.1 of the annual financial statements.
- Any criminal or disciplinary steps taken because of such losses or irregular expenditure or fruitless and wasteful expenditure: there were no instances where the Corporation 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.

The directors have a reasonable expectation that the Corporation 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 Corporation for the year ended 31 March 2021 that appear on pages 14 to 73 were approved by the Board of Directors on 30 July 2021 and are signed on its behalf by:

| | |
|---|---|
| **D Dharmalingam** | **K Kutoane** |
| *Chairperson* | *Chief Executive Officer* |
| 30 July 2021 | 30 July 2021 |

# Company Secretary's Certification

### Declaration by the Company secretary in respect of Section 88(2)(e) of the Companies Act

I certify that, in respect of the reporting period, the Corporation has 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.

*Charles Kgoale*

**C Kgoale**

*Company Secretary*

30 July 2021



# Directors' Report

### Nature of business

The Corporation is a self-sustained, state-owned, national export credit agency that is supervised and regulated by the Financial Sector Conduct Authority (FSCA) and Prudential Authority (PA). 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 relating to 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 IV and endeavours to comply with these recommendations as far as possible. The Corporation's adherences to these principles are outlined in the Governance section of this report.

### Board of Directors

The current directors are reflected on the General Information page. During the 2021 financial year, the term for the National Treasury representative expired, as at 31 March 2021 there was still no replacement. There were no appointments made during the year.

### Executive management

During the 2021 financial year, there were no resignations and appointments.

### Financial results

The financial results of the Corporation are fully disclosed on pages 14 to 73.

### Dividends

No dividend has been declared for the current and previous financial year in line with the Corporation's dividend policy.

### Taxation status

The Corporation pays income 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. As at year end the Corporation was in good standing with respect to its tax responsibilities.

The amendment tax bill which designates the IMU grant as tax exempt in terms of Schedule 11 of the Income Tax Act has been promulgated and will be applicable in the 2022 financial year.

### Changes in accounting policies

The accounting policies applied during the year ended 31 March 2021 are in all material respects consistent with those applied in the annual financial statements for the year ended 31 March 2020, as no changes in accounting policies were effected in this financial year.

### Events after the reporting period

For one of the projects affected by COVID-19 as disclosed in note 14; historically it experienced challenges in respect of poor quality and quantity of the reserves, which were exacerbated by COVID-19, which resulted in low demand for the product and unsustainable low market price. Post year-end, the Corporation entered into discussions to restructure the debt (include purchasing the debt for a reduced amount), which will result in ECIC paying a claim in the next financial year in the range of between $48.2 million and $50.8 million (R715.1 million and R753.7 million as at 31 March 2021). At reporting date, a claims reserve has not been raised as there was no default event.

### Going concern

The Board of Directors believes that the Corporation 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 annual financial statements, refer to note 38 for a detailed assessment.

# Directors' Report

## Audit Committee information

The names of the Audit Committee members and attendance records are reflected below:

| | 28 April 2020 | 22 July 2020 | 04 September 2020 | 23 September 2020 | 22 October 2020 | 21 January 2021 | 17 March 2021 |
|---|---|---|---|---|---|---|---|
| **Members** | | | | | | | |
| L Mothae (Chairperson) | X | X | * | X | X | X | X |
| V Matsiliza | X | X | X | X | X | X | X |
| S O'Mahony | X | X | X | X | X | X | - |
| S Mayekiso | X | X | X | X | X | X | X |
| **Invitees** | | | | | | | |
| S Khan (dtic shareholder representative) | - | - | - | - | X | X | - |

*Legends:*

*X > in attendance*

*- > apology*

** > absent (meeting invite sent to the incorrect email address)*

## Litigation

Post year-end the Corporation received a court summons pertaining to the insurance claims that were rejected by the Corporation. The Corporation will be defending the litigation action. The disclosure has been provided in note 14.3 provision for claims reserves.

## Related party transactions

The related-party transactions are specified in the notes to the annual financial statements on pages 66 to 69.

## Performance against pre-determined objectives

The Corporate strategic objectives and targets are developed and approved by the Board of Directors. The table below compares the planned and related actual performance for 2021 financial year on the high-level corporate strategic objectives, and indicates the degree to which the Corporation met or exceeded its strategic objectives for the year under review.



# Directors' Report

## Performance against pre-determined objectives

| Output | Performance Measure/Indicator | 2020-21 Annual Target | Actual Achievement |
|---|---|---|---|
| **IMPROVE KNOWLEDGE AND SKILLS** | | | |
| Implementation of the annual training plans | % of annual training plan implemented | 80 – 100% implementation of training plan for 2020/21 | Target achieved.<br>93% implemented. |
| **BUILD AND LEVERAGE STRATEGIC PARTNERSHIPS** | | | |
| Strategic partnerships plans implemented | Percentage (%) collaboration initiatives implementation as per the annual strategic partnership implementation plan | 80 – 100% implementation of strategic partnership plan | Target achieved.<br>100% implemented. |
| **ADVANCE TRANSFORMATION** | | | |
| Transformation strategy implemented | B-BBEE score | Achieve a level 2 B-BBEE score | Target achieved.<br>Level 2 B-BBEE score. |
| **IMPROVE BUSINESS PROCESSES AND SYSTEMS** | | | |
| Track cost to income ratio on a periodic basis | Cost to income ratio calculated as current operating costs (excluding investment and socio-economic development related costs) as a ratio of 3-year average income (earned premium, assessment fees and commission received less change in concentration risk reserve) | Cost to income ratio not exceeding 32%* | Target achieved.<br>Cost to income ratio of 20%. |
| Business processes improvement plan implemented | % of Business processes improvement plan implemented | 80 – 100% of business process improvement plan implemented | Target achieved.<br>100% implemented. |
| **CONTRIBUTE TO TRADE FACILITATION** | | | |
| Improve business development initiatives to grow the business | Value of approved transactions | USD 500m – USD600m | Target achieved.<br>Projects approved:<br>1. Total MozLNG Project in Mozambique USD800 million<br>2. Lake Trans Tanzania and Mozambique USD2 million<br>3. Dark Fibre Africa in Zimbabwe USD3 million<br>4. Amandi Ghana €64,4 million |
| Research and identify new opportunities | Number of research reports to identify new opportunities | 3 research projects to identify new opportunities | Target achieved.<br>Research reports presented:<br>1. AfCFTA – Trade and investment opportunities for SA<br>2. Renewable energy in Africa<br>3. Trade and investment opportunities in transport infrastructure |
| **IMPROVE COMMUNICATION** | | | |
| Improve communication | Percentage implementation of marketing and communications plan | Implement 80- 100% of 2020/21 marketing and communications plan | Target achieved.<br>98% implemented. |
| **INCREASE CAPITAL BASE** | | | |
| Increase in capital base (excluding foreign exchange movements and related tax) | Percentage (%) increase in equity | 5 – 10% in equity | Target achieved.<br>17% increase in equity* |
| **IMPROVE STAKEHOLDER SATISFACTION** | | | |
| Improved stakeholder satisfaction | Percentage (%) implementation of the annual stakeholder engagement plan | Implement 80 – 100% of annual stakeholder engagement plan | Target achieved.<br>88% implemented. |
| Improved customer satisfaction | Percentage (%) implementation of the annual customer engagement plan | Implement 80 – 100% of annual customer engagement plan | Target achieved.<br>100% implemented. |
| Improved stakeholder and customer satisfaction | Percentage (%) implementation of the annual employee engagement plan | Implement 80 – 100% of annual employee engagement plan | Target achieved.<br>88% implemented. |

**The performance of this target is based on the South African Functional Currency financial statements disclosed in Note 40 on pages 72-73 of the Annual Financial Statements.*

# Independent Auditors' Report

### Independent auditor's report to the Parliament on Export Credit Insurance Corporation of South Africa SOC Ltd

## Report on the audit of the financial statements

### Opinion

1. We have audited the financial statements of Export Credit Insurance Corporation of South Africa SOC Ltd (the public entity) set out on pages 14 to 71, which comprise the statement of financial position as at 31 March 2021, the statement of comprehensive income, statement of changes in equity and statement cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Export Credit Insurance Corporation of South Africa SOC Ltd as at 31 March 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (the Companies Act).

### Basis of opinion

3. 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 this auditor's report.
4. We are independent of the public entity 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 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 corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards).
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of the accounting authority for the financial statements

6. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the PFMA and the Companies Act, as well as 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.
7. In preparing the financial statements, the accounting authority is responsible for assessing the public entity'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 public entity or to cease operations, or has no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

8. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the 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.
9. A further description of our responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

10. In accordance with the Public Audit Act of South Africa, 2004 (PAA) and the general notice issued in terms thereof, we have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objective presented in the annual performance report. We performed procedures to identify material findings but not to gather evidence to express assurance.



# Independent Auditors' Report

11. Our procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the public entity. We have not evaluated the completeness and appropriateness of the performance indicator included in the planning documents. Our procedures do not examine whether the actions taken by the public entity enabled service delivery. 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.
12. 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 objective presented in annual performance report of the public entity for the year ended 31 March 2021.

| Objective | Pages in the annual performance report |
|---|---|
| Objective 1 – Percentage increase in basic own funds | 9 |

13. 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.
14. We did not identify any material findings on the usefulness and reliability of the reported performance information for this objective.

### Other matters

15. We draw attention to the matter below. Our opinions are not modified in respect of this matter.

#### *Achievement of planned targets*

16. Refer to the annual performance report on page 9 for information on the achievement of planned targets for the year.

## Report on the audit of compliance with legislation

### Introduction and scope

17. In accordance with the PAA and the general notice issued in terms thereof, we have a responsibility to report material findings on the public entity's compliance with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express assurance.
18. We did not identify any material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

## Other information

19. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the financial statements, the auditor's report and those selected objective presented in the performance report that have been specifically reported on in the auditor's report.
20. Our opinion on the financial statements and my findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.
21. 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 objective presented in the annual performance report, our knowledge obtained in the audit, or otherwise appears to be materially misstated.
22. If based on the work we have performed, we conclude that there is a material misstatement in this other information, we are required to report that fact. We have nothing to report in this regard.

## Internal control deficiencies

23. We considered internal control relevant to our audit of the financial statements, reported performance information and compliance with applicable legislation; however, our objective was not to express any form of assurance on it. We did not identify any significant deficiencies in internal control.

# Independent Auditor' Report

### Other reports

24. We draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of our opinion on the financial statements, nor our findings on the reported performance information or compliance with legislation.

25. We were engaged to perform the following audit-related services:

    *Quantitative Reporting Template in compliance with the Insurance Act, 2017 (the Act) for the year ended 31 March 2021.*

### Auditor tenure

26. In terms of the IRBA rule published in Government Gazette Number 39475 dated 4 December 2015, I report that SizweNtsalubaGobodo Grant Thornton Incorporated has been the auditor of Export Credit Insurance Corporation of South Africa SOC Ltd for three years.

**SizweNtsalubaGobodo Grant Thornton Inc.**
**Director: Nhlanhla Sigasa**
*Chartered Accountant (SA)*
*Registered Auditor*

30 July 2021

20 Morris East Street
Woodmead
2191



# Independent Auditor' Report

## Annexure – Auditor's responsibility for the audit

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

### Financial statements

2. In addition to our responsibility for the audit of the financial statements as described in this auditor's report, we also:
   - Identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
   - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control.
   - Evaluate the appropriateness of accounting policies used, as well as the practicality of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority.
   - Conclude on the appropriateness of the board of directors, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Export Credit Insurance Corporation of South Africa SOC Ltd 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 about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. Our conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease continuing 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.

### Communication with those charged with governance

3. 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.

4. We also provide the accounting authority with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to have a bearing on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

# Statement of Financial Position

| | Note(s) | 2021 R'000 | 2020 R'000 |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 6 | 1 117 | 2 606 |
| Property and equipment | 7 | 6 262 | 14 988 |
| Deferred tax | 8 | - | 22 407 |
| Financial assets at fair value | 9 | 4 303 165 | 8 271 983 |
| Reinsurance contract assets | 10 | 10 700 | - |
| Trade and other receivables | 11 | 1 798 269 | 2 140 689 |
| Cash and cash equivalents | 12 | 4 084 701 | 331 400 |
| **Total assets** | | **10 204 214** | **10 784 073** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital and share premium | 13 | 316 051 | 316 051 |
| Foreign currency translation reserve | | 2 484 487 | 3 724 172 |
| Fair value adjustment through other comprehensive income reserve | | (29 947) | (57 414) |
| Retained earnings | | 3 734 147 | 2 066 808 |
| **Total equity** | | **6 504 738** | **6 049 617** |
| **Liabilities** | | | |
| Insurance contract liabilities | | 2 808 756 | 3 249 088 |
| Provision for unearned premiums | 14.1 | 2 428 106 | 2 744 083 |
| Provision for unexpired risks | 14.2 | 380 650 | 505 005 |
| Provision for claims reserves | 14.3 | - | - |
| Reinsurance deferred acquisition cost | | 1 648 | - |
| Deferred tax | 8 | 3 838 | - |
| Employee benefit liability | 15 | 4 554 | 3 764 |
| Trade and other payables | 16 | 110 087 | 280 286 |
| Lease liability | 17 | 3 396 | 9 169 |
| Liability for interest make-up | 18 | 749 801 | 1 181 056 |
| Current tax payable | 29 | 17 396 | 11 093 |
| **Total liabilities** | | **3 699 476** | **4 734 456** |
| **Total equity and liabilities** | | **10 204 214** | **10 784 073** |

# Statement of Comprehensive Income

| | Note(s) | 2021 R'000 | 2020 R'000 |
|---|---|---|---|
| Insurance premium revenue | 20 | 701 331 | 213 930 |
| Net change in unearned premiums | | (134 655) | 452 668 |
| Gross change in unearned premiums | 14.1 | (132 902) | 452 668 |
| Change in reinsurance unearned premiums | 10 | (1 753) | - |
| Change in unexpired risks | 14.2 | 44 777 | (143 308) |
| **Net insurance premium revenue** | | **611 453** | **523 290** |
| Assessment fees | | 271 | 232 |
| Reinsurance commissions received | | 347 | - |
| Net investment income | 21 | 822 981 | 122 549 |
| IMU grant receipts | | 162 710 | 233 511 |
| Other income | | 190 | 114 |
| **Net income** | | **1 597 952** | **879 696** |
| **Claims incurred** | | **69 331** | **76 875** |
| Insurance benefits and claims | | 69 331 | (259 647) |
| Claims paid | 14.3 | - | (373 787) |
| Salvages income | | 69 331 | 114 140 |
| Change in claims reserves | 14.3 | - | 336 522 |
| Commission paid to intermediaries | | (193) | (161) |
| Operating expenses | 23 | (149 224) | (169 016) |
| Interest expense | 24 | (476) | (390) |
| Profit/(Loss) on exchange differences | 25 | 408 754 | (347 899) |
| Expense for interest make-up | 18 | (64 375) | 34 704 |
| SED & ESD contributions | 26 | (25 998) | (39 653) |
| **Profit before taxation** | | **1 835 771** | **434 156** |
| Taxation | 27 | (168 432) | (419 811) |
| **Profit for the year** | | **1 667 339** | **14 345** |
| **Other comprehensive income:** | | | |
| **Items that may be reclassified to profit or (loss):** | | | |
| Currency translation differences | 22 | (1 239 685) | 1 118 902 |
| Fair value adjustments of financial assets | | 35 395 | (125 299) |
| Deferred tax on fair value of financial assets | | (7 928) | 28 067 |
| **Total items that may be reclassified to profit or (loss)** | | **(1 212 218)** | **1 021 670** |
| **Other comprehensive (loss)/income for the year net of taxation** | | **(1 212 218)** | **1 021 670** |
| **Total comprehensive profit for the year** | | **455 121** | **1 036 015** |

# Statement of Changes in Equity

| | Share capital and share premium R'000 | Foreign currency translation reserve R'000 | Fair value adjustment through other comprehen-sive income reserve R'000 | Total reserves (foreign currency & fair value adjustment) R'000 | Retained earnings R'000 | Total equity R'000 |
|---|---|---|---|---|---|---|
| **Balance at April 1, 2019** | **316 051** | **2 605 270** | **39 818** | **2 645 088** | **2 052 463** | **5 013 602** |
| Profit for the year | - | - | - | - | 14 345 | 14 345 |
| Effects of translation to presentation currency | - | 1 118 902 | - | 1 118 902 | - | 1 118 902 |
| Fair value adjustment net of taxation | - | - | (97 232) | (97 232) | - | (97 232) |
| **Total comprehensive income for the year** | **-** | **1 118 902** | **(97 232)** | **1 021 670** | **14 345** | **1 036 015** |
| **Balance at April 1, 2020** | **316 051** | **3 724 172** | **(57 414)** | **3 666 758** | **2 066 808** | **6 049 617** |
| Profit for the year | - | - | - | - | 1 667 339 | 1 667 339 |
| Effects of translation to presentation currency | - | (1 239 685) | - | (1 239 685) | - | (1 239 685) |
| Fair value adjustment net of taxation | - | - | 27 467 | 27 467 | - | 27 467 |
| **Total comprehensive income for the year** | **-** | **(1 239 685)** | **27 467** | **(1 212 218)** | **1 667 339** | **455 121** |
| **Balance at March 31, 2021** | 316 051 | 2 484 487 | (29 947) | 2 454 540 | 3 734 147 | 6 504 738 |
| Note(s) | 13 | | | | | |

# Statement of Cash Flows

| | Note(s) | 2021 R'000 | 2020 R'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from underwriting activities | 28 | 402 315 | (46 060) |
| Interest received | | 162 125 | 237 150 |
| IMU grant receipts | | 162 710 | 233 511 |
| Dividends received | | 49 707 | 61 264 |
| IMU claims paid | | (322 185) | (284 427) |
| Interest paid | | (476) | (390) |
| Taxation paid | 29 | (143 812) | (428 109) |
| **Net cash inflow/(outflow) from operating activities** | | **310 384** | **(227 061)** |
| **Cash flows from investing activities** | | | |
| Acquisition of equipment | 7 | (1 046) | (140) |
| Sale of equipment | | - | 35 |
| Acquisition of intangible assets | 6 | - | (100) |
| Net sale of financial assets | | 3 570 891 | 204 800 |
| **Net cash inflow from investing activities** | | **3 569 845** | **204 595** |
| **Cash flows from financing activities** | | | |
| Lease payments | | (5 773) | (2 585) |
| **Increase in cash and cash equivalents** | | **3 874 456** | **(25 051)** |
| Cash and cash equivalents at the beginning of the year | | 331 400 | 351 114 |
| Effect of translation on cash and cash equivalents | | (151 303) | 36 109 |
| Unrealised foreign exchange gain/(loss) on cash and cash equivalents | | 30 148 | (30 772) |
| **Total cash and cash equivalents at end of the year** | 12 | **4 084 701** | **331 400** |

# 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 Corporation in pursuant to its objectives as set out in the Export Credit and Foreign Investment Re-insurance Act of 1957, as amended are set out in note 3.

Prior to the incorporation of ECIC in July 2001, the Department of Economic Affairs (now the Department of Trade, Industry and Competition, the dtic) offered reinsurance cover through a privately owned insurance company.

The Corporation provides risk mitigation solutions for South African exporters who offer capital goods and services into the international market. The focus is on Africa and other emerging markets outside the continent that are considered too risky for conventional insurers. The ECIC mandate is to facilitate cross-border investments and export trade between South Africa and the rest of the world. The aim is to stimulate economic growth through exports that contribute to foreign income, job creation and global competitiveness.

### 1.2 New standards, amendments and interpretations issued

**(a) New applied standards, amendments and interpretations issued and effective for the current financial year.**

***(i) Interest Rate Benchmark Reform: The amendments to IFRS 9, IAS 39 and IFRS 7.***

Amend requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting.

- The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform.
- In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The impact is assessed to be immaterial at ECIC as the company does not apply hedge accounting.

***(ii) IAS 1, Presentation of Financial Statements. Amendment to the Definition of Material.***

The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The impact is immaterial. ECIC financial statements are prepared taking into consideration materiality of the information to be presented to the primary users of the Corporation's annual financial statements.

***(iii) IAS 8, Accounting policies, Changes in Accounting Estimates and Errors. Amendment to the Definition of Material.***

The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The impact is immaterial. ECIC financial statements are prepared taking into consideration materiality of the information to be presented to the primary users of the Corporation's annual financial statements.

**(b) New standards, amendments and interpretations issued but not effective for the financial year and not early adopted.**

***(i) 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.



# Accounting Policies

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).

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 is currently underway.

The standard is effective for annual periods beginning on or after 1 January 2023 and has to be applied retrospectively. Early adoption is permitted. The Corporation is expecting to adopt IFRS 17 in its financial statements for the year ending 31 March 2024. The Corporation will in future periods estimate the impact of IFRS 17 on its financial statements.

***(ii) IAS 1, Presentation of Financial Statements.***

The following amendments were made:

- Classification of Liabilities as current or Non-current.

Narrow scope amendments to the accounting standard to clarify how debts and other liabilities are classified based on the contractual arrangements in place at the reporting date.

The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022, however, their effective date has been delayed to 1 January 2023.

- Disclosure of Accounting Policies.

The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies, with additional guidance added to the Standard to explain how an entity can identify material accounting policy information with examples of when accounting policy information is likely to be material.

The amendments are effective for annual periods beginning on or after 1 January 2023.

ECIC will apply the amendments from the effective date and the amendments are not expected to significantly impact the Corporation.

***(iii) IAS 8, Accounting policies, Changes in Accounting Estimates and Errors. Amendment to the Definition of Accounting Estimates.***

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting

estimates, by replacing the definition of a change in accounting estimates with a new definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The requirements for recognising the effect of change in accounting prospectively remain unchanged.

The amendments are effective for annual periods beginning on or after 1 January 2023, ECIC will apply the amendments from the effective date and the amendments are not expected to significantly impact the Corporation.

*(iv) IAS 16, Property, plant, and equipment- Proceeds before Intended use.*

The amendments prohibit an entity from deducting from cost of an item of property, plant, and equipment any proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items in the profit or loss.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022, ECIC will apply the amendments from the effective date and the amendments are not expected to significantly impact the Corporation.

*(v) IAS 37, Provisions, Contingent Liabilities and Contingent Assets: 'Onerous Contracts- Cost of Fulfilling a Contract.*

The amendments specify which costs should be included in an entity's assessment and whether a contract will be loss making. The amendments are effective for annual reporting periods beginning on or after 1 January 2022, ECIC will apply the amendments from the effective date and the amendments are not expected to significantly impact the Corporation.

*(vi) Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.*

Amendments to requirements relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities, hedge accounting and disclosures.

The amendment to IFRS 4 enables an insurer applying the temporary exemption from IFRS 9 to apply a practical expedient to account for a change in the contractual cash flows that are required by IBOR reform by updating the effective interest rate to reflect any change arising from the reform.

The amendment to IFRS 7 requires a company to make additional disclosures in its financial statements so that investors can better understand the effects of IBOR reform on that company.

The amendments to IFRS 9 enable a company to apply a practical expedient to account for a change in the contractual cash flows that are required by IBOR reform by updating the effective interest rate to reflect any change arising from the reform.

The amendments to IFRS 9 enable (and require) companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the IBOR reform, by requiring companies to amend their hedging relationships to reflect:

- designating an alternative benchmark rate as the hedged risk; or
- changing the description of the hedged item, including the designated portion, or of the hedging instrument.

The amendment to IFRS 16 enables a company to apply a practical expedient to account for a lease modification required by the IBOR reform.

The amendments to IAS 39 enable (and require) companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the IBOR reform by requiring companies to amend their hedging relationships to reflect:

- designating an alternative benchmark rate as the hedged risk;
- changing the description of the hedged item, including the designated portion, or of the hedging instrument; or
- changing the description of how the entity would assess hedge effectiveness.

The amendments are effective for annual periods beginning on or after 1 January 2021, ECIC will apply the amendments from the effective date. The impact is not yet known.

*(vii) IFRS 9, Financial Instruments. Annual Improvements to IFRS Standards 2018–2020.*

The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognise a financial liability. The amendments are effective for annual reporting periods beginning on or after 1 January 2022,

ECIC will apply the amendments from the effective date and the amendments are not expected to significantly impact the Corporation.





*(viii) IFRS 16, Leases. The following amendments were made.*

- COVID-19-Related Rent Concessions.

Amendment providing lessees with an exemption from assessing whether a COVID-19-related rent concession (a rent concession that reduces lease payments due on or before 30 June 2021) is a lease modification. The amendment is effective for annual reporting periods beginning on or after 1 June 2020.

ECIC will apply the amendments from the effective date and the amendments are not expected to significantly impact the Corporation.

- 'COVID-19-Related Rent Concessions beyond 30 June 2021.

Amendment that extends, by one year, the one from June 2020. Amendment that provides lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after 1 April 2021.

ECIC will apply the amendments from the effective date and the amendments are not expected to significantly impact the Corporation.

**(c) New standards, amendments and interpretations issues and effective for the current financial year but not implemented by the Corporation.**

*(i) 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.

ECIC has elected to defer the implementation of IFRS 9 to 01 April 2023 when IFRS 17 is expected to be effective. A detailed assessment of the impact has not been made by ECIC, therefore the impact is not yet known.

IFRS 9 provides a temporary exemption that permits ECIC to apply IAS 39 rather than IFRS 9 when accounting for financial instruments for annual periods beginning before 01 April 2023.

The Corporation is eligible to apply the temporary exemption from IFRS 9 due to the following criteria:

- it has not previously applied any version of IFRS 9; and
- its activities are predominantly connected with insurance.

As at 31 March 2016, the carrying amount of the liabilities arising from contracts within the scope of this IFRS 4 were greater than 90% of the total carrying amount of all liabilities. Since 31 March 2016, there has been no change in the Corporation's activities.

The Corporation's financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are all measured at fair value as they are managed and performance is evaluated on a fair value basis.

Below is the fair value balances and adjustments of financial assets that are:

- managed at fair value; or
- whose contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding principal amounts.

|  | 2021 |  | 2020 |  |
|---|---|---|---|---|
| **Financial asset** | **Fair value balance (R'000)** | **Fair value adjustments (R'000)** | **Fair value balance (R'000)** | **Fair value adjustments (R'000)** |
| Financial assets at fair value | 4 303 165 | 255 224 | 8 271 983 | (445 892) |
| Trade and other receivables | 1 798 269 | - | 2 140 689 | - |
| Cash and cash equivalents | 4 084 701 | - | 331 400 | - |
| **Total** | **10 186 135** | **255 224** | **10 744 072** | **(445 892)** |

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

### 1.3 Basis of preparation

The annual financial statements of the Corporation are prepared on the going-concern basis in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board; the interpretations to IFRS as issued by the IFRS Interpretations Committee (IFRIC); the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee; the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council; and the requirements of the Public Finance Management Act No.1 of 1999 of South Africa, as amended; and the Companies Act No. 78 of 2008 of South Africa, as amended. As at 31 March 2021, the Corporation was solvent with total assets exceeding total liabilities by R6.5 billion.

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 detailed in 1.6 below. While the Corporation is domiciled in South Africa, its functional currency is US Dollar with the Rand as its presentation currency, rounded to the nearest thousand. All assets and liabilities are presented in decreasing order of liquidity.

The financial statements of Export Credit Insurance Corporation of South Africa SOC Ltd have been authorised for issue by the Board of directors on 30 July 2021.

### 1.4 Critical accounting judgements, estimates and assumptions

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 assets and liabilities;
- fair value measurement of assets and liabilities;
- impairment of financial and non-financial assets;
- deferred tax;
- incremental borrowing rate for lease liability; and
- useful life and residual value of depreciable assets.

See note 2 for the details of the estimates, judgements and assumptions made.

### 1.5 Recognition and measurement of insurance contracts

Insurance contracts are those contracts under which the Corporation 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.

#### *1.5.1 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.

#### *1.5.2 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 exposure profile of risks underwritten. The provision is computed separately for each insurance contract.

#### *1.5.3 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 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.

#### *1.5.4 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, and
- 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 actual 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 the statement of comprehensive income 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 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 Corporation. 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.

#### *1.5.5 Salvages*

An asset for salvages receivable is recognised once recovery is probable. The assets are only recognised for the salvages receivable within the next twelve months, for amounts receivable beyond that period a contingent asset is disclosed as a claim in favour of the Corporation, but not recognised in the statement of financial position. Otherwise, salvages are recognised only when received.

The probability of recovery is dependent on whether certain conditions are met per contract. These conditions differ based on the type of contract in place. The different contracts and their conditions are detailed below:

**a) 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:

- There is a signed salvage restructuring agreement; and
- At least two successive payments have been received by the Corporation in terms of the agreement.

**b) 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:

- There is a signed salvage 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.

**c) 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:

- There is a signed salvage restructuring agreement;
- The payment on the revised agreement is up to date; and
- The loan covenants on the policy are met.

### *1.5.6 Liability adequacy test*

The net liability recognised for insurance contracts is tested for adequacy by assessing the expected future cash flows over the remaining contractual term and comparing this amount to the carrying value of the liability. Where a shortfall is identified, an additional provision for unexpired risk is made and the Corporation recognises the deficiency in the statement of comprehensive income in that year. Liability adequacy tests are performed at reporting date.

### *1.5.7 Solvency capital requirement*

In term of the Prudential Standard of Financial Soundness of Insurers, the Corporation is required to maintain sufficient capital to compensate for the different aspects of risk ranging from insurance risk to operational risk, as well as market risk and credit risk.

### *1.5.8 Insurance ceded to reinsurance counterparties*

Ceded reinsurance arrangements do not relieve the Corporation from its obligations to policyholders.

#### Reinsurance assets relating to outstanding claims

The Corporation cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Corporation may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Corporation will receive from the reinsurer. The impairment loss is recorded in the statement of comprehensive income.

#### Reinsurance recoveries on claims paid

Reinsurance recoveries are recognised in the statement of comprehensive income as a reduction in claims paid when they are received in accordance with the terms of the relevant contract.

#### Commission/acquisition cost received from re-insurer

Commission received from the re-insurer on buying reinsurance are recognised in the statement of financial position and is amortised over the period of the re-insurance cover.





#### Reinsurance premiums

Gross outward reinsurance premiums are recognised in the statement of comprehensive income as a reduction in written premiums on the earlier of the dates when premiums are payable or when the policy becomes effective.

The outward reinsurance premiums comprise the premiums on reinsurance 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.

#### Unearned reinsurance premiums (asset)

Unearned reinsurance premiums are those proportions of re-insurance premiums written in the current and past financial years which is attributable to subsequent years. The earned portion is recognised as a reduction in revenue, based on the exposure profile of risks underwritten. The asset is computed separately for each re-insurance contract.

### 1.6 Foreign currency translation

#### Functional and presentation currency

The financial statements are presented in South African Rand, which is the presentation currency of the shareholder. The US Dollar is the functional currency for the Corporation, the functional currency being the currency of the primary economic environment in which the Corporation operates. The services offered by the Corporation are predominantly priced in US Dollars.

#### Reporting foreign currency transactions to functional currency

Foreign currency transactions are transactions that are denominated or require settlement in a foreign currency.

A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period:

- All foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in the statement of comprehensive income in the period in which they arise.

A monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Non- monetary items are all other assets and liabilities where there is an absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency.

#### Translation from functional to presentation currency

The annual financial statements are translated from the functional currency to the presentation currency using the average rate or spot rate at transaction date for statement of comprehensive income items and the closing rate for the statement of financial position items, comprising both monetary and non-monetary items.

Average rates are used for transactions where there are multiple transaction dates that are not easily identifiable and spot rates are used for transactions where the transaction date is easily identifiable.

The resulting exchange differences are recognised in other comprehensive income and accumulated separately in a foreign currency translation reserve, which is a separate component of equity. The foreign currency translation reserve is reclassified from equity to profit and loss when the statement of financial position items is disposed.

#### Appropriateness of using average rates

Average rates are considered appropriate since there were no significant fluctuations for the greater part of the financial year.

### 1.7 Property, equipment and intangible assets

#### *1.7.1 Property and equipment*

Equipment is measured at historical cost less accumulated depreciation and impairment losses. 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.

Subsequent expenditure relating to equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in the statement of comprehensive income when incurred.

Depreciation is calculated to write off the cost of the assets to residual values on a straight-line basis over their expected useful lives.

**Equipment is depreciated over the following estimated useful lives:**

| | |
|---|---|
| Computer equipment | 3 – 6 years |
| Furniture and fittings | 5 – 9 years |
| Office equipment | 5 – 9 years |
| Vehicles | 9 years |

**Residual value:**

| | |
|---|---|
| Computer equipment | R1 000 |

The equipment's' residual values, estimated useful lives, and depreciation methods are reviewed at each reporting date and adjusted if appropriate at each reporting date. The estimation of useful life and residual value for the assets is based on the experience of the Corporation with similar assets, as well as the manner that reflects the benefits to be derived from those assets. The effects of any revision are recognised in the statement of comprehensive income when the changes arise.

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

The gain or loss arising from the derecognition of an item of equipment is included in the statement of comprehensive income 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.

The proceeds received for indemnity payments on loss or damage of equipment are recognised in the statement of comprehensive income as other income when they are received.

#### *1.7.2 Intangible assets*

Intangible assets are measured at historical cost, less accumulated amortisation and impairment losses. 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 estimated useful lives:

| | |
|---|---|
| Computer software and models | 5 years |

The intangible assets' residual values, estimated useful lives and amortisation methods are reviewed at each reporting date and adjusted if appropriate at each reporting date. The estimation of useful life and residual value for the assets is based on the experience of the Corporation with similar assets as well as the manner that reflects the benefits to be derived from those assets. The effects of any revision are recognised in the statement of comprehensive income when the changes arise.

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

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





#### *1.7.3 Leased assets*

The right of use asset is measured at cost, less accumulated depreciation and accumulated impairment losses. Cost is made up of the initial measurement of the lease liability, plus any initial direct costs incurred by the Corporation.

The Corporation depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the end of the lease term. The Corporation also assesses the right-of-use asset for impairment when such indicators exist.

Right of use assets are depreciated over the following periods:

| | |
|---|---|
| Buildings: | 2 years |
| Computer Equipment: | 3 years |

The carrying amount of leased assets is derecognised on termination of the lease agreement.

### 1.8 Leases

**Identification of the lease**

For any new contracts entered into, the Corporation considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period in exchange for consideration'.

To apply this definition, the Corporation assesses whether the contract meets three key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Corporation;
- The Corporation has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- The Corporation has the right to direct the use of the identified asset throughout the period of use. The Corporation assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

**Measurement and recognition of leases as a lessee**

***a) Initial measurement of the right of use asset and lease liability***

At lease commencement date, the Corporation recognises a right of use asset and a lease liability on the statement of financial position.

The lease liability is measured at the present value of the lease payments unpaid at that date, discounted using the incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments.

***b) Subsequent measurement of the right of use asset and lease liability***

Subsequent to initial measurement, the liability will be reduced for payments made and increased for finance costs. The lease liability is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. The finance cost is recognised in the statement of comprehensive income.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or the statement of comprehensive income if the right-of-use asset is already reduced to zero.

**Contracts which are exempt from IFRS 16 (those leases that have a lease term of 12 months or less and do not contain a purchase option and leases of assets that are considered to be of low value).**

Leases of low value assets include small items and assets of a low value of less than R7 000.

For the short-term leases and leases of low value assets, lease payments on lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such a maintenance and insurance, are expensed as incurred.

### 1.9 Financial assets and liabilities

The Corporation recognises a financial asset or financial liability on its statement of financial position only when it becomes a party to the contractual provisions of the instruments.

#### Financial assets

The Corporation classified its financial assets at fair value into the following categories: financial assets designated at fair value through profit and loss (FVTPL) and financial assets available for sale.

#### 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 Corporation'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.

#### Financial assets available for sale

These assets are investments made for strategic reasons.

#### Financial liabilities

The Corporation classified its financial liabilities into the following categories: Financial liabilities designated at fair-value through profit or loss and financial liabilities at amortised cost.

#### Financial liabilities designated at fair-value through profit or loss

The liability for interest make-up (IMU) is classified as financial liabilities at fair value through profit or loss.

#### Financial liabilities at amortised cost

These financial liabilities are made up of trade and other payable.

### *1.9.1 Initial measurement*

Financial instruments are initially recognised at fair-value, plus or minus, 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 Corporation commits to purchase or sell the asset. Transaction costs for FVTPL are recognised in the statement of comprehensive income.

### *1.9.2 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.

Unrealised gains and losses arising from changes in fair-value of financial assets during a reporting period are recognised in the statement of comprehensive income for that period.

Realised gains and losses is the difference between net sales proceeds and the original cost and are recorded on occurrence of the sale transaction.

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.

#### Financial assets available for sale

Financial assets available for sale are subsequently carried at fair-value.

Unrealised gains and losses arising from changes in fair-value of financial assets during a reporting period are recognised in the other comprehensive income for that period.

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.





#### 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 (Short-term deposit) 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 Corporation 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 (IMU) is measured at fair-value which is determined on a discounted cash flow basis of all future IMU payments on existing agreements using a US Treasury Bills Yield Curve adjusted for credit default spread. The value is adjusted to avoid double counting for contracts for which IBNR claims reserves are already allowed for.

### *1.9.3 Gains and losses on subsequent measurement*

Gains and losses arising from a change in fair-value of financial instruments are included in the statement of comprehensive income in the period in which the change arises as part of net investment income. However, for instruments classified as available for sale, the gains and losses are recognised in other comprehensive income.

### *1.9.4 Interest and dividends*

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. Dividends and interest accrued from financial assets designated at fair-value through profit or loss are recognised in the statement of comprehensive income as part of investment income.

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

### *1.9.5 Derecognition*

Financial assets are derecognised when the Corporation 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.

### *1.9.6 Offset*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the Corporation 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.

### 1.10 Trade and other receivables

Trade and other receivables consist of insurance receivables and non-insurance receivables (financial and non-financial):

(i) Insurance receivables are accounted for in terms of IFRS 4, less provision for impairment and are not discounted;

(ii) Non-insurance financial receivables are accounted for in terms of IAS 39 and are measured at amortised cost using the effective interest method, less provision for impairment; and

(iii) Non-insurance non-financial receivables are comprised of the VAT and prepaid expenses. The balance for prepaid expenses is reduced by the expense recognised in the statement of comprehensive income.

The Corporation considers notified disputes and collection experience to determine which receivables are impaired.

### 1.11 Impairment

**Financial assets**

Financial assets other than those carried at fair-value through profit and loss, are assessed for evidence of impairment at each reporting date. If any such evidence exists, the carrying value is reduced to the estimated recoverable amount by means of a charge to the statement of comprehensive income. 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.

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

If, in a subsequent period, the amount of the impairment loss relating to a financial asset carried at amortised cost or a debt instrument carried as available-for-sale decreases due to an event occurring after the impairment was originally recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income. Impairments relating to financial assets in available-for-sale equity instruments are not reversed through the statement of comprehensive income.

**Non-financial assets**

The carrying amount of the Corporation'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 the statement of comprehensive income.

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 statement of comprehensive income.

### 1.12 Provisions

A provision is recognised in the statement of financial position when the Corporation 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.

### 1.13 Components of equity

**Share capital and share 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.

**Foreign currency translation reserve**

The reserve comprises foreign currency translation differences arising from the translation of the financial statements from functional currency to presentation currency.





**Fair-value adjustments through other comprehensive income**

The reserve comprises of fair-value movements from revaluing financial assets available for sale net off the related deferred tax.

**Retained earnings**

Retained earnings includes all current and prior periods' retained profits.

### 1.14 Taxation

**Tax expenses**

Taxation for the year on the statement of comprehensive income comprises of current tax, deferred tax and withholding tax. Income tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity in which case the related taxation is also recognised in equity.

Taxable income used to calculate the tax expense is based on ZAR functional currency (See note 40).

**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.

Interest received on excess tax payments made is recognised as other income in the statement of comprehensive income in the period when it is accrued from the South African Revenue Services as per the Statement of Account.

**Deferred tax assets and liabilities**

Deferred tax is recognised in full, using the balance sheet method, providing for temporary differences, except when the deferred tax arises from the initial recognition of an asset or liability that affects neither accounting nor taxable profit or loss at the time of the transaction. 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 substantively 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.

**Value-Added Tax**

Transactions and assets are recognised net of the Value-Added Tax amount where applicable. The net amount of Value-Added Tax recoverable from, or payable to, South African Revenue Service is included as part of receivables or payable in the statement of financial position.

### 1.15 Employee benefits

**Pension obligation**

The Corporation uses a defined contribution pension plan. Under a defined contribution pension plan the Corporation pays a fixed contribution into a separate entity. The Corporation 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**

Short-term incentives in the form of an annual cash bonus, is linked to achieving financial, strategic and operational objectives. Short-term incentives are discretionary and depend on business performance and individual contribution. The pool available for short-term incentives is determined by financial performance against previously set and agreed targets.

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.

### 1.16 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.

### 1.17 IMU grant receipts

The Corporation took over the dtic's IMU obligations that arose from the IMU Scheme Support Agreements (see note 18).

The IMU Scheme is an incentive scheme that limit the interest rate charged to borrowers of export credit loans (borrowers). The Government (through the ECIC) compensates the Financial Institutions for the loss of income they would have received from the borrowers, had interest been levied at the usual rate.

The Corporation receives IMU grants from the dtic to assist in funding the IMU obligations towards the Financial Institutions (see the Cash Flow Statement).

IMU Grant is recognised as income when received and all the conditions are met; otherwise recognised as a liability.

### 1.18 SED & ESD contributions

SED & ESD contributions encompasses projects that are external to the normal business activities of the Corporation and not directly for purposes of increasing profit. These projects have a strong developmental approach and utilise Corporation resources to benefit or uplift communities and are not primarily driven as marketing initiatives.

SED & ESD contributions are recognised as an expense when paid to the beneficiary.

### 1.19 Commission paid

Commission paid is charged by intermediaries on salvages actually received. Commission paid is recognised as an expense in the statement of comprehensive income on receipt of salvages during the period.

### 1.20 Other operating expenses

Other operating expenses are recognised in the statement of comprehensive income when they are actually incurred.

Operating expenses are aggregated on presentation in the statement of comprehensive income. Material operating expenditure line items are disclosed in the notes separately.

### 1.21 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is accounted for according to the nature of the expense. When confirmed, fruitless and wasteful expenditure is disclosed separately in the notes to the financial statements. The amount to be recorded in the note is equal to the value of the fruitless and wasteful expenditure incurred.

Measures are implemented to ensure that such expenditure does not re-occur and where possible the expenditure is recovered. Expenditure to be recovered is transferred to receivables for recovery. A receivable related to fruitless and wasteful expenditure is measured at the amount that is expected to be recovered and is derecognised when the receivable is settled or subsequently written off as irrecoverable.

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.

Cases of a criminal nature are reported to the responsible authorities.

Any criminal or disciplinary steps taken as a consequence of fruitless and wasteful expenditure are also disclosed.

### 1.22 Irregular expenditure

Irregular expenditure is accounted for according to the nature of the expense. When confirmed, irregular expenditure must be disclosed separately in the notes to the financial statements. The amount of irregular expenditure incurred





disclosed in the notes is equal to value of the transactions recognised in terms of IFRS in the statement of comprehensive income or statement of financial position.

Irregular expenditure is removed from the note when it is either (a) condoned by the relevant authority; (b) transferred to receivables for recovery. A receivable related to irregular expenditure is measured at the amount that is expected to be recovered and must be derecognised 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.

Cases of a criminal nature are reported to the responsible authorities. Any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure are also disclosed.

### 1.23 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.

### 1.24 Commitments

Commitments are disclosed when there is a contractual arrangement carrying over beyond the reporting date for material transactions and short-term leases.

### 1.25 Contingent assets

Contingent assets are disclosed when the Corporation has a possible asset, as a result of a past event, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Corporation.

Contingent assets are only recognised as assets in the financial statements where the realisation of income is virtually certain. If the inflow of economic benefits is only probable, the contingent asset is disclosed as a claim in favour of the Corporation but not recognised in the statement of financial position.

### 1.26 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 disclosed in the note to the financial statements.

### 1.27 Related parties

The following items are disclosed in the financial statements for each related party:

- the nature of the relationship;
- the amount of the transactions;
- the amount of outstanding balances; including terms and conditions and guarantees;
- provisions for doubtful debts related to the amount of outstanding balances; and
- expense recognised during the period in respect of bad or doubtful debts due from related parties.

For the directors, key management personnel and prescribed officers of the Corporation, compensation in total and for each of the following categories is disclosed:

- fees for services;
- basic salary;
- bonuses and performance related payments;
- sums paid by way of expense, salary or other allowances;
- contributions made to any pension fund, medical aid, insurance scheme, etc.;
- any commission, gain or profit sharing arrangements;
- any share options, including their strike price and period; and
- any other material benefits received (including financial assistance).

## 2. Critical accounting judgements, estimates and assumptions

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

### (a) Insurance contract assets and liabilities

The Corporation's estimates for reported and unreported losses are continually reviewed and updated, and adjustments resulting from this review are reflected in the statement of comprehensive income. 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 Corporation's process for determining significant reserving assumptions is outlined in note 10 and note 14.4.

**– Unearned Premium Provision (UPP)**

The UPP refers to the amount of premium booked that remains unearned at the reporting date. It is therefore intended to cover against future claims incurred and is dependent on the policy's earning pattern. To the extent that a contract's risk profile changes, the UPP might be insufficient to cover the future claims risk of the unexpired period. In this case, an additional reserve must be established in the form of the Unexpired Risk Provision (URP) to cover the shortfall in UPP.

The 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 Provision (CRP) can form part of the URP depends on the overall sufficiency of premiums. Furthermore, the Corporation cannot defer more premiums than it has actually written.

**– Incurred But Not Reported (IBNR) claims provision**

ECIC holds an IBNR for contracts where management, on the basis of information gathered during the monitoring process, believes that it is likely a claim has materialised even though it has not yet been reported.

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

- The occurrence or a high probability that a non-payment of a scheduled instalment under the insured contract (protracted default) would occur;
- The occurrence or a high probability that a political cause of loss (e.g., war, change in law sabotage, transfer restriction, inconvertibility) will occur; or
- The occurrence or 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 different 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 and multiplied by the LGD.

### (b) 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.





### (c) Fair-value measurement

**– Liability for interest make-up**

Interest make-up was an export incentive scheme. This allowed 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 cash flow basis of all future IMU payments on existing agreements. The IMU payments extend out to 2029, and discounted to allow for time value of money using a US Treasury Bills Yield Curve adjusted to allow for credit default spread. To avoid double counting in anticipation of a default event, the IMU liability is adjusted to isolate the portion of IMU housed within the Incurred But Not Reported (IBNR) insurance reserve. This is done by recalculating the fair-value of the IMU liability on the contracts which carry IBNR and applying the corresponding LGD and claim likelihood. This eliminates the exact portion of the IMU liability held within the insurance provisions. 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 dtic. However, foreign exchange gains and losses arising from currency movement are taxable or deductible for taxation purposes.

**– Financial assets with a fair-value hierarchy of level 3**

***Financial assets available for sale***

The fair-value of the investment is determined on a discounted cash flow basis of expected future free cash flows to equity during the explicit forecast period and in perpetuity at a rate that reflects the risk inherent in the future cash flows.

The discount rate applied in determining the fair value is the cost of equity which is determined using the Capital Asset Pricing Model (CAPM).

The Corporation makes estimates and judgements when forecasting the expected future free cash flow and the discount rate. When making estimates and judgments, management take into account the following:

- nature of the investee's business;
- historical and projected financial information;
- the global and regional economic outlook; and
- the global constraints and uncertainties casted by the impact of COVID-19 pandemic on international trade and overall economic activities in the short- to medium-term.

### (d) Impairment of financial and non-financial assets

**– Recoverability of trade and other receivables**

The Corporation 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 the statement of comprehensive income, the Corporation 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. However, for future premiums the adjustment is made to unearned premium reserve.

**– Impairment of non- financial assets**

The process for determining the critical estimates, judgements and assumptions made has been disclosed in note 1.11.

### (e) Deferred tax

The process for determining the critical estimates, judgements and assumptions made has been disclosed in note 1.14.

### (f) Useful life and residual values of depreciable assets

The process for determining the critical estimates, judgements and assumptions made has been disclosed in note 1.7.

**(g) Lease liability**

The incremental borrowing rate used to value lease contracts are derived from observed market prices for a proxy entity that has issued a debt security.

ECIC is a government-owned entity with an implicit government guarantee, but if it were to borrow it would be at a spread above the risk-free rate. The Development Bank of South Africa SOC Ltd is used as a proxy to determine the required spread, because it is a development finance institute wholly owned by the government of South Africa and it has issued a debt security with a modified duration close to the lease agreements of ECIC.

The weighted average duration of each lease contract is matched at the related term of the government risk free rates published by the reserve bank at commencement date of each contract. The spread, as at the commencement date of each contract, on a DBSA issued debt security is added to the risk free rate. The spread is determined using the DBSA issued debt security that matches the weighted average duration of the lease contract.

The assumptions made on determining the lease term have been disclosed in note 17.

## 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 Corporation is to facilitate and encourage South African export trade by underwriting loans issued by financial institutions and financial assets outside the country, in order to enable foreign buyers to purchase capital goods and services from South Africa.

The Corporation thus enters into insurance contracts with and for the benefit of persons carrying out business in South Africa for purposes of outward trade and/or investments to other countries primarily for medium- to long-term tenures.

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

- 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 Corporation's exposure is to financier policies.

In addition to the policies described above, the Corporation also provides investment guarantees to cover political risk on South African offshore financial assets. The insured amount equals the capital investment plus 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 Corporation'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 Corporation. There is scope for the Corporation 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 Corporation 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; and
- 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 Corporation 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. Insured events are uncertain and the actual number and amount 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 Corporation has developed its insurance underwriting strategy to diversify the spread of insurance risk accepted to reduce the variability of the expected outcomes.

The Corporation 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 to fluctuations in timing, frequency and severity of claims. This risk is managed primarily through sensible pricing, product design and risk selection. The Corporation 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 and are recorded in the URP.

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 insured) of the insurance portfolios is as follows:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | R'000 | Country rating | R000 | Country rating |
| Ghana | 6 760 661 | 4 | 9 904 490 | 4 |
| Iran | 6 676 605 | 5 | 8 091 990 | 5 |
| Mozambique | 5 045 139 | 5 | 5 996 009 | 5 |
| Zimbabwe | 3 172 022 | 7 | 2 871 173 | 7 |
| Malawi | 2 079 827 | 5 | 2 567 401 | 5 |
| Lesotho | 996 218 | 5 | 1 245 232 | 5 |
| Liberia | 573 743 | 6 | 932 737 | 6 |
| Uganda | 372 589 | 6 | 439 446 | 6 |
| Zambia | - | - | 411 283 | 5 |
| Ethiopia | 180 268 | 6 | 218 484 | 6 |
| Tanzania | 167 244 | 5 | 189 187 | 5 |
| Swaziland | 191 102 | 5 | 130 297 | 5 |
| Democratic Republic of Congo | 172 481 | 6 | 123 550 | 6 |
| Mauritius | 65 598 | 3 | 79 505 | 3 |
| Republic of Congo | 49 527 | 6 | 60 026 | 6 |
| Cote d' Ivoire | 37 965 | 5 | 46 013 | 5 |
| | **26 540 989** | | **33 306 823** | |

# Notes to the Financial Statements

The Corporation uses an internal country rating method to assess country risks. The country rating method is benchmarked with that of other Export Credit Agencies, and where there is inadequate information, consultations are made with Department of International Relations and Cooperation (DIRCO) to ascertain the view on the political environment in countries where the Corporation carries, or plans to take risk.

Below are the country ratings definitions:

1: **Highest credit quality.** "1" rating denotes the lowest expectation of credit risk. Its assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

2: **Very high credit quality.** "2" rating denotes a very low expectation of credit risk. It indicates very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

3: **High credit quality.** "3" rating denotes a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

4: **Good credit quality.** "4" rating indicates that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstance and in economic conditions is more likely to impair this capacity.

5: **Speculative.** "5" rating indicates that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.

6: **Highly speculative.** "6" rating indicates that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.

7: **High default risk.** "7" rating indicates that default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments.

The total exposure (Sum insured) of the insurance portfolio per sector and product type is as follows:

| | 2021 R'000 | 2020 R000 |
|---|---|---|
| **Exposure per sector** | | |
| Accomodation & Catering | 944 210 | 1 071 706 |
| Agro-Industries | - | 385 223 |
| Cement Plant / Manufacture of Cement | 180 268 | 218 484 |
| Construction | 3 622 771 | 2 820 309 |
| Gas Distribution (Pipeline Transport) | 270 000 | 270 000 |
| Infrastructure | 5 363 415 | 6 720 517 |
| Mining | 1 569 961 | 2 589 252 |
| Power (electricity) | 7 188 103 | 10 188 692 |
| Rail Transport | - | 110 626 |
| Transport & Storage (Air Transport & Services) | 243 588 | 295 226 |
| Transportation (Land Transport) | 96 282 | 79 505 |
| Telecommunication | 7 016 026 | 8 478 611 |
| Water collection, treatment & supply | 46 365 | 78 672 |
| | **26 540 989** | **33 306 823** |
| **Exposure by product type** | | |
| Credit insurance | 16 443 201 | 20 683 805 |
| Investment guarantee | 10 097 788 | 12 623 018 |
| | **26 540 989** | **33 306 823** |



# Notes to the Financial Statements

#### 4.2 Claims development

The Corporation 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 Corporation has no outstanding claims at year-end.

For the sensitivity analysis and change in assumptions on the insurance liabilities refer to note 14.4.

### 5. Financial risk management

#### Financial risk management

The Corporation is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets 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 Corporation's risk management objective is to ensure that risk is managed prudently. The Corporation 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 Corporation's risk management system.

Transactions in financial instruments result in the Corporation 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 Corporation manages these risks.

The categories and classes of assets and liabilities are disclosed in note 19.

#### 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 Corporation 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, Investment and Insurance Committee to provide oversight over the Corporation'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.

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

| | 2021 R'000 | | 2020 R'000 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets at fair value | 4 303 165 | 4 303 165 | 8 271 983 | 8 271 983 |
| Listed equities | 1 231 248 | 1 231 248 | 810 381 | 810 381 |
| Listed preference shares | - | - | 573 | 573 |
| Money market | 117 339 | 117 339 | 66 558 | 66 558 |
| Unlisted equities | 586 158 | 586 158 | 667 520 | 667 520 |
| Listed bonds | 2 368 420 | 2 368 420 | 6 726 951 | 6 726 951 |
| Trade and other receivables | 1 798 269 | 1 798 269 | 2 101 571 | 2 101 571 |
| Cash and cash equivalents | 4 084 701 | 4 084 701 | 331 400 | 331 400 |
| Trade and other payables | (70 047) | (70 047) | (252 897) | (252 897) |
| Lease liability | (3 396) | (3 396) | (9 169) | (9 169) |
| Liability for interest make-up | (749 801) | (749 801) | (1 181 056) | (1 181 056) |
| | **9 362 891** | **9 362 891** | **9 261 832** | **9 261 832** |

### *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 Corporation.

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

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

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

| | 2021<br>R'000 | 2020<br>R'000 |
|---|---|---|
| Cash and cash equivalents | 150 583 | 162 821 |
| Financial assets at fair value | 2 248 355 | 1 631 126 |
| Trade and other receivables | 17 204 | 23 209 |
| Insurance contract liabilities | (7 187) | (7 384) |
| Lease liability | (3 396) | (9 169) |
| Trade and other payable | (37 203) | (60 270) |
| | **2 368 356** | **1 740 333** |
| The exchange rates used is sourced from South African Reserve Bank and the following were applied: | | |
| **US Dollar to SA Rand exchange rates:** | | |
| Closing rate | 14,8369 | 17,9822 |
| Average rate | 16,3617 | 14,7757 |

A 10 percent depreciation or appreciation 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% depreciation<br>R'000 | 10% appreciation<br>R'000 | 10% depreciation<br>R'000 | 10% appreciation<br>R'000 |
| **2021** | **(226 745)** | **278 163** | **418 745** | **(418 745)** |
| 2020 | (118 236) | 148 283 | 426 092 | (426 092) |





### *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 Corporation has exposure to fixed-rate financial assets whose value is impacted by changes in interest rates. The Corporation's insurance liabilities and reinsurance assets 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, Investment and Insurance Committee continuously monitor this risk and advises the Board where a change in investment strategy is warranted. The Corporation'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. The US interest rates have been used for this sensitivity as Corporation's assets and liabilities are predominantly in US dollars.

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<br>R'000 | 100 BP decrease<br>R'000 | 100 BP increase<br>R'000 | 100 BP decrease<br>R'000 |
| **2021** | **(31 083)** | **29 925** | **(31 083)** | **29 925** |
| 2020 | (177 866) | 176 003 | (177 866) | 176 003 |

### *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 Corporation's exposure to equities is capped and defined in the investment policy. The Corporation's exposure to equities is set at a maximum level of investment assets. The Finance, Investment and Insurance 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.

The table below reflects the Corporation exposures to equity risk.

| | 2021<br>R'000 | 2021<br>R'000 |
|---|---|---|
| Basic resources | 373 117 | 214 079 |
| Industrials | 62 070 | 42 515 |
| Consumer goods | 97 445 | 64 560 |
| Telecommunications | 13 984 | 4 200 |
| Financials | 816 911 | 847 051 |
| Health | 37 708 | 26 247 |
| Consumer services | 257 862 | 165 029 |
| Technology | 5 686 | 18 233 |
| Real estate | 152 623 | 95 987 |
| **Note 9 (listed and unlisted equities only)** | **1 817 406** | **1 477 901** |

A 5 percent increase or decrease in equity values 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 R'000 | 5% decrease R'000 | 5% increase R'000 | 5% decrease R'000 |
| **2021** | 59 696 | (59 696) | 82 439 | (82 439) |
| 2020 | 35 232 | (35 232) | 61 132 | (61 132) |

### 5.2 Liquidity risk

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

The Corporation 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 Corporation's investment strategy is set to be cognisant of the term of financial liabilities and assets. Operational cash task team monitors adherence to liquidity requirements.

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

| 2021 | Within 1 year R'000 | 1 to 5 years R'000 | Greater than 5 years R'000 | Total R'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value | 1 843 815 | 1 145 901 | 1 313 449 | 4 303 165 |
| Trade and other receivables | 414 719 | 931 085 | 452 465 | 1 798 269 |
| Cash and cash equivalents | 4 084 701 | - | - | 4 084 701 |
| Reinsurance contract assets | 2 803 | 6 964 | 933 | 10 700 |
| | **6 346 038** | **2 083 950** | **1 766 847** | **10 196 835** |
| **Financial liabilities** | | | | |
| Trade and other payables | 68 937 | 807 | 303 | 70 047 |
| Insurance contract liabilities | 412 529 | 1 260 392 | 1 135 835 | 2 808 756 |
| Lease liability | 3 323 | 145 | - | 3 468 |
| Liability for interest make-up | 115 727 | 509 356 | 192 123 | 817 206 |
| Deferred acquisition cost | 431 | 1 073 | 144 | 1 648 |
| | **600 947** | **1 771 773** | **1 328 405** | **3 701 125** |

| 2020 | Within 1 year R'000 | 1 to 5 years R'000 | Greater than 5 years R'000 | Total R'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value | 1 741 790 | 2 265 818 | 4 264 375 | 8 271 983 |
| Trade and other receivables | 522 027 | 1 018 331 | 561 213 | 2 101 571 |
| Cash and cash equivalents | 331 400 | - | - | 331 400 |
| | **2 595 217** | **3 284 149** | **4 825 588** | **10 704 954** |
| **Financial liabilities** | | | | |
| Trade and other payables | 252 897 | - | - | 252 897 |
| Insurance contract liabilities | 539 848 | 1 376 549 | 1 332 691 | 3 249 088 |
| Lease liability | 5 773 | 3 396 | - | 9 169 |
| Liability for interest make-up | 267 802 | 743 062 | 366 019 | 1 376 883 |
| | **1 066 320** | **2 123 007** | **1 698 710** | **4 888 037** |





### 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 Corporation is exposed on the following levels:

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

The Corporation 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.

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.

**Accounts receivable**

The Corporation'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 Corporation has defined minimum acceptable counterparty credit ratings on financial assets being managed by fund managers. The Finance, Investment and Insurance 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 Corporation's financial and insurance assets.

| 2021 | AAA- A+ R'000 | A- BBB+ R'000 | BBB and lower R'000 | Not Rated R'000 | Total R'000 |
|---|---|---|---|---|---|
| Financial assets at fair value | 2 462 044 | 606 758 | 3 115 | 1 231 248 | 4 303 165 |
| Trade and other receivables | - | - | - | 1 798 269 | 1 798 269 |
| Cash and cash equivalents | 4 084 701 | - | - | - | 4 084 701 |
| | **6 546 745** | **606 758** | **3 115** | **3 029 517** | **10 186 135** |

| 2020 | AAA- A+ R'000 | A- BBB+ R'000 | BBB and lower R'000 | Not Rated R'000 | Total R'000 |
|---|---|---|---|---|---|
| Financial assets at fair value | 6 236 225 | 1 222 907 | 1 897 | 810 954 | 8 271 983 |
| Trade and other receivables | - | - | - | 2 101 571 | 2 101 571 |
| Cash and cash equivalents | 331 400 | - | - | - | 331 400 |
| | **6 567 625** | **1 222 907** | **1 897** | **2 912 525** | **10 704 954** |

A National rating was applied to all South African investments, while a National equivalent of the International ratings were applied to all foreign investments.

### 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:

| 2021 | Neither past due nor impaired R'000 | Past due but not impaired R'000 | Individually impaired R'000 | Provision for doubtful debt R'000 | Net carrying amount R'000 |
|---|---|---|---|---|---|
| Trade and other receivables | 1 685 009 | 113 241 | 236 | (217) | 1 798 269 |

| 2020 | Neither past due nor impaired R'000 | Past due but not impaired R'000 | Individually impaired R'000 | Provision for doubtful debt R'000 | Net carrying amount R'000 |
|---|---|---|---|---|---|
| Trade and other receivables | 2 095 779 | 5 757 | 424 | (389) | 2 101 571 |

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

| 2021 | <30 days R'000 | 31- 90 R'000 | 91-120 R'000 | Greater than 120 R'000 | Total R'000 |
|---|---|---|---|---|---|
| Trade and other receivables | 91 616 | 1 | - | 21 624 | 113 241 |

| 2020 | <30 days R'000 | 31- 90 R'000 | 91-120 R'000 | Greater than 120 R'000 | Total R'000 |
|---|---|---|---|---|---|
| Trade and other receivables | 5 468 | - | - | 289 | 5 757 |

### 5.3.4 Reconciliation of the provision for doubtful debt

| 2021 | Opening balance R'000 | Additions R'000 | Recovered/ reversed R'000 | Write-off R'000 | Closing balance R'000 |
|---|---|---|---|---|---|
| Provision for doubtful debt | (389) | (66) | 115 | 123 | (217) |

| 2020 | Opening balance R'000 | Additions R'000 | Recovered/ reversed R'000 | Write-off R'000 | Closing balance R'000 |
|---|---|---|---|---|---|
| Provision for doubtful debt | (455) | (373) | - | 439 | (389) |

### 5.4 Regulatory solvency management

The Corporation recognises share premium, retained earnings and other reserves as capital. For internal management purposes, the Corporation refers to the statutory solvency requirements as prescribed by the Prudential Authority (PA). Refer to solvency ratio in note 35.

The Corporation submits quarterly and annual returns to the PA in terms of the Insurance Act, 2017 (the Act). The Corporation is required to maintain, at all times, sufficient eligible own funds as defined in the Act. The returns submitted by the Corporation to the regulator showed that the Corporation met the minimum capital requirements (MCR) and solvency capital requirements (SCR) throughout the year.



Notes to the Financial Statements

## 6. Intangible assets

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Cost R'000 | Accumulated amortisation R'000 | Carrying value R'000 | Cost R'000 | Accumulated amortisation R'000 | Carrying value R'000 |
| Computer software and models | 5 618 | (4 501) | 1 117 | 6 809 | (4 203) | 2 606 |

**Reconciliation of intangible assets – 2021**

| | Opening balance R'000 | Amortisation R'000 | Translation effect R'000 | Closing balance R'000 |
|---|---|---|---|---|
| Computer software and models | 2 606 | (868) | (621) | 1 117 |

**Reconciliation of intangible assets – 2020**

| | Opening balance R'000 | Additions R'000 | Amortisation R'000 | Translation effect R'000 | Closing balance R'000 |
|---|---|---|---|---|---|
| Computer software and models | 3 420 | 100 | (1 050) | 136 | 2 606 |

**Pledged as security**

None of the intangible assets are pledged as security for liabilities.

## 7. Property and equipment

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Cost R'000 | Accumulated depreciation R'000 | Carrying value R'000 | Cost R'000 | Accumulated depreciation R'000 | Carrying value R'000 |
| **Owned assets** | | | | | | |
| Furniture and fittings | 9 184 | (8 414) | 770 | 11 113 | (9 354) | 1 759 |
| Motor vehicles | 196 | (196) | - | 238 | (238) | - |
| Office equipment | 3 584 | (2 715) | 869 | 4 238 | (2 985) | 1 253 |
| Computer equipment | 5 257 | (3 671) | 1 586 | 5 353 | (3 909) | 1 444 |
| | **18 221** | **(14 996)** | **3 225** | **20 942** | **(16 486)** | **4 456** |
| **Leased assets** | | | | | | |
| Building | 10 908 | (8 174) | 2 734 | 13 221 | (3 296) | 9 925 |
| Computer equipment | 569 | (266) | 303 | 689 | (82) | 607 |
| | **11 477** | **(8 440)** | **3 037** | **13 910** | **(3 378)** | **10 532** |
| **Total** | **29 698** | **(23 436)** | **6 262** | **34 852** | **(19 864)** | **14 988** |

Reconciliation of property and equipment – 2021

| | Opening balance R'000 | Additions R'000 | Depreciation R'000 | Translation effect R'000 | Closing balance R'000 |
|---|---|---|---|---|---|
| **Owned assets** | | | | | |
| Furniture and fittings | 1 759 | 17 | (497) | (509) | 770 |
| Office equipment | 1 253 | 99 | (169) | (314) | 869 |
| Computer equipment | 1 444 | 930 | (395) | (393) | 1 586 |
| | **4 456** | **1 046** | **(1 061)** | **(1 216)** | **3 225** |
| **Leased assets** | | | | | |
| Building | 9 925 | - | (5 594) | (1 597) | 2 734 |
| Computer equipment | 607 | - | (196) | (108) | 303 |
| | **10 532** | **-** | **(5 790)** | **(1 705)** | **3 037** |
| | **14 988** | **1 046** | **(6 851)** | **(2 921)** | **6 262** |

Reconciliation of property and equipment – 2020

| | Opening balance R'000 | Additions R'000 | Adjustment on transition to IFRS 16 R'000 | Depreciation R'000 | Translation effect R'000 | Closing balance R'000 |
|---|---|---|---|---|---|---|
| **Owned assets** | | | | | | |
| Furniture and fittings | 2 934 | - | - | (497) | (678) | 1 759 |
| Motor vehicles | 31 | - | - | - | (31) | - |
| Office equipment | 1 412 | - | - | (148) | (11) | 1 253 |
| Computer equipment | 1 393 | 140 | - | (211) | 122 | 1 444 |
| | **5 770** | **140** | **-** | **(856)** | **(598)** | **4 456** |
| **Leased assets** | | | | | | |
| Building | - | 11 189 | - | (2 790) | 1 526 | 9 925 |
| Computer equipment | - | 466 | 99 | (66) | 108 | 607 |
| | **-** | **11 655** | **99** | **(2 856)** | **1 634** | **10 532** |
| | **5 770** | **11 795** | **99** | **(3 712)** | **1 036** | **14 988** |

**Pledged as security**

None of the equipment is pledged as security for liabilities.



Notes to the Financial Statements

## 8. Deferred tax

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Deferred tax asset/(liability) | (3 838) | 22 407 |
| **Reconciliation of deferred tax asset/(liability)** | | |
| **Deferred tax through the statement of comprehensive income** | | |
| Provisions | 6 891 | 9 548 |
| Fair value gain on financial assets | (7 892) | 34 067 |
| Unrealised foreign exchange (gain)/loss on equities | (11 460) | (37 613) |
| Payment received in advance | 152 | 160 |
| Other (temporary differences relating to prepayments and fixed assets) | (174) | (328) |
| | **(12 483)** | **5 834** |
| **Deferred tax through other comprehensive income** | | |
| Fair value on financial assets through other comprehensive income | 8 645 | 16 573 |
| | **(3 838)** | **22 407** |

## 9. Financial assets at fair value

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Through profit or loss** | | |
| Listed equities | 1 231 248 | 810 381 |
| Bonds | 2 368 420 | 6 726 951 |
| Money market | 117 339 | 66 558 |
| Preference shares | - | 573 |
| | **3 717 007** | **7 604 463** |
| **Available for sale** | | |
| Unlisted equities* | 586 158 | 667 520 |
| **Total financial assets** | **4 303 165** | **8 271 983** |

**Investment in the Afreximbank.*

ECIC does not have the power to participate nor have control over the financial and operating policy decisions of its investees.

### 9.2 Maturity profile of financial assets

| 2021 | Within 1 year R'000 | 1 to 5 years R'000 | Greater than 5 years R'000 | Total R'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Bonds | 495 228 | 1 145 901 | 727 291 | 2 368 420 |
| Unlisted equities | - | - | 586 158 | 586 158 |
| Money market | 117 339 | - | - | 117 339 |
| Listed equities | 1 231 248 | - | - | 1 231 248 |
| | **1 843 815** | **1 145 901** | **1 313 449** | **4 303 165** |

| 2020 | Within 1 year R'000 | 1 to 5 years R'000 | Greater than 5 years R'000 | Total R'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Bonds | 917 714 | 2 212 382 | 3 596 855 | 6 726 951 |
| Unlisted equities | - | - | 667 520 | 667 520 |
| Money market | 13 122 | 53 436 | - | 66 558 |
| Listed equities | 810 381 | - | - | 810 381 |
| Preference shares | 573 | - | - | 573 |
| | **1 741 790** | **2 265 818** | **4 264 375** | **8 271 983** |

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

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Level 1** | | |
| Listed equities | 1 231 248 | 810 381 |
| Bonds | 2 368 420 | 6 482 702 |
| Listed preference shares | - | 573 |
| | **3 599 668** | **7 293 656** |
| **Level 2** | | |
| Bonds | - | 244 249 |
| Money market | 117 339 | 66 558 |
| | **117 339** | **310 807** |
| | **3 717 007** | **7 604 463** |

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 in an 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 from 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 Financial Statements

**Reconciliation of financial assets at fair-value through profit or loss**

| 2021 | Opening balance R'000 | Interest and dividends net of management fees and other costs R'000 | Total gain in statement of comprehen-sive income R'000 | Net sales R'000 | Foreign exchange loss and currency translation R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| Financial assets | 7 604 463 | 184 593 | 589 558 | (3 704 823) | (956 784) | 3 717 007 |

| 2020 | Opening balance R'000 | Interest and dividends net of management fees and other costs R'000 | Total loss in statement of comprehen-sive income R'000 | Net sales R'000 | Foreign exchange gain and currency translation R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| Financial assets | 6 817 621 | 248 986 | (165 645) | (470 390) | 1 173 891 | 7 604 463 |

The mandate for the US dollar fund managers expired during the year, as a result funds of R3 698 527 000 were transferred to the CFC account from investments.

The strong absolute performance as reflected under total gain in statement of comprehensive income is largely due to the market recovery following losses incurred during the onset of COVID-19 in the last quarter of the previous financial year.

**Fair-value hierarchy of financial assets available for sale**

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Level 3** | | |
| Unlisted equities | 586 158 | 667 520 |

Included in level 3 are financial assets whose 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 from the instruments.

The following is the qualitative information about the significant unobservable inputs and their relationship to fair value, used in level 3 fair value measurements:

| 2021 | Total value R'000 | Change % |
|---|---|---|
| Reported value | 586 158 | |
| Mid-point discount rate of 8,28% – higher by 1% | 478 798 | (18,32) |
| Mid-point discount rate of 8,28% – lower by 1% | 756 619 | 29,08 |
| Terminal Growth rate of 3,86% – higher by 0,5% | 648 767 | 10,68 |
| Terminal Growth rate of 3,86% – lower by 0,5% | 536 258 | (8,51) |
| Minority discount of 15,5% – higher by 1% | 577 663 | (1,45) |
| Minority discount of 15,5% – lower by 1% | 594 653 | 1,45 |
| Marketability discount of 15,5% – higher by 1% | 577 663 | (1,45) |
| Marketability discount of 15,5% – lower by 1% | 594 653 | 1,45 |
| Normal discount rate | 563 288 | (3,90) |

| 2020 | Total value R'000 | Change % |
|---|---|---|
| Reported value | 667 520 | |
| Discount rate of 9,06% – higher by 1% | 565 123 | (15,34) |
| Discount rate of 9,06% – lower by 1% | 812 898 | 21,78 |
| Terminal Growth rate of 3,22% – higher by 0,5% | 718 903 | 7,70 |
| Terminal Growth rate of 3,22% – lower by 0,5% | 624 247 | (6,48) |
| Minority discount of 15,0% – higher by 1% | 657 984 | (1,43) |
| Minority discount of 15,0% – lower by 1% | 677 056 | 1,43 |
| Marketability discount of 15,0% – higher by 1% | 657 984 | (1,43) |
| Marketability discount of 15,0% – lower by 1% | 677 056 | 1,43 |

**Valuation process**

The Income Approach was used as a primary valuation approach to determine the fair value of the instrument. The Net Asset Approach and listed price of the comparable shares were used to cross check the results of the Income Approach.

**Reconciliation of financial assets available for sale**

| 2021 | Opening balance R'000 | Dividend income R'000 | Total profit in statement of other comprehensive income R'000 | Dividends receivable* R'000 | Foreign exchange loss and currency translation R'000 | Closing balance R'000 |
|---|---|---|---|---|---|---|
| Financial assets | 667 520 | 20 226 | 35 395 | (20 226) | (116 757) | 586 158 |

| 2020 | Opening balance R'000 | Dividend income R'000 | Total loss in statement of other comprehensive income R'000 | Dividends received R'000 | Foreign exchange gain and currency translation R'000 | Closing balance R'000 |
|---|---|---|---|---|---|---|
| Financial assets | 643 559 | 16 695 | (125 299) | (16 695) | 149 260 | 667 520 |

**The dividend receivable was transferred to trade and other receivables as the Corporation did not select to re-invest the dividends.*

Subsequent to the COVID-19 shock in the last quarter of the previous financial year, growth rate projections have since improved thus resulting into higher discounted free cashflow projections. As a result, the value of the investment was adjusted upward as reflected in the table above.

### 10. Reinsurance contract assets

The Corporation entered into a reinsurance agreement during the year, the reinsurance contract assets relate the provision for unearned premiums for the reinsurance.

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Balance at beginning of year | - | - |
| Premium ceded to reinsurers | 15 097 | - |
| Amount transferred to the statement of comprehensive income | (1 753) | - |
| Foreign currency translation loss | (2 644) | - |
| **Balance at end of year** | **10 700** | **-** |

**Assumptions, change in assumptions and sensitivity**

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

The reinsurance unearned premium provision reflects the risk profile of the contract and is a function of the amount at risk and the probability of default. The probability of default is dependent on the country risk rating, project risk rating and the unexpired period.

**Change in assumptions**

The assumptions and methodologies used in the calculation of the reinsurance technical provision 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.

**Sensitivity analysis**

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Corporation's estimates.

The table presented below demonstrates the sensitivity of reinsurance contract asset estimates to particular movements in assumptions used in the estimation process.

| 2021 | Assets R'000 | Change % |
|---|---|---|
| Reported value | 10 700 | |
| Depreciation of USD/ZAR exchange rate by 10% | 11 770 | 10,0 |
| Appreciation of USD/ZAR exchange rate by 10% | 9 630 | (10,0) |
| Increase in implied Probability of Default by adjusting the country rating | 10 826 | 1,2 |

| Maturity profile | Within 1 year R'000 | 1 to 5 years R'000 | Greater than 5 years R'000 | Total R'000 |
|---|---|---|---|---|
| 2021 | 2 802 | 6 964 | 933 | 10 700 |
| 2020 | - | - | - | - |

### 11. Trade and other receivables

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Insurance receivables** | | |
| Premium receivables | 1 660 575 | 1 753 960 |
| Salvages receivable | 69 614 | 96 583 |
| Trade receivable due from related parties | 33 870 | 53 390 |
| | **1 764 059** | **1 903 933** |
| **Non-Insurance receivables** | | |
| Trade and other receivables due from related parties | 2 726 | 39 448 |
| Unsettled investment trades and accrued income | 5 108 | 187 726 |
| Other receivables (mainly dividends, prepayments, sundry debtors and travel cost recoveries receivables) | 26 376 | 9 582 |
| | **34 210** | **236 756** |
| | **1 798 269** | **2 140 689** |

The outstanding balance is not considered to be at risk due to COVID-19 as a result no provision for doubtful debts was raised. In an event of a claim, all outstanding premiums are deducted from the claim amount.

### 12. Cash and cash equivalents

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Cash at bank and on hand | 3 926 869 | 222 369 |
| Short-term deposits | 157 832 | 109 031 |
| | **4 084 701** | **331 400** |

The aggregate interest rate on cash at bank and on-hand at the reporting date was 0.056% (2020: 3.48%). The percentage is low because the Corporation holds significant cash in foreign currency, which does not earn interest.



Notes to the Financial Statements

### 13. Share capital and share premium

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Authorised** | | |
| 10 000 000 ordinary shares of R1 each | 10 000 | 10 000 |
| **Issued** | | |
| 100 ordinary shares at R1 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.

### 14. Insurance contract liabilities

#### 14.1 Provision for unearned premiums

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Balance at beginning of year | 2 744 083 | 2 664 482 |
| Amount transferred from/(to) the statement of comprehensive income | 132 902 | (452 668) |
| Foreign exchange gain | (390) | (2 278) |
| Foreign currency translation (gain)/loss | (448 489) | 534 547 |
| **Balance at end of year** | **2 428 106** | **2 744 083** |

| Maturity profile | Within 1 year R'000 | 1 to 5 years R'000 | Greater than 5 years R'000 | Total R'000 |
|---|---|---|---|---|
| 2021 | 412 529 | 1 260 392 | 755 185 | 2 428 106 |
| 2020 | 539 848 | 1 376 549 | 827 686 | 2 744 083 |

#### 14.2 Provision for unexpired risks

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Balance at beginning of year | 505 005 | 268 164 |
| Amount transferred (to)/from the statement of comprehensive income | (44 777) | 143 308 |
| Foreign exchange loss/(gain) | 1 384 | (1 238) |
| Foreign currency translation (gain)/loss | (80 962) | 94 771 |
| **Balance at end of year** | **380 650** | **505 005** |

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

**14.3 Provision for claims reserves**

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Balance at beginning of year | - | 295 194 |
| Outstanding claims reserve | - | 10 620 |
| Incurred but not reported claims reserve | - | 284 574 |
| Amount transferred to the statement of comprehensive income | - | (336 522) |
| Change in estimate | - | 37 265 |
| Outstanding claims reserve | - | (125) |
| Incurred but not reported claims reserve | - | 37 390 |
| Payments of claims previously provided for | - | (373 787) |
| Outstanding claims reserve | - | (10 593) |
| Incurred but not reported claims reserve | - | (363 194) |
| Foreign currency translation loss | - | 41 328 |
| Outstanding claims reserve | - | 98 |
| Incurred but not reported claims reserve | - | 41 230 |
| Balance at end of the year | - | - |
| Outstanding claims reserve | - | - |
| Incurred but not reported claims reserve | - | - |

The Corporation received two related claims under the relevant ECIC insurance policies. One claim was received in the previous financial year and the second claim was received in the current financial year under review. It is ECIC's view that the policyholder does not have valid claims and as a result the claims were rejected. For this reason, a claims reserve has not been raised. These claims are currently under litigation.

It should be noted that the nature of these insurance policies is such that in the event of a valid claim, the ECIC will typically have a salvage recovery that approximate the claimed amount in local currency, save for currency risk and the time value of money.

**14.4 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 dependent on the country risk rating, project risk rating and the unexpired period;
- A concentration risk provision is held; this is calculated by comparing the distribution of exposures by country and industry in the Corporation's portfolio with that of a well-diversified portfolio; and
- The unexpired risk provision allows for inadequacy in the unearned premium provision, which might occur where the risk factors considered in the pricing basis change from that used in pricing the contract initially. It is thus appropriate to allow for a change in the unexpired risk provision as soon as the unearned premium provision is insufficient to cover the future claims risk of the unexpired period. This would occur if the pricing process is updated or if political or commercial risk on a contract is changed.



Notes to the Financial Statements

**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.

**Sensitivity analysis**

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Corporation's estimates. The Corporation 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:

| 2021 | Liability R'000 | Change % |
|---|---|---|
| Reported value | 2 808 756 | |
| CRR LGD at 90% | 2 771 075 | (1,3) |
| Depreciation of USD/ZAR exchange rate by 10% | 3 088 407 | 10,0 |
| Appreciation of USD/ZAR exchange rate by 10% | 2 529 104 | (10,0) |
| IBNR “Upwards” stress | 2 808 756 | - |
| IBNR “Downwards” stress | 2 808 756 | - |
| Increase in implied Probability of Default by adjusting the country rating | 2 813 471 | 0,17 |

| 2020 | Liability R'000 | Change % |
|---|---|---|
| Reported value | 3 249 088 | |
| CRR LGD at 90% | 3 199 659 | (1,5) |
| Depreciation of USD/ZAR exchange rate by 10% | 3 572 145 | 9,9 |
| Appreciation of USD/ZAR exchange rate by 10% | 2 926 031 | (9,9) |
| IBNR “Upwards” stress | 3 249 088 | - |
| IBNR “Downwards” stress | 3 249 088 | - |

**COVID-19 Impact**

No explicit or additional allowance has been made in the reserves in terms of premium sufficiency for the uncertainty around COVID-19 and the delivery of projects or payment of performance bonds and any trade credit default in the reserves. In terms of the three projects impacted by the lockdown, lenders have agreed to a capital deferral with further negotiations taking place. No IBNR was raised as there was no default event for any of the projects.

For one of the projects, based on the developments of the negotiations, there is a strong likelihood of a potential claim in the next financial year. Refer to note 36 Events after reporting period for detailed disclosure of the potential claim.

### 15. Employee benefit liability

| 2021 | Opening balance R'000 | Additions R'000 | Leave taken R'000 | Leave paid R'000 | Closing balance R'000 |
|---|---|---|---|---|---|
| Leave provisions | 3 764 | 6 668 | (4 017) | (1 861) | 4 554 |

| 2020 | Opening balance R'000 | Additions R'000 | Leave taken R'000 | Leave paid R'000 | Closing balance R'000 |
|---|---|---|---|---|---|
| Leave provisions | 3 253 | 6 180 | (4 213) | (1 456) | 3 764 |

### 16. Trade and other payables

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Sundry creditors and accruals | 14 362 | 17 760 |
| VAT | 19 778 | - |
| Unsettled investment trades and accrued expenses | 54 373 | 235 137 |
| Reinsurance premium payables | 1 312 | - |
| Bonus provision | 20 262 | 27 389 |
| | **110 087** | **280 286** |

### 17. Lease liability

The Corporation has leases for the office building and printers, each lease is reflected on the balance sheet as a right of use asset and a lease liability. The Corporation classifies its right-of-use assets in a consistent manner to its property and equipment. (See note 7).

The Corporation is prohibited from sub-leasing, selling, or pledging the underlying leased assets as security.

For leases over office buildings, the Corporation must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. The Corporation is bound to the lease-term of the lease without cancellation during the lease-term or any exercised renewal with an option to renew the lease agreement before the termination date.

For other leases, the Corporation must ensure that items of property and equipment are used in accordance with the lease contracts. The Corporation shall have the right to terminate the lease on or after expiry of a lease-term by providing one calendar month notice. The lease agreement shall not be extended without mutual agreement by the Corporation and the lessor. In the event that the lease is terminated by the Corporation prior to the expiry of the lease term, then the Corporation shall be obliged to pay a settlement amount in respect of the unexpired lease-term.

The remaining lease-term for the office building is 6 months. The average remaining lease-term for the printers is 19 months. It is not probable that the option to renew the leases will be exercised and as such these were not taken into account when the lease-terms were determined.

The average effective incremental borrowing rate is 7.9%.

There were no modifications to leases in the current financial year, as a result the lease-terms remained unchanged.





The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 March 2021 were as follows:

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Minimum lease payments due** | | |
| – within one year | 3 323 | 6 248 |
| – in one to two years inclusive | 145 | 3 323 |
| – later than two years | - | 145 |
| | 3 468 | 9 716 |
| less: future finance charges | (72) | (547) |
| **Present value of minimum lease payments** | **3 396** | **9 169** |
| | | |
| **Reconciliation of the lease liability** | | |
| Opening balance | 9 169 | - |
| Adjustment on transition to IFRS 16 | - | 99 |
| Lease liability recognised during the period | - | 11 655 |
| Finance charges | 475 | 388 |
| Lease payments | (6 248) | (2 973) |
| | **3 396** | **9 169** |

### 18. Liability for interest make-up

The dtic 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 Corporation on behalf of the dtic until 01 October 2016 when it took over as the principal. The approvals were obtained from the FSB, the dtic and the Minister of Finance.

The fair value of the liability is determined on a discounted 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 and allows for credit default spread.

The projected drawdown and repayment schedules used in calculating the future IMU payments, is as per the relevant loan agreement.

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Opening balance | 1 181 056 | 1 257 288 |
| Expense for interest make-up | 64 375 | (34 704) |
| Change in estimate | 26 230 | (73 518) |
| Unwind of interest | 38 146 | 38 814 |
| Payments | (322 185) | (284 427) |
| Foreign exchange (gain)/loss and currency translation | (173 446) | 242 899 |
| | **749 801** | **1 181 056** |

The contractual amount to be paid is R817 206 000 (2020: R1 376 883 000) which is R67 405 000 (2020: R195 827 000) higher than the carrying amount.

The emerging markets debt spreads recovered through the year following the spike as a result of COVID-19. For this reason, the lower spread used to value the liability resulted in an increase in the fair value of the liability in the base currency.

### Sensitivity analysis

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

| 2021 | Liability R'000 | Change % |
|---|---|---|
| Reported value | 749 801 | |
| Increase discount rates by 10% | 748 064 | (0,2) |
| Decrease discount rates by 10% | 751 551 | 0,2 |
| Depreciation of USD/ZAR Exchange rate by 10% | 824 781 | 10,0 |
| Appreciation of USD/ZAR Exchange rate by 10% | 674 821 | (10,0) |

| 2020 | Liability R'000 | Change % |
|---|---|---|
| Reported value | 1 181 056 | |
| Increase discount rates by 10% | 1 179 605 | (0,12) |
| Decrease discount rates by 10% | 1 182 511 | 0,12 |
| Depreciation of USD/ZAR Exchange rate by 10% | 1 299 161 | 10,0 |
| Appreciation of USD/ZAR Exchange rate by 10% | 1 062 950 | (10,0) |

### 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

| 2021 | Opening balance R'000 | Unwind of interest R'000 | Change in estimate R'000 | Settlements R'000 | Foreign exchange gain and currency translation R'000 | Closing balance R'000 |
|---|---|---|---|---|---|---|
| Liability for interest make-up | 1 181 056 | 38 146 | 26 230 | (322 185) | (173 446) | 749 801 |

| 2020 | Opening balance R'000 | Unwind of interest R'000 | Change in estimate R'000 | Settlements R'000 | Foreign exchange loss and currency translation R'000 | Closing balance R'000 |
|---|---|---|---|---|---|---|
| Liability for interest make-up | 1 257 288 | 38 814 | (73 518) | (284 427) | 242 899 | 1 181 056 |





## 19. Categories of assets and liabilities

| Categories of assets and liabilities – 2021 | Note(s) | Financial assets at fair value through profit or loss R'000 | Financial assets available for sale R'000 | Financial assets and liabilities at amortised cost R'000 | Other non-financial assets and liabilities R'000 | Total R'000 | Current assets and liabilities R'000 | Non-current assets and liabilities R'000 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Intangible assets | 6 | - | - | - | 1 117 | 1 117 | - | 1 117 |
| Property and equipment | 7 | - | - | - | 6 262 | 6 262 | - | 6 262 |
| Financial assets at fair value | 9 | 3 717 007 | 586 158 | - | - | 4 303 165 | 1 843 815 | 2 459 350 |
| Reinsurance contract assets | 10 | - | - | - | 10 700 | 10 700 | 2 803 | 7 897 |
| Trade and other receivables | 11 | - | - | 25 422 | 1 772 847 | 1 798 269 | 414 719 | 1 383 550 |
| Cash and cash equivalents | 12 | - | - | 4 084 701 | - | 4 084 701 | 4 084 701 | - |
| | | **3 717 007** | **586 158** | **4 110 123** | **1 790 926** | **10 204 214** | **6 346 038** | **3 858 176** |
| **Liabilities** | | | | | | | | |
| Provision for unearned premiums | 14.1 | - | - | - | 2 428 106 | 2 428 106 | 412 529 | 2 015 577 |
| Provision for unexpired risks | 14.2 | - | - | - | 380 650 | 380 650 | - | 380 650 |
| Reinsurance deferred acquisition cost | | - | - | - | 1 648 | 1 648 | 431 | 1 217 |
| Deferred tax | 8 | - | - | - | 3 838 | 3 838 | - | 3 838 |
| Employee benefit liability | 15 | - | - | - | 4 554 | 4 554 | 4 554 | - |
| Trade and other payables | 16 | - | - | 68 735 | 41 352 | 110 087 | 108 977 | 1 110 |
| Lease liability | 17 | - | - | 3 396 | - | 3 396 | 3 256 | 140 |
| Liability for interest make-up | 18 | 749 801 | - | - | - | 749 801 | 114 611 | 635 190 |
| Current tax payable | 29 | - | - | - | 17 396 | 17 396 | 17 396 | - |
| | | **749 801** | **-** | **72 131** | **2 877 544** | **3 699 476** | **661 754** | **3 037 722** |

| Categories of assets and liabilities – 2020 | Note(s) | Financial assets at fair value through profit or loss R'000 | Financial assets available for sale R'000 | Financial assets and liabilities at amortised cost R'000 | Other non-financial assets and liabilities R'000 | Total R'000 | Current assets and liabilities R'000 | Non-current assets and liabilities R'000 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Intangible assets | 6 | - | - | - | 2 606 | 2 606 | - | 2 606 |
| Property and equipment | 7 | - | - | - | 14 988 | 14 988 | - | 14 988 |
| Deferred tax | 8 | - | - | - | 22 407 | 22 407 | - | 22 407 |
| Financial assets at fair value | 9 | 7 604 463 | 667 520 | - | - | 8 271 983 | 1 741 790 | 6 530 193 |
| Trade and other receivables | 11 | - | - | 194 184 | 1 946 505 | 2 140 689 | 561 146 | 1 579 543 |
| Cash and cash equivalents | 12 | - | - | 331 400 | - | 331 400 | 331 400 | - |
| | | **7 604 463** | **667 520** | **525 584** | **1 986 506** | **10 784 073** | **2 634 336** | **8 149 737** |
| **Liabilities** | | | | | | | | |
| Provision for unearned premiums | 14.1 | - | - | - | 2 744 083 | 2 744 083 | 539 848 | 2 204 235 |
| Provision for unexpired risks | 14.2 | - | - | - | 505 005 | 505 005 | - | 505 005 |
| Employee benefit liability | 15 | - | - | - | 3 764 | 3 764 | 3 764 | - |
| Trade and other payables | 16 | - | - | 252 897 | 27 389 | 280 286 | 280 286 | - |
| Lease liability | 17 | - | - | 9 169 | - | 9 169 | 5 773 | 3 396 |
| Liability for interest make-up | 18 | 1 181 056 | - | - | - | 1 181 056 | 263 251 | 917 805 |
| Current tax payable | 29 | - | - | - | 11 093 | 11 093 | 11 093 | - |
| | | **1 181 056** | **-** | **262 066** | **3 291 334** | **4 734 456** | **1 104 015** | **3 630 441** |





## 20. Insurance premium revenue

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Credit insurance | 551 256 | 83 836 |
| Investment guarantee | 150 075 | 130 094 |
| | **701 331** | **213 930** |

## 21. Net investment income

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Dividend income** | | |
| Dividends income – Foreign | 20 226 | 16 695 |
| Dividends income – Local | 51 524 | 43 116 |
| | **71 750** | **59 811** |
| **Other investment income** | | |
| Interest income | 161 321 | 227 367 |
| Realised gain on disposal of financial assets | 369 729 | 154 948 |
| Change in fair value of financial assets | 219 829 | (320 593) |
| Sundry income | - | 30 |
| Interest received on cash and cash equivalents | 352 | 986 |
| | **751 231** | **62 738** |
| | **822 981** | **122 549** |

The strong absolute performance is largely due to the market recovery following losses incurred during the onset of COVID-19 in the last quarter of the previous financial year.

## 22. Currency translation differences

The currency translation difference arises because the presentation currency (ZAR) is different to the functional currency (USD). This difference represents the changes in the foreign exchange movement between the historic or average rate and the closing rate on net assets.

For monetary net assets, currency translation difference arises as a foreign exchange movement.

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Foreign exchange (loss)/gain on monetary assets and liabilities | (1 200 245) | 1 077 876 |
| Gross unearned premium reserve | 2 374 | (237) |
| Property, equipment and intangible assets | (3 543) | 1 175 |
| Payments in advance | (671) | 414 |
| Technical reserves movements | (37 598) | 39 674 |
| Reinsurance commission income | (2) | - |
| | **(1 239 685)** | **1 118 902** |

## 23. Net operating expenses

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Net operating expenses are arrived at after taking into account: | | |
| **External auditors' remuneration** | | |
| Audit fees for the current year | 2 295 | 1 872 |
| | **2 295** | **1 872** |
| Internal auditors' remuneration | 582 | 1 181 |
| **Depreciation and amortisation** | | |
| Equipment | 1 257 | 922 |
| Intangible assets | 868 | 1 050 |
| Building | 5 594 | 2 790 |
| | **7 719** | **4 762** |
| **Directors' emoluments** | | |
| Remuneration paid to executive director | 5 671 | 5 908 |
| Remuneration paid/payable to non-executive directors | 1 396 | 1 570 |
| | **7 067** | **7 478** |
| **Employee costs** | | |
| Salaries | 74 340 | 65 482 |
| Prior year over provision | (6 125) | (243) |
| Provision for bonus for current year | 18 489 | 25 173 |
| | **86 704** | **90 412** |
| **Short-term leases/Operating leases** | | |
| Equipment | - | 315 |
| Property rental | - | 3 510 |
| | **-** | **3 825** |
| **Remuneration to non-employees** | | |
| Actuarial services | 1 125 | 953 |
| Consulting services | 3 145 | 2 646 |
| Legal services | 640 | 344 |
| | **4 910** | **3 943** |
| General administrative expenses | 20 840 | 33 167 |
| **Total operating expenses (excluding portfolio fees)** | **130 117** | **146 640** |
| Investment portfolio management fee | 19 107 | 22 376 |
| **Total operating expenses** | **149 224** | **169 016** |





### 23.1 Disclosure as required by section 55 of PFMA

**Fruitless and wasteful expenditure**

The fruitless and wasteful expenditure of R317.66 was incurred during the 2021 financial year. The expenditure is as a result of interest on late payment of the employees' tax to SARS. The full amount was recovered and monthly payments are closely monitored to ensure they are made on time.

No disciplinary steps were taken as a consequence of the fruitless and wasteful expenditure as the funds were subsequently recovered from the employee involved. Further, no criminal steps were taken as this did not involve criminal activities.

| **Irregular expenditure** | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Opening balance | - | 405 |
| Add: Irregular expenditure – relating to current year | 10 | - |
| Reclassified to Non-compliance | - | (405) |
| | **10** | **-** |

The irregular expenditure is as a result of awarding a bid to a supplier whose tax affairs were not compliant. In order to prevent future occurrence of irregular expenditure the tax status of bidders will be confirmed on CSD prior to awarding the bid.

Disciplinary steps were taken as a consequence of the irregular expenditure, however, no criminal steps were taken as this did not involve criminal activities.

## 24. Interest expense

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Leases liability | 475 | 388 |
| Interest on other | 1 | 2 |
| | **476** | **390** |

## 25. Profit/(Loss) on foreign exchange differences

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

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Effect of translation on cash and cash equivalents | 30 148 | (30 772) |
| Effect of translation on net assets (excluding insurance contract liabilities and cash and cash equivalents) | (1 388) | 4 484 |
| Effect of translation on financial assets at fair value | 380 988 | (325 127) |
| Effect of translation on insurance contract liabilities | (994) | 3 516 |
| | **408 754** | **(347 899)** |

At March 2021, the Rand strengthened against the US Dollar by 17% mainly due to global trade conditions eased with the COVID-19 vaccine developments and a subsequent loosening of restrictions on economic activity.

# Notes to the Financial Statements

### 26. SED & ESD contributions

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Education | 11 109 | 9 460 |
| Enterprise development | 4 623 | 5 876 |
| Supplier development | 9 156 | 2 968 |
| Solidarity Fund | - | 20 000 |
| Other costs* | 1 110 | 1 349 |
| | **25 998** | **39 653** |

**Other costs relate to administration costs which include management fees to agencies and travel costs.*

### 27. Taxation

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Major components of the tax expense** | | |
| **Current** | | |
| Local income tax – current period | 142 365 | 440 242 |
| Withholding tax – current period | 7 750 | (153) |
| | **150 115** | **440 089** |
| **Deferred** | | |
| Deferred tax – current year | 18 317 | (20 278) |
| | **168 432** | **419 811** |
| **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 | 8,75 % | 96,70 % |
| Disallowable expenses – IMU | (3,02)% | 0,63 % |
| Disallowable expenses – other* | (2,37)% | (0,58)% |
| Exempt income – dividends | 2,43 % | 0,60 % |
| Translation effect | 18,12 % | (69,64)% |
| Other** | 4,09 % | 0,29 % |
| | **28,00 %** | **28,00 %** |

The translation effect is due to tax expense which is based on rand functional currency financials instead of US dollar functional currency.

**Disallowable expenses – other disclosed under the reconciliation of the tax expense comprises of disallowed SED & ESD contributions and operating expenses that were not incurred in the production of income.*

***Other – disclosed under the reconciliation of the tax expense comprises mainly of unrealized foreign gains that relates to equity investments and related parties' receivables.*



# Notes to the Financial Statements

### 28. Cash generated from operations

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Profit before taxation | 1 835 771 | 434 155 |
| **Adjustments for:** | | |
| Interest income | (161 705) | (228 383) |
| IMU grant received | (162 710) | (233 511) |
| Interest expense | 476 | 390 |
| Dividends income | (71 750) | (59 811) |
| Depreciation and amortisation | 7 719 | 4 762 |
| Other non-cash items | - | (8) |
| Movements in provision for reinsurance unearned premiums | (13 344) | - |
| Fair value (gain)/loss on financial assets | (219 829) | 320 593 |
| Realised gain on disposal of financial assets | (369 729) | (154 948) |
| (Profit)/Loss on foreign exchange | (408 754) | 347 899 |
| Movements in provision for unearned premiums | 132 902 | (452 668) |
| Movements in provision for unexpired risks | (44 777) | 143 308 |
| Movements in provision for outstanding claims | - | (336 522) |
| Expenses for interest make-up | 64 375 | (34 704) |
| Movements in trade and other receivables | 34 279 | 222 431 |
| Movements in trade and other payables | (223 378) | (19 554) |
| Movements in provisions | 790 | 511 |
| Reinsurance deferred acquisition cost | 1 979 | - |
| | **402 315** | **(46 060)** |

### 29. Taxation paid

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Balance at beginning of the year | (11 093) | 860 |
| Current tax for the year recognised in the statement of comprehensive income | (150 115) | (440 089) |
| Accrued interest | - | 27 |
| Balance at end of the year | 17 396 | 11 093 |
| | **(143 812)** | **(428 109)** |

# Notes to the Financial Statements

## 30. Retirement benefits

**Defined contribution plan**

The Corporation 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.

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| The total contribution for the year | 6 982 | 6 616 |

## 31. Commitments

**Operating leases**

There are no operating leases nor material commitments.

## 32. Related parties

**Identity of related parties**

The Corporation 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, Industry and Competition (the dtic).

**Transactions with key management personnel**

Details of directors' emoluments are disclosed in note 33. Key management personnel for purposes of related party information are defined as directors.

**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 Corporation. Since inception, the Corporation has not called on this Government Guarantee.




# Notes to the Financial Statements


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

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Statement of comprehensive income effects:** | | |
| **Premium** | | |
| Industrial Development Corporation of South Africa SOC Ltd (IDC) | 4 117 | 3 605 |
| Development Bank of Southern Africa SOC Limited (DBSA) | 153 761 | 104 036 |
| **Assessment fees** | | |
| Development Bank of Southern Africa SOC Limited | - | 222 |
| **IMU grant receipts** | | |
| Department of Trade, Industry and Competition (the dtic) | 162 710 | 233 511 |
| **Other income (Interest)** | | |
| South African Revenue Services (SARS) | 3 | 27 |
| **Claims paid** | | |
| Industrial Development Corporation of South Africa SOC Ltd | - | 363 194 |
| **Other operating expense** | | |
| Office of the Compensation Commissioner (OOTCC) | 70 | 30 |
| Financial Sector Conduct Authority (FSCA) | 480 | - |
| **Provision for doubtful debts/bad debts** | | |
| Industrial Development Corporation SOC Ltd | (106) | 106 |
| Development Bank of Southern Africa SOC Limited | - | 135 |
| **Mandatory grants received in terms of the Skills Development Levies Act** | | |
| Insurance Sector Education and Training Authority (INSETA) | 122 | 195 |
| **SED & ESD contributions** | | |
| Small Enterprise Development Agency (SEDA) | 4 623 | - |
| **Taxation (Income tax)** | | |
| South African Revenue Services | 142 365 | 440 242 |

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Statement of financial position effects:** | | |
| **Assets** | | |
| **Financial assets** | | |
| Bonds – Parastatals | 18 322 | 15 084 |
| Bonds – National government | 731 561 | 566 738 |
| | | |
| **Trade and other receivables (excluding provision for doubtful debts)** | | |
| Industrial Development Corporation SOC Ltd | - | 122 |
| Development Bank of Southern Africa SOC Limited | 34 004 | 53 798 |
| Insurance Sector Education and Training Authority (INSETA) | - | 40 |
| Small Enterprise Development Agency (SEDA) | 2 726 | - |
| South African Revenue Services (Value added tax) | - | 39 119 |
| | | |
| **Provision for doubtful debts** | | |
| Development Bank of Southern Africa SOC Limited | 135 | 135 |
| Industrial Development Corporation SOC Ltd | - | 106 |
| **Total assets** | **786 748** | **675 142** |
| | | |
| **Liabilities** | | |
| **Trade and other payables** | | |
| Office of the Compensation Commissioner | 37 | - |
| Industrial Development Corporation SOC Ltd | 12 | 133 |
| South African Revenue Services (Value added tax) | 19 778 | - |
| | | |
| **Taxation (Income tax)** | | |
| South African Revenue Services | 17 396 | 11 093 |
| **Total liabilities** | **37 223** | **11 226** |

## 33. Directors' and executives' emoluments

| Non-executive | 2021 R'000 | 2020 R'000 |
|---|---|---|
| D Dharmalingam | 235 | 324 |
| S Mayekiso | 243 | 308 |
| S O'Mahony | 249 | 178 |
| V Matsiliza | 250 | 285 |
| L Mothae | 200 | 237 |
| D Subbiah | 219 | 238 |
| | **1 396** | **1 570** |

The 2020 financial year remuneration included retainers payable for the 2020 and 2019 financial years.



Notes to the Financial Statements

**Executive remuneration**

| 2021 | Basic salary R'000 | Bonus paid R'000 | Provident fund R'000 | Cellphone allowance R'000 | Acting allowance R'000 | Other benefits* R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| K Kutoane – Chief Executive Officer (Director) | 3 793 | 1 773 | - | 45 | - | 60 | 5 671 |
| C Kgoale – Company Secretary | 1 257 | 471 | 121 | 23 | - | 53 | 1 925 |
| M Nkuhlu – Chief Operations Officer | 2 415 | 1 070 | 232 | 30 | 40 | 216 | 4 003 |
| N Mkhathazo – Chief Financial Officer | 1 948 | 851 | 302 | 30 | - | 42 | 3 173 |
| S Esterhuisen- Chief Actuarial & Investments | 2 329 | 1 013 | 292 | 27 | - | 10 | 3 671 |
| N Maphula – General Counsel | 1 626 | 793 | 251 | 30 | - | 197 | 2 897 |
| J Omollo – Chief Risk Officer | 1 787 | 775 | 277 | 30 | - | 10 | 2 879 |
| | **15 155** | **6 746** | **1 475** | **215** | **40** | **588** | **24 219** |

*Other benefits comprise of travel allowance, medical benefits, connectivity allowance and social security contributions.*

| 2020 | Basic salary R'000 | Bonus paid R'000 | Provident fund R'000 | Cellphone allowance R'000 | Acting allowance R'000 | Other benefits* R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| K Kutoane – Chief Executive Officer (Director) | 3 651 | 2 216 | - | 35 | - | 43 | 5 945 |
| C Kgoale – Company Secretary | 1 208 | 597 | 119 | 19 | - | 41 | 1 984 |
| M Nkuhlu – Chief Operations Officer | 2 430 | 1 371 | 231 | 30 | - | 82 | 4 144 |
| B Fugah – Acting Chief Operations Officer | - | - | - | - | 73 | - | 73 |
| N Mkhathazo – Chief Financial Officer | 1 865 | 1 096 | 301 | 30 | - | 29 | 3 321 |
| S Esterhuisen – Chief Actuarial & Investments (from 07 June 2019) | 1 853 | 1 144 | 241 | 20 | - | 2 | 3 260 |
| N Maphula – General Counsel | 1 697 | 992 | 251 | 30 | - | 37 | 3 007 |
| J Omollo – Chief Risk Officer | 1 708 | 992 | 275 | 30 | - | 2 | 3 007 |
| W Koen – Acting Chief Financial Officer (from 20 August 2019) | - | - | - | - | 148 | - | 148 |
| | **14 412** | **8 408** | **1 418** | **194** | **221** | **236** | **24 889** |

*Other benefits comprise of travel allowance, medical benefits, connectivity allowance and social security contributions.*

### 34. Contingent asset and liability

**Contingent asset**

The Corporation has a probable salvage relating to the claims settled in the previous years. A portion of the probable salvage did not meet the recognition criteria as at the reporting date. The total amount which may be recognised in future is R409 million. Included in this amount is the salvage of R9 million that did not meet the recognition criteria as at 31 March 2021 as a result of COVID-19 impact on the operations.

### 35. Capital management

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Total equity | 6 504 738 | 6 049 617 |
| Adjustment unto regulatory basis | 870 106 | 792 948 |
| Available capital | 7 374 844 | 6 842 565 |
| Required Capital (Regulatory) | 2 642 166 | 2 885 658 |
| Required Capital (Economic) | 3 702 127 | 4 029 550 |
| Regulatory capital cover ratio | 279% | 237% |
| Economic capital cover ratio | 199% | 170% |

**Capital management policy**

The Board ensures that the quantity and quality of capital maintained is adequate and, at a minimum, will meet applicable regulatory capital requirements. The Corporation also monitors economic required capital as an internal view of required capital as part of its risk appetite. The capital philosophy is to use available capital optimally to fulfil the Corporation's mandate and increase its capital base to extend its business underwriting capacity. Sufficient capital should be available to absorb potential losses from accepted risks and tested to ensure post a loss event sufficient capital remain to cover the remaining exposure equivalent to 110% of economic required capital. The Own Risk and Solvency Assessment (ORSA) serves as the Corporation's capital management plan that considers the projected available and required capital over a three-year period. The plan is updated annually and describes any planned capital raising initiatives and how capital is deployed and managed within the organisation.

**Cover ratios**

The cover ratios measure the degree to which the available capital covers the required capital. The Corporation retains a strong regulatory solvency position, with the solvency capital requirement (SCR) cover ratio being above the 100% as required by the PA.

### 36. Events after the reporting period

For one of the projects affected by COVID-19 as disclosed in note 14; historically it experienced challenges in respect of poor quality and quantity of the reserves, which were exacerbated by COVID-19, which resulted in low demand for the product and unsustainable low market price. Post year-end, the Corporation entered into discussions to restructure the debt (include purchasing the debt for a reduced amount), which will result in ECIC paying a claim in the next financial year in the range of between $48.2 million and $50.8 million (R715.1 million and R753.7 million as at 31 March 2021). At reporting date, a claims reserve has not been raised as there was no default event.

### 37. Dividend payable

No dividends were paid or declared in the current financial year and prior year.

### 38. Going concern

We draw attention to the fact that on March 31, 2021, the Corporation had accumulated profit of R3.7 billion and that the Corporation's total assets exceed its liabilities by R6.5 billion.

The 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.





COVID-19 has not had a significant impact on the operations of the Corporation during the 2021 financial year and is not anticipated to have a significant impact even in the foreseeable future, see note 14.

The potential claim disclosed under events after reporting period (note 36) is not expected to have an impact on the going concern status of the Corporation, as the regulatory solvency capital requirement (SCR) cover ratio after taking into account all the projected transactions for the next financial year is projected to be 324%, which is above the cover ratio of 100% as required by the PA.

### 39. Underwriting results

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Insurance premium revenue | 701 331 | 213 930 |
| Net change in unearned premiums | (134 655) | 452 668 |
| Gross change in unearned premiums | (132 902) | 452 668 |
| Change in reinsurance unearned premiums | (1 753) | - |
| Change in unexpired risks | 44 777 | (143 308) |
| **Net insurance premium revenue** | **611 453** | **523 290** |
| | | |
| **Claims incurred** | **69 331** | **76 875** |
| Claims paid net of salvages | 69 331 | (259 647) |
| Claims paid | - | (373 787) |
| Salvages income | 69 331 | 114 140 |
| Change in claims reserves | - | 336 522 |
| | | |
| Assessment fees | 271 | 232 |
| Reinsurance commission received | 347 | - |
| Commission paid to intermediaries | (193) | (161) |
| Operating expenses | (124 491) | (138 768) |
| **Underwriting results** | **556 718** | **461 468** |
| | | |
| Net investment income | 822 981 | 122 549 |
| Portfolio management fees including investment management operating expenditure | (23 187) | (28 278) |
| Foreign exchange gain/(loss) | 408 754 | (347 899) |
| Other income | 190 | 114 |
| IMU grant receipts | 162 710 | 233 511 |
| Interest expense | (476) | (390) |
| SED & ESD contributions including operating expenditure | (27 544) | (41 623) |
| Expense for interest make-up | (64 375) | 34 704 |
| **Profit before taxation** | **1 835 771** | **434 156** |
| Taxation | (168 432) | (419 811) |
| **Profit for the year** | **1 667 339** | **14 345** |
| | | |
| **Other comprehensive income:** | | |
| **Items that may be reclassified to profit or (loss):** | | |
| Currency translation differences | (1 239 685) | 1 118 902 |
| Fair value adjustments of financial assets | 35 395 | (125 299) |
| Deferred tax on fair value of financial assets | (7 928) | 28 067 |
| **Total items that may be reclassified to (loss) or profit** | **(1 212 218)** | **1 021 670** |
| **Other comprehensive (loss)/income for the year net of taxation** | **(1 212 218)** | **1 021 670** |
| **Total comprehensive income for the year** | **455 121** | **1 036 015** |

## 40. 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 | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Assets** | | |
| Intangible assets | 944 | 1 811 |
| Property and equipment | 5 730 | 11 536 |
| Deferred tax | - | 22 407 |
| Financial assets at fair value | 4 303 165 | 8 271 983 |
| Reinsurance contract assets | 10 700 | - |
| Trade and other receivables | 1 798 389 | 2 140 139 |
| Cash and cash equivalents | 4 084 701 | 331 400 |
| **Total assets** | **10 203 629** | **10 779 276** |
| | | |
| **Equity and liabilities** | | |
| **Equity** | | |
| Share capital and share premium | 316 051 | 316 051 |
| Fair value adjustment through other comprehensive income reserve | (29 947) | (57 414) |
| Retained earnings | 6 218 242 | 5 788 750 |
| **Total equity** | **6 504 346** | **6 047 387** |
| | | |
| **Liabilities** | | |
| Insurance contract liabilities | 2 808 563 | 3 246 521 |
| Provision for unearned premiums | 2 427 913 | 2 741 516 |
| Provision for unexpired risks | 380 650 | 505 005 |
| Provision for outstanding claims | - | - |
| Reinsurance deferred acquisition cost | 1 648 | - |
| Deferred tax | 3 838 | - |
| Employee benefit liability | 4 554 | 3 764 |
| Trade and other payables | 110 087 | 280 286 |
| Lease liability | 3 396 | 9 169 |
| Liability for interest make-up | 749 801 | 1 181 056 |
| Current tax payable | 17 396 | 11 093 |
| **Total liabilities** | **3 699 283** | **4 731 889** |
| **Total equity and liabilities** | **10 203 629** | **10 779 276** |





| Statement of comprehensive income | Note(s) | 2021 R'000 | 2020 R'000 |
|---|---|---|---|
| Insurance premium revenue | 20 | 701 331 | 213 930 |
| Net change in unearned premiums | | (130 619) | 465 568 |
| Gross change in unearned premiums | | (128 382) | 465 568 |
| Change in reinsurance unearned premiums | | (2 237) | - |
| Change in unexpired risks | | 45 714 | (141 328) |
| **Net insurance premium revenue** | | **616 426** | **538 170** |
| | | | |
| Assessment fees | | 271 | 232 |
| Reinsurance commissions received | | 345 | - |
| Net investment income | 21 | 822 981 | 122 549 |
| IMU grant receipts | | 162 710 | 233 511 |
| Other income | | 190 | 114 |
| | | **1 602 923** | **894 576** |
| | | | |
| **Claims incurred** | | **69 331** | **104 565** |
| Claims paid net of salvages | | 69 331 | (259 647) |
| Claims paid | | - | (373 787) |
| Salvages income | | 69 331 | 114 140 |
| Change in claims reserves | | - | 364 212 |
| | | | |
| **Expenses** | | | |
| Commission paid to intermediaries | | (193) | (161) |
| Operating expenses | 23 | (149 224) | (169 016) |
| Interest expense | 24 | (476) | (390) |
| (Loss)/profit on exchange differences | | (834 060) | 727 080 |
| Expense for interest make-up | | (64 375) | 34 704 |
| SED & ESD contributions | | (25 998) | (39 653) |
| | | | |
| **Profit before taxation** | | **597 928** | **1 551 705** |
| Taxation | 27 | (168 432) | (419 811) |
| **Profit for the year** | | **429 496** | **1 131 894** |
| | | | |
| **Other comprehensive income:** | | | |
| **Items that may be reclassified to profit or (loss):** | | | |
| Fair value adjustments of financial assets | | 35 395 | (125 299) |
| Deferred tax on fair value of financial assets | | (7 928) | 28 067 |
| **Total items that may be reclassified to profit or (loss)** | | **27 467** | **(97 232)** |
| **Other comprehensive income/(loss) for the year net of taxation** | | **27 467** | **(97 232)** |
| **Total comprehensive income for the year** | | **456 963** | **1 034 662** |

## Notes



ECIC is a registered Financial Service Provider, regulated by the FSCA and Prudential Authority (FSP No: 30656). Currently exempted in terms of FAIS Notice 78 of 2019.

**Physical address:**
Block C7 & C8, Eco Origins Office Park
349 Witch Hazel Ave, Highveld Ext 79, Centurion

**Postal address:**
P.O. Box 7075,Centurion, 0004
+27 12 471 3800
info@ecic.co.za
www.ecic.co.za

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YOUR EXPORT RISK PARTNER

YOUR EXPORT RISK PARTNER


**Export Credit Insurance Corporation of South Africa SOC Ltd**

**Financial statements**
for the year ended 31 March 2021

**These financial statements were supervised by:**

N Mkhathazo CA (SA)
*Chief Financial Officer*

These financial statements have been prepared in compliance with the applicable requirements of the Companies Act 71 of 2008

# General Information

| | |
|---|---|
| **Country of incorporation and domicile** | South Africa |
| **Nature of business and principal activities** | Export credit and investment insurance |
| **Directors** | D Dharmalingam (Independent non-executive director & Chairperson)<br>V Matsiliza (Independent non-executive director)<br>S O'Mahony (Independent non-executive director)<br>S Mayekiso (Independent non-executive director)<br>L Mothae (Independent non-executive director)<br>D Subbiah (Independent non-executive director)<br>L Mataboge (Non-independent non-executive director)<br>K Kutoane (Chief Executive Officer) |
| **Business address** | 349 Witch Hazel Avenue<br>Eco Park Origins<br>Building C7 & C8<br>Centurion<br>0063 |
| **Bankers** | First National Bank |
| **Auditors** | SizweNtsalubaGobodo Grant Thornton Inc.<br>Chartered Accountants (S.A.) Registered Auditors |
| **Company Secretary** | C Kgoale |
| **Company registration number** | 2001/013128/30 |

# Index

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





# Audit Committee Report

This is the Audit Committee's report for the financial year ended 31 March 2021. The Audit Committee ('the 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 information and communications technology ('ICT') 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 SAB&T Chartered Accountants Incorporated t/a Nexia SAB&T effective from 01 October 2020. The committee approved the risk-based internal audit plan for the 2021 financial year. 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 manager in the office of the Chief Executive Officer ('CEO'). The committee is satisfied with the effectiveness of this arrangement for internal audit.

During the year under review, as when the need arose, the committee met with the external and internal auditors without management present. The committee considers internal audit to be effectively functional and to have addressed material risks pertinent to the Export Credit Insurance Corporation of South Africa ('the Corporation' or 'ECIC') in its audit.

### External audit and non-audit services

The 2019 financial year was the first year of the tenure of the consortium of SizweNtsalubaGobodo Grant Thornton Inc and AM PhakaMalele Inc as the Corporation's external auditors. The committee is satisfied with the independence and objectivity of the external auditors, 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 Auditor-General of South Africa (AGSA) so 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 the external auditors' fulfilment of the agreed audit plan and variations from the plan, as well as the robustness and perceptiveness of the external auditors in their 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 2021 financial year.

Any non-audit services to be provided by the external auditors are 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 firms.

The committee has recommended, for approval at the Annual General Meeting, the reappointment of the consortium of SizweNtsalubaGobodo Grant Thornton Inc. and AM PhakaMalele Inc. as external auditors of the Corporation for the 2022 financial year.

The committee has met with the external auditors 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 Corporation and is satisfied that they are appropriate and comply with the International Financial Reporting Standards, the requirements of the Companies Act and Public Finance Management Act (PFMA).

## Internal financial controls

A high-level review of the design, implementation and effectiveness of the Corporation'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 period under review was adequate, efficient and effective.

## Finance function

The committee is satisfied that the Chief Financial Officer has the appropriate expertise and experience to meet the responsibilities of the role. Furthermore, the

# Audit Committee Report

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 Corporation for the year ended 31 March 2021 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

Based on the information and explanations provided by management as well as the results of audits performed by the internal and external auditors, the committee is of the opinion 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 2021. It has also reviewed:

- The external auditors' report;
- The external auditors' management report and management's responses thereto;
- Any changes in accounting policies and practices;
- The Corporation'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 committee for oversight purposes during the year; and
- Any significant adjustments resulting from the audit.

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

No significant matters were identified during the audit.

### Summary of main activities undertaken by the committee during the financial year under review

The committee performed the following activities during the year:

- Reviewed the Corporation's integrated report and processes and recommended the same to the board for approval;
- Approved the audit plan and budget for the external audit firm and the internal audit firm;
- Considered the Corporation'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 Corporation has been determined a going concern;
- Considered the progress of the implementation of the IFRS 9 and IFRS 17 project plan;
- Considered and recommended for Board's approval the quarterly performance reports to be submitted to the Department of Trade, Industry and Competition (the dtic); and
- 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 in line with King IV to implement the 3 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 International Financial Reporting Standards, the requirements of the Companies Act and the PFMA, and the basis of preparation as set out in the accounting policies in note 1.3 of the annual financial statements. The committee concurs that adopting the going-concern assumption in preparing the annual financial statements is appropriate.

At its meeting on 26 July 2021, the committee recommended the approval of the annual financial statements to the Board.

Ms Lerato Mothae

**L. Mothae**

*Chairperson*



# Directors' Responsibility Statement and Approval of the Annual Financial Statements

The external auditor is responsible for auditing the financial statements whereas the Board of Directors ('Board') is responsible for the preparation, integrity and fair presentation of the financial statements. The Board acknowledges its duty to ensure balanced content and fair presentation that provides a comprehensive assessment of the Corporation's performance for the financial year ended 31 March 2021.

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 Corporation'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 Corporation'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 Corporation's written policies and procedures.

As part of internal controls, the Corporation's internal audit function conducts inspections, and financial and specific audits. The external auditors are responsible for reporting on the Corporation's financial statements. The financial statements were audited by the independent auditors, the consortium of SizweNtsalubaGobodo Grant Thornton Inc. and AM PhakaMalele 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 auditors during their audit were valid and appropriate.

The Corporation'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 judgements and estimates.

The performance information fairly reflects the operations, actual output against planned targets for performance indicators as per the Corporation's strategic plan and annual performance plan for the financial year ended 31 March 2021. 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 23.1 of the annual financial statements.
- Any criminal or disciplinary steps taken because of such losses or irregular expenditure or fruitless and wasteful expenditure: there were no instances where the Corporation 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.

The directors have a reasonable expectation that the Corporation 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 Corporation for the year ended 31 March 2021 that appear on pages 14 to 73 were approved by the Board of Directors on 30 July 2021 and are signed on its behalf by:

**D Dharmalingam**
*Chairperson*

30 July 2021

**K Kutoane**
*Chief Executive Officer*

30 July 2021

# Company Secretary's Certification

### Declaration by the Company secretary in respect of Section 88(2)(e) of the Companies Act

I certify that, in respect of the reporting period, the Corporation has 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.

Charles Kgoale

**C Kgoale**
*Company Secretary*

30 July 2021



# Directors' Report

### Nature of business

The Corporation is a self-sustained, state-owned, national export credit agency that is supervised and regulated by the Financial Sector Conduct Authority (FSCA) and Prudential Authority (PA). 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 relating to 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 IV and endeavours to comply with these recommendations as far as possible. The Corporation's adherences to these principles are outlined in the Governance section of this report.

### Board of Directors

The current directors are reflected on the General Information page. During the 2021 financial year, the term for the National Treasury representative expired, as at 31 March 2021 there was still no replacement. There were no appointments made during the year.

### Executive management

During the 2021 financial year, there were no resignations and appointments.

### Financial results

The financial results of the Corporation are fully disclosed on pages 14 to 73.

### Dividends

No dividend has been declared for the current and previous financial year in line with the Corporation's dividend policy.

### Taxation status

The Corporation pays income 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. As at year end the Corporation was in good standing with respect to its tax responsibilities.

The amendment tax bill which designates the IMU grant as tax exempt in terms of Schedule 11 of the Income Tax Act has been promulgated and will be applicable in the 2022 financial year.

### Changes in accounting policies

The accounting policies applied during the year ended 31 March 2021 are in all material respects consistent with those applied in the annual financial statements for the year ended 31 March 2020, as no changes in accounting policies were effected in this financial year.

### Events after the reporting period

For one of the projects affected by COVID-19 as disclosed in note 14; historically it experienced challenges in respect of poor quality and quantity of the reserves, which were exacerbated by COVID-19, which resulted in low demand for the product and unsustainable low market price. Post year-end, the Corporation entered into discussions to restructure the debt (include purchasing the debt for a reduced amount), which will result in ECIC paying a claim in the next financial year in the range of between \$48.2 million and \$50.8 million (R715.1 million and R753.7 million as at 31 March 2021). At reporting date, a claims reserve has not been raised as there was no default event.

### Going concern

The Board of Directors believes that the Corporation 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 annual financial statements, refer to note 38 for a detailed assessment.

## Audit Committee information

The names of the Audit Committee members and attendance records are reflected below:

| | 28 April 2020 | 22 July 2020 | 04 September 2020 | 23 September 2020 | 22 October 2020 | 21 January 2021 | 17 March 2021 |
|---|---|---|---|---|---|---|---|
| **Members** | | | | | | | |
| L Mothae (Chairperson) | X | X | * | X | X | X | X |
| V Matsiliza | X | X | X | X | X | X | X |
| S O'Mahony | X | X | X | X | X | X | - |
| S Mayekiso | X | X | X | X | X | X | X |
| **Invitees** | | | | | | | |
| S Khan (dtic shareholder representative) | - | - | - | - | X | X | - |

*Legends:*

*X > in attendance*

*- > apology*

** > absent (meeting invite sent to the incorrect email address)*

## Litigation

Post year-end the Corporation received a court summons pertaining to the insurance claims that were rejected by the Corporation. The Corporation will be defending the litigation action. The disclosure has been provided in note 14.3 provision for claims reserves.

## Related party transactions

The related-party transactions are specified in the notes to the annual financial statements on pages 66 to 69.

## Performance against pre-determined objectives

The Corporate strategic objectives and targets are developed and approved by the Board of Directors. The table below compares the planned and related actual performance for 2021 financial year on the high-level corporate strategic objectives, and indicates the degree to which the Corporation met or exceeded its strategic objectives for the year under review.



Directors' Report

## Performance against pre-determined objectives

| Output | Performance Measure/Indicator | 2020-21 Annual Target | Actual Achievement |
|---|---|---|---|
| **IMPROVE KNOWLEDGE AND SKILLS** | | | |
| Implementation of the annual training plans | % of annual training plan implemented | 80 – 100% implementation of training plan for 2020/21 | Target achieved.<br>93% implemented. |
| **BUILD AND LEVERAGE STRATEGIC PARTNERSHIPS** | | | |
| Strategic partnerships plans implemented | Percentage (%) collaboration initiatives implementation as per the annual strategic partnership implementation plan | 80 – 100% implementation of strategic partnership plan | Target achieved.<br>100% implemented. |
| **ADVANCE TRANSFORMATION** | | | |
| Transformation strategy implemented | B-BBEE score | Achieve a level 2 B-BBEE score | Target achieved.<br>Level 2 B-BBEE score. |
| **IMPROVE BUSINESS PROCESSES AND SYSTEMS** | | | |
| Track cost to income ratio on a periodic basis | Cost to income ratio calculated as current operating costs (excluding investment and socio-economic development related costs) as a ratio of 3-year average income (earned premium, assessment fees and commission received less change in concentration risk reserve) | Cost to income ratio not exceeding 32%* | Target achieved.<br>Cost to income ratio of 20%. |
| Business processes improvement plan implemented | % of Business processes improvement plan implemented | 80 – 100% of business process improvement plan implemented | Target achieved.<br>100% implemented. |
| **CONTRIBUTE TO TRADE FACILITATION** | | | |
| Improve business development initiatives to grow the business | Value of approved transactions | USD 500m – USD600m | Target achieved.<br>Projects approved:<br>1. Total MozLNG Project in Mozambique USD800 million<br>2. Lake Trans Tanzania and Mozambique USD2 million<br>3. Dark Fibre Africa in Zimbabwe USD3 million<br>4. Amandi Ghana €64,4 million |
| Research and identify new opportunities | Number of research reports to identify new opportunities | 3 research projects to identify new opportunities | Target achieved.<br>Research reports presented:<br>1. AfCFTA – Trade and investment opportunities for SA<br>2. Renewable energy in Africa<br>3. Trade and investment opportunities in transport infrastructure |
| **IMPROVE COMMUNICATION** | | | |
| Improve communication | Percentage implementation of marketing and communications plan | Implement 80- 100% of 2020/21 marketing and communications plan | Target achieved.<br>98% implemented. |
| **INCREASE CAPITAL BASE** | | | |
| Increase in capital base (excluding foreign exchange movements and related tax) | Percentage (%) increase in equity | 5 – 10% in equity | Target achieved.<br>17% increase in equity* |
| **IMPROVE STAKEHOLDER SATISFACTION** | | | |
| Improved stakeholder satisfaction | Percentage (%) implementation of the annual stakeholder engagement plan | Implement 80 – 100% of annual stakeholder engagement plan | Target achieved.<br>88% implemented. |
| Improved customer satisfaction | Percentage (%) implementation of the annual customer engagement plan | Implement 80 – 100% of annual customer engagement plan | Target achieved.<br>100% implemented. |
| Improved stakeholder and customer satisfaction | Percentage (%) implementation of the annual employee engagement plan | Implement 80 – 100% of annual employee engagement plan | Target achieved.<br>88% implemented. |

**The performance of this target is based on the South African Functional Currency financial statements disclosed in Note 40 on pages 72-73 of the Annual Financial Statements.*

### Independent auditor's report to the Parliament on Export Credit Insurance Corporation of South Africa SOC Ltd

### Report on the audit of the financial statements

#### Opinion

1. We have audited the financial statements of Export Credit Insurance Corporation of South Africa SOC Ltd (the public entity) set out on pages 14 to 71, which comprise the statement of financial position as at 31 March 2021, the statement of comprehensive income, statement of changes in equity and statement cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Export Credit Insurance Corporation of South Africa SOC Ltd as at 31 March 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (the Companies Act).

#### Basis of opinion

3. 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 this auditor's report.
4. We are independent of the public entity 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 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 corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards).
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Responsibilities of the accounting authority for the financial statements

6. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the PFMA and the Companies Act, as well as 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.
7. In preparing the financial statements, the accounting authority is responsible for assessing the public entity'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 public entity or to cease operations, or has no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

8. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the 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.
9. A further description of our responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

### Report on the audit of the annual performance report

#### Introduction and scope

10. In accordance with the Public Audit Act of South Africa, 2004 (PAA) and the general notice issued in terms thereof, we have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objective presented in the annual performance report. We performed procedures to identify material findings but not to gather evidence to express assurance.





11. Our procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the public entity. We have not evaluated the completeness and appropriateness of the performance indicator included in the planning documents. Our procedures do not examine whether the actions taken by the public entity enabled service delivery. 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.
12. 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 objective presented in annual performance report of the public entity for the year ended 31 March 2021.

| Objective | Pages in the annual performance report |
|---|---|
| Objective 1 – Percentage increase in basic own funds | 9 |

13. 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.
14. We did not identify any material findings on the usefulness and reliability of the reported performance information for this objective.

#### Other matters

15. We draw attention to the matter below. Our opinions are not modified in respect of this matter.

***Achievement of planned targets***

16. Refer to the annual performance report on page 9 for information on the achievement of planned targets for the year.

### Report on the audit of compliance with legislation

#### Introduction and scope

17. In accordance with the PAA and the general notice issued in terms thereof, we have a responsibility to report material findings on the public entity's compliance with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express assurance.
18. We did not identify any material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

### Other information

19. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the directors' report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the financial statements, the auditor's report and those selected objective presented in the performance report that have been specifically reported on in the auditor's report.
20. Our opinion on the financial statements and my findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.
21. 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 objective presented in the annual performance report, our knowledge obtained in the audit, or otherwise appears to be materially misstated.
22. If based on the work we have performed, we conclude that there is a material misstatement in this other information, we are required to report that fact. We have nothing to report in this regard.

### Internal control deficiencies

23. We considered internal control relevant to our audit of the financial statements, reported performance information and compliance with applicable legislation; however, our objective was not to express any form of assurance on it. We did not identify any significant deficiencies in internal control.

### Other reports

24. We draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of our opinion on the financial statements, nor our findings on the reported performance information or compliance with legislation.

25. We were engaged to perform the following audit-related services:

    *Quantitative Reporting Template in compliance with the Insurance Act, 2017 (the Act) for the year ended 31 March 2021.*

### Auditor tenure

26. In terms of the IRBA rule published in Government Gazette Number 39475 dated 4 December 2015, I report that SizweNtsalubaGobodo Grant Thornton Incorporated has been the auditor of Export Credit Insurance Corporation of South Africa SOC Ltd for three years.

**SizweNtsalubaGobodo Grant Thornton Inc.**
**Director: Nhlanhla Sigasa**
*Chartered Accountant (SA)*
*Registered Auditor*

30 July 2021

20 Morris East Street
Woodmead
2191





## Annexure – Auditor's responsibility for the audit

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

### Financial statements

2. In addition to our responsibility for the audit of the financial statements as described in this auditor's report, we also:
    - Identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
    - Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control.
    - Evaluate the appropriateness of accounting policies used, as well as the practicality of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority.
    - Conclude on the appropriateness of the board of directors, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of the Export Credit Insurance Corporation of South Africa SOC Ltd 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 about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. Our conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a public entity to cease continuing 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.

### Communication with those charged with governance

3. 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.

4. We also provide the accounting authority with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to have a bearing on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

# Statement of Financial Position

| | Note(s) | 2021 R'000 | 2020 R'000 |
|---|---|---|---|
| **Assets** | | | |
| Intangible assets | 6 | 1 117 | 2 606 |
| Property and equipment | 7 | 6 262 | 14 988 |
| Deferred tax | 8 | - | 22 407 |
| Financial assets at fair value | 9 | 4 303 165 | 8 271 983 |
| Reinsurance contract assets | 10 | 10 700 | - |
| Trade and other receivables | 11 | 1 798 269 | 2 140 689 |
| Cash and cash equivalents | 12 | 4 084 701 | 331 400 |
| **Total assets** | | **10 204 214** | **10 784 073** |
| **Equity and liabilities** | | | |
| **Equity** | | | |
| Share capital and share premium | 13 | 316 051 | 316 051 |
| Foreign currency translation reserve | | 2 484 487 | 3 724 172 |
| Fair value adjustment through other comprehensive income reserve | | (29 947) | (57 414) |
| Retained earnings | | 3 734 147 | 2 066 808 |
| **Total equity** | | **6 504 738** | **6 049 617** |
| **Liabilities** | | | |
| Insurance contract liabilities | | 2 808 756 | 3 249 088 |
| Provision for unearned premiums | 14.1 | 2 428 106 | 2 744 083 |
| Provision for unexpired risks | 14.2 | 380 650 | 505 005 |
| Provision for claims reserves | 14.3 | - | - |
| Reinsurance deferred acquisition cost | | 1 648 | - |
| Deferred tax | 8 | 3 838 | - |
| Employee benefit liability | 15 | 4 554 | 3 764 |
| Trade and other payables | 16 | 110 087 | 280 286 |
| Lease liability | 17 | 3 396 | 9 169 |
| Liability for interest make-up | 18 | 749 801 | 1 181 056 |
| Current tax payable | 29 | 17 396 | 11 093 |
| **Total liabilities** | | **3 699 476** | **4 734 456** |
| **Total equity and liabilities** | | **10 204 214** | **10 784 073** |

# Statement of Comprehensive Income

| | Note(s) | 2021 R'000 | 2020 R'000 |
|---|---|---|---|
| Insurance premium revenue | 20 | 701 331 | 213 930 |
| Net change in unearned premiums | | (134 655) | 452 668 |
| Gross change in unearned premiums | 14.1 | (132 902) | 452 668 |
| Change in reinsurance unearned premiums | 10 | (1 753) | - |
| Change in unexpired risks | 14.2 | 44 777 | (143 308) |
| **Net insurance premium revenue** | | **611 453** | **523 290** |
| Assessment fees | | 271 | 232 |
| Reinsurance commissions received | | 347 | - |
| Net investment income | 21 | 822 981 | 122 549 |
| IMU grant receipts | | 162 710 | 233 511 |
| Other income | | 190 | 114 |
| **Net income** | | **1 597 952** | **879 696** |
| **Claims incurred** | | **69 331** | **76 875** |
| Insurance benefits and claims | | 69 331 | (259 647) |
| Claims paid | 14.3 | - | (373 787) |
| Salvages income | | 69 331 | 114 140 |
| Change in claims reserves | 14.3 | - | 336 522 |
| Commission paid to intermediaries | | (193) | (161) |
| Operating expenses | 23 | (149 224) | (169 016) |
| Interest expense | 24 | (476) | (390) |
| Profit/(Loss) on exchange differences | 25 | 408 754 | (347 899) |
| Expense for interest make-up | 18 | (64 375) | 34 704 |
| SED & ESD contributions | 26 | (25 998) | (39 653) |
| **Profit before taxation** | | **1 835 771** | **434 156** |
| Taxation | 27 | (168 432) | (419 811) |
| **Profit for the year** | | **1 667 339** | **14 345** |
| **Other comprehensive income:** | | | |
| **Items that may be reclassified to profit or (loss):** | | | |
| Currency translation differences | 22 | (1 239 685) | 1 118 902 |
| Fair value adjustments of financial assets | | 35 395 | (125 299) |
| Deferred tax on fair value of financial assets | | (7 928) | 28 067 |
| **Total items that may be reclassified to profit or (loss)** | | **(1 212 218)** | **1 021 670** |
| **Other comprehensive (loss)/income for the year net of taxation** | | **(1 212 218)** | **1 021 670** |
| **Total comprehensive profit for the year** | | **455 121** | **1 036 015** |

# Statement of Changes in Equity

| | Share capital and share premium R'000 | Foreign currency translation reserve R'000 | Fair value adjustment through other comprehen-sive income reserve R'000 | Total reserves (foreign currency & fair value adjustment) R'000 | Retained earnings R'000 | Total equity R'000 |
|---|---|---|---|---|---|---|
| **Balance at April 1, 2019** | **316 051** | **2 605 270** | **39 818** | **2 645 088** | **2 052 463** | **5 013 602** |
| Profit for the year | - | - | - | - | 14 345 | 14 345 |
| Effects of translation to presentation currency | - | 1 118 902 | - | 1 118 902 | - | 1 118 902 |
| Fair value adjustment net of taxation | - | - | (97 232) | (97 232) | - | (97 232) |
| **Total comprehensive income for the year** | **-** | **1 118 902** | **(97 232)** | **1 021 670** | **14 345** | **1 036 015** |
| **Balance at April 1, 2020** | **316 051** | **3 724 172** | **(57 414)** | **3 666 758** | **2 066 808** | **6 049 617** |
| Profit for the year | - | - | - | - | 1 667 339 | 1 667 339 |
| Effects of translation to presentation currency | - | (1 239 685) | - | (1 239 685) | - | (1 239 685) |
| Fair value adjustment net of taxation | - | - | 27 467 | 27 467 | - | 27 467 |
| **Total comprehensive income for the year** | **-** | **(1 239 685)** | **27 467** | **(1 212 218)** | **1 667 339** | **455 121** |
| **Balance at March 31, 2021** | 316 051 | 2 484 487 | (29 947) | 2 454 540 | 3 734 147 | 6 504 738 |
| Note(s) | 13 | | | | | |



# Statement of Cash Flows

| | Note(s) | 2021 R'000 | 2020 R'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from underwriting activities | 28 | 402 315 | (46 060) |
| Interest received | | 162 125 | 237 150 |
| IMU grant receipts | | 162 710 | 233 511 |
| Dividends received | | 49 707 | 61 264 |
| IMU claims paid | | (322 185) | (284 427) |
| Interest paid | | (476) | (390) |
| Taxation paid | 29 | (143 812) | (428 109) |
| **Net cash inflow/(outflow) from operating activities** | | **310 384** | **(227 061)** |
| **Cash flows from investing activities** | | | |
| Acquisition of equipment | 7 | (1 046) | (140) |
| Sale of equipment | | - | 35 |
| Acquisition of intangible assets | 6 | - | (100) |
| Net sale of financial assets | | 3 570 891 | 204 800 |
| **Net cash inflow from investing activities** | | **3 569 845** | **204 595** |
| **Cash flows from financing activities** | | | |
| Lease payments | | (5 773) | (2 585) |
| **Increase in cash and cash equivalents** | | **3 874 456** | **(25 051)** |
| Cash and cash equivalents at the beginning of the year | | 331 400 | 351 114 |
| Effect of translation on cash and cash equivalents | | (151 303) | 36 109 |
| Unrealised foreign exchange gain/(loss) on cash and cash equivalents | | 30 148 | (30 772) |
| **Total cash and cash equivalents at end of the year** | 12 | **4 084 701** | **331 400** |

## 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 Corporation in pursuant to its objectives as set out in the Export Credit and Foreign Investment Re-insurance Act of 1957, as amended are set out in note 3.

Prior to the incorporation of ECIC in July 2001, the Department of Economic Affairs (now the Department of Trade, Industry and Competition, the dtic) offered reinsurance cover through a privately owned insurance company.

The Corporation provides risk mitigation solutions for South African exporters who offer capital goods and services into the international market. The focus is on Africa and other emerging markets outside the continent that are considered too risky for conventional insurers. The ECIC mandate is to facilitate cross-border investments and export trade between South Africa and the rest of the world. The aim is to stimulate economic growth through exports that contribute to foreign income, job creation and global competitiveness.

### 1.2 New standards, amendments and interpretations issued

**(a) New applied standards, amendments and interpretations issued and effective for the current financial year.**

***(i) Interest Rate Benchmark Reform: The amendments to IFRS 9, IAS 39 and IFRS 7.***

Amend requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting.

- The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform.
- In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The impact is assessed to be immaterial at ECIC as the company does not apply hedge accounting.

***(ii) IAS 1, Presentation of Financial Statements. Amendment to the Definition of Material.***

The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The impact is immaterial. ECIC financial statements are prepared taking into consideration materiality of the information to be presented to the primary users of the Corporation's annual financial statements.

***(iii) IAS 8, Accounting policies, Changes in Accounting Estimates and Errors. Amendment to the Definition of Material.***

The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards.

The impact is immaterial. ECIC financial statements are prepared taking into consideration materiality of the information to be presented to the primary users of the Corporation's annual financial statements.

**(b) New standards, amendments and interpretations issued but not effective for the financial year and not early adopted.**

***(i) 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).

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 is currently underway.

The standard is effective for annual periods beginning on or after 1 January 2023 and has to be applied retrospectively. Early adoption is permitted. The Corporation is expecting to adopt IFRS 17 in its financial statements for the year ending 31 March 2024. The Corporation will in future periods estimate the impact of IFRS 17 on its financial statements.

***(ii) IAS 1, Presentation of Financial Statements.***

The following amendments were made:

- Classification of Liabilities as current or Non-current.

Narrow scope amendments to the accounting standard to clarify how debts and other liabilities are classified based on the contractual arrangements in place at the reporting date.

The amendments were originally effective for annual reporting periods beginning on or after 1 January 2022, however, their effective date has been delayed to 1 January 2023.

- Disclosure of Accounting Policies.

The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies, with additional guidance added to the Standard to explain how an entity can identify material accounting policy information with examples of when accounting policy information is likely to be material.

The amendments are effective for annual periods beginning on or after 1 January 2023.

ECIC will apply the amendments from the effective date and the amendments are not expected to significantly impact the Corporation.

***(iii) IAS 8, Accounting policies, Changes in Accounting Estimates and Errors. Amendment to the Definition of Accounting Estimates.***

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting

estimates, by replacing the definition of a change in accounting estimates with a new definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The requirements for recognising the effect of change in accounting prospectively remain unchanged.

The amendments are effective for annual periods beginning on or after 1 January 2023, ECIC will apply the amendments from the effective date and the amendments are not expected to significantly impact the Corporation.

*(iv) IAS 16, Property, plant, and equipment- Proceeds before Intended use.*

The amendments prohibit an entity from deducting from cost of an item of property, plant, and equipment any proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items in the profit or loss.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022, ECIC will apply the amendments from the effective date and the amendments are not expected to significantly impact the Corporation.

*(v) IAS 37, Provisions, Contingent Liabilities and Contingent Assets: 'Onerous Contracts- Cost of Fulfilling a Contract.*

The amendments specify which costs should be included in an entity's assessment and whether a contract will be loss making. The amendments are effective for annual reporting periods beginning on or after 1 January 2022, ECIC will apply the amendments from the effective date and the amendments are not expected to significantly impact the Corporation.

*(vi) Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.*

Amendments to requirements relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities, hedge accounting and disclosures.

The amendment to IFRS 4 enables an insurer applying the temporary exemption from IFRS 9 to apply a practical expedient to account for a change in the contractual cash flows that are required by IBOR reform by updating the effective interest rate to reflect any change arising from the reform.

The amendment to IFRS 7 requires a company to make additional disclosures in its financial statements so that investors can better understand the effects of IBOR reform on that company.

The amendments to IFRS 9 enable a company to apply a practical expedient to account for a change in the contractual cash flows that are required by IBOR reform by updating the effective interest rate to reflect any change arising from the reform.

The amendments to IFRS 9 enable (and require) companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the IBOR reform, by requiring companies to amend their hedging relationships to reflect:

- designating an alternative benchmark rate as the hedged risk; or
- changing the description of the hedged item, including the designated portion, or of the hedging instrument.

The amendment to IFRS 16 enables a company to apply a practical expedient to account for a lease modification required by the IBOR reform.

The amendments to IAS 39 enable (and require) companies to continue hedge accounting in circumstances when changes to hedged items and hedging instruments arise as a result of changes required by the IBOR reform by requiring companies to amend their hedging relationships to reflect:

- designating an alternative benchmark rate as the hedged risk;
- changing the description of the hedged item, including the designated portion, or of the hedging instrument; or
- changing the description of how the entity would assess hedge effectiveness.

The amendments are effective for annual periods beginning on or after 1 January 2021, ECIC will apply the amendments from the effective date. The impact is not yet known.

*(vii) IFRS 9, Financial Instruments. Annual Improvements to IFRS Standards 2018–2020.*

The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in assessing whether to derecognise a financial liability. The amendments are effective for annual reporting periods beginning on or after 1 January 2022,

ECIC will apply the amendments from the effective date and the amendments are not expected to significantly impact the Corporation.





*(viii) IFRS 16, Leases. The following amendments were made.*

- COVID-19-Related Rent Concessions.

Amendment providing lessees with an exemption from assessing whether a COVID-19-related rent concession (a rent concession that reduces lease payments due on or before 30 June 2021) is a lease modification. The amendment is effective for annual reporting periods beginning on or after 1 June 2020.

ECIC will apply the amendments from the effective date and the amendments are not expected to significantly impact the Corporation.

- 'COVID-19-Related Rent Concessions beyond 30 June 2021.

Amendment that extends, by one year, the one from June 2020. Amendment that provides lessees with an exemption from assessing whether a COVID-19 related rent concession is a lease modification. The amendment is effective for annual reporting periods beginning on or after 1 April 2021.

ECIC will apply the amendments from the effective date and the amendments are not expected to significantly impact the Corporation.

**(c) New standards, amendments and interpretations issues and effective for the current financial year but not implemented by the Corporation.**

*(i) 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.

ECIC has elected to defer the implementation of IFRS 9 to 01 April 2023 when IFRS 17 is expected to be effective. A detailed assessment of the impact has not been made by ECIC, therefore the impact is not yet known.

IFRS 9 provides a temporary exemption that permits ECIC to apply IAS 39 rather than IFRS 9 when accounting for financial instruments for annual periods beginning before 01 April 2023.

The Corporation is eligible to apply the temporary exemption from IFRS 9 due to the following criteria:

- it has not previously applied any version of IFRS 9; and
- its activities are predominantly connected with insurance.

As at 31 March 2016, the carrying amount of the liabilities arising from contracts within the scope of this IFRS 4 were greater than 90% of the total carrying amount of all liabilities. Since 31 March 2016, there has been no change in the Corporation's activities.

The Corporation's financial assets with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding are all measured at fair value as they are managed and performance is evaluated on a fair value basis.

Below is the fair value balances and adjustments of financial assets that are:

- managed at fair value; or
- whose contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest on the outstanding principal amounts.

| Financial asset | 2021 Fair value balance (R'000) | 2021 Fair value adjustments (R'000) | 2020 Fair value balance (R'000) | 2020 Fair value adjustments (R'000) |
|---|---|---|---|---|
| Financial assets at fair value | 4 303 165 | 255 224 | 8 271 983 | (445 892) |
| Trade and other receivables | 1 798 269 | - | 2 140 689 | - |
| Cash and cash equivalents | 4 084 701 | - | 331 400 | - |
| **Total** | **10 186 135** | **255 224** | **10 744 072** | **(445 892)** |

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

### 1.3 Basis of preparation

The annual financial statements of the Corporation are prepared on the going-concern basis in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board; the interpretations to IFRS as issued by the IFRS Interpretations Committee (IFRIC); the South African Institute of Chartered Accountants Financial Reporting Guides as issued by the Accounting Practices Committee; the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council; and the requirements of the Public Finance Management Act No.1 of 1999 of South Africa, as amended; and the Companies Act No. 78 of 2008 of South Africa, as amended. As at 31 March 2021, the Corporation was solvent with total assets exceeding total liabilities by R6.5 billion.

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 detailed in 1.6 below. While the Corporation is domiciled in South Africa, its functional currency is US Dollar with the Rand as its presentation currency, rounded to the nearest thousand. All assets and liabilities are presented in decreasing order of liquidity.

The financial statements of Export Credit Insurance Corporation of South Africa SOC Ltd have been authorised for issue by the Board of directors on 30 July 2021.

### 1.4 Critical accounting judgements, estimates and assumptions

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 assets and liabilities;
- fair value measurement of assets and liabilities;
- impairment of financial and non-financial assets;
- deferred tax;
- incremental borrowing rate for lease liability; and
- useful life and residual value of depreciable assets.

See note 2 for the details of the estimates, judgements and assumptions made.

### 1.5 Recognition and measurement of insurance contracts

Insurance contracts are those contracts under which the Corporation 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.

#### *1.5.1 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.

#### *1.5.2 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 exposure profile of risks underwritten. The provision is computed separately for each insurance contract.

#### *1.5.3 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 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.

#### *1.5.4 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, and
- 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 actual 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 the statement of comprehensive income 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 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 Corporation. 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.

#### *1.5.5 Salvages*

An asset for salvages receivable is recognised once recovery is probable. The assets are only recognised for the salvages receivable within the next twelve months, for amounts receivable beyond that period a contingent asset is disclosed as a claim in favour of the Corporation, but not recognised in the statement of financial position. Otherwise, salvages are recognised only when received.

The probability of recovery is dependent on whether certain conditions are met per contract. These conditions differ based on the type of contract in place. The different contracts and their conditions are detailed below:

**a) 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:

- There is a signed salvage restructuring agreement; and
- At least two successive payments have been received by the Corporation in terms of the agreement.

b) **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:

- There is a signed salvage 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.

c) **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:

- There is a signed salvage restructuring agreement;
- The payment on the revised agreement is up to date; and
- The loan covenants on the policy are met.

### *1.5.6 Liability adequacy test*

The net liability recognised for insurance contracts is tested for adequacy by assessing the expected future cash flows over the remaining contractual term and comparing this amount to the carrying value of the liability. Where a shortfall is identified, an additional provision for unexpired risk is made and the Corporation recognises the deficiency in the statement of comprehensive income in that year. Liability adequacy tests are performed at reporting date.

### *1.5.7 Solvency capital requirement*

In term of the Prudential Standard of Financial Soundness of Insurers, the Corporation is required to maintain sufficient capital to compensate for the different aspects of risk ranging from insurance risk to operational risk, as well as market risk and credit risk.

### *1.5.8 Insurance ceded to reinsurance counterparties*

Ceded reinsurance arrangements do not relieve the Corporation from its obligations to policyholders.

**Reinsurance assets relating to outstanding claims**

The Corporation cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Corporation may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Corporation will receive from the reinsurer. The impairment loss is recorded in the statement of comprehensive income.

**Reinsurance recoveries on claims paid**

Reinsurance recoveries are recognised in the statement of comprehensive income as a reduction in claims paid when they are received in accordance with the terms of the relevant contract.

**Commission/acquisition cost received from re-insurer**

Commission received from the re-insurer on buying reinsurance are recognised in the statement of financial position and is amortised over the period of the re-insurance cover.





**Reinsurance premiums**

Gross outward reinsurance premiums are recognised in the statement of comprehensive income as a reduction in written premiums on the earlier of the dates when premiums are payable or when the policy becomes effective.

The outward reinsurance premiums comprise the premiums on reinsurance 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.

**Unearned reinsurance premiums (asset)**

Unearned reinsurance premiums are those proportions of re-insurance premiums written in the current and past financial years which is attributable to subsequent years. The earned portion is recognised as a reduction in revenue, based on the exposure profile of risks underwritten. The asset is computed separately for each re-insurance contract.

### 1.6 Foreign currency translation

**Functional and presentation currency**

The financial statements are presented in South African Rand, which is the presentation currency of the shareholder. The US Dollar is the functional currency for the Corporation, the functional currency being the currency of the primary economic environment in which the Corporation operates. The services offered by the Corporation are predominantly priced in US Dollars.

**Reporting foreign currency transactions to functional currency**

Foreign currency transactions are transactions that are denominated or require settlement in a foreign currency.

A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of each reporting period:

- All foreign currency monetary items are translated using the closing rate;
- Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognised in the statement of comprehensive income in the period in which they arise.

A monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Non- monetary items are all other assets and liabilities where there is an absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency.

**Translation from functional to presentation currency**

The annual financial statements are translated from the functional currency to the presentation currency using the average rate or spot rate at transaction date for statement of comprehensive income items and the closing rate for the statement of financial position items, comprising both monetary and non-monetary items.

Average rates are used for transactions where there are multiple transaction dates that are not easily identifiable and spot rates are used for transactions where the transaction date is easily identifiable.

The resulting exchange differences are recognised in other comprehensive income and accumulated separately in a foreign currency translation reserve, which is a separate component of equity. The foreign currency translation reserve is reclassified from equity to profit and loss when the statement of financial position items is disposed.

**Appropriateness of using average rates**

Average rates are considered appropriate since there were no significant fluctuations for the greater part of the financial year.

### 1.7 Property, equipment and intangible assets

#### *1.7.1 Property and equipment*

Equipment is measured at historical cost less accumulated depreciation and impairment losses. 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.

Subsequent expenditure relating to equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in the statement of comprehensive income when incurred.

Depreciation is calculated to write off the cost of the assets to residual values on a straight-line basis over their expected useful lives.

**Equipment is depreciated over the following estimated useful lives:**

| | |
|---|---|
| Computer equipment | 3 – 6 years |
| Furniture and fittings | 5 – 9 years |
| Office equipment | 5 – 9 years |
| Vehicles | 9 years |

**Residual value:**

| | |
|---|---|
| Computer equipment | R1 000 |

The equipment's' residual values, estimated useful lives, and depreciation methods are reviewed at each reporting date and adjusted if appropriate at each reporting date. The estimation of useful life and residual value for the assets is based on the experience of the Corporation with similar assets, as well as the manner that reflects the benefits to be derived from those assets. The effects of any revision are recognised in the statement of comprehensive income when the changes arise.

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

The gain or loss arising from the derecognition of an item of equipment is included in the statement of comprehensive income 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.

The proceeds received for indemnity payments on loss or damage of equipment are recognised in the statement of comprehensive income as other income when they are received.

#### *1.7.2 Intangible assets*

Intangible assets are measured at historical cost, less accumulated amortisation and impairment losses. 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 estimated useful lives:

| | |
|---|---|
| Computer software and models | 5 years |

The intangible assets' residual values, estimated useful lives and amortisation methods are reviewed at each reporting date and adjusted if appropriate at each reporting date. The estimation of useful life and residual value for the assets is based on the experience of the Corporation with similar assets as well as the manner that reflects the benefits to be derived from those assets. The effects of any revision are recognised in the statement of comprehensive income when the changes arise.

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

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





#### *1.7.3 Leased assets*

The right of use asset is measured at cost, less accumulated depreciation and accumulated impairment losses. Cost is made up of the initial measurement of the lease liability, plus any initial direct costs incurred by the Corporation.

The Corporation depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the end of the lease term. The Corporation also assesses the right-of-use asset for impairment when such indicators exist.

Right of use assets are depreciated over the following periods:

| | |
|---|---|
| Buildings: | 2 years |
| Computer Equipment: | 3 years |

The carrying amount of leased assets is derecognised on termination of the lease agreement.

### 1.8 Leases

**Identification of the lease**

For any new contracts entered into, the Corporation considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period in exchange for consideration'.

To apply this definition, the Corporation assesses whether the contract meets three key evaluations which are whether:

- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Corporation;
- The Corporation has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- The Corporation has the right to direct the use of the identified asset throughout the period of use. The Corporation assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

**Measurement and recognition of leases as a lessee**

***a) Initial measurement of the right of use asset and lease liability***

At lease commencement date, the Corporation recognises a right of use asset and a lease liability on the statement of financial position.

The lease liability is measured at the present value of the lease payments unpaid at that date, discounted using the incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments.

***b) Subsequent measurement of the right of use asset and lease liability***

Subsequent to initial measurement, the liability will be reduced for payments made and increased for finance costs. The lease liability is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. The finance cost is recognised in the statement of comprehensive income.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or the statement of comprehensive income if the right-of-use asset is already reduced to zero.

**Contracts which are exempt from IFRS 16 (those leases that have a lease term of 12 months or less and do not contain a purchase option and leases of assets that are considered to be of low value).**

Leases of low value assets include small items and assets of a low value of less than R7 000.

For the short-term leases and leases of low value assets, lease payments on lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such a maintenance and insurance, are expensed as incurred.

### 1.9 Financial assets and liabilities

The Corporation recognises a financial asset or financial liability on its statement of financial position only when it becomes a party to the contractual provisions of the instruments.

**Financial assets**

The Corporation classified its financial assets at fair value into the following categories: financial assets designated at fair value through profit and loss (FVTPL) and financial assets available for sale.

**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 Corporation'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.

**Financial assets available for sale**

These assets are investments made for strategic reasons.

**Financial liabilities**

The Corporation classified its financial liabilities into the following categories: Financial liabilities designated at fair-value through profit or loss and financial liabilities at amortised cost.

**Financial liabilities designated at fair-value through profit or loss**

The liability for interest make-up (IMU) is classified as financial liabilities at fair value through profit or loss.

**Financial liabilities at amortised cost**

These financial liabilities are made up of trade and other payable.

### *1.9.1 Initial measurement*

Financial instruments are initially recognised at fair-value, plus or minus, 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 Corporation commits to purchase or sell the asset. Transaction costs for FVTPL are recognised in the statement of comprehensive income.

### *1.9.2 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.

Unrealised gains and losses arising from changes in fair-value of financial assets during a reporting period are recognised in the statement of comprehensive income for that period.

Realised gains and losses is the difference between net sales proceeds and the original cost and are recorded on occurrence of the sale transaction.

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.

**Financial assets available for sale**

Financial assets available for sale are subsequently carried at fair-value.

Unrealised gains and losses arising from changes in fair-value of financial assets during a reporting period are recognised in the other comprehensive income for that period.

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.





**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 (Short-term deposit) 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 Corporation 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 (IMU) is measured at fair-value which is determined on a discounted cash flow basis of all future IMU payments on existing agreements using a US Treasury Bills Yield Curve adjusted for credit default spread. The value is adjusted to avoid double counting for contracts for which IBNR claims reserves are already allowed for.

### *1.9.3 Gains and losses on subsequent measurement*

Gains and losses arising from a change in fair-value of financial instruments are included in the statement of comprehensive income in the period in which the change arises as part of net investment income. However, for instruments classified as available for sale, the gains and losses are recognised in other comprehensive income.

### *1.9.4 Interest and dividends*

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. Dividends and interest accrued from financial assets designated at fair-value through profit or loss are recognised in the statement of comprehensive income as part of investment income.

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

### *1.9.5 Derecognition*

Financial assets are derecognised when the Corporation 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.

### *1.9.6 Offset*

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the Corporation 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.

### 1.10 Trade and other receivables

Trade and other receivables consist of insurance receivables and non-insurance receivables (financial and non-financial):

(i) Insurance receivables are accounted for in terms of IFRS 4, less provision for impairment and are not discounted;

(ii) Non-insurance financial receivables are accounted for in terms of IAS 39 and are measured at amortised cost using the effective interest method, less provision for impairment; and

(iii) Non-insurance non-financial receivables are comprised of the VAT and prepaid expenses. The balance for prepaid expenses is reduced by the expense recognised in the statement of comprehensive income.

The Corporation considers notified disputes and collection experience to determine which receivables are impaired.

### 1.11 Impairment

**Financial assets**

Financial assets other than those carried at fair-value through profit and loss, are assessed for evidence of impairment at each reporting date. If any such evidence exists, the carrying value is reduced to the estimated recoverable amount by means of a charge to the statement of comprehensive income. 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.

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

If, in a subsequent period, the amount of the impairment loss relating to a financial asset carried at amortised cost or a debt instrument carried as available-for-sale decreases due to an event occurring after the impairment was originally recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income. Impairments relating to financial assets in available-for-sale equity instruments are not reversed through the statement of comprehensive income.

**Non-financial assets**

The carrying amount of the Corporation'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 the statement of comprehensive income.

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 statement of comprehensive income.

### 1.12 Provisions

A provision is recognised in the statement of financial position when the Corporation 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.

### 1.13 Components of equity

**Share capital and share 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.

**Foreign currency translation reserve**

The reserve comprises foreign currency translation differences arising from the translation of the financial statements from functional currency to presentation currency.



Accounting Policies

**Fair-value adjustments through other comprehensive income**

The reserve comprises of fair-value movements from revaluing financial assets available for sale net off the related deferred tax.

**Retained earnings**

Retained earnings includes all current and prior periods' retained profits.

### 1.14 Taxation

**Tax expenses**

Taxation for the year on the statement of comprehensive income comprises of current tax, deferred tax and withholding tax. Income tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised directly in equity in which case the related taxation is also recognised in equity.

Taxable income used to calculate the tax expense is based on ZAR functional currency (See note 40).

**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.

Interest received on excess tax payments made is recognised as other income in the statement of comprehensive income in the period when it is accrued from the South African Revenue Services as per the Statement of Account.

**Deferred tax assets and liabilities**

Deferred tax is recognised in full, using the balance sheet method, providing for temporary differences, except when the deferred tax arises from the initial recognition of an asset or liability that affects neither accounting nor taxable profit or loss at the time of the transaction. 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 substantively 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.

**Value-Added Tax**

Transactions and assets are recognised net of the Value-Added Tax amount where applicable. The net amount of Value-Added Tax recoverable from, or payable to, South African Revenue Service is included as part of receivables or payable in the statement of financial position.

### 1.15 Employee benefits

**Pension obligation**

The Corporation uses a defined contribution pension plan. Under a defined contribution pension plan the Corporation pays a fixed contribution into a separate entity. The Corporation 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**

Short-term incentives in the form of an annual cash bonus, is linked to achieving financial, strategic and operational objectives. Short-term incentives are discretionary and depend on business performance and individual contribution. The pool available for short-term incentives is determined by financial performance against previously set and agreed targets.

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.

### 1.16 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.

### 1.17 IMU grant receipts

The Corporation took over the dtic's IMU obligations that arose from the IMU Scheme Support Agreements (see note 18).

The IMU Scheme is an incentive scheme that limit the interest rate charged to borrowers of export credit loans (borrowers). The Government (through the ECIC) compensates the Financial Institutions for the loss of income they would have received from the borrowers, had interest been levied at the usual rate.

The Corporation receives IMU grants from the dtic to assist in funding the IMU obligations towards the Financial Institutions (see the Cash Flow Statement).

IMU Grant is recognised as income when received and all the conditions are met; otherwise recognised as a liability.

### 1.18 SED & ESD contributions

SED & ESD contributions encompasses projects that are external to the normal business activities of the Corporation and not directly for purposes of increasing profit. These projects have a strong developmental approach and utilise Corporation resources to benefit or uplift communities and are not primarily driven as marketing initiatives.

SED & ESD contributions are recognised as an expense when paid to the beneficiary.

### 1.19 Commission paid

Commission paid is charged by intermediaries on salvages actually received. Commission paid is recognised as an expense in the statement of comprehensive income on receipt of salvages during the period.

### 1.20 Other operating expenses

Other operating expenses are recognised in the statement of comprehensive income when they are actually incurred.

Operating expenses are aggregated on presentation in the statement of comprehensive income. Material operating expenditure line items are disclosed in the notes separately.

### 1.21 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is accounted for according to the nature of the expense. When confirmed, fruitless and wasteful expenditure is disclosed separately in the notes to the financial statements. The amount to be recorded in the note is equal to the value of the fruitless and wasteful expenditure incurred.

Measures are implemented to ensure that such expenditure does not re-occur and where possible the expenditure is recovered. Expenditure to be recovered is transferred to receivables for recovery. A receivable related to fruitless and wasteful expenditure is measured at the amount that is expected to be recovered and is derecognised when the receivable is settled or subsequently written off as irrecoverable.

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.

Cases of a criminal nature are reported to the responsible authorities.

Any criminal or disciplinary steps taken as a consequence of fruitless and wasteful expenditure are also disclosed.

### 1.22 Irregular expenditure

Irregular expenditure is accounted for according to the nature of the expense. When confirmed, irregular expenditure must be disclosed separately in the notes to the financial statements. The amount of irregular expenditure incurred





disclosed in the notes is equal to value of the transactions recognised in terms of IFRS in the statement of comprehensive income or statement of financial position.

Irregular expenditure is removed from the note when it is either (a) condoned by the relevant authority; (b) transferred to receivables for recovery. A receivable related to irregular expenditure is measured at the amount that is expected to be recovered and must be derecognised 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.

Cases of a criminal nature are reported to the responsible authorities. Any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure are also disclosed.

### 1.23 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.

### 1.24 Commitments

Commitments are disclosed when there is a contractual arrangement carrying over beyond the reporting date for material transactions and short-term leases.

### 1.25 Contingent assets

Contingent assets are disclosed when the Corporation has a possible asset, as a result of a past event, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Corporation.

Contingent assets are only recognised as assets in the financial statements where the realisation of income is virtually certain. If the inflow of economic benefits is only probable, the contingent asset is disclosed as a claim in favour of the Corporation but not recognised in the statement of financial position.

### 1.26 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 disclosed in the note to the financial statements.

### 1.27 Related parties

The following items are disclosed in the financial statements for each related party:

- the nature of the relationship;
- the amount of the transactions;
- the amount of outstanding balances; including terms and conditions and guarantees;
- provisions for doubtful debts related to the amount of outstanding balances; and
- expense recognised during the period in respect of bad or doubtful debts due from related parties.

For the directors, key management personnel and prescribed officers of the Corporation, compensation in total and for each of the following categories is disclosed:

- fees for services;
- basic salary;
- bonuses and performance related payments;
- sums paid by way of expense, salary or other allowances;
- contributions made to any pension fund, medical aid, insurance scheme, etc.;
- any commission, gain or profit sharing arrangements;
- any share options, including their strike price and period; and
- any other material benefits received (including financial assistance).

## 2. Critical accounting judgements, estimates and assumptions

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

### (a) Insurance contract assets and liabilities

The Corporation's estimates for reported and unreported losses are continually reviewed and updated, and adjustments resulting from this review are reflected in the statement of comprehensive income. 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 Corporation's process for determining significant reserving assumptions is outlined in note 10 and note 14.4.

**– Unearned Premium Provision (UPP)**

The UPP refers to the amount of premium booked that remains unearned at the reporting date. It is therefore intended to cover against future claims incurred and is dependent on the policy's earning pattern. To the extent that a contract's risk profile changes, the UPP might be insufficient to cover the future claims risk of the unexpired period. In this case, an additional reserve must be established in the form of the Unexpired Risk Provision (URP) to cover the shortfall in UPP.

The 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 Provision (CRP) can form part of the URP depends on the overall sufficiency of premiums. Furthermore, the Corporation cannot defer more premiums than it has actually written.

**– Incurred But Not Reported (IBNR) claims provision**

ECIC holds an IBNR for contracts where management, on the basis of information gathered during the monitoring process, believes that it is likely a claim has materialised even though it has not yet been reported.

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

- The occurrence or a high probability that a non-payment of a scheduled instalment under the insured contract (protracted default) would occur;
- The occurrence or a high probability that a political cause of loss (e.g., war, change in law sabotage, transfer restriction, inconvertibility) will occur; or
- The occurrence or 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 different 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 and multiplied by the LGD.

### (b) 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.





### (c) Fair-value measurement

**– Liability for interest make-up**

Interest make-up was an export incentive scheme. This allowed 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 cash flow basis of all future IMU payments on existing agreements. The IMU payments extend out to 2029, and discounted to allow for time value of money using a US Treasury Bills Yield Curve adjusted to allow for credit default spread. To avoid double counting in anticipation of a default event, the IMU liability is adjusted to isolate the portion of IMU housed within the Incurred But Not Reported (IBNR) insurance reserve. This is done by recalculating the fair-value of the IMU liability on the contracts which carry IBNR and applying the corresponding LGD and claim likelihood. This eliminates the exact portion of the IMU liability held within the insurance provisions. 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 dtic. However, foreign exchange gains and losses arising from currency movement are taxable or deductible for taxation purposes.

**– Financial assets with a fair-value hierarchy of level 3**

***Financial assets available for sale***

The fair-value of the investment is determined on a discounted cash flow basis of expected future free cash flows to equity during the explicit forecast period and in perpetuity at a rate that reflects the risk inherent in the future cash flows.

The discount rate applied in determining the fair value is the cost of equity which is determined using the Capital Asset Pricing Model (CAPM).

The Corporation makes estimates and judgements when forecasting the expected future free cash flow and the discount rate. When making estimates and judgments, management take into account the following:

- nature of the investee's business;
- historical and projected financial information;
- the global and regional economic outlook; and
- the global constraints and uncertainties casted by the impact of COVID-19 pandemic on international trade and overall economic activities in the short- to medium-term.

### (d) Impairment of financial and non-financial assets

**– Recoverability of trade and other receivables**

The Corporation 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 the statement of comprehensive income, the Corporation 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. However, for future premiums the adjustment is made to unearned premium reserve.

**– Impairment of non- financial assets**

The process for determining the critical estimates, judgements and assumptions made has been disclosed in note 1.11.

### (e) Deferred tax

The process for determining the critical estimates, judgements and assumptions made has been disclosed in note 1.14.

### (f) Useful life and residual values of depreciable assets

The process for determining the critical estimates, judgements and assumptions made has been disclosed in note 1.7.

**(g) Lease liability**

The incremental borrowing rate used to value lease contracts are derived from observed market prices for a proxy entity that has issued a debt security.

ECIC is a government-owned entity with an implicit government guarantee, but if it were to borrow it would be at a spread above the risk-free rate. The Development Bank of South Africa SOC Ltd is used as a proxy to determine the required spread, because it is a development finance institute wholly owned by the government of South Africa and it has issued a debt security with a modified duration close to the lease agreements of ECIC.

The weighted average duration of each lease contract is matched at the related term of the government risk free rates published by the reserve bank at commencement date of each contract. The spread, as at the commencement date of each contract, on a DBSA issued debt security is added to the risk free rate. The spread is determined using the DBSA issued debt security that matches the weighted average duration of the lease contract.

The assumptions made on determining the lease term have been disclosed in note 17.

## 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 Corporation is to facilitate and encourage South African export trade by underwriting loans issued by financial institutions and financial assets outside the country, in order to enable foreign buyers to purchase capital goods and services from South Africa.

The Corporation thus enters into insurance contracts with and for the benefit of persons carrying out business in South Africa for purposes of outward trade and/or investments to other countries primarily for medium- to long-term tenures.

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

- 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 Corporation's exposure is to financier policies.

In addition to the policies described above, the Corporation also provides investment guarantees to cover political risk on South African offshore financial assets. The insured amount equals the capital investment plus 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 Corporation'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 Corporation. There is scope for the Corporation 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 Corporation 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; and
- Whether initial repayments have already been met.



Notes to the Financial Statements

## 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 Corporation 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. Insured events are uncertain and the actual number and amount 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 Corporation has developed its insurance underwriting strategy to diversify the spread of insurance risk accepted to reduce the variability of the expected outcomes.

The Corporation 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 to fluctuations in timing, frequency and severity of claims. This risk is managed primarily through sensible pricing, product design and risk selection. The Corporation 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 and are recorded in the URP.

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 insured) of the insurance portfolios is as follows:

| | 2021 | | 2020 | |
|---|---|---|---|---|
| | R'000 | Country rating | R000 | Country rating |
| Ghana | 6 760 661 | 4 | 9 904 490 | 4 |
| Iran | 6 676 605 | 5 | 8 091 990 | 5 |
| Mozambique | 5 045 139 | 5 | 5 996 009 | 5 |
| Zimbabwe | 3 172 022 | 7 | 2 871 173 | 7 |
| Malawi | 2 079 827 | 5 | 2 567 401 | 5 |
| Lesotho | 996 218 | 5 | 1 245 232 | 5 |
| Liberia | 573 743 | 6 | 932 737 | 6 |
| Uganda | 372 589 | 6 | 439 446 | 6 |
| Zambia | - | - | 411 283 | 5 |
| Ethiopia | 180 268 | 6 | 218 484 | 6 |
| Tanzania | 167 244 | 5 | 189 187 | 5 |
| Swaziland | 191 102 | 5 | 130 297 | 5 |
| Democratic Republic of Congo | 172 481 | 6 | 123 550 | 6 |
| Mauritius | 65 598 | 3 | 79 505 | 3 |
| Republic of Congo | 49 527 | 6 | 60 026 | 6 |
| Cote d' Ivoire | 37 965 | 5 | 46 013 | 5 |
| | **26 540 989** | | **33 306 823** | |

The Corporation uses an internal country rating method to assess country risks. The country rating method is benchmarked with that of other Export Credit Agencies, and where there is inadequate information, consultations are made with Department of International Relations and Cooperation (DIRCO) to ascertain the view on the political environment in countries where the Corporation carries, or plans to take risk.

Below are the country ratings definitions:

1: **Highest credit quality.** "1" rating denotes the lowest expectation of credit risk. Its assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
2: **Very high credit quality.** "2" rating denotes a very low expectation of credit risk. It indicates very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
3: **High credit quality.** "3" rating denotes a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.
4: **Good credit quality.** "4" rating indicates that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstance and in economic conditions is more likely to impair this capacity.
5: **Speculative.** "5" rating indicates that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.
6: **Highly speculative.** "6" rating indicates that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
7: **High default risk.** "7" rating indicates that default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments.

The total exposure (Sum insured) of the insurance portfolio per sector and product type is as follows:

| | 2021<br>R'000 | 2020<br>R000 |
|---|---|---|
| **Exposure per sector** | | |
| Accomodation & Catering | 944 210 | 1 071 706 |
| Agro-Industries | - | 385 223 |
| Cement Plant / Manufacture of Cement | 180 268 | 218 484 |
| Construction | 3 622 771 | 2 820 309 |
| Gas Distribution (Pipeline Transport) | 270 000 | 270 000 |
| Infrastructure | 5 363 415 | 6 720 517 |
| Mining | 1 569 961 | 2 589 252 |
| Power (electricity) | 7 188 103 | 10 188 692 |
| Rail Transport | - | 110 626 |
| Transport & Storage (Air Transport & Services) | 243 588 | 295 226 |
| Transportation (Land Transport) | 96 282 | 79 505 |
| Telecommunication | 7 016 026 | 8 478 611 |
| Water collection, treatment & supply | 46 365 | 78 672 |
| | **26 540 989** | **33 306 823** |
| **Exposure by product type** | | |
| Credit insurance | 16 443 201 | 20 683 805 |
| Investment guarantee | 10 097 788 | 12 623 018 |
| | **26 540 989** | **33 306 823** |



Notes to the Financial Statements

### 4.2 Claims development

The Corporation 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 Corporation has no outstanding claims at year-end.

For the sensitivity analysis and change in assumptions on the insurance liabilities refer to note 14.4.

## 5. Financial risk management

### Financial risk management

The Corporation is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets 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 Corporation's risk management objective is to ensure that risk is managed prudently. The Corporation 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 Corporation's risk management system.

Transactions in financial instruments result in the Corporation 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 Corporation manages these risks.

The categories and classes of assets and liabilities are disclosed in note 19.

### 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 Corporation 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, Investment and Insurance Committee to provide oversight over the Corporation'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.

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

| | 2021<br>R'000 | | 2020<br>R'000 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets at fair value | 4 303 165 | 4 303 165 | 8 271 983 | 8 271 983 |
| Listed equities | 1 231 248 | 1 231 248 | 810 381 | 810 381 |
| Listed preference shares | - | - | 573 | 573 |
| Money market | 117 339 | 117 339 | 66 558 | 66 558 |
| Unlisted equities | 586 158 | 586 158 | 667 520 | 667 520 |
| Listed bonds | 2 368 420 | 2 368 420 | 6 726 951 | 6 726 951 |
| Trade and other receivables | 1 798 269 | 1 798 269 | 2 101 571 | 2 101 571 |
| Cash and cash equivalents | 4 084 701 | 4 084 701 | 331 400 | 331 400 |
| Trade and other payables | (70 047) | (70 047) | (252 897) | (252 897) |
| Lease liability | (3 396) | (3 396) | (9 169) | (9 169) |
| Liability for interest make-up | (749 801) | (749 801) | (1 181 056) | (1 181 056) |
| | **9 362 891** | **9 362 891** | **9 261 832** | **9 261 832** |

# Notes to the Financial Statements

### *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 Corporation.

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

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

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

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Cash and cash equivalents | 150 583 | 162 821 |
| Financial assets at fair value | 2 248 355 | 1 631 126 |
| Trade and other receivables | 17 204 | 23 209 |
| Insurance contract liabilities | (7 187) | (7 384) |
| Lease liability | (3 396) | (9 169) |
| Trade and other payable | (37 203) | (60 270) |
| | **2 368 356** | **1 740 333** |
| The exchange rates used is sourced from South African Reserve Bank and the following were applied: | | |
| **US Dollar to SA Rand exchange rates:** | | |
| Closing rate | 14,8369 | 17,9822 |
| Average rate | 16,3617 | 14,7757 |

A 10 percent depreciation or appreciation 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% depreciation R'000 | 10% appreciation R'000 | 10% depreciation R'000 | 10% appreciation R'000 |
| **2021** | **(226 745)** | **278 163** | **418 745** | **(418 745)** |
| 2020 | (118 236) | 148 283 | 426 092 | (426 092) |



# Notes to the Financial Statements

### *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 Corporation has exposure to fixed-rate financial assets whose value is impacted by changes in interest rates. The Corporation's insurance liabilities and reinsurance assets 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, Investment and Insurance Committee continuously monitor this risk and advises the Board where a change in investment strategy is warranted. The Corporation'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. The US interest rates have been used for this sensitivity as Corporation's assets and liabilities are predominantly in US dollars.

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 R'000 | 100 BP decrease R'000 | 100 BP increase R'000 | 100 BP decrease R'000 |
| **2021** | **(31 083)** | **29 925** | **(31 083)** | **29 925** |
| 2020 | (177 866) | 176 003 | (177 866) | 176 003 |

### *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 Corporation's exposure to equities is capped and defined in the investment policy. The Corporation's exposure to equities is set at a maximum level of investment assets. The Finance, Investment and Insurance 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.

The table below reflects the Corporation exposures to equity risk.

| | 2021 R'000 | 2021 R'000 |
|---|---|---|
| Basic resources | 373 117 | 214 079 |
| Industrials | 62 070 | 42 515 |
| Consumer goods | 97 445 | 64 560 |
| Telecommunications | 13 984 | 4 200 |
| Financials | 816 911 | 847 051 |
| Health | 37 708 | 26 247 |
| Consumer services | 257 862 | 165 029 |
| Technology | 5 686 | 18 233 |
| Real estate | 152 623 | 95 987 |
| **Note 9 (listed and unlisted equities only)** | **1 817 406** | **1 477 901** |

A 5 percent increase or decrease in equity values 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 R'000 | 5% decrease R'000 | 5% increase R'000 | 5% decrease R'000 |
| **2021** | 59 696 | (59 696) | 82 439 | (82 439) |
| 2020 | 35 232 | (35 232) | 61 132 | (61 132) |

### 5.2 Liquidity risk

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

The Corporation 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 Corporation's investment strategy is set to be cognisant of the term of financial liabilities and assets. Operational cash task team monitors adherence to liquidity requirements.

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

| 2021 | Within 1 year R'000 | 1 to 5 years R'000 | Greater than 5 years R'000 | Total R'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value | 1 843 815 | 1 145 901 | 1 313 449 | 4 303 165 |
| Trade and other receivables | 414 719 | 931 085 | 452 465 | 1 798 269 |
| Cash and cash equivalents | 4 084 701 | - | - | 4 084 701 |
| Reinsurance contract assets | 2 803 | 6 964 | 933 | 10 700 |
| | **6 346 038** | **2 083 950** | **1 766 847** | **10 196 835** |
| **Financial liabilities** | | | | |
| Trade and other payables | 68 937 | 807 | 303 | 70 047 |
| Insurance contract liabilities | 412 529 | 1 260 392 | 1 135 835 | 2 808 756 |
| Lease liability | 3 323 | 145 | - | 3 468 |
| Liability for interest make-up | 115 727 | 509 356 | 192 123 | 817 206 |
| Deferred acquisition cost | 431 | 1 073 | 144 | 1 648 |
| | **600 947** | **1 771 773** | **1 328 405** | **3 701 125** |

| 2020 | Within 1 year R'000 | 1 to 5 years R'000 | Greater than 5 years R'000 | Total R'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value | 1 741 790 | 2 265 818 | 4 264 375 | 8 271 983 |
| Trade and other receivables | 522 027 | 1 018 331 | 561 213 | 2 101 571 |
| Cash and cash equivalents | 331 400 | - | - | 331 400 |
| | **2 595 217** | **3 284 149** | **4 825 588** | **10 704 954** |
| **Financial liabilities** | | | | |
| Trade and other payables | 252 897 | - | - | 252 897 |
| Insurance contract liabilities | 539 848 | 1 376 549 | 1 332 691 | 3 249 088 |
| Lease liability | 5 773 | 3 396 | - | 9 169 |
| Liability for interest make-up | 267 802 | 743 062 | 366 019 | 1 376 883 |
| | **1 066 320** | **2 123 007** | **1 698 710** | **4 888 037** |



Notes to the Financial Statements

### 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 Corporation is exposed on the following levels:

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

The Corporation 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.

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.

#### Accounts receivable

The Corporation'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 Corporation has defined minimum acceptable counterparty credit ratings on financial assets being managed by fund managers. The Finance, Investment and Insurance 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 Corporation's financial and insurance assets.

| 2021 | AAA- A+ R'000 | A- BBB+ R'000 | BBB and lower R'000 | Not Rated R'000 | Total R'000 |
|---|---|---|---|---|---|
| Financial assets at fair value | 2 462 044 | 606 758 | 3 115 | 1 231 248 | 4 303 165 |
| Trade and other receivables | - | - | - | 1 798 269 | 1 798 269 |
| Cash and cash equivalents | 4 084 701 | - | - | - | 4 084 701 |
| | **6 546 745** | **606 758** | **3 115** | **3 029 517** | **10 186 135** |

| 2020 | AAA- A+ R'000 | A- BBB+ R'000 | BBB and lower R'000 | Not Rated R'000 | Total R'000 |
|---|---|---|---|---|---|
| Financial assets at fair value | 6 236 225 | 1 222 907 | 1 897 | 810 954 | 8 271 983 |
| Trade and other receivables | - | - | - | 2 101 571 | 2 101 571 |
| Cash and cash equivalents | 331 400 | - | - | - | 331 400 |
| | **6 567 625** | **1 222 907** | **1 897** | **2 912 525** | **10 704 954** |

A National rating was applied to all South African investments, while a National equivalent of the International ratings were applied to all foreign investments.

#### 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:

| 2021 | Neither past due nor impaired R'000 | Past due but not impaired R'000 | Individually impaired R'000 | Provision for doubtful debt R'000 | Net carrying amount R'000 |
|---|---|---|---|---|---|
| Trade and other receivables | 1 685 009 | 113 241 | 236 | (217) | 1 798 269 |

| 2020 | Neither past due nor impaired R'000 | Past due but not impaired R'000 | Individually impaired R'000 | Provision for doubtful debt R'000 | Net carrying amount R'000 |
|---|---|---|---|---|---|
| Trade and other receivables | 2 095 779 | 5 757 | 424 | (389) | 2 101 571 |

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

| 2021 | <30 days R'000 | 31- 90 R'000 | 91-120 R'000 | Greater than 120 R'000 | Total R'000 |
|---|---|---|---|---|---|
| Trade and other receivables | 91 616 | 1 | - | 21 624 | 113 241 |

| 2020 | <30 days R'000 | 31- 90 R'000 | 91-120 R'000 | Greater than 120 R'000 | Total R'000 |
|---|---|---|---|---|---|
| Trade and other receivables | 5 468 | - | - | 289 | 5 757 |

#### 5.3.4 Reconciliation of the provision for doubtful debt

| 2021 | Opening balance R'000 | Additions R'000 | Recovered/ reversed R'000 | Write-off R'000 | Closing balance R'000 |
|---|---|---|---|---|---|
| Provision for doubtful debt | (389) | (66) | 115 | 123 | (217) |

| 2020 | Opening balance R'000 | Additions R'000 | Recovered/ reversed R'000 | Write-off R'000 | Closing balance R'000 |
|---|---|---|---|---|---|
| Provision for doubtful debt | (455) | (373) | - | 439 | (389) |

### 5.4 Regulatory solvency management

The Corporation recognises share premium, retained earnings and other reserves as capital. For internal management purposes, the Corporation refers to the statutory solvency requirements as prescribed by the Prudential Authority (PA). Refer to solvency ratio in note 35.

The Corporation submits quarterly and annual returns to the PA in terms of the Insurance Act, 2017 (the Act). The Corporation is required to maintain, at all times, sufficient eligible own funds as defined in the Act. The returns submitted by the Corporation to the regulator showed that the Corporation met the minimum capital requirements (MCR) and solvency capital requirements (SCR) throughout the year.





## 6. Intangible assets

| | 2021 Cost R'000 | 2021 Accumulated amortisation R'000 | 2021 Carrying value R'000 | 2020 Cost R'000 | 2020 Accumulated amortisation R'000 | 2020 Carrying value R'000 |
|---|---|---|---|---|---|---|
| Computer software and models | 5 618 | (4 501) | 1 117 | 6 809 | (4 203) | 2 606 |

**Reconciliation of intangible assets – 2021**

| | Opening balance R'000 | Amortisation R'000 | Translation effect R'000 | Closing balance R'000 |
|---|---|---|---|---|
| Computer software and models | 2 606 | (868) | (621) | 1 117 |

**Reconciliation of intangible assets – 2020**

| | Opening balance R'000 | Additions R'000 | Amortisation R'000 | Translation effect R'000 | Closing balance R'000 |
|---|---|---|---|---|---|
| Computer software and models | 3 420 | 100 | (1 050) | 136 | 2 606 |

**Pledged as security**

None of the intangible assets are pledged as security for liabilities.

## 7. Property and equipment

| | 2021 Cost R'000 | 2021 Accumulated depreciation R'000 | 2021 Carrying value R'000 | 2020 Cost R'000 | 2020 Accumulated depreciation R'000 | 2020 Carrying value R'000 |
|---|---|---|---|---|---|---|
| **Owned assets** | | | | | | |
| Furniture and fittings | 9 184 | (8 414) | 770 | 11 113 | (9 354) | 1 759 |
| Motor vehicles | 196 | (196) | - | 238 | (238) | - |
| Office equipment | 3 584 | (2 715) | 869 | 4 238 | (2 985) | 1 253 |
| Computer equipment | 5 257 | (3 671) | 1 586 | 5 353 | (3 909) | 1 444 |
| | **18 221** | **(14 996)** | **3 225** | **20 942** | **(16 486)** | **4 456** |
| **Leased assets** | | | | | | |
| Building | 10 908 | (8 174) | 2 734 | 13 221 | (3 296) | 9 925 |
| Computer equipment | 569 | (266) | 303 | 689 | (82) | 607 |
| | **11 477** | **(8 440)** | **3 037** | **13 910** | **(3 378)** | **10 532** |
| **Total** | **29 698** | **(23 436)** | **6 262** | **34 852** | **(19 864)** | **14 988** |

**Reconciliation of property and equipment – 2021**

| | Opening balance R'000 | Additions R'000 | Depreciation R'000 | Translation effect R'000 | Closing balance R'000 |
|---|---|---|---|---|---|
| **Owned assets** | | | | | |
| Furniture and fittings | 1 759 | 17 | (497) | (509) | 770 |
| Office equipment | 1 253 | 99 | (169) | (314) | 869 |
| Computer equipment | 1 444 | 930 | (395) | (393) | 1 586 |
| | **4 456** | **1 046** | **(1 061)** | **(1 216)** | **3 225** |
| **Leased assets** | | | | | |
| Building | 9 925 | - | (5 594) | (1 597) | 2 734 |
| Computer equipment | 607 | - | (196) | (108) | 303 |
| | **10 532** | **-** | **(5 790)** | **(1 705)** | **3 037** |
| | **14 988** | **1 046** | **(6 851)** | **(2 921)** | **6 262** |

**Reconciliation of property and equipment – 2020**

| | Opening balance R'000 | Additions R'000 | Adjustment on transition to IFRS 16 R'000 | Depreciation R'000 | Translation effect R'000 | Closing balance R'000 |
|---|---|---|---|---|---|---|
| **Owned assets** | | | | | | |
| Furniture and fittings | 2 934 | - | - | (497) | (678) | 1 759 |
| Motor vehicles | 31 | - | - | - | (31) | - |
| Office equipment | 1 412 | - | - | (148) | (11) | 1 253 |
| Computer equipment | 1 393 | 140 | - | (211) | 122 | 1 444 |
| | **5 770** | **140** | **-** | **(856)** | **(598)** | **4 456** |
| **Leased assets** | | | | | | |
| Building | - | 11 189 | - | (2 790) | 1 526 | 9 925 |
| Computer equipment | - | 466 | 99 | (66) | 108 | 607 |
| | **-** | **11 655** | **99** | **(2 856)** | **1 634** | **10 532** |
| | **5 770** | **11 795** | **99** | **(3 712)** | **1 036** | **14 988** |

**Pledged as security**

None of the equipment is pledged as security for liabilities.





## 8. Deferred tax

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Deferred tax asset/(liability) | (3 838) | 22 407 |
| **Reconciliation of deferred tax asset/(liability)** | | |
| **Deferred tax through the statement of comprehensive income** | | |
| Provisions | 6 891 | 9 548 |
| Fair value gain on financial assets | (7 892) | 34 067 |
| Unrealised foreign exchange (gain)/loss on equities | (11 460) | (37 613) |
| Payment received in advance | 152 | 160 |
| Other (temporary differences relating to prepayments and fixed assets) | (174) | (328) |
| | **(12 483)** | **5 834** |
| **Deferred tax through other comprehensive income** | | |
| Fair value on financial assets through other comprehensive income | 8 645 | 16 573 |
| | **(3 838)** | **22 407** |

## 9. Financial assets at fair value

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Through profit or loss** | | |
| Listed equities | 1 231 248 | 810 381 |
| Bonds | 2 368 420 | 6 726 951 |
| Money market | 117 339 | 66 558 |
| Preference shares | - | 573 |
| | **3 717 007** | **7 604 463** |
| **Available for sale** | | |
| Unlisted equities* | 586 158 | 667 520 |
| **Total financial assets** | **4 303 165** | **8 271 983** |

**Investment in the Afreximbank.*

ECIC does not have the power to participate nor have control over the financial and operating policy decisions of its investees.

# Notes to the Financial Statements

### 9.2 Maturity profile of financial assets

| 2021 | Within 1 year R'000 | 1 to 5 years R'000 | Greater than 5 years R'000 | Total R'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Bonds | 495 228 | 1 145 901 | 727 291 | 2 368 420 |
| Unlisted equities | - | - | 586 158 | 586 158 |
| Money market | 117 339 | - | - | 117 339 |
| Listed equities | 1 231 248 | - | - | 1 231 248 |
| | **1 843 815** | **1 145 901** | **1 313 449** | **4 303 165** |

| 2020 | Within 1 year R'000 | 1 to 5 years R'000 | Greater than 5 years R'000 | Total R'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Bonds | 917 714 | 2 212 382 | 3 596 855 | 6 726 951 |
| Unlisted equities | - | - | 667 520 | 667 520 |
| Money market | 13 122 | 53 436 | - | 66 558 |
| Listed equities | 810 381 | - | - | 810 381 |
| Preference shares | 573 | - | - | 573 |
| | **1 741 790** | **2 265 818** | **4 264 375** | **8 271 983** |

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

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Level 1** | | |
| Listed equities | 1 231 248 | 810 381 |
| Bonds | 2 368 420 | 6 482 702 |
| Listed preference shares | - | 573 |
| | **3 599 668** | **7 293 656** |
| **Level 2** | | |
| Bonds | - | 244 249 |
| Money market | 117 339 | 66 558 |
| | **117 339** | **310 807** |
| | **3 717 007** | **7 604 463** |

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 in an 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 from 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 Financial Statements

**Reconciliation of financial assets at fair-value through profit or loss**

| 2021 | Opening balance R'000 | Interest and dividends net of management fees and other costs R'000 | Total gain in statement of comprehen-sive income R'000 | Net sales R'000 | Foreign exchange loss and currency translation R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| Financial assets | 7 604 463 | 184 593 | 589 558 | (3 704 823) | (956 784) | 3 717 007 |

| 2020 | Opening balance R'000 | Interest and dividends net of management fees and other costs R'000 | Total loss in statement of comprehen-sive income R'000 | Net sales R'000 | Foreign exchange gain and currency translation R'000 | Total R'000 |
|---|---|---|---|---|---|---|
| Financial assets | 6 817 621 | 248 986 | (165 645) | (470 390) | 1 173 891 | 7 604 463 |

The mandate for the US dollar fund managers expired during the year, as a result funds of R3 698 527 000 were transferred to the CFC account from investments.

The strong absolute performance as reflected under total gain in statement of comprehensive income is largely due to the market recovery following losses incurred during the onset of COVID-19 in the last quarter of the previous financial year.

**Fair-value hierarchy of financial assets available for sale**

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Level 3** | | |
| Unlisted equities | 586 158 | 667 520 |

Included in level 3 are financial assets whose 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 from the instruments.

The following is the qualitative information about the significant unobservable inputs and their relationship to fair value, used in level 3 fair value measurements:

| 2021 | Total value R'000 | Change % |
|---|---|---|
| Reported value | 586 158 | |
| Mid-point discount rate of 8,28% – higher by 1% | 478 798 | (18,32) |
| Mid-point discount rate of 8,28% – lower by 1% | 756 619 | 29,08 |
| Terminal Growth rate of 3,86% – higher by 0,5% | 648 767 | 10,68 |
| Terminal Growth rate of 3,86% – lower by 0,5% | 536 258 | (8,51) |
| Minority discount of 15,5% – higher by 1% | 577 663 | (1,45) |
| Minority discount of 15,5% – lower by 1% | 594 653 | 1,45 |
| Marketability discount of 15,5% – higher by 1% | 577 663 | (1,45) |
| Marketability discount of 15,5% – lower by 1% | 594 653 | 1,45 |
| Normal discount rate | 563 288 | (3,90) |

| 2020 | Total value R'000 | Change % |
|---|---|---|
| Reported value | 667 520 | |
| Discount rate of 9,06% – higher by 1% | 565 123 | (15,34) |
| Discount rate of 9,06% – lower by 1% | 812 898 | 21,78 |
| Terminal Growth rate of 3,22% – higher by 0,5% | 718 903 | 7,70 |
| Terminal Growth rate of 3,22% – lower by 0,5% | 624 247 | (6,48) |
| Minority discount of 15,0% – higher by 1% | 657 984 | (1,43) |
| Minority discount of 15,0% – lower by 1% | 677 056 | 1,43 |
| Marketability discount of 15,0% – higher by 1% | 657 984 | (1,43) |
| Marketability discount of 15,0% – lower by 1% | 677 056 | 1,43 |

**Valuation process**

The Income Approach was used as a primary valuation approach to determine the fair value of the instrument. The Net Asset Approach and listed price of the comparable shares were used to cross check the results of the Income Approach.

**Reconciliation of financial assets available for sale**

| 2021 | Opening balance R'000 | Dividend income R'000 | Total profit in statement of other comprehensive income R'000 | Dividends receivable* R'000 | Foreign exchange loss and currency translation R'000 | Closing balance R'000 |
|---|---|---|---|---|---|---|
| Financial assets | 667 520 | 20 226 | 35 395 | (20 226) | (116 757) | 586 158 |

| 2020 | Opening balance R'000 | Dividend income R'000 | Total loss in statement of other comprehensive income R'000 | Dividends received R'000 | Foreign exchange gain and currency translation R'000 | Closing balance R'000 |
|---|---|---|---|---|---|---|
| Financial assets | 643 559 | 16 695 | (125 299) | (16 695) | 149 260 | 667 520 |

**The dividend receivable was transferred to trade and other receivables as the Corporation did not select to re-invest the dividends.*

Subsequent to the COVID-19 shock in the last quarter of the previous financial year, growth rate projections have since improved thus resulting into higher discounted free cashflow projections. As a result, the value of the investment was adjusted upward as reflected in the table above.





### 10. Reinsurance contract assets

The Corporation entered into a reinsurance agreement during the year, the reinsurance contract assets relate the provision for unearned premiums for the reinsurance.

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Balance at beginning of year | - | - |
| Premium ceded to reinsurers | 15 097 | - |
| Amount transferred to the statement of comprehensive income | (1 753) | - |
| Foreign currency translation loss | (2 644) | - |
| **Balance at end of year** | **10 700** | **-** |

**Assumptions, change in assumptions and sensitivity**

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

The reinsurance unearned premium provision reflects the risk profile of the contract and is a function of the amount at risk and the probability of default. The probability of default is dependent on the country risk rating, project risk rating and the unexpired period.

**Change in assumptions**

The assumptions and methodologies used in the calculation of the reinsurance technical provision 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.

**Sensitivity analysis**

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Corporation's estimates.

The table presented below demonstrates the sensitivity of reinsurance contract asset estimates to particular movements in assumptions used in the estimation process.

| 2021 | Assets R'000 | Change % |
|---|---|---|
| Reported value | 10 700 | |
| Depreciation of USD/ZAR exchange rate by 10% | 11 770 | 10,0 |
| Appreciation of USD/ZAR exchange rate by 10% | 9 630 | (10,0) |
| Increase in implied Probability of Default by adjusting the country rating | 10 826 | 1,2 |

| Maturity profile | Within 1 year R'000 | 1 to 5 years R'000 | Greater than 5 years R'000 | Total R'000 |
|---|---|---|---|---|
| 2021 | 2 802 | 6 964 | 933 | 10 700 |
| 2020 | - | - | - | - |

### 11. Trade and other receivables

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Insurance receivables** | | |
| Premium receivables | 1 660 575 | 1 753 960 |
| Salvages receivable | 69 614 | 96 583 |
| Trade receivable due from related parties | 33 870 | 53 390 |
| | **1 764 059** | **1 903 933** |
| **Non-Insurance receivables** | | |
| Trade and other receivables due from related parties | 2 726 | 39 448 |
| Unsettled investment trades and accrued income | 5 108 | 187 726 |
| Other receivables (mainly dividends, prepayments, sundry debtors and travel cost recoveries receivables) | 26 376 | 9 582 |
| | **34 210** | **236 756** |
| | **1 798 269** | **2 140 689** |

The outstanding balance is not considered to be at risk due to COVID-19 as a result no provision for doubtful debts was raised. In an event of a claim, all outstanding premiums are deducted from the claim amount.

### 12. Cash and cash equivalents

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Cash at bank and on hand | 3 926 869 | 222 369 |
| Short-term deposits | 157 832 | 109 031 |
| | **4 084 701** | **331 400** |

The aggregate interest rate on cash at bank and on-hand at the reporting date was 0.056% (2020: 3.48%). The percentage is low because the Corporation holds significant cash in foreign currency, which does not earn interest.



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### 13. Share capital and share premium

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Authorised** | | |
| 10 000 000 ordinary shares of R1 each | 10 000 | 10 000 |
| **Issued** | | |
| 100 ordinary shares at R1 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.

### 14. Insurance contract liabilities

#### 14.1 Provision for unearned premiums

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Balance at beginning of year | 2 744 083 | 2 664 482 |
| Amount transferred from/(to) the statement of comprehensive income | 132 902 | (452 668) |
| Foreign exchange gain | (390) | (2 278) |
| Foreign currency translation (gain)/loss | (448 489) | 534 547 |
| **Balance at end of year** | **2 428 106** | **2 744 083** |

| Maturity profile | Within 1 year R'000 | 1 to 5 years R'000 | Greater than 5 years R'000 | Total R'000 |
|---|---|---|---|---|
| 2021 | 412 529 | 1 260 392 | 755 185 | 2 428 106 |
| 2020 | 539 848 | 1 376 549 | 827 686 | 2 744 083 |

#### 14.2 Provision for unexpired risks

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Balance at beginning of year | 505 005 | 268 164 |
| Amount transferred (to)/from the statement of comprehensive income | (44 777) | 143 308 |
| Foreign exchange loss/(gain) | 1 384 | (1 238) |
| Foreign currency translation (gain)/loss | (80 962) | 94 771 |
| **Balance at end of year** | **380 650** | **505 005** |

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

### 14.3 Provision for claims reserves

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Balance at beginning of year | - | 295 194 |
| Outstanding claims reserve | - | 10 620 |
| Incurred but not reported claims reserve | - | 284 574 |
| Amount transferred to the statement of comprehensive income | - | (336 522) |
| Change in estimate | - | 37 265 |
| Outstanding claims reserve | - | (125) |
| Incurred but not reported claims reserve | - | 37 390 |
| Payments of claims previously provided for | - | (373 787) |
| Outstanding claims reserve | - | (10 593) |
| Incurred but not reported claims reserve | - | (363 194) |
| Foreign currency translation loss | - | 41 328 |
| Outstanding claims reserve | - | 98 |
| Incurred but not reported claims reserve | - | 41 230 |
| Balance at end of the year | - | - |
| Outstanding claims reserve | - | - |
| Incurred but not reported claims reserve | - | - |

The Corporation received two related claims under the relevant ECIC insurance policies. One claim was received in the previous financial year and the second claim was received in the current financial year under review. It is ECIC's view that the policyholder does not have valid claims and as a result the claims were rejected. For this reason, a claims reserve has not been raised. These claims are currently under litigation.

It should be noted that the nature of these insurance policies is such that in the event of a valid claim, the ECIC will typically have a salvage recovery that approximate the claimed amount in local currency, save for currency risk and the time value of money.

### 14.4 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 dependent on the country risk rating, project risk rating and the unexpired period;
- A concentration risk provision is held; this is calculated by comparing the distribution of exposures by country and industry in the Corporation's portfolio with that of a well-diversified portfolio; and
- The unexpired risk provision allows for inadequacy in the unearned premium provision, which might occur where the risk factors considered in the pricing basis change from that used in pricing the contract initially. It is thus appropriate to allow for a change in the unexpired risk provision as soon as the unearned premium provision is insufficient to cover the future claims risk of the unexpired period. 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.

**Sensitivity analysis**

An analysis of sensitivity around various scenarios provides an indication of the adequacy of the Corporation's estimates. The Corporation 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:

| 2021 | Liability R'000 | Change % |
|---|---|---|
| Reported value | 2 808 756 | |
| CRR LGD at 90% | 2 771 075 | (1,3) |
| Depreciation of USD/ZAR exchange rate by 10% | 3 088 407 | 10,0 |
| Appreciation of USD/ZAR exchange rate by 10% | 2 529 104 | (10,0) |
| IBNR "Upwards" stress | 2 808 756 | - |
| IBNR "Downwards" stress | 2 808 756 | - |
| Increase in implied Probability of Default by adjusting the country rating | 2 813 471 | 0,17 |

| 2020 | Liability R'000 | Change % |
|---|---|---|
| Reported value | 3 249 088 | |
| CRR LGD at 90% | 3 199 659 | (1,5) |
| Depreciation of USD/ZAR exchange rate by 10% | 3 572 145 | 9,9 |
| Appreciation of USD/ZAR exchange rate by 10% | 2 926 031 | (9,9) |
| IBNR "Upwards" stress | 3 249 088 | - |
| IBNR "Downwards" stress | 3 249 088 | - |

**COVID-19 Impact**

No explicit or additional allowance has been made in the reserves in terms of premium sufficiency for the uncertainty around COVID-19 and the delivery of projects or payment of performance bonds and any trade credit default in the reserves. In terms of the three projects impacted by the lockdown, lenders have agreed to a capital deferral with further negotiations taking place. No IBNR was raised as there was no default event for any of the projects.

For one of the projects, based on the developments of the negotiations, there is a strong likelihood of a potential claim in the next financial year. Refer to note 36 Events after reporting period for detailed disclosure of the potential claim.

### 15. Employee benefit liability

| 2021 | Opening balance R'000 | Additions R'000 | Leave taken R'000 | Leave paid R'000 | Closing balance R'000 |
|---|---|---|---|---|---|
| Leave provisions | 3 764 | 6 668 | (4 017) | (1 861) | 4 554 |

| 2020 | Opening balance R'000 | Additions R'000 | Leave taken R'000 | Leave paid R'000 | Closing balance R'000 |
|---|---|---|---|---|---|
| Leave provisions | 3 253 | 6 180 | (4 213) | (1 456) | 3 764 |

### 16. Trade and other payables

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Sundry creditors and accruals | 14 362 | 17 760 |
| VAT | 19 778 | - |
| Unsettled investment trades and accrued expenses | 54 373 | 235 137 |
| Reinsurance premium payables | 1 312 | - |
| Bonus provision | 20 262 | 27 389 |
| | **110 087** | **280 286** |

### 17. Lease liability

The Corporation has leases for the office building and printers, each lease is reflected on the balance sheet as a right of use asset and a lease liability. The Corporation classifies its right-of-use assets in a consistent manner to its property and equipment. (See note 7).

The Corporation is prohibited from sub-leasing, selling, or pledging the underlying leased assets as security.

For leases over office buildings, the Corporation must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. The Corporation is bound to the lease-term of the lease without cancellation during the lease-term or any exercised renewal with an option to renew the lease agreement before the termination date.

For other leases, the Corporation must ensure that items of property and equipment are used in accordance with the lease contracts. The Corporation shall have the right to terminate the lease on or after expiry of a lease-term by providing one calendar month notice. The lease agreement shall not be extended without mutual agreement by the Corporation and the lessor. In the event that the lease is terminated by the Corporation prior to the expiry of the lease term, then the Corporation shall be obliged to pay a settlement amount in respect of the unexpired lease-term.

The remaining lease-term for the office building is 6 months. The average remaining lease-term for the printers is 19 months. It is not probable that the option to renew the leases will be exercised and as such these were not taken into account when the lease-terms were determined.

The average effective incremental borrowing rate is 7.9%.

There were no modifications to leases in the current financial year, as a result the lease-terms remained unchanged.



Notes to the Financial Statements

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 March 2021 were as follows:

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Minimum lease payments due** | | |
| – within one year | 3 323 | 6 248 |
| – in one to two years inclusive | 145 | 3 323 |
| – later than two years | - | 145 |
| | 3 468 | 9 716 |
| less: future finance charges | (72) | (547) |
| **Present value of minimum lease payments** | **3 396** | **9 169** |
| | | |
| **Reconciliation of the lease liability** | | |
| Opening balance | 9 169 | - |
| Adjustment on transition to IFRS 16 | - | 99 |
| Lease liability recognised during the period | - | 11 655 |
| Finance charges | 475 | 388 |
| Lease payments | (6 248) | (2 973) |
| | **3 396** | **9 169** |

### 18. Liability for interest make-up

The dtic 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 Corporation on behalf of the dtic until 01 October 2016 when it took over as the principal. The approvals were obtained from the FSB, the dtic and the Minister of Finance.

The fair value of the liability is determined on a discounted 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 and allows for credit default spread.

The projected drawdown and repayment schedules used in calculating the future IMU payments, is as per the relevant loan agreement.

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Opening balance | 1 181 056 | 1 257 288 |
| Expense for interest make-up | 64 375 | (34 704) |
| Change in estimate | 26 230 | (73 518) |
| Unwind of interest | 38 146 | 38 814 |
| Payments | (322 185) | (284 427) |
| Foreign exchange (gain)/loss and currency translation | (173 446) | 242 899 |
| | **749 801** | **1 181 056** |

The contractual amount to be paid is R817 206 000 (2020: R1 376 883 000) which is R67 405 000 (2020: R195 827 000) higher than the carrying amount.

The emerging markets debt spreads recovered through the year following the spike as a result of COVID-19. For this reason, the lower spread used to value the liability resulted in an increase in the fair value of the liability in the base currency.

**Sensitivity analysis**

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

| 2021 | Liability R'000 | Change % |
|---|---|---|
| Reported value | 749 801 | |
| Increase discount rates by 10% | 748 064 | (0,2) |
| Decrease discount rates by 10% | 751 551 | 0,2 |
| Depreciation of USD/ZAR Exchange rate by 10% | 824 781 | 10,0 |
| Appreciation of USD/ZAR Exchange rate by 10% | 674 821 | (10,0) |

| 2020 | Liability R'000 | Change % |
|---|---|---|
| Reported value | 1 181 056 | |
| Increase discount rates by 10% | 1 179 605 | (0,12) |
| Decrease discount rates by 10% | 1 182 511 | 0,12 |
| Depreciation of USD/ZAR Exchange rate by 10% | 1 299 161 | 10,0 |
| Appreciation of USD/ZAR Exchange rate by 10% | 1 062 950 | (10,0) |

**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**

| 2021 | Opening balance R'000 | Unwind of interest R'000 | Change in estimate R'000 | Settlements R'000 | Foreign exchange gain and currency translation R'000 | Closing balance R'000 |
|---|---|---|---|---|---|---|
| Liability for interest make-up | 1 181 056 | 38 146 | 26 230 | (322 185) | (173 446) | 749 801 |

| 2020 | Opening balance R'000 | Unwind of interest R'000 | Change in estimate R'000 | Settlements R'000 | Foreign exchange loss and currency translation R'000 | Closing balance R'000 |
|---|---|---|---|---|---|---|
| Liability for interest make-up | 1 257 288 | 38 814 | (73 518) | (284 427) | 242 899 | 1 181 056 |





**19. Categories of assets and liabilities**

| Categories of assets and liabilities – 2021 | Note(s) | Financial assets at fair value through profit or loss R'000 | Financial assets available for sale R'000 | Financial assets and liabilities at amortised cost R'000 | Other non-financial assets and liabilities R'000 | Total R'000 | Current assets and liabilities R'000 | Non-current assets and liabilities R'000 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Intangible assets | 6 | - | - | - | 1 117 | 1 117 | - | 1 117 |
| Property and equipment | 7 | - | - | - | 6 262 | 6 262 | - | 6 262 |
| Financial assets at fair value | 9 | 3 717 007 | 586 158 | - | - | 4 303 165 | 1 843 815 | 2 459 350 |
| Reinsurance contract assets | 10 | - | - | - | 10 700 | 10 700 | 2 803 | 7 897 |
| Trade and other receivables | 11 | - | - | 25 422 | 1 772 847 | 1 798 269 | 414 719 | 1 383 550 |
| Cash and cash equivalents | 12 | - | - | 4 084 701 | - | 4 084 701 | 4 084 701 | - |
| | | **3 717 007** | **586 158** | **4 110 123** | **1 790 926** | **10 204 214** | **6 346 038** | **3 858 176** |
| **Liabilities** | | | | | | | | |
| Provision for unearned premiums | 14.1 | - | - | - | 2 428 106 | 2 428 106 | 412 529 | 2 015 577 |
| Provision for unexpired risks | 14.2 | - | - | - | 380 650 | 380 650 | - | 380 650 |
| Reinsurance deferred acquisition cost | | - | - | - | 1 648 | 1 648 | 431 | 1 217 |
| Deferred tax | 8 | - | - | - | 3 838 | 3 838 | - | 3 838 |
| Employee benefit liability | 15 | - | - | - | 4 554 | 4 554 | 4 554 | - |
| Trade and other payables | 16 | - | - | 68 735 | 41 352 | 110 087 | 108 977 | 1 110 |
| Lease liability | 17 | - | - | 3 396 | - | 3 396 | 3 256 | 140 |
| Liability for interest make-up | 18 | 749 801 | - | - | - | 749 801 | 114 611 | 635 190 |
| Current tax payable | 29 | - | - | - | 17 396 | 17 396 | 17 396 | - |
| | | **749 801** | **-** | **72 131** | **2 877 544** | **3 699 476** | **661 754** | **3 037 722** |

| Categories of assets and liabilities – 2020 | Note(s) | Financial assets at fair value through profit or loss R'000 | Financial assets available for sale R'000 | Financial assets and liabilities at amortised cost R'000 | Other non-financial assets and liabilities R'000 | Total R'000 | Current assets and liabilities R'000 | Non-current assets and liabilities R'000 |
|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | |
| Intangible assets | 6 | - | - | - | 2 606 | 2 606 | - | 2 606 |
| Property and equipment | 7 | - | - | - | 14 988 | 14 988 | - | 14 988 |
| Deferred tax | 8 | - | - | - | 22 407 | 22 407 | - | 22 407 |
| Financial assets at fair value | 9 | 7 604 463 | 667 520 | - | - | 8 271 983 | 1 741 790 | 6 530 193 |
| Trade and other receivables | 11 | - | - | 194 184 | 1 946 505 | 2 140 689 | 561 146 | 1 579 543 |
| Cash and cash equivalents | 12 | - | - | 331 400 | - | 331 400 | 331 400 | - |
| | | **7 604 463** | **667 520** | **525 584** | **1 986 506** | **10 784 073** | **2 634 336** | **8 149 737** |
| **Liabilities** | | | | | | | | |
| Provision for unearned premiums | 14.1 | - | - | - | 2 744 083 | 2 744 083 | 539 848 | 2 204 235 |
| Provision for unexpired risks | 14.2 | - | - | - | 505 005 | 505 005 | - | 505 005 |
| Employee benefit liability | 15 | - | - | - | 3 764 | 3 764 | 3 764 | - |
| Trade and other payables | 16 | - | - | 252 897 | 27 389 | 280 286 | 280 286 | - |
| Lease liability | 17 | - | - | 9 169 | - | 9 169 | 5 773 | 3 396 |
| Liability for interest make-up | 18 | 1 181 056 | - | - | - | 1 181 056 | 263 251 | 917 805 |
| Current tax payable | 29 | - | - | - | 11 093 | 11 093 | 11 093 | - |
| | | **1 181 056** | **-** | **262 066** | **3 291 334** | **4 734 456** | **1 104 015** | **3 630 441** |





## 20. Insurance premium revenue

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Credit insurance | 551 256 | 83 836 |
| Investment guarantee | 150 075 | 130 094 |
| | **701 331** | **213 930** |

## 21. Net investment income

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Dividend income** | | |
| Dividends income – Foreign | 20 226 | 16 695 |
| Dividends income – Local | 51 524 | 43 116 |
| | **71 750** | **59 811** |
| **Other investment income** | | |
| Interest income | 161 321 | 227 367 |
| Realised gain on disposal of financial assets | 369 729 | 154 948 |
| Change in fair value of financial assets | 219 829 | (320 593) |
| Sundry income | - | 30 |
| Interest received on cash and cash equivalents | 352 | 986 |
| | **751 231** | **62 738** |
| | **822 981** | **122 549** |

The strong absolute performance is largely due to the market recovery following losses incurred during the onset of COVID-19 in the last quarter of the previous financial year.

## 22. Currency translation differences

The currency translation difference arises because the presentation currency (ZAR) is different to the functional currency (USD). This difference represents the changes in the foreign exchange movement between the historic or average rate and the closing rate on net assets.

For monetary net assets, currency translation difference arises as a foreign exchange movement.

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Foreign exchange (loss)/gain on monetary assets and liabilities | (1 200 245) | 1 077 876 |
| Gross unearned premium reserve | 2 374 | (237) |
| Property, equipment and intangible assets | (3 543) | 1 175 |
| Payments in advance | (671) | 414 |
| Technical reserves movements | (37 598) | 39 674 |
| Reinsurance commission income | (2) | - |
| | **(1 239 685)** | **1 118 902** |

## 23. Net operating expenses

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Net operating expenses are arrived at after taking into account: | | |
| **External auditors' remuneration** | | |
| Audit fees for the current year | 2 295 | 1 872 |
| | **2 295** | **1 872** |
| Internal auditors' remuneration | 582 | 1 181 |
| **Depreciation and amortisation** | | |
| Equipment | 1 257 | 922 |
| Intangible assets | 868 | 1 050 |
| Building | 5 594 | 2 790 |
| | **7 719** | **4 762** |
| **Directors' emoluments** | | |
| Remuneration paid to executive director | 5 671 | 5 908 |
| Remuneration paid/payable to non-executive directors | 1 396 | 1 570 |
| | **7 067** | **7 478** |
| **Employee costs** | | |
| Salaries | 74 340 | 65 482 |
| Prior year over provision | (6 125) | (243) |
| Provision for bonus for current year | 18 489 | 25 173 |
| | **86 704** | **90 412** |
| **Short-term leases/Operating leases** | | |
| Equipment | - | 315 |
| Property rental | - | 3 510 |
| | **-** | **3 825** |
| **Remuneration to non-employees** | | |
| Actuarial services | 1 125 | 953 |
| Consulting services | 3 145 | 2 646 |
| Legal services | 640 | 344 |
| | **4 910** | **3 943** |
| General administrative expenses | 20 840 | 33 167 |
| **Total operating expenses (excluding portfolio fees)** | **130 117** | **146 640** |
| Investment portfolio management fee | 19 107 | 22 376 |
| **Total operating expenses** | **149 224** | **169 016** |



Notes to the Financial Statements

### 23.1 Disclosure as required by section 55 of PFMA

**Fruitless and wasteful expenditure**

The fruitless and wasteful expenditure of R317.66 was incurred during the 2021 financial year. The expenditure is as a result of interest on late payment of the employees' tax to SARS. The full amount was recovered and monthly payments are closely monitored to ensure they are made on time.

No disciplinary steps were taken as a consequence of the fruitless and wasteful expenditure as the funds were subsequently recovered from the employee involved. Further, no criminal steps were taken as this did not involve criminal activities.

| **Irregular expenditure** | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Opening balance | - | 405 |
| Add: Irregular expenditure – relating to current year | 10 | - |
| Reclassified to Non-compliance | - | (405) |
| | **10** | **-** |

The irregular expenditure is as a result of awarding a bid to a supplier whose tax affairs were not compliant. In order to prevent future occurrence of irregular expenditure the tax status of bidders will be confirmed on CSD prior to awarding the bid.

Disciplinary steps were taken as a consequence of the irregular expenditure, however, no criminal steps were taken as this did not involve criminal activities.

## 24. Interest expense

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Leases liability | 475 | 388 |
| Interest on other | 1 | 2 |
| | **476** | **390** |

## 25. Profit/(Loss) on foreign exchange differences

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

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Effect of translation on cash and cash equivalents | 30 148 | (30 772) |
| Effect of translation on net assets (excluding insurance contract liabilities and cash and cash equivalents) | (1 388) | 4 484 |
| Effect of translation on financial assets at fair value | 380 988 | (325 127) |
| Effect of translation on insurance contract liabilities | (994) | 3 516 |
| | **408 754** | **(347 899)** |

At March 2021, the Rand strengthened against the US Dollar by 17% mainly due to global trade conditions eased with the COVID-19 vaccine developments and a subsequent loosening of restrictions on economic activity.

### 26. SED & ESD contributions

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Education | 11 109 | 9 460 |
| Enterprise development | 4 623 | 5 876 |
| Supplier development | 9 156 | 2 968 |
| Solidarity Fund | - | 20 000 |
| Other costs* | 1 110 | 1 349 |
| | **25 998** | **39 653** |

**Other costs relate to administration costs which include management fees to agencies and travel costs.*

### 27. Taxation

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Major components of the tax expense** | | |
| **Current** | | |
| Local income tax – current period | 142 365 | 440 242 |
| Withholding tax – current period | 7 750 | (153) |
| | **150 115** | **440 089** |
| **Deferred** | | |
| Deferred tax – current year | 18 317 | (20 278) |
| | **168 432** | **419 811** |
| **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 | 8,75 % | 96,70 % |
| Disallowable expenses – IMU | (3,02)% | 0,63 % |
| Disallowable expenses – other* | (2,37)% | (0,58)% |
| Exempt income – dividends | 2,43 % | 0,60 % |
| Translation effect | 18,12 % | (69,64)% |
| Other** | 4,09 % | 0,29 % |
| | **28,00 %** | **28,00 %** |

The translation effect is due to tax expense which is based on rand functional currency financials instead of US dollar functional currency.

**Disallowable expenses – other disclosed under the reconciliation of the tax expense comprises of disallowed SED & ESD contributions and operating expenses that were not incurred in the production of income.*

***Other – disclosed under the reconciliation of the tax expense comprises mainly of unrealized foreign gains that relates to equity investments and related parties' receivables.*





### 28. Cash generated from operations

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Profit before taxation | 1 835 771 | 434 155 |
| **Adjustments for:** | | |
| Interest income | (161 705) | (228 383) |
| IMU grant received | (162 710) | (233 511) |
| Interest expense | 476 | 390 |
| Dividends income | (71 750) | (59 811) |
| Depreciation and amortisation | 7 719 | 4 762 |
| Other non-cash items | - | (8) |
| Movements in provision for reinsurance unearned premiums | (13 344) | - |
| Fair value (gain)/loss on financial assets | (219 829) | 320 593 |
| Realised gain on disposal of financial assets | (369 729) | (154 948) |
| (Profit)/Loss on foreign exchange | (408 754) | 347 899 |
| Movements in provision for unearned premiums | 132 902 | (452 668) |
| Movements in provision for unexpired risks | (44 777) | 143 308 |
| Movements in provision for outstanding claims | - | (336 522) |
| Expenses for interest make-up | 64 375 | (34 704) |
| Movements in trade and other receivables | 34 279 | 222 431 |
| Movements in trade and other payables | (223 378) | (19 554) |
| Movements in provisions | 790 | 511 |
| Reinsurance deferred acquisition cost | 1 979 | - |
| | **402 315** | **(46 060)** |

### 29. Taxation paid

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Balance at beginning of the year | (11 093) | 860 |
| Current tax for the year recognised in the statement of comprehensive income | (150 115) | (440 089) |
| Accrued interest | - | 27 |
| Balance at end of the year | 17 396 | 11 093 |
| | **(143 812)** | **(428 109)** |

## 30. Retirement benefits

**Defined contribution plan**

The Corporation 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.

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| The total contribution for the year | 6 982 | 6 616 |

## 31. Commitments

**Operating leases**

There are no operating leases nor material commitments.

## 32. Related parties

**Identity of related parties**

The Corporation 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, Industry and Competition (the dtic).

**Transactions with key management personnel**

Details of directors' emoluments are disclosed in note 33. Key management personnel for purposes of related party information are defined as directors.

**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 Corporation. Since inception, the Corporation has not called on this Government Guarantee.



Notes to the Financial Statements

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

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Statement of comprehensive income effects:** | | |
| **Premium** | | |
| Industrial Development Corporation of South Africa SOC Ltd (IDC) | 4 117 | 3 605 |
| Development Bank of Southern Africa SOC Limited (DBSA) | 153 761 | 104 036 |
| | | |
| **Assessment fees** | | |
| Development Bank of Southern Africa SOC Limited | - | 222 |
| | | |
| **IMU grant receipts** | | |
| Department of Trade, Industry and Competition (the dtic) | 162 710 | 233 511 |
| | | |
| **Other income (Interest)** | | |
| South African Revenue Services (SARS) | 3 | 27 |
| | | |
| **Claims paid** | | |
| Industrial Development Corporation of South Africa SOC Ltd | - | 363 194 |
| | | |
| **Other operating expense** | | |
| Office of the Compensation Commissioner (OOTCC) | 70 | 30 |
| Financial Sector Conduct Authority (FSCA) | 480 | - |
| | | |
| **Provision for doubtful debts/bad debts** | | |
| Industrial Development Corporation SOC Ltd | (106) | 106 |
| Development Bank of Southern Africa SOC Limited | - | 135 |
| | | |
| **Mandatory grants received in terms of the Skills Development Levies Act** | | |
| Insurance Sector Education and Training Authority (INSETA) | 122 | 195 |
| | | |
| **SED & ESD contributions** | | |
| Small Enterprise Development Agency (SEDA) | 4 623 | - |
| | | |
| **Taxation (Income tax)** | | |
| South African Revenue Services | 142 365 | 440 242 |

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Statement of financial position effects:** | | |
| **Assets** | | |
| **Financial assets** | | |
| Bonds – Parastatals | 18 322 | 15 084 |
| Bonds – National government | 731 561 | 566 738 |
| | | |
| **Trade and other receivables (excluding provision for doubtful debts)** | | |
| Industrial Development Corporation SOC Ltd | - | 122 |
| Development Bank of Southern Africa SOC Limited | 34 004 | 53 798 |
| Insurance Sector Education and Training Authority (INSETA) | - | 40 |
| Small Enterprise Development Agency (SEDA) | 2 726 | - |
| South African Revenue Services (Value added tax) | - | 39 119 |
| | | |
| **Provision for doubtful debts** | | |
| Development Bank of Southern Africa SOC Limited | 135 | 135 |
| Industrial Development Corporation SOC Ltd | - | 106 |
| **Total assets** | **786 748** | **675 142** |
| | | |
| **Liabilities** | | |
| **Trade and other payables** | | |
| Office of the Compensation Commissioner | 37 | - |
| Industrial Development Corporation SOC Ltd | 12 | 133 |
| South African Revenue Services (Value added tax) | 19 778 | - |
| | | |
| **Taxation (Income tax)** | | |
| South African Revenue Services | 17 396 | 11 093 |
| **Total liabilities** | **37 223** | **11 226** |

## 33. Directors' and executives' emoluments

| Non-executive | 2021 R'000 | 2020 R'000 |
|---|---|---|
| D Dharmalingam | 235 | 324 |
| S Mayekiso | 243 | 308 |
| S O'Mahony | 249 | 178 |
| V Matsiliza | 250 | 285 |
| L Mothae | 200 | 237 |
| D Subbiah | 219 | 238 |
| | **1 396** | **1 570** |

The 2020 financial year remuneration included retainers payable for the 2020 and 2019 financial years.



Notes to the Financial Statements

**Executive remuneration**

| 2021 | Basic salary R'000 | Bonus paid R'000 | Provident fund R'000 | Cellphone allowance R'000 | Acting allowance R'000 | Other benefits* R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| K Kutoane – Chief Executive Officer (Director) | 3 793 | 1 773 | - | 45 | - | 60 | 5 671 |
| C Kgoale – Company Secretary | 1 257 | 471 | 121 | 23 | - | 53 | 1 925 |
| M Nkuhlu – Chief Operations Officer | 2 415 | 1 070 | 232 | 30 | 40 | 216 | 4 003 |
| N Mkhathazo – Chief Financial Officer | 1 948 | 851 | 302 | 30 | - | 42 | 3 173 |
| S Esterhuisen- Chief Actuarial & Investments | 2 329 | 1 013 | 292 | 27 | - | 10 | 3 671 |
| N Maphula – General Counsel | 1 626 | 793 | 251 | 30 | - | 197 | 2 897 |
| J Omollo – Chief Risk Officer | 1 787 | 775 | 277 | 30 | - | 10 | 2 879 |
| | **15 155** | **6 746** | **1 475** | **215** | **40** | **588** | **24 219** |

**Other benefits comprise of travel allowance, medical benefits, connectivity allowance and social security contributions.*

| 2020 | Basic salary R'000 | Bonus paid R'000 | Provident fund R'000 | Cellphone allowance R'000 | Acting allowance R'000 | Other benefits* R'000 | Total R'000 |
|---|---|---|---|---|---|---|---|
| K Kutoane – Chief Executive Officer (Director) | 3 651 | 2 216 | - | 35 | - | 43 | 5 945 |
| C Kgoale – Company Secretary | 1 208 | 597 | 119 | 19 | - | 41 | 1 984 |
| M Nkuhlu – Chief Operations Officer | 2 430 | 1 371 | 231 | 30 | - | 82 | 4 144 |
| B Fugah – Acting Chief Operations Officer | - | - | - | - | 73 | - | 73 |
| N Mkhathazo – Chief Financial Officer | 1 865 | 1 096 | 301 | 30 | - | 29 | 3 321 |
| S Esterhuisen – Chief Actuarial & Investments (from 07 June 2019) | 1 853 | 1 144 | 241 | 20 | - | 2 | 3 260 |
| N Maphula – General Counsel | 1 697 | 992 | 251 | 30 | - | 37 | 3 007 |
| J Omollo – Chief Risk Officer | 1 708 | 992 | 275 | 30 | - | 2 | 3 007 |
| W Koen – Acting Chief Financial Officer (from 20 August 2019) | - | - | - | - | 148 | - | 148 |
| | **14 412** | **8 408** | **1 418** | **194** | **221** | **236** | **24 889** |

**Other benefits comprise of travel allowance, medical benefits, connectivity allowance and social security contributions.*

## 34. Contingent asset and liability

**Contingent asset**

The Corporation has a probable salvage relating to the claims settled in the previous years. A portion of the probable salvage did not meet the recognition criteria as at the reporting date. The total amount which may be recognised in future is R409 million. Included in this amount is the salvage of R9 million that did not meet the recognition criteria as at 31 March 2021 as a result of COVID-19 impact on the operations.

## 35. Capital management

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Total equity | 6 504 738 | 6 049 617 |
| Adjustment unto regulatory basis | 870 106 | 792 948 |
| Available capital | 7 374 844 | 6 842 565 |
| Required Capital (Regulatory) | 2 642 166 | 2 885 658 |
| Required Capital (Economic) | 3 702 127 | 4 029 550 |
| Regulatory capital cover ratio | 279% | 237% |
| Economic capital cover ratio | 199% | 170% |

**Capital management policy**

The Board ensures that the quantity and quality of capital maintained is adequate and, at a minimum, will meet applicable regulatory capital requirements. The Corporation also monitors economic required capital as an internal view of required capital as part of its risk appetite. The capital philosophy is to use available capital optimally to fulfil the Corporation's mandate and increase its capital base to extend its business underwriting capacity. Sufficient capital should be available to absorb potential losses from accepted risks and tested to ensure post a loss event sufficient capital remain to cover the remaining exposure equivalent to 110% of economic required capital. The Own Risk and Solvency Assessment (ORSA) serves as the Corporation's capital management plan that considers the projected available and required capital over a three-year period. The plan is updated annually and describes any planned capital raising initiatives and how capital is deployed and managed within the organisation.

**Cover ratios**

The cover ratios measure the degree to which the available capital covers the required capital. The Corporation retains a strong regulatory solvency position, with the solvency capital requirement (SCR) cover ratio being above the 100% as required by the PA.

## 36. Events after the reporting period

For one of the projects affected by COVID-19 as disclosed in note 14; historically it experienced challenges in respect of poor quality and quantity of the reserves, which were exacerbated by COVID-19, which resulted in low demand for the product and unsustainable low market price. Post year-end, the Corporation entered into discussions to restructure the debt (include purchasing the debt for a reduced amount), which will result in ECIC paying a claim in the next financial year in the range of between $48.2 million and $50.8 million (R715.1 million and R753.7 million as at 31 March 2021). At reporting date, a claims reserve has not been raised as there was no default event.

## 37. Dividend payable

No dividends were paid or declared in the current financial year and prior year.

## 38. Going concern

We draw attention to the fact that on March 31, 2021, the Corporation had accumulated profit of R3.7 billion and that the Corporation's total assets exceed its liabilities by R6.5 billion.

The 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.





COVID-19 has not had a significant impact on the operations of the Corporation during the 2021 financial year and is not anticipated to have a significant impact even in the foreseeable future, see note 14.

The potential claim disclosed under events after reporting period (note 36) is not expected to have an impact on the going concern status of the Corporation, as the regulatory solvency capital requirement (SCR) cover ratio after taking into account all the projected transactions for the next financial year is projected to be 324%, which is above the cover ratio of 100% as required by the PA.

## 39. Underwriting results

| | 2021 R'000 | 2020 R'000 |
|---|---|---|
| Insurance premium revenue | 701 331 | 213 930 |
| Net change in unearned premiums | (134 655) | 452 668 |
| Gross change in unearned premiums | (132 902) | 452 668 |
| Change in reinsurance unearned premiums | (1 753) | - |
| Change in unexpired risks | 44 777 | (143 308) |
| **Net insurance premium revenue** | **611 453** | **523 290** |
| | | |
| **Claims incurred** | **69 331** | **76 875** |
| Claims paid net of salvages | 69 331 | (259 647) |
| Claims paid | - | (373 787) |
| Salvages income | 69 331 | 114 140 |
| Change in claims reserves | - | 336 522 |
| | | |
| Assessment fees | 271 | 232 |
| Reinsurance commission received | 347 | - |
| Commission paid to intermediaries | (193) | (161) |
| Operating expenses | (124 491) | (138 768) |
| **Underwriting results** | **556 718** | **461 468** |
| | | |
| Net investment income | 822 981 | 122 549 |
| Portfolio management fees including investment management operating expenditure | (23 187) | (28 278) |
| Foreign exchange gain/(loss) | 408 754 | (347 899) |
| Other income | 190 | 114 |
| IMU grant receipts | 162 710 | 233 511 |
| Interest expense | (476) | (390) |
| SED & ESD contributions including operating expenditure | (27 544) | (41 623) |
| Expense for interest make-up | (64 375) | 34 704 |
| **Profit before taxation** | **1 835 771** | **434 156** |
| Taxation | (168 432) | (419 811) |
| **Profit for the year** | **1 667 339** | **14 345** |
| | | |
| **Other comprehensive income:** | | |
| **Items that may be reclassified to profit or (loss):** | | |
| Currency translation differences | (1 239 685) | 1 118 902 |
| Fair value adjustments of financial assets | 35 395 | (125 299) |
| Deferred tax on fair value of financial assets | (7 928) | 28 067 |
| **Total items that may be reclassified to (loss) or profit** | **(1 212 218)** | **1 021 670** |
| **Other comprehensive (loss)/income for the year net of taxation** | **(1 212 218)** | **1 021 670** |
| **Total comprehensive income for the year** | **455 121** | **1 036 015** |

### 40. 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 | 2021 R'000 | 2020 R'000 |
|---|---|---|
| **Assets** | | |
| Intangible assets | 944 | 1 811 |
| Property and equipment | 5 730 | 11 536 |
| Deferred tax | - | 22 407 |
| Financial assets at fair value | 4 303 165 | 8 271 983 |
| Reinsurance contract assets | 10 700 | - |
| Trade and other receivables | 1 798 389 | 2 140 139 |
| Cash and cash equivalents | 4 084 701 | 331 400 |
| **Total assets** | **10 203 629** | **10 779 276** |
| | | |
| **Equity and liabilities** | | |
| **Equity** | | |
| Share capital and share premium | 316 051 | 316 051 |
| Fair value adjustment through other comprehensive income reserve | (29 947) | (57 414) |
| Retained earnings | 6 218 242 | 5 788 750 |
| **Total equity** | **6 504 346** | **6 047 387** |
| | | |
| **Liabilities** | | |
| Insurance contract liabilities | 2 808 563 | 3 246 521 |
| Provision for unearned premiums | 2 427 913 | 2 741 516 |
| Provision for unexpired risks | 380 650 | 505 005 |
| Provision for outstanding claims | - | - |
| Reinsurance deferred acquisition cost | 1 648 | - |
| Deferred tax | 3 838 | - |
| Employee benefit liability | 4 554 | 3 764 |
| Trade and other payables | 110 087 | 280 286 |
| Lease liability | 3 396 | 9 169 |
| Liability for interest make-up | 749 801 | 1 181 056 |
| Current tax payable | 17 396 | 11 093 |
| **Total liabilities** | **3 699 283** | **4 731 889** |
| **Total equity and liabilities** | **10 203 629** | **10 779 276** |





| Statement of comprehensive income | Note(s) | 2021 R'000 | 2020 R'000 |
|---|---|---|---|
| Insurance premium revenue | 20 | 701 331 | 213 930 |
| Net change in unearned premiums | | (130 619) | 465 568 |
| Gross change in unearned premiums | | (128 382) | 465 568 |
| Change in reinsurance unearned premiums | | (2 237) | - |
| Change in unexpired risks | | 45 714 | (141 328) |
| **Net insurance premium revenue** | | **616 426** | **538 170** |
| | | | |
| Assessment fees | | 271 | 232 |
| Reinsurance commissions received | | 345 | - |
| Net investment income | 21 | 822 981 | 122 549 |
| IMU grant receipts | | 162 710 | 233 511 |
| Other income | | 190 | 114 |
| | | **1 602 923** | **894 576** |
| | | | |
| **Claims incurred** | | **69 331** | **104 565** |
| Claims paid net of salvages | | 69 331 | (259 647) |
| Claims paid | | - | (373 787) |
| Salvages income | | 69 331 | 114 140 |
| Change in claims reserves | | - | 364 212 |
| | | | |
| **Expenses** | | | |
| Commission paid to intermediaries | | (193) | (161) |
| Operating expenses | 23 | (149 224) | (169 016) |
| Interest expense | 24 | (476) | (390) |
| (Loss)/profit on exchange differences | | (834 060) | 727 080 |
| Expense for interest make-up | | (64 375) | 34 704 |
| SED & ESD contributions | | (25 998) | (39 653) |
| | | | |
| **Profit before taxation** | | **597 928** | **1 551 705** |
| Taxation | 27 | (168 432) | (419 811) |
| **Profit for the year** | | **429 496** | **1 131 894** |
| | | | |
| **Other comprehensive income:** | | | |
| **Items that may be reclassified to profit or (loss):** | | | |
| Fair value adjustments of financial assets | | 35 395 | (125 299) |
| Deferred tax on fair value of financial assets | | (7 928) | 28 067 |
| **Total items that may be reclassified to profit or (loss)** | | **27 467** | **(97 232)** |
| **Other comprehensive income/(loss) for the year net of taxation** | | **27 467** | **(97 232)** |
| **Total comprehensive income for the year** | | **456 963** | **1 034 662** |

# Notes



ECIC is a registered Financial Service Provider,
regulated by the FSCA and Prudential Authority (FSP No: 30656).
Currently exempted in terms of FAIS Notice 78 of 2019.

**Physical address:**
Block C7 & C8, Eco Origins Office Park
349 Witch Hazel Ave, Highveld Ext 79, Centurion

**Postal address:**
P.O. Box 7075,Centurion, 0004
+27 12 471 3800
info@ecic.co.za
www.ecic.co.za

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