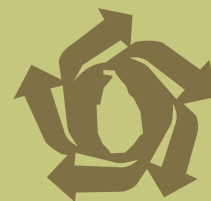


Protection

Annual Report 2002



SLECIC

Sri Lanka Export Credit Insurance Corporation

An Enterprise under the Ministry of Commerce

Contents

General	01
Vision & Mission	01
Message from Hon. Minister of Commerce & Consumer Affairs	02
Board of Directors	03
Management of SLECIC	04
Chairman's Review	06
The World Economy	06
Sri Lankan Economy	06
International Trade & Export Performance	07
SLECIC Performance	07
International Relations	07
Employees of SLECIC	08
Training	08
Outlook for 2003	08
Acknowledgement	09
Services	10
Insurance Policies	11
Guarantees	12
New Product Development	14
Claims & Legal	14
Financial Review	16
Accounting Policies	16
Balance Sheet	17
Income & Expenditure Statement	18
Notes to the Accounts	19
Note of the Auditor General	20

Our Vision

To be the catalyst in
promotion and
development of
international trade.

Our Mission

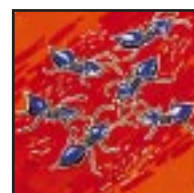
We are in the
business of providing

protection,



support and

information



for exporters, banks, other
financial institutions and
importers. We strive to
exceed customer
expectations by offering
quality - personalized
services.



Message from Hon. Ravi Karunanayake Minister of Commerce & Consumer Affairs

I am pleased to send a message for inclusion in the Annual Report of the Sri Lanka Export Credit Insurance Corporation (SLECIC) for the year 2002.

SLECIC functioning under my Ministry has since its inception 23 years ago supported Sri Lanka's export development efforts with a variety of services to the exporter community. I am happy to note from its Annual Report that SLECIC has had a successful financial year.

Export Credit Insurance is an important tool in the development of export trade with the economic uncertainties that prevail in many parts of the world today. The Insurance Policies and Guarantees offered by SLECIC have enabled many new and small-scale exporters to compete successfully in the international markets. This has been possible due to the range of products offered by SLECIC and the flexibility shown by the management of SLECIC to cater to individual needs of exporters and banks.

Being a partner of the prestigious association of International Union of Credit & Investment Insurers (Berne Union), SLECIC has been able to keep abreast of current International developments and technologies in the field of export credit insurance and also update and upgrade the professional knowledge and skills of its staff. The recent restructuring of SLECIC has proved to be very effective in servicing its customers more meaningfully than ever before.

Sri Lankan exporters have long felt the need for low cost export finance. This will enable them to compete better in the international market and increase their profits. My vision for SLECIC is for it to rise to this challenge and explore means of provisioning low cost financing to Sri Lankan exporters. SLECIC will do this by taking up the functions of an EXPORT-IMPORT BANK that will directly finance short term credit requirements of exporters and refinancing of commercial banks that funds exporters. I am happy to note

that SLECIC is already taking meaningful steps to achieve this goal.

I take this opportunity to wish its Management and Staff every success in the years ahead. It is my fervent expectation to see that all the Sri Lankan exporters insure all their credit risks with SLECIC.

Ravi Karunanayake

Minister of Commerce & Consumer Affairs



Board of Directors

- **Hemaka de Alwis**
Chairman & Managing Director
- **K.W.D.U. Dahanayake**
Director
National Planning Department
Ministry of Finance
- **Dr. H. N. Thenuwara**
Additional Director
Economic Research Department
Central Bank of Sri Lanka
- **C. Hettiarachchi**
Additional Secretary
Ministry of Commerce & Consumer Affairs
- **M. Kandasamy (Absent)**
General Manager
Sri Lanka Insurance Corporation Ltd.

Board Secretary
Mrs. Priyani Salgado



D.T. Kingsley Bernard
Management Consultant

Management of SLECIC

Department of Operations

R & D, Administration, MIS & IT



Jayantha Kariyawasam
Assistant General Manager



Ajith Dias
Manager - Administration



Dhammika Aluthge
Assistant General Manager



Vaijyanthi Hanwella
Manager - Finance

Policies, Guarantees, Claims/Legal & HR



Nilanjanie Peiris
Assistant General Manager



Chandrani Jayasuriya
Manager - Claims/Legal



Saman Alwis
Manager - Policies



Mayuri Mudalige
Manager - Guarantees

Department of Marketing

Guarantees



Dilruk Ranasinghe
Assistant General Manager



Bimal Gunaratna
Manager

Policies



Mohan Silva
Assistant General Manager



Hinsley Silva
Manager



Dhammika Bandara
Manager



Shiroma Perera
Manager



The World Economy

The world economy recovered from the recession it experienced during the year 2001, even though the recovery had been slow and below expectations. The markets that are of major importance to Sri Lanka, viz., USA, Europe and Japan have been dealt with, briefly below:

○ US

Dollar tumbled against major currencies reacting to an economic environment weaker than expected. Rising unemployment, plummeting consumer confidence and a lethargic manufacturing sector all contributed to overall dollar weakness. As job growth is key for a sustained consumer spending, which accounts for two thirds of GDP, the Federal Reserve surprised the markets by a larger than expected interest rate cut of 0.5% to 1.25%. Though the Federal Reserve shifted its assessment of economic risks to neutral from weakness, the unexpected cut highlighted worries that the state of the US economy may be worse than many had previously thought. Dollar extended its downward spiral as investors bailed out of US assets to seek better returns elsewhere. The Federal Reserve aggressive half point cut not only dented the yield appeal of US bonds, but also prompted a slide in stocks. Financial markets remained volatile as confusion prevailed over US Dollar policy after a major reshuffle of the top US economic team.

○ Europe

As the recovery stalled in the previous quarter, European Central Bank (ECB) lowered its growth outlook, while a separate survey showed that industry chiefs expected a sharp fall in investment. European Central Bank was forced to lower its benchmark lending rate by 50 bps to 2.75% to help revive borrowing and investments in the Euro zone. We feel that a strong Euro and a slump in the global equities could prolong the recovery process. ECB in its recent assessment said that the growth rate for this year could at best be 1% and lowered its outlook for 2003 to 1.1% from previous estimate of 2.1%.

○ Japan

An unexpected fall in industrial production and a rise in unemployment reinforced the pessimistic outlook on the Japanese economy. As markets fretted over turmoil surrounding Japan's attempt to pull its economy out of decade-old doldrums, Nikkei slumped to a 19 year low, raising the risk of a financial meltdown. In a last ditch effort to boost the sagging stock market, BOJ announced to buy-back shares from banks to facilitate them dispose of their non-performing loans. Bond market reacted badly to this move and the 10 year Japanese Government bond was under-subscribed for the first time in its history. Meanwhile, FITCH lowered Japan's long term rating to

AA- from AA, reflecting the ongoing deterioration in its public finances, sustained weakness in economic performance and a frustrating slow progress in addressing non-performing bank loans. The Japanese economy expanded by 0.3% against 0.4% in the previous year.

Sri Lankan Economy

Sri Lankan economy showed signs of recovery towards the latter part of 2002 from the economic downturn it experienced in the previous years. Positive developments were evident in all major areas – output, inflation, fiscal performance, international trade, tourism, foreign reserves, the foreign exchange market and interest rates. However, the recovery was below initial expectations, mainly because of world economic growth which Sri Lankan economy is highly dependent, did not measure up to projections.

Economic growth rose progressively during the year and recorded an annual growth rate of 4% in 2002 in contrast to a contraction of 1.5% in 2001. The services sector, the largest sector accounting for over 50% of GDP recorded 6% growth during the year. Whereas production in agriculture recovered partially in 2002, the industrial sector recorded a negative growth until the 3rd quarter of 2002, grew by 1% in 2002, in contrast to a decline of 2.1% in 2001.

The improved business confidence consequent to the ongoing peace process, more favourable weather

conditions, uninterrupted power supply and the recovery in the world economy have both supported the recovery and provided a basis for continued growth in output of the Sri Lankan economy. The fiscal position has improved from a budget deficit of 10.8% of GDP in 2001 to 8.9% of GDP in 2002.

International Trade & Export Performance

Export volume increased by 2% in 2002. However, a larger decrease (4.3%) in export prices reduced export values. Total export earnings in 2002 amounted to US Dollars 4,699 million compared with US Dollars 4,817 million in 2001, a decline of 2.4%. The decline in 2001 was 12.8%.

The drop in annual exports and the increase in imports have caused the trade deficit in 2002 to increase by 22% to US Dollars 1,406 million compared with the deficit of US Dollars 1,157 million recorded during 2001. The trade deficit increased from 7.4% of Gross Domestic Product (GDP) in 2001 to 8.5% in 2002. However, inflows through the services account and the capital account have more than offset this deficit, and a surplus is expected in the overall balance of payments.

Earnings from industrial exports declined by 2.1 % in 2002 compared to a decline of 13.4% in 2001. Textile and Garments accounted for 53% of total exports and for 67% of industrial exports in 2002. The share of tea in agriculture exports were 70% followed by other agricultural exports (18%), coconut (9%), and rubber (3%). The

major components of other agriculture exports are cinnamon, cloves, unmanufactured tobacco and pepper.

Earnings from mineral exports increased by 4% in 2002 and gem exports accounted for 95% of mineral exports.

Sri Lanka's export base is still dominated by a few items and concentrated in a few markets. USA and EU accounted for 68% of exports from Sri Lanka in 2002. Exports to CIS countries, Middle East and Eastern European countries accounted for 16% in 2002.

SLECIC Performance

SLECIC saw significant changes to its approach to the business making it a more dynamic and vibrant organization meaningfully catering to the needs and requirements of its customers.

During the year, SLECIC underwent a major restructuring process to expand marketing activities and offer more dynamic services to the exporter community, whereby the activities of SLECIC were segregated as **Marketing & Operations**, **Risk Management** and **Research & Development** Units have been set up to facilitate smooth operations and product development.

SLECIC also entered into an Agreement for re-insurance with its global re-insurance partner GERLING NAMUR RE SA. This has increased our risk taking capacity, and as a result, SLECIC will be in a position to share more credit risks of the exporters and commercial banks financing exports.

SLECIC continued to assist exporters of goods and services through support services of export credit insurance and guarantees for the development of exports of Sri Lanka.

There were 204 Export Payments Insurance Policies in force as at end 2002. These included Standard Policies, Specific Policies, Small Scale Insurance Policies and Comprehensive Services Policies. The Policies issued during the year totaled 57 to the aggregate value of Rs. 547.5 million as against 49 Policies issued with an underwritten value of Rs. 500.0 million in 2001.

Bank Guarantees in force as at end 2002 stood at 1927 to the value of Rs. 2,975.0 million as against 1,672 for Rs. 2,485.0 million as at end 2001.

A provision of Rs. 15.7 million was made for payment of claims during the year 2002 as against Rs. 13.9 million in the previous year.

International Relations

SLECIC is an active member of the International Union of Credit & Investment Insurers (Berne Union). SLECIC joined the Berne Union in 1984.

SLECIC participated at the Meeting of the Management Committee of the International Union of Credit and Investment Insurers, the Berne Union in London on 22 February 2002 as well as the Annual General Meeting of the Berne Union held in Beijing, China from 22-26 April 2002.

Employees of SLEIC

SLEIC is extremely proud of its young and dynamic staff who have a positive and responsive attitude towards their responsibilities. They have been flexible in accommodating the requirements of their clients in a rapidly changing economic and social environment. They also have extended their fullest co-operation in the process of restructuring SLEIC. Our executives were professionally trained in both domestic and internationally reputed institutions especially on customer care and in a range of technical subjects from underwriting and risk management to processing of claims and re-insurance.

Training

The Corporation provided training for its employees to develop their skills up to international standards.

The General Manger attended the Commonwealth Advanced Seminar for Chief Executives in Singapore from 13-24 May 2002. Mrs. M. Mudalige, Manager Operations (Guarantees) attended a Training Programme in Trade Promotion and Export Development in Malta from 6-17 May 2002. Asia Productivity Organisation conducted a Workshop on Implementing Knowledge Management in Malaysia from 27-31 May 2002. Mr. D.H.J. Ranasinghe, Assistant General Manager, Marketing (Guarantees), participated in this Programme. Mr. D.P. Aluthge, Assistant General Manager (Risk Management, Finance and Accounts) participated in a Training Programme on Insurance Management in Malta from 3-13 June 2002.

Mr. K.S. Alwis, Manager Operations (Policies) attended a familiarization Programme in Export Credit Insurance and Guarantees at Export Credit Guarantee Corporation of India (ECGC) from 5-16 August 2002.

The Regional Co-operation Group (RCG) of the Berne Union conducted its Short Term Workshop on Credit Risk Management at the Export Credit Guarantee Corporation of India (ECGC) from 11-13 December 2002. Mr. D.P. Aluthge, Assistant General Manager (Risk Management, Finance and Accounts) and Mr. Bimal Gunarathna, Manager Marketing (Guarantees) attended this workshop.

These training programmes have been carefully selected after a thorough evaluation of their relevance to the subject matter handled by officers concerned.

Outlook for 2003

The world trade volume in goods and services is projected to grow by 4.9% in 2003 down from earlier projection of 6.1% but still higher than the 2.9% in 2002. The advanced economies are projected to grow by 2%. A downward adjustment has been made for all three major economies viz., US, Euro Area and Japan. Developing countries are expected to grow at a higher rate of 5%.

The current domestic environment is conducive to a continued economic recovery and thereby an increased output in 2003. The ongoing peace process supported by the international community and donor agencies have

greatly enhanced business confidence, which is likely to be translated into increased investment in 2003. The increased rainfall and uninterrupted supply of electricity would boost agricultural and industrial production. Similarly, the improvement in international trade, the tourist industry, port services and continued expansion in the telecommunications sector would support growth in the services sector. This growth in output would have the consequential effect of decreasing unemployment. The fiscal prudence embodied in the Budget for 2003 would reduce pressure on domestic interest rates, while releasing more funds for private sector activities.

However, these positive trends could be affected adversely by several factors. Clearly the most important one is the peace process. Its consolidation and progress would have a strong positive impact, whereas any retardation would be most inimical to economic growth. Secondly, high energy/fuel prices would affect industrial activities and increase inflationary pressures in the economy. Escalation of tension in the Middle East, or outright war, would not only affect Sri Lanka directly, but also indirectly through its impact on the global economy. Finally, a delay in the recovery of the international economy, or a reversion to a recession, would also have a serious detrimental effect on Sri Lanka's economic growth.

Sri Lankan exporters are likely to make use of the opportunities presented by the FTA between Sri Lanka and India, more effectively in 2003 than during the initial period of the agreement. We have

already witnessed the signs of reducing the huge balance of trade deficit that Sri Lanka has had with India for a long time resulting from the growth of exports to India from 6.2 billion in 2001 to 16.1 billion in 2002.

The Framework Agreement with regard to Sri Lanka and Pakistan FTA has been signed and the schedules are under negotiations and we are hopeful that during the year 2003 the FTA would be operative and the exporters will be able to reap the benefits. The FTA with Pakistan is expected to give a considerable boost to trade as well as investment ties between Sri Lanka and Pakistan. The huge trade balance in favour of Pakistan could be reduced as a result of more opportunities for exports created as a result of this agreement. In response to the signing of the Framework Agreement with Pakistan, SLECIC decided to remove the "off-cover" status given to Pakistan previously.

The Trade and Investment Framework Agreement with USA has already been established and the first meeting was held during the latter part of 2002 chaired by the Hon. Ravi Karunanayake, Minister of Commerce & Consumer Affairs.

On the whole, the prospects for the Sri Lankan economy in 2003 appear to be positive. The progress in the peace process however, would appear to be essential, while a consensus on important economic policies and structural reforms among the major political parties would provide a strong basis for building confidence of investors both domestically and internationally.

Acknowledgements

I wish to thank our clients - the exporter community of Sri Lanka and the commercial banks for the trust and confidence they have placed in SLECIC. We look forward to their patronage and co-operation in our endeavours to promote exports of Sri Lanka.

I sincerely thank Hon. Ravi Karunanayake, Minister of Commerce & Consumer Affairs for his commitment, dynamic approach to work and the keen interest and guidance in the activities and growth of SLECIC.

The Board of Directors, bringing into play their expertise in diverse fields, continued to guide us in no small measure. Their dedication and commitment to SLECIC is greatly appreciated.

Mrs. N. S. Coswatte retired in November 2002 having completed a 23 year successful career at SLECIC. On behalf of SLECIC, I wish her success in all her future endeavours.

I thank the Secretary, Additional Secretaries and other officials of the Ministry of Commerce & Consumer Affairs and the Department of Commerce for the co-operation extended to SLECIC. I also wish to thank the officials of the Central Bank of Sri Lanka, the Sri Lanka Export Development Board, the Department of External Resources and the various Trade Chambers for the support extended to SLECIC in its activities. A special word of thanks is also due to the Sri Lanka Missions abroad and especially the Trade Attachés for the

co-operation extended to SLECIC and Sri Lankan exporter community in many ways.

The Commonwealth Secretariat – London, as in the past, continued to be a great benefactor of SLECIC during the year 2002. Grants received from the Secretariat for overseas training programmes have helped SLECIC train its executives in the best practices of Export Credit Insurance and its related fields.

I wish to thank the Officials of the Berne Union Secretariat and our overseas counterparts and other business partners who have readily assisted us when called upon. Their combined wealth of knowledge and resources in technical areas of Export Credit Insurance has been a strength to SLECIC.

The dedication and enthusiasm shown by our staff has made it possible for the Corporation to enhance its corporate activities and thereby fulfil its objectives more comprehensively. I am therefore most appreciative of the trust and confidence placed in me by the entire staff of SLECIC and their co-operation during the period of its restructuring and its continued transformation into a dynamic public enterprise. I express my sincere thanks to every member of the staff of SLECIC for their dedication and commitment towards achieving the goals and objectives of SLECIC.

Hemaka de Alwis
Chairman & Managing Director

Services

SLECIC is the official Export Credit Agency (ECA) of the Government of Sri Lanka.

In addition to the substantial financial reserves of SLECIC, it also enjoys a guarantee of the Government of Sri Lanka which presently guarantees the liabilities of SLECIC up to a sum of Rs. 500 million. These resources together with the backing it receives from its global re-insurance partner enable SLECIC to offer its clients a strong financial base to underwrite the risks associated with their export contracts.

A marketing campaign was carried out emphasising the benefits of SLECIC's services to exporters and banks. A series of seminars and workshops were conducted both internally and externally through provincial seminars for policyholders, potential exporters, exporters and officials of commercial banks.



The Corporation carried out an aggressive outdoor advertising campaign by installation of hoardings in selected locations covering all parts of the Island and advertisements in buses.



One of the main promotional activities of the Department of Marketing is to organize awareness programme for exporters on the Export Credit Insurance. A seminar on "Export Credit

Solutions to Software Exporters" was held on 7 June 2002 at Queens Court - Trans Asia Hotel, Colombo.

SLECIC Sponsors National Chamber of Exporters (NCE) Awards

SLECIC was one of the proud sponsors at the gala 10th Annual NCE Awards held in August 2002 at the Hilton Hotel, Colombo, organized by the National Chamber of Exporters. The venue was filled to more than its capacity as SLECIC joined other big corporate and financial institutions to be a part of the exporters biggest night. SLECIC sponsored the awards in the gems and jewellery sector.



Mr. Hemaka de Alwis, Chairman & Managing Director of SLECIC presenting the award to Mrs. D.S. Devendra, Manager of Deepthi Jewellery in the Gems & Jewellery Sector

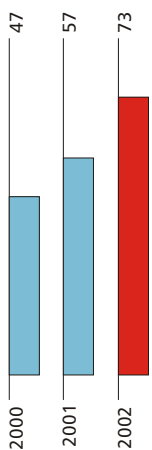


Insurance Policies

SLECIC has always functioned as the guardian of the exporter community in Sri Lanka. It has always extended a helping hand to exporters by assuming liability under its Export Payments Insurance Policy (EPIP) against non-payment or delayed payment by buyers overseas due to commercial and political risks, irrespective of their scale of operation and policy coverage.

SLECIC continued to enjoy the confidence of exporters as evidenced by the steadily increasing liability SLECIC assumes on behalf of exporters. Our records indicate a 28% increase on Policies issued and enhancements granted in the year 2002 over the previous year.

Total Number of Policies Issued and Enhanced (2000-2002)

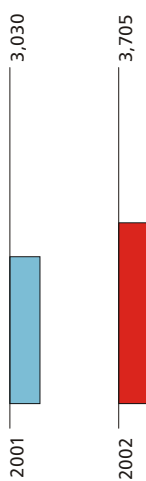


Value of shipments covered in the year 2002 compared to 2001 reflects to an increase of 22%, i.e. from Rs. 3,030.0 million in 2001 to Rs. 3,705.0 million in 2002.

Value of Shipments

Covered (2000-2002)

Value Rs. Millions

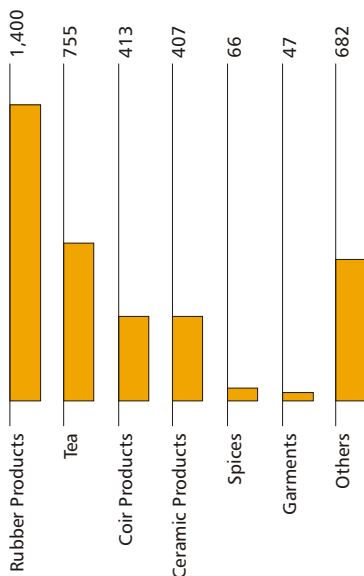


Premium income earned under the Insurance Policies were Rs. 18.52 million in 2002, compared to Rs. 14.75 million in 2001 reflecting an increase of 26% from the previous year.

Value of Shipments Covered

Commodity-wise - 2002

Rs. Millions

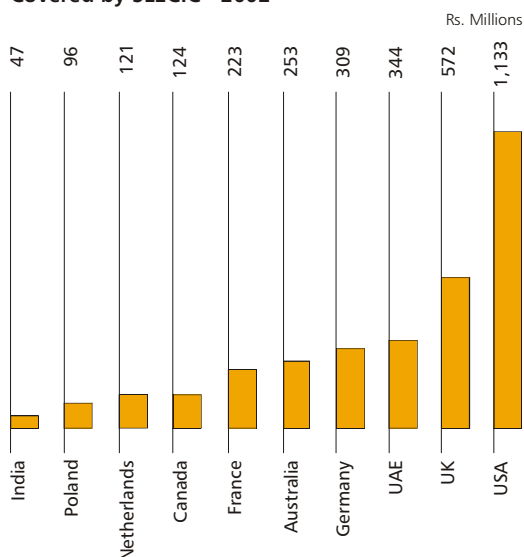


During the year 2002, SLECIC had been able to underwrite a significant portion of credit term exports pertaining to Rubber products, Coir products, Ceramic products, Spices, Garments amounting over Rs. 3,000.0 million.

SLECIC has not only covered the commercial risks involved in shipments effected but also it has extended its political (sovereign) risk coverage to most countries in the world. This has enabled exporters to penetrate new export markets and to increase their profit margins while transferring inherent risks to SLECIC.

Services

Major Export Destinations Covered by SLECIC - 2002



Guarantees

Export Financing is not just about funding export transactions. It is also about limiting the risks of such transactions and thus encouraging banks to provide export credit at reasonable costs and on a more liberal basis. Indeed, most banks need to be assured about the ability of exporters to repay a loan before agreeing to finance the latter's export transactions.

For this purpose, the banks insist on the pledging of adequate collateral. Various credit guarantees offered by SLECIC can be used as collateral for export trade financing and banks dealing with SLECIC are more than willing to grant exporters favourable credit solutions once the perceived risk of default has been reduced by a SLECIC guarantee.

Total new business underwritten in 2002 reached Rs. 843.74 million, representing an increase of 64% over that of Rs. 515.52 million in 2001.

In the year 2002, all major export destinations have been covered by SLECIC and this includes USA, UK, UAE, Saudi Arabia, Germany, Australia, France, Canada, Netherlands, Poland, India, Pakistan, Lebanon and Russia.

New Business Underwritten

Product	2000 (Value Rs. million)	2001 (Value Rs. million)	2002 (Value Rs. million)
Pre-shipment Credit Guarantee*	263.50	285.80	572.16
Post-shipment Credit Guarantee	145.20	207.30	233.50
Export Performance Guarantee	6.95	9.62	24.36
Cost of Passage	6.36	2.60	11.11
TOTAL	471.01	515.52	843.74

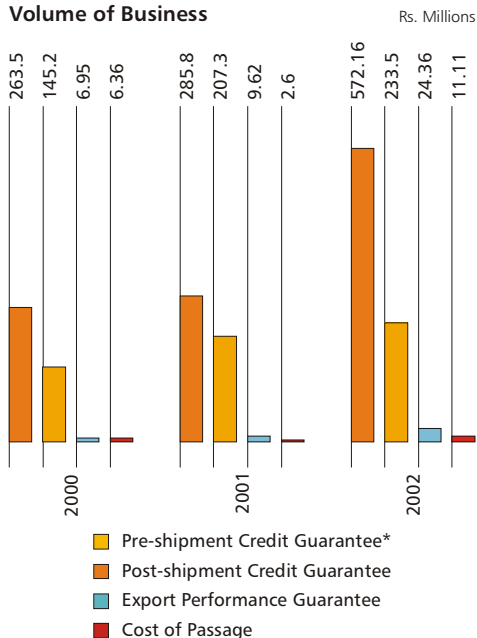
* includes Export Production Credit Guarantees (EPCG)



Cosmetic Products manufactured and exported by Kindai Kagaku Lanka (Pvt.) Ltd. assisted by SLECIC Credit Guarantee

Services

Volume of Business



Credit Guarantees to the value of Rs. 233.5 million were established during the year registering a moderate growth of 13%.

Premium Income under Guarantees

Gross premium income in 2002 amounted to Rs. 19.56 million which was Rs. 2.80 million (17%) over the income of Rs. 16.77 million in the year 2001.

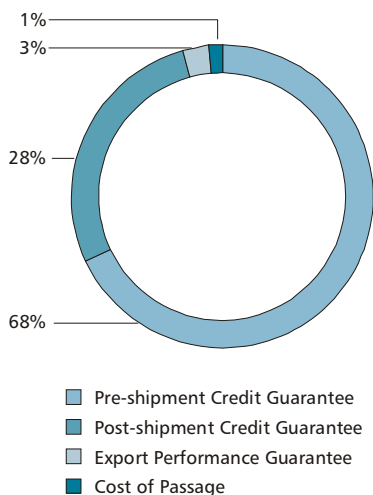
Year	Premium Income (Rs. million)
2000	15.98
2001	16.77
2002	19.57

The ATA Carnet is an international customs document that permits duty free and tax-free temporary import of goods for up to one year.

ATA Carnet cover:

- Commercial samples;
- Professional equipment;
- Goods for presentation or use at trade fairs, shows, exhibitions and the like.

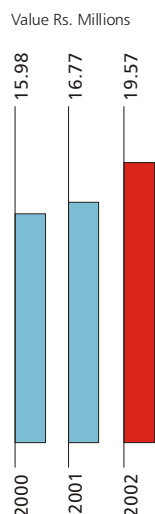
Volume of Business (2002)



ATA Carnet System

Direct Export Performance Guarantees covering the ATA Carnet System are issued to ICC – Sri Lanka for exporters to obtain ATA Carnets without collateral securities.

Premium Income



Pre-shipment Credit Guarantee (PCG) Scheme continued to be one of the most popular products in the banking sector. Credit Guarantee Portfolio recorded a growth of 100% to reach Rs. 572.16 million at the year end. Post-shipment



Gems and jewellery exported by Jewel Crafts

During the year under review, the Corporation has issued Direct Export Performance Guarantees covering ATA Carnet system issued to the value of Rs. 24.36 million, which is an increase of 24% over the previous year.

SLECIC Guarantee for Cost of Passage Advances

During the year under review SLECIC Guarantees covering Cost of Passage Advances granted by financial institutions facilitated many Sri Lankans from all parts of the country to go abroad for employment. Thereby, SLECIC fulfilled its social responsibility by reducing unemployment and helping the low-income segment of the population to raise their income level.

During the year, this scheme was substantially modified by way of simplifying documentation for expeditious issue of Guarantees significantly reducing the administration costs and processing delays.

New Product Development

Company Information and Credit Status Reports - Biz-info

The latest product of SLECIC branded as Biz-info is providing Credit and Status Reports initially to the banking sector on overseas customers of



Cross Section of the participants

Sri Lankan exporters. SLECIC acts as a “Reseller” of Credit and Status Reports from a network of Principals worldwide.

“Biz-info”, was launched by Hon. Ravi Karunanayake, Minister of Commerce and Consumer Affairs, on July 2002.

Chief Guest, Hon. Minister, Ravi Karunanayake emphasized that the support extended by commercial banks to the export sector is vital for Sri Lanka as our country is faced with a “export or perish” situation.

SLECIC ventured into this area as there is a great need for banks to have different options and access to as many sources as possible to obtain speedier, comprehensive, up to date credit information with precise credit opinion on overseas buyers for decision making.

Due to the introduction of ‘Biz-info’, the Sri Lankan exporter community benefited in the following manner:

- The cost of credit status reports were benched marked at competitive prices.
- The cheaper credit status reports have resulted in exporters using them more often to keep abreast of the creditworthiness of their customers.
- A monopoly situation that existed previously was diluted.

Claims and Legal

In the year 2002, SLECIC has indemnified losses up to LKR 15.7 million under our facilities.

Under Credit Guarantees, SLECIC indemnified losses under garments and handlooms. SLECIC has also experienced non-payment of pre-shipment advances by exporters of scrap metal and natural rubber.

Services

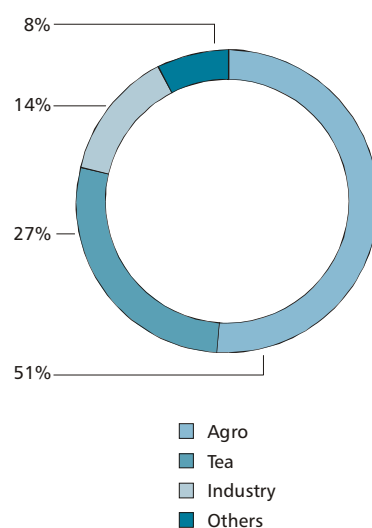
Under Export Payments Insurance Policy, SLECIC has experienced defaults on the commodity of live tropical ornamental fish due to protracted default by the buyers in Japan and Malta. There had been defaults on floor tiles by buyers in Bahamas and South Africa.

Total recoveries in the year 2002 were LKR 2.5 million as against LKR 1.5 million in year 2001. Claims paid to the value of LKR 2.8 million were written-off as unrecoverable during the year.

The main benefit to customers availing the service of SLECIC facilities is the

entitlement to lodge a claim in the event of non-payment or insolvency of the buyers under the Export Payments Insurance Policy and protracted default, or insolvency of the exporter under bank guarantees. Payment of claims assists the exporters and commercial banks to keep their liquidity position intact. Furthermore, the exporters were able to continue the export business with confidence and commercial banks continue to extend credit facilities on more liberal terms to exporters due to our services.

Claims Paid under Export Payments Insurance Policies during the last two years (2001 - 2002) - Commodity-wise



Hon. Ravi Karunanayake, Minister of Commerce & Consumer Affairs handing over a claim payment to Mr. Jehan Sirimanne, Manager, Seylan Bank, Mawanella Branch in the presence of Mr. S.N. Premasara, Managing Director of the export company

Accounting Policies

1. The Balance Sheet, Income and Expenditure Account and the Cash Flow Statement have been prepared in conformity with the generally accepted accounting principles, on a historical cost basis, and no adjustments have been made for inflationary factors affecting the Accounts. The Accounts have been prepared on Accrual Basis except for Premium Income.

2. Premium Income

Premium Income has been accounted on Cash Basis in keeping with past practice.

3. Assets and bases of Asset Valuation

3.1 Depreciation of Fixed Assets has been provided on a Straight Line basis, at the rates given below:

Buildings	-	5%
Motor Vehicles	-	20%
Furniture & Fittings	-	10%
Office Equipment	-	25%
Software	-	25%

4. Stocks of Stationery and Consumables have been valued at Cost.

5. Provision for Staff Gratuity

Provision for Staff Gratuity have been made in terms of the Payment of Gratuity Act No. 12 of 1983.

6. Provision for Accrued Expenses

Provision have been made for Accrued Expenses on the basis of past experience where actuals are not available.

Income and Expenditure Statement

For the year ended 31.12.2001			For the year ended 31.12.2002	
Rs.	Rs.		Rs.	Rs.
INCOME				
Premium Income				
13,793,283.96		Pre-shipment Credit Guarantee	14,388,814.92	
1,730,831.62		Post-shipment Credit Guarantee	3,466,172.65	
1,082,381.94		Export Performance Guarantee	1,133,344.37	
147,710.02		Cost of Air Passage Guarantee	562,019.23	
16,821.62		Export Production Credit Guarantee	80,100.00	
14,766,555.34	31,537,584.50	Export Payment Insurance Policy	18,472,738.08	38,103,189.25
OTHER INCOME				
2,215,828.35		Guarantee, Policy & BLL Fees	3,364,363.60	
1,498,435.99		Recoveries of Claims Paid	2,480,375.03	
14,314.72		Sundry Income	96,455.14	
3,365,087.20	7,093,666.26	Exchange Gain	1,275,537.86	7,216,731.63
	38,631,250.76	TOTAL INCOME FROM OPERATIONS		45,319,920.88
EXPENDITURE				
	1,808,647.67	Cost of Status Reports		2,032,563.74
	36,822,603.09	GROSS OPERATIONAL SURPLUS		43,287,357.14
Less				
10,319,415.71		Establishment Expenditure	10,279,318.03	
19,355,014.35		Administrative Expenditure	23,396,275.86	
4,242,545.10		Selling & Marketing Expenditure	5,334,567.19	
44,975.84		Finance Charges	92,253.62	
	33,961,951.00	TOTAL MANAGEMENT EXPENDITURE		39,102,414.70
	2,860,652.09	NETT OPERATIONAL SURPLUS		4,184,942.44
INVESTMENT INCOME				
	43,015,333.82	Interest		41,914,254.52
	45,875,985.91	NETT SURPLUS BEFORE CLAIMS		46,099,196.96
	(13,866,598.06)	Less Claims		(15,706,014.62)
	32,009,387.85	NETT SURPLUS AFTER CLAIMS		30,393,182.34
	314,689.35	Extraordinary Items		
	(10,057,653.35)	Prior Year Adjustments		(92,513.81)
	22,266,423.85	NETT SURPLUS TRANSFERRED TO GENERAL RESERVE		30,300,668.53

Notes to the Accounts

	2001	2002
	Rs.	Rs.
1.1 Capital Contributed		
Central Bank of Sri Lanka	20,000,000.00	20,000,000.00
Insurance Corporation of Sri Lanka	10,000,000.00	10,000,000.00
	<u>30,000,000.00</u>	<u>30,000,000.00</u>

	2001	2002
	Rs.	Rs.
1.2 General Reserve		
Movement in the Account		
At 1st January	434,709,113.01	456,975,536.86
Transferred from Income & Expenditure Account	22,266,423.85	30,300,668.53
At 31st December	<u>456,975,536.86</u>	<u>487,276,205.39</u>

1.3 Fixed Assets

	Cost	Purchases	Disposals	Depreciation	Accumulated	Written Down
	As at 1.1.2002	2002	2002	2002	Depreciation	Value as at
					as at 31.12.2002	31.12.2002
		Rs	Rs	Rs	Rs	Rs
Buildings	62,341,086.16	33,980.00	-	3,117,125.11	6,234,179.41	56,140,886.75
Motor Vehicles	7,087,523.76	-	-	790,936.85	4,698,204.79	2,389,318.97
Furniture & Fittings	8,232,243.85	90,303.18	-	819,743.09	4,356,490.45	3,966,056.58
Office Equipment	9,236,781.54	486,976.43	53,000.00	1,217,513.85	7,655,628.85	2,015,129.12
Software	786,941.00	3,760,000.00	-	7,360.25	13,493.75	4,533,447.25
	<u>87,684,576.31</u>	<u>4,371,259.61</u>	<u>53,000.00</u>	<u>5,952,679.15</u>	<u>22,957,997.25</u>	<u>69,044,838.67</u>

1.4 Shares

	Rs.	Rs.
Shares held in:		
Sasthosa Computers Ltd.		
- 1,000 Ordinary shares at Rs. 10/- each	10,000.00	
National Insurance Corporation		
- 5,000 'A' shares at Rs. 10/- each	50,000.00	
Ingrin Institute of Printing & Graphic Sri Lanka Ltd.	10.00	<u>60,010.00</u>

Note of the Auditor General

The accounts of the Sri Lanka Export Credit Insurance Corporation for the year ended 31 December 2002 were audited under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act No. 38 of 1971.

My observations on these accounts that should be published in terms of Section 14 (2) (c) of the Finance Act are contained in my report of even date addressed to the Chairman of the Corporation.

S.C. Mayadunne

Auditor General

25 March 2003

Auditor General's Department

Colombo 07.

Protection Support Information



SLECIC