SERV Swiss Export Risk Insurance

Annual Report 2018

Schweizerische Exportrisikoversicherung
Assurance suisse contre les risques à l'exportation
Assicurazione svizzera contro i rischi delle esportazioni
Swiss Export Risk Insurance

serv

Swiss Export Risk Insurance SERV has a statutory duty to prepare the annual report. SERV is independent in its organisation and management and conducts its own accounts (Art. 3 SERVG). In accordance with Art. 24 SERVG, the SERV Board of Directors (BoD) prepares the financial statements as well as the annual report and publishes these following the approval by the Federal Council. This annual report focuses on information relating to the course of business in 2018. It consists of the management report, statements on corporate governance, the financial report and the financial statements with notes. An electronic version of this annual report can be consulted at report.serv-ch.com. All background information – namely regarding the general business policy, the risk policy and risk management, sustainability, loss and claims management, as well as international cooperation – is available on the website www.serv-ch.com.

The terms and abbreviations used are explained in the **glossary** in the cover flap.

Financial Highlights

Recalculation of commitment/exposure

This annual report is based on the new commitment/exposure calculation method. The commitment/exposure is now calculated with one interest rate (previously, cumulative interest over the entire term) and after deduction of reinsurance with other official Export Credit Agencies. The figures of the financial year 2017 were adjusted accordingly in order to ensure their comparability with those of the current financial year.

Obligation in CHF m	31.12.2018	31.12.2017
Framework of obligation	16 000	14 000
Insurance obligations	11 354	10 752

Current Exposure in CHF m	31.12.2018	31.12.2017 [1]
Commitment: insurance policies (IP)	7 173	5 905
ECA-reinsurances taken into account	–482	–463
Insurance commitments in principle (ICP)	1 501	2 353
Exposure	**8 674**	**8 258**

New exposure in CHF m	2018	2017 [1]
New commitment: insurance policies (IP)	4 028	2 183
Insurance commitments in principle (ICP)	1 224	1 958

Balance sheet in CHF m	31.12.2018	31.12.2017
Cash in hand & at bank and cash investments	2 854	2 572
Claims from losses and restructuring	210	228
Credit balances from debt rescheduling agreements	211	303
Claims from losses and credit balances from debt rescheduling agreements	**421**	**531**
Unearned premiums and provisions	512	332
Capital	2 770	2 768

Income statement in CHF m	2018	2017
Earned premiums	94	64
Interest income from debt rescheduling agreements	17	16
Loss expenses	–105	–10
Debt rescheduling results	10	16
Profit/loss on insurance	**16**	**86**
Personnel expenses	–11	–10
Non-personnel expenses	–5	–4
Financial income	2	–2
Operating profit/loss	**2**	**70**
Interest income from cash investments	–	–
Net income (NI)	**2**	**70**

Number of employees		
Number	53	51
Full-time equivalents	50.0	47.8

[1] Figures for 2017 adjusted; cf. note above

New Commitment

4 028 CHF m

Earned Premiums

94 CHF m

Proportion of SMEs in the Client Base

70 %

Framework of Obligation

16 CHF bn

Loss Expenses

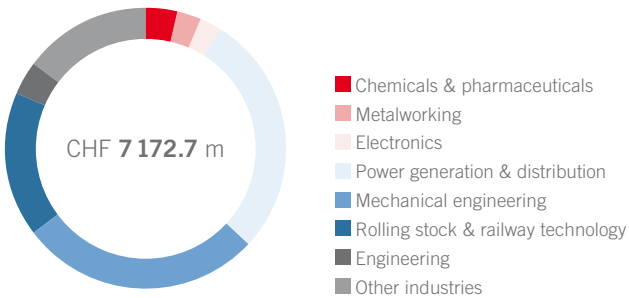
105 CHF m

Economic Viability

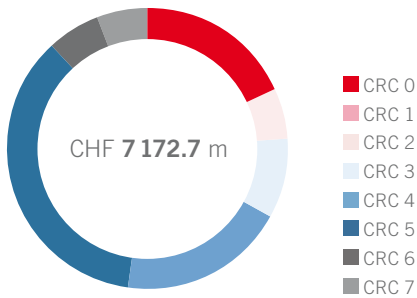
54 CHF m

The economic viability calculation was in the black.

Commitment by Industry



Commitment by Country Risk Category



Highlights of the Financial Year

16 March 2018

Customer Satisfaction Further Improved

In its most recent customer survey, SERV received an average rating of “very satisfied”. This result shows a further increase in the satisfaction of its customers in comparison to the last survey in 2013.

5 April 2018

Largest ECA-covered Project Bond in Local Currency

SERV insured a transaction worth around CHF 1 billion to Porto de Sergipe in Brazil. This is the first time that an international capital market product has been covered by an ECA; also remarkable is its volume and the fact that it is in a local currency.

6 June & 16 October 2018

SERV Awarded Four Prizes

TXF awarded SERV the prizes Best Overall ECA, Best Performing ECA and Middle Eastern ECA Finance Deal of the Year for the Aluminium Bahrain project. Furthermore, the Berne Union honoured the Porto de Sergipe project, which is covered by SERV, as its Deal of the Year.

Exceptional Year 2018

SERV finishes the financial year with **positive company earnings** of CHF 2.0 million that are, however, significantly below those of the preceding years. These financial statements were prepared with two extremely significant changes in two important elements of the income statement that exerted opposing effects: earned premiums increased by CHF 30.4 million over the previous year to a record of CHF 94.5 million, while loss expenses peaked at CHF 104.5 million – CHF 94.5 million more than in 2017. Income from debt rescheduling fell by CHF 5.7 million.

SERV issued **934 insurance policies (IP) and insurance commitments in principle (ICP)** in the year under review, one more than in the previous year. The number of transactions with public debtors again fell slightly, while transactions with private debtors rose by an equivalent amount. In terms of numbers, the IPs and ICPs with public debtors still accounted for 12 per cent of new transactions in 2018, but contributed 27 per cent to new exposure due to their disproportionate volume.

Total new exposure rose by 27 per cent over the previous year in 2018 to CHF 5.3 billion, with an 85 per cent growth in IP. The sharp increase to CHF 4.1 billion is attributable to the conversion of some very large ICPs from previous years. In the year under review itself, however, the new exposure from ICPs fell further to a modest CHF 1.2 billion or 23 per cent of total new transactions. These sharp general and structural changes once again confirm **the highly volatile nature of SERV's business.**

For SERV, 2018 was an exceptional year. Both the insurance business and the income statement were affected by strong fluctuations in important factors (premium income and loss expenses), the definitive impacts of which will only become apparent over time. We would have been unable to meet the particular challenges of the year under review, which also included internal organisational projects, without the **enormous commitment shown by our employees.** We offer them our sincerest thanks.

Thomas Daum
Chairman of the Board

Peter Gisler
CEO

Table of Contents

1 In Conversation 6

2 Management Report

- Financial Year 2018 8
- Losses and Claims 15
- In the Field 16
- Outlook 22
- Multi-year Comparison 24

3 Corporate Governance

- Bodies of Corporate Governance 27
- Remuneration 28
- Our Guiding Principles 30
- Organisation 31

4 Financial Report 33

5 Financial Statements

- Income Statement 36
- Balance Sheet 37
- Cash Flow Statement 38
- Proof of Economic Viability 39
- Segment Accounting 40

6 Notes on the Financial Statements

- Accounting Principles 42
- Notes on the Financial Statement 45
- Proof of Capital 50
- Other Notes 51
- Report of the Statutory Auditor 52

"SERV's financial development can only be realistically assessed over the long term."

Peter Gisler (CEO) and Thomas Daum (Chairman of the Board)

"We are seeing an increase in transactions with a contract value in excess of CHF 300 million."

SERV closes the 2018 financial year with net income only modestly in positive territory, despite record premium income. How do you explain this result?
[Thomas Daum] The 2018 results highlight the extent to which SERV's annual company earnings are subject to periodic contingencies. We achieved very high premium income thanks to a number of large transactions that do not occur every year. By way of contrast, there was also an extraordinary accumulation of losses in our expenses. SERV's financial development can only be realistically assessed over the long term.

[Peter Gisler] The economic viability calculation is also based on a long-term perspective and was also positive in 2018, despite the high loss expenses. Total loss expenses amounted to CHF 104.5 million, the second highest figure since 2011. The reasons for this high amount were written-off losses that we had previously recorded in the books, value adjustments to loss expenses and provisions for imminent and reported losses. These provisions primarily related to business in the United Arab Emirates and Turkey.

The Federal Council increased the framework of obligation to CHF 16 billion in December 2018. It had previously been increased by CHF 2 billion to CHF 14 billion in 2016. Why was another increase needed?
[D] The Federal Council defines the maximum scope of SERV's insurance obligations and therefore the Confederation's maximum residual risk resulting from our insurance activities. At the end of September, 85 per cent of the previous CHF 14 billion had been exhausted, and our major clients announced possible transactions of over CHF 2.5 billion for 2019. To ensure that we remained available for exporters, we applied for an increase to CHF 16 billion. We were very pleased that this was approved very promptly by the Federal Council. Our capital resources also make the increase easy to justify.

[G] In the energy, rail and engineering sectors in particular, we are seeing an increase in transactions with a contract value in excess of CHF 300 million. In 2018, a project for the construction of a gas-fired combined-cycle power plant in Brazil stood out in this regard. We are talking here about a cover amount of CHF 1 billion at the time the policy was issued. The increase in the framework of obligation means that we continue to have the capacity to support even transactions of this magnitude.

If SERV insures an increasing number of large transactions, will it still have sufficient scope for the needs of SMEs?

[D] Supporting SMEs remains an important objective for SERV. This is reflected in the fact that, in terms of numbers, insurance policies for SMEs account for almost 70 per cent of SERV's business. The corresponding exposure, however, accounts for less than 25 per cent of our total exposure. The unbalanced structure of the portfolio and the high volatility of the large transactions make managing the insurance business very demanding. The increased framework of obligation therefore also means that SERV is better able to respond to the requirements of SMEs.

[G] Our commitment to our SME promotion mandate is reflected in our working capital insurance and counter guarantee products, for example. Both are important instruments to relieve liquidity bottlenecks and are used in particular by SMEs. These products are often what makes it possible for SMEs to export in the first place. The demand for them has grown continuously over the years and they are now an integral part of SERV's product range.

Export transaction structures are constantly changing, both with regard to value creation and financing. Can SERV keep pace with this structural change? Does it have sufficient freedom of action and is it often issued with directives from the Confederation?

[G] One trend that has been around for quite some time is that Swiss exporters are producing components or plant equipment more cheaply abroad or purchasing them from foreign suppliers in order to maintain their competitiveness. Experience shows that a purposefully adapted procurement structure allows exporters to secure highly qualified and value-creating jobs relating to the manufacture of key components in research and development, project management and engineering in Switzerland. SERV takes all these factors into account when it comes to assessing whether a transaction is eligible for insurance. We make flexible use of the scope provided by the legislator in the interests of the Swiss export industry.

[D] SERV's framework of action is defined by the SERV Act and Ordinance as well as by the four-year targets set by the Federal Council. Key factors are the funding mandate, the financial requirements of the framework of obligation and economic viability, as well as compliance with foreign policy principles. The Federal Council can only issue instructions to SERV in the event of "transactions of particular significance", which has only occurred once to date. This means that we have a considerable degree of autonomy.

You mentioned compliance with the Confederation's foreign policy principles. What does that mean and how does SERV meet its obligation in this regard?

[D] SERV must assess insurance applications to ensure that they comply with the requirements regarding environmental protection, human and social rights and combating corruption. In doing so, it pays particular attention to the requirements of the OECD and the standards of the World Bank and other international institutions or treaties that Switzerland is bound by. The Board of Directors attaches great importance to these aspects.

[G] Assessing transactions forms an integral part of the application process for each transaction. The increasing complexity of the projects is also reflected in the issue of sustainability, which is why we have also increased the number of staff in this area. SERV works with exporters, banks, buyers and often also with other government export credit agencies in order to obtain as complete a picture as possible of all the sustainability risks. Where necessary, it lays down conditions to ensure the implementation of international sustainability standards. These are monitored by specialist consultants. In the interests of transparency, SERV publishes all the major transactions it supports on its website. Where the transactions are of a particularly sensitive nature, we also examine detailed reports before coming to a decision. SERV has maintained a dialogue with interested non-governmental organisations for many years in order to continuously improve its processes and to exchange general information about its business activities.

Viviane Gnuan (Communications Manager) spoke to Thomas Daum and Peter Gisler.

"Supporting SMEs remains an important objective for SERV. This is reflected in the fact that, in terms of numbers, insurance policies for SMEs account for almost 70 per cent of SERV's business."

Financial Year 2018

New commitment

+86 %

Premium payments
(in CHF million)

249

Despite a considerable increase in new commitments, SERV was only able to post net income of CHF 2.0 million in 2018. SERV generated very high premium income of CHF 257.4 million, while earned premiums totalled CHF 94.5 million. As loss expenses increased sharply over the same period, the company's net income was only slightly in positive territory.

Although the number of newly concluded transactions remained stable at 770 insurance policies (IP) (2017: 773 IP), new commitment increased hugely by 84.5 per cent year-on-year to CHF 4.028 billion in 2018, in particular due to the conclusion of various large transactions with long credit periods.

Loss expenses, which had been very low in the previous year (CHF 10 million), went from one extreme to the other and reached CHF 104.5 million, of which CHF 80 million is attributable to provisions and value adjustments on claims. As earnings from debt rescheduling continued to decline, net profit/loss on insurance was down at CHF 16.3 million (previous year CHF 85.6 million). Following the deduction of material, personnel and financial expenses, which changed insignificantly compared to the previous year, the operating profit amounted to only CHF 2.0 million.

As in the previous year, SERV recorded no interest income at all from cash investments in 2018 and, as a result, net income was equal to the operating profit of CHF 2.0 million.

Development of the Business Environment

SERV's business performance is subject to significant short-term volatility that is greatly influenced by the volume of the insured transactions and the level of loss expenses. Developments in the global economic and political environment must be taken into account when attempting to understand SERV's business results in a long-term context.

Geopolitical uncertainties have been increasing for several years. In 2018, these included the ongoing conflicts in the Middle East, the threat of a trade dispute between the US and China, the wrangling over the terms of Brexit and the arguments within the EU.

The financial markets were subjected to additional risks when the rise in interest rates in the US caused capital outflows from some emerging markets and a corresponding weakening of their currencies. The exchange rate swings were particularly pronounced in Turkey, the country in which SERV has the most exposure. The Swiss franc initially continued its path towards a fair valuation that it had embarked upon in July 2017, but again fell prey to a degree of upward pressure in the second half of 2018.

Although the growth trajectory of the global economy was maintained despite this bleaker environment, it lost momentum noticeably over the course of the year. The US economy, in particular, developed very positively, while the EU and emerging markets were only able to report modest economic growth. Economic growth was slowed by declining prices for important commodities. This was particularly the case in Africa, South America and Central Asia.

The Swiss export industry was able to benefit from global growth and was also helped by the fall in the value of the Swiss franc between June 2017 and August 2018. As in previous years, exports from the chemical and pharmaceutical industries saw above-average growth, but this did not lead to increased demand for SERV insurance cover. SERV, on the other hand, was able to benefit from the recovery in the mechanical, electrical and metal industry (MEM) sector, whose exports increased substantially, particularly in the first half of 2018.

Recalculation of Commitment and Exposure

The exposure calculation was revised in 2018. In the past, the nominal interest amounts of all future interest periods were totalled over the entire term of an export credit and included in the commitment in this manner. This resulted in the commitment – especially to long-term export credits – being unduly increased by interest payments and thus not correctly reflecting SERV's actual risk situation. From financial year 2018 onwards, only the nominal interest amount of an interest period (six months) will normally be included in the commitment. This accounts for the fact that, in the event of a final loan default, SERV generally indemnifies the outstanding loan amount in the form of a lump sum payment rather than pro rata over the remaining term of the loan. Furthermore, the exposure

New Exposure [1]

in CHF million

	Insurance policies (IP) (new commitment)				Total		Insurance commitments in principle (ICP)		Total new exposure	
	short term		medium/long-term							
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Countries										
Brazil	11.4	1.0	930.0	27.0	941.4	28.0	25.0	21.1	966.4	49.1
Turkey	299.8	101.2	327.6	97.9	627.4	199.1	159.1	65.9	786.5	265.0
Russia	310.6	11.0	251.3	13.4	561.9	24.4	57.8	693.6	619.7	718.0
Turkmenistan	6.7	3.1	–	–	6.7	3.1	314.3	8.4	321.0	11.5
Indonesia	–	–	286.1	1.0	286.1	1.0	13.8	407.6	299.9	408.6
Iraq	69.4	102.1	108.4	26.7	177.8	128.8	111.9	110.4	289.7	239.2
Uzbekistan	–	–	62.7	1.3	62.7	1.3	100.6	6.2	163.3	7.5
United Arab Emirates	138.9	120.7	0.8	24.7	139.7	145.4	20.0	7.7	159.7	153.1
Other countries	809.1	770.5	415.0	881.3	1 224.1	1 651.8	421.7	637.2	1 645.8	2 289.0
Total	**1 645.9**	1 109.6	**2 381.9**	1 073.3	**4 027.8**	2 182.9	**1 224.2**	1 958.1	**5 252.0**	4 141.0
Industries										
Mechanical engineering	565.3	267.9	710.8	162.7	1 276.1	430.6	521.2	1 332.3	1 797.3	1 762.9
Power generation & distribution	6.8	62.7	1 242.2	456.3	1 249.0	519.0	114.7	259.3	1 363.7	778.3
Chemicals & pharmaceuticals	478.4	525.1	4.9	–	483.3	525.1	7.9	113.8	491.2	638.9
Rolling stock & railway technology	63.4	35.0	30.6	224.9	94.0	259.9	73.9	149.7	167.9	409.6
Electronics	23.2	56.5	2.5	37.0	25.7	93.5	69.0	38.3	94.7	131.8
Engineering	37.5	13.0	11.8	36.0	49.3	49.0	3.8	10.5	53.1	59.5
Metalworking	40.6	10.4	3.0	40.8	43.6	51.2	5.8	10.1	49.4	61.3
Other industries	430.7	139.0	376.1	115.6	806.8	254.6	427.9	44.1	1 234.7	298.7
Total	**1 645.9**	1 109.6	**2 381.9**	1 073.3	**4 027.8**	2 182.9	**1 224.2**	1 958.1	**5 252.0**	4 141.0

[1] Figures for 2017 adjusted; cf. note Financial Highlights

is now normally presented net of reinsurance with other state export credit agencies (ECA). As a result, SERV's commitment and exposure are lower than in the past. In order to ensure the comparability of the most recent business developments, the figures for 2017 – but not those for previous financial years – have been restated in accordance with the revised method. The calculation of obligations linked to the utilisation of the framework of obligation approved by the Federal Council is not affected by this change.

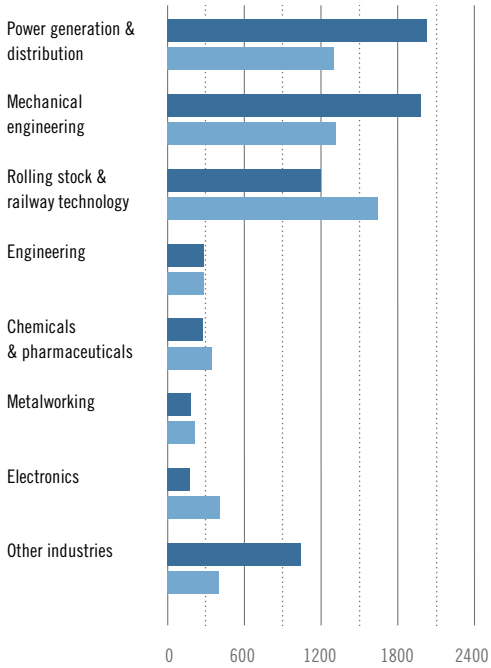
Development of New Exposure and New Commitment

New exposure increased sharply by 26.8 per cent from CHF 4.141 billion in the previous year to CHF 5.252 billion, which was in contrast to past declines in new exposure. The increase in 2018 was mainly attributable to the substantial rise in new commitments, which grew by 84.5 per cent to CHF 4.028 billion. The volume of newly issued insurance commitments in principle (ICP) fell by 37.5 per cent from CHF 1.958 billion in the previous year to CHF 1.224 billion. The proportion of new exposure accounted for by ICP has therefore fallen back to a comparatively normal level after a period in which ICP had at times very much dominated the volume of new exposure.

The increase in new commitments was largely down to SERV insuring more large transactions in 2018 than in the past.

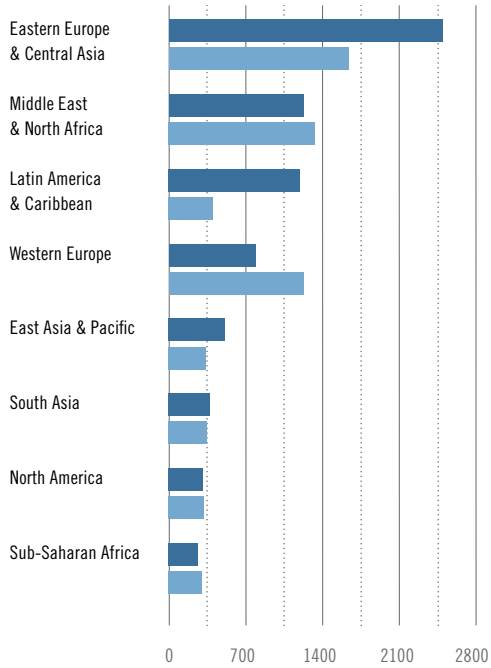
Commitment by Industry

in CHF million



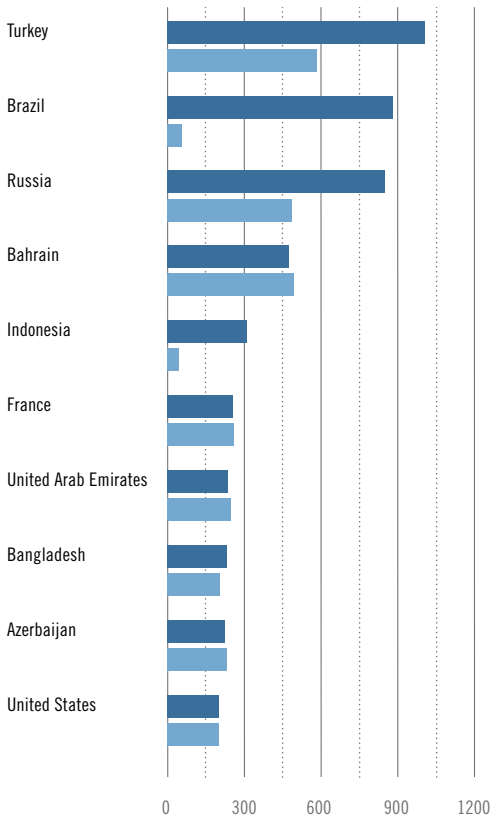
Commitment by Region

in CHF million



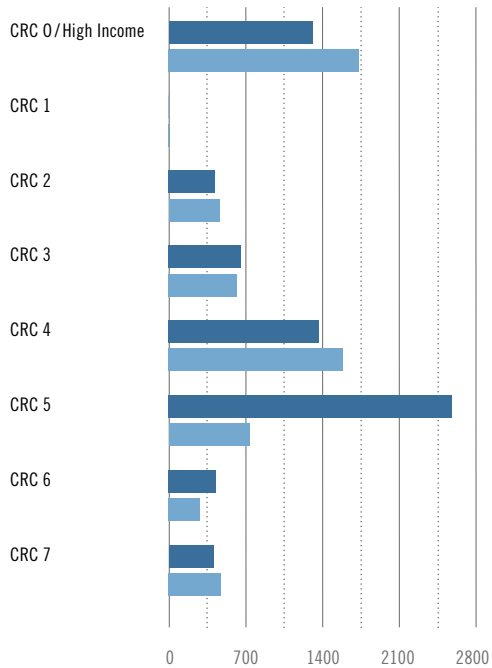
Commitment by Country

The ten main countries for SERV, in CHF million



Commitment by OECD Country Risk Category

in CHF million



2018
2017 (adjusted; cf. note Financial Highlights)

However, as SERV's business volume is primarily driven by economies of scale and less by volume effects, it would be premature to conclude that the low proportion of ICP means that new commitments are likely to decline again in the future.

The increase in new commitments was largely down to SERV insuring more large transactions in 2018 than in the past. The proportion of short-term insurance transactions (i.e. insurance transactions with a risk period of less than 24 months) also declined from 50.8 per cent in 2017 to 40.9 per cent. This shows the change in the business structure, as large transactions are almost exclusively financed with buyer credits with a risk period of 10 years or more.

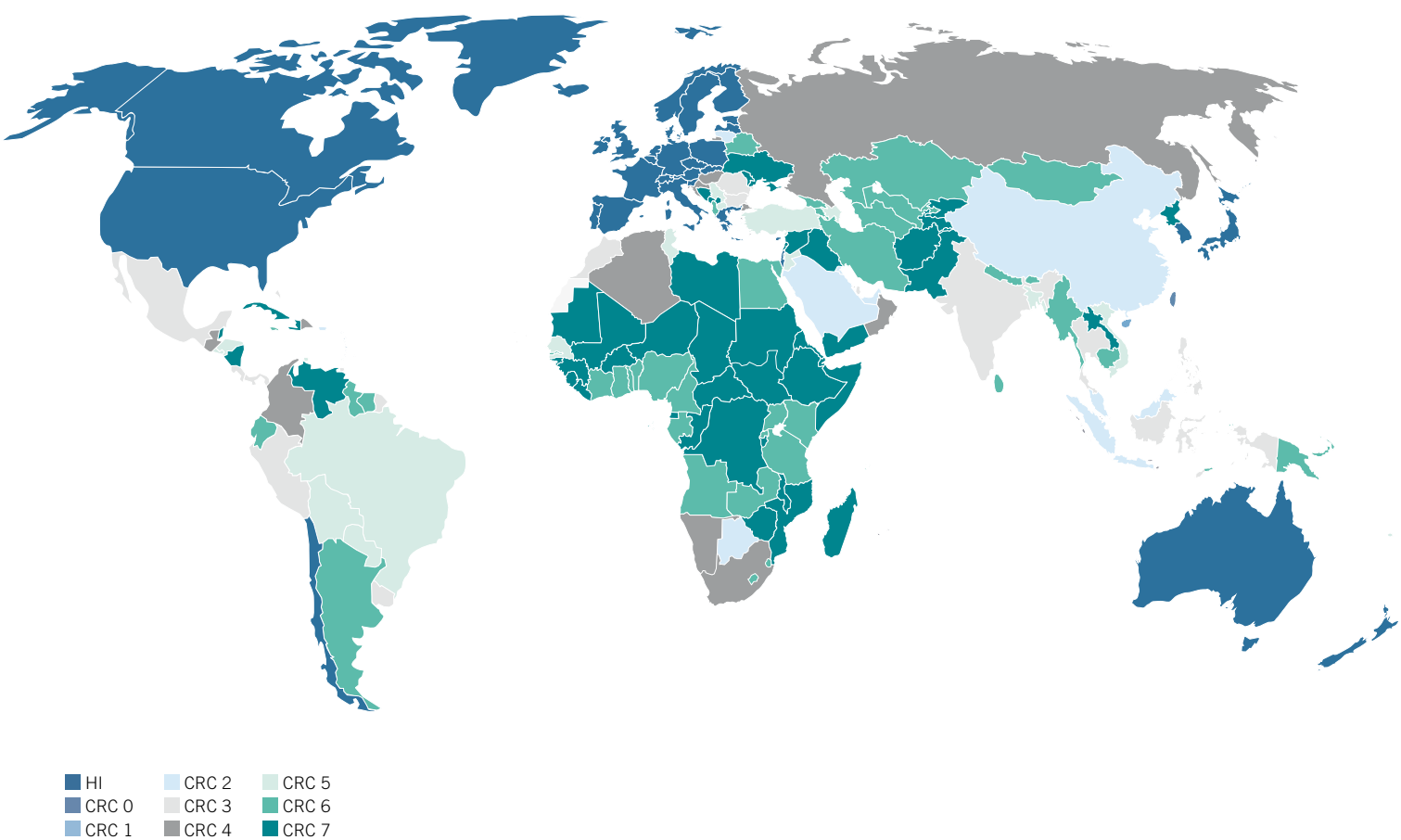
The strong expansion in new transactions is primarily attributable to the power generation and distribution sector, where new commitments more than doubled from CHF 519.0 million to CHF 1.249 billion. In the power plant business in particular, export financing insured by SERV has shown itself to be a decisive competitive advantage, allowing Swiss exporters to benefit despite a global decline in demand in the fossil energy sector. Insuring project bonds in Brazilian real for a gas-fired combined cycle power plant in Brazil has shown SERV to be a particularly innovative ECA internationally and has therefore also contributed to Switzerland remaining a comparatively attractive location for the power plant construction industry. The new commitment in the mechanical engineering sector (textile, machine tool and food processing machinery and the construction of chemical plants) almost tripled from CHF 430.6 million in the previous year to CHF 1.276 billion, meaning that the mechanical, electrical and metal industry (MEM) sector is acting as a growth engine for SERV.

At 934, the number of newly issued ICPs and IPs remained static at a comparatively high level (previous year: 933). Working capital insurance and counter guarantees, which account for 36 per cent (previous year: 34 per cent) of the total number of newly issued IPs, are still in great demand from Swiss SMEs. Last year, SERV paid increased attention to ensuring that the standard coverage rates specified in the SERV

The strong expansion in new transactions is primarily attributable to the power generation and distribution sector, where new commitments increased substantially from CHF 519.0 million to CHF 1.249 billion.

OECD country risk category
An interactive map of the world with further details on OECD country risk categorisation can be found at report.serv-ch.com.

OECD country risk categories, as of 31.12.2018



Commitment

+22 %

SERV's highest commitment by country is to Turkey at CHF 1.003 billion.

Ordinance – 80 per cent for working capital insurance and 90 per cent for counter guarantee – are only exceeded in substantiated exceptional cases. SERV will, however, refrain from levying the premium for the additional cover ratio until the end of 2019.

SERV's Exposure and Commitment

SERV's exposure amounted to CHF 8.674 billion as at 31 December 2018, 5.0 per cent higher than the previous year (CHF 8.257 billion). After deducting ICPs, SERV's exposure as at 31 December 2018 amounted to CHF 7.173 billion, which was only 21.5 per cent higher than at the end of 2017 despite the substantial rise in new exposure. This was due in part to the derecognition of a large transaction in the UK where the borrower had been able to replace a buyer credit covered by SERV with one on more favourable terms, and also due to the regular writing off of repayments from insured export transactions in the past. The change in the calculation method had no effect as the 2017 exposure was also calculated retroactively on the basis of the new method.

SERV's highest commitment by country is to Turkey at CHF 1.003 billion, which accounts for around 14 per cent of total current commitments. The almost doubling of the exposure compared to the previous year is attributable to business in the power generation sector (energy generation from waste incineration), road construction, textile machinery and vehicles. Large transactions in the gas-fired combined-cycle power plant sector have led to a sharp rise in our involvement in Brazil and Indonesia; both countries have been on our top ten list of countries for a considerable time.

Organisation, Personnel and IT

The term of office of the Board of Directors will continue until the end of 2019. There were, however, two changes to the Board of Directors. At the end of September, Beda Moor retired from the committee of which he had been a member since the formation of SERV. A member of the ERG Commission from 2001 to 2006, he made a significant contribution to getting SERV off the ground in both the Finance and Organisation Committee (FOA) and the Insurance Committee. Having joined the Board of Directors in mid-2016, Laura Sadis resigned her position at the end of the year for personal reasons. She was a member of the FOA and contributed her varied experience as a former State Councillor of the Canton of Ticino and holder of other board mandates. The Board of Directors thanks Beda Moor and Laura Sadis for their valuable contribution to the management of SERV. Burkhard Huber and Reto Wyss joined the Board of Directors in October.

"Since its establishment, SERV has been able to secure its funding mandate and business management."

Heribert Knittlmayer
Head of Insurance Business

There were no changes to SERV's governance in 2018. SERV did, however, carry out a comprehensive analysis of its business processes for the first time in its history with the assistance of the consultancy firm Ernst & Young (EY). The aim was to subject SERV's business processes to a critical review, develop optimisation proposals and create a viable basis for the modernisation and sustainability of its IT systems. The project has been concluded and the Board of Directors has adopted the necessary resolutions to further the company's organisational development.

Following on from those of 2008 and 2013, SERV conducted a third customer satisfaction survey in the year under review. Customers continue to be very satisfied with SERV and its products, emphasising in particular the high quality of advice it offers on insurance underwriting and claims settlement. Exporters deem the flexible value-added rules introduced in the last revision of the SERV Ordinance in 2016 to be of particular importance. There are also interesting indications that the Swiss export industry considers financing insured by SERV to be a decisive competitive advantage and that SERV is thus creating an additional benefit in the market beyond that of the actual risk protection.

In February 2017, the Federal Financial Audit Office (FFAO) published its report on the audit of the implementation of the legal remit and the strategic objectives of export risk insurance. All of its recommendations to SERV had been implemented by mid-2018, particularly with regard to the organisation of a legally compliant procurement system.

Risk Policy, Risk Management and Cover Policy

There have been no significant changes in the area of risk policy and risk management since 2017 and the preceding years. The BoD is responsible for risk management and its supervision at SERV. It defines the risk policy and periodically evaluates the risk profile. In 2018, the BoD again examined the risks faced by SERV via regular reports. It determined that risk management was appropriate, both for the financial, operational and strategic risks as well as reputation risks.

SERV conducts an annual assessment of the risks handled by the internal control system (ICS). The key controls were adapted to the changed organisational structure and the 2018 assessment indicated a high level of effectiveness and efficiency with regard to control activities for all key risks. There have been no changes since the preceding years.

The risk classification of individual countries, banks and private buyers is determined by the cover policy; it is the most important flexible risk management instrument in the insurance business. Compliance with the various limits in accordance with the risk policy, cover policy and the appropriateness of capital level, taking risk concentrations into consideration, were also reviewed in 2018 on an ongoing basis. The requirements for the risk-bearing capacity of debtors in Turkey were tightened as a result of the huge devaluation of the Turkish lira in the summer of 2018 and a country limit of CHF 1 billion was set for Bangladesh.

Against the background of the sharp increase in new commitments, SERV regularly reviews its available risk capacities with regard to capital and the utilisation of the framework of obligation. As there were strong indications in October 2018 that the CHF 14 billion framework of obligation would become insufficient for new transactions in the first half of 2019, SERV's BoD asked the Federal Council to increase the amount to CHF 16 billion. This request was granted on 14 December 2018.

Sustainability

SERV examines any proposed insurance transactions to ensure their sustainability with regard to the environment, social responsibility, human rights and combating corruption. In particular, SERV observes the relevant OECD international guidelines and the principles of Swiss foreign policy according to Art. 6 para. 2 SERVG. These include the peaceful co-existence of peoples, respect for human rights and promotion of democracy, conservation of natural resources, alleviation of poverty and destitution in the world, but also preserving Switzerland's independence and protecting its national welfare. Further requirements may arise as a result of Switzerland's obligations under international law. For the assessment of major projects of environmental or human rights significance, the Head of Sustainability conducted detailed reviews of environmental and social aspects, making use of appropriate experts' reports; in several cases he also made on-site inspections.

SERV maintains a regular dialogue with the relevant non-governmental organisations (NGOs). It holds an annual meeting with them, providing information about its business results, specific current projects, developments at SERV and in the OECD export credit group. At these events, SERV also attends to concerns of importance to NGOs. In addition to representatives from SERV, the organisations Alliance Sud, Public Eye, Transparency International, WWF and Pro Natura attended the Dialogue 2018. The NGOs in attendance expressed their satisfaction with the open discussion and the high level of transparency of SERV.

In the course of 2018, SERV implemented an online complaints mechanism, thereby realising a 2017 recommendation from the Swiss Center of Expertise in Human Rights (SCHR). The SERV website makes it possible to submit anonymous complaints about projects covered by SERV to an independent body.

When presented with allegations of corrupt business dealings, SERV actively pursues dialogue with the exporter concerned. Discussions were conducted with three Swiss exporters in 2018 to investigate specific incidents; these were not transactions covered by SERV. In the event of justified indications of corruption, SERV carries out detailed anti-corruption audits of the exporter concerned. No such audits were required in 2018.

International Relations

SERV regularly accompanies the Swiss State Secretariat for Economic Affairs (SECO) to the meetings of the OECD Export Credit Group and the Consensus Group, which is responsible for the OECD Arrangement on Officially Supported Export Credits (OECD Export Credit Group). Several years of negotiations on a revision of the Recommendation on Bribery and Officially Supported Export Credits, which updates

In the interests of transparency, SERV publishes all projects with a contract value of more than CHF 10.0 million on its website in agreement with the respective policyholders. These projects fall into Category A according to OECD environmental and social guidelines, and are published no later than 30 days prior to issue of the relevant IP.

Sustainability Audit

SERV employed the equivalent of over 100 per cent of an FTE to auditing the export transactions for their sustainability. As of 1 April 2019, this will be increased to 160 per cent. Each insurance or guarantee request is audited and SERV collaborates closely with experts and all the parties involved to ensure that this is the case. This provides SERV with certainty that the transactions it insures are conducted in accordance with international standards and the principles of Swiss foreign policy. Where necessary, Bernhard Müller, Head of Sustainability at SERV, travels to the relevant location to ensure compliance with the standards or the prescribed measures.

Due to its contract value of around CHF 1 billion, the Porto de Sergipe project was among those requiring a particularly thorough and detailed audit in 2018. The project involves the construction of a 1.5 gigawatt gas-fired combined-cycle power plant in north-eastern Brazil. The plant also includes an offshore natural gas supply vessel and a 34 km long high-voltage line. The project is monitored in the form of quarterly visits by an independent team of security, environmental management, criteria and biodiversity experts. The Inter-American Development Bank (IDB) and the International Finance Corporation (IFC), which are also involved, perform similar monitoring activities.

As the plant is situated in a coastal area, environmental aspects such as flora and fauna have been taken into consideration and appropriate protective measures put in place. For example, construction activity was restricted during the sea turtles' spawning and development seasons to minimise any possible impact. The conclusions of the on-site visit was gratifying: "The audit enabled us to exclude any major risks to people or the environment," says Bernhard Müller. The project will continue to be monitored in the first few years after its commissioning to ensure that all the requirements continue to be fulfilled.

the recommendation and adds rules on bribery of private individuals, were concluded by the OECD Export Credit Group in 2018. At a higher level, Switzerland has also committed itself to the OECD's Anti-Corruption Convention. Within this framework, Switzerland and SERV in particular were examined in a peer review in 2018 that identified no shortcomings in SERV's measures and processes.

The Consensus Group that is further developing the OECD Arrangement on Officially Supported Export Credits continued its long-standing negotiations on the revision of the rules on minimum interest rates for export credits granted by government export promotion instruments in 2018. Switzerland does not grant such credits and therefore wishes these rules to lead to conditions that closely mirror the markets. Various minor amendments to the OECD Arrangement include broadening the scope of the sectoral agreement for rail transport and infrastructure to include trolleybuses and urban cable cars. In addition, Turkey was officially admitted as a member of the consensus group at the end of 2018.

The International Working Group on Export Credits (IWG) is gaining in importance as a result of its work on regulating government support for export credits. It was set up in 2012 with the aim of creating an international regulatory framework that would garner support from the existing members of the Consensus Group and the major emerging markets such as Brazil, China, India and Russia. These countries also have export credit promotion instruments that in some cases deviate sharply from the consensus position in their application. As a result, exporters from OECD countries face a disadvantage when competing internationally with their competitors from other countries. The IWG is setting up a forum to promote the creation of a level playing field for all exporters. SERV supports SECO in the negotiations and actively works towards this objective in various working groups.

In addition to multilateral cooperation, SERV is constantly engaged in maintaining and expanding its bilateral relationships with other ECAs. In this context, reinsurance agreements with other ECAs play an increasingly important role in order to keep pace with what are now the heavily fragmented international value chains of export transactions; this is being achieved by means of reinsurance and parallel insurance. SERV has reinsurance agreements with 16 ECAs. It made use of these in various projects in 2018, which enabled it to support exporters who are dependent on large-scale deliveries from abroad. SERV also has an ongoing interest in improving its processes and existing services and identifying gaps in the services it provides. Bilateral talks took place with Sweden's SEK and Italy's SACE in 2018, in addition to discussions in the trilateral talks between Germany, Austria and Switzerland.

Losses and Claims

As in previous years, it was possible to avert some imminent losses in the year under review through active pre-loss management using measures such as restructuring due dates, extending cover and negotiating with the foreign buyers. Nonetheless, SERV reported unusually high loss expenses in 2018, although this was largely attributable to loss events from earlier years.

SERV made indemnity payments totalling CHF 72.8 million in the year under review, of which CHF 19.8 million was payment for losses already recognised in previous years and CHF 53.0 million was newly reported losses. CHF 28.4 million had to be set aside in provisions for IBNR losses, while CHF 8.8 million was released for reported losses. Value adjustments on claims were significant at CHF 60.4 million and CHF 24.5 million had to be written off as definitive losses.

In the year under review, SERV processed 23 new losses in addition to the 154 existing losses in recovery affecting 32 countries. It realised CHF 7.0 million in recoveries as a result of implementing recovery measures.

Of the CHF 72.8 million in disbursements for losses, CHF 49.3 million related to risks in Switzerland, CHF 5.6 million to risks in the United Arab Emirates and CHF 3.4 million to risks in Indonesia. The largest recovery (CHF 1.6 million) came from a business in the United Arab Emirates, while the highest write-off of unrecoverable claims (CHF 10.6 million) related to a transaction in Mexico in 2008. Claims from losses were up by a total of CHF 36.7 million to CHF 446.5 million in 2018. SERV did not post any recoveries from restructuring with public debtors in the year under review. The reason for this is that there is currently only a restructuring agreement with North Korea, according to which North Korea is currently exempt from repayments. The agreement expires at the end of 2019 and must either be renegotiated or extended.

With reference to the countries listed on page 46 with which debt rescheduling agreements were concluded in the Paris Club, all the debtor states met their payment obligations in the year under review. Kenya paid the last instalment, thus concluding the debt rescheduling agreement.

Following the multilateral debt rescheduling agreement reached in the context of the Paris Club in December 2015 between Cuba and its creditors, Switzerland concluded a bilateral agreement with Cuba for claims amounting to CHF 127.6 million, of which capital and accrued interest totalling CHF 47.3 million are to be repaid by 2033. In return, SERV will waive default interest of CHF 82.2 million gradually in proportion to the repayments made.

In November 2014, a bilateral debt rescheduling agreement was concluded between Argentina and Switzerland relating to the accrued capital, interest and default claims amounting to CHF 454.2 million as of 1 May 2014. This agreement stipulated that the entire outstanding amounts should be repaid by 2019. The agreed annual minimum payments have been made by Argentina to date.

SERV's credit balances are value adjusted in the case of countries for which SERV has claims from losses or with which a debt rescheduling agreement has already been concluded (cf. p. 46).

Newly reported losses
(in CHF million)

53

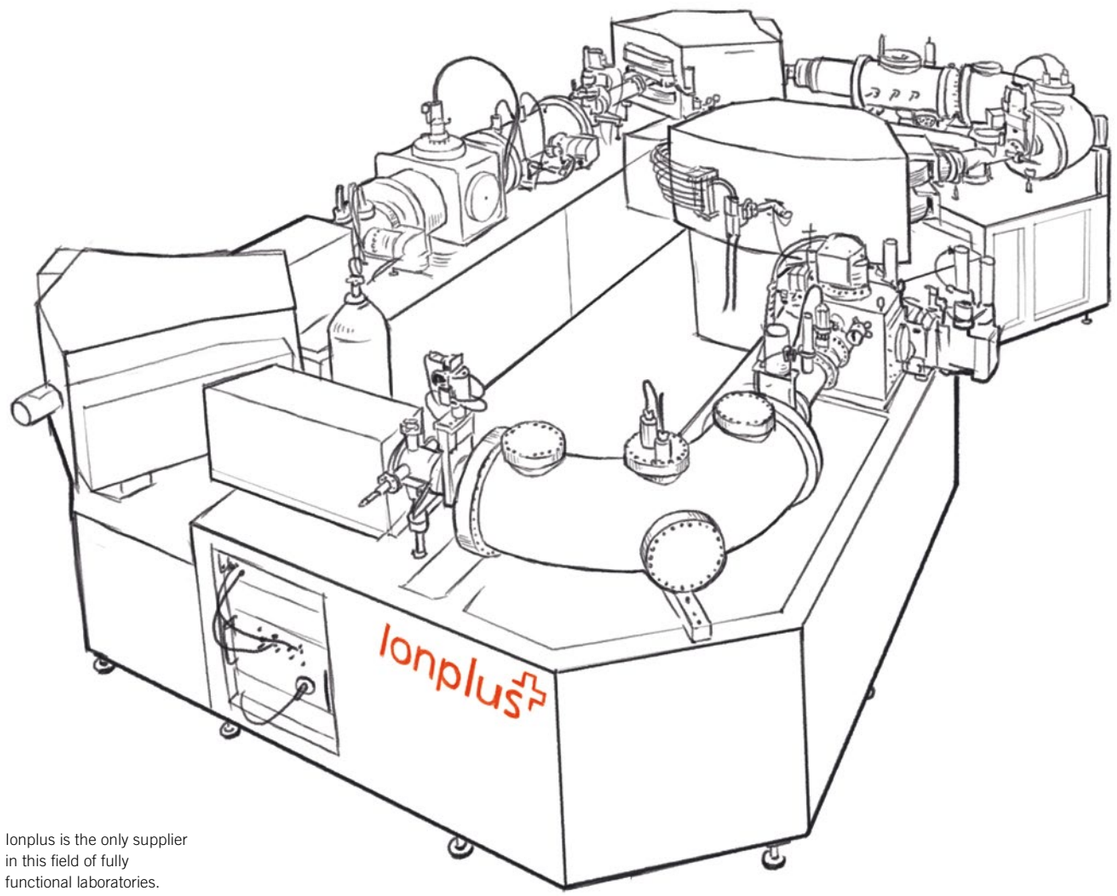
Recoveries
(in CHF million)

7

Claims from losses rose to a total of CHF 446.5 million.

In the Field

SERV again supported numerous Swiss companies in their export transactions in 2018. This reflected its innovative spirit, as the following examples confirm.



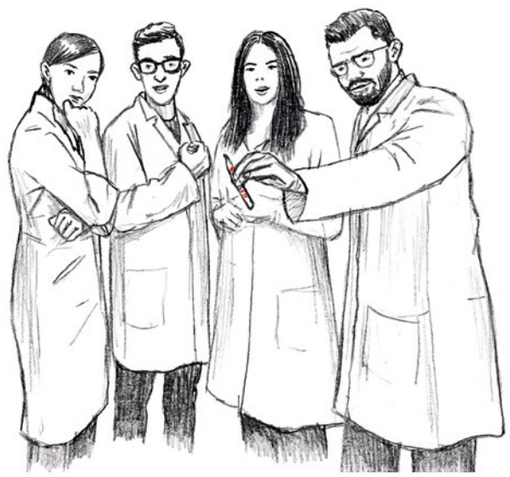
Ionplus is the only supplier in this field of fully functional laboratories.

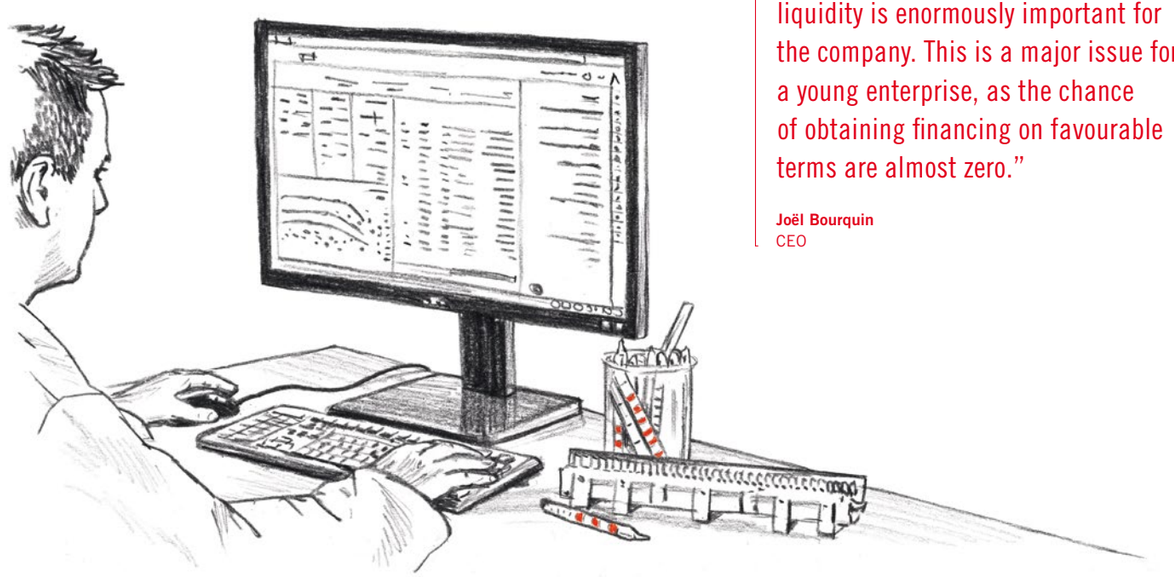
ETH spin-off exports entire research laboratories

Not all carbon is the same: the element is present in different types of atoms, known as isotopes. The radioactive isotope 14C provides clues about the age of samples containing carbon, such as archaeological finds. Ionplus, an ETH spin-off in Dietikon, develops and exports machinery that performs such analyses. The company is the market leader in this area, although it has to master a number of challenges.

It is invisible to the naked eye, radioactive and present in minuscule quantities in the atmosphere. It is called 14C and is an isotope of carbon. At Ionplus AG, the ETH spin-off founded in 2013, everything revolves around this unprepossessing isotope. The Dietikon-based 25 people company is a leader in the 14C radiocarbon method, a process to determine the age of carbonaceous materials. The procedure is based on the following principles:

The isotope 14C is formed by natural cosmic rays, is incorporated into all plants through photosynthesis and is also absorbed by animals through the food chain. The level of 14C remains constant throughout the lifespan of the plant or animal, but it ceases to absorb the isotope once it dies, which then starts to decay. This fact makes it possible to determine the time of death and thus the age of a sample, given that we know the isotope has a half-life of 5730 years – the timespan within which half of the atoms decay. The method is used in archaeology, environmental and marine research, materials science, biomedicine, forensics, geology and nuclear energy.





> "Given that each such project takes around one-and-a-half years to complete, liquidity is enormously important for the company. This is a major issue for a young enterprise, as the chance of obtaining financing on favourable terms are almost zero."
>
> **Joël Bourquin**
> CEO

The only supplier of fully functional laboratories
A variety of machinery is required for this process. The most important of these is an accelerator mass spectrometer in which ions of the sample are separated in a particle accelerator to such a degree that individual atoms of the 14C can be counted. Before the atoms can be measured, the sample must be put through various preparation processes, chemically treated and converted into pure carbon (graphite). Ionplus is one of three companies developing accelerator mass spectrometers. Unlike its competitors, however, the spin-off supplies the machinery for the entire process chain rather than just the measuring instruments. It also supplies the software for the evaluation of the data, including databases and extensive expertise. As a result, Ionplus is the only company able to supply fully functional laboratories.

The export challenge
Ionplus' market is largely made up of research companies from around the world. Supplying customers abroad always involves challenges: in addition to cultural differences and contrasting ground rules in each market, there is also a risk of non-payment. A further difficulty is obtaining sufficient funding, which was a particular challenge in Ionplus' early days. CEO Joël Bourquin explains: "We need about CHF 700 000 upfront to build a plant. Given that each such project takes around one-and-a-half years to complete, liquidity is enormously important for the company. This is a major issue for a start-up, as the chances of obtaining financing on favourable terms are almost zero." SERV cover can remedy the situation in such cases. This assumes Ionplus' payment risk vis-à-vis the bank that in turn gives Ionplus access to banking products, which in this case meant issuing an advance payment bond. As a result, Ionplus does not need to provide any further collateral to the bank. "SERV was our only financing option when we were starting out. It was essential for our growth," Bourquin adds. The company now sells four to five plants worth around CHF 2 million each every year.

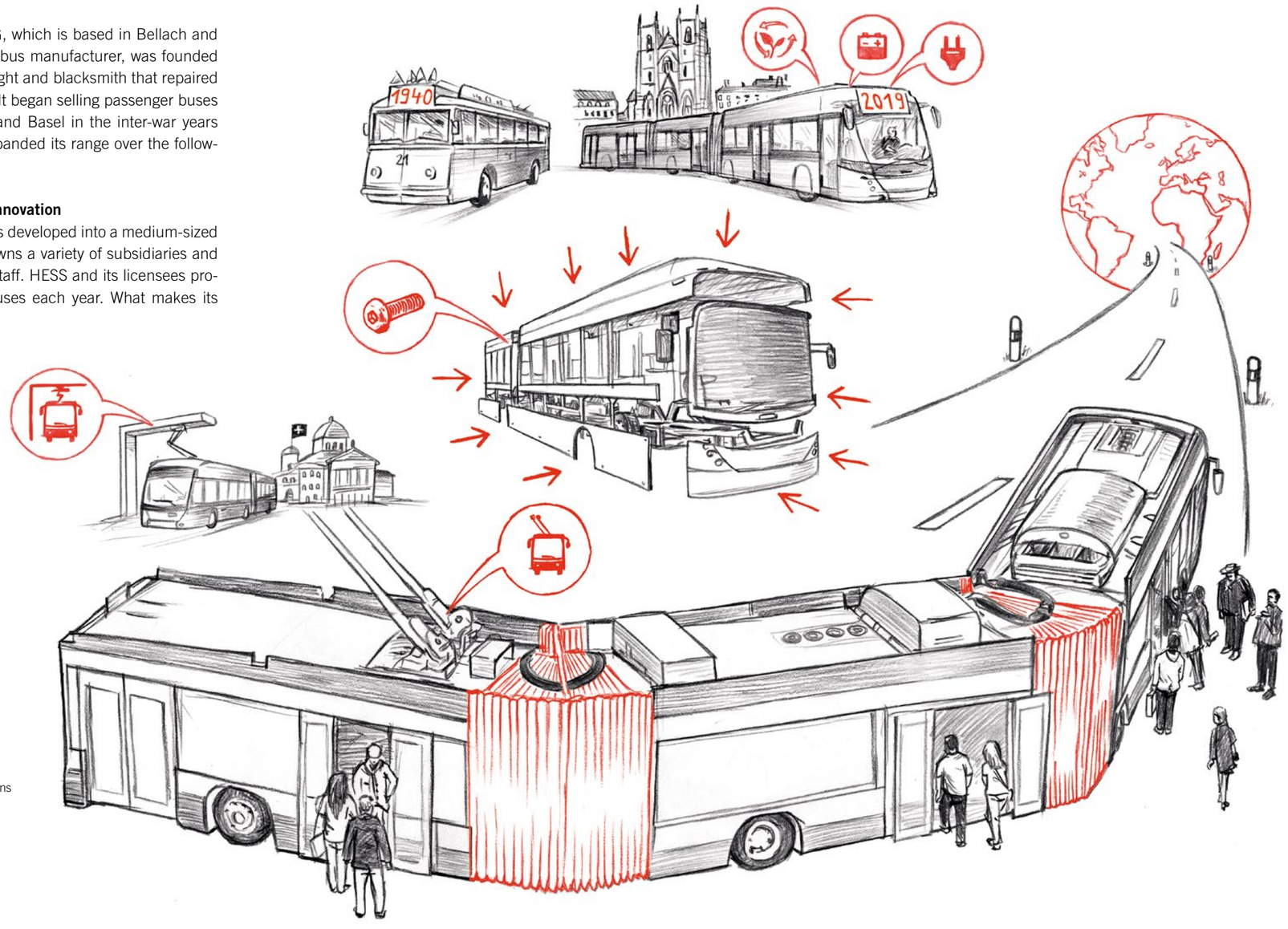
Swiss bus manufacturer on the crossroads between tradition and innovation

Carrosserie HESS AG is a traditional company whose innovations continue to impress. The company now supplies customers around the world, but this is not without its challenges.

Carrosserie HESS AG, which is based in Bellach and is Switzerland's only bus manufacturer, was founded in 1882 as a wainwright and blacksmith that repaired wagons and trailers. It began selling passenger buses to the cities of Biel and Basel in the inter-war years and continuously expanded its range over the following decades.

Success thanks to innovation
Since then, HESS has developed into a medium-sized company that also owns a variety of subsidiaries and employs some 450 staff. HESS and its licensees produce up to 2 400 buses each year. What makes its products and services so attractive? "We see ourselves as an innovative company that maintains a constant focus on efficiency, reliability and environmental friendliness," explains CEO Alex Naef. For example, HESS was the first bus manufacturer to use aluminium instead of the generally employed steel of the time. HESS also launched the world's first low-floor double-articulated trolleybus in 2003. In addition, HESS uses a bolted, modular system instead of a welded body. This gives flexibility and has a positive impact on both production costs and service times.

> "The options provided by SERV allow us to supply more of our products abroad and consider new markets. Risk protection and the fact that we can obtain cover for a working capital loan are basic prerequisites that enable us to take advantage of such orders abroad."
>
> **Ernst Basler**
> CFO

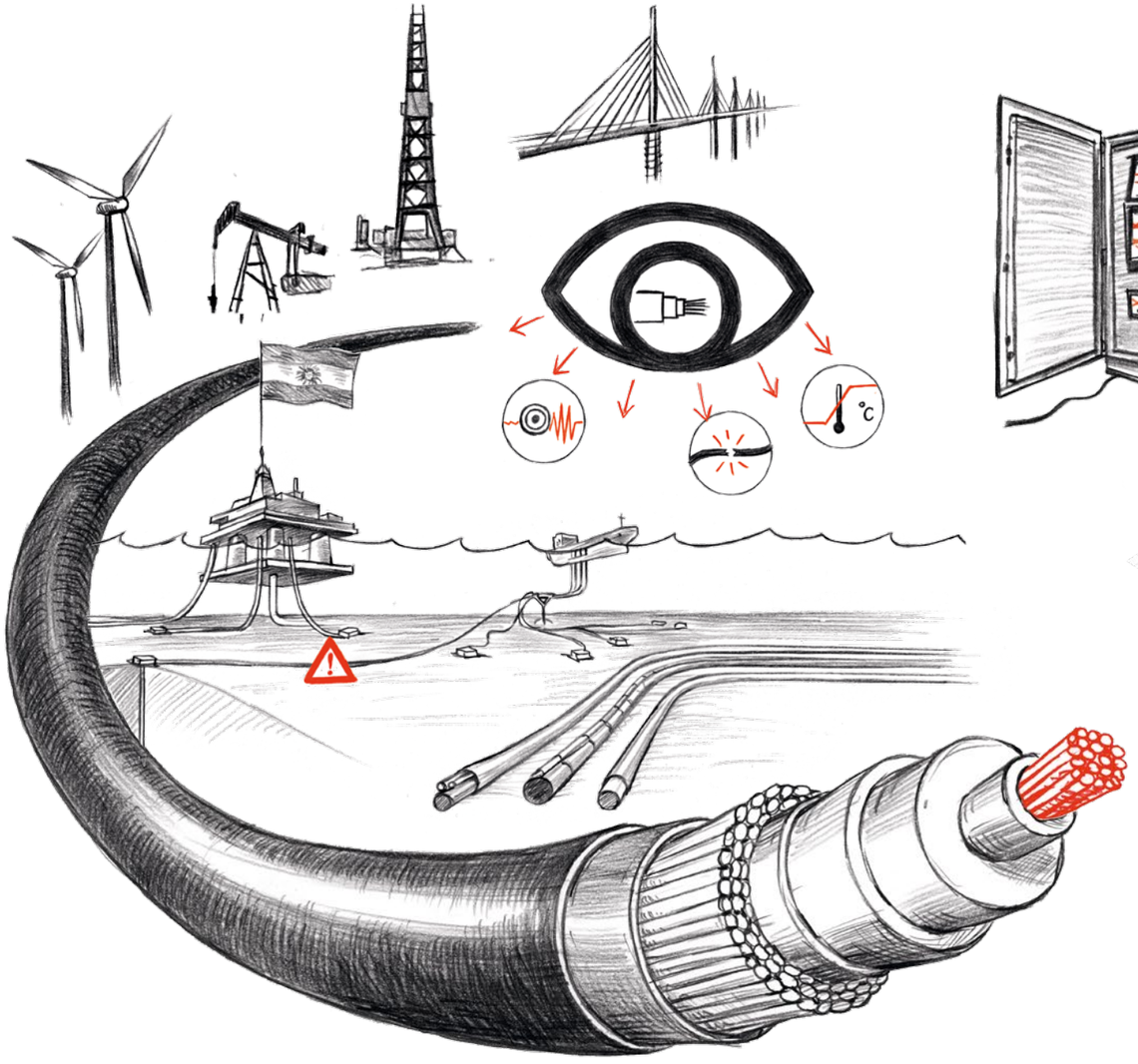


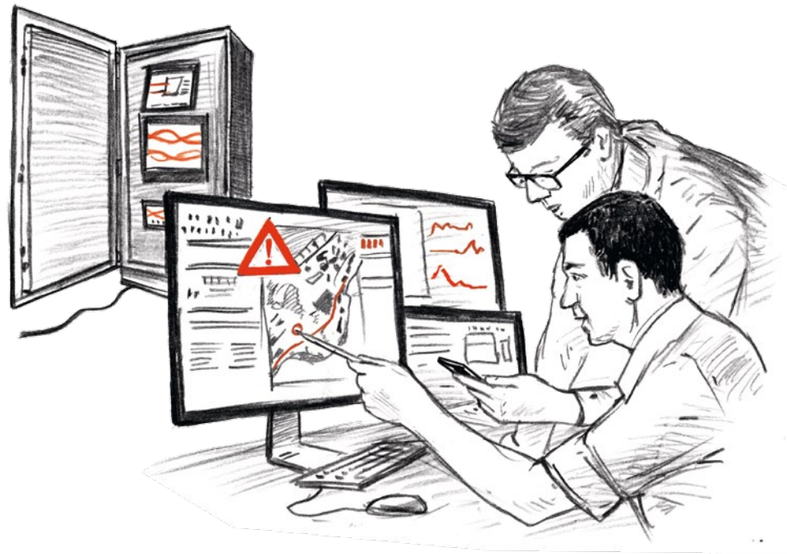
From a modular system to the world's first double-articulated trolleybus: Carosserie HESS' innovations continue to impress.

The HESS product range includes electric and diesel-powered buses with a length of 8–25 metres, as well as vehicle superstructures and the requisite servicing. The technologies and construction kits developed by HESS are also sold to other bus manufacturers beyond the company's own markets.

The majority of HESS' customers are urban and regional transport companies, garages and commercial customers. HESS supplies companies around the world. For example, the French city of Nantes commissioned HESS to supply 20 double-articulated buses worth EUR 31 million.

The export challenge
HESS received a down payment of only 5 per cent of the order value for this first collaboration, which represents a major challenge for this medium-sized company. In foreign countries, it is frequently the case that only small down payments are made, or indeed none at all. SERV Swiss Export Risk Insurance has covered the remaining 95 per cent with pre-shipment risk insurance, supplier credit insurance and working capital insurance. "The options provided by SERV allow us to supply more of our products abroad and consider new markets. Risk protection and the fact that we can obtain cover for a working capital loan are basic prerequisites that enable us to take advantage of such orders abroad," says CFO Ernst Basler.





Omnisens' solutions are used in several areas of application.

"We have observed a sharp rise in the collateral required in the energy sector over the last two years. This makes SERV an important partner for an SME like Omnisens."

Olivier Thévoz
CFO

Glass fibre with a difference

Omnisens SA supplies fibre-optic monitoring solutions to customers around the world. It is a company that knows no boundaries when it comes to new technologies and increasing demands in the export business.

When people think of fibre optics, they generally think of fast Internet connections. In reality, they have a considerably broader range of uses, as demonstrated by the technologies of Omnisens SA, which is based in Morges. The company is a leader in the field of fibre optic monitoring. The 32 people company was founded at ETH Lausanne in 2000. Since its inception, Omnisens has developed, manufactured, installed and maintained monitoring solutions for the oil and gas industry, wind farms, power cables and other sectors in the civil engineering industry. It also analyses the data it collects and provides training courses.

A technological challenge
Omnisens' solutions identify leaks, earth movements and temperature variations, over a distance of up to 300 kilometres. They enable the problem to be located within minutes and ideally quickly resolved. Not only can a malfunction in a plant seriously damage its reputation, it can also result in serious consequences for the environment. With this in mind, Omnisens has continuously optimised its technologies and software over the years. It has even been issued with a guarantee from the Confederation's Technology Fund to enable it to produce a new generation of monitoring solutions that are even more accurate.

Omnisens supplies infrastructure companies around the globe and depends on exports as 90 per cent of its turnover comes from export orders. One of these was placed by an Argentinian consulting firm. This company commissioned Omnisens to supply both the hardware and software to monitor a 30-kilometre underground water pipeline in the city of Cordoba worth USD 340 000. This solution is generally associated with the oil industry. "Using our solutions for a water pipeline in a region exposed to strong earth movements is a first for us. This makes the project a technological challenge and therefore particularly exciting," says CFO Olivier Thévoz.

Challenging demands in the energy sector
The collaboration with the Argentinian client was new territory for Omnisens. Although the payment terms were pretty standard, the client demanded a substantial amount of securities as well as environmental and social commitments. SERV insured the transaction by means of a counter guarantee and contract bond insurance. SERV's backing meant that Omnisens received a guarantee from its bank on favourable terms and was able to keep its liquid assets available for other orders. "We have observed a sharp rise in the collateral required in the energy sector over the last two years. This makes SERV an important partner for an SME like Omnisens," says Olivier Thévoz.

Outlook

The provision of insurance solutions and therefore an attractive overall financing offer can be a decisive factor for a foreign buyer when awarding a contract to a Swiss exporter.

SERV concentrates on those areas that private insurers either do not cover or cover inadequately. Within its prescribed legal framework of economic viability, subsidiarity and compatibility with Swiss foreign policy, SERV promotes the international competitiveness of the Swiss economy through its range of insurance products and its flexible interpretation of value-added rules, and each year supports exports worth billions. These mandates secure Swiss jobs both in the export industry and in the very important industries that supply them.

The increasing numbers of state export credit agencies (ECAs) who are members of the International Union of Credit & Investment Insurers, the Berne Union, indicates that the insurance and state promotion of export transactions is an important instrument in global trade for the exporting countries. The governments of the major exporting countries provide extensive support measures in line with their varying political models. In addition to the classic hedging of payment risks from export transactions, countries are increasingly relying on tools such as direct financing of SMEs by state trade finance banks, hedging investment risks and insuring and financing transactions with international buyers without reference to a specific export associated with the insurance. SERV must follow this development very closely in the coming years if it is to continue to fulfil its legal mandate to provide “internationally competitive services”. Where required, it will submit timely proposals to the Swiss State Secretariat for Economic Affairs (SECO) for amendments to its range of insurance products.

Economic Risks

The global economy is continuing to normalise following its strong expansionary phase in 2017 and 2018. The Swiss export sector is expected to enjoy moderate growth in 2019. These predictions do, however, come with some risks attached. The trade dispute between the US and China as well as other important economic areas could escalate. The consequences of Brexit, whether hard or soft, are hard to assess and the record level of international debt remains of concern. If the anticipated normalisation of monetary policy continues, rising interest rates could cause emerging markets to suffer capital outflows and currency turbulence, which could make them vanish from international markets as buyers. Demand for SERV insurance cover generally rises when uncertainty increases. This gives rise to the question of whether this can compensate for the negative effects of stagnant economic growth. SERV is well aware of all these imponderables, but expects its insurance exposure to increase further in 2019, given that several clients have already announced major transactions.

Review of Business Processes
As part of its analysis of all business processes carried out in 2018, SERV, with external support, identified important areas of activity for optimisation. First and foremost, these were responsibilities relating to the handover of a new client from acquisition to underwriting, and also an up-to-date IT application to support business processes.

Important investments and implementation measures are planned for 2019. First, a new IT system is to be rapidly implemented to replace the existing solution by no later than the end of 2020. Second, a "process community" is to be set up with the process managers of all the business units to ensure continuous process improvement to achieve the desired level of efficiency. This group will be led by the Process and Quality Manager, a newly created position. Third, the Sales and Acquisition department will be expanded in terms of personnel and its organisation improved with clear responsibilities and processes. These measures will enable SERV to respond even better to customer needs and market requirements in the future.

Increasing Number of Major Projects
SERV expects an increase in enquiries about insurance to cover major infrastructure projects in the energy, engineering and rolling stock sectors in the coming years. The provision of insurance solutions and therefore an attractive overall financing offer can be a decisive factor for a foreign buyer when awarding a contract to a Swiss exporter. Large risks such as these can impact on the balance of the SERV insurance portfolio. For this reason and due to the trend of seeking increasingly large cover amounts, it follows that SERV will increasingly seek to collaborate with the private reinsurance market and other ECAs in future in order to share the risks.

As there will continue to be a decline in inflows from credit balances from debt rescheduling agreements in the coming years and the prospect of interest income from the funds invested with the Federal Treasury is unlikely in the foreseeable future, premium income from major projects will make a very important contribution to achieving the legal requirement of economic viability.

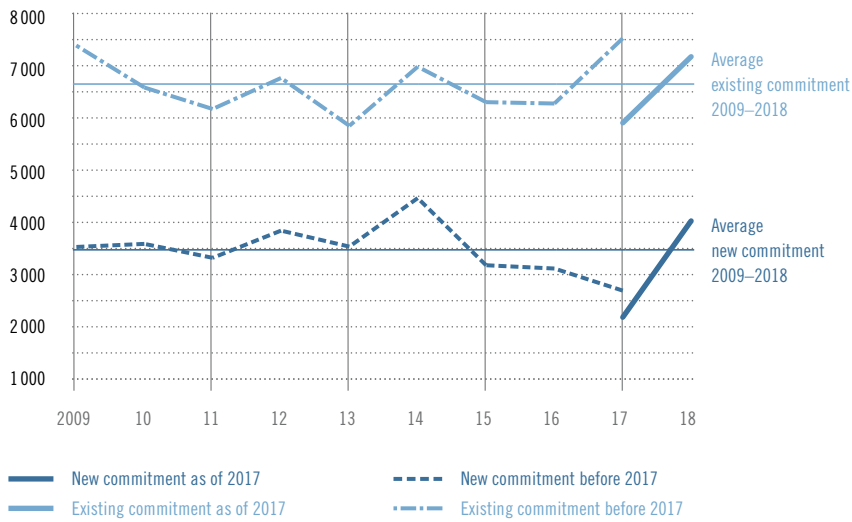
"Technological progress is playing an increasingly important role. SERV must take account of that."

Peter Gisler
CEO

Multi-year Comparison

Commitment Development

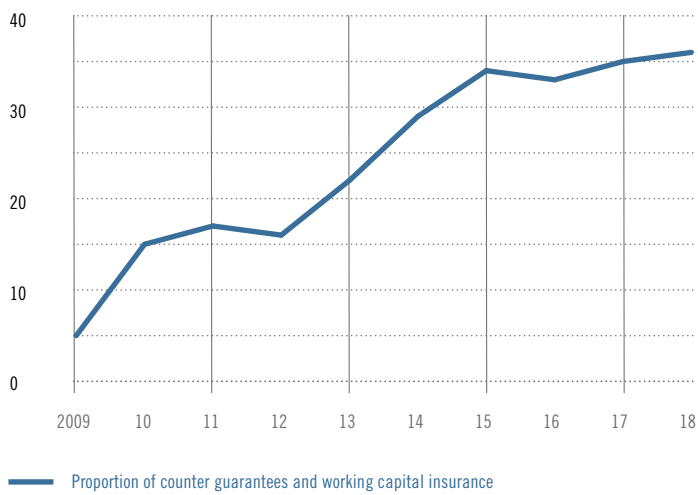
in CHF million



The method for calculating exposure was revised in 2018. In order to ensure comparability, the same calculation method was applied to the 2017 figures in this annual report – but not to financial years prior to 2017. In order to make the impact of the new calculation method transparent, the figures for the 2017 financial year are also shown in the chart calculated in accordance with the old method.

Proportion of Counter Guarantees and Working Capital Insurance in the Number of Newly Issued Insurance Policies

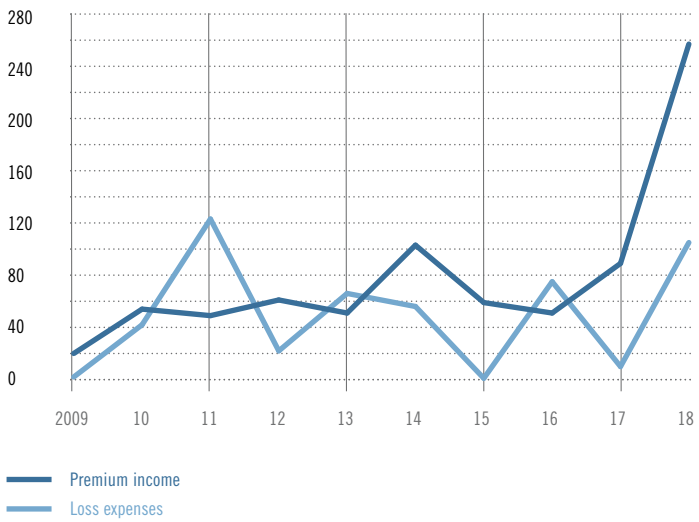
in per cent



Since the introduction of the counter guarantee and working capital insurance in 2009, demand for these two products has grown steadily. The two products assist Swiss exporters, SMEs particularly, in optimising their liquidity management. In 2018, the proportion of the two products relative to the total number of new transactions (IP) stood at 36 per cent, placing it in line with the previous year's level. It is expected that demand for these products will remain constant or even continue to increase.

Development of Premium Income and Loss Expenses

in CHF million



The course taken by premium income and loss expenses indicates the volatility of SERV's business. Large transactions have a strong impact on the two key parameters, resulting accordingly in spikes in the annual data. SERV's business performance must always be viewed against this background.

The high short-term volatility of SERV's business means that it is important to assess SERV's success in the medium to long term. The customer satisfaction survey conducted in 2018 confirmed that SERV and its insurance products are well known, particularly among exporters from the engineering, plant construction, mechanical and electrical engineering, chemical and pharmaceutical industries. Demand for the working capital insurance and counter guarantee products introduced in 2009 continues to come mainly from SMEs, with demand for these two products stabilising at around one third of the number of newly issued insurance policies. Some 770 of these were issued in the year under review, more than twice as many as in 2007.

The change in the calculation method for the commitment has resulted in a reduction in the SERV commitment and the new commitment compared to the previous figures. While the change in the calculation method makes comparisons with previous years harder, the general trend is clear. The sharp increase in the insurance of major projects with long credit periods has resulted in a significant increase in both new commitments and existing commitments between 2017 and 2018. Despite the restatement effect of the new calculation method, new commitment came close to the 2015 record level of CHF 4.465 billion and, had it not been for the restatement, the existing commitment would have reached a new high. The sharp increase in SERV's new commitments is reflected in the high revenues from premiums, which at CHF 257.4 million are the highest in its history. However, SERV also incurred very high loss expenses of CHF 104.5 million in 2018. In the past ten years, this figure was only exceeded in 2011, when loss reserves had to be set aside for payment defaults due to the financial crisis and the sanctions against Iran.

SERV's success and performance will only become clear in the long term.

Since SERV's establishment, economic viability 2 has always been positive, reaching a peak of CHF 53.8 million in 2018. The average achieved over the last 11 years was CHF 28.4 million, but the trend of declining average values was reversed for the first time, despite SERV being unable to benefit from income from cash investments.

"By supporting Swiss exporters, we not only help create and maintain jobs, we also promote innovative companies and hence technological progress in Switzerland."

Bodies of Corporate Governance

Board of Directors (BoD)

Thomas Daum*, lic. iur., lawyer,
(Chairman)
is a board member of compenswiss AHV/IV/EO fund. He was a member of the ERG Commission before SERV was formed. He served as the Director of the Confederation of Swiss Employers, the Director of Swissmem and Vice Chairman of the BoD of SUVA.

Barbara Hayoz, business economist, EMBA,**
(Vice Chair)
is a self-employed management consultant as well as a chair and board member of various institutions. She served as full-time finance director and deputy mayor of the city of Berne.

Caroline Gueissaz*, Dipl. Ing. ETH,
is an associate partner at A. Vaccani & Partners, managing director of Business Angels Switzerland and a board member of various SMEs.

Burkhard Huber*, business economist KSZ,
(Board member since 01.10.2018)
has worked in the banking business for four decades, including 30 years spent with UBS. He held various management positions in corporate banking for Swiss and foreign companies, including in the area of trade finance.

Christoph Meier-Meier*, business economist HWV,
is CEO and partner at NEWTAG Communication AG. Prior to this, he worked in various positions at Bühler AG in Uzwil (SG), including ten years as Head of Financial Services.

Beda Moor,**
(Board member until 30.09.2018)
was responsible for the MEM industry as a long-standing member of the management of SMUV and a member of the industry sector management of UNIA. He was a member of the ERG Commission before SERV was formed.

Laura Sadis, lic. oec. publ. and graduate tax expert,**
(Board member until 31.12.2018)
is a board member of AlpTransit Gotthard AG. From 2007 to 2015, she held the office of State Councillor of the Canton of Ticino with responsibility for the Finance and Economics Department. She was also a member of the Bank Council of the Swiss National Bank.

Anne-Sophie Spérisen, lic. oec.,**
is President and CEO of SOLO Swiss SA. She is a member of the extra-parliamentary commission SME Forum and board member of the Chamber of Commerce of the Canton of Jura.

Reto Wyss, MSc Economics,**
(Board member since 01.10.2018)
is Central Secretary of the Swiss Federation of Trade Unions (SGB) and also represents it in the EFTA Consultative Committee, the Reka Board of Directors and the Federal Statistics Committee.

Urs Ziswiler*, lic. iur., INDEL ETH,
was the ambassador to Spain and to the United States, Head of the Directorate of Political Affairs of the FDFA, the diplomatic advisor of Federal Councillor Calmy-Rey and the Director of the Political Affairs Division IV (Human Rights and Humanitarian Policy) of the FDFA.

CEO

Peter Gisler, Swiss-certified banking expert,
has been CEO at SERV since 1 January 2017. Prior to that, he held a senior position at Aargauische Kantonalbank, at ABB Switzerland and at ABB Group Holding.

Auditors

KPMG AG
Badenerstrasse 172
8004 Zurich

* Insurance Committee
** Finance and Organisation Committee

Remuneration

Board of Directors
In 2018, remuneration paid to the entire Board of Directors (BoD), excluding the Chairman, totalled KCHF 325.5. This figure is slightly higher than in the previous year. BoD Chairman Thomas Daum was paid remuneration amounting to KCHF 124.2. The remuneration includes in each case the meeting attendance fees, compensation for special tasks and other expenses, and does not include a pension entitlement.

CEO and members of the Executive Board
The remuneration of the CEO and the members of the Executive Board consists of a basic salary and a variable salary component, which is determined annually on the basis of the achievement of individual and company targets. The variable component reported pertains to the prior-year period; this amount plus the fixed salary represents the total remuneration for the year of the CEO and the other members of the Executive Board. Total remuneration amounted to KCHF 832.3 in 2018 (previous year KCHF 801.9) for three members of the Executive Board. The highest total compensation of KCHF 341.5 was paid to the CEO.

Executive Salary Reporting – Senior Management (Board of Directors)

in CHF (previous year in grey)

	Chairman	Board (7 members, excluding chairman)	
		Total	Average
Level of activity			
(percentage of time spent on function)	45%		BoD 10%
			IC 20%
			FOC 10%
Remuneration			
Meeting attendance fee	79 500	274 500	39 214
	87 750	277 000	39 571
Cash payments for compensation of special tasks	41 325	23 150	3 307
	37 325	20 500	2 929
Other expenses (travelling expenses, accommodation, board and representation)	3 345	27 878	3 983
	2 181	19 586	2 798
Other contractual terms			
Post-employment benefits	None	None	–
Severance compensation	None	None	–

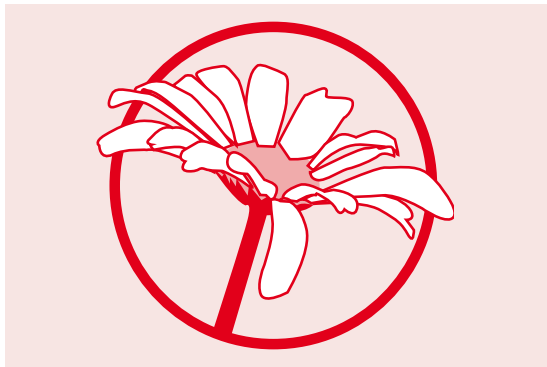
Executive Salary Reporting – Executive Board (CEO and Department Heads)

in CHF (previous year in grey)

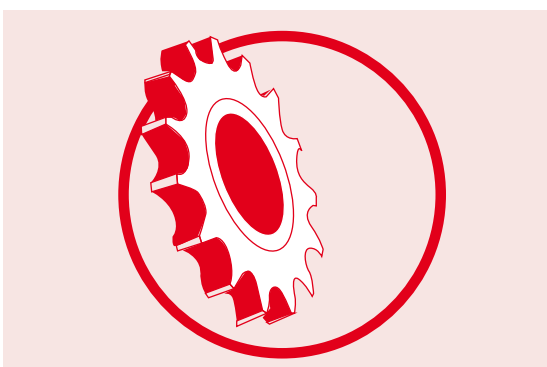
	CEO	Members of the Executive Board (2 members without CEO)	
		Total	Average
Remuneration			
Fixed part (salary)	292 789	424 400	212 200
	290 004	404 703	202 351
Cash payments for compensation of special tasks	–	–	–
	–	–	–
Cash payments (justified by function or labour market)	–	–	–
	–	–	–
Bonuses (variable salary part)	47 851	64 707	32 354
	63 188	41 441	20 720
Other expenses	840	1 680	840
	840	1 680	840
Other contractual terms			
Post-employment benefits	Management plan	Management plan	–
Severance compensation	None	None	–

Our Guiding Principles

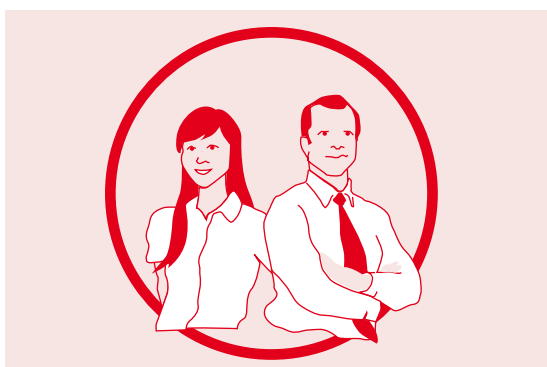
Our Activity
We facilitate trade between the Swiss export sector and foreign business through insurance solutions covering economic and political risks. Our services support the competitiveness of Swiss exporters and their banks, thus enhancing Switzerland's position as a business location and helping to create and retain jobs in Switzerland. By facilitating foreign trade for Switzerland, we also contribute to the economic development of the involved countries.



Our Conduct
As an institution of the Swiss Federation under public law, we act within the framework of our legal mandate. We therefore work in an economically viable and operationally optimal manner. In terms of the environment and sustainability, we act responsibly and observe international standards. We take a solution-oriented approach and are transparent in our communications.

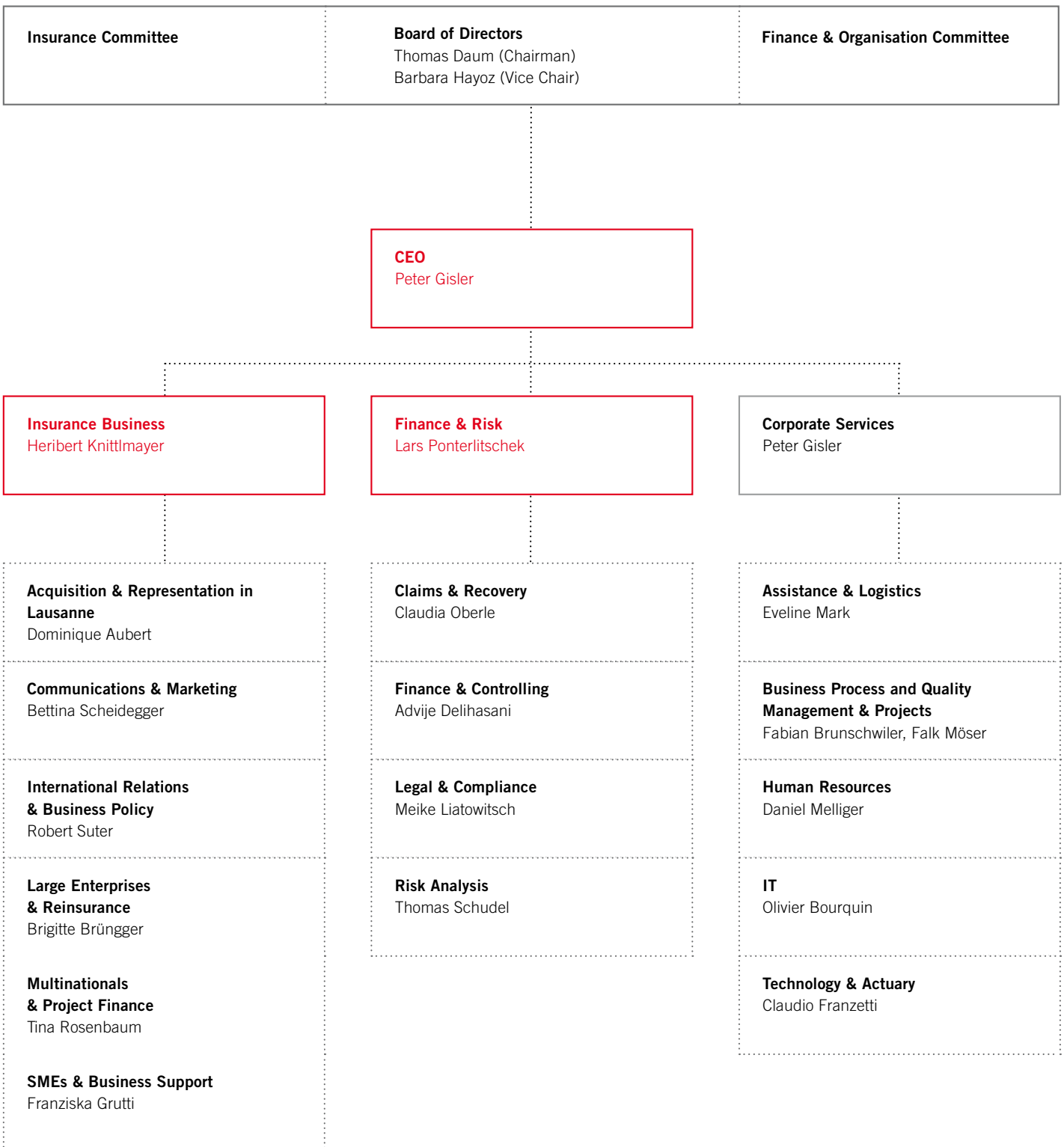


Our Clients
Client orientation is of central importance to us. We focus on treating our clients equally and offering expert advice. We encourage a loyal and cooperative working relationship and strive to maintain long-term partnerships. We also provide information on our services to exporters and banks who are not yet SERV clients.



Our Employees
We expect competence, a high level of commitment and a strong identification with SERV and its mandate from our employees. We give employees appropriate responsibility and encourage the development of the relevant skills. We are committed to the principle of equal opportunities and offer attractive employment conditions.

Organisation



Member of the Executive Board
(As of 1 January 2019)

SERV was certified for gender equality in remuneration in an independent review of its pay system.

Board of Directors
The SERV Board of Directors (BoD) is appointed by the Federal Council for a term of four years; the current term of office runs until the end of 2019. It is composed of seven to nine members, with appropriate consideration of social partners (Art. 24 SERVG). The term of office is identical to the legislative period of the Federal Assembly.

Beda Moor and Laura Sadis resigned from the BoD in 2018. Beda Moor was a member of the ERG Commission from 2001 to 2006 and subsequently played a key role in the formation of SERV. Having been appointed to the BoD in 2016, Laura Sadis resigned her position at the end of 2018 for personal reasons. Burkhard Huber and Reto Wyss joined the BoD in October. Burkhard Huber contributes a wealth of expertise in corporate banking and export finance from his long banking career. In line with the legal requirements, Reto Wyss represents the social partners on the BoD and, with his Master of Science degree in Economics, will strengthen the Board's economic competence. There is no personal or business relationship between any member of the BoD and SERV that could affect SERV's freedom to make decisions or to act.

The BoD is the supreme management and control body of SERV. Its tasks are outlined in Art. 24 SERVG and explained in more detail in the SERV internal rules of procedure. It appoints from amongst its members a committee for insurance business (Insurance Committee, Chair Thomas Daum) and one for the areas of finance and organisation (Finance and Organisation Committee, Chair Barbara Hayoz).

CEO
The CEO is elected by the BoD. He manages and organises SERV and represents it externally. His tasks are defined in Art. 25 SERVG and further outlined in the SERV internal rules of procedure.

Personnel
In 2018, SERV increased its workforce from 51 to 53 employees (excluding apprenticeships) or 50.0 full-time equivalents. At the end of 2018, the proportion of women was 43.4 per cent; there were also three business management apprenticeships and one internship.

The BoD resolved to make various organisational adjustments and approved an increase in the staffing ceiling from 51 to 54 full-time equivalents in order to ensure the implementation of the target business model over the long term. Major organisational measures included the creation of the new Operational and Data Excellence Manager position and the organisational transfer of country and bank analysis to the International Relations & Business Policy department, which will now be integrated into the Insurance Business division. Staffing levels will be increased in sustainability analysis and acquisitions, the latter in order to put the advising of new clients on a more sustainable footing.

SERV gives its employees appropriate responsibility. Their tasks are defined in a specifications document. Each year, individual target agreements are reached with each employee and staff development interviews are conducted to assess their skills and performance. SERV attaches great importance to the further training of its employees. Some CHF 168 000 was invested in further training in 2018.

A review of the salary system conducted by Klingler Consulting concluded that SERV possessed sound instruments for managing its working conditions, although these did require some amendments after 12 years in order to continue to ensure that remuneration remained in line with the market, function and performance. These amendments were made based on parameters defined in federal law and involved no staff terminations as a result of altered conditions of employment. Klingler Consulting certified SERV for gender equality in remuneration.

Auditors
The auditors of SERV are appointed by the Federal Council at the request of the BoD. The auditors review the income statement, balance sheet, cash flow statement, income statement by segment, the balance sheet by segment, the notes on the financial statements, the proof of economic viability and the existence of an internal control system (ICS). The auditors report their audit findings to the BoD and the Federal Council.

Financial Report

Legal Basis
A range of accounting requirements for SERV are formulated in the SERV Act (SERVG) and in the SERV Ordinance (SERV-V). SERV must keep its own accounts, be economically viable as an insurance company and manage risks for public and private debtors separately. To meet these requirements, SERV prepares financial statements on the closing date, consisting of income statement, balance sheet, cash flow statement, proof of economic viability, segment accounting and notes.

In accordance with Art. 29 SERVG, SERV must present its assets, finance and income situation in the form of segment accounting. This includes an income statement and balance sheet structured in the three segments "public debtors", "private debtors without del credere" and "private debtors with del credere".

In addition, the rendering of accounts observes the general principles of materiality, comprehensibility, continuity and gross reporting and is oriented to generally acknowledged standards (Art. 29 para. 3 SERVG).

In the Notes on the Financial Statements, SERV publishes a summary of its accounting principles (AP) in accordance with Art. 29 para. 4 SERVG and provides proof of capital. It reports on remuneration in the Corporate Governance section. The minimum requirements for the accounting principles are regarded as the corresponding Federal budget provisions (Art. 21 para. 1 SERV-V).

Individual items of the income statement, the balance sheet and segment accounting are explained in more detail in the Notes. Items shown net in the financial statements are broken down to render the calculation of net results transparent. This is significant particularly in the case of claims from losses, claims from restructuring, credit balances from debt rescheduling agreements and loss provisions, as these are valued in accordance with the AP and reported on a net basis.

Income Statement
SERV closed the 2018 financial year with net income (NI) of CHF 2.0 million (previous year: CHF 69.8 million), posting an operating profit of the same amount.

Premium income rose year-on-year from CHF 89.4 million to a record high of CHF 257.4 million. As in 2017, the increase in premium income in 2018 is mainly attributable to the realisation of some major transactions, which also had a positive effect on the development of earned premiums. Thanks to these major transactions, considerably more unearned premiums were formed than reversed. The accounting principles provide for the creation of an unearned premium reserve amounting to 80 per cent for the invoicing of premiums.

Interest income from debt rescheduling agreements amounting to CHF 16.8 million was slightly higher than the previous year's figure of CHF 16.2 million.

At CHF –104.5 million, loss expenses were very high. Since the formation of SERV, loss expenses were higher only in 2011, when they amounted to CHF 123.3 million. The share of loss expenses from adjustments of loss reserves and value adjustments for losses amounted to CHF –80.0 million. The definitive write-offs of receivables totalling CHF –24.5 million related to risks in Argentina, Germany, Mexico, Nigeria, Russia and Switzerland.

Debt rescheduling results were generated by the reversal of obsolete value adjustments for the agreements with Cameroon, Egypt, Iraq, Kenya and Pakistan. In 2018, there were neither new agreements nor changes in ratings that would have resulted in changes to value adjustments in relation to debt rescheduling. All in all, a profit/loss on insurance of CHF 16.3 million was generated (previous year: CHF 85.6 million).

Premium Income
(in CHF million)
257

The loss expenses of CHF –104.5 million were the second highest since the foundation of SERV.

Cash Flow Statement
The cash flow from business operations is higher than the cash flow from investment activities for the first time.

The increase in personnel expenses (CHF 10.8 million) compared with the previous year (CHF 10.0 million) is attributable to the expansion of the workforce. The increase in non-personnel expenses compared with the previous year is largely down to consulting costs for the comprehensive analysis and optimisation of SERV's business processes.

Financial income mainly comprises foreign currency differences and, unlike the previous year, it has again moved into positive territory this year at CHF 2.0 million. As in the previous year, the negative interest rates imposed by the Swiss National Bank only affected the result marginally. A much more important factor in this respect is that SERV has generated no return on its capital since 2017, which it is required to deposit exclusively with the Federal Treasury.

The methodology of the exposure calculation was revised in 2018.

Balance Sheet
On the assets side, cash in hand & at bank increased by CHF 8.8 million compared with 2017. Financial investments maturing in 1 year or less increased by CHF 274.0 million. SERV tries to keep the balance on the current account low in order to minimise the amount of negative interest payable. At the same time, the financial investments with the Federal Treasury are constantly increasing.

In addition to premium payments, the repayments of credit balances from debt rescheduling agreements (particularly from Argentina and Indonesia) also contributed to the increase in financial assets. Credit balances from debt rescheduling agreements decreased by CHF 91.6 million as a result of the above-mentioned repayments. In contrast, claims from losses and restructuring were up by CHF 17.9 million. This rise is essentially due to the disbursement of a large loss for a transaction in Oman.

At CHF 13.9 million, premium receivables increased by CHF 8.1 million compared with the previous year. This total of CHF 13.9 million includes one account that individually accounts for CHF 9.9 million of the premium receivables and was paid on 3 January 2019. As a result, the premiums invoiced in the financial year were once again almost all paid in 2018, as reflected in a correspondingly high figure in the cash flow statement. On the liabilities side, unearned premiums increased considerably compared with the previous year as a result of the major transactions that were realised. However, the loss reserves had to be increased by CHF 16.4 million to CHF 153.9 million in the 2018 financial year.

As of 31 December 2018, capital totalled CHF 2.770 billion, CHF 2.0 million more than the previous year. It should be noted that the change in the method used to calculate the exposure affects the capital calculations. In the past, the nominal interest amounts of all future interest periods were totalled over the entire term of an export credit and included in the exposure. From financial year 2018 onwards, only the nominal interest amount of an interest period (six months) will normally be included in the exposure. Furthermore, the exposure is now normally presented net of reinsurance with other state credit reinsurers. If the capital as of 31 December 2017 had been calculated on the basis of exposure using the new calculation method, the figures reported as of 31 December 2017 would have been as follows: risk-bearing capital (RBC) of CHF 1.060 billion (down by CHF 161.5 million) and core capital (CCap) of CHF 445.8 million (down by CHF 86.5 million).

The total of risk-bearing capital (RBC) plus CCap, CHF 1.683 billion, fell by CHF 70.8 million (4%) compared with the previous year. The compensation reserve (CR) increased by CHF 140.7 million to CHF 1.085 billion (13 per cent). If the positions for 2017 are calculated using the new method, the difference is CHF 248.0 million. The CR allows SERV to manage the major volatility it is exposed to through country and debtor downgrades and elevated losses as a result of political and economic crises.

All in all, SERV has a solid capital base for fulfilling its legal mission of promoting the Swiss export industry by providing effective insurance solutions, even in periods with an uncertain economic outlook. At the same time, SERV is able to soften the impact of any deterioration in risk ratings for countries and enterprises and has the buffer necessary to deal with any type of crisis.

Cash Flow Statement
SERV's 2018 cash flow statement (cf. p. 38) documents a net increase of CHF 282.8 million (previous year: CHF 124.5 million). Cash in hand & at bank and time deposits thus rose from CHF 2.572 billion to CHF 2.854 billion. SERV therefore has excellent liquidity.

For the first time in its existence, SERV recorded a higher cash flow from business operations (CHF 169.0 million) than from investment activities (CHF 114.6 million). This turnaround is primarily the result of higher premium payments of CHF 249.1 million (previous year CHF 95.0 million). With premium payments of CHF 249.1 million, SERV exceeded the CHF 100 million mark for the first time. Despite above-average loss expenses of CHF 104.5 million in the income statement, the cash flow statement reveals an average cash outflow for losses (CHF 72.8 million), which highlights the fact that loss expenses are influenced by provisions and value adjustments.

Cash flow from investment activities includes both regular and unscheduled early repayments from credit balances from debt rescheduling agreements plus the corresponding interest. Loss expenses were average compared to recent years. Compared to 2007, it is striking to note that interest payments from debt rescheduling agreements have halved. Both the decrease in interest payments from debt rescheduling agreements and the discontinuation of interest from financial and interest income were offset by above-average repayments of credit balances from debt rescheduling agreements.

In the financial activities, a partial repayment of CHF 0.8 million for a cash deposit was made due to a changed risk situation in connection with ongoing counter guarantees.

Proof of Economic Viability

In 2018, SERV showed positive loading in all segments. This means that earned premiums exceeded the actuarial risk, i.e. the average expected annual loss, which is the theoretical probability-weighted average potential loss calculated for an annual reporting period. The calculation is based on the loss probabilities and assumed recovery ratios.

In 2018, all lines of business revealed surplus cover at operational level (economic viability 1). As a result of the general interest rate situation, there has been no interest income at all from cash investments since 2017, for which reason the figures for economic viability 1 and 2 are identical. No substantial contributions from financial investments are expected for the foreseeable future. Taking all the segments into consideration, SERV posted surplus cover of CHF 53.8 million.

Since the establishment of SERV (2007), the average surplus cover of economic viability 1 for the primary segment "public debtors" has been CHF 4.7 million, and CHF 8.4 million for the primary segment "private debtors". This means that economic viability 1 has so far been significantly over-fulfilled for the primary segments. If economic viability on an operational level (economic viability 1) is positive, so is economic viability 2, unless SERV's capital is burdened with negative interest rates.

Segment Accounting

In the income statement by segment, items that are not directly related to an insurance transaction in a segment are distributed across the three segments using an allocation formula (cf. Comments on the Financial Statements, comments 10–17, p. 48–49). Items are not broken down into segments on the balance sheet where doing so has only limited indicative value.

The income statement showed the two segments "private debtors without del credere" and "private debtors with del credere" ending the year with negative results, as the formation of new provisions primarily affected these divisions. These losses were offset by the success of the "public debtors" segment (which closed the previous year with a negative result). Past experience shows that the annual results for segment accounting are influenced to a large extent by the loss expenses that are incurred and are thus very volatile.

"The increase in the framework of obligation will ensure that we remain competitive."

Lars Ponterlitschek
Head of Finance & Risk

Income Statement

Income Statement

01.01.2018–31.12.2018, in KCHF

	Notes [1]	2018	2017	Change
Premium income	1	257 400	89 414	167 986
Creation of unearned premium reserves		–202 387	–68 978	–133 409
Release of unearned premium reserves		39 478	43 624	–4 146
Earned premiums		**94 491**	**64 060**	**30 431**
Interest income from debt rescheduling agreements		16 770	16 236	534
Other income		20	38	–18
Total income from insurance		**111 281**	**80 334**	**30 947**
Loss expenses	2	–104 511	–9 996	–94 515
Debt rescheduling results	3	9 524	15 226	–5 702
Total expenses from insurance		**–94 987**	**5 230**	**–100 217**
Profit/loss on insurance		**16 294**	**85 564**	**–69 270**
Personnel expenses		–10 823	–9 970	–853
Non-personnel expenses		–5 469	–4 123	–1 346
Financial income		2 013	–1 626	3 639
Operating profit/loss		**2 015**	**69 845**	**–67 830**
Interest income from cash investments		–	–	–
Net income (NI)		**2 015**	**69 845**	**–67 830**

[1] cf. Comments starting from page 45 of the Notes on the Financial Statements

Balance Sheet

Balance Sheet

31.12.2018, in KCHF

	Notes [1]	31.12.2018	31.12.2017	Change
Assets				
Cash in hand & at bank		17 328	8 558	8 770
Premiums receivables		13 936	5 788	8 148
Other receivables		68	65	3
Financial investments maturing in 1 year or less	4	2 837 000	2 563 000	274 000
Accruals and deferrals		574	535	39
Total current assets		**2 868 906**	**2 577 946**	**290 960**
Property, plant and equipment		118	241	–123
Financial investments and credit balances maturing in more than 1 year		–	239	–239
Total property, plant and equipment and long-term financial investments		**118**	**480**	**–362**
Claims from losses and restructuring	5	209 618	227 557	–17 939
Credit balances from debt rescheduling agreements	6	211 226	302 823	–91 597
Total claims and credit balances from debt rescheduling agreements		**420 844**	**530 380**	**–109 536**
Total Assets		**3 289 868**	**3 108 806**	**181 062**
Liabilities				
Current liabilities		947	818	129
Short-term financial liabilities		260	75	185
Accruals and deferrals		1 216	933	283
Unearned premiums		383 161	221 475	161 686
Share of unearned premiums due to reinsurance		–25 365	–26 588	1 223
Loss provisions	7	153 918	137 545	16 373
Other non-current liabilities	8	5 399	6 231	–832
Subtotal		**519 536**	**340 489**	**179 047**
Risk-bearing capital (RBC)		1 196 702	1 221 777	–25 075
Core capital (CCap)		486 503	532 260	–45 757
Compensation reserve (CR)		1 085 112	944 435	140 677
Net income (NI)		2 015	69 845	–67 830
Total capital		**2 770 332**	**2 768 317**	**2 015**
Total liabilities		**3 289 868**	**3 108 806**	**181 062**

[1] cf. Comments starting from page 45 of the Notes on the Financial Statements

Cash Flow Statement

Cash Flow Statement

01.01.2018–31.12.2018, in KCHF

	Notes [1]	31.12.2018	31.12.2017
Business operations			
Premium payments	9	249 108	94 959
Loss payments		–72 788	–48 314
Loss repayments		7 047	8 743
Payments relating to personnel and operations		–14 393	–14 488
Cash flow from business operations		**168 974**	**40 900**
Investing activities			
Repayments of credit balances from debt rescheduling agreements		101 265	72 099
Payments of interest from debt rescheduling agreements		13 363	12 697
Payments from financial and interest income		–	–
Cash flow from investing activities		**114 628**	**84 796**
Financing activities			
Payments from financing activities		–832	–1 229
Cash flow from financing activities		**–832**	**–1 229**
Net change in funds		**282 770**	**124 467**
Funds on 31.12.2017 (cash in hand & at bank and time deposits with the Confederation)			2 571 558
Funds on 31.12.2018 (cash in hand & at bank and time deposits with the Confederation)		2 854 328	

[1] cf. Comments starting from page 45 of the Notes on the Financial Statements

Proof of Economic Viability

Proof of Economic Viability

01.01.2018–31.12.2018, in KCHF

	Segments (by debtor)			SERV
	Public	Private without del credere	Private with del credere	
	(1)	(2)	(3)	(4)=(1)+(2)+(3)
Earned premiums	16 358	2 935	75 198	94 491
Average expected annual loss	–7 413	–481	–18 520	–26 414
Loading	**8 945**	**2 454**	**56 678**	**68 077**
Personnel expenses	–1 028	–824	–8 971	–10 823
Non-personnel expenses	–519	–416	–4 534	–5 469
Financial income	239	101	1 673	2 013
Economic viability 1	**7 637**	**1 315**	**44 846**	**53 798**
Interest income from cash investments	–	–	–	–
Economic viability 2	**7 637**	**1 315**	**44 846**	**53 798**

Segment Accounting

Income Statement by Segment

01.01.2018–31.12.2018, in KCHF

	Notes [1]	Segments (by debtor)			SERV
		Public	Private without del credere	Private with del credere	
		(1)	(2)	(3)	(4)=(1)+(2)+(3)
Premium income	10	39 048	12 442	205 910	257 400
Creation of unearned premium reserves		–30 449	–9 585	–162 353	–202 387
Release of unearned premium reserves		7 759	78	31 641	39 478
Earned premiums		**16 358**	**2 935**	**75 198**	**94 491**
Interest income from debt rescheduling agreements	11	10 262	6 238	270	16 770
Other income		2	3	15	20
Total income from insurance		**26 622**	**9 176**	**75 483**	**111 281**
Loss expenses	12	33 031	–9 890	–127 652	–104 511
Debt rescheduling results	13	5 122	365	4 037	9 524
Total expenses from insurance		**38 153**	**–9 525**	**–123 615**	**–94 987**
Profit/loss on insurance		**64 775**	**–349**	**–48 132**	**16 294**
Personnel expenses	14	–1 028	–824	–8 971	–10 823
Non-personnel expenses	15	–519	–416	–4 534	–5 469
Financial income	16	239	101	1 673	2 013
Operating profit/loss		**63 467**	**–1 488**	**–59 964**	**2 015**
Interest income from cash investments		–	–	–	–
Net income (NI)		**63 467**	**–1 488**	**–59 964**	**2 015**

[1] cf. Comments starting from page 45 of the Notes on the Financial Statements

Balance Sheet by Segment

31.12.2018, in KCHF

	Notes [1]	Segments (by debtor)				SERV
		Public	Private without del credere	Private with del credere	Not assignable	
		(1)	(2)	(3)	(4)	(5)= (1)+(2)+(3)+(4)
Assets						
Cash in hand & at bank		–	–	–	17 328	17 328
Premiums receivables		2 503	13	11 420	–	13 936
Other receivables		–	–	–	68	68
Financial investments maturing in 1 year or less		–	–	–	2 837 000	2 837 000
Accruals and deferrals		–	–	–	574	574
Total current assets		**2 503**	**13**	**11 420**	**2 854 970**	**2 868 906**
Property, plant and equipment		–	–	–	118	118
Financial investments and credit balances maturing in more than 1 year		–	–	–	–	–
Total property, plant and equipment and long-term financial investments		**–**	**–**	**–**	**118**	**118**
Claims from losses and restructuring		77 551	31 663	100 404	–	209 618
Credit balances from debt rescheduling agreements		83 480	123 567	4 179	–	211 226
Total claims and credit balances from debt rescheduling agreements		**161 031**	**155 230**	**104 583**	**–**	**420 844**
Total Assets		**163 534**	**155 243**	**116 003**	**2 855 088**	**3 289 868**
Liabilities						
Current liabilities		–	–	64	883	947
Short-term financial liabilities		–	–	260	–	260
Accruals and deferrals		–	–	–	1 216	1 216
Unearned premiums		75 382	9 588	298 191	–	383 161
Share of unearned premiums due to reinsurance		– 7 954	–	– 17 411	–	– 25 365
Loss provisions	17	17 813	3 768	132 337	–	153 918
Other non-current liabilities		–	–	–	5 399	5 399
Subtotal		**85 241**	**13 356**	**413 441**	**7 498**	**519 536**
Risk-bearing capital (RBC)		–	–	–	1 196 702	1 196 702
Core capital (CCap)		–	–	–	486 503	486 503
Compensation reserve (CR)		444 393	93 263	202 427	345 029	1 085 112
Net income (NI)		63 467	– 1 488	– 59 964	–	2 015
Total capital		**507 860**	**91 775**	**142 463**	**2 028 234**	**2 770 332**
Total liabilities		**593 101**	**105 131**	**555 904**	**2 035 732**	**3 289 868**

[1] cf. Comments starting from page 45 of the Notes on the Financial Statements

Accounting Principles

The AP discussed in this section are outlined in abbreviated form. The full text of the AP and their annexes may be viewed at SERV upon request.

Introduction
The accounting and valuation principles (AP) define the accounting principles for SERV and are determined by the Board of Directors (BoD). Only editorial adjustments were made to the AP in the year under review just ended. There were no material changes in the valuation principles that would have affected the financial statements. The only change that had an impact on the capital items in the balance sheet and the accounting principles employed to calculate the expected average annual loss was that to the method used to calculate the exposure. This calculation method is, however, not regulated in the AP in such detail.

The AP follow national and international standards for rendering accounts and are based on the practices of the Swiss private insurance industry. The balance sheet of SERV reflects the actual financial and asset situation as accurately as possible. The principle of individual valuation applies: over- and undervaluations are not set off against each other. All items have been reviewed to verify their accounting suitability and accuracy. The economic perspective takes priority over other possible points of view.

Balance sheet items are measured at face value with the exception of the items listed below:

Claims from Losses and Restructuring
Accounting: Claims from the insurance business are recorded if a policyholder is indemnified for a loss by SERV and its claim against third parties passes to SERV.

Valuation of claims against public debtors: Value adjustments are calculated on the basis of the official OECD provision rates for expected and actual losses. These rates take into account:
- The country risk at the time of valuation,
- A country's income levels (World Bank classification),
- The classification of a country as a "heavily indebted poor country".

In addition, a collateral surcharge is applied to the value adjustments.

Valuation of claims against private debtors: Individual valuations are carried out on a case-by-case basis for claims against private debtors. Depending on the transaction, arrangements of the export agreement and court rulings, even transactions with identical features (same country, same industry) can lead to different expectations of recoveries. The following criteria are taken into consideration in the valuation as decisive factors that reduce or increase the recoveries in the case of claims against private debtors:
- Type of collateral,
- World Bank Rule of Law Index,
- Type of security,
- OECD country risk category (CRC),
- Number of missed payments,
- Probability of restructuring,
- Trend in local currency valuation,
- Debtor rating prior to incurrence of loss,
- Payment transferability and convertibility,
- Societal stability in the respective location.

Based on these valuation criteria the value adjustment percentages for claims against private debtors are determined by means of a decision tree.

Credit Balances from Debt Rescheduling Agreements
Accounting: Credit balances from debt rescheduling are bundled, meaning several claims of SERV against particular individual countries are consolidated. These credit balances arise after a debtor country has readjusted open items in the Paris Club with a debt rescheduling agreement. Claims from debt rescheduling agreements are denominated in CHF.

Valuation and value adjustments: Value adjustments are calculated on the basis of the official OECD provision rates for expected and actual losses.

Personnel Expenses (significant items only)
In the context of its personnel expenses, SERV makes the following accrual postings:

- The contributions to social security are accounted for on an accrual basis. The decisive factor here is not the amounts paid in a reporting period, but rather the amounts owed for that period;
- Social security insurance indemnifies SERV for the financial consequences of the loss of employees' work, for instance the loss of earning insurance and accident insurance. They can be considered as contra items to continued payment of wages during the insured absence of the employee. Accordingly, they are to be treated as expense reductions. Expense reductions are accounted for on an accrual basis.

Accounting: The accrual items are reported under liabilities.

Valuation: Valuation is at face value.

Unearned Insurance Premiums
Accounting: Unearned premiums are accruals and deferrals; they are premiums that were received in the year under review and in previous years, but which are only earned during the cover period.

Valuation: 20 per cent of premiums are recorded immediately as earned premiums for the administrative share in the current financial year. The remaining 80 per cent of premiums are recorded as income according to the amount of commitment in accordance with risk distribution over the contract term of the individual transactions. In the event of a loss, the portion of the premium that has not yet been charged is realised immediately. Consequently, the unearned premium is reversed.

Short-Term Loss Provisions according to IBNR
Accounting: IBNR provisions (IBNR = incurred but not reported) are provisions for losses that have already occurred but have not yet been reported.

Valuation: A premium-based model is used for the calculation of the flat-rate IBNR provisions. The IBNR provisions are recognised as a proportion of the released unearned premiums. IBNR provisions are established on a case by-case basis. This is done in cases where a loss has not yet been reported but payment is in arrears past the waiting period. Similar but simplified rules are applied however as for the valuation of reported losses.

Provisions for Reported Losses
Accounting: On receipt of the loss form, SERV immediately recognises a provision in the amount of the probable loss.

Valuation for public debtors: Provisions are calculated on the basis of the official OECD provision rates for expected and actual losses. Because precise assessment of the occurrence probability is hardly possible, a probability of 0.5 is calculated. As in the case of claims from losses and restructuring, an additional collateral surcharge is also applied here.

Valuation for private debtors: The same method is used as for valuing claims against private debtors.

Capital
Accounting: In terms of SERV's rendering of accounts, the capital is the residual factor after the accounting and valuation of the other items. It is subdivided into:

- Risk-bearing capital (RBC): the RBC is held back for insurance losses that may be payable by SERV. In accordance with the SERV Ordinance, provisions for losses not yet incurred must be shown as net equity items.
- Core capital (CCap): an extended risk buffer calculated on the basis of the assumption that the elements to be valued of all concluded and new insurance contracts expected as per growth projections, as well as the balance sheet items "claims from losses and restructuring" and "credit balances from debt rescheduling agreements", will deteriorate by one grade on the internal rating scale.
- Compensation reserve (CR): balance sheet item that, together with the RBC, CCap and NI, yields SERV capital.
- Net income (NI).

Valuation: The RBC is determined using an actuarial model, taking into account all assets at risk of loss, as the so-called 99.9 per cent quantile of the annual loss distribution. The particular value at risk is calculated with a confidence factor of 99.9 per cent. The CCap is calculated on the basis of the assumption that the elements to be valued of all concluded and new insurance contracts expected as per growth projections, as well as other relevant balance sheet items, will deteriorate by one grade on the internal rating scale. The calculations are made using the same actuarial model as for the calculation of the RBC. The CR is determined arithmetically and is not subject to any valuation.

Economic Viability

Calculation: The average expected annual loss is the theoretical average potential loss, weighted for one year with the probabilities of default. This calculation is based on ratings, default probabilities and assumed recovery rates. The other items in the proof of economic viability are obtained from the income statement.

Comments on the Financial Statements

Individual items of the income statement, the balance sheet and segment accounting are explained in more detail in this chapter. Firstly, items shown net in the financial statements are broken down to rend the calculation of net results transparently. This is significant particularly in the case of claims from losses, claims from restructuring, credit balances from debt rescheduling agreements and loss provisions, as these are valued in accordance with the accounting principles (AP) and reported on a net basis. Additionally, the allocation formula used in the segment accounting for those items that are not directly assignable to one of the three segments is made transparent. In the balance sheet by segment, there is no breakdown by the three segments of cash in hand & at bank, cash investments, current liabilities, short-term liabilities and capital. Doing so would not yield meaningful information. The comments are numbered according to the numbers in the Financial Statements.

Value Adjustment on Claims from Losses and Restructuring

in CHF million

	31.12.2018			31.12.2017			
	SERV claims	Value adjustment	Net claims	SERV claims	Value adjustment	Net claims	Change
	(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)=(3)–(6)
Value adjustment on claims from losses							
Saudi Arabia	128.4	–41.4	87.0	128.4	–41.4	87.0	–
Greece	50.7	–32.4	18.3	50.7	–24.1	26.6	–8.3
Zimbabwe	37.2	–31.7	5.5	37.2	–31.7	5.5	–
Spain	40.2	–25.3	14.9	41.3	–19.6	21.7	–6.8
India	26.8	–14.1	12.7	26.3	–13.9	12.4	0.3
Switzerland	71.4	–47.7	23.7	26.3	–12.9	13.4	10.3
Brazil	22.1	–10.9	11.2	21.3	–10.7	10.6	0.6
Russia	15.7	–9.7	6.0	19.8	–9.6	10.2	–4.2
Turkey	8.7	–4.4	4.3	6.9	–3.4	3.5	0.8
Indonesia	8.3	–4.1	4.2	4.9	–2.4	2.5	1.7
Other countries	37.0	–33.8	3.2	46.7	–30.7	16.0	–12.8
	446.5	**–255.5**	**191.0**	**409.8**	**–200.4**	**209.4**	**–18.4**
Value adjustment on claims from restructuring							
North Korea	185.7	–167.1	18.6	182.4	–164.2	18.2	0.4
	185.7	**–167.1**	**18.6**	**182.4**	**–164.2**	**18.2**	**0.4**
Total claim from losses and restructuring			**209.6**			**227.6**	**–18.0**

Regarding the Income Statement

[1] **On "premium income":** the item "premium income" amounting to CHF 257.4 million is comprised of income from insurance premiums amounting to CHF 245.4 million, income from reinsurance of CHF 10.9 million, income from expense premiums (e.g. review premiums) of CHF 2.0 million and expenses in the form of premium payments for reinsurance amounting to CHF 0.9 million. The highest premium income of CHF 150.5 million resulted from the transaction to Porto de Sergipe, Brazil.

[2] **On "loss expenses":** the loss expenses amounting to CHF –104.5 million comprise the formation of provisions for IBNR cases (IBNR = Incurred But Not Reported) amounting to CHF –28.4 million, the reversal of provisions for reported losses amounting to CHF 8.8 million, and the change in value adjustments on claims amounting to CHF –60.4 million (cf. p. 45). Losses amounting to CHF –24.5 million were definitively written off in 2018. The losses written off related to risks in Argentina, Germany, Mexico, Nigeria, Russia and Switzerland.

[3] **On "debt rescheduling results":** debt rescheduling results amounting to CHF 9.5 million are reported net. This item consists of the reversal of value adjustments on debt consolidation balances amounting to CHF 9.6 million and the writing-off of credit balances against debtor countries amounting to CHF –0.1 million (cf. p. 49).

Regarding the Balance Sheet

[4] **On "short-term financial investments":** all financial investments are invested with the Swiss Confederation in the form of fixed-term deposits or investment account deposits.

[5] **On "claims from losses and restructuring":** the claims from losses (cf. p. 45) and the claims from restructuring with public debtors (cf. p. 46) of SERV were valued in accordance with the AP (cf. Accounting Principles, p. 42) and were then reported as net claims. In the year under review, claims from losses increased by CHF 17.9 million. The claims paid out related to Algeria, Argentina, Brazil, Colombia, Costa Rica, Cuba, Ecuador, Egypt, Georgia, Germany, India, Indonesia, Mexico, Paraguay, Peru, Russia, Switzerland, Turkey, Ukraine and the United Arab Emirates.

Claims from Restructuring with Public Debtors (with value adjustment)

in CHF million

	31.12.2018					31.12.2017					Change
					SERV					SERV	
	Total claims	Share 3rd parties [1]	Share	Value adjustment	Net claims	Total claims	Share 3rd parties [1]	Share	Value adjustment	Net claims	Net claims
	(1)	(2)	(3)=(1)–(2)	(4)	(5)=(3)+(4)	(6)	(7)	(8)=(6)–(7)	(9)	(10)=(8)+(9)	(11)=(5)–(10)
North Korea	212.6	26.9	185.7	–167.1	18.6	208.9	26.5	182.4	–164.2	18.2	0.4
Total	**212.6**	**26.9**	**185.7**	**–167.1**	**18.6**	**208.9**	**26.5**	**182.4**	**–164.2**	**18.2**	**0.4**

[1] policyholders or assignees

Credit Balances from Debt Rescheduling Agreements (with value adjustment)

in CHF million

	31.12.2018						31.12.2017						Change
						SERV						SERV	
	Total credit balance	Share Confederation	Share 3rd parties	Share	Value adjustment	Net credit balance	Total credit balance	Share Confederation	Share 3rd parties	Share	Value adjustment	Net credit balance	Net credit balance
	(1)	(2)	(3)	(4)= (1)–(2)–(3)	(5)	(6)=(4)+(5)	(7)	(8)	(9)	(10)= (7)–(8)–(9)	(11)	(12)= (10)+(11)	(13)=(6)–(12)
Argentina	189.3	–	36.5	152.8	–52.5	100.3	273.8	–	52.9	220.9	–52.4	168.5	–68.2
Sudan	144.9	91.7	–	53.2	–47.9	5.3	144.9	91.7	–	53.2	–47.9	5.3	–
Cuba	119.6	–	31.1	88.5	–66.2	22.3	122.9	–	31.9	91.0	–67.7	23.3	–1.0
Pakistan	78.3	3.3	4.2	70.8	–70.8	–	85.0	3.5	4.7	76.8	–76.8	–	–
Serbia	77.6	–	20.7	56.9	–9.3	47.6	86.5	–	23.0	63.5	–9.5	54.0	–6.4
Iraq	42.8	–	14.3	28.5	–26.1	2.4	47.3	–	15.7	31.6	–26.3	5.3	–2.9
Indonesia	43.3	2.5	3.9	36.9	–11.8	25.1	57.7	3.1	5.2	49.4	–12.0	37.4	–12.3
Bosnia and Herzegovina	23.9	–	5.9	18.0	–11.2	6.8	24.7	–	6.1	18.6	–11.2	7.4	–0.6
Egypt	8.9	–	1.8	7.1	–7.1	–	12.1	–	2.6	9.5	–9.5	–	–
Cameroon	2.1	–	0.2	1.9	–1.8	0.1	2.5	–	0.3	2.2	–2.2	–	0.1
Honduras	1.9	–	0.2	1.7	–1.3	0.4	1.9	–	0.2	1.7	–1.3	0.4	–
Montenegro	1.4	–	0.3	1.1	–0.4	0.7	1.5	–	0.3	1.2	–0.4	0.8	–0.1
Bangladesh	1.3	0.2	–	1.1	–1.0	0.1	1.5	0.2	–	1.3	–0.9	0.4	–0.3
Kenya	0.4	–	0.1	0.3	–0.2	0.1	0.7	–	0.2	0.5	–0.5	–	0.1
Total credit balances from debt rescheduling agreements	**735.7**	**97.7**	**119.2**	**518.8**	**–307.6**	**211.2**	**863.0**	**98.5**	**143.1**	**621.4**	**–318.6**	**302.8**	**–91.6**

[6] **On "credit balances from debt rescheduling agreements":** the credit balances from debt rescheduling agreements (cf. p. 46) were valued in accordance with the AP (cf. Accounting Principles, p. 42) and were reported as net credit balances. The largest movements occurred in Argentina (reduction of CHF 68.2 million) and Indonesia (reduction of CHF 12.3 million) (cf. p. 47).

[7] **On "loss provisions":** SERV recognised IBNR provisions for losses amounting to CHF 83.7 million and provisions for reported losses amounting to CHF 70.2 million (cf. Accounting Principles, p. 42). Loss reserves totalled CHF 153.9 million.

[8] **On "other long-term liabilities":** this involves a cash deposit made by an exporter that was paid due to a changed risk situation in connection with ongoing counter guarantees. This cash deposit is reduced by the same ratio as SERV's risk decreased by means of a reduction of the counter guarantee.

Regarding the Cash Flow Statement

[9] **On "premium payments":** the premiums invoiced in the financial year were practically all paid in 2018. This also explains the relatively low level of "premiums receivable" (cf. p. 37). Thanks to the high level of new transactions, the cash flow from premium payments reached an all-time high in 2018.

Regarding the Income Statement by Segment

[10] **On "premium income":** premium income was directly allocated to segments. Premium income per segment is shown in the table on page 48.

[11] **On "Interest income from debt rescheduling agreements" – allocation formula:** interest income from debt rescheduling agreements was distributed to the individual segments in proportion to debt servicing (agreed principal and interest repayments) for each country.

Premium Income by Segment

01.01.2018–31.12.2018, in KCHF

	Segments (by debtor)			SERV
	Public	Private without del credere	Private with del credere	
	(1)	(2)	(3)	(4)=(1)+(2)+(3)
Premium income from insurance premiums	29 411	12 432	203 591	245 434
Premium income from expense premiums (e.g. review premiums)	1	10	2 027	2 038
Premiums from reinsurance	10 563	–	292	10 855
Premiums for reinsurance	–927	–	–	–927
Total premium income	**39 048**	**12 442**	**205 910**	**257 400**

Loss Expenses by Segment

01.01.2018–31.12.2018, in KCHF

	Segments (by debtor)			SERV
	Public	Private without del credere	Private with del credere	
	(1)	(2)	(3)	(4)=(1)+(2)+(3)
Provision for losses IBNR	10 955	–431	–38 904	–28 380
Provision for reported losses	21 133	–	–12 297	8 836
Change in value adjustments	1 001	–9 459	–51 979	–60 437
Definitive loss write-offs	–58	–	–24 472	–24 530
Total loss expenses	**33 031**	**–9 890**	**–127 652**	**–104 511**

[12] **On "loss expenses":** loss expenses were allocated directly to the segments. The table on page 48 shows loss expenses incurred per segment.

[13] **On "debt rescheduling results":** debt rescheduling results were allocated directly to the segments. The table on page 49 shows debt rescheduling results incurred per segment.

[14] **On "personnel expenses" – allocation formula:** personnel expenses were allocated to individual segments according to the number of new contracts per debtor category, less contracts with a duration of less than one year but including cover for secondary risks. In 2018, 111 new contracts were concluded with public debtors, 89 new contracts with private debtors without del credere and 969 new contracts with private debtors with del credere.

[15] **On "non-personnel expenses" – allocation formula:** operating expenses were allocated to individual segments analogously to the allocation of personnel expenses.

[16] **On "financial income" – allocation formula:** financial income was allocated to individual segments as a proportion of the income generated per segment from insurance and expense premiums in the year under review (cf. comment 10, p. 48).

Regarding the Balance Sheet by Segment

[17] **On "loss provisions":** SERV recognises loss provisions for unreported losses by IBNR and for reported losses (cf. Accounting Principles, p. 42). Loss provisions for each segment are shown in the table below.

Debt Rescheduling Results by Segment

01.01.2018–31.12.2018, in KCHF

	Segments (by debtor)			SERV
	Public	Private without del credere	Private with del credere	
	(1)	(2)	(3)	(4)=(1)+(2)+(3)
Transfers of capital or interest to new or different agreements	–	–	–	–
Change in value adjustments	5 196	365	4 037	9 598
Write-offs of credit balances against debtor countries	–74	–	–	–74
Loss provisions	**5 122**	**365**	**4 037**	**9 524**

Loss Provisions by Segment

31.12.2018, in KCHF

	Segments (by debtor)			SERV
	Public	Private without del credere	Private with del credere	
	(1)	(2)	(3)	(4)=(1)+(2)+(3)
IBNR	17 813	1 718	64 179	83 710
Reported losses	–	2 050	68 158	70 208
Loss provisions	**17 813**	**3 768**	**132 337**	**153 918**

Proof of Capital

SERV's capital was valued and reported in accordance with SERV's accounting principles (cf. Accounting Principles, p. 42). As of 31 December 2018, SERV held capital of CHF 2.770 billion, CHF 2.0 million more than the previous year.

Risk-bearing capital (RBC) and core capital (CCap) together totalled CHF 1.683 billion at the end of 2018, CHF 70.8 million lower than the previous year. This change lies within the usual range of fluctuations arising from changes in exposure. The compensation reserve (CR) is a net balance sheet item and amounted to CHF 1.085 billion at the end of 2018. This represents an increase of CHF 140.7 million over the previous year (including CHF 69.8 million in allocated net income [NI] from financial year 2017). The CR provides SERV with leeway for additional cover and allows it to manage the major volatility it is exposed to through country downgrades due to political and economic crises (increased demand for RBC, CCap or value adjustments on debt consolidation balances) and through elevated losses. This allows SERV to provide the Swiss export industry with effective support in difficult times.

The change in the method for calculating exposure in 2018 also affects the calculation of RBC and CCap. In the past, the nominal interest amounts of all future interest periods were totalled over the entire term of an export credit and thus included in the exposure. From financial year 2018 onwards, only the nominal interest amount of an interest period (six months) will normally be included in the exposure. Furthermore, the exposure is now normally presented net of reinsurance with other ECAs. Had the RBC and CCap been calculated using the new method as at 31 December 2017, the RBC would have been CHF 161.5 million lower and the CCap CHF 86.5 million lower.

Proof of Capital

31.12.2018, in KCHF

	31.12.2017	Effects of new exposure calculation	Allocation net income previous year	Net income in 2018	Shifts	31.12.2018
	(1)	(2)	(3)	(4)	(5)	(6)= (1)+(2)+(3)+(4)+(5)
Risk-bearing capital (RBC)	1 221 777	– 161 479			136 404	1 196 702
Core capital (CCap)	532 260	– 86 481			40 724	486 503
Compensation reserve (CR)	944 435	247 960	69 845		– 177 128	1 085 112
Net income (NI)	69 845		– 69 845	2 015		2 015
Capital	**2 768 317**	**–**	**–**	**2 015**	**–**	**2 770 332**

Other Notes

Legal Form and Registered Office
SERV is an institution under public law with the status of an independent legal entity under the Swiss Confederation. Its tasks and services as well as the basic features of its organisation are laid down in the Swiss Export Risk Insurance Act of 16 December 2005 (SERVG) SR 946.10 (as at 1 January 2016). SERV is independent in its organisation and management and conducts its own accounts (Art. 3 SERVG).

SERV's registered office is at Zeltweg 63 in Zurich. It has an office at Avenue d'Ouchy 47 in Lausanne. An employee based at that location provides support for customers in French-speaking Switzerland.

Significant Events after the Balance Sheet Date
From 31 December 2018 to 22 February 2019, no events occurred that would have resulted in an adjustment of the book values of assets and liabilities or that would have to be disclosed here.

Auditors
In 2018, the auditors received a fee (excluding VAT) of CHF 78 000 (previous year: CHF 112 000) for auditing the 2018 financial statements. Apart from this, the auditors received no other remuneration.

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Report of the Statutory Auditor to the Federal Council

Swiss Export Risk Insurance, Zurich

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the financial statements on pages 36 to 51 of Swiss Export Risk Insurance, which comprise the income statement, balance sheet, cash flow statement, income statement by segment, balance sheet by segment and notes, and the proof of economic viability of Swiss Export Risk Insurance for the year ended 31 December 2018.

Board of Directors' Responsibility

The board of directors is responsible for the preparation of the financial statements and the proof of economic viability in accordance with the requirements of Swiss law and the accounting principles set out in the notes. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and the proof of economic viability based on our audit. We conducted our audit in accordance with the Swiss Export Risk Insurance Act and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements and the proof of economic viability are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the proof of economic viability. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and the proof of economic viability, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements and the proof of economic viability 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 entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements and the proof of economic viability. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Swiss Export Risk Insurance, Zürich
Report of the Statutory Auditor to the Federal Council
Financial statements 2018

Opinion

In our opinion, the financial statements and the proof of economic viability for the year ended 31 December 2018 comply with the accounting principles set out in the notes.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the board of directors.

We recommend that the financial statements and the proof of economic viability submitted to you be approved.

KPMG AG

Bill Schiller
Licensed Audit Expert
Auditor in Charge

Andrea Bischof
Licensed Audit Expert

Zurich, 22 February 2019

Glossary

AP Accounting Principles
The AP follow national and international standards for rendering accounts and are based on the practices of the Swiss private insurance industry.

Berne Union
World's largest association of public and private export credit insurance and investment insurance companies. The Berne Union advocates a worldwide convergence of conditions for export credits, export credit insurance and investment insurance.

Capital of SERV
Balance sheet net assets of SERV. It is comprised of risk-bearing capital (RBC), core capital (CCap), the compensation reserve (CR) and net income (NI).

CCap Core Capital
An extended risk buffer, which anticipates a deterioration on the valuation basis. The assumption is that the elements to be valued of all concluded and new insurance contracts expected as per growth projections, as well as the balance sheet items "claims from losses and restructuring" and "credit balances from debt rescheduling agreements", will deteriorate by one grade on the internal rating scale. The calculations are made with the same actuarial model as the calculation of the risk-bearing capital (RBC).

Commercial Risk
Cf. Del Credere Risk.

Commitment
Position on reporting date as of 31 December: total of the maximum loan amount (including the insured interest) multiplied by the cover ratio for all insurance policies and guarantees (IP) less reinsurances with ECAs.

Confidence Factor
This quantifies the probability that the effective loss will be less than or equal to the value at risk. SERV calculates with a confidence factor of 99.9 per cent.

Counter Guarantee
This protects the financial institution providing a contract bond against insolvency or unwillingness to pay on the part of the exporter if the bond is called.

Cover Policy
Periodic determination of limits on insurance capacity and insurance terms by country, bank and private buyer.

CR Compensation Reserve
Residual value that results after the deduction of the risk-bearing capital (RBC), core capital (CCap) and net income (NI) from the capital of SERV. This functions as a risk buffer that permits additional cover and compensates for fluctuations in RBC and CCap due to varying risk valuations over time.

CRC Country Risk Category
Country ratings by OECD categories CRC 0–CRC 7 and High Income. CRC 0 is the lowest country risk level, while CRC 7 is the highest. The High Income category includes the High Income OECD countries and eurozone countries, which are not classified by country risk. The CRC influences the amount of the insurance premium. The premiums for High Income countries and the countries in CRC 0 are based on market prices.

Debt Rescheduling / Debt Rescheduling Agreement
On the basis of a multilateral framework agreement, a special agreement (debt rescheduling agreement) is concluded in the Paris Club between a debtor country and its creditor countries for the restructuring of the obligations of an over-indebted country to Switzerland. The aim is to restructure the external debt of the rescheduling country, while ensuring the equal treatment of the creditor countries.

Del Credere Risk
Potential insolvency or refusal to pay on the part of the buyer or guarantor. SERV insures the del credere risk of both public and private buyers.

Earned Premiums
Part of the insurance premiums that serves to cover the risk in the current financial year and is reported as income.

ECA Export Credit Agency
Organisation that grants, insures or guarantees export credits with an implicit or explicit government guarantee for the promotion of foreign trade. In addition to these traditional ECA products, many of these organisations also offer further finance, insurance and guarantee products for the promotion of foreign trade.

Economic Viability
SERV has a legal requirement to operate in an economically viable manner, i.e. to finance itself in the long term without subsidy through its own premium revenues and investment income.

Exposure
Position on reporting date as of December: commitment plus sum insured of insurance and guarantee commitments in principle (ICP).

Framework of Obligation
Maximum scope as determined by the Federal Council of the insurance obligation of SERV. It currently amounts to CHF 16.0 billion.

IBNR Incurred But Not Reported
Losses incurred but not reported.

ICP Insurance Commitment in Principle
Commitment by SERV to conclude the insurance required, provided there are no material changes in the circumstance and legal position. An ICP can be applied for by the applicant before conclusion of the export transaction and is valid on principle for six months.

ICS Internal Control System
The ICS handles all risks that may put at risk both the reliability of financial reporting and compliance with the applicable laws and ordinances.

Insurance Obligation
Total of the maximum loan amount multiplied by the cover ratio for all insurance policies and guarantees plus 75 per cent of the cover amount of the ICP calculated analogously (both including the insured interest over the total repayment period) plus a surcharge for insurance policies in foreign currency.

Loading
The premium amount that is available, following deduction of the expected average annual loss for personnel and non-personnel expenses and any financial income. The loading is required for calculation of the economic viability.

New Commitment
Position during period: total of the maximum loan amount (including the insured interest) multiplied by the cover ratio for all insurance policies and guarantees (IP) granted within a period less reinsurances with ECAs.

New Exposure
Position during period: new commitment plus sum insured of insurance and guarantee commitments in principle (ICP).

OECD Arrangement / OECD Export Credit Group
The OECD Arrangement is an agreement with the aim of harmonising the public support of export credits. For example, it governs minimum standards for terms and conditions of payment, credit periods and for the calculation of premiums in the case of publicly supported export credits with a term of more than two years.

In the OECD Export Credit Group, the member countries agree on guidelines or recommendations, for example for auditing the environmental and human rights compatibility of export transactions, for combating corruption in international trade and for the sustainable issue of credit for highly indebted countries.

Paris Club
An international negotiation forum for the debt rescheduling of over-indebted countries. Negotiations in the Paris Club begin when a debtor country is not in a position to meet its payment obligations.

An ad-hoc group is created for each case of debt rescheduling. This is comprised of representatives of the creditor nations and of the country in rescheduling, as well as representatives of the International Monetary Fund (IMF), the World Bank, the UNCTAD and the OECD.

Political Risk
This includes extraordinary government measures or political events such as war, revolution, annexation or civil unrest abroad, as well as domestic government measures (export prohibitions), as a result of which the proper processing of the export transaction or the settlement of a claim that has arisen becomes impossible or unacceptable, or goods are confiscated abroad.

Pre-shipment risk insurance
Covers the exporter's production costs for agreed goods and services if the occurrence of an insured risk has made it impossible or impracticable to continue manufacturing and shipping the goods.

Principles of Swiss foreign policy
SERV observes these principles, which are formulated in Art. 54 para. 2 of the Swiss constitution: "the Swiss Confederation acts to preserve Switzerland's independence and protect its national welfare, contributing to the alleviation of poverty and destitution in the world and promoting respect for human rights and democracy, the peaceful coexistence of peoples and the conservation of natural resources."

Private Buyer Risk
Risk of insolvency or unwillingness to pay of a private buyer or guarantor.

RBC Risk-Bearing Capital
Balance sheet item corresponding to the item "technical provisions", typically used in the insurance industry. In accordance with SERV-V, provisions for losses not yet incurred must be shown as equity items. The RBC is determined by means of an actuarial model taking into account all asset portions at risk of loss. The respective value at risk is calculated applying a confidence factor of 99.9 per cent.

Repayments
Realised claims from losses, i.e. payment receipts after payment of the indemnity in the event of a loss.

Restructuring
Measures to restore the profitability and financial equilibrium of debtors who are not members of the Paris Club and are over-indebted or at risk of insolvency. In restructuring, outstanding claims are regulated anew in a contract between SERV and / or the policyholders and the debtor.

SERVG
Swiss Export Risk Insurance Act of 16 December 2005 (as at 1 January 2016), SR 946.10.

SERV-V
Swiss Export Risk Insurance Ordinance of 25 October 2006 (as at 1 January 2016), SR 946.101.

Subsidiarity
Statutory prohibition on replacing private-sector providers. In other words, SERV does not insure any risks if there is an adequate market supply of insurance for them (Art. 6 para. 1 let. d SERVG).

Supplier credit insurance
Swiss exporters use supplier credit insurance to insure the risk that the customer will fail to pay amounts owed for goods and services under an export contract. The maximum cover ratio is 95 per cent.

Transactions of particular significance
Transactions of particular significance are exports with material economic, social, environmental, developmental or other foreign policy implications. The Federal Council may give SERV instructions on the insurance of such export transactions (Art. 34 SERVG and Art. 28 SERV-V).

Unearned premiums
Insurance premiums received in the year under review or previous years that are only to be earned later in the policy term due to the special risk profile of the transaction.

Value at Risk
A measure of risk that indicates with a certain amount of confidence the total loss of a certain risk portfolio which will not be exceeded within a given time horizon.

Working Capital Insurance
Covers a working capital loan for a Swiss export transaction, i.e. protects the creditor financial institution against insolvency or unwillingness to pay on the part of the exporter.

This glossary is in abbreviated form.
The full version can be found on the SERV website under www.serv-ch.com > Glossary.

The electronic version of the current annual report can be found at **report.serv-ch.com.**

Publishing Details

The 2018 SERV Annual Report is available in English, German and French and can be downloaded at report.serv-ch.com. The printed German version is authoritative.

This Annual Report was printed on FSC-certified paper and is carbon neutral.
Published by SERV Swiss Export Risk Insurance, Zurich
Printed by cube media, Zurich
Photography Markus Bertschi, Zurich
Illustration Oculus Illustration GmbH, Zurich
Design & concept NeidhartSchön AG, Zurich
Translation Supertext AG, Zurich
Editing & internal quality assurance Viviane Gnuan, SERV

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