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	Andrea Bischof
Licensed Audit Expert	*Licensed Audit Expert*
Auditor in Charge	

Zurich, 22 February 2019