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.

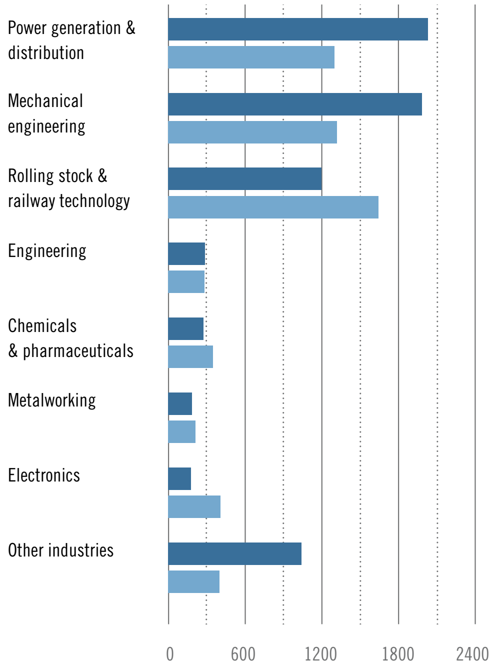
Development of New Exposure and New Commitment

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.

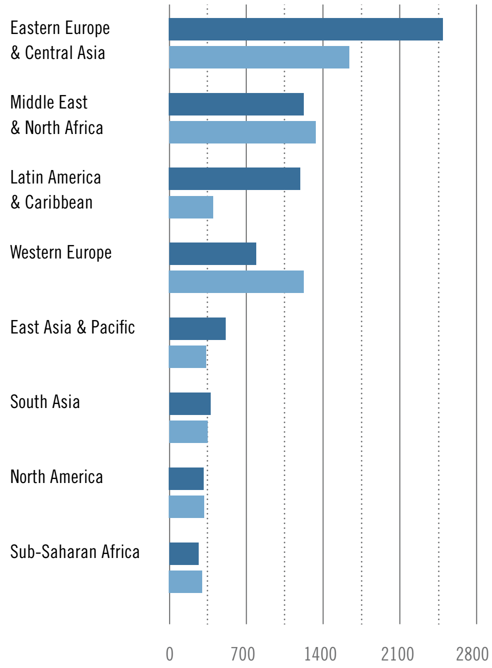
Commitment by Industry

in CHF million



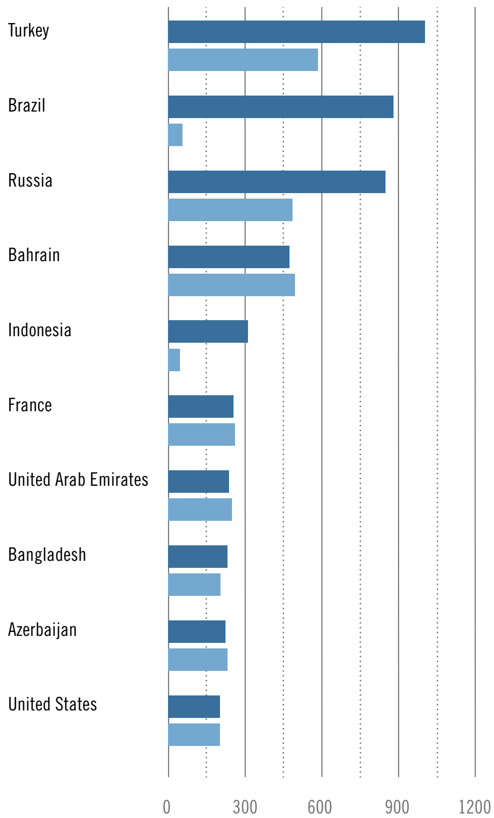
Commitment by Region

in CHF million



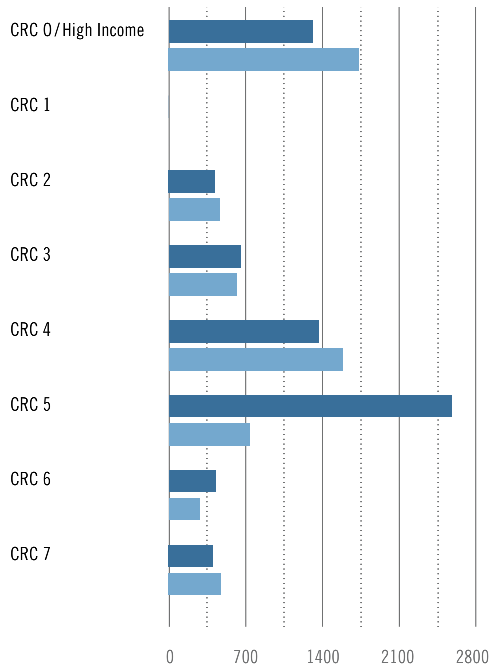
Commitment by Country

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.

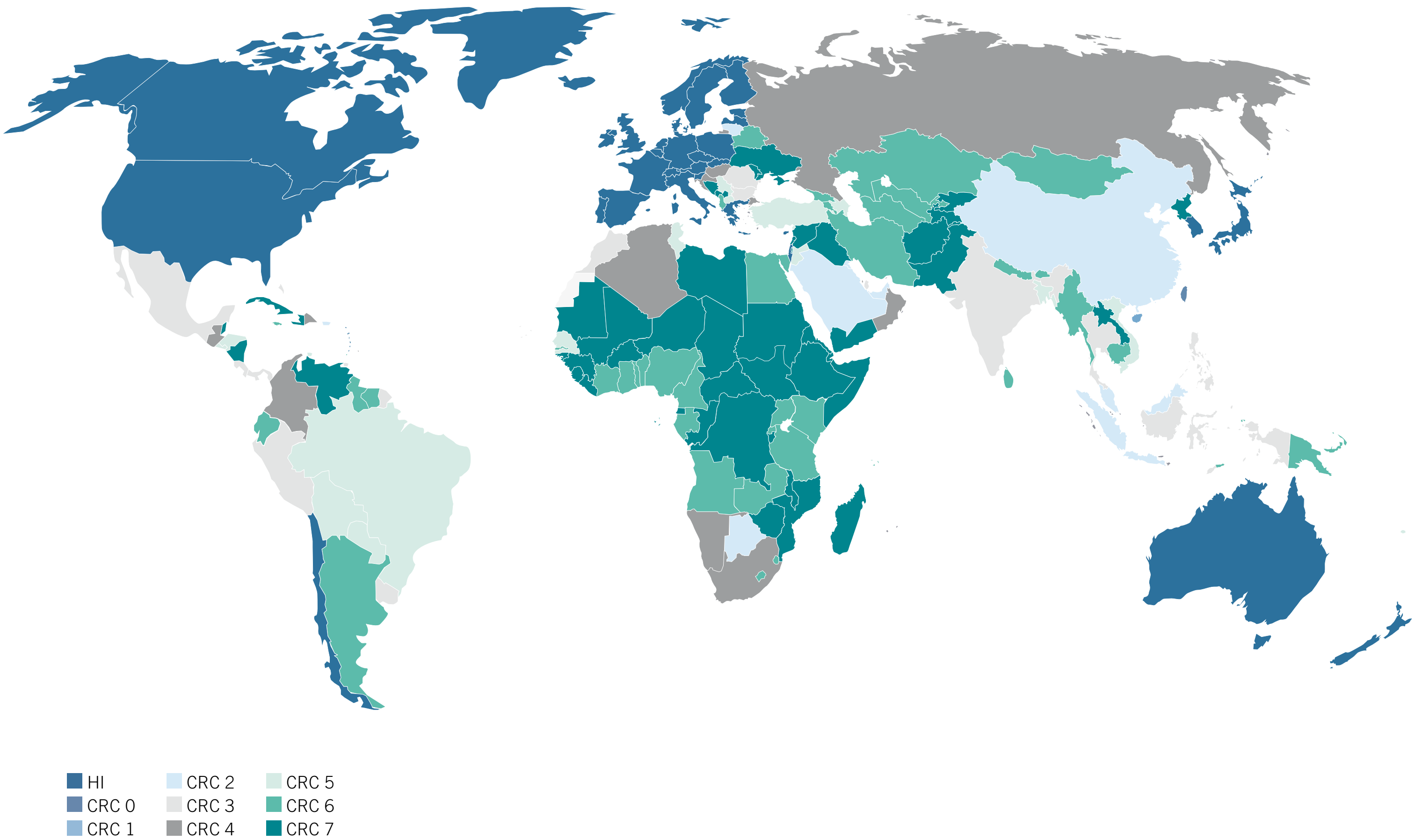
The strong expansion in new transactions is primarily attributable to the power generation and distribution sector, where new commitments more than doubled from CHF 519.0 million to CHF 1.249 billion. In the power plant business in particular, export financing insured by SERV has shown itself to be a 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.

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.

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

Heribert Knittlmayer
Head of Insurance Business

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

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.

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.

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.

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.

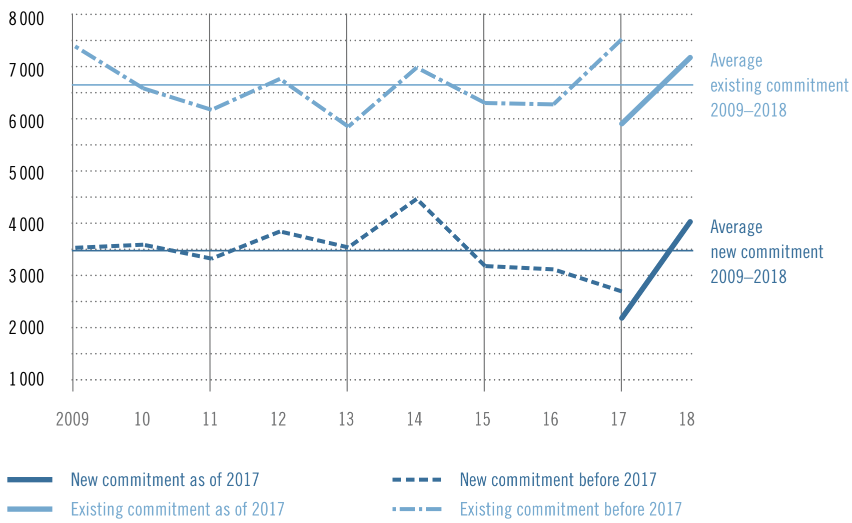
"Technological progress is playing an increasingly important role. SERV must take account of that."

Peter Gisler
CEO

Multi-year Comparison

Commitment Development

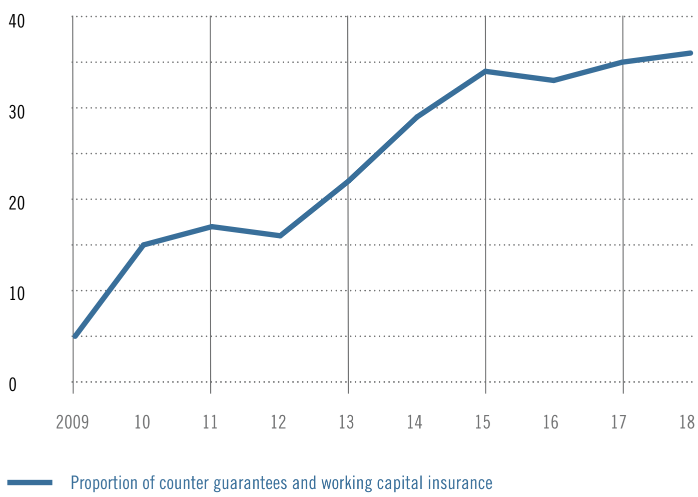
in CHF million



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

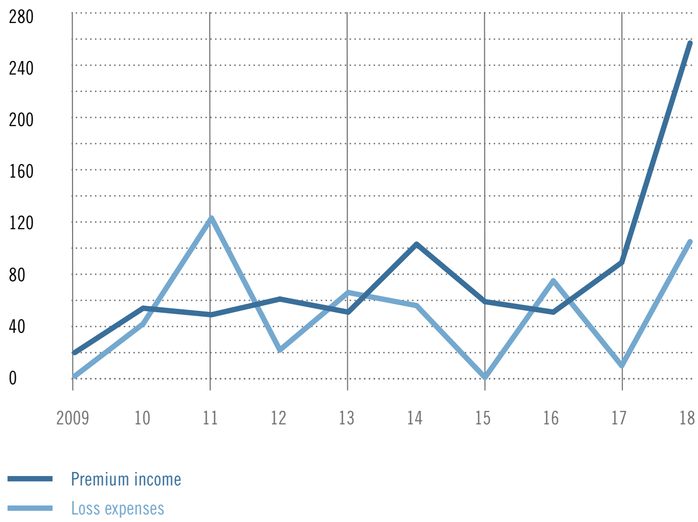
in per cent



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.

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.

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