SERV Swiss Export Risk Insurance

Annual Report 2019

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

17 Years of Service to the Swiss Export Industry

Thomas Daum stepped down from the Board of Directors at the end of 2019. He had served as Chairman of the Board of Directors of SERV since July 2013, had been a member of the ERG Commission since 2002 and had played a key role in the transition from ERG to SERV. In his role as Chairman, he actively accompanied the incorporation of the new products working capital insurance, counter guarantee and refinancing guarantee, which had previously been introduced on a temporary basis into law, and promoted the dynamic adaptation of SERV's cover policy to the structural changes in export business.

SERV's Board of Directors and employees extend their thanks to Mr Daum for his outstanding contribution and his unwavering commitment to ERG and SERV, and wish him a happy and fulfilling retirement.

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

Swiss Export Risk Insurance SERV is an institution under public law with the status of an independent legal entity under the Swiss Confederation. It 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 2019. 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.

Financial Highlights

Obligation in CHF m	31.12.2019	31.12.2018
Framework of obligation	16 000	16 000
Insurance obligations	11 588	11 354

Current Exposure in CHF m	31.12.2019	31.12.2018
Commitment: insurance policies (IP)	7 109	7 173
ECA reinsurances taken into account	–297	–482
Insurance commitments in principle (ICP)	1 664	1 501
Exposure	**8 773**	**8 674**

New exposure in CHF m	2019	2018
New commitment: insurance policies (IP)	2 173	4 028
Insurance commitments in principle (ICP)	1 404	1 224

Balance sheet in CHF m	31.12.2019	31.12.2018
Cash in hand & at bank and cash investments	2 989	2 854
Claims from losses and restructuring	188	210
Credit balances from debt rescheduling agreements	146	211
Unearned premiums and provisions	529	512
Capital	2 826	2 770

Income statement in CHF m	2019	2018
Earned premiums	69	94
Interest income from debt rescheduling agreements	15	17
Loss expenses	–55	–105
Debt rescheduling results	42	10
Profit/loss on insurance	**71**	**16**
Personnel expenses	–12	–11
Non-personnel expenses	–5	–5
Financial income	1	2
Operating profit/loss	**55**	**2**
Interest income from cash investments	–	–
Net income (NI)	**55**	**2**

Number of employees		
Number	62	53
Full-time equivalents	56.5	50.0

New Commitment

2 173 CHF m

Earned Premiums

69 CHF m

Proportion of SMEs in the Client Base

66 %

Framework of Obligation

16 CHF bn

Loss Expenses

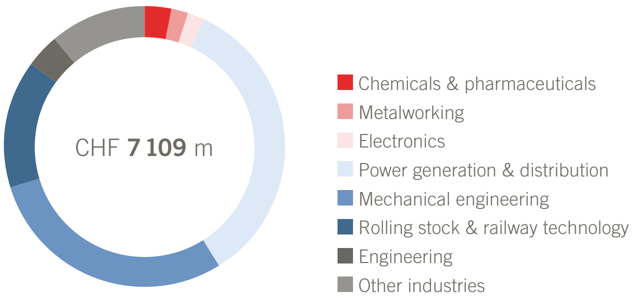
55 CHF m

Economic Viability

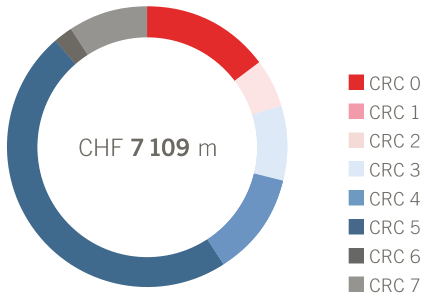
23 CHF m

The surplus cover in the economic viability calculation amounted to CHF 23 million.

Commitment by Industry



Commitment by Country Risk Category



Milestones in the Financial Year

30 April 2019

ECA Pathfinding Project Launched

SERV has launched the ECA Pathfinding Project, which is intended to give Swiss exporters, and SMEs in particular, access to large transactions. To this end, SERV and Switzerland Global Enterprise (S-GE) have successfully carried out two matchmaking events in 2019. The project dovetails with the Confederation's 2020–2023 strategic objectives.

22 May 2019

DACH Initiative: Enhanced Cooperation Between Three ECAs

The export credit agencies (ECAs) of Germany, Austria and Switzerland (the DACH countries) have agreed to work together more closely with the aim of improving the global competitiveness of exporters in the DACH region. To date, two joint conferences have been held and an employee exchange programme has been launched.

18 September 2019

SERV is Among the Top Three in Terms of Customer Satisfaction

The TXF news portal conducts an annual study on export finance and publishes the results under the title "Export Finance Industry Report". In its 2019 report, SERV ranks third in the category "general customer satisfaction" in a comparison of export credit agencies (ECAs).

Good Company Earnings Despite a Decline in Business

SERV issued between 933 and 956 Insurance Policies (IP) and Insurance Commitments in Principle (ICP) in each of the last three years, but **this number fell significantly to 778 in 2019.** The decline was particularly pronounced for ICP (–32 %) and was even greater for transactions with private debtors than for transactions with public debtors. As SERV has not made any material changes to its products or its cover policy, the decline in its business must be attributed primarily to the collapse in foreign demand in the Swiss capital goods industry.

In 2019, total new exposure fell by 32 per cent over the previous year to CHF 3.577 billion, with IP declining as much as 46 per cent. It should, however, be borne in mind that 2018 saw the conversion of several large ICP from previous years into IP, making it an exceptional year in this regard. However, based on the reports of some of its major customers, SERV had expected a high growth in exposure, at least in terms of ICP, and had therefore requested the Federal Council to increase the framework of obligation at the end of 2018. However, the corresponding transactions failed to materialise, which meant that only 72 per cent of the framework of obligation had been utilised at the end of 2019.

Despite the decline in business, SERV ended 2019 with good company earnings, which at CHF 55.4 million are significantly higher than those of the previous year. There are three main reasons for this improvement, which runs counter to the business results: Firstly, at CHF 25.2 million, earned premiums, which are responsible for this result, declined by a much smaller amount than the premium income for the year (CHF –149.9 million). Secondly, loss expenses fell from the previous year's peak (CHF 104.5 million) to CHF 54.9 million. Thirdly, the debt rescheduling results were CHF 41.8 million up on 2018. With net equity of CHF 2.826 billion, SERV is in very good financial shape.

In addition to the insurance business, various **projects to strengthen internal structures and processes** placed particular demands on SERV employees in 2019. The employees have fulfilled these tasks with enormous commitment and we would like to offer our sincerest thanks to them. We would also like to thank all our customers and partners for placing their trust in us and helping us to fulfil our mission.

The term of office of the previous Board of Directors (BoD) ended in the year under review. In the new 2020–2023 term of office, **Barbara Hayoz will head the BoD as Thomas Daum's successor** and Christian Etter and Peter Jenelten will join the Board.

Thomas Daum
Chairman of the Board

Peter Gisler
CEO

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"I am convinced that we will overcome the challenges that lie ahead."

Barbara Hayoz (Chairwoman of the Board of Directors as of 1 January 2020) and Thomas Daum (departing Chairman of the Board of Directors)

"SERV has a sound risk-bearing capacity that will allow it to tackle future challenges pro-actively."

Mr Daum: You're handing SERV over to Ms Hayoz. What shape is the company in?
[Thomas Daum] I am pleased to say that I am handing over a well-positioned company to Barbara Hayoz. Thanks to the competence of its employees and the flexible deployment of its products, SERV has established a very good reputation in the market. We have always worked in an economically viable manner and have been able to increase our net equity to CHF 2.8 billion thanks to the company's consistently positive earnings. This means that SERV has a sound risk-bearing capacity that will allow it to tackle future challenges proactively – and there will certainly be no shortage of such challenges.

Last year, however, there was a significant fall in the number of new transactions and new exposure. Does that not worry you, Ms Hayoz?
[Barbara Hayoz] No. First of all, we shouldn't compare last year with 2018, which was an exceptional year. Last year, we insured only a few large transactions and we felt the impact of the low level of business activity in the Swiss capital goods industry, which is our most important customer segment. SERV's business has always been subject to great volatility. Demand for SERV cover generally rises when uncertainty increases.

Taking a longer view, how has business developed since 2013? Have there been any significant changes?
[D] SERV's business has changed significantly in recent years. The trends from public to private and from short-term to medium/long-term risks were significant and the adaptation of our cover policy to the structural change in export business was even more fundamental in nature. This is increasingly taking place within the framework of globalised value chains, with a decline in value-creating activities in Switzerland and ever more complex contractual and financing structures for insured export transactions. To keep pace with this structural change, we needed to adapt our interpretation of the legal requirements in accordance with the times.

[H] In its formative years, SERV concentrated primarily on developing its business, but it has recently had to focus more on strengthening its internal structures. Based on a fundamental review of our business processes, we made changes in key areas to increase SERV's effectiveness and efficiency. This also identified the need to replace our old IT system to give SERV a modern infrastructure on which to process its transactions from 2021 onwards. We also want to ensure that SERV is better placed in future to fulfil its promotional mandate by means of a targeted increase in personnel.

And where do you see the challenges that will confront SERV in the coming years?

[D] The changes I have described are ongoing. The capital SERV is obliged by law to invest with the Swiss Confederation yields not a single centime in interest, increasing SERV's dependency on insuring large transactions with corresponding premium earnings. This necessitates being able to offer attractive insurance policies to global corporations. At the same time, SERV must fulfil its promotional mandate for SMEs, which is no easy task in the current financial market environment. We have discussed these challenges in detail with the Swiss Confederation, and they have been incorporated into the Federal Council's strategic goals for 2020–2023.

What are the specific priorities of the Federal Council's 2020–2023 targets?

[H] The Federal Council expects SERV to continue to offer modern products that are competitive internationally and to also, for example, help Swiss exporters participate in major international projects. To this end, SERV wants to take advantage of its flexibility when interpreting the requirements for Swiss value added in the transactions it insures. SERV must, however, also promote export transactions of SMEs, even if it is unable to cover its costs in every instance. The audit mandates that the Federal Council will be issuing to us in the coming years are an important new development. Their aim is to ensure that SERV is economically viable despite the absence of investment income, in order to guarantee attractive export financing for SMEs as well as SERV cover that is internationally competitive in general terms.

Climate change is something everyone is talking about and a topic that it's impossible to escape. Do climate issues also play a role at SERV?

[D] Of course. SERV adheres to the OECD Common Approaches for Officially Supported Export Credits and Environmental and Social Due Diligence and the standards of the World Bank, IFC and UN, which also include rules to protect the climate. We are also obliged to observe Switzerland's foreign policy principles and its obligations under international law that are pertinent to the climate issue.

[H] With regard to the heavily criticised coal-fired power plants, for example, we only consider insuring projects that are intended to improve the efficiency of existing plants and reduce their emissions of pollutants. We treat new construction projects as "transactions of particular significance" that can only be insured with the approval of the Federal Council. Such approval is, however, highly unlikely to be granted.

Does this mean that SERV is well prepared for the tasks confronting it?

[D] Managing SERV will remain a demanding responsibility. SERV must continue to manage a small and suboptimally structured portfolio, with the volatility in business activity that entails, while generating sufficient premiums without taking inappropriate risks. In addition, the export financing market is in a state of flux and many countries are upgrading their export credit insurance with additional benefits. Remaining internationally competitive will be an enormous challenge for SERV in this environment.

[H] SERV has continuously improved its performance and adapted to changes in the market in recent years. It has strengthened its structures and is on a sound financial footing. The management and employees are very committed and are also extremely well qualified to handle complicated transactions. At the strategic level, SERV holds regular discussions with its owner. I am convinced that these changes will enable us to overcome the challenges that lie ahead.

Viviane Gnuan (Communications Manager) spoke to Barbara Hayoz and Thomas Daum.

"SERV has continuously improved its performance and adapted to changes in the market in recent years."

Financial Year 2019

Premium Income
(in CHF million)

108

New commitment
(compared to the previous year)

–46%

Despite a considerable fall in new commitments, SERV generated net income of CHF 55.4 million in 2019. With premium income of CHF 107.5 million, earned premiums amounted to CHF 69.3 million, which, together with the debt rescheduling results of CHF 41.8 million and average loss expenses, were responsible for a good overall result.

For the first time in years, the volume of newly concluded transactions declined significantly compared to the previous year, with the number of insurance policies (IP) falling from 770 to 666. New commitment declined by a full 46 per cent to CHF 2.173 billion, although 2018 had been an extraordinary year in this regard. Thanks to a number of newly concluded transactions with long credit periods, SERV nonetheless achieved premium income of CHF 107.5 million in 2019, and its earned premiums of CHF 69.3 million were at an attractive level due to the several large IP it has taken on over the past two years. Interest income on debt rescheduling agreements amounting to CHF 15.1 million resulted in income from insurance of CHF 84.5 million.

Loss expenses, which had been extraordinarily high at CHF 104.5 million in the previous year, underwent another significant decline and had a negative impact of CHF 54.9 million on the income statement. Due to a simultaneous rise of CHF 32.3 million in earnings from debt rescheduling agreements bringing the figure to CHF 41.8 million, total expenses from insurance of CHF 13.1 million were CHF 81.9 million lower than in the previous year (CHF 95.0 million). This resulted in a profit from insurance of CHF 71.4 million.

The deduction of personnel and non-personnel expenses and financial income, which rose slightly by CHF 1.7 million to CHF 16.0 million compared to the previous year, resulted in an operating profit of CHF 55.4 million for 2019. This corresponds to the net income, as, for the third year in succession, SERV posted no interest income at all from cash investments in 2019.

Development of the Business Environment

Although SERV's business results depend to a considerable extent on the insurance of individual large transactions and the level of loss expenses, particularly over the short term, the declining number of IP and ICP in 2019 in particular reflects the weaker growth of the global economy.

Growth rates in the advanced economies declined and the emerging markets were no longer able to maintain their previous momentum. In contrast to recent years, the pace of economic development in China slowed down significantly; the pace of expansion weakened considerably in the other Asian countries, and the economic mood in Latin America, Russia and Turkey remained subdued. The industrial sector and investment activity in particular lost momentum worldwide, with a significant reduction in demand for capital goods in emerging markets compared with previous years.

The geopolitical uncertainties that had already been noticeable in previous years depressed trading activity worldwide. In Europe, the lack of clarity about the timing and terms of Brexit also led to uncertainty in 2019. The trade conflict with China, which originated in the US, escalated in the course of the year and, despite negotiations, had not really been resolved by the end of the year.

The continuation of the US Federal Reserve's more expansive monetary policy in 2019 and the prospect of continued low US interest rates led to an improvement in the attractiveness of investments in emerging markets. As a result, with the one exception of Argentina, the downward pressure on the currencies of the emerging markets eased. The upward pressure on the Swiss franc continued, although it should be borne in mind that its effective exchange rate, measured in terms of producer prices, appreciated significantly less than the nominal exchange rate.

These adverse circumstances had a negative impact on the performance of the Swiss economy in 2019. Economic growth was down on previous years, with exports of goods also losing considerable momentum. This particularly affected the mechanical, electrical and metal industry (MEM) sector, whose exporters continue to be among SERV's main customers. The sector saw both turnover and incoming orders decline sharply in 2019.

New exposure

in CHF million

	Insurance policies (IP) (new commitment) short term		medium/long-term		Total		Insurance commitments in principle (ICP)		Total new exposure	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Countries										
Turkey	2.4	299.8	263.3	327.6	265.7	627.4	162.6	159.1	428.3	786.5
Bangladesh	43.0	3.8	277.7	26.6	320.7	30.4	18.1	–	338.8	30.4
Egypt	29.5	20.7	2.5	2.0	32.0	22.7	306.0	–	338.0	22.7
Iraq	95.3	69.4	179.1	108.4	274.4	177.8	–	111.9	274.4	289.7
Uzbekistan	–	–	189.5	62.7	189.5	62.7	31.7	100.6	221.2	163.3
United Arab Emirates	180.3	138.9	13.9	0.8	194.2	139.7	26.6	20.0	220.8	159.7
Turkmenistan	7.1	6.7	–	–	7.1	6.7	187.3	314.3	194.4	321.0
Russia	79.4	310.6	32.7	251.3	112.1	561.9	75.5	57.8	187.6	619.7
Other countries	522.4	796.0	254.6	1 602.5	777.0	2 398.5	596.5	460.5	1 373.5	2 859.0
Total	**959.4**	**1 645.9**	**1 213.3**	**2 381.9**	**2 172.7**	**4 027.8**	**1 404.3**	**1 224.2**	**3 577.0**	**5 252.0**
Industries										
Mechanical engineering	413.2	565.3	317.2	710.8	730.4	1 276.1	833.6	521.2	1 564.0	1 797.3
Power generation & distribution	45.3	6.8	542.8	1 242.2	588.1	1 249.0	187.3	114.7	775.4	1 363.7
Chemicals & pharmaceuticals	340.6	478.4	10.5	4.9	351.1	483.3	–	7.9	351.1	491.2
Electronics	21.7	23.2	35.6	2.5	57.3	25.7	254.1	69.0	311.4	94.7
Rolling stock & railway technology	39.4	63.4	3.0	30.6	42.4	94.0	96.3	73.9	138.7	167.9
Engineering	10.1	37.5	1.8	11.8	11.9	49.3	8.8	3.8	20.7	53.1
Metalworking	5.9	40.6	14.2	3.0	20.1	43.6	–	5.8	20.1	49.4
Other industries	83.2	430.7	288.2	376.1	371.4	806.8	24.2	427.9	395.6	1 234.7
Total	**959.4**	**1 645.9**	**1 213.3**	**2 381.9**	**2 172.7**	**4 027.8**	**1 404.3**	**1 224.2**	**3 577.0**	**5 252.0**

Development of New Exposure and New Commitment

New exposure fell by 32 per cent from CHF 5.252 billion in 2018 to CHF 3.577 billion in 2019. New commitment reported an even more significant decline, falling by 46 per cent to a low level of CHF 2.173 billion. It must be borne in mind that new commitment was unusually high in 2018 due to the insuring of some particularly large transactions when comparing 2019 with the previous year. However, the volume of newly issued IP was also particularly low in 2019 compared to previous years.

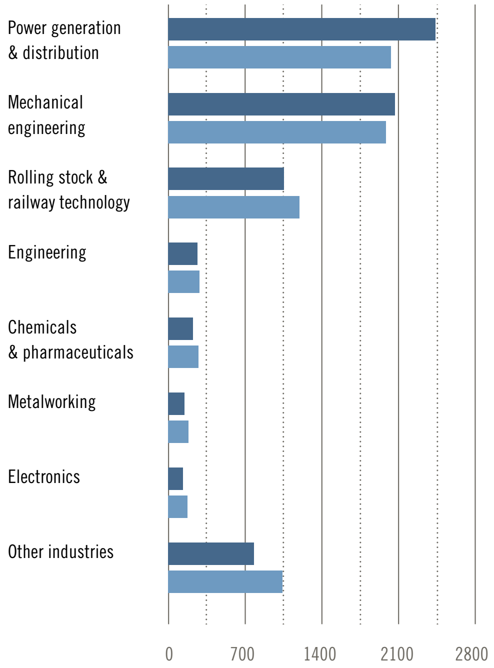
The negative development of new business at SERV is not exceptional compared to other export credit agencies (ECAs) and private insurers, as other insurers also recorded a decline in new business as a result of the slowdown in economic momentum and the reduced demand for capital goods. The Berne Union reported a 27 per cent decline in new business volume in the medium to long-term range in 2019.

The breakdown of new business by sector shows that mechanical engineering (textile, machine tools, food processing and chemical plants) suffered a decline of CHF 545.7 million to CHF 730.4 million. It does, however, continue to be the product group with the highest level of new commitment, followed by power generation and distribution, where new commitment fell from CHF 1.249 billion to CHF 588.1 million. The rolling stock and railway technology sector, which in the past was a very significant contributor to the growth in new commitment, produced very little new commitment in 2019 at CHF 42.4 million.

Other insurers also recorded a decline in new business as a result of the slowdown in economic momentum and the reduced demand for capital goods.

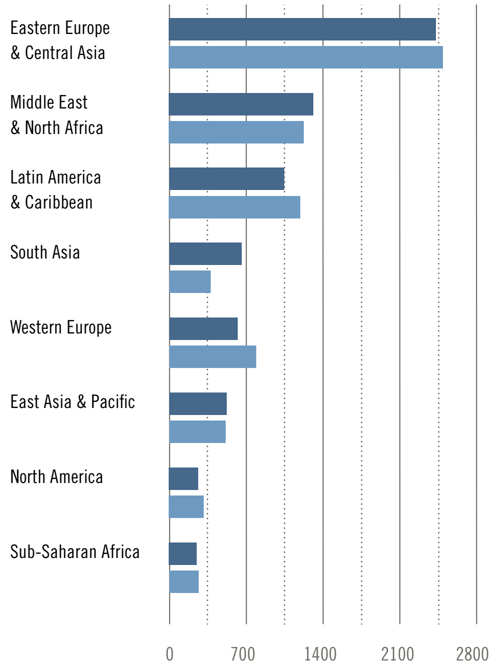
Commitment by Industry

in CHF million



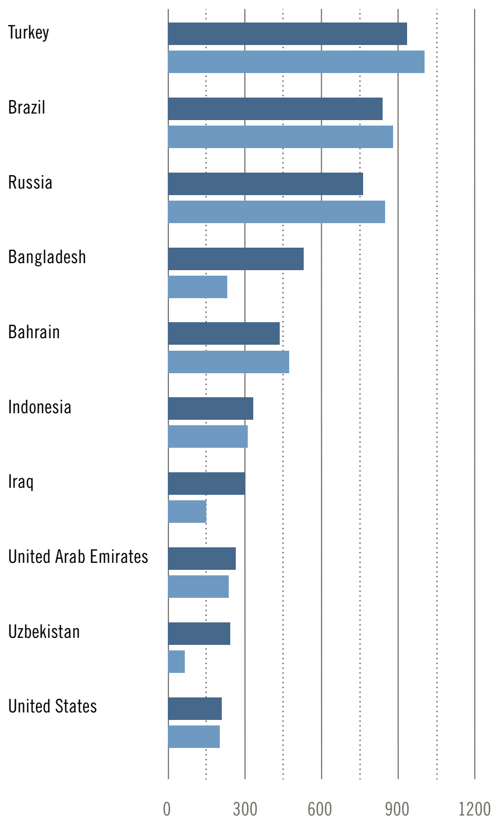
Commitment by Region

in CHF million



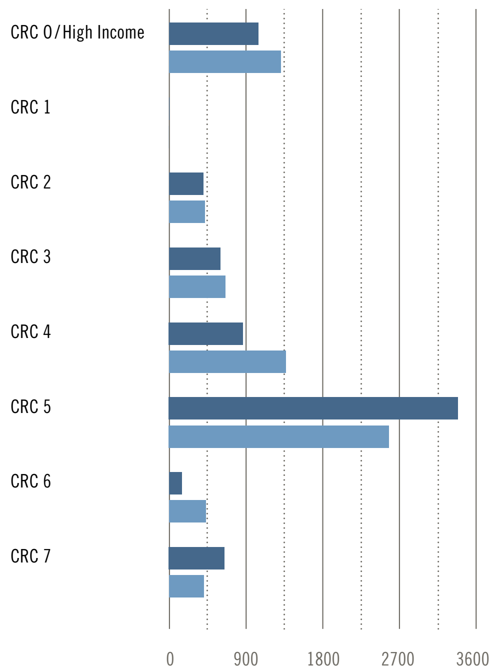
Commitment by Country

The ten main countries for SERV, in CHF million



Commitment by OECD Country Risk Category

in CHF million



2019
2018

Despite the negative commitment development, SERV generated premium income of over CHF 107.5 million in 2019, as it again insured a number of large transactions in the long-term range. Although the share of insurance transactions in the short-term range – i.e. transactions with a risk period of less than 24 months – rose from 41 per cent to 44 per cent, this is still low when compared to previous years.

In contrast to new commitments, the volume of newly issued ICP rose by 15 per cent to CHF 1.404 billion in 2019, following a sharp decline in the previous year. This led to ICP again accounting for a 39 per cent share of new exposure, a level that was not unusual for SERV in previous years but which can only be relied on to a limited extent as an indicator for a recovery in its business results in 2020.

In addition to the decline in the volume of new business, the economic slowdown also caused a general reduction in demand for SERV products. While the number of newly issued ICP and IP had generally increased year-on-year in the past, it fell by 17 per cent from 934 in the previous year to 778 in the reporting year. The number of IP was 666, a decrease of 14 per cent.

Working capital insurance suffered the sharpest downturn in demand, with the number of IP issued falling by 35 per cent. Demand for counter guarantees also fell, but at 11 per cent the decline was less severe than that for working capital insurance. In the case of insurance of claims against foreign debtors, supplier credit insurance recorded the sharpest decline, with a fall in numbers of 28 per cent. For the first time since 2015, SERV also issued fewer buyer credit insurance policies than in the previous year. The negative trend of recent years continued in multi-buyer insurance for the chemical and pharmaceutical industry, although this sector also reported export growth in 2019.

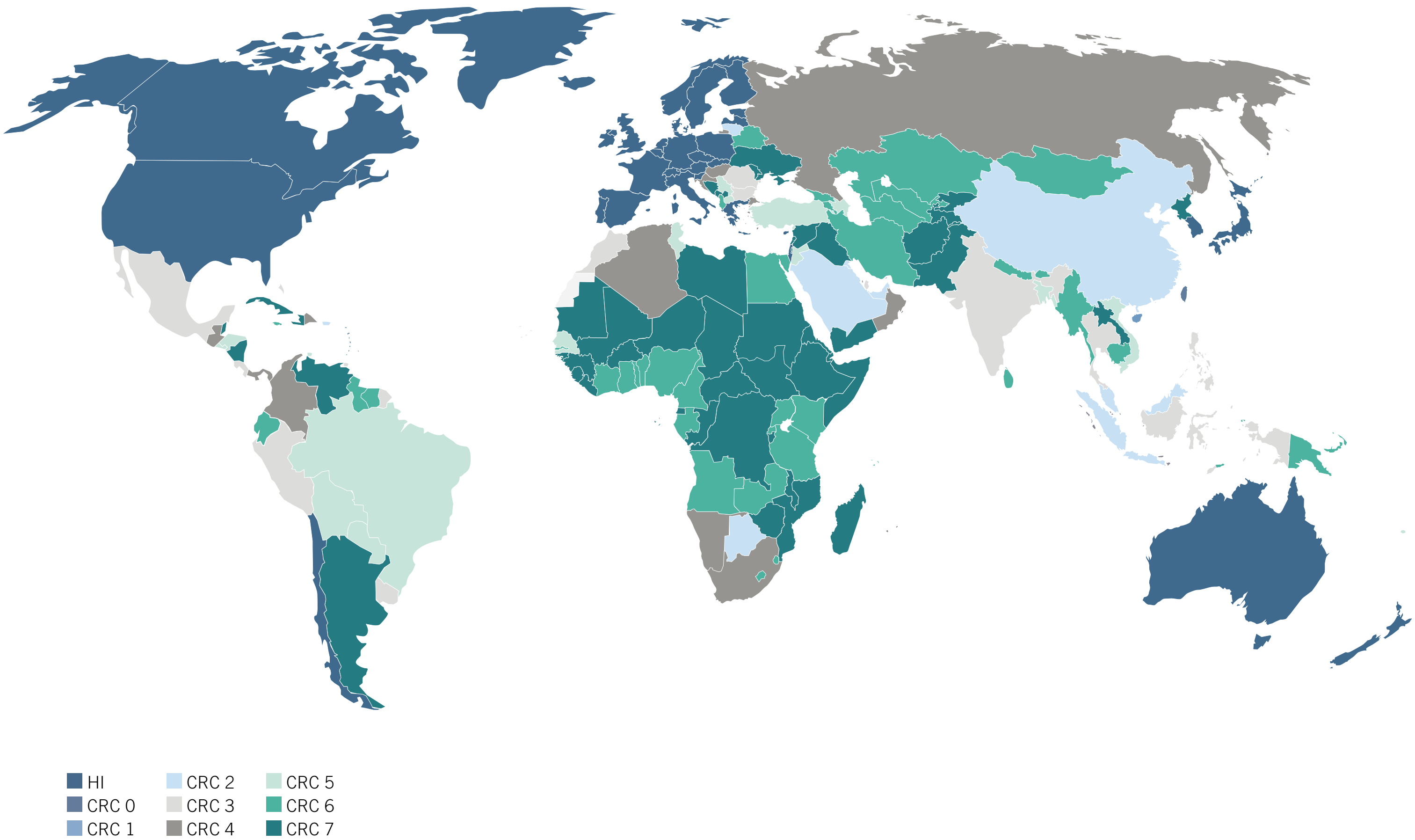
Despite the negative commitment development, SERV generated premium income of over CHF 107.5 million in 2019, as it again insured a number of large transactions in the long-term range.

Marketing & Acquisition

In accordance with its business strategy, SERV launched the ECA Pathfinding Project in 2019. Within this framework, it began to increase its international profile and look for specific projects – particularly

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 31.12.2019



Commitment
(in CHF billion)

7

The Federal Council elected Barbara Hayoz as Chairwoman of the Board of Directors.

"In an increasingly uncertain business environment, export financing covered by SERV will be a competitive advantage for Swiss exporters."

Heribert Knittlmayer
Head of Insurance Business

within the infrastructure sector – in the buyers' markets in which Swiss exporters are able to participate thanks to SERV-insured financing. Based on an initial analysis, SERV identified two projects in Africa that were in principle suited to SERV insurance cover. Together with Switzerland Global Enterprise (S-GE), SERV presented these projects to Swiss exporters at two matchmaking events. However, no specific export transactions that would be included as IP or ICP in new exposure were concluded in 2019.

Exposure & Commitment

SERV's exposure amounted to CHF 8.773 billion as at 31 December 2019, 1 per cent higher than the previous year (CHF 8.674 billion) despite the decline in new exposure. The commitment amounted to CHF 7.109 billion on the balance sheet date, 1 per cent lower than at the end of 2018. One of the contributory factors was an IP that was written off on a railway transaction in Austria after the insured loans were (partially) repaid ahead of time.

The opposing trends in the volume of new business and current exposure can be explained first and foremost by the changes that the portfolio has undergone with respect to the insurance terms of the transactions. If SERV insures more transactions with long credit periods and thus risk periods, this will reduce the regular writing off of repayments from past insured export transactions. This means that even a decline in new business growth can result in an overall increase in exposure due to the decreasing write-offs.

SERV's highest commitment by country continues to be to Turkey at CHF 934.1 million, which accounts for around 13 per cent of total current commitments. At CHF 529.3 million, Bangladesh has now moved from 8th to 4th place in the country list, in large part due to SERV insuring the financing for another gas-fired combined cycle power plant in the country in 2019.

Organisation, Personnel & IT

The term of office of the Board of Directors (BoD) came to a close at the end of the 2019 financial year. All members of the BoD, with the exception of the Chairman, Thomas Daum, were re-elected by the Federal Council for the next term of office until 2023. Thomas Daum did not stand for re-election and stood down at the end of 2019.

Christian Etter, independent consultant, economist and former Ambassador and Delegate of the Federal Council for Trade Agreements, and Peter Jenelten, who holds a degree in electrical engineering from ETH and is an agent in the rail sector, were appointed to the BoD, which means that it will again consist of nine members from 2020. The Federal Council elected Barbara Hayoz as Chairwoman of the BoD. Ms Hayoz has been a member of the BoD since 2013 and has chaired the Finance and Organisation Committee as Vice Chair of SERV for the past three years. Urs Ziswiler took over these functions on 1 January 2020.

SERV's corporate governance remained largely unchanged in 2019. The rules of procedure were slightly amended to include provisions on the disclosure of vested interests and the avoidance of conflicts of interest in line with previous practice. In addition, amendments were made with regard to the CEO's reporting obligations to the Finance and Organisation Committee (FOA) and the BoD.

The BoD also adopted a comprehensive HR strategy that focuses on the topics of employee development, the mission statement, values and the employer brand. As part of its ongoing personnel planning, the BoD approved an increase in the employment ceiling from 54 to 59 full-time equivalents. In some instances, temporary positions will be used to tackle acute bottlenecks in the personnel, IT and procurement departments. In addition, the Risk Analysis and Legal & Compliance departments will receive urgently needed reinforcements in the form of two new permanent positions.

The new IT strategy will allow a modern infrastructure to standardise, automate and handle business efficiently to be put in place by 2021. To this end, SERV commissioned a software provider specialising in insurance companies to replace the current system.

Risk Policy, Risk Management & Cover Policy

There were no significant changes to risk policy and risk management compared to previous years. SERV created the position of a compliance manager in 2019 to help the BoD to organise the compliance management system.

The BoD is responsible for risk management and its supervision at SERV. It defines the risk policy and periodically evaluates the risk profile. In 2019, the BoD again examined in detail 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.

SECO appointed Deloitte Switzerland to conduct an in-depth audit on SERV's risk capital and credit rating models, the third time such an audit had been conducted since SERV was founded. Deloitte concluded that the CreditRisk+ risk capital model employed, which has a confidence level of 99.9 per cent, is well suited to represent the risks relevant to SERV. Deloitte considered that SERV used its implementation of the risk capital model in a very transparent manner to prepare its risk reports. Critically, the auditors requested improvements in the documentation regarding the selection and functioning of the risk model, which SERV has taken the necessary steps to implement.

SERV conducts an annual audit of the risks handled by the internal control system (ICS). The assessment in 2019 showed that in terms of all the key risks, the effectiveness and efficiency of the monitoring activities were good overall. There were no significant changes compared to previous years.

The risk classification of individual countries, banks and private buyers is determined by SERV's 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 capital adequacy were also reviewed in 2019 on an ongoing basis, taking risk concentrations into consideration, with country limits of CHF 700 million each being determined for Egypt and Iraq. SERV also continued to pursue its stricter requirements regarding the creditworthiness of debtors in Turkey and decided in summer 2019 that it would in principle insure transactions with private Turkish buyers in excess of CHF 5 million only if they were accompanied by additional bank security.

On the basis of current market developments and, in particular, the business forecasts of its major clients, SERV regularly reviews its free capacities in terms of risk-bearing capital (RBC) and utilisation of the framework of obligation. The Federal Council increased the framework of obligation to CHF 16 billion at SERV's request, as it had become clear at the end of 2018 that there was a shortage of capacity. As demand subsequently developed in a very different manner than expected, only 72 per cent of the framework of obligation had been utilised at the end of 2019.

Sustainability

SERV examines insurance transactions to ensure their sustainability with regard to the environment, social responsibility, human rights and combating corruption. SERV observes the guidelines of the Organisation for Economic Co-operation and Development (OECD) and, more generally, the principles of Swiss foreign policy according to Art. 6 para. 2 SERVG. These relate in particular to 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 to preserving Switzerland's independence and protecting its national welfare. Further requirements may arise as a result of Switzerland's obligations under international law. Representatives from SERV also carried out on-site visits to assess larger environmentally sensitive projects (e.g. Brazil, Turkey, Uzbekistan). In the course of 2019, the staffing of the Sustainability Department was increased to 170 per cent of an FTE in order to ensure that the increasing requirements in this area could be met at all times.

SERV also maintains a transparent business policy regarding the issue of sustainability, publishing all projects with a contract value of CHF 10 million or more on its website. In addition, SERV engages in an annual dialogue with employees of the relevant non-governmental organisations (NGOs). Within the framework of this NGO dialogue, SERV provides information about its business results, specific current projects, as well as developments at SERV and in the OECD export credit group. It attends to the concerns of the NGOs and discusses them with the aim of implementing them in practice. In addition to representatives

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: an Illustrative Example

SERV audits each individual insurance and guarantee request to ensure that it complies with international standards (cf. Sustainability pp. 13–14). To this end, it 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 the prescribed standards.

Energy-from-waste Plant in Istanbul

A waste processing plant is currently under construction in the north-west of Istanbul. What is special about the plant is that the heat released by the incineration process is put to good use. The combustion process generates steam, which is directed to a turbine to generate electrical energy. The energy produced is then fed into Istanbul's electricity grid. This is the first plant of its kind in Turkey and is Europe's largest energy-from-waste plant (EfW). The plant will have the capacity to recycle around one million tonnes of waste each year and the heat this produces will be used to generate up to 90 megawatts of electricity. The consortium implementing the project includes the Turkish construction company Makyol and the Swiss technology company Hitachi Zosen Inova (HZI), which is supplying the engineering.

A Comprehensive Review

As with all category A projects, an independent consulting firm has prepared an action plan to ensure that the project complies with environmental, social and human rights requirements. The plan is based on the Environmental and Social Performance Standards of the International Finance Corporation (IFC). The project placed a particular emphasis on occupational safety and environmental aspects. This yielded positive results, as good solutions were identified for all the requirements. Judith Capello, Assistant Vice President, International Relations & Business Policy, reports: "I'm very pleased with the project. Everyone involved is pulling in the same direction."

The consortium will operate the plant for a year after the construction work is completed and then hand it over to the Turkish buyer, Istanbul Metropolitan Municipality (IMM). "The handover is always a critical moment in terms of compliance with the requirements, as cultural and linguistic differences can give rise to misunderstandings," Judith Capello explains. The project is therefore subject to regular monitoring, which allows SERV to ensure that the buyer complies with the conditions.

from SERV, the organisations Alliance Sud, Public Eye, Pro Natura and Transparency International participated in the 2019 dialogue. This exchange is greatly appreciated by all the parties involved and the NGOs are particularly satisfied with SERV's high degree of transparency towards them.

The revised version of the OECD Recommendation on Bribery and Officially Supported Export Credits entered into force in March 2019. SERV has adapted its internal processes accordingly. As has always been the case when presented with allegations of corrupt business dealings, SERV actively pursues dialogue with the exporter concerned.

International Relations

The OECD Working Party on Export Credits and Credit Guarantees was set up in 1963 and reports to the OECD Trade Committee. In 1978, it gave rise to the Arrangement on Officially Supported Export Credits (OECD Arrangement). In accordance with the principles of the World Trade Organization (WTO), the Arrangement aims to prevent the subsidising of exports. The OECD Arrangement is legally binding in the EU countries. It is adhered to in the form of a gentlemen's agreement by all other members and also forms part of Switzerland's foreign policy principles. The increasing regulatory density of the OECD Arrangement and its outdated basic principles, which are difficult to relate to in today's financing arrangements, have led to a reduction in the competitiveness of the countries bound by the OECD Arrangement.

At the same time, there has been a sharp increase in the volume of export financing of countries such as Brazil, China, India and Russia, whose state-operated export risk insurance is not subject to the OECD Arrangement. This is why the International Working Group on Export Credits (IWG) was set up in 2012. Its aim is to draw up a replacement to the OECD Arrangement, with the involvement of all the major exporting nations (China and other G20 member countries). Like many other multilateral initiatives, however, the IWG has been negatively impacted by the trade disputes and geopolitical developments between the major economic powers. The slow progress in the IWG is leading to a rethink of the OECD Arrangement and its modernisation. Efforts are underway to revise the OECD Arrangement to ensure that the basic principles of the OECD Arrangement meet current market requirements and are competitive without undermining the level playing field or allowing the subsidising of exports.

The Berne Union is an important part of SERV's international network of relationships. This global association of all export credit and investment insurers aims to promote credit insurance for international trade by establishing globally accepted underwriting principles. The Berne Union fulfils this task by creating a forum for its members in which they are able to exchange experiences, learn from each other and establish valuable contacts. Over the next two years, SERV will chair the Berne Union's Medium-Long-Term (MLT) Committee, which comprises all the world's major ECAs, and represent it on its Executive Board.

In addition to multilateral cooperation, SERV is constantly engaged in maintaining and expanding its bilateral relationships with other ECAs. For example, a trilateral initiative to achieve closer cooperation with the ECAs of Austria and Germany was launched. Among other things, this initiative is intended to improve the export opportunities of German, Austrian and Swiss exporters (DACH exporters) and boost their chances in international competition.

Losses and Claims

There were a large number of small and medium-sized losses in 2019. As in previous years, it was possible to avert some imminent losses in the year under review through prompt, active pre-loss management using measures such as restructuring due dates, extending cover and negotiating with the foreign buyers.

Losses

SERV made indemnity payments totalling CHF 63.7 million in the year under review, of which CHF 16.4 million was payment for losses already recognised in previous years and CHF 47.3 million was newly reported losses. CHF 3.1 million had to be set aside in provisions for incurred but not reported (IBNR) losses and CHF 14.4 million for reported losses. Value adjustments on claims were CHF 26.8 million lower than in the previous year, while CHF 37.8 million were written off as definitive losses.

In the year under review, SERV processed 39 new losses in addition to the 132 existing losses in recovery. These new losses affected 34 countries. SERV realised CHF 19.0 million in recoveries as a result of implementing recovery measures. Of the CHF 63.7 million in disbursements for losses, CHF 15.3 million related to short-term risks in Cuba, CHF 13.3 million to risks in Switzerland and CHF 13.0 million to risks in Spain. The largest recovery of CHF 8.2 million and the highest write-off of unrecoverable claims of CHF 30.0 million related to a transaction in Spain dating back to 2011. Claims from losses were up by a total of CHF 4.7 million to CHF 451.2 million in 2019.

Restructuring & Debt Rescheduling

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 at present exempt from repayments. The agreement expired at the end of 2019 and negotiations on its renewal are still ongoing.

With reference to the countries listed on page 44 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 at the end of 2018 and the payment was processed at the beginning of 2019. The debt rescheduling agreement with Kenya has thus been completely fulfilled and concluded.

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 in 2016. Of this amount, 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. Cuba has paid all the instalments provided for under the 2015 agreement for long-term debt. However, several Cuban banks became unable to service new, short-term debt in 2019; SERV is currently negotiating with the Cuban authorities on the restructuring of these obligations.

In November 2014, Argentina and Switzerland concluded a bilateral debt rescheduling agreement relating to the accrued capital, interest and default claims amounting to CHF 454.2 million as of 1 May 2014. To date, Argentina has repaid CHF 351.5 million (plus interest), which comprises the agreed annual minimum payments. The remaining CHF 102.7 million (plus interest) is to be repaid over the next two years.

Loss expenses
(compared to the previous year)

–48 %

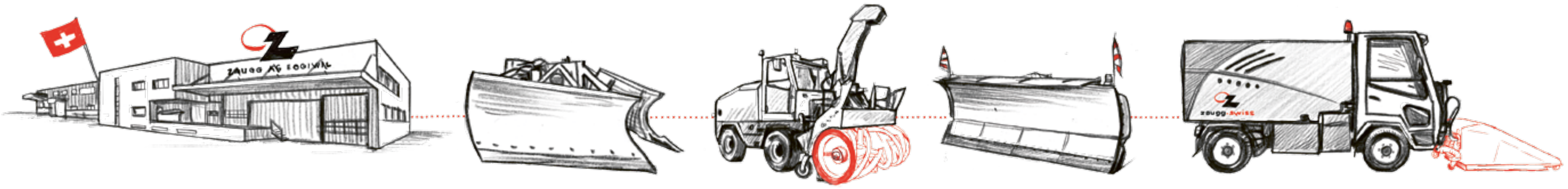
Recoveries
(in CHF million)

19

In the year under review, SERV processed 39 new losses in addition to the 132 existing losses in recovery.

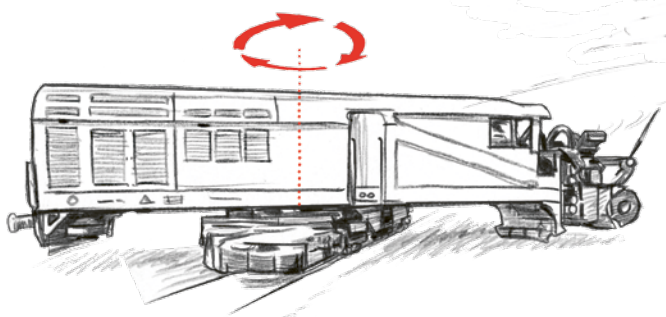
In the Field

Swiss exporters stand out with their innovation, reliability, agility and high-quality products. This year's examples in the field fully reflect these qualities.



Swiss Snow Blower for the World's Northernmost Railway Line

The Swedish Iron Ore Line is exposed to hard winters and was in need of a new snow blower. The Swiss company Zaugg AG Eggiwil replaced the obsolete blower with a newly developed snow-clearing rail vehicle, ensuring that the Iron Ore Line is able to operate all year round. But snowfall is not always as reliable as it is on the world's northernmost railway line, and demand fluctuates. How does Zaugg deal with this?



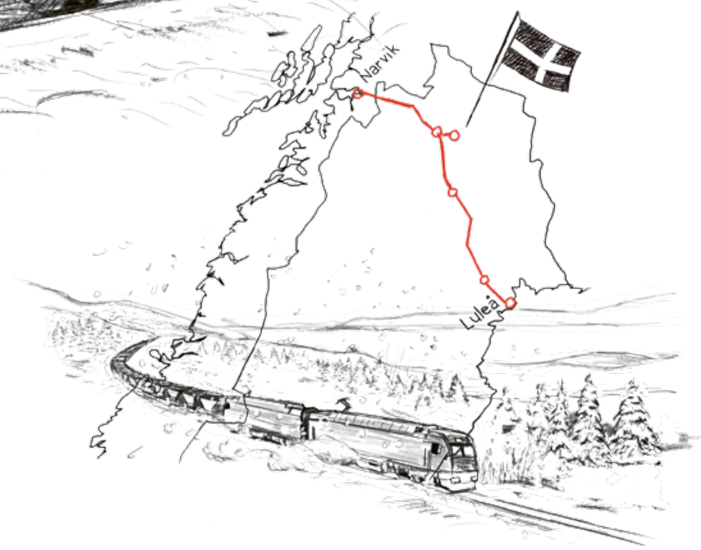
The Zaugg snow blower locomotive is able to clear 7 500 tonnes of snow per hour.

On the world's northernmost railway line, the Malmbanan, which runs between Luleå in Sweden and Narvik in Norway, 27 million tonnes of iron ore are transported each year over a distance of 473 km. In order to keep pace with this enormous volume, the railway must continue to operate during the winter months. In winter, however, adverse weather conditions are a common feature, with storms leading to snow piled up several metres high. Snow blowers are therefore essential to keeping the railway running. However, the existing snow blower was not as young as it used to be and the Swedish infrastructure operator was therefore on the lookout for a new snow-clearing rail vehicle.

Swiss Quality for the Malmbanan

The contract was awarded to Zaugg AG Eggiwil, based in Eggiwil in the Canton of Bern. This comes as no surprise, as Zaugg manufactures impressive, technically sophisticated products. "Our equipment was used at the Olympic Games," CEO Daniel Frutiger comments. Zaugg is a world leader in the development and manufacture of machines for clearing snow from roads, railways and airports and for grooming snow slopes. With 160 employees, Zaugg is an important employer in the Upper Emmental region.

Following a call for tenders, the company supplied the Swedish customer with a 70-tonne snow blower locomotive that is able to clear 7 500 tonnes of snow per hour from the Malmbanan. The massive machine cost CHF 9.5 million and was developed, designed and manufactured by Zaugg.



> "We have no control over whether or not it snows, but we are able to make the most of it. That's our mission."
>
> **Daniel Frutiger**
> CEO

That was back in 2016. As the buyer required another machine and knew it could rely on the quality of Zaugg's products, it ordered a second locomotive in 2019 following another call for tenders. SERV covered both transactions with working capital insurance, pre-shipment risk insurance and contract bond insurance as well as with a counter guarantee.

A Niche Market That is Exposed to the Elements
Despite Zaugg's success, its business also has its pitfalls. "We operate in a small niche market," Daniel Frutiger explains. Zaugg manufactures its products in small batches and is exposed to the vagaries of the weather in a very literal sense. "We have no control over whether or not it snows, but we are able to make the most of it. That's our mission," says Daniel Frutiger. The number of orders the company receives varies as much as the winter weather. A further factor is that the number of days of snow cover has decreased by 25 to 50 per cent over the last 30 years. This has led Zaugg to expand its range of products, and the company has for some time now also been developing equipment to clean highly soiled ground areas. Furthermore, SERV products enable Zaugg to take on orders of such a magnitude as this delivery to Sweden.

Innovation is in the company's DNA

As a multinational company, Bobst is constantly adapting to market requirements. The Swiss company's capacity for innovation has made it the global market leader. Bobst focuses not only on technological advances, but also on risks and financing options for export transactions.

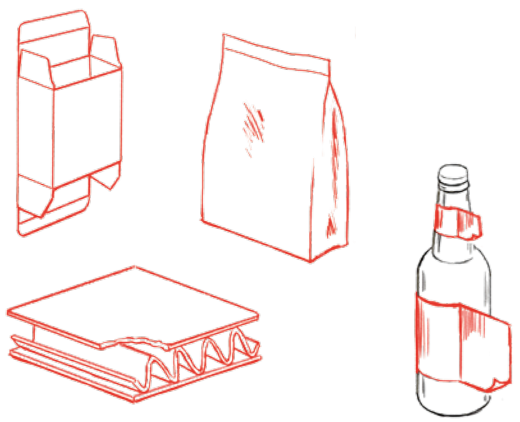
Bobst AG is a multinational enterprise that caters to two-thirds of the world's packaging industry. However, it hasn't always been this way. Bobst's story began in 1890, when Joseph Bobst opened a printing supplies shop in Lausanne. It later evolved into a repair business, which grew in popularity. Numerous patent applications followed.

Always in tune with market requirements
Bobst has registered around 1400 patents to date. "Innovation is in our company's DNA," says Stefano Bianchi, Group Treasurer and Investor Relations. Bobst has always adapted to stay competitive; that's why the company as well as its range of products and services continue to grow. Bobst supplies substrate processing, printing and converting equipment and services for the label, flexible packaging, folding carton and corrugated industries. The company now is present in more than 50 countries and has around 5600 employees as well as 15 production locations in eight countries.

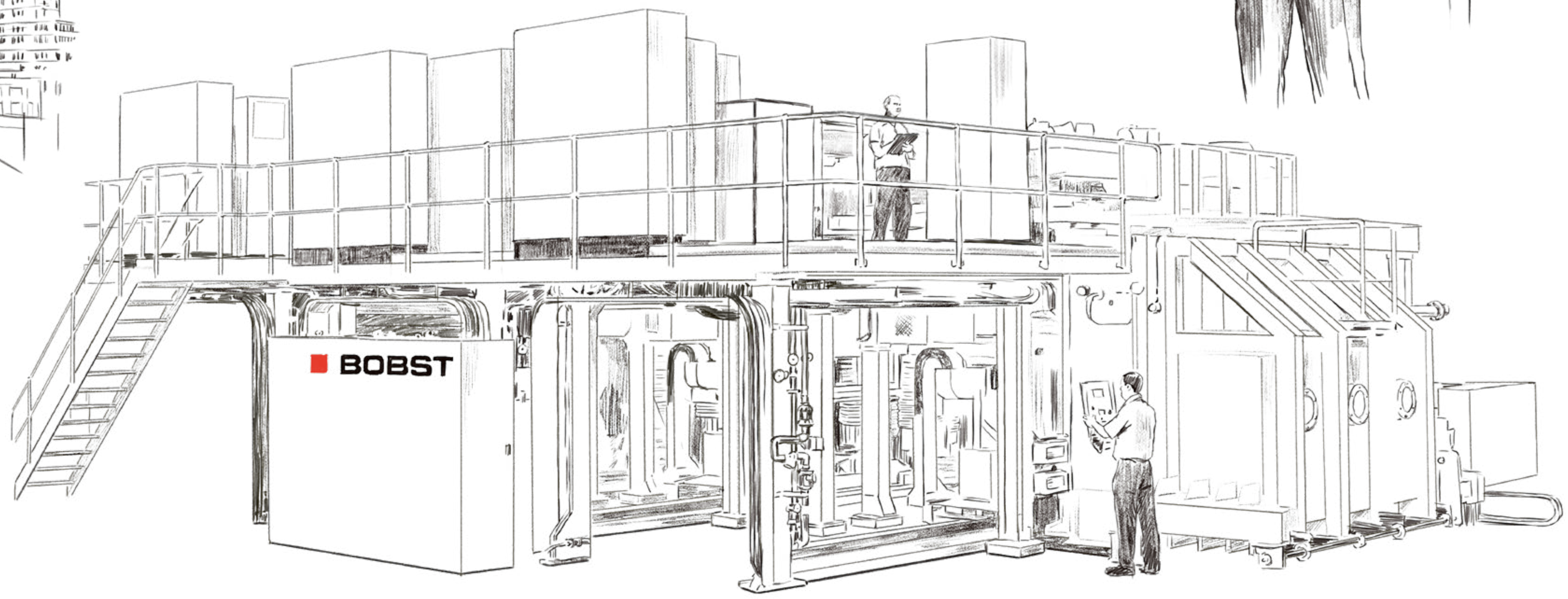
As the global market leader, most of Bobst's deliveries and services are provided to customers outside Switzerland, which means that certain issues arise when it comes to determining contractual conditions and financing options. This is another example of how Bobst adapts to the market to remain competitive: Bobst works with leasing companies to give its customers access to alternative financing options. When agreeing payment periods with customers abroad, Bobst also carefully weighs country and buyer risks.

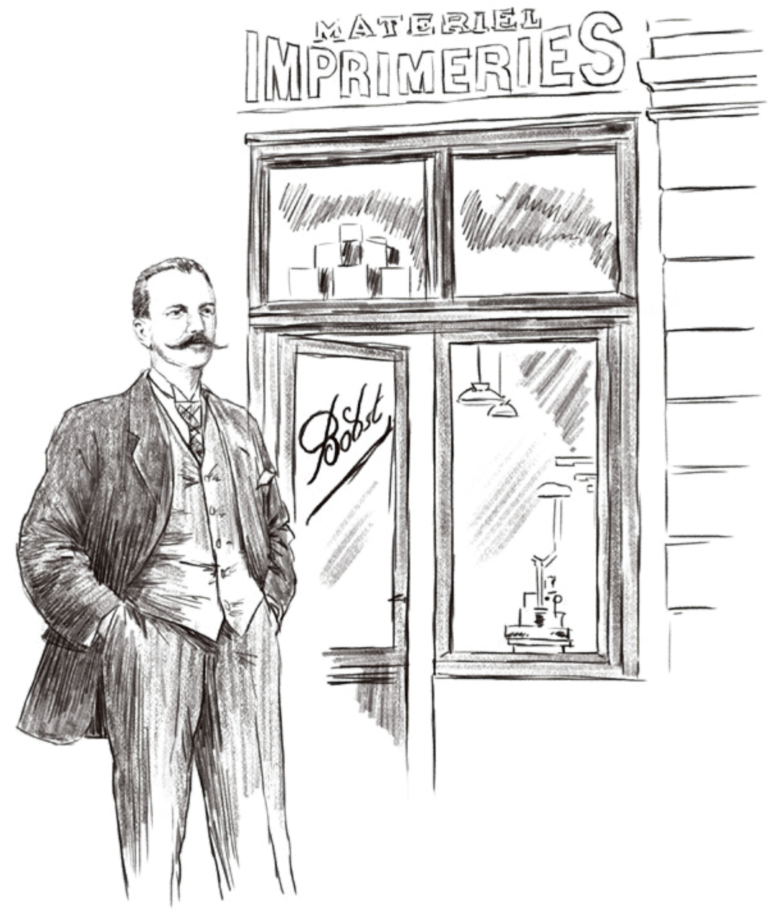
Financing thanks to SERV insurance
For many years, Bobst has insured a portion of its transactions with SERV to reduce its risk. "Transactions covered by SERV are an important addition to our range, particular for long terms and risky markets. We can reduce our risks while also offering our customers long-term financing," explains Stefano Bianchi.

> "Our ability to offer financing to customers in these regions gives us a crucial competitive edge."
>
> **Stefano Bianchi**
> Group Treasurer and Investor Relations

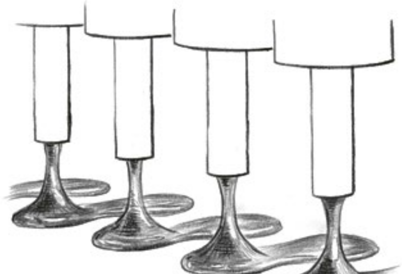


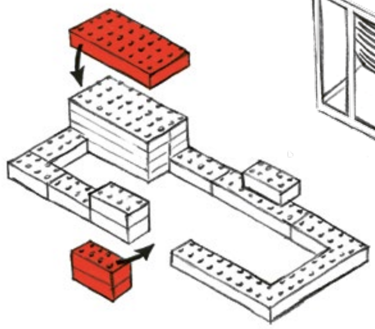
Bobst supplies two thirds of the world's packaging industry.

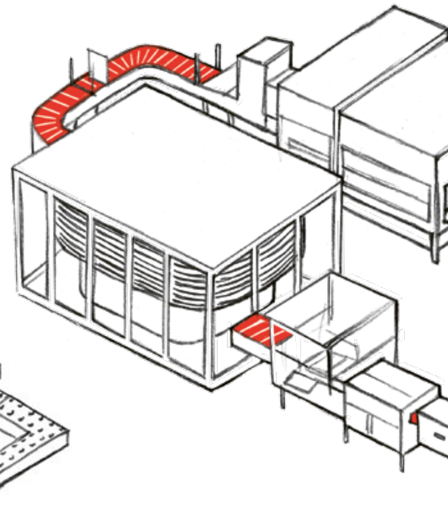


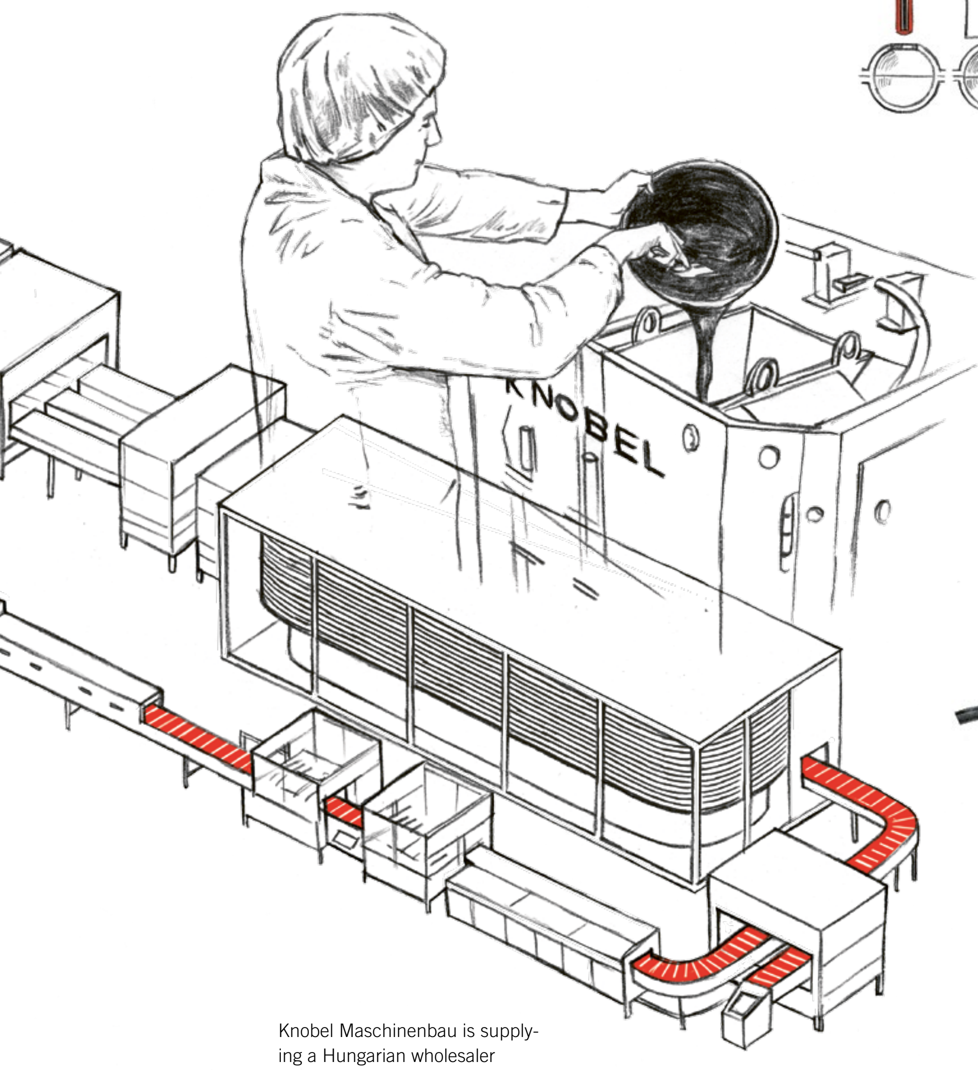


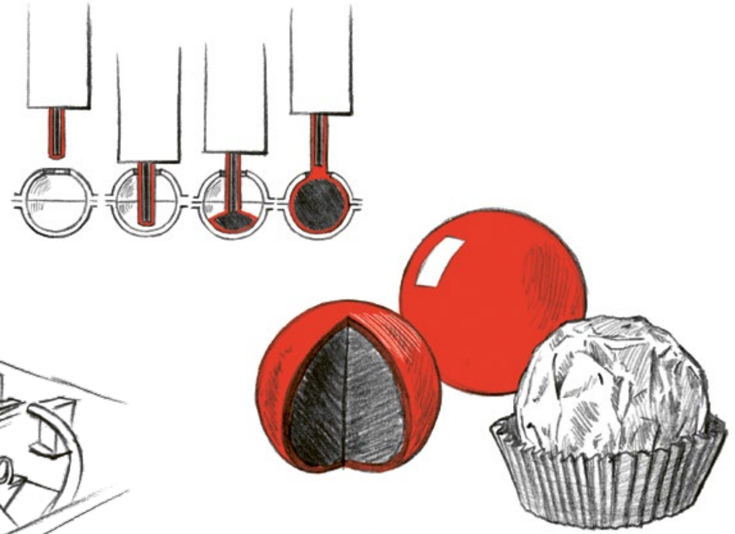
In 2019, Bobst has continued to rely on SERV insurance to cover four transactions on three different continents with a total order value of around CHF 6.5 million. Advance payment of just 15 to 30 per cent with a credit period of five years was agreed to for each of these deliveries. Supplier credit insurance was taken out in each case. Stefano Bianchi explains how important SERV's products are for Bobst's business operation: "In the current low interest environment, it has become easier for customers in industrialised nations to obtain a bank loan. However, this is not always possible in emerging markets. Our ability to offer financing to customers in these regions gives us a crucial competitive edge."

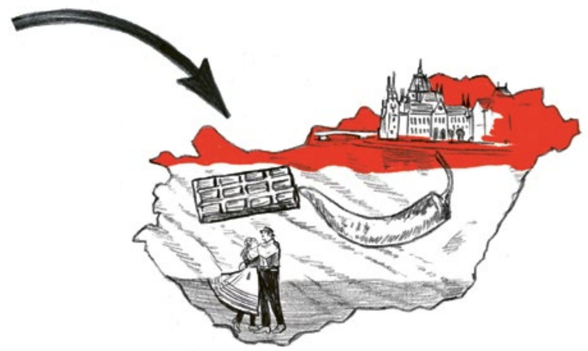












Knobel Maschinenbau is supplying a Hungarian wholesaler with a plant for the manufacture of chocolate products.

Swiss Moulding Machines, Hungarian Chocolate and Contract Guarantees

Knobel Maschinenbau AG is a leading supplier to the chocolate industry. Along with numerous other customers, a Hungarian wholesaler has ordered a machine from Knobel. Knobel's healthy order books mean that the required advance payment and warranty bond will place a strain on this medium-sized company's liquidity.

It was a premiere: at the start of the 80s, Knobel Maschinenbau AG unveiled its very first chocolate moulding machine. Since then, the pioneer from Felben in the Canton of Thurgau has launched a range of products and continues to be the leading supplier to the chocolate industry. How has it managed to achieve this? Knobel employs a modular system that gives the customer as much flexibility as possible. Furthermore, Managing Director Guido Knobel claims its machines beat all competitors when it comes to speed and precision. As a result, more than 1600 Knobel machines are currently in operation worldwide and 95 per cent of its machines are sold abroad.

A Plant for a Hungarian Wholesaler

One of Knobel's many customers is a Hungarian wholesaler, which has in the past been confronted with bottlenecks when procuring chocolate and has therefore decided to distribute its own. To do so, it has opted for the quality that Knobel is renowned for and has ordered a complete plant for the production of chocolate products. This plant pours chocolate into a wide variety of moulds in a matter of seconds. It also allows additional stages in the process to be automated, such as vibrating, cooling, separating and even decorating the chocolate.

Liquidity for the Implementation of Major Projects

The Hungarian buyer has received subsidies from the European Union for the order, which is worth several million Euros. These subsidies came with the condition that a guarantee was provided for the advance payment. The sales contract also provides for a performance bond. Both guarantees have an impact on Knobel's liquidity. "In addition, we currently have a lot of major projects with a similar timescale, which puts additional strain on our liquidity," Guido Knobel states. That is why this medium-sized company has asked SERV to provide contract bond insurance in combination with a counter guarantee for each of these two guarantees. "The SERV products allow us to use the advance payment to finance the project," Guido Knobel says. Knobel and SERV have collaborated for many years, going right back to the Export Risk Guarantee (ERG). Guido Knobel says: "We appreciate the fact that SERV is willing to help. SERV's support allows us to implement projects that we would otherwise have had to decline."

> "We currently have a lot of major projects with a similar timescale, which puts additional strain on our liquidity."
>
> **Guido Knobel**
> Managing Director

Outlook

In this new strategy period, SERV will primarily address the question of how to maintain its international competitiveness in a decade in which industrial policy is subject to constant expansion at its foreign competitors' locations and ensure its economic viability.

Through SERV, the Confederation aims to create and maintain jobs in Switzerland and make it easier for Swiss exporters to take part in international competition. For exporters to be able to make competitive offers to buyers abroad with regard to pricing and payment terms, they need to be able to insure and finance their export transactions on terms comparable to those of their foreign competitors. This means that SERV is in competition with the state export credit agencies (ECAs) of Switzerland's competitors. It can only fulfil its legal mandate with an internationally competitive insurance offer.

The structural changes in the global economy are having a serious impact on exporters, who are reacting by adapting their business models. The banks are undertaking developments that will influence their position and range of services in the export financing business. Asian government agencies are entering the market offering attractive financing methods and strong support. In addition to traditional export credit insurance, this includes unregulated insurance of direct investments, investment loans and officially independent but (in reality at least partly) export-linked development aid. These enhanced industrial policy measures can have a direct impact on the competitiveness of Swiss companies. This will create challenges for SERV in both business and financial terms.

The OECD Arrangement

Official support for export credits is regulated by the Arrangement on Guidelines for Officially Supported Export Credits (OECD Arrangement), which aims to prevent the subsidising of exports in accordance with the principles of the World Trade Organisation (WTO). This set of rules has declined in importance in recent years. Not all of the major exporting nations (China, India, etc.) are members, and those that are not are therefore not bound by the rules. In addition, the OECD Arrangement's complex and rigid structure impinges on its ability to keep up with market developments to some extent. In order to remain internationally competitive, many countries have found ways to offer their exporters ever greater support in the form of financing structures that are not regulated by the OECD Arrangement. Efforts to devise a new set of regulations with the participation of all major exporting nations have to date been unsuccessful. With approximately 70 per cent of its business volume regulated by the OECD Arrangement, SERV is one of the ECAs most dependent on international rules. To ensure that it is not left behind in international terms, SERV will strive to modernise the OECD Arrangement and work towards more flexible international rules.

Business Development

The Federal Government's Expert Group expects GDP growth of 2 per cent in 2020, but this must be qualified due to special effects such as major sporting events. The international environment remains problematic. While the chemical and pharmaceutical industries are less exposed to macroeconomic risks, the mechanical, electrical and metal industries (MEM) are suffering the effects of sluggish international growth. This impacted on SERV in the year under review in the form of a considerable decline in new commitments. There will be no significant increase in the utilisation of industrial production capacities in the coming year. SERV expects moderate growth in its insurance commitment this year. It is, however, hard to make forecasts, as the conclusion of insurance policies for large transactions is subject to a high degree of volatility.

Strategic Goals for 2020–2023

On 6 November 2019, the Federal Council approved SERV's strategic goals for the 2020–2023 period. In particular, these should facilitate access to major projects for Swiss exporters, and small and medium-sized companies should continue to receive efficient and effective support. In this new strategy period, SERV will primarily address the question of how to maintain its international competitiveness in a decade in which industrial policy is subject to constant expansion at its foreign competitors' locations and ensure its economic viability in the medium to long term.

This will give rise to the following audit mandates for SERV:

- Further development of the regulations on added value with respect to the changed requirements,
- Analysis of international competitiveness in terms of its range of products and services,
- A feasibility study to verify the assumption of receivables by policyholders in the event of claims,
- Review of economic viability.

Developments

In the context of the ECA Pathfinding Project, SERV successfully organised two matchmaking events in 2019 with its partner Switzerland Global Enterprise (S-GE) and will expand its marketing and sales measures in this regard. It will play an important role in the initiative approved by the Federal Council on 13 November 2019 aimed at facilitating and improving industry's access to major infrastructure projects abroad, primarily in developing and emerging countries.

As a result of feedback from the market and individual claims, SERV carried out an audit on its working capital insurance. In particular, it identified that there was potential to optimise the definition of production costs, the assignment of export receivables and their appropriate use. The GTCs for working capital insurance will be adapted in the first half of 2020. The banks and exporters will then be informed.

Rapid progress is being made in replacing the outdated SERV IT solution Navision. In future, the company will use a standard solution (MTIS) from the French software developer Tinubu, which is firmly established in the credit insurance solutions market. The customer portal will also be replaced by a new application. SERV expects a considerable increase in efficiency as a result of the standardisation and automation of its business processes. The final version of the solution will be developed this year and tested in preparation for a speedy introduction in the first quarter of 2021.

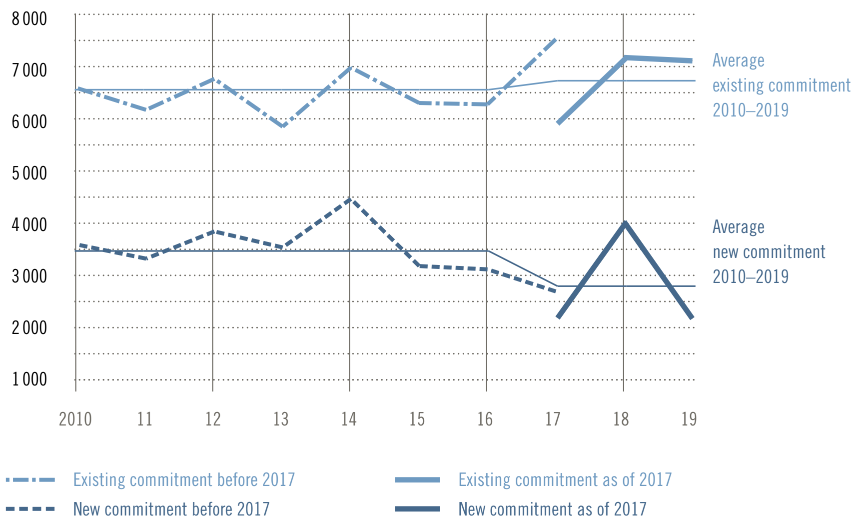
"In a period in which industrial policy is constantly expanding at our foreign competitors' locations, SERV is confronted by new challenges."

Peter Gisler
CEO

Multi-year Comparison

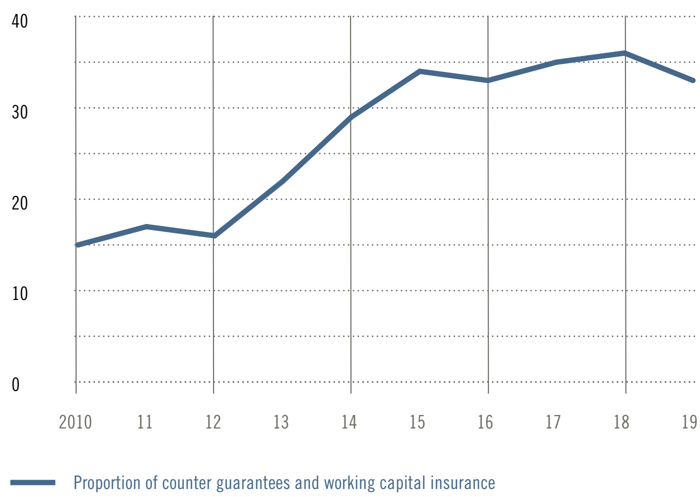
Commitment Development

in CHF million



The method for calculating the exposure was revised in 2018 and applied to the figures from 2017 onwards – but not for the 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.

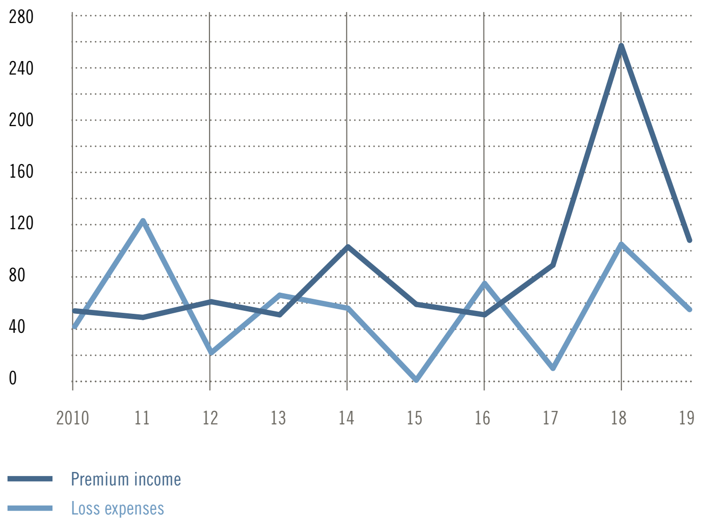
Proportion of Counter Guarantees and Working Capital Insurance in the Number of Newly Issued Insurance Policies



Since the introduction of the counter guarantee and working capital insurance in 2009, demand for these two products has generally developed positively. The two products assist Swiss exporters, SMEs in particular, to optimise their liquidity management. In 2019, the proportion of the two products relative to the total number of new transactions (IP) stood at 33 per cent, slightly below the previous year's level.

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.

Since its launch until 2019, SERV has fulfilled the development objectives set by the legislators, as well as the financial requirements regarding economic viability and business management. Thanks to the flexible use of its products and a practical interpretation of the requirements for the amount of Swiss content, SERV enjoys a reputation in the market as an effective export credit agency.

The methodology of the exposure and new exposure calculations was revised in 2018. Between 2008 and 2017, the average new commitment amounted to CHF 3.366 billion according to the old calculation method and stood at CHF 2.794 billion over the last three years according to the new calculation method. New commitment in 2019 was therefore considerably below the average of the previous three years and reached a level almost as high as in 2017. At the end of 2019, the commitment amounted to CHF 7.109 billion, exceeding both the average for the last three years of CHF 6.729 billion and the average for the years between 2007 and 2017 of CHF 6.853 billion.

The proportion of all insurance policies (IP) issued accounted for by working capital insurance and counter guarantees fell from 36 to 33 per cent.

Since it was founded, SERV has always met the economic viability 2 criteria; in 2019, its surplus cover amounted to CHF 23.2 million. The average surplus cover since SERV was founded (2007) was CHF 28.0 million, although the long-term trend is declining because SERV's income from cash investments has declined over time and has been zero in the last three years.

At CHF 61.4 million, SERV's average net income has also been positive since its foundation. It has, however, been strongly driven by debt rescheduling interest and results, without which SERV would have been confronted with net losses in the last two years. Further decreases in SERV's debt consolidation balances and a continued lack of income from its cash investments will increase the company's financial reliance on premiums and claims from the insurance business.

Thanks to the flexible use of its products and a practical interpretation of the requirements for the amount of Swiss content, SERV enjoys a reputation in the market as an effective export credit agency.

Executive Bodies and Personnel

Board of Directors (BoD)

Thomas Daum*, lic. iur., lawyer,
(Chairman until 31.12.2019)
was a board member of compenswiss AHV/IV/EO fund until 31 December 2019. 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 until 31.12.2019)
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,
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.

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,**
is Central Secretary of the Swiss Federation of Trade Unions (SGB) and also represents it in the EFTA Consultative Committee, the Reka BoD 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
Räffelstrasse 28
8045 Zurich

* Insurance Committee
** Finance and Organisation Committee
(As at 31 December 2019)

Board of Directors

The SERV Board of Directors (BoD) is appointed by the Federal Council for a term of four years; a new term of office commenced in 2020. 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.

Chairman Thomas Daum stepped down from the BoD on 31 December 2019. He is retiring after 17 years of service with ERG and then SERV. The Federal Council elected Barbara Hayoz as his successor. It also elected Christian Etter, an independent consultant, economist and former Ambassador and Delegate of the Federal Council for Trade Agreements, and Peter Jenelten, who is an agent in the rail sector, as new members of the BoD. They assumed office on 1 January 2020. The BoD appointed Urs Ziswiler as its Vice Chair.

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 Barbara Hayoz with effect from 1 January 2020) and one for the areas of finance and organisation (Finance and Organisation Committee, Chair Urs Ziswiler with effect from 1 January 2020).

CEO

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

Human Resources

In 2019, SERV increased its workforce from 53 to 62 employees (excluding apprenticeships). At the end of 2019, the proportion of women was 48 per cent; there were also three business management apprenticeships and one internship.

The drafting of a new HR strategy marked an important milestone for SERV. It forms an integral part of the corporate strategy and is intended to support SERV's employees and managers, particularly during the current transformation process.

The public sector wishes to set an example on the issue of equal pay. To this end, several organisations with close ties to the Confederation, including SERV, were invited to co-sign the Confederation's pay charter at the 4th national meeting to promote equal pay in the public sector. In 2018, the external consulting firm Klingler Consultants AG had certified that SERV ensures equal pay for men and women. By signing this pay charter, SERV is sending out a strong signal that it will continue to promote equal opportunities in the future and live the true equality between women and men.

By signing the Confederation's pay charter, SERV is sending out a strong signal that it will continue to promote equal opportunities in the future and live the true equality between women and men.

Vested Interests and Conflicts of Interest

SERV's internal rules of procedure, code of conduct and general conditions of employment govern how vested interests and conflicts of interest of members of the BoD and employees are handled.

In particular, members of the BoD are obliged to report their vested interests when they are elected and on an annual basis thereafter, and to report any relevant changes without delay. The Finance and Organisation Committee receives these notifications and reports them to the BoD at least annually. Where appropriate, the BoD takes the necessary measures to protect SERV's interests. The members of the BoD and employees are obliged to observe the regulations on recusal pursuant to Art. 10 of the Administrative Procedure Act.

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. Following a tender procedure pursuant to the Ordinance on Public Procurement (OPP), the Federal Council awarded the audit mandate for 2019 to 2021 to KPMG AG, Zurich.

Remuneration

Board of Directors

In 2019, remuneration paid to the entire Board of Directors (BoD), excluding the Chairman, totalled KCHF 340.1. This figure is slightly higher than in the previous year. BoD Chairman Thomas Daum was paid remuneration amounting to KCHF 123.0. 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 868.7 in 2019 (previous year KCHF 832.3) for three members of the Executive Board. The highest total compensation of KCHF 353.7 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	81 000	289 000	41 286
	79 500	274 500	39 214
Cash payments for compensation of special tasks	40 900	23 450	3 350
	41 325	23 150	3 307
Other expenses (travelling expenses, accommodation, board and representation)	1 139	27 681	3 954
	3 345	27 878	3 983
Other contractual terms			
Post-employment benefits	–	–	–
Severance compensation	–	–	–

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)	295 800	454 404	227 202
	292 789	424 400	212 200
Cash payments for compensation of special tasks	–	–	–
	–	–	–
Cash payments (justified by function or labour market)	–	–	–
	–	–	–
Bonuses (variable salary part)	57 094	58 875	29 438
	47 851	64 707	32 354
Other expenses	840	1 680	840
	840	1 680	840
Other contractual terms			
Post-employment benefits	Management plan	Management plan	–
Severance compensation	–	–	–

Organisation

Insurance Committee

Board of Directors
Thomas Daum (Chairman)
Barbara Hayoz (Vice Chair)

Finance & Organisation Committee

CEO
Peter Gisler

Insurance Business
Heribert Knittlmayer

Acquisition & Representation in Lausanne
Carsten Böhler

Communications & Marketing
Bettina Scheidegger

International Relations & Business Policy
Robert Suter

Large Enterprises & Reinsurance
Brigitte Brüngger

Multinationals & Project Finance
Tina Rosenbaum

SMEs & Business Support
Franziska Grutti

Finance & Risk
Lars Ponterlitschek

Claims & Recovery
Claudia Oberle

Finance & Controlling
Advije Delihasani

Legal & Compliance
Meike Liatowitsch, Christine Gabi

Risk Analysis
Thomas Schudel

Corporate Services
Peter Gisler

Assistance to the Board of Directors & the Executive Board
Sylvia Weibel, Eveline Mark

Business Process and Quality Management & Projects
Fabian Brunschwiler, Falk Möser

Human Resources
Petra Zbinden a.i.

IT
Olivier Bourquin

Technology & Actuary
Claudio Franzetti

Member of the Executive Board
(As at 31 December 2019)

Financial Report

Premium Income
(in CHF million)
108

Legal Basis

The essential 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. The minimum requirements for the accounting principles are regarded as the corresponding Federal budget provisions (Art. 21 para. 1 SERV-V). In the corporate governance section, SERV reports on the remuneration paid to the members of the Board of Directors (BoD) and the Executive Board.

Individual items of the income statement, the balance sheet and segment accounting are explained in more detail in the Notes, where 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 2019 financial year with net income (NI) of CHF 55.4 million (previous year: CHF 2.0 million), posting an operating profit of the same amount.

In 2019, SERV’s premium income came in far below the previous year’s record high of CHF 257.4 million but at CHF 107.5 million was nonetheless the second-highest figure since its foundation. Premium income is largely driven by large transactions, with the premium share of such transactions amounting to around 90 per cent in 2019. In 2019, unearned premiums formed exceeded those reversed by CHF 38.2 million in terms of value; in 2018, a year that broke all records, this sum amounted to CHF 162.9 million, which meant that earned premiums declined by only CHF 25.2 million compared to the previous year. The accounting principles (AP) provide for the creation of an unearned premium reserve amounting to 80 per cent for the invoicing of premiums. SERV’s results for the 2019 financial year were above-average both in terms of premium income and earned premiums when compared with previous years.

Interest income from debt rescheduling agreements amounting to CHF 15.1 million, of which CHF 10.3 million stem from the debt rescheduling agreement with Argentina, was slightly below the previous year’s figure of CHF 16.8 million.

At CHF –54.9 million, loss expenses were above average when compared with previous years, but well below the previous year’s figure of CHF –104.5 million.

At CHF –54.9 million, loss expenses were above average when compared with previous years, but well below the previous year’s figure of CHF –104.5 million. This decline is mainly due to the fact that adjustments of loss provisions and value adjustments for losses were CHF 63.7 million lower than in the previous year at CHF –16.3 million. The definitive write-offs of receivables totalling CHF –37.8 million related to risks in Brazil, France, Germany, India, Lebanon, Russia and Spain. Other loss expenses include costs for recovery measures amounting to CHF 0.8 million.

The debt rescheduling result of CHF 41.8 million was influenced by the following three factors in 2019: Adjustments of country risk categories (CRC), the release of obsolete value adjustments and the repayment in full of the debt consolidation balances with Kenya. Argentina (CHF 27.6 million) and Egypt (CHF 5.9 million) were affected by the changes to the CRC. The release of obsolete value adjustments concerned agreements with Bangladesh, Cameroon, Iraq and Pakistan, for which repayments were made in 2019. All in all, an above-average profit on insurance of CHF 71.4 million was generated (previous year: CHF 16.3 million).

The fact that SERV is only permitted to invest with the Federal Treasury means that it has generated no return on its capital since 2017, which currently stands at CHF 2.980 billion.

The increase in personnel expenses (CHF 12.0 million) compared to the previous year (CHF 10.8 million) is attributable to the expansion of the workforce. Non-personnel expenses amounting to CHF 5.2 million were in line with the figure for the previous year (CHF 5.5 million). For the first time, non-personnel expenses included the costs for the Transformation SERV (TRS) project. The project was launched following the analysis of business processes carried out in 2018 and aims to replace the core IT system and optimise SERV's business processes.

Financial income mainly comprises foreign currency differences and was also positive in 2019 at CHF 1.2 million. As in the previous year, the result was only marginally affected by negative interest rates. The fact that SERV is only permitted to invest with the Federal Treasury means that it has generated no return on its capital since 2017, which currently stands at CHF 2.980 billion. The loss of interest income from financial investments is a significant factor, having amounted to CHF 29.0 million in 2007, the year in which SERV was founded, and an average of CHF 14.1 million until 2016.

In addition to premium payments, the repayments of credit balances from debt rescheduling agreements also contributed to the increase in financial assets.

Balance Sheet

On the assets side, cash in hand & at bank decreased by CHF 8.6 million compared to 2018. Cash investments maturing in 1 year or less increased by CHF 143.0 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 cash 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 64.7 million as a result of the above-mentioned repayments, while claims from losses and restructuring were up by CHF 21.8 million. The decrease is mainly due to changes to value adjustments.

At CHF 36.3 million, premium receivables increased by CHF 22.4 million compared to the previous year. This total of CHF 36.3 million includes the premium income from one insurance policy that individually accounts for CHF 28.4 million of the premium receivables and which is expected to be paid in 2020. With the exception of the aforementioned premium income, almost all the premiums invoiced in the financial year 2019 were paid in the same financial year. On the liabilities side, unearned premiums increased by CHF 35.3 million compared to the previous year as a result of the major transactions that were realised. In contrast to the previous year, the loss provisions were reduced by CHF 20.5 million to CHF 133.5 million in the 2019 financial year.

As of 31 December 2019, capital totalled CHF 2.826 billion, CHF 55.4 million more than the previous year.

The total of risk-bearing capital (RBC) plus core capital (CCap), CHF 1.647 billion, fell by CHF 36.0 million (2 %) year-on-year. The compensation reserve (CR) increased by CHF 38.0 million to CHF 1.123 billion (4 %). 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 2019 cash flow statement (cf. p. 36) posted a net increase of CHF 134.4 million (2018: CHF 282.8 million). Cash in hand & at bank and time deposits thus rose from CHF 2.854 billion to CHF 2.989 billion. SERV therefore has excellent liquidity.

The cash flow came largely from investment activities worth CHF 118.4 million. Cash flow from business operations amounted to CHF 18.5 million and was average when compared with previous years. It was not possible to repeat the 2018 result, when – for the first time in SERV's history – cash flow from business operations (CHF 169.0 million) exceeded cash flow from investment activities (CHF 114.6 million).

With regard to cash flow from business operations, premium payments covered almost all payments for claims, personnel and operations. The net cash flow almost equalled the claims repayments.

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 slightly higher than in recent years. Compared to 2007, the year in which SERV was founded, 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 payments 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 2.5 million for a cash deposit was made due to a changed risk situation in connection with ongoing counter guarantees.

Proof of Economic Viability
In 2019, 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.

For 2019, all segments with the exception of the "Private debtors without del credere" segment had surplus cover on an 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 cash investments are expected for the foreseeable future. Despite the deficient cover in the "private debtors without del credere" segment for economic viability 1 and 2, SERV overall was able to post surplus cover of CHF 23.2 million across all grades.

Since the establishment of SERV, the average surplus cover of economic viability 1 for the primary segment "public debtors" has been CHF 5.2 million, and CHF 8.6 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. Notes regarding the Income Statement by Segment 10–16, p. 47). Items are not broken down into segments on the balance sheet where doing so has only limited indicative value.

In the income statement, the "private debtors with del credere" segment ended the year with negative results, as the formation of new provisions primarily affected this segment. These losses were offset by the success of the "public debtors" and "private debtors without del credere" segments (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.

"In the coming years, the unearned premiums will become earned premiums and support our economic viability."

Lars Ponterlitschek
Head of Finance & Risk

Income Statement

Income Statement

01.01.2019–31.12.2019, in KCHF

	Notes [1]	2019	2018	Change
Premium income	1	107 548	257 400	–149 852
Creation of unearned premium reserves		–81 167	–202 387	121 220
Release of unearned premium reserves		42 948	39 478	3 470
Earned premiums		**69 329**	**94 491**	**–25 162**
Interest income from debt rescheduling agreements		15 145	16 770	–1 625
Other income		8	20	–12
Total income from insurance		**84 482**	**111 281**	**–26 799**
Loss expenses	2	–54 898	–104 511	49 613
Debt rescheduling results	3	41 844	9 524	32 320
Total expenses from insurance		**–13 054**	**–94 987**	**81 933**
Profit/loss on insurance		**71 428**	**16 294**	**55 134**
Personnel expenses		–12 020	–10 823	–1 197
Non-personnel expenses		–5 174	–5 469	295
Financial income		1 179	2 013	–834
Operating profit/loss		**55 413**	**2 015**	**53 398**
Interest income from cash investments		–	–	–
Net income (NI)		**55 413**	**2 015**	**53 398**

[1] cf. Comments starting from page 43 of the Notes on the Financial Statements

Balance Sheet

Balance Sheet

31.12.2019, in KCHF

	Notes [1]	31.12.2019	31.12.2018	Change
Assets				
Cash in hand & at bank		8 711	17 328	–8 617
Premiums receivables		36 319	13 936	22 383
Other receivables		77	68	9
Financial investments maturing in 1 year or less	4	2 980 000	2 837 000	143 000
Accruals and deferrals		1 034	574	460
Total current assets		**3 026 141**	**2 868 906**	**157 235**
Property, plant and equipment		131	118	13
Financial investments and credit balances maturing in more than 1 year		–	–	–
Total property, plant and equipment and long-term financial investments		**131**	**118**	**13**
Claims from losses and restructuring	5	187 839	209 618	–21 779
Credit balances from debt rescheduling agreements	6	146 535	211 226	–64 691
Total claims and credit balances from debt rescheduling agreements		**334 374**	**420 844**	**–86 470**
Total Assets		**3 360 646**	**3 289 868**	**70 778**
Liabilities				
Current liabilities		1 131	947	184
Short-term financial liabilities		21	260	–239
Accruals and deferrals		1 401	1 216	185
Unearned premiums		418 459	383 161	35 298
Share of unearned premiums due to reinsurance		–22 444	–25 365	2 921
Loss provisions	7	133 459	153 918	–20 459
Other non-current liabilities	8	2 874	5 399	–2 525
Subtotal		**534 901**	**519 536**	**15 365**
Risk-bearing capital (RBC)		1 149 988	1 196 702	–46 714
Core capital (CCap)		497 217	486 503	10 714
Compensation reserve (CR)		1 123 127	1 085 112	38 015
Net income (NI)		55 413	2 015	53 398
Total capital		**2 825 745**	**2 770 332**	**55 413**
Total liabilities		**3 360 646**	**3 289 868**	**70 778**

[1] cf. Comments starting from page 43 of the Notes on the Financial Statements

Cash Flow Statement

Cash Flow Statement

01.01.2019–31.12.2019, in KCHF

	Notes [1]	31.12.2019	31.12.2018
Business operations			
Premium payments	9	81 408	249 108
Loss payments		–63 709	–72 788
Loss repayments		18 979	7 047
Payments relating to personnel and operations		–18 186	–14 393
Cash flow from business operations		**18 492**	**168 974**
Investing activities			
Repayments of credit balances from debt rescheduling agreements		106 961	101 265
Payments of interest from debt rescheduling agreements		11 456	13 363
Payments from financial and interest income		–	–
Cash flow from investing activities		**118 417**	**114 628**
Financing activities			
Payments from financing activities		–2 525	–832
Cash flow from financing activities		**–2 525**	**–832**
Net change in funds		**134 384**	**282 770**
Funds on 31.12.2018 (cash in hand & at bank and time deposits with the Confederation)			2 854 328
Funds on 31.12.2019 (cash in hand & at bank and time deposits with the Confederation)		2 988 712	

[1] cf. Comments starting from page 43 of the Notes on the Financial Statements

Proof of Economic Viability

Proof of Economic Viability

01.01.2019–31.12.2019, in KCHF

	Segments (by debtor)			SERV
	Public	Private without del credere	Private with del credere	
	(1)	(2)	(3)	(4)=(1)+(2)+(3)
Earned premiums	21 490	623	47 216	69 329
Average expected annual loss	–8 650	–241	–21 190	–30 081
Loading	**12 840**	**382**	**26 026**	**39 248**
Personnel expenses	–1 104	–575	–10 341	–12 020
Non-personnel expenses	–475	–247	–4 452	–5 174
Financial income	404	8	767	1 179
Economic viability 1	**11 665**	**–432**	**12 000**	**23 233**
Interest income from cash investments	–	–	–	–
Economic viability 2	**11 665**	**–432**	**12 000**	**23 233**

Segment Accounting

Segment Accounting

01.01.2019–31.12.2019, 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	48 439	570	58 539	107 548
Creation of unearned premium reserves		–37 929	–16	–43 222	–81 167
Release of unearned premium reserves		10 980	69	31 899	42 948
Earned premiums		**21 490**	**623**	**47 216**	**69 329**
Interest income from debt rescheduling agreements	11	9 085	5 838	222	15 145
Other income		1	–	7	8
Total income from insurance		**30 576**	**6 461**	**47 445**	**84 482**
Loss expenses	12	–5 401	712	–50 209	–54 898
Debt rescheduling results	13	27 069	8 371	6 404	41 844
Total expenses from insurance		**21 668**	**9 083**	**–43 805**	**–13 054**
Profit/loss on insurance		**52 244**	**15 544**	**3 640**	**71 428**
Personnel expenses	14	–1 104	–575	–10 341	–12 020
Non-personnel expenses	15	–475	–247	–4 452	–5 174
Financial income	16	404	8	767	1 179
Operating profit/loss		**51 069**	**14 730**	**–10 386**	**55 413**
Interest income from cash investments		–	–	–	–
Net income (NI)		**51 069**	**14 730**	**–10 386**	**55 413**

[1] cf. Comments starting from page 43 of the Notes on the Financial Statements

Balance Sheet by Segment

31.12.2019, 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		–	–	–	8 711	8 711
Premiums receivables		7 286	–3	29 036	–	36 319
Other receivables		–	–	–	77	77
Financial investments maturing in 1 year or less		–	–	–	2 980 000	2 980 000
Accruals and deferrals		–	–	–	1 034	1 034
Total current assets		**7 286**	**–3**	**29 036**	**2 989 822**	**3 026 141**
Property, plant and equipment		–	–	–	131	131
Financial investments and credit balances maturing in more than 1 year		–	–	–	–	–
Total property, plant and equipment and long-term financial investments		**–**	**–**	**–**	**131**	**131**
Claims from losses and restructuring		65 481	32 022	90 336	–	187 839
Credit balances from debt rescheduling agreements		68 734	72 455	5 346	–	146 535
Total claims and credit balances from debt rescheduling agreements		**134 215**	**104 477**	**95 682**	**–**	**334 374**
Total Assets		**141 501**	**104 474**	**124 718**	**2 989 953**	**3 360 646**
Liabilities						
Current liabilities		–	–	–	1 131	1 131
Short-term financial liabilities		–	–	21	–	21
Accruals and deferrals		–	–	–	1 401	1 401
Unearned premiums		101 431	9 559	307 469	–	418 459
Share of unearned premiums due to reinsurance		–7 054	–	–15 390	–	–22 444
Loss provisions	17	8 557	108	124 794	–	133 459
Other non-current liabilities		–	–	–	2 874	2 874
Subtotal		**102 934**	**9 667**	**416 894**	**5 406**	**534 901**
Risk-bearing capital (RBC)		–	–	–	1 149 988	1 149 988
Core capital (CCap)		–	–	–	497 217	497 217
Compensation reserve (CR)		507 859	91 773	142 464	381 031	1 123 127
Net income (NI)		51 069	14 730	–10 386	–	55 413
Total capital		**558 928**	**106 503**	**132 078**	**2 028 236**	**2 825 745**
Total liabilities		**661 862**	**116 170**	**548 972**	**2 033 642**	**3 360 646**

[1] cf. Comments starting from page 43 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. On 5 December 2019, the Board of Directors amended Annexe B "Notes to the accounting principles for the capital of SERV" to the extent that the method for determining the exposure/commitment, which was changed in the 2018 financial year, was documented in Annexe B of the AP. This method means that 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 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.

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 50 per cent 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 net income (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.

In principle, all insurance policies that involve primary or secondary risks and are active on the reporting date are taken into account when determining the number of new insurance policies. Contracts with a duration of less than one year are not taken into account due to their status on the reporting date. To obtain a more realistic picture of the allocation of operating costs, the number of new contracts for multi-buyer insurance policies was no longer used 1:1 in the allocation of operating costs, as had been the case in previous years.

Value Adjustment on Claims from Losses and Restructuring

in CHF million

	31.12.2019			31.12.2018			
	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	–64.2	64.2	128.4	–41.4	87.0	–22.8
Switzerland	83.7	–54.0	29.7	71.4	–47.7	23.7	6.0
Greece	50.7	–40.2	10.5	50.7	–32.4	18.3	–7.8
Zimbabwe	37.4	–23.4	14.0	37.2	–31.7	5.5	8.5
India	22.9	–23.8	–0.9	26.8	–14.1	12.7	–13.6
Brazil	19.7	–9.7	10.0	22.1	–10.9	11.2	–1.2
Cuba	17.6	–12.1	5.5	2.4	–1.7	0.7	4.8
Russia	15.5	–9.6	5.9	15.7	–9.7	6.0	–0.1
Spain	14.6	–7.3	7.3	40.2	–25.3	14.9	–7.6
Indonesia	12.4	–6.2	6.2	8.3	–4.1	4.2	2.0
Other countries	48.3	–31.8	16.5	43.3	–36.5	6.8	9.7
	451.2	**–282.3**	**168.9**	**446.5**	**–255.5**	**191.0**	**–22.1**
Value adjustment on claims from restructuring							
North Korea	188.9	–170.0	18.9	185.7	–167.1	18.6	0.3
	188.9	**–170.0**	**18.9**	**185.7**	**–167.1**	**18.6**	**0.3**
Total claim from losses and restructuring			**187.8**			**209.6**	**–21.8**

6 Notes on the Financial Statements

Instead, from the 2019 Annual Report onwards, this was shown in accordance with a key that reflects the actual expenses for the multi-buyer insurance product.

Regarding the Income Statement

[1] **On "premium income":** The item "Premium income" amounting to CHF 107.5 million is comprised of income from insurance premiums amounting to CHF 89.1 million, premium income from reinsurance amounting to CHF 18.1 million and income from expense premiums (e.g. review premiums) of CHF 0.3 million. The highest premium income of CHF 37.9 million resulted from the transaction for a gas-fired combined-cycle power plant in Bangladesh.

[2] **On "loss expenses":** The loss expenses amounting to CHF –54.9 million comprise the reversal of provisions for incurred but not reported (IBNR) cases amounting to CHF 3.1 million, the reversal of provisions for reported losses amounting to CHF 14.3 million, and the change in value adjustments on claims of CHF –33.7 million (cf. p. 46). Losses amounting to CHF –37.8 million were definitively written off in 2019. The losses written off related to risks in Brazil, France, Germany, India, Lebanon, Russia and Spain. The CHF –0.8 million under other loss expenses include costs for recovery measures.

[3] **On "debt rescheduling results":** Debt rescheduling results amounting to CHF 41.8 million are reported net. This item consists of the reversal of value adjustments on debt consolidation balances amounting to CHF 42.5 million and the writing-off of credit balances against debtor countries amounting to CHF –0.7 million (cf. p. 47).

Regarding the Balance Sheet

[4] **On "short-term cash investments":** All cash investments are held with the Swiss Confederation in the form of an investment account.

[5] **On "claims from losses and restructuring":** The claims from losses (cf. p. 43) and the claims from restructuring with public debtors (cf. p. 44) of SERV were valued in accordance with the AP (cf. Accounting Principles, p. 40) and were then reported as net claims. In the year under review, claims from losses

Value Adjustment on Claims from Losses and Restructuring

in CHF million

					31.12.2019					31.12.2018	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	216.3	27.4	188.9	–170.0	18.9	212.6	26.9	185.7	–167.1	18.6	0.3
Total	**216.3**	**27.4**	**188.9**	**–170.0**	**18.9**	**212.6**	**26.9**	**185.7**	**–167.1**	**18.6**	**0.3**

[1] policyholders or assignees

Credit Balances from Debt Rescheduling Agreements (with value adjustment)

in CHF million

						31.12.2019						31.12.2018	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)
Sudan	144.9	91.7	–	53.2	–47.9	5.3	144.9	91.7	–	53.2	–47.9	5.3	–
Cuba	115.8	–	30.1	85.7	–64.4	21.3	119.6	–	31.1	88.5	–66.2	22.3	–1.0
Argentina	102.7	–	19.9	82.8	–24.8	58.0	189.3	–	36.5	152.8	–52.5	100.3	–42.3
Pakistan	70.7	3.1	3.7	63.9	–63.9	–	78.3	3.3	4.2	70.8	–70.8	–	–
Serbia	67.4	–	17.9	49.5	–9.3	40.2	77.6	–	20.7	56.9	–9.3	47.6	–7.4
Iraq	37.3	–	12.6	24.7	–24.7	–	42.8	–	14.3	28.5	–26.1	2.4	–2.4
Indonesia	27.6	2.0	2.4	23.2	–11.8	11.4	43.3	2.5	3.9	36.9	–11.8	25.1	–13.7
Bosnia and Herzegovina	23.1	–	5.7	17.4	–11.2	6.2	23.9	–	5.9	18.0	–11.2	6.8	–0.6
Egypt	5.5	–	1.1	4.4	–1.2	3.2	8.9	–	1.8	7.1	–7.1	–	3.2
Honduras	1.9	–	0.2	1.7	–1.3	0.4	1.9	–	0.2	1.7	–1.3	0.4	–
Cameroon	1.6	–	0.2	1.4	–1.4	–	2.1	–	0.2	1.9	–1.8	0.1	–0.1
Montenegro	1.2	–	0.3	0.9	–0.4	0.5	1.4	–	0.3	1.1	–0.4	0.7	–0.2
Bangladesh	1.0	0.1	–	0.9	–0.9	–	1.3	0.2	–	1.1	–1.0	0.1	–0.1
Kenya	–	–	–	–	–	–	0.4	–	0.1	0.3	–0.2	0.1	–0.1
Total credit balances from debt rescheduling agreements	**600.7**	**96.9**	**94.1**	**409.7**	**–263.2**	**146.5**	**735.7**	**97.7**	**119.2**	**518.8**	**–307.6**	**211.2**	**–64.7**

increased by CHF 21.8 million. The claims paid out related to Argentina, Azerbaijan, Brazil, Costa Rica, Cuba, Ecuador, Egypt, India, Indonesia, Mexico, Oman, Paraguay, Peru, Russia, Spain, Switzerland, Turkey, the United Arab Emirates and Zimbabwe.

[6] **On "credit balances from debt rescheduling agreements":** The credit balances from debt rescheduling agreements (cf. p. 44) were reported as net credit balances. The largest movements occurred in Argentina (reduction of CHF 70.0 million) and Indonesia (reduction of CHF 13.7 million).

[7] **On "loss provisions":** SERV recognised IBNR provisions for losses amounting to CHF 78.9 million and provisions for reported losses amounting to CHF 54.6 million (cf. Accounting Principles, p. 40). Loss provisions totalled CHF 133.5 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":** Premium payments totalling CHF 81.4 million were made, with most of this amount being invoiced in the 2019 financial year. Premium receivables posted a balance of CHF 36.3 million. This total of CHF 36.3 million includes the premium income from one insurance policy that individually accounts for CHF 28.4 million of the premium receivables and which is expected to be paid in 2020.

Premium Income by Segment

01.01.2019–31.12.2019, 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	30 602	564	57 909	89 075
Premium income from expense premiums (e.g. review premiums)	–	6	314	320
Premiums from reinsurance	17 837	–	316	18 153
Premiums for reinsurance	–	–	–	–
Total premium income	**48 439**	**570**	**58 539**	**107 548**

Loss Expenses by Segment

01.01.2019–31.12.2019, 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	9 254	1 600	–7 787	3 067
Provision for reported losses	–	2 049	12 310	14 359
Change in value adjustments	–14 307	–2 937	–16 473	–33 717
Definitive loss write-offs	–291	–	–37 532	–37 823
Other loss expenses	–57	–	–727	–784
Total loss expenses	**–5 401**	**712**	**–50 209**	**–54 898**

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 46.

[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.

[12] On "loss expenses": Loss expenses were allocated directly to the segments. The table on page 46 shows loss expenses incurred per segment.

[13] On "debt rescheduling results": Debt rescheduling results were allocated directly to the segments. The table on page 47 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 and the adjusted number of new contracts in multi-buyer insurance on the basis of the actual expenses incurred. In 2019, 73 new contracts were concluded with public debtors, 38 new contracts with private debtors without del credere and 684 new contracts with private debtors with del credere. The number of transactions relevant for cost allocation does not correspond to the number of new transactions referred to in the management report section.

[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).

Income Statement by Segment
Change in the allocation of operating costs: A new calculation method will be employed to determine the number of new contracts by debtor category from the 2019 financial year onwards. Only new contracts for multi-buyer insurance policies will be affected by this change. These new contracts will no longer be included 1:1 in the allocation of operating costs but rather in accordance with a key derived from the actual expenses for the multi-buyer insurance policies.

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. 40). Loss provisions for each segment are shown in the table below.

Debt Rescheduling Results by Segment

01.01.2019–31.12.2019, 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	27 154	8 981	6 430	42 565
Write-offs of credit balances against debtor countries	–85	–610	–26	–721
Total debt rescheduling results	**27 069**	**8 371**	**6 404**	**41 844**

Loss Provisions by Segment

31.12.2019, in KCHF

	Segments (by debtor)			SERV
	Public	Private without del credere	Private with del credere	
	(1)	(2)	(3)	(4)=(1)+(2)+(3)
IBNR	8 557	108	70 255	78 920
Reported losses	–	–	54 539	54 539
Loss provisions	**8 557**	**108**	**124 794**	**133 459**

Proof of Capital

As of 31 December 2019, SERV held capital of CHF 2.826 billion, CHF 55.4 million more than the previous year.

Risk-bearing capital (RBC) and core capital (CCap) together totalled CHF 1.647 billion at the end of 2019, CHF 36.0 million lower than the previous year. This change lies within the usual range of fluctuations arising from changes in exposure, OECD country risk categories (CRCs) and default probabilities. The compensation reserve (CR) is a net balance sheet item and amounted to CHF 1.123 billion at the end of 2019. This represents an increase of CHF 38.0 million over the previous year (including CHF 2.0 million in allocated net income [NI] from financial year 2018). 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 even in difficult times.

Proof of Capital

31.12.2019, in KCHF

	31.12.2018	Allocation net income previous year	Net income in 2019	Shifts	31.12.2019
	(1)	(2)	(3)	(4)	(5)= (1)+(2)+(3)+(4)
Risk-bearing capital (RBC)	1 196 702			–46 714	1 149 988
Core capital (CCap)	486 503			10 714	497 217
Compensation reserve (CR)	1 085 112	2 015		36 000	1 123 127
Net income (NI)	2 015	–2 015	55 413		55 413
Capital	**2 770 332**	**–**	**55 413**	**–**	**2 825 745**

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 2019 to 20 February 2020, 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 2019, the auditors received a fee (excl. VAT) of KCHF 77.8 (previous year: KCHF 78.0) for auditing the 2019 financial statements. Apart from this, the auditors received no other remuneration.

Reporting to the Confederation
SERV is subject to the supervision of the Federal Council and, ultimately, of Parliament (cf. Art. 32 SERVG). The Federal Council defines SERV's strategic goals for four years at a time and reviews them periodically. SERV regularly updates the Federal Council on the achievement of its objectives and on its business results. In addition, it provides information on its business results to the sub-committees of the Finance Committees each year and to the sub-committees of the Control Committees of the National Council and Council of States every four years.

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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 34 to 49 of Swiss Export Risk Insurance, which comprise the income statement, balance sheet, cash flow, proof of economic viability, statement, income statement by segment, balance sheet by segment and notes for the year ended 31 December 2019.

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.

Swiss Export Risk Insurance, Zürich
Report of the Statutory Auditor to the Federal Council
Financial statements 2019

Opinion

In our opinion, the financial statements and the proof of economic viability for the year ended 31 December 2019 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

Oliver Windhör	Elina Monsch
Licensed Audit Expert	*Licensed Audit Expert*
Auditor in Charge	

Zurich, 20 February 2020

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.

Buyer credit insurance
Covers the financing of Swiss exports by domestic and foreign banks and financial institutions.

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.

Contract Bond Insurance
A contract bond is a guarantee which has to be issued by a bank on behalf of an exporting company against the foreign debtor (bid, advance payment, delivery, performance, contractual performance or warranty bonds). SERV contract bond insurance covers these guarantees from the risk of being unfairly called.

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.

Multi-buyer insurance
Under multi-buyer insurance, an association of exporters can insure shipments to different buyers in different countries under one policy through a central insurance unit.

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.

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."

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.

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.

S-GE Switzerland Global Enterprise
Official Swiss organisation for export promotion and promoting Switzerland as a business location. It supports Swiss SMEs with their international business and operates offices on behalf of the Swiss Confederation in over 27 key markets.

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.**

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