Financial Report

Premium Income
(in CHF million)

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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. 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.

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.

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