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)				Total		Insurance commitments in principle (ICP)		Total new exposure	
	short term		medium/long-term							
	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.

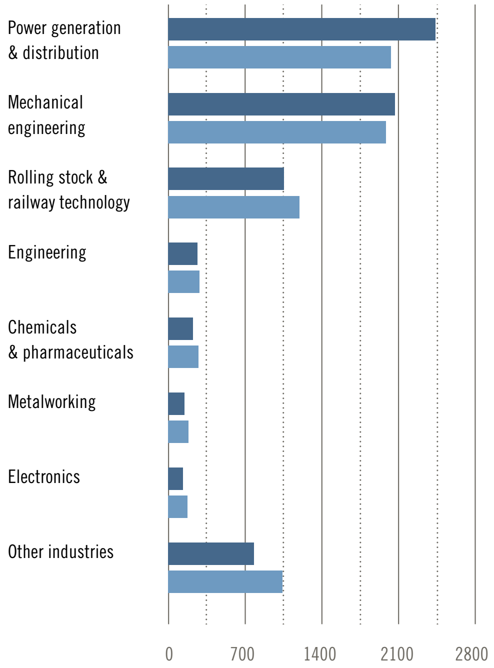
The negative development of new business at SERV is not exceptional compared to other export credit agencies (ECAs) and private insurers, as other insurers also recorded a decline in new business as a result of the slowdown in economic momentum and the reduced demand for capital goods. The Berne Union 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.

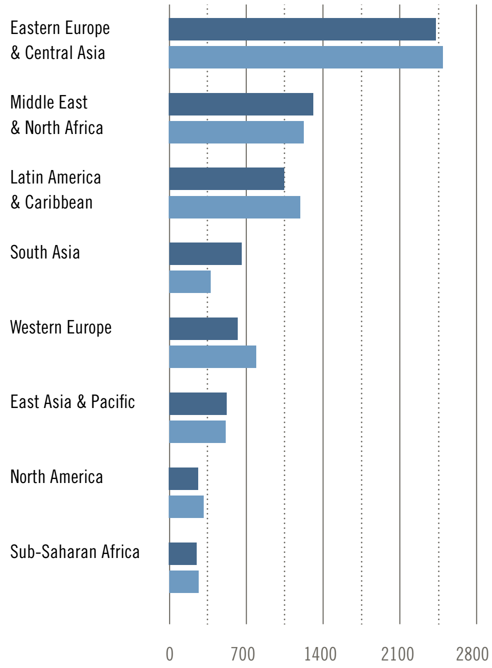
Commitment by Industry

in CHF million



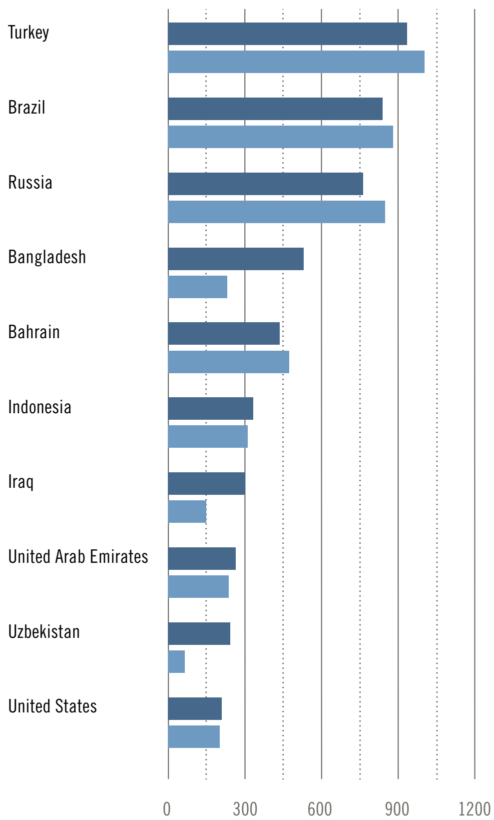
Commitment by Region

in CHF million



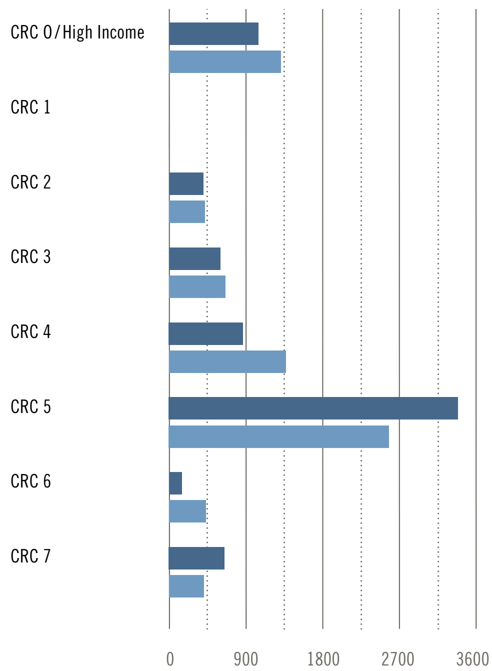
Commitment by Country

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.

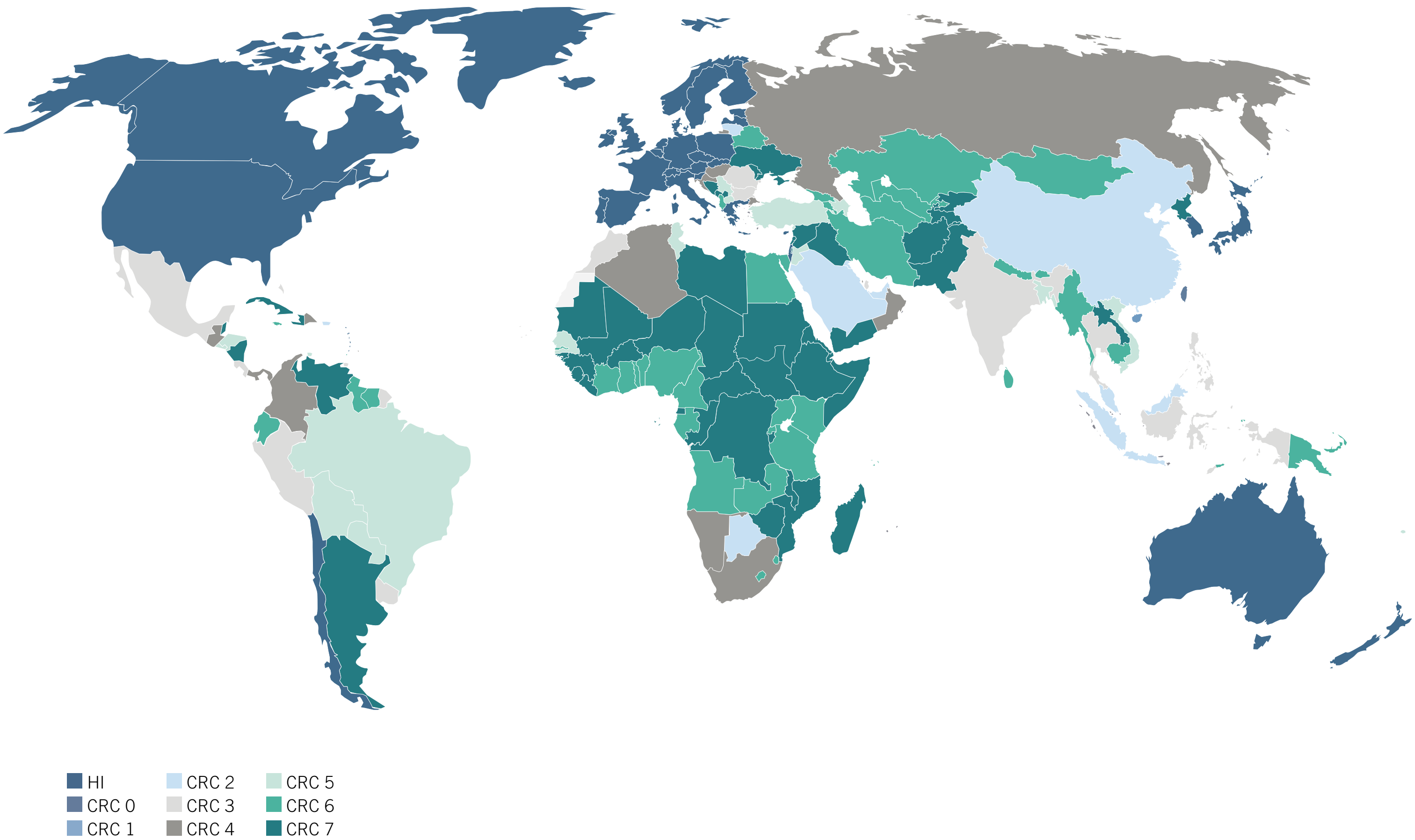
Despite the negative commitment development, SERV generated premium income of over CHF 107.5 million in 2019, as it again insured a number of large transactions in the long-term range.

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.

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.

"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

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.

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.

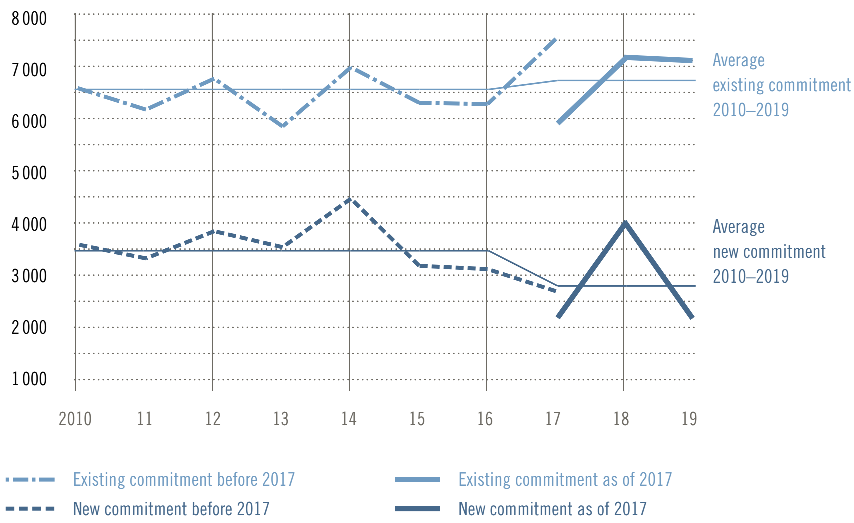
"In a period in which industrial policy is constantly expanding at our foreign competitors' locations, SERV is confronted by new challenges."

Peter Gisler
CEO

Multi-year Comparison

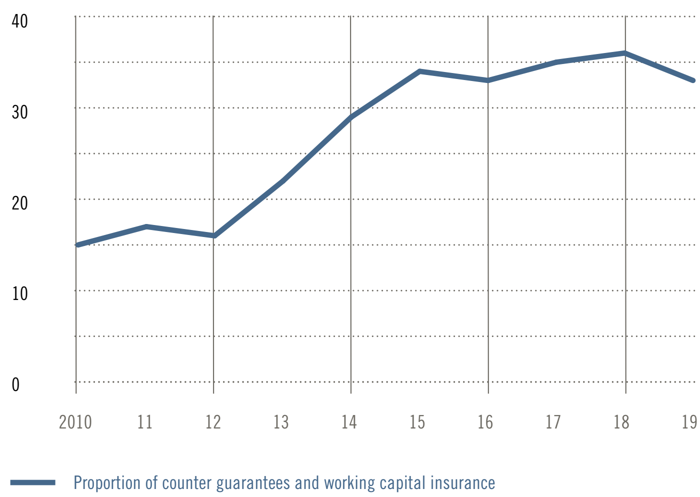
Commitment Development

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.

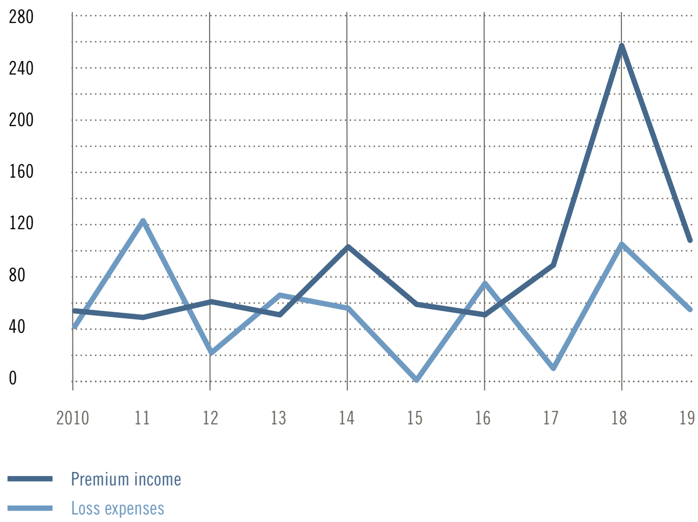
Proportion of Counter Guarantees and Working Capital Insurance in the Number of Newly Issued Insurance Policies



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.