FINANCIAL REPORT

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 (cf. Financial Report, pp. 48–66), 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. Items shown net in the financial statements are broken down in the Notes, which renders 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 accounting principles (AP) and reported on a net basis.

Income Statement

SERV closed its 14th financial year with negative net income (NI) of CHF –81.5 million (previous year: CHF 55.4 million), posting an operating loss of the same amount.

EARNED PREMIUMS
in CHF million
89.8

The delayed impact of the COVID-19 pandemic on premium income (CHF 71.6 million) made itself felt from August onwards. 92 per cent of the premium income was from the first seven months of the financial year. In comparison to previous years, this was a slightly below-average financial year in terms of premiums. The average income from premiums amounted to CHF 77.2 million. At CHF 89.8 million, SERV achieved the second-highest result in its history in terms of earned premiums. Only in 2018, a year that broke all records, was this value higher at CHF 94.5 million. In contrast to the 2018 financial year, more earned premiums were released (CHF 73.5 million) than established (CHF 55.3 million) in the current financial year. This means that SERV benefited in the 2020 financial year from premium reserves that it had managed to establish in previous years through high premium income. The accounting principles (AP) provide for the creation of an unearned premium reserve amounting to 80 per cent for the invoicing of premiums.

The downward trend in interest income from debt rescheduling agreements continued. This was due to the planned decrease in receivables from debt rescheduling in previous years. Argentina, Cuba and Pakistan were unable to meet their payment obligations in 2020, due in part to the COVID-19 pandemic. Those countries that did meet their payment obligations were those with lower interest-bearing debts, as a result of which interest income from debt rescheduling was at an all-time low of CHF 1.3 million (previous year CHF 15.1 million).

The 2020 financial year was characterised by high loss expenses from the first quarter onwards. At CHF 167.9 million, this was by far the highest level of loss expenses SERV has reported since its formation. Loss expenses had previously been in the triple-digit millions in the 2011 (CHF 123.3 million) and 2018 (CHF 104.5 million) financial years. Despite these three exceptionally costly years, SERV has reported average loss expenses of CHF 52.0 million since its formation. The definitive write-offs of receivables totalling CHF 11.8 million related to risks in Ecuador, France, Italy, Oman, Paraguay, Spain, Switzerland and Turkey. Other loss expenses included costs for recovery measures amounting to CHF 1.2 million.

The debt rescheduling results of CHF 11.9 million resulted from the revision of the country risk category (CRC) for Serbia (CHF 4.8 million) and the release of obsolete value adjustments (CHF 7.1 million) for the agreements with Bangladesh, Cameroon, Indonesia and Iraq.

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 2.970 billion.

The increase in personnel expenses (CHF 13.0 million) compared to the previous year (CHF 12.0 million) is attributable to the expansion of the workforce. Non-personnel expenses of CHF 6.7 million again included costs for the Transformation SERV (TRS) project, which also explains the bulk of the difference compared to the previous year (CHF 5.2 million). 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 negative in 2020 at CHF –0.3 million. As in the previous year, the result was only marginally affected by negative interest rates on bank account balances. 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 2.970 billion. The loss of interest income from cash 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 18.3 million until 2016.

Balance Sheet

On the assets side, cash in hand & at bank increased by CHF 23.5 million compared to 2019. SERV tries to keep the balance on the current account low in order to minimise the amount of negative interest payable.

The absence of major repayments from debt rescheduling agreements (in particular from Argentina and Pakistan) resulted in a decrease in cash investments of CHF 10.0 million in the year under review, in contrast to the increases of previous years. These funds were used for the disbursement of claims. Claims from debt rescheduling agreements were down by only CHF 18.2 million in the year under review (previous year: CHF 64.7 million).

The liabilities side was dominated by loss provisions. Compared to the previous year, the loss provisions increased by CHF 100.2 million from CHF 133.4 million to CHF 233.6 million. The largest loss provisions related to risks in Argentina, Australia, Azerbaijan, Brazil, Cuba, Cyprus, Italy, Saudi Arabia, Switzerland, the United Arab Emirates and Zambia.

As of 31 December 2020, capital totalled CHF 2.744 billion, CHF 81.5 million less than the previous year.

The total of risk-bearing capital (RBC) plus core capital (CCap), CHF 1.519 billion, fell by CHF 128.4 million (8%) year-on-year. The decrease is due to the composition of the portfolio and the foreign currency effects, in particular the depreciation of the BRL and USD against the CHF. The compensation reserve (CR) increased by CHF 183.8 million to CHF 1.307 billion (16%). 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. This reserve also allows SERV to continue covering risks for export transactions.

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.

"The compensation reserve of CHF 1.3 billion can cushion years with high loss expenses while allowing SERV to continue to hedge risks for Swiss export transactions."

LARS PONTERLITSCHEK
CHIEF FINANCIAL OFFICER

Cash Flow Statement

SERV's 2020 cash flow statement (cf. p. 50) posted a net increase of CHF 13.5 million (2019: CHF 134.4 million). In previous years, SERV generated an average cash flow of CHF 130.7 million. SERV continues to have excellent liquidity with CHF 3.002 billion consisting of cash in hand & at bank and time deposits.

The cash flow from business operations was negative at CHF 13.3 million. Compared to the previous year, CHF 19.0 million more was paid out in claims and CHF 0.2 million more for personnel and operating costs in the 2020 financial year. At the same time, premium payments decreased by CHF 5.5 million and loss provisions by CHF 7.1 million.

Cash flow from investment activities includes both regular and unscheduled early repayments from credit balances from debt rescheduling agreements plus the corresponding interest. At CHF 28.2 million, this item was at its lowest level since SERV was established. This was due to missed payments resulting from pandemic-related deferral requests (Cameroon and Pakistan) and requests to renegotiate existing debt rescheduling agreements (Argentina and Cuba). Cash flow for this area in previous years averaged CHF 114.6 million. Compared to 2007, the year in which SERV was founded, it was striking to note that interest payments from debt rescheduling agreements have halved. Project costs for the TRS transformation project were capitalised under intangible assets in the amount of CHF 3.3 million for the first time in the 2020 financial year. The cash outflow relating to this capitalisation amounted to CHF 3.2 million.

In the financial activities, a partial repayment of CHF 1.4 million for a cash deposit was made due to a changed risk situation in connection with existing counter guarantees.

Proof of Economic Viability

In 2020, 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 2020, 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 significant surplus cover of CHF 34.0 million across all grades.

Since SERV was founded, the average surplus cover of economic viability 1 for the primary segment “public debtors” has been CHF 5.9 million, and CHF 9.3 million for the primary segment “private debtors”. This means that economic viability 1 has so far been significantly exceeded 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. PDF, Notes regarding the Income Statement by Segment 12–18, p. 60). Items are not broken down into segments on the balance sheet where doing so has only limited indicative value.

In the income statement, the two segments “private debtors with del credere” and “public debtors” closed the year with a negative result. This was largely down to the loss expenses resulting from the formation of provisions and value adjustments. The successful performance of the “private debtors without del credere” division was not able to compensate for the losses of the other two segments. Experience shows that the annual results for segment accounting are influenced to a large extent by the loss expenses incurred and are thus very volatile.

INCOME STATEMENT

Income Statement

01.01.2020–31.12.2020, in KCHF

	Notes *	2020	2019	Change
Premium income	1	71 579	107 548	– 35 969
Creation of unearned premium reserves		– 55 314	– 81 167	25 853
Release of unearned premium reserves		73 541	42 948	30 593
Earned premiums		**89 806**	**69 329**	**20 477**
Interest income from debt rescheduling agreements		1 309	15 145	– 13 836
Total income from insurance		**91 115**	**84 474**	**6 641**
Loss expenses	2	– 167 905	– 54 898	– 113 007
Debt rescheduling results	3	11 935	41 844	– 29 909
Total expenses from insurance		**– 155 970**	**– 13 054**	**– 142 916**
Profit/loss on insurance		**– 64 855**	**71 420**	**– 136 275**
Personnel expenses		– 12 981	– 12 020	– 961
Non-personnel expenses		– 6 716	– 5 174	– 1 542
Financial income		– 294	1 179	– 1 473
Other income **	4	3 318	8	3 310
Operating profit/loss		**– 81 528**	**55 413**	**– 136 941**
Interest income from cash investments		–	–	–
Net income (NI)		**– 81 528**	**55 413**	**– 136 941**

* cf. Comments starting from page 58 of the Notes on the Financial Statements

** Due to its purpose, other income was reclassified from income from insurance in the 2020 financial year.

BALANCE SHEET

Balance Sheet

31.12.2020, in KCHF

	Notes *	31.12.2020	31.12.2019	Change
Assets				
Cash in hand & at bank		32 248	8 711	23 537
Premiums receivables		29 892	36 319	– 6 427
Other receivables		–	77	– 77
Financial investments maturing in 1 year or less	5	2 970 000	2 980 000	– 10 000
Accruals and deferrals		690	1 034	– 344
Total current assets		**3 032 830**	**3 026 141**	**6 689**
Property, plant and equipment		414	131	283
Intangible assets	6	3 289	–	3 289
Financial investments and credit balances maturing in more than 1 year		–	–	–
Total property, plant and equipment and long-term financial investments		**3 703**	**131**	**3 572**
Claims from losses and restructuring	7	196 275	187 839	8 436
Credit balances from debt rescheduling agreements	8	128 317	146 535	– 18 218
Total claims and credit balances from debt rescheduling agreements		**324 592**	**334 374**	**– 9 782**
Total Assets		**3 361 125**	**3 360 646**	**479**
Liabilities				
Current liabilities		2 280	1 131	1 149
Short-term financial liabilities		107	21	86
Accruals and deferrals		1 662	1 401	261
Unearned premiums		398 640	418 459	– 19 819
Share of unearned premiums due to reinsurance		– 20 851	– 22 444	1 593
Loss provisions	9	233 620	133 459	100 161
Other non-current liabilities	10	1 450	2 874	– 1 424
Subtotal		**616 908**	**534 901**	**82 007**
Risk-bearing capital (RBC)		999 023	1 149 988	– 150 965
Core capital (CCap)		519 782	497 217	22 565
Compensation reserve (CR)		1 306 940	1 123 127	183 813
Net income (NI)		– 81 528	55 413	– 136 941
Total capital		**2 744 217**	**2 825 745**	**– 81 528**
Total liabilities		**3 361 125**	**3 360 646**	**479**

* cf. Comments starting from page 58 of the Notes on the Financial Statements

CASH FLOW STATEMENT

Cash Flow Statement

01.01.2020–31.12.2020, in KCHF

	Notes *	31.12.2020	31.12.2019
Business operations			
Premium payments	11	75 955	81 408
Loss payments		– 82 734	– 63 709
Loss repayments		11 884	18 979
Payments relating to personnel and operations		– 18 357	– 18 186
Cash flow from business operations		**– 13 252**	**18 492**
Investing activities			
Capitalisation of intangible assets		– 3 248	–
Repayments of credit balances from debt rescheduling agreements		30 856	106 961
Payments of interest from debt rescheduling agreements		605	11 456
Payments from financial and interest income		–	–
Cash flow from investing activities		**28 213**	**118 417**
Financing activities			
Payments from financing activities		– 1 425	– 2 525
Cash flow from financing activities		**– 1 425**	**– 2 525**
Net change in funds		**13 536**	**134 384**
Funds on 31.12.2019 (cash in hand & at bank and time deposits with the Confederation)		–	2 988 712
Funds on 31.12.2020 (cash in hand & at bank and time deposits with the Confederation)		3 002 248	

* cf. Comments starting from page 58 of the Notes on the Financial Statements

PROOF OF ECONOMIC VIABILITY

Proof of Economic Viability

01.01.2020–31.12.2020, in KCHF

	Segments (by debtor)			SERV
	Public	Private without del credere	Private with del credere	
	(1)	(2)	(3)	(4)=(1)+(2)+(3)
Earned premiums	28 168	596	61 042	89 806
Average expected annual loss	– 11 659	– 313	– 23 869	– 35 841
Loading	**16 509**	**283**	**37 173**	**53 965**
Personnel expenses	– 893	– 1 336	– 10 752	– 12 981
Non-personnel expenses	– 462	– 691	– 5 563	– 6 716
Financial income	– 50	– 2	– 242	– 294
Economic viability 1	**15 104**	**– 1 746**	**20 616**	**33 974**
Interest income from cash investments	–	–	–	–
Economic viability 2	**15 104**	**– 1 746**	**20 616**	**33 974**

SEGMENT ACCOUNTING

Segment Accounting

01.01.2020–31.12.2020, in KCHF

	Notes *		Segments (by debtor)		SERV
		Public	Private without del credere	Private with del credere	
		(1)	(2)	(3)	(4)=(1)+(2)+(3)
Premium income	12	22 149	520	48 910	71 579
Creation of unearned premium reserves		– 17 072	– 35	– 38 207	– 55 314
Release of unearned premium reserves		23 091	111	50 339	73 541
Earned premiums		**28 168**	**596**	**61 042**	**89 806**
Interest income from debt rescheduling agreements	13	908	226	175	1 309
Total income from insurance		**29 076**	**822**	**61 217**	**91 115**
Loss expenses	14	– 81 350	– 1 139	– 85 416	– 167 905
Debt rescheduling results	15	4 559	6 867	509	11 935
Total expenses from insurance		**– 76 791**	**5 728**	**– 84 907**	**– 155 970**
Profit/loss on insurance		**– 47 715**	**6 550**	**– 23 690**	**– 64 855**
Personnel expenses	16	– 893	– 1 336	– 10 752	– 12 981
Non-personnel expenses	17	– 462	– 691	– 5 563	– 6 716
Financial income	18	– 50	– 2	– 242	– 294
Other income**		228	342	2 748	3 318
Operating profit/loss		**– 48 892**	**4 863**	**– 37 499**	**– 81 528**
Interest income from cash investments		–	–	–	–
Net income (NI)		**– 48 892**	**4 863**	**– 37 499**	**– 81 528**

* cf. Comments starting from page 58 of the Notes on the Financial Statements
** Due to its purpose, other income was reclassified from income from insurance in the 2020 financial year.

Balance Sheet by Segment

31.12.2020, in KCHF

	Notes *			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		–	–	–	32 248	32 248
Premiums receivables		749	–	29 143	–	29 892
Other receivables		–	–	–	–	–
Financial investments maturing in 1 year or less		–	–	–	2 970 000	2 970 000
Accruals and deferrals		–	–	–	690	690
Total current assets		**749**	**–**	**29 143**	**3 002 938**	**3 032 830**
Property, plant and equipment		–	–	–	414	414
Intangible assets		–	–	–	3 289	3 289
Financial investments and credit balances maturing in more than 1 year		–	–	–	–	–
Total property, plant and equipment and long-term financial investments		**–**	**–**	**–**	**3 703**	**3 703**
Claims from losses and restructuring		70 655	32 024	93 596	–	196 275
Credit balances from debt rescheduling agreements		56 451	46 607	25 259	–	128 317
Total claims and credit balances from debt rescheduling agreements		**127 106**	**78 631**	**118 855**	**–**	**324 592**
Total Assets		**127 855**	**78 631**	**147 998**	**3 006 641**	**3 361 125**
Liabilities						
Current liabilities		–	–	–	2 280	2 280
Short-term financial liabilities		–	–	107	–	107
Accruals and deferrals		–	–	–	1 662	1 662
Unearned premiums		99 546	9 483	289 611	–	398 640
Share of unearned premiums due to reinsurance		– 5 885	–	– 14 966	–	– 20 851
Loss provisions	19	78 021	1 247	154 352	–	233 620
Other non-current liabilities		–	–	–	1 450	1 450
Subtotal		**171 682**	**10 730**	**429 104**	**5 392**	**616 908**
Risk-bearing capital (RBC)		–	–	–	999 023	999 023
Core capital (CCap)		–	–	–	519 782	519 782
Compensation reserve (CR)		558 927	106 506	132 080	509 427	1 306 940
Net income (NI)		– 48 891	4 862	– 37 499	–	– 81 528
Total capital		**510 036**	**111 368**	**94 581**	**2 028 232**	**2 744 217**
Total liabilities		**681 718**	**122 098**	**523 685**	**2 033 624**	**3 361 125**

* cf. Comments starting from page 58 of the Notes on the Financial Statements

ACCOUNTING PRINCIPLES

The AP discussed in this section are outlined in abbreviated form. The full text of the AP and their annexes may be viewed at SERV upon request.

Introduction

The accounting and valuation principles (AP) define the accounting principles for SERV and are determined by the Board of Directors (BoD). In 2020, the BoD established the preconditions to capitalise intangible assets by amending the accounting principles.

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 under-valuations 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 (SERV-V), 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.

NOTES 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.

Regarding the Income Statement

[1] On "premium income": The item "Premium income" amounting to CHF 71.6 million is comprised of income from insurance premiums amounting to CHF 62.7 million, premium income from reinsurance amounting to CHF 11.7 million and premium income for reinsurance of CHF –2.8 million.

[2] On "loss expenses": The loss expenses amounting to CHF 167.9 million comprise the reversal of provisions for incurred but not reported (IBNR) cases amounting to CHF –4.6 million, the formation of provisions for reported losses amounting to CHF 112.0 million, and the change in value adjustments on claims of CHF 47.5 million (cf. p. 61). Losses amounting to CHF 11.8 million were definitively written off in 2020. The written-off losses related to risks in France, Italy, Oman, Paraguay, Spain, Switzerland and Turkey. The CHF 1.2 million under other loss expenses includes costs for recovery measures.

[3] On "debt rescheduling results": Debt rescheduling results amounting to CHF 11.9 million are reported net. This item consists of the reversal of value adjustments on debt rescheduling balances amounting to CHF 12.0 million and the writing-off of credit balances against debtor countries amounting to CHF –0.1 million (cf. p. 63).

[4] On "other income": The CHF 3.3 million in other income originates from the capitalisation of the project costs (personnel and non-personnel expenses) for the TRS transformation project.

Regarding the Balance Sheet

[5] On “short-term cash investments”: All cash investments are held with the Swiss Confederation in the form of an investment account.

[6] On “Intangible assets”: The CHF 3.3 million under intangible assets originates from the capitalisation of the project costs (personnel and non-personnel expenses) of the TRS transformation project.

[7] On “claims from losses and restructuring”: The claims from losses (cf. p. 61) and the claims from restructuring with public debtors (cf. p. 62) of SERV were valued in accordance with the AP (cf. Accounting Principles, p. 54) and were then reported as net claims. In the year under review, claims from losses increased by CHF 8.4 million. The claims paid related to Argentina, Bangladesh, Brazil, Cuba, the Dominican Republic, Ecuador, Egypt, France, India, Italy, Mexico, Nigeria, Pakistan, Peru, Russia, Slovenia, Switzerland, the United Arab Emirates, Turkey and Zambia.

[8] On “credit balances from debt rescheduling agreements”: The credit balances from debt rescheduling agreements (cf. p. 63) were reported as net credit balances. The largest movements occurred in Indonesia (reduction of CHF 11.4 million) and Serbia (reduction of CHF 3.8 million).

[9] On “loss provisions”: SERV recognised IBNR provisions for losses amounting to CHF 73.5 million and provisions for reported losses amounting to CHF 160.1 million (cf. Accounting Principles, p. 54). Loss provisions totalled CHF 233.6 million.

[10] 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

[11] On “premium payments”: Premium payments totalling CHF 76.0 million were made. This corresponds to the average premium payments of the previous years (CHF 75.3 million). The majority of the premium payments were invoiced in the 2020 financial year.

Regarding Income Statement by Segment

[12] On “premium income”: Premium income was directly allocated to segments. Premium income per segment is shown in the table on page 64.

[13] 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.

[14] On “loss expenses”: Loss expenses were allocated directly to the segments. The table on page 64 shows loss expenses incurred per segment.

[15] On “debt rescheduling results”: Debt rescheduling results were allocated directly to the segments. The table on page 64 shows debt rescheduling results incurred per segment.

[16] 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.

[17] On “non-personnel expenses” – allocation formula: Non-personnel expenses were allocated to individual segments analogously to the allocation of personnel expenses.

[18] 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 12, p. 60).

Regarding the Balance Sheet by Segment

[19] On “loss provisions”: The loss provisions per segment are shown in the table “balance sheet by segment” on page 64.

Value Adjustment on Claims from Losses and Restructuring

in CHF million

	31.12.2020			31.12.2019			
	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	– 64.2	64.2	–
Switzerland	82.0	– 54.6	27.4	83.7	– 54.0	29.7	– 2.3
Greece	44.6	– 40.1	4.5	50.7	– 40.2	10.5	– 6.0
Cuba	43.0	– 29.4	13.6	17.6	– 12.1	5.5	8.2
India	42.6	– 21.9	20.7	22.9	– 23.8	– 0.9	21.6
Zimbabwe	37.4	– 23.4	14.0	37.4	– 23.4	14.0	–
Brazil	20.5	– 12.3	8.2	19.7	– 9.7	10.0	– 1.8
Russia	15.4	– 13.9	1.5	15.5	– 9.6	5.9	– 4.4
Indonesia	11.9	– 5.9	6.0	12.4	– 6.2	6.2	– 0.2
Georgia	11.7	– 11.7	–	11.7	– 11.7	–	–
Other countries	63.8	– 46.5	17.3	51.1	– 27.3	23.8	– 6.5
	501.3	**– 323.9**	**177.4**	**451.2**	**– 282.3**	**168.9**	**8.5**
Value adjustment on claims from restructuring							
North Korea	188.9	– 170.0	18.9	188.9	– 170.0	18.9	–
	188.9	**– 170.0**	**18.9**	**188.9**	**– 170.0**	**18.9**	**–**
Total claim from losses and restructuring			**196.3**			**187.8**	**8.5**

Value Adjustment on Claims from Losses and Restructuring

in CHF million

	31.12.2020					31.12.2019					Change
			SERV					SERV			
	Total claims	Share 3rd parties*	Share	Value adjustment	Net claims	Total claims	Share 3rd parties*	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	216.3	27.4	188.9	– 170.0	18.9	–
Total	**216.3**	**27.4**	**188.9**	**– 170.0**	**18.9**	**216.3**	**27.4**	**188.9**	**– 170.0**	**18.9**	**–**

* policyholders or assignees

Credit Balances from Debt Rescheduling Agreements (with value adjustment)

in CHF million

	31.12.2020						31.12.2019						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	115.8	–	30.1	85.7	– 64.4	21.3	–
Argentina	102.7	–	19.9	82.8	– 24.8	58.0	102.7	–	19.9	82.8	– 24.8	58.0	–
Pakistan	71.5	3.2	3.7	64.6	– 63.9	0.7	70.7	3.1	3.7	63.9	– 63.9	–	0.7
Serbia	55.7	–	14.8	40.9	– 4.5	36.4	67.4	–	17.9	49.5	– 9.3	40.2	– 3.8
Iraq	32.7	–	11.1	21.6	– 21.5	0.1	37.3	–	12.6	24.7	– 24.7	–	0.1
Bosnia and Herzegovina	22.1	–	5.5	16.6	– 11.2	5.4	23.1	–	5.7	17.4	– 11.2	6.2	– 0.8
Indonesia	10.4	1.4	0.9	8.1	– 8.1	–	27.6	2.0	2.4	23.2	– 11.8	11.4	– 11.4
Egypt	1.9	–	0.3	1.6	– 1.2	0.4	5.5	–	1.1	4.4	– 1.2	3.2	– 2.8
Honduras	1.8	–	0.1	1.7	– 1.3	0.4	1.9	–	0.2	1.7	– 1.3	0.4	–
Cameroon	1.5	–	0.2	1.3	– 1.3	0.0	1.6	–	0.2	1.4	– 1.4	–	–
Montenegro	1.0	–	0.2	0.8	– 0.4	0.4	1.2	–	0.3	0.9	– 0.4	0.5	– 0.1
Bangladesh	0.7	0.1	–	0.6	– 0.6	0.0	1.0	0.1	–	0.9	– 0.9	–	–
Total credit balances from debt rescheduling agreements	**562.7**	**96.4**	**86.8**	**379.5**	**– 251.1**	**128.4**	**600.7**	**96.9**	**94.1**	**409.7**	**– 263.2**	**146.5**	**– 18.1**

Premium Income by Segment

01.01.2020–31.12.2020, 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	10 610	510	51 596	62 716
Premium income from expense premiums (e.g. review premiums)	2	10	26	38
Premiums from reinsurance	11 537	–	121	11 658
Premiums for reinsurance	–	–	– 2 833	– 2 833
Total premium income	**22 149**	**520**	**48 910**	**71 579**

Loss Expenses by Segment

01.01.2020–31.12.2020, 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	2 544	– 1 139	3 188	4 593
Provision for reported losses	– 78 554	–	– 33 394	– 111 948
Change in value adjustments	– 5 340	–	– 42 210	– 47 550
Definitive loss write-offs	–	–	– 11 840	– 11 840
Other loss expenses	–	–	– 1 160	– 1 160
Total loss expenses	**– 81 350**	**– 1 139**	**– 85 416**	**– 167 905**

Debt Rescheduling Results by Segment

01.01.2020–31.12.2020, 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	4 651	6 867	509	12 027
Write-offs of credit balances against debtor countries	– 92	–	–	– 92
Total debt rescheduling results	**4 559**	**6 867**	**509**	**11 935**

Loss Provisions by Segment

31.12.2020, in KCHF

	Segments (by debtor)			SERV
	Public	Private without del credere	Private with del credere	
	(1)	(2)	(3)	(4)=(1)+(2)+(3)
IBNR	6 032	1 247	66 215	73 494
Reported losses	71 989	–	88 137	160 126
Loss provisions	**78 021**	**1 247**	**154 352**	**233 620**

PROOF OF CAPITAL

As of 31 December 2020, SERV held capital of CHF 2.744 billion, CHF 81.5 million less than the previous year.

Risk-bearing capital (RBC) and core capital (CCap) together totalled CHF 1.519 billion at the end of 2020, CHF 128.4 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 and foreign currency effects. The compensation reserve (CR) is a net balance sheet item and amounted to CHF 1.307 billion at the end of 2020. This represents an increase of CHF 183.8 million over the previous year (including CHF 55.4 million in allocated net income [NI] from financial year 2019). 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 rescheduling balances) and through elevated losses. This allows SERV to provide the Swiss export industry with effective support even in difficult times.

Proof of Capital

31.12.2020, in KCHF

	31.12.2019	Allocation net income previous year	Net income in 2020	Shifts	31.12.2020
	(1)	(2)	(3)	(4)	(5)=(1)+(2)+(3)+(4)
Risk-bearing capital (RBC)	1 149 988			– 150 965	999 023
Core capital (CCap)	497 217			22 565	519 782
Compensation reserve (CR)	1 123 127	55 413		128 400	1 306 940
Net income (NI)	55 413	– 55 413	– 81 528		– 81 528
Capital	**2 825 745**	–	**– 81 528**	–	**2 744 217**

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 of 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 Genferstrasse 6 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 2020 to 16 February 2021, 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 2020, the auditors received a fee (excl. VAT) of KCHF 66.6 (previous year: KCHF 77.8) for auditing the 2020 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.

The electronic version of the current annual report
can be found at report.serv-ch.com.

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Report of the Statutory Auditor to the Federal Council

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the financial statements on pages 48 to 66 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 2020.

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 Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements 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, 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 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, Zurich
Report of the Statutory Auditor
on the Financial Statements
to the Federal Council

Opinion
In our opinion, the financial statements and the proof of economic viability for the year ended 31 December 2020 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 (AOA) 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
Licensed Audit Expert
Auditor in Charge

Elina Monsch
Licensed Audit Expert

Zurich, 11 March 2021