SERV Swiss Export Risk Insurance
Annual Report

2020

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

TABLE OF CONTENTS

FINANCIAL HIGHLIGHTS

NEW COMMITMENT
2 580 CHF M

PROFIT / LOSS ON INSURANCE
91 CHF M

PROPORTION OF SMES IN THE CLIENT BASE
77%

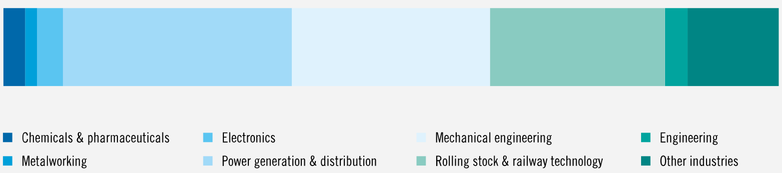
FRAMEWORK OF OBLIGATION
16 CHF BN

LOSS EXPENSES
168 CHF M

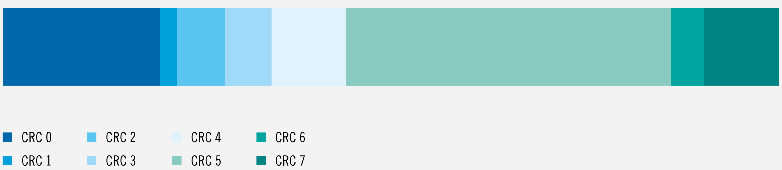
ECONOMIC VIABILITY
34 CHF M

The surplus cover in the economic viability calculation amounted to CHF 34 million.

COMMITMENT BY INDUSTRY
in CHF million, as at 31 December



COMMITMENT BY OECD COUNTRY RISK CATEGORY
in CHF million, as at 31 December



7 301 CHF M

Obligation in CHF m	31.12.2020	31.12.2019
Framework of obligation	16 000	16 000
Insurance obligations	11 671	11 588

Current exposure in CHF m	31.12.2020	31.12.2019
Commitment: insurance policies (IP)	7 301	7 109
ECA reinsurances taken into account	– 269	– 297
Insurance commitments in principle (ICP)	1 670	1 664
Exposure	**8 971**	**8 773**

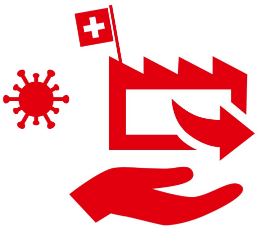
New exposure in CHF m	2020	2019
New commitment: insurance policies (IP)	2 580	2 173
Insurance commitments in principle (ICP)	1 222	1 404

Balance sheet in CHF m	31.12.2020	31.12.2019
Cash in hand & at bank and cash investments	3 002	2 989
Claims from losses and restructuring	196	188
Credit balances from debt rescheduling agreements	128	146
Unearned premiums and provisions	611	529
Capital	2 744	2 826

Income statement in CHF m	2020	2019
Earned premiums	90	69
Interest income from debt rescheduling agreements	1	15
Loss expenses	– 168	– 55
Debt rescheduling results	12	42
Profit/loss on insurance	**– 65**	**71**
Personnel expenses	– 13	– 12
Non-personnel expenses	– 7	– 5
Financial income	–	1
Other income	3	–
Operating profit/loss	**– 82**	**55**
Interest income from cash investments	–	–
Net income (NI)	**– 82**	**55**

Number of employees		
Number	70	62
Full-time equivalents	62.9	56.5
Average number of full-time equivalents by year	58.5	52.8

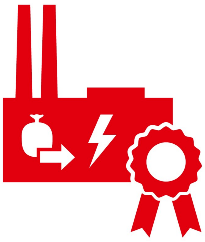
MILESTONES



April 2020

SERV supports Swiss exporters during the COVID-19 pandemic

On 17 April, Swiss Export Risk Insurance SERV takes measures to support the Swiss export industry due to the economic impact of the COVID-19 pandemic. To this end, it temporarily sets aside its subsidiarity rules for certain operations and simplifies its internal processes to enable it to process transactions more rapidly. On 1 September, SERV also relaxes its content requirements and raises its cover ratios for certain products.



June 2020

Awards for Europe's largest energy-from-waste plant

SERV wins two awards for a deal in Turkey. It receives the "Environmental Enhancement ECA-backed Deal of the Year" award from TXF and is featured in Global Trade Review's "Best Deal of the Year" category. The deal is for the construction of Europe's largest energy-from-waste plant, which will convert up to 1 million tonnes of waste per year into around 70 MW of electrical energy for feeding into the city of Istanbul's grid.

October 2020

SERV's Lausanne office celebrates its ten-year anniversary

SERV celebrates the tenth anniversary of its Lausanne office, which was set up by Dominique Aubert and has since been advising exporters in French-speaking Switzerland in their region. The office was opened on 5 October 2010 with an official opening ceremony at the Olympic Museum. The aim was to better support exporters from French-speaking Switzerland. SERV succeeded in its aim and will continue to uphold its commitment to ensuring that companies in French-speaking Switzerland have a reliable export promotion tool at their disposal.

FOREWORD

Bright spots in a challenging year

Peter Gisler and Barbara Hayoz in the boardroom at the new address

Rapid help in the crisis

The past year is sure to go down in the history books of our small country and, indeed, those of the entire world. A virus catapulted us completely out of our “plannable” regular life, forcing us within days and weeks to rethink or completely redefine many of our practices and, in particular, our social habits for a considerable period of time.

The pandemic also hit our clients unexpectedly and with full force. To ensure that it was able to support them quickly and in an unbureaucratic manner, SERV, in close consultation with SECO, immediately implemented several measures within its remit as early as the beginning of April 2020 and initiated additional, important measures, such as increasing the cover ratios and adjusting the content requirements. The pandemic also had an impact on SERV’s business operations.

"SERV has demonstrated that it fulfils its mandate even in challenging times and supports exporters during the crisis."

BARBARA HAYOZ
CHAIRWOMAN OF THE BOARD OF DIRECTORS

The key results in brief

The significant decline in insurance policies (IP) and insurance commitments in principle (ICP) in 2019 (778) stabilised at 722 last financial year, despite a further decline of 7 per cent. The total new exposure increased by 6 per cent to CHF 3.802 billion compared to the previous year. A significant shift in the short-term sector can be seen here. The new exposure in 2019 amounted to CHF 1.213 billion, but rose to CHF 1.718 billion in the year under review, which corresponds to a share of 45 per cent for new business. Disruption resulting from COVID-19 meant that SERV had to assume insurance policies from the private market for some major export transactions in high-income countries.

SERV closed the year with negative net income for only the second time since it was founded in 2007. Although earned premiums increased by 30 per cent to CHF 89.8 million compared to the previous year, this was offset by record loss expenses of CHF 167.9 million. This had a strong impact on the negative net income of CHF 81.5 million. This year's income statement is characterised by high provisions for losses. A major loss in the public sector in Zambia of CHF 85.6 million stands out in particular, as well as the risk of further imminent losses from insured projects in Azerbaijan, Australia and the United Arab Emirates. These must, in part, be attributed to the economic consequences of COVID-19. With capital of CHF 2.744 billion, SERV is in very good financial shape.

2020 was an extraordinary year, but there were nonetheless many bright spots that allow us to look to the future with a feeling of distinct optimism, despite the shadows cast by the pandemic. Crises teach us what really matters. Our economy proved to be surprisingly robust and adaptable. There was, admittedly, a critical phase during spring 2020 when some global supply chains were disrupted, but the flow of goods was back on track within only a few weeks. Work continued almost without interruption in most companies, factories and workshops, in the fields and on construction sites, and even in most service industries. All in all, businesses coped with the crisis impressively.

Outlook

Replacing the core IT insurance system with a solution from the French software provider Tinubu will continue to keep SERV very busy in 2021 and, alongside the provision of professional, efficient advice and insurance solutions for the Swiss export industry, will be its principle strategic objective. Its increased complexity meant that the IT project of the decade had to be recalibrated in the fourth quarter of 2020 and kitted out with considerably more temporary resources and an expanded and more professional project organisation. As a result, there is now confidence that the planned launch will go ahead as scheduled on 1 January 2022.

“SERV must move away from being an insurer-of-last-resort and become a trade facilitator.”

PETER GISLER
CEO

In tandem with the Swiss State Secretariat for Economic Affairs (SECO), SERV commissioned an external consultancy firm to conduct a benchmark analysis on public export credit agencies (ECAs) in July 2020. A systematic approach to learning from other ECAs enables SERV to develop new strategies and, based on an established benchmarking model for ECAs, operate more efficiently. The results of this analysis are now in.

Compared to other public ECAs, SERV achieved very good to excellent efficiency ratings. To maintain its top-ranking position, it is, however, essential that SERV evolves from being an insurer of last resort to a trade facilitator that plays an even more active role in the domestic and foreign markets. If Switzerland wishes to continue actively supporting its exporters in the future, it will increasingly find itself confronted by a conflict of objectives. On the one hand, it must continue to uphold the principle of subsidiarity, which is deeply ingrained in Switzerland, while on the other, there is a risk that Swiss exporters could suffer a systematic disadvantage compared to their foreign competitors due to other countries’ extensive support measures. The introduction of ECA Pathfinding two years ago, through which SERV aims to provide SMEs with access to foreign infrastructure projects, represented a step in this direction. Additional measures to promote and support Switzerland’s export industry over the long term are also being looked at, such as further developing the range of products, e.g. by adapting working capital insurance or reactivating and rethinking investment risk guarantees.

What is clear is that the effects of the COVID-19 crisis will be with us for some time to come. SERV therefore expects increased loss expenses to continue in the coming years. Particularly during crises, flexibility is vital in order to be able to act rapidly. We will therefore continue to focus on the needs of our clients, quickly devising the best possible solutions for them and supporting them with their transactions. On behalf of all our employees, we would like to thank you for the trust you have placed in us, particularly in this challenging year, and we look to the future with confidence.

Barbara Hayoz
Chairwoman of the
Board of Directors

Peter Gisler
CEO

FINANCIAL YEAR 2020

Despite the record level of CHF 89.8 million in earned premiums, SERV recorded negative net income of CHF 81.5 million due to high loss expenses of CHF 167.9 million, and thus posted a loss for only the second time in its history.

EARNED PREMIUMS
in CHF million
89.8

NEW COMMITMENT
+19%

Thanks to a 19 per cent rise in new commitment and a 30 per cent increase in earned premiums, SERV was able to achieve income from insurance of CHF 91.1 million. This was offset by expenses from insurance of CHF 156.0 million due to the exceptionally high loss expenses, which led to a negative profit/loss on insurance. An increase of CHF 2.5 million for personnel and non-personnel expenses compared to 2019 and a low level of financial income resulted in an operating loss of CHF 81.5 million. As SERV is only permitted by law to invest its capital with the Swiss Confederation, it was again unable to generate income from cash investments in 2020. As a result, its net losses matched the operating loss.

Development of the Business Environment

The business environment in 2020 was dominated by the global COVID-19 pandemic and the intervention measures adopted by governments to tackle it. These measures put further pressure on the already strained fiscal situation of public finances in many countries. Ecuador and Argentina had to contend with extremely high challenges and Argentina only narrowly managed to avert national bankruptcy. In the autumn, Zambia became the first country to fall into sovereign default, in part because of the COVID-19 crisis.

The central banks of the advanced economies generally continued to pursue their expansionary stance in 2020 and, in some cases, even expanded it further. Interest rates in the emerging markets continued to be lowered. An important exception was Turkey, where, towards the end of the year, the central bank felt compelled to confront the already extended devaluation pressure on the Turkish lira by raising interest rates and thus stabilising its foreign currency reserves, which had been tight for some time.

As an export-oriented economy, Switzerland was particularly impacted by the COVID-19 pandemic. The mechanical, electrical and metal (MEM) industries, which were already under pressure, suffered massive losses in orders and sales that they were only partly able to compensate for by the end of 2020. Mechanical engineering exports in particular only attained a level last seen 30 years ago, despite a recovery in the second half of the year. The upward pressure on the Swiss franc continued, which further weighed on the competitiveness of the Swiss export industry.

New exposure
in CHF million

	Insurance policies (IP) (new commitment)				Total		Insurance commitments in principle (ICP)		Total new exposure	
	short term		medium/long-term							
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Countries										
Hungary	645.6	3.0	–	0.7	645.6	3.7	–	–	645.6	3.7
Israel	0.5	0.8	–	–	0.5	0.8	323.1	–	323.6	0.8
Turkmenistan	2.6	7.1	215.3	–	217.9	7.1	0.8	187.3	218.7	194.4
Germany	171.1	24.0	23.3	1.7	194.4	25.7	10.8	45.5	205.2	71.2
Russia	41.8	79.4	132.6	32.7	174.4	112.1	20.7	75.5	195.1	187.6
Egypt	10.0	29.5	0.6	2.5	10.6	32.0	161.1	306.0	171.7	338.0
Taiwan (Chinese Taipei)	154.6	2.9	6.7	–	161.3	2.9	–	2.2	161.3	5.1
Turkey	4.2	2.4	121.6	263.3	125.8	265.7	8.1	162.6	133.9	428.3
Other countries	463.7	810.3	585.3	912.4	1 049.0	1 722.7	697.7	625.2	1 746.7	2 347.9
Total	**1 494.1**	**959.4**	**1 085.4**	**1 213.3**	**2 579.5**	**2 172.7**	**1 222.3**	**1 404.3**	**3 801.8**	**3 577.0**
Industries										
Rolling stock & railway technology	970.9	39.4	228.8	3.0	1 199.7	42.4	4.8	96.3	1 204.5	138.7
Mechanical engineering	194.5	413.2	294.8	317.2	489.3	730.4	464.5	833.6	953.8	1 564.0
Power generation & distribution	9.3	45.3	226.7	542.8	236.0	588.1	398.8	187.3	634.8	775.4
Electronics	45.5	21.7	139.0	35.6	184.5	57.3	31.8	254.1	216.3	311.4
Chemicals & pharmaceuticals	188.8	340.6	–	10.5	188.8	351.1	–	–	188.8	351.1
Engineering	5.0	10.1	20.2	1.8	25.2	11.9	85.0	8.8	110.2	20.7
Metalworking	14.6	5.9	7.3	14.2	21.9	20.1	6.3	–	28.2	20.1
Other industries	65.5	83.2	168.6	288.2	234.1	371.4	231.1	24.2	465.2	395.6
Total	**1 494.1**	**959.4**	**1 085.4**	**1 213.3**	**2 579.5**	**2 172.7**	**1 222.3**	**1 404.3**	**3 801.8**	**3 577.0**

Development of New Exposure and New Commitment

After declining significantly by 46 per cent between 2018 and 2019, new commitment again increased in 2020 compared to the previous year, from CHF 2.173 billion to CHF 2.580 billion. The increase in new business volume was not, however, the result of an increase in demand for insurance from SERV. The number of new policies issued continued to decline and amounted to 576 in 2020. This compares to the previous years' figures of 666 (2019) and 770 (2018). The growth in new exposures was primarily due to the insurance of individual high-volume transactions, which were, however, financed on payment terms of less than 24 months rather than by means of long-term export credits, which had often been the case in the past.

The decline in demand for SERV insurance reflects the huge slump in the Swiss export industry and particularly in the MEM industries as a result of the COVID-19 pandemic. New commitment continued to decline both in mechanical engineering (textile, machine tool and food processing machinery and chemical plants) as well as in power generation and distribution. In mechanical engineering, these fell from CHF 730.4 million to CHF 489.3 million, and in power generation and distribution, from CHF 588.1 million to CHF 236.0 million. Only in the rolling stock and railway technology industry did SERV record an increase in its new commitment from CHF 42.4 million to CHF 1.200 billion in 2020, which is in line with the usual volumes in previous years. New commitment in the chemicals and pharmaceuticals industries had already seen sharp falls over the last five years, and in 2020 decreased again significantly compared to the previous year, from CHF 351.1 million to CHF 188.8 million.

As SERV's insurance of exports in the rolling stock and railway technology industry was almost exclusively on payment terms of less than 24 months, there was a demand for supplier credit insurance for these transactions. The latter has for some time seen growth in new commitment from CHF 316.1 million to CHF 864.9 million. If these rail and railway exports had been financed with a credit period of ten years or more rather than on short-term payment terms, SERV would have posted even higher premium income in 2020, despite the same level of new exposure.

Surprisingly, demand for working capital insurance and counter guarantees fell short of expectations. The number of working capital insurance policies issued fell further from 62 to 56, and the number of bond guarantees issued also declined by 4 per cent. In contrast, new commitment increased for both products, with working capital insurance seeing a significant rise from CHF 78.7 million to CHF 436.3 million. This is due to the fact that buyers were more reluctant to pre-finance their orders for individual large transactions in the infrastructure sector. SERV had assumed that SMEs in particular would be dependent on liquidity in connection with the pandemic and would therefore make greater use of counter guarantees and working capital insurance.

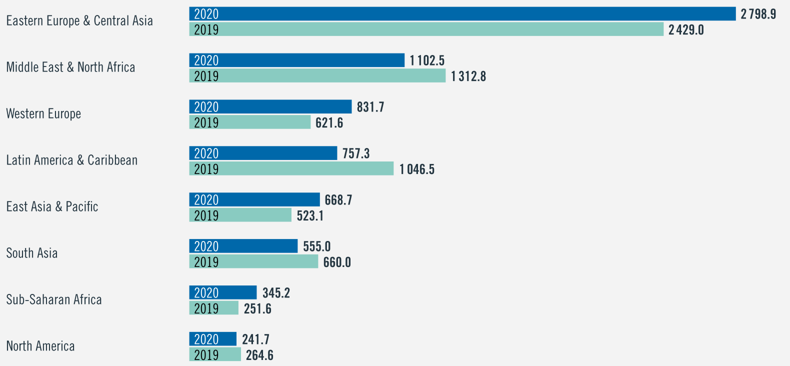
Overall, 58 per cent of the total new commitment was short-term in nature, i.e. insurance with a risk period of less than 24 months. This proportion is exceptionally high when compared with previous years, but does not necessarily indicate a trend.

Due to the CHF 2.580 billion in new commitment, SERV was able to achieve premium income of CHF 71.6 million. Premium income in 2020 is thus in line with the long-term average.

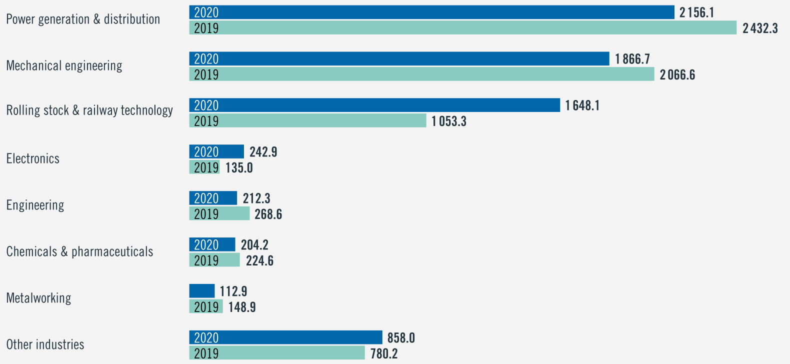
In contrast to the new commitment, the number of newly issued insurance commitments in principle (ICP) rose significantly from 112 in the previous year to 146. This was, however, associated with a cover volume that, at CHF 1.222 billion, was 13 per cent lower than in 2019.

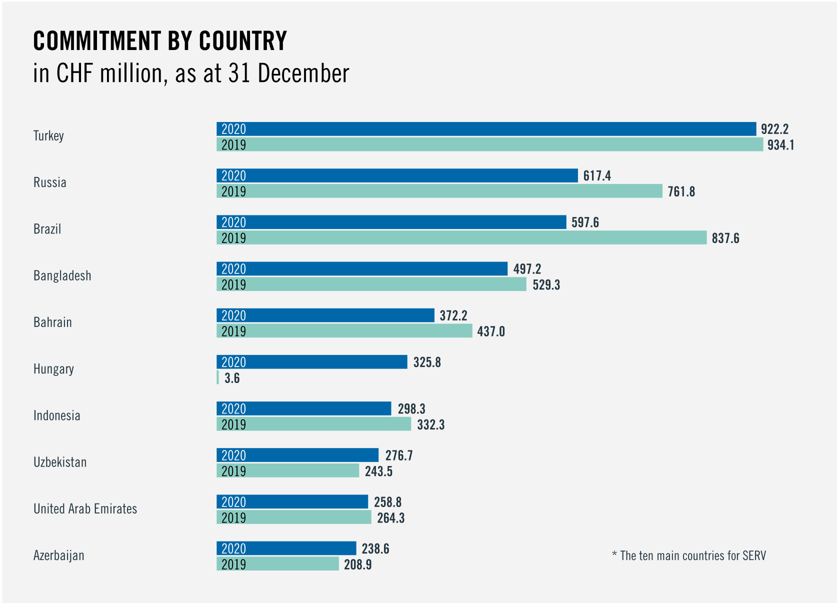
These changes are within the usual range for SERV. Negotiations for the export and financing of gas turbines to Israel and for a major project in Egypt's textile sector are already at such an advanced stage that final insurance coverage can be expected in the next financial year.

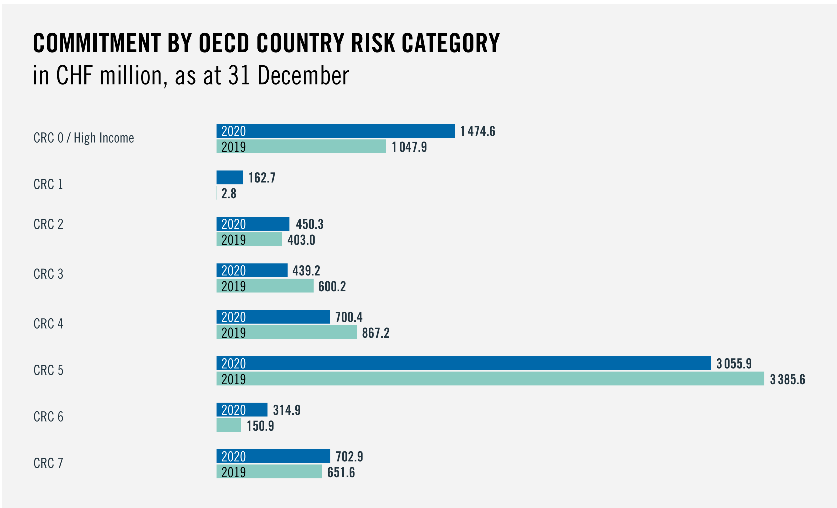
COMMITMENT BY REGION
in CHF million, as at 31 December



COMMITMENT BY INDUSTRY
in CHF million, as at 31 December







Exposure & Commitment

SERV's exposure came to CHF 8.971 billion as of 31 December 2020. This was slightly higher than in 2019 (CHF 8.773 billion). The commitment amounted to CHF 7.301 billion on the balance sheet date, which represented a slight increase of 3 per cent compared to the previous year's balance sheet date.

The change in the current exposure portfolio is not solely due to the volume of new business. It is typically influenced by the writing-off of expired IP, the repayment of insured export credits, and the liability period and exchange rate changes of the insured transactions. In 2020, the COVID-19 pandemic confronted SERV with a situation in which insured transactions had to be extended much more frequently than usual due to delivery or construction delays, or the repayment period of insured claims had to be extended, often as a result of restructuring.

As in previous years, SERV's highest commitment by country was to Turkey, at CHF 922.2 million. The country accounted for 13 per cent of total commitment. Hungary has now moved up to sixth place in the list of countries, as SERV supported a large rolling stock export transaction with working capital insurance and supplier credit insurance after the private insurance market was no longer able to provide sufficient risk capacities for this transaction.

Marketing & Acquisition

In order to mitigate the negative consequences of the government's COVID-19 containment measures on the Swiss export industry, the Federal Council has lowered the requirements regarding the amount of Swiss content in the order value for SERV insurance and increased the maximum cover ratios for counter guarantees to 100 per cent and for working capital insurance to 95 per cent. SERV has exercised its discretion and temporarily lifted the subsidiarity restrictions for export transactions with a risk period of less than 24 months to EU member states and other high-income countries until 30 June 2021. It has done so in line with the measures of the European Commission, with which it aligns itself in accordance with the SERV Ordinance (SERV-V). In addition, SERV has simplified its checking and decision-making processes in order to make it quicker and easier for exporters to obtain an insurance offer when needed.

"SERV is an important partner for Swiss SMEs; particularly when export risks escalate."

HERIBERT KNITTLMAYER
CHIEF INSURANCE OFFICER

In 2020, SERV posted increased growth in new customers, with SMEs accounting for 75 per cent of this.

These measures led to an increase in new customers approaching SERV in 2020, as the need for risk cover increased as a result of the COVID-19 pandemic. At 75 per cent, SMEs accounted for a very high proportion of these new customers.

The COVID-19 pandemic meant that SERV was unable to promote its 2020 ECA Pathfinding initiative as planned. In accordance with its business strategy, in the previous year SERV had already begun to increase its international profile and to identify specific projects – e.g. within the infrastructure sector – in the buyers' markets in which Swiss exporters are able to participate thanks to SERV-insured export financing. On the one hand, projects that had been presented in Switzerland in 2019 were either put on indefinite hold or suspended completely by the buyers, while on the other, the global travel restrictions and other factors meant that almost no new projects could be identified. Nonetheless, SERV further intensified its collaboration with Switzerland Global Enterprise (S-GE) and other industry associations in order to present itself in a more coordinated manner in the buyer markets in future.

International Relations

In addition to the COVID-19 pandemic, international negotiations in 2020 were dominated first and foremost by the suspension of the International Working Group (IWG). Its aim was to draw up a replacement to the Arrangement on Officially Supported Export Credits (Arrangement), with the involvement of all the major exporting nations (including China and other G20 member countries). This was because not all of the countries that comprise it had previously been subject to a regulatory framework on public financing of exports, which hugely increased the risk of distortions of competition.

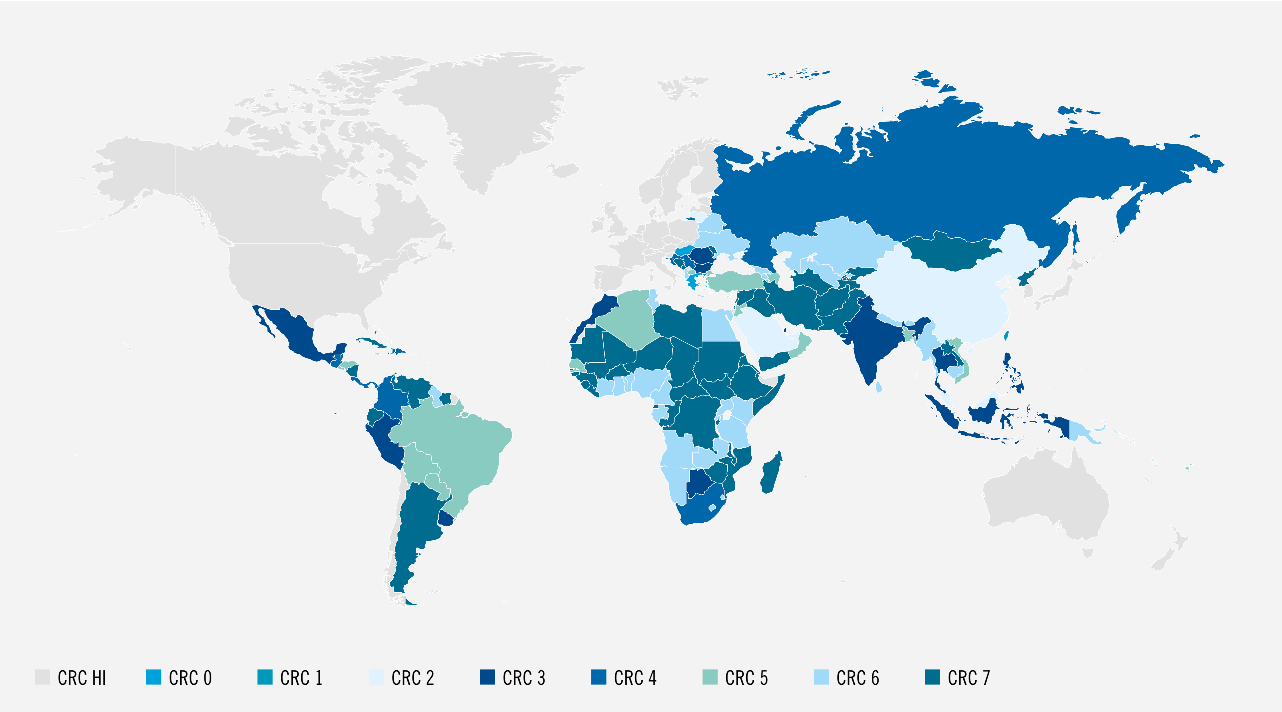
The failure of the negotiations within the framework of the IWG will have a major influence on the development of the only current regulatory framework for export financing, the Arrangement, which has been in force since 1978 and is affiliated to the OECD Trade Committee. It is in accordance with the principles of the World Trade Organization (WTO), which aims to prevent the official subsidising of exports. The Arrangement is legally binding in the EU countries and is adhered to in the form of a gentlemen's agreement by all other members, including Switzerland.

The Arrangement is expected to undergo a fundamental revision in the coming years in order to reduce the complexity of its applicability and to update its current basic principles, which increasingly offer too little flexibility for current export financing practice. The EU, which, due to the legally binding nature of the arrangement, is most directly affected by the resulting competitive disadvantages, is the main driver of this modernisation process.

At the beginning of 2020, SERV commenced a two-year term as chair of the Berne Union's ECA Committee, which is made up of all the world's major export credit agencies (ECAs). In 2020, the regular discussions on trade and developments in the member states were accompanied by a particular focus on the measures taken in the COVID-19 crisis and the topic of sustainable development and climate change.

In addition to multilateral cooperation, SERV is constantly engaged in maintaining and expanding its bilateral relationships with other ECAs. Last year in particular, SERV benefited from this exchange and maintained an intensive dialogue with its partners in its trilateral partnership with Germany and Austria, and also with the other ECAs regarding developments in the COVID-19 crisis.

OECD country risk categories
As at 31 December 2020



LOSSES AND CLAIMS

In addition to many smaller and medium-sized losses, SERV posted a large loss in Zambia in the year under review. The African country is heavily dependent on commodities and the fall in demand for copper in the wake of the COVID-19 crisis left Zambia insolvent to a degree.

It has so far been possible to avert many imminent losses due to the COVID-19 crisis 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
+49

INDEMNITY PAYMENTS
in CHF million
82.7

Losses

SERV made indemnity payments totalling CHF 82.7 million in the year under review, of which CHF 15.7 million related to payment for losses already recognised in previous years and CHF 67.0 million was newly reported losses. SERV was able to release CHF 4.6 million in provisions for imminent losses (IBNR = Incurred But Not Reported) and had to set aside CHF 111.9 million in provisions for reported losses. Value adjustments on claims changed by CHF 47.6 compared to the previous year, while SERV booked claims of CHF 11.8 million as definitive losses.

In the year under review, SERV processed 49 new losses in addition to the 176 existing losses in recovery. These new losses affected 36 countries. SERV realised CHF 11.9 million in recoveries as a result of implementing recovery measures. Of the CHF 82.7 million in disbursements for losses, CHF 26.8 million related to short-term risks in Cuba, CHF 20.3 million to risks in India and CHF 10.0 million to risks in Switzerland. The largest recovery of CHF 5.2 million and the highest write-off of unrecoverable claims of CHF 7.2 million related to a transaction in Spain. Claims from losses exceeded CHF 500 million for the very first time in 2020, rising by a total of CHF 50.1 million to CHF 501.3 million.

Restructuring & Debt Rescheduling

The COVID-19 crisis has led to more than 100 countries applying to the International Monetary Fund (IMF) and the World Bank for assistance. On 14 April 2020, the official bilateral creditor countries of the G20, the Paris Club and some other creditor countries reached an international agreement on a Debt Service Suspension Initiative (DSSI) for the poorest countries. The Initiative allows these countries to use their financial resources to cover expenses related to the impact of the pandemic.

Of the countries with active debt rescheduling agreements with Switzerland, it is Cameroon, Pakistan, Honduras and Bangladesh that qualify for this DSSI. Cameroon and Pakistan have submitted a deferral request. The bilateral agreement for DSSIs with Pakistan was concluded in December 2020 (cf. Financial Report).

In October 2020, the IMF, the World Bank Group, the G20 member countries and the Paris Club agreed to extend the DSSI for another six months until mid-2021. This gave the affected countries a deferral for the repayments due in 2020 and until mid-2021, each with a one-year waiting period and a four- to five-year repayment period.

Argentina and Cuba, which do not qualify for DSSI but are nevertheless also severely affected by the impact of the COVID-19 pandemic, were also unable to meet their payment obligations in 2020. Renegotiations with these two countries are planned for the first half of 2021.

The other countries listed in the table "Credit Balances from Debt Rescheduling Agreements" (cf. Notes on the Financial Statements, p. 63) with which debt rescheduling agreements were concluded in the Paris Club met their payment obligations in the year under review.

There is currently only a purely bilateral restructuring agreement with North Korea. This expired at the end of 2019 and no follow-up arrangement has yet been agreed.

RISK POLICY, RISK MANAGEMENT & COVER POLICY

The Board of Directors (BoD) is responsible for SERV's risk management and its monitoring. It defines the risk policy and periodically evaluates the risk profile. There were no significant changes to risk policy and risk management compared to previous years.

In 2020, the BoD again examined in detail the risks faced by SERV via regular reports. It determined that risk management was appropriate, both for the actuarial, financial, operational and strategic risks as well as reputation risks. A new compliance management system was developed in 2020 to take account of the increasing requirements in this area.

Minor improvements to risk management were defined in consultation with the Swiss Confederation based on recommendations made by Deloitte Switzerland as part of an audit of SERV's risk capital and credit rating models conducted in the previous year. The risk capital model was extensively documented. In addition, exchange rate risks are to be taken into account in future by means of a defined factor in the risk capital.

SERV conducts an annual audit of the risks handled by the internal control system (ICS). The assessment in 2020 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.

On 2 July 2020, the head of the Federal Department of Economic Affairs, Education and Research (EAER), Federal Councillor Guy Parmelin, approved a new premium tariff for SERV following consultations with the Federal Department of Finance (FDF). This enters into force on 1 January 2021. The main purpose of the revision is to make the premium tariff more flexible so that SERV is able to adapt its premium regulations more rapidly.

To increase future flexibility in managing the insurance portfolio, two insurance brokers were procured through a public tender process. The brokers will be responsible for placing exposures from the portfolio on the market wherever necessary. Such sales of exposures are aimed at reducing concentration risks or employed where country limits have been heavily utilised.

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 the adequacy of the capital, and taking risk concentrations into consideration, was also reviewed in 2020 on an ongoing basis. In June 2020, the cover policy for Turkey was adjusted so that, in principle, transactions with order values of CHF 2.5 million or more with private Turkish buyers would only be insured if they were accompanied by additional bank securities. A rule was introduced in October 2020 for Argentina that, in principle, requires bank securities for all transactions with private Argentine buyers.

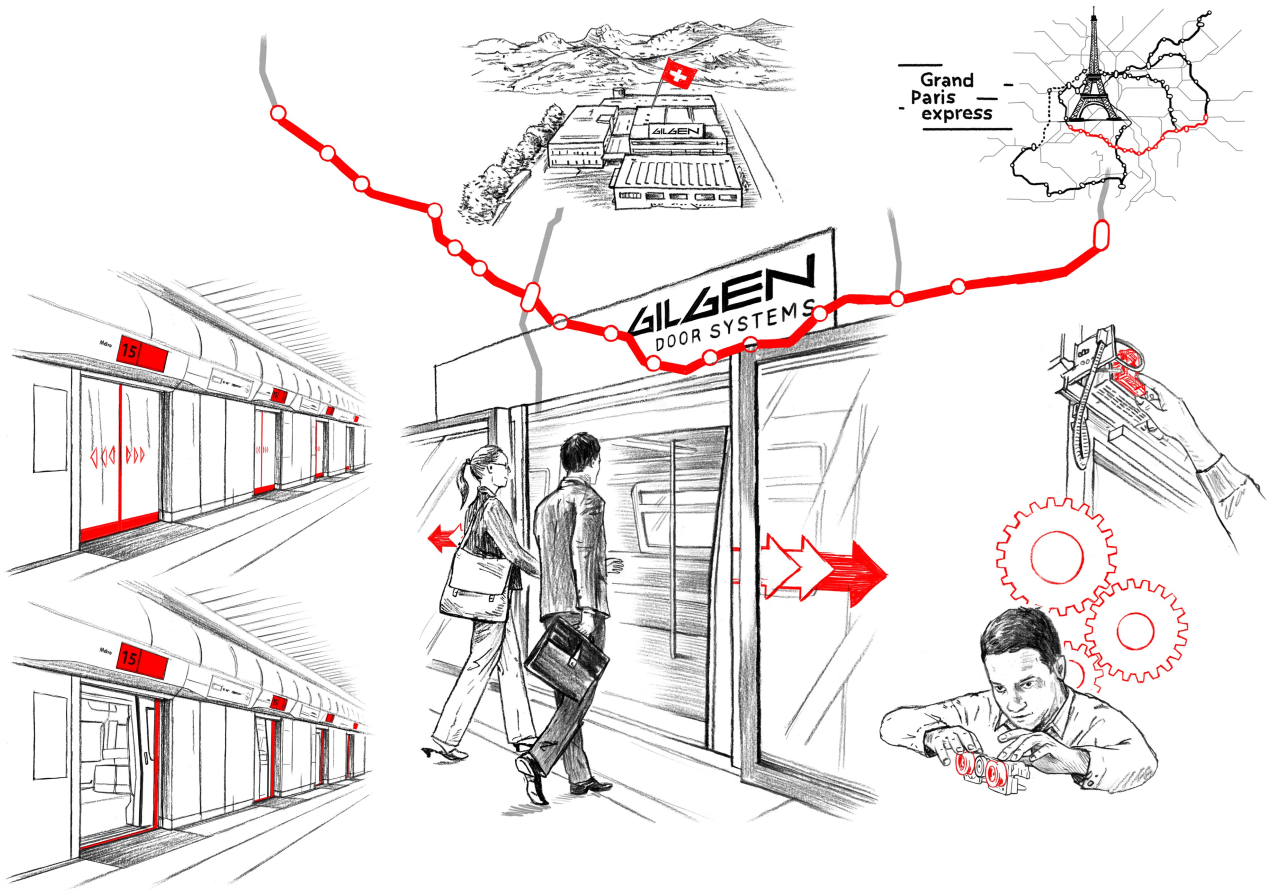
On the basis of current market developments and, in particular, the business forecasts of its major clients, SERV regularly reviews its free capacities in terms of risk-bearing capital (RBC) and utilisation of the framework of obligation. Of the current CHF 16 billion of the framework of obligation, 73 per cent had been utilised at the end of 2020.

IN THE FIELD

From the delivery of the largest infrastructure project in Europe, to a unique solution for the treatment of stroke patients, through to the production of high-precision data acquisition cards – three illustrative examples tell the story of projects supported by SERV in 2020.

OPENING THE DOOR FOR GILGEN DOOR SYSTEMS

The Société du Grand Paris asked its Swiss supplier Gilgen Door Systems AG to provide a six-figure counter guarantee for a term of more than five years. How could the Swiss exporter process this order and still keep liquidity free for other projects?



Paris is currently home to Europe's largest infrastructure project.

Paris is currently home to Europe's largest infrastructure project: the 'Grand Paris Express', operated by the Société du Grand Paris founded specifically for this purpose. As part of this project, Paris' existing metro network is to be expanded to include a further 200 km and four additional lines. The aim is for 68 metro stations to transport around two million passengers every day by 2030.

A reliable partner

Gilgen Door Systems AG (Gilgen), based in Bern's Schwarzenburg, was awarded the contract to work on this gigantic, prestigious project. Gilgen will be kitting out 16 stations on the 'Line 15 South' section with fully automatic doors, with the order value coming in at 42 million euros.

This medium-sized company has more than 60 years of experience in drive and control technology for automatic door and gate systems. When applying for tenders, Gilgen's reputation as a reliable, competent partner offering high-quality products and services stands the company in good stead. Ultimately, this helped Gilgen win the contract. The decisive factor was its top-notch score in terms of technology and price, says Robert Hug, deputy head of ADP (Automatic Doors for Public Transport).

"We do indeed have enough liquidity, but this means that a large part of it is tied up for the entire term, so we can't use it for other orders."

ROBERT HUG
DEPUTY HEAD OF ADP, GILGEN DOOR SYSTEMS AG

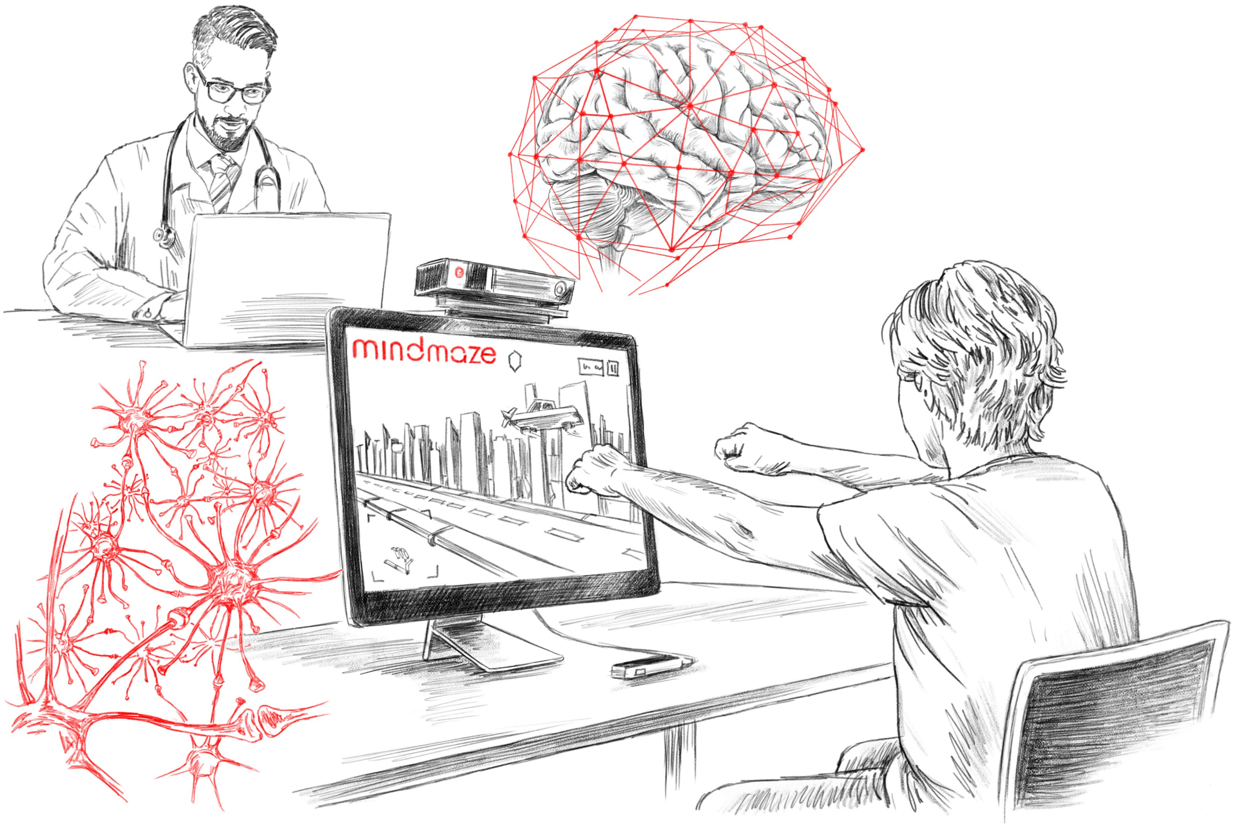
The buyer calls the shots

While being awarded the contract is an occasion to celebrate, it also goes hand-in-hand with major challenges: Gilgen needs to comply with an array of highly standardised requirements, all while adhering to a tight time frame. After all, "if a system doesn't work within a project like this, it's catastrophic. All you need is a one tiny defect and the entire metro network is brought to a standstill," says Hug, speaking from years of experience. As a result, the French buyer requested a performance bond amounting to EUR 2.1 million, with a term of 65 months. Gilgen will be paid in instalments, in line with its progress. This means that the last payment will be made in 65 months' time. In international tenders like this one, the negotiating margin is almost zero. Gilgen does indeed have enough liquidity, "but this means that a large part of it is tied up for the entire term, so we can't use it for other orders," Hug explains.

To avoid running low on liquidity, Gilgen applied to SERV for a counter guarantee, combined with contract bond insurance. This sees SERV take on the exporter's payment risk vis-à-vis the financing bank, leaving Gilgen's credit limits unaffected. An additional advantage is that the existing guarantee limits for its other ongoing tasks are available in full, meaning Gilgen has more flexibility in terms of pre-financing its business. In short, SERV's support has opened the door for Gilgen to take on its next large project.

EXPORT RISK INSURANCE – A GAME CHANGER

MindMaze, a neurotechnology company based in Lausanne, offers a unique solution based on cutting edge neuroscience for the recovery of stroke patients. The demand in the market is high. But for buyers or sellers with tight liquidity, the purchase of equipment poses a great challenge. An insurance offering from Swiss Export Risk Insurance SERV can solve this problem by helping MindMaze offer competitive payment conditions and therefore triggering great sales volumes.



The neurotechnology company MindMaze is a leader in rehabilitation following brain injuries.

It is well known: a brain is damaged after a stroke. But that is not all. A less known fact is that it shows an increased ability to learn. This mechanism is called hyper-plasticity, which is highly beneficial to a stroke patient's recovery. However, as time goes by, plasticity decreases limiting rehabilitation to a critical time window.

More than just a game

This is where MindMaze comes in: founded in 2012, MindMaze is a global leader in brain rehabilitation, with a focus on stroke patients, based in Lausanne (Switzerland). “While there are many solutions for brain recovery, MindMaze is the only company that provides an engaging solution tackling objective assessment, personalised cognitive and motor recovery simultaneously and over the full continuum of care to maximise the potential rehabilitation during and after the critical recovery phase,” Jean-Marc Wismer, Chief Operating Officer at MindMaze, says.

Based on cutting edge neuroscience, MindMaze has developed a game-based therapy called MindMotion. Created to promote the kind of movements a patient would typically practice with a physiotherapist, MindMotion is completely customisable to each patient’s needs and progress. Furthermore, the tele-health capability enables it to be used in clinics or at home. The latter allows the patient to train with more frequency and engagement while reducing the time invested by the therapist and therefore reducing the cost of treatment. Jean-Marc Wismer highlights: “Especially in times of the COVID-19 pandemic, this option is highly beneficial.”

“Without SERV’s support, we wouldn’t have been able to sign a deal of this magnitude, especially during trying economic times.”

JEAN-MARC WISMER
CHIEF OPERATING OFFICER, MINDMAZE

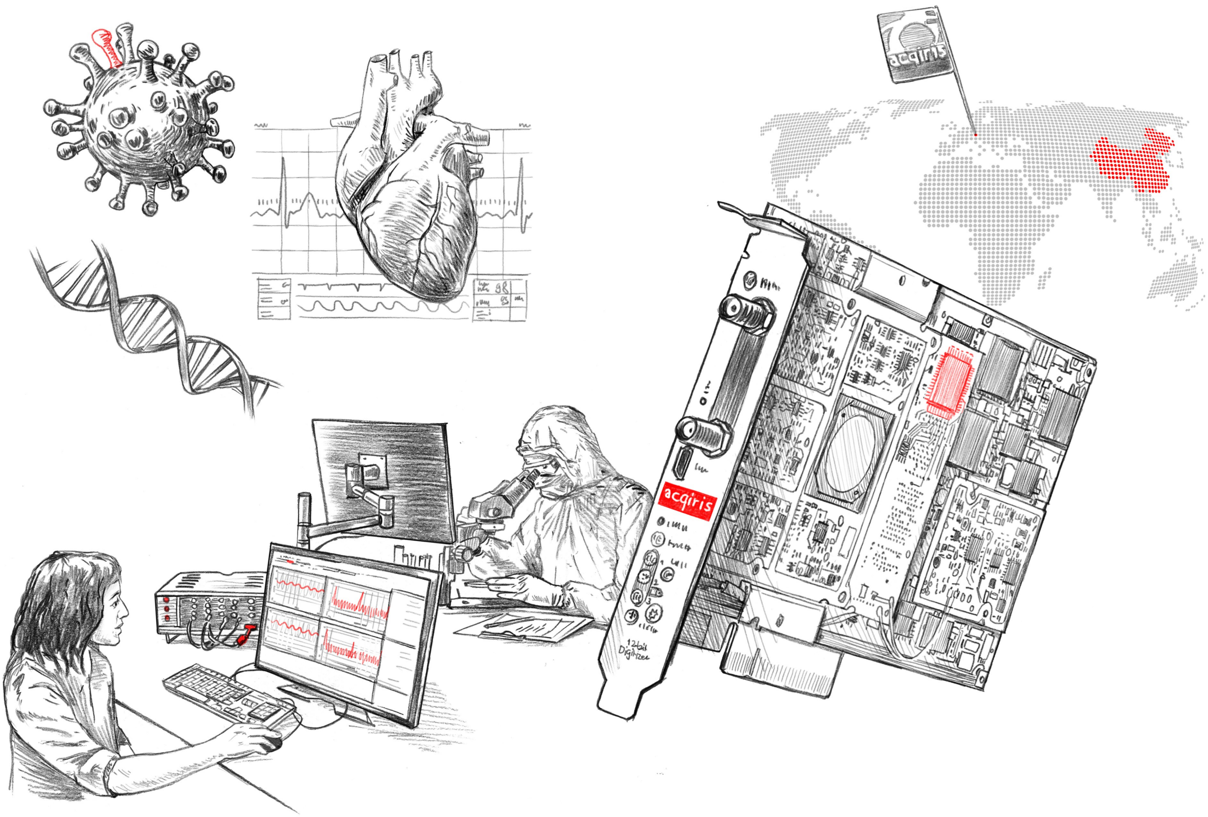
An enabler of growth

After extensive research, CE marking and FDA approval and pre-commercialization in 2016, MindMotion was fully commercialized in 2020. Convinced of the benefits of this product, a distributor in India ordered thousands of MindMotion licences. To enable the buyer to order a larger volume, MindMaze offered a differed payment plan with a long credit period. However, as a young company, MindMaze has limited access to credit lines or to liquidity reserves to take on such payment terms and hence ensure sales growth. This is why MindMaze asked SERV for support, and the company was able to address this challenge efficiently.

SERV covered the transaction with a supplier credit insurance. This product consists of assigning the claim and the SERV insurance to a bank which then partners with MindMaze. For its part, the bank agrees to finance MindMaze upfront against future payments to be made by the buyer “SERV enables growth companes like MindMaze for rapid commercialisation. Without SERV’s support, we wouldn’t have been able to sign a deal of this magnitude, especially during trying economic times,”Jean-Marc Wismer says.

FINANCING THANKS TO WORKING CAPITAL INSURANCE

An SME based in western Switzerland received multiple export orders worth millions. But when it came to financing production, the company was left facing major challenges. An insurance policy from SERV gave them a helping hand.



The data acquisition cards are used in all kinds of fields.

Geneva's suburb of Plan-les-Ouates, renowned for its watchmaking industry, is home to a small business called Acqiris. Acqiris' data acquisition cards are even more precise than the watches made here: they accurately turn analogue signals into digital data in a billionth of a second. The data acquisition cards are used in all kinds of fields. As components within measuring instruments, they help create digital images in the sub-millimetre range, whether for treating heart disease or fighting coronavirus.

The crux of being awarded a loan

Chinese developers of high-tech medical products also use Acqiris' cards and have placed orders totalling millions with this SME. As part of these orders, the parties agreed on one delivery per quarter, for several years. The purchaser pays for each delivery, without making an advance payment. This means that Acqiris needs to pre-finance its production costs – and here lies the crux of the matter.

Banks adhere to strict criteria when it comes to giving out loans, and Acqiris does not meet these criteria due to its unconventional history. While this SME, based in western Switzerland, was founded as far back as 1998 and has 22 employees, it was later bought by a multinational firm. It became an independent company once again in 2017 following a restructuring, which is why, officially, it is classed as a young company. "Our new form meant that our company was not old enough and did not have the necessary balance sheets to receive a traditional bank loan," explains Didier Lavanchy, Acqiris' co-founder.

Problem solved!

SERV was able to solve this problem: it took on Acqiris' default risk vis-à-vis the bank via working capital insurance. In turn, the bank issued a loan that enabled Acqiris to pre-finance its production without needing to rely on an advance payment. Pre-shipment risk insurance also protects Acqiris from losses in the event that it needs to stop production through no fault of its own. "Alongside taking on the default risk, SERV's valuable expertise helped us cover the export risks, which we are delighted about," adds Didier Lavanchy.

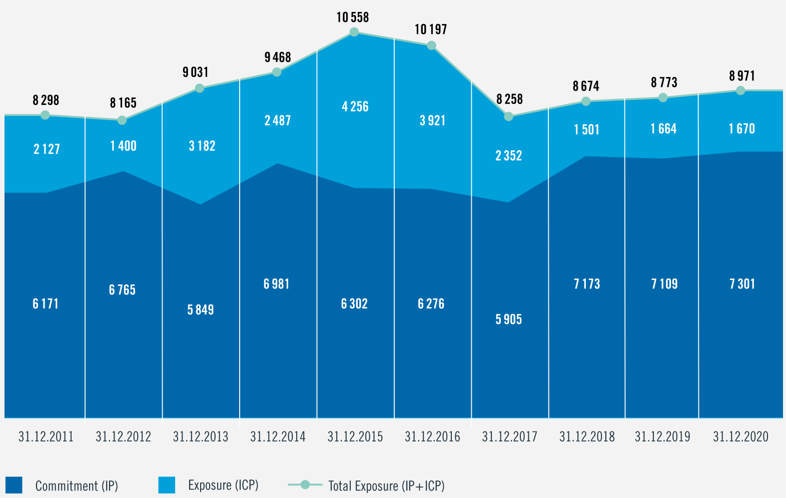
"Alongside taking on the default risk, SERV's valuable expertise helped us cover the export risks, which we are delighted about."

DIDIER LAVANCHY
CO-FOUNDER, ACQIRIS

MULTI-YEAR COMPARISON

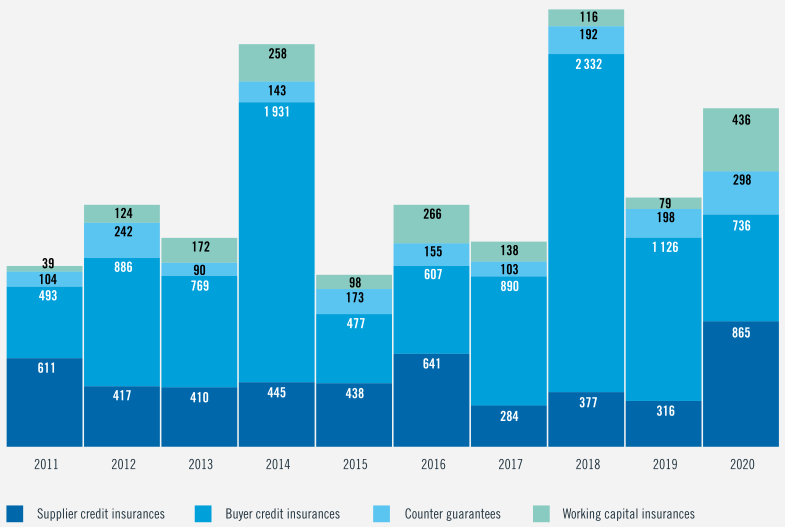
As a public export credit agency (ECA) that supplements private insurance products by insuring non-marketable risks, SERV's business volume and cash flow from operations are subject to strong fluctuations. Demand for SERV insurance depends on the economic situation of the Swiss export industry, as well as on the countries in which these export transactions take place and what payment and credit terms the contracting parties agree on.

DEVELOPMENT OF EXPOSURE PORTFOLIO
in CHF million

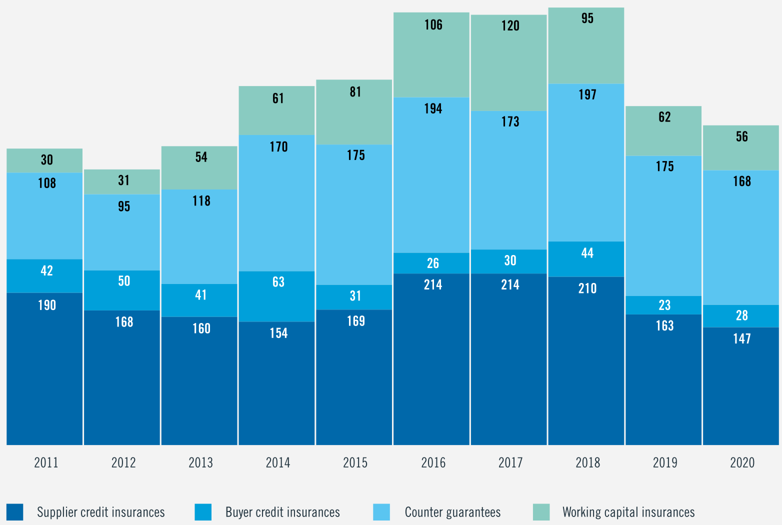


DEVELOPMENT OF NEW BUSINESS
in CHF million

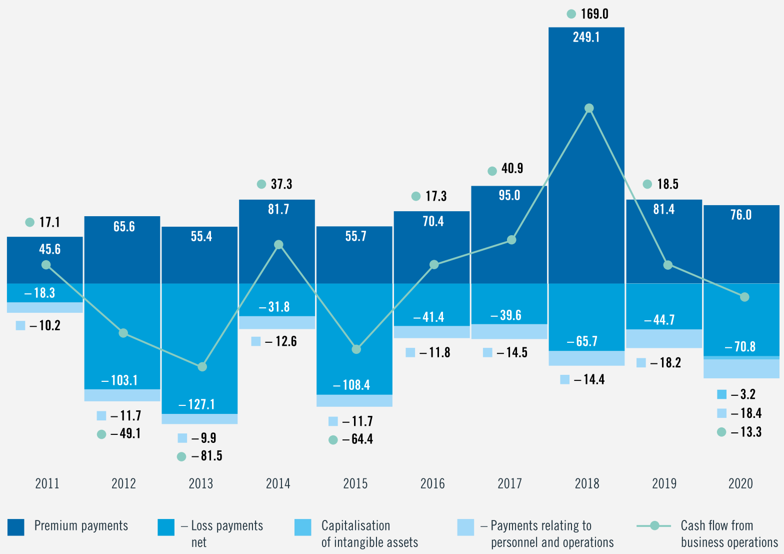
DEVELOPMENT OF MAIN PRODUCTS – NEW COMMITMENT
in CHF million



DEVELOPMENT OF MAIN PRODUCTS
Number of policies and guarantees



CASH FLOW FROM BUSINESS OPERATIONS
in CHF million



ECONOMIC VIABILITY
in KCHF

With an exposure portfolio of CHF 8.971 billion as of the 2020 balance sheet date, the slight upward trend of the last four years has continued. Current commitments, which stood at CHF 7.301 billion at the end of 2020, have also experienced a weak upward trend in previous years. Current commitments were subject to less volatility than the exposure portfolio, which is due to the fact that SERV recorded a sharp rise in the volume of insurance commitments in principle (ICP) between 2012 and 2016, and this overcompensated for the comparatively low level of current commitments. It should be noted that SERV changed the method for calculating commitment and exposure in 2018 (cf. Annual Report 2018). As a result of the new calculation method, both figures are slightly lower than those calculated according to the previous method.

The change in the calculation method also affects new commitment (IP) as well as the new ICP issued within a financial year. Over the last four years, the volume of newly issued ICP reached a level comparable to that at the beginning of the period under review. In 2015 and 2016, on the other hand, the volume of ICP was unusually high and exceeded that of the newly issued IP. This was because SERV supported offers for a few large transactions, some of which did not materialise at all or only became orders at a later stage. As a result, SERV's new commitment volume is in principle subject to strong volatility. For example, 2014 and 2018 were record years for SERV in terms of newly issued IP. In recent years, however, the volume of new commitment has returned to a level that is somewhat below average.

Looking at new commitment differentiated by SERV's main products, we see that the number of newly issued supplier credit insurance and buyer credit insurance policies has tended to hover at around the same level and has even decreased slightly in the last three years. The overall increase in newly issued policies up to 2018 was therefore due to the increasing demand for counter guarantees and working capital insurance, but the new commitment volume for these nonetheless remained at a lower level compared to the other two products.

The cash flow from business operations shows whether premium payments are sufficient to finance indemnity payments and personnel and operating costs. It should be noted that, over the course of the last ten years, SERV has suffered a cash outflow from business operations in a few financial years but benefited from a substantial cash inflow in others. In total, the cash flow has been clearly positive over the last ten years, i.e. payment receipts from premiums are adequate to finance payments for losses and operations.

Economic viability 2 was also positive at all times. The surplus cover amounted to CHF 34.0 million in 2020, which was again higher than in the previous year and at a level comparable to the high values of ten years ago. Since SERV receives no income from cash investments, economic viability 2 has coincided with economic viability 1 since 2017.

Since its formation, SERV has been in a position to implement its statutory development objectives and meet its financial targets in terms of economic viability. By international standards, SERV is a highly efficient, flexible, client-oriented export credit agency (ECA). If SERV is to continue meeting both the needs of the Swiss export industry and the financial expectations of the legislator, it must be able to adapt to changes in environmental conditions and other factors by further developing its product range and making the content requirements more flexible, for example, as well as by adopting an independent investment strategy.

SUSTAINABILITY

Auditing of insurance transactions to ensure their compliance with the environmental, social, human rights and anti-corruption requirements is a high priority for SERV.

SERV developed a climate strategy in 2020. The three cornerstones of the strategy include the handling of SERV's own greenhouse gas emissions, integrating climate risks into business operations and SERV's contribution to decarbonising the economy.

When assessing insurance applications, SERV observes the international guidelines of the Organisation for Economic Co-operation and Development (OECD) and the principles of Swiss foreign policy according to Art. 6 para. 2 SERV Act (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. Where necessary, on-site visits are also carried out to assess larger, environmentally relevant projects. Due to travel restrictions resulting from the COVID-19 pandemic, these site visits and meetings with project participants were conducted virtually.

Climate strategy

SERV has joined the federal administration's environmental and resource management system (RUMBA) and, as a result, reports its own greenhouse gas emissions to the federal government. SERV implements the requirements of the federal government's climate package and offsets all its greenhouse gas emissions. SERV is therefore a certified carbon-neutral company.

SERV developed a climate strategy during the 2020 financial year. The three cornerstones of the strategy include the handling of SERV's own greenhouse gas emissions, integrating climate risks into business operations and SERV's contribution to decarbonising the economy. SERV is not free to design its climate strategy, as it is obliged to adhere to the specifications of the federal government in addition to those set out in the SERV Act (SERVG) and the SERV Ordinance (SERV-V). Its statutory mission does not allow SERV to exclude certain sectors, such as fossil fuels, a priori. Instead, it is obliged to examine each insurance application on a case-by-case basis. SERV does, however, have the ability to take a cautious approach to projects that involve high greenhouse gas emissions and specifically promote climate-positive projects. The precise elaboration of these two points is an important first step in the implementation of SERV's climate strategy. The Board of Directors will examine the climate strategy and the implementation measures in detail at the beginning of 2021.

Transparency

All projects with a contract value of CHF 10.0 million or more will be published on the SERV website, subject to the policyholder's approval.

SERV also maintains a regular dialogue with interested non-governmental organisations (NGOs). Within the framework of this NGO dialogue, SERV provides information about its business results and specific current projects, as well as developments at SERV and in the OECD export credit group. In 2020, this dialogue was conducted digitally, with representatives from SERV and from the organisations WWF, Public Eye, Pro Natura and Transparency International taking part. This exchange of views is very much appreciated by all participants, and the NGOs expressed their satisfaction with SERV's high level of transparency.

Anti-corruption

When presented with allegations that applicants or parties involved in an insured transaction are complicit in bribery, SERV must carry out extensive investigations (due diligence) based on its compliance policy and OECD regulations.

In 2020, SERV carried out enhanced due diligence on two applicants. In both cases, it was able to determine that the applicants currently had a robust anti-bribery system in place and that there were no irregularities in the transactions that SERV had been approached to cover.

SUSTAINABILITY AUDIT

MONITORING FOR A NEW UREA FACTORY

The Swiss company Casale, based in Lugano, is acting as general contractor for the construction of a urea factory in Tolyatti, Russia. This will increase the production capacity from about 2 800 tonnes per day to 5 000 tonnes. Benefits of the new factory: the operator can integrate the new factory into its existing infrastructure and thereby minimise additional environmental pollution. Construction work began in October 2018 and is scheduled to be completed by March 2022.

Environmental and Social Action Plan (ESAP)

The transaction is classified as a Category B project under the OECD Common Approaches and is therefore subject to an in-depth assessment of compliance with sustainability requirements. This assessment took place at the beginning of 2018 and, as is customary, was carried out by an independent consulting firm. The assessment resulted in a plan of action. In this Environmental and Social Action Plan (ESAP), the consulting firm specifies the measures that must be undertaken to comply with the environmental, social and human rights requirements. The definitive criteria are the environmental and social standards of the International Finance Corporation and the World Bank.

The consulting firm prepared the ESAP in close collaboration with SERV, the financing bank, Casale and the local operator. In this project, the measures for the current construction phase primarily concerned occupational safety on the construction site and collaboration with sub-contractors, alongside measures to ensure that the local population is not affected by noise and odour emissions.

Monitoring under special conditions

Compliance with these measures is generally monitored and the project is currently in this phase. This was, however, made more difficult by the epidemiological situation in 2020: on-site visits were no longer possible due to travel restrictions and lockdown regulations.

Nonetheless, necessity is the mother of invention. The buyer provided the consulting team and SERV with drone images of the construction site and discussions took place virtually. “This meant that it was still possible to carry out the monitoring,” explains Judith Capello, Vice President, International Relations & Business Policy, adding: “We are pleased with how it went and see this type of collaboration as a valuable addition to site visits, both now and in the future.” The regular exchanges allow misunderstandings to be resolved, know-how to be transferred and corrective measures to be initiated promptly.

ORGANISATION AND PERSONNEL

BOARD OF DIRECTORS (BOD)

Barbara Hayoz*, business economist, EMBA,
(Chairwoman)

is a self-employed management consultant as well as a chair and board member of various institutions. She served as full-time finance director and deputy mayor of the city of Berne.

Urs Ziswiler, lic. iur., INDEL ETH,**
(Vice Chair)

was the ambassador to Spain and to the United States, Head of the Directorate of Political Affairs of the FDFA, the diplomatic advisor of Federal Councillor Calmy-Rey and the Director of the Political Affairs Division IV (Human Rights and Humanitarian Policy) of the FDFA.

Christian Etter*, economist, Dr. rer. pol.,
was the Delegate of the Federal Council for Trade Agreements, Ambassador and member of SECO's Executive Board. He was responsible for international trade and investment issues and led FTA negotiations (with China and others) as well as the Swiss delegation to the Joint Committee of the Switzerland-EU Free Trade Agreement.

Caroline Gueissaz, Dipl. Ing. ETH,**
is an associate partner at A. Vaccani & Partners, managing director of Business Angels Switzerland and a board member of various SMEs.

Burkhard Huber*, business economist KSZ,
has worked in the banking business for four decades, including 30 years spent with UBS. He held various management positions in corporate banking for Swiss and foreign companies, including in the area of trade finance.

Peter Jenelten, Dipl. El. Ing. ETH,**
was a member of the Group Executive Board of Stadler Rail AG from June 2000 to June 2019, and was responsible for sales and marketing. He previously held various managerial positions at ABB and Adtranz. As part of his work for PCS Holding AG, he now holds several board mandates for SMEs in Switzerland and abroad.

Christoph Meier-Meier*, business economist HWV,
is CEO and partner at NEWTAG Communication AG. Prior to this, he worked in various positions at Bühler AG in Uzwil (SG), including ten years as Head of Financial Services.

Anne-Sophie Spérisen, lic. oec.,**
is President and CEO of SOLO Swiss SA. She is a member of the extra-parliamentary commission SME Forum and board member of the Chamber of Commerce of the Canton of Jura.

Reto Wyss, MSc Economics,**
is Central Secretary of the Swiss Federation of Trade Unions (SGB) and also represents it in the EFTA Consultative Committee, the Reka BoD and in the committee of Solidar Suisse.

* Insurance Committee
** Finance and Organisation Committee

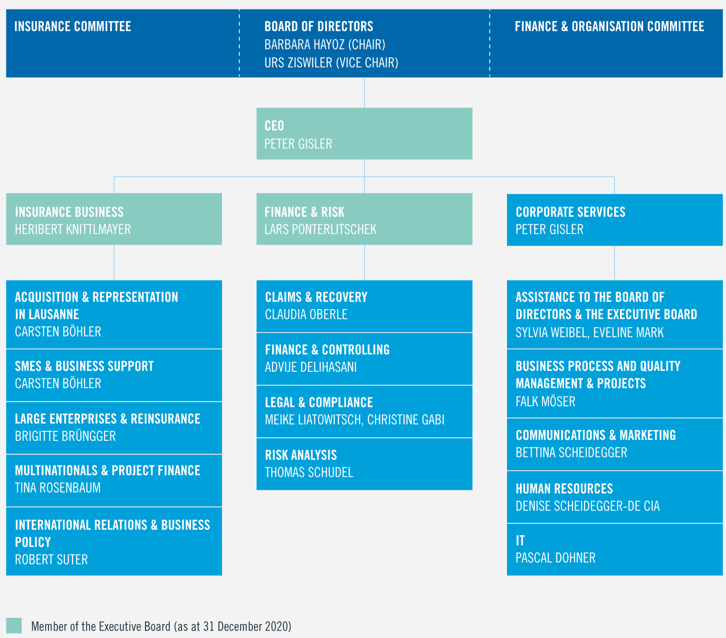
CEO

Peter Gisler, Swiss-certified banking expert,
has been CEO at SERV since 1 January 2017. Prior to that, he held a senior position at Aargauische Kantonalbank, at ABB Switzerland and at ABB Group Holding.

AUDITORS

KPMG AG
Räffelstrasse 28
8045 Zurich

ORGANISATION



Board of Directors

The SERV Board of Directors (BoD) is appointed by the Federal Council for a term of four years; a new term of office commenced in 2020. It is composed of seven to nine members, with appropriate consideration of social partners (Art. 24 SERVG). The term of office is identical to the legislative period of the Federal Assembly.

Barbara Hayoz assumed office as Chairwoman of the BoD on 1 January 2020, succeeding Thomas Daum. Christian Etter and Peter Jenelten joined the BoD as of 1 January 2020. The BoD appointed Urs Ziswiler as its Vice Chair.

The BoD is the supreme management and control body of SERV. Its tasks are outlined in Art. 24 SERVG and explained in more detail in the SERV internal rules of procedure. It appoints from amongst its members a committee for insurance business (Insurance Committee, Chair Barbara Hayoz since 1 January 2020) and another for the areas of finance and organisation (Finance and Organisation Committee, Chair Urs Ziswiler since 1 January 2020). The tasks of the committees are outlined in the internal rules of procedure (RP) and specified in separate regulations.

CEO

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

Human Resources

SERV presents itself in an open and dynamic manner as an attractive employer on the labour market.

SERV will implement the HR strategy it adopted in 2019 in stages over the coming years. The professionalisation and associated digitalisation of HR processes will support employees and simplify the day-to-day work of line managers. This transformation process led to the definition of SERV core competencies as well as the newly introduced corporate values of “customer orientation, appreciation, collaboration, continuous improvement and personal responsibility”. As part of the move to Genferstrasse 6 and its new open-space working environment at the end of 2020, SERV employees will in future implement the new values with each other on a daily basis, actively putting communication, collaboration and continuous improvement into practice.

Another priority in 2020 was the employee survey, which highlighted to the entire company where SERV’s strengths lay and where there is potential for improvement. All these factors mean that SERV is achieving further progress as an employer, while also presenting itself more openly and dynamically and making itself more attractive on the labour market. This increases its chances of finding suitable, able new talent in the export financing sector more quickly.

IT

As was the case for many of SERV’s customers, the federal government’s recommendation that employees work from home wherever possible also presented SERV’s IT with particular challenges in the spring. These were resolved with flying colours, which meant that SERV's advisers enjoyed full IT support and were available at all times for Swiss exporters. As regards staffing, there was a change in IT management and two vacancies were successfully filled.

The Swiss Federal Audit Office conducted an audit of the project to replace the core IT system in the second half of 2020. The focus of the audit was to determine whether the chosen solution was justified and sustainable and whether the project, including its functional features, was progressing according to plan and in compliance with generally accepted accounting principles. The final report is expected in the first quarter of 2021.

Vested Interests and Conflicts of Interest

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

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

Auditors

The auditors of SERV are appointed by the Federal Council at the request of the BoD. The auditors review the income statement, balance sheet, cash flow statement, income statement by segment, the balance sheet by segment, the notes on the financial statements, the proof of economic viability and the existence of an internal control system (ICS). The auditors report their audit findings to the BoD and the Federal Council. Following a tender procedure pursuant to the Ordinance on Public Procurement (OPP), the Federal Council awarded the audit mandate for 2019 to 2021 to KPMG AG, Zurich.

REMUNERATION

Board of Directors

In 2020, remuneration paid to the entire Board of Directors (BoD), excluding the Chairwoman, totalled KCHF 349.6. This figure is slightly higher than in the previous year due to the expansion of the BoD from eight to nine members. BoD Chairwoman Barbara Hayoz was paid remuneration amounting to KCHF 137.8. In each case, the remuneration includes meeting attendance fees and compensation for special tasks. Charges for expenses actually incurred are no longer reported, as the relevant ordinance has changed. No compensation was paid for other expenses. Following a review of the BVG insurance obligation for Board members ordered by the Federal Office of Personnel (FOPER), the Board members who were liable for insurance were insured retrospectively. The reported costs also include retrospective payments for 2019 and 2018 amounting to KCHF 12.0. Due to the COVID-19 situation, the Chairwoman's working hours were increased to 55% of the FTE.

CEO and members of the Executive Board

The remuneration of the CEO and the members of the Executive Board consists of a basic salary and a variable salary component, which is determined annually on the basis of the achievement of individual and company targets. The variable component reported pertains to the prior-year period; this amount plus the fixed salary represents the total remuneration for the year of the CEO and the other members of the Executive Board. Total remuneration amounted to KCHF 875.3 in 2020 (previous year KCHF 868.7) for three members of the Executive Board. The highest total compensation of KCHF 348.2 was paid to the CEO.

Executive Salary Reporting – Senior Management (Board of Directors)

in CHF (previous year in grey)

	Chairwoman	Board (8 members, excluding chairwoman)	
		Total	Average
Level of activity			
(percentage of time spent on function)	55%		BoD 10%
			IC 20%
			FOC 10%
Remuneration			
Meeting attendance fee	84 000	328 000	41 000
	81 000	289 000	41 286
Cash payments for compensation of special tasks	53 800	21 550	2 694
	40 900	23 450	3 350
Other expenses (travelling expenses, accommodation, board and representation)	–	–	–
	1 139	27 681	3 954
Other contractual terms			
Post-employment benefits	–	22 485	2 811
Severance compensation	–	–	–

Executive Salary Reporting – Executive Board (CEO and Department Heads)

in CHF (previous year in grey)

	CEO	Members of the Executive Board (2 members without CEO)	
		Total	Average
Remuneration			
Fixed part (salary)	298 758	465 400	232 700
	295 800	454 404	227 202
Cash payments for compensation of special tasks	–	–	–
	–	–	–
Cash payments (justified by function or labour market)	–	–	–
	–	–	–
Bonuses (variable salary part)	48 814	60 509	30 255
	57 094	58 875	29 438
Other expenses	600	1 200	600
	840	1 680	840
Other contractual terms			
Post-employment benefits	Management plan	Management plan	–
Severance compensation	–	–	–

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.

KPMG AG
Räffelstrasse 28
PO Box
CH-8036 Zurich

+41 58 249 31 31
kpmg.ch

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

CONTACT
SERV Swiss Export Risk Insurance
Genferstrasse 6
8002 Zurich
+41 (0)58 551 55 55
info@serv-ch.com
serv-ch.com

SERV Assurance suisse contre les risques à l’exportation
Avenue d’Ouchy 47
1001 Lausanne
+41 (0)21 613 35 84
inforomandie@serv-ch.com
serv-ch.com

EDITING
SERV Swiss Export Risk Insurance, Zurich

CONCEPT / DESIGN / CODING
NeidhartSchön AG, Zurich

PHOTOGRAPHY
Markus Bertschi, Zurich

ILLUSTRATION
Oculus Illustration GmbH, Zurich

TRANSLATION
Supertext AG, Zurich

The 2020 SERV Annual Report is available in English, German and French and can be downloaded at report.serv-ch.com. The German PDF version is authoritative.