Annual Report 2017

SERV Swiss Export Risk Insurance

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

serv

Swiss Export Risk Insurance SERV has a statutory duty to prepare the annual report. SERV is independent in its organisation and management and conducts its own accounts (Art. 3 SERVG). In accordance with Art. 24 SERVG, the SERV Board of Directors (BoD) prepares the financial statements as well as the annual report and publishes these following the approval by the Federal Council. This annual report focuses on information relating to the course of business in 2017. It consists of the management report, statements on corporate governance, the financial report and the financial statements with notes. An electronic version of this annual report can be consulted at www.report.serv-ch.com. All background information – namely regarding the general business policy, the risk policy and risk management, sustainability, loss and claims management, as well as international cooperation – is available on the website www.serv-ch.com. The abbreviations used are explained in the glossary in the cover flap.

Financial Highlights

Exposure in CHF m	31.12.2017	31.12.2016
Framework of obligation	14 000	14 000
Insurance obligations	10 752	10 149
Commitment: insurance policies (IP)	7 525	6 276
Insurance commitments in principle (ICP)	2 692	3 921
Gross exposure	**10 217**	**10 197**
Reinsurance	–463	–70
Net exposure	**9 754**	**10 127**

New exposure in CHF m	31.12.2017	31.12.2016
New commitment: insurance policies (IP)	2 693	3 116
Insurance commitments in principle (ICP)	2 264	3 527

Balance sheet in CHF m	31.12.2017	31.12.2016
Cash in hand & at bank and cash investments	2 572	2 448
Claims from losses and restructuring	228	208
Credit balances from debt rescheduling agreements	303	359
Claims from losses and credit balances from debt rescheduling agreements	**531**	**567**
Unearned premiums and provisions	332	321
Capital	2 768	2 698

Income statement in CHF m	2017	2016
Earned premiums	64	48
Interest income from debt rescheduling agreements	16	18
Loss expenses	–10	–75
Debt rescheduling expenses	16	92
Profit/loss on insurance	**86**	**83**
Personnel expenses	–10	–9
Non-personnel expenses	–4	–4
Financial income	–2	2
Operating profit/loss	**70**	**72**
Interest income from cash investments	–	1
Net income (NI)	**70**	**73**

Number of employees		
Number	51	47
Full-time equivalents	47.8	44.5

New Business

933 IP/ICP

policies (IP) and commitments in principle (ICP) were issued by SERV in 2017.

Earned Premiums

64 CHF m

Proportion of SMEs in the Client Base

72%

Net Exposure

9754 CHF m

Capital

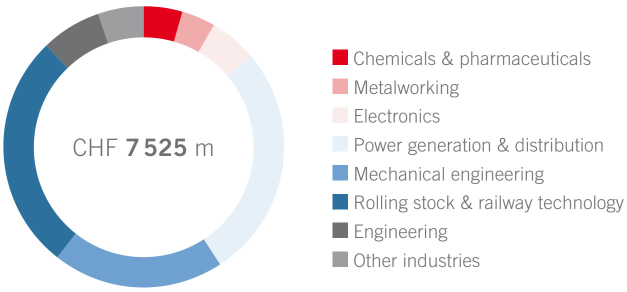
2768 CHF m

Economic Viability

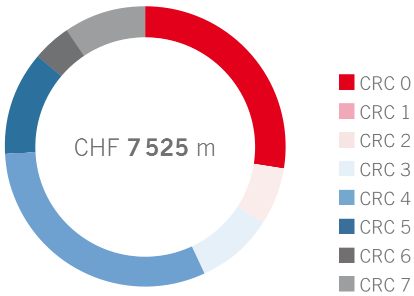
13 CHF m

The economic viability calculation was in the black.

Commitment by Industry



Commitment by Country Risk Category

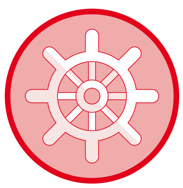


Milestones in the Financial Year

January

Peter Gisler Becomes new CEO

The SERV Board of Directors appointed Peter Gisler as CEO SERV. On 1 January 2017 he replaced Herbert Wight, who took well-deserved retirement at the end of 2016.



March

Trade Finance Award

The Trade Finance Magazine gave an award in acknowledgement of the innovative insurance structure of SERV for the delivery of train components from the Swiss company Stadler Bussnang AG to Russia.

January

SERV Celebrates its 10th Anniversary

On 1 January 2007, the Swiss Export Risk Insurance replaced the Export Risk Guarantee ERG. SERV celebrated its tenth anniversary in the course of the financial year, in the context of several regional events in all language regions.

December

Reinforcement for Client Advisory

SERV's Client Advisory gained more staff and was reorganised. The split into three client groups will make it possible to meet the specific needs of the applicants and cater for the peculiarities of the individual transactions more effectively.

A Good Start to the Second Decade

SERV finishes its eleventh financial year once again with **positive company earnings,** which at CHF 69.8 million are only slightly below those of the previous year. Two factors contributed primarily to this result: the premiums earned, which at CHF 64.1 million were considerably higher than in the previous year, and the loss expenses, which at CHF 64.8 million were lower than in 2016. These improvements more than compensated for the earnings from debt rescheduling, which were down by CHF 76.9 million. With the 2017 results the net equity of SERV rises to CHF 2.768 billion, meaning that its risk-bearing capacity has been further improved.

In 2017 SERV issued **933 insurance policies (IP) and insurance commitments in principle (ICP),** falling just short of the old record from the previous year (956). The number of transactions with public debtors fell by 32 percent, while there were 4 percent more transactions with private debtors. In terms of numbers, the IPs and ICPs with public debtors now only make up just 13 percent of new transactions.

The volume of transactions, i.e. new exposure, is 25 percent below the previous year, while the fall in ICPs was particularly marked at 36 percent. While considerably more ICPs than IPs were issued last year, contributing 53 percent to new exposure, the ratio was inverted again in the year under review at 46 to 54 percent. This demonstrates once again the **high level of volatility of SERV's business** and especially of the conversion of ICPs into IPs.

Overall we can speak of a good start by SERV to its second decade. The financial basis was further strengthened, the number of transactions remained at a high level, only the volume of new business did not quite meet expectations. **Once again our employees showed great commitment in 2017,** in order to meet the needs of the exporters as well as possible. For that they deserve our special thanks.

Thomas Daum
Chairman of the Board

Peter Gisler
CEO

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“The challenges of the first ten years demanded a great deal of flexibility and a willingness to meet new client needs with an aggressive application of the mandate.”

Thomas Daum (Chairman of the Board) and Peter Gisler (CEO)

The financial statements for 2017 once again show clearly positive net income: How is this result to be assessed?

[Thomas Daum] Net income of almost CHF 70 million is gratifying. However, in view of the long-term nature of our business, we must track the results over several years. And in that respect we can note that SERV has achieved positive annual results in ten years out of eleven and overall earnings of CHF 670.2 million.

[Peter Gisler] Compared with last year, it is also good to note that we achieved considerably higher premium income in 2017. And the loss expenses were also significantly lower than in the previous year. Consequently, the fact that we recorded considerably less income from debt consolidation balances than in 2016 was easier to accept. It is very gratifying that we surpassed a figure which is very important for SERV, namely economic viability, by CHF 13.1 million.

Do you sense any clear recovery in the export industry?

[G] Not really. As far as the number of transactions is concerned, we had a minor summer slump. Otherwise, we almost reached the already very high level of the previous year. Even so, our employees were under great pressure because we had a few extremely complex, high-volume transactions to process, which demanded some innovative development of our products.

[D] In our experience, a revival of exports is only reflected in SERV’s business activity if it also includes the capital goods sector and the companies enter difficult markets with the corresponding insurance needs. Above all the enduring upward trend in the MEM industry should bring us more business in 2018.

Are the positive results of recent years associated with greater risks and what does the loss situation look like?
[D] Last autumn we analysed the development of the risk profile of our risk subjects. We discovered that our appetite for risk has certainly not increased. Even so, along with the private buyer risks, the losses also increased, because these risks are more difficult to estimate than public risks. This has to be taken into account when setting premiums.
[G] We are watching the loss trends very carefully. The indemnification risk in the course of insured transactions depends among other things on unforeseeable changes in the global economy or individual sectors. However, the recent disbursements for losses do not show any regional or sectoral focus which should cause us concern.

Mr Gisler, you have been CEO at SERV since 1 January 2017. Where did you make an initial impact and what is your assessment after one year?
[G] It has been a very intensive and at the same time satisfactory year. On the one hand, in addition to a constantly high level of demand for the liquidity products, counter guarantees and working capital loans, we also had the major transactions already mentioned, which demanded a great deal of us. On the other hand, SERV has grown strongly over the last ten years and given such developments, it is usually the processes that suffer. Consequently, my focus this year has been on improving internal processes and on organisational measures, such as the reorganisation of the insurance business. One further priority is the replacement of the IT system for the management of the insurance business with a service-oriented architecture. We conducted detailed analyses, which created a stable basis for further work, so the current system is scheduled to be replaced in 2020.

Let's cast our net a little further: Last year SERV celebrated its tenth anniversary. What has been your experience of the period since 2007, Mr Daum?
[D] In 2007, we set out on a little adventure when we replaced the ERG with SERV, with its extended mandate. We had to set up an effective client advisory service, a competent analysis facility and a professional loss management system, in order to manage the new private buyer risks. We were confronted with the increasing globalisation of the value chains and we increasingly had to deal with sophisticated insurance solutions. After just two years we extended our product range, with the counter guarantee and the working capital insurance in particular being very popular among the SMEs. The strong development and modification of the SERV business can also be illustrated with some hard facts. Since the launch of SERV, the number of transactions has increased by more than 160 percent. The proportion of SME clients has risen from 62 to 72 percent. The proportion of public debtors has fallen from 62 to 18 percent. All this has demanded from us a great deal of flexibility and a willingness to meet new client needs with an aggressive application of the mandate.
SERV has coped well with the challenges of the first ten years. It has achieved its development objectives and exceeded the financial requirements of the legislator. It has successfully introduced new products, with flexible value added rules it can follow the requirements of global corporations and its premiums are as attractive as the OECD rules will permit. With all this, SERV has built up a good reputation in the market. With net equity of just under CHF 2.8 billion, it is also very well financed.

Clearly the business of SERV has changed greatly in recent years. Will there now be a consolidation phase?
[D] It would be dangerous to assume any consolidation. For that reason the Board of Directors and Executive Board have spent the last year addressing the challenges of the next few years and developing strategic responses to them.
[G] Our efforts are aimed in two directions. On the one hand, we have noticed that many exporters are contacting us earlier and earlier in comparison with recent years. We are more and more frequently becoming actively involved in the structuring and development of insurance solutions. For that, we need additional know-how and appropriate training for our employees. In a further move, the task is also to approach buyers proactively and in that way assist our exporters in accessing new business. On the other hand, it is becoming noticeably more difficult to cover the costs of the smaller transactions with favourable premiums. Here we must promote standardisation and automation to ensure we can continue to offer attractive cover to the SMEs in particular.

Viviane Gnuan (Communications Manager) spoke to Thomas Daum and Peter Gisler.

Financial Year 2017

SERV achieved considerably higher premium income in 2017 than in the previous year, in spite of falling new commitment. Both loss expenses and earnings from debt rescheduling fell significantly in comparison with the previous year, while net profit/loss on insurance and net income (NI) remained positive around the level of 2016. New commitment fell again in 2017 compared with the previous year, by 14 percent to CHF 2.693 billion. The number of newly concluded insurance policies (IP) fell slightly from 780 to 774, but remained at a comparatively high level. Income from premiums earned was increased from CHF 48.1 million in the previous year to CHF 64.1 million, in particular because of the conclusion of some major transactions.

Loss expenses fell from CHF 74.8 million in 2016 to CHF 10.0 million. The drop was even greater in the earnings from debt rescheduling (from CHF 110.2 million to CHF 31.5 million), as a result of which SERV posted a net profit/loss on insurance of CHF 85.6 million in 2017, slightly higher than in the previous year. Personnel, non-personnel and financial expenses rose slightly compared with 2016, leading to an operating profit of CHF 69.8 million. As SERV recorded no interest income at all from cash investments for the first time in 2017, NI was equal to the operating profit of CHF 69.8 million.

Development of the Business Environment

SERV's business performance was subject to generally great fluctuations compared with the previous year, as a result of a few major transactions. Even so, considering developments in international trade policy, the global economy and the Swiss export industry is necessary when it comes to understanding SERV's business performance in a long-term context.

Despite the persistent geopolitical uncertainties resulting from Great Britain's exit from the EU, the unclear foreign trade policy of the USA and the conflicts in the Middle East and around North Korea, the global economy found its way back onto a solid growth path in 2017. In particular, emerging markets such as Brazil and Russia reported positive economic developments again following a lengthy recessive phase. The USA and the Eurozone also contributed to broad-based growth in the global economy. The Swiss export industry has benefited from the good state of the economy in the buyer markets. Its competitiveness also improved thanks to the weakening of the Swiss franc against the euro since the summer of 2017, which once again brought more orders for the MEM industry in particular.

The commodity prices for oil and agricultural products remained largely stable in 2017, with some of them rising again slightly compared with 2016. However, they are still at a relatively low level compared with their record values in the years 2012/13. The recovery in commodity prices certainly contributed to the fact that the investment climate improved not only in the emerging markets but also in parts of Africa and in Central Asia and there was increased demand from these regions once more for goods and services in plant construction with SERV cover. In the preceding years, the low commodity prices had weakened some national economies both cyclically and with regard to their currency reserves to such an extent that payment defaults occurred and deals were abandoned in breach of contract. As a result, SERV had to pay out losses amounting to CHF 48.3 million in 2017.

Development of new Exposure and new Commitment

New commitment fell significantly from CHF 6.644 billion in the previous year to CHF 4.956 billion (–25 percent). This reduction is mainly attributable to the sharp fall in insurance commitments in principle (ICPs) by 36 percent to CHF 2.264 billion (2016 CHF 3.527 billion). With 159 ICPs, there were also slightly fewer commitments issued in 2017 than in 2016 (176). However, the number and amount of the ICPs in a financial year can only serve as rough indicators for SERV's future commitments, as on the one hand, conclusions of major transactions are subject to violent fluctuations and on the other hand, the performance of a proposed transaction can stretch over several months or even years before it is reflected in the business statistics of SERV. What is remarkable is the fact that the ICPs made up less than half of the new exposure in 2017, having amounted to 53 percent in the previous year.

At CHF 2.693 billion, new commitments were at an even lower level in 2017 than in 2016 (CHF 3.116 billion) and 2015 (CHF 3.197 billion). The reasons behind the fall are first, the ongoing reduced demand for multi-buyer insurance from the chemical and pharma-

New Exposure

in CHF million

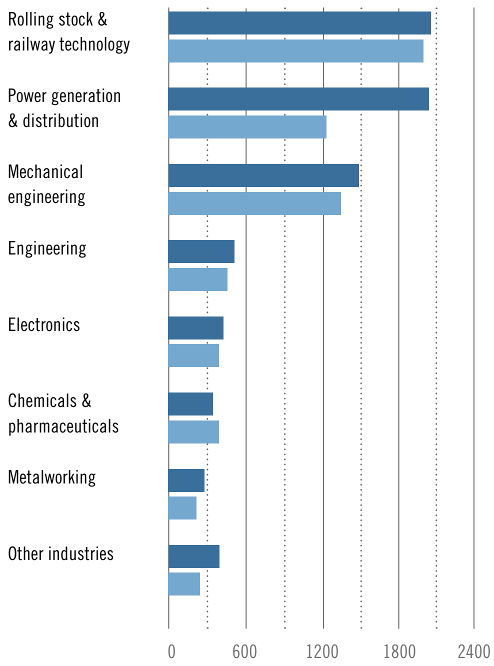
	Insurance policies (IP) (new commitment)				Total		Insurance commitments in principle (ICP)		Total new exposure	
	short term		medium/long-term							
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Countries										
Bahrain	3.6	0.5	807.1	–	810.7	0.5	–	920.7	810.7	921.2
Russia	11.6	7.7	16.6	2.1	28.2	9.8	731.2	444.4	759.4	454.2
Indonesia	–	14.0	1.1	12.5	1.1	26.5	583.0	–	584.1	26.5
Turkey	103.9	7.1	114.4	64.0	218.3	71.1	86.8	356.6	305.1	427.7
Iraq	102.1	113.0	32.0	–	134.1	113.0	110.4	89.1	244.5	202.1
United States	8.9	42.5	188.0	5.3	196.9	47.8	–	2.1	196.9	49.9
United Arab Emirates	125.0	18.7	29.1	38.9	154.1	57.6	7.7	38.2	161.8	95.8
Switzerland	48.8	154.3	46.3	24.1	95.1	178.4	21.9	4.0	117.0	182.4
Other countries	723.8	1 686.4	330.4	925.0	1 054.2	2 611.4	722.5	1 672.3	1 776.7	4 283.7
Total	**1 127.7**	**2 044.2**	**1 565.0**	**1 071.9**	**2 692.7**	**3 116.1**	**2 263.5**	**3 527.4**	**4 956.2**	**6 643.5**
Industries										
Mechanical engineering	280.0	146.9	180.6	253.2	460.6	400.1	1 450.3	890.5	1 910.9	1 290.6
Power generation & distribution	64.6	47.1	812.0	258.2	876.6	305.3	420.6	851.6	1 297.2	1 156.9
Chemicals & pharmaceuticals	525.2	1 258.8	–	4.1	525.2	1 262.9	118.3	11.4	643.5	1 274.3
Rolling stock & railway technology	35.6	331.4	250.5	322.6	286.1	654.0	151.4	964.3	437.5	1 618.3
Electronics	56.4	114.0	44.7	39.8	101.1	153.8	42.9	216.4	144.0	370.2
Engineering	10.8	14.5	92.0	138.3	102.8	152.8	10.7	149.1	113.5	301.9
Metalworking	10.2	17.2	52.6	6.7	62.8	23.9	13.0	29.2	75.8	53.1
Other industries	144.9	114.3	132.6	49.0	277.5	163.3	56.3	414.9	333.8	578.2
Total	**1 127.7**	**2 044.2**	**1 565.0**	**1 071.9**	**2 692.7**	**3 116.1**	**2 263.5**	**3 527.4**	**4 956.2**	**6 643.5**

ceutical industries, which are increasingly carrying the payment risks themselves or are able to reduce them by means of other instruments, such as factoring or cover from the private insurers. Second, there was lower demand for insurance from the rolling stock and railway technology sector in 2017 than in previous years. The increase in new commitments in the power generation and distribution sectors, as well as in mechanical engineering (textiles, foodstuffs and machine tools) could not compensate for this fall. As a result, the ratio between transactions with short risk periods and transactions with medium to long risk periods has shifted further in favour of the latter.

In 2017, the number of ICPs and IPs did not quite reach last year's record of 956, but it is still high at 933 (774 IPs and 159 ICPs). In particular, the number of working capital IPs (2017: 120, 2016: 105) and counter guarantees (2017: 175, 2016: 213) concluded remains at a relatively high level. These products make up 34 percent of the number of newly issued IPs and are still in demand, above all from Swiss SMEs. These are indeed able to benefit from the current upward trend in the export economy, but their balance sheets have frequently been so weakened by the franc-related difficulties in recent years that they are still reliant on the cover provided by SERV. Against this background, SERV will initially – through the end of 2019 – waive any premium surcharges for the purchase of cover in the case of working capital insurance (from 80 to 95 percent) and counter guarantees (from 90 to 100 percent).

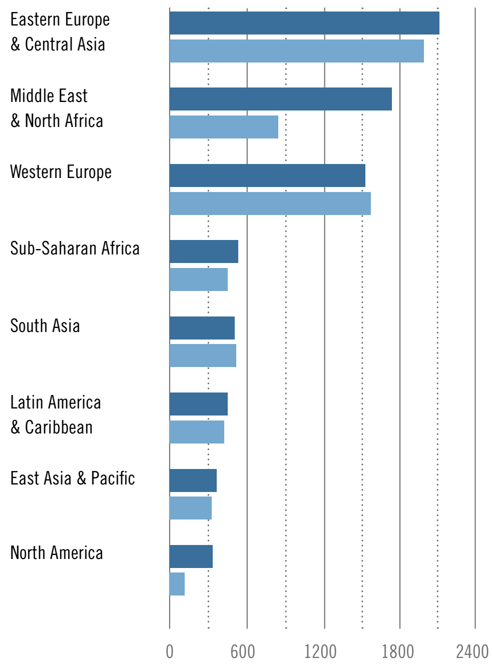
Commitment by Industry

in CHF m



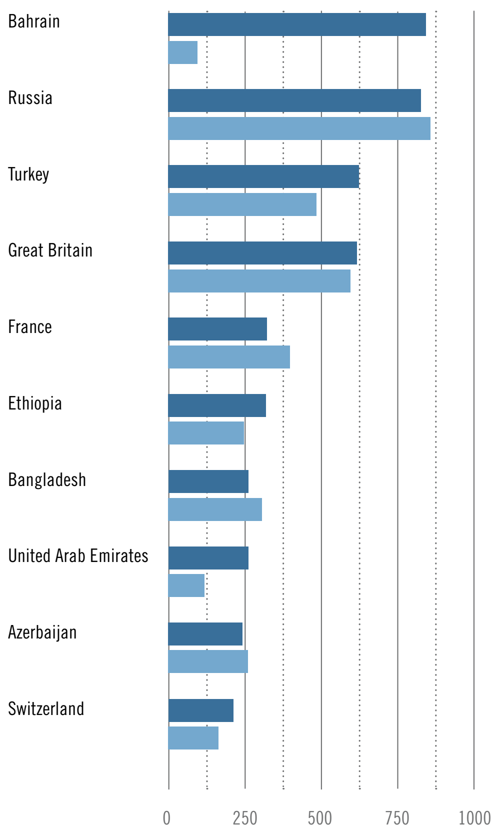
Commitment by Region

in CHF m



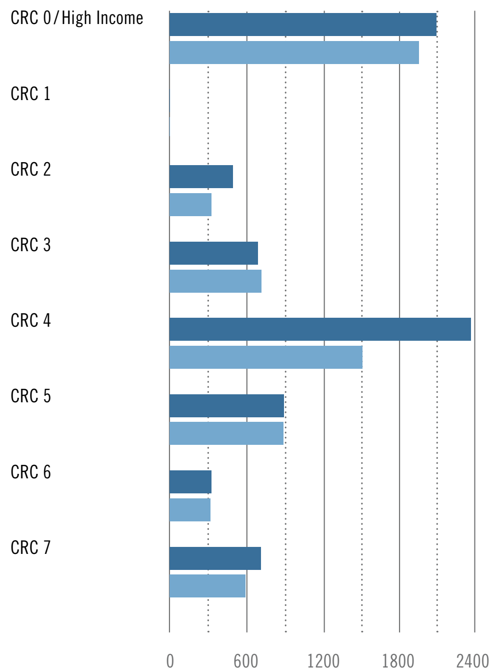
Commitment by Country

The ten main countries for SERV, in CHF m



Commitment by OECD Country Risk Category

in CHF m



2017
2016

SERV's Exposure and Commitment

SERV's gross exposure amounts to CHF 10.217 billion as of 31.12.2017, only slightly higher than at the end of 2016 (CHF 10.197 billion). But unlike the previous year, commitment rose significantly by 20 percent from CHF 6.276 billion to CHF 7.525 billion as of 31.12.2017. This is attributable both to the slightly higher number of current IPs (1 311 compared with 1 247 at the end of 2016) and the fact that once again SERV insured a few export transactions with a higher order volume in 2017. The level of current ICPs dropped from CHF 3.921 billion to CHF 2.692 billion at the end of 2017. However, it must be taken into account that the number and level of ICPs are subject to a high degree of fluctuation and for that reason it is not possible to deduce any general trend from the fall in 2017.

SERV's highest commitment by country is in relation to Bahrain at CHF 852.2 million as of 31.12.2017, which accounts for around 11 percent of total current commitments. The large increase in commitment, which stood at CHF 96.6 million in 2016, is attributable to a major transaction in the power generation and distribution sector which was concluded in 2017. New arrivals in the top ten are the United Arab Emirates, where the commitment of CHF 120.1 million rose to CHF 264.3 million because SERV insured two medium-sized transactions from the vehicle industry and in the recycling sector. The commitment in relation to Ethiopia grew once again from CHF 250.6 million to CHF 322.4 million. In connection with a railway project, SERV issued a buyer credit IP enabling several Swiss exporters to continue their involvement in the second phase of this major project.

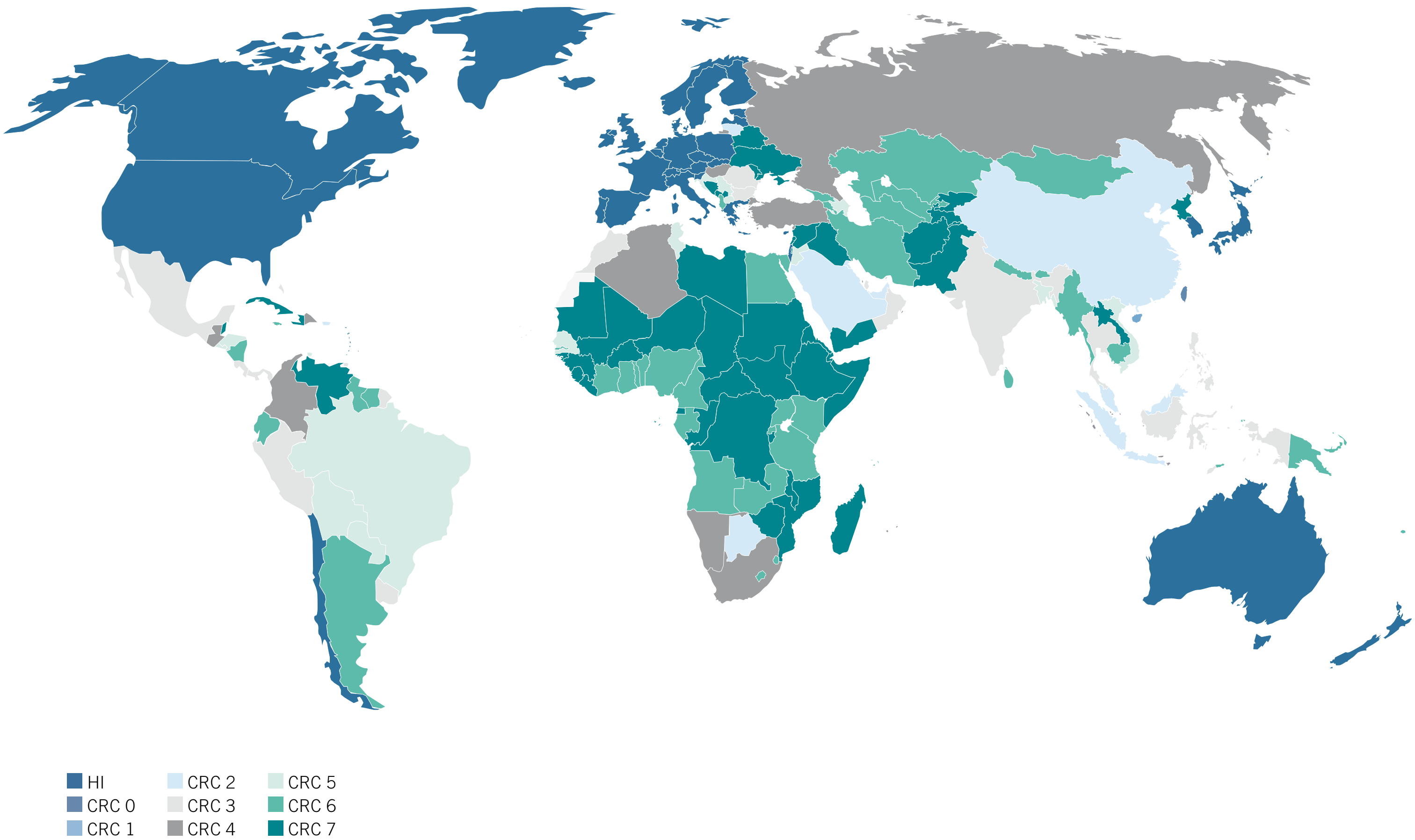
Organisation, Personnel and IT

There were no changes in the Board of Directors (BoD) in financial year 2017. The term of office of the BoD will continue until 2019. In the first half of the year the BoD revised the SERV internal rules of procedure as well as all the regulations within its competence. In this context, the BoD dissolved its human resources committee and transferred its responsibilities to the

SERV understands OECD country risk categorisation to mean the categorisation of countries by the OECD into the country risk categories CRC 0 – CRC 7 and High Income. CRC 0 is the lowest country risk level, while CRC 7 is the highest. The category High Income comprises the high income OECD countries and the high income eurozone countries, which are not classified by country risk. The CRC influences the amount of the insurance premium. The premiums for High Income countries and the countries in CRC 0 are based on market prices.

At www.report.serv-ch.com there is an interactive map of the world with more details.

OECD country risk categories, as of 31.12.2017



"The exciting thing about SERV is working at the interfaces between industry, finance and politics."

Heribert Knittlmayer
Head of Insurance Business

existing finance and organisation committee (FOC). Beyond this, no structural changes were made and there were no more than minor textual modifications and a formal tidying up of the regulations.

On 1 January 2017, Peter Gisler took over responsibility as CEO at SERV. He succeeded Herbert Wight, who had stood down as CEO at the end of 2016 after reaching retirement age. In the course of the change of CEO, the Executive Board of SERV was reduced from five to three members, with each of the members of the Executive Board leading one of three organisational areas.

Due to the ongoing high number of proposed transactions and their increased complexity, the BoD approved an increase in the staffing ceiling. The number of employees rose from 47 to 51 (47.8 full-time equivalents) with women making up 43.1 percent of the workforce. In particular the department Client Advisory, Legal & Compliance and International Relations & Sustainability departments were given more staff. As a result of the growth in staff numbers, the BoD resolved to modify parts of the organisational structure of SERV. In particular, Client Advisory is now to be split into three departments to increase the specialisation of its employees. SERV committed itself again to three apprentices in vocational training in 2017.

IT at SERV is currently engaged in a far-reaching transformation process, the aim of which is to transfer the systems to a sustainable IT architecture which comprehensively supports the business processes of SERV. Standardised processes are to be automated and SERV is to be connected via open interfaces with other stakeholders to create a company-wide digital network.

With this objective, in 2017 SERV developed an IT strategy which clearly formulates the aims and principles of IT at SERV. IT solutions are in future to be developed on the basis of a service-oriented architecture (SOA), with the systems development being carried out with the help of experienced, external suppliers. Professional project management will guarantee ongoing renewal and ensure that predefined individual projects are initiated and completed in good time. In this way, it will be possible in future to guarantee that IT development is coordinated with the requirements of public procurement.

Risk Policy, Risk Management and Cover Policy

The BoD is responsible for risk management and its supervision at SERV. It defines the risk policy and periodically evaluates the risk profile.

SERV's risk policy goals are as follows:

- compliance with the legal mandate taking the various restrictions into account, especially that of economic viability;
- protection of assets and reputation;
- establishing the principles and requirements for cover policy.

In 2017 the BoD dealt with the risks faced by SERV, based on regular reporting. It determined that risk management was appropriate, both for the financial, operational and strategic risks as well as reputation risks.

SERV conducts an annual assessment of the risks handled by the internal control system (ICS). The goals of ICS include the safeguarding of assets, maintaining proper accounting records and financial reporting, and prevention or at least detection of unauthorised actions and errors from the perspective of financial reporting. Since 2016, the monitoring activities of each of the identified key risks have been assessed with regard to their effectiveness and efficiency, on a scale of 1 to 5. The assessment in 2017 showed that the effectiveness and efficiency of the monitoring activities were good overall in terms of all the key risks. Only in one case was there any reduced effectiveness and efficiency of the monitoring activities, where manual processes had to be used as a result of a lack of system support. No essential faults were found in the monitoring activities.

The risk classification of individual countries, banks and private-sector buyers is determined in the cover policy. The risk classification is used as a benchmark when assessing insurance applications. In the course of the OECD Export Credit Arrangement, which is binding on SERV, the country analysts of the export credit agencies (ECAs), including analysts from SERV, met to classify individual countries into the OECD's country risk categories (CRC). The credit and country analysts from SERV additionally studied particular countries if they had seen marked improvement or deterioration compared to the existing classification, or if new applications had been made for insurance covering these countries. Cover policy is the most important flexible tool for risk management in the insurance business. Compliance with the various limits in accordance with the risk policy, cover policy and the appropriateness of capital level, taking risk concentrations into consideration, continued to be reviewed in 2017 on an ongoing basis.

SERV's executive employees assessed operational risks on the basis of the following risk areas: systems, processes, people, external events and legal risks. These risks are evaluated according to their probability of occurrence and significance. Measures introduced or implemented to reduce or eliminate risk are monitored in the normal controlling process.

In 2017, SERV commissioned KPMG to carry out an IT security analysis. The aim of the analysis was to examine the vulnerability of SERV to cyber-attacks in their various forms. Vulnerabilities were to be identified by means of penetration tests and validated by means of targeted attacks from the Internet, WLAN and susceptibility to malware attacks and phishing. This analysis came to the conclusion that SERV was exposed to an increased risk potential in relation to external attacks. The identified critical vulnerabilities were immediately eliminated; findings of medium and low criticality are to be continuously addressed and corrected to ensure IT security is comprehensively ensured for SERV.

Sustainability

SERV checks any proposed insurance transactions for their sustainability in the fields of the environment, social responsibility, human rights and combating corruption. When assessing insurance applications, SERV observes in particular the relevant international guidelines of the OECD, as well as the principles of Swiss foreign policy according to Art. 6 para. 2 SERVG. These include 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 preserving Switzerland's independence and protecting its national welfare. For the assessment of major projects of environmental or human rights significance, the Head of Sustainability conducted detailed reviews of environmental and social aspects, making use of appropriate experts' reports; in several cases he also made on-site inspections.

SERV maintains a regular dialogue with the relevant non-governmental organisations (NGOs). It holds an annual meeting with them, providing information about its business results, specific current projects, developments at SERV and in the OECD export credit group. At these events, SERV also attends to concerns of importance to NGOs. In addition to representatives from SERV, the organisations Alliance Sud, Public Eye and Transparency International once again attended Dialogue 2017. The NGOs in attendance expressed their satisfaction with the open discussion and the high level of transparency of SERV.

In 2017, SERV was visited by the Independent Expert on Foreign Debt and Human Rights, who has written a report on behalf of the UN Human Rights Council on the subject of human rights in the context of international finance and cash flows in Switzerland. The measures taken by SERV to guarantee sustainability receive positive acknowledgement in the report. There is also a recommendation that local population groups which are directly affected by an export transaction supported by SERV should be even more directly included by means of access opportunities at SERV.

In the field of anti-corruption, Swiss exporters were visited in four cases in order to check their compliance measures relating to the prevention of corruption. SERV conducts such visits in the context of detailed anti-corruption checks if there is any evidence of corruption on the part of the exporter.

International Relations

SERV regularly accompanies the Swiss State Secretariat for Economic Affairs to the meetings of the OECD Export Credit Group and the Consensus Group, which is responsible for the OECD Arrangement on Officially Supported Export Credits (OECD Export Credit Group). In 2017, the OECD Export Credit Group particularly focused on improved reporting for the documentation relating to climate-friendly projects. The intention of this is to contribute more in future to the promotion of climate-friendly technologies. The currently applicable recommendation on combating corruption in export transactions is also to be revised and updated.

Sustainability Audit

SERV employs over 100 percent work time of an FTE for auditing the export transactions for their sustainability. The Head of Sustainability carries out local visits in the buyer countries, where appropriate. For example, in March 2014, an initial meeting was held with the buyer and the banks involved for a railway project in Ethiopia, which started at the beginning of 2015, in order to evaluate possible risks and draft some appropriate measures.

One special feature of the project: a strip of land more than 50 m wide and around 400 km long is needed to build the track. This is leading to some resettlements. For that reason, particular attention is being given to a resettlement plan which respects human rights. Affected residents must be given appropriate compensation and a suitable alternative, as well as the basis for a new livelihood (housing, farmland or support for business start-ups). Other key topics include possible damage to eco-systems as a result of building work, which will have to be restored to their former state on conclusion of the work, as well as compliance with safety regulations.

Since the start of the project, there has been ongoing monitoring by a group of experts from an independent consultancy. This monitoring takes place in close coordination with SERV's Head of Sustainability and with annual visits on site. In cooperation with the export credit agencies (ECAs) that are also involved in the project, EKN (Sweden) and EKF (Denmark), SERV also audits evaluation reports and decides about any action that needs to be taken. "One positive side-effect of our audit is a certain capacity development and a know-how gain on the part of the Ethiopian buyer. The buyer values the experts' input and is already planning a further expansion of the rail network," explains Bernhard Müller, SERV's Head of Sustainability.

In the interests of transparency, SERV publishes all projects with a contract value of more than CHF 10.0 million on its website in agreement with the respective policyholders. These projects fall into Category A according to OECD environmental and social guidelines, and are published no later than 30 days prior to issue of the relevant IP.

In the context of the OECD Arrangement on Officially Supported Export Credits, the temporary measures introduced in 2009 for the facilitation of project financing were no longer extended in 2017. Until now, ECAs were able to offer a maximum repayment period of 14 years for project financing in High Income OECD countries with a financed or covered share of up to 50 percent. This is now only possible with a covered share of up to 35 percent; for a covered share of 35–50 percent the maximum repayment period will be limited to ten years.

The sector understanding on credit terms for the financing of coal-fired power stations has been in force since 1 January 2017. This provides for more restrictive credit terms for export financing in connection with the modernisation and building of new coal-fired power stations. There are also heightened notification requirements for justifying the financing or support of coal-fired power stations by an ECA.

In addition to multilateral cooperation, SERV is constantly engaged in maintaining and expanding its bilateral relationships with other ECAs. In that context, reinsurance agreements with other ECAs are playing an increasingly important role in order to take better account of what are now the heavily fragmented international value chains of export transactions, by means of reinsurance and parallel insurance. Having already concluded a reinsurance agreement with US export and import bank US EXIM in 2016, SERV was able to conclude another agreement with British ECA UK Export Finance (UKEF) in 2017. It became possible to conclude these two reinsurance agreements after the requirements for the adoption of the insurance conditions of the primary insurer by SERV were made more flexible by means of the partial revision to the SERV Act in 2016. SERV now has reinsurance agreements with 16 ECAs.

Audit by the Federal Financial Audit Office
In February 2017, the Federal Financial Audit Office (FFAO) published its report on the audit of the implementation of the legal remit and the strategic objectives of export risk insurance. In it, SERV scores well in some important respects. The BoD and the Executive Board had a good level of expertise and maintained intensive cooperation. The organisation with the separation of Client Advisory Services & Underwriting, Credit & Country Analysis, as well as Claims & Recovery, was good and the key processes were appropriately equipped. The financial risk management was adequately well-developed, the rendering of accounts was appropriate overall and the risk capital was of conservative proportions. The FFAO drew attention to the weight of some major clients in terms of premium income, as well as the strategic significance of the IT modernisation, and recommended that procurement should be better aligned on the relevant legislation. The BoD had already recognised the critical points identified by the FFAO, and initiated measures to deal with them.

Losses and Claims

In the year under review, SERV made indemnity payments totalling CHF 48.3 million (cf. p. 33). Of this amount, CHF 11.5 million was payment for losses already recognised in previous years; CHF 36.8 million was paid out for newly reported losses. Conversely, SERV realised CHF 8.8 million in recoveries as a result of implementing recovery measures in 2017. CHF 8.0 million were written off as definitive losses (cf. p. 42).

Claims from losses rose in 2017 by a total of CHF 0.6 million to CHF 409.8 million. The biggest disbursements related to risks in Switzerland amounting to CHF 22.3 million, risks in Russia amounting to CHF 5.7 million and Indonesian risks amounting to CHF 5.2 million. The biggest recoveries amounting to CHF 4.8 million related to Iran transactions, while the highest write-off of unrecoverable claims amounting to CHF 5.1 million related to Swiss risks arising from working capital insurance and counter guarantees.

As in previous years, it was also possible in 2017 to avoid some imminent losses through restructuring of due dates and extending cover.

SERV did not post any recoveries from restructuring with public debtors in the year under review. The reason for this is that there is a restructuring agreement with North Korea at the moment, according to which North Korea is currently exempt from repayments.

With reference to the countries listed on page 16 with which debt rescheduling agreements were concluded in the Paris Club, all the debtor states met their payment obligations in the year under review, apart from Sudan.

Following the multilateral debt rescheduling agreement reached in the context of the Paris Club in December 2015 between Cuba and its creditors, Switzerland concluded a bilateral agreement with Cuba for claims amounting to CHF 127.6 million, of which capital and accrued interest totalling CHF 47.3 million are to be repaid by 2033. In return, SERV will waive default interest of CHF 82.2 million gradually in proportion to the repayments made.

In November 2014, a bilateral debt rescheduling agreement was concluded between Argentina and Switzerland relating to the accrued capital, interest and default claims amounting to CHF 454.2 million as of 1 May 2014. This agreement stipulated that the entire outstanding amounts should be repaid by 2019. The agreed annual minimum payments have been made by Argentina to date.

In the case of countries for which SERV has claims from losses or with which a debt rescheduling agreement has already been concluded, SERV's credit balances are value adjusted (cf. pp. 40 and 41).

Claims from Restructuring with Public Debtors

in CHF m, not value adjusted

	31.12.2017			31.12.2016			Change	
	Total claims	3rd parties [1]	SERV	Total claims	3rd parties [1]	SERV	Total claims	SERV
	(1)=(2)+(3)	(2)	(3)	(4)=(5)+(6)	(5)	(6)	(7)=(1)–(4)	(8)=(3)–(6)
North Korea	208.9	26.5	182.4	205.1	26.0	179.1	3.8	3.3
Total	**208.9**	**26.5**	**182.4**	**205.1**	**26.0**	**179.1**	**3.8**	**3.3**

[1] policyholders or assignees

Claims from Losses (excluding policyholders deductibles)

in CHF m, not value adjusted

	31.12.2017	31.12.2016	Change
	(1)	(2)	(3)=(1)–(2)
Saudi Arabia	128.4	128.4	–
Greece	50.7	50.7	–
Zimbabwe	37.2	37.0	0.2
Spain	41.3	42.4	–1.1
India	26.3	23.3	3.0
Switzerland	26.3	9.3	17.0
Brazil	21.3	20.9	0.4
Russia	19.8	14.1	5.7
Georgia	10.9	10.9	–
Mexico	10.6	10.9	–0.3
Other countries	37.0	31.3	5.7
Total	**409.8**	**379.2**	**30.6**

Credit Balances from Debt Rescheduling Agreements

in CHF m, not value adjusted

	31.12.2017				31.12.2016				Change	
	Total credit balance	Con-federation	3rd parties [1]	SERV	Total credit balance	Con-federation	3rd parties [1]	SERV	Total credit balance	SERV
	(1)= (2)+(3)+(4)	(2)	(3)	(4)	(5)= (6)+(7)+(8)	(6)	(7)	(8)	(9)=(1)–(5)	(10)=(4)–(8)
Argentina	273.8	–	52.9	220.9	325.3	–	62.9	262.4	–51.5	–41.5
Sudan	144.9	91.7	–	53.2	144.9	91.7	–	53.2	–	–
Cuba	122.9	–	31.9	91.0	126.8	–	33.3	93.5	–3.9	–2.5
Serbia	86.5	–	23.0	63.5	94.3	–	25.1	69.2	–7.8	–5.7
Pakistan	85.0	3.5	4.7	76.8	91.1	3.6	5.0	82.5	–6.1	–5.7
Indonesia	57.7	3.1	5.2	49.4	70.8	3.7	6.4	60.7	–13.1	–11.3
Iraq	47.3	–	15.7	31.6	51.6	–	17.1	34.5	–4.3	–2.9
Bosnia and Herzegovina	24.7	–	6.1	18.6	25.4	–	6.3	19.1	–0.7	–0.5
Egypt	12.1	–	2.6	9.5	15.1	–	3.2	11.9	–3.0	–2.4
Cameroon	2.5	–	0.3	2.2	3.0	–	0.4	2.6	–0.5	–0.4
Honduras	1.9	–	0.2	1.7	2.0	–	0.2	1.8	–0.1	–0.1
Bangladesh	1.5	0.2	–	1.3	1.8	0.2	–	1.6	–0.3	–0.3
Montenegro	1.5	–	0.3	1.2	1.7	–	0.4	1.3	–0.2	–0.1
Kenya	0.7	–	0.2	0.5	1.4	–	0.3	1.1	–0.7	–0.6
Total	**863.0**	**98.5**	**143.1**	**621.4**	**955.2**	**99.2**	**160.6**	**695.4**	**–92.2**	**–74.0**

[1] policyholders or assignees

Outlook

SERV pursues its objectives according to the SERV Act and the strategic requirements of the Federal Council. That means with its insurance and guarantee services it supports the creation and preservation of jobs in Switzerland and facilitates participation in international competition for the Swiss export industry. In the strategic goals for 2016–2019, the Federal Council expects SERV to actively support the export sector by relieving it of major financial risks on the international markets, promoting export financing by the financial market by providing risk-reducing products, and simplifying access to export finance for the SMEs.

Growth Stimuli for the SERV Business

The Swiss export industry will benefit from a powerful world economy and the weaker Swiss franc in 2018. For that reason, SERV expects clear growth stimuli in its insurance and guarantee business in the coming year. Since exporters are increasingly opening up new markets in Africa, Asia and Latin America, where the payment and credit risks are relatively high, there are signs of increasing demand for SERV cover. SERV also expects unchecked demand in 2018 for insurance solutions for SME finance, which have grown continuously since their introduction in 2009. In this context, SERV makes an important contribution with its working capital insurance and counter guarantees to supporting export-oriented enterprises in their liquidity management and in that way securing jobs in Switzerland.

Changes to the Business Structure

In the case of major infrastructure projects of a project finance nature, good insurance solutions which enable attractive financing options are playing an increasingly important role for the award of contracts. In order to be able to define the framework for their financing concepts as early as possible, exporters or project sponsors increasingly often contact SERV at a very early stage of business development. As a result SERV is increasingly taking on the role of (co-) structurer, for which it has to employ staff with the appropriate skills. Some important changes to the business structure also result from the increasingly vertical, cross-border fragmentation of production stages. International integration is thus increasing fast and value chains are becoming ever more global and complex. In this context, SERV can make an important contribution to the promotion of Switzerland as a business centre with a flexible application of the rules about minimum Swiss content.

Strategic Thrusts

In order to meet the needs and requirements of its clients even better in future, SERV implemented various organisational measures in the second half of 2017: The redistribution of underwriting for the start of 2018 into the three departments, Project and Structured Finance, Large Enterprises and Small & Medium-sized Enterprises, plays a key role in this. In order to take account of the increasing complexity of structured insurance and financing solutions, the continuous and sustained training of personnel is of very great importance. In addition to its marketing activities in Switzerland, SERV also intends to improve its international visibility. This will be achieved by means of targeted measures in buyer markets to demonstrate at an early stage in a major project the willingness to insure the export of goods and services from Switzerland. In this way, SERV can open up the opportunity for new business deals to Swiss exporters.

In 2018, SERV will subject its business processes to an in-depth audit. In doing so, the intention is to create the basis for handling insurance solutions efficiently and quickly with a service-oriented IT architecture and as a result to create more scope for advising the clients.

In 2017, SERV supported various major financing deals for export transactions in the power generation and distribution industry with some innovative insurance solutions. From these projects, SERV expects to issue IPs with an exposure of approx. CHF 1.4 billion and a premium income of approx. CHF 185 million in the first quarter of 2018.

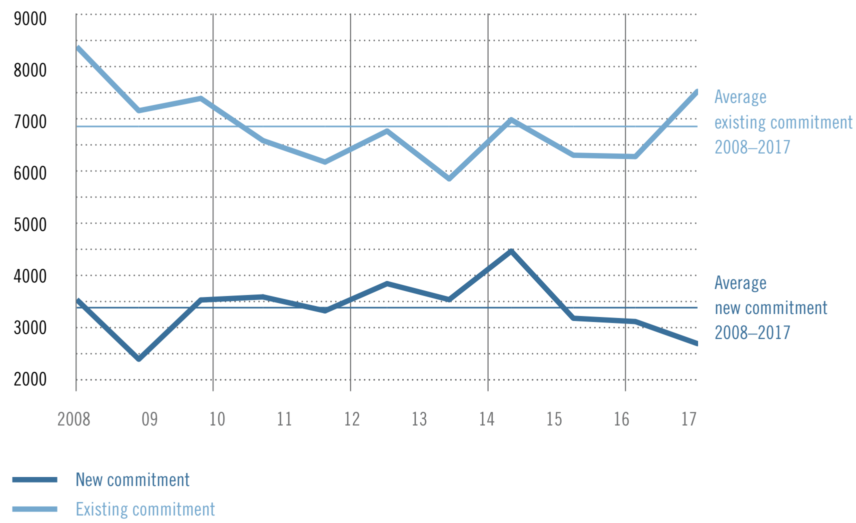
"Our complex business repeatedly presents us with new challenges: for example, the increasing number of major transactions in the project finance sector demands the innovative further development of our products."

Peter Gisler
CEO

Multi-year Comparison

Commitment Development

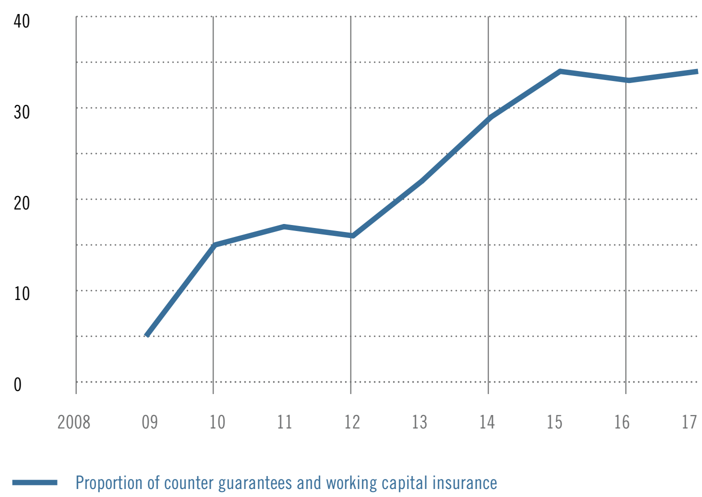
in CHF m



Viewed over the last ten years, the average commitment of SERV is CHF 6.700 billion. It is above average in 2017 at CHF 7.525 billion. The average new commitment is CHF 3.366 billion (2016: CHF 3.451 billion) and is below average in 2017 at CHF 2.693 billion.

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

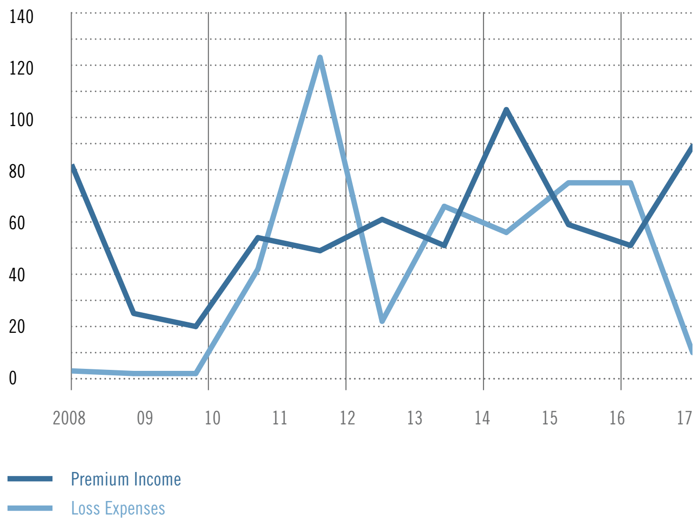
in percent



Since the introduction of the counter guarantee and working capital insurance in 2009, demand for these two products has grown steadily. The two products assist Swiss exporters, SMEs particularly, in optimising their liquidity management. In 2017, the proportion of the two products relative to the total number of new transactions (IP) stood at 34 percent, placing it in line with the previous year's level. It is expected that demand for these products will remain constant or even continue to increase.

Development of Premium Income and Loss Expenses

in CHF m



The course taken by premium income and loss expenses indicates the volatility of SERV's business. Large transactions have a strong impact on the two key parameters, resulting accordingly in spikes in the annual data. SERV's business performance must always be viewed against this background.

Over the last ten years, SERV has implemented the development objectives set by the legislators as well as the financial requirements with regard to economic viability and business management. It is well known among major exporters from the plant construction, mechanical engineering, metalworking and electrical engineering sectors, as well as chemicals and pharmaceuticals. Exporting SMEs are also increasingly benefiting from SERV's product range, in particular from the counter guarantees and working capital insurance products that were introduced in 2009.

SERV's commitment has slightly increased since 2008, from CHF 7.155 billion to CHF 7.525 billion, and is again slightly above average, as the commitment rose significantly in 2017 compared with the previous year, as a result of some insured major transactions. Unlike the existing commitment, the new commitment still remains below the ten-year average, coming to rest at a low value of CHF 2.693 billion, although the number of newly insured transactions has more than doubled, from 328 in 2007, the year SERV was founded, to 774. The reason for this is that SERV has increasingly covered export transactions with smaller order and insurance volumes over the last ten years.

Economic viability 2 has always been positive over the last ten years, amounting to CHF 23.4 million on average. That means that in the last ten years SERV has at all times been able to cover its operating expenditure and the actuarially calculated losses arising from its risk portfolio by means of its premium and interest income from cash investments. SERV has so far been able to finance itself sustainably. However, as a result of the interest rate movements which have been disadvantageous from the perspective of SERV, interest income has reduced steadily over the years, with the result that in 2017 economic viability 2 is for the first time at the same level as economic viability 1.

Practical Examples From a revolution in **smart home technology** to a **beer filtration system in Mexico** – two illustrative case studies tell of projects which SERV was able to support in financial year 2017.

Swiss Know-how for a Mexican Brewery

A small company holds its own against international competition in the beer industry. The example of M&L Consulting shows that this is possible. Even so, export deals also present some challenges in this case.

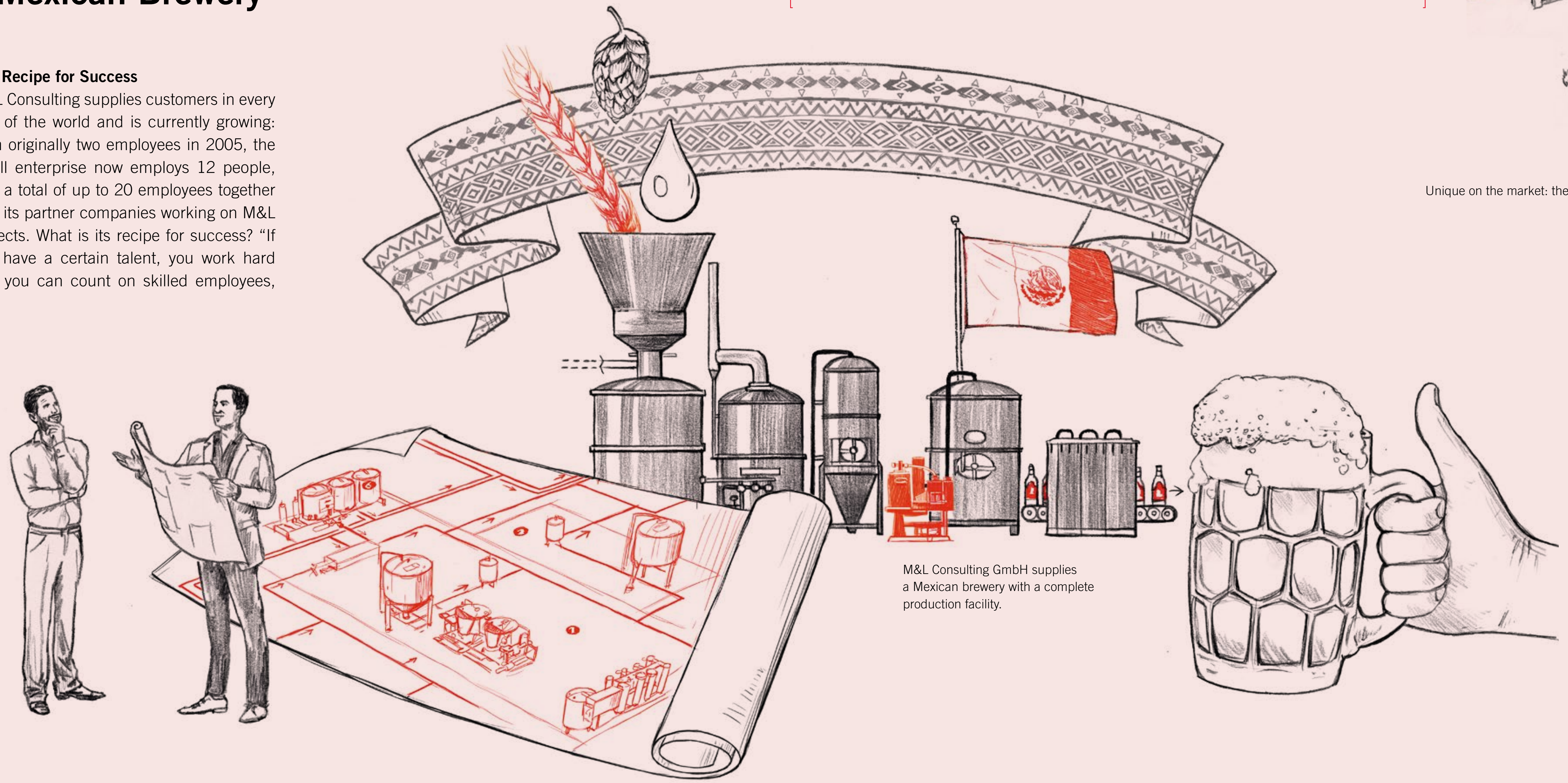
Surviving as a small company in the beer industry, alongside multinational giants? Impossible. You might think so. Ernst Meier, certified brewer and CEO of M&L Consulting GmbH in St. Gallen, proves the opposite. M&L Consulting advises breweries in the area of filtration technology. With its services, it supports its customers in improving their quality and efficiency, and creates new concepts as well as the detailed engineering for this area of production. M&L Consulting outsources the actual manufacture of the equipment. This enables it to concentrate on its core competencies. One "M&L speciality" is, for example, its long-lasting filter cartridge, which cleans the beer of yeast, rubber residue, etc. with diatomaceous earth (alginate powder).

The Recipe for Success

M&L Consulting supplies customers in every part of the world and is currently growing: from originally two employees in 2005, the small enterprise now employs 12 people, with a total of up to 20 employees together with its partner companies working on M&L projects. What is its recipe for success? "If you have a certain talent, you work hard and you can count on skilled employees, you can achieve something," says Ernst Meier. The ability to see things through the eyes of the customer is another essential factor: When a contract is awarded the M&L employees first listen to the customer's ideas, defining the task together with him. Only then do they start concept development.

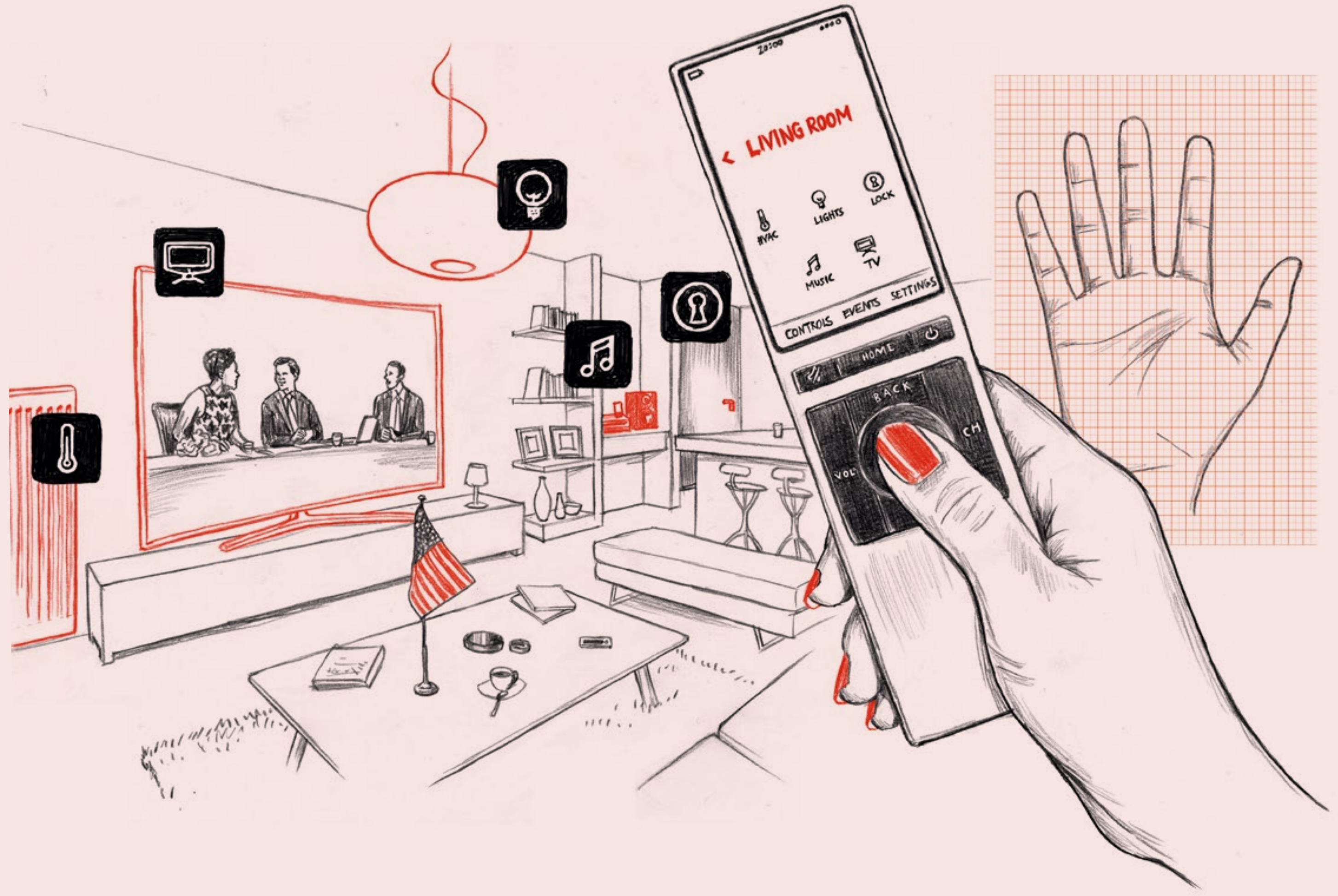
A Mexican brewery is one of their long-standing customers. It commissioned M&L Consulting to equip a complete space with production facilities worth around EUR 3 million. As in other industries, tough contractual terms are the rule even in this small industry: in spite of the fact they have worked together for years, the customer is not prepared to make a down payment. "If we want to stay in business we have to be able to offer finance for the project," said Ernst Meier. The long payment periods, which often only start when the goods arrive on the customer's factory site, are a significant reason why M&L Consulting sometimes has to "ditch" projects. So that this does not happen in this case, SERV is supporting this transaction with working capital insurance, making financing easier.

> "If we want to stay in business we have to be able to offer finance for the project."
>
> **Ernst Meier**
> CEO of M&L Consulting



M&L Consulting GmbH supplies a Mexican brewery with a complete production facility.

Thinking remote control stirs up the smart home market



Unique on the market: the remote control from Neeo AG

With inventiveness and passion, a Solothurn-based start-up worked on a new development for the smart home market. The result of their efforts is nothing less than a revolutionary product.

The 36-strong Solothurn-based start-up Neeo AG is stirring up the technology market with its invention. And it is doing it with inspiration and passion. Co-founder and CEO Raphael Oberholzer explains: "Designing products that are received with worldwide enthusiasm, stirring up the technology market, building a team of highly talented engineers, these are just a few of the highlights that make Neeo an inspirational job every day." This inspiration has resulted in an inconspicuous device. But don't be deceived by appearances:

> "As great as the joy about this significant order was, the associated financial challenge was equally daunting for our young company."
>
> **Raphael Oberholzer**
> CEO Neeo

We're talking about a "thinking remote control" for home automation. It works for all the sensors, thermostats, AV equipment and lighting, etc. and is compatible with around 60 000 pieces of equipment. It recognises the user by means of – patent pending – hand recognition, so the user sees his/her favourites and preferred settings on the display. Along with its simplicity, the remote control also boasts sophisticated design. Which is unique on the market.

When success is not long in coming

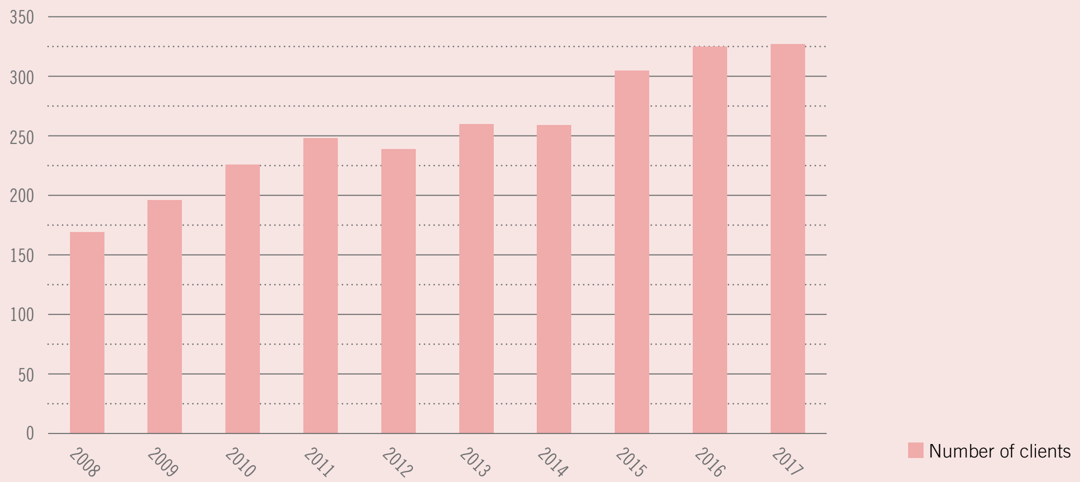
In order to get its revolutionary product into the hands of men and women, Neeo also organised a promotional gag in the form of a crowd-funding campaign. This turned out to be a great success: the sum they were aiming for had been collected after a day and at the end of the campaign over 6 000 crowd-funders had ordered the device, for which there was still only one prototype in existence. The remote control also caught the attention of a distributor of high-tech products in the USA. It commissioned Neeo with an order for 20 000 devices worth USD 5.9 million. "As great as the joy about this significant order was, the associated financial challenge was equally daunting for our young company," says Raphael Oberholzer, talking about the major order. Many components have to be pre-financed with long lead times of up to 180 days. Consequently, the demand for working capital for the relatively small structure of Neeo is quite considerable, particularly in the current phase of strong growth.

SERV insured part of this additional capital requirement for production, worth CHF 1.2 million. This helped Neeo to achieve the necessary liquidity on tolerable terms. Raphael Oberholzer continued, "Thanks to the confidence that SERV enjoys with the Swiss banks and the solid performance, the transaction was possible in a sound manner. Our growth benefited quite considerably from it."

SERV's Clients

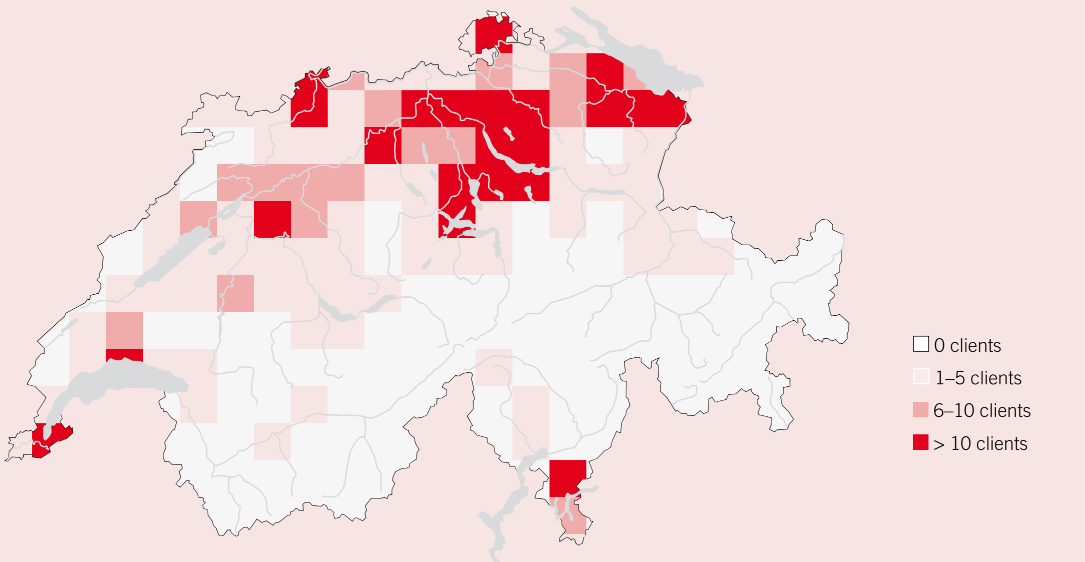
SERV offers comprehensive insurance cover over the entire term of an export transaction. Exporters can select and combine insurance products according to their needs. Businesses of all sizes and from all sectors throughout Switzerland make use of SERV insurance products and guarantees. The number of clients has virtually doubled in the last ten years.

Client Trends 2008–2017

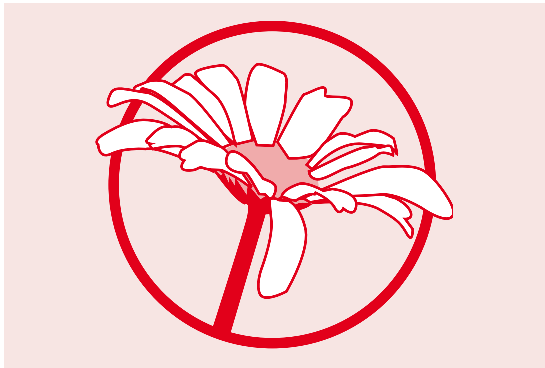


Regional Distribution of Clients in the Last ten Years

2008–2017

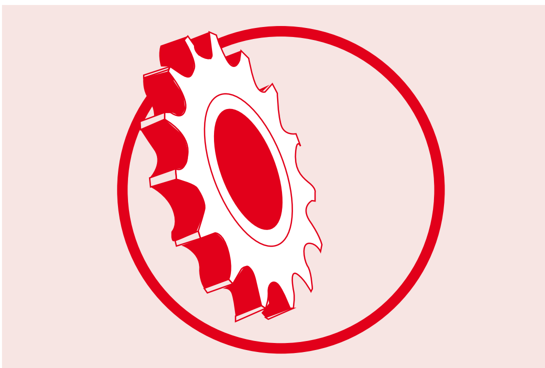


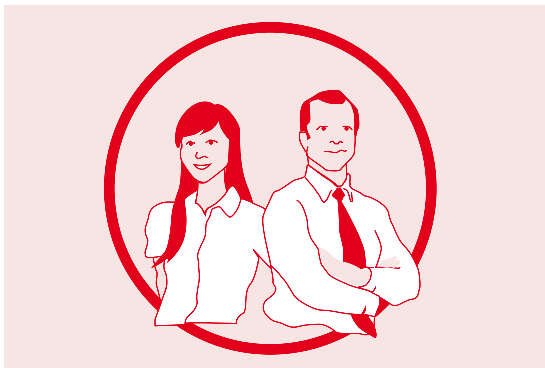
Our Guiding Principles



Our Activity
We facilitate trade between the Swiss export sector and foreign business through insurance solutions covering economic and political risks. Our services support the competitiveness of Swiss exporters and banks, thus enhancing Switzerland's position as a business location and helping to create and retain jobs in Switzerland. By facilitating foreign trade for Switzerland, we also contribute to the economic development of the involved countries.

Our Conduct
As an institution of the Swiss Federation under public law, we act within the scope of our legal mandate. We therefore work in an economically viable and operationally optimal manner. In terms of the environment and sustainability, we act responsibly and observe international standards. We take a solution-oriented approach and are transparent in our communication.





Our Clients
Client orientation is of central importance to us. We focus on treating our clients equally and offering expert advice. We encourage a loyal and cooperative working relationship and strive to maintain long-term partnerships. We also provide information on our services to exporters and banks who are not yet SERV clients.

Our Employees
From our employees we expect competence, a high level of commitment and strong identification with SERV and its mandate. We give employees appropriate responsibility and encourage the development of the relevant skills. We are committed to the principle of equal opportunities and offer attractive employment conditions.

Bodies of Corporate Governance

Board of Directors (BoD)

Thomas Daum*, lic. iur., lawyer
(Chairman)
Thomas Daum is board member of Switzerland's AHV/IV/EO fund. He was a member of the ERG Commission before SERV was formed. He served as the Director of the Confederation of Swiss Employers, the Director of Swissmem and Vice Chairman of the BoD of SUVA.

Beda Moor**
Beda Moor was responsible for the MEM industry as a long-standing member of the management of SMUV and a member of the industry sector management of UNIA. He was a member of the ERG Commission before SERV was formed.

Barbara Hayoz, business economist, EMBA**
(Vice Chair, starting from 01.01.2017)
Barbara Hayoz is a self-employed management consultant as well as chair and board member of various institutions. She served as full-time finance director and deputy mayor of the city of Berne.

Laura Sadis, lic. oec. publ. and graduate tax expert**
Laura Sadis is board member of AlpTransit Gotthard AG. From 2007 to 2015 she held the office of Councillor of State for Ticino with responsibility for the Finance and Economics Department. She was also a member of the Bank Council of the Swiss National Bank.

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

Anne-Sophie Spérisen, lic. oec.**
Anne-Sophie Spérisen 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.

Christoph Meier-Meier*, business economist HWV
Christoph Meier-Meier 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.

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

CEO

Peter Gisler, Swiss-certified banking specialist
(CEO from 01.01.2017)
Peter Gisler 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
Badenerstrasse 172
8004 Zurich

* Insurance Committee
** Finance and Organisation Committee

Remuneration

Board of Directors

In 2017, remuneration paid to the entire Board of Directors (BoD), excluding the Chairman, totalled KCHF 317.1. This figure is 10.5 percent lower than in the previous year. This is because the BoD in 2017 had one member fewer than the previous year. BoD Chairman Thomas Daum was paid remuneration amounting to KCHF 127.3. The remuneration includes in each case the meeting attendance fees, compensation for special tasks and other expenses, and does not include a pension entitlement.

CEO and members of the Executive Board

The CEO and the members of the Executive Board have remuneration packages consisting of a basic salary and a variable component. 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 or, as the case may be, the members of the Executive Board. Total remuneration amounted to KCHF 801.9 in 2017 (previous year KCHF 1 474.9 for five employees at function level 1; five full-time equivalents). In 2017, there were two full-time equivalents (not including the CEO) employed as members of the Executive Board. An assessment period of one year applies to variable salary components. The bonus for the CEO relates to both Herbert Wight and Peter Gisler, who took up his position at SERV in the last quarter of 2016. The assessment criteria are set out in individual target agreements.

Executive Salary Reporting – Senior Management (Board of Directors)

in CHF (previous year in grey)

	Chairman	Board (7 members, excluding chairman)	
		Total	Average
Level of activity			
(percentage of time spent on function)	45%	10% BoD	
		20% IC	
		10% FOC	
Remuneration			
Meeting attendance fee	87 750	277 000	39 571
	81 000	282 000	35 250
Cash payments for compensation of special tasks	37 325	20 500	2 929
	41 537	39 150	4 894
Other expenses (travelling expenses, accommodation, board and representation)	2 181	19 586	2 798
	1 669	33 281	4 160
Other contractual terms			
Post-employment benefits	None	None	–
Severance compensation	None	None	–

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)	290 004	404 703	202 351
	301 200	999 276	199 855
Cash payments for compensation of special tasks	–	–	–
	–	–	–
Cash payments (justified by function or labour market)	–	–	–
	–	–	–
Bonuses (variable salary part)	63 188	41 441	20 720
	45 180	124 230	24 846
Other expenses	840	1 680	840
	840	4 200	840
Other contractual terms			
Post-employment benefits	Management plan	Management plan	–
Severance compensation	None	None	–

Organisation

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

Insurance Committee

Finance & Organisation Committee

CEO
Peter Gisler

Insurance Business
Heribert Knittlmayer

Small & Medium-sized Enterprises
Franziska Grutti

Large Enterprises
Heribert Knittlmayer a.i.

Project & Structured Finance
Tina Rosenbaum

Acquisition & Advisory, Representation in Lausanne
Dominique Aubert

Communications & Marketing
Bettina Scheidegger

Finance & Risk
Lars Ponterlitschek

Finance, Controlling & ICS
Advije Delihasani

Credit & Country Risk Analysis
Noriyuki Arai

Claims & Recovery
Verena Fries

Legal & Compliance
Peter Mühlhäuser
Meike Liatowitsch

Corporate Services
Peter Gisler

Assistance & Reception
Eveline Mark

International Relations & Sustainability
Robert Suter

IT
Olivier Bourquin

Human Resources & Logistics
Daniel Melliger

Technology & Actuary
Claudio Franzetti

Member of the Executive Board
As of 1 January 2018

Board of Directors
The Board of Directors (BoD) of SERV is appointed by the Federal Council. 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. No new BoD members were appointed for 2017. Max Gsell, Vice Chairman, resigned as BoD member with effect from 31 December 2016. Barbara Hayoz succeeded him as Vice Chair with effect from 1 January 2017.

There is no personal or business relationship between any member of the BoD and SERV which could affect the freedom to make decisions or to act.

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 Thomas Daum) and one for the areas of finance and organisation (Finance and Organisation Committee, Chair Barbara Hayoz).

CEO
The CEO is elected by the BoD. He manages and organises SERV and represents it externally. His tasks are defined in Art. 25 SERVG and further outlined in the SERV internal rules of procedure. The BoD elected Peter Gisler as new CEO with effect from 1 January 2017. He replaced Herbert Wight, who retired as of 31 December 2016. The CEO heads the Executive Board. Starting from 1 January 2017, this now only comprises the head of the Insurance Business and the head of Finance & Risk.

Personnel
In 2017, SERV increased its workforce from 47 to 51 employees or 47.8 full-time equivalents. The proportion of women at the end of 2017 is 43.1 percent. Above all, Client Advisory was strengthened in order to continue supporting the exporters to best effect with the rising number and increasing complexity of transactions. The Legal and Compliance department was also expanded; support and assistance functions were extended too. In addition to the three business management apprenticeships, an internship was also created. Staff turnover was 8.5 percent in 2017.

SERV gives its employees appropriate responsibility. Their tasks are defined in a specifications document. Each year, individual target agreements are reached with each employee and staff development interviews are conducted to assess their skills and performance. SERV attaches great importance to the continuous further training of its employees. This is why almost KCHF 142 were invested in external training courses in 2017.

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 audit findings to the BoD and the Federal Council.

Financial Report

Income Statement

+33%

Earned premiums

–87%

Loss expense

Legal Basis

A range of accounting-related requirements for SERV are formulated in the SERV Act (SERVG) and in the SERV Ordinance (SERV-V). SERV must keep its own accounts, be economically viable as an insurance company and manage risks for public and private debtors separately. To meet these requirements, SERV prepares financial statements on the closing date, consisting of income statement, balance sheet, cash flow statement, proof of economic viability, segment accounting and notes.

In accordance with Art. 29 SERVG, SERV must present its assets, finance and income situation in the form of segment accounting. This includes an income statement and balance sheet structured in the three segments “Public debtors”, “Private debtors without del credere” and “Private debtors with del credere”.

SERV must be economically viable according to Art. 6 para. 1 let. a SERVG. The auditors examine the proof of economic viability, among other factors, and report to the Board of Directors (BoD) and Federal Council on the findings of the audit.

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. In the Corporate Governance section it reports on remuneration. The minimum requirements for the accounting principles are regarded as the corresponding Federal budget provisions (Art. 21 para. 1 SERV-V).

The figures in the tables on pages 15 and 16 are not value-adjusted. The relevant figures are value-adjusted in the balance sheet and broken down in the tables on pages 40 and 41. Individual items of the income statement, the balance sheet and segment accounting are also explained in more detail in the Notes. Items shown net in the financial statements are broken down to render the calculation of net results transparent. This is significant particularly in the case of claims from losses, claims from restructuring, credit balances from debt rescheduling agreements and loss provisions, as these are valued in accordance with the AP and reported on a net basis.

Income Statement

SERV closed 2017 with net income (NI) of CHF 69.8 million, posting an operating profit of the same amount. The NI is below the level of the previous year by CHF 2.8 million.

Premium income rose year-on-year from CHF 50.7 million to CHF 89.4 million. This rise is primarily attributable to some major transactions which were realised. The trend in earned premiums is similarly gratifying. Thanks to the major transactions, considerably more unearned premiums were formed than reversed. The unearned premiums formed in the financial year just ended are used by SERV for the purpose of risk compensation for future financial years and are necessary in order to represent the economic viability of SERV correctly in the long term.

All in all, a profit/loss on insurance of CHF 85.6 million was generated (previous year: CHF 83.4 million).

Loss expenses were low in 2017 at CHF –10.0 million, especially in comparison with the previous year (CHF –74.8 million). They comprise mainly definitive write-offs of claims from losses (CHF 8.5 million). The remaining expenses (CHF 1.5 million) come from adjustments of loss provisions and value adjustments for losses. The definitive write-offs of claims related to risks in Brazil, Iran, Mexico and Switzerland.

As in 2016, income was recorded for debt rescheduling costs. This resulted from the revaluation of claims, on the one hand from Serbia’s rating improvement and on the other hand from the amendment of value adjustments for the agreements with Cameroon, Egypt, Iraq, Kenya and Pakistan. Interest income from debt rescheduling agreements amounting to CHF 16.2 million is slightly below the figure for the previous year (CHF 18.0 million).

Personnel expenses (CHF 10.0 million) rose compared with the previous year (CHF 9.2 million); these additional costs are attributable to the expansion of the workforce. Non-personnel expenses are at the same level as the previous year. Financial income mainly comprises foreign currency differences, and unlike the previous year it is negative this year at CHF 1.6 million.

As in the previous year, the negative interest rates imposed by the Swiss National Bank are only affecting the result marginally. A much more important factor in this respect is that SERV is now generating no return on its capital, which it is required to deposit exclusively with the Federal Treasury. For example, the income from cash deposits, which amounted to CHF 29.0 million in 2007 with considerably lower capital, has now fallen to zero (previous year CHF 0.4 million). This fall was expected as a result of the ongoing low interest rates.

Balance Sheet

On the assets side, SERV's cash in hand & at bank decreased by CHF 21.8 million compared with 2016, while financial assets were up CHF 154.5 million. SERV tries to keep the balance on the current account low in order to minimise the amount of negative interest payable. At the same time, the financial investments with the Federal Treasury are constantly increasing.

In addition to the premium payments, the repayments of credit balances from debt rescheduling agreements (particularly from Argentina and Indonesia) also contributed to the increase in financial assets. Credit balances from debt rescheduling agreements decreased by CHF 56.6 million as a result of the above-mentioned repayments. In contrast, claims from losses and restructuring were up by CHF 19.7 million. This rise is essentially due to the disbursement of a large loss for a transaction in Oman.

At CHF 5.8 million, premium receivables have virtually halved compared to the previous year (CHF 12.1 million). The premiums invoiced in the financial year were almost all paid in 2017, as reflected in a correspondingly high figure in the cash flow statement. On the liabilities side, unearned premiums were increased considerably compared with the previous year as a result of the major transactions which were realised, while loss provisions were reduced by CHF 14.3 million to CHF 137.5 million. As of 31 December 2017, capital amounted to CHF 2.768 billion. It is CHF 69.8 million higher than the previous year.

Current liabilities have risen by CHF 0.3 million year-on-year.

The total of risk-bearing capital (RBC) plus core capital (CCap), CHF 1.754 billion, fell by CHF 84.7 million (5 percent) year-on-year. The compensation reserve (CR) increased by CHF 157.3 million to CHF 944.4 million (20 percent). The CR allows SERV to manage the major volatility it is exposed to through country and debtor downgrades and elevated losses as a result of political and economic crises.

All in all, SERV has a solid capital base for fulfilling its legal mission of promoting the Swiss export industry by providing effective insurance solutions, even in periods with an uncertain economic outlook. At the same time, SERV is able to soften the impact of any deterioration in risk ratings for countries and enterprises and has the buffer necessary to deal with any type of crisis.

Cash Flow Statement

SERV's 2017 cash flow statement (cf. p. 33) documents a net increase of CHF 124.5 million (previous year: CHF 181.7 million). Cash in hand & at bank and time deposits thus rose from CHF 2.447 billion to CHF 2.572 billion, meaning SERV has excellent liquidity.

The cash flow came largely from investment activities worth CHF 84.8 million. As in the previous year (CHF 17.2 million), a cash inflow from business operations amounting to CHF 40.9 million was also recorded for 2017. This was primarily a result of the higher premium payments of CHF 95.0 million (previous year CHF 70.4 million). In the financial activities, a partial repayment of CHF 1.3 million for a cash deposit was made due to a changed risk situation in connection with ongoing counter guarantees.

Cash flow from investment activities includes both regular and unscheduled early repayments from credit balances from debt rescheduling agreements plus the corresponding interest. In the previous year, it also included interest payments on surplus funds deposited with the Federal Treasury in accordance with Art. 28 para. 2 SERVG.

Proof of Economic Viability

In 2017, SERV showed positive loading in all segments. This means that earned premiums were high enough to absorb the actuarial risk, i.e. the average expected annual loss. The average expected annual loss 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 2017, 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 was for the first time no interest income from cash investments, for which reason the figures for

"For the first time SERV earned no income from cash investments. With simultaneously reducing credit balances from debt rescheduling, the gratifyingly high premium income contributed to a sustained increase in capital for SERV."

Lars Ponterlitschek
Head of Finance & Risk

Cash Flow Statement

CHF
95 m
Premium payments

economic viability 1 and 2 are identical. No substantial contributions from financial 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 can post surplus cover of CHF 13.1 million across all segments.

Since the establishment of SERV (2007), the average surplus cover of economic viability 1 for the primary segment “Public debtors” is CHF 4.4 million, and CHF 4.9 million for the primary segment “Private debtors”. This means that economic viability 1 has so far been significantly over-fulfilled for the primary segments. If economic viability on an operational level (economic viability 1) is positive, so is economic viability 2, unless SERV’s capital is burdened with negative interest rates.

Segment accounting

In the income statement by segment, items which are not directly related to an insurance transaction in a segment are distributed across the three segments using an allocation formula (cf. Comments on the Financial Statements, comments 10–17, pp. 42–43). Items are not broken down into segments on the balance sheet where doing so has only limited indicative value.

In the income statement, the “Public debtors” segment recorded a loss, since the provisions for losses chiefly affected this segment. Due to the profit in the other two segments “Private debtors without del credere” and “Private debtors with del credere”, these losses are more than offset, when everything is taken into consideration. In 2016 the “Private debtors with del credere” segment closed in negative territory due to high loss expenses, while in 2015 this was the case for the “Public debtors” segment. This shows that the annual results for segment accounting are influenced to a large extent by the loss expenses that are incurred and thus are very volatile.

Income Statement

Income Statement

01.01.2017–31.12.2017, in KCHF

	Notes [1]	2017	2016	Change
Premium income	1	89 414	50 722	38 692
Creation of unearned premium reserves		–68 978	–36 184	–32 794
Release of unearned premium reserves		43 624	33 550	10 074
Earned premiums		**64 060**	**48 088**	**15 972**
Interest income from debt rescheduling agreements		16 236	18 044	–1 808
Other income		38	34	4
Total income from insurance		**80 334**	**66 166**	**14 168**
Loss expenses	2	–9 996	–74 845	64 849
Debt rescheduling expenses	3	15 226	92 115	–76 889
Total expenses from insurance		**5 230**	**17 270**	**–12 040**
Profit/loss on insurance		**85 564**	**83 436**	**2 128**
Personnel expenses		–9 970	–9 169	–801
Non-personnel expenses		–4 123	–4 209	86
Financial income		–1 626	2 174	–3 800
Operating profit/loss		**69 845**	**72 232**	**–2 387**
Interest income from cash investments		0	448	–448
Net income (NI)		**69 845**	**72 680**	**–2 835**

[1] cf. Comments starting from page 40 of the Notes on the Financial Statements

Balance Sheet

Balance Sheet

31.12.2017, in KCHF

	Notes [1]	31.12.2017	31.12.2016	Change
Assets				
Cash in hand & at bank		8 558	30 398	–21 840
Premiums receivables		5 788	12 092	–6 304
Other receivables		65	0	65
Financial investments maturing in 1 year or less	4	2 563 000	2 408 500	154 500
Accruals and deferrals		535	630	–95
Total current assets		**2 577 946**	**2 451 620**	**126 326**
Property, plant and equipment		241	337	–96
Financial investments and credit balances maturing in more than 1 year		239	9 338	–9 099
Total property, plant and equipment and long-term financial investments		**480**	**9 675**	**–9 195**
Claims from losses and restructuring	5	227 557	207 895	19 662
Credit balances from debt rescheduling agreements	6	302 823	359 421	–56 598
Total claims and credit balances from debt rescheduling agreements		**530 380**	**567 316**	**–36 936**
Total Assets		**3 108 806**	**3 028 611**	**80 195**
Liabilities				
Current liabilities		818	474	344
Short-term financial liabilities		75	8	67
Accruals and deferrals		933	839	94
Unearned premiums		221 475	179 457	42 018
Share of unearned premiums due to reinsurance		–26 588	–9 923	–16 665
Loss provisions	7	137 545	151 823	–14 278
Other non-current liabilities	8	6 231	7 461	–1 230
Subtotal		**340 489**	**330 139**	**10 350**
Risk-bearing capital (RBC)		1 221 777	1 256 076	–34 299
Core capital (CCap)		532 260	582 616	–50 356
Compensation reserve (CR)		944 435	787 100	157 335
Net income (NI)		69 845	72 680	–2 835
Total capital		**2 768 317**	**2 698 472**	**69 845**
Total liabilities		**3 108 806**	**3 028 611**	**80 195**

[1] cf. Comments starting from page 40 of the Notes on the Financial Statements

Cash Flow Statement

Cash Flow Statement

01.01.2017–31.12.2017, in KCHF

	Notes [1]	31.12.2017	31.12.2016
Business operations			
Premium payments	9	94 959	70 449
Loss payments		–48 314	–53 499
Loss repayments		8 743	12 088
Payments relating to personnel and operations		–14 488	–11 784
Cash flow from business operations		**40 900**	**17 254**
Investing activities			
Repayments of credit balances from debt rescheduling agreements		72 099	150 220
Payments of interest from debt rescheduling agreements		12 697	14 470
Payments from financial and interest income		0	842
Cash flow from investing activities		**84 796**	**165 532**
Financing activities			
Payments from financing activities		–1 229	–1 039
Cash flow from financing activities		**–1 229**	**–1 039**
Net change in funds		**124 467**	**181 747**
Funds on 31.12.2016 (cash in hand & at bank and time deposits with the Confederation)			2 447 093
Funds on 31.12.2017 (cash in hand & at bank and time deposits with the Confederation)		2 571 560	

[1] cf. Comments starting from page 40 of the Notes on the Financial Statements

Proof of Economic Viability

Proof of Economic Viability

01.01.2017–31.12.2017, in KCHF

	Segments (by debtor)			SERV
	Public	Private without del credere	Private with del credere	
	(1)	(2)	(3)	(4)=(1)+(2)+(3)
Earned premiums	10 673	515	52 872	64 060
Average expected annual loss	–8 409	–448	–26 392	–35 249
Loading	**2 264**	**67**	**26 480**	**28 811**
Personnel expenses	–1 142	–1 006	–7 822	–9 970
Non-personnel expenses	–474	–416	–3 233	–4 123
Financial income	–217	–7	–1 402	–1 626
Economic viability 1	**431**	**–1 362**	**14 023**	**13 092**
Interest income from cash investments	–	–	–	–
Economic viability 2	**431**	**–1 362**	**14 023**	**13 092**

Segment Accounting

Income Statement by Segment

01.01.2017–31.12.2017, in KCHF

	Notes [1]	Segments (by debtor)			SERV
		Public	Private without del credere	Private with del credere	
		(1)	(2)	(3)	(4)=(1)+(2)+(3)
Premium income	10	11 316	500	77 598	89 414
Creation of unearned premium reserves		–7 105	–79	–61 794	–68 978
Release of unearned premium reserves		6 462	94	37 068	43 624
Earned premiums		**10 673**	**515**	**52 872**	**64 060**
Interest income from debt rescheduling agreements	11	9 809	6 116	311	16 236
Other income		4	4	30	38
Total income from insurance		**20 486**	**6 635**	**53 213**	**80 334**
Loss expenses	12	–25 959	–95	16 058	–9 996
Debt rescheduling expenses	13	2 042	8 742	4 442	15 226
Total expenses from insurance		**–23 917**	**8 647**	**20 500**	**5 230**
Profit/loss on insurance		**–3 431**	**15 282**	**73 713**	**85 564**
Personnel expenses	14	–1 142	–1 006	–7 822	–9 970
Non-personnel expenses	15	–474	–416	–3 233	–4 123
Financial income	16	–217	–7	–1 402	–1 626
Operating profit/loss		**–5 264**	**13 853**	**61 256**	**69 845**
Interest income from cash investments		–	–	–	–
Net income (NI)		**–5 264**	**13 853**	**61 256**	**69 845**

[1] cf. Comments starting from page 40 of the Notes on the Financial Statements

Balance Sheet by Segment

31.12.2017, in KCHF

	Notes [1]	Segments (by debtor)				SERV
		Public	Private without del credere	Private with del credere	Not assignable	
		(1)	(2)	(3)	(4)	(5)= (1)+(2)+(3)+(4)
Assets						
Cash in hand & at bank		–	–	–	8 558	8 558
Premiums receivables		377	6	5 405	–	5 788
Other receivables		–	–	–	65	65
Financial investments maturing in 1 year or less		–	–	–	2 563 000	2 563 000
Accruals and deferrals		–	–	–	535	535
Total current assets		**377**	**6**	**5 405**	**2 572 158**	**2 577 946**
Property, plant and equipment		–	–	–	241	241
Financial investments and credit balances maturing in more than 1 year		–	–	–	239	239
Total property, plant and equipment and long-term financial investments		**–**	**–**	**–**	**480**	**480**
Claims from losses and restructuring		79 290	37 283	110 984	–	227 557
Credit balances from debt rescheduling agreements		166 483	131 498	4 842	–	302 823
Total claims and credit balances from debt rescheduling agreements		**245 773**	**168 781**	**115 826**	**–**	**530 380**
Total Assets		**246 150**	**168 787**	**121 231**	**2 572 638**	**3 108 806**
Liabilities						
Current liabilities		–	–	45	773	818
Short-term financial liabilities		–	–	75	–	75
Accruals and deferrals		–	–	–	933	933
Unearned premiums		52 574	6 506	162 395	–	221 475
Share of unearned premiums due to reinsurance		–7 758	–	–18 830	–	–26 588
Loss provisions	17	49 855	3 420	84 270	–	137 545
Other non-current liabilities		–	–	–	6 231	6 231
Subtotal		**94 671**	**9 926**	**227 955**	**7 937**	**340 489**
Risk-bearing capital (RBC)		–	–	–	1 221 777	1 221 777
Core capital (CCap)		–	–	–	532 260	532 260
Compensation reserve (CR)		449 656	79 411	141 172	274 196	944 435
Net income (NI)		–5 264	13 853	61 256	–	69 845
Total capital		**444 392**	**93 264**	**202 428**	**2 028 233**	**2 768 317**
Total liabilities		**539 063**	**103 190**	**430 383**	**2 036 170**	**3 108 806**

[1] cf. Comments starting from page 40 of the Notes on the Financial Statements

Accounting Principles

The AP discussed in this section are outlined in abbreviated form. The full text 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). Only editorial adjustments were made to the AP in the year under review just ended. There were no material changes in the valuation principles which would have affected the financial statements.

The AP follow national and international standards for rendering accounts and are based on the practices of the Swiss private insurance industry. The balance sheet of SERV reflects the actual financial and asset situation as accurately as possible. The principle of individual valuation applies: over- and undervaluations are not set off against each other. All items have been reviewed to verify their accounting suitability and accuracy. The economic perspective takes priority over other possible points of view.

Balance sheet items are measured at face value with the exception of the items listed below:

Claims from Losses and Restructuring

Accounting: Claims from the insurance business are recorded if a policyholder is indemnified for a loss by SERV and its claim against third parties passes to SERV.

Valuation of claims against public debtors: Value adjustments are calculated on the basis of the official OECD provision rates for expected and actual losses. These rates take into account:

- country risk at the time of valuation,
- a country's income levels (World Bank classification),
- 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 which 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.

Personnel Expenses (significant items only)
In the context of its personnel expenses, SERV makes the following accrual postings:
– The contributions to social security are accounted for on an accrual basis. The decisive factor here is not the amounts paid in a reporting period, but rather the amounts owed for that period;
– social security insurance indemnifies SERV for the financial consequences of the loss of employees' work, for instance the loss of earning insurance and accident insurance. They can be considered as contra items to continued payment of wages during the insured absence of the employee. Accordingly, they are to be treated as expense reductions. Expense reductions are accounted for on an accrual basis.

Accounting: The accrual items are reported under liabilities.

Valuation: Valuation is at face value.

Unearned Insurance Premiums
Accounting: Unearned premiums are accruals and deferrals; they are premiums which were received in the year under review and in previous years, but which are only earned during the cover period.

Valuation: 20 percent of premiums are recorded immediately as administrative share in the current financial year. The remaining 80 percent 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 which 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 IBNR provisions. Here the IBNR provisions are carried as a part of the earned premiums, minus 20 percent administrative cost portion. 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 recognizes 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 0.5 is calculated. As in the case of claims from losses and restructuring, a collateral surcharge is also applied here in addition.

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): RBC is held for insurance losses that may be payable by SERV. The RBC is part of SERV's net equity. However, in accordance with the SERV Ordinance, provisions for losses that have not yet occurred 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 which added to RBC, CCap and 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 percent quantile of the annual loss distribution. The particular value at risk is calculated with a confidence factor of 99.9 percent. The CCap is calculated on the basis of the assumption that the elements to be valued of all concluded and new insurance contracts expected as per growth projections, as well as other relevant balance sheet items, will deteriorate by one grade on the internal rating scale. The calculations are made using the same actuarial model as for the calculation of the RBC. The CR is determined arithmetically and is not subject to any valuation.

Economic Viability

Calculation: The average expected annual loss is the theoretical average potential loss, weighted for one year with the probabilities of default. This calculation is based on ratings, default probabilities and assumed recovery rates. The other items in the proof of economic viability are obtained from the income statement.

Comments on the Financial Statements

Individual items of the income statement, the balance sheet and segment accounting are explained in more detail in this chapter. Firstly, items shown net in the financial statements are broken down to rend the calculation of net results transparently. This is significant particularly in the case of claims from losses, claims from restructuring, credit balances from debt rescheduling agreements and loss provisions, as these are valued in accordance with the accounting principles (AP) and reported on a net basis. Additionally, the allocation formula used in the segment accounting for those items which 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.

Value Adjustment on Claims from Losses and Restructuring

in CHF million

	31.12.2017			31.12.2016			
	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	–41.4	87.0	128.4	–41.4	87.0	–
Greece	50.7	–24.1	26.6	50.7	–32.2	18.5	8.1
Zimbabwe	37.2	–31.7	5.5	37.0	–31.5	5.5	–
Spain	41.3	–19.6	21.7	42.4	–26.7	15.7	6.0
India	26.3	–13.9	12.4	23.3	–9.3	14.0	–1.6
Switzerland	26.3	–12.9	13.4	9.3	–4.7	4.6	8.8
Brazil	21.3	–10.7	10.6	20.9	–10.6	10.3	0.3
Russia	19.8	–9.6	10.2	14.1	–8.2	5.9	4.3
Georgia	10.9	–5.8	5.1	10.9	–5.7	5.2	–0.1
Mexico	10.6	–5.3	5.3	10.9	–5.5	5.4	–0.1
Other countries	37.0	–25.4	11.6	31.3	–13.4	17.9	–6.3
	409.8	**–200.4**	**209.4**	**379.2**	**–189.2**	**190.0**	**19.4**
Value adjustment on claims from restructuring							
North Korea	182.4	–164.2	18.2	179.1	–161.2	17.9	0.3
	182.4	**–164.2**	**18.2**	**179.1**	**–161.2**	**17.9**	**0.3**
Total claim from losses and restructuring			**227.6**			**207.9**	**19.7**

Regarding the Income Statement

[1] **On "Premium income":** the item "Premium income" amounting to CHF 89.4 million is comprised of income from insurance premiums amounting to CHF 112.9 million and the expense item reinsurance premium payments amounting to CHF –23.5 million which SERV made in 2017. Income from expense premiums (for example review premiums) and premium income from reinsurance were not generated to any significant extent in 2017.

[2] **On "Loss expenses":** the loss expenses amounting to CHF –10.0 million comprise the reversal of provisions for IBNR cases (IBNR = Incurred But Not Reported) amounting to CHF 39.9 million, the formation of provisions for reported losses amounting to CHF –21.5 million, and the change in value adjustments on claims amounting to CHF –19.9 million (p. 40). Losses amounting to CHF –8.5 million were definitively written off in 2017 for cases involving Brazil, Iran, Mexico and Switzerland.

[3] **On "Debt rescheduling costs":** debt rescheduling costs amounting to CHF 15.2 million are reported net. This item consists of the reversal of value adjustments on debt consolidation balances amounting to CHF 15.3 million and the writing-off of credit balances against debtor countries amounting to CHF –0.1 million (p. 41).

Regarding the Balance Sheet

[4] **On "Short-term financial investments":** all financial investments are held with the Swiss Confederation in the form of fixed-term deposits or investment account deposits.

[5] **On "Claims from losses and restructuring":** the claims from losses (p. 16) and the claims from restructuring with public debtors (p. 15) of SERV were valued in accordance with the AP (cf. Accounting Principles, p. 37) and were then reported as net claims. In the year under review, claims from losses increased by CHF 19.7 million. The recent disbursements for losses involved Benin, Brazil, Costa Rica, Ecuador, Egypt, India, Indonesia, Mexico, Paraguay, Peru, Russia, Switzerland, Turkey, Ukraine and Zimbabwe.

[6] **On "Credit balances from debt rescheduling agreements":** the credit balances from debt rescheduling agreements (p. 16) were valued in accordance with the AP (cf. Accounting Principles, p. 37) and were reported as net credit balances.

Value Adjustment on Credit Balances from Debt Rescheduling Agreements

in CHF million

	31.12.2017			31.12.2016			
	Credit balance SERV	Value adjustment	Net credit balance	Credit balance SERV	Value adjustment	Net credit balance	Change
	(1)	(2)	(3)=(1)+(2)	(4)	(5)	(6)=(4)+(5)	(7)=(3)–(6)
Argentina	220.9	–52.4	168.5	262.4	–52.4	210.0	–41.5
Cuba	91.0	–67.7	23.3	93.5	–69.7	23.8	–0.5
Pakistan	76.8	–76.8	–	82.5	–79.6	2.9	–2.9
Serbia	63.5	–9.5	54.0	69.2	–18.9	50.3	3.7
Sudan	53.2	–47.9	5.3	53.2	–47.9	5.3	–
Indonesia	49.4	–12.0	37.4	60.7	–12.0	48.7	–11.3
Iraq	31.6	–26.3	5.3	34.5	–26.6	7.9	–2.6
Bosnia and Herzegovina	18.6	–11.2	7.4	19.1	–11.2	7.9	–0.5
Egypt	9.5	–9.5	–	11.9	–11.5	0.4	–0.4
Cameroon	2.2	–2.2	–	2.6	–2.6	–	–
Honduras	1.7	–1.3	0.4	1.8	–1.3	0.5	–0.1
Bangladesh	1.3	–0.9	0.4	1.6	–0.9	0.7	–0.3
Montenegro	1.2	–0.4	0.8	1.3	–0.4	0.9	–0.1
Kenya	0.5	–0.5	–	1.1	–1.0	0.1	–0.1
Total credit balances from debt rescheduling agreements	**621.4**	**–318.6**	**302.8**	**695.4**	**–336.0**	**359.4**	**–56.6**

[7] **On "Loss provisions":** SERV recognised IBNR provisions for losses amounting to CHF 57.5 million and provisions for reported losses amounting to CHF 80.0 million (cf. Accounting Principles, p. 37). Loss provisions totalled CHF 137.5 million.

[8] **On "Other non-current 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 the risk of SERV is decreased by means of reduction of the counter guarantee.

Regarding the Cash Flow Statement

[9] **On "Premium payments":** the premiums invoiced in the financial year were practically all paid in 2017. This also explains the relatively low level of "premiums receivable" (p. 32). For that reason the cash flow from premium payments remained at a very low level in 2017.

Regarding the Income Statement by Segment

[10] **On "Premium income":** premium income was directly allocated to segments. Premium income per segment is shown in the table on page 42.

[11] **On "Interest income from debt rescheduling agreements" – allocation formula:** interest income from debt rescheduling agreements was distributed to the individual segments in proportion to debt servicing (agreed principal and interest repayments) for each country.

[12] **On "Loss expenses":** loss expenses were allocated directly to the segments. The table on page 42 shows loss expenses incurred per segment.

[13] **On "Debt rescheduling costs":** debt rescheduling costs were allocated directly to the segments. The table on page 43 shows debt rescheduling costs incurred per segment.

Premium Income by Segment

01.01.2017–31.12.2017, 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	15 053	498	97 335	112 886
Premium income from expense premiums (e.g. review premiums)	43	2	1	46
Premiums from reinsurance	–	–	–29	–29
Premiums for reinsurance	–3 780	–	–19 709	–23 489
Total premium income	**11 316**	**500**	**77 598**	**89 414**

Loss Expenses by Segment

01.01.2017–31.12.2017, 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	–4 073	5 363	38 677	39 967
Provision for reported losses	–20 698	3 326	–4 142	–21 514
Change in value adjustments	1 125	–8 784	–12 270	–19 929
Definitive loss write-offs	–2 313	–	–6 207	–8 520
Total loss expenses	**–25 959**	**–95**	**16 058**	**–9 996**

[14] **On "Personnel expenses" – allocation formula:** personnel expenses were allocated to individual segments according to the number of new contracts per debtor category, not taking account of contracts with a duration of less than one year. In 2017, 126 new contracts were concluded with public debtors, 111 new contracts with private debtors without del credere and 863 new contracts with private debtors with del credere.

[15] **On "Non-personnel expenses" – allocation formula:** non-personnel expenses were allocated to individual segments according to the number of new contracts per debtor category, not taking account of contracts with a duration of less than one year.

[16] **On "Financial income" – allocation formula:** financial income was allocated to individual segments as a proportion of the income generated per segment from insurance and expense premiums in the year under review (cf. comment 10, p. 42).

Regarding the Balance Sheet by Segment

[17] **On "Loss provisions":** SERV recognises loss provisions for unreported losses by IBNR and for reported losses (cf. Accounting Principles, p. 37). Loss provisions for each segment are shown in the table below.

Debt Rescheduling Costs by Segment

01.01.2017–31.12.2017, 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	2 138	8 742	4 442	15 322
Write-offs of credit balances against debtor countries	–96	–	–	–96
Loss provisions	**2 042**	**8 742**	**4 442**	**15 226**

Loss Provisions by Segment

31.12.2017, in KCHF

	Segments (by debtor)			SERV
	Public	Private without del credere	Private with del credere	
	(1)	(2)	(3)	(4)=(1)+(2)+(3)
IBNR	28 957	1 370	27 232	57 559
Reported losses	20 898	2 050	57 038	79 986
Loss provisions	**49 855**	**3 420**	**84 270**	**137 545**

Proof of Capital

SERV's capital was valued and reported in accordance with SERV's accounting principles (cf. Accounting Principles, p. 37). As of 31 December 2017, SERV held capital of CHF 2.768 billion, CHF 69.8 million more than the previous year.

Risk-bearing capital (RBC) and core capital (CCap) together totalled CHF 1.754 billion at the end of 2017, CHF 84.7 million lower than the previous year. This change lies within the usual range of fluctuations arising from changes in exposure. The compensation reserve (CR) is a net balance sheet item, amounting to CHF 944.4 million at the end of 2017. This represents an increase of CHF 157.3 million over the previous year (incl. CHF 72.7 million in allocated net income [NI] from financial year 2016). The CR provides SERV with leeway for additional cover and allows it to manage the major volatility it is exposed to through country downgrades due to political and economic crises (increased demand for RBC, CCap or value adjustments on debt consolidation balances) and through elevated losses. This allows SERV to provide the Swiss export industry with effective support in difficult times.

Proof of Capital

31.12.2017, in KCHF

	31.12.2016	Allocation net income previous year	Net income in 2017	Shifts	31.12.2017
	(1)	(2)	(3)	(4)	(5)= (1)+(2)+(3)+(4)
Risk-bearing capital (RBC)	1 256 076			–34 299	1 221 777
Core capital (CCap)	582 616			–50 356	532 260
Compensation reserve (CR)	787 100	72 680		84 655	944 435
Net income (NI)	72 680	–72 680	69 845		69 845
Capital	**2 698 472**	**–**	**69 845**		**2 768 317**

Other Notes

Legal Form and Registered Office
SERV is an institution under public law with the status of an independent legal entity under the Swiss Confederation. Its tasks and services as well as the basic features of its organisation are laid down in the Swiss Export Risk Insurance Act of 16 December 2005 (SERVG) SR 946.10 (as at 1 January 2016). SERV is independent in its organisation and management and conducts its own accounts (Art. 3 SERVG).

SERV's registered office is at Zeltweg 63 in Zurich. SERV has an office at Avenue d'Ouchy 47 in Lausanne. An employee based at that location provides support for customers in Western Switzerland.

Significant Events after the Balance Sheet Date
From 31 December 2017 to 22 February 2018, 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 2017 the auditors received a fee (excluding VAT) of KCHF 112.0 (previous year: KCHF 88.5) for auditing the 2017 financial statements. Apart from this the auditors received no other remuneration.

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Report of the Statutory Auditor to the Federal Council

Swiss Export Risk Insurance, Zurich

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the financial statements on pages 31 to 45 of Swiss Export Risk Insurance, which comprise the income statement, balance sheet, cash flow statement, income statement by segment, balance sheet by segment and notes, and the proof of economic viability of Swiss Export Risk Insurance for the year ended 31 December 2017.

Board of Directors' Responsibility

The board of directors is responsible for the preparation of the financial statements and the proof of economic viability in accordance with the requirements of Swiss law and the accounting principles set out in the notes. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and the proof of economic viability based on our audit. We conducted our audit in accordance with the Swiss Export Risk Insurance Act and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements and the proof of economic viability are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the proof of economic viability. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and the proof of economic viability, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements and the proof of economic viability in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements and the proof of economic viability. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Swiss Export Risk Insurance, Zürich
Report of the Statutory Auditor to the Federal Council
Financial statements 2017

Opinion

In our opinion, the financial statements and the proof of economic viability for the year ended 31 December 2017 comply with the accounting principles set out in the notes.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act and independence (article 728 CO) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the board of directors.

We recommend that the financial statements and the proof of economic viability submitted to you be approved.

KPMG AG

Bill Schiller	Andrea Bischof
Licensed Audit Expert	*Licensed Audit Expert*
Auditor in Charge	

Zurich, 22 February 2018

Glossary

AP Accounting Principles
The AP follow national and international standards for rendering accounts and are based on the practices of the Swiss private insurance industry.

Buyer Credit Insurance
This covers the financing of Swiss exports by domestic and foreign financial institutions.

Capital of SERV
Balance sheet net assets of SERV. It is comprised of risk-bearing capital (RBC), core capital (CCap), the compensation reserve (CR) and net income (NI).

CCap Core Capital
An extended risk buffer, which anticipates a deterioration on the valuation basis. The assumption is that the elements to be valued of all concluded and new insurance contracts expected as per growth projections, as well as the balance sheet items “Claims from losses and restructuring” and “Credit balances from debt rescheduling agreements”, will deteriorate by one grade on the internal rating scale. The calculations are made with the same actuarial model as the calculation of the risk-bearing capital (RBC).

Commercial Risk
Cf. Del Credere Risk

Commitment
Position on reporting date as of 31 December: Total of the maximum loan amount (including the insured interest over the total repayment period) multiplied by the cover ratio for all insurance policies and guarantees (IP) granted.

Confidence Factor
This quantifies the probability that the effective loss will be less than or equal to the value at risk. SERV calculates with a confidence factor of 99.9 per cent.

Counter Guarantee
This protects the financial institution providing a contract bond against insolvency or unwillingness to pay on the part of the exporter if the bond is called.

Cover Policy
Periodic determination of limits on insurance capacity and insurance terms by country, bank and private buyer.

CR Compensation Reserve
Residual value that results after the deduction of the risk-bearing capital (RBC), core capital (CCap) and net income (NI) from the capital of SERV. This functions as a risk buffer which permits additional cover and compensates for fluctuations in RBC and CCap due to varying risk valuations over time.

CRC Country Risk Category
Country ratings by OECD categories CRC 0 – CRC 7 and High Income. CRC 0 is the lowest country risk level, while CRC 7 is the highest. The High Income category includes the High Income OECD countries and eurozone countries, which are not classified by country risk. The CRC influences the amount of the insurance premium. The premiums for High Income countries and the countries in CRC 0 are based on market prices.

Debt Rescheduling / Debt Rescheduling Agreement
On the basis of a multilateral framework agreement, a special agreement (debt rescheduling agreement) is concluded in the Paris Club between a debtor country and its creditor countries for the restructuring of the obligations of an over-indebted country to Switzerland. The aim is to restructure the external debt of the rescheduling country, while ensuring the equal treatment of the creditor countries.

Earned Premiums
Part of the insurance premiums that serves to cover the risk in the current financial year and is reported as income.

ECA Export Credit Agency
Organisation which grants, insures or guarantees export credits with an implicit or explicit government guarantee for the promotion of foreign trade. In addition to these traditional ECA products, many of these organisations also offer further finance, insurance and guarantee products for the promotion of foreign trade.

Economic Viability
SERV has a legal requirement to operate in an economically viable manner, i.e. to finance itself in the long term without subsidy through its own premium revenues and investment income.

ERG Export Risk Guarantee
The Export Risk Guarantee ERG was established in 1934 – originally as a measure to combat unemployment – and replaced by SERV in 2007.

Exposure
Position on reporting date as of 31 December: Commitment plus sum insured of insurance and guarantee commitments in principle (ICP).

Framework of Obligation
Maximum scope as determined by the Federal Council of the insurance obligation of SERV. It currently amounts to CHF 14.0 billion.

IBNR Incurred But Not Reported
Losses incurred but not reported.

ICP Insurance Commitment in Principle
Commitment by SERV to conclude the insurance required, provided there are no material changes in the circumstance and legal position. An ICP can be applied for by the applicant before conclusion of the export transaction and is valid on principle for six months.

ICS Internal Control System
The ICS handles all risks which may put at risk both the reliability of financial reporting and compliance with the applicable laws and ordinances.

Insurance Obligation
The amount of the total insurance obligation of SERV is calculated from the total commitment, 75 percent of the cover amount of the ICP and a surcharge for insurance policies (IP) in a foreign currency. The amount of the insurance obligation may not exceed the framework of obligation.

Loading
The premium amount which is available, following deduction of the expected average annual loss, for administration expenses and any negative financial income. The loading is required for calculation of the economic viability.

Multi-Buyer Insurance
Enables an association (central insurance unit) to have its deliveries to various orderers in various countries be covered by a single insurance policy (IP).

New Commitment
Position during period: Total of the maximum loan amount (including the insured interest over the total repayment period) multiplied by the cover ratio for all insurance policies and guarantees (IP) granted within a period.

New Exposure
Position during period: New commitment plus sum insured of insurance and guarantee commitments in principle (ICP).

OECD Arrangement / OECD Export Credit Group
The OECD Arrangement is an agreement with the aim of harmonising the public support of export credits. For example, it governs minimum standards for terms and conditions of payment, credit periods and for the calculation of premiums in the case of publicly supported export credits with a term of more than two years.

In the OECD Export Credit Group, the member countries agree on guidelines or recommendations, for example for auditing the environmental and human rights compatibility of export transactions, for combating corruption in international trade and for the sustainable issue of credit for countries with a high debt potential.

Paris Club
An international negotiation forum for the debt rescheduling of over-indebted countries. Negotiations in the Paris Club begin when a debtor country is not in a position to meet its payment obligations.

An ad-hoc group is created for each case of debt rescheduling. This is comprised of representatives of the creditor nations and of the country in rescheduling, as well as representatives of the International Monetary Fund (IMF), the World Bank, the UNCTAD and the OECD.

Del Credere Risk
Potential insolvency or refusal to pay on the part of the buyer or guarantor. SERV insures the del credere risk of both public and private buyers.

Political Risk
This includes extraordinary government measures or political events such as war, revolution, annexation or civil unrest abroad, as well as domestic government measures (export prohibitions), as a result of which the proper processing of the export transaction or the settlement of a claim that has arisen becomes impossible or unacceptable, or goods are confiscated abroad.

Principles of Swiss foreign policy
SERV observes these principles, which are formulated in Art. 54 para. 2 of the Swiss constitution: “The Swiss Confederation acts to preserve Switzerland’s independence and protect its national welfare, contributing to the alleviation of poverty and destitution in the world and promoting respect for human rights and democracy, the peaceful coexistence of peoples and the conservation of natural resources.”

Private Buyer Risk
Risk of insolvency or unwillingness to pay of a private buyer or guarantor.

Repayments
Realised claims from losses, i.e. payment receipts after payment of the indemnity in the event of a loss.

Restructuring
Measures to restore the profitability and financial equilibrium of debtors who are not members of the Paris Club and are over-indebted or at risk of insolvency. In restructuring, outstanding claims are regulated anew in a contract between SERV or the policyholders and the debtor.

RBC Risk-Bearing Capital
Balance sheet item corresponding to the item “technical provisions”, typically used in the insurance industry. In accordance with SERV-V, provisions for losses not yet incurred must be shown as equity items. The RBC is determined by means of an actuarial model taking into account all asset portions at risk of loss. The respective value at risk is calculated applying a confidence factor of 99.9 percent.

SERVG
Swiss Export Risk Insurance Act of 16 December 2005 (as of 1 January 2016), SR 946.10.

SERV-V
Swiss Export Risk Insurance Ordinance of 25 October 2006 (as of 1 January 2016), SR 946.101.

Unearned Premium Reserve
Insurance premiums received in the year under review or previous years that are only to be earned later in the policy term due to the special risk profile of the transaction.

Value at Risk
A measure of risk which indicates with a certain amount of confidence the total loss of a certain risk portfolio which will not be exceeded within a given time horizon.

Working Capital Insurance
Covers a working capital loan for a Swiss export transaction, i.e. protects the creditor financial institution against insolvency or unwillingness to pay.

This glossary is in abbreviated form.
The full version can be found on the SERV website under www.serv-ch.com > Glossary.

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