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	10673	515	52872	64060
Average expected annual loss	–8409	–448	–26392	–35249
Loading	**2264**	**67**	**26480**	**28811**
Personnel expenses	–1142	–1006	–7822	–9970
Non-personnel expenses	–474	–416	–3233	–4123
Financial income	–217	–7	–1402	–1626
Economic viability 1	**431**	**–1362**	**14023**	**13092**
Interest income from cash investments	–	–	–	–
Economic viability 2	**431**	**–1362**	**14023**	**13092**

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