

Bâloise Holding Ltd

ANNUAL REPORT

2011

Bâloise Holding Ltd
Annual Report 2011

What we stand for: We want people to feel safe. To play our part in this respect, we created the “Safety World.” Everything we do is aimed at safety. As such, we consciously go further than other insurance companies: we combine insurance with smart prevention. In this way, we help to ensure that losses do not occur in the first place. Should something happen nevertheless, then we’re right there. Fast and capable as always.

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Baloise key figures

	2010	2011	Change in %
in CHF million			
Business volume			
Gross premiums written nonlife	3,044.9	3,143.5	3.2
Gross premiums written life	3,814.9	3,659.8	-4.1
Subtotal of IFRS gross premiums written¹	6,859.8	6,803.3	-0.8
Investment-type premiums	2,681.6	1,341.2	-50.0
Total business volume	9,541.4	8,144.5	-14.6
Business result			
Profit / loss for the period before borrowing costs and taxes			
Nonlife	380.3	127.0	-66.6
Life ⁵	182.7	15.9	-91.3
Banking	67.9	73.3	8.0
Other activities	-23.7	-72.3	205.1
Profit for the period	436.7	61.3	-86.0
Balance sheet			
Recognised assets including investment-type life insurances ²	61,260.5	64,507.0	5.3
Technical reserves	43,445.7	45,561.9	4.9
Equity	4,133.5	3,893.6	-5.8
Ratios in percent			
Return on equity (RoE)	10.4	1.6	-
Combined ratio nonlife (gross)	92.2	92.4	-
Combined ratio nonlife (net)	95.2	95.5	-
New business margin life	11.8	10.2	-
Investment performance	3.5	2.7	-
Embedded value life insurance			
Embedded value (MCEV)	2,573.5	2,153.0	-16.3
APE (annual premium equivalent)	498.4	341.7	-31.4
Value of new business	58.9	34.9	-40.7
Key share figures			
Shares issued in units	50,000,000	50,000,000	0.0
Consolidated profit per share basic ³ in CHF	9.14	1.30	-85.8
Consolidated profit per share diluted ³ in CHF	8.89	1.29	-85.5
Equity per share ³ in CHF	86.5	82.3	-4.9
Closing price in CHF	91.00	64.40	-29.2
Market capitalisation in CHF million	4,550.0	3,220.0	-29.2
Dividend per share ⁴ in CHF	4.50	4.50	0.0

1 Premiums written and policy fees gross.

2 Including assets for the account and at the risk of life insurance policyholders.

3 Calculation is based on the consolidated profit and equity before minority interests respectively.

4 2011 based on the proposal to the Annual General Meeting.

5 Of which latency calculation effects from other business segments: 31 December 2010 CHF -10.4 million / 31 December 2011 CHF 10.8 million.

At a glance

WHO WE ARE:

Headquartered in Basel, Switzerland, the Baloise Group is a European provider of insurance and pension solutions. In Switzerland Baloise operates as a focused financial services provider, combining insurance and banking. Its other markets are Germany, Austria, Belgium, Luxembourg, Liechtenstein, Croatia and Serbia. The sales network includes its own sales organisation, brokers and other partners. Its innovative pension product business for private customers throughout Europe is driven by the Baloise competence centres in Luxembourg and Liechtenstein. Baloise Holding Ltd shares are quoted in the main segment of the SIX Swiss Exchange. Baloise Group has approximately 9,100 employees.

OUR KEY FIGURES:

- Profit of CHF 61.3 million (previous year: CHF 436.7 million), mainly impacted by negative non-current effects due to economic development
- Increase in premium volume by 4.1 % in local currencies
- Strong nonlife business, despite above-average major claims; net combined ratio of 95.5 % (previous year: 95.2 %)
- Embedded value (MCEV) of CHF 2,153.0 million (previous year: CHF 2,573.5 million). New business margin of 10.2 % (previous year: 11.8 %)
- Programme “Baloise 2012”: higher efficiency and lower costs
- Good solvency margin of 203 % (previous year: 224 %)
- Equity amounting to CHF 3,893.6 million (previous year: CHF 4,133.5 million)
- Distinctly improved brand positioning in Belgium through additional purchases
- Unchanged high dividend of CHF 4.50 per share (proposal to Annual General Meeting on 27 April 2012)

WHAT WE WANT TO ACHIEVE:

We will focus on our efficient and profitable core business. As a result, we strive for a combined ratio of well below 100 % in nonlife business. In life insurance, we want to attain a new business margin of at least 10 %. However, in the years to come we anticipate volatile financial markets and an uncertain economic and interest rate development. We are therefore cautious in our forecasts. Yet our focus on the quality of our operational business creates the basis for being able to pay an attractive dividend in the future as well.



Dr Andreas Burckhardt, Chairman of the Board of Directors (left)
and Dr Martin Strobel, Group CEO (right)

“Safety and solidity in uncertain times”

DEAR SHAREHOLDERS

Based on its Swiss origin and tradition, Baloise has stood for safety and solidity for 149 years. We are pleased that we have been able to be a safe harbour and a solid, reliable partner for our customers, employees and shareholders also in the extremely demanding year of 2011. It becomes clear in times of great uncertainty, that efficient, stable insurers like Baloise are indispensable for modern economies. In the name of all employees, we would like to thank you for your confidence in us.

The 2011 business result cannot be satisfactory. The bad economic development, very low interest rates, the European debt crisis, the strong Swiss franc, weak stock exchanges, large elementary claims, these have all gravely impaired our consolidated profit. As a responsible company, we informed you of this already

in November 2011. Thanks to its robust condition, Baloise has been able to cope with this unusual number of challenges.

We can establish that the impacts listed are market-related or one-off bookkeeping burdens. On the other hand, Baloise continues to be convincing with its capital strength and its profitable core insurance business.

In uncertain times, companies that can produce convincing “good reasons” have a future. What are these good reasons for Baloise?

First: Baloise has a clear strategy. We combine our growth targets with an added-value positioning. With the promise “Making you safer” we provide prevention solutions that complement the insurance offerings intelligently. This way, we help

ensure that losses do not occur in the first place. More and more customers appreciate this tangible plus in value that they don't get anywhere else.

Second: Baloise has a healthy, profitable insurance business. This is documented by our nonlife division, the backbone of our company. For many years now, Baloise has been among the best regarding the decisive parameter of the combined ratio even in the turbulent year of 2011. We control all business and financial market risks with our proven risk management, one of our core domains. With the programme "Baloise 2012" we optimise business processes meticulously and look for new growth opportunities to make Baloise more profitable. All these skills of our trade will continue to serve us well.

"We build on our profitable insurance business."

Third: Baloise is financially sound and has a healthy balance sheet. This is of particular importance when providing safety to customers, employees and shareholders. Because as an insurance, Baloise must always guarantee all its obligations to one hundred percent. The relevant key figures underpin this strength: The solvency margin was once again good at 203 % and the Baloise Group also meets the strict legal specifications of the "Swiss Solvency Test." We have been paying an attractive dividend for many years now thanks to our capital strength and earning power. We regard this skill as an obligation to offer our owners a reliable return on their capital that they entrust to us. We want to continue this policy also in the years to come.

Based on our Swiss tradition, we stand for this value-creating continuity. That means that while we might not be the most exciting company, we are definitely a sound and a safe enterprise. For generations now we have cultivated this basic attitude. And this permits us to look optimistically to the future.

Thanks to the good operational earning power, the high operating cash flow and strong capitalisation, we intend to continue our long-standing, attractive payout policy despite the demanding prevailing circumstances. We will propose an un-

changed high dividend of CHF 4.50 at the Annual General Meeting on 27 April 2012.

We will focus on our efficient and profitable core business. As a result, we strive for a combined ratio of well below 100 % in nonlife business. In life insurance, we want to attain a new business margin of at least 10 %. However, in the years to come we anticipate volatile financial markets and an uncertain economic and interest rate development. We are therefore cautious in our forecasts. Yet our focus on the quality of our operational business creates the basis for being able to pay an attractive dividend in the future as well.

Basel, March 2012



Dr Andreas Burckhardt
Chairman of the Board of Directors



Dr Martin Strobel
Group CEO

Attractive dividend for shareholders

The Baloise share* ended the year at CHF 64.40 and was thus distinctly below the value at the beginning of the year. An attractive yield of 7.0% results from the dividend of CHF 4.50 (proposed to the Annual General Meeting). Together with the completion of the share buy-back programme, Baloise thus confirms its shareholder-friendly payout policy.

The year 2011 was marked by the European debt crisis. The record lows for interest rates and uncertainty on the money markets put pressure on financial stocks in particular. The Baloise share as well felt the negative effects of the macro-economic environment and lost significantly in value compared to the beginning of the year.

Still in the first half of the year, the Baloise share developed distinctly better than the Swiss Insurance Industry Index. Closing on 30 June 2011 at CHF 86.75, the share lost 4.7% in value whereby the industry index recorded a minus of 8.6% and so nearly double the deficit. After the first six months of the year, the Swiss Market Index closed 3.9% lower in value than at the beginning of the year.

In the second half-year, the Baloise share reacted very sensitively to the negative development of the economic environment and sustained a loss in value of around 25%. In comparison, the European Insurance Industry Index lost 18.0% and the Swiss equivalent 4.7%.

With regard to the whole year and despite the relatively good performance during the first half-year with a year-end price of CHF 64.40, a negative value development of the Baloise share of 29.2% results. In contrast, the losses of the European Insurance Industry Index, with a depreciation of 13.7%, were much lower. Both the Swiss Insurance Industry Index and the Swiss Market Index were affected to a much lesser extent, with minuses of 12.9% and 7.8% respectively.

The Baloise share remains included in the Swiss Leader Index (SLI) due to market capitalisation and the trade volume. This contains the 30 most solvent and largest Swiss stocks.

DIVIDENDS PAID OUT TO THE SHAREHOLDERS

For the 2011 fiscal year, the Baloise Holding Ltd Board of Directors will propose a cash dividend of CHF 4.50 to the Annual General Meeting on 27 April 2012. Measured against the year-end price, this represents a cash dividend yield of 7.0%.

The share buy-back programme, which started in September 2008, was concluded on 28 April 2011. 1,776,435 shares were bought back at an average price of CHF 79.36 via the normal trading line on the SIX Swiss Exchange. This corresponds to 3.6% of outstanding shares.

Year	Buy-back volume (in units)	Buy-back volume (in CHF million)	Average price (in CHF)
2008 ¹	274,217	17.7	64.42
2009	907,678	71.5	78.75
2010	416,066	34.7	83.50
2011	178,474	17.1	95.71
Total	1,776,435	141.0	79.36

¹ Comprises exclusively the share buy-back programme in place since September 2008. An additional 1,173,715 treasury shares were repurchased at an average price of CHF 95.99 in 2008, as part of the previous share buy-back programme (2006–2008).

The share buy-back programme can be viewed at:
www.baloise.com → Investor Relations → Baloise share
 → Share buy-back programme

*Baloise share = share of Baloise Holding Ltd

SHAREHOLDER STRUCTURE

Baloise Holding Ltd has a broad shareholder base. The free float of the Baloise share is unchanged at 100%. During the course of the year, collective investments that are managed by the Credit Suisse Group have repeatedly exceeded or fallen below the reportable 3% threshold. On 16 September 2011, the propor-

tion of outstanding registered shares held by the Credit Suisse Group amounted to 3.05%. This was the only significant change to the shareholder base in the 2011 fiscal year. Information on the significant shareholders as of 31 December 2011 is detailed in the table on page 231.

SHARE STATISTICS

	31.12.2007	31.12.2008	31.12.2009	31.12.2010	31.12.2011
Price at year-end in CHF	111.50	78.50	86.05	91.00	64.40
High in CHF	135.00	119.80	102.60	97.85	103.30
Low in CHF	104.90	44.80	52.60	74.15	60.15
Market capitalisation in CHF million	6,021.0	3,925.0	4,302.5	4,550.0	3,220.0
Consolidated profit per share basic in CHF	15.15	7.33	8.64	9.14	1.30
Consolidated profit per share diluted in CHF	15.15	7.32	8.57	8.89	1.29
Price / earnings ratio (P / E) ¹	7.36	10.71	9.96	9.96	49.54
Price / carrying value ratio (P / B) ¹	1.20	1.00	0.95	1.05	0.78
Number of shares issued in units	54,000,000	50,000,000	50,000,000	50,000,000	50,000,000
./ Number of treasury shares in units	3,997,308	1,566,985	2,282,790	2,800,239	3,247,273
Number of shares in circulation in units	50,002,692	48,433,015	47,717,210	47,199,761	46,752,727
Average number of shares outstanding ²	51,887,469	48,852,533	47,905,512	47,394,282	46,900,473
Dividends per share ³ in CHF	4.50	4.50	4.50	4.50	4.50
Dividend pay-out ratio ³	29.7	61.4	52.1	49.2	>100
Dividend yield ³	4.0	5.7	5.2	4.9	7.0

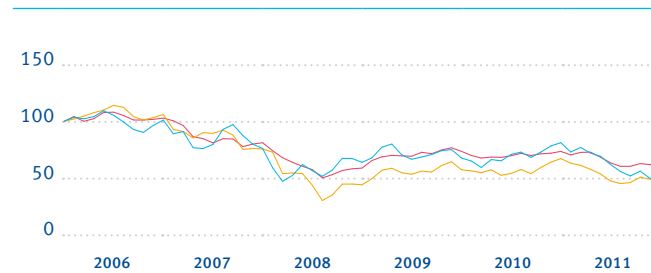
1 Calculation is based on the consolidated profit and equity before minority interests respectively.

2 Relevant for the earnings per share calculation (see Financial Report page 207).

3 2011 based on proposal to Annual General Meeting.

BALOISE SHARE

Security symbol	BALN
Nominal value	CHF 0.10
Security number	1.241.051
ISIN	CH0012410517
Exchange	SIX Swiss Exchange
Security type	100% registered shares

INDEXED SHARE PRICE DEVELOPMENT¹ BÂLOISE HOLDING REGISTERED SHARE 2006 – 2011

1 31 December 2005 = 100.

■ Baloise Holding registered share (BLAN)
■ SWX SP Insurance Price Index (SMINNX)
■ Swiss Market Index (SMI)

Our markets

Baloise focuses on markets, customers, sales channels and products with a high degree of added value. Our target customers are private individuals, small and medium-sized enterprises with a positive risk and earnings profile as well as selected industrial companies.

SWITZERLAND

In its home market Switzerland Baloise operates under the brand names “Basler Versicherungen” and “Baloise Bank SoBa.” Baloise Switzerland is the largest business unit within the Group. As a financial services provider it focuses on comprehensive insurance and pension solutions. Its clients are private individuals, small and medium-sized enterprises as well as selected industrial companies. The company’s own sales force constitutes the core of its sales strategy. This is augmented by a network of selected sales partners for specific product and client segments, and by brokers and the Internet. Baloise Bank SoBa specifically complements the range of pension solutions with banking products that are sold by the insurance sales force and by the bank itself. In north-west Switzerland its market positioning is also that of a full-service bank.



KEY FIGURES SWITZERLAND

	2010	2011
Employees	3,786	3,748
Business volume in CHF million	4,108.2	4,100.6
Combined ratio (gross) in percent	88.0	88.4

GERMANY

Baloise operates in Germany with the brands “Basler Versicherungen”, “Deutscher Ring Sach” and “Deutscher Ring Leben” all under one management. The Baloise portfolio includes insurance and pension solutions in the areas of indemnity, accident and life insurances for private individuals, small and medium-sized enterprises and selected industrial clients. As far as sales

are concerned, Baloise concentrates on using its own insurance sales force and brokers. Deutscher Ring Leben and Deutscher Ring Sach specialise in private pension solutions. Sales are generated by its own insurance sales force, via the sales partners OVB and ZEUS as well as through brokers using Moneymaxx brand products.



KEY FIGURES GERMANY

	2010	2011
Employees	2,858	2,652
Business volume in CHF million	1,987.1	1,774.9
Combined ratio (gross) in percent	97.1	98.2

BELGIUM

Baloise is present on the Belgian market with the brand “Mercator”. The purchase of Avéro and Nateus has made Mercator one of the leading insurers in Belgium. Mercator sees itself as a partner for professional brokers. The company provides a broad range of life and nonlife insurance products for private individuals as well as small and medium-sized enterprises.



KEY FIGURES BELGIUM

	2010	2011
Employees	813	1,389
Business volume in CHF million	798.1	1,091.1
Combined ratio (gross) in percent	94.0	95.3



LUXEMBOURG

“Baloise Assurances” provides a broad range of insurance, pension and asset formation products to private and corporate customers in the Grand Duchy. Outside of its home market, Baloise Luxembourg also sells pension and asset formation solutions in various EU countries in partnership with banking partners that have strong market positioning.



KEY FIGURES LUXEMBOURG

	2010	2011
Employees	234	256
Business volume in CHF million	1,269.9	598.9
Combined ratio (gross) in percent	81.4	81.1

AUSTRIA

In Austria “Basler Versicherungen” provides insurance and pension solutions to private customers as well as to small and medium-sized enterprises. The company’s own sales force is mainly responsible for marketing of these products.



KEY FIGURES AUSTRIA

	2010	2011
Employees	237	228
Business volume in CHF million	161.9	153.7
Combined ratio (gross) in percent	97.5	95.0

CROATIA AND SERBIA

In Croatia, Baloise operates as “Basler osiguranje Zagreb”. It offers a comprehensive range of insurance solutions for private and corporate customers, using its own insurance sales force and via agencies and banks. Since the end of 2007, Baloise has also been represented in Serbia, where it concentrates on selected target customer segments.



KEY FIGURES CROATIA AND SERBIA

	2010	2011
Employees	831	820
Business volume in CHF million	78.8	70.4
Combined ratio (gross) in percent	110.2	107.4

LIECHTENSTEIN

Baloise Life, founded in Balzers in 2007, develops innovative pension solutions and tailor-made life insurance products for private customers across Europe. It markets these via national Baloise companies as well as via third party partners.



KEY FIGURES LIECHTENSTEIN

	2010	2011
Employees	34	44
Business volume in CHF million	1,119.0	343.1

Brand and strategy

Our promise is “Making you safer.” Everything we do is geared towards safety. We combine insurance with smart prevention solutions and thus help to ensure that losses do not occur in the first place.

BRAND DELIVERABLES

Safety

Safety is our core achievement. Safety is behind every achievement, every service and every product. As a force which liberates energy, inspires and fosters.

Strength

Baloise is a strong partner. Strong in terms of growth, returns and results. We can be relied on when it really counts, because our strength means we are a partner people can depend on.

Professionalism

Baloise stands for professionalism. This allows us to produce top-quality performance. We are professional in our approach to our core business, our customers and our marketing. Because we know that professionalism brings inner peace.

BRAND VALUES

Swiss

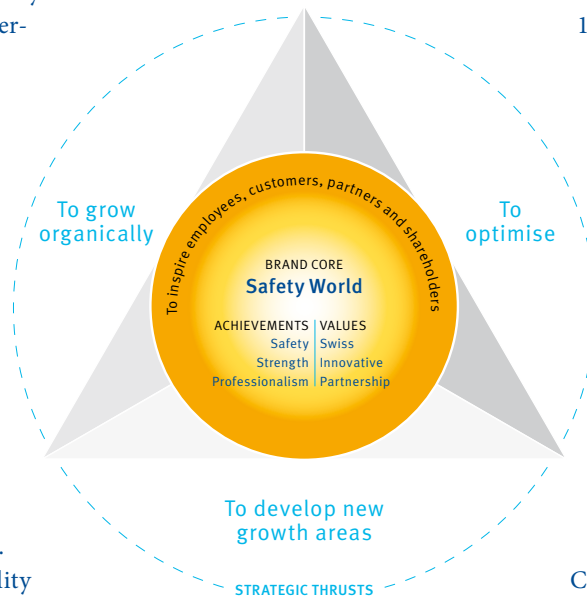
Baloise is proud of its Swiss origins. Since 1863. This means we combine reliability, humanism, solidity, tradition, financial strength and independence.

Innovative

Our innovative drive gives us the necessary competitive edge. This is evident from our systematic, comprehensive focus on safety as well as our customer management. We create an environment that fosters innovation in every area.

Partnership

Commitment to partnership is one of our biggest emotional strengths. It is based on recognising and creating added value. We work to nurture and deepen our relationships with all our stakeholders. So that we are always able to generate enthusiasm.



Review of business year

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Sound and reliable through the uncertain environment

Diverse impacts from the difficult economic and financial market environment impaired the profit of Baloise distinctly to CHF 61.3 million, however, the Group's operative efficiency and capital strength remain high. They form the basis to look optimistically to the future.

OVERVIEW

The Baloise Group achieved a profit of CHF 61.3 million in the 2011 fiscal year (previous year: CHF 436.7 million). The reasons for this distinct reduction lie mainly in the numerous, extraordinary impacts of the economic and financial market crisis. The very low interest rates and the adverse development on the financial markets made impairments on shares and Greek government bonds necessary. The negative interest rate development dampened the earning power of the life insurances. The lower average euro exchange rate diminished the results of the foreign units and investments that are reported in Swiss francs. There was also a cyclical depreciation of goodwill in the Croatian business unit. In contrast to these market-related and largely one-off bookkeeping burdens, the development of the insurance business was encouraging. The combined ratio of the nonlife business achieved a good 95.5% net (previous year: 95.2%), despite the large burdens caused by storms and major claims as well as the costs of integrating the new companies in Belgium. The strategic growth and efficiency programme "Baloise 2012" is on track and contributed CHF 150 million to earning power. The programme comprises around 100 measures to increase the Baloise Group's earning power sustainably by CHF 200 million until 2012. The financial strength also remains high: Solvency was good at 203% and equity remained stable.

We have embedded the brand positioning expressed through the promise "Making you safer" further in all Baloise markets. We continued to extend our prevention solutions that complement the classic insurances to include motor, household and marine insurances. These additional offerings have been very well received by the customers: They bring about a higher product density at the target customers, an above-average intake of new customers, increased customer loyalty and recommenda-

tions. Thus these safety offerings contribute considerably to value creation.

BUSINESS VOLUME 2011 (GROSS) BY STRATEGIC BUSINESS UNIT

in percent

→ Switzerland	50.3
→ Germany	21.8
→ Belgium	13.4
→ Luxembourg	7.4
→ Other units and Group business	7.1



The growth must be viewed from different aspects. Business volume, which includes investment-type life insurance products, dropped by 14.6% to CHF 8,144.5 million (previous year: CHF 9,541.4 million). In local currencies this equates to a decrease of 9.9%, after eliminating the euro exchange rate that is 10.9% poorer. As was to be expected, the main impact stems from the investment-type life insurances in Luxembourg and Liechtenstein – their volume was halved also because extraordinary effects were absent in 2011, namely those from the Italian tax amnesty and the "EU interest directive" that was – against expectations – not introduced. In contrast, the premium development of traditional insurances was distinctly more positive: IFRS premium volume amounted to CHF 6,803.3 million (previous year: CHF 6,859.8 million), a minus of 0.8%. An attractive growth of 4.1% resulted in local currencies, which confirms the sound sales performance. The growth impulses stem mainly from the nonlife business, but the acquisitions in Belgium also

contributed. The business volume of Baloise remains well spread over the whole Group.

The scope of consolidation of the Baloise Group was expanded importantly by the Belgian Avéro Schadeverzekering Benelux N.V. and, in the last trimester by the insurance companies Nateus SA / NV und Nateus Life SA / NV, which are likewise Belgian.

DISTRIBUTION INCOME

	2010	2011	+ / - %
in CHF million			
Total business volume	9,541.4	8,144.5	- 14.6
Life	3,814.9	3,659.8	- 4.1
Nonlife	3,044.9	3,143.5	3.2
Investment-type insurance premiums	2,681.6	1,341.2	- 50.0
Income from services rendered	283.4	158.6	- 44.0

NONLIFE DIVISION:

GOOD OPERATIVE PERFORMANCE AND GROWTH

The nonlife division (indemnity and personal insurance) achieved a very good operative performance. Clear evidence of this is the good net combined ratio of 95.5 %, which is hardly above the previous year's value of 95.2 % despite the large burdens of CHF 123 million caused by storms and major claims. Environmental damage alone burdened the net value of the combined ratio by 3.3 percentage points. Similarly positive was the development of the expense ratio, which decreased further to 31.4 % net (previous year: 31.9 %) thanks to the targeted measures of the programme "Baloise 2012" to increase efficiency. However, profit before taxes and borrowing costs was CHF 127.0 million and thus markedly below the previous year's value of CHF 380.3 million. High impairments on investments, especially on shares and Greek government bonds, were the main causes for the decrease. In addition, there were the substantial burdens due

COMBINED RATIO NET PERFORMANCE

in percent



to storm damage and major claims. The previous year's profit also benefited from disposals of investments. IFRS premium volume amounted to CHF 3,143.5 million (previous year: CHF 3,044.9 million), which equates to an increase of 3.2 % in Swiss francs and 10.6 % in local currencies. The main motors of this encouraging growth are, above all, the additional purchases in Belgium, but also successful sales in all local markets.

LIFE INSURANCE DIVISION:

BURDENS CAUSED BY CAPITAL MARKET

The result of the life insurance division was especially characterised by the drop in interest rates – above all in the Swiss life business – and the negative developments on the capital markets. Significant impairments on Greek government bonds were necessary in the life insurance division. Profit before borrowing costs and taxes dropped distinctly to CHF 15.9 million (previous year: CHF 182.7 million). Business volume, which includes investment-type life insurance products, amounted to CHF 5,001.0 million (previous year: CHF 6,496.5 million). This equates to a minus of 23.0 % in Swiss francs and 19.5 % in local currencies. It must be considered here that the volume of investment-type life insurances compared to the previous year is practically halved because after the strong growth drives of previous years of Baloise in Luxembourg and Baloise Life (Liechtenstein) the sales rates have now returned to a normal level. This decrease could not be compensated despite strong increases in Switzerland and Belgium. Premium income of classic life insurances amounted to CHF 3,659.9 million (previous year: CHF 3,814.9

million). The minus of 4.1 % in Swiss francs and 1.1 % in local currencies results from the weak demand for classic life insurances due to low interest rates. Growth stemmed mainly from Belgium from the purchase of Nateus Life.

The embedded value of the life business amounted to CHF 2,153.0 million (previous year: CHF 2,573.5 million). This equates to a return on embedded value of –17.8 %. A reduction of CHF 810.1 million stems from the change in the economic environment. The operating income contributed CHF 372.8 million to the embedded value. The value of new business amounts to CHF 34.9 million. The new business margin is 10.2 % (previous year: 11.8 %).

BANKING DIVISION: HIGH PROFITABILITY

The banking division achieved an excellent result with a profit before borrowing costs and taxes of CHF 73.3 million (previous year: CHF 67.9 million), despite the economic and financial crisis. This equates to a growth of 8.0 %. The fiscal year was especially pleasing for the Baloise Bank SoBa and Baloise Asset Management that belong to the banking division. The bank's interest-related business remained stable while the profit from financial services and the commission business increased.

EQUITY: SOLID FOUNDATIONS

Consolidated equity (after minorities) of the Baloise Group decreased by 5.8 % compared to the previous year. As of 31 December 2011, this amounted to CHF 3,893.6 million (31 December 2010: CHF 4,133.5 million). The decrease was mainly caused by the dividend for the 2010 fiscal year. This was only partially compensated by the lower profit in 2011. The return on equity dropped to 1.6 % as of year-end (previous year: 10.4 %) due to the lower result and the still strong equity base. Group solvency continues to be a very good 203 % compared to 224 % in the previous year.

INVESTMENTS: STABLE CURRENT INCOME DESPITE EXTRAORDINARY BURDENS

After the positive start to the year, the European debt crisis dominated the financial markets. The associated price fluctuations were reflected in the clearly lower investment result. Whilst recurring income remained stable at CHF 1,766.5 million, depreciation had to be performed on equity and also on debt instruments.

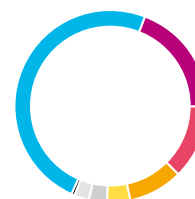
This meant that net income dropped by 29.7 % to CHF 1,359.1 million (previous year: CHF 1,934.4 million). This equates to a net return of 2.5 %. Life insurances, on the other hand,

OWN INVESTMENTS BY CATEGORIES ¹

	2010	2011	+ / - %
in CHF million			
Investment properties	5,046.6	5,138.0	1.8
Shares	2,216.1	2,190.4	-1.2
Alternative financial investments	1,300.4	1,290.2	-0.8
Fixed-income securities	24,962.2	27,981.6	12.1
Mortgage assets	10,653.7	10,949.8	2.8
Policy and other loans	7,039.8	7,092.9	0.8
Derivatives	357.8	281.8	-21.2
Cash and cash equivalents	1,862.2	1,835.5	-1.4
Total	53,438.8	56,760.2	6.2

INVESTMENT COMPONENTS 2011

in percent	
➤ Fixed-income securities	49.3
➤ Mortgage assets	19.3
➤ Policy and other loans	12.5
➤ Investment properties	9.0
➤ Shares	3.9
➤ Cash and cash equivalents	3.2
➤ Alternative financial investments	2.3
➤ Derivatives	0.5



¹ Excluding assets for the account and at the risk of life insurance policyholders.

BALOISE ASSETS AS OF 31.12.2010

	Nonlife	Life	Banking	Total Group
in CHF million				
Own investments	8,467.9	38,007.8	6,779.7	53,438.8
Investment-type life insurances ¹		7,821.7		7,821.7
Total recognised assets	8,467.9	45,829.5	6,779.7	61,260.5
Asset management for third parties				4,993.9
Total managed assets				66,254.4

BALOISE ASSETS AS OF 31.12.2011

	Nonlife	Life	Banking	Total Group
in CHF million				
Own investments	8,918.4	41,113.4	7,096.8	56,760.2
Investment-type life insurances ¹		7,746.8		7,746.8
Total recognised assets	8,918.4	48,860.2	7,096.8	64,507.0
Asset management for third parties				4,848.3
Total managed assets				69,355.3

¹ Including CHF 83.0 million (previous year: CHF 90.5 million) other assets (precious metal stocks from investment-type life insurance policies).

generated a higher return than the nonlife division. IFRS performance* was 2.7% and below the previous year's value of 3.5%.

In order to ensure the very good debtor quality, Baloise remains true to its strict guidelines regarding bond investments also when interest rates are low. Even so impairments of CHF 78.3 million had to be performed after deducting the legal quota, policyholders' dividends and taxes. These are almost completely due to the investments in Greek government bonds. The share of government bonds of the GIIPS countries (Greece, Ireland, Italy, Portugal and Spain) amounted to merely 1.7% of investments at the end of 2011. Baloise sold all the remaining Greek government bonds at the end of February 2012 since swap offerings are unattractive and high residual risks would persist. Due to the poor obligator creditworthiness, all Portuguese government bonds were also sold. A marginal loss resulted from this sale. On average, the euro bonds of Swiss companies were

currency-hedged to 85%, whereby this quota fluctuated between 80% and nearly 100% over the course of the year.

Share exposure was continually adjusted using derivatives according to our internal risk guidelines, resulting in a net loss of CHF 47.9 million. Hedge funds recorded a slightly negative performance, in contrast the development of private equities was very encouraging. The impairments on financial assets of an equity nature amounted to CHF 119.0 million net.

A unique feature of the properties held directly was their strong value and income stability. No net impairment was necessary on mortgage bonds.

* Including changes in net value of investments not recognised in profit or loss but excluding changes in held to maturity financial instruments.

Switzerland

Sound operative performance

The Switzerland segment confirmed its good operative profitability in the insurance and also in the banking division and achieved convincing growth in the nonlife business.

KEY FIGURES SWITZERLAND

	2010	2011	+/- %
in CHF million			
Business volume	4,108.2	4,100.6	-0.2
Of which: life	2,822.9	2,796.8	-0.9
Of which: nonlife	1,285.3	1,303.8	1.4
Combined ratio (gross)	88.0	88.4	-
in percent			
Profit before borrowing costs and taxes	273.7	107.8	-60.6

BALOISE INSURANCE: HIGH OPERATIONAL EARNING POWER

The profitable core business, especially the nonlife insurances, as well as the lower expenses were the main earning pillars during the fiscal year. Still, the profit before borrowing costs and taxes dropped distinctly to CHF 107.8 million (previous year: CHF 273.7 million). This decrease was mainly caused by impairments on investments, high elementary and major claims as well as negative interest effects in the life business. Business volume (including investment-type life insurances) was CHF 4,100.6 million, a mere 0.2% below the previous year's value of CHF 4,108.2 million. This is a convincing achievement in the face of the weak demand for classic life insurances in the 3rd pillar. The pillars of growth were the nonlife business as well as the life insurances with capital guarantees and the annual premiums of the occupational pension schemes (group life).

The operative performance of the nonlife division was hardly affected by the difficult prevailing circumstances and delivered convincing results. Premium volume was CHF 1,303.8 million (previous year: CHF 1,285.3 million). Innovative safety components stimulated demand and encouraged the growth of 1.4%. Accident and health insurances increased. Despite elemen-

tary and major claims, the gross combined ratio was an excellent 88.4%. The expense ratio dropped by 0.7% as a result of numerous cost-cutting measures.

Business volume amounted to CHF 2,796.8 million (previous year: CHF 2,822.9 million) in the life insurances division, which equates to a decrease of 0.9%. The development is multi-faceted: whilst the classic life insurances were no longer offered or hardly in demand due to the low interest rates, innovative products like Baloise Safe Invest or Renta Safe Time achieved good results. We were able to increase the annual premiums further in the Group life business despite the selective underwriting policy.

BALOISE BANK SOBA: MORE PROFIT THANKS TO GROWTH AND COST REDUCTIONS

The Baloise Bank SoBa again had a successful year in 2011. Net income increased by 2.3% to CHF 21.7 million (all figures pursuant to local financial accounting). Client assets and mortgage receivables continued to increase. The cooperation between the bank and the Basler Switzerland continued to pay off: The volume generated by the insurance sales force increased by 11.7% to CHF 2,113.6 million. The income from the interest-related business increased by 1.0% to CHF 83.8 million despite declining margins. The commission and service business remained constant. The cost-income ratio improved to 64.0% (previous year: 66.8%). The total assets amounted to CHF 6.68 thousand million as of 31 December 2011, an increase of 4.8%.

Germany

Challenging transition phase

The merging of Basler Germany and the Deutscher Ring Leben und Sach is proceeding as planned. However, the result of the German business unit is not as expected.

KEY FIGURES GERMANY

	2010	2011	+/- %
in CHF million			
Business volume	1,987.1	1,774.9	-10.7
Of which: life	1,048.2	928.2	-11.4
Of which: nonlife	938.9	846.7	-9.8
Combined ratio (gross)	97.1	98.2	-
in percent			
Profit before borrowing costs and taxes	118.7	-1.9	n / a

The difficult market environment and major claims impaired the operational earning power. Baloise's German business generated a loss before borrowing costs and taxes of CHF 1.9 million in the 2011 fiscal year (previous year: profit of CHF 118.7 million). The annual result of 2010 profited from various positive non-recurrent effects as a result of separating Deutscher Ring Leben und Sach on the one hand, and Deutscher Ring Kranken on the other. Furthermore, the sales company OVB, whose holding was deconsolidated in 2010 no longer contributes to the result. The 2011 business result of the German unit was characterised by the weak capital market development and lower interest rates on the one hand. And on the other and above all in the fourth quarter, considerable major and elementary claims, reserves for claims incurred prior to the reporting period as well as an above-average number of medium-sized claims put a strain on the result. The combined ratio of the property insurance business deteriorated to gross 98.2% (previous year: 97.1%). While the loss ratio increased by 1.5 percentage points, the expense ratio improved by 0.5 percentage points. The costs from separating the companies of the Deutscher Ring dampened the result.

The business volume amounted to CHF 1,774.9 million (previous year: CHF 1,987.1 million), a minus of 10.7%. This results in a slight plus of 0.2% after adjustments for effects from exchange rates. The property insurance division achieved a premium volume of CHF 846.7 million (previous year: CHF 938.9 million). This equates to a pleasing increase in local currencies of 1.2%. Positive is that the premium erosion due to the separating process of Deutscher Ring Sach could be more than compensated by the good growth achieved by Basler Germany. The business volume of the life insurance division developed slightly weaker due to the difficult circumstances. It achieved CHF 928.2 million (previous year: CHF 1,048.2 million), a slight decrease in local currencies of 0.6%. In this division, high single premiums compensated losses in current premiums, contrary to the market trend.

The separation of the Deutscher Ring companies and the merging of Deutscher Ring Leben und Sach with Basler Germany are proceeding according to plan. The formation of a single German business unit with the brand name "Basler Versicherungen" will be largely completed in 2013.

Belgium and Luxembourg Strengthened market position and good growth

The business units Mercator in Belgium and Baloise in Luxembourg continued their dynamic growth. Mercator is now one of the largest insurers in Belgium.

BELGIUM: STRONG MARKET POSITION AFTER ADDITIONAL PURCHASES

KEY FIGURES BELGIUM

	2010	2011	+ / - %
in CHF million			
Business volume	798.1	1,091.1	36.7
Of which: life	239.8	336.2	40.2
Of which: nonlife	558.3	754.9	35.2
Combined ratio (gross)	94.0	95.3	-
in percent			
Profit before borrowing costs and taxes	142.9	21.9	-84.7

Mercator now is one of the leading insurers in the nonlife business in Belgium after the purchase of the Avéro Schadeverzekering Benelux NV at the beginning of 2011 and the Nateus companies in the second half-year. The integration of Avéro is already almost completed, whilst Nateus is to be integrated at the beginning of 2013. The Belgian business unit achieved a profit before borrowing costs and taxes of CHF 21.9 million (previous year: CHF 142.9 million). Impairments on investments and the costs of integrating Avéro dampened the result. Furthermore, the profit of the previous year contains larger revenues from the sale of securities. Through the purchase of the new units, the business volume grew by 36.7% to CHF 1,091.1 million (previous year: CHF 798.1 million). The increase in local currency amounted to 53.4%. Even without the new companies, Mercator increased its business above the market average in the non-life business and also in life insurances. Due to the consolidation of Avéro and Nateus (last trimester) and also because of the lower settlement profits in comparison to the previous year, the gross combined ratio increased by 1.3 percentage points to 95.3% (previous year: 94.0%).

LUXEMBOURG: GOOD GROWTH IN LOCAL CORE BUSINESS

KEY FIGURES LUXEMBOURG

	2010	2011	+ / - %
in CHF million			
Business volume	1,269.9	598.9	-52.8
Of which: life	1,188.2	525.7	-55.8
Of which: nonlife	81.7	73.2	-10.4
Combined ratio (gross)	81.4	81.1	-
in percent			
Profit before borrowing costs and taxes	14.3	10.0	-30.1

Measured against the economic circumstances, Baloise Luxembourg achieved a very good result with a profit before borrowing costs and taxes of CHF 10.0 million (previous year: CHF 14.3 million). The business unit enjoyed a favourable claims development throughout the fiscal year. The gross combined ratio improved slightly to 81.1% (previous year: 81.4%). The weaker claims ratio could be overcompensated by cost reductions. The cross-border business with investment-type life insurances is starting to return to normal. This means that the business volume that is characterised to a large extent by these products was halved after very strong growth spurts in the previous years, to CHF 598.9 million (previous year: CHF 1,269.9 million). Baloise Luxembourg was able to gain further ground in the local core business. Premium volume was CHF 122.6 million (previous year: CHF 133.1 million). This equates to an increase in local currency of 3.4%. Likewise currency adjusted, the premiums in the nonlife sector grew by 0.6% and for life insurances by 7.8%.

Other units and Group business

Basler Austria continues to grow strongly. An impairment to goodwill dampens the result in Croatia.

KEY FIGURES OTHER UNITS			
	2010	2011	+/- %
in CHF million			
Business volume	1,359.7	567.2	-58.3
Of which: life	1,197.4	414.1	-65.4
Of which: nonlife	162.3	153.1	-5.7
Combined ratio (gross) Basler Austria in percent	97.5	95.0	-
Combined ratio (gross) Croatia and Serbia in percent	110.2	107.4	-
Profit before borrowing costs and taxes	-16.9	-89.0	426.6

AUSTRIA: STRONG GROWTH

Basler Austria continued to grow strongly as in previous years and proceeded to invest in the expansion of the insurance sales force by taking over local agencies. Business volume was CHF 153.7 million (previous year: CHF 161.9 million). This equates to an increase of 6.5 % in local currencies. The growth rates in the following business divisions were also convincing: The non-life business achieved a plus in local currencies of 7.7 %, whilst the life insurances, likewise in local currency, increased by 3.0 %. Here investment-type insurances were the driving force. Impairments on investments resulted in a loss before borrowing costs and taxes of CHF 1.0 million (previous year: CHF 2.4 million). The gross combined ratio improved to 95.0 % (previous year: 97.5 %).

CROATIA AND SERBIA:

GOODWILL IMPAIRMENT IN CROATIA

The reappraisal of the business perspectives of the Croatian business unit that became necessary in connection with the weak economic development in Croatia resulted in a goodwill

impairment of the Osiguranje Zagreb that was taken over in 2007. This is the main reason for the loss before borrowing costs and taxes of CHF 72.4 million. The Croatian unit continues to make operational progress. Restructuring and optimisation measures together with the favourable claims history improved the gross combined ratio to 107.4 % (previous year: 110.2 %). Business volume in Croatia and Serbia amounted to CHF 70.4 million; the increase in local currency was 2.5 %.

BALOISE LIFE, LIECHTENSTEIN: NEW ORIENTATION

The business volume of Baloise Life in Liechtenstein, which specialises in innovative life insurance products, amounted to CHF 343.1 million (previous year: CHF 1,119.0 million). This business segment, investment-type life insurances, has returned to normal after the strong growth spurts of previous years, especially in Italy. This led to a strong reduction in business volume. At the end of 2011, the unit was newly positioned and downsized accordingly, as part of the strategic orientation of the Group's life business. It now cooperates with Baloise Luxembourg that will in future be responsible for coordinating operations in the EU zone.

GROUP BUSINESS

The "Group business" segment contains the units for Group internal reinsurance and financing, the holding companies as well as Corporate IT. Profit before borrowing costs and taxes amounted to CHF 95.1 million (previous year: CHF 74.5 million). The increase can be attributed to the positive result development of the reinsurance unit and the Run Off business in particular.

Consolidated income statement

FIVE-YEAR OVERVIEW

	2007	2008	2009	2010	2011
in CHF million					
Income					
Premiums earned and policy fees (gross) ¹	6,880.2	6,945.2	6,841.5	6,854.3	6,806.9
Reinsurance premiums ceded	-207.9	-194.6	-190.3	-168.2	-176.3
Premiums earned and policy fees (net)	6,672.3	6,750.6	6,651.2	6,686.1	6,630.6
Investment income	2,049.8	2,053.1	1,921.2	1,811.2	1,766.5
Realised gains and losses on investments ²	597.5	-1,680.1	435.6	501.6	-943.4
Income from services rendered	529.0	558.2	427.3	283.4	158.6
Results from investments in associates	10.2	8.5	1.4	-0.5	10.2
Other operating income	142.1	208.9	108.1	202.7	140.1
Income	10,000.9	7,899.2	9,544.8	9,484.5	7,762.6
Expenses					
Claims and benefits paid (gross)	-5,597.9	-5,676.7	-5,383.4	-5,212.9	-5,311.5
Change in technical reserves (gross)	-840.2	583.4	-968.3	-1,393.2	-639.9
Reinsurance share of claims incurred	107.6	59.7	58.1	47.5	53.3
Acquisition costs	-524.8	-566.1	-499.1	-491.5	-576.8
Operating and administrative expenses for insurance business	-938.3	-977.4	-925.1	-856.0	-847.0
Investment expenses	-104.3	-82.8	-78.8	-64.8	-61.3
Interest expenses on insurance liabilities	-76.1	-73.8	-69.4	-61.2	-51.6
Result from financial contracts	-170.6	246.4	-407.9	-219.8	324.0
Other operating expenses	-813.4	-832.0	-708.8	-625.4	-507.9
Expenses	-8,958.0	-7,319.3	-8,982.7	-8,877.3	-7,618.7
Profit before borrowing costs and taxes	1,042.9	579.9	562.1	607.2	143.9
Borrowing costs	-28.4	-31.2	-45.1	-52.8	-55.0
Profit before taxes	1,014.5	548.7	517.0	554.4	88.9
Income taxes	-194.4	-162.0	-96.0	-117.7	-27.6
Profit for the period	820.1	386.7	421.0	436.7	61.3
Attributable to:					
Shareholders	786.1	358.3	414.1	433.4	60.8
Minority interests	34.0	28.4	6.9	3.3	0.5
Earnings / loss per share					
Basic in CHF	15.15	7.33	8.64	9.14	1.30
Diluted in CHF	15.15	7.32	8.57	8.89	1.29

Footnote: See next page

ADDITIONAL INFORMATION

	2007	2008	2009	2010	2011
in CHF million					
Gross premiums written and policy fees	6,868.4	6,953.9	6,859.8	6,859.8	6,803.3
Investment-type premiums	1,069.2	904.4	2,905.6	2,681.6	1,341.2
Total business volume	7,937.6	7,858.3	9,765.4	9,541.4	8,144.5
Assets for the account and at the risk of life insurance policyholders					
Assets for the account and at the risk of life insurance policyholders	4,366.9	3,340.1	6,818.1	7,821.7	7,746.8
Combined ratio (gross)	93.0	88.1	91.2	92.2	92.4
Funding ratio nonlife in percent	195.6	183.0	187.7	180.5	195.9

1 In line with the accounting principles applied by the Baloise Group, investment-type insurance premiums are not included in the premiums earned and policy fees.
2 Including financial liabilities held for trading purposes (derivative financial instruments).

Consolidated balance sheet

FIVE-YEAR OVERVIEW

	2007	2008	2009	2010	2011
in CHF million					
Assets					
Property, plant and equipment	676.5	621.2	611.2	535.7	559.9
Intangible assets	1,624.8	1,587.2	1,562.4	1,342.6	1,300.2
Investments in associates	191.7	129.4	143.1	211.3	173.5
Investment properties	5,269.9	5,055.5	5,071.7	5,046.6	5,138.0
Financial assets of an equity nature	12,144.0	7,551.8	9,486.1	9,844.2	9,703.9
Financial assets of a debt nature	24,433.3	23,115.6	26,502.7	25,840.5	28,917.5
Mortgages and loans	18,611.8	18,992.5	18,643.5	17,693.5	18,042.7
Derivative financial instruments	54.2	311.3	123.7	536.3	334.1
Other assets / receivables	2,721.0	2,536.2	2,593.0	2,111.6	2,586.4
Deferred tax assets	53.9	36.9	26.4	20.2	22.2
Cash and cash equivalents	1,648.7	1,305.5	2,528.7	2,208.9	2,287.8
Total assets	67,429.8	61,243.1	67,292.5	65,391.4	69,066.2

	2007	2008	2009	2010	2011
in CHF million					
Equity and liabilities					
Equity					
Equity before minority interests	4,733.4	3,691.0	4,315.0	4,100.0	3,860.3
Minority interests	241.9	204.6	195.0	33.5	33.3
Total equity	4,975.3	3,895.6	4,510.0	4,133.5	3,893.6
Liabilities					
Technical reserves (gross)	47,826.4	44,068.6	45,344.2	43,445.7	45,561.9
Liabilities from banking business and financial contracts	8,300.6	8,127.2	11,396.4	12,863.3	13,998.1
Derivative financial instruments	34.9	30.1	49.5	29.9	175.3
Other accounts payable	5,607.1	4,521.4	5,299.6	4,277.3	4,782.9
Deferred tax liabilities	685.5	600.2	692.8	641.7	654.4
Total liabilities	62,454.5	57,347.5	62,782.5	61,257.9	65,172.6
Total equity and liabilities	67,429.8	61,243.1	67,292.5	65,391.4	69,066.2

Business volume, premiums and combined ratio

BUSINESS VOLUME

2010	Group	Switzerland	Germany	Belgium	Luxembourg	Other units ²
in CHF million						
Nonlife	3,044.9	1,285.3	938.9	558.3	81.7	162.3
Life	3,814.9	2,791.6	792.7	110.4	51.4	68.8
Subtotal of IFRS gross premiums written ¹	6,859.8	4,076.9	1,731.6	668.7	133.1	231.1
Investment-type premiums	2,681.6	31.3	255.5	129.4	1,136.8	1,128.6
Total business volume	9,541.4	4,108.2	1,987.1	798.1	1,269.9	1,359.7

BUSINESS VOLUME

2011	Group	Switzerland	Germany	Belgium	Luxembourg	Other units ²
in CHF million						
Nonlife	3,143.5	1,303.8	846.7	754.9	73.2	153.1
Life	3,659.8	2,724.1	700.0	124.0	49.4	62.3
Subtotal of IFRS gross premiums written ¹	6,803.3	4,027.9	1,546.7	878.9	122.6	215.4
Investment-type premiums	1,341.2	72.7	228.2	212.2	476.3	351.8
Total business volume	8,144.5	4,100.6	1,774.9	1,091.1	598.9	567.2

¹ Premiums written and policy fees (gross).

² Other units: Austria, Croatia, Serbia and Baloise Life Liechtenstein.

COMBINED RATIO GROSS

2010	Group	Switzerland	Germany	Belgium	Luxembourg	Other units ¹
as a percentage of premiums earned						
Loss ratio	60.9	62.0	62.0	59.8	43.9	61.3
Expense ratio	30.7	25.1	34.8	33.7	37.5	39.5
Profit-sharing ratio	0.6	0.9	0.3	0.5	0.0	0.0
Combined ratio	92.2	88.0	97.1	94.0	81.4	100.8

COMBINED RATIO GROSS

2011	Group	Switzerland	Germany	Belgium	Luxembourg	Other units ¹
as a percentage of premiums earned						
Loss ratio	61.6	63.1	63.5	60.8	47.6	59.8
Expense ratio	30.2	24.4	34.3	34.3	33.5	38.2
Profit-sharing ratio	0.6	0.9	0.4	0.2	0.0	0.0
Combined ratio	92.4	88.4	98.2	95.3	81.1	98.0

¹ Other units: Austria, Croatia and Serbia.

COMBINED RATIO GROSS AND NET

	Gross		Net	
	2010	2011	2010	2011
as a percentage of premiums earned				
Loss ratio	60.9	61.6	62.7	63.5
Expense ratio	30.7	30.2	31.9	31.4
Profit-sharing ratio	0.6	0.6	0.6	0.6
Combined ratio	92.2	92.4	95.2	95.5

FUNDING RATIO NONLIFE

	2010	2011
in CHF million		
Technical provisions for own account ¹	5,219.9	5,853.5
Premiums written and policy fees for own account	2,892.1	2,987.9
Funding ratio in percent	180.5	195.9

¹ Not including capitalised settlement premiums.

Technical income statement

	Nonlife		Life ³	
	2010	2011	2010	2011
in CHF million				
Gross				
Gross premiums written and policy fees	3,044.9	3,143.5	3,814.9	3,659.8
Change in unearned premium reserves	-5.5	3.6	0.0	0.0
Premiums earned and policy fees (gross)	3,039.4	3,147.1	3,814.9	3,659.8
Claims and benefits paid (gross)	-1,818.4	-1,850.3	-3,394.5	-3,461.2
Change in technical reserves (gross)				
Change in claims reserve / actuarial reserves ¹	-56.2	-110.4	-966.9	-269.4
Expenses for policyholders' dividends	-17.5	-17.4	-352.8	-243.0
Technical expenses	-949.0	-976.9	-471.8	-528.0
Total technical result (gross)	198.3	192.1	-1,371.1	-841.8
Ceded to reinsurers				
Reinsurance premiums ceded	-151.3	-158.8	-16.9	-17.5
Claims and benefits paid	64.4	53.0	5.3	5.0
Reinsurance share of claims incurred	-23.1	-11.0	-0.3	4.5
Expenses for policyholders' dividends	0.2	0.3	1.2	1.8
Technical expenses	12.8	12.5	2.2	3.0
Total technical result of ceded business	-97.0	-104.0	-8.5	-3.2
For own account				
Premiums earned and policy fees	2,888.1	2,988.3	3,798.0	3,642.3
Claims and benefits paid	-1,754.0	-1,797.3	-3,389.2	-3,456.2
Change in claims reserve / actuarial reserves ¹	-79.3	-121.4	-967.2	-264.9
Expenses for policyholders' dividends	-17.3	-17.1	-351.6	-241.2
Technical expenses	-936.2	-964.4	-469.6	-525.0
Total technical result for own account	101.3	88.1	-1,379.6	-845.0
Investment income (gross)	288.8	291.9	1,345.2	1,323.9
Realised gains and losses on investments ²	8.4	-191.4	499.0	-720.4
Investment expenses	-19.9	-19.9	-75.5	-75.8
Other financial expenses and income	1.7	-41.7	-206.4	333.2
Result from investment income	279.0	38.9	1,562.3	860.9
Annual result before borrowing costs and taxes	380.3	127.0	182.7	15.9
Borrowing costs	-	-	-	-
Income taxes	-65.3	-13.9	-32.5	-8.4
Annual result (segment result)	315.0	113.1	150.2	7.5

1 Including change in provisions for claims handling expenses.

2 Including financial liabilities held for trading purposes (derivative financial instruments).

3 Of which latency calculation effects from other business segments: 31 December 2010 CHF -10.4 million / 31 December 2011 CHF 10.8 million.

Gross premiums by sectors

GROSS PREMIUMS BY SECTOR NONLIFE

	2010	2011	+ / - %
in CHF million			
Accident	461.6	450.8	-2.3
Health	114.7	119.3	4.0
General liability	341.3	339.2	-0.6
Motor	956.5	999.9	4.5
Property	934.0	974.0	4.3
Marine	125.6	160.5	27.8
Other	53.7	57.6	7.3
Active reinsurance	57.5	42.2	-26.6
Gross premiums written, nonlife	3,044.9	3,143.5	3.2

GROSS PREMIUMS BY SECTOR LIFE

	2010	2011	+ / - %
in CHF million			
Business volume non-recurrent deposits	3,913.3	2,453.1	-37.3
Business volume periodic deposits	2,583.2	2,547.9	-1.4
Investment-type premiums	-2,681.6	-1,341.2	-50.0
Gross premiums written, life	3,814.9	3,659.8	-4.1

Viewed against the comparative period, premium income in the 2011 fiscal year was adversely affected by the exchange rate developments between the Swiss franc and the euro.

Banking activities

RESULT FROM BANKING ACTIVITIES

	2010	2011
in CHF million		
Total interest income	182.2	174.3
Total interest expenses	-83.0	-75.3
Net interest income	99.2	99.0
Net commission and fee income	59.2	63.0
Trading income	-0.1	-9.5
Other income	1.7	-0.1
Total operating income	160.0	152.4
Personnel expenses	-53.7	-59.3
Material expenses	-29.9	-18.7
Total operating expenses	-83.6	-78.0
Gross result	76.4	74.4
Result from losses and impairments for credit risks	1.1	8.6
Depreciation of intangible assets and property, plant and equipment	-9.6	-9.7
Annual result before taxes	67.9	73.3
Income taxes	-12.8	-13.8
Annual result (segment result)	55.1	59.5

ADDITIONAL INFORMATION

	2010	2011
in CHF million		
Assets managed for third parties	4,993.9	4,848.3
Risk-weighted assets: banking activities	3,429.4	3,495.3

ASSET ALLOCATION

	2010	2011
in CHF million		
Investment properties	-	-
Shares	6.2	6.1
Alternative financial assets	-	-
Fixed-income securities	323.2	369.9
Mortgage assets	5,977.7	6,203.0
Policy and other loans	306.3	274.2
Derivative financial instruments	22.1	24.8
Cash and cash equivalents	144.2	218.8
Total	6,779.7	7,096.8

Investment performance

INVESTMENT PERFORMANCE

2010 ¹	Fixed-income securities	Shares	Investment properties	Mortgage assets, policy and other loans	Alternative financial assets, derivatives, cash and cash equivalents	Total
in CHF million						
Current income	883.3	70.1	242.5	608.1	7.2	1,811.2
Realised gains and losses and impairment losses recognised in profit and loss (net)	-380.2	31.8	-1.3	11.1	526.0	187.4
Change in unrealised gains and losses on equity	-64.8	-69.0	-	-	114.7	-19.1
Cost of investment management	-25.8	-8.9	-8.0	-11.9	-9.6	-64.2
Operational profit	412.5	24.0	233.2	607.3	638.3	1,915.3
Average investment portfolio	25,367.5	2,153.3	5,059.1	18,168.5	3,763.8	54,512.2
Performance in percent	1.6	1.1	4.6	3.3	17.0	3.5

INVESTMENT PERFORMANCE

2011 ¹	Fixed-income securities	Shares	Investment properties	Mortgage assets, policy and other loans	Alternative financial assets, derivatives, cash and cash equivalents	Total
in CHF million						
Current income	868.1	76.3	244.8	566.2	11.1	1,766.5
Realised gains and losses and impairment losses recognised in profit and loss (net)	-183.3	-199.2	3.4	-3.7	36.5	-346.3
Change in unrealised gains and losses on equity	207.9	-51.0	-	-	-45.1	111.8
Cost of investment management	-25.9	-5.9	-7.5	-12.2	-9.6	-61.1
Operational profit	866.8	-179.8	240.7	550.3	-7.1	1,470.9
Average investment portfolio	26,471.9	2,203.2	5,092.3	17,868.1	3,464.0	55,099.5
Performance in percent	3.3	-8.2	4.7	3.1	-0.2	2.7

¹ Excluding assets for the account and at the risk of life insurance policyholders.

CURRENT INCOME, INSURANCE¹

	2010			2011		
	Nonlife	Life	Total	Nonlife	Life	Total
in CHF million						
Investment properties	39.8	195.5	235.3	37.5	199.2	236.7
Shares	21.7	48.1	69.8	25.8	50.2	76.0
Alternative financial assets	0.7	1.5	2.2	1.5	3.9	5.4
Fixed-income securities	177.5	694.8	872.3	163.5	695.0	858.5
Mortgage assets	13.0	138.6	151.6	12.6	125.6	138.2
Policy and other loans	35.1	263.9	299.0	49.7	246.4	296.1
Derivative financial instruments	–	–	–	–	–	–
Cash and cash equivalents	1.0	2.8	3.8	1.3	3.6	4.9
Total current income	288.8	1,345.2	1,634.0	291.9	1,323.9	1,615.8

REALISED GAINS AND LOSSES, INSURANCE¹

	2010			2011		
	Nonlife	Life	Total	Nonlife	Life	Total
in CHF million						
Investment properties	–12.9	10.6	–2.3	–16.5	21.0	4.5
Shares	15.1	16.8	31.9	–106.0	–93.5	–199.5
Alternative financial assets	12.0	46.7	58.7	27.5	47.8	75.3
Fixed-income securities	–41.4	–338.8	–380.2	–56.7	–126.6	–183.3
Mortgage assets	–0.1	0.5	0.4	–0.7	–1.8	–2.5
Policy and other loans	5.6	6.7	12.3	1.0	–0.3	0.7
Derivative financial instruments	30.1	442.3	472.4	–40.0	30.1	–9.9
Cash and cash equivalents	–	–	–	–	–	–
Total capital gains and losses	8.4	184.8	193.2	–191.4	–123.3	–314.7

ASSET ALLOCATION, INSURANCE¹

	2010			2011		
	Nonlife	Life	Total	Nonlife	Life	Total
in CHF million						
Investment properties	800.8	4,143.1	4,943.9	797.5	4,174.0	4,971.5
Shares	785.3	1,420.2	2,205.5	839.5	1,342.5	2,182.0
Alternative financial assets	286.9	1,013.4	1,300.3	275.0	1,015.2	1,290.2
Fixed-income securities	4,635.8	19,986.1	24,621.9	4,993.8	22,615.0	27,608.8
Mortgage assets	441.4	4,234.5	4,675.9	439.3	4,307.5	4,746.8
Policy and other loans	939.7	6,013.7	6,953.4	1,086.6	6,354.5	7,441.1
Derivative financial instruments	20.5	312.3	332.8	5.0	251.9	256.9
Cash and cash equivalents	557.5	884.5	1,442.0	481.7	1,052.8	1,534.5
Total	8,467.9	38,007.8	46,475.7	8,918.4	41,113.4	50,031.8

1 Excluding assets for the account and at the risk of life insurance policyholders.

Sustainable business management

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We promote a culture of efficiency and trust within Baloise

Performance, innovation and partnership are at the heart of our corporate culture. The skills and motivation of our employees are the foundation of our successes – today and tomorrow.

KEY FIGURES

- On 31 December 2011, the Baloise Group had 9,141 employees (2010: 8,797) (FTE 2011: 8,114).
- 45.8 % (2010: 45.1 %) of all employees are women.
- Baloise employs 241 (2010: 244) apprentices, trainees and interns throughout the Group.
- 38.6 % (2010: 34.1 %) of those who left the company did so of their own accord.
- In our main market Switzerland 60.2 % (2010: 58.8 %) of the employees participated in our Employee Share Ownership Programmes.
- Baloise invested 2011 CHF 12.1 million (2010: CHF 12.5 million) in employee training in 2011.
- Employees remain at Baloise for an average of 13 years.
- As of 31 December 2011, staff turnover was 9.1 % (2010: 10.4 %).

EMPLOYEE SKILLS ARE OUR DISTINCTION

“Making you safer” is our promise to our customers, shareholders and employees. This means that we actively contribute to preventing damage. Our employees require relevant skills so that we can achieve this. Baloise strengthens itself by encouraging these skills and focusing on our corporate values. We are guided our brand values “partnership”, “innovative” and “Swiss” in this regard. These are cornerstones of our brand positioning and we put these values into practice with three common principles of conduct: “Develop and engage – yourself and others!”, “Act authentically and earn trust!” and “Put yourself in the other’s shoes!”.

Taken together, these brand values and principles of conduct reinforce Baloise’s profile as an attractive and forward-looking employer. They help us to recruit and retain excellent employees and so contribute to our enduring corporate success. We make long-term investments in the skills and the development of our employees; we gain competitive advantages with achievement-driven, dedicated and well-trained employees. Our human resources strategy lays the foundations for successfully implementing these principles.

The elements of our human resources strategy are:

- to be the preferred employer in our sector
- to be performance and result-driven
- to be a highly qualified, learning organisation
- to have excellent leadership and management skills
- to be highly adaptable and flexible
- to have an employee-focused corporate culture

PREFERRED EMPLOYER

Thanks to targeted talent acquisition measures, we could recruit a lot of qualified candidates in 2011, despite the shortage of skilled workers and the uncertainties on the employment market. We already recognised the growing importance of social media for employer communication and contacting candidates in 2010. The resulting concept was realised in 2011; the Baloise Group uses social networks such as Xing, Facebook and Twitter effectively since the 2nd quarter 2011 in order to position itself as an attractive employer. Here authentic communication is crucial. In order to achieve this, video testimonials were produced featuring employees from different functions and hierarchy levels in which they introduce their department and describe the merits of Baloise. These videos are broadcast on YouTube and on the Baloise career website. Selected job offers can also be complemented with suitable videos. This way we

provide the applicants with a realistic picture of the company. We have direct contact with the candidates and can encourage those to join the company that are not only convincing from the professional aspect but also fit well into our corporate culture.

WE ARE A HIGHLY QUALIFIED, LEARNING ORGANISATION

In a new, integrated concept, we introduced performance management, development planning, succession planning and talent identification Group-wide in 2011. The main objective of the integrated performance management is to embed a culture of performance, trust and continuous learning at Baloise. Systematic discussions were conducted with our employees in order to fix individual goals, evaluate these and define opportunities for development. This process was supported with a uniform system across the Group for the first time in 2011. The major focus of this integrated process is the regular dialogue between management and employees. This aims to establish guidance and clarity regarding mutual goals and continuous learning by defining individual development targets and measures.

The Group-wide succession planning builds on the development dialogue, contributes significantly to the strategic staffing plans and ensures that key positions are staffed over the long-term. In 2011, 63 % of key positions were filled with internal candidates. A total of 268 key positions were discussed and examined regarding potential short-term emergency solutions and long-term succession planning. Furthermore, in the course of this process, talents were identified that show outstanding capacity to achieve and possess the potential to assume executive tasks and responsibility.

PERFORMANCE AND RESULTS ARE WHAT COUNTS

The new performance management is in effect since January 2011, also regarding remuneration and is tied closely to the HR core processes. Baloise offers an attractive basic salary, plans for variable remuneration as well as programmes for employee participation and retention. Individual performance and results as well as the company's success form the basis for the variable remuneration. The variable remuneration is composed of the

remuneration and the performance pool. The compensation considers the employee's individual performance and remunerates the respective target achievement. The performance pool considers the performance of the Baloise Group whereby the employee's superior decides on the individual allocation.

Part of the variable remuneration is paid in blocked shares – senior staff levels receive obligatory shares. This strengthens the bond between Baloise and employees as well as aligning the compensation with the long-term success of the business.

The elements of the remuneration guidelines of the Baloise Group are:

- Competitiveness on the market
- Consideration of company and individual performance
- Fairness and transparency
- Sustainability

WE INVEST SPECIFICALLY IN CONTINUOUS ADVANCED TRAINING

In 2009 Baloise created an innovative development programme for the most senior staff members and selected employees the Strategic Leadership Programme (SLP). The 2011 programme focussed on the cooperation between the participants as well as the structure and the development of strategic skills. The 150 SLP participants worked on expert topics such as pricing or risk management as well as on leadership topics and improved themselves and their teams in these areas. Knowledge transfer and networking between the participants are supported by an annual meeting; the last was in September 2011 in Jesteburg, Germany. The participants developed a set of Group-wide conduct principles. These principles of conduct derived from brand positioning will be adopted across the Baloise Group beginning in 2012.

Every year 30 mid-management executives from all Group departments participate in the Advanced Management Programme (AMP). This focuses on the areas strategy, leadership and growth. In 2011, the AMP participants addressed the issue "Values in stakeholder dialogue" as well how we can embed our brand values sustainably and noticeably in the company and make them visible. A pilot Management Development Programme (MDP) was carried out for the first time in 2011, in order to

prepare talented junior staff from the areas finance and asset management to assume initial management responsibilities.

We also promote our junior staff at local levels. In the Group sector Switzerland, the emphasis was on coaching and team development as well as the piloting of a programme for new executive managers (Starter Kit) and the continuation of the Leadership Transformation Programme (LTP). The “Starter Kit” provides participants orientation for their new role. In addition, they develop their own script for their successful start in the leadership role. In the Leadership Transformation Programme, the participants work as effective teams in real business processes in the most important strategic projects, initiatives and departments. The projects and sectors that are accompanied by the LTP are noticeably more successful and so become role models for our learning and management culture.

HIGHLY ADAPTABLE AND FLEXIBLE

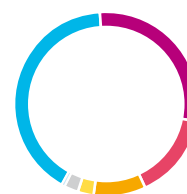
The merging of the Baloise Group Germany has begun after agreements with the employee council committees have been successfully completed. A shared brand as well as mutual corporate and conduct values are the fundamental elements of this process. Specific development measures regarding change management are being provided for project leaders and managers in order to support the integration phase as best possible.

A further milestone was reached in January 2012 when the new Group-wide staff information and accounting system was introduced. For the first time, all employee data of the Baloise Group Germany is being managed and settled using one central system. Meaning that the Baloise Group Germany assumes the pioneering role in the Baloise Group on the road to the Group-wide adoption of a single HR information system.

In 2011, we integrated the newly acquired Avéro into our own business unit Mercator in Belgium. The emphasis here was on providing the employees with support and conducting negotiations with employee representatives. Furthermore, the planning of first steps to integrate Mercator – as well as Nateus, which was bought at a later date – could be expedited.

BALOISE'S 9,141 EMPLOYEES IN 2011 BY COUNTRY

	in percent	Employees
Switzerland	41.0	3,748
Germany	29.0	2,652
Belgium	15.2	1,389
Croatia and Serbia	9.0	820
Luxembourg	2.8	256
Austria	2.5	228
Liechtenstein	0.5	44
Others	0.0	4



BALOISE PROMOTES INTERNAL MOBILITY

In 2010, we laid the foundations for even stronger on-the-job development by bringing performance management, talent identification and development planning together to form a Group-wide Talent Management System. We want to use this to systematically expand internal promotion as well as internal mobility. This means that employees that perform well and have potential will find even more opportunities within Baloise in future.

DIVERSITY AND PARTNERSHIP WITH THE EMPLOYEES

45.8% (2010: 45.1%) of all employees and 20.9% (2010: 20.0%) of senior management are women. Baloise does not tolerate any form of discrimination. The management of our business units and those responsible for HR matters ensure that this maxim is followed; they are supported in this by the internal Compliance Network. Baloise promotes its employees solely on the basis of their performance, their potential and their identification with corporate values.

For many years Baloise has actively provided support in health issues. Basler Switzerland received the label “Friendly Work-Space” in 2010. The Swiss health promotion board awards this quality seal to companies that put their employees at the centre and promote corporate health management beyond the mandatory guidelines. We aim to create workplaces and a work environment in which our employees feel good, stay healthy and so deliver very good performance. Our health management includes

several different measures to promote employee health-awareness at the workplace and in general by providing midday seminars, workshops, information events and other campaigns. We support the work-life balance of our employees with flexible working hours and part-time models as well as the crèche at the headquarters in Basel. Our conditions of employment, working methods and equipment as well as our staff management, development and retention tools are continuously revised and optimised regarding health care and protection aspects. With this commitment to promoting health, Baloise is also honouring its brand promise “Making you safer” with regard to its employees.

BALOISE IN DIALOGUE WITH EMPLOYEE REPRESENTATIVES

Baloise respects the right of every employee to be or become a member of an employee representation body. We maintain direct, transparent and constructive dialogue with all employee representatives and committees.

Employees from every national subsidiary are represented in the Baloise European Forum. We thus provide employee representatives with direct access to the Corporate Executive Committee, as well as promoting communication on a local level. A two-day meeting of the European Forum and the employer representative was held in Hamburg, Germany, in May 2011.

All Baloise employees are represented by employee boards, works councils, trade unions or other employee committees.

OUTLOOK 2012

In 2012, the existing programmes to train and develop junior and executive staff will be grouped under one roof as a corporate university as part of our staffing strategy. By institutionalising employee training and development, Baloise demonstrates its long-term commitment to develop its employees in accordance with our value “Develop and engage – yourself and others!”

The Corporate University will be based on an integrated range of courses and a consistent learning architecture. The future courses that will be a further development of the existing programmes will mean that the important business management and controlling skills can be communicated to every manage-

ment level from top management to junior talents according to their individual requirements. Junior employees will meet experienced managers, thus creating a comprehensive platform for networking, knowledge transfer and exploring the conduct principles of Baloise.

Group Human Resources in social media

- Facebook: www.facebook.com/baloisegroup
- YouTube: www.youtube.com/baloisegroup
- XING: www.xing.com/companies/BALOISEGROUP
- Twitter: twitter.com/baloise_jobs

www.baloise.com/careers

- Attractive employer
- Staff development
- Our employees
- Job openings

Long-term protection of the environment

In 1995 Baloise signed the UNEP* Insurance Industry Declaration. In our environmental mission statement, we commit ourselves, amongst other things, to continuously reduce our direct impact on the environment by planning, building and managing corporate real estate, in order to save resources. The same principles and criteria apply to our procurement management.

EFFICIENT USE OF RESOURCES

Using photovoltaic systems on the flat roofs of the buildings of our Group headquarters in Basel, it was possible to generate 100,000 kWh / a electricity on an area of 660 m². Technical adjustments involving investments of the same order would mean that the electricity consumption in our computer centres could be cut fivefold. Following the economic logic of facilitating the most efficient use of resources, Baloise has decided to carry out energy saving measures in its computer centres over the next two years.

ENERGY EFFICIENCY IN COMPUTER CENTRES

Basler Switzerland cut its energy consumption by encasing otherwise open racks that hold the servers. Encasing the server, computer and control units completely separated the cold and warm air zones, thus significantly reducing the volume of air that has to be cooled. We were able to save almost 500,000 kWh per year whilst maintaining the same performance load in our computer centres. This amounts to about 30 percent of the total electricity consumption required for air conditioning (cooling, heating, humidifying) in our computer centres, or 4.5 % of the electricity currently used in our headquarters with over 2,000 workplaces and the central functions such as computer centres and staff canteen. The hardware enclosure and the optimisation of air conditioning in the first computer centre are scheduled for 2012.

SAVING PAPER AND CO₂ WITH E-PROCUREMENT

For over ten years Baloise Switzerland has handled orders for consumables and the corresponding invoicing electronically with its suppliers, in other words paperless. This results in a reduced resource use of paper and electricity. Swisscom, which operates Conextrade – the electronic trading market we use –,

has had these measures assessed and certified by the non-profit foundation myclimate. Since the introduction of e-procurement, Baloise was able to save over 4 tonnes of CO₂.

REDUCING CO₂ BY TRAIN

Employees are encouraged to use the train for travelling on business wherever possible. The train tickets for domestic and international travel are ordered through the Swiss Railways' ordering portal "SBB Businesstravel" and printed out at the workplace. Waiting times at the ticket counter and time-consuming expense claims are eliminated. As part of its service, the SBB assesses rail travel and evaluates it regarding CO₂ emission. In 2011 2,320,160 passenger kilometres were travelled on business by train in Switzerland. This amounted to savings of 163,679 litres of fuel compared to travel by car. CO₂ emissions amounting to 443 tonnes per year were avoided, which roughly corresponds to the CO₂ emissions of 175 detached Minergie houses over a year.

OPTIMISATION PAYS OFF

Further progress regarding energy consumption was achieved in 2011 as part of the energy optimisation measures in the new business premises of Baloise Germany in Bad Homburg. A 6 % reduction in electricity consumption and a 28 % reduction of gas for heating was achieved by adjusting operating times and optimising the technical systems.

ECO-EFFICIENCY IN OPERATION

The material and energy flows include the consumption of the large, operationally used office building and computer centres in Switzerland. We record the energy and material flows of

* UNEP = United Nations Environment Programme.

ENVIRONMENTAL AUDIT

	2009 absolute	2010 absolute	2011 absolute	Relative	Unit	+ / - %
Employees	5,427	4,667	4,800		headcount	2.8
Energy reference area	164,927	142,872	140,997		ERA m ²	-1.3
Locations	13	13	13		number of buildings	0.0
Electricity consumption	27,591,295 KWh	23,506,845 KWh	22,859,388 KWh	4,762	kWh / employee	-2.8
Heating consumption	14,991,052 KWh	13,194,068 KWh	12,110,484 KWh	86	kWh / m ²	-8.2
Water consumption	77,737 m ³	61,053 m ³	61,968 m ³	52	l / employee / day	1.5
Paper consumption	832 t	765 t	684 t	143	kg / employee	-10.6
Paper types				8.0%	recycled	
				80.0%	chlorine-free	
				12.0%	chlorine-bleached	
Copy paper consumption	90.7 million A4 sheets	99.4 million A4 sheets	91.2 million A4 sheets	19,008	A4 sheets / employee	-8.2
Amount of refuse	1,184 t	1,039 t	928 t	193	kg / employee	-18.5
Types of refuse				51.0%	paper / cardboard	
				6.0%	other materials	
				2.0%	special waste	
				41.0%	misc. waste / refuse	
Business travel	23.46 million km	16.01 million km	18.32 million km	3,817	km / employee	14.4
Mode of transport				26.6%	km by air	
				40.2%	km by road	
				33.2%	km by public transport	
CO ₂ emissions	20,687 t	16,575 t	16,591 t	3,456	kg / employee	0.1

The 2010 figures for the Austrian subsidiary were adopted due to technical reasons.

nearly 53 % of the 9,141 employees of the Baloise Group. The heat energy requirement was 9 % lower due to the warm winter. The electrical energy consumption in Switzerland increased because several computer centres of the Baloise Group were pooled together. However, it was correspondingly lower in the respective national companies. Our goal to reduce energy consumption annually by 2 % to 3 % from 2004 to 2013 was achieved in 2011. The environmental changes as well as the rising energy

prices and costs oblige and motivate us as a responsible company to use resources efficiently.

www.baloise.com/sustainability

→ Ecology / Environmental mission statement

→ Ecology / Ecology audit

→ Risk Management

→ Interview with Rolf Schäuble at the 2007 General Meeting

Our risk management is an important cornerstone of our business model.

As an integral component of Baloise strategic management, risk management makes a major contribution to the Group's positioning. As a European insurance company with Swiss roots, we possess a strong balance sheet and a high degree of operational earning power, which have been optimised in relation to risks taken on the one hand and earnings opportunities on the other.

Risk management at Baloise is both risk and value management. Our risk model is based on innovative standards, meaning that we can always keep our "Making you safer" promise.

In 2011, Standard & Poor's again awarded the Enterprise Risk Management of Baloise the very good rating "strong." We are therefore among the best 15 % of all European insurers.

Our risk management is a uniform strategic and operational system that applies throughout the Group and has the following subsections:

- Risk map: this forms the backbone of risk considerations and defines basic risk issues, such as underwriting and market risks as well as operational business risks.
- Risk governance and risk culture: this involves fostering and firmly embedding risk awareness, handling and perception throughout the entire organisation.
- Risk measurement: this identifies, quantifies and models the risks in all business and financial processes.
- Risk processes: risk organisation, and the standards that apply to it, are important aspects of risk management, in conjunction with management, reporting and evaluation processes.
- Strategic Risk Management: its task is to simultaneously optimise the risks taken by the Group and its earnings opportunities.

THE RISK MAP

The risk map distinguishes between the different categories of risk to which Baloise is exposed:

- Underwriting risks
- Market risks
- Financial structure risks
- Business environment risks

→ Operational risks

→ Strategic / information risks

A detailed description can be found on page 113 of the section Financial Report.

The risk map is embedded in the organisation and the responsibilities of the entire Group. Each risk is assigned to a risk owner (with overall responsibility) and to a separate risk controller (risk monitoring and control).

RISK GOVERNANCE AND RISK CULTURE

Expansion of risk governance and risk culture has a long tradition at Baloise. We continuously work to improve this culture throughout the entire organisation. Appointed risk owners and risk controllers for specific risk issues is as much a part of this culture as membership of committees that meet regularly to deal with risk issues. At the same time, risk models and processes are continually improved. 2009 saw the completion of a project to upgrade the internal control system (ICS).

Baloise risk organisation includes the Group Risk Committee and local Risk Committees in all business units. These committees consist of members of the Corporate Executive Committee or members of the local management. They are responsible for taking risk strategy decisions.

Special boards also prepare decision documents relating to specific risk areas, such as asset / liability management, compliance, IT risks and allocation, for these committees. This is rounded off by close cooperation between the Group's Risk Management team and local risk experts. This comprehensive risk organisation is our platform for sharing and continuous further development of "best practices."

Group Risk Management is responsible for:

- the development of consistent, mandatory risk models across the Group,
- the monitoring of standards across the Group,
- reporting,
- compliance with risk processes,
- communication with external partners such as auditors, corporate supervisory bodies and rating agencies.

The business units are responsible for locally implementing Group specifications. Overall responsibility lies with the Group's Chief Financial Officer, followed by the Head of Financial Management. Ultimate responsibility with regard to risk tolerance, business objectives, Risk Management strategy and standards is in the hands of the Board of Directors of Baloise Holding Ltd.

RISK MEASUREMENT

Our risk model standardises quantification of all business and financial market risks in all strategic business units. It is in line with the principles and calculation methods of the Swiss Solvency Test and the European Union's Solvency II guidelines. As a pioneering risk management tool, it provides a firm foundation to enable management to make strategic and operational decisions.

Baloise's models are based on the concept of economic risk capital – currently the most advanced market standard. To do this, a target capital figure is derived, solely on the basis of risk calculation considerations – irrespective of financial accounting treatment or capital adequacy regulations as per Solvency I – to enable the company to remain solvent, even in adverse circumstances, and to meet its obligations to policyholders at any time. We constantly compare this target capital figure with existing capital, i. e. actual capital.

In addition to this integrated risk model, we use the risk map to identify, describe and assess specific risks in relation to their likely impact on business results. Our corporate database of specific risks, which includes detailed descriptions of risks, their incorporation in the risk map and early warning indicators, is generated from this standard process. On the quantitative side, this description is complemented by the measurement of risks in respect of their likely financial impact on the company's

balance sheet. Each risk is recorded together with a description of risk-minimising action to be taken. The database is updated every six months.

This combination of an overall risk model on the one hand, and the specific risk approach on the other, ensures that Baloise has an appropriate risk overview at all times.

RISK PROCESSES

"Group-wide Risk Management Standards" lay mandatory foundations for risk processes. This set of rules specifies mandatory methods, rules and caps / floors across the Group. These standards determine how different risk issues are assessed, managed and reported. A system of risk limits, which function as early warning indicators, reduces the risks taken.

In order to comprehensively limit risk at an aggregated level, the Group uses a system of limits based on economic risk capital. This system tracks the Group's and individual business units' risk capital in real time. We also monitor individual, issue-specific risks, using limits, as illustrated in the following examples:

- The underwriting risks are based on underwriting guidelines, on which local underwriters based their decisions. Excess analyses calculated using risk mathematics go hand in hand with key reinsurance policies.
- We monitor market and financial structure risks in all investment units, using a wide range of reporting processes. There are, for example (in addition to maximum limits for share exposure), clear mandatory guidelines for bond ratings. Credit risks are assessed using not only the "Basel II" approach, but also advanced statistical methods.
- Business environment risks and operational and strategic risks are individually recorded using standard procedures and we assess their impact on capital.

Risk reports covering half a year are discussed with decision-makers in order to derive appropriate measures. We use our monthly risk analysis to review the overall solvency position, focusing on capital investment risks. Reports to regulatory authorities complete the picture.

STRATEGIC RISK MANAGEMENT

Our internal risk model, which quantifies all business and financial market risks in a standard manner, also forms the basis of strategic discussions about Baloise's readiness to take risks. The capital requirements derived from this model represent minimum actual capital requirements in this regard.

There is a comprehensive view of primary strategic risks and how to manage them. Strategic risk management provides a clear perspective on developing new areas of business and optimising the risk-return ratio of our existing business.

Results targets for individual business units, which take their specific risk situation into account, are a key element of this control system. These specifications are included in the target agreements with local management.

2011 BECAME THE YEAR IN WHICH OUR PROFESSIONAL RISK MANAGEMENT WAS PUT TO THE TEST

Baloise's principles regarding risk strategies are geared to the long-term and helped keep us on course during the financial storm in 2011. This is proven by Group solvency, which continues to be very high at 203 %, a good testimony of the Group's financial strength.

2011 was also the year in which new underwriting approaches were applied.

- Fundamentally, the investment strategy of the Baloise Group continues to focus on diversification, committed to the principle of only investing in instruments that we ourselves can assess completely and exactly. Where there was no market (as was the case for Greek government bonds for example) so-called "mark-to-model" methods had to be adopted on a larger scale during the year for the first time. It is our philosophy in this regard to apply model values conservatively in order to avoid the risk of additional depreciation at a later date wherever possible.
- It is unprecedented that the euro currency zone and the creditworthiness of individual euro countries came under so much pressure, including and especially from an underwriting standpoint. We took steps to minimise and hedge the risks in this respect. These included managing the exchange rate risk between CHF and EUR as well as

CHF and USD. It would not have made economic sense to hedge all currency risks completely.

- Our share exposure continued to be conservative in 2011. The net share quota was 4.8 % on 31 December 2011.
- The profitable recurring revenue from our sound real estate portfolio proved to be an important earnings pillar.
- Our attention is focussed on managing the interest rate risk. Here, we strive to settle future years' financial liabilities to our customers by mainly using returns from our investments. The profitable recurring revenue from our sound real estate portfolio serves us well in the process. In addition, we invest in long-term, secure bonds in the CHF and euro zones and complement these by applying derivative instruments such as swaptions.
- Our actuarial practice, however, shows lasting reliability: the Group's net combined ratio of 95.5 % demonstrates our very good actuarial practice in nonlife business and this despite major claims amounting to CHF 140.8 million.

Risk management will continue to develop rapidly over the next few years and will confirm Baloise's standing as a company that has a very good risk strategy and positioning.

Further information on risk management can be found in the 2011 Financial Report "5. Management of insurance and financial risks", pages 111 to 147.

Corporate Governance

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Transparent Corporate Governance

As a value-creating company, Baloise always placed great emphasis on good management by practising responsible corporate governance and continues this tradition.

Operating in line with the Swiss Code of Best Practice and the SIX Corporate Governance Guidelines, Baloise aspires in particular to foster a corporate culture with high ethical standards, which emphasises the integrity of the company and its employees. Baloise is convinced that high-quality corporate governance has a positive impact on the long-term performance of the company.

This chapter mirrors the structure of the SIX Corporate Governance Guidelines in the version dated 29 October 2008. We apply these guidelines in order to increase transparency and so improve the comparability with previous years as well as with other companies. The Swiss Code of Best Practice for Corporate Governance by *economiesuisse* and in particular Appendix 1 published in 2007 with its recommendations for compensation is also taken into account. Baloise publishes an actual Compensation Report as item 5 of the Corporate Governance Report, which also complies with the guidelines contained in the circular 2010/1 of the Swiss financial market supervisory authority FINMA.

Dr Rolf Schäuble resigned from the Board of Directors at the Annual General Meeting on 29 April 2011. Dr Rolf Schäuble was in office for 17 years as Chairman of the Board of Directors. At times he simultaneously acted as Chief Executive Officer for Baloise and during this time contributed considerably to the company's success. It is on this account that he was awarded the title of Honorary Chairman at the 2011 Annual General Meeting. The Board of Directors appointed Dr Andreas Burckhardt, a long-standing member of the Board, as the successor to Dr Rolf Schäuble. Prof. Dr Gertrud Höhler resigned from the Board of Directors at the 2011 Annual General Meeting as a result of having reached the regulatory age limit. She had been a member of the Board of Directors since 1998. Dr

med. Georges-Antoine de Boccard and Dr iur. Andreas Beerli were newly elected at the Annual General Meeting in 2011.

1. GROUP AND SHAREHOLDER STRUCTURE

Group structure

Headquartered in Basel, Switzerland, Baloise Holding is organised as a joint-stock holding company incorporated under Swiss law and listed on the SIX Swiss Exchange. As of 31 December 2011, the Baloise Group had a market capitalisation of CHF 3,220.0 million.

- Information on the Baloise share can be found on page 8 ff.
- Major subsidiaries and participations as of 31 December 2011 can be found in the chapter Financial Report in the Notes to the Consolidated Annual Financial Statements from page 218 onwards.
- Segment reporting by geographic regions and business segments are contained in the chapter Financial Report in the Notes to the Consolidated Annual Financial Statements from page 149 onwards.
- The operational Group management structure is presented on page 56.

Shareholders

As a public company with a broad shareholder base, Baloise Holding is part of the SMIM (SMI Mid) and the SLI (Swiss Leader Index).

Shareholder structure

As of 31 December 2011, a total of 19,866 shareholders were registered in the Baloise Holding share register. Compared to the previous year, the number of registered shareholders increased by 1.9%. BlackRock Inc., New York, holds 5.03% of the out-

standing shares directly as well as through its subsidiaries according to the disclosure on 16 September 2010. The SIGNAL IDUNA Group, Germany, holds 5.18 % of the outstanding shares directly as well as through its subsidiaries according to the disclosure on 27 March 2009. The “Significant shareholders” section on page 231 provides further information on the structure of the shareholder base as of 31 December 2011.

The reports made to the issuer and the SIX Swiss Exchange AG Disclosure Office during the fiscal year pursuant to Article 20 BEHG (Federal Act on Stock Exchanges and Securities Trading) and published on their electronic publication platform can be viewed using the search function on http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_de.html.

Treasury shares

As of 31 December 2011, Baloise Holding held 2,404,057 treasury shares (4.81 %).

Cross holdings

Cross holdings involving capital ownership or voting rights do not exist.

2. CAPITAL STRUCTURE

Dividend policy

Baloise Holding pursues a policy of paying steady, profit-based dividends. Conventional cash dividends are supplemented with other distribution instruments such as share buy-backs and options.

Share buy-back programme

The share buy-back programme, which started in September 2008, was concluded on 28 April 2011. 1,776,435 shares were bought back at an average price of CHF 79.36 via the normal trading line on the SIX Swiss Exchange. This corresponds to 3.6 % of the outstanding shares. Together with the remaining 223,565 shares from the previous buy-back programme, this means that the 2,000,000 equities required to secure the outstanding convertible bond were achieved as planned.

www.baloise.com → Investor relations → Baloise share
 → Share buy-back programme

Dividends paid to shareholders

Due to our shareholder-friendly dividend policy, CHF 1,772.7 million have been passed onto shareholders in the form of cash dividends and share buy-backs over the last five years.

	Cash dividends	Share buy-backs	Total
Year in CHF million			
2007	210.2	390.9	601.1
2008	243.0	130.3	373.3
2009	225.0	71.5	296.5
2010	225.0	34.7	259.7
2011	225.0	17.1	242.1
Total	1,128.2	644.5	1,772.7

In each case on 31 December.

Equity of Baloise Holding

The following table shows the change in equity during the last three reporting periods.

CHANGES IN BALOISE HOLDING EQUITY (BEFORE APPROPRIATION OF PROFIT)

	2009	2010	2011
in CHF million			
Share capital	5.0	5.0	5.0
General reserves	11.7	11.7	11.7
Reserves for treasury shares	118.3	156.4	182.3
Other reserves	298.6	264.9	247.4
Retained earnings	230.2	234.2	194.9
Baloise Holding equity	663.8	672.2	641.3

In each case on 31 December.

The share capital of Baloise Holding amounts to CHF 5.0 million since 29 April 2008. It is divided into 50,000,000 registered shares with a face value of CHF 0.10 that bear an entitlement to dividends.

Authorised and contingent capital, other financing instruments

Authorised capital

The Annual General Meeting decided on 29 April 2011 to renew the resolution from 30 April 2009 and extend it until 29 April 2013. This resolution authorises the Board of Directors to increase share capital by at most CHF 500,000 by issuing a maximum of 5,000,000 registered shares with a face value of CHF 0.10 that are to be fully subscribed and paid in full. § 3 section 4 of the Articles of Incorporation was adapted accordingly.

www.baloise.com → Responsibility

→ Corporate Governance → Rules and regulations

Contingent capital

The 2004 Annual General Meeting (§ 3 of the Articles of Incorporation) created contingent capital. This capital enables share capital to be increased by a maximum of 5,530,715 registered shares each with a face value of CHF 0.10. This equates to a maximum nominal share capital increase of CHF 553,071.50.

Contingent capital serves to hedge any option or conversion rights, which are granted in conjunction with bonds or similar debentures. Shareholders do not have subscription rights. The respective holders of option and conversion rights are entitled to subscribe to the new registered shares. The Board of Directors can restrict or exclude shareholders' pre-emptive subscription rights when issuing optional and convertible bonds on international capital markets. More detailed information about the structure of this contingent capital can be found in § 3 of the Baloise Holding Articles of Incorporation.

www.baloise.com → Responsibility

→ Corporate Governance → Rules and regulations

Other financing instruments

No participation or bonus certificates exist.

Consolidated equity of the Baloise Group

On 31 December 2011, consolidated equity of the Baloise Group amounted to CHF 3,893.6 million. Details about trends in 2010 and 2011 can be found on pages 88 and 89 in the consolidated statement on changes in equity in the chapter Financial Report of the consolidated financial statement. Full details on 2009 can be found in the consolidated statement on changes in equity on page 8 of the 2010 Financial Report.

Outstanding bonds

Baloise Holding and one other Group company have issued bonds on the open market. At the end of 2011, a total of seven public bonds issued by Baloise Holding and one other Group company were outstanding. Details on the outstanding bonds can be found on pages 193 and 229 as well as on the Internet.

www.baloise.com → Investor relations → Bonds

Rating

The rating agency Standard & Poor's assesses the financial strength of the Baloise Insurance Ltd unchanged with an "A-" rating with a stable outlook. This reflects the strong capitalisation, the good operational earning power, the strong competitive position as well as the high financial flexibility of the Baloise Group. Group-wide risk management is rated as "strong."

www.baloise.com → Investor relations → Rating

3. BOARD OF DIRECTORS

All members of the Board of Directors including the Chairman are non-executive. In the three fiscal years preceding the reporting period, they were not appointed to an executive post within any Group company and do not maintain any substantial business relationships with the Baloise Group.

Dr Eveline Saupper was re-elected for a three-year term of office during the reporting period. Dr Rolf Schäuble did not stand for re-election at the 2011 Annual General Meeting and resigned from the Board of Directors. Prof. Dr Gertrud Höhler resigned from the Board of Directors at the 2011 Annual General Meeting as a result of having reached the regulatory age limit. Dr med. Georges-Antoine de Boccard and Dr Andreas

Beerli were newly elected for a three-year term of office during the reporting period.

The terms for the directors Dr Andreas Burckhardt, Dr Hansjörg Frei and Dr Klaus Jenny end at the upcoming 2012 Annual General Meeting. Dr Andreas Burckhardt and Dr Hansjörg Frei will stand for re-election for a further period of three years. Dr Klaus Jenny is no longer available for re-election.

It will be proposed to the 2012 Annual General Meeting to elect Mr Thomas Pleines as a member of the Board of Directors. He was born in 1955 and is a German citizen and lawyer. He has been a member of the board of Bilfinger Berger SE, Mannheim, president of the president's council of DEKRA e.V., Stuttgart, chairman of the supervisory board of DEKRA SE, Stuttgart, chairman of the supervisory board of SÜDVERS Holding GmbH & Co. KG, Au near Freiburg, and a member of the board of directors of KABA Holding AG, Rümlang near Zurich, since 2011. From 2006 to 2010 Mr Pleines was the chairman of the board of directors of Allianz Versicherungs-AG, Munich, and a member of the board of directors of Allianz Deutschland, Munich. He was the CEO and delegate of the board of directors of Allianz Suisse, Zurich, from 2003 to 2005.

More information about the members of the Board of Directors can be found on the Internet.

www.baloise.com → About us → Organisation
 → Board of Directors

MEMBERS

	Chairman's Committee	Audit Committee	Compensation Committee	Investment Committee	Nationality	Born in	Appointed in	End of mandate
Dr Andreas Burckhardt, Chairman, Basel	C			C	CH	1951	1999	2012
Dr Georg F. Krayer, Vice-Chairman, Basel	VC		C	DC	CH	1943	1995	2013
Dr Michael Becker, Darmstadt		M			D	1948	2010	2013
Dr Andreas Beerli, Oberwil-Lieli		M			CH	1951	2011	2014
Dr Georges-Antoine de Boccard, Conches			M		CH	1951	2011	2014
Dr Hansjörg Frei, Mönchaltorf	M	M		M	CH	1941	2004	2012
Dr Klaus Jenny, Zurich	M		DC	M	CH	1942	2003	2012
Werner Kummer, Küsnacht		C			CH	1947	2000	2013
Dr Eveline Saupper, Pfäffikon			M		CH	1958	1999	2014

C: Chairman, VC: Vice-Chairman, C: Chair, DC: Deputy Chair, M: Member.



Andreas Burckhardt



Georg F. Krayer



Michael Becker



Andreas Beerli



Georges-Antoine de Boccard



Hansjörg Frei



Klaus Jenny



Werner Kummer



Eveline Saupper

Andreas Burckhardt (1951, CH, Dr iur.) has been as member of the Board of Directors since 1999 and its Chairman since 29 April 2011. He studied jurisprudence at the Universities of Basel and Geneva. He worked for Fides Treuhandgesellschaft from 1982 until 1987 and served as Secretary General of the Baloise Group from 1988 until 1994. He was the Director of the Basel Chamber of Commerce from 1994 to April 2011. In this role, he contributed to various governing bodies of national and regional economic organisations. From 1981 to 2011, Dr Andreas Burckhardt was engaged in political functions in Basel City, from 1997 to 2011 as a member of the Great Council of the Canton of Basel City (President in 2006/2007). He is a non-executive member of the board of directors of Carl Spaeter AG.

Georg F. Krayer (1943, CH, Dr iur. LLB) has been a member of the Board of Directors since 1995 and its Vice-Chairman since 2004. From 6 December 2007 until 31 December 2008 he also fulfilled the role of Lead Director. He studied jurisprudence. Dr Georg F. Krayer is Honorary Chairman of the Board of Directors at Bank Sarasin & Cie AG, Basel, and was the Chairman of the Swiss Bankers Association until 2003. He is a member of the boards of Rhenus Alpina AG, Welinvest AG, Haco Holding AG as well as being Chairman of the Board of the Beyeler Museum AG. Dr Krayer is independent and non-executive.

Michael Becker (1948, D, Dr iur.) has been a member of the Board of Directors since 2010. He studied law in Hamburg and Tübingen and took over the position Head of Accounting and Controlling at Merck KGaA, Darmstadt in 1998. He was a member of senior management and general partner of the publicly listed company Merck KGaA as of 2000, and since 2002 a member of the executive board and general partner of E. Merck KG, Darmstadt, that holds 70 % of Merck KGaA shares. Due to having reached the agreed retirement age, he resigned from both functions at the end of 2011. He is an independent, non-executive director.

Andreas Beerli (1951, CH, Dr iur.) is a member of the Board of Directors since 2011. He studied law at the University of Basel. He worked as an underwriter for the German market at Swiss

Re as of 1979. From 1985 to 1993, he held various management posts at Baloise, the focus being on supervising and supporting different foreign units. After that he returned to Swiss Re, where he was a member of group management as of 2000, first in the US as Head Swiss Re Americas and, most recently, as Chief Operating Officer for the whole group in Zurich. Since 2009, he has been an independent advisor on management and advisory boards of companies and professional associations. Dr Andreas Beerli is a member of the board of Ironshore Europe Inc., Dublin, a member of the advisory board of Accenture Schweiz and President of the Swiss Advisory Council of the American Swiss Foundation. He is an independent, non-executive director.

Georges-Antoine de Boccard (1951, CH, Dr med.) has been a member of the Board of Directors since 2011. He studied medicine at the University of Geneva. He has been a self-employed, practising urological surgeon in Geneva since 1987. Dr Georges-Antoine de Boccard is a member of the Citadel Finance SA and was the president of the Swiss Association of Urology from 2005 to 2006. He is a member of the Swiss Association of Urology, the European Association of Urology in addition to being a member of further associations and societies related to his profession. Dr de Boccard is independent and non-executive.

Hansjörg Frei (1941, CH, Dr iur.) has been a member of the Board of Directors since 2004. He graduated in jurisprudence from the University of Zurich. Dr Hansjörg Frei joined Winterthur in 1982 and was most recently a member of the Group Executive Board, with responsibility for operations in Switzerland. From 2000 until his retirement in mid-2003, he was a member of the Executive Board (Head of International Country Management) at Credit Suisse Financial Services. He was Chairman of the Swiss Insurance Association (SIA) from 2000 to 2003. Dr Hansjörg Frei is a member of the Board of Directors of Ems-Chemie Holding AG and Chairman of the Pension Fund at the Ems Group. He is an independent, non-executive director.

Klaus Jenny (1942, CH, Dr oec. HSG) has been a member of the Board of Directors since 2003. He graduated in business science from the University of St. Gallen. In 1987 Dr Klaus Jenny became a member of the General Directorate of the Schweizerische Kreditanstalt and a member of the Executive Board of Credit Suisse Group and his last post was CEO of the “Credit Suisse Private Banking” business unit. He has been an independent financial advisor to businesses and private individuals since 1999. He is a member of the Board of Directors of Clariant AG, of Maus Frères S.A., of Edmond de Rothschild Holding S.A., of the Banque Privée Edmond de Rothschild S.A., of Télévrier S.A. and various other (non-listed) companies. Dr Klaus Jenny is an independent, non-executive director.

Werner Kummer (1947, CH, Dipl.-Ing. ETH, MBA Insead) has been a member of the Board of Directors since 2000. From 1990 to 1994, he was Chairman of the Executive Board of Schindler Aufzüge AG and subsequently was a member of the Schindler Group Management Committee, with responsibility for the Asia Pacific region, until 1998. He was CEO of Forbo Holding AG from 1998 until March 2004. Werner Kummer is an independent management consultant, a member of the board at Walter Meier AG, Chairman of the Board of the Gebrüder Meier AG, a member of the Supervisory Board of Schindler Deutschland

Holding GmbH, a member of the board at Costantini AG as well as a member of the executive board of the Zurich Chamber of Commerce. He is an independent, non-executive director.

Eveline Saupper (1958, CH, Dr iur.) has been a member of the Board of Directors since 1999. She studied jurisprudence at the University of St. Gallen. She is an attorney-at-law and a certified tax expert. From 1983 to 1985, she was with Peat Marwick Mitchell (now KPMG Fides) in Zurich and from 1985 to 1992 with Baker & McKenzie in Zurich and Chicago. She joined Homburger AG, Zurich in 1992, where she is a partner. Dr Eveline Saupper is a member of the board of directors at Homburger AG, Zurich. Until 31 December 2011 she was member of the board of directors of Hess Holding SA, Luxembourg, including subsidiaries of the Hess group. She has been a member of the board of directors of Hofstetler, Kramarsch & Partner AG since November 2011. Dr Saupper is an independent and non-executive director.

Secretary of the Board of Directors: Dr Thomas Sieber, Rheinfelden (as of 2012 Annual General Meeting Andreas Eugster, Oberwil BL). Head of Group Internal Audit: Rolf-Christian Andersen, Meilen.

BOARD ATTENDANCE 2011: ORDINARY MEETINGS OF THE FULL BOARD OF DIRECTORS

	10.3.2011	29.4.2011	25.8.2011	7.12.2011	8.12.2011
Dr Rolf Schäuble, Chairman	x	x	n/a	n/a	n/a
Dr Andreas Burckhardt	x	x	x	x	x
Dr Georg F. Kraye, Vice-Chairman	x	x	x	x	x
Dr Michael Becker	x	x	x	x	x
Dr Andreas Beerli	n/a	n/a	x	x	x
Dr Georges-Antoine de Boccard	n/a	n/a	x	x	x
Dr Hansjörg Frei	x	x	x	x	x
Prof. Dr Gertrud Höhler	x	x	n/a	n/a	n/a
Dr Klaus Jenny	x	x	x	x	x
Werner Kummer	x	x	x	x	x
Dr Eveline Saupper	x	x	x	x	x

x = present, o = absent, n/a = not applicable.

Cross-ownerships

No cross-ownerships exist.

Election and terms of office

At the end of 2011, the Board of Directors consisted of nine members. Each member is elected by the Annual General Meeting for a term of three years. Around one-third of the members step down annually unless they are re-elected (staggered replacement).

The average age on the Board of Directors is currently about 63. Each member of the Board of Directors is elected individually, and if requested by the shareholders, also granted an individual discharge.

Internal organisation

Duties of the Board of Directors

Subject to the decision-making powers of the shareholders at the Annual General Meeting, the Board of Directors is the company's supreme decision-making body. Essentially, decisions are made by the Board of Directors, unless authority has been delegated to the Chairman of the Board of Directors, to the Committees, the Corporate Executive Committee or to the CEO on grounds of organisational regulations.

As per Article 716a of the Swiss Code of Obligations and Section 1 II of the organisational regulations, the principal duties of the Board of Directors are general management, overall and financial supervision of the company and specifying the organisational structure.

www.baloise.com → Responsibility

→ Corporate Governance → Rules and regulations

Committees of the Board of Directors

Four committees are in place to support the activities of the Board of Directors. These committees report to the Board of Directors and submit proposals for their areas of responsibility. The Investment Committee and the Compensation Committee have their own decision-making authority.

As a rule, the committees appointed by the Board of Directors consist of four members who are newly elected every year

by the Board. The Chairman and the Vice-Chairman of the Board of Directors are ex officio members of the Chairman's Committee. The Chairman of the Board of Directors may not be a member of the Audit Committee. The key duties of these committees are governed by the organisational regulations and by the written regulations applying to each committee.

www.baloise.com → Responsibility

→ Corporate Governance → Rules and regulations

Duties of the committees

The **Chairman's Committee** provides advice on key business transactions, in particular on important strategic and personnel decisions. In this function, the Chairman's Committee also prepares personnel issues.

The Chairman's Committee also acts as the **Investment Committee** (until mid-2012) and approves the investment policy of the Group as well as the property investments for the Group's own use at Head Office.

The **Compensation Committee** specifies the structure and the amount of compensation paid to the members of the Board of Directors and of the salaries of the members of the Corporate Executive Committee. It approves the target agreements and performance assessments of the Chief Executive Committee members relevant for performance-related remuneration. It approves compensation policies for Corporate Executive Committee members and monitors their correct application. It approves the individual allocation of the variable compensation for the Corporate Executive Committee members. In addition, it defines the total amount contained in the performance pool.

The **Audit Committee** supports the Board of Directors in those supervisory and financial duties tasks that cannot be delegated (Article 716a Swiss Code of Obligations), by evaluating the organisational structure, the functioning of the internal and external auditing systems as well as the annual and consolidated financial statements. The Audit Committee also evaluates the effectiveness of internal control systems, including risk management and the status of compliance. The Audit Committee has discussed the consolidated financial statement for the 2011 fiscal year both with management and with the external

auditors. Based on these discussions, the Audit Committee has recommended that the audited Annual Financial Statement be incorporated in the Group's Annual Report for the fiscal year ended on 31 December 2011 and submitted to the Annual General Meeting. The Board of Directors has endorsed this proposal.

Board of Directors and committee meetings

The full Board of Directors meets as often as business requires, but no less than four times a year, in compliance with organisational regulations.

www.baloise.com → Responsibility

→ Corporate Governance → Rules and regulations

In 2011, the full Board of Directors of Baloise Holding convened ordinarily on five occasions. The table on page 50 shows the directors' attendance at these full Board of Directors meetings. With one exception, all members of each relevant committee attended all of the additional seventeen committee meetings. Board attendance by members of the Board of Directors was thus a very respectable 98.8%. One full Board of Directors meeting addressed the further training of the members with particular regard to Belgium and Human Resources.

www.baloise.com → Responsibility

→ Corporate Governance → Board Attendance

The Chairman's Committee convened nine times last year, including once for a two-day strategy meeting. The Investment Committee met three times. The Audit Committee met four times and the Compensation Committee met on two occasions.

Members of the Corporate Executive Committee are regularly invited to attend full Board of Directors meetings. Meetings of the Audit Committee are primarily attended by the Chief Financial Officer, the Head of Corporate Audit, the Secretary of the Board of Directors and by representatives of the external auditors. Meetings of the Compensation Committee are primarily attended by the Chief Executive Officer, the Secretary of the Board of Directors and the Head of Group Human Resources. The Chief Investment Officer attends all Investment Committee meetings.

Division of authority and responsibilities between the Board of Directors and the Corporate Executive Committee

The division of authority and responsibilities between the Board of Directors and the Corporate Executive Committee is governed by law, the Articles of Incorporation as well as the organisation regulations. The latter is reviewed on an ongoing basis and updated as changing circumstances require.

www.baloise.com → Responsibility

→ Corporate Governance → Rules and regulations

Corporate Executive Committee information and control tools

The Group Audit Department reports directly to the Chairman of the Board of Directors. Effective risk management is of key importance to an insurance group. This is why there is a chapter devoted to financial risk management from page 40 and in the Financial Report chapter from page 111 onwards.

The members of the Board of Directors receive the minutes of the Corporate Executive Committee meetings for their perusal. The Chairman of the Board of Directors may attend meetings of the Corporate Executive Committee at any time.

4. CORPORATE EXECUTIVE COMMITTEE

Martin Strobel (1966, D/CH, Dr rer. pol.) studied computer science, business management and business information systems at the Universities of Kaiserslautern, Windsor (Canada) and Bamberg. From 1993 to 1999 he held various posts at Boston Consulting Group, Dusseldorf, dealing with strategic IT management issues in the banking and insurance sector. He joined the Baloise Group in 1999. Initially he was Head of IT at Basler Switzerland, with responsibility for major cross-business projects in the insurance and banking divisions within the Baloise Group. He was a member of the Corporate Executive Committee from 2003 to 2008, with responsibility for the Corporate Division Switzerland. With effect from 1 January 2009, Dr Martin Strobel took over as Chief Executive Officer.

German Egloff (1958, CH, lic. oec. HSG) graduated in business management from the University of St. Gallen (Switzerland). From 1985 onwards he held various management posts at Winterthur Insurance, Switzerland. In 1997, as a member of the Executive Board, he assumed responsibility for individual non-life insurance products, which also included the management of both Wincare and, as Chairman of the Board of Directors, Sanacare. From 1998 to 2002, German Egloff was Chief Financial Officer of Winterthur Switzerland and a member of the Board of Directors of Wincare, becoming its Chairman in 2000. From 2002 to 2004, he was Chief Financial Officer at Zurich Financial Services Switzerland. His area of responsibility included finance, human resources, IT, logistics and procurement. German Egloff has been a member of the Corporate Executive Committee (Head of the Corporate Division Finance) since 1 December 2004, with responsibility for Investor Relations, Financial Management and Financial Accounting & Corporate Finance as well as for Corporate IT. The appointed actuary of the Baloise's Swiss business likewise reports to German Egloff.

Jan De Meulder (1955, B) studied mathematics and insurance mathematics at the universities of Antwerp and Leuven, Belgium. From 1978 until 1992, he worked in Antwerp for the ING Group at De Vaderlandsche Insurance. He was responsible, amongst

other things, for product development and production in the life sector. After two years as General Manager of the Life Association of Scotland, Jan De Meulder joined the Fortis Group, Brussels, in 1994 and there he held various senior management posts, most recently as CEO of Fortis Corporate Insurance. In 2004 he joined the Baloise Group as CEO of the Belgian subsidiary Mercator Verzekeringen in Antwerp. Since 1 January 2009, Jan De Meulder has been head of the International Corporate Division.

Michael Müller (1971, CH, lic. oec. publ.) studied national economics at the University of Zurich. He furthered his studies in insurance economics, accounting and financing. He began his career at Basler Versicherungen in 1997. Starting off as a trainee in Group Controlling, he went on to become the deputy Head of Financial Accounting of the Baloise Group and then in 2004 he headed the division. In 2009 as Head of Finance and Risk, he became a member of senior management of the corporate division Switzerland with the main focus on reporting and controlling, the actuarial steering of the insurance companies, risk management as well as being responsible for logistics processes and the project head pool. Michael Müller has been a member of the Corporate Executive Committee and CEO of the corporate division Switzerland since March 2011.



Martin Strobel



German Egloff



Jan De Meulder



Michael Müller



Thomas Sieber



Martin Wenk

Thomas Sieber (1965, CH, Dr iur., M.B.L., lawyer) studied law at the University of St. Gallen. At the beginning of 1994, he qualified to practice law in the canton of Zurich. From 1999 to 2002, he lectured in corporate law at the University of St. Gallen. After holding positions at Landis & Gyr and Siemens, Dr Thomas Sieber joined the Baloise Group in 1997 as the Deputy Head of the Legal and Tax division. He has headed this division since 2001 and also became Secretary of the Board of Directors of Baloise Holding. As part of the review of the Swiss Insurance Supervisory Act, he managed the “Financial Markets Supervisory Authority” task force of the Swiss Insurance Association (SIA). Since 6 December 2007, Dr Thomas Sieber is Head of the Corporate Centre responsible for Group Human Resources, Legal and Tax, Group Compliance, Corporate Development, Run Off and, since 2009, also for Group Procurement. Thomas Sieber is also a member of the board of directors of EuroAirport Basel Mulhouse.

Martin Wenk (1957, CH, lic. iur.) held various posts at a major bank from 1982 to 1992 after graduating in law from the University of Basel. He initially worked as an investment advisor to institutional clients, then went on to head a private banking group in New York and subsequently became a sector head in securities sales, where he primarily looked after major institutional clients. From 1992 until 2000, he was Head of Portfolio Management Switzerland within the Baloise Group, with responsibility for managing the assets of various companies in Switzerland and within the Group, including the pension funds. He joined the Corporate Executive Committee (as Head of the Corporate Division Asset Management) in 2001, with responsibility for Asset Management, including the Investment Strategy, Investment Controlling, Baloise Asset Management, Real Estate and Baloise Fund Invest units (fund business). Martin Wenk is a member of the board of Unigestion Holding, Geneva.

Further information on the members of the Corporate Executive Committee can be found on the Internet.

With the exception of Dr Martin Strobel and Martin Wenk, none of the members of the Corporate Executive Committee serve on the Boards of Directors of non-Baloise Group companies.

There are no management contracts that assign executive functions to third parties.

www.baloise.com → About us → Organisation
 → Corporate Executive Committee

Management structure (effective date: 31 December 2011)

GROUP CHIEF EXECUTIVE OFFICER Martin Strobel, Dr rer. pol. *				
Group Secretary Markus von Escher, Dr iur.		Corporate Communications Thomas Kähr		
SWITZERLAND	INTERNATIONAL	FINANCE	ASSET MANAGEMENT	CORPORATE CENTRE
Michael Müller*	Jan De Meulder*	German Egloff*	Martin Wenk*	Thomas Sieber, Dr iur. *
Product Management Commercial Clients Clemens Markstein Product Management Private Customers & Focused Financial Services Wolfgang Prasser Sales & Marketing Bernard Dietrich Baloise Bank SoBa Jürg Ritz Operations & IT Urs Bienz Finance & Risk Carsten Stolz, Dr rer. pol. Claims Stephan Ragg, Dr iur.	Germany Frank Grund, Dr iur. Belgium Gert De Winter Luxembourg André Bredimus (until 14 May 2012) Romain Braas (as of 15 May 2012) Austria Otmar Bodner, Dr iur. Croatia & Serbia Darko Cesar Baloise Life (Liechtenstein) Annemie D'Hulster (until 10 January 2012) Peter Zutter (as of 11 January 2012 a. i.) Markus Jost (as of 1 April 2012) Regional Management Peter Zutter Martin Kampik	Financial Accounting & Corporate Finance Carsten Stolz, Dr rer. pol. (until 31 December 2011 a. i.) Sepp Huwyler (as of 1 January 2012) Investor Relations Marc Kaiser Group Risk Management Stefan Nölker, Dr rer. nat. Corporate IT Olaf Romer Baloise 2012 Roger Matthes Appointed Actuary Switzerland Thomas Müller, Dr sc. math.	Investment Strategy & Investment Controlling Thomas Schöb Baloise Asset Management Reto Diezi, Dr oec. publ. (until 31 March 2012) Matthias Henny (as of 1 April 2012) Real Estate Hans-Peter Bissegger Baloise Investment Services Robert Antonietti	Corporate Development Thomas Wodrich Group Human Resources Kurt Grois Group Legal & Tax Andreas Eugster Group Compliance Silvia Kalbermatten, Dr iur. Run Off Bruno Rappo Group Procurement Manfred Schneider, Dr rer. nat.

* Member of the Corporate Executive Committee

5. COMPENSATION REPORT: COMPENSATION, PARTICIPATIONS AND LOANS TO THE BOARD OF DIRECTORS AND THE CORPORATE EXECUTIVE COMMITTEE

This chapter describes the remuneration policy, guidelines and the remuneration system of Baloise. In addition, the remuneration and loans to the members of the Board of Directors and the Corporate Executive Committee, including the participations of this group of persons, are disclosed. Key to the content and scope of this disclosure are Articles 663b^{bis} and 663c of the Swiss Code of Obligations, the standard relating to information on Corporate Governance of the SIX Swiss Exchange and the Swiss Code of Best Practice for Corporate Governance including the circular 10 / 1 of the Federal Financial Supervisory Authority (FINMA) on remuneration systems. These regulations stipulate that certain details are to be made in the notes to the financial statements and other information is to be given in the section on corporate governance. Baloise considers this chapter as integral to corporate reporting and has therefore decided to publish the complete Compensation Report in its Annual Report and to include the necessary passages in the Financial Report.

5.1. Compensation Committee of the Board of Directors

In accordance with the Swiss Code of Best Practice, the Board of Directors formed the Compensation Committee in 2001. This committee deals with the compensation policy, particularly at the highest corporate level. Amongst other things, the Compensation Committee makes sure that

- remuneration policy and compensation systems are long-term in nature and in line with the corporate strategy.
- the total compensation provided by the company is market- and performance-oriented and geared to attract and retain people with the necessary skills and character attributes.
- compensation justifiably reflects the company's long-term success and the individual's contribution and does not create false incentives.
- The structure and the amount of the total compensation comply with the risk policy of Baloise and encourage risk awareness.

In particular, the duties of the committee include

- determining the structure and the amount of compensation to be received by the Chairman and the members of the Board of Directors and the Corporate Executive Committee.
- to approve the target agreements and performance appraisals of the Corporate Executive Committee members.
- to approve the individual allocation of the variable compensation for the Chief Executive Committee members.
- to define the total amount for the performance pool and the total reserved for the allocation of performance share units (PSU).
- to approve and authorise service entry and departure payments regarding most senior staff members or that exceed, in individual cases, CHF 200,000.
- to approve compensation regulations pertaining to the Corporate Executive Committee members and monitor their correct application.

The Compensation Committee consists of the following four independent members of the Board of Directors, who are re-elected annually by the Board: Dr Georg F. Kraye (Chair), Dr Klaus Jenny (Deputy Chair), Dr Georges-Antoine de Boccard, Dr Eveline Saupper. As a rule, the Committee holds at least two meetings a year. The Chair of the Compensation Committee reports to the Board of Directors regularly on the activities of the Committee. The minutes of Committee meetings are also available to the whole Board.

5.2. Remuneration policy

Principles

The success of the company is materially dependent on the skills and the performance of its employees. Therefore, it is vital to attract and develop well-qualified, competent and highly motivated employees and executives and retain them within the company. Baloise's remuneration policy and system are derived from these superordinate principles.

Remuneration directive and regulations

In 2010 the Board of Directors adopted a remuneration directive proposed by the Compensation Committee, which defines the principles and benchmark figures regarding remuneration for the Baloise Group. The remuneration directive applies to all employees of the whole Baloise Group. It reflects the policies and values of the company and is based on the following principles:

- Be competitive in the market – Baloise aims to pay basic salaries that are in line with the market and to exceed the market regarding variable remuneration for very good individual and company performance.
- To consider company and individual performance – performance is the basis for further development and advancement.
- Fairness and transparency – external comparisons on the market and fair pay, no discrimination.
- Sustainability – high conformity of management and shareholder interests, long-term commitment, higher proportion of restricted shares.

Based on this remuneration directive, the Board of Directors simultaneously issued a set of remuneration rules that apply to all employees in Switzerland and by analogy also to all Group employees.

All elements of the remuneration policy are centrally regulated by the remuneration directive and rules. This regulatory framework forms the basis for a remuneration system that also meets the requirements of the Swiss Financial Supervisory Authority. In particular this means that the variable remuneration is tied more strongly to the company's value creation.

5.3. Remuneration system

Objective

The aim of this remuneration system is to promote a performance culture in the Baloise Group and to facilitate the retention of qualified and management personnel within the organisation. The remuneration policy of Baloise aims to pay basic salaries that are in line with the market. Furthermore, the variable remuneration components are designed so that – regarding individual performance and the success of the com-

pany – in a very good year payments above the market average are possible, by the same token the amount paid can be below the market average in a weak year.

As a performance-driven company, Baloise establishes a clear and replicable correlation between employee targets and business objectives. These are derived from the strategic priorities. Remuneration, target agreements and performance assessments are closely related. Compensation – consisting of basic salary and variable payments – shows a clear yet differentiated connection to and recognition of the performance of the individual and the success of the company and intends to reward employees for excellent performance. Actual performance forms the basis for further development, career planning and the fostering of our talents.

Baloise places great importance on the retention of key personnel and on the sustainable management of the business. In addition to remuneration that reflects the market and performance, a sustainable focus of our executive managers that is geared towards the interests of the shareholders is important to Baloise. That is why considerable proportions of the variable remuneration is paid in shares. With the performance share units, the three highest management levels additionally receive a further salary component as a deferred payment in the form of shares that are restricted for three respectively six years.

With increasing strategic responsibility and effect, the variable remuneration is primarily determined by the overall result of the company and/or the economic value creation – taking the risk assumed into consideration. The proportion of short-term variable remuneration in relation to total remuneration and the proportion in restricted shares to be received increases accordingly. For the members of the Corporate Executive Committee, shares as a proportion of variable remuneration amount to about 70 % and the value of the restricted shares they hold is about three-times their basic salary. Thus important elements of the standard required by the supervisory authorities are fulfilled.

New Performance Management System as of 1 January 2011

Baloise reviewed its remuneration system in depth in 2009/2010 and introduced a new Performance Management System for the short-term variable remuneration as of the 2011 fiscal year. Based on the objective to foster a high performance and result-orientation of the employees and, at the same time, incorporate the company's success, the new system consists of two clearly defined and separate instruments: Performance remuneration and performance pool. Performance remuneration rewards the employee's individual achievement. The performance pool considers the overall performance or the value creation of the company. In addition, all material elements contained in the circular from the Swiss Financial Supervisory Authority were considered when shaping the variable remuneration system.

The new Performance Management System applies Group-wide to the most senior management level. In Switzerland it also applies to the majority of other management levels and is being progressively introduced abroad.

Market comparisons

Baloise regularly compares the salaries of senior executives with those of relevant competitors (STOXX Europe 600 Insurance Index and/or local employment markets). These comparisons show that, on average, Baloise lies within the market mean regarding total remuneration, whereby the share proportion of total remuneration is higher than that of comparable competitors as intended. The variable part of the remuneration package can also vary strongly, which in turn confirms that linking it to performance goals really has an effect.

5.4. Remuneration components

Baloise treats its remuneration as an all-inclusive package and therefore considers basic salary, short- and long-term variable remuneration and also other material and non-material benefits, such as pension contributions, additional benefits or employee career development and promotion.

Basic salary

The basic salary represents the compensation appropriate to the tasks and responsibility of the position and the employee's skills and competence required to reach the business targets. Baloise aims to achieve an average position in the market when determining the basic salary. This is realised on the grounds of local business and market requirements. Basic salaries are checked regularly and adjusted if necessary, based on the individual performance, the position in the salary range as well as the company performance. In the spirit of fairness and compliance with the Baloise Code of Conduct, the maxim "same pay for the same qualification and tasks" applies when determining the basic salary whilst considering internal fairness regarding pay. Internal and external fairness in pay are supported by clear and market-oriented salary structures.

Short-term variable remuneration

Central factors that influence the amount of the short-term variable remuneration are individual performance and the overall result or, in other words, the economic value creation of the company. The connection thus created between the performance of the individual and the company's success is intended to motivate employees to achieve outstanding results.

The short-term variable remuneration is always paid together with the March salary of the following year. Baloise places great importance on the sustainable management of the business and on a high correlation between the interest of shareholders and management. For this reason, considerable proportions of the variable remuneration are paid in the form of shares. Basically, members of senior management can choose which proportion they wish to receive in cash and which as shares. This choice is limited for the most senior management level; here a graduated obligation to subscribe shares exists: Members of the Corporate Executive Committee must draw at least 50 % of their short-term variable remuneration in the form of shares. These subscribed shares remain blocked for three years and are subject to market risks during this period. In particular, the mandatory emoluments ensure that as responsibility and total remuneration increase, a significant share of the remuneration is paid with a deferred effect. They also promote risk awareness

among employees and encourage them to work economically and sustainably.

There is a choice of two share subscription plans: Share Subscription Scheme and Employee Share Ownership Plan (compare “5.6 Share Subscription Scheme and Employee Share Ownership Plan”).

The instruments performance remuneration and performance pool described below are available for the short-term variable remuneration.

Performance remuneration

The performance remuneration considers the employee’s individual performance and compensates the respective target achievement. To this end, together with their immediate subordinates, the supervising managers annually define the key individual targets and assess the degree of achievement by February of the following year at the latest. When defining the individual targets, care is taken that they do not contradict the company’s business strategy.

The target value for the performance remuneration depends on the basic salary and varies according to the hierarchical position. The target value equates to 30 % of the basic salary for members of the Corporate Executive Committee. The target agreements and the performance assessments for the members of the Corporate Executive Committee are performed by the Compensation Committee.

In principle, the most senior management level of the whole Group, the majority of executives in Switzerland as well as their counterparts abroad are entitled to a performance remuneration.

Performance pool

The Performance pool takes into account the performance of the entire Baloise Group, the amount is determined by the Compensation Committee ex post at its own discretion. To this end, the Compensation Committee evaluates the performance of the entire Baloise Group for the past fiscal year and considers also the following criteria:

→ Consolidated result compared to previous years and competitors

→ Capital market view compared to competitors

→ Risks assumed

→ Strategy implementation

The individual allocation to the employees is performed at the discretion of the superior; no regulatory target values are defined. An overall assessment consisting of target achievement (in light of the individual degree of achievement) and the employee’s conduct and behaviour serve as the main guidelines when determining the amount to be allocated. The supervisory manager’s proposal for the individual allocation is discussed in the respective management team, compared to other departments and sectors and adjusted where necessary. This ensures that the conduct components that are also relevant to risk, are likewise considered when allocating the individual amounts.

The roundtable system selected prioritises the overall appraisal of management as well as the validation of the individual allocations. The aim is to acknowledge all performance aspects appropriately and not to make an evaluation on account of only a few parameters that possibly do not consider other important aspects.

The individual allocation for the members of the Corporate Executive Committee is set by the Compensation Committee. In principle, the most senior management level of the whole Group, the majority of executives in Switzerland as well as the respective functions abroad are considered for the performance pool. However, there is no basic right to an allocation from the performance pool.

Long-term variable remuneration

Baloise additionally provides performance share units (PSU) to the most senior executives as a long-term variable remuneration component. The PSU programme permits the most senior executive level to participate more intensively in the value development of the company and promotes the long-term retention of high performers.

Performance share units (PSU)

At the beginning of any performance period, participating employees are awarded rights in the form of performance share units (PSU), which entitle them to subscribe for a certain number of shares free of charge after the performance period has expired. The Compensation Committee specifies the day of allocation and defines at its own discretion those members of senior management that are entitled to participate. It determines the total

number of available PSU and specifies the individual allocation to the members of the Corporate Executive Committee.

The number of shares that can be subscribed after three years, i. e. at the end of the performance period, depends on how the Baloise share has performed relative to a peer group. This comparative performance factor can hereby assume values between 0.5 and 1.5. The peer group includes the most important European insurance companies in the STOXX Europe 600 Insurance Index.

Companies in STOXX 600 Europe Insurance Index (as of 31 December 2011)

Admiral Group plc	Baloise Holding	Jardine Lloyd Thompson	Scor
Aegon NV	Catlin Group	Legal & General Group plc	Standard Life plc
Ageas	CNP Assurances	Mapfre SA	Storebrand ASA
Allianz	Delta Lloyd	Münchener Rück	Swiss Life
Amlin plc	Gjensidige Forsikring	Old Mutual plc	Swiss Re
Assicurazioni Generali	Hannover Rück	Prudential plc	Topdanmark A/S
Aviva plc	Helvetia	RSA Insurance Group	Vienna Insurance
Axa	ING Groep NV	Sampo OYJ	Zurich Financial Services

Source: http://www.stoxx.com/download/indices/factsheets/stx_supersectors_fs.pdf

PERFORMANCE SHARE UNITS (PSU)

	Plan 2009	Plan 2010	Plan 2011
Entitled employees as of start of programme	66	71	73
Number of allocated PSU	81,127	83,441	81,739
Of which: expired without compensation (departures 2009)	–	–	–
Number of active PSU as of 31 December 2009	81,127	–	–
Of which: expired without compensation (departures 2010)	–2,603	–1,226	–
Number of active PSU as of 31 December 2010	78,524	82,215	–
Of which: expired without compensation (departures 2011)	–6,752	–7,962	–6,937
Number of active PSU as of 31 December 2011	71,772	74,253	74,802
Value of allocated PSU as of issue date in CHF million	6.3	7.4	6.9
2009 PSU expense for the Baloise Group in CHF million	1.8	–	–
2010 PSU expense for the Baloise Group in CHF million	2.0	2.1	–
2011 PSU expense for the Baloise Group in CHF million	2.0	2.4	2.4

The composition of the index can be subject to changes. Due to company mergers, for example, companies can drop out of the index, others may be newly included in the index. The composition of the index at the point in time when the respective PSU are issued is key to determining the performance factor, adjusted by the companies that are no longer included in the index. Companies that have meanwhile been newly included in the index are not considered for plans that are already running.

In principle, a PSU grants the right to subscribe to a share. This is the case when Baloise share performance corresponds to the mean of the peer group; in this case the performance factor is 1.0. The programme participants receive more shares for their PSU, if Baloise shares have performed better than the peer group. The factor reaches the maximum of 1.5, when Baloise shares have performed in the uppermost quartile of peer group company performance. The factor is 0.5, if performance is in the lowest quartile of peer group company performance. If the Baloise share performance is in both middle quartiles, the performance factor is calculated using a linear scale. The performance factor is defined for the entire period ending, based on stock exchange closing prices on the last trading day of the respective performance period.

The participant receives the corresponding number of shares at the end of the performance period (vesting), i. e. on 1 January 2014 for the PSU allocated in 2011. The PSU become void without compensation or substitution, should the employment contract be terminated (except in the case of retirement, invalidity or death) during the performance period. As from 2012, the Compensation Committee also has the option of retroactively reducing or revoking entirely the number of PSU allocated to a single person or a group of participants should special reasons exist (so-called clawback rule). To emphasise the long-term character of the programme, 50 % of the allocated shares are subject to an additional three-year blocking period after the performance period has expired.

The PSU allocated in 2009 were converted into shares as of 1 January 2012. At the end of the performance period on 31 December 2011, the performance of the Baloise share held the 24th rank of 34 companies within the reference group (STOXX Europe 600 Insurance Index), in other words, it was in the third

quartile. Thus the performance factor was 0.64, and 74,375 outstanding PSU were converted into 47,599 shares (market price on 31.12.2011: CHF 64.40, market value CHF 3.1 million).

After ranking 13th of 31 companies for the first PSU programme converted on 1 January 2010, the share performance achieved the 12th rank of 31 companies for the conversion on 1 January 2011 (previous year values: 1.24, 51,880 outstanding PSU, converted into 64,335 shares, market price on 31.12.2010 CHF 91.00, market value CHF 5.9 million). So the value of PSU converted into shares for the plan participants during the reporting period was 63 % lower than in the previous year.

The shares required to convert the PSU were bought on the market.

Ancillary benefits

As a rule, ancillary benefits are components of total remuneration that are not dependent on function nor individual or corporate performance. By providing benefits such as pension plans, benefits, personnel development and advancement, Baloise demonstrates that its high regard for its employees and that the relationship to them is based on partnership. Ancillary benefits are awarded according to the provisions of the respective country.

5.5. Employment contracts, change of control clauses, service entry and departure compensation

The employment contracts of senior members of staff are concluded for an unlimited period in Switzerland and also abroad for the main part. They provide for a notice period of six months.

All six members of the Corporate Executive Committee have a twelve-month notice period. In addition, they are – as are four other members of the executive management – entitled to a severance payment amounting to one annual salary (including variable remuneration), in the event that their employment contract is terminated within twelve months after a change of control due to a takeover or merger or a merger of employers (under certain circumstances also those of employees).

The notice period is also twelve months for the Chairman of the Board of Directors. The same change of control clause applies as for the members of the Corporate Executive Committee.

The remuneration directive issued by the Board of Directors in March 2010 contains clear guidelines on service entry and departure compensation: Such payments may only be made in substantiated cases.

Service entry and departure compensation for senior members of management must be approved by the Compensation Committee regardless of the amount.

5.6. Share Subscription Scheme and Employee Share Ownership Plan

There is a choice of two plans for the proportion of the short-term variable remuneration drawn as shares: Share Subscription Scheme and Employee Share Ownership Plan.

Share Subscription Scheme

Since January 2003, employees of the Group companies in Switzerland that are entitled to draw shares can subscribe to shares at a preferential price – this includes the members of executive management of the foreign companies since 2008; this takes the short-term variable remuneration due into account. The subscription date is always 1 March; on this day the ownership of the shares is transferred to the employee without further vesting conditions. However, they may not be sold during a blocking period of three years. Until 2011, the subscription date was 1 June. By bringing it forward to 1 March, the subscription date is in line with the payout date for the short-term variable remuneration according to the new Performance Management System.

The subscription price is specified by the Corporate Executive Committee each year and is published in advance on the intranet. It is based on a volume-weighted average price of a contemporary measuring period. A discount of 10 % is granted on the average price calculated using this method (compare details in the table). The shares required for the Share Subscription Scheme are purchased on the market.

	Measuring period for average price	Average price	Subscription price
CHF			
Share Subscription Scheme 2012 (applies to variable remuneration awarded for the 2011 reporting period)	6.-17. 2.2012	72.87	65.58
Share Subscription Scheme 2011 (applies to shares purchased by the Chairman and members of the Board of Directors in the reporting period)	3.-16.5.2011	91.58	82.43

Employee Share Ownership Plan

Since May 2001, the majority of senior staff in Switzerland can draw a proportion – freely selectable within certain ranges – of their short-term variable remuneration in shares instead of in cash. Upper limits exist for the most senior executives; members of the Corporate Executive Committee, who are obliged to draw at least half of their short-term variable remuneration as shares may not draw more than 50 % of their entitlement in Employee Share Ownership Plan shares. As with the Share Subscription Scheme, the subscription date is always 1 March; on this day ownership of the shares is transferred to the employee without further vesting conditions. However, they may not be sold during a blocking period of three years. Until 2011, the subscription date was 1 June. By bringing it forward to 1 March, the subscription date is in line with the payout date for short-term variable remuneration according to the new Performance Management System.

The subscription price is specified by the Corporate Executive Committee each year and published in advance on the intranet. It is based on a volume-weighted average price of a contemporary measuring period. The discounted dividend right is deducted from this average price over a period of three years (compare details in the table). The shares required for the Share Ownership Plan are purchased on the market.

	Measuring period for average price	Average price	Subscription price
CHF			
Employee Share Ownership Plan 2012 (applies to variable remuneration awarded for the 2011 reporting period)	6.-17.2.2012	72.87	59.84
Employee Share Ownership Plan 2011 (applies to shares purchased by the Chairman of the Board of Directors in the reporting period)	3.-16.5.2011	91.58	79.88

In order to increase the impact of this Employee Share Ownership Plan, each employee receives an interest-bearing loan on market terms, which allows the employee to draw more shares in relation to the invested capital granted at fair value less the discounted dividend right over a three-year period. The repayment of the loan after the three-year blocking period is hedged using a put option, which is financed by the sale of a complementary call option. After the three-year blocking period has expired, the shares remaining after the options have been exercised, less the repayment of the loan and the interest accrued, are placed at the employee's disposal.

5.7. Employee Participation Plan

The Basler Foundation for Employee Participation, set up in 1989, offers employees from various Group companies in Switzerland the option of buying shares of the Baloise Holding Ltd at a preferential price, as a rule once a year, according to stipulations laid down in the regulations established by the foundation board. This promotes long-term employee commitment to the company, also as shareholders. The subscription price is determined by the foundation board at the beginning of the subscription period and published on the intranet. It is equivalent to half the volume-weighted, average market price determined for the month of August in the subscription year and amounts to CHF 34.80 (2010: CHF 41.90) for the reporting period. The subscribed shares are always transferred on 1 September and are subject to a blocking period of three years.

The foundation acquired the stock employed for this purpose during earlier capital increases of Baloise Holding Ltd. It regulates the stock of shares as required through additional purchases on the market. The foundation will be able to continue this Employee Participation Plan in the coming years due to existing stocks.

The foundation is managed by a board that is predominantly independent of the Corporate Executive Committee. Peter Schwager (Chairman) and Dr Heinrich Koller (solicitor) function as independent members of the foundation council; the third member is Andreas Burki (Deputy Head of Legal and Tax Baloise).

EMPLOYEE PARTICIPATION PLAN

	2010	2011
Number of subscribed shares	170,842	172,385
Restricted until	31.8.2013	31.8.2014
Subscription price per share in CHF	41.90	34.80
Value of subscribed shares in CHF million	7.2	6.0
Fair value of subscribed shares as of subscription date in CHF million	14.3	12.1
Entitled employees	3,189	3,150
Participating employees	1,876	1,897
Subscribed shares per participant (average)	91.1	90.8

5.8. Pension schemes

Baloise provides several different pension solutions that are designed to suit different country-specific circumstances. There are different pension schemes available in Switzerland for the employees of the insurance company and the bank.

Baloise Insurance offers its employees in Switzerland an attractive pension solution as part of the 2nd pillar, which fulfils the following objectives:

- It meets the requirements of the insured should the following risk events occur: old age, death or invalidity; and it absorbs the resulting economic consequences with an occupational pension based on social partnership.
- It permits an appropriate maintenance of a lifestyle enjoyed to date with a sufficiently high substitution rate (1st and 2nd pillar benefits combined) to replace discontinued earnings.
- The employer makes an above-average contribution to financing of occupational pensions.
- It is forward-looking, sound, can be calculated and is reasonably priced.

The Chairman of the Board of Directors and the members of the Corporate Executive Committee are insured in the pension scheme of Baloise Insurance Ltd. The same terms apply to them as to all other insured office staff.

5.9. Remuneration to members of the Board of Directors (including Chairman)

See tables on pages 68 and 69.

The members of the Board of Directors receive a lump sum payment for their participation on the Board as well as for additional functions performed on the Board committees. The amount has remained unchanged since 2008.

Since 2006 members of the Board of Directors have been paid out 25 % of their annual remuneration in shares that are blocked for a period of three years. As with the Share Subscription Scheme for management, members of the Corporate Executive Committee are also granted a 10 % discount on the market price. Members of the Corporate Executive Committee do not participate in any employee stock ownership scheme that is linked to achieving specific performance targets.

No claim to receivables from active or former members of the Board of Directors was waived.

The Chairman of the Board of Directors also receives a fixed compensation sum, however he is not entitled to any variable remuneration. This means that he receives neither performance remuneration nor an allocation from the performance pool nor any allocation of PSU. Approximately one quarter of his basic pay is drawn in shares, whereby he can choose freely each year whether he draws them according to the Share Subscription Scheme or the Employee Share Ownership Plan. In order to emphasise the long-term nature of his commitment, his shares that are drawn from the Share Subscription Scheme are subject to a blocking period of five instead of three years.

5.10. Remuneration to members of the Corporate Executive Committee

See tables on pages 70 to 73.

The remuneration to the members of the Corporate Executive Committee is determined in accordance with the remuneration directive and remuneration rules issued by the Board of Directors. It consists of the basic salary plus the performance remuneration based on the individual performance (target value 30 % of the basic salary) and the performance pool, which reflects the corporate performance as assessed by the Compensation Committee. The members of the Corporate Executive Committee are also allocated performance share units (PSU) as a long-term variable remuneration element. The type and scope of the remuneration is determined by the Compensation Committee.

In order to strengthen the commonality of interests with the shareholders, the members of the Corporate Executive Committee must draw at least 50 % of their short-term variable remuneration in shares. These obligatory share subscriptions and the shares allocated as part of the PSU programme mean that, compared to the market, a high proportion of the remuneration is made as a deferred payment.

The individual targets keys to calculating the performance remuneration are, besides the successful management of the own Group division, mainly important projects and initiatives for which the respective Corporate Executive Committee member is responsible. For 2011 all members of the Corporate

Executive Committee will include the embedding of a common set of values in Baloise. Individual targets are set in consultation with the respective supervising manager and approved by the Compensation Committee. Baloise cannot disclose further details or quantification regarding the individual targets or their degree of attainment due to competitive reasons.

The disclosure of the remuneration to the members of the Corporate Executive Committee of the 2011 financial reporting on pages 72 and 73 is performed according to the so-called accrual principle for the first time: All remuneration elements are contained in the table that were awarded for performances during the 2011 fiscal year, even if individual parts will only be paid out later. Bringing the subscription date of the individual payment programmes forward will make it possible in future to record the definitive emoluments for the reporting period. The table with the previous year's figures (pages 70 and 71) has been adapted in order to ensure a meaningful comparison to the previous year. It therefore contains all remuneration awarded for the 2010 fiscal year regardless of the payout date.

The basic salaries of the Corporate Executive Committee remained unchanged in 2011. The total sum of remuneration for the members of the Corporate Executive Committee decreased by a nominal 12 % compared to the previous year. This can be ascribed to several factors: The proportion of short-term variable remuneration in 2011 lies distinctly below the previous year's value. The Compensation Committee reduced the allocation from the performance pool for 2011 versus the expected value of previous years by 30 %. The unsatisfactory share performance in 2011 also led to a marked reduction of earnings gained from the conversion of PSU. So the reduction of the performance factor from 1.24 to 0.64 and the lower share price on the conversion date from CHF 91.00 to CHF 64.40 mean that the value of a PSU converted into shares was 63 % lower than in the previous year. Furthermore, the allocation of PSUs that were converted during the previous year is lower for two members of the Corporate Executive Committee because they did not hold their current posts at the time. One member of the Corporate Executive Committee received a reduced salary due to taking unpaid leave. These factors and also the changes in personnel on the Corporate Executive Committee must be considered in order to achieve an objective comparison. The reduction of total remuneration thus calculated amounts to 22 %, the reduction in variable remuneration 43 %. These figures show that while the variable remuneration is strongly tied to the eco-

nomic value creation of the company, it can also reflect the negative development of the share price.

5.11. Loans to key personnel

See table on page 74.

5.12. Participations and options

See tables on pages 75 and 76.

5.13. Amounts of the total remuneration and the variable payments

See table on page 67.

Compliant with the circular 10/1 of the Federal Financial Supervisory Authority on remuneration systems, Baloise publishes the sums of the total remuneration and the variable payments in the table on page 67 and gives details regarding the amount of outstanding, deferred remuneration as well as any service entry and departure compensation granted. The figures contain all remuneration elements that were awarded for the 2011 fiscal year, even if individual parts will only be paid out at a later date.

The variable remuneration elements awarded for the 2010 fiscal year had not been determined when last year's Compensation Report went to print, which is why the details given were partially based on estimates. In the report at hand, the previous year's figures that were based on estimates have been replaced by the actual amounts in order to ensure a meaningful comparison to the previous year. No significant differences have emerged between those estimates and the effective figures.

TOTAL AND VARIABLE REMUNERATION BALOISE GROUP

	2010				2011			
	Cash payment	Shares	Prospective entitlements	Total	Cash payment	Shares	Prospective entitlements	Total
Total remuneration								
in CHF million	808.6	7.2	7.1	822.9	757.1	5.1	7.4	769.6
Total variable remuneration (total pool)								
in CHF million	169.9	7.2	7.1	184.2	149.5	5.1	7.4	162.0
Number of beneficiaries	6,776	251	70		6,657	173	73	
Of which commission / brokerage to the insurance sales force employees								
in CHF million	111.9	0.0	0.0	111.9	96.6	0.0	0.0	96.6
Of which other variable remuneration elements								
in CHF million	57.9	7.2	7.1	72.2	52.9	5.1	7.4	65.4
Total outstanding deferred remuneration								
in CHF million	0.0	67.0	20.3	87.3	0.0	48.5	21.0	69.5
Debits / credits from remuneration for previous fiscal years recognised in profit and loss								
in CHF million	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total recruitment payments made								
in CHF million	0.3	0.0	0.0	0.3	0.1	0.0	0.0	0.1
Number of beneficiaries	3	0	0		3	0	0	
Total severance payments made								
in CHF million	3.1	0.0	0.0	3.1	4.9	0.0	0.0	4.9
Number of beneficiaries	86	0	0		73	0	0	

Explanatory notes to table:

The table contains all remuneration elements that were awarded for the respective fiscal year, even if individual parts will only be paid out later.

Total remuneration All cash-value benefits that the financial institution awards directly or indirectly to a person for work performance in connection with his employment contract or function; for example cash payments, non-cash benefits, expenses that justify or increase pension entitlements, annuities, allocation of participation, conversion and option rights as well as waiving any claims.

Variable remuneration Portion of total remuneration whose adjustment or amount is at the discretion of the financial institution or depends on the occurrence of agreed conditions, including performance or success-related compensation such as kickbacks and commissions. Service entry and departure compensation are likewise contained under the item variable remuneration.

Total pool Sum of all variable remuneration that a financial institute pays for a fiscal year, independent of form, of a contractual warranty, of the time of allocation and payment as well as any associated conditions and constraints. Service entry and departure compensation paid in the respective fiscal year are assigned to the total pool.

Service entry compensation One-off payment agreed when an employment contract is concluded. Facultative compensation for forfeited claims to remuneration from a previous employer is also counted as compensation for service entry.

Departure compensation Payment agreed regarding the termination of an employment contract.

The variable remuneration elements awarded for the 2010 fiscal year had not been determined when last year's Compensation Report went to print, which is why the details given were partially based on estimates. The previous year's figures in the table above that were based on estimates have been replaced by the actual amounts in order to ensure a meaningful comparison to the previous year. No significant differences have emerged between those estimates and the effective figures.

REMUNERATION TO THE MEMBERS OF THE BOARD OF DIRECTORS (PREVIOUS YEAR)

2010	Basic remuneration	Remuneration for additional functions	Additional remuneration	Total	Of which: in cash	Of which: in shares	Number of shares
Dr Georg F. Kraye	125,000		0	295,000	221,293	73,707	1,009
Vice-Chairman Board of Directors		50,000					
Chair Compensation Committee		50,000					
Deputy Chair Chairman's Committee and Investment Committee		70,000					
Dr Michael Becker	62,500		0	87,500	87,500	0	0
Member Audit Committee		25,000					
Dr Andreas Burckhardt	125,000		0	175,000	131,316	43,684	598
Member Audit Committee		50,000					
Dr Hansjörg Frei	125,000		0	245,000	183,784	61,216	838
Member Chairman's Committee and Investment Committee		70,000					
Member Audit Committee		50,000					
Prof. Dr Gertrud Höhler	125,000		0	175,000	131,316	43,684	598
Member Compensation Committee		50,000					
Dr Klaus Jenny	125,000		0	245,000	183,784	61,216	838
Member Chairman's Committee and Investment Committee		70,000					
Deputy Chair Compensation Committee		50,000					
Werner Kummer	125,000		0	195,000	146,276	48,724	667
Chair Audit Committee		70,000					
Dr Eveline Saupper	125,000		0	175,000	131,316	43,684	598
Member Compensation Committee		50,000					
Total Board of Directors (not including Chairman)	937,500	655,000	0	1,592,500	1,216,585	375,915	5,146

Explanatory notes to table on page 68:

Dr Michael Becker was elected as a new member of the Board of Directors at the Annual General Meeting 2010. He therefore received only half of the usual remuneration for 2010.

Remuneration to former members of the Board of Directors and related individuals Due to contractual obligations, a one-off payment of CHF 80,000 was paid to a former member of the Board of Directors, in connection with his previous governing body activities in the company. No remuneration was paid to individuals or companies related to members of the Board of Directors or that is not market-standard (closely related individuals: spouses, civil partners, children under 18, companies controlled by or belonging to members of the Board, legal or natural persons who act as fiduciary for them). Furthermore, receivables from this group of persons were not waived.

Shares 25% of the contractually agreed remuneration will be paid in shares, which are blocked for three years. Intrinsic value: Fair value minus 10% (CHF 73.05, corresponds to Share Subscription Scheme).

Explanatory notes to table on page 69:

Dr Andreas Beerli and Dr Georges-Antoine de Boccad were elected as new members of the Board of Directors at the 2011 Annual General Meeting. Hence they received only half of the usual remuneration for 2011. Prof. Gertrud Höhler resigned from the Board of Directors at the 2011 Annual General Meeting as a result of having reached the regulatory age limit. Hence she received only half of the usual remuneration.

Since the 2011 Annual General Meeting, Dr Andreas Burckhardt is the Chairman of the Board of Directors. He received the usual remuneration for his Board and Audit Committee membership pro rata temporis until the Annual General Meeting. He received – likewise pro rata temporis – the contractually stipulated lump sum compensation as Chairman of the Board of Directors as of 30 April. Shares subscriptions for the period as Chairman of the Board of Directors: 1,260 shares from SSS (CHF 103,682) and 1,301 shares from ESOP (CHF 103,916). Furthermore, Baloise provided the regulatory employer contributions to the pension fund (CHF 140,546).

Remuneration to former members of the Board of Directors and related individuals Compensation to former members and closely related individuals No remuneration was paid to individuals or companies related to members of the Board of Directors or that is not market-standard (closely related individuals: spouses, civil partners, children under 18, companies controlled by or belonging to members of the Board, legal or natural persons who act as fiduciary for them). Furthermore, receivables from this group of persons were not waived.

Shares 25% of the contractually agreed lump payment are paid in shares that remain blocked for three years. Intrinsic value: Fair value minus 10% (CHF 82.43; corresponds to Share Subscription Scheme).

REMUNERATION TO THE MEMBERS OF THE BOARD OF DIRECTORS

2011	Basic remuneration	Remuneration for additional functions	Additional remuneration	Total	Of which: in cash	Of which: in shares	Number of shares
Dr Andreas Burckhardt							
Chairman Board of Directors (as of 29 April 2011)	879,778	0	0	879,778	672,000	207,778	2,561
Member Board of Directors (until 29 April 2011)	41,667	0	0	58,333	43,825	14,508	176
Member Audit Committee (until 29 April 2011)		16,666					
Dr Georg F. Krayer	125,000		0	295,000	221,308	73,692	894
Vice-Chairman Board of Directors		50,000					
Chair Compensation Committee		50,000					
Deputy Chair Chairman's Committee and Investment Committee		70,000					
Dr Michael Becker	125,000		0	175,000	131,312	43,688	530
Member Audit Committee		50,000					
Dr Andreas Beerli	62,500		0	87,500	87,500	0	0
Member Audit Committee (as of 29 April 2011)		25,000					
Dr Georges-Antoine de Boccard	62,500		0	87,500	87,500	0	0
Member Compensation Committee (as of 29 April 2011)		25,000					
Dr Hansjörg Frei	125,000		0	245,000	183,755	61,245	743
Member Chairman's Committee and Investment Committee		70,000					
Member Audit Committee		50,000					
Prof. Dr Gertrud Höhler	62,500		0	87,500	43,812	43,688	530
Member Compensation Committee (until 29 April 2011)		25,000					
Dr Klaus Jenny	125,000		0	245,000	183,755	61,245	743
Member Chairman's Committee and Investment Committee		70,000					
Deputy Chair Compensation Committee		50,000					
Werner Kummer	125,000		0	195,000	146,284	48,716	591
Chair Audit Committee		70,000					
Dr Eveline Saupper	125,000		0	175,000	131,312	43,688	530
Member Compensation Committee		50,000					
Total Board of Directors	1,858,945	671,666	0	2,530,611	1,932,362	598,249	7,298

REMUNERATION TO THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE MEMBERS OF THE CORPORATE EXECUTIVE COMMITTEE (PREVIOUS YEAR)

	Cash compensation			Shares	
	Basic salary (fixed)		Incentive (variable)	Employee Participation Plan	
	CHF	In % of total remuneration	CHF	CHF	Number of shares
2010					
Dr Rolf Schäuble	1,600,020	43 %	654,209	4,190	100
Chairman of the Board of Directors					
Dr Martin Strobel	1,300,000	46 %	524,363	4,190	100
CEO Baloise Group					
Dr Olav Noack	680,004	52 %	256,280	0	0
Head of Corporate Division Switzerland					
Jan De Meulder	700,080	38 %	274,689	0	0
Head of Corporate Division International					
German Egloff	550,020	38 %	226,071	4,190	100
Head of Corporate Division Finance					
Dr Thomas Sieber	540,000	34 %	306,641	4,190	100
Head of Corporate Division Corporate Center					
Martin Wenk	*500,000	35 %	10,676	0	0
Head of Corporate Division Asset Management					
Total Corporate Executive Committee	4,270,104	41 %	1,598,720	12,570	300

Explanatory notes to the tables on pages 70 and 71:

The disclosure of the remuneration to the Chairman of the Board of Directors and the members of the Corporate Executive Committee is performed according to the so-called accrual principle for the 2011 financial reporting for the first time: The table on the pages 72 and 73 contains all remuneration elements that were awarded for performances during the 2011 fiscal year, even if individual parts will only be paid out later. Bringing the subscription date of the individual payment programmes forward will make it possible in future to record the definitive emoluments for the reporting period. The table with the previous year's figures (pages 70 and 71) has been adapted in order to ensure a meaningful comparison to the previous year. The previous year table contains all remuneration awarded in the 2010 fiscal year regardless of the payout date and therefore does not differ from the table published in last year's Compensation Report.

Remuneration to former members of the Board of Directors and related individuals No remuneration was paid to individuals or companies related to the Chairman of the Board of Directors or members of the Corporate Executive Board or that is not market-standard (related individuals: spouse, civil partner, children under 18 years, companies controlled by members of the Board of Directors, or legal or natural persons who act as a fiduciary for them). Furthermore, receivables from this group of persons were not waived. In 2010 a former member of the Corporate Executive Committee received CHF 0.6 million as 7,047 shares from the conversion of PSUs. Half of these shares remains restricted for a further three years.

Basic salary Contractually agreed basic salary (gross).

*M. Wenk took two months unpaid leave in 2010, his basic salary was reduced accordingly.

Incentive Portion of variable, performance-related remuneration paid in cash (gross).

Employee Participation Plan Remuneration component resulting from the purchase of employee shares at a preferential price. Calculation: Market value minus subscription price = payment in kind = CHF 49.10.

Share Subscription Scheme Portion of incentive (variable remuneration) drawn directly in shares. Calculation: Fair value minus 10% discount = CHF 82.43.

Employee Share Ownership Plan Portion of incentive (variable remuneration) drawn in shares (excluding shares financed by a loan). Calculation: Fair value minus discounted dividend right over three years = CHF 79.88.

Performance share units (PSU) Prospective entitlements: Entitlements that confer a right to acquire shares at a future date, subject to achieving pre-determined performance targets. The value of prospective entitlements is only added to total remuneration when they are converted into actual shares (i. e. at the end of the three-year performance period), because only then can a reliable estimate be provided and only then have they actually been earned.

Share Subscription Scheme		Employee Share Ownership Plan		PSU 2008 (converted into shares in 2011)		Share Awards	Shares	Non-cash benefits	Pension provisions	Total remuneration
CHF	Number of shares	CHF	Number of shares	CHF	Number of shares	Number of PSU	CHF	CHF	CHF	
654,082	7,935	0	0	824,369	9,059	9,297	0	0	3,736,870	
524,337	6,361	0	0	340,067	3,737	7,554	0	119,530	2,812,487	
256,110	3,107	0	0	0	0	0	0	110,730	1,303,124	
274,574	3,331	0	0	267,813	2,943	4,067	151,104	190,374	1,858,634	
225,941	2,741	0	0	283,465	3,115	3,196	0	153,939	1,443,626	
164,860	2,000	146,343	1,832	278,278	3,058	3,138	0	124,916	1,565,228	
370,935	4,500	99,989	1,252	309,218	3,398	3,486	0	157,058	1,447,876	
1,816,757	22,040	246,332	3,084	1,478,841	16,251	21,441	151,104	856,547	10,430,975	

Shares from converted PSU PSU allocated in 2008 were converted into shares on 1 January 2011. At the end of the performance period on 31 December 2010, the performance of the Baloise share held the 12th rank of 31 companies within the reference group (STOXX Europe 600 Insurance Index), in other words, it was in the 2nd quartile. Thus the performance factor was 1.24, and the 51,880 outstanding PSU were converted into 64,335 shares (market price on 31.12.2010: CHF 91.00, fair value CHF 5.9 million). Half of these shares remain blocked for three years yet.

Non-cash benefits Basis: all elements of remuneration in compliance with the Swiss salary certificate. The tables contain, besides gifts for length of service, also refunds for travel and accommodation expenses and non-cash benefits (use of a company car) to one member of the Corporate Executive Committee who has a secondary residence abroad.

Pension provisions Employer contributions to the pension scheme as well as the maintenance of protection against invalidity in the home country for one member of the Corporate Executive Committee who has a secondary residence abroad.

REMUNERATION TO THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE MEMBERS OF THE CORPORATE EXECUTIVE COMMITTEE

	Cash compensation			Shares	
	Basic salary (fixed)		Variable compensation	Employee Participation Plan	
	CHF	In % of total remuneration	CHF	CHF	Number of shares
2011					
Dr Rolf Schäuble	800,010	54 %	180,000	0	0
Chairman of the Board of Directors (until 29 April 2011)					
Dr Martin Strobel	1,300,000	54 %	372,175	3,480	100
CEO Baloise Group					
Michael Müller	366,168	52 %	83,267	3,480	100
Head of Corporate Division Switzerland (as of 22 March 2011)					
Dr Olav Noack	680,004	69 %	25,555	0	0
Head of Corporate Division Switzerland (until 21 March 2011)					
Jan De Meulder	700,080	46 %	182,434	0	0
Head of Corporate Division International					
German Egloff	550,020	46 %	120,283	3,480	100
Head of Corporate Division Finance					
Dr Thomas Sieber	540,000	46 %	183,966	3,480	100
Head of Corporate Division Corporate Center					
Martin Wenk	600,000	49 %	156,407	3,480	100
Head of Corporate Division Asset Management					
Total Corporate Executive Committee	4,736,272	51 %	1,124,087	17,400	500

Explanatory notes to the tables on pages 72 and 73:

The disclosure of the remuneration is performed according to the so-called accrual principle for the first time in 2011. The table contains all remuneration elements that were awarded for performances provided during the 2011 fiscal year, even if individual parts will only be paid out later.

Dr Andreas Burckhardt as Chairman of the Board of Directors has no executive function. For this reason his compensation is disclosed on page 69 (remuneration for the Board of Directors).

Dr Rolf Schäuble received his previous monthly salary until the ordinary period of notice expired on 30 June 2011. He was additionally awarded performance pay for 2011 amounting to CHF 180,000.

The basic salary of Michael Müller is considered on a pro rata basis as of 22 March 2011. Dr Olav Noack receives his previous monthly salary until the ordinary period of notice expires on 31 March 2012.

Remuneration to former members of the Board of Directors and related individuals No remuneration was paid to individuals or companies related to the Chairman of the Board of Directors or members of the Corporate Executive Board or that is not market-standard (related individuals: spouse, civil partner, children under 18 years, companies controlled by members of the Board of Directors, or legal or natural persons who act as a fiduciary for them). Furthermore, receivables from this group of persons were not waived.

Employee Participation Plan Remuneration components resulting from the purchase of employee shares at a preferential price (2011: CHF 34.80). Calculation: market value minus subscription price = payment in kind.

Share Subscription Scheme Portion of variable remuneration drawn directly in shares. Calculation: fair value minus 10% discount. Subscription price = CHF 65.58.

Employee Share Ownership Plan Portion of variable remuneration drawn in shares (excluding shares financed by a loan). Calculation: Fair value minus discounted dividend right over 3 years. Subscription price = CHF 59.84.

Performance share units (PSU) The value of prospective entitlements is only added to the total remuneration when they are actually converted into shares (i. e. at the end of the three-year performance period), since only then can they be reliably estimated and only then have they actually been earned. The mathematical value of a PSU at the time of allocation amounted to CHF 84.70 (calculation according to Monte Carlo simulation). The prospective entitlements allocated to Michael Müller in January 2011 are not listed because these relate to his former function as member of executive management in Switzerland.

Share Subscription Scheme		Employee Share Ownership Plan		PSU 2009 (converted into shares in 2012)		Share Awards	Shares	Non-cash benefits	Pension provisions	Total remuneration
CHF	Number of shares	CHF	Number of shares	CHF	Number of shares	Number of PSU		CHF	CHF	CHF
0	0	0	0	500,195	7,767	8,792		0	0	1,480,205
172,082	2,624	199,993	3,342	187,597	2,913	7,143		0	154,060	2,389,387
163,950	2,500	0	0	45,080	700	0		0	45,350	707,295
25,445	388	0	0	82,432	1,280	0		56,160	121,626	991,222
182,378	2,781	0	0	128,864	2,001	3,847		116,310	204,583	1,514,649
131,160	2,000	82,144	1,373	137,558	2,136	3,022		0	167,386	1,192,031
65,580	1,000	127,779	2,135	135,047	2,097	2,968		0	129,197	1,185,049
156,343	2,384	0	0	150,052	2,330	3,297		0	162,498	1,228,780
896,938	13,677	409,916	6,850	866,630	13,457	20,277		172,470	984,700	9,208,413

Shares from converted PSU PSU allocated in 2009 were converted into shares on 1 January 2012. At the end of the performance period on 31 December 2011, the performance of the Baloise share held the 24th rank of 34 companies within the reference group (STOXX Europe 600 Insurance Index), in other words, it was in the third quartile. Thus the performance factor was 0.64 and the 33,163 outstanding PSU of the former Chairman of the Board of Directors and the members of the Corporate Executive Committee were converted into 21,224 shares (valuated at the share price on 31.12.2011: CHF 64.40). Half of these shares remain blocked for three years yet.

Non-cash benefits Basis: all remuneration elements that must be declared according to the salary statement. This also includes refunds for travel and accommodation expenses and payments in kind (use of a company car) to one member of the Corporate Executive Committee who has a secondary residence abroad or advisory services in connection with the retirement of one member of the Corporate Executive Committee.

Pension provisions Employer contributions to the pension scheme as well as the maintenance of protection against invalidity in the home country for one member of the Corporate Executive Committee who has a secondary residence abroad.

CREDITS AND LOANS TO MEMBERS OF THE BOARD OF DIRECTORS AND THE CORPORATE EXECUTIVE COMMITTEE (31 DECEMBER)

	Mortgages		Loans pertaining to the Share Ownership Plan		Other loans			Total
	2010	2011	2010	2011	2010	2011	2010	2011
in CHF								
Dr Andreas Burckhardt								
Chairman (as of 29 April 2011)	0	0	0	581,494	0	0	0	581,494
Member (until 29 April 2011)								
Dr Rolf Schäuble								
Chairman (until 29 April 2011)	0	n/a	0	n/a	0	n/a	0	n/a
Dr Georg F. Krayer								
Vice-Chairman	0	0	0	0	0	0	0	0
Dr Michael Becker								
Member	0	0	0	0	0	0	0	0
Dr Andreas Beerli								
Member	n/a	0	n/a	0	n/a	0	n/a	0
Dr Georges-Antoine de Boccard								
Member	n/a	0	n/a	0	n/a	0	n/a	0
Dr Hansjörg Frei								
Member	0	0	0	0	0	0	0	0
Prof. Dr Gertrud Höhler								
Member (until 29 April 2011)	0	n/a	0	n/a	0	n/a	0	n/a
Dr Klaus Jenny								
Member	0	0	0	0	0	0	0	0
Werner Kummer								
Member	0	0	0	0	0	0	0	0
Dr Eveline Saupper								
Member	0	0	0	0	0	0	0	0
Total Board of Directors	0	0	0	581,494	0	0	0	581,494
Corporate Executive Committee member with the highest outstanding loan								
Dr Thomas Sieber								
Head of Corporate Division Corporate Center	1,000,000	1,000,000	2,369,550	2,403,567	0	0	3,369,550	3,403,567
Other members of the Corporate Executive Committee	3,625,000	2,575,000	5,903,515	3,395,844	0	0	9,528,515	5,970,844
Total Corporate Executive Committee	4,625,000	3,575,000	8,273,065	5,799,411	0	0	12,898,065	9,374,411

Explanatory notes to the table:

Credits and loans No loans and advances that are not market standard have been granted to

a) former members of the Board of Directors or Corporate Executive Committee;

b) individuals or companies with close family ties to members of the Board of Directors (related individuals: spouse, civil partner, children under 18 years, companies belonging to or controlled by Board members, or legal or natural persons that act as fiduciaries for them).

Mortgages Mortgages up to CHF 1 million are granted on employee terms: 1% below the interest rate for customers on variable mortgages, preferential interest rate for fixed mortgages.

Loans pertaining to the ESOP (Employee Share Ownership Plan) Loans to increase the leverage of the ESOP (compare "5.6. Share Subscription Scheme and Employee Share Ownership Plan"). Interest is charged on the loans at prevailing interest rates (2011: 3%) over a term of three years. A loan of CHF 0.2 million to a former member of the Corporate Executive Committee still exists from the Employee Share Ownership Plan.

Other loans No other policy loans exist.

SHARES HELD BY MEMBERS OF THE BOARD OF DIRECTORS (31 DECEMBER)

	Free float shares		Restricted shares		Share ownership total		Percentage of issued share capital	
	2010	2011	2010	2011	2010	2011	2010	2011
Number								
Dr Andreas Burckhardt								
Chairman (as of 29 April 2011)	670	1,093	2,571	12,105	3,241	13,198	0.006 %	0.026 %
Dr Georg F. Kraye								
Vice-Chairman	33,186	34,069	3,819	3,830	37,005	37,899	0.075 %	0.076 %
Dr Michael Becker								
Member	1,000	1,000	1,000	1,530	2,000	2,530	0.004 %	0.005 %
Dr Andreas Beerli								
Member	n/a	0	n/a	1,000	n/a	1,000	n/a	0.002 %
Dr Georges-Antoine de Boccard								
Member	n/a	0	n/a	1,000	n/a	1,000	n/a	0.002 %
Dr Hansjörg Frei								
Member	710	1,303	3,201	3,351	3,911	4,654	0.008 %	0.009 %
Prof. Dr Gertrud Hühler								
Member (until 29 April 2011)	670	n/a	2,571	n/a	3,241	n/a	0.006 %	n/a
Dr Klaus Jenny								
Member	18,928	19,521	3,201	3,351	22,129	22,872	0.044 %	0.046 %
Werner Kummer								
Member	1,174	1,813	2,752	2,871	3,926	4,684	0.008 %	0.009 %
Dr Eveline Saupper								
Member	670	1,093	2,571	2,678	3,241	3,771	0.006 %	0.008 %
Total Board of Directors	57,008	59,892	21,686	31,716	78,694	91,608	0.157 %	0.183 %
Percentage of issued share capital	0.114 %	0.120 %	0.043 %	0.063 %	0.157 %	0.183 %		

Explanatory notes to table:

Shareholdings Including shares held by closely related individuals (spouses, civil partners, children under 18, companies controlled by or belonging to members of the Board, legal or natural persons who act as fiduciary for them).

Restricted shares Shares subscribed through the share-based remuneration programmes are subject to a three-year blocking period. The blocking period for shares subscribed through the Share Subscription Scheme by the Chairman of the Board of Directors is five years. According to §20 of the Articles of Incorporation, each member of the Board of Directors must deposit 1,000 shares with the company for the term of his / her office (qualifying shares).

Options Members of the Board of Directors do not hold option on Baloise shares.

**SHARES HELD BY MEMBERS OF THE CORPORATE EXECUTIVE COMMITTEE
(31 DECEMBER)**

	Free float shares		Restricted shares		Share ownership Total		Percentage of issued share capital		Number of share awards (PSU)	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Number										
Dr Rolf Schäuble										
Chairman of the Board of Directors (until 29 April 2011)	60,201	n/a	30,183	n/a	90,384	n/a	0.181%	n/a	28,739	n/a
Dr Martin Strobel										
CEO Baloise Group	1,852	6,036	39,751	28,464	41,603	34,500	0.083%	0.069%	15,119	19,248
Jan De Meulder										
Head of Corporate Division International	1,566	3,501	4,576	8,915	6,142	12,416	0.012%	0.025%	9,567	11,041
German Egloff										
Head of Corporate Division Finance	4,675	8,333	36,645	24,655	41,320	32,988	0.083%	0.066%	9,046	9,556
Michael Müller										
Head of Corporate Division Switzerland (as of 22 March 2011)	n/a	1,271	n/a	3,957	n/a	5,228	n/a	0.010%	n/a	3,184
Dr Olav Noack										
Head of Corporate Division Switzerland (until 21 March 2011)	120	n/a	3,721	n/a	3,841	n/a	0.008%	n/a	8,078	n/a
Dr Thomas Sieber										
Head of Corporate Division Corporate Center	400	2,864	38,716	43,539	39,116	46,403	0.078%	0.093%	8,881	9,383
Martin Wenk										
Head of Corporate Division Asset Management	2,600	6,600	38,287	43,314	40,887	49,914	0.082%	0.100%	9,867	10,424
Total members of the Corporate Executive Committee	71,414	28,605	191,879	152,844	263,293	181,449	0.527%	0.363%	89,297	62,836
Percentage of issued share capital	0.143%	0.057%	0.384%	0.306%	0.527%	0.363%				

Explanatory notes to table:

Shareholdings Including shares held by closely related individuals (spouses, civil partners, children under 18, companies controlled by or belonging to members of the Board, legal or natural persons who act as fiduciary for them).

Restricted shares Including shares from the Employee Share Ownership Plan financed by a loan. Shares subscribed through share-based remuneration schemes are subject to a three-year blocking period. According to § 20 of the Articles of Incorporation, each member of the Board of Directors must deposit 1,000 shares with the company for the term of his / her office (qualifying shares).

Options Options held in connection with the Employee Share Ownership Plan are not listed here because they do not originate from a stand-alone option plan, but are written rather to secure the loan. In addition, each put option has a call option as counterpart.

Prospective entitlements (PSU) Number of performance share units allocated (allocation as of 1.1.2009, 1.1.2010 and 1.1.2011).

6. SHAREHOLDER PARTICIPATION RIGHTS

Voting rights

The share capital of Baloise Holding consists exclusively of registered shares. Each share grants the right to one vote. There are no shares with preferential voting rights. In order to maintain a broad shareholder base and protect minority shareholders, no shareholder is registered with voting rights of more than 2 %, irrespective of the number of shares held. The Board of Directors may approve exceptions to this rule with a two-thirds majority of all members (§ 5 of the Articles of Incorporation). There are currently no exceptions. Each shareholder may authorise another shareholder to exercise his/her voting rights in writing. In exercising voting rights, no shareholder may directly or indirectly aggregate his/her own and proxy votes to secure more than a fifth of all voting rights at the Annual General Meeting (§ 16 of the Articles of Incorporation).

Statutory quorums

The Annual General Meeting has a quorum, irrespective of the number of shareholders and proxy votes present, subject to the obligatory cases as prescribed by law (§17 of the Articles of Incorporation).

A waiver of statutory voting right restrictions requires a quorum of at least three-quarters of the votes represented at the Annual General Meeting, which at the same time must also total at least one third of all shares issued by the company. This qualified majority also applies to other cases specified in §17 section 3 a–h of the Articles of Incorporation. Otherwise resolutions are adopted by a simple majority of share-based votes cast, subject to mandatory statutory provisions (§ 17 of the Articles of Incorporation).

Convening the Annual General Meeting

As a rule, the Annual General Meeting is held in April, but no later than six months after the end of the fiscal year. The Baloise Holding fiscal year ends on 31 December. At least 20 days' notice of an Annual General Meeting is given. Every registered shareholder receives a personal invitation and an agenda. The invitation and the agenda are published in the Swiss Official Gazette of Commerce, in various newspapers and on the Internet.

Extraordinary General Meetings may be convened by resolution of the Annual General Meeting, the Board of Directors or the auditors. Furthermore, an Extraordinary General Meeting must be convened by the Board of Directors at the request

of shareholders in compliance with legal stipulations (§ 11 of the Articles of Incorporation). For such a request to be granted, the shareholders must represent at least 10 % of the share capital, in compliance with article 699 section 3 of the Swiss Code of Obligations.

Inclusion of agenda items

One or more shareholders, who together represent shares with a face value of at least CHF 100,000 may apply under § 699 paragraph 3 of the Swiss Code of Obligations to have items placed on the agenda. Such applications must be submitted in writing to the Board of Directors no later than six weeks before the regular Annual General Meeting, detailing the motions to be put to the Annual General Meeting (§ 14 of the Articles of Incorporation).

Entry in the share register

Shareholders, who are registered with an entitlement to vote in the share register on the cut-off date, which is a few days prior to the Annual General Meeting, specified by the Board of Directors in the invitation, are entitled to vote at the Annual General Meeting (§16 of the Articles of Incorporation).

The admissibility of nominee registrations, with reference to possible percentage clauses and registration requirements are governed by § 5 of the Articles of Incorporation. Procedures and requirements for revoking and restricting transferability are governed by the provisions of § 5 and § 17.

www.baloise.com → Responsibility

→ Corporate Governance → Rules and regulations

www.baloise.com → Investor relations → IR Agenda

7. CHANGE OF CONTROL AND DEFENSIVE ACTION

Upon acquiring 33 % of all Baloise shares, shareholders or groups of shareholders acting in concert are obliged to submit a takeover bid to all remaining shareholders. Baloise Holding has not opted to modify or waive this rule. There is neither a statutory opting-out nor opting-up clause, as specified in the Federal Stock Exchanges and Securities Trading Act (Stock Exchange Act).

All six members of the Corporate Executive Committee and the Chairman of the Board of Directors have a twelve month notice period. In addition, they are, as are four other members of the executive management, entitled to a severance payment amounting to one annual salary (including variable remuneration), in the event that their employment relationship is terminated within twelve months after a change of control, due to

a takeover or merger or a merger of employers (under certain circumstances also of employees).

8. AUDITORS

The auditors are appointed annually Annual General Meeting. PricewaterhouseCoopers AG (PwC) and its predecessor Schweizerische Treuhandgesellschaft / STG-Coopers & Lybrand have been the auditors of Baloise Holding Ltd since 1962. Mr Martin Frei has been the Auditor in Charge since 2007. The rotation of the Auditor in Charge occurs every seven years in accordance with Article 730a paragraph 2 of the Swiss Code of Obligations. PwC has audited nearly all Group companies since 2005.

PRICEWATERHOUSECOOPERS FEES

	2010	2011
in CHF (rounded to thousands, including outlays and VAT)		
Auditing fees	6,749,000	4,945,000
Consulting fees	824,000	802,000
Tax consultancy and legal advice	469,000	352,000
Transaction advice (including due diligence)	113,000	39,000
Corporate Finance	78,000	157,000
Insurance-specific consulting	–	133,000
Operational consulting	–	109,000
Business & IT consulting	–	12,000
Human Resources	87,000	–
Other	77,000	–
Total	7,573,000	5,747,000

The audit fees comprise fees for assignments directly or indirectly related to an existing or future audit contract. Newly included are also the fees for audit-related activities, amounting to CHF 250,000 for the previous year and separately reported, such as queries on accounting issues, support in regulatory matters or statutory special-purpose audits.

Baloise Holding has an Audit Committee made up of independent members with finance and accounting qualifications (compare table on page 47). The Audit Committee met four times during the fiscal year and on each occasion also met with the external auditors. The Audit Committee received detailed documentation on the findings of the external auditors, in particular as to the Annual and Half-Year Financial Statements at these meetings.

The Audit Committee evaluates the performance of the external auditors and their cooperation with Group Internal Audit, Risk Management and Compliance. The Audit Committee primarily discusses ongoing audits and audit reports, important results and any issues arising from the audit with the external auditors.

It proposes to the Board of Directors that external auditors be elected by the Annual General Meeting and makes recommendations regarding the auditors' fees. Prior to the start of the annual audit, the Audit Committee reviews its scope and proposes areas requiring special consideration. The Audit Committee reviews the external auditors' fees annually. The criteria for assessing the auditors are

- Competence of the audit team
- Technical and industry knowledge
- Understanding of corporate strategy
- Complete independence whilst performing the audit
- Corporate culture of the auditor
(shared core values)
- Timely reporting
- Appropriateness of fees
- Compliance with respective statutory, professional and ethical standards
- Uniform auditing methodology

The Audit Committee reviews the appropriateness of auditing services performed by external auditors, which are not related to the auditing activities, based on the following criteria:

- Compatibility of the service with the mandate as statutory auditors (independence)
- Competence as well as technical and industry knowledge
- Quality of the service provided
- Appropriateness of fees

A written directive exists, whereby material services not related to the auditing activities must be approved by Group Internal Audit prior to execution. The guarantee of independence is first reviewed by the head auditor and subsequently by the head of the Group's Internal Audit unit as part of the assignment

approval process. The commercial responsibility and clearance of the assignment remains with the operational unit.

9. INFORMATION POLICY

Information principles

The Baloise Group provides comprehensive, transparent information to shareholders, potential investors, employees, clients and the general public on a regular basis. All registered shareholders receive a summary of the Annual Report once a year and a shareholder's letter with the half-year accounts, which comments on business development. The Annual Report is sent to the shareholders on demand. All publications are made available to the general public at the same time. All investors enjoy equal information rights. To provide general access to our meetings with financial analysts, we use technologies such as webcasts, podcasts and telephone conferences.

Information events

Baloise provides detailed information on its operating activities:

- Business results as well as objectives, strategies and business activities are presented and explained at press conferences (Annual and Half-Year Report media conferences).
- At financial analysts' meetings, teleconferences take place to present Annual and Half-Year Financial Statements. These events are available afterwards as podcasts.
- The Annual General Meeting provides shareholders with a review of the business year.
- Regular roadshows are organised in various financial centres.
- Baloise maintains good relationships with analysts, investors and the media.
- Full details about individual Baloise events are available at www.baloise.com.

Information on the Baloise share

Information on the Baloise share can be found on page 8 ff. www.baloise.com → Investor relations → Baloise share

Information on Baloise bonds

Information on outstanding Baloise bonds can be found on page 229 onwards in the Financial Report section. www.baloise.com → Investor relations → Bonds

Financial calendar

Important dates for investors can be found at www.baloise.com. The publication dates of the Annual and Half-year Financial Statements are listed here. In connection with the Annual General Meeting, the date and invitation to the Annual General Meeting, the share register cut-off date and the ex-dividend date, if applicable, are also published here.

www.baloise.com → Investor Relations → IR Agenda

Document availability

Media releases, disclosures, presentations, annual, financial and half-year reports as well as further documents are publicly accessible at www.baloise.com. All documents can be obtained from the Investor Relations department or ordered on the Internet.

www.baloise.com → Media relations → Media kits

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Consolidated balance sheet

	Notes	31.12.2010	31.12.2011
in CHF million			
Assets			
Property, plant and equipment	8	535.7	559.9
Intangible assets	9	1,342.6	1,300.2
Investments in associates	10	211.3	173.5
Investment properties	11	5,046.6	5,138.0
Financial assets of an equity nature	12		
Available for sale		3,437.6	3,447.3
Recognised at fair value through profit or loss		6,406.6	6,256.6
Financial assets of a debt nature	12		
Held to maturity		7,105.5	8,027.8
Available for sale		17,784.6	19,855.3
Recognised at fair value through profit or loss		950.4	1,034.4
Mortgages and loans	13		
Carried at cost		17,236.4	17,667.5
Recognised at fair value through profit or loss		457.1	375.2
Derivative financial instruments	14	536.3	334.1
Receivables from financial contracts	15		
Carried at cost		276.3	348.6
Recognised at fair value through profit or loss		41.5	61.5
Reinsurance assets	16	248.1	377.5
Receivables from reinsurers	17	22.9	16.9
Insurance receivables		386.5	547.4
Receivables from employee benefits	18	3.4	1.4
Other receivables	15	218.3	276.1
Receivables from investments	15	608.8	661.1
Deferred income tax assets	19	20.2	22.2
Current income tax assets		55.8	43.3
Other assets	20		
Carried at cost		159.5	169.6
Recognised at fair value through profit or loss		90.5	83.0
Cash and cash equivalents		2,208.9	2,287.8
Total assets		65,391.4	69,066.2

	Notes	31.12.2010	31.12.2011
in CHF million			
Equity and liabilities			
Equity			
Share capital	22	5.0	5.0
Capital reserves		206.9	215.9
Treasury shares		- 221.3	- 256.7
Unrealised gains and losses (net)		- 552.5	- 615.3
Retained earnings		4,661.9	4,511.4
Equity before minority interests		4,100.0	3,860.3
Minority interests		33.5	33.3
Total equity		4,133.5	3,893.6
Liabilities			
Technical reserves (gross)	23	43,445.7	45,561.9
Liabilities from banking business and financial contracts	24		
With discretionary participation feature (DPF)		505.8	1,147.5
Measured at amortised cost		6,412.5	6,881.2
Recognised at fair value through profit or loss		5,945.0	5,969.4
Financial liabilities	26	1,359.4	1,612.6
Financial provisions	27	79.9	83.1
Derivative financial instruments	14	29.9	175.3
Insurance liabilities	28	1,536.3	1,777.4
Liabilities from employee benefits	18	692.5	720.0
Other accounts payable		470.6	479.4
Deferred tax liabilities	19	641.7	654.4
Current income tax liabilities		53.6	31.0
Other liabilities		85.0	79.4
Total liabilities		61,257.9	65,172.6
Total equity and liabilities		65,391.4	69,066.2

Consolidated income statement

	Notes	2010	2011
in CHF million			
Income			
Premiums earned and policy fees (gross)	29	6,854.3	6,806.9
Reinsurance premiums ceded	29	-168.2	-176.3
Premiums earned and policy fees (net)	29	6,686.1	6,630.6
Investment income	30	1,811.2	1,766.5
Realised gains and losses on investments	31	501.6	-943.4
Income from services rendered	32	283.4	158.6
Result from investments in associates		-0.5	10.2
Other operating income	33	202.7	140.1
Income		9,484.5	7,762.6
Expense			
Claims and benefits paid (gross)	23	-5,212.9	-5,311.5
Change in technical reserves (gross)	23	-1,393.2	-639.9
Reinsurance losses ceded	23	47.5	53.3
Acquisition costs	34	-491.5	-576.8
Operating and administrative expenses for insurance business	34	-856.0	-847.0
Investment expenses	34	-64.8	-61.3
Interest expenses on insurance liabilities		-61.2	-51.6
Result from financial contracts	36	-219.8	324.0
Other operating expenses	34	-625.4	-507.9
Expense		-8,877.3	-7,618.7
Profit before borrowing costs and taxes		607.2	143.9
Borrowing costs	26	-52.8	-55.0
Profit before taxes		554.4	88.9
Income taxes	37	-117.7	-27.6
Profit for the period		436.7	61.3
Attributable to:			
Shareholders		433.4	60.8
Minority interests		3.3	0.5
Earnings / loss per share	38		
Basic in CHF		9.14	1.30
Diluted in CHF		8.89	1.29

Consolidated statement of comprehensive income

	Notes	2010	2011
in CHF million			
Profit for the period		436.7	61.3
Other comprehensive income			
Change in unrealised gains and losses on available for sale financial assets	39	-142.4	131.4
Change in unrealised gains and losses from associates	39	11.0	-17.4
Change in hedging reserves on derivative financial instruments held for cash flow hedging	39	-	-
Change in hedging reserves on derivative financial instruments held for hedging a net investment in a foreign entity	39	68.4	-16.1
Change in reserves from reclassification of held to maturity financial instruments	39	-9.2	-5.5
Change in reserves from reclassification of investment properties	39	0.6	-
Exchange differences	39	-373.0	-43.4
Change in shadow accounting	39	-5.9	-100.8
Income taxes	39	30.7	-11.9
Other comprehensive income		-419.8	-63.7
Comprehensive income		16.9	-2.4
Attributable to:			
Shareholders		42.0	-2.0
Minority interests		-25.1	-0.4

Consolidated cash flow statement

	Notes	2010	2011
in CHF million			
Summary			
Cash flow from operating activities (net)		335.4	343.9
Cash flow from investing activities (net)		-164.5	-215.6
Cash flow from financing activities (net)		-426.6	-38.6
Total cash flow		-255.7	89.7
Changes in exchange rates on cash and cash equivalents		-64.1	-10.8
Balance of cash and cash equivalents as of 1 January		2,528.7	2,208.9
Balance of cash and cash equivalents as of 31 December		2,208.9	2,287.8
Cash flow from operating activities			
Profit before taxes		554.4	88.9
Adjustments for			
Impairments and depreciation on fixed and intangible assets	8 / 9	90.7	139.6
Realised gains and losses on property, plant and equipment and on intangible assets		-0.5	0.5
Income from investments in associates		-0.7	-3.7
Realised gains and losses on financial assets, investment properties and associates		-497.5	939.0
Changes in other financial contracts		81.9	-455.7
Changes in technical reserves (gross), including unearned premium reserves		1,177.0	463.3
Interest expenses on reinsurance liabilities		0.9	1.3
Borrowing costs	26	52.8	55.0
Amortised cost valuation of financial instruments		2.3	18.3
Additions and disposals of assets and liabilities resulting in a cash flow			
Purchase / sale of investment properties		-103.3	24.7
Purchase / sale of financial assets of an equity nature		-1,067.5	-402.6
Purchase / sale of financial assets of a debt nature		-1,555.0	-1,385.2
Addition / disposal of mortgages and loans		-340.2	-304.3
Addition / disposal of derivative financial instruments		303.0	113.5
Addition / disposal of financial contracts and liabilities from banking business		2,077.4	842.2
Other changes in assets and liabilities from operating activities		-367.7	283.2
Cash flow from operating activities (gross)		408.0	418.0
Taxes paid		-72.6	-74.1
Cash flow from operating activities (net)		335.4	343.9

	Notes	2010	2011
in CHF million			
Cash flow from investing activities			
Purchase of property, plant and equipment	8	-45.8	-70.2
Sale of property, plant and equipment		4.3	4.3
Purchase of intangible assets	9	-58.5	-49.9
Sale of intangible assets		2.8	0.7
Acquisition of companies, net of cash and cash equivalents	40	-27.3	-117.4
Disposal of companies, net of cash and cash equivalents	40	-40.7	-1.8
Purchase of investments in associates	10	-0.0	-
Sale of investments in associates	10	0.1	15.3
Dividends from associates	10	0.6	3.4
Cash flow from investing activities (net)		-164.5	-215.6
Cash flow from financing activities			
Capital increases	22	-	-
Capital reductions	22	-	-
Additions to financial liabilities	26	295.1	247.5
Disposals of financial liabilities	26	-350.0	-
Borrowing costs paid		-48.4	-48.7
Purchase of treasury shares		-75.0	-135.3
Sale of treasury shares		36.8	109.0
Minority buyouts	6	-64.4	-
Cash flow minority interests		-6.3	0.2
Dividend payments		-214.4	-211.3
Cash flow from financing activities (net)		-426.6	-38.6
Total cash flow		-255.7	89.7
Cash and cash equivalents			
Balance as of 1 January		2,528.7	2,208.9
Change during the fiscal year		-255.7	89.7
Changes in exchange rates on cash and cash equivalents		-64.1	-10.8
Balance as of 31 December		2,208.9	2,287.8
Structure of the balance of cash and cash equivalents on the balance sheet date			
Cash and bank balance		1,862.2	1,835.5
Cash equivalents		0.0	0.0
Cash and cash equivalents for the account and at the risk of life insurance policyholders		346.7	452.3
Balance as of 31 December		2,208.9	2,287.8
Of which: cash and cash equivalents of limited availability		10.5	0.4
Additional information on cash flow from operating activities			
Other interest received		1,032.3	1,020.2
Dividends received		100.6	131.0
Interest paid		-143.6	-111.4

The notes are an integral component of the Consolidated Financial Statements.

Consolidated statement of changes in equity

2010	Notes	Share capital	Capital reserves	Treasury shares	Other changes in equity	Retained earnings	Equity before minority interests	Minority interests	Total equity
in CHF million									
Balance as of 1 January 2010		5.0	193.9	-180.9	-145.9	4,442.9	4,315.0	195.0	4,510.0
Profit for the period		-	-	-	-	433.4	433.4	3.3	436.7
Other comprehensive income	39	-	-	-	-391.4	-	-391.4	-28.4	-419.8
Comprehensive income		-	-	-	-391.4	433.4	42.0	-25.1	16.9
Other changes in equity in 2010									
Dividend		-	-	-	-	-214.4	-214.4	-6.3	-220.7
Capital increase / repayment	22	-	-	-	-	-	-	-	-
Purchase / sale of treasury shares		-	4.4	-40.4	-	-	-36.0	-	-36.0
Cancellation of shares		-	-	-	-	-	-	-	-
Increase / decrease in minority interests due to change in the scope of consolidation	40	-	-	-	2.6	-	2.6	-54.4	-51.8
Increase / decrease in minority interests due to change in proportional interest	6	-	8.6	-	-17.8	-	-9.2	-75.7	-84.9
Balance as of 31 December 2010		5.0	206.9	-221.3	-552.5	4,661.9	4,100.0	33.5	4,133.5

2011	Notes	Share capital	Capital reserves	Treasury shares	Other changes in equity	Retained earnings	Equity before minority interests	Minority interests	Total equity
in CHF million									
Balance as of 1 January 2011		5.0	206.9	-221.3	-552.5	4,661.9	4,100.0	33.5	4,133.5
Profit for the period		-	-	-	-	60.8	60.8	0.5	61.3
Other comprehensive income	39	-	-	-	-62.8	-	-62.8	-0.9	-63.7
Comprehensive income		-	-	-	-62.8	60.8	-2.0	-0.4	-2.4
Other changes in equity in 2011									
Dividend		-	-	-	-	-211.3	-211.3	-0.8	-212.1
Capital increase / repayment	22	-	-	-	-	-	-	-	-
Purchase / sale of treasury shares		-	9.9	-35.4	-	-	-25.5	-	-25.5
Cancellation of shares		-	-	-	-	-	-	-	-
Increase / decrease in minority interests due to change in the scope of consolidation	40	-	-	-	-	-	-	-	-
Increase / decrease in minority interests due to change in proportional interest	6	-	-0.9	-	-	-	-0.9	1.0	0.1
Balance as of 31 December 2011		5.0	215.9	-256.7	-615.3	4,511.4	3,860.3	33.3	3,893.6

Notes to the Consolidated Annual Financial Statements

General notes

1. REPORTING STANDARDS

The Baloise Group is a European direct insurer comprising 19 different insurance companies operating in almost every segment of the life and nonlife insurance business. The holding company is Baloise Holding, a Swiss corporation based in Basel whose shares are listed in the main segment on the Swiss Exchange (SIX). Its subsidiaries are active in the direct insurance markets in Switzerland, Liechtenstein, Germany, Belgium, Austria, Luxembourg, Croatia, Serbia, Slovakia and the Czech Republic. Its banking business is handled by subsidiaries in Switzerland and Germany. The Baloise Group also has a fund management company in Luxembourg.

The Baloise Group's Consolidated Annual Financial Statements recognise equity and liabilities at cost, taking adjustments into consideration that result from the regularly appraised fair value of investment properties, and from financial assets and liabilities that are classified as available for sale or recognised at fair value through profit or loss. The Baloise Group's Consolidated Annual Financial Statements were prepared in conformity with International Financial Reporting Standards (IFRS), which comply with Swiss law. IFRS 4 governs how to recognise and disclose insurance and reinsurance contracts. The contracts are measured based on local financial reporting guidelines.

At its meeting on 14 March 2012, the Baloise Holding Board of Directors approved the Annual Financial Statements and the Financial Report and released them for publication. The Financial Statements still have to be approved by the Annual General Meeting of Baloise Holding.

2. APPLICATION OF NEW FINANCIAL REPORTING STANDARDS

Newly applied IFRS and interpretations

IFRIC 14 / IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

On 16 November 2009, the IASB issued an amendment to IFRIC 14. It clarifies that an entity must recognise an asset insofar as the voluntary prepayments on minimum funding requirements would reduce the future contributions.

IAS 24 Related Party Disclosures

IAS 24 was amended. Firstly, an exemption has been introduced for companies that are controlled or significantly influenced by a government. This exempts them from having to disclose transactions with the government itself or other companies affiliated with the government.

Furthermore, the definition of a related company or person was revised.

IAS 32 Financial Instruments: Presentation

The amendment of IAS 32 stipulates the pre-emptive rights are to be classified as equity if exercised for a fixed cash amount. The currency of the exercise price can be disregarded insofar as the pre-emptive rights are issued pro rata to all the entity's existing shareholders in the same class.

Further Standards and Interpretations

The application of the following Standards and Interpretations will have no or no material impact on the consolidated result or on balance sheet items of the Baloise Group:

→ IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

New IFRS and Interpretations not yet applied

The following new Standards and Interpretations that are relevant for the Baloise Group have been issued by the IASB. However they have not yet come into effect and were therefore not applied when preparing the 2011 Consolidated Annual Financial Statements:

Standard / Interpretation	Content	Applicable for fiscal years beginning on / after:
IFRS 7	Transfer of financial assets	1.7.2011
IAS 39 / IFRS 7	Derecognition of financial assets	1.7.2011
IAS 1	Other comprehensive income	1.1.2012
IAS 12	Recovery of underlying assets	1.1.2012
IFRS 10	Consolidated financial statements	1.1.2013
IFRS 11	Joint arrangements	1.1.2013
IFRS 12	Disclosures of interests in other entities	1.1.2013
IFRS 13	Fair value measurement	1.1.2013
IAS 27	Separate financial statements	1.1.2013
IAS 28	Shares in associates and joint ventures	1.1.2013
IAS 19	Employee benefits	1.1.2013
IAS 32 / IFRS 7	Netting financial assets and liabilities	1.1.2013
IFRS 9	Financial instruments	1.1.2015

IFRS 7 Transfer of Financial Assets

This involves the disclosure requirements in connection with the transfer of financial assets to third parties (e. g. factoring, securities lending, etc.). Pursuant to IAS 39 “Financial Instruments: Recognition and Measurement,” if the rights to a financial asset are transferred to a third party, or a company undertakes to transfer payments from a financial asset to a third party, it can lead to either the derecognition of the financial asset, to the continued accounting of the financial asset to the amount of the continuing involvement, or to the continued accounting of the total financial asset. Up to now, IFRS 7 required explanatory notes only in the latter two cases. The amendment to the Standard now requires comprehensive information on rights and obligations potentially retained or acquired in the course of the transaction also if the financial asset has been entirely derecognised. This amendment will only affect the disclosure and will not have an impact on the consolidated result or on balance sheet items of the Baloise Group.

IAS 39 / IFRS 7 Derecognition of Financial Assets

The IASB has published a draft amendment to IAS 39 and IFRS 7. This amendment reformulates the criteria for the disposal of financial assets and liabilities. Derecognition means the removal of a financial instrument from a company’s accounts. Accordingly, financial assets are to be derecognised if the company no longer dominates or controls them. Whereas financial liabilities are to be removed when the company no longer has an obligation. Comprehensive information on rights and obligations potentially retained or acquired in the course of the transaction (e.g. default guarantees, buy-back agreements) is also required for transfer transactions that lead to a complete derecognition of the financial asset. The amendment will only affect the disclosure and will not have an impact on the consolidated result or on balance sheet items of the Baloise Group.

IAS 1 Other Comprehensive Income

Due to the amendment of IAS 1 Presentation of Items of Other Comprehensive Income (OCI), the IFRS Income Statement will in future consist of only one single statement component: the “Statement of Profit or Loss and Other Comprehensive Income” (previously: one-statement approach). In addition, it is compulsory that this summarised income statement is divided into two sections in future: One stating the profit or loss and one containing the other comprehensive income. In future, the other comprehensive income is also to be broken down according to whether the expenses and income contained therein will be transferred to the income statement at a later date. The amendment will only affect the disclosure of the other comprehensive income of the Baloise Group.

IAS 12 Deferred Tax: Recovery of Underlying Assets

Until now, deferred tax liabilities and claims were measured depending on whether the company intends to realise the carrying value of an asset by usage or sales according to IAS 12. Since this is difficult to determine in some cases, the proposed revised Standard introduces a rebuttable presumption that the carrying amount will be recovered by sale.

The revised Standard is limited to properties held as financial investments measured using the fair value model (IAS 40), and property, plant and equipment and intangible assets measured using the revaluation model (IAS 16 and IAS 38). The impact on the balance sheet and the income statement of the Baloise Group has not yet been analysed.

IFRS 9 Financial Instruments

A new International Financial Reporting Standard to classify and measure financial instruments was published on 12 November 2009. This represents the completion of the first part of a three-phase project to replace “IAS 39 Financial Instruments: Recognition and Measurement” with a new Standard. IFRS 9 introduces new requirements for recognising, classifying and measuring financial assets and liabilities. The classification is based both on the entity’s business model as well as on the characteristic features of the contractual cash flows of the respective financial assets. Separate accounting of structured products with an embedded derivative is now only performed for non-financial principal contracts. Structured products with financial principal contracts are to be assessed and classified in their entirety. The impact on the balance sheet and income statement of the Baloise Group cannot yet be analysed due to interdependencies with other IFRS projects.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when a parent company controls one or more companies. This Standard replaces the existing IAS 27 as well as SIC-12. The investor must determine whether it fulfils the definition of a parent company by identifying whether it controls one or several associate companies. When considering whether the associate company is controlled, the investor must include all significant facts and circumstances. An investor controls an associate company if the investor is exposed, or has rights to variable returns from its involvement with the associate company and has the ability to affect those returns through its power over the associate company. The new

Standard may have an impact on the scope of consolidation of the Baloise Group, judging by ongoing analyses, however, a material change to the scope of consolidation is not expected.

IFRS 11 Joint Arrangements

IFRS 11 introduces new accounting principles for joint arrangements and replaces IAS 31 “Interests in Joint Ventures”. The possibility to apply the proportional consolidation method when accounting for jointly controlled companies has been withdrawn. Furthermore, jointly controlled assets have been abolished with IFRS 11. Only joint operations and joint ventures remain. The new Standard will probably not have an impact on the balance sheet and the income statement of the Baloise Group.

IFRS 12 Disclosure of Interests in Other Entities

The objective of IFRS 12 is to newly require in a single central Standard the disclosure of information that enables users of financial statement to evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. New is the explicitly required disclosure of risks from unconsolidated structured entities, which has long been demanded by those participating in capital market transactions. The Standard will merely have an impact on the information in the notes of the Baloise Group.

IFRS 13 Fair Value Measurement

IFRS 13 sets out in a single IFRS the existing framework for measuring fair values. IFRS 13 does not introduce any new or additional fair value measurement and also does not replace any existing principles set out in other Standards. The impact on the balance sheet and the incomes statement of the Baloise Group has not yet been analysed in detail.

IAS 27 Separate Statements

The regulations for separate statements remain unchanged and included in the revised IAS 27. IFRS 10 replaces the other parts of IAS 27 (Consolidated Statements).

IAS 28 Investments in Associates and Joint Ventures

IAS 28 applies to investments in associates and now also to joint ventures. The objective of IAS 28 is to define the accounting for investments in associates and to lay down regulations on applying the Equity Method if investments in associates and joint ventures are to be recognised.

IAS 19 Employee Benefits

The most important change to IAS 19 is that in future unexpected fluctuations of retirement obligations as well as of plan assets portfolios (actuarial gains and losses) – if any exist – must be immediately recognised in “Other comprehensive income”. The right granted hitherto to choose between immediate recognition in the income statement, in “Other comprehensive income” or delayed recognition using the Corridor Method has been withdrawn. At the end of 2011, these actuarial losses of the Baloise Group amount to approximately CHF 340 million (before taxes and policyholders’ shares). A further amendment is that in future the management is no longer to estimate the interest return on the plan assets according to the interest return expected according to asset allocation, but instead an amount is to be recognised that is merely as high as the discount interest rate due to the expected interest return of the plan assets. Based on the assumption elected for the discount rate and the expected plan assets of the 2011 Annual Financial Statements, an increase in pension expenses of approximately CHF 5 million (before taxes and policyholders’ shares) would result. In addition, more extensive explanatory notes are required. The detailed impact on the balance sheet and the income statement of the Baloise Group are the subject of ongoing analyses and as such not yet known.

IAS 32 / IFRS 7 Financial Instruments: Netting financial assets and liabilities

The change refers to the situation that two companies owe one another money. In this case it is required that both present a net statement of the receivables and the balance as far as a series of strict conditions are all fulfilled; the main provision being the unconditional enforceability of the contractual rights. In case of a settlement, the rights connected to the transaction and all further related agreements must be disclosed.

3. CONSOLIDATION AND ACCOUNTING PRINCIPLES

3.1 Method of consolidation

3.1.1 Subsidiaries

The Consolidated Annual Financial Statements comprise the financial statements of Baloise Holding and its subsidiaries including its special purpose entities (SPEs). A subsidiary is included in the Consolidated Annual Financial Statements, if the Baloise Group directly or indirectly controls it. This is generally the case if the Baloise Group holds over 50 % of the voting rights. Potential voting rights are also considered when determining whether the Baloise Group controls the subsidiary.

Companies acquired during the reporting period are included in the Consolidated Annual Financial Statements from the date on which control was effectively assumed; all companies sold are included until the date on which control was ceded. Acquisitions of companies are accounted for using the Acquisition/Purchase Method. Transaction costs are charged to the income statement as an expense. The company’s identifiable assets and liabilities are measured at fair value as of the first consolidation date. During every merger the non-controlling interests are measured either according to their fair value or their proportion of the identifiable net asset of the acquired company. The Baloise Group determines which method is applied individually for each merger.

The acquisition costs are equivalent to the fair value of the consideration transferred to the previous shareholder at the time of the takeover. If shares were held as financial instruments or as an associate before the takeover, a new fair value measurement recognised in profit or loss is performed for these shares. Contingent considerations, which are balanced as part of the consideration transferred for the acquired company, are measured at fair value on the transaction date. Changes to the fair value of the transferred consideration made at a later date are recorded in the income statement. Should the acquisition costs exceed the sum of assets and liabilities measured at fair value plus the non-controlling interests, the difference is recognised as goodwill. Conversely, the difference is directly recognised through profit or loss as “Other operating income” if the identifiable net assets exceed the acquisition costs.

All inter-company transactions and the resulting gains or losses are eliminated.

The consolidation of subsidiaries ends on the date control ceases. If a partial disposal of shares in a subsidiary results in loss of control, then the remaining shares are measured at fair value. The result from the (partial) disposal of shares is recognised

in profit or loss either as “Other operating income” or “Other operating expenses.”

The acquisition of additional shares in subsidiaries after assuming control and the disposal of shares in subsidiaries without ceding control are both recognised as transactions with shareholders in equity.

3.1.2 Special purpose entities (SPEs)

Special purpose entities are included in the scope of consolidation. However, the provisions of SIC 12 govern the inclusion in the scope of consolidation.

3.1.3 Joint ventures

Joint ventures are entities managed jointly by two or more partners, governed by a contractual agreement. Proportional consolidation is applied to these companies, this means the Baloise Group recognises its share of assets, liabilities, expenses and revenue. The Baloise Group is currently not involved in any joint ventures.

3.1.4 Associates

Associates are assessed for the first time using the Acquisition Cost (fair value at the time of purchase) and subsequently according to the Equity Method (Baloise Group share of the period results and net assets of the company), should the Baloise Group be able to have a decisive impact on the management of the company in question. Changes to fair value of associates are recognised in profit or loss while taking any occurring dividend effects into consideration. If the share of losses exceeds the value of the associate, then no further loss is recorded. The goodwill paid for associates is contained in the carrying value of the investment.

3.2 Conversion of foreign currencies

3.2.1 Functional currency and reporting currency

Each subsidiary prepares its Annual Financial Statements in its functional currency, which means the currency of its primary economic environment. The Consolidated Financial Statement is presented in millions of Swiss francs (CHF), which corresponds to the reporting currency of the Baloise Group.

3.2.2 Conversion of transaction currency into functional currency for Group companies

Expenses and income in foreign currencies are measured using the exchange rates on the transaction dates or average exchange rates. Monetary as well as non-monetary balance sheet items assessed at fair value and stemming from foreign currency transactions of Group companies are measured using balance sheet date exchange rates. Non-monetary items assessed at historical acquisition costs are measured using the historical exchange rates. The resulting exchange rate differences are recognised in profit or loss. This excludes exchange rate differences entered directly into the hedging reserves as part of cash flow hedges, or those used to hedge a net investment in a foreign company.

Exchange rate differences arising from non-monetary financial instruments that are assessed at fair value through profit or loss are reported in the realised gains and losses of these instruments. Exchange rate differences held on non-monetary financial instruments as “available for sale” are charged to the unrealised gains and losses of equity.

3.2.3 Conversion of functional currency into reporting currency

The Annual Financial Statements of all business units that were not prepared in CHF are converted as follows when the Consolidated Financial Statement is being prepared:

- assets and liabilities at the exchange rate on the balance sheet date,
- expenses and income at the annual average rates.

The resulting exchange differences are accumulated and recorded directly in equity.

When foreign subsidiaries are sold, the resulting conversion differences are recognised in profit or loss as a transaction gain or expense.

3.2.4 Most important exchange rates

CURRENCY	Balance sheet		Income statement	
	2010	2011	2010	2011
in CHF				
1 EUR (euro)	1.25	1.21	1.38	1.23
1 USD (US dollar)	0.93	0.94	1.04	0.89
100 HRK (Croatian kuna)	16.94	16.14	19.02	16.58

3.3 Property, plant and equipment

Property, plant and equipment are measured at their acquisition costs less the accumulated depreciation. The acquisition cost of property, plant and equipment is also part of the directly apportionable costs. Subsequent acquisition costs are only capitalised if a future financial benefit related to the property, plant and equipment occurs and these costs can be reliably assessed. All other repair and maintenance costs are charged to the income statement on an ongoing basis.

As a rule, property, plant and equipment are completely self-financed. In the event of external financing, the accrued interest is capitalised accordingly as it occurs.

Property is not depreciated on a systematic basis. Depreciation of other property, plant and equipment is linear on the basis of the estimated useful life as follows:

- Buildings for own use: 25 to 50 years
- Equipment: 5 to 10 years
- Computer hardware: 3 to 5 years

The recoverability and the useful life of property, plant and equipment is checked on the balance sheet date.

The carrying value of property, plant and equipment is adjusted as soon as the recoverable amount drops below the carrying value.

The profit or loss resulting from the sale of property, plant and equipment is immediately entered in the income statement under "Other operating income," or "Other operating expenses," respectively.

3.4 Leasing

3.4.1 Baloise Group as a lessee

Financial leasing contracts: Leasing contracts for property, equipment and other tangible assets, for which the Baloise Group essentially assumes all risks and opportunities connected to ownership, are classified and treated as financial leasing contracts. The fair value of the leasing item or the lower cash value of the leasing payments is reported in property, plant and equipment at the beginning of the leasing contract. Each lease payment is broken down into amortisation and interest. The amortisation share is deducted from the liability for future lease payments, which is reported under the item "Liabilities from banking business and financial contracts." Property, plant and equipment in finance leases are depreciated over the shorter time period of the useful life or the term of the leasing agreement.

Operating leases: Other leasing contracts are classified as operating leases. The lease payments are entered linearly as expenses in the income statement over the term of the leasing relationship.

3.4.2 Baloise Group as a lessor

Investment properties that are let within the scope of operating leases are reported in the Consolidated Balance Sheet as "Investment properties." There were no other leasing agreements as a lessor in the reporting period.

3.5 Intangible assets

3.5.1 Goodwill

Goodwill occurs as a surplus between the purchase price and the assets and liabilities, measured at fair value. This includes the sum of all non-controlling interests of the acquired company, as well as the previously held shares measured at fair value at the time of acquisition. Goodwill is reported in intangible assets. Goodwill is subject to an annual impairment test. When a new participation is acquired, the key date for future verification of the recoverability is defined and verification is conducted at the same time each year. In the event of disposal, the proportional goodwill is taken into consideration in the earnings. In order to verify the recoverability of goodwill, it is allocated to definable units (cash generating units, CGUs).

3.5.2 Present value of gains on acquired insurance contracts (present value of future profits, PVFP)

The present value of gains on acquired insurance contracts is the result of the purchase of a life insurance company or the purchase of a life insurance portfolio. The first measurement is based on actuarial principles. Depreciation is linear. The recoverability is verified using the liability adequacy test (see also section 3.18.2).

3.5.3 Deferred acquisition costs (DAC)

The costs incurred that directly depend on the conclusion of insurance contracts and financial contracts with discretionary participation features (DPF) (commission, for example) are capitalised and depreciated over the term of the contracts, or over the shorter premium payment period. The recoverability of deferred acquisition costs is verified on each balance sheet date (see also section 3.18.3).

3.5.4 Capitalised investment fees

Acquisition costs that can be directly allocated to the realisation of investment income from asset management are capitalised under "Intangible assets", if they can be identified individually and reliably determined and it is likely that they are recoverable. The depreciation recognised in profit or loss takes place over the term of the underlying financial contract in proportion to the arising income. The recoverability is verified yearly.

3.5.5 Other intangible assets and own developments

Other intangible assets consist primarily of software, external IT consulting (in connection with software developments), own developments (such as software), as well as identified assets from the acquisition of companies (for example brands, customer relationships, etc.). These are recognised at their acquisition or production costs and depreciated linearly over their useful life. Intangible assets with an unlimited useful life are not depreciated and are recognised at their acquisition costs less accrued impairment losses.

As a rule, intangible assets are completely self-financed. In the event of external financing, the accrued interest is capitalised accordingly as it occurs.

3.6 Investment properties

Investment properties comprise land as well as buildings that are held for the purpose of generating rental income and / or for the purpose of value enhancement. If a breakdown is not possible for mixed-use properties (own-use / external-use), then the entire item is allocated on the basis of the majority use of the floor space.

Investment properties are measured based on fair value according to the Discounted Cash Flow (DCF) Method. This is determined each year by experts using close to market assumptions. The fair values are mainly derived from the future cash flow (net cash flow from rental income, maintenance costs, and administrative expenses) and using mathematical methods from comparable transactions. The majority of the directly held real estate portfolio of the Baloise Group is in Switzerland. Here, the interest rate for the calculation is determined on a hedonic basis according to the DCF Method. The expected vacancy development is also included in the calculation. External appraisal reports are obtained at regular intervals. Thus, around 10 % of the fair value of the real estate inventory is verified each year by means of external expert reports. Changes in fair value are entered immediately in the periods in which they occur as realised book profits or losses respectively, recognised in profit or loss.

If, as a consequence of a change of use, an investment property is used by the company itself, then the property is reclassified to property, plant and equipment. The reclassification is based on the fair value at the time of the reclassification.

If an owner-occupied property becomes an investment property as a consequence of a change of use, the difference between the carrying value and the fair value at the time of the change of use is entered directly as a gain or loss in value into equity as unrealised gains and losses in the period. If an investment property that was reclassified in an earlier period is sold, the amount entered in equity is reclassified as retained earnings not recognised in profit or loss.

3.7 Financial assets

For comprehensibility reasons, the term “Investments” is used in some places in the Financial Report and in headings. The term investments itself is not defined in the IFRS. Besides financial assets, mortgages and loans, derivative financial instruments and cash and cash equivalents, investments also include investment properties.

In financial assets of an **equity nature**, the following investment categories are entered: shares, share certificates, shares in stock, bond and property funds, as well as alternative financial assets such as private equity investments and hedge funds. Financial assets of an equity nature are, as a rule, subject to more frequent price fluctuations than financial assets of a debt nature.

Financial assets of a **debt nature** include securities such as bonds and other fixed-income securities. As a rule, they are also interest bearing and are issued for a fixed or determinable amount.

Baloise Group classifies its financial assets of equity and debt nature into the following categories: recognised at fair value through profit or loss, held to maturity, and financial assets that are held available for sale. The classification conforms with the nature of the acquired financial assets.

Mortgages and loans are principally classified as carried at cost. Within the scope of hedge considerations (natural hedge), however, elements of the portfolio are designated as recognised at fair value through profit or loss. These elements are hedged with appropriately designated derivative financial instruments.

3.7.1 Financial assets recognised at fair value through profit or loss

This category consists of two subcategories: financial assets that are held for trading purposes (trading portfolio), and those that are designated to this category. A financial instrument is classified in this category if it was principally acquired with the intention of selling the financial instrument in the short term, or if it is part of a portfolio for which in the recent past there were indications of realising a gain in the short term, or if it was designated to this category. Derivative financial investments are classified as held to trade (trading portfolio), with the exception of derivative financial instruments that are designated for hedge accounting. Likewise, structured products, in other words, active and passive financial instruments, which include embedded derivatives alongside the simple risk business that are not separately measured are designated to this category. The financial assets held as part of the investment-type life insurance business are

likewise designated to be recognised at fair value through profit or loss.

3.7.2 Held to maturity financial assets

Held to maturity financial assets are non-derivative financial instruments with fixed or determinable payments. However, they do not include mortgages, loans (section 3.8) and receivables (section 3.9), which the Baloise Group can and wants to hold until final maturity.

3.7.3 Available for sale financial assets

Available for sale financial assets are those non-derivative financial instruments that have been classified as available for sale or have not been classified in any of the above-mentioned categories nor been classified as mortgages, loans or receivables.

Alternative financial assets, such as private equity investments and hedge funds are mainly classified as available for sale.

3.7.4 Entering, evaluating, and charge off

All customary financial asset purchases are entered on the trade date. Financial assets are initially measured at fair value. The transaction costs are part of the acquisition costs, with the exception of financial assets recognised at fair value through profit or loss.

Financial assets are charged off, if the rights to the cash flow from the financial instrument have expired or if the financial instrument was sold and all related risks and opportunities have essentially been transferred. The cash outflow from reverse repurchase transactions (repo) is offset by the respective receivables. Financial assets that were obtained from a transaction as securities are not recognised. Booking in the balance sheet takes place on the due date. Financial assets transferred as securities for repurchase transactions continue to be recognised in financial assets. The cash flow is offset by the respective liabilities. Here, Baloise Group is only involved in securities lending. The borrowed financial instruments remain recognised as financial assets. The coverage of the repurchase and reverse repurchase transactions securities, as well as the securities lending transactions takes place daily at the effective fair values.

Financial assets that are available for sale and recognised at fair value through profit or loss are measured at fair value. Financial assets held to maturity are evaluated according to the Amortised Cost Method using the Effective Interest Method. Realised and unrealised gains and losses on financial assets recognised at fair value through profit or loss continue to be

recognised in the income statement. Unrealised gains and losses on financial assets that have been classified as available for sale are recorded in equity. If financial assets in the available for sale category are sold or value-adjusted, the accumulated amount is recognised in equity as a realised gain and loss on financial assets. Changes to the fair value of the hedged risks of financial assets that are hedged by a fair value hedge are recognised in the income statement for the duration of the hedge, independent of the classification made.

The fair value of listed financial assets is based on stock market prices. If there is no such value, then the fair value is estimated based on generally recognised methods (Present Value Method, etc.), independent assessments based on comparisons with fair values of similar instruments and the current market situation.

Derivative financial instruments are evaluated based on quoted market prices or on the basis of models.

Different methods of appraisal are applied to private equity investments, such as the analysis of the discounted cash flow or reference to comparable transactions in the recent past between knowledgeable, willing parties in an arm's length transaction provided no fair value is available.

If, in the case of hedge funds, the fair value cannot be calculated on the basis of public price quotations, the valuation is conducted based on price quotations provided by independent third parties.

If the estimates do not lead to a reliable evaluation, then those financial assets are set at their acquisition value and disclosed accordingly.

3.8 Mortgages and loans

Mortgages and loans (including policy loans) are non-derivative financial instruments with fixed or determinable payments that are not listed on an active market. Mortgages and loans classified as carried at cost are measured using the Amortised Cost Method while applying the Effective Interest Method. Their recoverability is verified as part of an impairment process.

Mortgages and loans that are held as part of a fair value hedge (hedge accounting) are designated to be "recognised at fair value through profit or loss." These portfolios are valued using a yield curve model.

3.9 Receivables

Receivables from financial contracts include life settlement contracts (secondary market policies) measured at fair value. The valuation is performed according to the Income Approach Method. Thus, the evaluation of the guaranteed payout at maturity includes already allocated and future final policyholders' dividends, as well as risk-adjusted discount rates. The changes recognised in profit or loss are stated under the item "Result from financial contracts."

All other receivables are entered in the balance sheet as carried at cost and thus according to the Amortised Cost Method less any value adjustments for receivables at risk. As a rule, the costs carried correspond to the face value of the receivables.

3.10 Sustained impairment losses

3.10.1 Financial assets evaluated according to the Amortised Cost Method (mortgages, loans, receivables, and held to maturity financial assets)

On each balance sheet date, the Baloise Group determines whether there is any objective evidence of a sustained impairment loss for a financial asset or a group of financial assets. A financial asset or a group of financial assets is only impaired if there is any evidence of an impairment loss as a consequence of one or more events that have an effect on the expected future cash flow of the financial asset, which can be estimated reliably. Objective evidence of an impairment loss of a financial asset includes observable data for the following cases:

- considerable financial difficulties on the part of the debtor,
- a breach of contract such as the failure to pay or delayed payment of interest or repayment instalments,
- increased probability that the borrower will declare bankruptcy or enter into other reorganisation proceedings,
- observable data indicating a measurable reduction of the expected future cash flow from a group of financial assets since their initial valuation.

Analysis reports from banks as well as appraisals by rating agencies are used to assess an impairment loss.

Should objective evidence for a sustained impairment of loans and receivables or held to maturity financial assets exist, the impairment loss expense, representing the difference between the carrying value of the asset and the present value of the future cash flow discounted by the respective effective interest rate of the financial asset, is determined. If the impairment value decreases in one of the subsequent reporting periods, and if this decrease can be attributed to an objectively occurring circumstance, then the impairment loss recognised earlier is to be reversed (value recovery).

The recoverability of the mortgage portfolio is verified at regular intervals. Should there be objective evidence that the entire amount owed as per the original contractual conditions or the respective present value of a receivable cannot be recovered, then an impairment loss is set up. Loan commitments are assessed individually taking the following into consideration: the nature of the borrower, the borrower's financial situation, his payment history, the existence of a possible guarantor, and, if necessary, the sales value of possible securities.

3.10.2 Financial assets measured at fair value

On each balance sheet date, the Baloise Group determines whether there is objective evidence of a sustained impairment loss on financial assets classified as available for sale. This includes financial assets of an equity nature. It is mandatory to write impairment losses for financial assets of an equity nature where the fair value on the balance sheet date is less than half the acquisition value, or where the fair value is less than the acquisition value during the twelve months preceding the balance sheet date. For securities where the fair value on the balance sheet date is between 20 % and 50 % below the cost value, the necessity to establish an impairment loss is reviewed and set up as required.

In the event of an impairment loss, the accumulated net loss is recognised directly in equity and transferred to the income statement.

Impairment losses on available for sale financial assets of an equity nature recognised in profit or loss may no longer be reversed. A further impairment of the fair value is mandatory and charged directly to the income statement for financial assets of an equity nature, which were already loss-impaired in earlier periods.

An impairment on available for sale financial assets of a debt nature is performed when the fair value is distinctly reduced due to a default risk.

If the fair value of an available for sale financial asset of a debt nature increases in one of the subsequent reporting periods and the increase can be objectively attributed to an event that occurred after recognising the impairment loss in profit or loss, the impairment must be reversed and the amount recognised in profit or loss as value recovery.

3.10.3 Impairment losses on non-financial assets

Goodwill and any assets with an indefinite useful life are subject to an annual impairment loss test at the same time each year, or if there is objective evidence of an impairment loss. In order to verify the recoverability of goodwill, the goodwill is allocated to identifiable cash generating units (CGUs). The impairment test of goodwill is performed on this level for insurers that sell both nonlife and life products (so-called property / casualty insurers). For the impairment test, the utility value of a CGU is determined based on the theoretically possible discounted return flow of funds to the parent company (as a rule, in the form of dividends). Regulatory requirements and in-house defined limits on equity strength are adequately considered. The basis of this cost-benefit calculation is provided by the long-term financial planning approved by management. A sustained impairment loss is recognised in the income statement under the item "Other operating expenses." The other non-financial assets are subject to an impairment loss test whenever there is objective evidence of an impairment loss.

An impairment loss for an asset with a finite useful life that was recognised in earlier reporting periods is reversed if the estimations have changed since entering the last impairment loss that was applied to determine the recoverable amount. This increase represents a value recovery. An impairment loss on goodwill recorded in earlier reporting periods will not be reversed. An impairment loss on assets with indefinite useful lives recorded in earlier reporting periods is reversed and recognised in profit or loss, but not above the amount before the impairment minus depreciation.

3.11 Derivative financial instruments

Derivative financial instruments are swaps, futures, forward and option contracts, etc., where the value is mainly derived from the underlying interest rates, exchange rates, raw material prices, or shares. As a rule, derivative financial instruments have no or only a low acquisition value. Derivative financial instruments are recognised in the balance sheet at fair value. When a contract is concluded, it is either classified as a hedging instrument for the fair value of an asset or a liability (fair value hedge), as a hedge for future transactions (cash flow hedge), as a hedge for the net investment in a foreign company, or as a trading instrument. Derivative financial instruments that do not comply with the IFRS hedging requirements, although they have a hedge function according to the risk management rules of the Baloise Group, are treated as trading instruments.

The Baloise Group documents the effectiveness of the hedge as well as the targeted goals and strategies for all hedge transactions in hedge accounting. The effectiveness of the hedge is monitored on an ongoing basis after concluding the contract. Derivatives, that no longer fulfil the requirements of hedging, are reclassified as trading instruments.

3.11.1 Structured products

Structured products are active or passive financial instruments that contain embedded derivatives in addition to the simple risk business. Under the condition that the economic features and risks of the embedded derivative are different to those of the simple risk business and that the derivative itself fulfils the definition of a derivative financial instrument, the embedded derivative is isolated, separately entered, valued and disclosed. If no separation of derivative and simple risk business is performed, the structured product is designated as a simple risk measured at fair value in profit or loss.

3.11.2 Fair value hedge

For the effective part of the hedge relationship, changes to the fair value of derivative financial instruments that have been classified as fair value hedge instruments are recognised in the income statement together with the hedged part of the fair value of the asset or liability. The ineffective part of the hedge is recognised separately in the income statement.

3.11.3 Cash flow hedge

Changes to the fair value of derivative financial instruments classified as cash flow hedge instruments from effective hedge relationships are recognised directly in equity. The amounts recognised in equity under the item “Unrealised gains and losses (net)” are recognised in the income statement at a later time in accordance with the hedged cash flow. The ineffective part of the hedge relationship is recognised in the income statement.

If a hedge instrument is sold, terminated, exercised, or no longer fulfils the criteria of a hedge, then the accumulated gain or loss remains in equity until the intended transaction has taken place. If the occurrence of the expected transaction can no longer be anticipated, the accumulated gains and losses in equity are transferred to the income statement.

3.11.4 Hedging a net investment in a foreign company

Hedging a net investment in a foreign company is treated as a cash flow hedge. The gain or loss of the hedging instrument on the effective hedge is entered in equity; the ineffective part is recognised in profit or loss. The gain or loss recognised in equity is transferred to the income statement if the foreign company is (partly) sold.

3.11.5 Derivative financial instruments that do not meet hedging requirements

Changes to the fair value of derivative financial instruments that do not meet hedging requirements are recognised in profit or loss as “Realised gains and losses on investments.”

3.12 Offsetting of receivables and liabilities

Receivables and liabilities are offset and the net value is recognised in the balance sheet, provided that there is a right to offset and the Baloise Group intends to realise these assets and liabilities concurrently.

3.13 Non-current assets held for sale and discontinued business segments

Non-current assets or asset groups which are held for sale and meet the criteria of IFRS 5 “Non-Current Assets Held for Sale and Discontinued Business Segments” are reported separately in the balance sheet. Those assets addressed by the Standard are valued at the lower of carrying value or present value, less selling costs. Adjustments arising are recognised in profit or loss. Any scheduled depreciation is halted as of the reclassification date.

Detailed disclosure of discontinued business segments, if applicable, is made in the notes to the Financial Report.

3.14 Cash and cash equivalents

Cash and cash equivalents consist predominantly of cash, demand deposits and cash equivalents. Cash equivalents are, in particular, short-term liquid assets with maturities of up to 24 hours, as well as cheques not yet cashed.

3.15 Equity

Equity instruments are classified as equity unless there is a contractual obligation for the repayment or surrender of other financial assets. Transaction costs relating to equity transactions are reduced and all associated income tax benefits recognised in the balance sheet as a deduction from equity.

3.15.1 Share capital

The reported share capital corresponds to the registered share capital of Baloise Holding, Basel. The share capital of Baloise Holding is made up exclusively of registered shares. There are no shares with preferential voting rights.

3.15.2 Capital reserves

Paid-in share capital (premium) in excess of the face value, Baloise Holding share options, the results from the purchase and sale of treasury shares and embedded options in Baloise Holding convertible bonds are included in capital reserves.

3.15.3 Treasury shares

Treasury shares held by the Baloise Holding or by subsidiaries appear as a deduction in equity in the Consolidated Financial Statements with their acquisition cost (including transaction costs). No ongoing adjustment to fair value is performed. Upon resale, the difference between acquisition value and sales price is recognised as a change in capital reserves. Only shares of Baloise Holding are considered treasury shares.

3.15.4 Unrealised gains and losses (net)

This item includes changes in fair value of financial instruments classified as available for sale, effects from cash flow hedging, effects from hedging a net investment in a foreign company, exchange differences, as well as gains from the reclassification of owner-occupied property to investment property.

Unrealised gains and losses are reduced by the associated deferred taxes and liabilities and, for life insurance companies, additionally by the shares that will in future be used to amortise acquisition costs and to create policyholders' dividends (shadow accounting).

Minority interests, if applicable, are also deducted from these items.

3.15.5 Retained earnings

Retained earnings include Baloise Group's ploughed-back profits and its income for the fiscal year. Dividend distributions to shareholders of Baloise Holding are only recognised once they have been approved by the Annual General Meeting.

3.15.6 Minority interests

Minority interests are those shares in the equity of Group companies, which are allocated to third parties outside the Group on the basis of the relevant ownerships.

3.16 Insurance contracts

An insurance contract is defined as “a contract under which one party (the insurer) accepts a significant insurance risk from another party (the policyholder) to pay compensation should a specified contingent future event (the insured event) adversely affect the policyholder.” An insurance risk is any direct or reinsured risk that is not a financial risk.

The significance of the insurance risk is assessed according to the amount of additional benefits to be paid by the insurer if the insured event occurs.

Contracts without any significant insurance risk are financial contracts. Such financial contracts may include a discretionary participation feature (DPF) that determines which recognition and valuation regulations are to be applied.

Receivables and liabilities from financial contracts are primarily calculated on the basis of the Effective Interest Method. The effective interest is determined as an intrinsic interest rate based on the estimated amounts and dates of the expected payments. If the amount or date of the actual payments differs from expectations or the expectations change, the effective interest must be newly determined. The deposit account balance is then revalued as if this new effective interest rate had been in effect from the beginning and the change in the deposit account value is recognised as interest income or expense, respectively. Otherwise, the insurance cover financed from the deposit account is amortised over the expected life of the deposit account.

The Baloise Group considers an insurance risk to be significant if, during the contractual period in a plausible scenario, a payment is linked to the occurrence of the insured event, which is 5 % higher than the contractual benefits if the insured event does not occur.

A discretionary participation feature (DPF) exists if the policyholder has a contractual or legal right to benefits in excess of the guaranteed benefits:

- that are likely to make up a significant portion of the total contractual benefits,
- where the outpayment amount or date is contractually at the discretion of the insurer and thus contractually depends on the performance of a specific portfolio or a specific type of contract; the realised and/or unrealised investment income of a specific investment portfolio held by the insurer, or the insurer’s result.

Self-insurance contracts are eliminated from the Annual Financial Statements. This applies particularly to contracts with the company’s own pension plans, insofar as the employees covered by these plans belong to Baloise Group.

In addition, IFRS 4 makes exceptions for the treatment of embedded derivatives that are contained in an insurance contract or financial contract with a discretionary participation feature. In as far as such embedded derivatives themselves satisfy the definition of an insurance contract, no separate valuation and disclosure are required. For the Baloise Group, this concerns, among others, certain guarantees for annuity conversion rates as well as additional special exceptions, such as certain guaranteed buy-back values on traditional policies.

3.17 Nonlife insurance contracts

Basically, all standard products in the nonlife business contain sufficient insurance risk so as to be classified as insurance contracts under IFRS 4. Within the Group, the nonlife business is divided into seven main sectors:

→ Accident

All standard product types that are typical for the respective market are offered in the accident sector. In Belgium and Switzerland in particular, there are additional specific, government-regulated occupational accident products, which do not correspond to the otherwise usual products.

→ Health

The Baloise Group writes health insurance only in Switzerland and Belgium. In addition to the typical treatment costs, the products in this sector also comprise benefits such as daily sickness allowance and are offered to individuals as well as small- and medium-sized businesses as so-called group insurance.

→ General liability

In addition to conventional personal liability, thirdparty liability policies are also sold for certain professions. In Switzerland and Germany there are policies, in particular combined products, for small and medium-sized companies or for partners in industry, which include features such as product liability.

→ Motor

The two standard products common in the market, comprehensive and liability insurance, are offered here. In certain countries there are also special products for cooperative agreements with automobile clubs or with individual automobile companies.

→ Fire and other property insurance

Beginning with conventional home insurance policies, there is a broad offering of property insurance including fire, building and water damage insurance policies and all the other common features.

→ Marine

Marine insurance policies are primarily sold in Switzerland and in Germany. In addition to the typical merchandise insurance, the products may also contain liability components.

→ Miscellaneous

Small sectors such as loan and legal protection insurance are normally combined here. Financial guarantees are treated as loan payment protection insurances as long as they fulfil the definition of an insurance contract.

3.17.1 Premiums

The gross premiums written are those that have become due during the fiscal year. They include an amount necessary for covering the insurance risk as well as all cost markups. Those portions of the premiums attributable to future fiscal years are contractually accrued and, together with any provisions for premium shortfalls for the fiscal year (impending loss) and retirement provisions and any capitalised settlement premiums, comprise the unearned premium reserves disclosed in the balance sheet. Owing to the special characteristics of marine insurance, premiums are deferred not by contract, but on the basis of estimates. The premiums actually attributable to the fiscal year are designated as premiums earned. They are calculated from the premiums written and the change in unearned premium reserves.

3.17.2 Claims reserves

At the end of every fiscal year, Baloise Group places great emphasis on creating adequate reserves for all claims that have occurred up to this key date.

Besides the provisions for payments to be made for claims occurred, reserves are additionally created for claims settlement costs. In order to approximate as realistic an estimate as possible for these reserves, Baloise Group applies generally accepted mathematical-statistical methods besides the claims experience of recent years and all information available at this point in time, in particular the knowledge of experts entrusted with the handling of claims.

The total claims reserve comprises three components. The provisions calculated using insurance-mathematical, so-called actuarial methods, form the basis. The second component is provisions for those complex special cases and events that do not lend themselves to purely statistical valuation. These are, as a rule, rare and rather untypical claims for a sector, usually major claims, whose extent must be individually assessed by claims experts. Both these components are provided without discounting. The third component is made-up of provisions for annuities, which are valued using basic actuarial principles, such as morbidity, technical interest rate, etc. and stem mainly from the motor, liability and accident sectors.

By far the largest share of claims reserves is determined using actuarial methods. To this purpose, suitable actuarial forecasting methods are selected depending on sector, insurance product and existing claims history. Additional market data and assumptions from ratings are used in the event of insufficient own claims history being available. The Baloise Group applies mainly the most common tried and tested Chain Ladder Method. This practice includes, besides an estimate of the development of the known claims, also the share of claims that are reported to the insurance company with delay or after the key date. The proportion of these so-called delayed claims is of great importance, especially in sectors with liability components. Emerging trends in claims development and recoveries are considered for this estimate as a matter of course. The mean ratio of the costs incurred to the actual claims payments is used to calculate the provisions for claims settlement costs.

The forecasting methods applied cannot completely eliminate the uncertainties that lie in the forecasting of future developments. However, the systematic monitoring of the provisions created in a certain fiscal year permits the early identification of variances and, based on this, a revision of provisions and an adjustment to the forecasting method can be made where necessary. The bases for these analyses are the so-called claims triangles represented in aggregated form under section 5.4.5. As a rule, for typical nonlife sectors such as storm or household, calculations are performed based on the payments of the past ten years. As a matter of course, for sectors that develop more slowly, such as e. g. liability, larger amounts of data are used and therefore claims triangles that reach much further back in time, based on payments as well as expenses (payments plus provisions). Alongside different in-house control mechanisms, the Baloise Group has the provisions and the methods applied additionally reviewed at regular intervals by external specialists. In this context, please also note the liability adequacy test described in detail in section 3.17.4. The Baloise Group takes great care to execute the regular profitability analysis and audit required by the reporting standard as to whether the insurer can fulfil all its assumed obligations on the key date. Any under-coverage that arises is promptly balanced.

3.17.3 Policyholder participation in surplus and profit

Insurance contracts can provide for the customer's participation in the surplus on their contracts (in particular in their claims history). The expense for policyholder participation in surplus and profit arises from the payments and the change in the related provisions.

3.17.4 Liability adequacy test (LAT)

The liability adequacy test (LAT) is used at every balance sheet date to review whether existing provisions are adequate, taking all known developments into consideration.

To this purpose, all existing provisions, both claims reserves and annuities from the nonlife segment, are analysed and, in the event of a shortfall, an appropriate subsequent provision is created. These calculations explicitly include late claims and therefore result in adequate provisions for all claims which have already been made.

The liability adequacy test as prescribed by IFRS requires that an analysis also be made as to whether the company entered into further obligations with all current contracts in the reporting period. A profitability analysis of the insurance business for the current fiscal year must therefore be conducted to prove that adequate premiums were demanded and also that the amount of unearned premium reserves for liabilities in the ensuing reporting periods is covered. In addition, there are usually contracts that are automatically renewed for a further year on the same terms, which must likewise be analysed for their profitability. At the same time, this corresponds to an analysis of the recoverability of deferred acquisition costs (DAC). Here, expected investment income from the relevant unearned premium reserves and existing claims reserves are considered. If a deficit is expected, the deferred acquisition costs are reduced by the respective amount. Should the total deferred acquisition costs not fully cover the resulting obligation, a separate provision for impending losses is set up within unearned premium reserves.

3.18 Life insurance contracts and financial contracts with discretionary participation features

For insurance contracts and financial contracts with discretionary participation features, IFRS 4 allows users to continue to apply the previous valuation principles in accordance with section 1 for liabilities, as well as assets resulting directly from the contracts (deferred acquisition costs and portfolio value).

On principle, the following Baloise Group life insurance products contain sufficient insurance risk to be classified as insurance contracts under IFRS 4:

- endowment life insurance, conventional life insurance and unit-linked life insurance,
- the Switzerland Group Life Business (BVG),
- term insurance policies,
- immediate annuity insurances,
- deferred annuity insurances with an annuity conversion rate guaranteed at conclusion of contract,
- all supplementary insurance policies such as premium waiver, accidental death supplement, disability, etc.

The following accounting principles apply:

3.18.1 General evaluation principles

For the traditional life insurance business, different principles are applied depending on the type of profit participation. Principally, premiums are recognised as income and benefits as expenses when due. In each case, the provision is based on actuarial principles or the net premium principle, which provides a balanced development of the provision from the premium. The actuarial assumptions for calculating provisions are determined either as best estimates with explicit safety margins for particular transactions, or pursuant to local practice regarding provisions, and thus also take safety loading into consideration when contracts are concluded. The assumptions used are retained unchanged over the contractual period (lock-in), unless a liability adequacy test (LAT) shows that the resulting provisions, applied deducting deferred acquisition costs (DAC) or the present value of future profits (PVFP) on acquired insurance contracts, are to be increased. Unearned premium reserves, provisions for final bonus payments as well as certain cost premium components to be deferred (unearned revenue reserve, URR) are also carried as a component of the premium reserve.

The liability adequacy test is conducted for the entire life insurance business on every balance sheet date. A reserve is determined as of the valuation date, taking into consideration all future cash flows (such as insurance benefits, surpluses, contract-related administrative expenses, etc.) based on the best estimates applicable to the assumptions at that time. If the minimum reserve for individual business lines thus determined exceeds the existing reserve, any existing deferred acquisition costs or present value of future profits are reduced, the reserves are immediately raised to the minimum level and the increase is recognised in the balance sheet.

3.18.2 Present value of future profits on acquired insurance contracts (PVFP)

The present value of future profits on acquired insurance contracts represents an identifiable intangible asset that arises in connection with the purchase of a life insurance company or of a life insurance portfolio. The initial valuation is made in accordance with actuarial principles. Depreciation is on a straight-line basis. The liability adequacy test is used to check the recoverability of deferred acquisition costs regularly.

3.18.3 Deferral of acquisition costs

Acquisition costs are deferred (deferred acquisition costs, DAC). Depending on the contract, amortisation occurs over the period of premium payments or insurance period. The liability adequacy test is used to check the recoverability of DAC.

3.18.4 Unearned revenue reserve (URR)

The unearned revenue reserve (URR) are premium components charged for services in future periods. These premium components are recognised as liabilities and reversed by analogy in the deferred acquisition costs.

3.18.5 Policyholders' dividends

In a majority of life insurance contracts, the policyholders have a right to policyholders' dividends.

The surpluses are paid in the form of benefit increases, premium reductions or final policyholders' dividends or accrued at interest to a surplus account. Surpluses already allocated, which are accrued on an interest-bearing basis, are recognised under the item "Policyholders' dividends credited and provisions for future policyholders' dividends" (section 23). The relevant interest expense is included under the item "Interest expenses on insurance liabilities." Surpluses that have been used to finance an increase in insurance benefits are recognised in the actuarial reserve. In the case of unit-linked life insurance, all investment income is, on principle, credited to the policyholder.

IFRS 4 introduces the concept of a discretionary participation feature (DPF), which is not only relevant to the classification of contracts but also to the disclosure of surplus funds, in accordance with the policyholders' share in the unrealised gains and losses recognised in IFRS equity and regarding the share of the higher or lower values recognised in profit or loss in the Consolidated Financial Statements – as compared to the financial statement required by commercial law. Hence, the portion of the liability under an insurance contract that is attributable to a discretionary participation feature (discretionary participation feature component) is to be reported separately. The Standard does not provide any clear guidelines regarding the valuation and disclosure of the discretionary participation feature component.

In the case of contracts with a discretionary participation feature, the Baloise Group considers the portion of the valuation differences attributable to these contracts, which are to be credited to policyholders pursuant to a statutory or contractual minimum quota as a discretionary participation feature component. Distributable retained earnings, as well as chargeable unrealised gains and losses from fully consolidated subsidiaries are proportionately appropriated to the DPF component of the respective life insurance company. The discretionary participation feature component thus determined is reported under the item “Provisions for future policyholders’ dividends” (section 23). This item also includes policyholders’ dividends that are deferred and not yet allocated pursuant to local accounting principles.

If no contractual or legal minimum quota is stipulated, the Baloise Group defines the discretionary participation feature as the existing reserve for premium refunds after considering final policyholders’ dividends. All other valuation differences between local and IFRS financial statements – in the absence of a minimum quota – are carried as part of equity.

The applicable minimum quotas prescribed by law, contract or the company’s Articles of Association are country-specific.

In Germany, Austria and for some Swiss group life business, life insurance companies are obliged by law to pay out a minimum portion of their profit to policyholders in the form of a surplus.

In Germany, the policyholders must participate in gains. Negative partial results are absorbed by the shareholders. The policyholder has a 90 % share of capital gains (less actuarial interest), up to 75 % of the risk result and 50 % of the remaining result. For part of its portfolio, Deutscher Ring has additionally committed itself to the minimum quota of 95 % in its Articles of Association.

In Austria, the minimum quota is stipulated in the terms and conditions of the contract. As a rule, it is 90 %.

Minimum quotas are also applied to some of Swiss BVG business (occupational benefit plan) (which is subject to the legal quota), that is 100 % on change in liabilities and 90 % on change in assets.

3.19 Reinsurance

Reinsurance contracts are insurance contracts between insurance companies and / or reinsurance companies. There must be a transfer of risk for a transaction to be recognised as reinsurance; otherwise the contract is treated as a financial contract.

Active (i. e. assumed) reinsurance is recognised in the same period as the initial risk. The corresponding technical reserves are included in the “Unearned premium reserves (gross)” and “Claims reserves (gross)” liabilities accounts for the nonlife insurance business and in the “Actuarial reserves (gross)” liabilities accounts for the life insurance business. For nonlife insurance they are estimated as realistically as possible, based on experience values and the most recent information available; for life insurances they are established based on the opening transaction. Passive reinsurance (i. e. insurance ceded) is the business ceded to insurance companies outside the Group and includes imposts from direct life and nonlife business and from active reinsurance.

Passive reinsurance assets are calculated over the same period and on the same basis as the original transaction and are recognised in the item “Reinsurance assets” (section 16). Impairments are recognised in profit or loss for assets deemed to be at risk due to identifiable insolvency.

3.20 Liabilities from banking business and financial contracts

3.20.1 With discretionary participation features (DPF)

Financial contracts with discretionary participation features (DPF) represent an investment by the customer with a surplus participation feature. The accounting principle for these financial contracts with discretionary participation features is the same as that for life insurance contracts, for which the valuation principles are described in section 3.18.

3.20.2 Measured at amortised cost

Savings deposits, medium-term bonds, mortgage-backed bonds and other liabilities including financial guarantees, which do not fulfil the definition of an insurance contract, are specifically recognised under liabilities measured at amortised cost. They are initially measured at acquisition cost (fair value).

The difference between acquisition and repayment value is recognised over the term in profit or loss in “Result from financial contracts” pursuant to the Amortised Cost Method using the Effective Interest Method.

3.20.3 Recognised at fair value through profit or loss

This item states both financial contracts where the holder bears the investment risk himself and liabilities from the banking business which are recognised at fair value through profit or loss as part of hedging considerations (natural hedge) as a result of designation.

3.21 Financial liabilities

Bonds issued on the capital market – with the exception of bonds from the banking segment – are recognised in financial liabilities. Financial liabilities are initially valued at acquisition cost (fair value). The acquisition value also includes transaction costs.

The difference between the acquisition and repayment value is recognised over the term as borrowing costs in profit or loss pursuant to the Amortised Cost Method using the Effective Interest Method.

The convertible bond issued by Baloise Holding includes a liability as well as an embedded option (conversion right for Baloise Holding shares). The fair value of the embedded option is calculated on the balance sheet date and stated separately in equity. The acquisition cost of the liability component corresponds to the present value of the future cash flow at the time of emission. The market interest rate of similar bonds without conversion or option rights is applied as the discount rate.

3.22 Employee benefits

The Baloise Group's benefits to employees include all forms of compensation granted in exchange for services rendered or in special circumstances.

The following benefits are calculated: short-term benefits (such as wages), benefits over the long term (such as anniversary payments), as well as benefits upon termination of employment (such as severance pay and benefits from social compensation plans) and post-employment benefits. The following benefits may be especially significant due to their scope:

3.22.1 Post-employment benefits

The main retirement benefits are annuities from retirement provisions and contributions made by the employer to mortgages as well as certain insurance policy benefits. The benefits are paid after termination of employment; they are financed during the period in which the employee is active. The retirement benefits of the Baloise Group currently consist almost exclusively of defined benefit plans. The liabilities are calculated using the Projected Unit Credit Method.

The assets that correspond to the liabilities are only considered if they are ceded to an entity other than the employer, e.g. a foundation. Such assets are valued at fair value. Unrecognised technical gains and losses that exceeded the greater of the present value of the defined-benefit liabilities or the fair value of plan assets by 10 % at the end of the preceding reporting period are recognised in the income statement, based on the expected average of the remaining years of service of the employees participating in the plans.

Baloise Group pension agreements are tailored to local conditions with regard to enrolment and scope of benefits.

3.22.2 Share-based payments

The Baloise Group offers employees and senior members of staff various plans in which shares are granted as part of the overall compensation package. Employee Participation Plan, Share Subscription Scheme (SSS), Employee Share Ownership Plan, performance quota and performance share units (PSU) are valued and disclosed in accordance with IFRS 2 "Share-based Payment." Plans that are serviced by shares in Baloise Holding are valued at the calculated value on the date of granting and are recognised as personnel expenses during the blocking period and credited to equity. Plans that are serviced in cash and whose amount is based on the fair value of Baloise Holding shares are recognised at the calculated value on the balance sheet date and reported as a liability.

3.23 Financial provisions

Financial provisions for restructuring and legal claims are set up for current legal or actual obligations, which will probably result in a future outflow of funds that can be reliably estimated. The assessment is based on the best possible estimate of the expected outlays. If the liability cannot be estimated with sufficient reliability, it is reported as a contingent liability.

3.24 Taxes

Provisions for deferred income taxes are set up pursuant to the Liability Method, i. e. they are based on the current or future expected tax rate. Deferred income taxes consider the income tax effects of temporary variances in recognition and valuation of assets and liabilities under IFRS and for tax purposes. When calculating deferred income taxes, unused tax losses are taken into consideration only insofar as it is probable that sufficient taxable profits will be generated in future.

Deferred tax assets and liabilities are offset and reported net, provided the preconditions for offsetting are fulfilled. These are, as a rule, fulfilled if fiscal sovereignty, taxable entity and tax type are identical.

3.25 Recognition of income

Income is recognised at fair value of the consideration received or to be claimed. Inter-company transactions and the resulting gains or losses are eliminated. Income is recognised as follows:

3.25.1 Income from services rendered

Income from services rendered is recognised in the period in which the service is provided.

3.25.2 Interest income

Interest income on financial instruments, which is not recognised at fair value through profit or loss, is recognised using the Effective Interest Method. If the value of a receivable is adjusted, the recoverable amount is depreciated to equal the difference between the present value of the estimated future cash inflows and outflows and discounted using the original interest rate in the contract.

3.25.3 Dividend income

Dividend income on financial assets is recognised as soon as the legal claim to payment arises.

4. CRITICAL ACCOUNTING PRINCIPLES AND ESTIMATION UNCERTAINTIES

The Consolidated Annual Financial Statements of the Baloise Group include estimates and assumptions, which could have an impact on the Annual Financial Statements of the next fiscal year. Estimates and the discretionary power of the management are continuously reviewed and are based on experience and other factors, including expectations of future events that appear reasonable on the date the balance sheet is prepared.

4.1 Fair value of financial instruments

Fair value is determined based on the quoted market price, if available. Should no quoted market price be available, the fair value is estimated based on the cash value or using valuation methods. Such methods are materially influenced by the assumptions applied, which consider discount rates and estimations of future cash flows. Baloise applies primarily fair values; should these not be available, own models are applied.

The following investment categories are measured at fair value:

→ Investment properties

Fair value of investment properties is determined using the Discounted Cash Flow Method. The estimates and assumptions applied are listed in section 3.6.

→ Financial assets of an equity or debt nature (available for sale and recognised at fair value through profit or loss)

The fair value is based on market prices. Should no quotation exist, or the market is assessed as inactive, then the fair value is estimated based on generally approved methods (Present Value Method, etc.), independent evaluations by comparing market prices of similar instruments and the effective market situation. Derivative financial instruments are valued based on quoted market prices or models. For private equity investments, different estimations methods are applied, such as the analysis of discounted cash flows or the reference to comparable recent transactions between knowledgeable, willing partners in an arm's length transaction should no fair value be available. These financial assets are charged at acquisition value and accordingly disclosed should the estimates not permit reliable valuations. Hedge funds are measured at fair value based on public quotes, if available, otherwise fair value is determined by independent third parties.

→ Mortgages and loans

(recognised at fair value through profit or loss)

Mortgages and loans are designated as recognised at fair value through profit or loss within the scope of hedging considerations (natural hedge). The evaluation of these portfolios is performed using an interest yield curve.

→ Financial contracts

(recognised at fair value through profit or loss)

Life settlement contracts (secondary market policies) are measured at fair value. The valuation is performed using the Income Approach Method. Thus the valuation of the guaranteed payout on maturity includes already allocated and future policyholders' dividends, final policyholders' dividends as well as risk-adjusted discount rates.

The following financial liabilities are measured at fair value:

→ Liabilities from the banking business and from financial contracts (measured at fair value and recognised through profit or loss)

Liabilities from investment-type life insurance policies without or with only marginal risk transfer are – due to the capitalised assets of these liabilities – valued at fair value.

→ Derivative financial instruments

Valuation at fair value is performed based on quoted market prices or models.

4.2 Financial assets of a debt nature held to maturity

The Baloise Group applies the provisions of IAS 39 to classify non-derivative financial instruments with fixed or determinable payments as held to maturity. To do so, Baloise assesses the positive intent and feasibility of holding these financial instruments to maturity. If, contrary to the original intention, these financial instruments are not held to maturity – disregarding specific circumstances such as the sale of a negligible portion – the Baloise Group must reassign all held to maturity financial instruments to the “available for sale” category with a subsequent valuation at fair value. The fair values of those financial assets of a debt nature classified as “held to maturity” may be found in section 12.

4.3 Impairment losses

At every balance sheet date, it is ascertained whether objective evidence of sustained impairment of a financial asset exists.

→ Financial assets of an equity nature (available for sale)

An impairment is mandatory for available financial assets of an equity nature, whose fair value on the balance sheet date is below the acquisition value by more than half or whose fair value lies below the acquisition value on the balance sheet date or if its fair value remains below the acquisition value during the 12 months before the balance sheet date. The creation of an impairment is reviewed for securities whose fair value lies between 20 % and 50 % below the acquisition value on the balance sheet date. The evaluation of an impairment includes various factors such as the volatility of the security, rating, analysts' reports, economic environment, industry outlook, etc.

→ Financial assets of a debt nature (available for sale and held to maturity)

Objective evidence of an impairment of a financial asset includes observable data to the following cases:

- considerable financial difficulties on the part of the debtor,
- a breach of contract, such as the failure to pay or delayed payment of interest or repayment instalments,
- increased probability that the borrower will declare bankruptcy or enter into other reorganisation proceedings,
- observable data indicating a measurable reduction of the expected cash flow from a group of financial assets since their initial evaluation.

Analysts' reports from banks as well as rating agency appraisals are used to assess an impairment loss.

→ Mortgages and loans (carried at cost)

The recoverability of the mortgage portfolio is verified at regular intervals. The methods and assumptions applied are also regularly audited to reduce variances between the actual and the anticipated default probability.

4.4 Deferred income taxes

Unused tax losses carried forward and other deferred tax assets are capitalised if it is probable that they will be realised. Assumptions regarding the probability that these tax benefits will be recovered are made for this purpose, based on the financial history and on the future income of the respective taxable entity.

4.5 Estimation uncertainties specific to insurance

Estimation uncertainties in the area of technical risks are explained in section 5.4 et seq.

4.6 Financial provisions

The assessment of financial provisions includes assumptions concerning the probability, the date and the amount of an outflow of funds representing an economic benefit. If such an outflow of funds is probable and a reliable estimate is possible, an appropriate provision is set up.

4.7 Employee benefits

In calculating performance-based payments to employees, assumptions are made regarding the expected return on plan assets, the economic benefit of assets, future pay and pension benefit developments, the applicable discount and other parameters. The most important assumptions are derived from previous estimate experience. The assumptions included in the calculation are explained in section 18.2.10.

4.8 Impairment of goodwill

The recoverability of goodwill is verified annually either towards the end of the year or when objective evidence exists for impairment. For this recoverability audit, a value of benefit is determined, which is primarily based on estimates, such as finance planning approved by management and the discount or growth rates listed in section 9.

5. MANAGEMENT OF INSURANCE RISKS AND FINANCE RISKS

The companies of the Baloise Group offer their customers non-life insurance and life insurance, as well as (in Switzerland and, with certain restrictions, in Germany) bank products. Accordingly, the Baloise Group is exposed to various risks.

The main risks in the nonlife insurance sector are: natural disasters, large-scale industrial risks, liability risks and personal injury risks. The whole insurance business is regularly examined by means of comprehensive analyses. The results of these analyses flow into the formation of reserves, the pricing and the structuring of insurance products and reinsurance contracts. In the nonlife business, studies were carried out, particularly in recent years, regarding natural disasters, partly together with reinsurance companies and brokers, in order to determine the exposure and the necessary degree of risk transfer.

In the life insurance sector, the following biometric risks are predominant:

- longevity risk in the cases of pension insurance and endowment insurance respectively,
- mortality risk in the cases of death insurance and endowment insurances,
- disability risk in the sense of a risk of insufficient tariff, due to a disability taking an unfavourable course of development.

Through the provision of interest rate guarantees, the Group is in addition exposed to the interest rate change risk. Furthermore, implicit financial guarantees and options exist, which have an impact on the liquidity, investment planning and the income of the companies; these are, in particular, the provision of a guaranteed buy-back value in the case of cancellation, and guaranteed pension factors upon entry into the payout phase, in the case of pension insurances.

The risks specific to life insurance – longevity, death and disability – are monitored on an ongoing basis. The Baloise Group companies monitor and analyse mortality rates, as well as customer behaviour regarding cancellation, invalidations and reactivations, on a decentralised basis. In this process, statistics, which are customary in the market and are defined by actuaries and accompanied by sufficient safety margins are used. The information gained flows, on the one hand, into appropriate pricing and, on the other, it is used to set up sufficient provisions to fulfil future insurance obligations. Due to the conservative pricing calculation demanded by government legislation and the comparatively good statistical basis, the risks here are controllable. In the pension insurance sector, there is, an additional inherent trend risk – the continuous rise in life

expectancy, leading to increasingly longer pension payouts. This risk is taken into account accordingly, by using suitable foundations for calculation. In addition, more and more pension insurance policies are being signed whereby the pension conversion factor is not fixed at the time of signing, but is rather performed using a calculation basis valid at that time. This is particularly the case regarding unit-linked pension products.

The management of insurance contracts with surplus participation features facilitates additional risk equalisation. One possible course of action in a changed risk situation can consist of the surpluses being adapted to local stipulations. However, the unbundling of the surpluses between the insured and the company is subject not only to local law, but also to the demands of the market.

The main risk categories of the banking division of the Baloise Group are credit risk, interest rate risk and liquidity risk. These risks are recorded and managed locally by the banks. The credit portfolio is monitored and analysed on an ongoing basis. In this process, various instruments are used, such as standardised credit stipulations and procedures, scoring and rating procedures, focusing on low-risk markets, and automatic dunning. The information gained flows into the loan decisions.

In the case of Deutscher Ring Bausparkasse AG, there is also a so-called collective risk, meaning that the long-term, even-handed allocation of building society savings contracts must be guaranteed by the collective group of savers. This guarantee is provided by the collective group, provided that it can be proved that the reserves for fluctuations at least remain in credit over the long term based on simulation calculations. In the case of the Deutscher Ring Bausparkasse, the collective risk is monitored and managed using a simulation model. In this process, the collective total customer base of the building society is updated with future projections, on a contract-by-contract basis, incorporating new business scenarios and lessons from previously observed patterns of behaviour.

Since 2007 and due to the threat of a pandemic, the existing emergency plans for natural and fire disasters, pandemics, attacks or the like have been reviewed and expanded to include a pandemic scenario. Additional emergency plans were drawn up to ensure the continuation of operations with severely reduced staff numbers. At the Swiss office several pandemic staff drills took place in 2008. In the summer of 2009, in the WHO Phase 6, all employees in Switzerland received a personal safety pack and the in-house management and information tool “Pandemic Web” went online. Management decisions before, during and after a crisis are

prepared by a Group crisis team since 2008. The Head of this committee reports directly to the Group CEO. The structure of the crisis team depends on the situation and the type of risk (insurance, banking, finances, solvency, reputation). In 2011 the crisis team did not convene; the outbreak of EHEC was mainly limited to Germany and was officially declared over by the German authorities at the end of July 2011.

5.1 Organisation of Risk Management of the Baloise Group

With its insurance and banking activities in various European countries, as well as its worldwide capital investments, the Baloise Group is exposed to market risks such as currency risks, credit risks, risks of interest rate changes and liquidity risks.

To monitor these risks, the Baloise Group has implemented comprehensive, Group-wide risk management in all the Group's insurance and banking units. The Group-wide Risk Management Standards have the following points of emphasis:

- organisation and responsibilities,
- methods, rules and limits,
- risk monitoring.

In this process, all activities directly related to risk management are summarised in a collective set of rules and internally coordinated.

At the highest level, the total risks of the Group and the individual business units are restricted and directed by means of corresponding internal and external bandwidths.

At the level of finance risks and business risks, there are various limits and rules, which either reduce the identified individual risks to a level acceptable to the Group or eliminate them completely.

Responsibility is assumed within the Group and each business unit respectively for each individual identified risk by a risk owner. The risk owners are defined all along the line and according to levels of seniority. The Group's most senior risk owner is the Chief Executive Officer of the Baloise Group. The persons responsible for the implementation of systematic risk controlling and of risk reporting are the risk controllers, defined parallel to the risk owners. In selecting risk controllers, particular care was taken to ensure the independence of the function. Points of emphasis for risk controlling within the Baloise Group are the following areas: investment risks, business risks (risks relating to the technicalities and the bank risks respectively), financial structural risks and compliance. The Group's most senior risk controller is the Chief Financial Officer of the Baloise Group.

The risk map of the Baloise Group illustrates the categorisation of identified risks. The risks are subdivided into the following three levels:

- nature of risk,
- secondary nature of risk,
- type of risk.

The risk types "Business environment risks," "Investment risks" and "Financial structure risks" are directly related to the core business activity of the Baloise Group. These risks are systematically addressed, managed and optimised by the management and various risk committees. The analysis of these risks is model-based and ultimately leads to a comprehensive, overall view.

"Business environment risks," "Operational risks" and "Leadership and information risks" arise directly or indirectly from the operation of the business, the business environment or the strategic activities of any company. The risks of this type are also quantitatively recorded, evaluated and managed.

Due to the comprehensive nature of the quantification process, the relevance of the risk in question can likewise be analysed, in the context of the overall risk situation for the Baloise Group, or for the individual company respectively.

The central Risk Management of the Baloise Group is under the control of the Group CFO in the Group division Finance. It coordinates Group-internal directives, risk reporting and the continued specialist development of suitable risk management processes and tools. On a monthly basis, it follows the economic market developments and their implications for the risk portfolio and the individual risk capacity of all business units, as well as of the Group as a whole. The responsible risk owners and risk controllers evaluate the plausibility of the figures submitted, considering them accordingly in their management decisions.

The non-diversifiable market risk is managed using, amongst other things, stochastic methods and comprehensive scenario analyses from centralised and decentralised units.

For each identified risk category there is a corresponding half-yearly reporting procedure. For this purpose each business unit produces a risk report, serving as a basis for the Group-wide risk report. Key figures for financial risks and technical risks are released internally each month, within the scope of a risk-controlling tool for both the Group and also for each strategic business unit.

5.2 Underwriting strategy: nonlife and life

Primarily, the Baloise Group underwrites insurance risks of private individuals, as well as small to medium-sized enterprises in selected countries of mainland Europe. Industrial insurance in the property, liability, marine and technical segments is mainly offered through Baloise Insurance in Basel or its subsidiary in Bad Homburg (Germany) and through the Belgian business unit Mercator. In this particularly high-risk segment, the central management of industrial insurance ensures

a consistent level of quality and a high degree of transparency for the underwritten business.

Each business unit of the Baloise Group issues rules of procedure regarding the underwriting and checking of risks. These contain definitive allocations of responsibility and underwriting limits according to the sector. The underwriting limits are approved by the most senior committee of the business unit and made known to the Corporate Executive Committee. In the industrial insurance sector the maximum underwriting limit

RISK MAP

Business risks	Investment risks	Financial structure risks	Business environment risks	Operational risks	Management / information risks
Technical risks Life → Interest guarantee → Parameter risks → Worst-case scenario → Creation of provisions	Market risks → Interest → Shares → Currencies → Real estate → Market liquidity → Derivatives → Alternative investments	Asset liability risks → Interest fluctuation risk → (Re) financing, liquidity Regulatory provisions Risk capitalisation	Changes to regulations Market / competitors External events Investors	Computer security → Data → Software / hardware / network → Physical reliability Personnel risks → Skills / capacities → Knowledge availability → Incentive systems Legal risks → Contracts → Liability and litigation → Tax → Pension fund Compliance → Breach of Standards → Fraud / illegal actions Business processes → Process risks → Project risks	Structure of organisation Corporate culture Business portfolio Merger and acquisitions External communication Projection, plan, budget Project portfolio Management information
Technical risks Nonlife → Premiums → Claims → Worst-case scenario → Creation of provisions	Credit risks				
Reinsurance → Premiums / rating → Default → Active reinsurance					
Loan management					

was set at CHF 100 million (previous year: CHF 100 million) for Switzerland and EUR 60 million (previous year: EUR 60 million) for Germany and Belgium. Within the Group, comparable underwriting limits continue to exist only for marine insurance. Risk management in industrial insurance also uses instruments to determine the required premium, as well as a risk-oriented overall portfolio management.

For its elementary damage exposure, Baloise buys in reinsurance capacities to the value of CHF 250 million (previous year: CHF 250 million) for the total Group.

5.3 Reinsurance strategy: nonlife and life

Contractual reinsurance in the nonlife sector of the Baloise Group is structured by the Finance division for all the business units of the Group through the Group-wide reinsurance and placed in the market. In structuring the programmes, Group-wide reinsurance takes the risk-bearing capacity of the Group as a whole as its reference point. At present, the Group has placed exclusively non-proportional reinsurance programmes. The Group's maximum excess charge for cumulative damage amounts to CHF 20 million (previous year: CHF 20 million), for individual damage it equals CHF 16 million in case of property damage (previous year CHF 16 million), CHF 15 million for transport damage (previous year: CHF 15 million) and CHF 12.5 million (previous year: CHF 12.5 million) for liability damage. In individual cases, the local business units of the Baloise Group take out further optional reinsurance protection. This type of reinsurance is heavily dependent on the respective individual risk and accordingly it is allocated by the business units themselves.

Reinsurance contracts can only be concluded with organisations which have received advance approval from the Finance division of the Group. The reinsurers usually have a minimum "A-" rating from Standard & Poor's. In exceptional cases, a "BBB+" rating or a comparable rating from another recognised rating agency is approved. However, these reinsurance contracts are only used for nonlife asset insurance, regarding rapidly-handled claims. The provision does not apply to captives and pools acting as active reinsurers that, as a rule, have no rating.

The default risk amongst reinsurers is regularly checked. A "watchlist" is maintained regarding reinsurers, who are bankrupt or who have payment difficulties. This list states in detail all the Group's relationships, open and written-off receivables and provisions with respect to these reinsurers. The "watchlist" is regularly updated.

In principle, the same demands are made of a reinsurer for life insurances as for the nonlife sector. In the life insurance business reinsurance has a lower degree of significance.

5.4 Nonlife

5.4.1 Insurance-specific risk

Primarily, the Baloise Group underwrites insurance risks of private individuals, as well as of small to medium-sized enterprises, in selected countries of mainland Europe. Apart from that, there is also business with industrial customers in Switzerland and Germany. Underwriting risks are limited by price monitoring and adjustment, as well as directives and limits on underwriting adjusted to the size and the country of the portfolio in question.

5.4.2 Assumptions

→ Claims reserves / claims settlement

The structure of the existing portfolios must generate data that are sufficiently homogenous in order to determine the claims reserve using designated analytical actuarial methods. The typical development pattern of the previous years is considered a particularly reasonable basis for extrapolation. If needs be, additional assumptions might be made in isolated cases that display an extreme break-away from the usual claims development.

→ Claims handling expenses

Provisions are set up for handling claims in proportion to the existing claims reserve. These provisions are based on the ratio of average claims handling costs incurred in previous years to the payments made during the period.

→ Annuities

Usually, the bases used for calculating annuities (mortality tables, interest rates, etc.) are provided or approved by the appropriate public authority of the respective country. However, as certain parameters can change relatively quickly, the appropriateness of the annuity provisions is checked yearly (in the course of the liability adequacy test) and additional reserves are allocated in case of insufficient coverage.

5.4.3 Changes in the assumptions

In principle, the assumptions underlying the formation of claims reserves are constant. In the case of the basis for calculating annuities, adjustments are made time and again over the years. In particular when considering the most recent findings regarding longevity.

5.4.4 Sensitivity analysis

Apart from the natural volatility of the insurance business, there are parameters to determine technical reserves, which can have a considerable impact on the annual result and equity of an insurance company. In the nonlife sector the following assumptions and their immediate implications for the consolidated annual result and consolidated equity were examined, within the scope of a sensitivity analysis: errors in estimation for claims reserves (including Incurred But Not Reported – IBNR) and the provisions in the Run Off sector.

All Baloise Group reserves calculated using actuarial methods or placed individually for special claims (inter alia, large claims, but excluding Run Off and reserves for annuities) equalled CHF 4,629.7 million at the end of 2011 (previous year: CHF 4,023.9 million). A 10% deviation from this provision would result in claims incurred (after taxes) before reinsurance approximately CHF 335.9 million higher or lower respectively (previous year: CHF 294.9 million).

The majority of the reserves in the Run Off sector originate from liabilities which the Baloise Group assumed on the London market up to the beginning of the 1990s. In this regard the primary burden for us are liability claims from the asbestos and environmental sectors.

The calculation of these claims reserves is always associated with a degree of uncertainty. Both the point in time for recognising such cases and the size of such possible claims contain a substantially higher degree of uncertainty than is the case with all traditionally established claims patterns. The reserves are in part calculated based on reports by external actuaries. In this process, an analysis is usually made of an optimistic and a pessimistic scenario respectively. The Baloise Group's reserve policy always focuses at least on the mean value of both scenarios. In particular, it is difficult to evaluate the level of reserves for claims incurred but not reported; consequently additional fluctuations can not be ruled out. According to experts' estimates one must therefore work on the basis that variances of approximately 10% could occur. This equates to an effect of approximately CHF 8 million after taxes and before reinsurance (previous year: CHF 10 million) regarding the corresponding provision.

For a better understanding, the following claims development analyses are specified in euros.

ESTIMATED CLAIMS INCURRED GERMANY (CUMULATIVE)

	Year of claims occurrence										Total
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
in EUR million											
At the end of the year of the claims occurrence	276.4	1370.8	325.8	292.2	283.8	306.7	298.2	288.0	302.5	290.8	–
One year later	1409.9	348.5	304.2	279.9	288.7	303.0	296.2	286.4	299.7	–	–
Two years later	412.2	346.7	291.8	285.8	283.7	295.5	299.7	289.0	–	–	–
Three years later	411.0	334.4	295.5	276.5	278.8	294.1	300.3	–	–	–	–
Four years later	406.1	336.5	292.4	272.9	276.9	293.1	–	–	–	–	–
Five years later	407.3	333.7	290.4	269.4	277.5	–	–	–	–	–	–
Six years later	402.8	330.4	288.4	268.1	–	–	–	–	–	–	–
Seven years later	396.0	327.4	289.8	–	–	–	–	–	–	–	–
Eight years later	391.9	327.0	–	–	–	–	–	–	–	–	–
Nine years later	391.7	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	391.7	327.0	289.8	268.1	277.5	293.1	300.3	289.0	299.7	290.8	3,027.0
Claims paid	–384.1	–321.7	–284.0	–264.0	–264.9	–287.1	–288.0	–265.8	–254.4	–156.1	–2,770.1
Claims reserves – gross	7.6	5.3	5.8	4.1	12.6	6.0	12.3	23.2	45.3	134.7	256.9
Claims reserves before 2002 – gross (including major claims and indirect business)											284.5
Provisions for annuities (nonlife, including IBNR) gross											70.9
Reinsurance share											–135.4
Claims reserves – net											476.9

1 The increase in the overall amount of estimated claim payments is primarily due to the addition of the Securitas Group.

ESTIMATED CLAIMS INCURRED BELGIUM (CUMULATIVE)

	Year of claims occurrence										Total
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
in EUR million											
At the end of the year of the claims occurrence	242.0	218.3	216.8	203.5	188.9	203.2	205.7	228.0	235.1	¹ 308.7	–
One year later	238.1	198.4	201.0	201.1	185.0	216.3	215.2	248.5	¹ 287.1	–	–
Two years later	228.6	199.1	203.9	188.7	182.6	213.1	212.3	¹ 252.2	–	–	–
Three years later	217.6	193.6	192.8	187.4	182.6	208.7	¹ 216.5	–	–	–	–
Four years later	214.2	186.6	190.3	184.0	179.5	¹ 211.1	–	–	–	–	–
Five years later	209.7	181.9	187.1	181.4	¹ 179.9	–	–	–	–	–	–
Six years later	208.6	182.8	183.1	¹ 182.3	–	–	–	–	–	–	–
Seven years later	204.2	177.6	¹ 184.6	–	–	–	–	–	–	–	–
Eight years later	200.6	¹ 177.7	–	–	–	–	–	–	–	–	–
Nine years later	¹ 202.0	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	202.0	177.7	184.6	182.3	179.9	211.1	216.5	252.2	287.1	308.7	2,202.1
Claims paid	–179.4	–153.0	–156.6	–148.8	–146.0	–161.0	–163.5	–182.1	–204.5	–154.0	–1,648.9
Claims reserves – gross	22.6	24.7	28.0	33.5	33.9	50.1	53.0	70.1	82.6	154.7	553.2
Claims reserves before 2002 – gross (including major claims and indirect business)											200.0
Provisions for annuities (nonlife, including IBNR) gross											141.2
Reinsurance share											–110.4
Claims reserves – net											784.0

¹ The increase in the overall amount of estimated claim payments is primarily due to the addition of the Avéro Schadevezekering Benelux NV.

ESTIMATED CLAIMS INCURRED LUXEMBOURG (CUMULATIVE)

	Year of claims occurrence										Total
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	
in EUR million											
At the end of the year of the claims occurrence	11.3	11.3	12.6	11.4	12.7	14.2	15.0	17.5	¹ 25.0	¹ 23.6	–
One year later	11.3	11.2	11.6	11.0	12.0	13.6	14.9	16.9	¹ 22.0	–	–
Two years later	10.6	11.5	11.3	10.7	11.9	13.0	15.1	¹ 21.5	–	–	–
Three years later	10.7	11.3	10.9	10.4	11.7	12.9	¹ 20.8	–	–	–	–
Four years later	10.6	11.1	10.8	10.3	11.6	¹ 18.9	–	–	–	–	–
Five years later	10.4	10.5	10.6	10.2	¹ 16.4	–	–	–	–	–	–
Six years later	10.3	10.3	10.5	¹ 13.6	–	–	–	–	–	–	–
Seven years later	10.2	10.3	¹ 14.6	–	–	–	–	–	–	–	–
Eight years later	10.2	¹ 15.8	–	–	–	–	–	–	–	–	–
Nine years later	¹ 14.2	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	14.2	15.8	14.6	13.6	16.4	18.9	20.8	21.5	22.0	23.6	181.4
Claims paid	–14.0	–15.6	–14.3	–13.3	–15.8	–18.1	–19.3	–19.6	–18.8	–13.8	–162.6
Claims reserves – gross	0.2	0.2	0.3	0.3	0.6	0.8	1.5	1.9	3.2	9.8	18.8
Claims reserves before 2002 – gross (including major claims and indirect business)											15.7
Provisions for annuities (nonlife, including IBNR) gross											0.0
Reinsurance share											–12.6
Claims reserves – net											21.9

¹ The increase in the overall amount of estimated claim payments is primarily due to the addition of the Baloise Luxembourg IARD S.A. .

Analysis of claims development for the segment “Other units”

A large part of the provisions of this segment come from the Run Off sector. Due to the special nature of the business, it is difficult to conduct meaningful analyses on the basis of own loss data only. Therefore, the provisions formed involve an increased uncertainty.

The survival ratio – the ratio of the provisions to the average claims payments of the last three years – is a common parameter for assessing the adequacy of the provisions for asbestos and environmental damages. The ratio indicates for how many years the provisions will last to cover the claims payments. At the end of the reporting period, the survival ratio was at 33 years (previous year: 42 years).

5.5 Life

5.5.1 Insurance-specific risk

Traditional life insurance is referred to as fixed-sum insurance; rather than being an amount due to a claim, a fixed sum is paid out when the insured event (e. g. survival or death) occurs. Capital and/or pension benefits in the event of premature death (death insurance) and disability (disability insurance) are insured in the form of risk insurance, while the savings insurance focuses primarily on savings for old age. The endowment life insurance combines risk protection with the savings process.

AVERAGE TECHNICAL INTEREST

31 DECEMBER 2010	Switzerland Individual life	Switzerland Group life	Germany	Belgium	Luxembourg	Other units
in CHF million						
Technical reserves excluding interest guarantee	477.2	691.0	2,605.3	53.6	271.1	103.0
Technical reserves with 0% interest guarantee	813.6	498.9	206.5	58.7	16.8	32.5
Technical reserves with positive interest guarantee	8,895.6	11,735.0	9,627.6	1,273.3	197.2	494.4
Average technical interest of positive interest guarantees	2.8%	2.1%	3.4%	4.0%	2.9%	3.4%

31 DECEMBER 2011	Switzerland Individual life	Switzerland Group life	Germany	Belgium	Luxembourg	Other units
Technical reserves excluding interest guarantee	525.9	895.8	2,409.1	75.4	229.0	117.1
Technical reserves with 0% interest guarantee	772.9	692.6	180.5	77.3	15.7	28.8
Technical reserves with positive interest guarantee	8,557.9	12,157.3	9,375.3	2,614.3	213.9	487.9
Average technical interest of positive interest guarantees	2.7%	1.9%	3.4%	3.8%	2.8%	3.2%

The guaranteed technical interest represents a risk for the traditional life insurance and Group Life Business.

Interest increases are associated with the risk of increased contract terminations (cancellations), which could lead to liquidity problems due to the pay-out of benefits. This risk is reduced by cancellation deductions. In the past, no significant connection could be observed between interest increases and the scope of contract terminations.

On the other hand, decreasing interest entails the risk that the investment income may no longer be sufficient to finance the technical interest. This risk is reduced by Asset & Liability Management (ALM) and partially by policyholders' dividends.

Unit-linked life insurance is usually a endowment life insurance or a deferred pension insurance policy, which gives the policyholder more flexibility in the investment process. During the deferment period, unit-linked pension insurance works in a similar way to endowment life insurance. In the pension payment period, the contract turns into a traditional pension insurance.

In the event of death, the beneficiary receives the insurance sum or the fund balance, in cases where the fund balance exceeds the insurance sum. For the financing of the mortality cover in cases where risk capital exists

(corresponds to the positive difference between the insurance sum and the fund balance), a risk premium is debited from the fund on a periodic basis.

The fund underlying the savings scheme is selected from a different number of funds – depending on the product – according to the specifications of the investor profile of the policyholder. Usually, the policyholder bears the full investment risk and benefits from any positive performance.

In the case of unit-linked life insurance, neither the repurchase value nor the maturity value is guaranteed. However, a maturity value is partly granted via the selection of the fund. Typically, these are funds that secure the maturity value by means of the investment method (decreasing proportion of shares when share prices drop) in connection with a certain contract term. This type of business is offered in Switzerland and in Germany. For these specific contracts, the maturity guarantee of the life insurance policy may differ slightly from the fund value due to the arrangement of the contract. This risk is duly taken into consideration actuarially.

In Germany, there are still a small number of contracts for which a minimum survival benefit, amounting to the contributions paid, is guaranteed without any fund-based hedging. Since 1999, this product has no longer been offered.

In Switzerland, an interest guarantee exists for a closed portfolio segment. This interest guarantee was granted within the scope of the statutory pension scheme (3a policy). In the case of survival, the policyholder receives the value of the fund portion, but no less than the net savings premium plus technical interest (3.25 %). The funds permitted for these tariffs merely contain a small proportion of shares and are therefore characterised by a low volatility. An actuarial reserve is formed for the guarantee.

In Belgium and in Switzerland, some closed funds also provide a maturity value guarantee. Banks not associated with the Group handle the fund management and secure the guarantee.

Through its unit in Liechtenstein, the Baloise Group offers variable annuities products (VA) with unit-linked and life-long guaranteed pensions. Financial hedging is effected with an external bank partner and an external reinsurance solution.

	Switzerland		Germany		Belgium		Luxembourg		Other units	
	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011
in CHF million										
Actuarial reserve from unit-linked life insurance	383.3	399.8	1,357.9	1,262.1	5.8	7.9	268.1	226.4	99.6	113.7

Risk insurance can entail substantial risks, e. g. due to epidemics, lifestyle changes such as a lack of exercise, and terror attacks. Contracts that cover the survival risk are mainly subject to longevity risks, which may increase even more due to further progress in the field of medicine and further improvements to the standard of living.

In the sphere of action, the named risks do not differ significantly.

The group life business comprises in particular occupational pensions in Switzerland, which cover the risks of death, disability and survival in the same way as the individual life business. The special feature of the group life business is the impact of political decisions. The government determines the minimum interest to be paid on savings, as well as the conversion rate with which the saved capital is to be converted into a pension upon retirement. However, these rules only apply to the minimum part of the accumulated capital that must be financed according to law. For the part exceeding this level, actuarially appropriate pension conversion rates are used. However, a change of the minimum interest rate also affects the existing statutory portfolio, not only the new business, as is usually the case in the individual life business.

Disability insurance is predominantly concerned with add-on insurance, i. e. with premium exemption for life insurance contracts with periodical premium payments in the event of disability. The independent disability insurance is insignificant. In terms of actuarial reserves, the disability risk accounts for approximately 6 % of the business.

	Actuarial reserves 31.12.2010		Actuarial reserves 31.12.2011	
	in CHF million	Share %	in CHF million	Share %
Traditional insurance				
Longevity risk	8,759.0	25.6	9,573.7	26.8
Mortality risk	12,930.8	37.8	13,149.1	36.9
Disability risk	2,136.2	6.2	2,072.4	5.8
BVG retirement assets	8,276.9	24.2	8,865.9	24.9
Subtotal	32,102.9	93.8	33,661.1	94.4
Unit-linked				
Longevity risk	808.7	2.4	807.6	2.3
Mortality risk	1,306.0	3.8	1,202.3	3.3
Subtotal	2,114.7	6.2	2,009.9	5.6
Total	34,217.6	100.0	35,671.0	100.0

The allocation of the actuarial reserves to the above categories has been performed on the basis of the products, i. e. each product has been allocated to a risk type. Within a product, the actuarial reserves have not been distributed to different risks. Usually, the mortality tables that are used are authoritative for the allocation to a category.

5.5.2 Assumptions

The actuarial reserves are calculated according to the principles valid when a contract is concluded. During the determination of tariffs of life insurance products, safety margins are included in these principles in order to forestall any adverse developments in the future. This mainly concerns the technical interest and the mortality tables. Along with the consideration of anti-selection effects, this inclusion of safety margins explains why pension tables differ from mortality tables. Cancellations are not taken into account when forming reserves.

The principles used are checked continually by means of an LAT (liability adequacy test). This test ensures the adequacy of the provisions. The assumptions used for this test represent “best estimate” assumptions. The two main assumptions of this test are the prospective investment income and the mortality table. The expected future investment income is determined on the basis of the current and the target investment portfolio (strategic asset allocation). The expected yield on new capital investments is aligned to the capital market interest rates. Depending on the size of the portfolio, the mortality tables are based on publicly accessible tables that are adjusted by empirical values or on the company’s own mortality tables.

Cancellation is also taken into consideration in the LAT. This assumption is based on the companies’ experience. The impact of a change to the cancellation assumption on the result of the LAT is usually negligible.

5.5.3 Sensitivities

In connection with sensitivities, the effect of changes in the assumptions on the annual result and on the equity was determined after considering shadow accounting, latency calculation, and deferred tax assets and liabilities (but not including reinsurance effects since negligible). In these calculations, the assumptions according to which the liability adequacy test (LAT) was conducted were varied.

Simulated scenarios:

- increase in mortality by 10 %,
- decrease in mortality (i. e. increase of longevity) by 10 %,
- reduction of new capital inflow by 100 basis points.

For the determination of the sensitivities, only the tested assumption is changed. The other parameters are kept constant, except for the policyholders' dividends, which are duly adjusted.

Usually, sensitivities are not linear and therefore extrapolation is not possible.

→ Increase in mortality by 10 %

A mortality increase of 10 % in the LAT merely has a marginal effect on the income statement and equity in most life insurance companies of the Baloise Group, except in Switzerland. In the Swiss unit, the reduced appropriation to the additional annuities reserves resulted in an overall unburdening effect on earnings amounting to approximately CHF 27 million (previous year: CHF 25 million). In further life insurance units with substantial mortality risks in the portfolio (Germany and Belgium), the effect on the income statement is caused primarily by the modified DAC, URR, and PVFP depreciation as well as the financing of final policyholders' dividends. In these units, the total effect on the income statement is marginal. The resulting effects on the result are negligible for Baloise Life (Liechtenstein) AG and Luxembourg. The equity effects not recognised in profit or loss are marginal for all units.

→ Reduction in mortality by 10 %

As is the case in the "mortality increase" scenario, the effects of a reduction in mortality are marginal for the life insurance companies in Germany, at Baloise Life (Liechtenstein) AG and in Luxembourg. This applies both to the effect on the income statement and to the effect on the equity. The increase in mortality in Belgium would result in a liability recognised in profit or loss of CHF 3 million (previous year: CHF 0 million) due to the annuity portfolio of Nateus that was newly acquired in the reporting period. In the Swiss life business, a reduction in mortality along with a corresponding adjustment of the policyholders' dividends would result in a charge of approximately CHF 29 million (previous year: CHF 29 million) to the income statement. As in the above scenario, the equity impact is small in Belgium and Switzerland.

→ Reduction of capital inflow rates by 100 basis points

This scenario assumes that the new capital inflow (including reinvestments) drops by 100 basis points. For the German units, the scenario results in a modified depreciation of the DAC balance. The development of final policyholders' dividends is irregular, depending on the type of dividend. The total effect is greatly alleviated by the existing statutory surplus sharing. Overall, the negative effect on the result from the German units was approximately CHF 2 million (previous year: CHF 3 million). The effect on equity that is not recognised through profit or loss amounts to around CHF 6 million (previous year: CHF 10 million).

In Belgium, the scenario results in an additional DAC depreciation and a provision for impending losses. Due to the business model with high guaranteed interest rates and low dividends, the effect on the income statement is higher than in other countries. In total, this results in a negative impact in profit or loss of CHF 50 million (previous year: CHF 11 million). The negative impact on the income statement is overcompensated by the positive change in unrealised gains and losses in equity. The positive impact on the unrealised gains amounts to CHF 85 million (previous year: CHF 42 million).

In Luxembourg, the scenario results in a marginal effect on the income statement and on unrealised gains and losses in equity of CHF 11 million (previous year: CHF 12 million).

The resulting effects on the income statement and equity are negligible for Baloise Life (Liechtenstein) AG.

In Switzerland, the scenario results in a charge of approximately CHF 48 million to the income statement (previous year: CHF 56 million). This is due in particular to increased DAC depreciation and increased technical reserves. Equity not recognised through profit or loss amounts to approximately CHF 285 million (previous year: CHF 250 million).

5.5.4 Changes in the assumptions

Prospective investment income is continuously adapted to market conditions. Investment income decreased in all units. Further assumptions such as cancellations and mortality are continuously updated.

5.6 Market Risk Management

Generally, however, market risks are reflected in losses due to changing or fluctuating market prices, which can result in potential impairment losses of the assets. The degree of risk depends on the extent of price fluctuations in the market and on exposure.

Within the scope of the life insurance business, companies of the Baloise Group offer investment-type life insurance contracts for the account and risk of the policyholder. The financial liabilities that accrue in this context are backed with assets – mostly funds – from these contracts. As the market risk of the assets underlying these contracts is borne by the policyholder, these are listed separately in the notes to the Consolidated Annual Financial Statements.

The following sections specifically address the issues of interest rate risks, foreign currency risks, credit risks, liquidity risks, and share price risks.

5.6.1 Interest rate risks

The interest rate risk refers to the risk that the interest margin – and thus also the income of a company (income effect) or the fair value of the interest rate sensitive products portfolio (asset effect) – is reduced due to interest rate fluctuations on the money and capital markets. Apart from the economic risk of asset investments not being maturity-matched in relation to liabilities, the partially different balance sheet regulations entail a balance sheet risk.

Consequently, a change in the interest rate or in the interest structure may result in a considerable deterioration of terms in case a reinvestment becomes necessary. The nonlife units engage in benchmark-oriented maturity management. In the life units, maturity management is driven by the liabilities.

Within the scope of the Group-wide Risk Management Standards of the Baloise Group, investment planning and suitable asset liability management are used to control divergences in the maturity periods; and thereby the interest rate risk in consideration of the available risk capacity.

Additionally, stress tests are defined and conducted. These stress tests serve as an early warning system, and their effects can be simulated for all areas of the company and thus for the business result.

The effect of a stress test on the financial figures is measured on a monthly basis. The underlying stress scenario (potential loss due to a risk) is reviewed on a regular basis and adjusted if necessary. The magnitude of a stress test is usually geared to the simple annual volatility of the financial risk under examination, to a 100-year event of a business risk, or to international common practice.

The life insurance companies of the Baloise Group manage their risks in relation to interest rate changes directly by means of suitably geared strategic asset allocation. In determining the asset allocation, in particular the factors of risk capacity and financeability of the guarantees are taken into consideration. Moreover, the expectations of the asset management from the capital markets and the expectations of the customers from the life insurance play a role in the decision process.

The Chief Investment Officer (CIO) of the Baloise Group reviews the strategic asset allocation of all business units twice a year in collaboration with these business units.

At the banks, interest rate risks are also managed and monitored within the scope of a suitable asset & liability management. Interest rate risks are only taken if they are related to the business volume and the business activity. The interest rate risks are measured by a software application using Value at Risk, Gap, Duration, and Interest Sensitivity Methods. The so-called asset & liability mismatch is actively managed by means of suitable interest derivatives, usually fair value hedges.

At the Bank Baloise Soba AG the limits of the interest rate risk are determined in such a way that when the market interest curve exhibits a shift of ± 100 basis points the fair value of the equity may diminish by no more than 2.5% (warning limit) or 4.0% (action limit) per calculation date. In addition to these percentages, absolute values are determined for the warning and action limits on an annual basis and are approved by the Board of Directors. These must also not be exceeded.

Had the general interest rate level been 100 basis points lower with all other variables remaining constant on the balance sheet closing date, the consolidated result (after consideration of latency calculation and deferred tax assets and liabilities) would have decreased by CHF 111 million (previous year: CHF 82 million). Including the impact on the consolidated result, equity (after consideration of shadow accounting, latency calculation, and deferred tax assets and liabilities) would have increased by CHF 426 million (previous year: CHF 376 million).

Derivative financial instruments, employed as fair value hedge

In the banking business, changes in the interest rate can have a substantial impact on the interest margin and thus on the result of the interest business. These interest rate risks emerge from a variety of factors and include the different fixed-interest periods of loans and liabilities. The interest result also depends on the changes in market interest rates, as the time for the adjustment of the conditions for loans may not always correspond to that of the customer deposits and securitised debts. Assets and liabilities with variable interest rates are also subject to a basic risk due to different interest rate adjustments, e. g. between the interest rates on savings and six-month Libor. Until the end of 2010 and within the scope of hedge accounting, interest rate swaps were mainly employed to hedge such interest risks. Hedge accounting is no longer employed since 1 January 2011.

DERIVATIVE FINANCIAL INSTRUMENTS EMPLOYED AS FAIR VALUE HEDGES

	Fair value – assets		Fair value – liabilities	
	2010	2011	2010	2011
in CHF million				
Forward transactions	–	–	–	–
Swaps	19.0	–	25.1	–
OTC options	–	–	–	–
Other	–	–	–	–
Traded options	–	–	–	–
Traded futures	–	–	–	–
Total	19.0	–	25.1	–

Gains and losses recognised in the income statement.

	2010	2011
in CHF million		
From the derivative financial instrument	–0.3	–
From the underlying transaction	0.1	–

DERIVATIVE FINANCIAL INSTRUMENTS EMPLOYED AS CASH FLOW HEDGES

	Fair value – assets		Fair value – liabilities	
	2010	2011	2010	2011
in CHF million				
Forward transactions	–	–	–	–
Swaps	–	–	–	–
OTC options	–	–	–	–
Other	–	–	–	–
Exchange-traded options	–	–	–	–
Exchange-traded futures	–	–	–	–
Total	–	–	–	–

	2010	2011
in CHF million		
Amount recognised in equity	–	–
Ineffectiveness reclassified to income statement	–	–

5.6.2 Foreign currency risks

The term “currency risk” refers to the potential financial loss resulting from changes in exchange rates. The extent of effective currency risk depends:

- on the net foreign currency exposure, i. e. on the balance of foreign currency assets and liabilities,
- on the volatility of the respective currencies,
- on the correlations of the currencies with other risk parameters in the portfolio context.

Due to the investments in foreign currency bonds (especially EUR bonds) for investment and diversification purposes, changes in the exchange rate can result in currency effects in the income statement – even for unrealised positions. To comply with the defined risk budget for currency effects recognised through profit or loss, the currency management first determines adequate target hedge ratios. Under consideration of this target hedge ratio and the bandwidths granted for freedom of action, currency management implements the required hedging strategies and makes use of overreaction phases in market price trends for deliberate overweighting or underweighting of the hedge ratios in relation to the defined benchmark. The implementation of these hedging strategies takes place by means of currency forwards, options, or option combinations; the selection of instruments depends on factors such as the expected exchange rate trend and volatility.

The currency effect of the foreign currency bonds and of the actuarial foreign currency liabilities and the change in fair value of the derivative financial instruments held for hedging purposes are always reported in the income statement.

The Group-wide Risk Management Standards prescribe ongoing monitoring of the currency risks and of the effectiveness of the concluded currency derivatives. Under consideration of the achieved diversification effect in the portfolio, the currency risks that are taken stand in a reasonable relationship to the potential surplus to be gained.

For its insurance activities, the Baloise Group almost exclusively uses Swiss francs and euros; thus, most of the technical provisions are also denominated in these currencies. Furthermore, there is a small amount of technical liabilities in USD and GBP. These provisions are usually covered by currency-matched investments (natural hedge).

Under the precondition that all other variables remain constant, transactional currency changes of CHF +/- 0.01 (1 rappen) compared to the functional currency to monetary balance sheet items (after consideration of shadow accounting, latency calculation, and deferred tax assets and liabilities) would result in a change of the profit for the period and thereby of equity of CHF +/- 4.6 million (previous year: CHF +/- 2.3 million); a positive (+) change of CHF 0.01 would result in a currency gain from exchange differences, and a negative (-) change of CHF 0.01 would result in a currency loss.

Derivative financial instruments employed to hedge a net investment in a foreign company for protection against currency risks:

Substantive alternative financial investments such as hedge funds and private equities are managed by separate, Group-owned companies: Baloise Alternative Investment Strategies Ltd., Jersey, and Baloise Private Equity Ltd., Jersey.

To limit the currency risk of the net investments in these two foreign companies, which report in USD, the currency management team of Baloise performs hedging transactions in the form of forward exchange deals. The limitation of the implementation of hedging strategies to forward exchange deals facilitates the assessment of hedge efficiency and the use of hedge accounting. Due to the use of hedge accounting, the change in fair value of these derivatives is recorded cumulatively under a special equity item and only derecognised in profit or loss upon sale of the underlying investment, together with the accrued currency effects of the net investments in these foreign companies.

	Fair value – assets		Fair value – liabilities	
	2010	2011	2010	2011
in CHF million				
Forward transactions	47.9	1.3	0.7	50.7
Swaps	–	–	–	–
OTC options	–	–	–	–
Other	–	–	–	–
Traded options	–	–	–	–
Traded futures	–	–	–	–
Total	47.9	1.3	0.7	50.7

	2010	2011
in CHF million		
Amount recognised in equity	78.9	–16.1
Ineffectiveness reclassified to income statement	–	–

Due to the active management of investments in participations, regular capital injections and repatriations are performed during the year. Thus the basic effects and the recognition of cash flow through profit or loss, on which hedge accounting is based, are applied pro rata.

For the purpose of international diversification (risk spread) and in order to increase profits plus the larger liquidity on certain foreign financial markets, the Swiss companies hold a net EUR position of CHF 786.0 million (previous year: CHF 436.3 million) and a net USD position of CHF 388.7 million (previous year: CHF 505.1 million) as of 31 December 2011. The other residual asset and liabilities-related currency surpluses are marginal.

The hedging quota of the net foreign currency exposure in USD and in EUR ranged between 80 % and 95 % in the course of the year.

The Baloise Group's foreign subsidiaries have no significant foreign currency exposure.

5.6.3 Credit risk

Credit risks on the assets side of insurance companies include all potential risks of loss, which may result due to a decline in the creditworthiness of a debtor or issuer or a value impairment of the securities. The credit risk is managed by means of creditworthiness audits of every individual counterparty and high rating standards.

The credit risk grows with the increasing concentration of counterparties in an individual industry or geographical region. Economic developments affecting entire industries or geographical regions can affect the liquidity of an entire group of otherwise independent counterparties. For this reason, the Baloise Group permanently tracks the counterparty portfolios and monitors the default risk on a Group-wide basis. The regional expertise of the business units also has an impact on the selection of securities and changes in the existing loan portfolio.

As the credit risk of the Baloise Group is spread across industries and geographical regions and is distributed over a large number of counterparties and customers, the Baloise Group does not have a significant credit risk involving a single counterparty or a specific industry or region.

To contain credit risk and credit accumulation risk in the Baloise Group, the share of investments that a single issuer or debtor may have at Group companies is limited sufficiently in the Group-wide Risk Management Standards. The rules are explicitly defined in the Group's investment directive.

As a matter of principle, investments in the investments portfolio are only made in bonds, loans, or financial derivatives whose issuer or debtor has at least an "A-" rating from Standard & Poor's or a comparable rating or for which a third-party guarantee or mortgage exists. For other debtors and issuers whose Standard & Poor's rating is at least "BBB" and for those who do not have a rating, an additional total limit of 10 % of all fixed-income securities is determined on the basis of their fair value. Exceptions are subject to explicit approval.

Investments in mortgage bonds are secured by mortgages. Investments in promissory note and registered bonds are secured by the deposit insurance fund. The deposit insurance fund serves as investor protection in the event of bankruptcy or insolvency of banks. For these investments, banks provide a repayment guarantee. Mortgage lendings are covered by corresponding properties; the pledged amounts are capped.

An overview of the hedged financial assets of a debt nature can be found in section 12.

INVESTMENTS

> 10 % OF CONSOLIDATED EQUITY

2010

in CHF million

Federal Republic of Germany	2,687.5
Swiss Confederation	1,697.0
Austrian Republic	1,597.8
Commerzbank	1,300.8
Republic of France	1,074.5
Kingdom of the Netherlands	926.8
Pfandbriefbank Schweizerischer Hypothekarinstitute	792.5
Kingdom of Belgium	727.8
Postfinance Switzerland	688.6
UBS AG, Zurich / Basel	678.0
Nordeutsche Landesbank	623.4
European Investment Bank, Luxembourg	620.1
Free State of Bavaria	508.3
Eurofima, Basel	496.6
Deutsche Bank AG, Frankfurt am Main	486.4
Dexia Bank, Brussels	458.7

INVESTMENTS

> 10 % OF CONSOLIDATED EQUITY

2011

in CHF million

Federal Republic of Germany	2,702.2
Swiss Confederation	2,198.0
Austrian Republic	1,831.2
Kingdom of Belgium	1,502.1
Republic of France	1,408.7
Kingdom of the Netherlands	1,259.4
Commerzbank	1,058.4
Pfandbriefbank Schweizerischer Hypothekarinstitute	1,027.9
European Investment Bank, Luxembourg	765.0
Nordeutsche Landesbank	616.6
Free State of Bavaria	548.0
UBS AG, Zurich / Basel	529.1
Deutsche Bank AG, Frankfurt am Main	491.2
Credit Suisse Group AG, Zurich	490.8
Eurofima, Basel	463.6
Dexia Bank, Brussels	443.3
Pfandbriefzentrale of Switzerland	427.7
BNP Paribas, Paris	424.0
Uni Credito Italiano	423.1
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland)	417.5

MAXIMUM DEFAULT RISK OF FINANCIAL ASSETS

	2010	2011
in CHF million		
Financial assets of a debt nature		
Public corporations	13,757.1	15,786.1
Industrial enterprises	1,747.2	2,162.3
Financial institutions	9,399.3	9,989.0
Other	58.6	44.2
Mortgages and loans		
Mortgages	10,965.7	11,085.5
Policy loans	219.2	204.6
Promissory notes and registered bonds	5,511.8	5,463.0
Time deposits	815.5	956.4
Employee loans	56.9	44.9
Reverse repurchase agreements	–	200.0
Other loans	442.3	430.3
Derivative financial instruments	357.8	281.8
Receivables from financial contracts	317.8	410.1
Reinsurance assets	248.1	377.5
Receivables from reinsurers	22.9	16.9
Insurance receivables	386.5	547.4
Other receivables	218.3	276.1
Receivables from investments	608.8	661.1
Cash and cash equivalents	1,862.2	1,835.5

If no contractually irrevocable loan commitments were agreed, the maximum default risk of financial assets corresponds to the carrying value of the assets for own account and at own risk.

The management and control of credit risks in the mortgage business are specified in directives and work instructions. These define binding loan specifications. In these loan specifications, strict processes are applied to immediately identify credit risks, assess these exactly, authorise them accordingly and continuously monitor them. All loan applications are collected using standardised loan templates, which are checked, centrally recorded and managed. This process includes all valuation principles and guidelines, if they are not already contained in the respective loan template.

By continuously recording mortgage transactions, compliance with the loan policy can be controlled and corrective action can be initiated as necessary. Furthermore, periodic exposure audits are performed as part of mortgage management. Outstanding interest lists are kept. The procedure and the periodicity are regulated in a separate directive. Management regularly receives extensive risk reports on risk composition and trends within the mortgage portfolio.

The conditions according to which mortgages are to be granted are recorded in the guidelines, directives and in the competency regulations. These are, on the one hand, amount, creditworthiness of the counterparty, security and tenor of the transaction and, on the other, the qualified assessment through the mortgage specialist.

Valuation and loan-to-value ratio of the collateral are governed by special directives. The purpose of these provisions is to ensure uniform assessment procedures to determine the relevant value of the collateral. Focusing primarily on the mortgage business, determining the fair value and the loan-to-value ratio of the properties are of crucial importance. One of the purposes of active mortgage management is to identify potential loss risks at an early stage.

The mortgage portfolio comprises lendings to natural persons and legal entities. The type, scope, hedging and quality requirements of the risks to be taken are recorded in the directives and in the competency regulations. To minimise the risk, the portfolio is as geographically diverse as possible.

**RATING OF FINANCIAL ASSETS THAT WERE NEITHER OVERDUE
 NOR IMPAIRED ON THE BALANCE SHEET DATE 2010**

	AAA	AA	A	BBB	Lower than BBB or no rating	Total
in CHF million						
Financial assets of a debt nature						
Public corporations	8,785.0	3,102.3	1,115.4	501.2	235.8	13,739.7
Industrial enterprises	23.4	554.5	737.4	350.1	81.8	1,747.2
Financial institutions	5,500.3	1,890.7	1,569.7	216.3	192.7	9,369.7
Other	5.0	28.0	19.3	1.2	5.1	58.6
Mortgages and loans						
Mortgages	29.8	447.9	8,470.3	804.3	712.1	10,464.4
Policy loans	–	–	–	–	219.0	219.0
Promissory notes and registered bonds	1,793.5	3,253.4	158.9	93.7	212.3	5,511.8
Time deposits	16.6	33.4	60.9	–	704.6	815.5
Employee loans	–	–	0.0	–	56.9	56.9
Reverse repurchase agreements	–	–	–	–	–	–
Other loans	0.9	13.3	201.5	141.2	61.8	418.7
Derivative financial instruments	126.8	91.9	135.9	–	3.2	357.8
Receivables from financial contracts	–	–	–	–	317.8	317.8
Reinsurance assets	0.2	59.8	123.4	–	61.9	245.3
Receivables from reinsurers	–	4.0	5.3	–	13.6	22.9
Insurance receivables	0.5	14.5	6.5	38.6	210.3	270.4
Other receivables	1.0	12.4	107.7	12.1	75.1	208.3
Receivables from investments	244.5	92.9	50.5	20.0	171.6	579.5
Cash and cash equivalents	122.5	308.8	548.9	1.7	880.3	1,862.2
Total	16,650.0	9,907.8	13,311.6	2,180.4	4,215.9	46,265.7

**RATING OF FINANCIAL ASSETS THAT WERE NEITHER OVERDUE
NOR IMPAIRED ON THE BALANCE SHEET DATE 2011**

	AAA	AA	A	BBB	Lower than BBB or no rating	Total
in CHF million						
Financial assets of a debt nature						
Public corporations	9,988.9	3,628.9	1,341.5	531.6	257.6	15,748.5
Industrial enterprises	9.5	613.3	999.5	459.9	80.1	2,162.3
Financial institutions	5,827.5	2,364.2	1,245.3	298.4	224.2	9,959.6
Other	–	25.7	13.5	–	5.0	44.2
Mortgages and loans						
Mortgages	63.2	750.9	8,364.4	911.9	732.6	10,823.0
Policy loans	–	–	–	–	204.6	204.6
Promissory notes and registered bonds	1,729.3	3,281.1	82.8	121.4	248.4	5,463.0
Time deposits	11.4	112.2	226.6	–	606.2	956.4
Employee loans	–	–	–	–	44.9	44.9
Reverse repurchase agreements	–	–	–	–	–	–
Other loans	1.7	25.3	148.9	155.3	78.9	410.1
Derivative financial instruments	122.7	48.4	110.5	–	0.2	281.8
Receivables from financial contracts	–	–	–	–	410.1	410.1
Reinsurance assets	1.4	136.9	112.2	8.5	116.0	375.0
Receivables from reinsurers	–	1.4	5.3	0.0	10.2	16.9
Insurance receivables	0.8	22.6	9.6	72.8	311.0	416.8
Other receivables	1.5	18.9	152.3	14.9	79.4	267.0
Receivables from investments	264.7	112.2	57.9	25.7	172.1	632.6
Cash and cash equivalents	171.4	276.3	1,006.0	17.5	364.3	1,835.5
Total	18,194.0	11,418.3	13,876.3	2,617.9	3,945.8	50,052.3

In general, the ratings of Standard & Poor's and Moody's are applied, whereby the lower rating is used for the disclosure.

Since these agencies do not fully cover the domestic financial market, the SBI Composite Rating is referred to when necessary. This also includes the ratings of four Swiss banks. These are: Credit Suisse, UBS, Bank Vontobel and the Zürcher Kantonalbank.

Mortgage assets from the Swiss insurance business are subject to a credit check due to risk management processes. Following the preceding disclosure, the mortgages granted can be pooled into two main rating categories.

Financial assets to the value of CHF 2.5 million and CHF 0.4 million in liquid funds from hedge accounting relationships were drawn on during the reporting period. In the previous year, no financial assets or cash and cash equivalents were drawn on from hedge accounting in the reporting period.

ASSETS IMPAIRED ON THE BALANCE SHEET DATE

	Gross amount	Impairment	Carrying value	Gross amount	Impairment	Carrying value
	2010			2011		
in CHF million						
Financial assets of a debt nature						
Public corporations	18.1	-0.7	17.4	166.1	-128.5	37.6
Industrial enterprises	3.2	-3.2	-	3.1	-3.1	-
Financial institutions	94.3	-64.7	29.6	101.1	-71.7	29.4
Other	-	-	-	-	-	-
Mortgages and loans						
Mortgages	183.6	-59.1	124.5	180.3	-56.8	123.5
Policy loans	-	-	-	-	-	-
Promissory notes and registered bonds	5.3	-5.3	0.0	0.0	-0.0	-
Time deposits	-	-	-	-	-	-
Employee loans	-	-	-	-	-	-
Reverse repurchase agreements	-	-	-	-	-	-
Other loans	34.0	-16.6	17.4	29.3	-15.6	13.7
Receivables from financial contracts	-	-	-	-	-	-
Reinsurance assets	-	-	-	-	-	-
Receivables from reinsurers	0.6	-0.6	-	0.4	-0.4	0.0
Insurance receivables	125.0	-22.3	102.7	150.9	-31.5	119.4
Other receivables	14.4	-4.6	9.8	13.2	-4.3	8.9
Receivables from investments	34.8	-5.5	29.3	31.1	-2.6	28.5
Total	513.3	-182.6	330.7	675.5	-314.5	361.0

ASSETS OVERDUE AND NOT IMPAIRED ON BALANCE SHEET DATE

Assets as of 31 December 2010	< 3 months	3 – 6 months	7 – 12 months	> 12 months	Total
in CHF million					
Financial assets of a debt nature					
Public corporations	–	–	–	–	–
Industrial enterprises	–	–	–	–	–
Financial institutions	–	–	–	–	–
Other	–	–	–	–	–
Mortgages and loans					
Mortgages	0.5	0.0	0.1	14.5	15.1
Policy loans	–	–	–	–	–
Promissory note and registered bonds	–	–	–	–	–
Time deposits	–	–	–	–	–
Employee loans	–	–	–	–	–
Reverse repurchase agreements	–	–	–	–	–
Other loans	0.2	0.0	0.0	0.1	0.3
Receivables from financial contracts	–	–	–	–	–
Reinsurance assets	–	–	0.6	2.2	2.8
Receivables from reinsurers	–	–	–	–	–
Insurance receivables	5.8	3.8	3.2	0.6	13.4
Other receivables	0.1	0.0	0.0	0.1	0.2
Receivables from investments	–	–	–	–	–
Total	6.6	3.8	3.9	17.5	31.8

Assets as of 31 December 2011	< 3 months	3 – 6 months	7 – 12 months	> 12 months	Total
in CHF million					
Financial assets of a debt nature					
Public corporations	–	–	–	–	–
Industrial enterprises	–	–	–	–	–
Financial institutions	–	–	–	–	–
Other	–	–	–	–	–
Mortgages and loans					
Mortgages	0.4	–	2.6	0.3	3.3
Policy loans	–	–	–	–	–
Promissory note and registered bonds	–	–	–	–	–
Time deposits	–	–	–	–	–
Employee loans	–	–	–	–	–
Reverse repurchase agreements	–	–	–	–	–
Other loans	0.1	–	0.0	0.1	0.2
Receivables from financial contracts	–	–	–	–	–
Reinsurance assets	–	–	–	2.5	2.5
Receivables from reinsurers	–	–	–	–	–
Insurance receivables	5.8	1.7	3.2	0.5	11.2
Other receivables	–	0.0	0.1	0.1	0.2
Receivables from investments	–	–	–	–	–
Total	6.3	1.7	5.9	3.5	17.4

5.6.4 Liquidity risk

A latent liquidity risk exists both for banks and insurance companies, i. e. the risk that any extraordinary reduction of equity and liabilities cannot be buffered by a reduction of assets or any alternative refinancing cannot be implemented quickly enough. In extreme cases, a lack of liquidity may result in insolvency. In addition to legal regulations, the following rules apply: Group-wide Risk Management Standards prescribe central liquidity planning for each business unit. This takes place in close collaboration between the Investments, Actuarial, Actuarial Practice and Finance departments of a business unit.

In liquidity management, the maturity structure of liabilities must be taken into consideration:

EXPECTED MATURITIES FROM FINANCIAL LIABILITIES¹

Liquidity risk as of 31 December 2010	< 1 year ²	1–3 years	4–5 years	> 5 years	No maturity	Total	Carrying values
in CHF million							
Liabilities from banking business and financial contracts							
With discretionary participation features (DPF)	505.8	–	–	–	–	505.8	505.8
Measured at amortised cost	921.9	1,285.6	425.6	359.8	3,419.8	6,412.7	6,412.5
Recognised at fair value through profit or loss	116.1	145.0	26.0	40.0	5,603.4	5,930.5	5,945.0
Financial liabilities	–	741.6	160.9	553.7	–	1,456.2	1,359.4
Financial provisions	42.7	11.6	9.7	10.9	5.0	79.9	79.9
Derivative financial instruments	7.4	6.6	1.5	14.4	–	29.9	29.9
Insurance liabilities	1,076.5	459.4	0.2	0.2	–	1,536.3	1,536.3
Other liabilities	490.8	54.6	11.3	0.2	–	556.9	555.6
Contingent liabilities and capital commitments	219.5	149.5	1.2	116.1	616.8	1,103.1	–
Total	3,380.7	2,853.9	636.4	1,095.3	9,645.0	17,611.3	–

EXPECTED MATURITIES FROM FINANCIAL LIABILITIES¹

Liquidity risk as of 31 December 2011	< 1 year ²	1–3 years	4–5 years	> 5 years	No maturity	Total	Carrying values
in CHF million							
Liabilities from banking business and financial contracts							
With discretionary participation features (DPF)	1,147.5	–	–	–	–	1,147.5	1,147.5
Measured at amortised cost	1,171.3	864.6	427.3	478.2	3,949.7	6,891.1	6,881.2
Recognised at fair value through profit or loss	206.2	117.9	26.0	40.0	5,579.3	5,969.4	5,969.4
Financial liabilities	151.7	732.3	242.4	562.5	–	1,688.9	1,612.6
Financial provisions	40.3	18.4	6.2	12.7	5.5	83.1	83.1
Derivative financial instruments	127.5	20.1	9.3	18.4	–	175.3	175.3
Insurance liabilities	1,352.8	422.7	0.2	1.7	–	1,777.4	1,777.4
Other liabilities	519.9	39.0	0.2	0.0	–	559.1	558.8
Contingent liabilities and capital commitments	436.0	39.9	0.6	114.6	540.3	1,131.4	–
Total	5,153.2	2,254.9	712.2	1,228.1	10,074.8	19,423.2	–

1 The undiscounted contractual payment flows constitute the basis.
 2 All demand deposits are included in the first maturity range.

The residual terms and maturities of the technical reserves concerned are stated in the tables of section 23.

Pursuant to the Group-wide Risk Management Standards, Asset Liabilities Committees have been introduced in all strategic business units of the Baloise Group. For asset liability management purposes, these committees conduct analyses concerning the maturities and realised or required income of the assets and liabilities.

Within the scope of tactical and strategic investment planning, asset allocation of the individual life and nonlife units of Baloise ensures that a sufficiently high level of liquidity is available for the investment activities and the operational handling of all business processes. To determine the required liquidity amounts, the maturity structure on the investments side, the outgoing payment structure of the liabilities on the insurance side and the average historical incoming and outgoing payment patterns of the last five years are examined in Cash Management. Major extraordinary incoming or outgoing payments that are known in advance are explicitly considered in investment planning. In the event of payments suddenly becoming necessary, e.g. due to large claims, the careful provision of liquid funds and the possibility of drawing on reinsurers guarantee a sufficiently large reserve. Moreover, arrangements such as cash pooling of the Swiss companies of the Baloise Group allow excess liquidity of one unit to be used to compensate a temporary liquidity bottleneck of another unit by means of an internal overdraft that is subject to interest.

Should these precautionary measures not suffice to meet the liquidity requirements, Baloise has financial assets that can be sold at short notice without significant price losses. These include all equity investments (except strategic participations). Due to the significant stocks in government and government-oriented bonds, the sale of larger stocks of available for sale liabilities is possible also in critical situations. As a rule, mortgages and loans are held to maturity; a redemption prior to maturity within a useful period of notice would not be possible. In the field of alternative financial assets, 80 % of the hedge funds could be sold within three months. Private equity investments must be viewed as illiquid in this context. The sale of investment properties is also not suited to generating liquidity at short notice.

5.6.5 Share price risk

With its financial assets of an equity nature in the categories “recognised at fair value through profit or loss” and “available for sale,” the Baloise Group is exposed to share price risk. This share price risk is substantially reduced by means of international diversification, e.g. wide spread of risks across industries, countries, and currencies. Moreover, the share price risk is duly limited by means of active Overlay Management via derivatives, when certain intervention levels are reached or market or risk indicators, continually monitored by Baloise, suggest increased hedging activity.

The majority of the financial assets of an equity nature are publicly listed.

Should the market prices of all financial assets of an equity nature change by $\pm 10\%$, it would have the following consequences, after consideration of shadow accounting, latency calculation, deferred tax assets and liabilities, hedging derivatives, and the effect of the value adjustment rules stated in section 3.10.2:

	Impact on consolidated result		Impact on equity (including consolidated result)	
	2010	2011	2010	2011
in CHF million				
Market price + 10%	14.0	15.0	179.1	179.4
Market price – 10%	–44.9	–60.9	–181.9	–182.2

As the effects generated by value adjustment criteria due to an assumed change in market prices are different to those generated in the event of an analogous decrease, the effects differ accordingly. The same applies to compensatory effects from hedging with derivatives.

The profit for the period changes as a result of the changes in the fair value of the financial instruments of an equity nature in the category “recognised at fair value through profit or loss,” which are recognised in profit or loss. Unrealised gains and losses change due to changes in the fair value of the financial instruments of an equity nature in the category “available for sale.” In the case of life insurance companies, the policyholders’ participate in the company’s profit, depending on contract and local circumstances (section 3.18.5). In the above presentation, this profit sharing is also taken into consideration.

5.7 Determining reported fair values

The reported fair value for financial instruments classified as available for sale and measured at fair value through profit or loss is determined using quoted market prices, insofar as these are available. Availability is regarded as given if quoted prices are available from an exchange, trader, broker, industry group, a pricing service or regulatory authority are easily and regularly obtainable or available and these prices reflect the current and regularly occurring market transactions at arm’s length conditions.

Should no quoted market price exist, (e. g. due to the inactivity of a market), then the fair value is estimated using a valuation method close to market. The market closeness of a valuation method is to be ensured by including observable market data (depending on their availability) to a significant extent in the valuation. Here, the determination of the fair value is divided into three hierarchy levels:

→ **Determining fair value based on publicly quoted prices (level 1).**

The fair value is based on market prices on the balance sheet day and is not otherwise adjusted nor contains other inputs.

→ **Determining fair value using observable market data (level 2).**

The fair value is estimated using commonly accepted methods (Present Value Method, etc.). Here, observable market data (interest rates, index developments, etc.) are significantly included in the evaluation.

→ **Determining fair value without using observable market data (level 3).**

The fair value is estimated based on commonly accepted methods (Present Value Method, etc.). However, the evaluation does not (or only to a minor degree) include observable market data, since these are either not available or do not allow reliable conclusions regarding the present value to be made.

Detailed information on the evaluation principles and the evaluation methods applied are presented in the sections 3.7, 3.8, 3.9, 3.11, 3.20 and 4.1.

FINANCIAL ASSETS AND LIABILITIES FOR OWN ACCOUNT AND AT OWN RISK

2010	Level 1	Level 2	Level 3	Total
in CHF million				
Assets				
Financial assets of an equity nature				
Available for sale	1,866.6	897.0	674.0	3,437.6
Recognised at fair value through profit or loss	78.9	–	–	78.9
Financial assets of a debt nature				
Available for sale	17,745.7	38.9	–	17,784.6
Recognised at fair value through profit or loss	54.2	17.9	–	72.1
Mortgages and loans				
Recognised at fair value through profit or loss	–	457.1	–	457.1
Derivative financial instruments				
	0.2	357.6	–	357.8
Receivables from financial contracts				
Recognised at fair value through profit or loss	41.5	–	–	41.5
Total assets	19,787.1	1,768.5	674.0	22,229.6
Equity and liabilities				
Liabilities from banking business and financial contracts				
Recognised at fair value through profit or loss	–	265.4	–	265.4
Derivative financial instruments				
	1.1	28.8	–	29.9
Total equity and liabilities	1.1	294.2	–	295.3

FINANCIAL ASSETS AND LIABILITIES FOR OWN ACCOUNT AND AT OWN RISK

2011	Level 1	Level 2	Level 3	Total
in CHF million				
Assets				
Financial assets of an equity nature				
Available for sale	1,902.3	839.4	705.6	3,447.3
Recognised at fair value through profit or loss	33.3	–	–	33.3
Financial assets of a debt nature				
Available for sale	19,781.2	74.1	–	19,855.3
Recognised at fair value through profit or loss	81.7	16.8	–	98.5
Mortgages and loans				
Recognised at fair value through profit or loss	–	375.2	–	375.2
Derivative financial instruments				
	–	281.8	–	281.8
Receivables from financial contracts				
Recognised at fair value through profit or loss	61.5	–	–	61.5
Total assets	21,860.0	1,587.3	705.6	24,152.9
Equity and liabilities				
Liabilities from banking business and financial contracts				
Recognised at fair value through profit or loss	–	223.9	–	223.9
Derivative financial instruments				
	1.8	173.5	–	175.3
Total equity and liabilities	1.8	397.4	–	399.2

FINANCIAL ASSETS AND LIABILITIES FOR THE ACCOUNT AND AT THE RISK OF LIFE INSURANCE POLICYHOLDERS

2010	Level 1	Level 2	Level 3	Total
in CHF million				
Assets				
Financial assets of an equity nature				
Recognised at fair value through profit or loss	6,277.4	50.3	–	6,327.7
Financial assets of a debt nature				
Recognised at fair value through profit or loss	846.4	31.9	–	878.3
Derivative financial instruments	167.0	11.5	–	178.5
Total assets	7,290.8	93.7	–	7,384.5
Equity and liabilities				
Liabilities from banking business and financial contracts				
Recognised at fair value through profit or loss	5,676.9	2.7	–	5,679.6
Total equity and liabilities	5,676.9	2.7	–	5,679.6

FINANCIAL ASSETS AND LIABILITIES FOR THE ACCOUNT AND AT THE RISK OF LIFE INSURANCE POLICYHOLDERS

2011	Level 1	Level 2	Level 3	Total
in CHF million				
Assets				
Financial assets of an equity nature				
Recognised at fair value through profit or loss	6,102.6	44.9	75.8	6,223.3
Financial assets of a debt nature				
Recognised at fair value through profit or loss	901.3	34.6	–	935.9
Derivative financial instruments	8.3	44.0	–	52.3
Total assets	7,012.2	123.5	75.8	7,211.5
Equity and liabilities				
Liabilities from banking business and financial contracts				
Recognised at fair value through profit or loss	5,742.9	2.6	–	5,745.5
Total equity and liabilities	5,742.9	2.6	–	5,745.5

FINANCIAL ASSETS FOR OWN ACCOUNT AND AT OWN RISK

	Financial assets of an equity nature		Financial assets of a debt nature		Mortgages and loans	Derivative financial instruments	Receivables from financial contracts	Total
	Available for sale	Recognised at fair value through profit or loss	Available for sale	Recognised at fair value through profit or loss	Recognised at fair value through profit or loss	Recognised at fair value through profit or loss	Recognised at fair value through profit or loss	
2011								
in CHF million								
Assets								
Balance as of 1 January	674.0	–	–	–	–	–	–	674.0
Additions	55.9	–	–	–	–	–	–	55.9
Additions from change in the scope of consolidation	–	–	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–	–	–
Disposals	–48.7	–	–	–	–	–	–	–48.7
Disposals from change in the scope of consolidation	–	–	–	–	–	–	–	–
Change in fair value recognised in profit or loss	–4.1	–	–	–	–	–	–	–4.1
Change in fair value not recognised in profit or loss	39.4	–	–	–	–	–	–	39.4
Exchange differences	–10.9	–	–	–	–	–	–	–10.9
Balance as of 31 December	705.6	–	–	–	–	–	–	705.6
Change in fair value of financial instruments held until the balance sheet date recognised in profit or loss	–35.4	–	–	–	–	–	–	–35.4

Included in these positions are mainly investments in private equity investments and minority interests in real estate companies.

FINANCIAL ASSETS FOR THE ACCOUNT AND AT THE RISK OF LIFE INSURANCE POLICYHOLDERS

	Financial assets of an equity nature	Financial assets of a debt nature	Derivative financial instruments	Total
	recognised at fair value through profit or loss	recognised at fair value through profit or loss	recognised at fair value through profit or loss	
2011				
in CHF million				
Assets				
Balance as of 1 January	-	-	-	-
Additions	76.9	-	-	76.9
Additions from change in the scope of consolidation	-	-	-	-
Additions from change in percentage of interest	-	-	-	-
Reclassifications	-	-	-	-
Disposals	-	-	-	-
Disposals from change in the scope of consolidation	-	-	-	-
Change in fair value recognised in profit or loss	-	-	-	-
Exchange differences	-1.1	-	-	-1.1
Balance as of 31 December	75.8	-	-	75.8
Change in fair value of financial instruments held until the balance sheet date recognised in profit or loss	-0.4	-	-	-0.4

No financial assets for the account and at the risk of life insurance policyholders were classified to the 3rd hierarchy level in 2010.

The additions in the reporting period are mainly to private equity investments.

5.8 Capital management

The parameters relating to the amount of capital to be used are determined by regulatory requirements as well as internal risk management guidelines. While the regulatory requirements mainly serve to protect the policyholder, the internal guidelines are geared specifically to the risk-focused control of the operating activities.

The Group's solvency amounts to CHF 2,058.9 million (previous year: CHF 1,973.5 million) for the insurance business alone and was met in 2010 and 2011. The coverage of capital resource requirements with available funds amounted to 203 % as of 31 December 2011 (previous year: 224 %). Based on regulatory requirements, the available capital resources consist of IFRS equity, policyholders' dividends that have not been allocated and the final bonus reserve. Thus, liabilities are also recognised at the individual company level in consideration of the respective solvency cover options. Items such as planned dividend payments and intangible assets are deducted. Additionally, the individual Group companies are monitored in accordance with local laws. In this respect, various offset options have an effect. The ability of the subsidiaries and therefore also of the holding company to pay dividends is closely related to primary compliance with these local requirements. Compliance with local solvency requirements is monitored on a continuous basis. Where these minimum requirements are not met, appropriate action is immediately taken.

The relevant requirements for the banking business of the Baloise Bank SoBa are defined by the Basel II regulations. The Solvency Regulation (SolvV) as the regulatory equity requirement is definitive for the Deutscher Ring Bausparkasse. All relevant requirements were fulfilled by the respective Group companies in 2010 and also in 2011.

The risk-bearing capital is calculated based on the Swiss Solvency Test (SST) as part of the in-house risk model. IFRS equity forms the basis for this calculation. By means of additionally considering individual asset, equity and liability items, as well as off-balance items and information, equity valued at market prices is determined. This way, all capital items that could be used to cover losses in the event of negative business performance are considered.

The Swiss Solvency Test (SST) came into effect on 1 January 2011, as a new legal requirement alongside Solvency I. Within this framework, the Baloise Group determines the risk-bearing capital and the capital requirements for the SST based on an internal model that also considers the Baloise business model. All activities and processes to develop and configure the internal model are grouped under the term Baloise Internal Solvency System (BISS). These are coordinated and controlled by Group Risk Management.

The risk-bearing capital requirement is compared to the risk-adjusted, internally formulated capital requirement. The capital requirement considers actuarial risks, market risks, loans and further risks. For this risk analysis, the Baloise Group examines in particular insurance-specific risks and investment risks in the course of the risk considerations. The risk factor is determined by means of a correlation-based Expected Shortfall Method. The capital for insurance-specific requirements represents a factor that defines the funds necessary to cover insurance-specific risks for operational reasons. The claims risk is modelled on normal and large claim distributions, taking the current reinsurance structure into consideration. At the same time, a requirement that is, with a given probability, sufficient to balance value and yield fluctuations of the investments is calculated for the investments. The analysis of these risks is based on quantitative models that use statistical methods to evaluate historical data and establish a relationship to current exposures. By means of stress tests, various scenarios are simulated, and possible effects on the risk capacity are analysed. The ratio of risk-bearing capital to risk-adjusted capital is calculated for the strategic business units and for the Group. The Group's risk does not merely represent a simple addition of the individual items; rather, diversification and consolidation effects are also considered. The current ratios of risk-bearing capital to risk-adjusted capital are set in relation to the Global Risk Management Limits defined in the Group-wide Risk Management Standards. These limits are continually monitored.

The responsible risk owners and risk controllers of the business units and of the Group are involved in a regular reporting process. Reporting that includes key figures for Solvency I as well as those for the in-house risk model is performed on a monthly basis. This enables the solvency situation to be monitored in real time and the foundation for risk-based management decisions within the whole organisation to be laid. Furthermore, this puts Baloise in the position of being able to comply with external reporting requirements at any time.

6. SCOPE OF CONSOLIDATION

6.1 Fiscal year 2010

6.1.1 Company acquisitions

Baloise Assurances Luxembourg S.A. concluded the purchase of the "Fortis Luxembourg IARD S.A." on 7 January 2010. The newly acquired company has been fully consolidated from this time on and operates under the name "Baloise Luxembourg IARD S.A.". Goodwill amounting to CHF 13.3 million resulted from this acquisition.

6.1.2 Company disposals

The Belgian Immo Kappelveld NV, Antwerpen was sold in the 2010 fiscal year, as was the OVB group as described in section 6.1.3.

6.1.3 Other changes in the scope of consolidation

As of 1 January 2010, both the Croatian nonlife and life units of Baloise were merged with the property / casualty company Basler osiguranje Zagreb d.d. purchased in 2007. The purchase price adjustment agreed at the time of purchase lapsed ineffectively on 1 January 2010, which is why the purchase price was retroactively reduced by CHF 7.1 million. This in turn resulted in an outflow of goodwill from “Basler osiguranje Zagreb d.d.” which amounted to CHF 62.2 million after currency effects at the end of 2010.

On 30 June 2010, the Baloise Group and the Signal Iduna group unbundled their interests in the Deutscher Ring Beteiligungsholding GmbH (Hamburg) and its subsidiaries. This unbundling also meant a loss of control of the OVB group through the Baloise Group, which in turn resulted in the deconsolidation of the OVB group as of 30 June 2010.

6.2 Fiscal year 2011

6.2.1 Company acquisitions

The Baloise Group took over the real estate agent and broker companies Wilhelm Herrmann Assekuranz KG and Wilhelm Herrmann Assekuranz Makler GmbH, both headquartered in Ettlingen (Germany) on 1 January 2011. Goodwill amounting to CHF 0.1 million resulted from this takeover.

On 6 January 2011, the Baloise Group concluded the takeover of 100 % of the voting rights to Avéro Schadeverzekering Benelux N.V. The newly acquired company has been fully consolidated since that time and was merged with Mercator Verzekeringen N.V. during the first half-year. Goodwill amounting to CHF 17.3 million resulted from this company acquisition, which was then transferred to Mercator Verzekeringen N.V. through the merger. The most important drivers of goodwill are primarily the expanding Belgian nonlife business, the development of the markets in Brussels and Wallonia, the acquisition of know-how and profitable portfolios in commercial lines and marine / transport, as well as putting cross-selling potentials and cost synergies into practice.

On 6 September 2011, the Baloise Group took over 100 % of the Belgian insurance companies Nateus SA / NV and Nateus Life SA / NV. Both companies and their subsidiaries have been included in the scope of consolidation of the Baloise Group since that time. Badwill amounting to CHF 7.9 million resulted from this acquisition and has been recognised in profit or loss under the item “Other operating income”. The Baloise Group was able to purchase the profitable Nateus companies for an attractive amount which is the reason for the badwill.

The Belgian Pacific Real Estate was purchased in the second half-year. The minority interests of the Belgian Axis Life NV as well as the third party interests of the Van Vaeck Zenith NV Immobiliengesellschaft, hitherto held as an associated participation, were bought out also during this period. The latter is now listed as a fully consolidated company in the scope of consolidation.

6.2.2 Company disposals

The 100 % shareholdings in the Belgian company Ant Re NV, Antwerp, and the Croatian Treci element d.o.o. were sold in the second half of the fiscal year.

6.2.3 Other changes in the scope of consolidation

As of 1 January 2011, the Luxembourg units of Baloise Europe Vie S.A. merged with Baloise Vie Luxembourg S.A. and Baloise Assurances IARD S.A merged with Baloise Assurances Luxembourg S.A.

As of 1 July 2011, the German Basler Beteiligungs-Holding GmbH, Bad Homburg was merged with the Basler Securitas Versicherungs-Aktiengesellschaft, Bad Homburg.

7. INFORMATION ON BUSINESS SEGMENTS (SEGMENT REPORTING)

The Baloise Group manages its business activities according to strategic business units (SBUs), which are, as a rule, under regional, common management. Financial and management information for all relevant management decisions exist on the level of these strategic business units. This means that Group units are allocated to the following reporting segments independent of the domicile of their headquarters:

- Switzerland
- Germany
- Belgium
- Luxembourg
- Other units

Included in the segment “Other units” are those strategic business units, which did not meet the quantitative threshold criteria defined in IFRS 8. These are the Group units belonging to:

- Austria
- Croatia
- Serbia
- and Baloise Life Liechtenstein

The Deutscher Ring Sach- und Leben subsidiaries in the Czech Republic and Slovakia as well as the Partner in Life S.A., Luxembourg, are also contained in the segment “Germany.”

The segment “Group business” comprises the units for intra-Group reinsurance and financing, Corporate IT and the holding companies.

The revenue of the business segments are split into “Nonlife,” “Life,” “Banking” (including Asset Management) and “Other activities.” Nonlife features accident and health insurances as well as products of the liability, motor, property, and marine sectors. The products are geared to the needs of our customers – mainly private customers – and the core competencies of the companies of the Baloise Group. In the life insurance business, private persons and companies are offered a wide spectrum of capital-forming insurances, pure risk covers, and investment-type wuniversal bank, and Deutscher Ring Bausparkasse in Germany, which mainly operates in the conventional building society business.

The business segment “Other activities” comprises participation, property, and investment companies in particular.

The accounting principles applied to present the business segments (segment reporting) are the same as those applied in the other parts of the Financial Report. No relations between the segments that are recognised in the balance sheet or through profit or loss are offset except income from participating interests.

7.1 Segment reporting by strategic business units

	Switzerland		Germany		Belgium	
	2010	2011	2010	2011	2010	2011
in CHF million						
Income						
Premiums earned and policy fees (gross)	4,086.7	4,036.0	1,739.3	1,554.1	653.5	872.3
Reinsurance premiums ceded	-184.3	-179.8	-100.2	-98.4	-32.5	-57.6
Premiums earned and policy fees (net)	3,902.4	3,856.2	1,639.1	1,455.7	621.0	814.7
Investment income	972.7	969.1	592.6	531.3	168.2	193.1
Realised capital gains and losses on investments	45.3	-184.3	304.5	-152.6	66.6	-72.9
Income from services rendered	52.4	51.1	205.1	85.6	4.0	3.3
Result from investments in associates	0.0	0.0	-1.5	3.0	0.9	7.2
Other operating income	34.1	44.7	109.3	38.4	2.1	17.7
Income	5,006.9	4,736.8	2,849.1	1,961.4	862.8	963.1
Intersegment income	79.0	74.9	45.0	46.0	13.4	12.6
Income from associates	0.0	0.0	1.4	2.9	0.9	2.3
Expense						
Claims and benefits paid (gross)	-3,254.6	-3,315.1	-1,358.8	-1,224.8	-365.5	-565.9
Change in technical reserves (gross)	-670.4	-584.9	-568.2	-25.2	-104.0	-51.2
Reinsurance share of claims incurred	69.7	63.7	66.2	50.5	18.9	18.6
Acquisition costs	-104.7	-92.3	-209.0	-251.0	-118.8	-179.7
Operating and administrative expenses for insurance business	-416.4	-407.1	-273.7	-255.5	-83.2	-103.3
Investment expenses	-43.5	-41.1	-24.7	-23.3	-9.8	-10.7
Interest expenses on insurance liabilities	-7.9	-5.2	-51.4	-45.1	-0.8	-1.2
Result from financial contracts	-87.7	-79.9	-29.3	-22.7	-30.0	-20.4
Other operating expenses	-217.7	-167.1	-281.5	-166.2	-26.7	-27.4
Expense	-4,733.2	-4,629.0	-2,730.4	-1,963.3	-719.9	-941.2
Profit / loss before borrowing costs and taxes	273.7	107.8	118.7	-1.9	142.9	21.9
Borrowing costs	-	-	-	-	-	-
Profit / loss before taxes	273.7	107.8	118.7	-1.9	142.9	21.9
Income taxes	-50.9	-6.5	-21.2	-9.2	-33.4	-17.6
Profit / loss for the period (segment result)	222.8	101.3	97.5	-11.1	109.5	4.3
Segment assets	36,986.2	37,960.2	15,708.9	15,278.1	4,481.9	7,907.4

Luxembourg		Other units		Subtotal		Group business		Elimination		Total	
2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
133.5	123.0	236.1	215.7	6,849.1	6,801.1	255.9	259.4	-250.7	-253.6	6,854.3	6,806.9
-21.1	-18.1	-72.0	-69.9	-410.1	-423.8	-8.8	-6.1	250.7	253.6	-168.2	-176.3
112.4	104.9	164.1	145.8	6,439.0	6,377.3	247.1	253.3	0.0	0.0	6,686.1	6,630.6
16.7	15.8	34.3	32.8	1,784.5	1,742.1	30.5	26.8	-3.8	-2.4	1,811.2	1,766.5
257.1	-175.2	-149.2	-330.0	524.3	-915.0	-22.7	-28.4	-	-	501.6	-943.4
11.0	15.0	13.0	11.5	285.5	166.5	125.1	118.9	-127.2	-126.8	283.4	158.6
0.1	-	-	-	-0.5	10.2	-	-	-	-	-0.5	10.2
1.8	0.8	14.4	10.5	161.7	112.1	62.1	51.0	-21.1	-23.0	202.7	140.1
399.1	-38.7	76.6	-129.4	9,194.5	7,493.2	442.1	421.6	-152.1	-152.2	9,484.5	7,762.6
5.5	4.7	60.4	64.7	203.3	202.9	-355.4	-355.1	152.1	152.2	-	-
-	-	-	-	2.3	5.2	-	-	-	-	2.3	5.2
-60.2	-56.7	-161.2	-138.5	-5,200.3	-5,301.0	-141.3	-137.0	128.7	126.5	-5,212.9	-5,311.5
-49.1	11.3	-13.7	-12.5	-1,405.4	-662.5	-16.9	15.1	29.1	7.5	-1,393.2	-639.9
5.8	3.9	41.2	44.2	201.8	180.9	3.5	6.5	-157.8	-134.1	47.5	53.3
-12.6	-10.3	-46.3	-42.8	-491.4	-576.1	-21.5	-22.7	21.4	22.0	-491.5	-576.8
-27.4	-23.7	-35.6	-36.4	-836.3	-826.0	1.7	1.0	-21.4	-22.0	-856.0	-847.0
-0.6	-0.6	-3.5	-2.6	-82.1	-78.3	-12.3	-11.2	29.6	28.2	-64.8	-61.3
-0.5	-0.3	-1.2	-0.2	-61.8	-52.0	-	-	0.6	0.4	-61.2	-51.6
-231.7	133.5	152.9	309.5	-225.8	320.0	-1.8	-2.2	7.8	6.2	-219.8	324.0
-8.5	-8.4	-26.1	-80.3	-560.5	-449.4	-179.0	-176.0	114.1	117.5	-625.4	-507.9
-384.8	48.7	-93.5	40.4	-8,661.8	-7,444.4	-367.6	-326.5	152.1	152.2	-8,877.3	-7,618.7
14.3	10.0	-16.9	-89.0	532.7	48.8	74.5	95.1	-	-	607.2	143.9
-	-	-	-	-	-	-52.8	-55.0	-	-	-52.8	-55.0
14.3	10.0	-16.9	-89.0	532.7	48.8	21.7	40.1	-	-	554.4	88.9
-3.8	-2.1	-0.7	3.6	-110.0	-31.8	-7.7	4.2	-	-	-117.7	-27.6
10.5	7.9	-17.6	-85.4	422.7	17.0	14.0	44.3	-	-	436.7	61.3
4,032.6	4,047.2	3,522.5	3,467.7	64,732.1	68,660.6	1,614.8	1,405.6	-955.5	-1,000.0	65,391.4	69,066.2

7.2 Segment reporting by business segments

	Nonlife		Life	
	2010	2011	2010	2011
in CHF million				
Income				
Premiums earned and policy fees (gross)	3,039.4	3,147.1	3,814.9	3,659.8
Reinsurance premiums ceded	-151.3	-158.8	-16.9	-17.5
Premiums earned and policy fees (net)	2,888.1	2,988.3	3,798.0	3,642.3
Investment income	288.8	291.9	1,345.2	1,323.9
Realised capital gains and losses on investments	8.4	-191.4	499.0	-720.4
Income from services rendered	26.3	29.1	20.4	27.7
Result from investments in associates	1.4	0.7	-0.1	6.8
Other operating income	77.2	39.9	50.7	64.9
Income	3,290.2	3,158.5	5,713.2	4,345.2
Intersegment income	-31.2	-56.2	-20.5	-27.4
Income from associates	1.4	0.7	-0.2	1.8
Expenses				
Claims and benefits paid (gross)	-1,818.4	-1,850.3	-3,394.5	-3,461.2
Change in technical reserves (gross)	-73.5	-127.5	-1,319.7	-512.4
Reinsurance share of claims incurred	41.3	42.0	6.2	11.3
Acquisition costs	-373.2	-403.0	-118.3	-173.8
Operating and administrative expenses for insurance business	-532.5	-527.0	-323.5	-320.0
Investment expenses	-19.9	-19.9	-75.5	-75.8
Interest expenses on insurance liabilities	-0.8	-1.2	-60.4	-50.4
Result from financial contracts	-5.6	-3.1	-126.0	390.2
Other operating expenses	-127.3	-141.5	-118.8	-137.2
Expenses	-2,909.9	-3,031.5	-5,530.5	-4,329.3
Profit / loss before borrowing costs and taxes	380.3	127.0	182.7	15.9
Borrowing costs	-	-	-	-
Profit / loss before taxes	380.3	127.0	182.7	15.9
Income taxes	-65.3	-13.9	-32.5	-8.4
Profit / loss for the period (segment result)	315.0	113.1	150.2	7.5

	Banking		Other activities		Elimination		Total	
	2010	2011	2010	2011	2010	2011	2010	2011
	-	-	-	-	-	-	6,854.3	6,806.9
	-	-	-	-	-	-	-168.2	-176.3
	-	-	-	-	-	-	6,686.1	6,630.6
	178.5	171.0	14.3	13.4	-15.6	-33.7	1,811.2	1,766.5
	1.0	-1.0	-6.8	-30.6	-	-	501.6	-943.4
	106.8	109.5	298.6	171.1	-168.7	-178.8	283.4	158.6
	-	-	-1.8	2.7	-	-	-0.5	10.2
	7.8	6.9	82.9	48.4	-15.9	-20.0	202.7	140.1
	294.1	286.4	387.2	205.0	-200.2	-232.5	9,484.5	7,762.6
	-43.4	-47.4	-105.1	-101.5	200.2	232.5	-	-
	-	-	1.1	2.7	-	-	2.3	5.2
	-	-	-	-	-	-	-5,212.9	-5,311.5
	-	-	-	-	-	-	-1,393.2	-639.9
	-	-	-	-	-	-	47.5	53.3
	-	-	-	-	-	-	-491.5	-576.8
	-	-	-	-	-	-	-856.0	-847.0
	-21.2	-19.8	-8.3	-7.1	60.1	61.3	-64.8	-61.3
	-	-	-	-	-	-	-61.2	-51.6
	-90.1	-82.0	-18.8	-17.9	20.7	36.8	-219.8	324.0
	-114.9	-111.3	-383.8	-252.3	119.4	134.4	-625.4	-507.9
	-226.2	-213.1	-410.9	-277.3	200.2	232.5	-8,877.3	-7,618.7
	67.9	73.3	-23.7	-72.3	-	-	607.2	143.9
	-	-	-52.8	-55.0	-	-	-52.8	-55.0
	67.9	73.3	-76.5	-127.3	-	-	554.4	88.9
	-12.8	-13.8	-7.1	8.5	-	-	-117.7	-27.6
	55.1	59.5	-83.6	-118.8	-	-	436.7	61.3

Notes to the consolidated balance sheet

8. PROPERTY, PLANT AND EQUIPMENT

8.1 Property, plant and equipment 2010

	Land	Buildings	Operating equipment	Machinery/ furniture/ vehicles	IT equipment	Total
in CHF million						
Carrying value as of 1 January	84.8	404.7	54.4	44.2	23.1	611.2
Additions	0.2	3.5	16.0	12.6	13.5	45.8
Additions from change in the scope of consolidation	–	–	–	–	–	–
Disposals	–	–0.9	–0.6	–2.0	–0.6	–4.1
Disposals from change in the scope of consolidation	–0.2	–1.7	–0.6	–2.8	–0.9	–6.2
Reclassification	–1.2	–1.9	–3.3	–	–	–6.4
Impairments and depreciation						
Depreciation	–	–18.4	–8.7	–8.8	–12.9	–48.8
Impairment loss recognised in profit or loss	–	–	–	–0.0	–	–0.0
Reversals of an impairment loss recognised in profit or loss	–	–	–	–	–	–
Exchange differences	–2.2	–44.9	–1.7	–5.5	–1.5	–55.8
Carrying value as of 31 December	81.4	340.4	55.5	37.7	20.7	535.7
Acquisition costs	81.9	712.1	148.4	107.2	142.1	1,191.7
Accumulated depreciation and impairments	–0.5	–371.7	–92.9	–69.5	–121.4	–656.0
Balance as of 31 December	81.4	340.4	55.5	37.7	20.7	535.7
Of which:	–	93.4	–	0.1	–	93.5
Assets held under a finance lease ¹						

¹ The assets in finance leases primarily concern a lease agreement with a purchase option for an owner-occupied administrative building. The lease agreement includes a repayment schedule and is contractually fixed until mid-2018.

Impairments and depreciation are included in the "Other operating expenses."

8.2 Property, plant and equipment 2011

	Land	Buildings	Operating equipment	Machinery / furniture / vehicles	IT equipment	Total
in CHF million						
Carrying value as of 1 January	81.4	340.4	55.5	37.7	20.7	535.7
Additions	6.0	41.5	3.8	7.0	11.9	70.2
Additions from change in the scope of consolidation	1.9	6.0	2.3	3.3	1.2	14.7
Disposals	-0.2	-	-0.4	-3.1	-1.2	-4.9
Disposals from change in the scope of consolidation	-	-	-	-	-	-
Reclassification	-	-0.5	-0.0	0.0	0.0	-0.5
Impairments and depreciation						
Depreciation	-	-17.3	-8.5	-7.7	-10.0	-43.5
Impairment loss recognised in profit or loss	-1.0	-0.5	-	-1.2	-	-2.7
Reversals of an impairment loss recognised in profit or loss	0.5	-	-	0.0	-	0.5
Exchange differences	-0.4	-7.7	-0.3	-0.9	-0.3	-9.6
Carrying value as of 31 December	88.2	361.9	52.4	35.1	22.3	559.9
Acquisition costs	89.1	749.5	148.2	114.1	149.1	1,250.0
Accumulated depreciation and impairments	-0.9	-387.6	-95.8	-79.0	-126.8	-690.1
Balance as of 31 December	88.2	361.9	52.4	35.1	22.3	559.9
Of which:						
Assets held under a finance lease ¹	-	88.1	-	0.1	-	88.2

¹ The assets in finance leases primarily concern a lease agreement with a purchase option for an owner-occupied administrative building. The lease agreement includes a repayment schedule and is contractually fixed until mid-2018.

Impairments and depreciation are included in the "Other operating expenses."

9. INTANGIBLE ASSETS

9.1 Intangible assets 2010

	Goodwill	Present value of gains on acquired insurance contracts	Deferred acquisition cost Life	Deferred acquisition cost Nonlife	Other intangible assets	Internally developed intangible assets	Total
in CHF million							
Carrying value as of 1 January	127.2	60.7	1,029.4	149.8	194.9	0.4	1,562.4
Additions from change in the scope of consolidation	–	–	–	1.5	2.1	–	3.6
Additions	13.3	2.9	–	–	40.1	0.1	56.4
Capitalisation of acquisition costs	–	–	92.9	302.7	–	–	395.6
Disposals	–7.1	–	–	–	–2.2	–	–9.3
Disposals from change in the scope of consolidation	–	–	–	–	–17.4	–	–17.4
Reclassification	–	–	–	–	–	–	–
Impairments and depreciation							
Depreciation	–	–3.8	–110.7	–309.2	–37.8	–0.2	–461.7
Write-ups	–	–	1.4	–	–	–	1.4
Impairment losses recognised in profit or loss	–	–0.1	–	–	–	–	–0.1
Reversals of an impairment loss recognised in profit or loss	–	–	–	–	–	–	–
Depreciation as a result of impending losses	–	–	–	7.4	–	–	7.4
Change due to unrealised gains and losses on financial instruments (shadow accounting)	–	–	–9.9	–	–	–	–9.9
Exchange differences	–21.7	–9.6	–125.5	–14.3	–14.6	–0.1	–185.8
Carrying value as of 31 December	111.7	50.1	877.6	137.9	165.1	0.2	1,342.6
Acquisition costs	293.5	–	–	–	457.8	9.9	–
Accumulated depreciation and impairments	–181.8	–	–	–	–292.7	–9.7	–
Balance as of 31 December¹	111.7	50.1	877.6	137.9	165.1	0.2	1,342.6
Intangible assets by segments							
Switzerland	–	–	188.7	55.4	88.9	–	333.0
Germany	35.0	27.6	625.5	29.2	13.8	0.2	731.3
Belgium	0.0	2.5	24.0	31.2	37.8	–	95.5
Luxembourg	14.5	–	11.3	2.9	8.7	–	37.4
Other units	62.2	20.0	28.1	19.2	9.1	–	138.6
Group business	0.0	–	–	–	6.8	–	6.8
Total regions	111.7	50.1	877.6	137.9	165.1	0.2	1,342.6

¹ Other than possible goodwill, the Baloise Group has no intangible assets of indefinite useful life.

9.2 Intangible assets 2011

	Goodwill	Present value of gains on acquired insurance contracts	Deferred acquisition cost Life	Deferred acquisition cost Nonlife	Other intangible assets	Internally developed intangible assets	Total
in CHF million							
Carrying value as of 1 January	111.7	50.1	877.6	137.9	165.1	0.2	1,342.6
Additions from change in scope of consolidation	–	27.6	–	22.1	71.0	–	120.7
Additions	17.4	–	–	–	32.1	0.4	49.9
Capitalisation of acquisition costs	–	–	87.0	327.7	–	–	414.7
Disposals	–	–	–	–	–0.5	–	–0.5
Disposals from change in scope of consolidation	–	–	–	–	–	–	–
Reclassification	–	–	–	–	–	–	–
Impairments and depreciation							
Depreciation	–	–4.4	–162.1	–325.5	–43.0	–0.3	–535.3
Write-ups	–	–	0.8	–	–	–	0.8
Impairment losses recognised in profit or loss	–50.1	–0.7	–	–	–3.3	–	–54.1
Reversals of an impairment loss recognised in profit or loss	–	–	–	–	–	–	–
Depreciation as a result of impending losses	–	–	–	2.1	–	–	2.1
Change due to unrealised gains and losses on financial instruments (shadow accounting)	–	–	–8.4	–	–	–	–8.4
Exchange differences	–3.6	–2.2	–19.6	–3.1	–3.8	–0.0	–32.3
Carrying value as of 31 December	75.4	70.4	775.3	161.2	217.6	0.3	1,300.2
Acquisition costs	307.8	–	–	–	587.4	10.0	–
Accumulated depreciation and impairments	–232.4	–	–	–	–369.8	–9.7	–
Balance as of 31 December¹	75.4	70.4	775.3	161.2	217.6	0.3	1,300.2
Intangible assets by segments							
Switzerland	–	–	146.2	53.8	79.3	–	279.3
Germany	33.9	24.1	561.8	26.0	19.9	0.1	665.8
Belgium	16.9	28.5	28.2	59.1	97.3	–	230.0
Luxembourg	14.1	–	12.7	2.8	9.4	–	39.0
Other units	10.5	17.8	26.4	19.5	4.8	–	79.0
Group business	0.0	–	–	–	6.9	0.2	7.1
Total regions	75.4	70.4	775.3	161.2	217.6	0.3	1,300.2

1 Other than possible goodwill, the Baloise Group has no intangible assets of indefinite useful life.

The goodwill balance at the end of 2011 can be mainly attributed to Basler osiguranje Zagreb; the Zeus Vermittlungsgesellschaft mbH, Hamburg; Deutscher Ring Financial Services GmbH, Hamburg; as well as Baloise Luxembourg IARD S.A., and the Avéro Schadeverzekering Benelux NV that was merged with the Mercator NV during the year of acquisition.

An impairment of CHF 50.1 million was performed on the goodwill from “Osiguranje Zagreb” that was acquired in 2007. This became necessary due to the economic prospects as a consequence of the European debt crisis and the resulting newly assessed growth prospects for Croatia. Of this impairment expense, CHF 40.7 million can be allocated to the business segment nonlife and CHF 9.4 million to the business segment life. As of 31 December 2011 this goodwill still amounts to CHF 10.5 million after impairments and currency effects.

9.3 Assumptions applied for the impairment test of significant goodwill items

The assumptions on the future business development were reviewed by local management taking the general macroeconomic situation into consideration.

	Discount rate		Growth rate	
	2010	2011	2010	2011
Zeus Vermittlungsgesellschaft mbH	10.0	8.5	1.0	1.0
Deutscher Ring Financial Services GmbH	7.8	8.0	1.0	1.0
Basler osiguranje Zagreb	10.3	11.5	5.2	3.0
Baloise Luxembourg IARD S.A.	11.0	9.3	2.6	2.6
Mercator NV	–	9.3	–	2.6

10. INVESTMENTS IN ASSOCIATES

	2010	2011
in CHF million		
Balance as of 1 January	143.1	211.3
Additions	79.7	0.0
Disposals / capital repayments	-3.3	-15.3
Reclassification due to change in percentage of interest	-	-6.2
Realised gains / losses on disposals	0.1	5.0
Adjustments	20.8	-12.3
Dividend payments	-0.6	-3.4
Exchange differences	-28.5	-5.6
Balance as of 31 December	211.3	173.5

Included in the additions in the 2010 fiscal year is the booking of the OVB group as an associated company as described in section 6.1.3.

In the reporting period the third party interests in Van Vaeck Zenith NV hitherto held as an associated participation were bought out. From now on this company is listed as fully consolidated in the scope of consolidation.

Since the relevant account information, in other words the evaluation criteria, on the listed OVB group had not been published when the Financial Report was prepared, the evaluation is based on the figures on 30 September of the reporting period.

SIGNIFICANT INVESTMENTS IN ASSOCIATES 2011

	Assets	Liabilities	Revenue	Profit	Share in %
in CHF million					
OVB Holding AG, Cologne ¹	176.5	80.7	249.1	4.4	32.6 %
Roland Rechtsschutz Versicherungs-AG, Cologne	500.7	407.2	175.7	14.9	25.0 %
Credimo Holding, Asse	1,137.9	969.2	160.2	2.7	22.7 %
Atlantic Union, Athens	194.0	148.9	81.8	7.8	31.1 %
Other	177.0	4.4	3.0	-0.5	

¹ Values as of 30 September of the reporting period.
 The proportionate market value of OVB Holding AG, Cologne, amounts to CHF 105.9 million as of 31 December 2011.

11. INVESTMENT PROPERTIES

	2010	2011
in CHF million		
Balance as of 1 January	5,071.7	5,046.6
Additions	133.6	154.2
Additions from change in the scope of consolidation	–	135.8
Disposals	– 30.3	– 178.9
Disposals from change in the scope of consolidation	– 2.4	– 0.6
Reclassification	6.4	0.5
Change in fair value	– 0.6	3.5
Exchange differences	– 131.8	– 23.1
Balance as of 31 December	5,046.6	5,138.0
Operating expenses arising from investment properties that generate rental income	73.1	70.2
Operating expenses arising from investment properties that do not generate rental income	0.2	0.1

The additions and disposals in the 2010 fiscal year are mainly attributable to transactions in Switzerland as well as the sales in Germany and Croatia. The disposals due to changes in the scope of consolidation pertain to the Belgian Immo Kappelveld NV that was sold and investment properties belonging to the deconsolidated OVB group. The reclassifications can mainly be attributed to the Belgian nonlife unit that has newly rented out its former offices.

In the 2011 reporting period, the additions and disposals can be mainly attributed to transactions in Switzerland, disposals in Germany and acquisitions in Belgium. Additions from changes to the scope of consolidation are connected to the company acquisitions in Belgium explained in section 6.2.1. Disposals from changes to the scope of consolidation result from sales of the Croatian Treci element d.o.o.

12. FINANCIAL ASSETS

	2010	2011
in CHF million		
Financial assets of an equity nature		
Available for sale	3,437.6	3,447.3
Recognised at fair value through profit or loss	78.9	33.3
Financial assets of a debt nature		
Held to maturity	7,105.5	8,027.8
Available for sale	17,784.6	19,855.3
Recognised at fair value through profit or loss	72.1	98.5
Financial assets for own account and at own risk	28,478.7	31,462.2
Financial assets for account and at risk of life insurance policyholders		
Recognised at fair value through profit or loss ¹	7,206.0	7,159.2
Financial assets according to balance sheet	35,684.7	38,621.4

¹ Of which financial assets totalling CHF 114.8 million (previous year: CHF 57.5 million) involved insurance policies that had not been fully reviewed on the balance sheet date.

FINANCIAL ASSETS FOR OWN ACCOUNT AND AT OWN RISK

	Held to maturity	
	2010	2011
in CHF million		
Financial assets of an equity nature		
Publicly listed	-	-
Not publicly listed	-	-
Total	-	-
Financial assets of a debt nature		
Publicly listed, fixed interest rate	7,105.5	8,027.8
Publicly listed, variable interest rate	-	-
Not publicly listed, fixed interest rate	-	-
Not publicly listed, variable interest rate	-	-
Total	7,105.5	8,027.8

The following impairments had to be performed on “Held to maturity financial assets of a debt nature” in the reporting period:

IMPAIRMENTS ON HELD TO MATURITY FINANCIAL ASSETS OF A DEBT NATURE

	2010	2011
in CHF million		
Balance as of 1 January	-	-
Unused provisions reversed through profit or loss	-	-
Increases and additional provisions recognised in profit or loss	-	-7.6
Disposal from change in the scope of consolidation	-	-
Exchange calculation	-	-
Balance as of 31 December	-	-7.6

Available for sale		Recognised at fair value through profit or loss				Total	
		Trading portfolio		Designated			
2010	2011	2010	2011	2010	2011	2010	2011
1,985.4	1,983.8	–	–	78.9	33.3	2,064.3	2,017.1
1,452.2	1,463.5	–	–	–	–	1,452.2	1,463.5
3,437.6	3,447.3	–	–	78.9	33.3	3,516.5	3,480.6
17,488.0	19,654.2	–	–	12.3	42.6	24,605.8	27,724.6
257.7	163.3	–	–	41.9	39.1	299.6	202.4
38.9	37.8	–	–	17.9	16.8	56.8	54.6
–	–	–	–	–	–	–	–
17,784.6	19,855.3	–	–	72.1	98.5	24,962.2	27,981.6

	Held to maturity	
	2010	2011
in CHF million		
Type of financial asset		
Shares	-	-
Funds	-	-
Mixed funds	-	-
Bond funds	-	-
Property funds	-	-
Private equity	-	-
Hedge funds	-	-
Financial assets of an equity nature	-	-
Public corporations	5,903.9	6,833.2
Industrial enterprises	35.2	39.0
Financial institutions	1,123.1	1,116.4
Other	43.3	39.2
Financial assets of a debt nature	7,105.5	8,027.8
Total	7,105.5	8,027.8
Secured financial assets of a debt nature		
Public corporations	5.8	3.5
Industrial enterprises	-	-
Financial institutions	900.8	887.7
Other	-	-
Total	906.6	891.2

As of 1 July 2011, the Croatian unit of the Baloise Group reclassified fixed-income securities to the value of CHF 31.9 million from “available for sale” to “held to maturity”. This is meant to curb temporary negative equity requirements, which impact the local solvency.

Hedged financial assets of a debt nature are fixed-income securities that are certificated by a mortgage or government bond. These fixed-income securities are issued by companies, which for the most part have a clearly defined and narrowly limited business purpose.

	Available for sale		Recognised at fair value through profit or loss				Total	
	2010	2011	Trading portfolio		Designated		2010	2011
			2010	2011	2010	2011		
	1,512.7	1,578.1	–	–	–	–	1,512.7	1,578.1
	130.0	94.4	–	–	29.3	14.0	159.3	108.4
	101.7	44.9	–	–	19.4	14.7	121.1	59.6
	93.3	116.3	–	–	30.2	4.6	123.5	120.9
	299.5	323.4	–	–	0.0	0.0	299.5	323.4
	502.9	540.7	–	–	–	–	502.9	540.7
	797.5	749.5	–	–	–	–	797.5	749.5
	3,437.6	3,447.3	–	–	78.9	33.3	3,516.5	3,480.6
	7,835.9	8,912.4	–	–	17.3	40.5	13,757.1	15,786.1
	1,711.3	2,122.6	–	–	0.7	0.7	1,747.2	2,162.3
	8,222.1	8,815.3	–	–	54.1	57.3	9,399.3	9,989.0
	15.3	5.0	–	–	–	–	58.6	44.2
	17,784.6	19,855.3	–	–	72.1	98.5	24,962.2	27,981.6
	21,222.2	23,302.6	–	–	151.0	131.8	28,478.7	31,462.2
	389.8	378.0	–	–	–	–	395.6	381.5
	–	4.3	–	–	–	–	–	4.3
	4,887.7	5,752.8	–	–	–	–	5,788.5	6,640.5
	4.9	0.2	–	–	–	–	4.9	0.2
	5,282.4	6,135.3	–	–	–	–	6,189.0	7,026.5

FAIR VALUE OF FINANCIAL ASSETS CLASSIFIED AS HELD TO MATURITY

	Carrying values		Fair values	
	2010	2011	2010	2011
in CHF million				
Public corporations	5,903.9	6,833.2	6,168.1	7,405.1
Industrial enterprises	35.2	39.0	36.6	41.1
Financial institutions	1,123.1	1,116.4	1,153.1	1,174.4
Other	43.3	39.2	44.8	40.9
Total	7,105.5	8,027.8	7,402.6	8,661.5

13. MORTGAGES AND LOANS

	Gross amount		Impairment		Carrying value		Fair value	
	2010	2011	2010	2011	2010	2011	2010	2011
in CHF million								
Mortgages and loans carried at cost								
Mortgages	10,256.8	10,632.1	-59.1	-56.8	10,197.7	10,575.3	10,534.8	11,083.0
Policy loans	218.1	203.9	-	-	218.1	203.9	228.7	216.3
Promissory notes and registered bonds	5,517.1	5,463.0	-5.3	-0.0	5,511.8	5,463.0	5,752.7	5,905.4
Time deposits	815.5	956.4	-	-	815.5	956.4	815.6	956.4
Employee loans	56.9	44.9	-	-	56.9	44.9	58.7	46.7
Reverse repurchase agreements	-	-	-	-	-	-	-	-
Other loans	453.0	439.6	-16.6	-15.6	436.4	424.0	440.5	419.2
Subtotal	17,317.4	17,739.9	-81.0	-72.4	17,236.4	17,667.5	17,831.0	18,627.0
Mortgages and loans recognised at fair value through profit or loss								
Mortgages	456.0	374.5	-	-	456.0	374.5	456.0	374.5
Policy loans	1.1	0.7	-	-	1.1	0.7	1.1	0.7
Subtotal	457.1	375.2	-	-	457.1	375.2	457.1	375.2
Mortgages and loans	17,774.5	18,115.1	-81.0	-72.4	17,693.5	18,042.7	18,288.1	19,002.2

The change in fair value of mortgages classified as affecting profit or loss and measured at fair value is, besides the change in volume, exclusively derived from the change in the interest curve on which the valuation is based.

IMPAIRMENTS ON MORTGAGES AND LOANS

	2010	2011
in CHF million		
Balance on 1 January	-100.3	-81.0
Usage not affecting profit or loss	7.7	8.0
Unused provisions reversed through profit or loss	28.2	11.4
Increases and additional provisions recognised in profit or loss	-24.6	-12.0
Disposal from change in the scope of consolidation	-	-
Currency translation	8.0	1.2
Balance on 31 December	-81.0	-72.4

14. DERIVATIVE FINANCIAL INSTRUMENTS

	Fair value – assets		Fair value – liabilities	
	2010	2011	2010	2011
in CHF million				
Derivative financial instruments for own account and at own risk	357.8	281.8	29.9	175.3
Derivative financial instruments for the account and at the risk of life insurance policyholders	178.5	52.3	–	–
Derivative financial instruments according to the balance sheet	536.3	334.1	29.9	175.3

	Contract value		Fair value – assets		Fair value – liabilities	
	2010	2011	2010	2011	2010	2011
in CHF million						
Interest rate instruments						
Forward transactions	–	–	–	–	–	–
Swaps	980.0	889.5	19.4	38.4	26.2	47.8
OTC options	1,500.3	1,578.3	84.4	204.3	–	–
Other	–	4.1	–	4.1	–	–
Traded options	–	–	–	–	–	–
Traded futures	–	–	–	–	–	–
Subtotal	2,480.3	2,471.9	103.8	246.8	26.2	47.8
Equity instruments						
Forward transactions	–	–	–	–	–	–
OTC options	115.3	71.6	3.1	0.2	–	–
Traded options	–	–	–	–	–	–
Traded futures	125.1	319.7	0.2	–	–	7.5
Subtotal	240.4	391.3	3.3	0.2	–	7.5
Foreign currency instruments						
Forward transactions	4,525.2	4,426.7	248.6	32.9	3.7	118.9
Swaps	–	–	–	–	–	–
OTC options	268.8	399.4	2.1	1.9	–	1.1
Traded options	–	–	–	–	–	–
Traded futures	–	–	–	–	–	–
Subtotal	4,794.0	4,826.1	250.7	34.8	3.7	120.0
Total	7,514.7	7,689.3	357.8	281.8	29.9	175.3
Of which: designated for fair value hedging	979.7	–	19.0	–	25.1	–
Of which: designated for cash flow hedging	–	–	–	–	–	–
Of which: designated for hedging a net investment in a foreign company	1,037.2	1,093.8	47.9	1.3	0.7	50.7

The contract or face value is used for derivative financial instruments, which may involve an exchange of the principal amount on maturity (options, futures and currency swaps) and instruments involving only the nominal lending or borrowing of the principal amount (interest rate swaps). Contract and face value are disclosed for the purpose of measuring the scope of transactions, in which the Baloise Group is involved.

15. FINANCIAL RECEIVABLES

	Gross amount		Impairment		Carrying value		Fair value	
	2010	2011	2010	2011	2010	2011	2010	2011
in CHF million								
Receivables and other assets carried at cost								
Receivables from financial contracts	276.3	348.6	–	–	276.3	348.6	276.3	348.6
Other receivables	222.9	280.4	–4.6	–4.3	218.3	276.1	220.6	276.8
Receivables from investments	614.3	663.7	–5.5	–2.6	608.8	661.1	609.9	661.1
Subtotal	1,113.5	1,292.7	–10.1	–6.9	1,103.4	1,285.8	1,106.8	1,286.5
Receivables and other assets recognised at fair value through profit or loss								
Receivables from financial contracts	41.5	61.5	–	–	41.5	61.5	41.5	61.5
Subtotal	41.5	61.5	–	–	41.5	61.5	41.5	61.5
Receivables	1,155.0	1,354.2	–10.1	–6.9	1,144.9	1,347.3	1,148.3	1,348.0

IMPAIRMENTS ON FINANCIAL RECEIVABLES

	2010	2011
in CHF million		
Balance on 1 January	–11.1	–10.1
Usage not affecting profit or loss	1.3	2.0
Unused provisions reversed through profit or loss	2.7	4.9
Increases and additional provisions recognised in profit or loss	–4.8	–3.8
Disposal from change in the scope of consolidation	1.0	–
Currency translation	0.8	0.1
Balance on 31 December	–10.1	–6.9

16. REINSURANCE ASSETS

	2010	2011
in CHF million		
Technical reserves ceded to reinsurers as of 1 January	306.4	248.1
Change in unearned premium reserves	1.5	-3.1
Benefits paid	-69.7	-58.0
Interest and change in liability	46.3	55.9
Additions / disposals from change in the scope of consolidation	3.3	142.8
Impairments	-	-
Exchange differences	-39.7	-8.2
Technical reserves ceded to reinsurers as of 31 December	248.1	377.5

17. RECEIVABLES FROM REINSURERS

	2010	2011
in CHF million		
Reinsurance deposits as of 1 January	4.9	7.1
Additions	4.1	1.4
Disposals	-1.0	-3.3
Additions / disposals from change in the scope of consolidation	-	0.3
Exchange differences	-0.9	-0.2
Reinsurance deposits as of 31 December	7.1	5.3
Other reinsurance receivables as of 1 January	18.7	16.4
Additions	0.6	6.1
Disposals	-2.6	-10.3
Additions / disposals from change in the scope of consolidation	-	-
Exchange differences	-0.3	-0.2
Other reinsurance receivables as of 31 December	16.4	12.0
Impairments on receivables from reinsurers as of 1 January	-0.6	-0.6
Usage not affecting profit or loss	0.2	0.0
Unused provisions reversed through profit or loss	0.0	0.2
Increases and additional provisions recognised in profit or loss	-0.2	-0.0
Disposal from change in the scope of consolidation	-	-
Currency translation	0.0	-
Impairments on receivables from reinsurers as of 31 December	-0.6	-0.4
Receivables from reinsurers as of 31 December	22.9	16.9

18. EMPLOYEE BENEFITS

18.1 Receivables and liabilities from employee benefits

	Receivables from employee benefits		Liabilities from employee benefits	
	2010	2011	2010	2011
in CHF million				
Type of benefit				
Short-term employee benefits	3.4	1.4	104.6	115.5
Post-employment benefits – defined-contribution plans	–	–	–	–
Post-employment benefits – defined-benefit plans	–	–	535.3	550.4
Other long-term employee benefits	–	–	24.3	24.8
Employment contract termination benefits	–	–	28.3	29.3
Total	3.4	1.4	692.5	720.0

18.2 Retirement benefits

Baloise provides a range of retirement benefits. These vary from country to country as circumstances dictate. Liabilities that are (partially) financed by means of a bond are occupational pension schemes valid in Switzerland and liabilities from the newly acquired Avéro Schadeverzekering Benelux NV. Baloise works with a number of different pension plans for employees of the insurance company and bank.

Retirement benefits include – besides annuities – special benefits provided by Baloise to retired personnel. In particular, these involve specific benefits available in Switzerland, such as preferred rates on mortgages. These qualify as defined-benefit liabilities under IAS 19.

18.2.1 Liabilities from defined-benefit plans

	2010	2011
in CHF million		
Present value of present value of liabilities (partially) financed	–2,050.9	–2,069.9
Fair value of plan assets	1,996.6	1,947.1
Net liability	–54.3	–122.8
Present value of present value of liabilities not financed	–576.6	–578.0
Unrecognised technical gains or losses	278.5	339.7
Unrecognised past service costs (plan changes)	–	–
Effects from plan curtailments and settlements	–	–
Unrecognised assets due to limitation of IAS 19.58b	–182.9	–189.3
Net liabilities from defined-benefit plans	–535.3	–550.4

18.2.2 Present value of liabilities partially financed

	2010	2011
in CHF million		
Balance as of 1 January	-2,008.8	-2,050.9
Current service cost	-68.8	-70.7
Interest expenses	-60.3	-51.9
Savings deposits and purchases by employees	-22.7	-32.0
Actuarial gains / losses from defined-benefit plan liabilities of the reporting period	-64.4	31.5
Exchange differences	-	0.3
Benefits paid	139.5	121.1
Past service cost	-	-
Additions and disposals from changes in the scope of consolidation	-	-17.3
Effects from plan curtailments	34.6	-
Effects from plan settlements	-	-
Balance as of 31 December	-2,050.9	-2,069.9

18.2.3 Present value of liabilities not financed

	2010	2011
in CHF million		
Balance as of 1 January	-653.8	-576.6
Current service cost	-13.1	-12.1
Interest expenses	-29.4	-25.3
Employee contribution	-	-
Actuarial gains / losses from defined-benefit plan liabilities of the reporting period	-17.8	7.3
Exchange differences	96.1	15.4
Benefits paid	30.3	26.2
Past service cost	-0.1	-
Additions and disposals from changes in the scope of consolidation	0.6	-18.7
Effects from plan curtailments	7.0	-
Effects from plan settlements	3.6	5.8
Balance as of 31 December	-576.6	-578.0

18.2.4 Fair value of plan assets

	2010	2011
in CHF million		
Balance as of 1 January	1,955.4	1,996.6
Expected return on plan assets	63.2	60.4
Actuarial gains / losses on plan assets of the reporting period	-23.4	-103.7
Exchange differences	-	-
Employer contribution	65.9	48.8
Employee contribution	47.0	55.5
Benefits paid	-139.5	-121.1
Cash flow between Baloise Group and plan assets (excl. benefits paid to employees and employer contribution)	28.0	-
Additions and disposals from changes in the scope of consolidation	-	10.6
Effects from plan settlements	-	-
Balance as of 31 December	1,996.6	1,947.1

18.2.5 Net actuarial liabilities from defined-benefit plans

	2007	2008	2009	2010	2011
in CHF million					
Present value of present value of liabilities (partially) financed	-1,855.7	-1,993.4	-2,008.8	-2,050.9	-2,069.9
Fair value of plan assets	1,304.4	1,800.4	1,955.4	1,996.6	1,947.1
Present value of present value of liabilities not financed	-664.0	-620.7	-653.8	-576.6	-578.0
Net actuarial liabilities from defined-benefit plans	-1,215.3	-813.7	-707.2	-630.9	-700.8
Experience adjustments on plan liabilities	19.5	-30.7	-12.8	17.6	41.9
Experience adjustments on plan assets	-20.2	-204.6	61.3	-23.4	-103.7

18.2.6 Expenses for defined-benefit plans

	2010	2011
in CHF million		
Current service cost	81.9	82.8
Interest expenses	89.7	77.2
Expected return on plan assets	-63.2	-60.4
Expected return on reimbursement rights	-	-
Repayment of actuarial gains / losses	1.3	3.1
Repayment of service costs to be taken into account retrospectively	-	-
Effects from plan curtailments / settlements	-45.2	-5.8
Change in assets unrecognised due to limitation of IAS 19.58b	53.9	-6.4
Employee contribution	-24.2	-23.4
Total expenses for defined-benefit plans	94.2	67.1

18.2.7 Estimated employer contribution

The employer contribution for the following year can only be estimated with a limited degree of accuracy. This is mainly due to the amount being a function of wages/salaries paid. For the 2012 fiscal year, the Baloise Group estimates the total employer contributions to be approximately CHF 50 million.

18.2.8 Actual returns on assets

	2010	2011
in CHF million		
Expected return on plan assets	63.2	60.4
Actuarial gains / losses on plan assets of the reporting period	-23.4	-103.7
Actual return on plan assets	39.8	-43.3

18.2.9 Allocation of plan assets

	2010	2011
in CHF million		
Equities and investment funds	1,125.7	977.0
Properties	318.3	355.9
Fixed-interest assets	383.3	401.1
Other	169.3	213.1
Fair value of plan assets	1,996.6	1,947.1
Of which: Baloise Holding shares (fair value) and convertible bonds (fair value)	33.2	18.8
Of which: properties rented to the Baloise Group	-	-

18.2.10 Actuarial assumptions

	2010	2011
in percent		
Discount rate	2.9	2.8
Expected return on plan assets	3.0	2.5
Expected wage and salary increases	1.6	1.7
Expected increase in pension benefits	0.4	0.4

Liabilities and expenses in connection with defined benefit plans are calculated based on technical and other assumptions that are determined on a company-by-company and country-by-country basis. The assumed values above represent weighted averages.

The calculation of expected returns on plan assets of liabilities (partially) financed by a fund takes the asset allocation and long-term market expectations into consideration. Details concerning the plan assets are considered separately.

18.3 Other long-term benefits

Benefits for active employees payable twelve months or more from fiscal year-end are accounted for separately in accordance with special rules. Accounting is performed similarly as with retirement liabilities, except that technical gains and losses are immediately recognised.

The principal benefit reflects service anniversary bonuses. Present value of liabilities was CHF 24.8 million as of 31 December 2011 (previous year: CHF 24.3 million). There were no disposals of plan assets for long-term benefits. Benefits recognised in profit or loss totalled CHF 4.6 million (previous year: CHF 1.1 million).

18.4 Share-based compensation plans

The Baloise Group has offered employees a range of share-based plans as part of their total compensation package for quite some time now. Employee participation, Share Subscription Scheme, Employee Share Ownership Plan, and performance quota are all “cash-settled” share-based compensation plans. Performance share units (PSU) constitute an “equity-settled” share-based compensation plan. In the fiscal year 2011, an amount of CHF 20.9 million was charged to the income statement from the share-based compensation plans listed below (previous year: CHF 21.1 million).

18.4.1 Employee Participation Plan

The Basler foundation for employee participation plans set up in 1989 offers employees from various Group companies in Switzerland the option to buy Baloise Holding shares at a preferential price, as a rule once a year, according to stipulations laid down in the regulations established by the foundation board. This promotes long-term employee commitment to the company, also as shareholders. The subscription price is determined by the foundation board at the beginning of the subscription period and published on the intranet. It is equivalent to half of the volume weighted average rate determined for the month of August in the subscription year and amounts to CHF 34.80 for the reporting period (2010: CHF 41.90). The subscribed shares are always transferred on 1 September and are subject to a blocking period of three years.

The stock of shares employed for this purpose was acquired by the foundation during earlier share capital increases by Baloise Holding. It regulates the stock of shares through additional purchases as required. The foundation will be able to continue this employee participation programme in the coming years due to existing stocks.

The foundation is managed by a board that is predominantly independent of the Corporate Executive Committee. Peter Schwager (Chairman) and Dr Heinrich Koller (solicitor) function as independent members of the foundation council; the third member is Andreas Burki (Deputy Head of Legal and Taxes Baloise).

EMPLOYEE PARTICIPATION PLAN

	2010	2011
Number of subscribed shares	170,842	172,385
Restricted until	31.8.2013	31.8.2014
Subscription price per share in CHF	41.90	34.80
Value of subscribed shares in CHF million	7.2	6.0
Fair value of subscribed shares as of subscription date in CHF million	14.3	12.1
Entitled employees	3,189	3,150
Participating employees	1,876	1,897
Subscribed shares per participant (average)	91.1	90.8

18.4.2 Share Subscription Scheme

Since January 2003, persons in all Group companies in Switzerland entitled to variable remuneration – and since 2008 also the members of executive management of the foreign units – can subscribe shares at a preferential price as part of their short-term variable remuneration. The subscription date is always 1 March; on this day, ownership of the shares is transferred to the employee without further vesting conditions, however, they may not be sold during a blocking period of three years. The subscription date was 1 June up until 2011. By bringing it forward to 1 March, the subscription date is now in line with the pay out date for short-term variable remuneration pursuant to the new performance management system.

The subscription price is specified by the Corporate Executive Committee each year and is published in advance on the intranet. It is based on the volume-weighted average price of a contemporary measuring period. An accordingly calculated discount of 10 % is granted on the stock average. The shares required for the Share Subscription Scheme are acquired on the market.

SHARE SUBSCRIPTION SCHEME (SSS)

	2010	2011
Number of subscribed shares	37,914	46,060
Restricted until ¹	31.5.2013	31.5.2014
Subscription price per share in CHF	73.05	82.43
Value of subscribed shares in CHF million	2.8	3.8
Fair value of subscribed shares as of subscription date in CHF million	3.1	4.1
Entitled employees	667	746
Participating employees	81	109
SSS portion of variable remuneration	12%	16%

¹ As of 2011, the blocking period for shares allocated to the Chairman of the Board of Directors is five instead of the customary three years. This means that these shares remain blocked until 31.5.2016.

18.4.3 Employee Share Ownership Plan

Since May 2001, the majority of senior staff in Switzerland can draw a proportion freely selectable within certain ranges, of their short-term variable remuneration in shares instead of in cash. Upper limits exist for the most senior staff levels; members of the Corporate Executive Committee, who are obliged to draw at least half of their short-term variable remuneration as shares, may not draw more than 50 % of their entitlement in shares as part of the Share Subscription Scheme. As in the Share Subscription Scheme, the subscription date is always 1 March; on this day, ownership of the shares is transferred to the employee without further vesting conditions, however, they may not be sold during a blocking period of three years. The subscription date was 1 June up until 2011. By bringing it forward to 1 March, the subscription date is now in line with the pay out date for short-term variable remuneration pursuant to the new performance management system.

The subscription price is determined by the Corporate Executive Committee each year and published in advance on the intranet. It is based on the volume-weighted average price of a contemporary measuring period. The discounted dividend right is deducted from this stock average over the period of three years. The shares required for the Share Subscription Scheme are acquired on the market.

EMPLOYEE SHARE OWNERSHIP PLAN (ESOP)

	2010	2011
Number of subscribed shares ¹	266,117	186,499
Restricted until	31.5.2013	31.5.2014
Subscription price per share ² in CHF	70.88	79.88
Value of subscribed shares ² in CHF million	18.9	14.9
Fair value of subscribed shares as of subscription date in CHF million	21.9	16.7
Entitled employees	667	746
Participating employees	176	150
ESOP portion of variable remuneration	14 %	10 %

¹ Including shares financed by loans.

² Net of the discounted dividend right over three years.

In order to increase the impact of this Employee Share Ownership Plan, each employee receives an interest-bearing loan on market terms, which allows the employee to draw more shares in relation to the variable remuneration granted at fair value less the discounted dividend right over a three-year period. The repayment of the loan after the three-year blocking period is hedged using a put option, which is financed by the sale of a complementary call option. After the three-year blocking period has expired, the shares remaining after the options have been exercised less the repayment of the loan and the interest accrued are placed at the employee's disposal.

18.4.4 Performance quota

The performance quota was introduced in 2007 for employees at function levels 1 to 3 in Switzerland. In 2008, the group of participants was expanded to include members of the Corporate Executive Committee of foreign business units. As of 2011, the performance quota will be transferred to the performance pool of the new performance management system so that it was applied for the last time in the 2010 fiscal year.

Once the fiscal year had ended, the Compensation Committee assessed the performance and the success of the management at its discretion. Based on this assessment, the Compensation Committee decided a total sum, which

was to be made available as a performance quota. The performance quota could also be zero if a corresponding assessment was made.

The individual amounts – as part of the total sum provided by the Compensation Committee – were specified by each line manager or other senior staff member for each employee in April and paid together with the June salary. These sums depended on individual performance and the contribution to the company's success made by the person and varied in their amount and as a proportion of total remuneration. Part of the amount awarded (for members of the Corporate Executive Board 50 %) had to be drawn in shares, for the remainder there was the choice of subscribing for further shares or having this amount paid out in cash. The regulations of the Employee Share Ownership Plan were valid for the part drawn in shares.

PERFORMANCE QUOTA

	2010	2011
Participating employees	67	70
Total paid out in CHF million	2.8	3.0
Number of subscribed shares	18,629	17,856
Subscription price per share in CHF	73.05	82.43
Value of subscribed shares in CHF million	1.4	1.5
Fair value of subscribed shares as of subscription date in CHF million	1.5	1.6
In cash in CHF million	1.4	1.5

18.4.5 Performance Share Units

At the beginning of a performance period, participating employees are awarded rights in the form of Performance Share Units (PSU), which entitle them to subscribe for a certain number of shares free of charge after the performance period has expired. The Compensation Committee specifies the day of allocation and defines those at senior function levels entitled to participate in the programme at its discretion. It defines the total number of PSU available specifies individual allocation to the members of the Corporate Executive Committee.

The number of shares that can be subscribed for after three years, i.e. at the end of the performance period, depends on how Baloise shares have performed relative to a peer group. This comparative performance factor can hereby assume values between 0.5 and 1.5. The peer group includes the most important European insurance companies in the STOXX Europe 600 Insurance Index.

The composition of the index can be subject to changes. Due to company mergers, for example, companies can drop out of the index whilst others may be newly included in the index. The composition of the index at the point in time when the respective PSU are issued is decisive for determining the performance factor, adjusted by the companies that are no longer included in the index. Companies that have meanwhile been newly included in the index are not considered for plans that are already running.

Companies in STOXX 600 Europe Insurance Index (as of 31 December 2011)

Admiral Group plc	Baloise Holding	Jardine Lloyd Thompson	Scor
Aegon NV	Catlin Group	Legal & General Group plc	Standard Life plc
Ageas	CNP Assurances	Mapfre SA	Storebrand ASA
Allianz	Delta Lloyd	Münchener Rück	Swiss Life
Amlin plc	Gjensidige Forsikring	Old Mutual plc	Swiss Re
Assicurazioni Generali	Hannover Rück	Prudential plc	Topdanmark A / S
Aviva plc	Helvetia	RSA Insurance Group	Vienna Insurance
Axa	ING Groep NV	Sampo OYJ	Zurich Financial Services

Source: http://www.stoxx.com/download/indices/factsheets/stx_supersectors_fs.pdf

In principle, a PSU grants the right to subscribe for a share. This is the case when the Baloise share performance corresponds to the mean of the peer group. The performance factor is 1.0 in this case. The programme participants receive more shares for their PSU if Baloise shares have performed better than the peer group. The factor reaches the maximum of 1.5, when Baloise shares have performed in the upper quartile of peer group company performance. The factor is 0.5 if performance is in the lower quartile of peer group company performance. If Baloise share performance is in both middle quartiles, the performance factor is calculated using a linear scale. The performance factor is defined for the entire period ending, based on stock exchange closing prices on the last trading day of the respective performance period.

The participant receives the corresponding number of shares at the end of the performance period (vesting), i.e. on 1 January 2014 for the PSU allocated in 2011. The PSU become void without compensation or substitution, should the employment contract be terminated (except in the case of retirement, invalidity or death) during the performance period. As of 2012, the Compensation Committee has the additional possibility of retroactively reducing or completely withdrawing the number of PSU allocated to a participating individual or a group of people participating in the plan should special grounds exist (so-called clawback rule). To emphasise the long-term character of the programme, 50 % of the allocated shares are subject to an additional three-year blocking period after the performance period has expired.

The PSUs allocated in 2009 were converted into shares on 1 January 2012. The performance of the Baloise share attained 24th place out of 34 companies in the comparative group (STOXX Europe 600 Insurance Index) when the performance period ended on 31 December 2011 and was thus in the third quartile. The performance factor therefore amounted to 0.64 and 74,375 outstanding PSUs were converted into 47,599 shares (market price on 31 December 2011: CHF 64.40, fair value CHF 3.1 million).

After the share performance achieved 13th place out of 31 companies for the first PSU programme converted on 1 January 2010, it made 12th place out of 31 companies for the conversion on 1 January 2011 (previous year's values: performance factor 1.24, 51,880 outstanding PSUs, converted into 64,335 shares, market price on 31.12.2010 CHF 91.00, fair value CHF 5.9 million). For the plan participants the value of a PSU converted into shares was 63 % lower in the reporting period than in the previous year.

The shares required to convert the PSUs were bought on the market.

The valuation of the PSU on the issue date is based on a Monte Carlo simulation that calculates a cash value for the expected payout at the end of the vesting period. The following parameters make up this valuation:

- an interest rate of 3 %,
- the volatilities of all shares in the peer group and their correlations to each other (measured against historical figures over three years),
- expectations on the return on dividend,
- and experience values as to the termination behaviour of the eligible group.

PERFORMANCE SHARE UNITS (PSU)

	Plan 2009	Plan 2010	Plan 2011
Entitled employees as of start of programme	66	71	73
Number of allocated PSU	81,127	83,441	81,739
Of which: expired without compensation (departures 2009)	–	–	–
Number of active PSU as of 31 December 2009	81,127	–	–
Of which: expired without compensation (departures 2010)	–2,603	–1,226	–
Number of active PSU as of 31 December 2010	78,524	82,215	–
Of which: expired without compensation (departures 2011)	–6,752	–7,962	–6,937
Number of active PSU as of 31 December 2011	71,772	74,253	74,802
Value of allocated PSU as of issue date in CHF million	6.3	7.4	6.9
2009 PSU expense for the Baloise Group in CHF million	1.8	–	–
2010 PSU expense for the Baloise Group in CHF million	2.0	2.1	–
2011 PSU expense for the Baloise Group in CHF million	2.0	2.4	2.4

19. DEFERRED INCOME TAXES

19.1 Deferred income taxes

	2010	2011
in CHF million		
Deferred tax assets	776.1	1,154.4
Deferred tax liabilities	-1,397.6	-1,786.6
Total (net)	-621.5	-632.2
Of which: recognised as deferred tax assets	20.2	22.2
Of which: recognised as deferred tax liabilities	-641.7	-654.4

19.2 Deferred tax assets and liabilities

DEFERRED TAX ASSETS

2010	Carrying value as of 1.1.	Change recognised in income statement	Change recognised in equity	Carrying value as of 31.12.
in CHF million				
Technical reserves	404.8	-62.2	-	342.6
Financial assets	21.3	-14.9	-	6.4
Insurance liabilities	251.9	-42.1	-	209.8
Other investments	35.0	0.5	-	35.5
Insurance receivables	8.5	-1.2	-	7.3
Unrealised losses charged to equity	7.4	-	4.1	11.5
Unused tax losses	35.5	-8.1	-	27.4
Other ¹	153.0	-17.4	-	135.6
Total	917.4	-145.4	4.1	776.1

2011	Carrying value as of 1.1.	Change recognised in income statement	Change recognised in equity	Carrying value as of 31.12.
in CHF million				
Technical reserves	342.6	70.4	-	413.0
Financial assets	6.4	3.0	-	9.4
Insurance liabilities	209.8	202.4	-	412.2
Other investments	35.5	1.9	-	37.4
Insurance receivables	7.3	2.2	-	9.5
Unrealised losses charged to equity	11.5	-	3.6	15.1
Unused tax losses	27.4	20.7	-	48.1
Other ¹	135.6	74.1	-	209.7
Total	776.1	374.7	3.6	1,154.4

¹ The item "Other" includes mainly deferred taxes on liabilities from the banking business and financial contracts as well as liabilities from employee benefits.

DEFERRED TAX LIABILITIES

2010	Carrying value as of 1.1.	Change recognised in income statement	Change recognised in equity	Carrying value as of 31.12.
in CHF million				
Deferred acquisition costs	322.9	-42.1	-	280.8
Technical reserves	582.5	-98.6	-	483.9
Unrealised gains and losses charged to equity	75.0	-	-26.4	48.6
Investment properties	249.6	-0.9	-	248.7
Depreciable assets	40.7	-7.2	-	33.5
Other intangible assets	17.7	-2.9	-	14.8
Financial assets	68.3	1.3	-	69.6
Other investments	45.6	-15.1	-	30.5
Insurance receivables	31.8	-8.1	-	23.7
Other ¹	149.7	13.8	-	163.5
Total	1,583.8	-159.8	-26.4	1,397.6

2011	Carrying value as of 1.1.	Change recognised in income statement	Change recognised in equity	Carrying value as of 31.12.
in CHF million				
Deferred acquisition costs	280.8	-16.7	-	264.1
Technical reserves	483.9	366.6	-	850.5
Unrealised gains and losses charged to equity	48.6	-	15.8	64.4
Investment properties	248.7	-1.7	-	247.0
Depreciable assets	33.5	-1.0	-	32.5
Other intangible assets	14.8	6.9	-	21.7
Financial assets	69.6	-11.4	-	58.2
Other investments	30.5	31.0	-	61.5
Insurance receivables	23.7	-16.7	-	7.0
Other ¹	163.5	16.2	-	179.7
Total	1,397.6	373.2	15.8	1,786.6

¹ The item "Other" includes mainly deferred taxes on participations and financial provisions.

The Baloise Group reports deferred tax assets and liabilities on a net basis. Deferred tax assets and liabilities are offset, if applicable prerequisites are fulfilled. As a rule, these are fulfilled when tax authority, tax entity and tax type are identical.

As of 31 December 2011, the Baloise Group has capitalised tax-offsetable losses carried forward amounting to CHF 194.4 million (previous year: CHF 118.1 million). Of this total, CHF 0.9 million lapse after two to four years and CHF 193.5 million lapse after five or more years.

As of 31 December 2011, tax assets were not capitalised on losses carried forward amounting to CHF 396.0 million (previous year: CHF 341.4 million). Of this total, CHF 45.8 million lapse after one year, a further CHF 40.3 million after two to four years, and CHF 309.9 million after five or more years.

20. OTHER ASSETS

Precious metals measured at fair value from the asset-backed life insurance business amounting to CHF 83.0 million (previous year: CHF 90.5 million) are contained in "Other assets." The insurance policyholder bears the price risk of these holdings.

21. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED BUSINESS SEGMENTS

No non-current assets or discontinued business segments were carried in fiscal years 2010 and 2011.

22. SHARE CAPITAL

	Number of treasury shares	Number of shares in circulation	Number of shares issued	Share capital (in CHF million)
Balance as of 1 January 2010	2,282,790	47,717,210	50,000,000	5.0
Purchase / sale of treasury shares	517,449	- 517,449	-	-
Capital increases	-	-	-	-
Share buy-back and share cancellation	-	-	-	-
Balance as of 31 December 2010	2,800,239	47,199,761	50,000,000	5.0

	Number of treasury shares	Number of shares in circulation	Number of shares issued	Share capital (in CHF million)
Balance as of 1 January 2011	2,800,239	47,199,761	50,000,000	5.0
Purchase / sale of treasury shares	447,034	- 447,034	-	-
Capital increases	-	-	-	-
Share buy-back and share cancellation	-	-	-	-
Balance as of 31 December 2011	3,247,273	46,752,727	50,000,000	5.0

Baloise Holding registered shares are fully paid-in, with a face value of CHF 0.10 (previous year CHF 0.10). Natural persons and legal entities may hold a maximum 2 % of voting rights per the shareholder register. The Baloise Group purchases and sells its treasury shares as part of normal investment activities and in connection with share-based compensation plans for employees.

The share capital of Baloise Holding amounts to CHF 5.0 million divided into 50,000,000 fully paid-in, registered shares with a face value of CHF 0.10.

At the Annual General Meeting on 29 April 2011, the payment of a gross dividend of CHF 4.50 per share was decided for the fiscal year 2010. This equates to a total dividend of CHF 225.0 million. After considering Baloise's own holdings at the time of the distribution CHF 211.3 million were effectively paid out.

During the reporting period 178,474 shares of Baloise Holding were bought back for CHF 17.1 million in the course of the share buy-back programme that started in September 2008 and ended on 28 April 2011. Thus a total of 1,776,435 shares amounting to a total value of CHF 141.0 million were repurchased during the course of this programme.

23. TECHNICAL RESERVES (GROSS)

	2010	2011
in CHF million		
Unearned premium reserves (gross)	485.3	605.0
Claims reserves (gross)	4,853.5	5,475.2
Provisions for surplus and profit sharing (gross)	55.6	55.0
Technical reserves nonlife	5,394.4	6,135.2
Actuarial reserves (gross)	34,937.3	36,304.8
Policyholders' dividends credited and provisions for future policyholders' dividends (gross)	3,114.0	3,121.9
Technical reserves life	38,051.3	39,426.7
Technical reserves (gross)	43,445.7	45,561.9

23.1 Technical reserves nonlife

	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
	2010			2011		
in CHF million						
Unearned premium reserves	485.3	-0.8	484.5	605.0	-7.9	597.1
Claims reserve	4,398.3	-	-	4,916.7	-	-
Reserve for claims handling expenses	455.2	-	-	558.5	-	-
Claims reserve	4,853.5	-228.0	4,625.5	5,475.2	-335.7	5,139.5
Provisions for surplus and profit sharing	55.6	-0.0	55.6	55.0	-0.0	55.0
Total technical reserves nonlife	5,394.4	-228.8	5,165.6	6,135.2	-343.6	5,791.6

23.1.1 Technical reserves by maturities

	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
	2010			2011		
in CHF million						
Unearned premium reserves						
Up to 1 year	459.4	-0.8	458.6	575.1	-8.0	567.1
More than 1 year	5.5	0.0	5.5	6.1	0.1	6.2
No determinable residual term	20.4	-	20.4	23.8	-	23.8
Total unearned premium reserves	485.3	-0.8	484.5	605.0	-7.9	597.1
Claims reserves						
Up to 1 year	654.7	-30.8	623.9	776.3	-32.3	744.0
More than 1 year	3,203.9	-82.8	3,121.1	3,683.4	-87.9	3,595.5
No determinable residual term	994.9	-114.4	880.5	1,015.5	-215.5	800.0
Total claims reserves	4,853.5	-228.0	4,625.5	5,475.2	-335.7	5,139.5

All maturity information represents best estimates. The item “No determinable residual term” includes in particular aging and pension provisions.

23.1.2 Unearned premium reserves

	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
	2010			2011		
in CHF million						
Balance as of 1 January	540.9	1.4	542.3	485.3	-0.8	484.5
Premiums offset	3,044.9	-152.8	2,892.1	3,143.5	-155.7	2,987.8
Less: premiums earned during reporting period	-3,039.4	151.3	-2,888.1	-3,147.1	158.8	-2,988.3
Additions from the acquisition of insurance portfolios or companies	7.4	-1.0	6.4	137.9	-10.4	127.5
Disposals from the sale of insurance portfolios or companies	-	-	-	-	-	-
Exchange differences	-68.5	0.3	-68.2	-14.6	0.2	-14.4
Balance as of 31 December	485.3	-0.8	484.5	605.0	-7.9	597.1

In addition to unearned premium reserves, this item also includes aging provisions from the health insurance business and deferred unearned premiums, as well as reserves for impending losses potentially necessary in connection with LAT.

23.1.3 Provisions for surplus and profit sharing

	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
	2010			2011		
in CHF million						
Balance as of 1 January	55.9	-0.0	55.9	55.6	-0.0	55.6
Less: expenditures in the reporting period	-16.9	0.2	-16.7	-17.9	0.4	-17.5
Unused provisions increased or reversed through profit or loss	17.5	-0.2	17.3	17.4	-0.4	17.0
Additions from the acquisition of insurance portfolios or companies	-	-	-	-	-	-
Disposals from the sale of insurance portfolios or companies	-	-	-	-	-	-
Exchange differences	-0.9	-	-0.9	-0.1	-	-0.1
Balance as of 31 December	55.6	-0.0	55.6	55.0	-0.0	55.0

23.1.4 Claims reserve including claims handling expenses

	2010	2011
in CHF million		
Balance as of 1 January (gross)	5,198.6	4,853.5
Reinsurers' share	-284.8	-228.0
Balance as of 1 January (net)	4,913.8	4,625.5
Claims incurred including claims handling expenses		
For the reporting period	1,948.5	2,038.6
For previous years	-115.2	-119.9
Total	1,833.3	1,918.7
Payments for claims and claims handling expenses		
For the reporting period	-894.1	-936.6
For previous years	-859.9	-860.7
Total	-1,754.0	-1,797.3
Other changes		
Additions / disposals from changes in the scope of consolidation	9.9	459.2
Exchange differences	-377.5	-66.6
Total	-367.6	392.6
Balance as of 31 December (net)	4,625.5	5,139.5
Reinsurers' share	228.0	335.7
Balance as of 31 December (gross)	4,853.5	5,475.2

Special attention is given to cases of environmental pollution involving depots, waste, asbestos or any other materials harmful to human beings and the environment.

At the end of 2011, total reserves came to CHF 103.7 million (previous year: CHF 121.7 million). This decrease is due to new actuarial reviews, payment of claims, commutations and, since these reserves are, to a large extent, created for liabilities denominated in foreign currencies, currency effects.

23.2 Technical reserves – life

	2010	2011
in CHF million		
Actuarial reserves from non-unit-linked life insurance contracts ¹	32,102.9	33,661.1
Actuarial reserves from unit-linked life insurance contracts	2,114.7	2,009.9
Reserves for final policyholders' dividends	416.8	356.9
Unearned revenue reserve	302.9	276.9
Structure of actuarial reserves – life	34,937.3	36,304.8
Policyholders' dividends credited and provisions for future policyholders' dividends	3,114.0	3,121.9
Total technical reserves – life	38,051.3	39,426.7

¹ The actuarial reserve also includes unearned premiums and claims reserves.

23.2.1 Maturity structure for technical reserves

	2010	2011
in CHF million		
Actuarial reserves from non-unit-linked life insurance contracts		
Up to 1 year	1,040.4	1,106.3
1 to 5 years	3,738.9	3,970.1
5 to 10 years	4,043.1	4,148.5
More than 10 years	7,195.8	7,602.3
No determinable residual term	7,807.8	7,968.0
Business from Swiss occupational pension plans ¹	8,276.9	8,865.9
Total actuarial reserve from non-unit-linked life insurance contracts	32,102.9	33,661.1
Actuarial reserve from unit-linked life insurance contracts		
Up to 1 year	102.6	75.8
1 to 5 years	246.3	220.8
5 to 10 years	278.3	296.2
More than 10 years	408.5	380.9
No determinable residual term	1,079.0	1,036.2
Total actuarial reserves from unit-linked life insurance contracts	2,114.7	2,009.9
Policyholders' dividends credited		
Up to 1 year	119.8	112.2
1 to 5 years	426.8	407.8
5 to 10 years	425.0	407.9
More than 10 years	674.6	619.6
No determinable residual term	295.5	288.7
Total policyholders' dividends credited	1,941.7	1,836.2
Provisions for future policyholders' dividends		
Up to 1 year	172.4	160.8
No determinable residual term	999.9	1,124.9
Total provisions for future policyholders' dividends	1,172.3	1,285.7

¹ The Swiss pension business is disclosed separately due to its special features. It comprises group contracts which may be cancelled annually by both parties, while the coverage period of the individuals enrolled is significantly longer.

All maturity data is based on residual term until contract expiry. The item "No determinable residual term" includes in particular deferred and current retirement pensions.

23.2.2 Actuarial reserves for non-unit-linked life insurance contracts

	2010	2011
in CHF million		
Balance as of 1 January	33,251.0	32,102.9
Change in actuarial reserves	785.3	541.4
Additions from the acquisition of insurance portfolios or companies	–	1,346.5
Disposals from the sale of insurance portfolios or companies	–	–
Exchange differences	–1,933.4	–329.7
Balance as of 31 December	32,102.9	33,661.1

The actuarial reserve also includes unearned premiums and claims reserves.

The actuarial reserves as of 31 December 2011, for DPF business is CHF 33,440.9 million (previous year: CHF 32,025.5 million); for non-DPF business CHF 220.2 million (previous year: CHF 77.4 million).

The actuarial reserve as of 31 December 2011, for indirect business (active reinsurance) totals CHF 4.0 million (previous year: CHF 3.4 million).

23.2.3 Actuarial reserves for unit-linked life insurance contracts

	2010	2011
in CHF million		
Balance as of 1 January	2,054.5	2,114.7
Additions	325.8	318.4
Disposals	–180.7	–203.4
Fees	–17.6	–15.0
Interest and change in liabilities	221.4	–157.9
Additions from the acquisition of insurance portfolios or companies	–	1.8
Disposals from the sale of insurance portfolios or companies	–	–
Exchange differences	–288.7	–48.7
Balance as of 31 December	2,114.7	2,009.9

23.2.4 Reserves for final policyholders' dividends

	2010	2011
in CHF million		
Balance as of 1 January	484.3	416.8
Adjustment from unrealised gains and losses as of 1 January (shadow accounting)	2.0	-3.2
Interest and change in liability	19.2	-25.0
Final policyholders' dividends paid	-29.6	-29.0
Additions from the acquisition of insurance portfolios or companies	-	-
Disposals from the sale of insurance portfolios or companies	-	-
Adjustment from unrealised gains and losses as of 31 December (shadow accounting)	3.2	6.4
Exchange differences	-62.3	-9.1
Balance as of 31 December	416.8	356.9

Final policyholders' dividends, which are only paid upon contract expiry, are financed and accrued over the term of the policy in proportion to the profits attributable to the contract.

23.2.5 Unearned revenue reserve

	2010	2011
in CHF million		
Balance as of 1 January	328.9	302.9
Reserved during the reporting period	33.4	27.7
Change in balance	-5.5	-45.1
Change due to unrealised gains and losses on investments (shadow accounting)	-0.0	-0.1
Additions from the acquisition of insurance portfolios or companies	-	-
Disposals from the sale of insurance portfolios or companies	-	-
Exchange differences	-53.9	-8.5
Balance as of 31 December	302.9	276.9

23.2.6 Policyholders' dividends credited and provisions for future policyholders' dividends

	2010	2011
in CHF million		
Policyholders' dividends credited as of 1 January	2,249.0	1,941.7
Dividends credited to policyholders during the reporting period	196.3	144.8
Policyholders' dividends paid	-237.1	-209.1
Additions from purchase of policy portfolios or insurance companies	-	-
Disposals from sale of policy portfolios or insurance companies	-	-
Exchange differences	-266.5	-41.2
Balance as of 31 December	1,941.7	1,836.2
Provisions for future policyholders' dividends as of 1 January	1,181.1	1,172.3
Adjustment from unrealised gains and losses as of 1 January	-153.1	-145.4
Additions	185.9	163.8
Withdrawals	-251.3	-187.4
Change in valuation differences between IFRS and national accounting standards recognised in profit or loss	177.5	66.1
Adjustment from unrealised gains and losses as of 31 December (shadow accounting)	145.4	234.8
Additions from the acquisition of insurance portfolios or companies	-	0.0
Disposals from the sale of insurance portfolios or companies	-	-
Exchange differences	-113.2	-18.5
Balance as of 31 December	1,172.3	1,285.7
Policyholders' dividends credited and provisions for future policyholders' dividends as of 31 December	3,114.0	3,121.9

24. LIABILITIES FROM BANKING BUSINESS AND FINANCIAL CONTRACTS

	Carrying value		Fair value	
	2010	2011	2010	2011
in CHF million				
With discretionary participation features (DPF)				
Financial contracts with discretionary participation features (DPF) ¹	505.8	1,147.5	–	–
Subtotal	505.8	1,147.5	–	–
Measured at amortised cost				
Liabilities to banks	175.4	163.8	176.7	164.7
Repurchase agreements	–	200.0	–	200.0
Liabilities from time deposits	7.6	5.6	7.7	5.6
Loans	47.5	89.8	47.5	79.8
Mortgages	–	–	–	–
Savings and customer deposits	4,569.2	4,728.8	4,512.6	4,758.9
Medium-term bonds	433.6	418.4	476.0	436.1
Mortgage-backed bonds	935.2	997.3	983.0	1,058.7
Operating bonds	99.1	99.3	109.2	111.0
Liability for future financial lease payments (present value)	112.8	103.9	112.8	103.9
Other financial contracts	32.1	74.3	32.1	74.3
Subtotal	6,412.5	6,881.2	6,457.6	6,993.0
Recognised at fair value through profit or loss – designated				
Other financial contracts	5,945.0	5,969.4	5,945.0	5,969.4
Subtotal	5,945.0	5,969.4	5,945.0	5,969.4
Total liabilities from the banking business and financial contracts	12,863.3	13,998.1	–	–

¹ There are currently no internationally accepted mathematical procedures for financial contracts with discretionary participation features (DPF) to determine fair value.

Savings and customer deposits primarily concern savings, business and deposit accounts of Swiss banking customers. Mortgage-backed bonds shown here were all issued by the Mortgage Bond Bank of Swiss Mortgage Institutions without exception.

Other financial contracts – classified as “Recognised at fair value through profit or loss” – primarily concern liabilities in connection with investment-type life insurance contracts with no or with only a low risk transfer, which are part of the life insurance business. The change in this liability compared to the previous year is attributable exclusively to asset inflows and outflows and their market-related currency exchange rate fluctuations.

TERMS OF OUTSTANDING OPERATING BOND

Issuer	Baloise Bank SoBa
Type of bond	Senior bond
Face value in CHF million	100
Interest rate	3.000 %
Early repayment date	–
Repayment	100 %
Conversion right	no
Issued	2007
Repayment	12.6.2015
ISIN	CH0030870445

**25. RECONCILIATION BETWEEN THE GROSS INVESTMENT
IN FINANCIAL LEASES AND THE PRESENT VALUE OF MINIMUM LEASE PAYMENTS**

	2010	2011
in CHF million		
Contractual period < 1 year	0.1	0.0
Contractual period 1 to 5 years	30.3	29.9
Contractual period > 5 years	96.3	83.9
Total minimum lease payments	126.7	113.8
Future borrowing costs	– 13.9	– 9.9
Total liability for future lease payments (present value)	112.8	103.9

Including: financial leasing of property for own use in accordance with section 8 of the Financial Report.

26. FINANCIAL LIABILITIES

FINANCE BONDS

	2010	2011
in CHF million		
Balance as of 1 January	1,408.6	1,359.4
Issue price of newly issued bonds	295.1	247.5
Embedded derivative	–	–
Additions (subtotal)	295.1	247.5
Disposals / repayments	– 350.0	–
Interest expenses	52.8	55.0
Nominal interest rate	– 47.1	– 49.3
Interest costs (subtotal)	5.7	5.7
Balance as of 31 December	1,359.4	1,612.6

As of the balance sheet date, the fair value of financial liabilities amounts to CHF 1,688.9 million (previous year: CHF 1,456.2 million).

TERMS OF OUTSTANDING FINANCE BONDS

Issuer	Bâloise Holding	Bâloise Holding	Bâloise Holding	Bâloise Holding	Bâloise Holding	Bâloise Holding
Type of finance bond	Senior bond	Senior bond	Senior bond	Convertible bond	Senior bond	Senior bond
Face value in CHF million	150	550	150	242.5	300	250
Interest rate	3.250%	4.250%	3.500%	1.500%	2.875%	3.000%
Early repayment date	–	–	–	on or after 8.12.2014	–	–
Repayment	100%	100%	100%	100%	100%	100%
Issued	2007	2009	2007	2009	2010	2011
Repayment	19.06.2012	29.04.2013	19.12.2014	17.11.2016	14.10.2020	07.07.2021
ISIN	CH0035539326	CH0039139271	CH0035539334	CH0107130822	CH0117683794	CH0131804616

On 1 March 2012, the Bâloise Holding Ltd issued a new bond over CHF 175 million (2.25 %, 2012 – 2019, ISIN CH0148295014) at an issue price of 100.713 %.

27. FINANCIAL PROVISIONS

		Other	Total
in CHF million			
Balance as of 1 January 2011	0.0	79.9	79.9
Addition from change in the scope of consolidation	–	0.7	0.7
Disposal from change in the scope of consolidation	–	–	–
Increases and additional provisions recognised in profit or loss	12.3	19.6	31.9
Unused provisions reversed through profit or loss	–	–12.5	–12.5
Usage not affecting profit or loss	–	–15.7	–15.7
Unwinding of discount	–	–	–
Exchange differences	–0.2	–1.0	–1.2
Balance as of 31 December 2011	12.1	71.0	83.1

Also included in the balance for other financial provisions are the usual amounts for legal counsel fees and process risks. The formation of reserves for restructuring recognised in the income statement pertains mainly to the merging of the Germany units.

28. INSURANCE LIABILITIES

	2010	2011
in CHF million		
Liabilities to policyholders	1,055.2	1,080.8
Liabilities to brokers and agents	92.5	109.4
Liabilities to insurance companies	376.0	560.8
Other insurance liabilities	12.6	26.4
Total insurance liabilities	1,536.3	1,777.4

Notes to the consolidated income statement

29. PREMIUMS EARNED AND POLICY FEES

	Nonlife	Life	Total	Nonlife	Life	Total
	2010			2011		
in CHF million						
Gross premiums written and policy fees	3,044.9	3,814.9	6,859.8	3,143.5	3,659.8	6,803.3
Change in unearned premium reserves	-5.5	0.0	-5.5	3.6	0.0	3.6
Premiums earned and policy fees (gross)	3,039.4	3,814.9	6,854.3	3,147.1	3,659.8	6,806.9
Reinsurance premiums ceded	-152.8	-16.9	-169.7	-155.7	-17.5	-173.2
Reinsurers' share of change in unearned premium reserves	1.5	-	1.5	-3.1	-	-3.1
Total premiums earned and policy fees (net)	2,888.1	3,798.0	6,686.1	2,988.3	3,642.3	6,630.6

30. INVESTMENT INCOME FOR OWN ACCOUNT AND AT OWN RISK

	2010	2011
in CHF million		
Investment properties	242.5	244.8
Financial assets of an equity nature		
Available for sale	72.3	81.7
Recognised at fair value through profit or loss	0.0	0.0
Financial assets of a debt nature		
Held to maturity	220.1	235.2
Available for sale	657.3	627.9
Recognised at fair value through profit or loss	5.9	5.0
Mortgages and loans		
Carried at cost	591.9	552.3
Recognised at fair value through profit or loss	16.2	13.9
Cash and cash equivalents	5.0	5.7
Total investment income for own account and at own risk	1,811.2	1,766.5

Revenue from investment properties primarily represents lease income. Income from financial assets of an equity nature is primarily dividend income; financial assets of a debt nature are mainly interest income and net income from write-ups and depreciation as a result of applying the Effective Interest Method. Revenue from "Mortgages and loans" and "Cash and cash equivalents" stems primarily from the interest return.

As of the balance sheet date, interest revenue of CHF 8.1 million was recognised on impaired investments (previous year: CHF 6.3 million).

31. REALISED GAINS AND LOSSES ON INVESTMENTS

REALISED GAINS AND LOSSES ON INVESTMENTS AS RECOGNISED IN THE INCOME STATEMENT

	2010	2011
in CHF million		
Realised gains and losses on investments for own account and at own risk	187.4	- 346.3
Realised gains and losses on investments for the account and at the risk of life insurance policyholders	314.2	- 597.1
Realised gains and losses on investments as recognised in the income statement	501.6	- 943.4

31.1 Realised gains and losses on investments 2010 for own account and at own risk

	Investment properties	Financial assets of an equity nature	Financial assets of a debt nature	Mortgages and loans ¹	Derivative financial instruments	Total
in CHF million						
Realised gains on sales and book profits						
Investment properties	96.6	–	–	–	–	96.6
Held to maturity ²	–	–	3.5	–	–	3.5
Available for sale	–	252.8	220.4	–	–	473.2
Recognised at fair value through profit or loss	–	6.9	6.3	0.3	601.6	615.1
Carried at cost	–	–	–	14.9	–	14.9
Subtotal	96.6	259.7	230.2	15.2	601.6	1,203.3
Realised losses on sales and book losses						
Investment properties	–97.9	–	–	–	–	–97.9
Held to maturity ²	–	–	–294.2	–	–	–294.2
Available for sale	–	–69.0	–311.3	–	–	–380.3
Recognised at fair value through profit or loss	–	–2.0	–4.8	–0.2	–134.3	–141.3
Carried at cost	–	–	–	–7.5	–	–7.5
Subtotal	–97.9	–71.0	–610.3	–7.7	–134.3	–921.2
Impairment loss recognised in profit or loss						
Held to maturity	–	–	–	–	–	–
Available for sale	–	–98.2	–2.6	–	–	–100.8
Carried at cost	–	–	–	–24.6	–	–24.6
Reversals of an impairment loss recognised in profit or loss						
Held to maturity	–	–	–	–	–	–
Available for sale	–	–	2.5	–	–	2.5
Carried at cost	–	–	–	28.2	–	28.2
Subtotal	–	–98.2	–0.1	3.6	–	–94.7
Total realised gains and losses on investments	–1.3	90.5	–380.2	11.1	467.3	187.4

1 In respect of disposal and book losses / profits realised on mortgages and loans recognised at fair value, a fair value hedging gain of CHF 0.3 million was applied.

2 In case of financial assets of a debt nature held to maturity, currency effects are stated under realised book profits and / or realised book losses.

31.2 Realised gains and losses on investments 2011 for own account and at own risk

	Investment properties	Financial assets of an equity nature	Financial assets of a debt nature	Mortgages and loans	Derivative financial instruments	Total
in CHF million						
Realised gains on sales and book profits						
Investment properties	104.2	–	–	–	–	104.2
Held to maturity ¹	–	–	5.3	–	–	5.3
Available for sale	–	163.2	101.7	–	–	264.9
Recognised at fair value through profit or loss	–	2.1	6.3	10.9	489.8	509.1
Carried at cost	–	–	–	1.8	–	1.8
Subtotal	104.2	165.3	113.3	12.7	489.8	885.3
Realised losses on sales and book losses						
Investment properties	–100.8	–	–	–	–	–100.8
Held to maturity ¹	–	–	–55.4	–	–	–55.4
Available for sale	–	–76.6	–97.2	–	–	–173.8
Recognised at fair value through profit or loss	–	–4.9	–5.8	–1.9	–528.6	–541.2
Carried at cost	–	–	–	–13.9	–	–13.9
Subtotal	–100.8	–81.5	–158.4	–15.8	–528.6	–885.1
Impairment loss recognised in profit or loss						
Held to maturity	–	–	–7.6	–	–	–7.6
Available for sale	–	–207.7	–132.6	–	–	–340.3
Carried at cost	–	–	–	–12.0	–	–12.0
Reversals of an impairment loss recognised in profit or loss						
Held to maturity	–	–	–	–	–	–
Available for sale	–	–	2.0	–	–	2.0
Carried at cost	–	–	–	11.4	–	11.4
Subtotal	–	–207.7	–138.2	–0.6	–	–346.5
Total realised gains and losses on investments	3.4	–123.9	–183.3	–3.7	–38.8	–346.3

1 In case of financial assets of a debt nature held to maturity, currency effects are stated under realised book profits and / or realised book losses.

31.3 Impairment loss on financial assets recognised in profit or loss

	2010	2011
in CHF million		
Impairment loss on financial assets of an equity nature recognised in profit or loss		
Shares	-67.0	-172.8
Share-based funds	-1.4	-6.7
Mixed funds	-4.9	-5.1
Bond funds	-1.9	-0.2
Property funds	-8.3	-11.1
Private equity	-5.5	-5.1
Hedge funds	-9.2	-6.7
Subtotal	-98.2	-207.7
Impairment loss on financial assets of a debt nature recognised in profit or loss		
Public corporations	-	-129.7
Industrial enterprises	-	-
Financial institutions	-2.6	-10.5
Other	-	-
Subtotal	-2.6	-140.2
Impairment loss on mortgages and loans recognised in profit or loss		
Mortgages	-23.4	-11.6
Policy loans	-	-
Promissory notes and registered bonds	-	-
Time deposits	-	-
Reverse repurchase agreements	-	-
Other loans	-1.2	-0.4
Subtotal	-24.6	-12.0
Total impairment loss on financial assets recognised in profit or loss	-125.4	-359.9

In the 2011 reporting period a gross impairment loss of CHF 129.7 million was performed on the portfolio of Greek government bonds. The impairment loss amounts to CHF 78.3 million after deducting the legal quota, policyholders' dividends and taxes. This affects mainly the business units in Switzerland and Belgium.

In the case of the Greek government bonds, the Baloise Group assessed the market situation to be such that no reliable quoted market prices existed and therefore the fair value of Greek government bonds would have to be determined using an evaluation model (so-called mark-to-model-approach). One of the reasons the Baloise Group sees for the inactivity of the market for Greek government bonds is the significant decline in trade volume as well as the exceptionally broad bid-ask spread of these securities. The Baloise Group's model approach is underpinned by the second proposal by the International Institute of Finance (IIF) to restructure the Greek government bonds held by private investors. This proposal was supported by the majority of financial institutions.

According to the accounting standard applied and using the observable data contained in the annual statements of the Baloise Group, the balanced fair values thus determined lead to a reclassification of Greek government bonds from the hierarchy level 1 to hierarchy level 2 (See section 5.7 for more details on the assessment of the fair value).

Besides the situation in Greece, the Baloise Group continues to observe the development in Europe carefully, since it cannot be ruled out that further countries may become dependent on an EU finance stability package.

The following table shows the Baloise Group's exposure to bonds of selected European countries:

	Carrying value 31.12.2010	Fair value 31.12.2010	Carrying value 31.12.2011	Fair value 31.12.2011
Greece¹	134.6	132.0	38.5	38.5
Of which available for sale	124.4	124.4	36.3	36.3
Of which held to maturity	10.2	7.6	2.2	2.2
Ireland	154.9	152.4	165.1	163.1
Of which available for sale	115.2	115.2	127.0	127.0
Of which held to maturity	39.7	37.2	38.1	36.1
Italy	336.1	335.2	335.1	329.8
Of which available for sale	281.3	281.3	282.3	282.3
Of which held to maturity	54.8	53.9	52.8	47.5
Portugal	161.3	151.7	123.1	93.6
Of which available for sale	81.9	81.9	52.1	52.1
Of which held to maturity	79.4	69.8	71.0	41.5
Spain	276.4	263.4	207.1	196.5
Of which available for sale	148.5	148.5	83.1	83.1
Of which held to maturity	127.9	114.9	124.0	113.4
Total exposure	1,063.3	1,034.7	868.9	821.5
Of which available for sale	751.3	751.3	580.8	580.8
Of which held to maturity	312.0	283.4	288.1	240.7

¹ The value of Greek government bonds as of 31.12.2011 was determined using an evaluation model.

By the time these Consolidated Annual Financial Statements were approved, the Baloise Group had sold its complete Greek government bond exposure. There was again sufficient liquidity on the market to dissolve this exposure after the swap offer was published on 24 February. The Baloise Group will desist from participating in the debt re-scheduling plan because the offer was – in our own estimation – too unattractive measured against the economic risks involved to be committed here for the next 30 years.

A one-off effect on earnings of CHF 2.4 million for the 2012 fiscal year resulted from the sale. After deducting the legal quota, the policyholders' dividends and taxes the burden is still CHF 1.4 million.

Furthermore, the Baloise Group has reduced its Portuguese government bond exposure completely in view of the considerable deterioration of Portugal's obligor creditworthiness. This also includes the early sale of financial assets classified as "held to maturity".

31.4 Currency income

A foreign currency loss of CHF 98.2 million exists (previous year: loss of CHF 620.7 million) excluding foreign currency losses from transactions with financial interments recognised at fair value through profit or loss.

Equity for the fiscal year contains a currency loss (gross) not recognised in profit or loss amounting to CHF 43.4 million (previous year: loss of CHF 360.5 million). A net loss of CHF 59.5 million (previous year: net loss of CHF 280.7 million) results from hedging a net investment in a foreign entity regarding cash flow hedge.

32. INCOME FROM SERVICES RENDERED

	2010	2011
in CHF million		
Asset management	28.7	29.6
Services	196.7	73.0
Banking services	47.4	45.9
Investment management	10.6	10.1
Income from services rendered	283.4	158.6

33. OTHER OPERATING INCOME

	2010	2011
in CHF million		
Interest income on insurance and reinsurance receivables	16.9	14.2
Other interest income	3.6	3.2
Gains from the sale of		
Property, plant and equipment	0.3	0.8
Intangible assets	0.4	8.1
Currency gains	34.7	26.8
Other income	146.8	87.0
Other operating income	202.7	140.1

34. CLASSIFICATION OF EXPENSES

	2010	2011
in CHF million		
Personnel expenses (excluding claims handling expenses)	- 783.1	- 755.4
Marketing and advertising	- 62.7	- 61.9
Impairments and depreciation		
On property, plant and equipment	- 48.8	- 46.2
On intangible assets	- 41.9	- 101.8
IT and other technical equipment	- 104.2	- 97.1
Expenses for software development	- 0.4	- 1.1
Expenses for rent, upkeep and repairs	- 57.9	- 55.0
Currency losses	- 33.1	- 13.6
Expenses for operating leases	- 3.3	- 3.4
Commission and distribution expenses	- 339.0	- 273.5
Fees and commission for financial assets and liabilities not recognised at fair value	- 23.6	- 25.5
Fees and commission expenses for assets managed for third parties	- 4.1	- 3.3
Other	- 535.6	- 555.2
Total	- 2,037.7	- 1,993.0

35. PERSONNEL EXPENSES

Personnel expenses totalled CHF 907.3 million for the reporting period (previous year: CHF 949.0 million).

36. RESULT FROM FINANCIAL CONTRACTS

	2010	2011
in CHF million		
With discretionary participation features (DPF)		
Financial contracts with discretionary participation features (DPF)	-19.2	-27.2
Subtotal	-19.2	-27.2
Measured at amortised cost		
Interest on loans	-0.8	-0.6
Interest due	-25.1	-19.6
Interest from banking business	-54.4	-48.7
Interest expenses on repurchase agreements	-	-0.0
Acquisition costs – banking business	-7.1	-6.8
Interest expenses on operating bonds	-3.2	-3.2
Expenses from financial contracts	-18.8	-16.1
Subtotal	-109.4	-95.0
Recognised at fair value through profit or loss – designated		
Change in fair value of operating bonds	-	-
Change in fair value of other financial contracts	-91.2	446.2
Subtotal	-91.2	446.2
Total result from financial contracts	-219.8	324.0
Of which: net income from interest rate hedging instruments		
Interest rate swaps: cash flow hedges, balance carried forward from cash flow hedge reserve	-	-
Interest rate swaps: fair value hedges	-0.6	-
Total income from interest rate hedging instruments	-0.6	-

37. INCOME TAXES

37.1 Current and deferred income taxes

	2010	2011
in CHF million		
Current income taxes	-117.6	-40.2
Deferred income taxes	-0.1	12.6
Total current and deferred income taxes	-117.7	-27.6

37.2 Expected and actual income taxes

The projected average tax rate for the Baloise Group was 28.2% for 2010 and 38.9% for 2011. These rates represent the weighted average of tax rates in the countries where the Baloise Group operates.

	2010	2011
in CHF million		
Profit before tax	554.4	88.9
Expected average tax rate in percent	28.2%	38.9%
Expected income taxes	-156.3	-34.6
Increase / reduction due to:		
Tax-exempt profits and losses	47.1	-9.5
Non-deductible expenses	-8.0	-21.5
Withholding taxes on dividends	-2.1	-1.7
Change in the tax rates	-0.5	0.1
Tax items related to other reporting periods	2.7	10.1
Non-taxable permanent valuation differences	30.8	18.3
Other impacts ¹	-31.4	11.2
Actual income taxes	-117.7	-27.6

¹ The item "Other impacts" includes mainly the offsetting of profits with losses carried forward for which no deferred tax assets were created, a waiver of capitalising losses from the fiscal year and the capitalisation of losses carried forward from previous years. Furthermore, the variances between the Baloise Group's tax rate and the tax rates applied per company are included. These increased further in 2010 due to the unbundling process in Germany.

38. EARNINGS PER SHARE

	2010	2011
Profit for the period (attributable to shareholders) in CHF million	433.4	60.8
Average number of outstanding shares	47,394,282	46,900,473
Basic earnings per share in CHF	9.14	1.30

	2010	2011
Profit for the period (attributable to shareholders) in CHF million	433.4	60.8
Adjustment of interest expenses on convertible bonds (including tax effects) in CHF million	7.3	–
Adjusted profit for the period (attributable to shareholders) in CHF million	440.7	60.8
Average number of outstanding shares	47,394,282	46,900,473
Adjustment due to theoretic conversion of convertible bonds	2,000,000	–
Adjustment due to theoretic exercising of share-based payment programmes	159,294	84,964
Adjustment due to theoretic exercising of put options	12,362	–
Average number of outstanding shares	49,565,938	46,985,437
Diluted earnings per share in CHF	8.89	1.29

The diluted result in 2010 is due to the share-based compensation programme “Performance Share Units” (PSU) and the “short put” options issued as part of the Employee Share Ownership Plan (both described in section 18.4) as well as the Bâloise Holding convertible bond.

The diluted result in 2011 is merely due to the share-based compensation programme “Performance Share Units” (PSUs). The conditions resulting in a dilution do not exist in 2011 neither for the “short-put” options issued as part of the Employee Share Ownership Plan nor for the conversion bond.

39. OTHER COMPREHENSIVE INCOME

39.1 Other comprehensive income

	2010	2011
in CHF million		
Available for sale financial assets:		
Gains and losses arising during the fiscal year	157.3	-68.5
Reclassification adjustments for gains (losses) included in profit or loss	-299.7	199.9
Total available for sale financial assets	-142.4	131.4
Unrealised gains and losses from associates:		
Gains and losses arising during the fiscal year	11.0	-17.4
Total unrealised gains and losses from associates	11.0	-17.4
Reserve on derivative financial instruments held for cash flow hedging:		
Gains and losses arising during the fiscal year	-	-
Reclassification adjustments for gains (losses) included in retained earnings	-	-
Total reserve on derivative financial instruments held for cash flow hedging	-	-
Reserve on derivative financial instruments held for hedging a net investment in a foreign entity:		
Gains and losses arising during the fiscal year	78.9	-16.1
Reclassification adjustments for gains (losses) included in retained earnings	-10.5	-
Total reserve on derivative financial instruments held for hedging a net investment in a foreign entity	68.4	-16.1
Reserves from reclassification of held to maturity financial instruments:		
Gains and losses arising during the fiscal year	-2.4	0.4
Reclassification adjustments for gains (losses) included in retained earnings	-6.8	-5.9
Total reserves from reclassification of held to maturity financial assets	-9.2	-5.5
Reserves from reclassification of investment properties:		
Gains and losses arising during the fiscal year	0.6	-
Reclassification adjustments for gains (losses) included in retained earnings	-	-
Total reserves from reclassification of investment properties	0.6	-
Exchange differences:		
Gains and losses arising during the fiscal year	-373.0	-43.4
Total exchange differences	-373.0	-43.4
Shadow accounting:		
Gains and losses arising during the fiscal year	-5.9	-100.8
Total shadow accounting	-5.9	-100.8
Income tax on other comprehensive income	30.7	-11.9
Total other comprehensive income	-419.8	-63.7

39.2 Income tax on other comprehensive income

	Amount before taxes	Tax expenses / tax income	Amount net of taxes	Amount before taxes	Tax expenses / tax income	Amount net of taxes
	2010			2011		
in CHF million						
Available for sale financial assets	-142.4	43.1	-99.3	131.4	-38.9	92.5
Unrealised gains and losses from associates	11.0	-2.5	8.5	-17.4	4.6	-12.8
Reserve on derivative financial instruments held for cash flow hedging	-	-	-	-	-	-
Reserve on derivative financial instruments held for hedging a net investment in a foreign entity	68.4	-13.8	54.6	-16.1	3.3	-12.8
Reserves from reclassification of held to maturity financial assets	-9.2	1.3	-7.9	-5.5	1.6	-3.9
Reserves from reclassification of investment properties	0.6	-0.1	0.5	0.0	0.0	0.0
Exchange differences	-373.0	-	-373.0	-43.4	-	-43.4
Shadow accounting	-5.9	2.7	-3.2	-100.8	17.5	-83.3
Total	-450.5	30.7	-419.8	-51.8	-11.9	-63.7

Other disclosures

40. ACQUISITION AND DISPOSAL OF COMPANIES

	Cumulative acquisitions		Cumulative disposals	
	2010	2011	2010	2011
in CHF million				
Investments	31.5	2,573.2	47.0	3.2
Other assets	3.5	134.9	26.6	0.0
Receivables and assets	5.7	375.6	80.1	0.1
Cash and cash equivalents	3.1	265.6	42.0	3.0
Technical liabilities	-18.6	-2,177.2	-57.4	-2.7
Other liabilities	-8.1	-792.4	-35.9	-1.1
Minority interests	-	-	-54.4	-
Net assets acquired / disposed of	17.1	379.7	48.0	2.5
Funds used / received for acquisitions and disposals				
Cash and cash equivalents	30.4	383.0	1.3	1.2
Offsetting	-	-	-	-
Transfer of assets	-	-	-	-
Directly attributable costs	-	-	-	-
Equity instruments issued	-	-	-	-
Reclassification of investments in associates	-	6.2	79.7	-
Acquisition / disposal price	30.4	389.2	81.0	1.2
Net assets acquired / disposed of	-17.1	-379.7	-48.0	-2.5
Goodwill / badwill or income from disposals	13.3	9.5	33.0	-1.3
Cash and cash equivalents used and received for acquisition or disposal	-30.4	-383.0	1.3	1.2
Cash and cash equivalents acquired or disposed of	3.1	265.6	-42.0	-3.0
Outflow / inflow of cash and cash equivalents	-27.3	-117.4	-40.7	-1.8

Cumulative disposals for the 2010 fiscal year contain mainly the deconsolidation effects from the OVB group, which are described in section 6.1.3.

The cumulative acquisitions effected during the 2011 fiscal year described in section 6.2.1. include the Belgian Nateus SA / NV and Nateus Life SA / NV, the Belgian Pacific Real Estate NV and Van Vaeck Zenith NV, as well as the German real estate agents and brokers Wilhelm Herrmann Assekuranz and Wilhelm Herrmann Assekuranz Makler GmbH. The sales of the Belgian An Re NV, Antwerp, and the Croatian Treci element d.o.o. are contained in the cumulative disposals for the 2011 fiscal year.

41. RELATED PARTY TRANSACTIONS

As part of its ordinary operating activities, the Baloise Group conducts transactions with associates, members of the Baloise Holding Board of Directors and Corporate Executive Committee.

Due to the impact of the demerging contract dated 8 June 2010 (for details see section 6.1.3), the Deutscher Ring Krankenversicherungsverein a.G., Hamburg, has no longer been regarded as a related company in the sense of IAS 24 since 30 June 2010. However, the OVB group has been regarded as a related company since 1 July 2010.

RELATED PARTY TRANSACTIONS

	Associates		Executive management		Other related parties		Total	
	2010	2011	2010	2011	2010	2011	2010	2011
in CHF million								
Included in the income statement								
Premiums earned and policy fees	–	–	0.1	0.5	–	–	0.1	0.5
Investment income / expenses	0.0	0.1	0.0	0.1	–	–	0.0	0.2
Other income	0.5	0.5	0.3	0.2	0.0	–	0.8	0.7
Expenses	0.0	0.0	–15.8	–13.2	–	–	–15.8	–13.2
Impairment losses on bad debts	–0.8	–	–	–	–	–	–0.8	–
Total income statement	–0.3	0.6	–15.4	–12.4	0.0	–	–15.7	–11.8
Included in the balance sheet								
Mortgages and loans	–	–	12.9	10.0	–	–	12.9	10.0
Insurance receivables	–	–	–	–	–	–	–	–
Other receivables	0.1	0.1	–	–	–	–	0.1	0.1
Impairments for bad debts	–0.8	–0.7	–	–	–	–	–0.8	–0.7
Other liabilities	–1.4	–1.4	–	–	–	–	–1.4	–1.4
Total balance sheet	–2.1	–2.0	12.9	10.0	–	–	10.8	8.0
Off-balance-sheet transactions								
Guarantees granted	–	–	–	–	–	–	–	–

Compensation paid to Board of Directors and Corporate Executive Committee members (executive management) totalled CHF 13.2 million in the reporting period (previous year: CHF 15.8 million). Of this amount, share-based compensation plans account for CHF 3.3 million (previous year: CHF 5.4 million).

During the reporting period, no Baloise Holding shares (previous year: no shares) were repurchased from Corporate Executive Committee members for the Employee Share Ownership Plan (section 18.4.3).

As a retired member of the Corporate Executive Committee, a former member of the Board of Directors received periodic benefits until his departure (pension payments pursuant to the regulations) from the pension fund of Baloise Insurance Ltd.

In the 2010 fiscal year, the Baloise Group sold an investment property to a member of the Corporate Executive Committee for the fair value of CHF 3.2 million.

42. REMUNERATION TO THE BOARD OF DIRECTORS AND CORPORATE EXECUTIVE COMMITTEE

Disclosures of facts in accordance with 663b^{bis} and 663c of the Swiss Code of Obligations (OR) are contained in the Compensation Report. Pages 68 to 76 in the chapter on Corporate Governance are an integral component of the Financial Report. The facts are mainly as follows:

- remuneration to members of the Board of Directors
- remuneration to members of the Corporate Executive Committee
- loans and advances granted to members of the Board of Directors and the Corporate Executive Committee
- shares and options held by members of the Board of Directors and the Corporate Executive Committee

43. CONTINGENT AND FUTURE LIABILITIES

43.1 Contingent liabilities

43.1.1 Legal disputes

The companies of the Baloise Group and its subsidiaries are regularly involved in legal disputes, claims and lawsuits, which in most cases constitute a normal part of operating activities as an insurance company.

The Corporate Executive Committee is not aware of any new circumstances having arisen since the last balance sheet date that could have a material impact on the consolidated Annual Financial Statement 2011.

43.1.2 Guarantees and payment guarantees for the benefit of third parties

The Baloise Group has provided guarantees and incurred obligations with third parties. These include contractual obligations to contribute, pay in capital or equity or provide funds to cover principal and interest payments or guarantees during operations. The Baloise Group is unaware of any default circumstances effecting such guarantees.

	2010	2011
in CHF million		
Guarantees	66.0	73.4
Payment guarantees	411.5	413.1
Total guarantees and payment guarantees for the benefit of third parties	477.5	486.5
Of which: for the benefit of partners in joint ventures	–	–
Of which: from joint ventures	–	–
Of which: for the benefit of joint ventures	–	–

RATING OF PAYMENT GUARANTEES AND GUARANTEES

2010	AAA	AA	A	BBB	Lower than BBB or no rating	Total
in CHF million						
Guarantees	–	–	46.7	–	19.3	66.0
Payment guarantees	–	–	7.4	–	404.1	411.5

RATING OF PAYMENT GUARANTEES AND GUARANTEES

2011	AAA	AA	A	BBB	Lower than BBB or no rating	Total
in CHF million						
Guarantees	–	2.0	36.8	0.6	34.0	73.4
Payment guarantees	–	–	–	–	413.1	413.1

43.1.3 Pledged or ceded assets, securities lending assets and collateral held

CARRYING VALUES OF ASSETS PLEDGED OR CEDED AS COLLATERAL

	2010	2011
in CHF million		
Financial assets as part of repurchase agreements	–	198.1
Financial assets as part of securities lending	–	–
Investments	1,564.3	1,616.3
Pledged intangible assets	–	–
Pledged property, plant and equipment	–	–
Other	–	48.5
Total	1,564.3	1,862.9

FAIR VALUE OF THE COLLATERAL HELD

	2010	2011
in CHF million		
Financial assets as part of reverse repurchase agreements	54.7	60.4
Financial assets as part of securities lending	–	–
Other	–	–
Total	54.7	60.4
Of which: sold or repledged		
– with obligation to return	–	–
– without obligation to return	–	–

The Baloise Group engages in securities lending transactions that can be subject to credit risk. To hedge these credit risks, securities that cover the base value of the securities borrowed – so called collateral – are claimed. In order to minimise credit risks, an evaluation of the borrowing party's pledge value is performed regularly. Additional collateral is immediately demanded in the event of a shortfall in the reserve value.

The Baloise Group retains control of loaned securities for the duration of the transaction. Income from securities lending is recognised in profit or loss.

43.2 Future liabilities

43.2.1 Capital commitments

	2010	2011
in CHF million		
Commitments for future acquisition of:		
Investment properties	30.9	12.0
Financial assets	591.7	614.3
Property, plant and equipment	–	–
Intangible assets	3.0	18.6
Total commitments	625.6	644.9
Of which: in connection with joint ventures	–	–
Of which: own share of the capital commitments of the joint ventures	–	–

RATING OF CAPITAL COMMITMENTS

2010	AAA	AA	A	BBB	Lower than BBB or no rating	Total
in CHF million						
Capital commitments	123.3	–	244.0	18.5	239.8	625.6

RATING OF CAPITAL COMMITMENTS

2011	AAA	AA	A	BBB	Lower than BBB or no rating	Total
in CHF million						
Capital commitments	312.9	0.6	75.8	21.4	234.2	644.9

Commitments made for future acquisition of investments also include private equity commitments that are non-financed commitments for direct investment in private equity or investment in private equity funds.

44. OPERATING LEASES

44.1 Baloise Group as lessee

The Baloise Group has entered into non-cancellable lease agreements as lessee for the use of buildings, vehicles and operational facilities. The average outstanding lease term is three to five years.

DUE DATE OF LEASING PAYMENTS

	2010	2011
in CHF million		
Due within one year	-2.7	-3.2
Due from one to five years	-3.1	-5.4
Due after five years	0.0	-0.8
Total	-5.8	-9.4
Minimum lease payments	-3.3	-3.4
Contingent lease payments	-	-
Leasing expenses	-3.3	-3.4
Income from subleasing in the past fiscal year	-	-
Future income from subleasing	-	-

Contingent lease payments result from lease agreements tied to an index.

44.2 Baloise Group as lessor

The Baloise Group has entered into operating lease agreements as lessor of investment properties to third parties. The average outstanding non-cancellable residual lease term is four to six years. No other such lease agreements were in place on the balance sheet date.

DUE DATE OF CONTRACTUALLY AGREED LEASING INCOME

	2010	2011
in CHF million		
Due within one year	44.8	40.2
Due from one to five years	90.4	88.8
Due after five years	24.5	21.1
Total	159.7	150.1
Minimum lease payments	48.1	40.2
Contingent lease payments	-	0.1
Leasing income	48.1	40.3

45. CLAIM PAYMENTS RECEIVED FROM NON-GROUP INSURERS

Baloise Group companies received claim payments totalling CHF 0.1 million in the 2011 fiscal year (previous year: CHF 0.2 million) from non-Group insurers in connection with insurance contracts held by Baloise Group companies as policyholders. Most of these claims payments were for building damage in Switzerland, where buildings are under mandatory coverage by state insurers depending on their location.

46. EVENTS AFTER THE BALANCE SHEET DATE

Information on the bond issued on 1 March 2012 is contained in the section “Financial liabilities.” Information on reducing European government bonds where the creditworthiness of the economy is under threat can be found in chapter 31.3.

Baloise Insurance Ltd, Basel, signed a default guarantee dated 24 January 2012 that is unlimited regarding the amount. It pertains to business concluded by Mercator Verzekeringen NV, Antwerp, and brokered through the “International Network of Insurance” (INI).

To our knowledge, no events have occurred up to the completion of the consolidated Annual Financial Statement dated 14 March 2012, which would have a material impact on the Annual Financial Statement overall.

47. SIGNIFICANT SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES AS OF 31 DECEMBER 2011

	Primary activity	Business segment ¹	Group share in percent ²	Direct share in percent ²	Method of consolidation ³	Currency	Share capital in million	Total assets in million	Gross premiums/policy fees in million
Switzerland									
Bâloise Holding Ltd, Basel	Holding	O	Holding	Holding	F	CHF	5.0	2,395.5	–
Baloise Insurance Ltd, Basel	Nonlife	NL	100.00	100.00	F	CHF	75.0	4,972.5	1,307.7
Baloise Life Ltd, Basel	Life	L	100.00	100.00	F	CHF	50.0	26,911.1	2,724.1
Baloise Bank SoBa AG, Solothurn	Banking	B	100.00	100.00	F	CHF	50.0	6,699.1	–
Haakon AG, Basel	Other	O	74.75	74.75	F	CHF	0.2	22.4	–
Baloise Asset Management Schweiz AG, Basel	Investment management	B	100.00	100.00	F	CHF	1.5	27.8	–
Baloise Asset Management International AG, Basel	Investment consulting	B	100.00	100.00	F	CHF	1.5	18.8	–
Germany									
Basler Versicherung Beteiligungen B.V. & Co KG, Hamburg	Holding	O	100.00	100.00	F	EUR	94.7	379.5	–
Deutscher Ring Lebensversicherungs-Aktiengesellschaft, Hamburg	Life	L	100.00	100.00	F	EUR	22.0	8,481.8	446.8
Deutscher Ring Sachversicherungs-Aktiengesellschaft, Hamburg	Nonlife	NL	100.00	100.00	F	EUR	50.0	381.4	122.1
Basler Securitas Versicherungs-Aktiengesellschaft, Bad Homburg	Nonlife	NL	100.00	100.00	F	EUR	15.1	992.2	483.9
Avetas Versicherungs-Aktiengesellschaft, Bad Homburg	Nonlife	NL	100.00	100.00	F	EUR	0.1	11.1	0.4
Deutscher Ring Bausparkasse Aktiengesellschaft, Hamburg	Banking	B	65.00	65.00	F	EUR	12.8	505.4	–
Deutscher Ring Beteiligungsholding GmbH, Hamburg	Holding	O	100.00	100.00	F	EUR	12.8	194.8	–
DePfa Beteiligungs-Holding II GmbH, Düsseldorf	Other	–	26.00	26.00	E	EUR	–	–	–
Deutscher Ring Financial Services GmbH, Hamburg	Other	O	100.00	100.00	F	EUR	0.1	3.0	–
GROCON Erste Grundstücksgesellschaft mbH, Hamburg	Other	O	100.00	100.00	F	EUR	0.7	14.0	–
GROCON Grundstücks- und Beteiligungsgesellschaft mbH, Hamburg	Other	O	100.00	100.00	F	EUR	1.5	1.3	–
OVB Holding AG, Cologne	Other	–	32.57	32.57	F	EUR	–	–	–
Roland Rechtsschutz Beteiligungs GmbH, Cologne	Other	O	60.00	60.00	F	EUR	0.1	21.4	–
Roland Rechtsschutz Versicherungs AG, Cologne	Other	–	15.01	25.02	E	EUR	–	–	–
ZEUS Vermittlungsgesellschaft mbH, Hamburg	Other	O	100.00	100.00	F	EUR	0.5	14.1	–

1 L: Life, NL: Nonlife, B: Banking, O: Other activities / corporate business.

2 Shares in percent are rounded down.

3 F: Full consolidation, E: Equity measurement.

	Primary activity	Business segment ¹	Group share in percent ²	Direct share in percent ²	Method of consolidation ³	Currency	Share capital in million	Total assets in million	Gross premiums / policy fees in million
Belgium									
Mercator Verzekeringen NV, Antwerp	Life and nonlife	L / NL	100.00	100.00	F	EUR	199.1	3,892.5	588.5
Nateus NV, Antwerp	Nonlife	NL	100.00	100.00	F	EUR	27.8	621.4	50.2
Nateus Life NV, Antwerp	Life	L	100.00	100.00	F	EUR	61.7	1,928.0	20.5
Audi NV, Antwerp	Nonlife	NL	100.00	100.00	F	EUR	6.5	37.3	3.7
Amazon Insurance NV, Antwerp	Nonlife	NL	100.00	100.00	F	EUR	3.7	23.4	19.2
Euromex NV, Antwerp	Nonlife	NL	100.00	100.00	F	EUR	2.5	77.5	32.5
Merno-Immo NV, Ghent	Other	O	100.00	100.00	F	EUR	17.1	18.1	–
Luxembourg									
Bâloise (Luxembourg) Holding S.A., Bertrange (Luxembourg)	Holding	O	100.00	100.00	F	CHF	249.9	975.9	–
Bâloise Assurances Luxembourg S.A., Bertrange (Luxembourg)	Nonlife	NL	100.00	100.00	F	EUR	9.8	143.3	59.4
Bâloise Vie Luxembourg S.A., Bertrange (Luxembourg)	Life	L	100.00	100.00	F	EUR	32.7	3,179.8	40.1
Baloise Fund Invest Advico, Bertrange (Luxembourg)	Other	B	100.00	100.00	F	EUR	0.1	6.0	–
Bâloise Delta Holding S. à. r. l., Bertrange (Luxembourg)	Holding	O	100.00	100.00	F	EUR	224.3	274.8	–
Austria / Croatia / Serbia									
Basler Versicherungs-Aktiengesellschaft in Österreich, Vienna	Life and nonlife	L / NL	100.00	100.00	F	EUR	5.1	423.6	110.6
Basler osiguranje Zagreb d.d., Zagreb	Life and nonlife	L / NL	100.00	100.00	F	HRK	45.0	2,418.4	410.7
Neživotno osiguranje “Basler” a.d.o., Belgrade	Nonlife	NL	100.00	100.00	F	RSD	675.1	777.1	149.7
Životno osiguranje “Basler” a.d.o., Belgrade	Life	L	100.00	100.00	F	RSD	300.1	449.6	42.8
Other territories									
Baloise Life (Liechtenstein) AG, Balzers	Life	L	100.00	100.00	F	CHF	15.0	2,561.5	8.7
Baloise Insurance Company (Bermuda) Ltd., Hamilton (Bermuda)	Reinsurance	NL	100.00	100.00	F	CHF	5.0	958.0	188.2
Baloise Alternative Investment Strategies Limited, St. Helier (Jersey / Channel Islands)	Investment management	L / NL	100.00	100.00	F	USD	0.0	846.5	–
Baloise Finance (Jersey) Ltd., St. Helier (Jersey / Channel Islands)	Other	O	100.00	100.00	F	CHF	1.3	232.0	–
Baloise Private Equity Limited, St. Helier (Jersey / Channel Islands)	Investment management	L / NL	100.00	100.00	F	USD	0.0	470.5	–

1 L: Life, NL: Nonlife, B: Banking, O: Other activities / corporate business.

2 Shares in percent are rounded down.

3 F: Full consolidation, E: At equity measurement.

Report of the statutory auditor to the General Meeting of Bâloise Holding Ltd, Basel

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

As statutory auditor, we have audited the consolidated financial statements of Bâloise Holding Ltd, which comprise the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements (pages 68 to 76 and 82 to 219), for the year ended 31 December 2011.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

REPORT ON OTHER LEGAL REQUIREMENTS

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) 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 consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

Martin Frei	Enrico Strozzi
Audit expert	Audit expert
Auditor in charge	

Basel, 15 March 2012

Baloise Holding Ltd

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Income statement Bâloise Holding

	Note	2010	2011
in CHF million			
Income from participating interests		324.5	292.6
Interest and securities income	2	11.9	12.3
Other income	3	8.8	21.3
Total income		345.2	326.2
Administrative expenses	4	-51.4	-36.3
Interest expenses	5	-47.1	-49.3
Depreciation	6	-0.0	-32.7
Other expenses	7	-13.1	-13.6
Total expenses		-111.6	-131.9
Tax expenses		-0.2	-0.2
Profit for the period		233.4	194.1

Balance sheet Bâloise Holding

	Note	31.12.2010	31.12.2011
in CHF million			
Assets			
Cash and cash equivalents		99.6	37.8
Treasury shares		149.4	138.5
Receivables from Group companies		70.9	9.2
Receivables from third parties		3.9	6.6
Accruals	8	25.4	47.0
Current assets		349.2	239.1
Participations	10	1,732.0	2,025.9
Loans to Group companies	9	58.8	57.9
Other financial assets		0.2	0.2
Non-current assets		1,791.0	2,084.0
Total assets		2,140.2	2,323.1
Equity and liabilities			
Share capital		5.0	5.0
Statutory reserve			
General reserve		11.7	11.7
Reserve for treasury shares		156.4	182.3
Other reserves		264.9	247.4
Retained earnings		234.2	194.9
Equity	12	672.2	641.3
Liabilities to Group companies		19.9	0.1
Liabilities to third parties		0.0	0.6
Bonds	11	1,392.5	1,642.5
Provisions		15.4	6.0
Accruals		40.2	32.6
Liabilities		1,468.0	1,681.8
Total equity and liabilities		2,140.2	2,323.1

Notes Bâloise Holding

1. ACCOUNTING STANDARDS

The annual accounts of Bâloise Holding are produced in accordance with the regulations of the Swiss Stock Corporation Law.

Cash and cash equivalents

Cash and cash equivalents include cash in banks as well as cash equivalents such as call and time deposits or money market instruments, if these have an original maturity of less than 90 days.

Treasury shares

Treasury shares are measured at cost or at the lower fair value.

Receivables

Receivables are stated at face value net of necessary impairments.

Accruals

Accruals considers both expenses paid in advance for the new fiscal year, as well as revenue from the current fiscal year that will only be received at a later date. Included under the same heading are dividends decided on the balance sheet date by the Annual General Meeting of the subsidiaries. Bâloise Holding reports these as dividend claims.

Participations

Participations are recognised at cost net of requisite depreciation.

Loans to Group companies

Loans are valued at face value, factoring in requisite depreciation. Individual value adjustments are conducted according to the prudence principle for all identifiable risks.

Other financial assets

Marketable securities are recognised either at their acquisition cost or at fair value, with the lower of the two being applied.

Liabilities

Liabilities are recognised at face value.

Bonds

Bonds are recognised at face value. The emission costs, reduced in the amount of the premium, are charged in full to the income statement upon issue of the bond.

Provisions

Provisions are created to cover any risks according to the principles of prudent management.

Accruals

Accruals include income already received in respect of the new fiscal year and expenses for the fiscal year which will only be paid later.

NOTES TO THE INCOME STATEMENT

2. INTEREST AND SECURITIES INCOME

	2010	2011
in CHF million		
Income from treasury shares	6.7	9.2
Interest on loans to Group companies	2.4	2.2
Income from other financial assets	0.0	0.7
Other interest receivables	2.8	0.2
Total interest and securities income	11.9	12.3

3. OTHER INCOME

	2010	2011
in CHF million		
Income from services rendered	2.0	1.6
Other income	6.8	19.7
Total other income	8.8	21.3

4. ADMINISTRATIVE EXPENSES

	2010	2011
in CHF million		
Personnel expenses	-32.5	-20.9
Other administrative expenses	-18.9	-15.4
Total administrative expenses	-51.4	-36.3

5. INTEREST EXPENSES

	2010	2011
in CHF million		
Interest from bonds	-47.0	-49.2
Other interest expenses	-0.1	-0.1
Total interest expenses	-47.1	-49.3

6. DEPRECIATION

	2010	2011
in CHF million		
Depreciation on treasury shares	-0.0	-32.7
Total depreciation	-0.0	-32.7

7. OTHER EXPENSES

	2010	2011
in CHF million		
Expenses incurred from services rendered	-1.4	-1.4
Other expenses	-11.7	-12.2
Total other expenses	-13.1	-13.6

NOTES TO THE BALANCE SHEET

8. ACCRUALS

Due to resolutions of the AGM on 23 February 2012 of the Haakon AG, Basel, and on 1 March 2011 of the Baloise Asset Management Schweiz AG, Basel, the Baloise Asset Management International AG, Basel, and the Baloise Bank SoBa AG, Solothurn, the resulting dividend claims for the 2011 fiscal year were regarded as accruals i. e. prepaid expenses (2011: CHF 46.6 million / 2010: CHF 25.0 million).

9. LOANS TO GROUP COMPANIES

	2010	2011
in CHF million		
Subordinated loan to Baloise Bank SoBa	30.0	30.0
Loan to Bâloise (Luxembourg) Holding S.A.	28.8	27.9
Total loans to Group companies	58.8	57.9

10. PARTICIPATIONS

Company	Total holding as of 31.12.2010	Total holding as of 31.12.2011	Share / corporate capital as of 31.12.2011	
	in % ¹	in % ¹	Currency	in million
Basler Versicherung AG, Basel	100.00	100.00	CHF	75.0
Basler Leben AG, Basel	100.00	100.00	CHF	50.0
Baloise Bank SoBa AG, Solothurn	100.00	100.00	CHF	50.0
Baloise Asset Management Schweiz AG, Basel	100.00	100.00	CHF	1.5
Baloise Asset Management International AG, Basel	100.00	100.00	CHF	1.5
Haakon AG, Basel	74.75	74.75	CHF	0.2
Baloise Life (Liechtenstein) AG, Balzers	100.00	100.00	CHF	15.0
Baloise Beteiligungs-Holding GmbH, Bad Homburg	100.00	–	EUR	–
Basler Saturn Management B.V., Hamburg	100.00	100.00	EUR	0.0
Nateus NV, Antwerp	–	100.00	EUR	27.8
Nateus Life NV, Antwerp	–	100.00	EUR	61.7
Baloise (Luxembourg) Holding S.A., Bertrange (Luxembourg)	100.00	100.00	CHF	249.9
Baloise Delta Holding S.à.r.l., Bertrange (Luxembourg)	100.00	100.00	EUR	224.3
Baloise Fund Invest Advico, Bertrange (Luxembourg)	100.00	100.00	EUR	0.1
Baloise Insurance Company (Bermuda) Ltd., Hamilton, Bermuda	100.00	100.00	CHF	5.0
Baloise Finance (Jersey) Ltd, St. Helier, Jersey	100.00	100.00	CHF	1.3
Basler osiguranje Zagreb d.d., Zagreb	100.00	100.00	HRK	45.0
Neživotno osiguranje "Basler" a.d.o., Belgrade	100.00	100.00	RSD	675.1
Životno osiguranje "Basler" a.d.o., Belgrade	100.00	100.00	RSD	300.1

¹ The holding is rounded down to the nearest percent.

For additional information on participations held directly by Baloise Holding see pages 218 and 219 of the section Financial Report.

11. BONDS

AMOUNT

	Interest rate	Issued	Maturity date
CHF 150 million	3.250 %	2007	19.06.2012
CHF 550 million	4.250 %	2009	29.04.2013
CHF 150 million	3.500 %	2007	19.12.2014
CHF 242.5 million (convertible bond)	1.500 %	2009	17.11.2016
CHF 300 million	2.875 %	2010	14.10.2020
CHF 250 million	3.000 %	2011	07.07.2021

On 1 March 2012, the Baloise Holding Ltd issued a new bond over CHF 175 million (2.25 %, 2012 – 2019) at an issue price of 100.713 %.

12. CHANGES IN EQUITY

	31.12.2010	31.12.2011
in CHF million		
Share capital		
As of 1 January	5.0	5.0
Reduction through cancellation of shares as per AGM resolution	–	–
Total share capital	5.0	5.0
Statutory reserves		
General reserve		
As of 1 January	11.7	11.7
Allocation	–	–
Total general reserve	11.7	11.7
Reserve for treasury shares		
As of 1 January	118.3	156.4
Reduction through cancellation of shares as per AGM resolution	–	–
Withdrawal (carry forward to other reserves)	–	–
Allocation (carry forward from other reserves) ¹	38.1	25.9
Total reserve for treasury shares	156.4	182.3
Total statutory reserves	168.1	194.0
Other reserves		
As of 1 January	298.6	264.9
Allocation from retained earnings	4.4	8.4
Allocation (carry forward from reserve for treasury shares)	–	–
Withdrawal (carry forward to reserve for treasury shares)	– 38.1	– 25.9
Total other reserves	264.9	247.4
Retained earnings		
As of 1 January	230.2	234.2
Dividend distribution	– 225.0	– 225.0
Addition to other reserves	– 4.4	– 8.4
Profit for the period	233.4	194.1
Total retained earnings	234.2	194.9
Total equity	672.2	641.3

¹ Baloise Group companies purchased during the reporting period (not including the share buy-back via the secondary trading line) a total of 646,944 shares at an average price of CHF 88. During the reporting period they sold 351,008 shares at an average price of CHF 91 and together held a total of 2,004,072 Bâloise Holding shares as of 31 December 2011. The balance of Bâloise Holding shares acquired via the secondary trading line amounted to 223,565 shares, as in the previous year. These shares are stated in the balance sheet item "Treasury shares."

13. SIGNIFICANT SHAREHOLDERS

One shareholder group holds more than 3 % and two shareholder groups hold more than 5 % of outstanding Baloise shares as of 31 December 2011. The following table provides information on the current shareholder structure as of 31 December 2011 (figures rounded).

	Total holding as of 31.12.2010	Share of voting rights as of 31.12.2010	Total holding as of 31.12.2011	Share of voting rights as of 31.12.2011
in percent				
Shareholders				
Chase Nominees Group ¹	6.3	2.0	6.5	2.0
Signal Iduna Gruppe	>5.0	2.0	>5.0	2.0
BlackRock Inc	>5.0	0.0	>5.0	2.0
Mellon Bank N. A. ¹	3.5	0.0	3.5	0.0
CS Group	2.6	<2.0	>3.0	<2.0
UBS Group	<2.0	<2.0	2.7	<2.0
Bank of New York Mellon N.V. ¹	2.2	0.0	2.5	0.0
Nortrust Nominees Ltd. ¹	2.3	0.0	2.3	0.0

¹ Custodian nominees who hold shares in trust for third parties are added to the free float pursuant to the SIX Exchange regulations. Such shareholder groups are not subject to registration pursuant to stock exchange law.

14. CONTINGENT LIABILITIES

As of 31 December 2011, the guarantee liabilities amount to CHF 169.6 million (previous year: CHF 164.9 million).

Baloise Holding issues the following letter of comfort: as the owner of Baloise Life (Liechtenstein) AG, Baloise Holding, Basel, warrants that its subsidiary, Baloise Life (Liechtenstein) AG is able to meet its financial obligations to its customers, arising from RentaSafe, BelRenta Safe, RentaProtect and RentaSafe Time contracts, in particular guarantee pledges, in full at any time. The maximum liability corresponds to the actuarial reserve entered in the balance sheet of Baloise Life (Liechtenstein) for these products as of 31 December 2011.

Baloise Holding assumes the unrestricted obligation to assure the Landesbank Baden-Württemberg that the Partner in Life S.A., Contern (Luxembourg), will be managed and financially equipped so that it is able to meet all its obligations towards the bank in due time whilst the loans amounting to EUR 40 million granted by the bank including interest, costs and commissions are not fully repaid.

Baloise Holding is jointly liable for value-added tax due with all companies which, under the leadership of the Baloise Insurance Ltd, are subject to group taxation.

15. PAYMENTS IN ACCORDANCE WITH OR (SWISS CODE OF OBLIGATIONS) ARTICLES 663B^{BIS} AND 663C

Disclosures of facts in accordance with 663b^{bis} and 663c of the Swiss Code of Obligations (OR) are contained in the Compensation Report. Pages 68 to 76 in the chapter on Corporate Governance are an integral component of the Financial Report. The facts are mainly as follows:

- remuneration to members of the Board of Directors
- remuneration to members of the Corporate Executive Committee
- loans and advances granted to members of the Board of Directors and the Corporate Executive Committee
- shares and options held by members of the Board of Directors and the Corporate Executive Committee

16. DETAILS ABOUT THE PERFORMANCE OF A RISK ASSESSMENT

Details about the performance of a risk assessment can be obtained from Chapter 5, "Management of insurance and financial risks," in the Baloise Group's Consolidated Annual Financial Statements.

17. EVENTS AFTER THE BALANCE SHEET DATE

Information on the bond issued on 1 March 2012 is contained in the section "Bonds." To our knowledge, no further events have occurred up to the completion of the consolidated Annual Financial Statement dated 14 March 2012, which would have a material impact on the Annual Financial Statement overall.

Appropriation of retained earnings as proposed by the Board of Directors

RETAINED EARNINGS AND APPROPRIATION OF EARNINGS

Net retained earnings amounted to CHF 194,056,489.07.

The Board of Directors proposes to the Annual General Meeting the appropriation of retained earnings in accordance with the table below.

	2010	2011
in CHF		
Profit for the period	233,435,876.98	194,056,489.07
Earnings carried forward	761,739.92	797,616.90
Retained earnings	234,197,616.90	194,854,105.97
Proposals by the Board of Directors		
Appropriation to / withdrawal from other reserves	- 8,400,000.00	30,900,000.00
Dividends	- 225,000,000.00	- 225,000,000.00
Retained earnings to be carried forward	797,616.90	754,105.97

The distribution of profits complies with the provisions of § 30 of the Articles of Incorporation. Distribution per share equals CHF 4.50 gross or CHF 2.92 net of withholding tax.

Report of the statutory auditor to the General Meeting of Bâloise Holding Ltd, Basel

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the financial statements of Bâloise Holding Ltd, which comprise the income statement, balance sheet and notes (pages 68 to 76 and 224 to 232), for the year ended 31 December 2011.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. 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 based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2011 comply with Swiss law and the company's articles of incorporation.

REPORT ON OTHER LEGAL REQUIREMENTS

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) 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 further confirm that the proposed appropriation of retained earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers Ltd

Martin Frei	Enrico Strozzi
Audit expert	Audit expert
Auditor in charge	

Basel, 15 March 2012

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Glossary

→ **Actuarial reserves**

Actuarial reserves refer to provisions for current insurance policies in the life insurance segment.

→ **Annual premium equivalent (APE)**

The annual premium equivalent is the insurance industry standard for measuring the volume of new life insurance business. It is calculated as the sum of all annual premiums from new business and 10% of single premiums of the reporting period.

→ **Assets managed for third parties**

Assets held in trust for customers and partners.

→ **Baloise**

“Baloise” stands for “Baloise Group”, “Baloise Holding” for “Baloise Holding Ltd”. By Baloise share we mean the share of Baloise Holding Ltd.

→ **Brokers**

Insurance brokers are independent insurance intermediaries. These are companies or individuals who are not tied to any insurance company when placing contracts. They receive commission for the insurance contracts they conclude.

→ **Business segment**

Similar or related operating activities are grouped together in business segments. These are: nonlife, life, banking (including asset management) and other activities. The business segment “Other activities” includes, in particular, holding, property and investment companies.

→ **Business volume**

Business volume includes premium income from the nonlife and life insurance business and from unit-linked life insurance policies during the reporting period. Due to the underlying accounting principles of the Baloise Group, the latter may not be disclosed as income in the consolidated financial statements.

→ **Claims incurred**

Claims incurred comprises insurance claims paid out during the fiscal year, reserves formed in connection with unsettled claims, the dissolution of reserves for claims that no longer have to be settled or do not have to be paid in full, the costs of processing claims, as well as the performance of related provisions.

→ **Claims ratio**

The ratio of claims incurred to premiums, expressed in percent.

→ **Claims reserve**

Provisions for claims that have not been settled at year-end.

→ **Combined ratio**

Ratio of nonlife insurance business, expressing the sum of claims incurred (loss ratio), costs (expense ratio) and profit-sharing (profit-sharing ratio) in relation to premiums. This ratio is used to assess the profitability of the nonlife insurance business.

→ **Deferred tax assets and liabilities**

Probable future tax expenses and tax relief, resulting from temporary differences between the reported value of assets and liabilities, as disclosed in the consolidated financial statements, and their tax value. The calculation is based on country-specific tax rates.

→ **Embedded value (MCEV)**

The Market Consistent Embedded Value (MCEV) measures the value of a life portfolio for the shareholder on the balance sheet date. See also separate MCEV report.

→ **Expense ratio**

The ratio of the cost of nonlife insurance business to premiums, expressed in percent.

- **Fixed-income securities**
Securities (primarily bonds), yielding interest at a fixed rate during their whole term.
- **Gross**
In the annual report of an insurance company, “gross” stands for a balance sheet or income statement item before the deduction of of reinsurance.
- **Group life business**
Insurance policies taken out by companies or their employee benefit units on behalf of their employees as part of their company pension plans.
- **IFRS**
Since 2000, the Baloise Group has prepared its consolidated annual financial statements in accordance with IFRS International Financial Reporting Standards (formerly IAS International Accounting Standards).
- **Impairment (impairment loss)**
Impairment of an asset recognised in profit and loss. Whether the carrying value of an asset is greater than its recoverable amount is determined using an impairment test. If necessary, the asset is impaired down to the recoverable amount and recognised through profit and loss.
- **Insurance benefits**
The benefits provided by the insurer in connection with the occurrence of an insured event.
- **Investments**
Included in investments are properties, shares and alternative financial investments (stocks of an equity nature), fixed-interest securities, mortgage-backed investments, policies and other loans, derivatives as well as cash and cash equivalents. Precious metals from the investment-type insurance business are presented under the item “Other assets”.
- **Investment performance**
The performance measures the business success of investments. Gains, losses, income, expenses, as well as changes to as yet unrealised gains and losses, as set out in the income statement related to the average balance of the investments.
- **Investment-type life insurance**
Life insurance policies where policyholders invest their savings for their own account and at their own risk.
- **Investment-type premiums**
Premium income from life insurance policies where insurance companies invest the policyholder’s savings for the latter’s own account and at the latter’s own risk. In accordance with the International Accounting Standards applied by the Baloise Group, the savings that are part of this premium income may not be disclosed as income in the income statement.
- **Legal quota**
Fixed statutory or contractual percentage requiring life insurance companies to pass on a certain percentage of earnings to the policyholders.
- **Minimum interest rate**
Minimum required interest rate for the respective savings balance of company pension plans.
- **Net**
In the annual report of an insurance company “net” stands for a balance sheet or income statement item after the deduction of reinsurance.
- **New business margin**
Value of new business divided by the annual premium equivalent (APE).

→ **Non-recurrent deposits**

Non-recurrent deposits finance life insurance policies with a one-off deposit made when the policy begins. Primarily used as a financing tool for asset-building life insurance, with special emphasis on profitability and security aspects.

→ **Periodic premiums**

Periodically recurring premium income (see definition of “premium”).

→ **Policyholders' dividends**

Annual, non-guaranteed policyholder benefits from a life insurance policy which are granted when – compared with the assumptions that underlie the premium calculation – earnings are higher and/or risk and cost behaviour patterns are more favourable.

→ **Premium**

The amount paid by the policyholder to cover the cost of insurance.

→ **Premiums earned**

The proportion of the policy premium allocated to the risk covered by an insurer during the fiscal year, i. e. premium less change in unearned premium reserves.

→ **Profit after taxes**

Profit after taxes is the final consolidated sum of all earnings and expenses, less borrowing costs, as well as current and deferred income taxes. Profit after taxes includes the proportion of minority interests in the result.

→ **Profit-sharing ratio**

Index expressing the profit-sharing/premium ratio. Profit sharing is a rebate granted to policyholders in the nonlife business due to profitable business.

→ **Provisions**

Evaluation of future insurance benefits from identified and not yet identified claims, which are disclosed as liabilities in the balance sheet.

→ **Reinsurance**

If the insurance company does not want to carry the full risk from an insurance policy or an entire portfolio of policies, it passes on part of the risk to a reinsurance company or another direct insurer. However, the primary insurer still has to indemnify the policyholder for the full risk.

→ **Return on equity**

Calculated return on the equity of a company during the fiscal year. Return on equity is calculated by taking the profit generated during the fiscal year and dividing it by average equity.

→ **Run Off business**

Policy portfolio that has ceased to accept new policies, with existing policies expiring successively.

→ **Segment**

Financial reporting at the Baloise Group is carried out in accordance with International Financial Accounting Standards (IFRS), which requires similar transactions and business activities to be grouped and presented together. The bundled business activities are presented in “segments,” by geographic regions and business segments.

→ **Share buy-back programme**

Procedure approved by the Board of Directors under which the company itself may repurchase outstanding shares. In Switzerland, these buy-backs are carried out through a separate trading line.

→ **Shares issued**

Total number of shares that a company has issued. The total number of shares issued, multiplied by their face value is the nominal share capital of the company.

→ **SLI**

The Swiss Leader Index comprises the 30 largest and most liquid securities in the Swiss equity market.

→ **Scoring**

Scoring stands for statistical analyses, whereby risk estimates based on experience values are derived from data collected. Insurers apply scoring in order to tariff equitably.

→ **Solvency**

Required minimum capital for insurance companies specified by the regulatory authorities, to cover business risks (investments, claims). As a rule, this requirement is specified at a national level and may differ from country to country.

→ **Technical reserves**

On the balance sheet, insurers disclose the value of future benefits they expect from the existing insurance policies, calculated at the present time. The value is computed using recognised principles.

→ **Technical result**

The technical result includes a comparison of all expenses and income from the insurance business. Expenses and income unrelated to the insurance business and revenue from investments are not included in the technical result.

→ **Unearned premium reserves**

Accrued portions of the written premiums that have been charged for periods after the balance sheet date.

→ **Unrealised gains and losses (charged to equity)**

Unrealised gains and losses are gains or losses charged to equity, which are not recognised in profit or loss and result from the valuation of assets. These are charged to equity after deducting deferred tax assets and liabilities and deferred policyholders' dividends (life insurance business). These gains or losses are only transferred to the income statement upon disposal of the underlying asset or upon impairment (impairment loss).

→ **Value of new business**

The value of new business transacted during the reporting period, valued at the time the policy is issued.

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Information on the Baloise Group

The 2011 Annual Report is published in German and English. The German version is binding. The section Financial Report contains the audited 2011 annual financial statements with detailed information.

AVAILABILITY AND ORDERING

The 2011 Annual Report and the Summary of the 2011 Annual Report are available on the Internet at www.baloise.com/annualreport as of 22 March 2012.

Corporate publications can be ordered via the Internet or from the Baloise Group, Corporate Communications, Aeschengraben 21, CH-4002 Basel.

INFORMATION FOR SHAREHOLDERS AND FINANCIAL ANALYSTS

You can find detailed information and data on the Baloise share, the IR agenda, the latest presentations and how to contact Investor Relations on the Internet at www.baloise.com/investors. The information is available in German and English.

INFORMATION FOR MEDIA REPRESENTATIVES

At www.baloise.com/media you will find the latest media releases, presentations, reports, pictures and podcast files of various Baloise events as well as media contact details.

NOTE ON FORWARD-LOOKING STATEMENTS

This publication is intended to provide an overview of Baloise's business performance. It contains forward-looking statements including forecasts of future events, plans, goals, business developments and results based on the current expectations and assumptions of Baloise management. These forward-looking statements should be used with due caution as they contain both known and unknown risks. They also contain uncertainties and may be affected adversely by other factors. In consequence, business performance, results, plans and goals could differ materially from those presented explicitly or implicitly in these forward-looking statements. Influencing factors include (i) changes in the overall state of the economy, especially in key markets; (ii) financial market performance; (iii) competitive factors; (iv) changes in interest rates; (v) changes in exchange rates; (vi) changes in the statutory and regulatory framework including accounting standards; (vii) frequency and magnitude of claims and development of claims history; (viii) mortality and morbidity rates; (ix) renewals and maturity of insurance policies; (x) legal disputes and administrative proceedings; (xi) departure of key employees; (xii) negative publicity and media reports.

Baloise assumes no obligation to update or revise these forward-looking statements, to consider new information, future events etc. The past performance of Baloise is no indication of future results.

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Key dates and contacts

22.3.2012 Annual results:
media conference
telephone conference financial analysts

27.4.2012 Baloise Holding Ltd
Annual General Meeting

30.8.2012 Half-year results:
telephone conference
media / financial analysts

19.3.2013 Annual results:
media conference
telephone conference financial analysts

02.5.2013 Baloise Holding Ltd
Annual General Meeting

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Making you safer.