Bâloise Holding

Bâloise Holding Ltd

ANNUAL REPORT

2012

Bâloise Holding Ltd
Annual Report 2012

Who we are: Headquartered in Basel, Switzerland, the Baloise Group is a European provider of insurance and pension solutions. In Switzerland, the Group operates as a specialised financial services provider, offering a combination of insurance and banking services. The Group also has a market presence in Germany, Austria, Belgium, Luxembourg, Liechtenstein, Croatia and Serbia. Its sales network includes its own sales organisation, as well as brokers and other partners. Baloise operates its innovative pension plan business for private customers throughout Europe with its competence centre in Luxembourg. Bâloise Holding Ltd shares are quoted in the main segment of the SIX Swiss Exchange. The Baloise Group employs some 8,800 people.

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.

BALOISE

REVIEW OF OPERATING PERFORMANCE

SUSTAINABLE BUSINESS MANAGEMENT

CORPORATE GOVERNANCE

FINANCIAL REPORT

BÂLOISE HOLDING LTD

NOTES

Baloise key figures

	2011	2012	Change (%)
CHF million			
Business volume			
Gross premiums written (non-life)	3,143.5	3,317.7	5.5
Gross premiums written (life)	3,659.8	3,424.0	– 6.4
Sub-total of IFRS gross premiums written [1]	**6,803.3**	**6,741.7**	**– 0.9**
Investment-type premiums	1,341.2	1,616.6	20.5
Total business volume	**8,144.5**	**8,358.3**	**2.6**
Operating profit (loss)			
Profit / loss before borrowing costs and taxes			
Non-life	127.0	353.5	178.3
Life [5]	15.9	176.7	1,011.3
Banking	73.3	72.8	– 0.7
Other activities	– 72.3	– 47.2	– 34.7
Profit for the period	61.3	442.4	621.7
Balance sheet			
Recognised assets including investment-type life insurance [2]	64,507.0	69,207.6	7.3
Technical reserves	45,561.9	46,702.3	2.5
Equity	3,893.6	4,872.8	25.1
Ratios (per cent)			
Return on equity (RoE)	1.6	10.3	–
Gross combined ratio (non-life)	92.4	93.1	–
Net combined ratio (non-life)	95.5	94.1	–
New business margin (life)	10.2	8.9	–
Investment performance (insurance) [6]	2.8	6.6	–
Embedded value of life insurance policies			
Embedded value (MCEV)	2,153.0	2,752.8	27.9
Annual premium equivalent (APE)	341.7	264.4	– 22.6
Value of new business	34.9	23.5	– 32.7
Key figures on the Company's shares			
Shares issued (units)	50,000,000	50,000,000	0.0
Basic earnings per share [3] (CHF)	1.30	9.32	616.9
Diluted earnings per share [3] (CHF)	1.29	9.08	603.9
Equity per share [3] (CHF)	82.3	103.2	25.4
Closing price (CHF)	64.40	78.50	21.9
Market capitalisation (CHF million)	3,220.0	3,925.0	21.9
Dividend per share [4] (CHF)	4.50	4.50	0.0

1 Premiums written and policy fees (gross).
2 Investments for the account and at the risk of life insurance policyholders.
3 Calculation is based on profit for the period and equity before minority interests respectively.
4 2012 based on the proposal submitted to the Annual General Meeting.
5 Of which deferred gains / losses from other operating segments (31 December 2011: CHF 10.8 million; 31 December 2012: CHF – 6.6 million).
6 Excluding investments for the account and at the risk of life insurance policyholders.

At a glance

Net combined ratio of
94.1 per cent

"Baloise 2012" programme: boosted long-term profitability by CHF 214 million

Total volume of business up
3.8 per cent

Return of
6.6 per cent
on investments

Profit of
CHF 437 million

Solvency ratio of
277 per cent

Equity of
CHF 4,872.8 million

New business margin of
8.9 per cent

Return on equity (RoE) of 10.3 per cent

Consistent high level of dividend for the past six years
CHF 4.50 per share
(will be proposed to Annual General Meeting on 2 May 2013)

What we want to achieve: In future we will continue to focus on our high-quality and profitable core business. We therefore aim to achieve a **combined ratio of between 93 per cent and 96 per cent** in our non-life business, while in our life insurance we are looking to attain a **new business margin in excess of 10 per cent.** As far as our operational profitability is concerned, we plan to achieve a **return on equity of between 8 per cent and 12 per cent** and to continue our **practice of paying consistent, attractive dividends.**

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

Safe, secure, reliable and profitable – for the past 150 years

DEAR SHAREHOLDER

This year sees Baloise celebrating its 150th anniversary – a truly impressive milestone that we are proud of and that reminds us of our huge responsibility. Our organisation's existence dates back to the original company called "Basler-Versicherungs-Gesellschaft gegen Feuerschaden" (Basler Insurance Company against Fire Damage), which in turn had its origins in a fire that devastated the Swiss town of Glarus on 10 May 1861.

Observers at the time realised that you need institutions that act in the common interest by identifying and mitigating risks and spreading them across a large number of people, thereby offering protection against their consequences. This is something that no one individual can achieve. It is therefore quite true to say that modern-day life would be impossible without insurance. The Board of Directors, the Corporate Executive Committee and all members of staff feel an enormous sense of motivation in working for a company that is important to society at large.

We are delighted that Baloise has been able to act as a reliable and safe partner to our employees, customers and shareholders for so long. On behalf of the entire workforce we would like to thank you for the trust and confidence that you place in us year after year.

The financial results that Baloise is presenting for 2012 show that the Company has returned to its usual strength after facing a difficult year in 2011. Our profit of 436.6 million Swiss francs demonstrates the robust operational profitability of our insurance business, which underpins what Baloise does. We understand safety and security to mean that we need to do everything we can to ensure that we assess risks accurately and then act accordingly, whether by underwriting new insurance policies or selecting the right investments. By doing so, we aim to raise the Company's value as much as possible. The low combined ratio of 94.1 per cent in our non-life business and the impressive 6.6 per cent rate of return on our investments are proof positive that we continued to adhere strictly to this ambition during the reporting year. The fact that Baloise is a safe and secure organisation is also underscored by its substantial equity of almost 5 billion francs and its excellent solvency ratio of 277 per cent.

> We aim to honour our promise of “Making you safer” every single day.

Our main mission is to demonstrate reliability in our dealings with our employees, customers and shareholders. We do our utmost to keep our promise of “Making you safer” day after day. Our stability and profitability enable us to offer our employees secure jobs. We nurture talent and develop our managerial staff to equip them for the varied and challenging tasks that they have to perform in a complex environment. We aim to be a reliable partner to our customers by offering them the very best – whether prevention services as part of the “Baloise Safety World”, top-quality products or efficient claims handling. This is because rather than just settling claims we want to help prevent them from occurring in the first place. And, finally, reliability towards our shareholders means that the capital which they invest in our company is employed prudently so that it yields long-term rewards.

We have brought our “Baloise 2012” strategic growth and earnings enhancement programme to a successful conclusion. Over the course of four years we used this programme to implement approximately 100 measures at all business units, thereby raising Baloise's long-term profitability by 214 million Swiss francs. At the same time we successfully dealt with the challenges thrown up by the financial and euro crises.

Our excellent financial results, solid profitability and strong capitalisation have enabled us to continue our longstanding practice of paying attractive dividends. We will therefore propose to the Annual General Meeting on 2 May this year that a dividend of CHF 4.50 per share be paid. The high level of this payout has been maintained for the past six years. This is what Baloise means by reliability.

We are approaching the challenges that lie ahead with a sense of purpose and optimism. We are drawing on our 150-year track record as a Swiss institution to ensure that we continue to add value – in a safe, secure, reliable and profitable way. We remain true to our virtues, striving to achieve quality growth by focusing on risk-conscious target customers and potential partners and by prioritising sustainable value. With these goals firmly fixed in our minds, we will continue to build on what we have already achieved. The measures that we take over the next few years will concentrate on four areas: generating above-average growth in our target segments, improving our efficiency, enhancing the long-term value of our life insurance business at a time of low interest rates, and optimising our non-life operations by further developing our risk management capabilities.

In future we will continue to focus on our high-quality and profitable core business. We therefore aim to achieve a combined ratio of between 93 per cent and 96 per cent in our non-life business, while in our life insurance we are looking to attain a new business margin in excess of 10 per cent. As far as our operational profitability is concerned, we plan to achieve a return on equity of between 8 per cent and 12 per cent and to continue our practice of paying consistent, attractive dividends.

Basel, March 2013

Dr Andreas Burckhardt
Chairman of the Board of Directors

Dr Martin Strobel
Group CEO

Baloise shares deliver impressive performance

Baloise shares* ended 2012 on a high note at a price of CHF 78.50, which constituted an annual return of 21.9 per cent. In addition, a dividend of CHF 4.50 per share, which would represent a dividend yield of 5.7 per cent, will be proposed to the Annual General Meeting. This would make 2013 yet another year in which our shareholders receive a highly attractive payout.

The European sovereign debt crisis and the persistently low level of interest rates continued to dominate the financial markets in 2012. The insurance industry's situation is being exacerbated by the uncertainty as to how regulatory requirements such as Solvency II will pan out. Although the fairly gloomy macroeconomic outlook continued to prevail, the equity markets turned in an impressive performance and had posted significant gains by the end of the year. Insurance stocks received an especially strong boost from this upward trend and comfortably outperformed the market as a whole.

Having got off to a flying start in 2012, the equity markets suffered setbacks in the second quarter of the year and surrendered a considerable portion of their gains. Baloise's share price was no different: after advancing almost 20 per cent in the first three months, it had shed these gains by the middle of 2012 and at the end of June was 3.0 per cent below where it had been at the beginning of the year. Over the same period the Swiss Market Index rose by 2.2 per cent, while the European insurance sector index added 7.3 per cent.

The second half of the year saw a return to the stellar share price performance of the first quarter. The 25.6 per cent surge in Baloise stocks in the second half of 2012 was roughly twice the size of the gains posted by the Swiss Market Index and the Swiss insurance sector index, which added 12.5 per cent and 14.6 per cent respectively.

Having closed the year at CHF 78.50, Baloise shares generated a return of 21.9 per cent for 2012 as a whole, thereby comfortably outperforming the Swiss Market Index, which was 14.9 per cent higher than it had been at the beginning of the year. The Swiss insurance sector index performed more or less in line with Baloise, gaining 23.0 per cent over the year as a whole, while its European counterpart achieved an even more impressive increase of 32.9 per cent compared with its level at the beginning of 2012.

Baloise shares are included in the Swiss Leader Index (SLI). This index comprises the 30 largest and most liquid Swiss equities

DIVIDENDS PAID TO SHAREHOLDERS

The Board of Directors of Bâloise Holding Ltd will propose to the Annual General Meeting on 2 May 2013 that a cash dividend of CHF 4.50 per share be paid for the 2012 financial year. This would represent a dividend yield of 5.7 per cent of the year-end share price.

	Cash dividends	Share buy-backs	Total
Year (CHF million)			
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
2012	225.0	–	225.0
Total	1,143.0	253.6	1,396.6

All figures stated as at 31 December.

Information on Baloise's share buy-back programme 2008–2011 can be found at
www.baloise.com → Investor Relations → Baloise share → Share buy-back programme

SHAREHOLDER STRUCTURE

The shares in Bâloise Holding Ltd are widely held and their free float remains unchanged at 100 per cent. Several changes in Baloise's shareholder base took place during the 2012 financial year. The shareholding owned by BlackRock, Inc. and its

*Baloise share = share of Bâloise Holding Ltd.

subsidiaries fell below the notifiable threshold of 5 per cent on 29 March 2012 and subsequently amounted to 4.99 per cent of the outstanding registered shares in Bâloise Holding Ltd. Several collective investments managed by UBS Fund Management (Switzerland) AG together rose above the threshold of 3 per cent on 9 November 2012 and subsequently amounted to 3.24 per cent of Baloise's outstanding registered shares. The shareholding owned by the Signal Iduna Group fell below the threshold of 5 per cent on 28 November 2012 and subsequently amounted to 4.96 per cent. Further information on Baloise's significant shareholders as at 31 December 2012 can be found in the table on page 233.

STATISTICS ON BALOISE SHARES

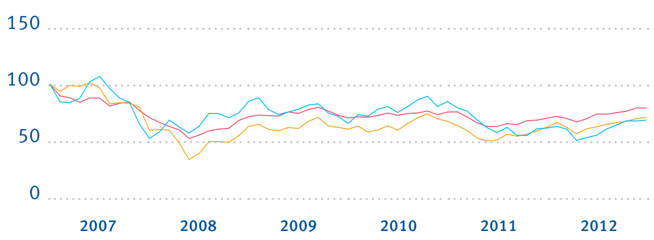
	31.12.2008	31.12.2009	31.12.2010	31.12.2011	31.12.2012
Price at year-end (CHF)	78.50	86.05	91.00	64.40	78.50
High (CHF)	119.80	102.60	97.85	103.30	80.56
Low (CHF)	44.80	52.60	74.15	60.15	58.30
Market capitalisation (CHF million)	3,925.0	4,302.5	4,550.0	3,220.0	3,925.0
Basic earnings per share (CHF)	7.33	8.64	9.14	1.30	9.32
Diluted earnings per share (CHF)	7.32	8.57	8.89	1.29	9.08
Price / earnings (p / e) ratio [1]	10.71	9.96	9.96	49.54	8.42
Price / book (p / b) ratio [1]	1.00	0.95	1.05	0.78	0.76
Number of shares issued (units)	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Minus the number of treasury shares (units)	1,566,985	2,282,790	2,800,239	3,247,273	3,053,746
Number of shares in circulation (units)	48,433,015	47,717,210	47,199,761	46,752,727	46,946,254
Average number of shares outstanding [2]	48,852,533	47,905,512	47,394,282	46,900,473	46,831,998
Dividend per share [3] (CHF)	4.50	4.50	4.50	4.50	4.50
Dividend pay-out ratio [3]	61.4	52.1	49.2	>100	48.3
Dividend yield [3]	5.7	5.2	4.9	7.0	5.7

1 Calculation is based on profit for the period and equity before minority interests respectively.
2 Relevant for calculation of earnings per share (see page 209 of the Financial Report).
3 2012 based on the proposal submitted to the Annual General Meeting.

BALOISE SHARES

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 DEVELOPMENT [1] BÂLOISE HOLDING REGISTERED SHARE 2007 – 2012



1 31 December 2006 = 100.

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

Our markets

Baloise focuses on markets, customers, products and distribution channels that add considerable value. Our preferred clients are individuals, small and medium-sized firms with good risk/return profiles and selected industrial companies.

SWITZERLAND

In its domestic market of Switzerland the Baloise Group operates under its "Basler Versicherungen" and "Baloise Bank SoBa" brand names. Basler Switzerland is the largest business unit in the Baloise Group. As a financial services provider it focuses on comprehensive insurance and pension solutions. Its customers are individuals, small and medium-sized firms, and selected industrial enterprises. Its insurance sales force is at the heart of its marketing strategy. This is supplemented by a network of distribution partners for certain product-related and customer segments and by brokers and the internet. Baloise Bank SoBa strengthens the range of pension solutions available by offering banking products that are sold by the insurance sales force and by the bank itself. It has positioned itself as a universal bank in northwestern Switzerland.

Basler Versicherungen · Baloise Bank SoBa

KEY FIGURES FOR SWITZERLAND

	2011	2012
Employees	3,748	3,806
Business volume (CHF million)	4,100.6	3,885.4
Gross combined ratio (per cent)	88.4	83.8

GERMANY

In Germany the Baloise Group operates under the "Basler Versicherungen" brand name. Its portfolio comprises insurance and pension solutions in the areas of indemnity, accident and life insurance for individuals, small and medium-sized firms, and selected industrial companies. Basler's marketing activities are focused on its insurance sales force, on brokers and on its distribution partners maklermanagement.ag, OVB and ZEUS.

Basler Versicherungen

KEY FIGURES FOR GERMANY

	2011	2012
Employees	2,652	2,373
Business volume (CHF million)	1,774.9	1,712.1
Gross combined ratio (per cent)	98.2	99.1

BELGIUM

In the Belgian market the Baloise Group has been operating under the "Baloise Insurance" brand name since January 2013. Baloise Insurance is one of the leading insurers in Belgium and sees itself as a partner to professional brokers. It offers a full range of property and personal insurance for individuals and for small and medium-sized firms. It is also the leading provider of marine insurance in the Belgian market.

Baloise Insurance

KEY FIGURES FOR BELGIUM

	2011	2012
Employees	1,389	1,389
Business volume (CHF million)	1,091.1	1,358.6
Gross combined ratio (per cent)	95.3	99.8

LUXEMBOURG

Bâloise Assurances provides a wide range of insurance, pension and wealth-building products to private and business customers in the Grand Duchy. Bâloise Luxembourg also works closely with highly successful banking partners and selected distribution partners outside its domestic market to sell wealth-building and pension solutions in a number of European Union countries.

Bâloise Assurances

KEY FIGURES FOR LUXEMBOURG

	2011	2012
Employees	256	273
Business volume (CHF million)	598.9	776.3
Gross combined ratio (per cent)	81.1	102.1

AUSTRIA

In Austria the Baloise Group offers insurance and pension products to individuals and to small and medium-sized firms under the “Basler Versicherungen” brand. In relation to marketing activities, its focus is on its own insurance sales force.

Basler Versicherungen

KEY FIGURES FOR AUSTRIA

	2011	2012
Employees	228	225
Business volume (CHF million)	153.7	158.1
Gross combined ratio (per cent)	95.0	97.7

CROATIA AND SERBIA

In Croatia the Baloise Group operates under the “Basler osiguranje Zagreb” brand name. It offers a full range of insurance solutions for private and business customers through its own sales force and via agencies and banks. Since the end of 2007 the Baloise Group has also had a presence in Serbia, where it focuses on the retail market.

Basler OSIGURANJE ZAGREB Basler osiguranja

KEY FIGURES FOR CROATIA AND SERBIA

	2011	2012
Employees	820	701
Business volume (CHF million)	70.4	68.4
Gross combined ratio (per cent)	107.4	105.8

LIECHTENSTEIN

Baloise Life – founded in Balzers, Liechtenstein, in 2007 – devises innovative pension solutions and customised life insurance for private clients across Europe under the guidance of Bâloise Luxembourg. It markets these products via the respective national Baloise companies and through third-party partners.

Baloise Life

KEY FIGURES FOR LIECHTENSTEIN

	2011	2012
Employees	44	24
Business volume (CHF million)	343.1	392.6

The Baloise brand

"Making you safer" is our brand promise. Everything we do is geared towards enhancing safety and security. We combine insurance with intelligent risk prevention to help ensure losses do not occur in the first place.

BRAND VALUES OF THE BALOISE GROUP

Swiss

Baloise is proud of its Swiss origins, which date back to 1863. We link this to reliability, a humanistic approach, solid security, strong tradition, financial expertise and impartiality.

Eloi Bamberg
Head of Sales Support in Luxembourg

"Baloise provides its employees in Luxembourg with a considerable amount of latitude, thereby living up to its reputation as an independent Swiss organisation."

Innovative

Our strong innovative capabilities give us the necessary competitive edge. This is illustrated by our unrelenting and holistic focus on safety and security and by the way we manage our customer relationships. We create a climate of continuous innovation across all product lines.

Petra Neckermann
Assistant to the Head of Group Human Resources

"Being innovative means not just thinking 'out of the box' but also having the courage and self-confidence in using your own creativity to drive innovation in the relevant areas. That's what makes us better every day."

Partnership

Our focus on partnership is one of our greatest emotional strengths and is predicated on value creation and mutual respect. We nurture and deepen our relationships with all our stakeholders to ensure that we achieve the desired impact each and every time.

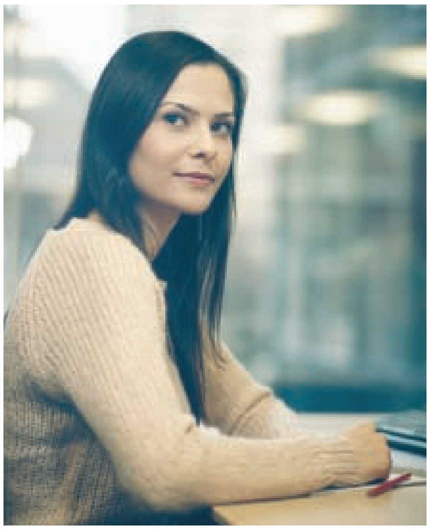
Andreas Bachmann
Corporate Clients Adviser

"Any solid partnership or relationship is based on mutual appreciation and respect. Only when we inspire customers in our contact with them, can we arrive at successful conclusions."

BRAND ATTRIBUTES OF THE BALOISE GROUP

Safety

Safety and security constitute our core competences and lie at the heart of all the products, services and benefits that we offer. They act as an exhilarating and energising force that unlocks huge potential.

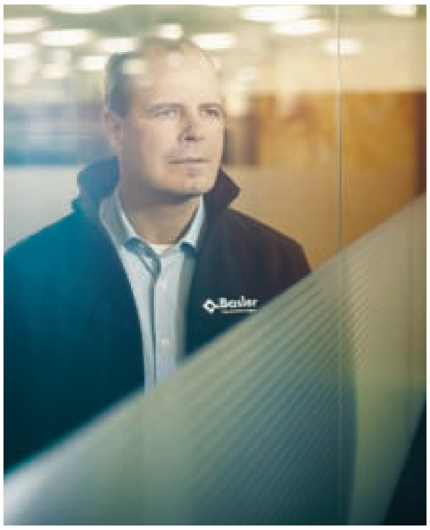


Zerrin Tunç
Customer Adviser, Claims Service

"The art of customer service is to provide clients with the safety and security they need by giving them the right information, advice and support."

Strength

Baloise is a strong partner – strong in terms of its growth, profitability and execution. You can rely on Baloise when you really need it, because its strength gives you the reassuring feeling of having a dependable partner at your side.

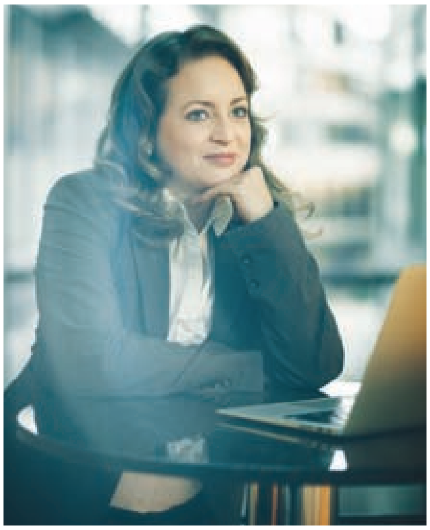


Raphael Strub
Senior Claims Inspector

"Strength means not only being able to achieve your goals but also knowing your weaknesses. Strength creates opportunities and is a character attribute that Baloise possesses in abundance – even after 150 years."

Professionalism

Baloise stands for professionalism. This enables us to be successful and deliver top-quality performance. We excel at understanding our core business, our customers and our sales channels because we know that professional expertise provides peace of mind.



Chantal Obergsell
Senior Business Informatics Specialist

"Assessing risks accurately, selecting the right methods to solve a problem and, consequently, ensuring that applications are reliable – that is also part of our professionalism."

Review of operating performance

Safe, secure, reliable and profitable – for the past 150 years

Baloise continued to demonstrate its earnings power and capital strength in 2012. Its impressive operating performance was driven by its buoyant insurance business with its excellent combined ratio, the encouraging growth in premiums, and the high level of gains on investments.

OVERVIEW

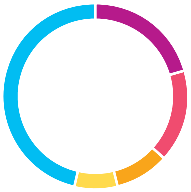
The Baloise Group generated a profit of CHF 436.6 million for the 2012 financial year (2011: CHF 60.8 million). All business divisions and all regional business units contributed to this profit. As expected, this impressive performance enabled Baloise to return to a sustainable path of operating earnings power. The profit reported for 2011 had been impaired by various adverse effects arising from the financial and economic crisis.

The life and non-life divisions achieved huge year-on-year increases in their profit contributions. The non-life business once again demonstrated the strength of its operating earnings power and reported a net combined ratio of 94.1 per cent, which was a significant improvement on the figure of 95.5 per cent reported for 2011. The banking business managed to replicate its impressive prior-year results despite the tough market environment. The “Baloise 2012” strategic growth and earnings enhancement programme was brought to a successful conclusion. This programme comprised roughly 100 individual measures and boosted Baloise’s earnings by more than CHF 214 million. Benign financial and capital markets enabled Baloise to generate substantial gains on its investments, which made a valuable contribution to the profit for the period. The investments held in the insurance business yielded an impressive return of 6.6 per cent partly because they focused on recurring income. Equity grew sharply by 25.1 per cent to approximately CHF 4.8 billion, while the solvency ratio reached an excellent 277 per cent, which was well in excess of the already impressive prior-year figure of 203 per cent.

BUSINESS VOLUME 2012 (GROSS) BY STRATEGIC BUSINESS UNIT

As a percentage

Switzerland	46.5
Germany	20.5
Belgium	16.3
Luxembourg	9.3
Other units and Group business	7.4



The positioning of the “Baloise Safety World” brand was embedded even more firmly in all markets. This brand comprises targeted prevention services that add value to the Company’s range of classical insurance products. These supplementary services are popular with customers and are driving business growth in individual insurance divisions. They facilitate cross-selling to risk-conscious target customers while ensuring that these clients remain loyal to Baloise and are more likely to recommend its products to others.

Baloise completed the integration of its Belgian acquisition Nateus. Together with Avéro, which it had bought slightly earlier, the Belgian business unit expanded its market share substantially and is now one of the leading non-life insurers in the country.

The total volume of business, which includes investment-linked life insurance, amounted to CHF 8,358.3 million (2011: CHF 8,144.5 million), which equated to growth of 2.6 per cent. This increase came to 3.8 per cent in local-currency terms. Investment-linked life insurance generated strong growth of 20.5 per cent. Premiums earned from non-life business also performed well, rising by 5.5 per cent. Part of this increase was attributable to the Belgian acquisitions. By contrast, business in classical life insurance contracted by 6.4 per cent owing to the low level of interest rates and our profit-oriented underwriting policy.

There were no material changes in the group of entities consolidated as part of the Baloise Group in 2012.

BUSINESS VOLUME

CHF million	2011	2012	+/– %
Total business volume	8,144.5	8,358.3	2.6
Life	3,659.8	3,424.0	– 6.4
Non-life	3,143.5	3,317.7	5.5
Investment-type premiums	1,341.2	1,616.6	20.5

NON-LIFE DIVISION: SIGNIFICANT GROWTH AND STRONG PROFITABILITY

The non-life insurance division (indemnity and personal insurance) delivered an exceptional performance on the back of its impressive profitability. Its business in Switzerland underpinned these results. The success of this Baloise Group division was reflected in its excellent net combined ratio of 94.1 per cent, which had improved further on the prior-year figure of 95.5 per cent – mainly because of lower costs from large claims. Profit before borrowing costs and taxes amounted to CHF 353.5 million (2011: CHF 127.0 million). This massive increase was essentially attributable to the better technical result and the much higher gains on investments, which – owing to benign capital market conditions – included hardly any impairment losses. The total volume of premiums under IFRS came to CHF 3,317.7 million (2011: CHF 3,143.5 million), which constituted an increase of 5.5 per cent in Swiss francs and 7.0 per cent in local-currency terms. All business units in the geographical regions contributed to this growth when measured in local-currency

COMBINED RATIO NET PERFORMANCE

As a percentage

terms. 4.2 percentage points of this growth stemmed from the companies acquired in Belgium.

LIFE DIVISION: SUBSTANTIAL PROFIT CONTRIBUTION

The life insurance division generated a profit of CHF 176.7 million before borrowing costs and taxes (2011: CHF 15.9 million). This improvement was largely attributable to the much higher level of financial income and the fact that very few impairment losses were recognised on investments. The appreciation in value of real estate in Switzerland contributed to this situation. The profit generated by this division was influenced by the very low level of interest rates. The total volume of business, which includes investment-linked life insurance, amounted to CHF 5,040.6 million (2011: CHF 5,001.0 million), which was an increase of 0.8 per cent in Swiss francs and 1.8 per cent in local-currency terms. Investment-linked life insurance achieved strong growth – especially in Belgium and Luxembourg and at Baloise Life in Liechtenstein – with its aggregate volume expanding by 20.5 per cent in Swiss francs and 22.5 per cent in local-currency terms to CHF 1,616.6 million (2011: CHF 1,341.2 million). Premium income earned from classical life insurance fell to CHF 3,424.0 million (2011: CHF 3,659.9 million) owing to the level of interest rates, market conditions and our profit-oriented underwriting policy; this constituted a decrease of 6.4 per cent in Swiss francs and 5.9 per cent in local-currency terms. The restrictive underwriting policy pursued in the Swiss group life business had a considerable impact on these trends.

In 2012, the embedded value of the life business rose from CHF 2,153.0 million to CHF 2,752.8 million, which was equivalent to a return on embedded value of 26.4 per cent. Operating income contributed CHF 378.4 million to the embedded value. A further CHF 198.3 million stemmed from the change in the economic environment. The value of new business was CHF 23.5 million and the new business margin was 8.9 per cent (2011: 10.2 per cent).

BANKING DIVISION: CONSISTENT AND SOLID

The banking division, whose core entity is Baloise Bank SoBa, managed to shrug off the adverse market conditions to generate a solid profit of CHF 72.8 million before borrowing costs and taxes (2011: CHF 73.3 million). Baloise Bank SoBa compensated for the narrowing margins in its interest-earning business by increasing its customer loans and pursuing a rigorous cost containment strategy. Baloise Asset Management raised its profit for the period on the back of higher fee and commission income.

EQUITY: SIGNIFICANTLY HIGHER CARRYING AMOUNTS

The Baloise Group's consolidated equity (before minority interests) rose by 25.1 per cent year on year to CHF 4,830.7 million as at 31 December 2012 (31 December 2011: CHF 3,860.3 million). This increase was attributable to the rise in unrealised gains on fixed-income financial assets and to the Baloise Group's substantial profit for the period. The return on equity jumped to 10.3 per cent (2011: 1.6 per cent). The solvency ratio also rose sharply, reaching an excellent 277 per cent compared with 203 per cent in 2011.

INVESTMENTS: SIGNIFICANT GAINS ON INVESTMENTS

Following a first quarter during which equity markets had performed well and interest rates had risen, the investment outlook became much bleaker around the middle of the year. The response mounted by central banks calmed the markets, enabling share prices to rise sharply from July onwards. At the same time, credit spreads on bonds narrowed substantially. Risk-free interest rates, on the other hand, remained at historically low levels. Despite this challenging environment Baloise managed to generate slightly higher recurring income of CHF 1,782.2 million.

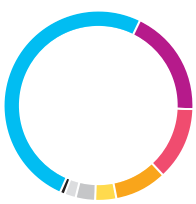
PROPRIETARY INVESTMENTS BY CATEGORY[1]

CHF million	2011	2012	+/– %
Investment property	5,138.0	5,441.0	5.9
Equities	2,190.4	2,142.7	– 2.2
Alternative financial assets	1,290.2	1,270.8	– 1.5
Fixed-income securities	27,981.6	30,693.7	9.7
Mortgage assets	10,949.8	11,009.9	0.5
Policy and other loans	7,092.9	7,501.0	5.8
Derivative financial instruments	281.8	334.9	18.8
Cash and cash equivalents	1,835.5	2,034.3	10.8
Total	56,760.2	60,428.3	6.5

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

INVESTMENT COMPONENTS 2012

As a percentage	
Fixed-income securities	50.8
Mortgage assets	18.2
Policy and other loans	12.4
Investment properties	9.0
Shares	3.5
Cash and cash equivalents	3.4
Alternative financial investments	2.1
Derivatives	0.6



ASSETS HELD BY BALOISE

as at 31 December 2011	Non-life	Life	Banking	Total for the Group
CHF million				
Proprietary investments	8,918.4	41,113.4	7,096.8	56,760.2
Investment-type life insurance [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 assets under management				**69,355.3**

as at 31 December 2012	Non-life	Life	Banking	Total for the Group
CHF million				
Proprietary investments	9,384.2	43,730.9	7,274.9	60,428.3
Investment-type life insurance [1]		8,779.3		8,779.3
Total recognised assets	9,384.2	52,510.2	7,274.9	69,207.6
Asset management for third parties				4,962.4
Total assets under management				**74,170.0**

1 Including CHF 87.1 million (previous year: CHF 83.0 million) in other assets (precious metal holdings from investment-type life insurance policies).

The rate of return according to International Financial Reporting Standards (IFRS) amounted to 6.6 per cent, which – owing to unrealised gains on fixed-income financial assets – comfortably exceeded the prior-year figure of 2.8 per cent. Net income advanced by 43 per cent year on year to CHF 1,947.6 million (2011: CHF 1,359.1 million). This represented a net return of 3.5 per cent on insurance investments. The life insurance division once again generated a higher rate of return than the non-life business.

Even at a time when interest rates are low Baloise continues to adhere to its quality criteria for bond investments so that it does not jeopardise the excellent quality of issuers in its asset portfolio. Consequently, the investment universe available is getting smaller and smaller. The proportion of government bonds issued by GIIPS countries (Greece, Ireland, Italy, Portugal and Spain) was reduced further in 2012 and at year-end amounted to only 1.2 per cent of total investments. The foreign-currency bonds held by Baloise entities in Switzerland were largely hedged against currency fluctuations.

Baloise's equity investments are now focused on high-dividend blue-chip stocks; although the relevant portfolios are more defensively invested than the market indices, they have been generating higher regular income. In the segment of alternative financial assets, private equity continued to yield impressive returns in 2012. The impairment losses recognised on financial assets of an equity nature totalled CHF 65.9 million (gross).

Directly held real estate has maintained its value and is yielding consistent rates of return. The risk situation with respect to mortgage loans remains sound.

Switzerland
Outstanding operating earnings power

The Switzerland segment consolidated its strong market position by achieving solid operational profitability, robust growth in its non-life business and an excellent level of financial income.

KEY FIGURES FOR SWITZERLAND

	2011	2012	+/– %
CHF million			
Business volume	4,100.6	3,885.4	– 5.2
Of which: life	2,796.8	2,569.3	– 8.1
Of which: non-life	1,303.8	1,316.1	0.9
Gross combined ratio (per cent)	88.4	83.8	–
Profit before borrowing costs and taxes	107.8	378.2	250.8

BASLER INSURANCE: HIGHLY PROFITABLE

The Baloise Group's insurance business in Switzerland delivered an exceptional performance. The non-life division once again achieved impressive results on the back of its strong operating earnings power and buoyant growth. The cutting-edge life insurance products available and the integration of prevention services into the property insurance range proved popular with customers and are proof positive of Basler Switzerland's highly innovative capabilities. Profit before borrowing costs and taxes jumped to CHF 378.2 million (2011: CHF 107.8 million). The substantial year-on-year improvement in financial income and the fact that very few large claims were incurred contributed to this positive trend. The total volume of business (including investment-linked life insurance) shrank by 5.2 per cent to CHF 3,885.4 million (2011: CHF 4,100.6 million) because of the profit-oriented underwriting policy that we pursued in respect of classical life insurance as well as the weakness of demand owing to the level of interest rates. Conversely, the volume of business generated by the unique business model combining banking and insurance continued to grow.

The non-life insurance division delivered highly impressive results. Its gross combined ratio was an outstanding 83.3 per cent (2011: 88.4 per cent) owing to its risk-conscious, selective underwriting policy on new business. This result was boosted by profits on claims reserves and by lower costs from large claims than in 2011. Basler Switzerland has consistently been achieving low combined ratios for several years now. The expense ratio was marginally higher than the low figure reported for 2011. The total volume of premiums rose by 0.9 per cent to CHF 1,316.1 million (2011: CHF 1,303.8 million). All sectors with the exception of accident insurance contributed to this growth. The largest increase came from motor vehicle insurance.

The total volume of business generated by the life insurance division amounted to CHF 2,569.3 million (2011: CHF 2,796.8 million), which represented a year-on-year decrease of 8.1 per cent. While there was very little demand for classical life insurance – especially in individual-life business – owing to the low level of interest rates, innovative products proved highly successful. The collaboration between the banking and insurance segments continued to deliver impressive results and generate growth. In its group life business, Basler Switzerland further increased the annual premiums earned from comprehensive BVG insurance contracts, whereas the single premiums it received in this business fell owing to its profit-oriented underwriting policy.

BALOISE BANK SOBA: HIGHER PROFIT AND ROBUST GROWTH

Baloise Bank SoBa performed well in 2012, raising its profit for the period by 0.8 per cent to CHF 21.9 million (all figures reported according to local accounting standards). Volume growth and cost containment compensated for the narrowing interest margin. Client assets and mortgage receivables continued to increase. The bank significantly raised the number of its asset management accounts by using Baloise's innovative investment advisory approach. Its joint business model in collaboration with Basler Insurance continued to achieve success, with the volumes generated by the insurance sales force growing by 9.3 per cent to CHF 2,304 million.

Germany
Integration complete

The merger of Basler Insurance with Deutscher Ring's life and property insurance operations has now been concluded. Further optimisation is in the pipeline.

KEY FIGURES FOR GERMANY

	2011	2012	+/– %
CHF million			
Business volume	1,774.9	1,712.1	– 3.5
Of which: life	928.2	854.2	– 8.0
Of which: non-life	846.7	857.9	1.3
Gross combined ratio (per cent)	98.2	99.1	–
Profit before borrowing costs and taxes	– 1.9	17.2	n / a

The merger of the Baloise Group's German companies into a single business unit was successfully completed in 2012. Key milestones in this process were the creation of a uniform product landscape in life and property insurance and the introduction of a joint exclusive sales channel. All parts of the German business unit have been operating under the "Basler Insurance" brand name since the end of 2012. The focus is now on making specific enhancements in order to improve long-term profitability. Baloise's business in Germany generated a profit of CHF 17.2 million before borrowing costs and taxes in 2012 after having reported a loss of CHF 1.9 million for 2011. Profitability was impaired by large claims and by one-off expenses arising from the demerger and integration of the Deutscher Ring companies. The low level of interest rates adversely affected the profitability of life insurance, while the upbeat sentiment in the financial and capital markets gave the necessary fillip to financial income. The gross combined ratio for the property insurance business deteriorated year on year to 99.1 per cent owing to the increase in claims incurred (2011: 98.2 per cent). The expense ratio rose by 1.7 percentage points as a result of the aforementioned integration. The total volume of business came to CHF 1,712.1 million (2011: CHF 1,774.9 million), which constituted a decline of 1.3 per cent in local-currency terms. The property insurance division grew by an encouraging 3.6 per cent to CHF 857.9 million in local-currency terms (2011: CHF 846.7 million). Broker-based and industrial business were the key drivers behind this positive trend. The total volume of life insurance business was down year on year, contracting by 5.9 per cent in local-currency terms – in line with market trends – to CHF 854.2 million (2011: CHF 928.2 million). Both classical life insurance and investment-linked products were hit by generally weak demand, the latter being primarily affected by declining sales of "Riester" state-subsidised pension products. Another factor was that expiring contracts were only partially replaced by new business.

Belgium and Luxembourg
Significant growth impetus

The business units in Belgium and Luxembourg continued to generate strong growth. The integration of the Belgian acquisitions is now complete.

BELGIUM: ABOVE-AVERAGE GROWTH IN NON-LIFE INSURANCE

KEY FIGURES FOR BELGIUM

	2011	2012	+/– %
CHF million			
Business volume	1,091.1	1,358.6	24.5
Of which: life	336.2	453.2	34.8
Of which: non-life	754.9	905.4	19.9
Gross combined ratio (per cent)	95.3	99.8	–
Profit before borrowing costs and taxes	21.9	73.8	237.0

Baloise's Belgian business unit, which has been operating under the "Baloise Insurance" brand name since January 2013, is now one of Belgium's leading non-life insurers after having acquired Avéro and Nateus in 2011. The integration of these two companies was brought to a successful conclusion at the end of 2012. There are signs that these acquisitions have already had a slightly positive impact on Baloise's financial results for 2012, thereby boosting growth and earnings. The Belgian business unit generated a profit of CHF 73.8 million before borrowing costs and taxes (2011: CHF 21.9 million). Profitability was bolstered by the acquired companies and by higher gains on investments and it was impaired by integration-related costs. The gross combined ratio for non-life insurance business rose to 99.8 per cent as a result of the acquisitions (2011: 95.3 per cent). Boosted by this additional capacity, the total volume of business grew by 27.4 per cent to CHF 1,358.6 million in local-currency terms (2011: CHF 1,091.1 million). Even excluding its acquisitions, the Belgian business unit grew by 5.6 per cent, which was above the market average. The property insurance business generated growth of 22.7 per cent, while the total volume of business in the life insurance division increased by 37.9 per cent on the back of significant growth in investment-linked products.

LUXEMBOURG: STRONG GROWTH

KEY FIGURES FOR LUXEMBOURG

	2011	2012	+/– %
CHF million			
Business volume	598.9	776.3	29.6
Of which: life	525.7	701.2	33.4
Of which: non-life	73.2	75.1	2.6
Gross combined ratio (per cent)	81.1	102.1	–
Profit before borrowing costs and taxes	10.0	10.7	7.0

Bâloise Luxembourg once again reported impressive financial results, generating a profit of CHF 10.7 million before borrowing costs and taxes (2011: CHF 10.0 million). The gross combined ratio deteriorated year on year to 102.1 per cent (2011: 81.1 per cent) owing to a claim for fire damage to property that was substantial for the size of the business unit. The cost of this claim in profit or loss was covered by reinsurance. The total volume of business generated highly impressive growth, rising by 32.6 per cent in local-currency terms to CHF 776.3 million (2011: CHF 598.9 million). CHF 644.4 million of this total was attributable to investment-linked life insurance, which Bâloise Luxembourg sells throughout the European Union. The Luxembourg unit also generated robust growth in its local core business, with premium income advancing by 10.0 per cent to CHF 131.9 million (2011: CHF 122.6 million). Classical life insurance products achieved an increase of 17.6 per cent despite tough market conditions, while non-life business expanded by 4.9 per cent.

Other units and Group business

Basler Austria continued to generate strong growth, while the Croatian business unit made its first-ever contribution to the Baloise Group's profits.

KEY FIGURES FOR OTHER UNITS

	2011	2012	+/– %
CHF million			
Business volume	567.2	619.1	9.2
Of which: life	414.1	462.7	11.7
Of which: non-life	153.1	156.4	2.2
Gross combined ratio for Basler Austria (per cent)	95.0	97.7	–
Gross combined ratio for Croatia and Serbia (per cent)	107.4	105.8	–
Profit before borrowing costs and taxes	– 89.0	– 6.0	– 93.3

AUSTRIA: SOLID GROWTH

Basler Austria continued on its pronounced growth trajectory and invested further in the expansion of its sales network by taking over agencies. This business unit has been growing at above the average market rate for a number of years. Its total volume of business came to CHF 158.1 million (2011: CHF 153.7 million), which represented an increase of 5.3 per cent in local-currency terms. The volume of premiums earned from non-life business also generated impressive growth, advancing by 6.3 per cent, while life insurance achieved a corresponding increase of 2.2 per cent. The gross combined ratio rose to 97.7 per cent as a result of various claims for damage caused by storms, snow and frost (2011: 95.0 per cent).

CROATIA AND SERBIA IN THE BLACK

The Croatian business unit made its first-ever contribution to the Baloise Group's profits in 2012. This is proof positive that the carefully targeted measures taken to restructure and optimise its business processes and insurance portfolio in recent years are having an impact. The total volume of business transacted in Croatia and Serbia together amounted to CHF 68.4 million (2011: CHF 70.4 million). This equated to growth of 1.1 per cent in local-currency terms, which was generated by both life and non-life insurance business. The gross combined ratio for both units together improved slightly to 105.8 per cent (2011: 107.4 per cent).

BALOISE LIFE (LIECHTENSTEIN)

The total volume of business transacted by Baloise Life (Liechtenstein), which specialises in innovative life insurance products, came to CHF 392.6 million (2011: CHF 343.1 million), which was a year-on-year increase of 14.4 per cent. Business in variable annuities grew by 28.3 per cent to CHF 153.7 million. Baloise Life (Liechtenstein) AG was repositioned at the end of 2011. It now operates in tandem with Bâloise Luxembourg, which is responsible for coordinating business throughout the European Union.

BALOISE GROUP BUSINESS

The "Group business" segment comprises the units engaged in intercompany reinsurance and financing, as well as the holding companies and corporate IT. Its profit before borrowing costs and taxes amounted to CHF 81.9 million (2011: CHF 95.1 million). This year-on-year decrease was largely attributable to the earnings performance of run-off business and the reinsurance unit.

Consolidated income statement

FIVE-YEAR OVERVIEW

	2008	2009	2010	2011	2012
CHF million					
Income					
Premiums earned and policy fees (gross) [1]	6,945.2	6,841.5	6,854.3	6,806.9	6,730.7
Reinsurance premiums ceded	–194.6	–190.3	–168.2	–176.3	–176.5
Premiums earned and policy fees (net)	6,750.6	6,651.2	6,686.1	6,630.6	6,554.2
Investment income	2,053.1	1,921.2	1,811.2	1,766.5	1,782.2
Realised gains and losses on investments [2]	–1,680.1	435.6	501.6	–943.4	839.1
Income from services rendered	558.2	427.3	283.4	158.6	125.0
Share of profit (loss) of associates	8.5	1.4	–0.5	10.2	16.5
Other operating income	208.9	108.1	202.7	140.1	92.0
Income	7,899.2	9,544.8	9,484.5	7,762.6	9,409.0
Expense					
Claims and benefits paid (gross)	–5,676.7	–5,383.4	–5,212.9	–5,311.5	–5,449.3
Change in technical reserves (gross)	583.4	–968.3	–1,393.2	–639.9	–867.6
Reinsurance share of claims incurred	59.7	58.1	47.5	53.3	113.2
Acquisition costs	–566.1	–499.1	–491.5	–576.8	–650.9
Operating and administrative expenses for insurance business	–977.4	–925.1	–856.0	–847.0	–899.2
Investment management expenses	–82.8	–78.8	–64.8	–61.3	–59.1
Interest expenses on insurance liabilities	–73.8	–69.4	–61.2	–51.6	–50.6
Gains or losses on financial contracts	246.4	–407.9	–219.8	324.0	–563.9
Other operating expenses	–832.0	–708.8	–625.4	–507.9	–425.8
Expense	–7,319.3	–8,982.7	–8,877.3	–7,618.7	–8,853.2
Profit before borrowing costs and taxes	579.9	562.1	607.2	143.9	555.8
Borrowing costs	–31.2	–45.1	–52.8	–55.0	–61.1
Profit before taxes	548.7	517.0	554.4	88.9	494.7
Income taxes	–162.0	–96.0	–117.7	–27.6	–52.3
Profit for the period	386.7	421.0	436.7	61.3	442.4
Attributable to					
Shareholders	358.3	414.1	433.4	60.8	436.6
Minority interests	28.4	6.9	3.3	0.5	5.8
Earnings / loss per share					
Basic (CHF)	7.33	8.64	9.14	1.30	9.32
Diluted (CHF)	7.32	8.57	8.89	1.29	9.08

Footnotes: see next page.

ADDITIONAL INFORMATION

	2008	2009	2010	2011	2012
CHF million					
Gross premiums written and policy fees	6,953.9	6,859.8	6,859.8	6,803.3	6,741.7
Investment-type premiums	904.4	2,905.6	2,681.6	1,341.2	1,616.6
Total business volume	**7,858.3**	**9,765.4**	**9,541.4**	**8,144.5**	**8,358.3**
Investments for the account and at the risk of life insurance policyholders	3,340.1	6,818.1	7,821.7	7,746.8	8,779.3
Gross combined ratio	88.1	91.2	92.2	92.4	93.1
Funding ratio (non-life) (per cent)	183.0	187.7	180.5	195.9	184.3

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

Consolidated balance sheet

FIVE-YEAR OVERVIEW

	2008	2009	2010	2011	2012
CHF million					
Assets					
Property, plant and equipment	621.2	611.2	535.7	559.9	458.5
Intangible assets	1,587.2	1,562.4	1,342.6	1,300.2	1,078.5
Investments in associates	129.4	143.1	211.3	173.5	227.2
Investment property	5,055.5	5,071.7	5,046.6	5,138.0	5,441.0
Financial assets of an equity nature	7,551.8	9,486.1	9,844.2	9,703.9	9,234.0
Financial assets of a debt nature	23,115.6	26,502.7	25,840.5	28,917.5	32,513.3
Mortgages and loans	18,992.5	18,643.5	17,693.5	18,042.7	18,510.9
Derivative financial instruments	311.3	123.7	536.3	334.1	497.6
Other assets / receivables	2,536.2	2,593.0	2,111.6	2,586.4	2,618.6
Deferred tax assets	36.9	26.4	20.2	22.2	23.9
Cash and cash equivalents	1,305.5	2,528.7	2,208.9	2,287.8	2,923.7
Total assets	61,243.1	67,292.5	65,391.4	69,066.2	73,527.2

	2008	2009	2010	2011	2012
CHF million					
Equity and liabilities					
Equity					
Equity before minority interests	3,691.0	4,315.0	4,100.0	3,860.3	4,830.7
Minority interests	204.6	195.0	33.5	33.3	42.1
Total equity	3,895.6	4,510.0	4,133.5	3,893.6	4,872.8
Liabilities					
Gross technical reserves	44,068.6	45,344.2	43,445.7	45,561.9	46,702.3
Liabilities arising from banking business and financial contracts	8,127.2	11,396.4	12,863.3	13,998.1	15,597.9
Derivative financial instruments	30.1	49.5	29.9	175.3	64.4
Other accounts payable	4,521.4	5,299.6	4,277.3	4,782.9	5,394.7
Deferred tax liabilities	600.2	692.8	641.7	654.4	895.1
Total liabilities	57,347.5	62,782.5	61,257.9	65,172.6	68,654.4
Total equity and liabilities	61,243.1	67,292.5	65,391.4	69,066.2	73,527.2

Business volume, premiums and combined ratio

BUSINESS VOLUME

2011	Group	Switzerland	Germany	Belgium	Luxembourg	Other units[2]
CHF million						
Non-life	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
Sub-total 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

2012	Group	Switzerland	Germany	Belgium	Luxembourg	Other units[2]
CHF million						
Non-life	3,317.7	1,316.1	857.9	905.4	75.1	156.4
Life	3,424.0	2,510.6	634.7	163.9	56.8	58.0
Sub-total of IFRS gross premiums written[1]	6,741.7	3,826.7	1,492.6	1,069.3	131.9	214.4
Investment-type premiums	1,616.6	58.7	219.5	289.3	644.4	404.7
Total business volume	8,358.3	3,885.4	1,712.1	1,358.6	776.3	619.1

1 Premiums written and policy fees (gross).
2 Other units: Austria, Croatia, Serbia and Baloise Life Liechtenstein.

GROSS COMBINED RATIO

2011	Group	Switzerland	Germany	Belgium	Luxembourg	Other units [1]
as a percentage of premiums earned						
Claims 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

2012	Group	Switzerland	Germany	Belgium	Luxembourg	Other units [1]
as a percentage of premiums earned						
Claims ratio	60.7	57.5	62.8	62.8	66.3	62.2
Expense ratio	31.8	25.0	36.0	36.7	35.6	37.3
Profit-sharing ratio	0.6	1.3	0.3	0.3	0.2	–
Combined ratio	93.1	83.8	99.1	99.8	102.1	99.5

1 Other units: Austria, Croatia and Serbia

GROSS AND NET COMBINED RATIO

	Gross		Net	
	2011	2012	2011	2012
as a percentage of premiums earned				
Claims ratio	61.6	60.7	63.5	60.3
Expense ratio	30.2	31.8	31.4	33.1
Profit-sharing ratio	0.6	0.6	0.6	0.7
Combined ratio	92.4	93.1	95.5	94.1

FUNDING RATIO (NON-LIFE)

	2011	2012
CHF million		
Technical reserve for own account [1]	5,853.5	5,834.8
Premiums written and policy fees for own account	2,987.9	3,166.0
Funding ratio (per cent)	195.9	184.3

1 Not including capitalised settlement premiums

Technical income statement

CHF million	Nonlife 2011	Nonlife 2012	Life[3] 2011	Life[3] 2012
Gross				
Gross premiums written and policy fees	3,143.5	3,317.7	3,659.8	3,424.0
Change in unearned premium reserves	3.6	– 11.0	0.0	–
Premiums earned and policy fees (gross)	3,147.1	3,306.7	3,659.8	3,424.0
Claims and benefits paid (gross)	– 1,850.3	– 2,009.1	– 3,461.2	– 3,440.2
Change in technical reserves (gross)				
Change in claims reserve / actuarial reserves[1]	– 110.4	– 20.8	– 269.4	– 513.6
Expenses for policyholders' dividends	– 17.4	– 21.5	– 243.0	– 312.1
Technical expenses	– 976.9	– 1,086.1	– 528.0	– 547.3
Total technical result (gross)	192.1	169.2	– 841.8	– 1,389.2
Ceded to reinsurers				
Reinsurance premiums ceded	– 158.8	– 157.8	– 17.5	– 18.7
Claims and benefits paid	53.0	66.9	5.0	7.0
Reinsurers' share of claims incurred	– 11.0	39.3	4.5	– 0.2
Expenses for policyholders' dividends	0.3	0.4	1.8	0.2
Technical expenses	12.5	9.7	3.0	3.0
Total technical result of ceded business	– 104.0	– 41.5	– 3.2	– 8.7
For own account				
Premiums earned and policy fees	2,988.3	3,148.9	3,642.3	3,405.3
Claims and benefits paid	– 1,797.3	– 1,942.2	– 3,456.2	– 3,433.2
Change in claims reserve / actuarial reserves[1]	– 121.4	18.5	– 264.9	– 513.8
Expenses for policyholders' dividends	– 17.1	– 21.1	– 241.2	– 311.9
Technical expenses	– 964.4	– 1,076.4	– 525.0	– 544.3
Total technical result for own account	88.1	127.7	– 845.0	– 1,397.9
Investment income (gross)	291.9	285.2	1,323.9	1,347.8
Realised gains and losses on investments[2]	– 191.4	– 1.9	– 720.4	845.8
Investment management expenses	– 19.9	– 19.3	– 75.8	– 78.5
Other financial expenses and income	– 41.7	– 38.2	333.2	– 540.5
Gains or losses on investments	38.9	225.8	860.9	1,574.6
Profit before borrowing costs and taxes	127.0	353.5	15.9	176.7
Borrowing costs	–	–	–	–
Income taxes	– 13.9	– 4.2	– 8.4	– 27.9
Profit for the period (segment result)	113.1	349.3	7.5	148.8

1 Including change in provision for claims handling costs.
2 Including financial liabilities held for trading purposes (derivative financial instruments).
3 Of which deferred gains / losses from other operating segments (31 December 2011: CHF 10.8 million; 31 December 2012: CHF – 6.6 million).

Gross premiums by sectors

GROSS PREMIUMS BY SECTOR (NON-LIFE)

	2011	2012	+/– %
CHF million			
Accident	450.8	444.7	– 1.4
Health	119.3	124.5	4.4
General liability	339.2	346.5	2.2
Motor	999.9	1,089.1	8.9
Property	974.0	1,003.4	3.0
Marine	160.5	193.2	20.4
Other	57.6	72.2	25.3
Inward reinsurance	42.2	44.1	4.5
Gross premiums written (non-life)	3,143.5	3,317.7	5.5

GROSS PREMIUMS BY SECTOR (LIFE)

	2011	2012	+/– %
CHF million			
Business volume generated by single premiums	2,453.1	2,427.6	– 1.0
Business volume generated by periodic premiums	2,547.9	2,613.0	2.6
Investment-type premiums	– 1,341.2	– 1,616.6	20.5
Gross premiums written (life)	3,659.8	3,424.0	– 6.4

Compared with the premium income earned in 2011, the premiums earned in 2012 were slightly adversely affected by movements in the exchange rate between the Swiss franc and the euro.

Banking activities

PROFIT OR LOSS FROM BANKING ACTIVITIES

	2011	2012
CHF million		
Total interest income	174.3	168.6
Total interest expenses	– 75.3	– 69.3
Net interest income	**99.0**	**99.3**
Net fee and commission income	63.0	65.4
Trading profit	– 9.5	– 9.3
Other net income	– 0.1	– 1.0
Total operating income	**152.4**	**154.4**
Personnel expenses	– 59.3	– 59.4
General and administrative expenses	– 18.7	– 17.4
Total operating expenses	**– 78.0**	**– 76.8**
Gross profit	**74.4**	**77.6**
Net losses and impairment due to credit risk	8.6	6.6
Depreciation, amortisation and impairment of property, plant and equipment and of intangible assets	– 9.7	– 11.4
Profit before taxes	**73.3**	**72.8**
Income taxes	– 13.8	– 12.7
Profit for the period (segment result)	**59.5**	**60.1**

ADDITIONAL INFORMATION

	2011	2012
CHF million		
Assets managed for third parties	4,848.3	4,962.4
Risk-weighted assets of banking activities	3,495.3	3,439.8

ASSET ALLOCATION

	2011	2012
CHF million		
Investment property	–	–
Equities	6.1	9.0
Alternative financial assets	–	–
Fixed-income securities	369.9	428.6
Mortgage assets	6,203.0	6,311.0
Policy and other loans	274.2	243.1
Derivative financial instruments	24.8	15.3
Cash and cash equivalents	218.8	267.9
Total	**7,096.8**	**7,274.9**

Investment performance

INVESTMENT PERFORMANCE

2011 [1]	Fixed-income securities	Equities	Investment property	Mortgage assets, policy and other loans	Alternative financial assets, derivatives, cash and cash equivalents	Total
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 or loss (net)	– 183.3	– 199.2	3.4	– 3.7	36.5	– 346.3
Change in unrealised gains and losses recognised directly in equity	207.9	– 51.0	–	–	– 45.1	111.8
Investment management costs	– 25.9	– 5.9	– 7.5	– 12.2	– 9.6	– 61.1
Operating 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 (per cent)	**3.3**	**– 8.2**	**4.7**	**3.1**	**– 0.2**	**2.7**

2012 [1]	Fixed-income securities	Equities	Investment property	Mortgage assets, policy and other loans	Alternative financial assets, derivatives, cash and cash equivalents	Total
CHF million						
Current income	895.0	81.6	245.1	548.3	12.2	1,782.2
Realised gains and losses and impairment losses recognised in profit or loss (net)	5.8	63.3	136.1	– 0.2	19.4	224.4
Change in unrealised gains and losses recognised directly in equity	1,408.8	117.5	–	–	34.5	1,560.8
Investment management costs	– 26.7	– 2.9	– 5.5	– 13.7	– 10.2	– 59.0
Operating profit	2,282.9	259.5	375.7	534.4	55.9	3,508.4
Average investment portfolio	**29,337.6**	**2,166.5**	**5,289.5**	**18,276.8**	**3,523.8**	**58,594.2**
Performance (per cent)	**7.8**	**12.0**	**7.1**	**2.9**	**1.6**	**6.0**

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

CURRENT INCOME FROM INSURANCE [1]

	2011			2012		
	Non-life	Life	Total	Non-life	Life	Total
CHF million						
Investment property	37.5	199.2	236.7	36.2	198.2	234.4
Equities	25.8	50.2	76.0	29.8	51.5	81.3
Alternative financial assets	1.5	3.9	5.4	1.3	7.6	8.9
Fixed-income securities	163.5	695.0	858.5	159.9	724.7	884.6
Mortgage assets	12.6	125.6	138.2	10.0	118.9	128.9
Policy and other loans	49.7	246.4	296.1	47.3	244.7	292.0
Derivative financial instruments	–	–	–	–	–	–
Cash and cash equivalents	1.3	3.6	4.9	0.7	2.2	2.9
Total current income	291.9	1,323.9	1,615.8	285.2	1,347.8	1,633.0

REALISED GAINS AND LOSSES IN INSURANCE [1]

	2011			2012		
	Non-life	Life	Total	Non-life	Life	Total
CHF million						
Investment property	–16.5	21.0	4.5	–7.9	147.1	139.2
Equities	–106.0	–93.5	–199.5	48.3	14.1	62.4
Alternative financial assets	27.5	47.8	75.3	–2.1	3.1	1.0
Fixed-income securities	–56.7	–126.6	–183.3	–9.2	15.1	5.9
Mortgage assets	–0.7	–1.8	–2.5	–0.3	–2.4	–2.7
Policy and other loans	1.0	–0.3	0.7	–0.3	–3.4	–3.7
Derivative financial instruments	–40.0	30.1	–9.9	–30.4	57.5	27.1
Cash and cash equivalents	–	–	–	–	–	–
Total capital gains and losses	–191.4	–123.3	–314.7	–1.9	231.1	229.2

ASSET ALLOCATION IN INSURANCE [1]

	2011			2012		
	Non-life	Life	Total	Non-life	Life	Total
CHF million						
Investment property	797.5	4,174.0	4,971.5	777.4	4,471.0	5,248.4
Equities	839.5	1,342.5	2,182.0	682.8	1,449.4	2,132.2
Alternative financial assets	275.0	1,015.2	1,290.2	267.2	1,003.6	1,270.8
Fixed-income securities	4,993.8	22,615.0	27,608.8	5,562.0	24,700.0	30,262.0
Mortgage assets	439.3	4,307.5	4,746.8	417.1	4,281.8	4,698.9
Policy and other loans	1,086.6	6,354.5	7,441.1	1,149.8	6,494.2	7,644.0
Derivative financial instruments	5.0	251.9	256.9	6.4	311.0	317.4
Cash and cash equivalents	481.7	1,052.8	1,534.5	521.5	1,019.9	1,541.4
Total	8,918.4	41,113.4	50,031.8	9,384.2	43,730.9	53,115.1

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

Sustainable business management

Our success is driven by the experience, expertise and commitment of our workforce

How does a company continue to be successful? Apart from pursuing the right strategy, it has to recruit, retain and develop the best talent. That's how Baloise guarantees its success.

KEY FIGURES

- 8,795 people (7,928 FTEs) were working for the Baloise Group on 31 December 2012 (31 December 2011: 9,141).
- 45.3 per cent of all staff members are women (2011: 45.8 per cent).
- The Baloise Group employs 241 (2011: 241) apprentices, trainees and interns.
- 32.5 per cent (2011: 27.4 per cent) of those who left the Company did so of their own accord.
- 58.8 per cent of staff members working in our main market of Switzerland participated in our Employee Share Ownership Plan in 2012 (2011: 60.2 per cent).
- Baloise invested CHF 11.2 million in staff training and development in 2012 (2011: CHF 12.1 million).
- Baloise employees work at the Company for an average of 12.4 years.
- Staff turnover as at 31 December 2012 amounted to 5.2 per cent (31 December 2011: 5.4 per cent).

OUR STAFF ARE WHAT GUARANTEES OUR SUCCESS

The Baloise Group's most valuable asset is its workforce and the expertise and skills that they possess. Effective talent management policies that enable the Company to deploy the right people in the right roles at all times are more crucial now than ever before.

The behavioural values devised in 2011 – "Develop and engage – yourself and others!", "Act authentically and earn trust!", "Put yourself in the other's shoes!" – have been put into everyday practice in all of Baloise's corporate divisions. These behavioural values lay the foundations on which the Company can attractand develop suitably qualified staff.

Our human resources (HR) strategy provides the right framework within which to implement our behavioural values effectively. The key components of our HR strategy are

- to nurture an employee-focused corporate culture;
- to be the employer of choice in our sector;
- to be performance and results driven;
- to be a highly skilled, learning organisation;
- to possess outstanding leadership and management capabilities.

MAINTAINING A DIALOGUE WITH TALENT: THE CHANGING FACE OF EMPLOYER BRANDING

In 2012, the Baloise Group continued to expand its use of social media in order to raise its profile as an employer. Its presence on Facebook, Twitter, YouTube, Xing and LinkedIn and its careers blog make Baloise one of the leading companies in the German-speaking world in this respect. The systematic involvement of its employees in the communication process remains a major plank of this strategy. But this dialogue is not just restricted to our online presence. Baloise representatives attend selected events where they can meet potential candidates and thus recruit new members of staff.

The fast-paced changes taking place in labour markets make continuous optimisation and swift implementation absolutely essential. Our state-of-the-art eRecruiting system supports our professional, real-time job applications management process.

This highly effective package underlies the success of our recruitment strategy. Our management trainee programme bears testimony to the Baloise Group's impressive ability to nurture young talent. Trainees are a highly welcome addition and strengthen all our corporate divisions. However, Baloise also takes on interns and temporary student employees, thereby enabling them to gain their first work experience after they have graduated from university. This strategy allows us to involve talented young people in the Company at an early stage and to enthuse them about its work.

PERFORMANCE AND RESULTS ARE WHAT COUNTS AT BALOISE

Since January 2011, we have been applying our new performance management system to our remuneration policies as well; this system is closely linked to our core HR processes. Baloise offers base salaries in line with the going market rates, variable remuneration schemes, and attractive employee incentive and retention plans. Variable remuneration is based on both individual performance and the success of the Company as a whole.

Part of this remuneration is paid in the form of restricted shares, with senior managers receiving some mandatory shares. This strengthens staff loyalty and aligns remuneration with the Company's long-term performance.

The remuneration paid by the Baloise Group is determined by the following criteria:

- Competitiveness in the marketplace
- Individual performance and the Company's success
- Fairness and transparency
- Sustainability.

WE ARE A HIGHLY SKILLED, LEARNING ORGANISATON

In 2011, we pooled talent identification, performance management, development planning and succession planning for the entire Baloise Group. The main aim of our integrated performance and talent management system is to strengthen our performance- and trust-based culture and to encourage continuous learning. As part of this strategy we conduct a systematic dialogue with our employees in order to agree and assess personal performance and development targets. The linchpin of this integrated approach is a regular dialogue between each employee and his or her line manager. The purpose of this dialogue is to provide guidance and clarity about shared targets and objectives and the continuous learning process by specifying individual development goals and measures.

Succession planning across the entire Baloise Group makes a substantial contribution to our strategic HR planning and ensures that key positions are filled over the long term. Internal candidates were chosen to fill 48 per cent of our key vacancies in 2012. We discussed a total of 244 key roles and tried to find potential short-term emergency solutions or long-term succession options for them. As part of this process we identified highly talented individuals who have performed exceptionally well and have the potential to take on more demanding roles and responsibilities.

BALOISE CAMPUS: THE FUTURE OF EXECUTIVE MANAGEMENT DEVELOPMENT

What makes Baloise so successful as an employer, apart from its Safety World, its brand equity and its behavioural values is, above all, its workforce. The way in which senior managers – as multipliers – conduct themselves has an especially significant impact. We will therefore be pooling our executive development resources for the entire Baloise Group under a single roof – the Baloise Campus – in 2013. This will enable us to introduce a uniform managerial philosophy and enhance our shared identity across all management levels and throughout all corporate divisions.

In 2013, the Baloise Campus will help executives who take on new roles within our organisation to acquire and build the skill sets that they need for their assignments. In each subsequent year we will provide training for roughly 180 managers in four groups classified according to seniority.

WE INVEST EFFECTIVELY IN CONTINUING PROFESSIONAL DEVELOPMENT

At the same time as the Baloise Campus was being constructed in 2012, the existing executive development programmes were being completed for the last time. These included the Strategic Leadership Program (slp), a three-year development programme for the most senior managers and other selected members of staff. By the end of 2012, the slp had run a total of 48 continuing professional development courses focusing on business and leadership, providing many participants with valuable ideas and suggestions for their day-to-day work.

The 150 course participants improved their networking opportunities and the sharing of information by attending an annual gathering entitled “b1” (short for “being one company”). The key issues discussed at the b1 2012 meeting were the completion of the “Baloise 2012” strategic programme and the main points of the Baloise Group’s strategy for 2013 onwards.

From across the Baloise Group, 28 middle-management executives took part in the Advanced Management Program (AMP), which was also run for the last time in 2012. Its focal themes were business, leadership and personal excellence.

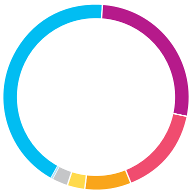
We also offer development opportunities for our executives at local level. To this end, Baloise once again supported new managers in Switzerland in 2012 by providing them with starter kits. In addition, 30 selected employees were given the opportunity to hone their leadership skills by attending programmes for young managerial talent. Attendees on the Leadership Transformation Program (LTP) practised working together in teams on real-life projects and initiatives.

BALOISE INTERNATIONAL

The focus of our activities outside Switzerland was largely on the gradual merger of our Basler Versicherungen units with Deutscher Ring in Germany and on the integration of the companies acquired by our subsidiary Mercator in Belgium.

BALOISE’S 8,795 EMPLOYEES IN 2012 BY COUNTRY

	in percent	Employees
Switzerland	43.3	3,806
Germany	27.0	2,373
Belgium	15.8	1,389
Croatia and Serbia	8.0	701
Luxembourg	3.1	273
Austria	2.6	225
Liechtenstein	0.2	24
Others	0.0	4



GERMANY: INTEGRATION MAKING GOOD HEADWAY

The most significant event for us in Germany in 2012 was the ongoing integration of our Basler Versicherungen entities with Deutscher Ring. In addition to the formal merger of corporate divisions, which was successfully negotiated with the statutory codetermination bodies, change management played a vital role: the integration of two distinct cultures as well as new colleagues, processes and responsibilities proved to be a substantial challenge for the HR function. Individual training sessions, organisational advice, and coaching provided effective support during the integration process. Here, too, the introduction of Baloise’s behavioural values was one of the key challenges, which was successfully managed with the help of various communication formats.

The incorporation of all the employee-related data of Basler Versicherungen entities in Germany into a centrally managed administration system was a key milestone in the process of harmonising all HR information systems throughout the Baloise Group.

BELGIUM: NEW ORGANISATIONAL STRUCTURE PROVIDES BOOST FOR STAFF AND HR

Our Belgian operations in 2012 were dominated by the integration of our two recent acquisitions Avéro and Nateus. Our workforce displayed enthusiasm and team spirit in creating the merged company’s new structure. Those working for the individual entities were offered exciting challenges within the new organisation. The HR function ensured that the transition process went smoothly and devised specialised training seminars to enable the employees concerned to orientate themselves quickly and effectively within the new organisational structures.

A constructive dialogue was conducted with the employee representatives in order to merge the various remuneration systems into a single system.

BALOISE ENCOURAGES INTERNAL MOBILITY

The integrated performance management and talent management systems used across the Baloise Group underpin the target-specific and individual on-the-job and off-the-job training and development that we offer to our staff. In addition, these two approaches form the basis for decisions on promotions as well as employees' mobility within our organisation. This means that members of staff who deliver an outstanding performance and show strong potential have an even better opportunity to advance their careers.

DIVERSITY IN PARTNERSHIP WITH OUR WORKFORCE

Women account for 45.3 per cent of all employees (2011: 45.8 per cent) and 22.3 per cent of our senior managers (2011: 20.9 per cent). Our goal is to have a diversified workforce. We develop and promote our staff on the basis of their performance, their potential and our corporate values.

For years now Baloise has also been actively involved in promoting its employees' healthcare. The Basler Insurance companies in Switzerland were officially designated "friendly work spaces" in 2010. The Swiss health promotion board awards this accolade to firms that are engaged in corporate health management over and above the legal requirements. Our aim is to create workplaces and a working environment in which our members of staff are happy, stay healthy and, consequently, are able to deliver an excellent performance. Our corporate health management scheme contains a wide range of measures aimed at promoting health awareness both at work and in everyday life in the form of lunchtime seminars, workshops, information events, campaigns and other initiatives. Flexible and part-time working as well as the "Bal4Kids" crèche in Basel round off our efforts to promote our employees' healthcare. Our conditions of employment, working methods and equipment as well as our HR management tools are constantly being reviewed and optimised to ensure that they protect and promote the health and safety of our workforce. By committing itself to the cause of occupational healthcare management, Baloise is also honouring its "Making you safer" brand promise to its own employees.

BALOISE IN DIALOGUE WITH EMPLOYEE REPRESENTATIVES

Baloise respects the right of every worker to be or become a member of an employees' representative body. All members of the workforce are represented by staff committees, works councils or other employee bodies and organisations.

We maintain a direct, transparent and constructive dialogue with all employee representatives. The European Forum is an annual conference at which employee representative delegates from the national subsidiaries and representatives of the Corporate Executive Committee meet to encourage and deepen cross-border dialogue, to discuss matters of interest and to share information with each other. This ensures that the Baloise Group's business runs smoothly and harmoniously, while giving due consideration to all the stakeholders involved. The European Forum's annual gathering in May 2012 was held in Luxembourg.

THE BALOISE GROUP'S HUMAN RESOURCES: INTERNET AND SOCIAL MEDIA PRESENCE

Careers website page and job vacancies:
www.baloise.com/careers

→ Facebook: www.facebook.com/baloisegroup
→ Blog: www.baloisejobs.com
→ YouTube: www.youtube.com/baloisegroup
→ Xing: www.xing.com/companies/baloisegroup
→ LinkedIn: www.linkedin.com/company/baloisegroup
→ Twitter: www.twitter.com/baloise_jobs

Protecting the environment over the long-term

Among other things, as a signatory to the UNEP declaration* for the insurance industry, Baloise is committed to constantly reducing its carbon footprint. In 2012, further major measures were put in place to achieve this goal.

ENERGY EFFICIENCY AT COMPUTER CENTRES

Baloise has also permanently reduced energy consumption in its computer centres. Side and ceiling panels have been added to the open racks housing the servers at the Basel site. This separates the cold and warm air zones, thereby sharply reducing the air that has to be cooled in the cold air zone. In addition, the refrigeration and ventilation systems have been refurbished and upgraded. The "ProKilowatt" organisation, which assesses power-saving initiatives on behalf of the Swiss Federal Office of Energy, supported the energy-efficiency measures with a substantial subsidy. We expect to reduce the amount of electricity used by our computer centres by around 500,000 kWh per year. This represents roughly 30 per cent of the energy consumed by our air-conditioning systems (cooling, ventilation and humidification) in our computer centres and approximately 4.5 per cent of the power currently used by our headquarters, which has more than 2,000 work stations. It also includes central facilities such as computer centres and the staff restaurant.

CUTTING-EDGE BUILDING TECHNOLOGY IS PAYING DIVIDENDS

The energy management system at the head office of Basler Versicherungen in Hamburg (formerly Deutscher Ring) shows the amounts of electricity, heating and water being used and can therefore align this consumption with the Company's needs. The replacement of the building control system over the next few months will enable operation of the building's technical installations to be better automated and managed and its energy consumption to be further improved.

CUTTING CO2 EMISSIONS BY TAKING THE TRAIN

Baloise employees are required to use the train for business travel whenever possible. Train tickets for domestic and international travel are ordered in Switzerland from the SBB Businesstravel portal run by the Swiss Federal Railways (SBB) and are printed out at the workplace. This obviates the need for staff to queue for tickets at the train station and submit time-consuming claims for expenses. As part of its service the SBB evaluates the train journeys made by Baloise employees and assesses them in terms of their carbon footprint. In 2012, Basler Switzerland staff travelled 2,320,460 passenger kilometres by train on business. This represented a saving of 163,679 litres of fuel and 443 tonnes of CO_2, which is roughly equal to the carbon emitted by 175 energy-efficient ("Minergie") houses in one year.

CARBON-NEUTRAL BUSINESS TRAVEL

From 2013 onwards, Basler Switzerland will be using the Climate Credit Card issued by Cornèrcard for its business travel needs. The personalised annual account statement shows how much CO_2 has been generated by air travel, hotel accommodation or meals paid for using the card. This level of transparency enables cardholders to alter their behaviour and reduce their carbon footprint. Corner Bank then offsets the calculated amount of CO_2 emissions by pursuing certified projects aimed at combating climate change in a particular developing country. This creates jobs in the country concerned and encourages the cardholders to think about sustainability issues.

ENERGY EFFICIENCY AT BALOISE

The total amount of energy and resources used corresponds to the aggregate consumption by the computer centres and the large office buildings used for operational purposes in Switzerland. The figures reported relate to the energy and resources

* UNEP = United Nations Environment Programme.

ENVIRONMENTAL AUDIT

	2010 absolute	2011 absolute	2012 absolute	Relative	Unit	+/– %
Employees	4,667	4,800	4,975		headcount	3.6
Energy reference area	142,872	140,997	141,578		ERA m^2	0.4
Locations	13	13	12		number of buildings	– 1
Electricity consumption	23,506,845 KWh	22,859,388 KWh	23,312,615 KWh	4,886	kWh / employee	1.9
Heating consumption	13,194,068 KWh	12,110,484 KWh	13,856,250 KWh	98	kWh / m^2	14.4
Water consumption	61,053 m^3	61,968 m^3	58,113 m^3	47	l / employee / day	– 6.3
Paper consumption	765 t	684 t	822 t	162	kg / employee	20.1
Paper types				16.0 %	recycled	
				72.0 %	chlorine-free	
				12.0 %	chlorine-bleached	
Copy paper consumption	99.4 million A4 sheets	91.2 million A4 sheets	81.9 million A4 sheets	16,467	A4 sheets / employee	– 10.2
Amount of refuse	1,039 t	928 t	909 t	183	kg / employee	– 2.1
Types of refuse				61.0 %	paper / cardboard	
				6.0 %	other materials	
				1.0 %	special waste	
				32.0 %	misc. waste / refuse	
Business travel	16.01 million km	18.32 million km	21.82 million km	4,386	km / employee	19.1
Mode of transport				29.2 %	km by air	
				37.2 %	km by road	
				33.6 %	km by public transport	
CO_2 emissions	16,575 t	16,591 t	17,855 t	3,589	kg / employee	7.6

consumed by just under 56.2 per cent of the 8,797 people working for the Baloise Group. As a result of the mild winter, consumption of energy for heating fell by 9 per cent. The merger of several Baloise Group computer centres in Switzerland has resulted in a reduction in electricity costs in Switzerland and at the national subsidiaries concerned. Total electricity consumption fell by 1.3 per cent, and consumption per employee decreased by 3.5 per cent. In 2012, we once again hit our target of cutting our energy consumption by between 2 and 3 per cent a year over the period 2004 to 2013. As a responsible corporate citizen we are both obliged and motivated to use resources more efficiently in the face of climate change and the rising cost and price of energy.

www.baloise.com/sustainability
→ Ecology / Environmental mission statement
→ Ecology / Environmental audit
→ Risk management

Risk management constitutes one of the main pillars of our business model

Forming an integral part of our strategic management policies, risk management makes a significant contribution to the positioning of the Baloise Group. As a European insurer with Swiss roots, we possess a strong balance sheet and a high degree of operating earnings power, which we have optimised in terms of the risks that we take and the upside potential that we derive from our business.

Baloise's risk management approach involves managing both risk and value at the same time. Because our risk model is based on innovative standards, we can always keep our promise of "Making you safer."

The Company's enterprise risk management was once again awarded Standard & Poor's excellent "strong" rating in 2012. This puts us among the top 15 per cent of all European insurance companies.

Our risk management is a standardised strategic and operational system that is applied throughout the Baloise Group and covers the following areas:

- Risk map: this forms the backbone of our risk strategy and defines the fundamental risk issues, such as our actuarial and market risk as well as the operational risk arising from our business activities.
- Risk governance and risk culture: this involves encouraging risk awareness – how people perceive and respond to risk – and establishing this mindset throughout the organisation.
- Risk measurement: this is used to identify, quantify and model the risks inherent in all financial and business processes.
- Risk processes: the organisation of risk and its pertinent standards are key aspects of risk management and operate in tandem with reporting, management and evaluation processes.
- Strategic risk management: its purpose is to optimise the risks taken by the Baloise Group while maximising its earnings potential.

RISK MAP

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

- Actuarial risk
- Market risk
- Financial-structure risk
- Business-environment risk
- Operational risk
- Strategic and information risk.

A detailed description of these risks can be found in the Financial Report section on page 117.

The risk map is firmly embedded in the organisational structure and responsibilities of the entire Baloise Group. Each risk is assigned to a risk owner (with overall responsibility) and to a separate risk controller (responsible for risk management and control).

RISK GOVERNANCE AND RISK CULTURE

The development and expansion of risk governance and risk culture has a long tradition at Baloise. We are constantly working to enhance this culture across the entire organisation. Designated risk owners and risk controllers dealing with specific risk issues are as much a part of this culture as committees that meet regularly to discuss risks. At the same time, our risk models and processes are continually refined. The internal control system (ICS) and the compliance function are further major planks of this strategy.

The most senior decision-making body in Baloise's risk organisation is the Board of Directors of Bâloise Holding Ltd, while ultimate responsibility for risk control lies with the Board of Directors' Audit Committee. The Chief Risk Officer for the Baloise Group regularly reports to both of these bodies and is personally responsible for risk-related issues.

The Board of Directors of Bâloise Holding Ltd has ultimate authority to determine the risk strategy, which is derived from Baloise's business strategy and objectives and addresses issues around the Company's risk appetite and risk tolerance.

The Group Risk Committee and the local risk committees in each business unit – which comprise members of the Corporate Executive Committee and of the local senior management teams respectively – decide how the risk strategy is developed and designed and how the pertinent policies are implemented in day-to-day business. Bodies specially set up to examine specific risk areas such as asset/liability management, compliance, IT risk and the use of reserves also compile submissions for the committees to facilitate their decision-making on these issues. The Group Risk Management team works closely with the local risk experts to complete the picture. This inclusive risk organisation approach provides us with a platform for sharing and constantly refining best practice.

Group Risk Management is responsible for

- developing consistent, mandatory risk models for the entire Baloise Group,
- monitoring Group-wide standards,
- reporting risks,
- complying with risk processes and procedures, and
- communicating with external partners such as auditors, corporate supervisory bodies and credit rating agencies.

The business units are responsible for local implementation of the standards and requirements specified by the Baloise Group. Overall responsibility lies with the Baloise Group's Chief Financial Officer, followed by its Chief Risk Officer.

RISK MEASUREMENT

Our risk model standardises the process of quantifying our business risks and financial market risks across all strategic business units. It is consistent with the principles and calculation methods applied by the Swiss Solvency Test and with the European Union's Solvency II directives. As a ground-breaking risk management tool, it provides a firm foundation on which management can make strategic and operational decisions.

The models used by Baloise are underpinned by economic risk capital, which is currently the most advanced market standard. To this end, risk measurement metrics alone are used to calculate a target capital figure – irrespective of any financial accounting treatment or regulatory capital requirements under Solvency I – to ensure that the Company remains solvent even in adverse circumstances and can meet its obligations to policyholders at all times. We constantly compare this target capital figure with the capital currently available (the "actual" capital).

In addition to this holistic risk model we use the risk map to identify, describe and evaluate specific risks in terms of their likely impact on our operating profit or loss. Our corporate database of specific risks – which contains a detailed description of the risks concerned, their classification on the risk map, and early-warning indicators – is generated from this standardised process. We use quantitative methods to supplement this description by measuring these risks' probable financial impact on the Company's balance sheet. Each risk is documented together with the measures needed to mitigate it. The database is updated every six months.

This combination of a holistic risk model with analysis of specific risks ensures that Baloise maintains an adequate overview of the prevailing risk situation at all times.

RISK PROCESSES

Group-wide risk management standards place the risk process on a mandatory footing. These rules stipulate methods, rules and limits that must be applied throughout the Baloise Group. These standards determine how the various risk issues are evaluated, managed and reported. A number of risk limits act as early-warning indicators to mitigate the risks taken.

The Baloise Group uses a system of limits based on economic risk capital in order to mitigate its risks holistically at an aggregate level. This system tracks the risk capital held by the Baloise Group and individual business units in real time. We also monitor issue-specific risks individually by imposing limits, as illustrated by the following examples:

- Actuarial risk is determined by underwriting guidelines on which local underwriters base their decisions. Risk metrics analysis of the deductibles payable supplements the Company's key reinsurance strategies.

- We use many reporting procedures to monitor market risk and financial-structure risk in all our investment units. In addition to upper limits on equity exposures, for example, there are clear and binding guidelines on bond ratings. The Basel II approach and advanced statistical methods are used to assess credit risk.
- We capture business-environment risk, operational risk and strategic risk on both a standardised and individual basis, and we assess them in terms of their impact on our capital.

Comprehensive semi-annual risk reports are discussed with the relevant decision-makers so that the necessary measures can be devised. Risk managers' assessment of the risk situation is factored into the remuneration paid to executives. The three criteria used to determine the performance pool payments awarded to individuals are the achievements, leadership and conduct of the manager concerned. The individual performance pool payment proposed by the respective line manager is discussed by the relevant management team, compared with other departments and divisions, and adjusted where necessary. This process ensures that risk-relevant behavioural attributes are factored into the performance pool payments awarded to individuals. We use our monthly risk analysis to review the overall solvency position, focusing on investment risk. Reports submitted to regulatory authorities complete the picture.

STRATEGIC RISK MANAGEMENT

Our internal risk model, which uses standard methods to quantify all our business risks and financial market risks, forms the basis for strategic discussions about Baloise's risk appetite. The capital requirements derived from this model constitute minimum requirements for our "actual" capital.

This process provides a 360-degree view of our key strategic risks and how they are managed. Our strategic risk management offers the clear prospect of penetrating new business lines and optimising the risk/return profile of our existing business.

Profit targets for individual business units that factor in their specific risk situation are a major aspect of this risk management system. These targets form part of the overall objectives agreed with local management teams.

OUR PROFESSIONAL RISK MANAGEMENT DEMONSTRATED ITS PROVEN STRENGTHS IN 2012

Baloise's risk strategy principles are designed for the long term, as shown by the Company's excellent risk positioning in 2012. Proof positive of this situation was the Baloise Group's solvency ratio, which remained very high at 277 per cent and bears testimony to its financial strength.

2012 was also a year when established underwriting approaches continued to prove their worth:

- The Baloise Group's investment strategy continues to focus on diversification and on the basic principle of only investing in assets that we ourselves can fully and accurately evaluate.
- The fact that the euro currency area and the creditworthiness of certain euro-zone countries remained under pressure was an exception in terms of our underwriting business. We took measures to minimise and hedge our risks in this area. These measures included reducing our exposure to Spanish government bonds, liquidating our entire portfolio of Portuguese government debt and managing the risk inherent in the exchange rates of the Swiss franc against the euro and the Swiss franc against the US dollar. However, it would not make financial sense to hedge all currency risks entirely.
- Our investment strategy towards equities remained cautious in 2012. Our net equity exposure as at 31 December 2012 came to 5.1 per cent.
- The high quality of recurrent investment income generated by our stable real-estate portfolio proved to be a valuable source of revenue.
- We are fully focused on managing our interest-rate risk. Wherever possible, we reconcile our payment obligations to customers for future years with the income earned from our investments. The high quality of recurrent investment income generated by our stable real-estate portfolio has proved very helpful in this respect. We also invest in safe long-term bonds denominated in either

Swiss francs or euros and supplement this strategy by using derivative financial instruments such as swaptions.

- Our underwriting business, on the other hand, has proved to be highly consistent, with the Baloise Group's net combined ratio of 94.1 per cent demonstrating our excellence in non-life underwriting.
- In 2012, we continued to refine the relevant underlying strategies used to manage our earnings volatility and – especially with respect to our investments – stepped up their operational implementation.

Our risk management will continue to evolve rapidly over the coming years, reaffirming Baloise's standing as a company with an outstanding risk strategy and risk positioning.

Further information on risk management can be found in the 2012 Financial Report (section 5. "Management of insurance risk and financial risk" on pages 115 to 151).

Corporate Governance

Transparent corporate governance

As a company that adds value, Baloise has always attached great importance to practising sound, responsible corporate governance and continues this tradition today.

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

This chapter reflects the structure of the SIX Corporate Governance Guidelines as amended on 29 October 2008 in order to enhance transparency and, consequently, improve comparability with previous years and other companies. It includes economiesuisse's Swiss Code of Best Practice for Corporate Governance and, in particular, Appendix 1 to the latter, which was published in 2007 and contains recommendations on remuneration. Baloise publishes its remuneration report as item 5 of its Corporate Governance Report, which also meets the criteria specified in circular 2010/1 of the Swiss Financial Market Supervisory Authority (FINMA).

1. STRUCTURE OF THE BALOISE GROUP AND SHAREHOLDER BASE

Structure of the Baloise Group

Headquartered in Basel, Switzerland, Bâloise Holding is a public limited holding company that is incorporated under Swiss law and listed on the Swiss Exchange (SIX). The Baloise Group had a market capitalisation of CHF 3,925.0 million as at 31 December 2012.

- → Information on Baloise shares can be found from page 8 onwards.
- → Significant subsidiaries, joint ventures and associates as at 31 December 2012 can be found from page 220 onwards in the notes to the consolidated annual financial statements, which form part of the Financial Report.
- → Segment reporting by region and operating segment can be found from page 153 onwards in the notes to the consolidated annual financial statements within the Financial Report section.
- → The Baloise Group's operational management structure is presented on page 60.

Shareholder base

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

Shareholder structure

A total of 21,251 shareholders were registered in Bâloise Holding's share register as at 31 December 2012. The number of registered shareholders had risen by 7 per cent compared with the previous year. The "Significant shareholders" section on page 233 provides information on the structure of the Company's shareholder base as at 31 December 2012.

The reports that were submitted to the issuer and to SIX Swiss Exchange AG's disclosure office and were published on the latter's electronic publication platform during the reporting year in compliance with section 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading (BEHG) can be viewed using the search function at http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_de.html.

Treasury shares

Bâloise Holding held 2,264,287 treasury shares (4.5 per cent) as at 31 December 2012.

Cross-shareholdings

There are no cross-shareholdings based on either capital ownership or voting rights.

2. CAPITAL STRUCTURE

Dividend policy

Bâloise Holding pursues a policy of paying consistent, earnings-related dividends. It uses other dividend instruments such as share buy-backs and options to supplement conventional cash dividends. Shareholders have received a total of CHF 1,396.6 million from cash dividends and share buy-backs over the last five years. Baloise has therefore had a combined annual payout rate of between 30 per cent and 50 per cent in recent years.

	Cash dividends	Share buy-backs	Total
Year (CHF million)			
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
2012	225.0	–	225.0
Total	1,143.0	253.6	1,396.6

All figures stated as at 31 December.

Bâloise Holding's equity

The table below shows the changes in equity during the last three reporting years.

CHANGES IN BÂLOISE HOLDING'S EQUITY
(BEFORE APPROPRIATION OF PROFIT)

	2010	2011	2012
CHF million			
Share capital	5.0	5.0	5.0
General reserve	11.7	11.7	11.7
Reserve for treasury shares	156.4	182.3	173.9
Other reserves	264.9	247.4	224.9
Distributable profit	234.2	194.9	244.1
Equity attributable to Bâloise Holding	672.2	641.3	659.6

All figures stated as at 31 December.

The share capital of Bâloise Holding has totalled CHF 5.0 million since 29 April 2008 and is divided into 50,000,000 dividend-bearing registered shares with a par value of CHF 0.10 each.

Authorised and conditional capital; other financing instruments

Authorised capital

The Annwual General Meeting voted on 29 April 2011 to extend until 29 April 2013 the resolution adopted on 30 April 2009 authorising the Board of Directors to increase the Company's share capital by up to CHF 500,000 by issuing up to 5,000,000 fully paid-up registered shares with a par value of CHF 0.10 each. § 3 (4) of the Articles of Incorporation was amended accordingly in 2011. The Board of Directors will ask the Annual General Meeting on 2 May 2013 to extend its authorisation of this capital amounting to CHF 500,000 until 2 May 2015.
www.baloise.com → Responsibility
→ Corporate Governance → Rules and regulations

Conditional capital

The 2004 Annual General Meeting (§ 3 of the Articles of Incorporation) created conditional capital. This capital enables the Company's share capital to be increased by up to 5,530,715 registered shares with a par value of CHF 0.10 each. This constitutes a nominal share capital increase of up to CHF 553,071.50.

Conditional capital is used to cover any option rights or conversion rights granted in conjunction with bonds and similar securities. Shareholders' preemption rights are disapplied. Holders of the pertinent option rights and conversion rights are entitled to subscribe for the new registered shares. The Board of Directors may restrict or disapply shareholders' preemption rights when issuing warrant-linked bonds or convertible bonds in international capital markets. Further information on the structure and composition of conditional capital can be found in § 3 of Bâloise Holding's Articles of Incorporation.
www.baloise.com → Responsibility
→ Corporate Governance → Rules and regulations

Other financing instruments

The Company has no profit-participation certificates.

The Baloise Group's consolidated equity

The Baloise Group's consolidated equity amounted to CHF 4,872.8 million on 31 December 2012. Details of changes in consolidated equity in 2011 and 2012 can be found in the consolidated statement of changes in equity on pages 92 and 93 in the Financial Report section. All pertinent details relating to 2010 can be found in the consolidated statement of changes in equity on page 88 in the 2011 Financial Report.

Bonds outstanding

Bâloise Holding and one other Baloise Group company have issued bonds publicly. A total of nine public bonds issued by Bâloise Holding and one other Baloise Group company were outstanding at the end of 2012. Details of these outstanding bonds can be found on pages 197 and 231 and on the internet.
www.baloise.com → Investor relations → Bonds

Credit rating

Credit rating agency Standard & Poor's continues to rate the financial strength of Baloise Insurance Ltd as "A–" with a stable outlook. This assessment reflects the Baloise Group's strong capitalisation, good operating earnings power, robust competitive position and considerable financial flexibility. Groupwide 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-executives. They were not involved in the day-to-day management of any Baloise Group companies in any of the three financial years immediately preceding the reporting period, and they maintain no material business relationships with the Baloise Group.

During the reporting period Dr Andreas Burckhardt and Dr Hansjörg Frei were reelected for a three-year term. Dr Klaus Jenny did not stand for reelection at the 2012 Annual General Meeting (AGM) and consequently stepped down from the Board of Directors at the end of this meeting. Thomas Pleines was newly elected for a three-year period.

The terms of appointment of the directors Dr Georg F. Krayer, Dr Michael Becker and Werner Kummer will expire at the forthcoming 2013 AGM. They are all standing for reelection for a further three-year period.

Dr Hansjörg Frei will step down from the Board of Directors at the 2013 Annual General Meeting. He has been a member of this board since 2004 and has made an outstanding contribution to both Bâloise Holding and the Baloise Group.

The 2013 AGM will be asked to elect Karin Keller-Sutter as a new member of the Board of Directors for a two-year term. Karin Keller-Sutter (1963, Switzerland) holds a university degree in translation and conference interpreting and has a postgraduate qualification in education. In 1996 she was elected to St. Gallen's cantonal parliament and became Chairwoman of the FDP (the Swiss Liberal party) for the canton of St. Gallen before being elected to St. Gallen's cantonal governing council in 2000. She was in charge of the Security and Justice Department until May 2012 and chaired the governing council in 2006/2007 and again in 2011/2012. She was elected to the Council of States – the upper chamber of the Swiss parliament – in the autumn of 2011. Mrs Keller-Sutter sits on the boards of directors at the NZZ media group and Pensimo Fondsleitung AG. She is also a member of the Board of Directors at the ASGA pension fund and chairs the board of trustees at the Pensimo investment trust. She is an executive director of the Swiss Retail Federation and a member of the Executive Committee of the Swiss Employers' Federation.

Further information on 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	Remuneration Committee	Investment Committee	Nationality	Born in	Appointed in	Term of appointment ends
Dr Andreas Burckhardt, Chairman, Basel	C			C	CH	1951	1999	2015
Dr Georg F. Krayer, Vice-Chairman, Basel	VC		DC	DC	CH	1943	1995	2013
Dr Michael Becker, Darmstadt		M		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	DC			CH	1941	2004	2015
Werner Kummer, Küsnacht	M	C			CH	1947	2000	2013
Thomas Pleines, Munich			M		D	1955	2012	2015
Dr Eveline Saupper, Zurich			C	M	CH	1958	1999	2014

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

BOARD ATTENDANCE IN 2012: MEETINGS OF THE FULL BOARD OF DIRECTORS

	6.2.2012	14.3.2012	27.4.2012	20.6.2012	23.8.2012	12.12.2012	13.12.2012
Dr Andreas Burckhardt	x	x	x	x	x	x	x
Dr Georg F. Krayer, Vice-Chairman	x	x	x	x	x	x	x
Dr Michael Becker	x	x	x	x	x	x	x
Dr Andreas Beerli	x	x	x	x	x	x	x
Dr Georges-Antoine de Boccard	x	x	x	x	x	x	x
Dr Hansjörg Frei	x	x	x	x	x	x	x
Dr Klaus Jenny	x	x	x	n/a	n/a	n/a	n/a
Werner Kummer	x	x	x	x	x	x	x
Thomas Pleines	n/a	n/a	n/a	x	x	x	x
Dr Eveline Saupper	x	x	x	x	x	x	x

x = present, n / a = not applicable.


Andreas Burckhardt, Chairman


Georg F. Krayer, Vice-Chairman


Michael Becker


Andreas Beerli


Georges-Antoine de Boccard


Hansjörg Frei


Werner Kummer


Thomas Pleines


Eveline Saupper

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

Georg F. Krayer (1943, Switzerland, Dr iur.) has been a member of the Board of Directors since 1995 and is Vice-Chairman since 2004. He also acted as Lead Director from 6 December 2007 to 31 December 2008. He studied jurisprudence. He is Honorary Chairman of the Board of Directors at Bank Sarasin & Cie AG, Basel, and was Chairman of the Swiss Bankers Association until 2003. He sits on the Boards of Directors of Rhenus Alpina AG, Welinvest AG and Haco Holding AG and chairs the Board of Directors at Beyeler Museum AG. Dr Krayer is an independent non-executive director.

Michael Becker (1948, Germany, Dr iur.) has been a member of the Board of Directors since 2010. He studied law in Hamburg and Tübingen and became Head of Accounting and Finance at Merck KGaA, Darmstadt, in 1998. He was an executive director and general partner at the publicly listed company Merck KGaA from 2000 until the end of 2011, and he was an executive director and general partner at E. Merck KG, Darmstadt, which holds 70 per cent of the share capital in Merck KGaA, from 2002 until the end of 2011. In addition, Dr. Becker is a member of the Supervisory Board of Symrise AG, Germany. Dr Becker is an independent non-executive director.

Andreas Beerli (1951, Switzerland, Dr iur.) has been a member of the Board of Directors since 2011. He studied law at the University of Basel. In 1979 he started working as an underwriter for the German market at Swiss Re. From 1985 to 1993 he performed various managerial roles at Baloise, with the main focus on supervising and supporting several foreign units. He then returned to Swiss Re, where he became a member of the Group Executive Committee in 2000, first in the United States as head of Swiss Re Americas and, most recently, in Zurich as Chief Operating Officer for the entire Swiss Re Group. Since 2009 he has acted as an independent advisor on the Boards of Directors and advisory boards of companies and professional associations. He is a member of the Board of Directors at Ironshore Europe Inc., Dublin; a member of the Advisory Board of Accenture Schweiz and Chairman of the Swiss Advisory Council of the American Swiss Foundation. Dr Beerli is an independent non-executive director.

Georges-Antoine de Boccard (1951, Switzerland, Dr med.) has been a member of the Board of Directors since 2011. He studied medicine at the University of Geneva. He has been running his own urological surgery practice in Geneva since 1987. He sits on the Board of Directors at Citadel Finance SA and was Chairman 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 and other professional bodies and associations. Dr de Boccard is an independent non-executive director.

Hansjörg Frei (1941, Switzerland, Dr iur.) has been a member of the Board of Directors since 2004. He graduated in jurisprudence from the University of Zurich. He joined Winterthur in 1982 and was eventually appointed to the group executive board, with responsibility for operations in Switzerland. From 2000 until his retirement in mid-2003 he was an executive director (head of international country management) at Credit Suisse Financial Services. He was chairman of the Swiss Insurance Association (SIA) from 2000 to 2003. He sits on the board of directors at Ems-Chemie Holding AG and, until the end of 2012, was chairman of the Ems Group's pension fund. Dr Frei is an independent non-executive director.

Werner Kummer (1947, Switzerland, Dipl.-Ing. ETH Zurich, MBA Insead) has been a member of the Board of Directors since 2000. From 1990 to 1994 he was CEO of Schindler Aufzüge AG and subsequently, until 1998, sat on Schindler's Group Management Committee, where he was responsible for the Asia Pacific region. He was CEO of Forbo Holding AG from 1998 until March 2004. He is an independent management consultant, Chairman of the Board of Directors at Gebrüder Meier AG, a member of the Supervisory Board of Schindler Deutschland Holding GmbH, a member of the Board of Directors at Costantini AG and an executive director of the Zurich Chamber of Commerce. Mr. Kummer is an independent non-executive director.

Thomas Pleines (1955, Germany, lawyer) has been a member of the Board of Directors since 2012. From 2003 to 2005 he was CEO and delegate of the Board of Directors at Allianz Suisse, Zurich, and from 2006 to 2010 CEO of Allianz Versicherungs-AG, Munich, and an executive director at Allianz Deutschland, Munich. He has sat on the Supervisory Board of Bilfinger Berger SE, Mannheim, since 1998, and has been chairman of the Presidential Board at DEKRA e.V., Stuttgart, chairman of the Supervisory Board of DEKRA SE, Stuttgart, chairman of the Supervisory Board at SÜDVERS Holding GmbH & Co. KG, Au near Freiburg, and a member of the Board of Directors at KABA Holding AG, Rümlang near Zurich, since 2011. Thomas Pleines will step down from the Supervisory Board of Bilfinger Berger SE on 18 April 2013. Mr. Pleines is an independent non-executive director.

Eveline Saupper (1958, Switzerland, Dr iur.) has been a member of the Board of Directors since 1999. She studied jurisprudence at the University of St. Gallen. She is a lawyer and a certified tax expert. She worked for Peat Marwick Mitchell (now KPMG Fides), Zurich, from 1983 to 1985 and was employed by Baker & McKenzie, Zurich and Chicago, from 1985 to 1992. She joined Homburger AG, Zurich, in 1992, where she is a partner. She sits on the Board of Directors at Homburger AG, Zurich, and has been a member of the Board of Directors at Hofstettler, Kramarsch & Partner AG, Zurich, since November 2011. At the Annual General Meeting 2013 of Syngenta AG, Basel, it will be proposed that Dr Saupper be elected to Syngenta AG's Board of Directors. Dr Saupper is an independent non-executive director.

Secretary to the Board of Directors: Andreas Eugster, Oberwil BL
Head of Group Internal Audit: Rolf-Christian Andersen, Meilen

Interlocking directorates

There are no interlocking directorates.

Election and term of appointment

The Board of Directors consisted of nine members at the end of 2012. Each member is elected by the Annual General Meeting for a term of three years at a time. Roughly one-third of members step down each year unless they are reelected ("staggered replacement").

The average age on the Board of Directors is currently around 63. Each member of the Board of Directors is elected individually. If requested by shareholders, the actions of these members are also formally approved individually.

Internal organisation

Functions and responsibilities of the Board of Directors

Subject to the decision-making powers exercised by shareholders at the Annual General Meeting, the Board of Directors is the Company's ultimate decision-making body. Decisions are taken by the Board of Directors unless authority has been delegated on the basis of the Organisational Regulations to the chairman of the Board of Directors, its committees, the Chief Executive Officer or the Corporate Executive Committee.

Section 716a of the Swiss Code of Obligations (OR) and item A3 of the Organisational Regulations state that the Board of Directors' main functions and responsibilities are to act as the Company's ultimate managerial and supervisory body, to oversee the Company's finances and to determine its organisational structures.

www.baloise.com → Responsibility
→ Corporate Governance → Rules and regulations

Committees of the Board of Directors

The Board of Directors has four committees, which support it in its activities. These committees report to the Board of Directors and submit the necessary proposals for their particular areas of responsibility. The Investment Committee and the Remuneration Committee have their own decision-making powers.

The committees appointed by the Board of Directors generally consist of four members, who are newly elected every year by the Board of Directors. The chairman and vice-chairman of the Board of Directors are ex officio members of the Chairman's Committee. The chairman of the Board of Directors is not allowed to sit on the Audit Committee. The committees' basic functions and responsibilities are specified in the Organisational Regulations and in the written regulations applicable to individual committees, which also govern administrative aspects.

www.baloise.com → Responsibility
→ Corporate Governance → Rules and regulations

Functions and responsibilities of the committees

The Chairman's Committee provides advice on key transactions, especially those involving important strategic or personnel-related decisions. Consequently, it also does the necessary preparatory work on HR issues.

The Investment Committee's main responsibilities are to oversee the Baloise Group's investment activities, define the basic principles of its investment policy, specify the asset allocation strategy for all strategic business units and devise the relevant investment plan. The Chairman's Committee performed all the functions of the Investment Committee until 27 April 2012.

The Remuneration Committee specifies the structure and amount of remuneration paid to the members of the Board of Directors and of the salaries paid to the members of the Corporate Executive Committee. It approves the target agreements and performance assessments that are applied to the Corporate Executive Committee members in order to determine their performance-related remuneration. It also sanctions the remuneration policies applicable to the Corporate Executive Committee members and ensures that they are being correctly implemented. It approves the variable remuneration granted to individual members of the Corporate Executive Committee. Furthermore, it specifies the total amount available in the performance pool.

The Audit and Risk Committee supports the Board of Directors in its non-delegable overarching supervisory and financial oversight functions (section 716a OR) by ascertaining whether the internal and external control systems are well organised and function properly and by forming its own view of the Company's separate and consolidated annual financial statements. In addition, the Audit and Risk Committee assesses the effectiveness of internal control systems, including risk management and the situation with respect to compliance. It has discussed the consolidated financial statements for the 2012 financial year with both management and the external auditors. Based on these discussions, the Audit and Risk Committee has recommended that the audited separate annual financial statements incorporated into the Baloise Group's annual report for the financial year ended on 31 December 2012 and that they are submitted to the Annual General Meeting. The Board of Directors has endorsed this recommendation.

Meetings of the Board of Directors and its committees

The Organisational Regulations stipulate that the full Board of Directors must meet as often as business requires, but not fewer than four times a year.

www.baloise.com → Responsibility
→ Corporate Governance → Rules and regulations

The full Board of Directors of Bâloise Holding met on seven occasions in 2012. The table on page 51 shows Board of Directors members' attendance at these meetings. With just one exception, all members of the relevant committee in each case attended every one of the additional 18 committee meetings. This means that the Board of Directors achieved an overall meeting attendance rate of 99 per cent. One meeting of the Board of Directors was primarily used to provide its members with further information on how to manage earnings volatility. Meetings of the Board of Directors and its committees usually last half a working day each.

www.baloise.com → Responsibility
→ Corporate Governance → Board attendance

The Chairman's Committee convened eight times in 2012, which included one two-day strategy meeting. The Investment Committee met on three occasions. The Audit and Risk Committee held five meetings, and the Remuneration Committee convened twice.

The members of the Corporate Executive Committee are regularly invited to attend meetings of the Board of Directors. Meetings of the Chairman's Committee are usually attended by the Group CEO, the Chief Financial Officer and the Secretary to the Board of Directors. Those present at Audit and Risk Committee meetings are primarily the Chief Financial Officer, the Head of Group Internal Audit, the Secretary to the Board of Directors, and representatives of the external auditors and, occasionally, the Chief Investment Officer, the Chief Risk Officer and the Group Compliance Officer. The main attendees at Remuneration Committee meetings are the Chief Executive Officer and the Head of Group Human Resources. Meetings of the Investment Committee are usually attended by the Group CEO, the Chief Investment Officer, the Secretary to the Board of Directors and, occasionally, the Chief Financial Officer.

Division of authorities, functions and responsibilities between the Board of Directors and the Corporate Executive Committee

The division of authorities, functions and responsibilities between the Board of Directors and the Corporate Executive Committee is governed by law, the Articles of Incorporation, and the Organisational Regulations. The latter are reviewed on an ongoing basis and updated as changing circumstances require. During the reporting year the Organisational Regulations were thoroughly revised and regulations for the Investment Committee were put in place.

www.baloise.com → Responsibility
→ Corporate Governance → Rules and regulations

Tools used to monitor and obtain information on the Corporate Executive Committee

Group Internal Audit reports directly to the chairman of the Board of Directors. Effective risk management is essential for any insurance group. This is why Baloise has devoted two entire chapters to the subject of financial risk management from page 42 onwards and in the Financial Report section starting on page 115.

The members of the Board of Directors receive copies of the minutes of Corporate Executive Committee meetings for their information. 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, Germany / Switzerland, 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 performed various roles at Boston Consulting Group, Düsseldorf, dealing with strategic IT management issues in the banking and insurance sectors. He joined the Baloise Group at the beginning of 1999. He was initially Head of IT at Basler Switzerland and, within the Baloise Group, was in charge of major cross-functional projects in the areas of insurance and finance. From 2003 to 2008 he was a member of the Corporate Executive Committee with responsibility for Corporate Division Switzerland. He became Chief Executive Officer on 1 January 2009. In addition, he has headed up the International corporate division since 1 January 2013.

German Egloff (1958, Switzerland, lic. oec. HSG) graduated in business management from the University of St. Gallen. From 1985 onwards he held various managerial positions at Winterthur Insurance, Switzerland. In 1997, as an executive director, he was put in charge of personal non-life insurance products, which included responsibility for both Wincare and – as Chairman of the Board of Directors – Sanacare. From 1998 to 2002 he was Chief Financial Officer of Winterthur Switzerland and sat on 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 responsibilities here comprised finance, human resources, IT, logistics and procurement. Since 1 December 2004 he has been a member of the Corporate Executive Committee (heading up Corporate Division Finance), where he oversees investor relations, financial management, financial accounting & corporate finance, and corporate IT. The actuary responsible for Baloise's business in Switzerland also reports to German Egloff.

Jan De Meulder (1955, Belgium) studied mathematics and actuarial mathematics at the universities of Antwerp and Leuven, Belgium. From 1978 to 1992 he worked for De Vaderlandsche Insurance, which was part of the ING Group, in Antwerp. His responsibilities here included life insurance product development and production. After working for two years as general manager at Life Association of Scotland, he moved to the Fortis Group in Brussels in 1994, where he performed various senior managerial roles, eventually becoming CEO of Fortis Corporate Insurance. In 2004 he joined the Baloise Group as CEO of the Belgian subsidiary Mercator Verzekeringen in Antwerp. He has been a member of the Corporate Executive Committee since 1 January 2009 and, in this function, headed up the International corporate division from 2009 to 2012. He has been the CEO in charge of the insurance companies in Germany since 1 January 2013.

Michael Müller (1971, Switzerland, lic. oec. publ.) graduated in economics from the University of Zurich, supplementing his studies in the fields of insurance, accounting and finance. He began his career with Basler Versicherungen in 1997, starting as a management trainee, then working in Group Finance, and eventually becoming Deputy Head and, in 2004, Head of Financial Accounting for the Baloise Group. In 2009, as Head of Finance and Risk, he became a member of the senior management team in the Corporate Division Switzerland, focusing on financial reporting and accounting, actuarial management of the insurance companies, risk management, and coordination of logistics processes and the pool of project leaders. He 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, Switzerland, Dr iur., M.B.L., lawyer) studied law at the University of St. Gallen. At the beginning of 1994 he qualified to practise as a lawyer in the Swiss canton of Zurich. From 1999 to 2002 he lectured in corporate law at the University of St. Gallen. After brief spells working at Landis & Gyr and Siemens he joined the Baloise Group in 1997 as deputy head of Legal & Tax. He became head of this division in 2001 and, in addition, was secretary to Bâloise Holding's Board of Directors until April 2012. When Swiss insurance regulation was being revised, he headed the Financial Markets Supervision task force set up by the Swiss Insurance Association (SIA). He has been head of the Corporate Centre since 6 December 2007 and, in this capacity, is responsible for Group Human Resources, Legal & Tax, Group Compliance, Corporate Development, Run-Off Business and – since 2009 – Group Procurement. He also sits on the Board of Directors at EuroAirport Basel-Mulhouse-Freiburg.

Martin Wenk (1957, Switzerland, lic. iur.) held several posts at a major bank from 1982 to 1992 after graduating in law from the University of Basel. He started out as an investment advisor to institutional clients before becoming a group manager in private banking in New York and eventually working as section head of securities sales, where he primarily covered key institutional clients. From 1992 to 2000 he headed up portfolio management in Switzerland for the Baloise Group, where he was responsible for managing the assets of several Swiss companies, including their pension funds. In 2001 he was appointed to the Corporate Executive Committee (as head of the Asset Management corporate division) and, in this capacity, is responsible for the Baloise Group's asset management activities, which include investment strategy and investment control, Baloise Asset Management, real estate, and Baloise Investment Services (investment fund business). He sits on the Board of Directors at Unigestion Holding, Geneva.

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

With the exception of Dr Thomas Sieber and Martin Wenk, no Corporate Executive Committee members serve on the boards of directors at companies outside the Baloise Group.

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

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

Management structure

(effective date: 31 December 2012)

GROUP CHIEF EXECUTIVE OFFICER

Martin Strobel, Dr rer. pol.*

Group Secretary

Markus von Escher, Dr iur.

Corporate Communications

Thomas Kähr (until 31 December 2012)
Dominik Müller (as of 1 January 2013)

SWITZERLAND

Michael Müller*

Product Management Corporate Clients
Clemens Markstein

Product Management Private Customers & Specialised 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.

INTERNATIONAL

Jan De Meulder* (until 31 December 2012)
Martin Strobel, Dr rer. pol.* (as of 1 January 2013)

Germany
Frank Grund, Dr iur. (until 31 December 2012)
Jan De Meulder* (as of 1 January 2013)

Belgium
Gert De Winter

Luxembourg
Romain Braas

Austria
Otmar Bodner, Dr iur.

Croatia & Serbia
Darko Cesar

FINANCE

German Egloff*

Financial Accounting & Corporate Finance
Sepp Huwyler

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.

ASSET MANAGEMENT

Martin Wenk*

Investment Strategy & Investment Controlling
Thomas Schöb

Baloise Asset Management
Matthias Henny, Dr phil.

Real Estate
Hans-Peter Bissegger (until 31 March 2013)
Renato Piffaretti (as of 1 April 2013)

Baloise Investment Services
Robert Antonietti

CORPORATE CENTRE

Thomas Sieber, Dr iur.*

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. REMUNERATION REPORT: REMUNERATION, SHARE OWNERSHIP, AND LOANS GRANTED TO THE MEMBERS OF THE BOARD OF DIRECTORS AND THE CORPORATE EXECUTIVE COMMITTEE

This chapter outlines the remuneration policies, procedures and systems applied by Baloise. It also discloses details of the remuneration and loans granted to the members of the Board of Directors and the Corporate Executive Committee as well as the shares held by these individuals. The content and scope of these disclosures are determined by sections 663bbis and 663c of the Swiss Code of Obligations (OR), the corporate governance information guidelines published by the SIX Swiss Exchange, the Swiss Code of Best Practice for Corporate Governance, and circular 10/1 of the Swiss Financial Market Supervisory Authority (FINMA) concerning remuneration systems.

5.1. Remuneration Committee of the Board of Directors

The Remuneration Committee set up by the Board of Directors in 2001 is consistent with the Swiss Code of Best Practice and is designed to oversee remuneration policies, especially those applied at the most senior levels within the Company. The Remuneration Committee ensures, among other things, that

- remuneration policies and systems are long-term in nature and are consistent with the Company's strategy;
- the remuneration offered by Baloise is in line with the going market rate and is sufficiently competitive in order to attract and retain individuals with the necessary skills and character attributes;
- the remuneration paid is demonstrably dependent on the Company's sustained success and individuals' personal contributions and does not create any perverse incentives;
- the structure and amount of overall remuneration paid are consistent with Baloise's risk policies and encourage risk awareness.

The Remuneration Committee's main functions and responsibilities are

- to specify the structure and amount of remuneration paid to the chairman and members of the Board of Directors and to the members of the Corporate Executive Committee;
- approve the target agreements and performance assessments that are applied to the members of the Corporate Executive Committee;
- approve the variable remuneration granted to individual members of the Corporate Executive Committee; specify the total amount available in the performance pool and the total amount set aside for the allocation of performance share units (PSUs);
- approve inducement payments and severance packages that are granted to the most senior managers or in individual cases that exceed CHF 200,000;
- and sanction the remuneration policies applicable to the Corporate Executive Committee members and ensure that they are being correctly implemented.

The Remuneration Committee consists of the following four independent members of the Board of Directors, who are newly elected every year by the Board of Directors: Dr Eveline Saupper (chair), Dr Georg F. Krayer (deputy chair), Dr Georges-Antoine de Boccard and Thomas Pleines. The Remuneration Committee generally meets at least twice a year. In addition to the committee secretary being present, these meetings are usually also attended by the Chief Executive Officer, the head of the Corporate Centre and the head of Group Human Resources, who participate in an advisory capacity. The individual members of the Group Executive Committee leave the meeting if the Remuneration Committee is discussing or deciding on their personal remuneration. The chair of the Remuneration Committee reports to the Board of Directors at its next meeting on the committee's activities. In addition, the minutes of Remuneration Committee meetings are available to the entire Board of Directors.

5.2. Remuneration policies

Principles

The Company's success is largely dependent on the skills, capabilities and performance of its workforce. It is therefore essential to recruit, develop and retain suitably qualified, highly capable and highly motivated professionals and executives. Baloise's remuneration policies and systems are based on these overarching principles.

Remuneration procedures and regulations

Responding to a request from the Remuneration Committee, in 2010 the Board of Directors formally adopted remuneration procedures that formulate the remuneration principles and parameters applied across the Baloise Group. These remuneration procedures apply to all employees throughout the Baloise Group. They reflect the Company's values and principles and can be summarised as follows:

- Competitiveness in the marketplace: Baloise aims to pay basic salaries in line with the market and to offer variable

remuneration packages in excess of the going market rate to reward outstanding performance by individuals and the Company;
- Remuneration that reflects individual and company-wide performance: merit and achievement form the basis for advancement and promotion;
- Fairness and transparency: external market-based comparisons, fair pay and no discrimination;
- Sustainability: high correlation between the interests of managers and shareholders, long-term commitment, and a high proportion of restricted shares.

The Board of Directors used these remuneration procedures as the basis for the remuneration regulations that it formally adopted at the same time. These regulations apply to all employees in Switzerland and, by analogy, to all members of staff throughout the Baloise Group.

By adopting these remuneration procedures and regulations, the Board of Directors has ensured that all aspects of remuneration policy are centrally coordinated. This regulatory framework underpins a remuneration system that meets all the requirements of the Swiss Financial Market Supervisory Authority and, in particular, ensures that variable remuneration even more accurately reflects the value added by the Company. Group Internal Audit reviewed this remuneration system during the reporting year. Its audit found that the way in which the Baloise Group's remuneration system had been structured and implemented was consistent with both the Board of Directors' remuneration policies and the circular issued by the Swiss Financial Market Supervisory Authority.

5.3. Remuneration system

Objectives

The objectives of the remuneration system are to further increase the emphasis on performance in the Baloise Group and to strengthen employees' and executives' loyalty and commitment to the organisation. The aim of Baloise's remuneration policies is to pay basic salaries in line with the going market rate. In addition, the variable components of remuneration are structured in such a way that it is possible to grant payments above the market median for years in which individual performance and the Company's profitability have been outstanding; equally, it is possible to offer payments below the market median for years in which performance and profitability have been poor.

As a performance-driven organisation, Baloise creates a clear and transparent connection between individual employees' targets and the Company's targets, which are derived from its strategic priorities. Target agreements, performance assessments and remuneration are closely correlated. The total remuneration package – which comprises basic salary and variable remuneration – offers a sophisticated way of linking individuals' performance to Baloise's success and recognising both accordingly, and it is designed to reward employees for outstanding achievement without creating an incentive to take inappropriate risks. Personal performance provides our talented individuals with the necessary platform for their development, advancement, career planning and promotion.

Baloise attaches considerable importance to retaining high performers and managing its business sustainably. In addition to paying its staff in line with market rates and according to individual achievement, the Company encourages its executives to focus on the long-term and on its shareholders' interests. Consequently, it pays a substantial proportion of variable remuneration in the form of shares that are restricted for three years. Furthermore, the three most senior management levels receive performance share units, which means that a further component of their salaries is paid out as shares that are restricted for either three or six years as a form of deferred remuneration.

As managers' strategic responsibility and influence grow, the amount of their variable remuneration is significantly determined by the Company's profitability and economic value added (allowing for the level of risk taken). Short-term variable remuneration as a percentage of total compensation as well as the proportion of remuneration paid in the form of restricted shares (i.e. as deferred compensation) increase accordingly. Shares account for around 70 per cent of the variable remuneration paid to the members of the Corporate Executive Committee, and the value of the shares that they hold in total amounts to roughly four times their basic salaries. This situation complies with key aspects of the standards required by the regulatory authorities.

Performance management system

Baloise introduced a new performance management system for short-term variable remuneration in 2011. In order to encourage employees to focus relentlessly on performance and results while also factoring in the Company's success, this system comprises two clearly distinct tools: performance-related remuneration and the performance pool. Performance-related remuneration is used to reward individual employees' achievements, while the performance pool as a whole takes account of the Company's performance and value added.

Performance-related pay accounts for approximately two-thirds of the total short-term variable remuneration paid to middle management. This proportion declines steadily as managers' strategic responsibility and influence increase and is around one-third for members of the Corporate Executive Committee.

The performance management system applies to the most senior level of management throughout the Baloise Group. It also applies to most other management levels both inside and outside Switzerland. Its roll-out in Germany will not be completed until 2013 owing to the merger of the two companies Basler Germany and Deutscher Ring. Our recent Belgian acquisitions Avéro and Nateus will also be integrated into the performance management system in the course of 2013.

Market comparisons

Baloise regularly compares the salaries paid to its senior executives with those paid in the wider market. It uses function-specific peer groups in order to replicate the relevant market as accurately as possible. To this end, each function being compared is assigned to one of three distinct peer groups. In assigning the various functions to these peer groups, Baloise has to consider the question of which companies it is competing against for the skill-sets and qualifications needed in each case (i.e. recruitment market) and which alternative employers – in theory, at least – meet a certain function profile (i.e. competitors).

The first peer group replicates Baloise's core market and comprises direct insurers in the respective country. This peer group is used for conventional insurance and sales functions and for the local CEOs, executive directors and senior management functions. The second peer group supplements the core-market group by including further companies from the banking and financial services sector in the respective country. This group is designed to compare functions that demand considerable financial expertise but do not necessarily require an insurance background. The third peer group consists of companies of a similar size and structure from various sectors and is used for interdisciplinary functions.

A benchmarking survey conducted by Kienbaum during the reporting year shows that most of the total remuneration packages granted by Baloise are close to the market median and its compensation is therefore in line with the going market rate and sufficiently competitive. The decline in the variable component of total remuneration reflects a general trend among financial services providers and is indicative of the fact that variable remuneration is closely correlated with companies' operating performance. Deferred compensation as a proportion of total remuneration is higher at Baloise than at similar competitors. This is consistent with the Company's intention of increasing its proportion of long-term compensation and making it contingent on Baloise's sustained success.

Baloise regularly compares the salaries paid in its insurance-specific and insurance-related functions in Switzerland with those of its relevant competitors and takes part in the Club Survey that Kienbaum has been conducting since 1995. This benchmarking survey of the salaries paid in the Swiss insurance sector is constantly being optimised to ensure that it meets participants' high professional standards and quality requirements. The comparison mainly covers insurance-specific functions up to middle management level. It also examines insurance-related, managerial and specialist functions performed by senior executives. The findings of this benchmarking survey are fed into the Company's regular review of its salary structures.

Baloise also conducts market comparisons of its local functions in the respective countries outside Switzerland as and when required.

5.4. Components of remuneration

Baloise views its compensation packages in the round and therefore factors in not only the basic salary plus short- and long-term variable remuneration but also other material and non-material benefits such as pension contributions, additional benefits, and staff development.

Basic salary

The basic salary constitutes the level of remuneration that is commensurate with the functions and responsibilities of the position concerned as well as the employee skills and expertise required in order to achieve the relevant business targets and objectives. When determining the level of its basic salaries, Baloise aims to position itself around the market median, although the way in which this is done will vary depending on local operating and market requirements. This remuneration is paid in cash.

Basic salaries are regularly reviewed and may be adjusted to reflect employees' individual performance, the situation in the relevant salary band, or the Company's performance. In order to ensure fairness and compliance with its code of conduct when determining the level of basic salaries, Baloise applies the internal fair-pay principle that people who do the same job and have the same qualifications should be paid the same amount. The Company's clearly defined and market-based salary structures help ensure fair pay both inside and outside the organisation.

Short-term variable remuneration

The key factors determining the amount of short-term variable remuneration paid are an employee's individual performance and the Company's profitability and economic value added. The consequent link between individual performance and the Company's profits is designed to incentivise staff to achieve outstanding results.

Measurement of the variable remuneration paid to employees who perform control functions (risk management, compliance, Group Internal Audit) is structured in such a way that it is not determined by the profitability of the unit being monitored or by the profitability of individual products and transactions.

The remuneration paid to the insurance sales force is, by its very nature, strongly performance-related in line with the system of commissions commonly used in the insurance industry as a whole. However, these commissions constitute selling expenses rather than being regarded as variable remuneration in the strict sense of the term. Consequently, they are not discussed in this remuneration report.

Short-term variable remuneration is paid together with the salary for March of the following year. Baloise attaches considerable importance to managing its business sustainably and ensuring a high correlation between the interests of its shareholders and executives. It therefore pays a substantial proportion of variable remuneration in the form of shares. Senior managers can choose what percentage of their remuneration is paid out in cash and what proportion they receive in the form of shares. This choice is limited for the most senior managers, who are obliged to subscribe for shares on a sliding-scale basis: members of the Corporate Executive Committee must receive at least 50 per cent of their short-term variable remuneration in the form of shares. The shares subscribed in this way are restricted for three years and during this period are exposed to market risk. This mandatory purchase of shares in particular ensures that as senior executives' managerial responsibilities and total remuneration packages increase, a significant proportion of their compensation is paid in the form of deferred remuneration. This system also raises employees' risk awareness and encourages them to maintain sustainable business practices.

Two plans are available to individuals who wish to subscribe for shares: the Share Subscription Plan and the Employee Share Ownership Plan (see "5.6. Share Subscription Plan and Employee Share Ownership Plan").

The section below describes performance-related remuneration and the performance pool, which are available as short-term variable remuneration tools.

Performance-related remuneration

Performance-related remuneration reflects individual employees' performance and rewards the achievement of their personal targets. To this end, line managers consult their members of staff once a year in order to define the latters' key individual targets and objectives and then – by not later than February of the following year – assess the extent to which these targets and objectives have been achieved. The target achievement scale ranges from 0 per cent (not achieved) to a maximum of 150 per cent (significantly overachieved). When setting these individual targets, line managers and their staff ensure that they do not agree any targets or objectives that conflict with the Company's business strategy.

The target figure agreed for performance-related remuneration depends on the employee's basic salary and varies according to his or her seniority in the management hierarchy. The target figure for the members of the Corporate Executive Committee is 30 per cent of their basic salary. The target agreements and performance assessments for the members of the Corporate Executive Committee are carried out by the Remuneration Committee.

Those entitled to receive performance-related remuneration are the most senior management level in the Baloise Group, the majority of senior managers in Switzerland and the corresponding functions abroad.

Performance pool

The performance pool takes account of the entire Baloise Group's performance; its amount is determined at the Remuneration Committee's discretion after the end of the financial year concerned. To this end, the Remuneration Committee assesses the performance achieved by the Baloise Group as a whole in the previous financial year, factoring in the following criteria among others:

- Profit for the period compared with competitors and previous years
- Capital-markets perspective compared with competitors
- Risks taken
- Strategy implementation.

Performance pool payments are awarded to individuals at the discretion of the line manager concerned; no regulatory target figures have been specified. The amount of these payments is mainly determined by a holistic assessment consisting of individuals' achievement of targets (gauged by the extent to which they have achieved their personal targets and objectives) as well as their leadership and conduct. The individual performance pool payment proposed by the respective line manager is discussed by the relevant management team, compared with other departments and divisions, and adjusted where necessary. This process ensures that risk-relevant behavioural attributes are factored into the performance pool payments awarded to individuals.

This chosen system is centred on senior managers' overall assessment and the validation of individuals' performance pool payments at roundtable discussions. The aim here is to give due consideration to all aspects of an individual's performance rather than using just a few parameters to make an assessment that may neglect other key factors.

The Remuneration Committee decides on the performance pool payments awarded to the individual members of the Corporate Executive Committee. The average expected payment amounts to roughly 50 per cent of basic salary.

Those considered for performance pool payments are the most senior management level in the Baloise Group, the majority of senior managers in Switzerland and the corresponding functions abroad. However, there is no fundamental entitlement to receive payments from the performance pool.

Long-term variable remuneration

In addition, Baloise grants performance share units (PSUs) to the most senior managers as a form of long-term variable remuneration. The PSU programme enables the top management level to benefit even more from the Company's performance and helps Baloise to retain high performers in the long run.

Performance share units

At the beginning of each vesting period the participating employees are granted rights in the form of PSUs, which entitle them to receive a certain number of shares free of charge after the vesting period has elapsed. The Remuneration Committee specifies the grant date and applies its own discretion in deciding which of the most senior managers are entitled to participate in the programme. It determines the total number of PSUs available and decides how many are to be awarded to each member of the Corporate Executive Committee. PSUs are granted to the other programme participants on the basis of the relevant line manager's proposal, which must be approved by the line manager's manager.

The number of shares that can be subscribed after three years – i.e. at the end of the vesting period – depends on the performance of Baloise shares relative to a peer group. This comparative performance multiplier can be anywhere between 0.5 and 1.5. The peer group comprises the leading European insurance companies contained in the STOXX Europe 600 Insurance Index.

The composition of the index may change over time. Companies may leave the index as a result of mergers, while others may join the index for the first time. Calculation of the performance multiplier is based on the index's composition at the time the relevant PSUs were granted, adjusted to allow for the companies that have left the index. Any companies that have joined the index in the meantime are not factored into those PSU programmes that are already in operation.

One PSU generally confers the right to receive one share. This is the case if Baloise shares perform in line with the median of their peer group. In this case the performance multiplier would be 1.0. Participants in the programme receive more shares in exchange for their PSUs if Baloise shares outperform their peer group. The multiplier reaches the maximum of 1.5 if the performance of Baloise shares is in the top quartile of companies in the peer group. The multiplier amounts to 0.5 if the performance of Baloise shares is in the bottom quartile of companies in the peer group. If the performance of Baloise shares is in either of the two middle quartiles, a linear scale is used to calculate the performance multiplier. The performance multiplier for the entire vesting period ended is based on the closing stock market prices on the final trading day of the respective vesting period.

Participants in the programme receive the pertinent number of shares once the vesting period has elapsed, which means that for the PSUs allocated in 2012 they receive their shares on 1 March 2015. If an individual's employment contract is terminated during the vesting period (except in the case of retirement, disability or death), the PSUs expire without the person concerned receiving any replacement or compensation. In addition, since 2012 the Remuneration Committee has had the powers to claw back some or all of the PSUs allocated to an individual or to a group of programme participants if there are specific reasons for doing so. Such specific reasons include, for example, serious breaches of internal or external regulations, the taking of inappropriate risks that are within an individual's control, and the type of conduct or behaviour that would increase the risks to Baloise. In order to emphasise the long-term nature of the programme, 50 per cent of the shares granted are subject to an additional three-year restriction period once the initial vesting period has elapsed.

The PSUs allocated in 2010 were converted into shares as at 1 January 2013. The performance of Baloise shares at the end of the vesting period on 31 December 2012 ranked 25th out of 34 companies in the relevant peer group (STOXX Europe 600 Insurance Index), which meant that it was in the third quartile. The performance multiplier was therefore 0.58, and the 71,055 outstanding PSUs were converted into 41,210 shares (share price of CHF 78.50 on 31 December 2012, market capitalisation of CHF 3.2 million). The value of the converted PSUs has fallen by 49 per cent since they were granted three years ago. The corresponding figures for the previous year: performance multiplier of 0.64, 74,375 outstanding PSUs, converted into 47,599 shares, share price of CHF 64.40 on 31 December 2011, market capitalisation of CHF 3.1 million, 50 per cent fall in the value of PSUs since they were granted.

Companies in the STOXX 600 Europe Insurance Index (as at 31 December 2012)

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

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

PERFORMANCE SHARE UNITS (PSUS)

	Plan 2010	Plan 2011	Plan 2012
Employees entitled to participate at launch of programme	71	73	72
Number of allocated PSUs	83,441	81,739	89,116
Of which: expired without compensation (departures in 2010)	– 1,226	–	–
Number of active PSUs as at 31 December 2010	82,215	–	–
Of which: expired without compensation (departures in 2011)	– 6,736	– 6,937	–
Number of active PSUs as at 31 December 2011	75,479	74,802	–
Of which: expired without compensation (departures in 2012)	– 4,424	– 5,667	– 5,132
Number of active PSUs as at 31 December 2012	71,055	69,135	83,984
Value of allocated PSUs on issue date (CHF million)	7.4	6.9	6.4
PSU expense incurred by the Baloise Group for 2010 (CHF million)	2.1	–	–
PSU expense incurred by the Baloise Group for 2011 (CHF million)	2.4	2.4	–
PSU expense incurred by the Baloise Group for 2012 (CHF million)	1.8	1.6	1.5

The shares needed to convert the PSUs are purchased in the market as and when required.

Measurement of the PSUs at their issue date is based on a Monte Carlo simulation, which calculates a present value for the payout expected at the end of the vesting period. This measurement incorporates the following parameters:

- Interest rate of 3 per cent
- The volatilities of all shares in the peer group and their correlations with each other (measured over a three-year track record)
- The expected dividend yields
- Statistical information on eligible programme participants' behaviour in relation to the termination of employment contracts.

Fringe benefits

Fringe benefits are generally defined as components of the total remuneration package that are not dependent on either an individual's function or performance or the Company's performance. By providing benefits in the form of retirement pensions, subsidies, concessions, and staff training and professional development, Baloise demonstrates the close partnership that it maintains with its employees and the extent to which it values their contribution. Fringe benefits are granted on a country-by-country basis in line with prevailing local laws.

5.5. Employment contracts, change-of-control clauses, inducement payments and severance packages

The employment contracts of senior managers in Switzerland and – in most cases – in other countries as well have been concluded for an indefinite period. They stipulate a notice period of six months.

The chairman of the Board of Directors and all six members of the Corporate Executive Committee have a notice period of twelve months. They and five other members of senior management are also entitled to receive severance pay equivalent to one year's salary (including variable remuneration) if, following a change of control or a merger, the employer (or, in certain circumstances, the employee) terminates their employment contract within twelve months of the takeover or merger.

The remuneration regulations adopted by the Board of Directors in March 2010 contain clear guidance on inducement payments and severance packages. Such remuneration may only be paid in justified cases. Inducement payments and severance packages for the most senior managers – irrespective of their amount – must be approved by the Remuneration Committee, which applies its own discretion in assessing each individual case.

5.6. Share Subscription Plan and Employee Share Ownership Plan

Two plans are available to individuals who wish to subscribe for shares as part of their short-term variable remuneration: the Share Subscription Plan and the Employee Share Ownership Plan.

Share Subscription Plan

Since January 2003 those who qualify as eligible persons at Baloise Group companies in Switzerland – and, since 2008, the members of the senior management teams at companies outside Switzerland as well – have been able to subscribe for shares at a preferential price as part of their short-term variable remuneration. The subscription date is 1 March of each year; although title to the shares passes to the relevant employees on this date without any further vesting conditions having to be met, the shares cannot be sold during a three-year restriction period. Until 2011 the subscription date was 1 June of each year. By bringing this date forward to 1 March, Baloise has brought the subscription date into line with the date on which short-term variable remuneration is paid under the new performance management system.

The parameters used to determine the subscription price are decided each year by the Remuneration Committee. The subscription price is based on the volume-weighted average share price during a contemporaneous measurement period. A discount of 10 per cent is granted on the average share price calculated in this way (please refer to the accompanying table for details). Once it has been calculated using this method, the subscription price is published in advance on the intranet. The shares needed for the Share Subscription Plan are purchased in the market as and when required.

CHF	Measurement period for average price	Average price	Subscription price
Share Subscription Plan for 2013 (applies to variable renumeration awarded for the 2012 reporting period)	4. – 15.2.2013	81.70	73.53
Share Subscription Plan for 2012 (applies to shares subscribed by the Chairman and members of the Board of Directors during the reporting year)	6. – 17.2.2012	72.87	65.58

Employee Share Ownership Plan

Since May 2001 it has been possible for most senior managers working in Switzerland to receive part of their short-term variable remuneration in the form of shares from the Employee Share Ownership Plan instead of receiving cash. Within certain limits they are free to choose what proportion of their short-term variable remuneration they receive in the form of such shares. The most senior managers are subject to upper limits; members of the Corporate Executive Committee – who are obliged to receive at least half of their short-term variable remuneration in the form of shares – are not allowed to receive more than 50 per cent of their entitlement in the form of shares from the Employee Share Ownership Plan. The subscription date is 1 March of each year (the same as for the Share Subscription Plan); although title to the shares passes to the relevant employees on this date without any further vesting conditions having to be met, the shares cannot be sold during a three-year restriction period. Until 2011 the subscription date was 1 June of each year. By bringing this date forward to 1 March, Baloise has brought the subscription date into line with the date on which short-term variable remuneration is paid under the new performance management system.

The parameters used to determine the subscription price are decided each year by the Remuneration Committee. The subscription price is based on the volume-weighted average share price during a contemporaneous measurement period. Discounted dividend rights are deducted from this average share price over a period of three years (please refer to the accompanying table for details). Once it has been calculated using this method, the subscription price is published in advance on the intranet. The shares needed for the Employee Share Ownership Plan are purchased in the market as and when required.

CHF	Measurement period for average price	Average price	Subscription price
Employee Share Ownership Plan for 2013 (applies to variable renumeration awarded for the 2012 reporting period)	4. – 15.2.2013	81.70	68.67
Employee Share Ownership Plan for 2012 (applies to shares subscribed by the Chairman of the Board of Directors during the reporting year)	6. – 17.2.2012	72.87	59.84

In order to increase the impact of this Employee Share Ownership Plan, employees are granted loans on which interest is charged at market rates, which enables them to subscribe for shares whose value constitutes a multiple of the capital invested; these shares are purchased at their fair value net of discounted dividend rights over a period of three years. Repayment of these loans after the three-year restriction period has elapsed is hedged by put options, which are financed by the sale of offsetting call options. After the three-year restriction period has elapsed, the relevant options have been exercised and the loans plus accrued interest have been repaid, the employees concerned receive the remaining shares to do with as they wish.

5.7. Employee Incentive Plan

The Basler Foundation for Employee Participation set up in 1989 offers members of staff working for various Baloise Group companies in Switzerland the opportunity to purchase shares in Bâloise Holding Ltd – usually once a year – at a preferential price in compliance with the regulations adopted by the Advisory Council. This encourages employees to maintain their commitment to the Company over the long term by becoming shareholders. The subscription price is fixed by the Advisory Council at the beginning of the subscription period and is then published on the intranet. It equals half of the volume-weighted average share price calculated for the month of August in the subscription year and amounts to CHF 34.20 for the reporting year (2011: CHF 34.80). Title to the subscribed shares passes to the relevant employees with effect from 1 September each year, and the shares are subject to a three-year restriction period.

The Foundation acquired the underlying stock of shares used in this plan from previous capital increases carried out by Bâloise Holding Ltd. It supplements these shareholdings as and when required by purchasing shares in the market. The existing shareholdings will enable the Foundation to continue the Employee Incentive Plan over the coming years.

The Foundation is run by a Board of Foundation that is predominantly independent of the Corporate Executive Committee. The independent members of the Board of Foundation are Peter Schwager (chairman) and Professor Heinrich Koller (lawyer); the third member of the Advisory Council is Andreas Burki (deputy head of Legal & Tax at Baloise).

5.8. Pension schemes

Baloise provides a range of pension solutions, which vary from country to country in line with local circumstances. In Switzerland it offers different pension schemes for its insurance and banking employees.

The Company provides its employees in Switzerland with an attractive occupational pension solution (Pillar 2) that meets the following objectives:

- It fulfils its insured employees' requirements in the event of old age, death or disability and mitigates the resultant financial consequences by offering an occupational pension scheme based on the principle of social partnership.
- It enables its retirees to maintain the standard of living to which they are accustomed by providing them with a sufficiently high level of income replacement (combination of Pillar 1 and Pillar 2 benefits) to compensate for their loss of earnings.
- The employer makes a disproportionately high contribution to the funding of its occupational pension scheme.
- Its pension solutions are future-proof, robust, predictable and properly costed.

The general increase in life expectancy means that people's pension pots have to last them longer to ensure that they receive the required level of pension. This situation is being exacerbated by the fact that pension fund assets are yielding lower returns owing to the performance of capital markets. In order to ensure that its pension fund is properly financed, Baloise reduced its pension conversion rate from 6.2 per cent to 5.6 per cent and raised employer and employee contributions by an average of 1.5 per cent each with effect from 1 January 2013.

The chairman of the Board of Directors and the members of the Corporate Executive Committee are insured under the pension scheme run by Baloise Insurance Ltd. They are subject to the same terms and conditions as all other insured office-based members of staff.

5.9. Remuneration paid to the members of the Board of Directors

Please refer to the tables on pages 72 and 73.

The members of the Board of Directors are paid a lump sum as remuneration for their work on the Board of Directors (CHF 125,000) and for additional functions that they perform on the Board of Directors' committees (CHF 70,000 for the chair and CHF 50,000 for members). These amounts provide appropriate compensation for the responsibility and workload involved in their various functions and have remained unchanged since 2008. Since May 2012 the Investment Committee has been operating as an independent committee of the Board of Direc-

EMPLOYEE INCENTIVE PLAN

	2011	2012
Number of shares subscribed	172,385	173,799
Restricted until	31.8.2014	31.8.2015
Subscription price per share (CHF)	34.80	34.20
Value of shares subscribed (CHF million)	6.0	5.9
Fair value of subscribed shares on subscription date (CHF million)	12.1	12.2
Employees entitled to participate	3,150	3,220
Participating employees	1,897	1,894
Subscribed shares per participant (average)	90.8	91.7

tors instead of having all its functions performed by the Chairman's Committee. The changes of personnel on the Board of Directors have also brought about changes in terms of the individuals who sit on the committees (please refer to the table on page 51 of the Corporate Governance section). There has also been a change in the way that pro-rata remuneration is calculated. These adjustments have caused the total amount of remuneration paid for committee work to rise by 15 per cent year on year.

Since 2006 the members of the Board of Directors have received 25 per cent of their annual remuneration in the form of shares that are restricted for three years. Members of the Board of Directors receive a 10 per cent discount on the shares' market price in line with the Share Subscription Plan available to senior executives. The members of the Board of Directors do not participate in any share ownership programmes that are predicated on the achievement of specific performance targets.

No amounts receivable from current or previous members of the Board of Directors have been waived.

The chairman of the Board of Directors is also paid a fixed amount of remuneration and is not entitled to any variable remuneration. Consequently, he receives no performance-related remuneration, no performance pool payments and no allocation of PSUs. He is paid roughly a quarter of his remuneration in the form of shares, although he is free to choose each year whether he wishes to receive his shares under the Share Subscription Plan or the Employee Share Ownership Plan. In order to emphasise the long-term nature of this arrangement, the shares that he receives under the Share Subscription Plan are subject to a restriction period of five years instead of the usual three.

5.10. Remuneration paid to the members of the Corporate Executive Committee

Please refer to the tables on pages 74 to 77.

The remuneration paid to the members of the Corporate Executive Committee is governed by the remuneration procedures and remuneration regulations formally adopted by the Board of Directors. It consists of the basic salary, the individual's performance-related remuneration (target figure of 30 per cent of basic salary) and the performance pool (average expected payment of roughly 50 per cent of basic salary), which – at the Remuneration Committee's discretion – reflects the Company's performance. In addition, the members of the Corporate Executive Committee receive performance share units (PSUs) as a form of long-term variable remuneration. The Remuneration Committee specifies the type and amount of this remuneration.

The members of the Corporate Executive Committee must receive at least 50 per cent of their short-term variable remuneration in the form of shares in order to ensure that their own interests are more strongly aligned with those of shareholders. This mandatory purchase of shares coupled with the shares allocated under the PSU programme ensures that, compared with the market as a whole, a significant proportion of their compensation is paid in the form of deferred remuneration.

The personal targets and objectives used to determine the amount of performance-related remuneration received essentially concern the successful management and leadership of the relevant Corporate Executive Committee members' own corporate division as well as major projects and initiatives for which this individual is responsible. The targets and objectives set for all members of the Corporate Executive Committee in 2012 now include ensuring that Baloise's brand world and values-based culture are firmly embedded throughout the organisation. Individuals' targets and objectives are decided in collaboration with their line manager and are approved by the Remuneration Committee. For reasons of business confidentiality Baloise is unable to disclose any further details or quantified facts relating to individuals' targets and objectives or the extent to which they have been achieved.

The Corporate Executive Committee members' remuneration is disclosed on pages 76 and 77 in accordance with the accrual principle. The table includes all forms of remuneration that were awarded for performance in 2012 even though individual components are not paid until a later date.

The basic salaries paid to three members of the Corporate Executive Committee were adjusted with effect from 1 March 2012. The Chief Executive Officer decided for personal reasons – not least motivated by the public debate surrounding the top salaries paid in the financial services industry – that he wanted his basic salary to be reduced by CHF 0.3 million. In order to fully reflect the importance of his function, the salary paid to the head of the Corporate Division Finance was brought into line with the salary paid to the head of the Asset Management corporate division. Finally, the Remuneration Committee decided to gradually raise the salary paid to the head of the Switzerland corporate division.

As far as the amounts of variable remuneration paid were concerned, the performance pool payments awarded for 2012 rebounded to their normally expected levels to reflect the Company's strong operating performance (these payments were cut by 30 per cent for the 2011 financial year). The extent to which targets and objectives were achieved – which affects the performance-related pay awarded for individual merit – also increased year on year. Despite the fact that the performance multiplier used to convert PSUs was again lower, the value of the PSUs converted into shares rose year on year. This can largely be attributed to two factors. First, the Company's share price was higher than in 2011 at the time the PSUs were converted (CHF 78.50 / CHF 64.40). And second, the original allocation of PSUs converted in 2011 by two members of the Corporate Executive Committee was smaller because they had not yet been appointed to their current posts at the time that the PSUs were allocated.

The adjustment of basic salaries and the changes in variable remuneration described above caused the total remuneration paid to the members of the Corporate Executive Committee in 2012 to rise by 15 per cent overall compared with the previous year. By contrast, the total remuneration paid in 2011 had fallen by 22 per cent year on year.

5.11. Loans to key personnel

Please refer to the table on page 78.

5.12. Shares and options held

Please refer to the tables on pages 79 and 80.

5.13. Amounts of total remuneration and variable remuneration

Please refer to the table on page 81.

As requested by circular 10/1 issued by the Swiss Financial Market Supervisory Authority on the subject of remuneration, Baloise has published in the table on page 81 the amounts of total remuneration and variable remuneration and has disclosed the total amounts of outstanding deferred remuneration and the inducement payments and severance packages granted. These figures include all forms of remuneration awarded for 2012 even if individual components are not paid until a later date.

REMUNERATION PAID TO THE MEMBERS OF THE BOARD OF DIRECTORS IN 2011

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

Explanatory notes to the table
Dr Andreas Beerli and Dr Georges-Antoine de Boccard were voted in as new members of the Board of Directors at the 2011 Annual General Meeting. Consequently, they only received half of the usual remuneration for 2011. Professor Gertrud Höhler left the Board of Directors at the 2011 Annual General Meeting as she had reached the regulatory age limit. Consequently, she only received half of the usual remuneration. Dr Andreas Burckhardt has been chairman of the Board of Directors since the 2011 Annual General Meeting. He received the normal remuneration for his membership of the Board of Directors and Audit Committee on a pro-rata basis until the Annual General Meeting. From 30 April, he received the contractually stipulated overall remuneration as chairman of the Board of Directors, also on a pro-rata basis. Shares received for his period as chairman of the Board of Directors amounted to 1,260 shares arising from the Share Subscription Plan (CHF 103,862) and 1,301 shares arising from the Employee Share Ownership Plan (CHF 103,916). Baloise also paid the regulatory employer contributions to the pension fund (CHF 140,546)
Remuneration paid to former members and related parties No remuneration was paid to individuals or companies who are related to members of the Board of Directors and to whom the arm's length principle does not apply. (Related parties are: spouses, life partners, children under 18 years, companies owned or controlled by directors, or legal entities or individuals who act as trustees for them.) No amounts receivable from these persons were waived.
Shares 25 per cent of the contractually agreed overall remuneration was paid in shares which remain restricted for three years. They are recognised at market value less 10 per cent (CHF 82.43; in line with the Share Subscription Plan).

REMUNERATION PAID TO THE MEMBERS OF THE BOARD OF DIRECTORS IN 2012

2012	Basic remuneration	Remuneration for additional functions	Additional remuneration	Total	Of which: in cash	Of which: in shares	Number of shares
CHF							
Dr Andreas Burckhardt	1,320,000		0	1,320,000	1,008,060	311,940	4,985
Chairman of the Board of Directors		0					
Dr Georg F. Krayer	125,000		0	315,000	241,288	73,712	1,124
Vice-Chairman of the Board of Directors		50,000					
Remuneration Committee (Chair until April 2012, Deputy Chair since May 2012)		50,000					
Deputy Chair of the Chairman's Committee and the Investment Committee		90,000					
Dr Michael Becker	125,000		0	208,333	164,591	43,742	667
Member of the Audit Committee		50,000					
Member of the Investment Committee (since May 2012)		33,333					
Dr Andreas Beerli	125,000		0	175,000	131,258	43,742	667
Member of the Audit Committee		50,000					
Dr Georges-Antoine de Boccard	125,000		0	175,000	131,258	43,742	667
Member of the Remuneration Committee		50,000					
Dr Hansjörg Frei	125,000		0	231,666	170,480	61,186	933
Member of the Chairman's Committee and the Investment Committee (until April 2012)		23,333					
Member of the Chairman's Committee (since May 2012)		33,333					
Member of the Audit Committee		50,000					
Dr Klaus Jenny	62,500		0	122,500	61,314	61,186	933
Member of the Chairman's Committee and the Investment Committee (until April 2012)		35,000					
Member of the Remuneration Committee		25,000					
Werner Kummer	125,000		0	228,333	179,607	48,726	743
Chair of the Audit Committee		70,000					
Member of the Chairman's Committee		33,333					
Thomas Pleines	83,333		0	116,667	116,667	0	0
Member of the Remuneration Committee (since April 2012)		33,333					
Dr Eveline Saupper	125,000		0	221,667	177,925	43,742	667
Remuneration Committee (Member until April 2012, Chair since May 2012)		63,334					
Member of the Investment Committee (since May 2012)		33,333					
Total for the Board of Directors	2,340,833	773,332	0	3,114,166	2,382,448	731,718	11,386

Explanatory notes to the table
Thomas Pleines was voted in as a new member of the Board of Directors at the 2012 Annual General Meeting. Consequently, he only received a pro-rata share of the usual remuneration. Klaus Jenny left the Board of Directors at the same time, so he only received half of the usual remuneration.
Remuneration paid to former members and related parties No remuneration was paid to individuals or companies who are related to members of the Board of Directors and to whom the arm's length principle does not apply. (Related parties are: spouses, life partners, children under 18 years, companies owned or controlled by directors, or legal entities or individuals who act as trustees for them.) No amounts receivable from these persons were waived.
Shares 25 per cent of contractually agreed overall remuneration is paid in shares which remain restricted for three years. They are recognised at market value less 10 per cent (CHF 65.58; in line with the Share Subscription Plan).
Shares received by the chairman of the Board of Directors amounted to 2,378 shares arising from the Share Subscription Plan (CHF 155,949) with a restriction period of five years instead of the usual three years) and 2,607 shares arising from the Employee Share Ownership Plan (CHF 155,991). Baloise also paid the regulatory employer contributions to the pension fund (CHF 210,818).

REMUNERATION PAID TO THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE MEMBERS OF THE CORPORATE EXECUTIVE COMMITTEE (2011)

	Basic salary					
	Cash payment (fixed)	Cash payment	Share Subscription Plan		Employee Share Ownership Plan	
2011	CHF	CHF	Number of shares	CHF	Number of shares	CHF
Dr Rolf Schäuble	800,010	180,000	0	0	0	0
Chairman of the Board of Directors (until April 2011)						
Dr Martin Strobel	1,300,000	372,175	2,624	172,082	3,342	199,993
CEO of the Baloise Group						
Michael Müller	366,168	83,267	2,500	163,950	0	0
Head of Corporate Division Switzerland (since March 2011)						
Dr Olav Noack	680,004	25,555	388	25,445	0	0
Head of Corporate Division Switzerland (until March 2011)						
Jan De Meulder	700,080	182,434	2,781	182,378	0	0
Head of Corporate Division International						
German Egloff	550,020	120,283	2,000	131,160	1,373	82,144
Head of Corporate Division Finance						
Dr Thomas Sieber	540,000	183,966	1,000	65,580	2,135	127,779
Head of Corporate Division Corporate Centre						
Martin Wenk	600,000	156,407	2,384	156,343	0	0
Head of Corporate Division Asset Management						
Total for the Corporate Executive Committee	**4,736,272**	**1,124,087**	**13,677**	**896,938**	**6,850**	**409,916**

Explanatory notes to the table
In 2011 for the first time, remuneration was disclosed in accordance with the accrual principle. The table includes all remuneration elements that were awarded for performance in 2011 even though individual components are not paid until a later date.
As chairman of the Board of Directors, Dr Andreas Burckhardt does not perform an executive role. His remuneration is therefore disclosed on page 72 (Board of Directors' remuneration).
Dr Rolf Schäuble received his previous monthly salary until the end of his statutory notice period on 30 June 2011. He was also awarded performance-related remuneration of CHF 180,000 for 2011.
Michael Müller's basic salary was calculated on a pro-rata basis from 22 March 2011. Dr Olav Noack received his previous monthly salary until the end of his statutory notice period on 31 March 2012.
Remuneration paid to former members and related parties No remuneration was paid on a non-arm's length basis to companies or individuals related to the chairman of the Board of Directors or members of the Corporate Executive Committee. (Related parties are: spouses, life partners, children under 18 years, companies owned or controlled by directors, or legal entities or individuals who act as trustees for them.) No amounts receivable from these persons were waived.
Share Subscription Plan Proportion of variable remuneration received directly as shares, which are measured at market value less 10 per cent markdown. Subscription price = CHF 65.58.
Employee Share Ownership Plan Proportion of variable remuneration received as shares (excluding loans to purchase shares), which are measured at market value less dividend rights discounted over three years. Subscription price = CHF 59.84.
Performance share units (PSUs) The PSUs allocated in 2009 were converted into shares as at 1 January 2012. At the end of the vesting period on 31 December 2011, the performance of Baloise shares ranked 24th out of the 34 companies in the peer group (STOXX Europe 600 Insurance Index), so their performance was in the third quartile. The performance multiplier was therefore 0.64, and the 33,163 outstanding PSUs held by the current chairman of the Board of Directors and the members of the Corporate Executive Committee were converted into 21,224 shares (measured at a share price of CHF 64.40 on 31 December 2011). Half of these shares remain restricted for a further three years.
The value of prospective entitlements is only added to total remuneration on the date at which they are converted into shares (i.e. at the end of the three-year vesting period) because it cannot be reliably quantified until that date and is not actually earned until then. The notional value of one PSU on the allocation date was CHF 84.70 (measured using the Monte Carlo simulation method). The prospective entitlements allocated to Michael Müller in January 2011 have not been stated because they relate to his previous role as a member of the Swiss management team.

Variable remuneration					Total basic salary plus variable remuneration	Variable remuneration as percentage of basic salary	Non-cash benefits	Pension benefits	Total remuneration
Performance share units (PSU)			Total variable remuneration						
Converted into shares in 2012		Prospective entitlements (2011)							
Number of shares	CHF	Number of PSUs	Number of shares	CHF	CHF		CHF	CHF	CHF
7,767	500,195	8,792	7,767	680,195	1,480,205	85%	0	0	1,480,205
2,913	187,597	7,143	8,879	931,847	2,231,847	72%	3,480	154,060	2,389,387
700	45,080	0	3,200	292,297	658,465	80%	3,480	45,350	707,295
1,280	82,432	0	1,668	133,432	813,436	20%	56,160	121,626	991,222
2,001	128,864	3,847	4,782	493,676	1,193,756	71%	116,310	204,583	1,514,649
2,136	137,558	3,022	5,509	471,145	1,021,165	86%	3,480	167,386	1,192,031
2,097	135,047	2,968	5,232	512,372	1,052,372	95%	3,480	129,197	1,185,049
2,330	150,052	3,297	4,714	462,802	1,062,802	77%	3,480	162,498	1,228,780
13,457	866,630	20,277	33,984	3,297,571	8,033,843	70%	189,870	984,700	9,208,413

Non-cash benefits Based on all remuneration elements required to be declared on the Swiss salary certificate, including benefits relating to shares received in connection with the Employee Incentive Plan (max. 100 shares per annum, in previous years the amount was reported in a separate column), payment of travel and accommodation costs and non-cash benefits (use of a company vehicle) to a member of the Corporate Executive Committee with a second home abroad or consultancy services in connection with the resignation of a member of the Corporate Executive Committee.
Pension benefits Employer contributions to the pension scheme and maintenance of disability insurance cover in the home country of a member of the Corporate Executive Committee with a second home abroad.

REMUNERATION PAID TO THE MEMBERS OF THE CORPORATE EXECUTIVE COMMITTEE

	Basic salary					
	Cash payment (fixed)	Cash payment	Share Subscription Plan		Employee Share Ownership Plan	
2012	CHF	CHF	Number of shares	CHF	Number of shares	CHF
Dr Martin Strobel	1,050,000	419,928	3,673	270,076	2,184	149,996
CEO of the Baloise Group						
Michael Müller	509,167	137,795	4,000	294,120	0	0
Head of Corporate Division Switzerland						
Jan De Meulder	700,080	264,970	3,603	264,929	0	0
Head of Corporate Division International						
German Egloff	591,670	236,716	3,218	236,620	0	0
Head of Corporate Division Finance						
Dr Thomas Sieber	540,000	174,722	1,500	110,295	2,288	157,108
Head of Corporate Division Corporate Centre						
Martin Wenk	600,000	256,348	3,485	256,252	0	0
Head of Corporate Division Asset Management						
Total for the Corporate Executive Committee	**3,990,917**	**1,490,479**	**19,479**	**1,432,292**	**4,472**	**307,104**

Explanatory notes to the table
Remuneration is disclosed in accordance with the accrual principle. The table includes all remuneration elements that were awarded for performance in 2012 even though individual components are not paid until a later date. Amounts are gross, before deduction of social security contributions etc.
Remuneration paid to former members and related parties In the year under review, due to a contractual obligation (basic salary payable until the end of the notice period), CHF 170,000 plus employer contributions to the pension fund was paid to a former member of the Corporate Executive Committee. No remuneration on a non-arm's length basis was paid to companies or individuals who are related to the chairman of the Board of Directors or members of the Corporate Executive Committee. (Related parties are: spouses, life partners, children under 18 years, companies owned or controlled by directors, or legal entities or individuals who act as trustees for them.) No amounts receivable from these persons were waived.
Share Subscription Plan Proportion of variable remuneration received directly as shares, which are measured at market value less 10 per cent markdown. Subscription price = CHF 73.53.
Employee Share Ownership Plan Proportion of variable remuneration received as shares (excluding loans to purchase shares), which are measured at market value less dividend rights discounted over three years. Subscription price = CHF 68.67.
Performance share units (PSUs) PSUs allocated in 2010 were converted into shares as at 1 January 2013. At the end of the vesting period on 31 December 2012, the performance of Baloise shares ranked 25th out of the 34 companies in the peer group (STOXX Europe 600 Insurance Index), so it was in the third quartile. The performance multiplier was therefore 0.58, and the 22,504 outstanding PSUs held by the members of the Corporate Executive Committee were converted into 13,053 shares (measured at a share price of CHF 78.50 on 31 December 2012). Half of these shares remain restricted for a further three years. The former chairman of the Board of Directors received 5,392 shares from the conversion of 9,297 PSUs (market value: CHF 423,272).
The value of prospective entitlements is only added to total remuneration at the time at which they are converted into shares (i.e. at the end of the three-year vesting period) because it cannot be reliably quantified until that date and is not actually earned until then. The notional value of one PSU on the allocation date was CHF 72.05 (measured using the Monte Carlo simulation method).

Variable remuneration					Total basic salary plus variable remuneration	Variable remuneration as percentage of basic salary	Non-cash benefits	Pension benefits	Total remuneration
Performance share units (PSU)			Total variable remuneration						
Converted into shares in 2013		Prospective entitlements (2012)							
Number of shares	CHF	Number of PSUs	Number of shares	CHF	CHF		CHF	CHF	CHF
4,381	343,909	9,831	10,238	1,183,909	2,233,909	113 %	3,420	154,060	2,391,389
617	48,435	3,371	4,617	480,350	989,517	94 %	13,420	104,518	1,107,455
2,359	185,182	4,916	5,962	715,081	1,415,161	102 %	159,806	204,359	1,779,326
1,854	145,539	3,863	5,072	618,875	1,210,545	105 %	3,420	174,331	1,388,296
1,820	142,870	3,792	5,608	584,995	1,124,995	108 %	14,670	142,186	1,281,851
2,022	158,727	4,213	5,507	671,327	1,271,327	112 %	28,420	192,371	1,492,118
13,053	1,024,662	29,986	37,004	4,254,537	8,245,454	107 %	223,156	971,825	9,440,435

Non-cash benefits Based on all remuneration elements required to be declared on the Swiss salary certificate, including long-service awards, benefits relating to shares received in connection with the Employee Incentive Plan (max. 100 shares per annum; in previous years the amount was reported in a separate column), travel and accommodation costs and non-cash benefits (use of a company vehicle) granted to a member of the Corporate Executive Committee with a second home abroad.
Pension benefits Employer contributions to the pension scheme and maintenance of disability insurance cover in the home country of a member of the Corporate Executive Committee with a second home abroad.

LOANS AND ADVANCES GRANTED TO MEMBERS OF THE BOARD OF DIRECTORS AND THE CORPORATE EXECUTIVE COMMITTEE (AS AT 31 DECEMBER)

	Mortgages		Loans pertaining to the Employee Share Ownership Plan		Other loans		Total	
	2011	2012	2011	2012	2011	2012	2011	2012
CHF								
Dr Andreas Burckhardt								
Chairman	0	0	581,494	1,479,108	0	0	581,494	1,479,108
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	0	0	0	0	0	0	0	0
Dr Georges-Antoine de Boccard								
Member	0	0	0	0	0	0	0	0
Dr Hansjörg Frei								
Member	0	0	0	0	0	0	0	0
Dr Klaus Jenny								
Member (until 27 April 2012)	0	n/a	0	n/a	0	n/a	0	n/a
Werner Kummer								
Member	0	0	0	0	0	0	0	0
Thomas Pleines								
Member (since 27 April 2012)	n/a	0	n/a	0	n/a	0	n/a	0
Dr Eveline Saupper								
Member	0	0	0	0	0	0	0	0
Total for the Board of Directors	0	0	581,494	1,479,108	0	0	581,494	1,479,108
Corporate Executive Committee member with the highest outstanding loan								
Dr Thomas Sieber								
Head of Corporate Division Corporate Centre	1,000,000	1,000,000	2,403,567	2,454,976	0	0	3,403,567	3,454,976
Other members of the Corporate Executive Committee	2,575,000	1,575,000	3,395,844	4,294,760	0	0	5,970,844	5,869,760
Total for the Corporate Executive Committee	3,575,000	2,575,000	5,799,411	6,749,736	0	0	9,374,411	9,324,736

Explanatory notes to the table:
Loans and advances No loans and advances were granted at non-market terms and conditions
a) to former members of the Board of Directors or Corporate Executive Committee,
b) to individuals or companies related to members of the Board of Directors or Corporate Executive Committee. (Related parties are: spouses, life partners, children under 18 years, companies owned or controlled by directors, or legal entities or individuals who act as trustees for them.)
Mortgages Mortgages of up to CHF 1 million are granted to staff at the following terms and conditions: 1 per cent below the customer interest rate for variable-rate mortgages and at a preferential interest rate for fixed-rate mortgages.
Loans associated with the Employee Share Ownership Plan Loans to increase the effect of the Employee Share Ownership Plan (see "5.6. Share Subscription Plan and Employee Share Ownership Plan"). Interest is charged on loans at a market rate (2012: 3 per cent), and they have a term of three years.
Other loans There are no policy loans.

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

	Discretionary shares		Restricted shares		Total share ownership		Percentage of issued share capital	
	2011	2012	2011	2012	2011	2012	2011	2012
Quantity								
Dr Andreas Burckhardt								
Chairman	1,093	1,643	12,105	31,024	13,198	32,667	0.026 %	0.065 %
Dr Georg F. Krayer								
Vice-Chairman	34,069	32,496	3,830	4,027	37,899	36,523	0.076 %	0.073 %
Dr Michael Becker								
Member	1,000	1,000	1,530	2,197	2,530	3,197	0.005 %	0.007 %
Dr Andreas Beerli								
Member	0	0	1,000	1,667	1,000	1,667	0.002 %	0.003 %
Dr Georges-Antoine de Boccard								
Member	0	0	1,000	1,667	1,000	1,667	0.002 %	0.003 %
Dr Hansjörg Frei								
Member	1,303	1,448	3,351	3,514	4,654	4,962	0.009 %	0.010 %
Dr Klaus Jenny								
Member (until 27 April 2012)	19,521	n/a	3,351	n/a	22,872	n/a	0.046 %	n/a
Werner Kummer								
Member	1,813	926	2,871	3,001	4,684	3,927	0.009 %	0.008 %
Thomas Pleines								
Member (since 27 April 2012)	n/a	0	n/a	1,000	n/a	1,000	n/a	0.002 %
Dr Eveline Saupper								
Member	1,093	1,643	2,678	2,795	3,771	4,438	0.008 %	0.009 %
Total for the Board of Directors	59,892	39,156	31,716	50,892	91,608	90,048	0.183 %	0.180 %
Percentage of issued share capital	0.120 %	0.078 %	0.063 %	0.102 %	0.183 %	0.180 %		

Explanatory notes to the table:
Shareholdings Include shares held by related parties (spouses, life partners, children under 18 years, companies owned or controlled by directors, or legal entities or individuals who act as trustees for them).
Restricted shares Shares received in connection with share-based remuneration programmes are subject to a restriction period of three years. The restriction period for shares received by the chairman of the Board of Directors in connection with the Share Subscription Plan is five years. Section 20 of the Articles of Incorporation also requires all members of the Board of Directors to lodge 1,000 shares with the Company for the duration of their term of appointment (qualifying shares).
Options Members of the Board of Directors do not hold any options on Baloise shares.

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

	Discretionary shares		Restricted shares		Total share ownership		Percentage of issued share capital		Prospective entitlements (PSUs)	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Quantity										
Dr Martin Strobel										
CEO of the Baloise Group	6,036	0	28,464	51,361	34,500	51,361	0.069 %	0.103 %	19,248	24,528
Jan De Meulder										
Head of Corporate Division International	3,501	3,313	8,915	12,319	12,416	15,632	0.025 %	0.031 %	11,041	12,830
German Egloff										
Head of Corporate Division Finance	8,333	11,513	24,655	29,984	32,988	41,497	0.066 %	0.083 %	9,556	10,081
Michael Müller										
Head of Corporate Division Switzerland	1,271	2,621	3,957	5,907	5,228	8,528	0.010 %	0.017 %	3,184	5,462
Dr Thomas Sieber										
Head of Corporate Division Corporate Centre	2,864	2,100	43,539	48,262	46,403	50,362	0.093 %	0.101 %	9,383	9,898
Martin Wenk										
Head of Corporate Division Asset Management	6,600	8,500	43,314	37,917	49,914	46,417	0.100 %	0.093 %	10,424	10,996
Total for the members of the Corporate Executive Committee	28,605	28,047	152,844	185,750	181,449	213,797	0.363 %	0.428 %	62,836	73,795
Percentage of issued share capital	0.057 %	0.056 %	0.306 %	0.372 %	0.363 %	0.428 %				

Explanatory notes to the table:
Shareholdings Include shares held by related parties (spouses, life partners, children under 18 years, companies owned or controlled by directors, or legal entities or individuals who act as trustees for them).
Restricted shares Includes loan-financed shares connected with the Employee Share Ownership Plan. Shares received in connection with share-based remuneration programmes are subject to a restriction period of three years.
Options Options held in connection with the Employee Share Ownership Plan are not reported here because they were written to hedge loans and do not originate from a separate option plan. Each put option is also offset by a countervailing call option.
Prospective entitlements (PSUs) Number of allocated performance share units (allocations as at 1 January 2010, 1 January 2011 and 1 March 2012).

TOTAL AND VARIABLE REMUNERATION IN THE BALOISE GROUP

	2011				2012			
	In cash	In shares	Prospective entitlements	Total	In cash	In shares	Prospective entitlements	Total
Total remuneration								
CHF million	757.1	5.1	7.4	769.6	749.8	6.0	6.4	762.2
Total variable remuneration (total pool)								
CHF million	149.5	5.1	7.4	162.0	152.8	6.0	6.4	165.2
Number of beneficiaries	6,657	173	73		6,634	167	72	
Of which commission paid to insurance sales force								
CHF million	96.6	0.0	0.0	96.6	108.0	0.0	0.0	108.0
Of which other forms of variable remuneration								
CHF million	52.9	5.1	7.4	65.4	44.8	6.0	6.4	57.2
Total outstanding deferred remuneration								
CHF million	0.0	48.5	21.0	69.5	0.0	61.5	20.9	82.4
Debits / credits for remuneration for previous reporting periods recognised in profit or loss								
CHF million	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total recruitment payments made								
CHF million	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.1
Number of beneficiaries	3	0	0		7	0	0	
Total severance payments made								
CHF million	4.9	0.0	0.0	4.9	3.2	0.0	0.0	3.2
Number of beneficiaries	73	0	0		38	0	0	

Explanatory notes to the table:
The table includes all remuneration elements awarded for each year, even if individual components are not paid until a later date.
Total remuneration All benefits in kind that the financial institution provides to persons directly or indirectly for the work they have performed for it in connection with their employment or directorship. They include cash payments, non-cash benefits, expenditure that creates or increases entitlement to pension benefits, pensions, allotment of shareholdings, conversion and options rights, and debt waivers.
Variable remuneration Part of total remuneration, the amount or payment of which is at the discretion of the financial institution or which depends on the occurrence of agreed conditions. It includes performance-related or results-based remuneration such as fees and commissions. Inducement and severance payments also fall under the definition of variable remuneration.
Total pool All the variable remuneration that a financial institution allocates for a year regardless of its form, any contractual undertaking regarding allocation and payout dates, and any terms and conditions attached. Inducement and severance payments made in the relevant year should be included in the total pool.
Inducement payment One-off payment agreed when an employment contract is signed. Payments to compensate for lost entitlement to remuneration from a former employer also count as inducement pay.
Severance payment Remuneration agreed in connection with the termination of a contract of employment.

6. SHAREHOLDER PARTICIPATION RIGHTS

Voting rights

The share capital of Bâloise Holding consists solely of registered shares. Each share confers the right to one vote. No shares carry preferential voting rights. To ensure a broad-based shareholder structure and to protect minority shareholders, no shareholder is registered as holding more than 2 per cent of voting rights, regardless of the size of their shareholding. The Board of Directors can approve exceptions to this provision if a majority of two-thirds of all its members is in favour (section 5 of the Articles of Incorporation). There are currently no exceptions. Each shareholder can authorise another shareholder to exercise his or her voting rights by appointing a proxy in writing. When exercising voting rights, no shareholder can accumulate more than one fifth of the voting shares at the Annual General Meeting directly or indirectly for his or her own votes or proxy votes (section 16 of the Articles of Incorporation).

Statutory quorums

The Annual General Meeting is quorate regardless of the number of shareholders present or proxy votes represented, subject to the mandatory cases stated by law (section 17 of the Articles of Incorporation).

The consent of at least three-quarters of the votes represented at the Annual General Meeting is required to suspend statutory restrictions on voting rights. The votes must also represent at least one third of the total shares issued by the Company. This qualified majority also applies to the cases specified in section 17 (3) lit. a–h of the Articles of Incorporation. Otherwise, resolutions are adopted by a simple majority of the votes cast, subject to compulsory legal provisions (section 17 of the Articles of Incorporation).

Convening the Annual General Meeting

The Annual General Meeting generally takes place in April, but must be held within six months of the end of the previous financial year. Bâloise Holding's financial year ends on 31 December. The Annual General Meeting is convened at least 20 days before the date of the meeting. Each registered shareholder receives a personal invitation, which includes the agenda. The invitation and the agenda are published in the Swiss Official Gazette of Commerce, in various newspapers and on the internet.

The Annual General Meeting, the Board of Directors or the external auditors decide whether to convene extraordinary general meetings. Furthermore, legal provisions also require the Board of Directors to convene an extraordinary general meeting if requested by the shareholders (section 11 of the Articles of Incorporation). Article 699 (3) of the Swiss Code of Obligations (OR) states such requests must be made by shareholders who represent at least 10 per cent of the share capital.

Requesting agenda items

Article 699 (3) OR states that one or more shareholders who together represent shares of at least CHF 100,000 can request items to be put on the agenda for debate. Such requests must be submitted in writing to the Board of Directors at least six weeks before the ordinary Annual General Meeting is held, giving details of the motions to be put to the AGM (section 14 of the Articles of Incorporation).

Entry in the share register

Shareholders are entitled to vote at the Annual General Meeting provided they are registered in the share register as shareholders with voting rights on the cut-off date stated by the Board of Directors in the invitation. The cut-off date should be several days before the Annual General Meeting, (section 16 of the Articles of Incorporation).

Section 5 of the Articles of Incorporation determines whether nominee entries are permissible, taking into account any percentage limits and entry requirements. The procedures and requirements for suspending and restricting transferability are set out in the provisions in section 5 and section 17.

www.baloise.com → Responsibility
→ Corporate Governance → Rules and regulations
www.baloise.com → Investor relations → IR Agenda

7. CHANGES OF CONTROL AND POISON-PILL MEASURES

Shareholders or groups of shareholders acting together by agreement are required to issue a takeover bid to all other shareholders when they have acquired 33 per cent of all Baloise shares. Bâloise Holding has not made any use of the option to deviate from or waive this regulation. There is no statutory opting-out clause or opting-up clause as defined by the Swiss Federal Act on Stock Exchanges and Securities Trading (Börsengesetz).

Like the chairman of the Board of Directors, all six members of the Corporate Executive Committee have a notice period of twelve months. They and five other members of senior management are also entitled to severance pay equivalent to one year's salary (including variable remuneration) after a change of control or merger, should the employer (or, in certain circumstances, the employee) terminate their employment contract within twelve months of the takeover or merger.

8. EXTERNAL AUDITORS

The external auditors are elected annually by the Annual General Meeting. PricewaterhouseCoopers AG (PwC) or its predecessor Schweizerische Treuhandgesellschaft / STG-Coopers & Lybrand has audited Bâloise Holding since 1962. Mr Martin Frei has held the post of auditor-in-charge since 2007. In accordance with article 730a (2) OR, the role of auditor-in-charge is rotated every seven years. PwC has been the external auditing firm for almost all Group companies since 2005.

PRICEWATERHOUSECOOPERS' FEES

CHF (rounded to the nearest thousand, including outlays and VAT)	2011	2012
Audit fees	4,945,000	6,463,000
Consulting fees	802,000	1,000,000
Tax consultancy and legal advice	352,000	638,000
Transaction advice (including due diligence)	39,000	–
Corporate finance	157,000	44,000
Insurance-specific consulting	133,000	205,000
Operational consulting	109,000	31,000
Business and IT consulting	12,000	82,000
Total	5,747,000	7,463,000

The audit fees include fees for engagements with a direct or indirect connection to a current or future audit engagement and fees for audit-related activities (including support with accounting issues, regulatory issues and statutory special audits).

At its meetings, the Audit and Risk Committee receives detailed documentation about the external auditors' findings, primarily at meetings about the annual and half-year financial statements.

The performance of the external auditors and their interaction with Group Internal Audit, Risk Management and Compliance are assessed by the Audit Committee. The Audit Committee's discussions with the external auditors focus on the audit work the latter have undertaken, their reports and the material findings and most important issues raised during the audit.

The Audit Committee submits proposals to the Board of Directors regarding the external auditors to be elected by the Annual General Meeting and makes recommendations regarding their fees. Before the start of the annual audit, it reviews the scope of the audit and suggests areas that require special attention. The Audit Committee reviews the external auditors' fees on an annual basis. The criteria for assessing the external auditors are:

- → the competence of the audit team
- → technical and industry expertise
- → understanding of corporate strategy
- → complete independence when conducting the audit
- → the corporate culture of the audit firm (shared values)
- → timely reporting
- → appropriate level of fees
- → compliance with relevant statutory, professional and ethical standards
- → consistent auditing methodology

The Audit Committee requests checks on the appropriateness of the services performed by the external auditors that are not connected with their audit work on the basis of the following criteria:

- → the compatibility of services with the external audit remit (independence)
- → competence and technical and industry expertise
- → service quality
- → appropriate level of fees

A written instruction requires material services unconnected with audit work to be approved in advance by Group Internal Audit. As part of the approval process for the engagement of auditors, the guarantee of independence is first reviewed by the auditor-in-charge and then verified by the head of Group Internal Audit. The operational unit approves the engagement and takes commercial responsibility for it.

9. INFORMATION POLICY

Information principles

The Baloise Group provides shareholders, potential investors, employees, customers and the public with information on a regular, open and comprehensive basis. All registered shareholders each receive a summary of the annual report once a year and a letter to shareholders every six months, which provide a review of business. The full annual report is sent to shareholders on request. All publications are simultaneously available to the public. All market participants receive the same information. Baloise uses technologies such as webcasting, podcasting and teleconferences to make financial analysts' meetings generally accessible.

Information events

Baloise provides detailed information about its business activities as follows:

- Details about its financial performance, targets, strategies and operations are provided at press conferences covering its annual and half-year financial statements.
- Teleconferences for financial analysts and investors take place when the annual and half-year financial statements are published. The events can then be downloaded as podcasts.
- Shareholders are informed about business during the year at the Annual General Meeting.
- Roadshows are regularly staged at various financial centres.

Ongoing relationships are maintained with analysts, investors and the media. Full details of individual Baloise events can be accessed at www.baloise.com.

Information about Baloise shares

Information about Baloise shares begins on page 8.
www.baloise.com → Investor relations → Baloise share

Information about Baloise bonds

Information about Baloise bonds in circulation can be found in the Financial Report section, starting from page 231.
www.baloise.com → Investor relations → Bonds

Financial calendar

Important dates for investors are available on www.baloise.com. This is where the publication dates for the annual and half-year reports are listed and where the date of the Annual General Meeting, the AGM invitation, the closing date for the share register and any ex-dividend dates are published.
www.baloise.com → Investor relations → IR Agenda

Availability of documents

Annual and half-year reports, media releases, disclosures, recent announcements, presentations and other documents are available to the public at www.baloise.com. Please register for the latest corporate communications at www.baloise.com/mailing-list.
www.baloise.com → Media relations → Media kits

Contact

Corporate Governance
Baloise Group
Andreas Eugster
Aeschengraben 21
4002 Basel, Switzerland
Tel. +41 (0)58 285 84 50
andreas.eugster@baloise.com

Investor Relations
Baloise Group
Marc Kaiser
Aeschengraben 21
4002 Basel, Switzerland
Tel. +41 (0)58 285 81 81
marc.kaiser@baloise.com

Financial Report

Consolidated balance sheet

	Note	31.12.2011	31.12.2012
CHF million			
Assets			
Property, plant and equipment	8	559.9	458.5
Intangible assets	9	1,300.2	1,078.5
Investments in associates	10	173.5	227.2
Investment property	11	5,138.0	5,441.0
Financial assets of an equity nature	12		
Available for sale		3,447.3	3,337.0
Recognised at fair value through profit or loss		6,256.6	5,897.0
Financial assets of a debt nature	12		
Held to maturity		8,027.8	8,188.5
Available for sale		19,855.3	22,433.5
Recognised at fair value through profit or loss		1,034.4	1,891.3
Mortgages and loans	13		
Carried at cost		17,667.5	17,691.2
Recognised at fair value through profit or loss		375.2	819.7
Derivative financial instruments	14	334.1	497.6
Receivables from financial contracts	15		
Carried at cost		348.6	370.5
Recognised at fair value through profit or loss		61.5	56.1
Reinsurance assets	16	377.5	398.6
Receivables from reinsurers	17	16.9	29.3
Insurance receivables		547.4	542.4
Receivables from employee benefits	18	1.4	0.6
Other receivables	15	276.1	269.0
Receivables from investments	15	661.1	644.5
Deferred tax assets	19	22.2	23.9
Current income tax assets		43.3	58.7
Other assets	20		
Carried at cost		169.6	161.8
Recognised at fair value through profit or loss		83.0	87.1
Cash and cash equivalents		2,287.8	2,923.7
Total assets		69,066.2	73,527.2

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

	Note	31.12.2011	31.12.2012
CHF million			
Equity and liabilities			
Equity			
Share capital	22	5.0	5.0
Capital reserves		215.9	218.2
Treasury shares		–256.7	–237.9
Unrealised gains and losses (net)		–615.3	109.1
Retained earnings		4,511.4	4,736.3
Equity before minority interests		3,860.3	4,830.7
Minority interests		33.3	42.1
Total equity		3,893.6	4,872.8
Liabilities			
Technical reserves (gross)	23	45,561.9	46,702.3
Liabilities arising from banking business and financial contracts	24		
With discretionary participation features		1,147.5	1,334.0
Measured at amortised cost		6,881.2	7,290.5
Recognised at fair value through profit or loss		5,969.4	6,973.4
Financial liabilities	26	1,612.6	2,017.6
Provisions	27	83.1	92.4
Derivative financial instruments	14	175.3	64.4
Insurance liabilities	28	1,777.4	1,881.7
Liabilities arising from employee benefits	18	720.0	727.5
Other accounts payable		479.4	542.5
Deferred tax liabilities	19	654.4	895.1
Current income tax liabilities		31.0	47.0
Other liabilities		79.4	86.0
Total liabilities		65,172.6	68,654.4
Total equity and liabilities		69,066.2	73,527.2

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

Consolidated income statement

CHF million	Note	2011	2012
Income			
Premiums earned and policy fees (gross)	29	6,806.9	6,730.7
Reinsurance premiums ceded	29	– 176.3	– 176.5
Premiums earned and policy fees (net)	29	6,630.6	6,554.2
Investment income	30	1,766.5	1,782.2
Realised gains and losses on investments	31	– 943.4	839.1
Income from services rendered	32	158.6	125.0
Share of profit (loss) of associates		10.2	16.5
Other operating income	33	140.1	92.0
Income		7,762.6	9,409.0
Expense			
Claims and benefits paid (gross)	23	– 5,311.5	– 5,449.3
Change in technical reserves (gross)	23	– 639.9	– 867.6
Reinsurers' share of claims incurred	23	53.3	113.2
Acquisition costs	34	– 576.8	– 650.9
Operating and administrative expenses for insurance business	34	– 847.0	– 899.2
Investment management expenses	34	– 61.3	– 59.1
Interest expenses on insurance liabilities		– 51.6	– 50.6
Gains or losses on financial contracts	36	324.0	– 563.9
Other operating expenses	34	– 507.9	– 425.8
Expense		– 7,618.7	– 8,853.2
Profit before borrowing costs and taxes		143.9	555.8
Borrowing costs	26	– 55.0	– 61.1
Profit before taxes		88.9	494.7
Income taxes	37	– 27.6	– 52.3
Profit for the period		61.3	442.4
Attributable to:			
Shareholders		60.8	436.6
Minority interests		0.5	5.8
Earnings / loss per share	38		
Basic (CHF)		1.30	9.32
Diluted (CHF)		1.29	9.08

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

Consolidated statement of comprehensive income

CHF million	Note	2011	2012
Profit for the period		61.3	442.4
Other comprehensive income			
Change in unrealised gains and losses on available-for-sale financial assets	39	131.4	1,564.7
Change in unrealised gains and losses on associates	39	–17.4	6.1
Change in hedging reserves for derivative financial instruments held as cash flow hedges	39	–	–
Change in hedging reserves for derivative financial instruments held as hedges of a net investment in a foreign operation	39	–16.1	2.1
Change in reserves arising from reclassification of held-to-maturity financial assets	39	–5.5	–4.9
Change in reserves arising from reclassification of investment property	39	–	–
Exchange differences	39	–43.4	19.5
Change arising from shadow accounting	39	–100.8	–606.8
Income taxes	39	–11.9	–252.4
Other comprehensive income		–63.7	728.3
Comprehensive income		–2.4	1,170.7
Attributable to:			
Shareholders		–2.0	1,161.0
Minority interests		–0.4	9.7

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

Consolidated cash flow statement

	Note	2011	2012
CHF million			
Summary			
Cash flow from operating activities (net)		343.9	580.0
Cash flow from investing activities (net)		– 215.6	– 97.2
Cash flow from financing activities (net)		– 38.6	155.3
Total cash flow		89.7	638.1
Effect of changes in exchange rates on cash and cash equivalents		– 10.8	– 2.2
Balance of cash and cash equivalents as at 1 January		2,208.9	2,287.8
Balance of cash and cash equivalents as at 31 December		2,287.8	2,923.7
Cash flow from operating activities			
Profit before taxes		88.9	494.7
Adjustments for			
Depreciation, amortisation and impairment of property, plant and equipment and of intangible assets	8 / 9	139.6	109.5
Realised gains and losses on property, plant and equipment and on intangible assets		0.5	– 0.1
Income from investments in associates		– 3.7	– 15.8
Realised gains and losses on financial assets, investment property and associates		939.0	– 844.5
Changes in other financial contracts		– 455.7	412.8
Changes in technical reserves (gross), including unearned premium reserves		463.3	836.8
Interest expenses on reinsurance liabilities		1.3	0.3
Borrowing costs	26	55.0	61.1
Amortised cost valuation of financial instruments		18.3	23.1
Additions and disposals of assets and liabilities resulting in a cash flow			
Purchase / sale of investment property		24.7	– 79.9
Purchase / sale of financial assets of an equity nature		– 402.6	0.2
Purchase / sale of financial assets of a debt nature		– 1,385.2	– 1,363.0
Addition / disposal of mortgages and loans		– 304.3	– 510.0
Addition / disposal of derivative financial instruments		113.5	– 167.4
Addition / disposal of financial contracts and liabilities from banking business		842.2	942.0
Other changes in assets and liabilities from operating activities		283.2	744.7
Taxes paid		– 74.1	– 64.5
Cash flow from operating activities (net)		343.9	580.0

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

	Note	2011	2012
CHF million			
Cash flow from investing activities			
Purchase of property, plant and equipment	8	– 70.2	– 50.4
Sale of property, plant and equipment		4.3	10.7
Purchase of intangible assets	9	– 49.9	– 24.6
Sale of intangible assets		0.7	0.5
Acquisition of companies, net of cash and cash equivalents	40	– 117.4	– 1.7
Disposal of companies, net of cash and cash equivalents	40	– 1.8	0.1
Purchase of investments in associates	10	–	– 36.2
Sale of investments in associates	10	15.3	0.0
Dividends from associates	10	3.4	4.4
Cash flow from investing activities (net)		– 215.6	– 97.2
Cash flow from financing activities			
Capital increases	22	–	–
Capital reductions	22	–	–
Additions to financial liabilities	26	247.5	549.0
Disposals of financial liabilities	26	–	– 150.0
Borrowing costs paid		– 48.7	– 53.2
Purchase of treasury shares		– 135.3	– 49.5
Sale of treasury shares		109.0	71.6
Cash flow attributable to minority interests		0.2	– 0.9
Dividends paid		– 211.3	– 211.7
Cash flow from financing activities (net)		– 38.6	155.3
Total cash flow		89.7	638.1
Cash and cash equivalents			
Balance as at 1 January		2,208.9	2,287.8
Change during the financial year		89.7	638.1
Effect of changes in exchange rates on cash and cash equivalents		– 10.8	– 2.2
Balance as at 31 December		2,287.8	2,923.7
Breakdown of cash and cash equivalents at the balance sheet date			
Cash and bank balances		1,835.5	2,034.3
Cash equivalents		0.0	0.0
Cash and cash equivalents for the account and at the risk of life insurance policyholders		452.3	889.4
Balance as at 31 December		2,287.8	2,923.7
Of which: restricted cash and cash equivalents		0.4	16.2
Supplemental disclosures on cash flow from operating activities			
Interest received		1,020.2	1,145.8
Dividends received		131.0	108.7
Interest paid		– 111.4	– 98.0

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

Consolidated statement of changes in equity

2011	Note	Share capital	Capital reserves	Treasury shares	Other changes in equity	Retained earnings	Equity before minority interests	Minority interests	Total equity
CHF million									
Balance as at 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 (treasury) shares			–		–	–	–	–	–
Increase / decrease in minority interests due to change in the scope of consolidation	40	–	–	–	–	–	–	–	–
Increase / decrease in minority interests due to change in percentage of shareholding	6	–	– 0.9	–	–	–	– 0.9	1.0	0.1
Balance as at 31 December 2011		5.0	215.9	– 256.7	– 615.3	4,511.4	3,860.3	33.3	3,893.6

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

2012	Note	Share capital	Capital reserves	Treasury shares	Other changes in equity	Retained earnings	Equity before minority interests	Minority interests	Total equity
CHF million									
Balance as at 1 January 2012		**5.0**	**215.9**	**– 256.7**	**– 615.3**	**4,511.4**	**3,860.3**	**33.3**	**3,893.6**
Profit for the period		–	–	–	–	436.6	436.6	5.8	442.4
Other comprehensive income	39	–	–	–	724.4	–	724.4	3.9	728.3
Comprehensive income		**–**	**–**	**–**	**724.4**	**436.6**	**1,161.0**	**9.7**	**1,170.7**
Other changes in equity in 2012									
Dividend		–	–	–	–	– 211.7	– 211.7	– 0.9	– 212.6
Capital increase / repayment	22	–	–	–	–	–	–	–	–
Purchase / sale of treasury shares		–	2.3	18.8	–	–	21.1	–	21.1
Cancellation of (treasury) shares		–	–	–	–	–	–	–	–
Increase / decrease in minority interests due to change in the scope of consolidation	40	–	–	–	–	–	–	–	–
Increase / decrease in minority interests due to change in percentage of shareholding	6	–	–	–	–	–	–	–	–
Balance as at 31 December 2012		**5.0**	**218.2**	**– 237.9**	**109.1**	**4,736.3**	**4,830.7**	**42.1**	**4,872.8**

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

Notes to the consolidated annual financial statements

Basis of presentation

1. BASIS OF PREPARATION

The Baloise Group is a European direct insurer comprising 18 different insurance companies that operate in virtually every segment of the life and non-life insurance business. Its holding company is Bâloise Holding, a Swiss corporation based in Basel whose shares are listed in the main segment of 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 conducted by subsidiaries in Switzerland and Germany. In addition, the Baloise Group has a fund management company in Luxembourg.

The Baloise Group's consolidated annual financial statements are based on the historical cost principle and recognise adjustments resulting from the regular fair value measurement of investment property and of financial assets and financial liabilities that are classified as available for sale or recognised at fair value through profit or loss. These consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), which comply with Swiss law. IFRS 4 deals with the recognition and disclosure of insurance and reinsurance contracts. The measurement of these contracts is based on local financial reporting standards.

At its meeting on 13 March 2013 the Bâloise Holding Board of Directors approved the annual financial statements and the Financial Report and released them for publication. The financial statements have yet to be approved by the Annual General Meeting of Bâloise Holding.

2. APPLICATION OF NEW FINANCIAL REPORTING STANDARDS

Newly applied IFRSs and interpretations

IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets

This amended standard addresses the issue of disclosure requirements in connection with transfers of financial assets to third parties in cases such as factoring or securities lending. If the rights to a financial asset are transferred to a third party or if an entity undertakes to transfer payments arising from a financial asset to a third party, IAS 39 "Financial Instruments: Recognition and Measurement" states that the financial asset may either be derecognised or, alternatively, it may continue to be recognised either at its full amount or at the amount of the continuing involvement. Previously, IFRS 7 required disclosures in the notes only in the last two cases. Now that the standard has been amended, however, it requires comprehensive disclosures on any contractual rights or obligations that may have been retained or acquired as a result of the transaction even in cases where the financial asset is fully derecognised.

IAS 39 / IFRS 7 Derecognition of financial assets

IAS 39 and IFRS 7 reformulate the criteria applied to the derecognition of financial assets and financial liabilities. Derecognition means removing a financial instrument from an entity's financial statements. This principle requires financial assets to be derecognised if the entity concerned no longer controls them. Financial liabilities, by contrast, are derecognised when the entity's obligation ceases to exist. Even if a financial asset is fully derecognised owing to a transfer transaction, comprehensive disclosures on any contractual rights or obligations that may have been retained or acquired as a result of this transaction (such as default guarantees or repurchase agreements) are required. This amendment has not had any material impact on the balance sheet or income statement.

IAS 12 Recovery of underlying assets

In the past, IAS 12 has required an entity to measure deferred tax assets and liabilities relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. Because it can often be difficult to assess whether recovery will be through use or sale, the amendment provides a solution by introducing a rebuttable presumption that recovery of the asset's carrying amount will be through sale.

This amendment is restricted to investment property that is measured using the fair value model (IAS 40) and to property, plant and equipment and intangible assets measured using the revaluation model (IAS 16 and IAS 38).

Other standards and interpretations

Currently, there are no requirements to apply any other standards or interpretations that have no impact – or no material impact – on profit for the period or on balance sheet items.

New IFRSs and interpretations not yet applied

The following new standards and interpretations relevant to the Baloise Group have been published by the IASB but have not yet come into effect and therefore have not been applied in the 2012 consolidated financial statements:

Standard / Interpretation	Content	Applicable to annual periods beginning on or after
IAS 1	Other comprehensive income	1.7.2012
IFRS 10	Consolidated financial statements	1.1.2013
IFRS 11	Joint arrangements	1.1.2013
IFRS 12	Disclosure of interests in other entities	1.1.2013
IFRS 13	Fair value measurement	1.1.2013
IAS 27 (2011)	Separate financial statements	1.1.2013
IAS 28 (2011)	Investments in associates and joint ventures	1.1.2013
IAS 19 (revised)	Employee benefits	1.1.2013
IAS 32 / IFRS 7	Offsetting financial assets and financial liabilities	1.1.2013
IFRS 9	Financial instruments	1.1.2015

IAS 1 Other comprehensive income

Following an amendment to IAS 1, OCI income and expense items that are to be reclassified to profit or loss at a later date must be presented separately from items of OCI that will not subsequently be reclassified to profit or loss.

IFRS 10 Consolidated Financial Statements

The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when a parent company controls one or more other entities. This standard supersedes the existing IAS 27 and SIC-12. An investor must establish whether it meets the definition of a parent company by assessing whether it controls one or more investee entities. The investor must take into account all relevant facts and circumstances when considering whether it controls an investee entity or not. An investor is deemed to control an investee if the investor has power over the investee, has exposure or rights to variable returns from involvement with the investee, and has the ability to use power over the investee to affect the amount of the investor's returns. Entities that qualify as investment entities under IFRS 10 enjoy an exemption and are not required to consolidate the entities that they control in their consolidated financial statements. Instead, equity investments held solely for the purpose of generating returns from capital appreciation, investment income or both must be measured at fair value through profit or loss. The Baloise Group is not affected by this exemption.

The new standard will have an impact on the basis of consolidation for the Baloise Group and will increase its total assets, particularly because of fund solutions that the Baloise Group develops and sells itself specifically for its investment-linked life insurance business.

IFRS 11 Joint Arrangements

IFRS 11 introduces new accounting requirements for joint arrangements, superseding IAS 31 "Interests in Joint Ventures". The new standard eliminates the option of proportionate consolidation as a method to account for interests in jointly controlled entities. It also removes "jointly controlled assets" as a type of joint arrangement. Only joint operations and joint ventures remain as types of joint arrangement. The new standard is not expected to have any impact on the balance sheet or income statement of the Baloise Group.

IFRS 12 Disclosure of Interests in Other Entities

The objective of IFRS 12 is to create a new single core standard requiring an entity to disclose information that enables users of its financial statements 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. A particular new feature is the express requirement for entities to disclose risks arising from off-balance-sheet structured vehicles, a development that has been demanded for some time by capital market players. This standard will have an impact on the disclosures in the notes to the financial statements for the Baloise Group.

IFRS 13 Fair Value Measurement

As a result of IFRS 13, existing guidance for measuring fair value in individual IFRSs currently in force will be superseded by a single standard. IFRS 13 does not introduce any additional fair value measurements, nor does it replace any of the existing provisions laid down in other standards. The Baloise Group is currently implementing the standard but does not expect it to have a material impact on the balance sheet or income statement. However, the standard will have an impact on disclosure.

IAS 27 (2011) Separate financial statements

The provisions governing separate financial statements remain part of the amended IAS 27. The other elements of IAS 27 (consolidated financial statements) are superseded by IFRS 10.

IAS 28 (2011) Investments in Associates and Joint Ventures

IAS 28 is concerned with investments in associates and now, additionally, joint ventures. The objective of IAS 28 is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

IAS 19 Employee Benefits

The most significant change in IAS 19 is that unexpected future fluctuations in pension obligations and in plan assets (actuarial gains and losses) must be recognised directly in OCI. The current options, allowing entities to choose between immediate recognition in profit or loss, in OCI or delayed recognition using the corridor method, have been withdrawn. As at 1 January 2012, the Baloise Group's actuarial losses (after tax and policyholders' shares) amounted to CHF 93.4 million, which will result in a corresponding decrease in equity. More comprehensive disclosures are also required.

IAS 32 / IFRS 7 Offsetting financial assets and financial liabilities

This amendment relates to a situation in which two entities each owe money to the other. In this case, both entities are required to present their rights and obligations in respect of each other as a net amount on the face of their respective balance sheets, provided that a range of strict conditions primarily focusing on the absolute enforceability of contractual rights are all satisfied. If a net amount is presented, disclosure obligations related to the rights associated with the transaction and any other possible associated arrangements must be satisfied. This change will have no material impact on the Baloise Group's balance sheet or income statement.

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial instruments. Classification of debt instruments at amortised cost is based on the entity's business model and on the contractual cash flow characteristics of the financial assets concerned. If the criteria in respect of the business model and cash flow characteristics are not met, debt instruments are measured at fair value through profit or loss. As regards structured products with embedded derivatives, the standard now only provides for separate recognition of non-financial host contracts. Structured products with financial host contracts must be classified and measured as combined instruments. It has not yet been possible to analyse the impact on the balance sheet and income statement of the Baloise Group because of the various revisions and new versions of the standard published by the IASB.

3. CONSOLIDATION PRINCIPLES AND ACCOUNTING POLICIES

3.1 Method of consolidation

3.1.1 Subsidiaries

The consolidated annual financial statements comprise the financial statements of Bâloise Holding and its subsidiaries, including any special-purpose entities (SPEs). A subsidiary is consolidated if the Baloise Group controls it either directly or indirectly. This is generally the case if the Baloise Group holds more than 50 per cent of the voting rights in the company concerned. 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 is effectively assumed, while all companies sold remain consolidated until the date on which control is ceded. Acquisitions of entities are accounted for under the acquisition method (previously known as the "purchase method"). Transaction costs are charged to the income statement as an expense. The identifiable assets and liabilities of the entity concerned are measured at fair value as at the date of first-time consolidation. Non-controlling interests arising from business combinations are measured either at their fair value or according to their share of the acquiree's identifiable net assets. The Baloise Group decides which measurement method to apply to each individual business combination.

The acquisition cost corresponds to the fair value of the consideration paid to the previous owners on the date of the acquisition. If investments in the form of financial instruments or associates were already held before control was acquired, these investments are remeasured and any difference is recognised in profit or loss. Any contingent consideration recognised as part of the consideration paid for the acquiree is measured at fair value on the transaction date. Any subsequent changes in the fair value of a contingent consideration are recognised in the income statement. If the acquisition cost exceeds the fair value of assets and liabilities plus non-controlling interests, the difference is recognised as goodwill. Conversely, if the identified net assets exceed the acquisition cost then the difference is recognised directly through profit or loss as other operating income.

All intercompany transactions and the resultant gains and losses are eliminated.

The consolidation of subsidiaries ends on the date on which control is ceded. If only some of the shares in a subsidiary are sold, the retained interest is measured at fair value on the date that control is lost. Gains or losses on the disposal of (some of) the subsidiary's shares are recognised in the income statement as either other operating income or other operating expenses.

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

3.1.2 Special-purpose entities (SPEs)

Although special-purpose entities are consolidated, their inclusion in the consolidated financial statements is governed by the provisions of SIC 12.

3.1.3 Joint ventures

Joint ventures are entities that are jointly controlled by two or more partners under a contractual agreement. These entities are consolidated on a pro-rata basis, which means that the Baloise Group recognises its share of the entity's assets, liabilities, income and expenses. The Baloise Group is not involved in any joint ventures at present.

3.1.4 Associates

Associates are initially carried at cost (fair value at the date of acquisition) and thereafter are measured under the equity method (Baloise Group's share of the entity's profit or loss for the period and its other comprehensive income) in cases where the Baloise Group can exert a significant influence over the management of the entity concerned. Changes in the fair value of associates are generally recognised in profit or loss and take account of any dividend flows. If the Baloise Group's share of the losses exceeds the value of the associate, no further losses are recognised. Goodwill paid for associates is included in the carrying amount of the investment.

3.2 Currency translation

3.2.1 Functional currency and reporting currency

Each subsidiary prepares its annual financial statements in its functional currency, which is the currency of its primary economic environment. The consolidated Financial Report is presented in millions of Swiss francs (CHF), which is the Baloise Group's reporting currency.

3.2.2 Translation of transaction currency into functional currency at Group companies

Income and expenses denominated in foreign currency are translated either at the exchange rate prevailing on the transaction date or at the average exchange rate. Monetary and non-monetary balance sheet items measured at fair value and arising from foreign-currency transactions conducted by Group companies are translated at the closing rate. Non-monetary items measured at historical cost are translated at the historical rate. Any resultant exchange differences are recognised in profit or loss. This does not include exchange differences that form part of cash flow hedges and are recognised directly in hedging reserves or are used as hedges of a net investment in a foreign operation.

Exchange differences arising on non-monetary financial instruments recognised at fair value through profit or loss are reported as realised gains or losses on these instruments. Exchange differences on available-for-sale non-monetary financial instruments are recognised directly in equity as unrealised gains or losses.

3.2.3 Translation of functional currency into reporting currency

The annual financial statements of all entities that have not been prepared in Swiss francs are translated as follows when the consolidated financial statements are being prepared:

→ assets and liabilities at the closing rate
→ income and expenses at the average rate for the year.

The resultant exchange differences are aggregated and recognised directly in equity. When foreign subsidiaries are sold, the exchange differences arising on the disposal are recognised in the income statement as a transaction gain or loss.

3.2.4 Key exchange rates

CURRENCY

	Balance sheet		Income statement	
	2011	2012	2011	2012
CHF				
1 EUR (euro)	1.21	1.21	1.23	1.21
1 USD (US dollar)	0.94	0.92	0.89	0.94
100 HRK (Croatian kuna)	16.14	15.99	16.58	16.02

3.3 Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The acquisition cost of property plant and equipment includes all directly attributable costs. Subsequent acquisition costs are only capitalised if future economic benefits associated with the property, plant and equipment will flow to the entity concerned and these costs can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

All financing for property, plant and equipment is generally obtained from the Baloise Group's own financial resources. If funding from external sources is required, interest accrued during the assets' development is capitalised as incurred.

Land is not depreciated. Other items of property, plant and equipment are depreciated on a straight-line basis over the following estimated useful lives:

→ Owner-occupied buildings: 25 to 50 years
→ Office furniture, equipment, fixtures and fittings: 5 to 10 years
→ Computer hardware: 3 to 5 years.

At each balance sheet date the Baloise Group tests all items of property, plant and equipment for impairment and reviews the suitability of their useful lives.

An impairment loss is immediately recognised on items of property, plant and equipment if their recoverable amount is lower than their carrying amount.

Gains or losses on the sale of property, plant and equipment are immediately taken to the income statement as either other operating income or other operating expenses.

3.4 Leasing

3.4.1 The Baloise Group as a lessee

Finance leases: leases on real estate, office furniture, equipment, fixtures, fittings and other tangible assets are classified and treated as finance leases if they transfer to the Baloise Group substantially all the risks and rewards incidental to ownership. The fair value of the leased property or, if lower, the present value of the lease payments is recognised as an asset at the inception of the lease. All lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability; this is reported on the Baloise Group's balance sheet as liabilities arising from banking business and financial contracts. Assets held under finance leases are fully depreciated over the shorter of the lease term and their useful life.

Operating leases: all other leases are classified as operating leases. Lease payments under operating leases are expensed in the income statement on a straight-line basis over the term of the lease.

3.4.2 The Baloise Group as a lessor

Investment real estate let on operating leases is reported as investment property on the face of the consolidated balance sheet. The Baloise Group was not involved as lessor in any other leases during the reporting period.

3.5 Intangible assets

3.5.1 Goodwill

Goodwill represents the excess of an acquiree's acquisition cost over the fair value of its assets and liabilities plus the acquisition-date amount of any non-controlling interests in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree. Goodwill is reported as an intangible asset. Goodwill is tested for impairment in the second half of each year. An impairment test may also be conducted in the first half of the year if there are objective indications that goodwill may be permanently impaired. When a new investment is acquired, the date for conducting future impairment tests is fixed and these tests are subsequently carried out at the same time each year. When entities are sold, their share of goodwill is recognised in their profit or loss. Goodwill is allocated to cash-generating units (CGUs) for the purposes of impairment testing.

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

The present value of future profits on insurance contracts acquired arises from the purchase of life insurance companies or life insurance portfolios. It is initially measured in accordance with actuarial principles and is amortised on a straight-line basis. It is regularly tested for impairment as part of a liability adequacy test (see section 3.18.2 for further details).

3.5.3 Deferred acquisition costs (DACs)

Costs directly incurred by the conclusion of insurance contracts or financial contracts with discretionary participation features (DPFs) – such as commissions – are capitalised and amortised over the term of these contracts or, if shorter, over the premium payment period. Deferred acquisition costs are tested for impairment at each balance sheet date (see section 3.18.3 for further details).

3.5.4 Capitalised investment fees

Acquisition costs directly attributable to the generation of asset management investment returns are recognised as intangible assets provided that they can be individually identified and reliably determined and they are likely to be recoverable. They are amortised through profit or loss over the term of the underlying financial contract in proportion to the returns generated and are tested annually for impairment.

3.5.5 Other intangible assets and internally developed assets

Other intangible assets essentially comprise software, external IT consulting (in connection with software that has been developed), internally developed assets (such as software) and assets identified during the acquisition of entities (such as brands and customer relationships). These assets are recognised at cost and are amortised on a straight-line basis over their useful lives. Intangible assets with indefinite useful lives are not amortised and are carried at cost less accumulated impairment losses.

All financing for intangible assets is generally obtained from the Baloise Group's own financial resources. If funding from external sources is required, interest accrued during the assets' development is capitalised as incurred.

3.6 Investment property

Investment property comprises land and / or buildings held to earn rental income or for capital appreciation (or both). If mixed-use properties cannot be broken down into owner-occupied property and property used by third parties, the entire property is classified according to the purpose for which most of its floor space is used.

Investment property is measured at fair value under the discounted cash flow (DCF) method. This fair value is determined internally each year by experts using market-based assumptions. Fair values are mainly derived from future cash flows (net cash flows from rental income, maintenance costs and administrative expenses) and mathematical models from similar transactions. The majority of the real-estate portfolio directly held by the Baloise Group is located in Switzerland. The discount rate used here for calculations under the DCF method is determined on a hedonic basis. Expected property vacancy trends are also factored into these calculations. External appraisal reports are obtained at regular intervals. External expert appraisals are therefore used to review roughly 10 per cent of the fair value of this real-estate portfolio every year. Changes in fair value are immediately taken to income as realised accounting gains or losses in the period in which they occur.

If, owing to a change of use, an investment property held by the Baloise Group becomes the latter's owner-occupied property, it is reclassified as property, plant and equipment. Any such reclassification is based on the property's fair value at the reclassification date.

If one of the Baloise Group's owner-occupied properties becomes an investment property owing to a change of use, then, on the date this change takes effect, the difference between the property's carrying amount and its fair value is recognised in profit or loss in the event of an impairment; or, if the property's fair value exceeds its carrying amount, then the difference is recognised directly in equity as an unrealised gain. If an investment property that was reclassified in a previous period is sold, the amount recognised directly in equity is reclassified to retained earnings.

3.7 Financial assets

The term "investments" (Kapitalanlagen in German) is used in some places and headings in the Financial Report for clarity's sake. The IFRSs themselves do not define the term "investments" (or Kapitalanlagen). The term "investments" as used in the Financial Report covers financial assets, mortgages and loans, derivative financial instruments, cash and cash equivalents, and investment property.

The asset classes covered by the term financial assets of an equity nature are equities; share certificates; units held in equity, bond and real-estate funds; and alternative financial assets such as private equity investments and hedge funds. Financial assets of an equity nature are generally more frequently exposed to price volatility than financial assets of a debt nature are.

The term financial assets of a debt nature covers securities such as bonds and other fixed-income securities. They are usually interest bearing and are issued for a fixed or determinable amount.

The Baloise Group classifies its financial assets of an equity nature and its financial assets of a debt nature as either "recognised at fair value through profit or loss", "held to maturity" or "available for sale." The classification of the financial assets concerned is determined by the purpose for which they have been acquired.

Mortgages and loans are generally carried at cost. In pursuing its strategy of using natural hedges, however, the Baloise Group applies the fair value option to designate parts of its portfolio as "recognised at fair value through profit or loss." Appropriately designated derivative financial instruments are used to hedge these parts of the portfolio.

3.7.1 Financial assets recognised at fair value through profit or loss

This category consists of two sub-categories: held-for-trading financial assets (trading portfolio) and financial assets that are designated to this category. Financial instruments are classified in this category if they have principally been acquired with the intention of selling them in the short term, or if they form part of a portfolio for which there have recently been indications that a gain could be realised in the short term, or if they have been designated to this category. Derivative financial instruments are classified as "held for trading" (trading portfolio) with the exception of derivatives that have been designated for hedge accounting purposes. Also designated to this category are structured products, i. e. equity instruments and debt instruments which, in addition to the host contract, contain embedded derivatives that are not bifurcated and measured separately. Financial assets held under investment-linked life insurance contracts are also designated as "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 involving fixed or determinable payments. However, they do not include mortgages, loans (section 3.8) or receivables (section 3.9) that the Baloise Group can – and intends to – hold until maturity.

3.7.3 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial instruments that have been classified as "available for sale" or have not been designated to any of the above-mentioned categories and are not 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 Recognition, measurement and derecognition

All customary purchases of financial assets are recognised on the trade date. Financial assets are initially measured at fair value. Transaction costs form part of the acquisition cost (with the exception of financial assets recognised at fair value through profit or loss).

Financial assets are derecognised if the rights pertaining to the cash flows from the financial instrument have expired or if the financial instrument has been sold and substantially all the associated risks and rewards have been transferred. Cash outflows from reverse repurchase (repo) transactions are offset by corresponding receivables. The financial assets received as collateral security from the transaction are not recognised. The relevant transaction is recognised on the balance sheet on the settlement date. The financial assets transferred as collateral security under repurchase agreements continue to be recognised as financial assets. The pertinent cash flows are offset by corresponding liabilities. In its stocklending operations the Baloise Group only engages in securities lending. The borrowed financial instruments continue to be recognised as financial assets. The securities provided as cover for repos, reverse repos and securities lending transactions are measured daily at their current fair value.

Available-for-sale financial assets and financial assets recognised at fair value through profit or loss are measured at fair value. Held-to-maturity financial assets are measured at amortised cost using the effective interest method. Realised and unrealised gains and losses on financial assets recognised at fair value through profit or loss are taken to income. Unrealised gains and losses on available-for-sale financial assets are recognised directly in equity. If available-for-sale financial assets are sold or impaired, the cumulative amount recognised directly in equity is recognised in the income statement as a realised gain or loss on financial assets. Changes in the fair value of financial assets' risks that are covered by fair value hedges are recognised in the income statement for the duration of these hedges irrespective of the financial assets' classification.

The fair value of listed financial assets is based on market prices. If no such prices are available, fair value is estimated using generally accepted methods (such as the present-value method), independent assessments based on comparisons with the market prices of similar instruments, or the prevailing market situation.

Derivative financial instruments are measured using models or on the basis of quoted market prices.

If no market prices are available for private equity investments, various methods are used to estimate their fair value. These include analysis of discounted cash flows and reference to similar, fairly recent arm's-length transactions between knowledgeable, willing parties.

If the fair value of hedge funds cannot be determined on the basis of publicly quoted prices then prices quoted by independent third parties are used for measurement purposes.

If such estimates do not enable financial assets to be reliably measured, the assets are recognised at cost and disclosed accordingly.

3.8 Mortgages and loans

Mortgages and loans (including policy loans) are non-derivative financial instruments involving fixed or determinable payments that are not listed in an active market. Mortgages and loans classified as "carried at cost" are measured at amortised cost using the effective interest method. They are regularly tested for impairment.

Mortgages and loans held as part of fair value hedges (hedge accounting) are designated as "at fair value through profit or loss." Yield curves are used to measure these portfolios.

3.9 Receivables

Receivables from financial contracts include life settlement agreements (secondary market policies) measured at fair value. The income-approach method is used for measurement purposes. The measurement of receivables under this method includes the guaranteed benefits payable when policies mature, future and already disbursed policyholders' dividends, final policyholders' dividends, and risk-adjusted discount rates. Changes recognised in profit or loss are reported as gains or losses on financial contracts.

All other receivables are recognised at amortised cost less any impairment losses recognised for non-performing receivables. Amortised cost is usually the same as the nominal amount of the receivables.

3.10 Permanent impairment

3.10.1 Assets measured under the amortised-cost method (mortgages, loans, receivables and held-to-maturity financial assets)

The Baloise Group determines at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets may be permanently impaired. A financial asset or a group of financial assets is only impaired if, as a result of one or more events, there is objective evidence of impairment that has an impact on the expected future cash flows from the financial asset that can be reliably estimated. Objective evidence of a financial asset's impairment includes observable data on the following cases:

- Serious financial difficulties on the part of the borrower
- Breaches of contract, such as a borrower in default or arrears with the payment of principal and / or interest
- Greater probability that the borrower will file for bankruptcy or undergo some other form of restructuring
- Observable data that indicates a measurable reduction in the expected future cash flows from a group of financial assets since their initial recognition.

Analysts' reports from banks and evaluations by credit rating agencies are also used to assess the need for impairment losses.

If there is objective evidence that loans and receivables or held-to-maturity financial assets may be permanently impaired, the impairment loss represents the difference between the asset's carrying amount and the present value of future cash flows, which are discounted using the financial asset's relevant effective interest rate. If the amount of the impairment loss decreases in a subsequent reporting period and if this decrease can be attributed to an event that has objectively occurred since the impairment was recognised, the previously recognised impairment loss is reversed.

The mortgage portfolio is regularly tested for impairment. If there is objective evidence that the full amount owed under the original contractual terms and conditions or the relevant proceeds of a receivable cannot be recovered, an impairment loss is recognised. Loan exposures are individually evaluated based on the nature of the borrower concerned, its financial position, its credit history, the existence of any guarantors and, where appropriate, the realisable value of any collateral security.

3.10.2 Financial assets measured at fair value

The Baloise Group determines at each balance sheet date whether there is any objective evidence that available-for-sale financial assets may be permanently impaired. This category includes financial assets of an equity nature. An impairment loss must be recognised on financial assets of an equity nature whose fair value at the balance sheet date is more than 50 per cent below their acquisition cost or whose fair value is consistently below their acquisition cost throughout the twelve-month period preceding the balance sheet date. The need for an impairment loss is examined and, where necessary, such a loss is recognised on securities whose fair value at the balance sheet date is between 20 per cent and 50 per cent below their acquisition cost.

If an impairment loss is recognised, the cumulative net loss recognised directly in equity is taken to the income statement.

Impairment losses on available-for-sale financial assets of an equity nature that have been recognised in profit or loss cannot be reversed and taken to income. Any further reduction in the fair value of financial assets of an equity nature on which impairment losses were recognised in previous periods must be charged directly to the income statement.

An impairment loss is recognised on available-for-sale financial assets of a debt nature if their fair value is significantly impaired by default risk.

If the fair value of an available-for-sale financial asset of a debt nature rises in a subsequent reporting period and this increase can be objectively attributed to an event that has occurred since an impairment loss was recognised in profit or loss, the impairment loss is reversed and taken to income.

3.10.3 Impairment losses on non-financial assets

Goodwill and any assets with indefinite useful lives are tested for impairment at the same time each year or whenever there is objective evidence of impairment. Goodwill is allocated to cash-generating units (CGUs) for the purposes of impairment testing. Insurance companies that sell both life and non-life products (so-called composite insurers) test goodwill for impairment at this level. When impairment tests are performed, a CGU's value in use is determined on the basis of the maximum discounted future cash flows (usually dividends) that could potentially be returned to the parent company. This process takes appropriate account of legal requirements and internally specified capital adequacy limits. The long-term financial planning approved by management forms the basis for this calculation of the value in use. Permanent impairment losses are recognised in the income statement as other operating expenses. All other non-financial assets are tested for impairment whenever there is objective evidence of such impairment.

Impairment losses recognised in previous reporting periods on assets with finite useful lives are reversed if the estimates used to determine the recoverable amount have changed since the most recent impairment loss was recognised. This increase constitutes a reversal of impairment losses. Impairment losses recognised in previous reporting periods on goodwill are not reversed. Impairment losses recognised in previous reporting periods on assets with indefinite useful lives are reversed and taken to income; however, the amount to which they are reversed must be no more than the amount recognised prior to the impairment losses less depreciation or amortisation.

3.11 Derivative financial instruments

Derivative financial instruments include swaps, futures, forward contracts and options whose value is primarily derived from the underlying interest rates, exchange rates, commodity prices or share prices. The acquisition cost of derivatives is usually either very low or non-existent. These instruments are carried at fair value on the balance sheet. At the time they are purchased they are classified as either fair value hedges, cash flow hedges, hedges of a net investment in a foreign operation, or trading instruments. Derivative financial instruments that do not qualify as hedges under IFRS criteria despite performing a hedging function as part of the Baloise Group's risk management procedures are treated as trading instruments.

The Baloise Group's hedge accounting system documents the effectiveness of hedges as well as the objectives and strategies pursued with each hedge. Hedge effectiveness is constantly monitored from the time the pertinent derivative financial instruments are purchased. Derivatives that no longer qualify as hedges are reclassified as trading instruments.

3.11.1 Structured products

Structured products are equity instruments or debt instruments that contain embedded derivatives in addition to the host contract. Provided that the economic characteristics and risks of the embedded derivative differ from those of the host contract and that this derivative qualifies as a derivative financial instrument, the embedded derivative is bifurcated from the host contract and is separately recognised, measured and disclosed. If the derivative and the host contract are not bifurcated, the structured product is designated as a host contract that is recognised at fair value through profit or loss.

3.11.2 Fair value hedges

When the effective portion of hedges is being accounted for, changes in the fair value of derivative financial instruments classified as fair value hedges – plus the hedged portion of the fair value of the asset or liability concerned – are reported in the income statement. The ineffective portion of hedges is recognised separately in profit or loss.

3.11.3 Cash flow hedges

When the effective portion of hedges is being accounted for, changes in the fair value of derivative financial instruments classified as cash flow hedges are recognised directly in equity. The amounts reported in equity as "unrealised gains and losses (net)" are taken to the income statement at a later date in line with the hedged cash flows. The ineffective portion of hedges is recognised in profit or loss.

If a hedging instrument is sold, terminated or exercised or it no longer qualifies as a hedge, the cumulative gains and losses continue to be recognised directly in equity until the forecasted transaction materialises. If the forecasted transaction is no longer expected to materialise, the cumulative gains and losses recognised in equity are taken to income.

3.11.4 Hedges of a net investment in a foreign operation

Hedges of a net investment in a foreign operation are treated as cash flow hedges. When the effective portion of hedges is being accounted for, gains or losses on hedging instruments are recognised directly in equity. The ineffective portion of hedges is recognised in profit or loss.

If the foreign operation – or part thereof – is sold, the gain or loss recognised directly in equity is taken to the income statement.

3.11.5 Derivative financial instruments that do not qualify as hedges

Changes in the fair value of derivative financial instruments that do not qualify as hedges are recognised in the income statement as "realised gains and losses on investments."

3.12 Netting of receivables and liabilities

Receivables and liabilities are offset against each other and shown as a net figure on the balance sheet provided that an offsetting option is available and the Baloise Group intends to realise these assets and liabilities simultaneously.

3.13 Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups) held for sale that meet the criteria stipulated in IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are shown separately on the balance sheet. Those assets described in the standard are measured at the lower of their carrying amount and fair value less costs to sell. Any resultant impairment losses are taken to income. Any depreciation or amortisation is discontinued from the reclassification date.

Details of discontinued operations – where available – are disclosed in the notes to the Financial Report.

3.14 Cash and cash equivalents

Cash and cash equivalents essentially consist of cash, demand deposits, and cash equivalents. Cash equivalents are predominantly short-term liquid investments with maturity periods of no more than 24 hours and cheques that have yet to be cashed.

3.15 Equity

Equity instruments are classified as equity unless the Baloise Group is contractually obliged to repay them or to cede other financial assets. Transaction costs relating to equity transactions are deducted and all associated income tax assets are recognised as deductions from equity.

3.15.1 Share capital

The share capital shown on the balance sheet represents the subscribed share capital of Bâloise Holding, Basel. This share capital consists solely of registered shares. No shares carry preferential voting rights.

3.15.2 Capital reserves

Capital reserves include the paid-up share capital in excess of par value (share premium), Bâloise Holding share options, gains and losses on the purchase and sale of treasury shares, and embedded options in Bâloise Holding convertible bonds.

3.15.3 Treasury shares

Treasury shares held either by Bâloise Holding or by subsidiaries are shown in the consolidated financial statements at their acquisition cost (including transaction costs) as a deduction from equity. Their carrying amount is not constantly restated to reflect their fair value. If the shares are resold, the difference between their acquisition cost and their sale price is recognised as a change in the capital reserves. Only Bâloise Holding shares are classified as treasury shares.

3.15.4 Unrealised gains and losses (net)

This item includes changes in the fair value of available-for-sale financial instruments, the net effect of cash flow hedges, the net effect of hedges of a net investment in a foreign operation, exchange differences, and gains on the reclassification of the Baloise Group's owner-occupied property as investment property.

Deductions from these unrealised gains and losses include the pertinent deferred taxes and, in the case of life insurance companies, also the funds that will be used in future to amortise acquisition costs and to finance policyholders' dividends (shadow accounting).

Any minority interests are also deducted from these items.

3.15.5 Retained earnings

Retained earnings include the Baloise Group's undistributed earnings and its profit for the period. Dividends paid to the shareholders of Bâloise Holding are only recognised once they have been approved by the Annual General Meeting.

3.15.6 Minority interests

Minority interests constitute the proportion of Group companies' equity attributable to third parties outside the Baloise Group on the basis of their respective shareholdings.

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 directly insured or reinsured risk that is not a financial risk.

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

Contracts that pose no significant insurance risk are financial contracts. Such financial contracts may include a discretionary participation feature (DPF), which determines the accounting policies to be applied.

The effective interest method is generally used to calculate receivables and liabilities arising from financial contracts. The effective interest rate is determined as the internal rate of return based on the estimated amounts and timing of the expected payments. If the amounts or timing of the actual payments differ from those expected or if expectations change, the effective interest rate must be re-determined. The deposit account balance is then remeasured as if this new effective interest rate had applied from the outset, and the change in the value of the deposit account is recognised as interest income or interest expense. Otherwise, the insurance cover financed from the deposit account is amortised over the expected term of the deposit account.

The Baloise Group considers an insurance risk to be significant if, during the term of the contract and under a plausible scenario, the payment triggered by the occurrence of the insured event is 5 per cent higher than the contractual benefits payable if the insured event does not occur.

A discretionary participation feature (DPF) exists if the policyholder is contractually or legally entitled to receive benefits over and above the benefits guaranteed and if

- the benefits received are likely to account for a significant proportion of the total benefits payable under the contract
- if the timing or amount of the benefits payable is contractually at the discretion of the insurer, and the benefits received are contractually contingent on the performance of either a specified portfolio of contracts or a specified type of contract, on the realised and / or unrealised capital gains on a specified portfolio of investments held by the insurer, or on the profit or loss reported by the insurer.

Captive insurance policies are derecognised from the annual financial statements. This also applies to contracts involving proprietary pension plans, provided that the employees covered by these plans work for the Baloise Group.

In addition, IFRS 4 makes exceptions for the treatment of embedded derivatives that form part of insurance contracts or financial contracts with discretionary participation features. If such embedded derivatives themselves qualify as insurance contracts, they do not have to be either separately measured or disclosed. In the case of the Baloise Group this affects, among other things, certain guarantees provided for annuity conversion rates and further special exceptions such as specific guaranteed cash surrender values for traditional policies.

3.17 Non-life insurance contracts

All standardised non-life products contain sufficient insurance risk to be classified as insurance contracts under IFRS 4. The non-life business conducted by the Baloise Group is broken down into seven main segments:

- Accident
  All standard product lines typical of each relevant market are available in the accident insurance business. The Belgian market and Switzerland in particular also offer specific government-regulated occupational accident products that differ from the other products usually available.
- Health
  The Baloise Group writes health insurance business in Switzerland and Belgium only. The benefits paid by the products in this segment cover the usual cost of treatment and also include a daily sickness allowance; they are available to individuals as well as small and medium-sized businesses in the form of so-called ‘group’ insurance.
- General liability
  In addition to conventional personal liability insurance the Baloise Group also sells third-party indemnity policies for certain professions. In Switzerland and Germany it offers policies – especially combined products – for small and medium-sized enterprises and for industrial partners that include features such as product liability.
- Motor
  The two standardised products common in the market – comprehensive and third-party liability insurance – are sold in this segment. In some countries there are also products that have been specially designed for collaborations with motoring organisations and individual automotive companies.
- Fire and other property insurance
  In addition to conventional home contents insurance this segment offers an extensive range of property policies that include fire insurance, buildings insurance and water damage insurance in all the varieties commonly available.
- Marine
  Marine insurance is mainly sold in Switzerland and Germany. These products may include a third-party liability component in addition to the usual cargo insurance.
- Miscellaneous
  This category generally comprises small segments such as credit protection insurance and legal expenses insurance. Provided that financial guarantees qualify as insurance contracts, they are treated as credit protection insurance policies.

3.17.1 Premiums

The gross premiums written are the premiums that have fallen due during the reporting period. They include the amount needed to cover the insurance risk plus all surcharges. Premium contributions that are attributable to future reporting periods are deferred by contract and – together with any provisions for premium shortfalls during the reporting period (impending losses), health insurance reserves for old age, and any deferred unearned premiums – constitute the unearned premium reserves shown on the balance sheet. Owing to the specific nature of marine insurance, premiums are deferred not by contract but on the basis of estimates. Premiums that are actually attributable to the reporting period are recognised as premiums earned. Their calculation is based on the premiums written and the change in unearned premium reserves.

3.17.2 Claims reserves

At the end of each financial year the Baloise Group attaches great importance to setting aside sufficient reserves for all claims that have occurred by this date.

In addition to the reserves that it recognises in respect of the payments to be made for claims that have occurred, it also sets aside reserves to cover the costs incurred during the claims settlement process. In order to calculate these reserves as realistically as possible, the Baloise Group uses the claims history of recent years, generally accepted mathematical-statistical methods and all the information available to it at the time – especially knowledge about the expertise of those entrusted with the handling of claims.

The total claims reserve consists of three components. Reserves calculated using actuarial methods form the basis of the total claims reserve. The second component comprises reserves for those complex special cases and events that do not lend themselves to purely statistical evaluation. These are generally rare claims that are fairly atypical of the sector concerned – usually sizeable claims whose costs have to be estimated by experts on a case-by-case basis. Neither of these components is subject to discounting. The third component consists of reserves for annuities that are discounted using basic actuarial principles such as mortality and the technical interest rate and are largely derived from claims in the motor, liability and accident insurance businesses.

Actuarial methods are used to calculate by far the largest proportion of claims reserves. To this end, the Baloise Group selects actuarial forecasting methods that are appropriate for each sector, insurance product and existing claims history. Additional market data and assumptions obtained from insurance rates are used if the claims history available on a customer is inadequate. The Baloise Group mainly applies the chain-ladder method, which is the most widely used, tried-and-tested procedure. This method involves estimating the number and amounts of claims incurred over time and the proportion of claims that are reported to the insurer either with a time lag or after the balance sheet date. The proportion of these so-called incurred-but-not-reported (IBNR) claims is exceptionally important, especially in operating segments involving third-party liability insurance. These estimates naturally factor in emerging claims trends as well as recoveries. The mean ratio of costs incurred to claims actually paid is essentially used to calculate provisions for claims handling costs.

The forecasting methods used cannot eliminate all the uncertainties inherent in making predictions about future developments and trends. Nonetheless, systematic monitoring of the provisions recognised in a given financial year enables the Baloise Group to spot discrepancies as soon as possible and, consequently, to adjust the level of provisions and modify the forecasting method where necessary. This analysis is based on the so-called “run-off triangles” presented in aggregated form in section 5.4.5. The relevant calculations for typical property policies such as storm & tempest insurance or home contents insurance are usually based on the payments made over the past ten years. Larger amounts of data and, consequently, claims triangles that go further back in time and are based on both payments and expenses (payments plus provisions) are, of course, used for insurance segments with longer run-off periods, such as third-party liability. To supplement the Baloise Group’s various internal control mechanisms, its reserves – and the methods used to calculate them – are regularly reviewed by external specialists. Mention should be made here of the liability adequacy test described in detail in section 3.17.4. The Baloise Group takes great care to ensure that it complies with the pertinent financial reporting standard by performing the regularly required profitability analysis and examining whether, at the balance sheet date, it can actually meet all the liabilities that it has taken on as an insurer. It immediately offsets any shortfall in its reserves that it identifies.

3.17.3 Policyholders' dividends and participation in profits

Insurance contracts can provide customers with a share of the surpluses and profits generated by their policies (especially those arising from their claims history). The expenses incurred by policyholders' dividends and participation in profits are derived from the dividends paid plus the changes in the pertinent reserves.

3.17.4 Liability adequacy test

A liability adequacy test (LAT) is carried out at each balance sheet date to ascertain whether – taking all known developments and trends into consideration – the Baloise Group's existing reserves are adequate.

To this end, all existing reserves – both claims reserves and annuity reserves in the non-life segment – are analysed and, if a shortfall is identified, the relevant reserves are strengthened accordingly. This analysis explicitly includes IBNR claims, thereby ensuring that adequate reserves are available for all claims that have already occurred.

The liability adequacy test required by IFRS must also examine whether any of the Baloise Group's existing contracts maintained during the reporting period have incurred any further liabilities. Baloise must therefore conduct a profitability analysis of its insurance business during the current financial year in order to demonstrate that an adequate level of premiums has been charged and, consequently, that a sufficient amount is available to cover the unearned premium reserves for liabilities in subsequent reporting periods. It must also analyse the profitability of contracts that are automatically renewed for a further year on the same terms and conditions. This therefore amounts to an impairment test of deferred acquisition costs at the same time. This analysis factors in expected returns on the pertinent unearned premium reserves and existing claims reserves. If a loss is expected to be incurred, the deferred acquisition costs are initially reduced by the respective amount. If the total amount of deferred acquisition costs is insufficient or if the resultant liability cannot be covered, a separate provision for impending losses is recognised in the unearned premium reserves.

3.18 Life insurance contracts and financial contracts with discretionary participation features

IFRS 4 gives users the option of accounting for insurance contracts and financial contracts with discretionary participation features by continuing to apply the existing accounting policies described in section 1 below to both liabilities and to the assets resulting directly from the pertinent contracts (deferred acquisition costs and contract portfolios).

The following life insurance products offered by the Baloise Group contain sufficient insurance risk to be classified as insurance contracts under IFRS 4:

- endowment policies (both conventional and unit-linked life insurance),
- Swiss group life business (BVG),
- term insurance,
- immediate annuities,
- deferred annuities with annuity conversion rates that are guaranteed at the time the policy is purchased,
- all policy riders such as premium waiver, accidental death, and disability.

The accounting policies applied by the Baloise Group are described below.

3.18.1 General accounting policies

The accounting policies applied to traditional life insurance vary according to the type of profit participation agreed. Premiums are recognised as income and benefits are recognised as expense at the time they fall due. The amount of reserves set aside in each case is determined by actuarial principles or by the net premium principle, which ensures that the level of reserves generated from premiums remains consistent over time. The actuarial assumptions used to calculate reserves at the time that contracts are signed either constitute best estimates with explicit safety margins for specific business lines or they are determined in accordance with local loss reserving practice and thus also factor in safety margins. The assumptions used are locked in throughout the term of the contract unless a liability adequacy test reveals that the resultant reserves need to be strengthened after the deferred acquisition costs (DACs) and the present value of future profits (PVFP) on acquired insurance contracts have been deducted. Unearned premium reserves, reserves for final dividend payments, and certain unearned revenue reserves (URRs) are also recognised as components of the actuarial reserve.

A liability adequacy test is performed on all life insurance business at each balance sheet date. This involves calculating a reserve at the measurement date that factors in all future cash flows (such as insurance benefits, surpluses and contract-related administrative expenses) based on the best estimates available for the assumptions used at the time. If the minimum reserve calculated in this way for individual business lines exceeds the reserve available at the time, any existing deferred acquisition cost or present value of future profits is reduced and, if this is not enough, the reserve is immediately increased to the minimum level and this increase is recognised in profit or loss.

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

The present value of future profits on insurance contracts acquired constitutes an identifiable intangible asset that arises from the purchase of a life insurance company or life insurance portfolio. It is initially measured in accordance with actuarial principles and is amortised on a straight-line basis. It is regularly tested for impairment as part of a liability adequacy test.

3.18.3 Deferral of acquisition costs

Acquisition costs are deferred. They are amortised either over the premium payment period or over the term of the insurance policy, depending on the type of contract involved. They are tested for impairment as part of a liability adequacy test.

3.18.4 Unearned revenue reserve (URR)

The unearned revenue reserve comprises premiums that are charged for services rendered in future periods. These premiums are deferred and amortised in the same way as deferred acquisition costs.

3.18.5 Policyholders' dividends

A large proportion of life insurance contracts confer on policyholders the right to receive dividends.

Surpluses are reimbursed in the form of increased benefits, reduced premiums or final policyholders' dividends or are accrued at interest to a surplus account. Surpluses already distributed and accrued at interest are reported as policyholders' dividends credited and reserves for future policyholders' dividends (section 23). The relevant interest expense is reported as interest expenses on insurance liabilities. Surpluses that have been used to finance an increase in insurance benefits are recognised in actuarial reserves. All investment income derived from unit-linked life insurance contracts is credited to the policyholder.

IFRS 4 introduces the concept of a discretionary participation feature (DPF), which is of relevance not only for the classification of contracts but also for the disclosure of surplus reserves according to policyholders' share of the unrealised gains and losses recognised directly in equity under IFRS and their share of the increases and decreases recognised in profit or loss in the consolidated financial statements compared with the financial statements prepared in accordance with local accounting standards. IFRS 4 states here that the portion of an insurance contract's liability that is attributable to a discretionary participation feature ("DPF component") must be reported separately. This standard does not provide any clear guidance as to how this DPF component should be measured and disclosed.

When accounting for contracts that contain discretionary participation features, the Baloise Group treats measurement differences that are attributable to such contracts and are credited to policyholders according to a legal or contractual minimum quota as a DPF component. Distributable retained earnings and eligible unrealised gains and losses of fully consolidated subsidiaries are allocated pro rata to the DPF components of the life insurance company concerned. The DPF component calculated in this way is reported as part of the provisions for future policyholders' dividends (section 23). These provisions include policyholders' dividends that are unallocated and have been set aside as a provision under local accounting standards.

If no legal or contractual minimum quota has been stipulated, the Baloise Group defines a discretionary participation feature as the currently available reserve for premium refunds after allowing for final policyholders' dividends. Unless a minimum quota has been stipulated, all other measurement differences between the local and IFRS financial statements are recognised directly in equity.

The applicable minimum quotas prescribed by law, contract, or Baloise's articles of association vary from country to country.

Life insurance companies operating in Germany and Austria and in some areas of Swiss group life business are required by law to distribute a minimum proportion of their profits to policyholders in the form of dividends.

Policyholders in Germany must receive a share of the profits generated. Any losses incurred are borne by shareholders. Policyholders are entitled to 90 per cent of investment income (minus the technical interest rate), 75 per cent of the net profit on risk exposures, and 50 per cent of other surpluses. Deutscher Ring's articles of association additionally stipulate a minimum quota of 95 per cent for part of its insurance portfolio.

In Austria the minimum quota is stipulated in the terms and conditions of each contract. It is usually 90 per cent.

Minimum quotas are also applied to some of the Baloise Group's Swiss occupational pensions (BVG) business, which is subject to the legal quotas of 100 per cent for changes in liabilities and 90 per cent for changes 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.

Inward reinsurance is recognised in the same period as the initial risk. The relevant technical reserves are reported as gross unearned premium reserves or gross claims reserves for non-life insurance and as gross actuarial reserves for life insurance. In non-life insurance they are estimated as realistically as possible based on empirical values and the latest information available, while in life insurance they are recognised as a provision to cover the original transaction. Outward reinsurance is the business ceded to insurance companies outside the Baloise Group and includes transactions ceded from direct life and non-life business and from inward insurance.

Assets arising from outward reinsurance are calculated over the same periods and on the same basis as the original transaction and are reported as reinsurance assets (section 16). Impairment losses are recognised in profit or loss for assets deemed to be at risk owing to the impending threat of insolvency.

3.20 Liabilities arising from banking business and financial contracts

3.20.1 With discretionary participation features

Financial contracts with discretionary participation features are capital accumulated by customers that entitles them to receive policyholders' dividends. The accounting principles applied to these financial contracts are the same as those for life insurance contracts; the accounting policies for life insurance are described in section 3.18.

3.20.2 Measured at amortised cost

Liabilities measured at amortised cost include savings deposits, medium-term bonds, mortgage-backed bonds, other liabilities and financial guarantees that do not qualify as insurance contracts. They are initially measured at their acquisition cost (fair value).

The difference between acquisition cost and redemption value is recognised in profit or loss over the term of the liability as "gains or losses on financial contracts"under the amortised cost method and the effective interest method.

3.20.3 Recognised at fair value through profit or loss

This item includes financial contracts for which the holder bears the entire investment risk as well as banking liabilities that are designated as "at fair value through profit or loss" as part of the Baloise Group's strategy of using natural hedges.

3.21 Financial liabilities

The financial liabilities reported under this line item comprise the bonds issued in the capital markets (except for the bonds issued by the Banking operating segment). Financial liabilities are initially measured at their acquisition cost (fair value). Acquisition cost includes transaction costs.

The difference between acquisition cost and redemption value is recognised in profit or loss over the term of the liability as borrowing costs under the amortised cost method and the effective interest method.

The convertible bond issued by Bâloise Holding comprises a liability and an embedded option (right to convert the bond into Bâloise Holding shares). The fair value of the embedded option is determined at the balance sheet date and is recognised separately in equity. The acquisition cost of the liability component corresponds to the present value of future cash flows at the time the bond is issued. The discount rate used is the market interest rate applicable to similar bonds without any conversion or option rights.

3.22 Employee benefits

The benefits that the Baloise Group grants to its employees comprise all forms of remuneration that is paid in return for work performed or in special circumstances.

The benefits available include short-term benefits (such as wages and salaries), long-term benefits (such as long-service bonuses), termination benefits (such as severance pay and social compensation plan benefits) and post-employment benefits. The benefits described below may be especially significant owing to their scale and scope.

3.22.1 Post-employment benefits

The main post-employment benefits provided are retirement pensions, employer contributions to mortgage payments, and certain insurance benefits. Although these benefits are paid after employees have ceased to work for the Baloise Group, they are funded while the staff members concerned are still actively employed. All the pension benefits currently provided by the Baloise Group are defined benefit plans. The projected unit credit method is used to calculate the pertinent pension liabilities.

Assets corresponding to these liabilities are only recognised if they are ceded to an entity other than the employer (such as a charitable foundation or trust). Such assets are measured at fair value. Unrecognised actuarial gains and losses that exceeded the greater of the present value of defined benefit obligations and the fair value of plan assets by 10 per cent at the end of the previous reporting period are recognised in the income statement based on the expected average remaining years' service of the employees participating in the plans.

The Baloise Group's pension plan agreements are tailored to local conditions in terms of enrolment and the range of benefits offered.

3.22.2 Share-based payments

The Baloise Group offers its employees and senior executives the chance to participate in various plans under which shares are granted as part of their overall remuneration packages. The Employee Incentive Plan, Share Subscription Plan, Employee Share Ownership Plan, performance quota and performance share units (PSUs) are measured and disclosed in compliance with IFRS 2 Share-based Payment. Plans that are paid in Bâloise Holding shares are measured at fair value on the grant date, charged as personnel expenses during the vesting period and recognised directly in equity. Plans that are paid in cash and whose amount is determined by the market value of Bâloise Holding shares are recognised at fair value on the balance sheet date and reported as a liability.

3.23 Provisions

Provisions for restructuring or legal claims are recognised for present legal or constructive obligations when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amounts of the obligations. The amount recognised as a provision is the best estimate of the expenditure expected to be required to settle the obligation. If the amount of the obligation cannot be estimated with sufficient reliability, it is reported as a contingent liability.

3.24 Taxes

Provisions for deferred income taxes are recognised under the liability method, which means that they are based either on the current tax rate or on the rate expected in future. Deferred income taxes reflect the tax-related impact of temporary differences between the assets and liabilities reported in the IFRS financial statements and those reported for tax purposes. When deferred income taxes are calculated, tax loss carryforwards are only recognised to the extent that sufficient taxable profit is likely to be earned in future.

Deferred tax assets and liabilities are offset against each other and shown as a net figure in cases where the criteria for such offsetting have been met. This is usually the case if the tax jurisdiction, the taxable entity and the type of taxation are identical.

3.25 Revenue recognition

Revenue and income are recognised at the fair value of the consideration received or receivable. Intercompany transactions and the resultant gains and losses are eliminated. Recognition of revenue and income is described below.

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 from financial instruments that are not recognised at fair value through profit or loss is recognised under the effective interest method. If a receivable is impaired, it is written down to its recoverable amount, which corresponds to the present value of estimated future cash flows discounted at the contract's original interest rate.

3.25.3 Dividend income

Dividend income from financial assets is recognised as soon as a legal entitlement to receive payment arises.

4. CRITICAL ACCOUNTING PRINCIPLES AND ESTIMATE UNCERTAINTIES

The Baloise Group's consolidated annual financial statements contain assumptions and estimates that can impact on the annual financial statements for the following financial year. Estimates and the exercise of discretion by management are kept under constant review and are based on empirical values and other factors – including expectations about future events – that are deemed to be appropriate on the date that the balance sheet is prepared.

4.1 Fair value of financial instruments

Where available, quoted market prices are used to determine fair value. If no quoted market prices are available or if the market is judged to be inactive, fair value is either estimated based on the present value or is determined using measurement methods. These methods are influenced to a large extent by the assumptions used, which include discount rates and estimates of future cash flows. The Baloise Group primarily uses fair values; if no such values are available, it applies its own models.

The following asset classes are measured at fair value:

→ Investment property
  The discounted cash flow (DCF) method is used to determine the fair value of investment property. The assumptions and estimates used for this purpose are described in section 3.6.

→ Financial assets of an equity nature and financial assets of a debt nature (available for sale or recognised at fair value through profit or loss)
  Fair value is based on market prices. If no quoted market prices are available, fair value is estimated using generally accepted methods (such as the present-value method), independent assessments based on comparisons with the market prices of similar instruments, or the prevailing market situation. Derivative financial instruments are measured using models or on the basis of quoted market prices. If no market prices are available for private equity investments, various methods are used to estimate their fair value. These include analysis of discounted cash flows and reference to similar, fairly recent arm's-length transactions between knowledgeable, willing parties. If such estimates do not enable financial assets to be reliably measured, the assets are recognised at cost and disclosed accordingly. Publicly quoted prices are used to determine the fair value of hedge funds. If no such prices are available, prices quoted by independent third parties are used to determine fair value.

→ Mortgages and loans (recognised at fair value through profit or loss)
  Mortgages and loans are designated as "at fair value through profit or loss" as part of the Baloise Group's strategy of using natural hedges. Yield curves are used to measure these portfolios.

→ Financial contracts (recognised at fair value through profit or loss)
  Life settlement agreements (secondary market policies) are measured at fair value. The income-approach method is used for measurement purposes. The measurement of such agreements under this method includes the guaranteed benefits payable when policies mature, future and already disbursed policyholders' dividends, final policyholders' dividends, and risk-adjusted discount rates.

The following financial liabilities are measured at fair value:

→ Liabilities arising from banking business and financial contracts (recognised at fair value through profit or loss)
  Liabilities arising from investment-linked life insurance contracts involving little or no transfer of risk are measured at fair value based on the capitalised investments underlying these liabilities.

→ Derivative financial instruments
  Models or quoted market prices are used to determine the fair value of derivative financial instruments.

4.2 Financial assets of a debt nature (held to maturity)

The Baloise Group applies the provisions of IAS 39 when classifying non-derivative financial instruments with fixed or determinable payments as "held to maturity." To this end, it assesses its intention and ability to hold these financial instruments to maturity. If – contrary to its original intention – these financial instruments are not held to maturity (with the exception of specific circumstances such as the disposal of minor investments), the Baloise Group must reclassify all held-to-maturity financial instruments as "available for sale" and measure them at fair value. Section 12 contains information on the fair values of the financial assets of a debt nature that are classified as "held to maturity."

4.3 Impairment

The Baloise Group determines at each balance sheet date whether there is any objective evidence that financial assets may be permanently impaired.

→ Financial assets of an equity nature (available for sale)
  An impairment loss must be recognised on available-for-sale financial assets of an equity nature whose fair value at the balance sheet date is more than 50 per cent below their acquisition cost or whose fair value is consistently below their acquisition cost throughout the twelve-month period preceding the balance sheet date. The Baloise Group examines whether it needs to recognise impairment losses on securities whose fair value at the balance sheet date is between 20 per cent and 50 per cent below their acquisition cost. Such assessments of the need to recognise impairment losses consider various factors such as the volatility of the securities concerned, credit ratings, analysts' reports, economic conditions, and sectoral prospects.

→ Financial assets of a debt nature (available for sale or held to maturity)
  Objective evidence of a financial asset's impairment includes observable data on the following cases:
  - Serious financial difficulties on the part of the borrower
  - Breaches of contract, such as a borrower in default or arrears with the payment of principal and / or interest
  - Greater probability that the borrower will file for bankruptcy or undergo some other form of restructuring
  - Observable data that indicates a measurable reduction in the expected future cash flows from a group of financial assets since their initial recognition.

→ Analysts' reports from banks and evaluations by credit rating agencies are also used to assess the need for impairment losses.

→ Mortgages and loans (carried at cost)
  The mortgage portfolio is regularly tested for impairment. The methods and assumptions used in these tests are also regularly reviewed in order to minimise any discrepancies between the actual and expected probabilities of default.

4.4 Deferred income taxes

Unused tax loss carryforwards and other deferred tax assets are recognised if it is more likely than not that they will be realised. To this end, the Baloise Group makes assumptions about the recoverability of these tax assets; these assumptions are based on the financial track record and future income of the taxable entity concerned.

4.5 Estimate uncertainties specific to insurance

Estimate uncertainties pertaining to actuarial risk are discussed from section 5.4 onwards.

4.6 Provisions

The measurement of provisions requires assumptions to be made about the probability, timing and amount of any outflows of resources embodying economic benefits. A provision is recognised if such an outflow of resources is probable and can be reliably estimated.

4.7 Employee benefits

In calculating its defined benefit obligations towards its employees, the Baloise Group makes assumptions about the expected return on plan assets, the economic benefits embodied in assets, future increases in salaries and pension benefits, the discount rate applicable and other parameters. The most important assumptions are derived from past experience of making estimates. The assumptions factored into these calculations are discussed in section 18.2.10.

4.8 Goodwill impairment

Goodwill is tested for impairment in the second half of each year or whenever there is objective evidence of impairment. Such impairment tests involve calculating a value in use that is largely based on estimates such as the financial planning approved by management and the discount rates and growth rates mentioned in section 9.

5. MANAGEMENT OF INSURANCE RISK AND FINANCIAL RISK

The companies in the Baloise Group offer their customers non-life insurance, life insurance and banking products (the latter in Switzerland and, on a restricted basis, in Germany). Consequently, the Baloise Group is exposed to a range of risks.

The main risks in the non-life insurance sector are natural disasters, major industrial risks, third-party liability and personal injury. The insurance business as a whole is examined regularly by means of extensive analytical studies. The results of this analysis are taken into account when setting aside reserves, fixing insurance rates and structuring insurance products and reinsurance contracts. In the non-life sector, studies focusing on the risks arising from natural disasters have been carried out in recent years. On some of them we worked with reinsurance companies and brokers to determine the level of exposure to these risks and the extent of risk transfer required.

The predominant risks in the life insurance sector are the following biometric risks:

- longevity risk (annuities and pure endowment policies),
- mortality risk (whole-life and endowment life insurance),
- disability risk (in the sense of the risk of premiums proving insufficient due to an adverse disability claims history).

Because the Group issues interest-rate guarantees, it is also exposed to interest-rate risk. There are also implicit financial guarantees and options which also affect liquidity, investment planning and the income generated by Group companies; they include guaranteed surrender prices when policyholders cancel and guaranteed annuity factors on commencement of the payout phase of annuities.

Longevity, mortality and disability rates are risks specific to life insurance and are monitored on an ongoing basis. The companies in the Baloise Group review and analyse mortality rates among their local customer bases, along with the frequency with which policies are cancelled, invalidated and reactivated. For this analysis, they generally use standard market statistics that are compiled by actuaries and include adequate safety margins. The information they gather is used for ensuring rates are adequate and also for setting aside sufficient reserves to meet future insurance liabilities. Because rates are required by law to be calculated conservatively, and the statistical base is relatively good, the risks in this area are manageable. In the field of annuities, there is an additional trend risk in the form of a steady rise in life expectancy which is resulting in ever longer annuity payout periods. This risk is addressed by the addition of suitable factors to the basis for calculation.

Managing participating insurance contracts is an additional method of mitigating risk. For example, bringing policyholders' dividends into line with altered circumstances as far as permitted by local regulations is one option that could be taken if the risk situation were to change. However, the allocation of surpluses between policyholders and the company is not only subject to local law, it is also governed by market expectations.

The main risk categories to which the banking division of the Baloise Group is exposed are credit risk, interest-rate risk and liquidity risk. These risks are identified and managed locally by the banks. The loan portfolio is reviewed and analysed on an ongoing basis. A range of tools is used for this purpose, including standardised credit regulations and procedures, scoring and rating procedures, focusing on low-risk markets and the use of an automated arrears system. The information obtained is incorporated into credit decisions. Balance sheet risks (interest-rate and liquidity risks) are managed by the banks' asset and liability management (ALM) committees. The data and key figures required are determined and calculated using a specialist IT application.

Deutscher Ring Bausparkasse AG is also exposed to what is known as collective risk, which means that the building society customers are collectively responsible for the fair allocation of home savings contracts over the long term. Mathematical simulations are used to show that this collective responsibility can be met, provided the fluctuation reserve remains at least greater than zero over the long term. Deutscher Ring Bausparkasse uses a simulation model to monitor and manage its collective risk. The model makes a future projection of the building society's total collective holdings on an individual contract basis, incorporating new business scenarios and patterns of behaviour observed in the past.

Triggered by the threat of a pandemic, the existing disaster recovery plans for extraordinary events – such as natural disasters, wildfires, terrorist attacks etc. – have been reviewed at all Group companies since 2007, and a pandemic scenario has been added. Additional disaster recovery plans have been created to ensure that business operations can be continued with severely reduced staff numbers. Several pandemic contingency exercises were carried out at our Swiss site in 2008. In summer 2009, during the WHO phase 6 pandemic alert, all employees in

Switzerland were issued with a personal protection kit and "Pandemic Web", the inhouse management and information system went online. Since 2008, management decisions before, during and after a crisis have been prepared by Group Crisis Management, the head of which reports directly to the Group CEO. The composition of the crisis management team varies according to the type of risk involved (insurance, banking, financial, solvency, reputation). The crisis management team was not convened in 2011 because the E. coli outbreak was largely restricted to Germany and was officially declared at an end in late July 2011. Plans are on hold at present and the situation is being monitored, although experts from companies such as Swiss Re believe the outbreak of a pandemic remains a major risk.

5.1 Organisation of risk management in the Baloise Group

The Baloise Group's insurance and banking activities in various European countries, as well as its global investments, expose it to market risks such as currency risk, credit risk, interest-rate risk and liquidity risk.

The Baloise Group has implemented a comprehensive, Group-wide risk management system in all of its insurance and banking entities. Its Group-wide Risk Management Standards focus on the following areas:

- Organisation and responsibilities
- Methods, regulations and limits
- Risk control

An overall set of rules governs all activities directly connected with risk management and ensures that they are compatible with one another.

At the highest level, internal and external risk bands restrict and manage the overall risks incurred by the Group and the individual business units.

At the level exposed to financial and business risk, various limits and regulations restrict the individual risks that have been identified to a level that is acceptable for the Group, or eliminate them completely.

Within the Group and within each business unit, a risk owner is responsible for each individual risk that has been identified.

Risk owners are allocated according to a hierarchy of responsibility. The Group's overall risk owner is the chief executive officer of the Baloise Group. Alongside the risk owners, defined risk controllers are responsible for systematic risk control and risk reporting. When selecting risk controllers, particular care is taken to ensure that their role is independent of the risk they control. Risk control within the Baloise Group focuses on investment risk, business risk (actuarial and banking risks), risks to the Group's financial structure, and compliance. The Group's overall risk controller is the chief executive officer of the Baloise Group.

The Baloise Group's risk map is a categorisation of the risks it has identified. The risks are divided into three levels:

- Category of risk
- Sub-category of risk
- Type of risk

The business-risk, investment-risk and financial-structure-risk categories relate directly to the Baloise Group's core businesses. These risks are deliberately incurred, managed and optimised by the management team and various risk committees. Analysis of these risks is model-based and it ultimately results in an aggregate overview.

Business-environment risk, operational risk and management and information risk arise as direct or indirect results of the business operations, business environment or strategic activities of each company. Risks of this type are also quantified, assessed and managed.

Because all risks are quantified, it is possible to analyse the relevance of each risk to the overall risk situation of the Baloise Group and / or the individual companies.

The Baloise Group's central risk management team forms part of the Finance corporate division and reports to the Group Chief Risk Officer, who in turn reports to the Group CFO. It coordinates intra-Group policies, risk reporting and the technical development of suitable risk-management processes and tools. Every month, it tracks developments in the financial markets and their impact on the risk portfolio and the individual risk capacity of all the business units and the Group as a whole. The relevant risk owners and risk controllers verify the figures that have been computed and incorporate them into their management decisions.

Non-diversifiable market risk is monitored and managed by central and local units using means such as stochastic methods and comprehensive scenario analysis.

Semi-annual reporting is undertaken for each identified risk category. Every business unit prepares a risk report on which the Group risk report is based. Key figures for the financial and actuarial risks incurred by the Group and each strategic business unit are reported on a monthly basis using a risk control application.

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 Technical risks Nonlife → Premiums → Claims → Worst-case scenario → Creation of provisions Reinsurance → Premiums / rating → Default → Active reinsurance Loan management	Market risks → Interest → Shares → Currencies → Real estate → Market liquidity → Derivatives → Alternative investments Credt risks	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

5.2 Life and non-life underwriting strategies

The Baloise Group primarily underwrites insurance risk for private individuals and small and medium-sized enterprises in selected countries in mainland Europe. Industrial insurance in the property and third-party liability, marine and technical insurance sectors is largely provided by Baloise Insurance in Basel or its branch in Bad Homburg (Germany) and our Belgian business unit Mercator. In this particularly high-risk segment, central management of industrial insurance ensures consistent quality and a high degree of transparency for the business underwritten.

Every business unit in the Baloise Group issues regulations regarding underwriting and risk review. They include clear authorisation levels and underwriting limits for each sector. Underwriting limits are approved by a business unit's highest decision-making body and the Corporate Executive Committee is notified of them. In the industrial insurance unit, the maximum net underwriting limit for property insurance has been set at CHF 100 million (2011: CHF 100 million) for Switzerland and at EUR 60 million (2011: EUR 60 million) for Germany and Belgium. The only other comparable underwriting limits in the Group are for marine insurance. Tools for setting the basic premium and for risk-based management of the total portfolio are also used to manage industrial insurance risk.

For its exposure to natural hazards the Baloise Group has purchased reinsurance cover for the whole Group amounting to CHF 250 million (2011: CHF 250 million).

5.3 Life and non-life reinsurance strategies

The Baloise Group's non-life treaty reinsurance for all business units in the Group is structured and placed in the market by Group Reinsurance, part of the Finance corporate division. When structuring the programme, Group Reinsurance focuses on the risk-bearing capacity of the Group as a whole. To date, the Group has only placed non-proportional reinsurance programmes. The Group's maximum retention for cumulative claims was CHF 20 million (2011: CHF 20 million). The retentions for individual claims were CHF 16 million (2011: CHF 16 million) for property claims, CHF 15 million (2011: CHF 15 million) for marine claims, and CHF 12.5 million (2011: CHF 12.5 million) for third-party liability claims. The local Baloise Group business units also use additional facultative reinsurance cover on a case-by-case basis. This type of reinsurance is extremely dependent on the individual risk in each case and it is therefore placed by the business units themselves.

Reinsurance contracts may only be entered into with counterparties that have been authorised in advance by the Group's Finance division. Reinsurers must generally have a minimum rating of A – from Standard & Poor's, but in exceptional cases a BBB + rating or a comparable rating from another recognised rating agency is permitted. However, these reinsurance contracts are only used for property insurance business that can be settled quickly. This rule does not apply to captives and pools that are active reinsurance companies because they do not generally have ratings.

Reinsurer credit risk is reviewed on a regular basis. A watch list is kept of reinsurers that are bankrupt or in financial difficulties. The list contains details of all relationships the Group has with these reinsurers, receivables due to the Group that are outstanding or have been written off and provisions the Group has recognised. The watch list is updated periodically.

The same requirements for reinsurers apply to life insurance as to non-life insurance, although reinsurance is less important in life insurance business.

5.4 Non-life

5.4.1 Actuarial risk

The Baloise Group primarily underwrites insurance risk for private individuals and small and medium-sized enterprises in selected countries in mainland Europe. Business with industrial clients is also conducted in Switzerland and Germany. Underwriting risk is limited by monitoring and adjusting rates and maintaining underwriting policies and limits appropriate to the size of each portfolio and the country in which it is located.

5.4.2 Assumptions

→ Claims reserves / claims settlement
The portfolios on the Group's books must be structured in such a way that the data available is sufficiently homogeneous to enable the use of certain analytical actuarial processes to determine the claims reserves required. One of the assumptions made is that extrapolation of the typical claims settlement pattern of recent years is meaningful. Only cases such as extreme anomalies in settlement behaviour require additional assumptions to be made on a case-by-case basis.

→ Claims handling costs
The ratio of the average claims handling costs incurred in recent years to the payouts made in the same period is used to calculate the level of claims handling reserves to be recognised based on current claims reserves.

→ Annuities
The factors on which annuity calculations are based (mortality tables, interest rates etc.) are normally specified or approved by the authorities in each country. However, because certain parameters can change relatively quickly, the adequacy of these annuity reserves is reviewed every year (by conducting a liability adequacy test or LAT), and if there is a shortfall the reserves are strengthened accordingly.

5.4.3 Changes to assumptions

The assumptions on which claims reserves are based generally remain constant, but the factors on which annuity calculations are based are adjusted from time to time over the years, particularly with regard to the latest longevity data

5.4.4 Sensitivity analysis

As well as the natural volatility inherent in insurance business, there are parameters for determining technical reserves that can significantly impact on the annual earnings and equity of an insurance company. In the non-life sector, sensitivity analysis has been used to investigate the effect on consolidated annual earnings and consolidated equity exerted by errors in estimating claims reserves – including claims incurred but not reported (IBNR) – and reserves for run-off business.

At the end of 2012, the Baloise Group's total reserves calculated using actuarial methods or recognised separately for special claims (including large claims but not run-off or actuarial reserves for annuities) amounted to CHF 4,614.5 million (31 December 2011: CHF 4,629.7 million). A variation of 10 per cent in either direction in the requirement for these reserves would result in a rise or fall of around CHF 337.2 million (31 December 2011: CHF 335.9 million) in claims payments (after taxes) before reinsurance.

The reserves in its run-off business mainly arose from liabilities that the Baloise Group had incurred in the London market since the early 1990s, largely third-party liability claims relating to asbestos and environmental damage.

Because of the long settlement period, there is a high degree of uncertainty associated with the calculation of these claims reserves. Both the timing at which cases of this type are identified and their potential loss level are much less certain than any other established claims patterns. Some reserves were calculated using external actuaries' reports in which best-case and worst-case scenarios were analysed. The Baloise Group's minimum reserves policy is based on the average of these two scenarios. It is particularly difficult to assess the level of reserves required for IBNR claims, so further fluctuations cannot be ruled out. According to expert estimates, fluctuations of around 10 per cent can be expected, which is equivalent to around CHF 7.5 million after taxes and before reinsurance (2011: CHF 8 million) for this reserve.

5.4.5 Claims settlement

Analysis of gross claims settlement (before reinsurance) broken down by strategic business unit

The proportion reinsured was low and would not affect the information given in the claims settlement tables below.

ESTIMATED CUMULATIVE CLAIMS INCURRED IN SWITZERLAND

	Year in which the claims occurred										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
CHF million											
At the end of the year in which the claims occurred	766.3	754.2	951.2	684.1	681.4	641.7	690.7	723.1	777.9	732.2	–
One year later	736.3	710.4	918.9	647.6	693.2	631.4	670.6	685.4	736.5	–	–
Two years later	744.9	692.7	905.0	633.0	686.6	628.6	657.4	675.1	–	–	–
Three years later	752.9	692.2	890.8	619.0	674.2	623.6	641.0	–	–	–	–
Four years later	744.4	698.1	862.6	619.7	662.3	622.6	–	–	–	–	–
Five years later	737.8	677.8	855.5	607.8	655.7	–	–	–	–	–	–
Six years later	734.5	679.4	852.0	603.2	–	–	–	–	–	–	–
Seven years later	735.6	674.1	845.1	–	–	–	–	–	–	–	–
Eight years later	733.8	670.2	–	–	–	–	–	–	–	–	–
Nine years later	721.0	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	721.0	670.2	845.1	603.2	655.7	622.6	641.0	675.1	736.5	732.2	6,902.6
Claims paid	–652.8	–602.0	–773.0	–517.8	–557.6	–499.2	–531.1	–549.3	–545.9	–359.4	–5,588.1
Gross claims reserves	68.2	68.2	72.1	85.4	98.1	123.4	109.9	125.8	190.6	372.8	1,314.5
Gross claims reserves prior to 2003 (including large claims and assumed business)											412.4
Gross provision for annuities (non-life, including IBNR)											698.9
Reinsurers' share											–317.0
Net claims reserves											2,108.8

For greater clarity, the following analysis of claims trends is shown in euros.

ESTIMATED CUMULATIVE CLAIMS INCURRED IN GERMANY

	Year in which the claims occurred										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
EUR million											
At the end of the year in which the claims occurred	370.8	325.8	292.2	283.8	306.7	298.2	288.0	302.5	290.8	297.4	–
One year later	348.5	304.2	279.9	288.7	303.0	296.2	286.4	299.7	297.6	–	–
Two years later	346.7	291.8	285.8	283.7	295.5	299.7	289.0	305.6	–	–	–
Three years later	334.4	295.5	276.5	278.8	294.1	300.3	294.6	–	–	–	–
Four years later	336.5	292.4	272.9	276.9	293.1	301.2	–	–	–	–	–
Five years later	333.7	290.4	269.4	277.5	299.3	–	–	–	–	–	–
Six years later	330.4	288.4	268.1	275.6	–	–	–	–	–	–	–
Seven years later	327.4	289.8	269.4	–	–	–	–	–	–	–	–
Eight years later	327.0	288.6	–	–	–	–	–	–	–	–	–
Nine years later	327.2	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	327.2	288.6	269.4	275.6	299.3	301.2	294.6	305.6	297.6	297.4	2,956.5
Claims paid	– 322.3	– 284.8	– 264.6	– 266.6	– 294.4	– 292.5	– 279.7	– 281.9	– 254.7	– 157.8	– 2,699.3
Gross claims reserves	**4.9**	**3.8**	**4.8**	**9.0**	**4.9**	**8.7**	**14.9**	**23.7**	**42.9**	**139.6**	**257.2**
Gross claims reserves prior to 2003 (including large claims and assumed business)											298.2
Gross provision for annuities (non-life, including IBNR)											74.8
Reinsurers' share											– 136.6
Net claims reserves											**493.6**

ESTIMATED CUMULATIVE CLAIMS INCURRED IN BELGIUM

	Year in which the claims occurred										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
EUR million											
At the end of the year in which the claims occurred	218.3	216.8	203.5	188.9	203.2	205.7	228.0	235.1	[1] 308.7	[2] 412.4	–
One year later	198.4	201.0	201.1	185.0	216.3	215.2	248.5	[1] 287.1	[2] 395.1	–	–
Two years later	199.1	203.9	188.7	182.6	213.1	212.3	[1] 252.2	[2] 308.0	–	–	–
Three years later	193.6	192.8	187.4	182.6	208.7	[1] 216.5	[2] 264.5	–	–	–	–
Four years later	186.6	190.3	184.0	179.5	[1] 211.1	[2] 223.0	–	–	–	–	–
Five years later	181.9	187.1	181.4	[1] 179.9	[2] 222.6	–	–	–	–	–	–
Six years later	182.8	183.1	[1] 182.3	[2] 181.0	–	–	–	–	–	–	–
Seven years later	177.6	[1] 184.6	[2] 182.1	–	–	–	–	–	–	–	–
Eight years later	[1] 177.7	[2] 183.2	–	–	–	–	–	–	–	–	–
Nine years later	[2] 174.6	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	174.6	183.2	182.1	181.0	222.6	223.0	264.5	308.0	395.1	412.4	2,546.5
Claims paid	– 148.6	– 151.3	– 143.7	– 140.9	– 157.7	– 161.6	– 185.4	– 215.4	– 259.8	– 196.2	– 1,760.6
Gross claims reserves	26.0	31.9	38.4	40.1	64.9	61.4	79.1	92.6	135.3	216.2	785.9
Gross claims reserves prior to 2003 (including large claims and assumed business)											278.5
Gross provision for annuities (non-life, including IBNR)											146.9
Reinsurers' share											– 227.1
Net claims reserves											984.2

1 The increase in the total estimated claims incurred is primarily due to the addition of Avéro Schadevezekering Benelux NV.
2 The increase in the total estimated claims incurred is primarily due to the addition of Nateus NV and Audi NV.

ESTIMATED CUMULATIVE CLAIMS INCURRED IN LUXEMBOURG

	Year in which the claims occurred										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
EUR million											
At the end of the year in which the claims occurred	11.3	12.6	11.4	12.7	14.2	15.0	17.5	[1] 25.0	[1] 23.6	24.0	–
One year later	11.2	11.6	11.0	12.0	13.6	14.9	16.9	[1] 22.0	22.7	–	–
Two years later	11.5	11.3	10.7	11.9	13.0	15.1	[1] 21.5	21.8	–	–	–
Three years later	11.3	10.9	10.4	11.7	12.9	[1] 20.8	21.3	–	–	–	–
Four years later	11.1	10.8	10.3	11.6	[1] 18.9	21.1	–	–	–	–	–
Five years later	10.5	10.6	10.2	[1] 16.4	18.7	–	–	–	–	–	–
Six years later	10.3	10.5	[1] 13.6	16.3	–	–	–	–	–	–	–
Seven years later	10.3	[1] 14.6	13.5	–	–	–	–	–	–	–	–
Eight years later	[1] 15.8	14.6	–	–	–	–	–	–	–	–	–
Nine years later	15.7	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	15.7	14.6	13.5	16.3	18.7	21.1	21.3	21.8	22.7	24.0	189.7
Claims paid	– 15.6	– 14.3	– 13.3	– 16.0	– 18.2	– 20.2	– 19.9	– 20.0	– 19.8	– 14.7	– 172.0
Gross claims reserves	**0.1**	**0.3**	**0.2**	**0.3**	**0.5**	**0.9**	**1.4**	**1.8**	**2.9**	**9.3**	**17.7**
Gross claims reserves prior to 2003 (including large claims and assumed business)											20.9
Gross provision for annuities (non-life, including IBNR)											0.0
Reinsurers' share											– 19.2
Net claims reserves											**19.4**

1 The increase in the total estimated claims incurred is primarily due to the addition of Bâloise Assurances Luxembourg S.A.

Analysis of claims settlement for the Other units segment

A large proportion of the reserves relating to this segment is attributable to run-off business. Due to the special nature of this business, it is difficult to conduct meaningful analysis on the basis of our own claims data alone, so the reserves recognised for it are subject to significant uncertainty.

The survival ratio – the ratio of reserves to the average claims paid in the past three years – is a commonly used measure for comparing the adequacy of reserves for asbestos and environmental claims. The ratio shows the number of years for which the reserves will cover claims payments. At the end of the year under review, the survival ratio was 37 years (31 December 2011: 33 years).

5.5 Life

5.5.1 Actuarial risk

Traditional life insurance is called fixed-sum insurance because payments are not made for losses, rather a fixed sum is paid on occurrence of an insured event, which can be survival or death. In the case of term insurance, capital and / or pension benefits are insured against premature death (whole-life insurance) or disability (disability insurance), while capital redemption insurance focuses on savings for old age. Endowment life insurance combines risk protection with savings.

AVERAGE TECHNICAL INTEREST RATE

31 December 2011	Switzerland individual life	Switzerland group life	Germany	Belgium	Luxembourg	Other units
CHF million						
Technical reserves without guaranteed returns	525.9	895.8	2,409.1	75.4	229.0	117.1
Technical reserves with 0 % guaranteed returns	772.9	692.6	180.5	77.3	15.7	28.8
Technical reserves with guaranteed positive returns	8,557.9	12,157.3	9,375.3	2,614.3	213.9	487.9
Average technical interest rate of guaranteed positive returns	2.7 %	1.9 %	3.4 %	3.8 %	2.8 %	3.2 %

31 December 2012	Switzerland individual life	Switzerland group life	Germany	Belgium	Luxembourg	Other units
Technical reserves without guaranteed returns	598.5	1,250.7	2,917.9	91.0	233.6	155.8
Technical reserves with 0 % guaranteed returns	766.5	646.2	165.6	87.9	16.2	24.5
Technical reserves with guaranteed positive returns	8,205.5	12,624.3	9,339.8	2,705.7	240.9	482.5
Average technical interest rate of guaranteed positive returns	2.7 %	1.8 %	3.4 %	3.7 %	2.7 %	3.2 %

The guaranteed technical interest rate is one of the risks inherent in traditional life insurance and group life business.

If interest rates rise, there is the risk that more policies will be cancelled, and the payment of surrender values could cause liquidity problems. This risk can be reduced by imposing surrender charges. In the past, no significant correlation has been observed between rises in interest rates and the number of major policies cancelled.

When interest rates fall, there is the risk that investment income may no longer be sufficient to fund the technical interest rate. This risk can be mitigated by means of asset and liability management (ALM) and in some cases by adjusting policyholders' dividends.

Unit-linked life insurance generally involves endowment life insurance or a deferred annuity in which the policyholder has more flexibility regarding the investment process. During the deferment period, unit-linked annuities behave in a similar way to endowment life insurance, but during the payout period the policy converts into a traditional annuity.

If the policyholder dies, the beneficiary receives the sum insured or the fund assets, if the latter exceed the sum insured. A risk premium is periodically charged to the fund to finance the death benefit cover if there is capital at risk (i. e. the positive difference between the sum insured and the fund assets).

Depending on the product, the fund underlying the savings process is selected from a range of funds that match the policyholder's investment profile. The policyholder usually bears the entire investment risk and may benefit from a positive return.

Neither the cash surrender value nor the maturity value of unit-linked life insurance are guaranteed, but the maturity value is partly secured by the choice of fund. The funds are typically those with the type of investment strategy (e.g. the proportion of equities falls if share prices fall) that guarantees the maturity value for a specific policy term. This type of business is offered in Switzerland and Germany. The guaranteed maturity value of these specific life insurance policies may differ somewhat from the fund value because of the way the policies are structured. This risk has been factored into actuarial calculations.

In Switzerland, there is a closed sub-portfolio with a guaranteed interest rate. The guarantee was issued as part of the statutory pension scheme (Pillar 3a). On the endowment date, the policyholder receives the value of the fund units or the net investment premium plus accrued interest at the technical interest rate (3.25 per cent) whichever is the greater. The funds approved for these policies have a low equity ratio and are therefore not exposed to high volatility. A corresponding actuarial reserve has been recognised for the guarantee.

Some closed-end funds in Belgium and Switzerland also offer a guaranteed maturity value. The funds are managed and the guarantees are provided by banks outside the Baloise Group. In Switzerland, there is also a closed-end Baloise fund with a guaranteed maturity value which is hedged via investments in bonds issued by banks outside the Group. The Baloise Group offers variable annuities products including unit-linked and guaranteed whole-life annuities via its unit in Liechtenstein. Financial hedges are provided by an external banking partner and the use of external reinsurance.

	Switzerland		Germany		Belgium		Luxembourg		Other units	
	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012
CHF million										
Actuarial reserves from unit-linked life insurance contracts	399.8	466.8	1,262.1	1,402.3	7.9	9.7	226.4	231.3	113.7	147.9

The major risks accruing from term insurance include epidemics and terrorist attacks but also changes in lifestyle such as lack of exercise. Endowment policies incur significant risks arising from the increase in life expectancy, which is likely to continue due to medical advances and rising living standards.

The risks listed above do not vary greatly within this area of activity.

Our group life business in Switzerland and Belgium focuses on the provision of occupational pensions which, like single life insurance, covers the risks of death, disability and survival. The distinctive feature of group life business is the influence of political decisions. In Switzerland, the government sets the minimum rate of interest to be paid on savings, and the conversion rate at which accumulated capital is converted into an annuity to provide a pension. However, these regulations only apply to the minimum portion of accumulated capital that is required to provide initial finance for an annuity. For the remaining portion, actuarially appropriate annuity conversion rates are used, but any change to the minimum interest rate would also affect the existing statutory portfolio, not just new business, which would normally be the case for single life business. The technical interest rate for Belgian group life business – unlike single life business – is also set by the government.

Most disability insurance consists of policy riders (supplementary insurance), i.e. premium waivers should holders of life insurance policies that require periodic payments of premiums become disabled. Separate disability insurance is of minor importance. Measured against total actuarial reserves, disability risk represents around 5 per cent of our business.

	Actuarial reserves 31.12.2011		Actuarial reserves 31.12.2012	
	CHF million	Share (%)	CHF million	Share (%)
Traditional insurance				
Longevity risk	9,573.7	26.8	9,924.4	27.4
Mortality risk	13,149.1	36.9	12,891.3	35.6
Disability risk	2,072.4	5.8	1,979.8	5.4
BVG retirement assets	8,865.9	24.9	9,195.9	25.4
Sub-total	33,661.1	94.4	33,991.4	93.8
Unit-linked				
Longevity risk	807.6	2.3	957.8	2.6
Mortality risk	1,202.3	3.3	1,300.2	3.6
Sub-total	2,009.9	5.6	2,258.0	6.2
Total	35,671.0	100.0	36,249.4	100.0

Actuarial reserves were allocated to the categories above by product, i.e. each product was assigned a risk category and actuarial reserves were not split into different risks within one product. Allocation to a category was generally determined by the mortality table used in each case.

5.5.2 Assumptions

Actuarial reserves are calculated in accordance with the factors that applied on the date a policy was signed. When setting rates for life insurance products, safety margins are built into these factors to anticipate any adverse trends in the future, principally with regard to technical interest rates and mortality tables. These built-in safety margins, combined with counter-selection effects, explain why annuity tables differ from mortality tables. Cancellations are not factored in when recognising reserves.

The principles applied are reviewed on an ongoing basis by conducting liability adequacy tests (LATs) which ensure that sufficient reserves have been set aside. The underlying assumptions for conducting these tests are best estimates. The two main assumptions for these tests are expected future investment income and mortality rates. Expected future investment income is calculated using the current investment portfolio and the target investment portfolio (strategic asset allocation). The returns on new money invested are based on capital-market interest rates. Depending on the size of the portfolio, mortality rates are based on publicly available tables adjusted to reflect our own experience or on mortality tables produced inhouse.

Cancellations are factored into LATs using assumptions based on the experience of our companies. Changes in assumptions regarding cancellations usually have a negligible impact on LATs.

5.5.3 Sensitivities

To identify sensitivities, we investigated the effect of changes in assumptions on profit for the period and on equity, after shadow accounting, deferred gains / losses and deferred taxes (excluding reinsurance effects which were immaterial) had been taken into account. The assumptions on which liability adequacy testing is based were changed for each calculation.

The following scenarios were run:

- 10 per cent increase in mortality
- 10 per cent fall in mortality (i.e. increase in longevity)
- 100 basis-point fall in receipts of new money

While investigating sensitivities, only the assumption being tested was varied. The other parameters were kept constant, with the exception of policyholders' dividends which were adjusted accordingly.

In general, sensitivities do not behave in a linear fashion, so it is not possible to extrapolate from them.

- 10 per cent increase in mortality

  A mortality increase of 10 per cent during the liability adequacy test (LAT) had only a marginal effect on the income statements and the equity of most life insurance companies in the Baloise Group, with the exception of Switzerland. The lower amount allocated to strengthen annuity reserves at the Swiss unit improved profitability overall by roughly CHF 29 million (2011: by CHF 27 million). The impact on the income statements of other life insurance units that have significant mortality risks in their portfolios (Germany and Belgium) was primarily attributable to the changes in write-downs of deferred acquisition costs (DACs), unearned revenue reserves (URRs) and the present value of future profits (PVFP), to the financing of final policyholders' dividends, and to the provision recognised for impending losses. The overall effect on the income statements of these units was marginal. The resultant impact on the profitability of Baloise Life (Liechtenstein) AG and Luxembourg was insignificant. The effects on equity were marginal for all units.
- 10 per cent fall in mortality

  Similar to the aforementioned scenario of an increase in mortality, the effects of a reduction in mortality were marginal for the life insurance companies in Germany, Belgium and Luxembourg and for Baloise Life (Liechtenstein) AG. This was true of the impact on both their income statements and their equity. A reduction in mortality in the Swiss life insurance business – with policyholders' dividends adjusted accordingly – had a negative impact of approximately CHF 36 million (2011: CHF 29 million) on the income statement. In line with the aforementioned scenario of an increase in mortality, the effect on equity in Switzerland was minor.

→ 100 basis-point decrease in receipts of new money

This scenario was based on the assumption that receipts of new money (including amounts reinvested) fell by 100 basis points. When applied to the German units, this scenario resulted in changes in DAC write-downs, changes in the financing of final policyholders' dividends, and the recognition of a provision for impending losses. These adverse effects were more than compensated for by the increase in the fair value of interest-rate derivatives in 2012. The overall impact was substantially mitigated by the prevailing legal requirements governing the distribution of surpluses. On balance there was a positive effect of roughly CHF 2 million on the German units' profitability in the reporting year (2011: negative effect of CHF 2 million). The positive impact on their equity amounted to approximately CHF 7 million (2011: CHF 6 million).

In Belgium this scenario resulted in an additional DAC write-down, a PVFP impairment loss and a provision for impending losses. The impact on the income statement is greater than in other countries owing to the business model used, which includes high guaranteed interest rates and low surpluses. Overall there was a negative effect of CHF 85 million on the income statement (2011: CHF 50 million). This adverse impact was more than compensated for in equity by the positive changes in unrealised gains and losses recognised. The positive effect on unrealised gains amounted to CHF 153 million (2011: CHF 85 million).

In Luxembourg this scenario produced a marginal impact on the income statement and an effect of roughly CHF 14 million (2011: CHF 11 million) on the unrealised gains and losses recognised in equity.

The resultant impact on the profitability and equity of Baloise Life (Liechtenstein) AG was negligible.

In Switzerland this scenario resulted in a higher DAC write-down, an increased technical reserve, and the offsetting effect of interest-rate hedges. The balance of positive and negative effects changed, thereby reducing profitability overall by roughly CHF 6 million (2011: CHF 48 million). The positive impact on equity amounted to approximately CHF 298 million (2011: CHF 285 million).

5.5.4 Changes to assumptions

Expected future investment income is constantly adjusted in line with market circumstances. It has fallen across all units. Other assumptions, such as cancellation rates and mortality rates are updated on an ongoing basis.

5.6 Management of market risk

Market risk is reflected by losses that arise from changes or fluctuations in market prices that may result in impairment of the value of assets held. The degree of risk depends on the extent to which market prices fluctuate and on the level of exposure.

As part of their life insurance business, the companies in the Baloise Group also provide investment-linked life insurance contracts for the account of and at the risk of policyholders. The financial liabilities generated in this connection are backed by assets – generally investment fund units – arising from these policies. Because the market risk attaching to the assets underlying these contracts is borne by the policyholder, they are shown separately in the notes to the consolidated annual financial statements.

The following sections specifically address the interest-rate risk, currency risk, credit risk, liquidity risk and equity price risk that are relevant to assets held by the Group.

5.6.1 Interest-rate risk

Interest-rate risk is the risk that a company's interest margin, and therefore its income, may be reduced by fluctuations in money-market and capital-market interest rates (income effect), or that the fair value of a portfolio of interest-rate sensitive products may decline (asset-price effect). As well as the financial risk generated by holding assets and liabilities with non-matching maturities, variations in accounting policy may result in accounting risk.

Consequently, the impact of a movement in interest rates or in the interest-rate curve may be a significant deterioration in terms and conditions if funding has to be rolled over. Benchmark-based maturity management is practised in the non-life units, while maturity management in the life units is driven by liabilities.

As part of the Baloise Group-wide Risk Management Standards, investment planning and appropriate asset and liability management ensure that any divergence in maturities and the interest-rate risk incurred are managed within the risk capacity available.

Stress tests are also designed and run for this purpose. They act as an early-warning system and their impact can be simulated for all areas of the Group and their performance.

The effect of stress testing key financial figures is measured on a monthly basis. The underlying stress scenario (potential loss arising from a risk) is reviewed regularly and modified as necessary. The scale of a stress test is generally based on the simple annual volatility of the financial risk under review, the once-in-a-hundred-years occurrence of a business risk or standard international practice.

The life insurance companies in the Baloise Group manage their risk associated with changes in interest rates directly, by means of appropriate strategic asset allocation. Specific factors such as risk-bearing capacity and the ability to fund guarantees are taken into account when allocating assets. The decision-making process also incorporates the asset managers' expectations regarding the capital markets and customers' expectations regarding life insurance.

The Baloise Group's chief investment officer (CIO) reviews the strategic asset allocation undertaken by all business units twice a year.

The banks also use an appropriate asset and liability management system to monitor and manage interest-rate risk. Interest-rate risk is incurred only in proportion to business volume and business activities. Interest-rate risk is measured using software based on value-at-risk, gap, duration and interest-rate sensitivity methods. The asset and liability mismatch is actively managed by the use of appropriate interest-rate derivatives, generally fair value hedges.

The interest-rate risk limits at Baloise Bank SoBa AG are set so as to prevent the market value of its equity reported on the calculation date from falling by more than 2.5 percent (warning limit) or by 4.0 per cent (action limit), should there be a parallel shift in the yield curve of + / – 100 basis points. In addition to these percentage values, absolute values for both the warning limit and the action limit are set on an annual basis and approved by the Board of Directors. Like the percentage limits, they may not be exceeded.

If all interest rates had fallen by 100 basis points on the balance sheet date, but all other variables had remained constant, the profit for the period (after deferred gains / losses and deferred taxes) would have been lower by CHF 97.2 million (31 December 2011: CHF 111 million). Including the impact on profit for the period, equity (after shadow accounting, deferred gains / losses and deferred taxes) would have risen by CHF 570 million (31 December 2011: CHF 426 million).

Derivative financial instruments used as fair value hedges

In banking, fluctuations in interest rates can have a substantial impact on the interest margin and therefore on the income generated by interest-earning business. This interest-rate risk results from a large number of factors, including loans and liabilities with non-matching fixed interest-rate periods. Net interest income is also affected by changes in market interest rates, because the interest-rate roll-over periods for loans do not necessarily coincide with those for customer deposits or debt instruments. Variable-rate assets and liabilities also incur basis risk which can arise from using different reference rates, such as those applicable to savings accounts versus 6-month LIBOR.

Derivative financial instruments were not used during the reporting period or the previous year as part of fair value or cash flow hedge accounting.

5.6.2 Currency risk

Currency risk describes the potential financial loss generated by changes in the exchange rates between currencies. The extent of the effective currency risk depends on:

- net foreign exchange exposure, i.e. the net position between assets and liabilities denominated in foreign currencies,
- the volatility of the currencies involved and
- the correlation of currencies with other risk parameters in a portfolio.

Because the Baloise Group invests in foreign-currency bonds (particularly those denominated in euros) for investment or diversification purposes, there may be currency effects in the income statement for both realised and unrealised positions. To ensure compliance with the risk budget set for currency effects recognised in the income statement, the foreign-exchange management team first calculates adequate target hedge ratios, then implements the necessary hedging strategies taking into account these target hedge ratios and the discretionary ranges allowed. It also takes advantage of phases when exchange rates are overreacting by deliberately underweighting or overweighting the hedge ratios in relation to the defined benchmark. These hedging strategies are implemented using forward FX contracts and FX options or combinations of options in which the selection of the instruments to be used in each case depends on factors such as volatility and expected exchange-rates movements.

The currency effect of foreign-currency bonds or insurance-related foreign-currency liabilities and changes in the fair value of derivative financial instruments held for hedging purposes are always recognised in the income statement.

The Group-wide Risk Management Standards require currency risk and the effectiveness of the currency derivatives transacted to be monitored on a continuous basis. The currency risk incurred must be proportionate to the potential superior return generated by the diversification effect achieved in the portfolio.

The Swiss franc and the euro are used almost exclusively for the Baloise Group's insurance activities, with the result that technical reserves are also mainly in these currencies. There are also small technical liabilities in US dollars and pounds sterling. These reserves are generally covered by investments in the same currencies (natural hedges).

Assuming that all other variables remain constant, fluctuations between transactional currencies and the functional currency in financial balance sheet items (after shadow accounting, deferred gains / losses and deferred taxes) in the amount of + / –CHF 0.01 (1 centime) would have resulted in a change of + / – CHF 3.0 million (31 December 2011: + / – CHF 4.6 million) in the profit for the period and also in equity; a positive (+) change of CHF 0.01 would have generated a currency gain and a negative (–) change of CHF 0.01 would have generated a currency loss.

Derivative financial instruments used as currency hedges of a net investment in a foreign operation

The Group's own companies, Baloise Alternative Investment Strategies Ltd., Jersey, and Baloise Private Equity Ltd., Jersey, manage substantial investments in alternative financial assets such as hedge funds and private equity.

The Baloise Group's FX managers enter into currency hedging transactions in the form of forward contracts to limit the currency risk exposure of its net investment in these two foreign entities whose reporting currency is the US dollar. Restricting the implementation of hedging strategies to forward contracts makes it easier to demonstrate the efficiency of the hedges and to show that hedge accounting is being used. Because hedge accounting is applied, the change in the fair value of these derivatives is aggregated into a separate item under equity and only derecognised via the income statement, together with the accrued currency effects on the net investment in these foreign entities, when the relevant underlying asset is sold.

	Fair value assets		Fair value liabilities	
	2011	2012	2011	2012
CHF million				
Forward contracts	1.3	21.5	50.7	–
Swaps	–	–	–	–
OTC options	–	–	–	–
Other	–	–	–	–
Traded options	–	–	–	–
Traded futures	–	–	–	–
Total	1.3	21.5	50.7	–

	2011	2012
CHF million		
Amount recognised directly in equity	– 16.1	29.9
Hedge ineffectiveness reclassified to the income statement	–	–

Because equity investments are actively managed, additions to and deductions from equity are carried out on a regular basis during the year. Consequently, the year-on-year effects underlying hedge accounting and the recognition of cash flows in profit or loss are recognised on a pro-rata basis.

For international diversification (risk-spreading), to enhance returns and because there is greater liquidity in certain foreign financial markets, as at 31 December 2012 the Group's Swiss companies held no significant net position in euros (31 December 2011: CHF 786.0 million) and a net position in US dollars equivalent to CHF 288.0 million (31 December 2011: CHF 388.7 million). The remaining foreign exchange positions, both assets and liabilities, were negligible.

During the year, the hedge ratio for the net foreign exchange exposure in US dollars and euros ranged from 80 per cent to 100 per cent.

The foreign entities in the Baloise Group had no significant foreign-currency exposure.

5.7 Credit risk

Credit risk relating to assets held by insurance companies refers to the total potential downside risk arising from a deterioration in the credit quality of a borrower or issuer, or from impairment in the value of collateral. Credit risk is managed by monitoring the credit quality of each individual counterparty and relying heavily on credit ratings.

Credit risk increases when counterparties become concentrated in a single sector or geographic region. Economic trends that affect whole sectors or regions can jeopardise an entire group of otherwise unrelated counterparties. For this reason, the Baloise Group tracks counterparty exposure at all times and monitors credit risk on a Group-wide basis. The regional expertise of our business units is also incorporated into decisions about securities selection or changes to the existing credit portfolio.

Because the credit risk incurred by the Baloise Group is spread across sectors and geographic regions and among a large number of counterparties and customers, the Baloise Group is not exposed to material credit risk arising from a single counterparty or a specific sector or geographic region.

In order to restrict the credit / accumulation risk in the Baloise Group, the proportion that may be invested by Group companies in a single issuer or borrower is strictly limited in the Group-wide Risk Management Standards. The relevant rules are explicitly defined in the Group investment policy.

Investments in the investment portfolio may only be made in bonds, loans or financial derivatives whose issuer or borrower has a minimum "A –" rating from Standard & Poor's, a comparable rating or is backed by a third-party guarantee or mortgage. For other borrowers and issuers with at least a "BBB" rating from Standard & Poor's (or comparable), and those with no rating, an additional overall limit of 15 per cent of all fixed-income securities – based on their fair values – is applied. Exceptions require explicit approval.

Investments in pfandbriefs are backed by mortgages. The vast majority of investments in promissory notes and registered bonds are secured by guarantees or covered by the deposit protection fund. These investments carry a reimbursement guarantee from financial institutions. Mortgage loans are secured by property; there are limits on loan to value ratios.

Please refer to the table of secured financial assets with a debt nature in section 12.

FINANCIAL ASSETS EXCEEDING 10 % OF CONSOLIDATED EQUITY

CHF million	2011
Federal Republic of Germany	2,702.2
Swiss Confederation	2,198.0
Republic of Austria	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 AG	1,027.9
European Investment Bank, Luxembourg	765.0
Norddeutsche 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 der schweizerischen Kantonalbanken AG	427.7
BNP Paribas, Paris	424.0
Uni Credito Italiano	423.1
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland)	417.5

FINANCIAL ASSETS EXCEEDING 10 % OF CONSOLIDATED EQUITY

CHF million	2012
Federal Republic of Germany	2,618.6
Swiss Confederation	2,459.0
Kingdom of Belgium	2,254.9
Republic of Austria	2,067.8
Republic of France	1,738.6
Kingdom of the Netherlands	1,504.9
European Investment Bank, Luxembourg	1,229.1
Commerzbank	1,031.4
Pfandbriefbank schweizerischer Hypothekarinstitute AG	1,008.8
Deutsche Bank AG, Frankfurt am Main	700.9
Norddeutsche Landesbank	698.7
Free State of Bavaria	584.1
UBS AG, Zurich / Basel	579.0
BNP Paribas, Paris	503.1
Credit Suisse Group AG, Zurich	502.4

MAXIMUM DEFAULT RISK OF FINANCIAL ASSETS

CHF million	2011	2012
Financial assets of a debt nature		
Public corporations	15,786.1	17,363.2
Industrial enterprises	2,162.3	2,489.5
Financial institutions	9,989.0	10,806.7
Other	44.2	34.3
Mortgages and loans		
Mortgages	11,085.5	11,097.5
Policy loans	204.6	180.7
Promissory notes and registered bonds	5,463.0	5,830.5
Time deposits	956.4	1,101.0
Employee loans	44.9	42.6
Reverse repurchase agreements	200.0	–
Other loans	430.3	369.5
Derivative financial instruments	281.8	334.9
Receivables from financial contracts	410.1	426.6
Reinsurance assets	377.5	398.6
Receivables from reinsurers	16.9	29.3
Insurance receivables	547.4	542.4
Other receivables	276.1	269.0
Receivables from investments	661.1	644.5
Cash and cash equivalents	1,835.5	2,034.3

If no contractually irrevocable future loan commitments have been agreed, the maximum default risk of financial assets corresponds to the carrying amount of the assets for own account and at own risk. In addition, guarantees and collateral for the benefit of third parties totalled CHF 505.1 million (2011: CHF 486.5 million).

The management and control of credit risk arising from mortgage business are set out in instructions and written procedures in which mandatory lending regulations are specified. These lending regulations lay down strict procedures for the immediate identification, accurate assessment, proper authorisation and continuous monitoring of credit risk. Standard credit documentation is used to record and review loan applications which are all logged and managed centrally. The relevant credit documentation reflects or incorporates all evaluation criteria and policies.

Because a running total of mortgage transactions is kept, it is possible to monitor compliance with credit policy, and corrective action can be taken if necessary. All mortgages are also managed by periodically auditing exposure, including records of overdue interest. Procedures and audit intervals are set out in a separate directive. Senior management regularly receive detailed risk reports on the composition of the mortgage portfolio and risk trends.

Policies, directives and authorisation levels set out the terms and conditions for granting mortgages, which consist of the amount, the credit quality of the counterparty, collateral and the term of the transaction as well as the specialist qualifications of the mortgage expert.

There are special instructions for valuing collateral and calculating loan-to-value ratios. The purpose of these provisions is to ensure that a standard procedure is used to determine the applicable value of collateral when assessing mortgages. The calculation of fair value and the loan-to-value ratio of real estate is of key importance, particularly with regard to mortgage business. One of the objectives of the active management of mortgages is the early identification of potential downside risk.

The mortgage portfolio comprises loans to individuals and to legal entities. The type and degree of risk that may be incurred, together with collateralisation and quality requirements, are set out in directives and authorisation levels. To mitigate risk, the portfolio is as geographically diverse as possible.

CREDIT RATINGS OF FINANCIAL ASSETS THAT WERE NEITHER OVERDUE NOR IMPAIRED AT THE BALANCE SHEET DATE IN 2011

	AAA	AA	A	BBB	Lower than BBB or no rating	Total
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

CREDIT RATINGS OF FINANCIAL ASSETS THAT WERE NEITHER OVERDUE NOR IMPAIRED AT THE BALANCE SHEET DATE IN 2012

	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Financial assets of a debt nature						
Public corporations	8,222.7	7,026.2	773.3	1,047.1	293.9	17,363.2
Industrial enterprises	6.3	340.6	1,583.0	515.3	44.3	2,489.5
Financial institutions	5,605.5	2,522.5	1,487.1	913.7	254.5	10,783.3
Other	–	20.6	13.5	–	0.2	34.3
Mortgages and loans						
Mortgages	57.1	853.9	8,377.0	895.4	672.1	10,855.5
Policy loans	–	–	–	–	180.7	180.7
Promissory notes and registered bonds	1,404.6	3,805.7	105.0	112.1	385.0	5,812.4
Time deposits	11.1	–	515.6	15.1	559.2	1,101.0
Employee loans	–	–	–	–	42.6	42.6
Reverse repurchase agreements	–	–	–	–	–	–
Other loans	1.1	25.7	108.9	116.9	75.4	328.0
Derivative financial instruments	168.6	57.1	103.5	–	5.7	334.9
Receivables from financial contracts	–	–	4.7	–	421.9	426.6
Reinsurance assets	0.9	104.1	133.9	2.6	154.4	395.9
Receivables from reinsurers	–	6.0	9.8	0.8	12.7	29.3
Insurance receivables	1.2	21.1	41.0	60.1	286.5	409.9
Other receivables	1.3	17.7	110.5	14.6	117.4	261.5
Receivables from investments	220.3	141.3	51.9	34.1	170.8	618.4
Cash and cash equivalents	211.0	162.7	1,263.0	21.3	376.3	2,034.3
Total	15,911.7	15,105.2	14,681.7	3,749.1	4,053.6	53,501.3

Standard & Poor's and Moody's ratings are generally used to assess the credit quality of securities. The lower of the two is used for disclosure.

Because the two agencies do not cover the entire Swiss financial market, the SBI composite rating is applied as and when necessary. This consists of ratings issued by the two rating agencies and the following four Swiss banks: Credit Suisse, UBS, Bank Vontobel and Zürcher Kantonalbank.

The credit quality of mortgage assets arising from Swiss insurance business is reviewed using risk-management processes. Credit ratings are assigned on this basis. Mortgage assets that show no signs of impaired credit quality receive an "A" rating. Those that show signs of impaired credit quality are rated lower than BBB or are not rated at all.

In 2012, financial assets amounting to CHF 2.9 million (2011: CHF 3.1 million) and cash and cash equivalents of CHF 0.4 million (2011: CHF 0.4 million) from collateral received were used.

FINANCIAL ASSETS IMPAIRED AT THE BALANCE SHEET DATE

	Gross amount	Impairment	Carrying amount	Gross amount	Impairment	Carrying amount
			2011			2012
CHF million						
Financial assets of a debt nature						
Public corporations	166.1	−128.5	37.6	–	–	–
Industrial enterprises	3.1	−3.1	–	3.1	−3.1	–
Financial institutions	101.1	−71.7	29.4	65.6	−42.2	23.4
Other	–	–	–	–	–	–
Mortgages and loans						
Mortgages	180.3	−56.8	123.5	201.1	−50.3	150.8
Policy loans	–	–	–	–	–	–
Promissory notes and registered bonds	0.0	−0.0	–	0.0	−0.0	–
Time deposits	–	–	–	–	–	–
Employee loans	–	–	–	–	–	–
Reverse repurchase agreements	–	–	–	–	–	–
Other loans	29.3	−15.6	13.7	54.4	−18.4	36.0
Receivables from financial contracts	–	–	–	–	–	–
Reinsurance assets	–	–	–	–	–	–
Receivables from reinsurers	0.4	−0.4	0.0	0.2	−0.2	0.0
Insurance receivables	150.9	−31.5	119.4	156.2	−35.1	121.1
Other receivables	13.2	−4.3	8.9	11.8	−4.4	7.4
Receivables from investments	31.1	−2.6	28.5	28.4	−2.3	26.1
Total	675.5	−314.5	361.0	520.8	−156.0	364.8

FINANCIAL ASSETS OVERDUE BUT NOT IMPAIRED AT THE BALANCE SHEET DATE

Assets as at 31 December 2011	< 3 months	3 – 6 months	7 – 12 months	> 12 months	Total
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 notes 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

Assets as at 31 December 2012	‹ 3 months	3 – 6 months	7 – 12 months	› 12 months	Total
CHF million					
Financial assets of a debt nature					
Public corporations	–	–	–	–	–
Industrial enterprises	–	–	–	–	–
Financial institutions	–	–	–	–	–
Other	–	–	–	–	–
Mortgages and loans					
Mortgages	0.6	0.1	0.0	2.9	3.6
Policy loans	–	–	–	–	–
Promissory notes 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	–	–	–	2.7	2.7
Receivables from reinsurers	–	–	–	–	–
Insurance receivables	5.4	2.4	3.2	0.4	11.4
Other receivables	0.0	0.0	0.0	0.1	0.1
Receivables from investments	–	–	–	–	–
Total	6.2	2.5	3.2	6.2	18.1

5.8 Liquidity risk

Banks as well as insurance companies incur latent liquidity risk. This refers to the risk of rapid outflows of large volumes of liquidity that cannot be offset by asset sales or for which alternative funding cannot be implemented quickly enough. In extreme cases, a lack of liquidity can result in insolvency. Legal provisions apply and the Group-wide Risk Management Standards require each business unit to plan its liquidity centrally. This is carried out with the close collaboration of the investment, actuarial, underwriting and finance departments of each business unit.

Liquidity management must take account of the maturity structure of liabilities as follows:

EXPECTED MATURITIES OF FINANCIAL LIABILITIES [1]

Liquidity risk as at 31 December 2011	< 1 year [2]	1 – 3 years	4 – 5 years	> 5 years	No maturity	Total	Carrying amount
CHF million							
Liabilities arising from banking business and financial contracts							
With discretionary participation features	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	–

Liquidity risk as at 31 December 2012	< 1 year [2]	1 – 3 years	4 – 5 years	> 5 years	No maturity	Total	Carrying amount
CHF million							
Liabilities arising from banking business and financial contracts							
With discretionary participation features	1,334.0	–	–	–	–	1,334.0	1,334.0
Measured at amortised cost	1,268.1	704.6	550.9	412.1	4,356.0	7,291.7	7,290.5
Recognised at fair value through profit or loss	247.1	60.1	14.7	42.2	6,609.3	6,973.4	6,973.4
Financial liabilities	557.3	159.0	479.0	943.9	–	2,139.2	2,017.6
Financial provisions	36.3	26.0	12.2	8.7	9.2	92.4	92.4
Derivative financial instruments	26.8	6.4	22.3	8.9	–	64.4	64.4
Insurance liabilities	1,368.3	512.8	0.1	0.5	–	1,881.7	1,881.7
Other liabilities	580.6	46.8	0.4	0.8	–	628.6	628.5
Contingent liabilities and capital commitments	122.9	217.2	0.7	100.0	517.6	958.4	–
Total	5,541.4	1,732.9	1,080.3	1,517.1	11,492.1	21,363.8	–

1 Based on undiscounted contractual cash flows.
2 All demand deposits are included in the first maturity band.

Please refer to the tables in section 23 for the residual terms and maturities of technical reserves.

In accordance with the Group-wide Risk Management Standards, asset and liability management committees have been introduced in all strategic business units in the Baloise Group. These asset and liability management committees analyse maturity schedules and the income generated by assets or required for liabilities.

As part of tactical and strategic investment planning, care is taken when allocating the assets held by the individual life and non-life insurance units in the Baloise Group to ensure that sufficient liquidity is available to carry out investment activity and for the operational settlement of all business processes. The level of liquidity required is determined on the basis of the maturity structure of investments versus the payout schedule for insurance-related liabilities. The average historical pattern of incoming and outgoing cash management payments over the previous five years is also taken into account. Investment planning explicitly includes exceptionally large incoming or outgoing payments that are known in advance. Careful maintenance of liquidity levels and recourse to reinsurance provide sufficiently large reserves for payments needed at short notice, such as large claim settlements. Cash pooling among the Baloise Group's Swiss companies also ensures that excess liquidity in one unit be used to offset a temporary liquidity squeeze at another unit via an intra-Group interest-bearing overdraft facility.

If these precautions fail to meet the need for liquidity, the Baloise Group holds financial assets that can be sold at short notice without significant price losses. They include all equities (excluding long-term equity investments). Because the Group holds a substantial portfolio of government and quasi-government bonds, it is possible to sell relatively large holdings of available-for-sale bonds even in crisis situations. Mortgages and loans are generally held to maturity; early redemption is not considered at present. In terms of alternative financial assets, 75 per cent of hedge funds can be sold within three months. Private-equity investments have to be considered illiquid in this context, and it is not possible to sell investment property to generate immediate liquidity.

5.9 Equity price risk

The Baloise Group is exposed to equity price risk because it holds financial assets of an equity nature classed as "recognised at fair value through profit or loss" and "available for sale." Equity price risk is significantly reduced by means of international diversification, i.e. by spreading risk across sectors, countries and currencies. Active overlay management using derivatives also mitigates equity price risk if certain intervention levels are reached or the market and / or risk indicators that are continuously tracked by Baloise suggest heightened hedging activity.

Most financial assets of an equity nature are publicly listed.

If the market price of all financial assets of an equity nature were to move by + / – 10 per cent on the balance sheet date, the following impact would be observed – after shadow accounting, deferred gains / losses, deferred taxes, derivative hedges and the effect of the impairment rules mentioned in section 3.10.2:

	Impact on profit for the period		Impact on equity (including profit for the period)	
	2011	2012	2011	2012
CHF million				
Market price plus 10 %	15.0	6.9	179.4	172.1
Market price minus 10 %	– 60.9	– 22.5	– 182.2	– 171.9

Because these impairment criteria produce different effects due to assumed changes in market prices if there is a rise compared with an analogous fall, these effects are divergent. The compensatory effects of hedging using derivatives behave in a similar manner.

Adjustments in the fair value of instruments of an equity nature that are classed as "recognised at fair value through profit or loss." has an impact on the profit for the period. Unrealised gains and losses vary due to changes in the fair value of financial instruments of an equity nature which are classed as "available for sale." In a life insurance company, policyholders participate in the firm's profits, depending on their policy and local circumstances (see section 3.18.5.). The table above takes account of this profit-sharing scheme.

5.10 Calculation of fair value for financial statements

The fair value of financial instruments classed as "available for sale" and "recognised at fair value through profit or loss" is determined by reference to quoted market prices, provided they are available. They are defined as available if quoted prices can be obtained easily and frequently on an exchange, from a dealer, broker, trade association, pricing service or regulatory authority, provided these prices are current and represent regularly occurring arm's length transactions in the market.

If no quoted market prices are available (e.g. because a market is inactive), the fair value is determined using a market-based measurement process. Market-based means that the measurement method is based on a significant quantity of observable market data (as available).

The fair value calculation is divided into the following three hierarchy levels:

→ Fair value determined by publicly listed prices (level 1)
  Fair value is based on market prices on the balance sheet date and it is not adjusted or compiled in any other way.
→ Fair value determined by using observable market data (level 2)
  Fair value is estimated using generally recognised methods (discounted cash flow etc.). In this case, the valuation incorporates a significant degree of observable market data (interest rates, index performance etc.).
→ Fair value determined without the use of observable market data (level 3)
  Fair value is estimated using generally recognised methods (discounted cash flow etc.), although it is measured without reference to any observable market data (or to a very minor degree), either because it is not available or because it does not permit any reliable conclusions to be drawn with regard to fair value.

Detailed information about measurement principles and the measurement methods used can be found in 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

2011	Level 1	Level 2	Level 3	Total
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 arising 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

2012	Level 1	Level 2	Level 3	Total
CHF million				
Assets				
Financial assets of an equity nature				
Available for sale	1,753.2	869.8	714.0	3,337.0
Recognised at fair value through profit or loss	76.5	–	–	76.5
Financial assets of a debt nature				
Available for sale	22,387.9	45.6	–	22,433.5
Recognised at fair value through profit or loss	55.7	16.0	–	71.7
Mortgages and loans				
Recognised at fair value through profit or loss	–	819.7	–	819.7
Derivative financial instruments	3.5	331.4	–	334.9
Receivables from financial contracts				
Recognised at fair value through profit or loss	56.1	–	–	56.1
Total assets	24,332.9	2,082.5	714.0	27,129.4
Equity and liabilities				
Liabilities arising from banking business and financial contracts				
Recognised at fair value through profit or loss	–	180.3	–	180.3
Derivative financial instruments	3.4	61.0	–	64.4
Total equity and liabilities	3.4	241.3	–	244.7

FINANCIAL ASSETS AND LIABILITIES FOR THE ACCOUNT AND AT THE RISK OF LIFE INSURANCE POLICYHOLDERS

2011	Level 1	Level 2	Level 3	Total
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 arising 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

2012	Level 1	Level 2	Level 3	Total
CHF million				
Assets				
Financial assets of an equity nature				
Recognised at fair value through profit or loss	5,722.3	45.0	53.2	5,820.5
Financial assets of a debt nature				
Recognised at fair value through profit or loss	1,785.0	34.6	–	1,819.6
Derivative financial instruments	8.9	153.8	–	162.7
Total assets	7,516.2	233.4	53.2	7,802.8
Equity and liabilities				
Liabilities arising from banking business and financial contracts				
Recognised at fair value through profit or loss	6,790.5	2.6	–	6,793.1
Total equity and liabilities	6,790.5	2.6	–	6,793.1

Financial assets measured at fair value using level 3

FINANCIAL ASSETS FOR OWN ACCOUNT AND AT OWN RISK

2011	Financial assets of an equity nature: Available for sale	Financial assets of an equity nature: Recognised at fair value through profit or loss	Financial assets of a debt nature: Available for sale	Financial assets of a debt nature: Recognised at fair value through profit or loss	Mortgages and loans: Recognised at fair value through profit or loss	Derivative financial instruments: Recognised at fair value through profit or loss	Receivables from financial contracts: Recognised at fair value through profit or loss	Total
CHF million								
Assets								
Balance as at 1 January	674.0	–	–	–	–	–	–	674.0
Additions	55.9	–	–	–	–	–	–	55.9
Additions arising from change in the scope of consolidation	–	–	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–	–	–
Disposals	– 48.7	–	–	–	–	–	–	– 48.7
Disposals arising from change in the scope of consolidation	–	–	–	–	–	–	–	–
Changes in fair value recognised in profit or loss	– 4.1	–	–	–	–	–	–	– 4.1
Changes in fair value not recognised in profit or loss	39.4	–	–	–	–	–	–	39.4
Exchange differences	– 10.9	–	–	–	–	–	–	– 10.9
Balance as at 31 December	705.6	–	–	–	–	–	–	705.6
Changes in fair value of financial instruments held at the balance sheet date recognised in profit or loss	– 4.1	–	–	–	–	–	–	– 4.1

FINANCIAL ASSETS FOR OWN ACCOUNT AND AT OWN RISK

2012	Financial assets of an equity nature: Available for sale	Financial assets of an equity nature: Recognised at fair value through profit or loss	Financial assets of a debt nature: Available for sale	Financial assets of a debt nature: Recognised at fair value through profit or loss	Mortgages and loans: Recognised at fair value through profit or loss	Derivative financial instruments: Recognised at fair value through profit or loss	Receivables from financial contracts: Recognised at fair value through profit or loss	Total
CHF million								
Assets								
Balance as at 1 January	705.6	–	–	–	–	–	–	705.6
Additions	58.3	–	–	–	–	–	–	58.3
Additions arising from change in the scope of consolidation	–	–	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–	–	–
Disposals	–55.4	–	–	–	–	–	–	–55.4
Disposals arising from change in the scope of consolidation	–	–	–	–	–	–	–	–
Changes in fair value recognised in profit or loss	–4.9	–	–	–	–	–	–	–4.9
Changes in fair value not recognised in profit or loss	18.8	–	–	–	–	–	–	18.8
Exchange differences	–8.4	–	–	–	–	–	–	–8.4
Balance as at 31 December	714.0	–	–	–	–	–	–	714.0
Changes in fair value of financial instruments held at the balance sheet date recognised in profit or loss	–4.9	–	–	–	–	–	–	–4.9

These items largely comprise private-equity investments and minority interests in real-estate companies.

FINANCIAL ASSETS FOR THE ACCOUNT AND AT THE RISK OF LIFE INSURANCE POLICYHOLDERS

2011	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	
CHF million				
Assets				
Balance as at 1 January	–	–	–	–
Additions	76.9	–	–	76.9
Additions arising from change in the scope of consolidation	–	–	–	–
Additions arising from change in percentage of shareholding	–	–	–	–
Reclassifications	–	–	–	–
Disposals	–	–	–	–
Disposals arising from change in the scope of consolidation	–	–	–	–
Changes in fair value recognised in profit or loss	–	–	–	–
Exchange differences	– 1.1	–	–	– 1.1
Balance as at 31 December	75.8	–	–	75.8
Changes in fair value of financial instruments held at the balance sheet date recognised in profit or loss	– 0.4	–	–	– 0.4

The additions in 2011 were largely private-equity investments.

FINANCIAL ASSETS FOR THE ACCOUNT AND AT THE RISK OF LIFE INSURANCE POLICYHOLDERS

2012	Financial assets of an equity nature Recognised at fair value through profit or loss	Financial assets of a debt nature Recognised at fair value through profit or loss	Derivative financial instruments Recognised at fair value through profit or loss	Total
CHF million				
Assets				
Balance as at 1 January	75.8	–	–	75.8
Additions	3.1	–	–	3.1
Additions arising from change in the scope of consolidation	–	–	–	–
Additions arising from change in percentage of shareholding	–	–	–	–
Reclassifications	–	–	–	–
Disposals	– 24.5	–	–	– 24.5
Disposals arising from change in the scope of consolidation	–	–	–	–
Changes in fair value recognised in profit or loss	– 0.7	–	–	– 0.7
Exchange differences	– 0.5	–	–	– 0.5
Balance as at 31 December	53.2	–	–	53.2
Changes in fair value of financial instruments held at the balance sheet date recognised in profit or loss	– 0.7	–	–	– 0.7

5.11 Capital management

The general parameters regarding the amount of capital employed are set by regulatory requirements and internal risk-management policies. While the aim of regulatory requirements is primarily the protection of policyholders, internal policies are largely derived from the risk-based management of operating activities.

The solvency margin for pure insurance business of CHF 2,096.0 million (2011: CHF 2,051.0 million) was met in 2011 and 2012. The cover ratio for the capital adequacy requirement in available funds was 277 per cent at 31 December 2012 (31 December 2011: 203 per cent). Based on internal specifications, the capital currently available consists of IFRS equity, unallocated policyholders' dividends and the final policyholders' dividend reserve. Liabilities are also recognised as capital in accordance with the corresponding options for solvency coverage at individual company level. Deductions from equity include planned dividend payments and intangible assets. Individual Group companies are also subject to regulation under local legislation which in some cases permits different methods for defining equity. The ability of the business units, and therefore also of the parent company to pay dividends is closely linked to the priority placed on meeting these local requirements. Compliance with local solvency requirements is monitored on an ongoing basis. Appropriate action is taken if solvency falls short of these regulations.

The relevant requirements for the banking operations of Baloise Bank SoBa are defined by Basel II regulations.

The regulatory capital adequacy requirement for Deutscher Ring Bausparkasse AG is governed by the German Solvency Regulation (SolvV) .

In both 2011 and 2012, all relevant requirements were met by each Group company.

The Swiss Solvency Test (SST) came into force on 1 January 2011 as a new statutory requirement alongside Solvency I. In this context, the Baloise Group defines its risk-bearing capital and capital required for the SST using an inhouse model that takes into account the Baloise Group's business model. All activities and processes for developing and structuring the inhouse model are gathered together in the Baloise Internal Solvency System (BISS) and coordinated and managed by Group Risk Management.

The inhouse model, which is based on the Swiss Solvency Test (SST), is used to calculate risk-bearing capital. IFRS equity forms the basis for this calculation. The additional incorporation of individual assets and liabilities as well as off-balance sheet information means that equity is determined at fair value. As a result, all capital items that can be deployed to cover losses in the event of adverse business developments are taken into consideration.

Risk-bearing capital is compared with risk-adjusted capital and the capital requirement formulated inhouse. The capital requirement covers actuarial risk, market risk, credit risk and other risks. To analyse these risks, the Baloise Group primarily factors actuarial and investment risks into its risk considerations. The risk level is determined by means of a correlation-based expected-shortfall method. The actuarial capital requirement is a measurement of the operational funding required to cover actuarial risk. The claims risk is modelled using distributions of normal and large claims, including the prevailing reinsurance structure. At the same time, the investment required to smooth fluctuations in investment value and returns for a given probability is also calculated. Analysis of these risks is based on quantitative models that use statistical methods to evaluate historical data and place it in the context of current exposure. Various scenarios are simulated by means of stress tests, and their potential impact on risk-bearing capacity is analysed. The ratio of risk-bearing capital to risk-adjusted capital is calculated for the strategic business units and the Group. The Group's risk position is not determined by simply adding together individual risk positions, it also takes into account diversification and consolidation effects. The current ratios of risk-bearing capital to risk-adjusted capital are set with reference to the global risk-management limits laid down in the Group-wide Risk Management Standards. These limits are monitored on an ongoing basis.

The risk owner and risk controller responsible for each business unit and for the Group as a whole participate in a regular reporting process. Key figures relating to Solvency I and the inhouse risk model are reported on a monthly basis, which enables the solvency situation to be monitored in a timely manner, providing the basis for risk-based management decisions within the whole organisation. It also enables the Baloise Group to meet external reporting requirements at all times.

6. BASIS OF CONSOLIDATION

6.1 2011 financial year

6.1.1 Acquisitions

The Baloise Group acquired the insurance agency and brokerage companies Wilhelm Herrmann Assekuranz KG and Wilhelm Herrmann Assekuranz Makler GmbH – both of which are based in Ettlingen (Germany) – with effect from 1 January 2011. This acquisition gave rise to goodwill of CHF 0.1 million.

On 6 January 2011, the Baloise Group completed its acquisition of 100 per cent of the voting rights in Avéro Schadeverzekering Benelux NV. The newly purchased firm was fully consolidated from this date and was merged into Mercator Verzekeringen NV in the first half of 2011. This acquisition gave rise to goodwill of CHF 17.3 million, which was transferred to Mercator Verzekeringen NV as a result of the merger. The key drivers of this goodwill were the expansion of the Belgian non-life business, the penetration of the Brussels and Walloon markets, the acquisition of expertise in commercial lines and marine / transport insurance, cross-selling potential and the realisation of cost savings.

The Baloise Group acquired 100 per cent of the voting rights in the Belgian insurers Nateus SA / NV and Nateus Life SA / NV on 6 September 2011. These two companies and their respective subsidiaries were fully consolidated as part of the Baloise Group from this date. This acquisition gave rise to total negative goodwill of CHF 7.9 million, which was recognised in profit or loss as other operating income. This negative goodwill was attributable to the fact that the Baloise Group managed to purchase the profitable Nateus companies at an attractive price.

The second half of the year saw the Baloise Group acquire Belgium's Pacific Real Estate NV and buy out the minority interests in the Belgian firm Axis Life NV as well as the non-controlling interests in the real-estate company Van Vaeck Zenith NV, which until then had been held as an associate. The latter firm has been fully consolidated as part of the Baloise Group since then.

6.1.2 Disposals

The 100 per cent shareholdings in Belgium's Ant Re NV, Antwerp, and Croatia's Treci element d.o.o. were sold in the second half of 2011.

6.1.3 Other changes in the group of consolidated companies

Luxembourg-based entity Bâloise Europe Vie S.A. was merged into Bâloise Vie Luxembourg S.A. and Luxembourg's Bâloise Assurances IARD S.A. was merged into Bâloise Assurances Luxembourg S.A. with effect from 1 January 2011.

Germany's Basler Beteiligungs-Holding GmbH, Bad Homburg, was merged into Basler Securitas Versicherungs-Aktiengesellschaft, Bad Homburg, with effect from 1 July 2011.

6.2 2012 financial year

6.2.1 Acquisitions

Two property companies in Austria were acquired in 2012.

6.2.2 Disposals

The Poliklinika Osiguranje Zagreb in Croatia was sold with an effective sale date of 2 April 2012.

In addition, PiL Verwaltungsgesellschaft mbH in Trier, Germany, was sold at the beginning of July 2012. Neither deal has had any material impact on the profit for the period.

6.2.3 Other changes in the group of consolidated companies

The bulk of Belgian non-life unit Amazon Insurance NV was partially merged with Mercator Verzekeringen (non-life) on 1 January 2012. The remainder of Amazon continues to operate as a sales company. This transaction has had no net impact on the Company's profit for the period.

In addition, Barosa S.à.r.l., a company that will operate in the property sector, was established in Luxembourg on 10 December 2012.

7. INFORMATION ON OPERATING SEGMENTS (SEGMENT REPORTING)

The Baloise Group organises its operating activities into strategic business units, which are generally combined under a single management team for each region. The financial and management information needed for all relevant executive decisions is held by these strategic business units. This is also the organisational level at which the chief operating decision-makers are situated. Regardless of where they are headquartered, all Baloise Group entities are therefore assigned to one of the reportable segments

- Switzerland
- Germany
- Belgium
- Luxembourg or
- Other units

The “Other units” segment contains the strategic business units that do not meet the size criteria for disclosure under IFRS 8. These are the Baloise Group entities that have been assigned to

- Austria
- Croatia
- Serbia or
- Baloise Life Liechtenstein

The “Germany” segment also includes the regional branches of the Deutscher Ring property and life insurance group in the Czech Republic and Slovakia as well as the Luxembourg-based partner Life S.A.

The “Group business” segment comprises the units engaged in intercompany reinsurance and financing, as well as corporate IT and the holding companies.

The revenue generated by the Baloise Group is broken down into the Non-life, Life, Banking (including asset management) and “Other Activities” operating segments. The Non-life segment offers accident and health insurance as well as products relating to liability, motor, property and marine insurance. These products are tailored to the specific needs of our customers – primarily retail clients – and the core competences of the relevant companies in the Baloise Group. The Life segment provides individuals and companies with a wide range of endowment policies, term insurance, investment-linked products and private placement life insurance. The Banking segment essentially comprises Baloise Bank SoBa, which acts as a universal bank in Switzerland, and Deutscher Ring Bausparkasse, which operates in Germany mainly as a conventional building society.

The “Other Activities” operating segment includes equity investment companies, real-estate firms and financing companies.

The accounting policies applied to the presentation of the operating segments (segment reporting) are those used throughout the rest of the Financial Report. No intersegment relationships recognised either on the balance sheet or in the income statement – with the exception of income from long-term equity investments – are offset against each other.

7.1 Segment reporting by strategic business unit

	Switzerland		Germany		Belgium	
	2011	2012	2011	2012	2011	2012
CHF million						
Income						
Premiums earned and policy fees (gross)	4,036.0	3,833.9	1,554.1	1,490.4	872.3	1,063.0
Reinsurance premiums ceded	– 179.8	– 176.8	– 98.4	– 97.3	– 57.6	– 70.9
Premiums earned and policy fees (net)	3,856.2	3,657.1	1,455.7	1,393.1	814.7	992.1
Investment income	969.1	946.3	531.3	506.8	193.1	260.1
Realised gains and losses on investments	– 184.3	136.7	– 152.6	246.1	– 72.9	33.6
Income from services rendered	51.1	54.5	85.6	52.8	3.3	6.8
Share of profit (loss) of associates	0.0	0.0	3.0	16.3	7.2	0.2
Other operating income	44.7	30.4	38.4	25.6	17.7	9.3
Income	4,736.8	4,825.0	1,961.4	2,240.7	963.1	1,302.1
Intersegment income	74.9	74.2	46.0	47.8	12.6	20.2
Income from associates	0.0	0.0	2.9	15.6	2.3	0.2
Expense						
Claims and benefits paid (gross)	– 3,315.1	– 3,353.9	– 1,224.8	– 1,191.3	– 565.9	– 667.9
Change in technical reserves (gross)	– 584.9	– 376.5	– 25.2	– 310.3	– 51.2	– 138.9
Reinsurers' share of claims incurred	63.7	51.9	50.5	62.0	18.6	83.2
Acquisition costs	– 92.3	– 72.4	– 251.0	– 295.5	– 179.7	– 227.3
Operating and administrative expenses for insurance business	– 407.1	– 413.8	– 255.5	– 257.1	– 103.3	– 154.2
Investment management expenses	– 41.1	– 40.2	– 23.3	– 21.7	– 10.7	– 13.1
Interest expenses on insurance liabilities	– 5.2	– 5.1	– 45.1	– 43.2	– 1.2	– 1.3
Gains or losses on financial contracts	– 79.9	– 68.8	– 22.7	– 31.0	– 20.4	– 63.8
Other operating expenses	– 167.1	– 168.0	– 166.2	– 135.4	– 27.4	– 45.0
Expense	– 4,629.0	– 4,446.8	– 1,963.3	– 2,223.5	– 941.2	– 1,228.3
Profit / loss before borrowing costs and taxes	107.8	378.2	– 1.9	17.2	21.9	73.8
Borrowing costs	–	–	–	–	–	–
Profit / loss before taxes	107.8	378.2	– 1.9	17.2	21.9	73.8
Income taxes	– 6.5	– 67.4	– 9.2	17.8	– 17.6	2.0
Profit / loss for the period (segment result)	101.3	310.8	– 11.1	35.0	4.3	75.8
Segment assets	37,960.2	39,352.1	15,278.1	15,911.7	7,907.4	8,794.5

Luxembourg		Other units		Sub-total		Group business		Eliminated		Total	
2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
123.0	130.7	215.7	213.5	6,801.1	6,731.5	259.4	258.5	−253.6	−259.3	6,806.9	6,730.7
−18.1	−17.1	−69.9	−72.2	−423.8	−434.3	−6.1	−1.5	253.6	259.3	−176.3	−176.5
104.9	113.6	145.8	141.3	6,377.3	6,297.2	253.3	257.0	0.0	0.0	6,630.6	6,554.2
15.8	14.9	32.8	33.6	1,742.1	1,761.7	26.8	22.0	−2.4	−1.5	1,766.5	1,782.2
−175.2	230.4	−330.0	191.7	−915.0	838.5	−28.4	0.6	–	–	−943.4	839.1
15.0	13.4	11.5	8.2	166.5	135.7	118.9	128.8	−126.8	−139.5	158.6	125.0
–	–	–	–	10.2	16.5	–	–	–	–	10.2	16.5
0.8	0.5	10.5	25.4	112.1	91.2	51.0	15.2	−23.0	−14.4	140.1	92.0
−38.7	372.8	−129.4	400.2	7,493.2	9,140.8	421.6	423.6	−152.2	−155.4	7,762.6	9,409.0
4.7	3.7	64.7	67.2	202.9	213.1	−355.1	−368.5	152.2	155.4	–	–
–	–	–	–	5.2	15.8	–	–	–	–	5.2	15.8
−56.7	−63.7	−138.5	−151.6	−5,301.0	−5,428.4	−137.0	−182.6	126.5	161.7	−5,311.5	−5,449.3
11.3	−48.0	−12.5	−13.9	−662.5	−887.6	15.1	31.6	7.5	−11.6	−639.9	−867.6
3.9	16.0	44.2	48.0	180.9	261.1	6.5	2.1	−134.1	−150.0	53.3	113.2
−10.3	−11.9	−42.8	−43.6	−576.1	−650.7	−22.7	−20.5	22.0	20.3	−576.8	−650.9
−23.7	−27.4	−36.4	−27.5	−826.0	−880.0	1.0	1.1	−22.0	−20.3	−847.0	−899.2
−0.6	−0.7	−2.6	−2.4	−78.3	−78.1	−11.2	−12.0	28.2	31.0	−61.3	−59.1
−0.3	−0.2	−0.2	−1.1	−52.0	−50.9	–	–	0.4	0.3	−51.6	−50.6
133.5	−218.2	309.5	−183.3	320.0	−565.1	−2.2	−0.4	6.2	1.6	324.0	−563.9
−8.4	−8.0	−80.3	−30.8	−449.4	−387.2	−176.0	−161.0	117.5	122.4	−507.9	−425.8
48.7	−362.1	40.4	−406.2	−7,444.4	−8,666.9	−326.5	−341.7	152.2	155.4	−7,618.7	−8,853.2
10.0	10.7	−89.0	−6.0	48.8	473.9	95.1	81.9	–	–	143.9	555.8
–	–	–	–	–	–	−55.0	−61.1	–	–	−55.0	−61.1
10.0	10.7	−89.0	−6.0	48.8	473.9	40.1	20.8	–	–	88.9	494.7
−2.1	5.7	3.6	−1.5	−31.8	−43.4	4.2	−8.9	–	–	−27.6	−52.3
7.9	16.4	−85.4	−7.5	17.0	430.5	44.3	11.9	–	–	61.3	442.4
4,047.2	4,710.9	3,467.7	3,891.4	68,660.6	72,660.6	1,405.6	1,847.3	−1,000.0	−980.7	69,066.2	73,527.2

7.2 Segment reporting by operating segment

	Non-life		Life	
	2011	2012	2011	2012
CHF million				
Income				
Premiums earned and policy fees (gross)	3,147.1	3,306.7	3,659.8	3,424.0
Reinsurance premiums ceded	–158.8	–157.8	–17.5	–18.7
Premiums earned and policy fees (net)	2,988.3	3,148.9	3,642.3	3,405.3
Investment income	291.9	285.2	1,323.9	1,347.8
Realised gains and losses on investments	–191.4	–1.9	–720.4	845.8
Income from services rendered	29.1	27.2	27.7	27.0
Share of profit (loss) of associates	0.7	0.0	6.8	0.9
Other operating income	39.9	25.9	64.9	59.3
Income	3,158.5	3,485.3	4,345.2	5,686.1
Intersegment income	–56.2	–47.6	–27.4	–28.3
Income from associates	0.7	0.0	1.8	0.2
Expense				
Claims and benefits paid (gross)	–1,850.3	–2,009.1	–3,461.2	–3,440.2
Change in technical reserves (gross)	–127.5	–41.9	–512.4	–825.7
Reinsurers' share of claims incurred	42.0	106.2	11.3	7.0
Acquisition costs	–403.0	–448.6	–173.8	–202.3
Operating and administrative expenses for insurance business	–527.0	–588.0	–320.0	–311.2
Investment management expenses	–19.9	–19.3	–75.8	–78.5
Interest expenses on insurance liabilities	–1.2	–1.3	–50.4	–49.3
Gains or losses on financial contracts	–3.1	–1.0	390.2	–501.1
Other operating expenses	–141.5	–128.8	–137.2	–108.1
Expense	–3,031.5	–3,131.8	–4,329.3	–5,509.4
Profit / loss before borrowing costs and taxes	127.0	353.5	15.9	176.7
Borrowing costs	–	–	–	–
Profit / loss before taxes	127.0	353.5	15.9	176.7
Income taxes	–13.9	–4.2	–8.4	–27.9
Profit / loss for the period (segment result)	113.1	349.3	7.5	148.8

Banking		Other activities		Eliminated		Total	
2011	2012	2011	2012	2011	2012	2011	2012
–	–	–	–	–	–	6,806.9	6,730.7
–	–	–	–	–	–	– 176.3	– 176.5
–	–	–	–	–	–	6,630.6	6,554.2
171.0	165.8	13.4	13.2	– 33.7	– 29.8	1,766.5	1,782.2
– 1.0	– 2.7	– 30.6	– 2.1	–	–	– 943.4	839.1
109.5	113.6	171.1	174.4	– 178.8	– 217.2	158.6	125.0
–	–	2.7	15.6	–	–	10.2	16.5
6.9	6.0	48.4	16.1	– 20.0	– 15.3	140.1	92.0
286.4	282.7	205.0	217.2	– 232.5	– 262.3	7,762.6	9,409.0
– 47.4	– 52.5	– 101.5	– 133.9	232.5	262.3	–	–
–	–	2.7	15.6	–	–	5.2	15.8
–	–	–	–	–	–	– 5,311.5	– 5,449.3
–	–	–	–	–	–	– 639.9	– 867.6
–	–	–	–	–	–	53.3	113.2
–	–	–	–	–	–	– 576.8	– 650.9
–	–	–	–	–	–	– 847.0	– 899.2
– 19.8	– 20.4	– 7.1	– 7.4	61.3	66.5	– 61.3	– 59.1
–	–	–	–	–	–	– 51.6	– 50.6
– 82.0	– 76.7	– 17.9	– 16.1	36.8	31.0	324.0	– 563.9
– 111.3	– 112.8	– 252.3	– 240.9	134.4	164.8	– 507.9	– 425.8
– 213.1	– 209.9	– 277.3	– 264.4	232.5	262.3	– 7,618.7	– 8,853.2
73.3	72.8	– 72.3	– 47.2	–	–	143.9	555.8
–	–	– 55.0	– 61.1	–	–	– 55.0	– 61.1
73.3	72.8	– 127.3	– 108.3	–	–	88.9	494.7
– 13.8	– 12.7	8.5	– 7.5	–	–	– 27.6	– 52.3
59.5	60.1	– 118.8	– 115.8	–	–	61.3	442.4

Notes to the consolidated balance sheet

8. PROPERTY, PLANT AND EQUIPMENT

8.1 Property, plant and equipment in 2011

CHF million	Land	Buildings	Operating equipment	Machinery, furniture and vehicles	IT equipment	Total
Carrying amount as at 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 arising 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 arising from change in the scope of consolidation	–	–	–	–	–	–
Reclassification	–	– 0.5	– 0.0	0.0	0.0	– 0.5
Depreciation and impairment						
Depreciation	–	– 17.3	– 8.5	– 7.7	– 10.0	– 43.5
Impairment losses recognised in profit or loss	– 1.0	– 0.5	–	– 1.2	–	– 2.7
Reversal of impairment losses 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 amount as at 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 impairment	– 0.9	– 387.6	– 95.8	– 79.0	– 126.8	– 690.1
Balance as at 31 December	88.2	361.9	52.4	35.1	22.3	559.9
Of which: Assets held under finance leases [1]	–	88.1	–	0.1	–	88.2

1 Assets held under finance leases essentially comprise a leasing arrangement that offers an option to purchase an owner-occupied administrative building. The leasing arrangement includes a repayment schedule and is contractually fixed until mid-2018.

Depreciation and impairment form part of other operating expenses.

8.2 Property, plant and equipment in 2012

CHF million	Land	Buildings	Operating equipment	Machinery, furniture and vehicles	IT equipment	Total
Carrying amount as at 1 January	88.2	361.9	52.4	35.1	22.3	559.9
Additions	8.4	23.1	3.1	5.3	10.5	50.4
Additions arising from change in the scope of consolidation	–	–	–	–	–	–
Disposals	– 0.3	– 6.4	– 2.9	– 0.5	– 0.4	– 10.5
Disposals arising from change in the scope of consolidation	–	–	–	– 0.6	– 0.0	– 0.6
Reclassification [1]	–	– 84.9	–	–	–	– 84.9
Depreciation and impairment						
Depreciation	–	– 18.7	– 8.7	– 7.6	– 9.5	– 44.5
Impairment losses recognised in profit or loss	– 1.0	– 6.5	– 0.1	– 1.4	– 0.1	– 9.1
Reversal of impairment losses recognised in profit or loss	–	–	–	–	–	–
Exchange differences	– 0.1	– 1.7	– 0.1	– 0.2	– 0.1	– 2.2
Carrying amount as at 31 December	95.2	266.8	43.7	30.1	22.7	458.5
Acquisition costs	97.1	683.5	142.2	91.9	120.8	1,135.5
Accumulated depreciation and impairment	– 1.9	– 416.7	– 98.5	– 61.8	– 98.1	– 677.0
Balance as at 31 December	95.2	266.8	43.7	30.1	22.7	458.5
Of which: Assets held under finance leases	–	–	–	–	–	–

1 The administrative building reclassified as investment property is held on a finance lease.

Depreciation and impairment form part of other operating expenses.

9. INTANGIBLE ASSETS

9.1 Intangible assets in 2011

CHF million	Goodwill	Present value of gains on insurance contracts acquired	Deferred acquisition cost (Life)	Deferred acquisition cost (Non-life)	Other intangible assets	Internally developed intangible assets	Total
Carrying amount as at 1 January	111.7	50.1	877.6	137.9	165.1	0.2	1,342.6
Additions arising from change in the 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 arising from change in the scope of consolidation	–	–	–	–	–	–	–
Reclassification	–	–	–	–	–	–	–
Amortisation and impairment							
Amortisation	–	– 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
Reversal of impairment losses recognised in profit or loss	–	–	–	–	–	–	–
Impairment recognised for 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 amount as at 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 amortisation and impairment	– 232.4	–	–	–	– 369.8	– 9.7	–
Balance as at 31 December [1]	75.4	70.4	775.3	161.2	217.6	0.3	1,300.2
Intangible assets by segment							
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 for geographic regions	75.4	70.4	775.3	161.2	217.6	0.3	1,300.2

1 With the possible exception of goodwill, the Baloise Group has no intangible assets with indefinite useful lives.

9.2 Intangible assets in 2012

CHF million	Goodwill	Present value of gains on insurance contracts acquired	Deferred acquisition cost (Life)	Deferred acquisition cost (Non-life)	Other intangible assets	Internally developed intangible assets	Total
Carrying amount as at 1 January	75.4	70.4	775.3	161.2	217.6	0.3	1,300.2
Additions arising from change in the scope of consolidation	–	–	–	–	–	–	–
Additions	–	–	–	–	24.4	0.2	24.6
Capitalisation of acquisition costs	–	–	82.4	358.6	–	–	441.0
Disposals	–	–	–	–	– 0.5	–	– 0.5
Disposals arising from change in the scope of consolidation	–	–	–	–	– 0.7	–	– 0.7
Reclassification	–	–	–	–	–	–	–
Amortisation and impairment							
Amortisation	–	– 5.5	– 141.3	– 360.0	– 46.3	– 0.2	– 553.3
Write-ups	–	–	1.0	–	–	–	1.0
Impairment losses recognised in profit or loss	– 1.5	– 2.4	–	–	– 0.0	–	– 3.9
Reversal of impairment losses recognised in profit or loss	–	–	–	–	–	–	–
Impairment recognised for impending losses	–	–	– 55.6	– 5.2	–	–	– 60.8
Change due to unrealised gains and losses on financial instruments (shadow accounting)	–	–	– 62.8	–	–	–	– 62.8
Exchange differences	– 0.5	– 0.5	– 3.8	– 0.7	– 0.8	– 0.0	– 6.3
Carrying amount as at 31 December	73.4	62.0	595.2	153.9	193.7	0.3	1,078.5
Acquisition costs	307.3	–	–	–	562.5	10.2	–
Accumulated amortisation and impairment	– 233.9	–	–	–	– 368.8	– 9.9	–
Balance as at 31 December [1]	73.4	62.0	595.2	153.9	193.7	0.3	1,078.5
Intangible assets by segment							
Switzerland	–	–	105.5	52.4	69.5	–	227.4
Germany	32.2	19.6	449.2	23.9	11.3	0.0	536.2
Belgium	16.7	26.1	8.7	54.8	93.6	–	199.9
Luxembourg	14.0	–	9.9	3.0	9.3	–	36.2
Other units	10.5	16.3	21.9	19.8	3.5	–	72.0
Group business	–	–	–	–	6.5	0.3	6.8
Total for geographic regions	73.4	62.0	595.2	153.9	193.7	0.3	1,078.5

1 With the possible exception of goodwill, the Baloise Group has no intangible assets with indefinite useful lives.

In 2011, an impairment loss of CHF 50.1 million had been recognised in respect of the goodwill arising in connection with Osiguranje Zagreb, which had been acquired in 2007. This impairment loss had been recognised as a consequence of the change in economic outlook caused by the European sovereign debt crisis and a resulting reassessment of the growth prospects in Croatia. Of the total impairment loss amount, CHF 40.7 million had been allocated to the non-life operating segment and CHF 9.4 million to the life operating segment.

The entire amount of goodwill recognised in respect of PiL Verwaltungsgesellschaft mbH (CHF 1.5 million) was written off in 2012.

The impairment recognised for impending losses and the changes in unrealised gains and losses on financial instruments (shadow accounting) reported as deferred acquisition costs in life insurance were caused by the adverse interest-rate trends prevailing during the reporting year.

9.3 Assumptions used to test the impairment of significant goodwill items

Assumptions used to forecast future business developments and trends have been reviewed by the local management teams and take account of macroeconomic conditions.

		Goodwill		Discount rate		Growth rate
	2011	2012	2011	2012	2011	2012
Zeus Vermittlungsgesellschaft mbH	14.8	14.7	8.5	9.1	1.0	1.0
Basler Financial Services GmbH	15.4	15.3	8.0	7.5	1.0	1.0
Basler osiguranje Zagreb d.d.	10.5	10.4	11.5	11.5	3.0	3.0
Bâloise Assurances Luxembourg S.A.	12.2	12.1	9.3	9.3	2.6	2.6
Mercator Verzekeringen NV	16.8	16.7	9.3	7.0	2.6	2.6

10. INVESTMENTS IN ASSOCIATES

CHF million	2011	2012
Balance as at 1 January	**211.3**	**173.5**
Additions	0.0	36.2
Disposals & capital repayments	−15.3	−0.0
Reclassification due to change in percentage of shareholding	−6.2	–
Realised gains / losses on disposals	5.0	–
Adjustments	−12.3	22.8
Dividends paid	−3.4	−4.4
Exchange differences	−5.6	−0.9
Balance as at 31 December	**173.5**	**227.2**

In 2011 the Baloise Group bought out the minority interests in Van Vaeck Zenith NV, which until then had been held as an associate. This company has been fully consolidated as part of the Baloise Group since then.

The additions in 2012 essentially relate to a long-term equity investment in Pasinger Hofgärten Fonds GmbH & Co. KG.

Because the publicly traded OVB Group's relevant financial year-end closing information, which is used for measurement purposes, had not been published by the time the Financial Report was being prepared, measurement has been based in each case on the financial closing data for the period ended 30 September of the reporting year.

SIGNIFICANT INVESTMENTS IN ASSOCIATES

2011 in CHF million	Assets	Liabilities	Revenue	Profit	Share in %
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	

The market value of the shareholding in OVB Holding AG, Cologne, amounted to CHF 105.9 million as at 31 December 2011.

2012 CHF million	Assets	Liabilities	Revenue	Profit	Share (%)
OVB Holding AG, Cologne [1]	180.8	83.5	8.4	−0.1	32.6 %
Roland Rechtsschutz Versicherungs-AG, Cologne	1,010.6	863.5	268.8	11.4	25.0 %
Credimo Holding, Asse	1,128.1	1,034.0	149.9	1.5	22.7 %
Atlantic Union, Athens	211.7	156.2	90.6	12.5	31.1 %
Other	284.4	4.3	8.2	0.6	

The market value of the shareholding in OVB Holding AG, Cologne, amounted to CHF 119.5 million as at 31 December 2012.
1 Figures are shown as at 30 September of the reporting period.

11. INVESTMENT PROPERTY

CHF million	2011	2012
Balance as at 1 January	5,046.6	5,138.0
Additions	154.2	190.1
Additions arising from change in scope of consolidation	135.8	6.9
Disposals	– 178.9	– 110.2
Disposals arising from change in scope of consolidation	– 0.6	–
Reclassification [1]	0.5	84.9
Change in fair value	3.5	136.1
Exchange differences	– 23.1	– 4.8
Balance as at 31 December	5,138.0	5,441.0
Operating expenses arising from investment property that generates rental income	70.2	75.8
Operating expenses arising from investment property that does not generate rental income	0.1	0.1

1 The reclassifications essentially relate to a leasing arrangement that offers an option to purchase an investment property. The leasing arrangement includes a repayment schedule and is contractually fixed until mid-2018.

Additions and disposals in 2011 were largely attributable to deals in Switzerland, disposals in Germany and additions in Belgium. The additions arising from a change in scope of consolidation were largely in connection with acquisitions in Belgium. Disposals arising from a change in scope of consolidation related to the disposal of Treci element d.o.o. in Croatia.

The adjustment of the interest-rate trend in the valuation model for the Swiss property portfolio, which in particular caused the underlying discount rates to change, resulted in a corresponding revaluation of the portfolio. In the year under review, this revaluation represented the main component of the amount reported under "Change in fair value".

12. FINANCIAL ASSETS

CHF million	2011	2012
Financial assets of an equity nature		
Available for sale	3,447.3	3,337.0
Recognised at fair value through profit or loss	33.3	76.5
Financial assets of a debt nature		
Held to maturity	8,027.8	8,188.5
Available for sale	19,855.3	22,433.5
Recognised at fair value through profit or loss	98.5	71.7
Financial assets for own account and at own risk	**31,462.2**	**34,107.2**
Financial assets for the account and at the risk of life insurance policyholders		
Recognised at fair value through profit or loss [1]	7,159.2	7,640.1
Financial assets as reported on the balance sheet	**38,621.4**	**41,747.3**

1 Of which financial assets totalling CHF 42.1 million (2011: CHF 114.8 million) involved insurance policies that had not been fully reviewed by the balance sheet date.

FINANCIAL ASSETS FOR OWN ACCOUNT AND AT OWN RISK

	Held to maturity	
	2011	2012
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	8,027.8	8,188.5
Publicly listed, variable interest rate	–	–
Not publicly listed, fixed interest rate	–	–
Not publicly listed, variable interest rate	–	–
Total	8,027.8	8,188.5

IMPAIRMENT OF HELD-TO-MATURITY FINANCIAL ASSETS OF A DEBT NATURE

	2011	2012
CHF million		
Balance as at 1 January	–	–7.6
Usage not recognised in profit or loss	–	7.6
Unused provisions reversed through profit or loss	–	–
Increases and additional provisions recognised in profit or loss	–7.6	–
Disposal arising from change in scope of consolidation	–	–
Currency translation	–	–
Balance as at 31 December	–7.6	–

	Available for sale		Recognised at fair value through profit or loss				Total	
			Trading portfolio		Designated			
	2011	2012	2011	2012	2011	2012	2011	2012
	1,983.8	1,849.0	–	0.4	33.3	76.1	2,017.1	1,925.5
	1,463.5	1,488.0	–	–	–	–	1,463.5	1,488.0
	3,447.3	3,337.0	–	0.4	33.3	76.1	3,480.6	3,413.5
	19,654.2	22,201.6	–	–	42.6	12.1	27,724.6	30,402.2
	163.3	186.4	–	–	39.1	43.6	202.4	230.0
	37.8	45.5	–	–	16.8	16.0	54.6	61.5
	–	–	–	–	–	–	–	–
	19,855.3	22,433.5	–	–	98.5	71.7	27,981.6	30,693.7

	Held to maturity	
	2011	2012
CHF million		
Type of financial asset		
Equities	–	–
Equity funds	–	–
Mixed funds	–	–
Bond funds	–	–
Real-estate funds	–	–
Private equity	–	–
Hedge funds	–	–
Financial assets of an equity nature	–	–
Public corporations	6,833.2	6,982.5
Industrial enterprises	39.0	33.8
Financial institutions	1,116.4	1,138.1
Other	39.2	34.1
Financial assets of a debt nature	8,027.8	8,188.5
Total	8,027.8	8,188.5
Secured financial assets of a debt nature		
Public corporations	3.5	1.3
Industrial enterprises	–	–
Financial institutions	887.7	918.6
Other	–	–
Total	891.2	919.9

Secured financial assets of a debt nature are fixed-income securities for which a mortgage or a government bond has been securitised as collateral.

	Available for sale		Recognised at fair value through profit or loss				Total	
			Trading portfolio		Designated			
	2011	2012	2011	2012	2011	2012	2011	2012
	1,578.1	1,309.8	–	–	–	0.1	1,578.1	1,309.9
	94.4	111.6	–	0.1	14.0	18.8	108.4	130.5
	44.9	118.6	–	0.3	14.7	52.2	59.6	171.1
	116.3	135.4	–	0.0	4.6	5.0	120.9	140.4
	323.4	390.8	–	–	0.0	0.0	323.4	390.8
	540.7	555.0	–	–	–	–	540.7	555.0
	749.5	715.8	–	–	–	–	749.5	715.8
	3,447.3	3,337.0	–	0.4	33.3	76.1	3,480.6	3,413.5
	8,912.4	10,358.8	–	–	40.5	21.9	15,786.1	17,363.2
	2,122.6	2,455.1	–	–	0.7	0.6	2,162.3	2,489.5
	8,815.3	9,619.4	–	–	57.3	49.2	9,989.0	10,806.7
	5.0	0.2	–	–	–	–	44.2	34.3
	19,855.3	22,433.5	–	–	98.5	71.7	27,981.6	30,693.7
	23,302.6	25,770.5	–	0.4	131.8	147.8	31,462.2	34,107.2
	378.0	291.0	–	–	–	0.1	381.5	292.4
	4.3	–	–	–	–	–	4.3	–
	5,752.8	5,979.9	–	–	–	0.0	6,640.5	6,898.5
	0.2	0.2	–	–	–	–	0.2	0.2
	6,135.3	6,271.1	–	–	–	0.1	7,026.5	7,191.1

FAIR VALUE OF FINANCIAL ASSETS CLASSIFIED AS HELD TO MATURITY

	Carrying amount		Fair value	
	2011	2012	2011	2012
CHF million				
Public corporations	6,833.2	6,982.5	7,405.1	7,965.6
Industrial enterprises	39.0	33.8	41.1	35.8
Financial institutions	1,116.4	1,138.1	1,174.4	1,224.6
Other	39.2	34.1	40.9	35.5
Total	8,027.8	8,188.5	8,661.5	9,261.5

13. MORTGAGES AND LOANS

	Gross amount		Impairment		Carrying amount		Fair value	
	2011	2012	2011	2012	2011	2012	2011	2012
CHF million								
Mortgages and loans carried at cost								
Mortgages	10,632.1	10,241.0	– 56.8	– 50.3	10,575.3	10,190.7	11,083.0	10,697.7
Policy loans	203.9	180.2	–	–	203.9	180.2	216.3	192.1
Promissory notes and registered bonds	5,463.0	5,812.4	– 0.0	– 0.0	5,463.0	5,812.4	5,905.4	6,552.2
Time deposits	956.4	1,101.0	–	–	956.4	1,101.0	956.4	1,101.0
Employee loans	44.9	42.6	–	–	44.9	42.6	46.7	44.1
Reverse repurchase agreements	–	–	–	–	–	–	–	–
Other loans	439.6	382.7	– 15.6	– 18.4	424.0	364.3	419.2	381.7
Sub-total	17,739.9	17,759.9	– 72.4	– 68.7	17,667.5	17,691.2	18,627.0	18,968.8
Mortgages and loans recognised at fair value through profit or loss								
Mortgages	374.5	819.2	–	–	374.5	819.2	374.5	819.2
Policy loans	0.7	0.5	–	–	0.7	0.5	0.7	0.5
Sub-total	375.2	819.7	–	–	375.2	819.7	375.2	819.7
Mortgages and loans	18,115.1	18,579.6	– 72.4	– 68.7	18,042.7	18,510.9	19,002.2	19,788.5

The changes in the fair value of mortgages recognised at fair value through profit or loss are attributable to changes in volumes and to changes in the yield curve on which measurement is based.

IMPAIRMENT OF MORTGAGES AND LOANS

	2011	2012
CHF million		
Balance as at 1 January	– 81.0	– 72.4
Usage not recognised in profit or loss	8.0	6.6
Unused provisions reversed through profit or loss	11.4	12.3
Increases and additional provisions recognised in profit or loss	– 12.0	– 15.4
Disposal arising from change in scope of consolidation	–	–
Currency translation	1.2	0.2
Balance as at 31 December	– 72.4	– 68.7

14. DERIVATIVE FINANCIAL INSTRUMENTS

	Fair value assets		Fair value liabilities	
CHF million	2011	2012	2011	2012
Derivative financial instruments for own account and at own risk	281.8	334.9	175.3	64.4
Derivative financial instruments for the account and at the risk of life insurance policyholders	52.3	162.7	–	–
Derivative financial instruments as reported on the balance sheet	334.1	497.6	175.3	64.4

	Contract value		Fair value assets		Fair value liabilities	
CHF million	2011	2012	2011	2012	2011	2012
Interest-rate instruments						
Forward contracts	–	–	–	–	–	–
Swaps	889.5	1,024.3	38.4	28.5	47.8	48.4
OTC options	1,578.3	1,524.1	204.3	265.6	–	–
Other	4.1	5.1	4.1	5.1	–	–
Traded options	–	–	–	–	–	–
Traded futures	–	–	–	–	–	–
Sub-total	2,471.9	2,553.5	246.8	299.2	47.8	48.4
Equity instruments						
Forward contracts	–	–	–	–	–	–
OTC options	71.6	361.0	0.2	7.7	–	–
Traded options	–	3.3	–	–	–	3.4
Traded futures	319.7	–	–	–	7.5	–
Sub-total	391.3	364.3	0.2	7.7	7.5	3.4
Foreign-currency instruments						
Forward contracts	4,426.7	5,591.7	32.9	27.0	118.9	11.2
Swaps	–	–	–	–	–	–
OTC options	399.4	3,170.9	1.9	1.0	1.1	1.4
Traded options	–	–	–	–	–	–
Traded futures	–	–	–	–	–	–
Sub-total	4,826.1	8,762.6	34.8	28.0	120.0	12.6
Total	7,689.3	11,680.4	281.8	334.9	175.3	64.4
Of which: designated as fair value hedges	–	–	–	–	–	–
Of which: designated as cash flow hedges	–	–	–	–	–	–
Of which: designated as hedges of a net investment in a foreign operation	1,093.8	1,117.9	1.3	21.5	50.7	–

The contract value or notional amount is used for derivative financial instruments whose principal may be swapped at maturity (options, futures and currency swaps) and for instruments whose principal is only nominally lent or borrowed (interest-rate swaps). The contract value or notional amount is disclosed in order to express the aggregate amount of derivative transactions in which the Baloise Group is involved.

15. RECEIVABLES

	Gross amount		Impairment		Carrying amount		Fair value	
	2011	2012	2011	2012	2011	2012	2011	2012
CHF million								
Receivables carried at cost								
Receivables from financial contracts	348.6	370.5	–	–	348.6	370.5	348.6	370.5
Other receivables	280.4	273.4	– 4.3	– 4.4	276.1	269.0	276.8	274.0
Receivables from investments	663.7	646.8	– 2.6	– 2.3	661.1	644.5	661.1	644.5
Sub-total	1,292.7	1,290.7	– 6.9	– 6.7	1,285.8	1,284.0	1,286.5	1,289.0
Receivables recognised at fair value through profit or loss								
Receivables from financial contracts	61.5	56.1	–	–	61.5	56.1	61.5	56.1
Sub-total	61.5	56.1	–	–	61.5	56.1	61.5	56.1
Receivables	1,354.2	1,346.8	– 6.9	– 6.7	1,347.3	1,340.1	1,348.0	1,345.1

IMPAIRMENT OF RECEIVABLES

	2011	2012
CHF million		
Balance as at 1 January	– 10.1	– 6.9
Usage not recognised in profit or loss	2.0	0.4
Unused provisions reversed through profit or loss	4.9	3.3
Increases and additional provisions recognised in profit or loss	– 3.8	– 3.9
Disposal arising from change in scope of consolidation	–	0.4
Currency translation	0.1	0.0
Balance as at 31 December	– 6.9	– 6.7

16. REINSURANCE ASSETS

CHF million	2011	2012
Reinsurers' share of technical reserves as at 1 January	248.1	377.5
Change in unearned premium reserves	– 3.1	– 6.1
Benefits paid	– 58.0	– 73.9
Interest on and change in liability	55.9	113.0
Additions / disposals arising from change in scope of consolidation	142.8	–
Impairment	–	–
Exchange differences	– 8.2	– 11.9
Reinsurers' share of technical reserves as at 31 December	377.5	398.6

17. RECEIVABLES FROM REINSURERS

CHF million	2011	2012
Reinsurance deposits as at 1 January	7.1	5.3
Additions	1.4	2.4
Disposals	– 3.3	– 0.8
Additions / disposals arising from change in scope of consolidation	0.3	–
Exchange differences	– 0.2	0.1
Reinsurance deposits as at 31 December	5.3	7.0
Other reinsurance receivables as at 1 January	16.4	12.0
Additions	6.1	15.6
Disposals	– 10.3	– 5.2
Additions / disposals arising from change in scope of consolidation	–	–
Exchange differences	– 0.2	0.1
Other reinsurance receivables as at 31 December	12.0	22.5
Impairment of receivables from reinsurers as at 1 January	– 0.6	– 0.4
Usage not recognised in profit or loss	0.0	0.0
Unused provisions reversed through profit or loss	0.2	0.2
Increases and additional provisions recognised in profit or loss	– 0.0	– 0.0
Disposal arising from change in scope of consolidation	–	–
Currency translation	–	–
Impairment of receivables from reinsurers as at 31 December	– 0.4	– 0.2
Receivables from reinsurers as at 31 December	16.9	29.3

18. EMPLOYEE BENEFITS

18.1 Receivables and liabilities arising from employee benefits

	Receivables from employee benefits		Liabilities arising from employee benefits	
	2011	2012	2011	2012
CHF million				
Type of benefit				
Short-term employee benefits	1.4	0.6	115.5	125.2
Post-employment benefits – defined contribution plans	–	–	–	–
Post-employment benefits – defined benefit plans	–	–	550.4	551.6
Other long-term employee benefits	–	–	24.8	26.1
Termination benefits	–	–	29.3	24.6
Total	1.4	0.6	720.0	727.5

18.2 Pension benefits

Baloise provides a range of pension benefits, which vary from country to country in line with local circumstances. The funded – or partially funded – liabilities relate to the occupational pension provision offered in Switzerland and to liabilities arising from the acquisition of Avéro Schadeverzekering Benelux NV. Baloise provides different pension schemes for its insurance and banking employees.

The pension benefits on offer include special benefits that Baloise also offers to retirees. They principally include specific benefits and concessions (such as subsidised mortgages in Switzerland) that are granted in Switzerland. These benefits and concessions are classified as defined benefit pension obligations under IAS 19.

18.2.1 Liabilities under defined benefit plans

	2011	2012
CHF million		
Present value of (partially) funded liabilities	– 2,069.9	– 2,284.6
Fair value of plan assets	1,947.1	2,068.6
Net liability	– 122.8	– 216.0
Present value of unfunded liabilities	– 578.0	– 745.1
Unrecognised actuarial gains or losses	339.7	659.4
Unrecognised past service cost (plan changes)	–	–
Effects of plan curtailments / settlements	–	–
Unrecognised asset due to limit in IAS 19.58b	– 189.3	– 249.9
Net liabilities under defined benefit plans	– 550.4	– 551.6

18.2.2 Present value of (partially) funded liabilities

CHF million	2011	2012
Balance as at 1 January	– 2,050.9	– 2,069.9
Current service cost	– 70.7	– 68.6
Interest cost	– 51.9	– 46.8
Employees' savings and purchases	– 32.0	– 27.6
Actuarial gains / losses arising from defined benefit plan liabilities during the reporting period	31.5	– 249.1
Exchange differences	0.3	0.1
Benefits paid	121.1	114.1
Unrecognised past service cost	–	–
Additions / disposals arising from change in scope of consolidation	– 17.3	–
Effects of plan curtailments	–	63.2
Effects of plan settlements	–	–
Balance as at 31 December	– 2,069.9	– 2,284.6

18.2.3 Present value of unfunded liabilities

CHF million	2011	2012
Balance as at 1 January	– 576.6	– 578.0
Current service cost	– 12.1	– 11.8
Interest cost	– 25.3	– 26.2
Employee contribution	–	–
Actuarial gains / losses arising from defined benefit plan liabilities during the reporting period	7.3	– 165.3
Exchange differences	15.4	2.9
Benefits paid	26.2	28.0
Unrecognised past service cost	–	–
Additions / disposals arising from change in scope of consolidation	– 18.7	–
Effects of plan curtailments	–	–
Effects of plan settlements	5.8	5.3
Balance as at 31 December	– 578.0	– 745.1

18.2.4 Fair value of plan assets

CHF million	2011	2012
Balance as at 1 January	**1,996.6**	**1,947.1**
Expected return on plan assets	60.4	48.9
Actuarial gains / losses on plan assets during the reporting period	– 103.7	85.5
Exchange differences	–	– 0.1
Employer contribution	48.8	49.7
Employee contribution	55.5	51.6
Benefits paid	– 121.1	– 114.1
Cash flow between Baloise Group and plan assets (excl. benefits paid to employees and employer contribution)	–	–
Additions / disposals arising from change in scope of consolidation	10.6	–
Effects of plan settlements	–	–
Balance as at 31 December	**1,947.1**	**2,068.6**

18.2.5 Net actuarial liabilities under defined benefit plans

CHF million	2008	2009	2010	2011	2012
Present value of (partially) funded liabilities	– 1,993.4	– 2,008.8	– 2,050.9	– 2,069.9	– 2,284.6
Fair value of plan assets	1,800.4	1,955.4	1,996.6	1,947.1	2,068.6
Present value of unfunded liabilities	– 620.7	– 653.8	– 576.6	– 578.0	– 745.1
Net actuarial liabilities under defined benefit plans	**– 813.7**	**– 707.2**	**– 630.9**	**– 700.8**	**– 961.1**
Experience adjustments arising on plan liabilities	– 30.7	– 12.8	17.6	41.9	– 38.5
Experience adjustments arising on plan assets	– 204.6	61.3	– 23.4	– 103.7	85.5

18.2.6 Expenses for defined benefit plans

CHF million	2011	2012
Current service cost	82.8	80.4
Interest cost	77.2	73.0
Expected return on plan assets	– 60.4	– 48.9
Expected return on reimbursement rights	–	–
Repayment of actuarial gains / losses	3.1	8.5
Repayment of unrecognised past service cost	–	–
Effects of plan curtailments / settlements	– 5.8	– 68.5
Change in assets unrecognised due to limit in IAS 19.58b	– 6.4	– 55.4
Employee contribution	– 23.4	– 24.0
Total expenses for defined benefit plans	67.1	– 34.9

18.2.7 Estimated employer contribution

The employer's contribution for the following year can only be predicted with a limited degree of certainty. This is mainly because this contribution depends on the amount of wages and salaries paid. The Baloise Group expects to pay employer contributions of approximately CHF 50 million for the 2013 financial year.

18.2.8 Actual returns

CHF million	2011	2012
Expected return on plan assets	60.4	48.9
Actuarial gains / losses on plan assets during the reporting period	– 103.7	85.5
Actual return on plan assets	– 43.3	134.4

18.2.9 Asset allocation of plan assets

CHF million	2011	2012
Equities and investment funds	977.0	1,075.9
Real estate	355.9	360.5
Fixed-interest assets	401.1	429.6
Other	213.1	202.6
Fair value of plan assets	1,947.1	2,068.6
Of which: Bâloise Holding shares (fair value) and convertible bonds (fair value)	18.8	22.7
Of which: real estate leased to the Baloise Group	–	–

18.2.10 Actuarial assumptions

	2011	2012
Per cent		
Discount rate	2.8	2.0
Expected return on plan assets	2.5	2.5
Expected wage and salary increases	1.7	1.7
Expected increase in pension benefits	0.4	0.4

When calculating liabilities and expenses for defined benefit plans, the Baloise Group is required to make actuarial and other assumptions that are determined on a company-by-company and country-by-country basis. The assumptions shown above are weighted averages.

Calculations of expected returns on plan assets of funded – or partially funded – liabilities factor in the asset allocation used and long-term capital market expectations. The specifics of individual plan assets are considered separately.

18.3 Other long-term employee benefits

Benefits granted to current employees that are payable twelve months or more after the end of the financial year are accounted for separately and according to specific rules. The accounting policies applied are similar to those used for pension liabilities, except that actuarial gains and losses are recognised immediately.

Long-service bonuses constitute the principal benefit paid. The present value of liabilities as at 31 December 2012 totalled CHF 26.1 million (31 December 2011: CHF 24.8 million). There were no disposals of plan assets for long-term employee benefits. Benefits recognised in profit or loss amounted to CHF 3.5 million (31 December 2011: CHF 4.6 million).

18.4 Share-based payment plans

For some time now, the Baloise Group has offered its employees and senior executives the chance to participate in various plans under which shares are granted as part of their overall remuneration packages. The Employee Incentive Plan, Share Subscription Plan, Employee Share Ownership Plan and the performance quota (until 2011) are all cash-settled remuneration programmes. The performance share units (PSUs) are an equity-settled remuneration programme. In 2012, a sum of CHF 16.6 million (2011: CHF 20.9 million) was recognised as an expense in profit or loss in connection with the following share-based payment plans.

18.4.1 Employee Incentive Plan

The Basler Foundation for Employee Participation set up in 1989 offers members of staff working for various Baloise Group companies in Switzerland the opportunity to purchase shares in Bâloise Holding Ltd – usually once a year – at a preferential price in compliance with the regulations adopted by the Board of Foundation. This encourages employees to maintain their commitment to the Company over the long term by becoming shareholders. The subscription price is fixed by the Advisory Council at the beginning of the subscription period and is then published on the intranet. It equals half of the volume-weighted average share price calculated for the month of August in the subscription year and amounts to CHF 34.20 for the reporting year (2011: CHF 34.80). Title to the subscribed shares passes to the relevant employees with effect from 1 September each year, and the shares are subject to a three-year restriction period.

The Foundation acquired the underlying stock of shares used in this plan from previous capital increases carried out by Bâloise Holding Ltd. It supplements these shareholdings as and when required by purchasing shares in the market. The existing shareholdings will enable the Foundation to continue the Employee Incentive Plan over the coming years.

The Foundation is run by a Board of Foundation that is predominantly independent of the Corporate Executive Committee. The independent Board of Foundation members are Peter Schwager (chairman) and Professor Heinrich Koller (lawyer); the third member is Andreas Burki (deputy head of Legal & Tax at Baloise).

EMPLOYEE INCENTIVE PLAN

	2011	2012
Number of shares subscribed	172,385	173,799
Restricted until	31.8.2014	31.8.2015
Subscription price per share (CHF)	34.80	34.20
Value of shares subscribed (CHF million)	6.0	5.9
Fair value of subscribed shares on subscription date (CHF million)	12.1	12.2
Employees entitled to participate	3,150	3,220
Participating employees	1,897	1,894
Subscribed shares per participant (average)	90.8	91.7

18.4.2 Share Subscription Plan

Since January 2003 those who qualify as eligible persons at Baloise Group companies in Switzerland – and, since 2008, the members of the senior management teams at companies outside Switzerland as well – have been able to subscribe for shares at a preferential price as part of their short-term variable remuneration. The subscription date is 1 March of each year; although title to the shares passes to the relevant employees on this date without any further vesting conditions having to be met, the shares cannot be sold during a three-year restriction period. Until 2011 the subscription date was 1 June of each year. By bringing this date forward to 1 March, Baloise has brought the subscription date into line with the date on which short-term variable remuneration is paid under the new performance management system.

The parameters used to determine the subscription price are decided each year by the Remuneration Committee. The subscription price is based on the volume-weighted average share price during a contemporaneous measurement period. A discount of 10 per cent is granted on the average share price calculated in this way (please refer to the accompanying table for details). Once it has been calculated using this method, the subscription price is published in advance on the intranet. The shares needed for the Share Subscription Plan are purchased in the market as and when required.

SHARE SUBSCRIPTION PLAN (SSP)

	2011	2012
Number of shares subscribed	46,060	47,555
Restricted until[1]	31.5.2014	28.2.2015
Subscription price per share (CHF)	82.43	65.58
Value of shares subscribed (CHF million)	3.8	3.1
Fair value of subscribed shares on subscription date (CHF million)	4.1	3.4
Employees entitled to participate	746	744
Participating employees	109	103
SSP portion of variable remuneration	16%	14%

1 The period during which shares allocated to the Chairman of the Board of Directors are restricted is five years instead of three. This means that the shares are restricted until 31 May 2016 and 28 February 2017 respectively.

18.4.3 Employee Share Ownership Plan

Since May 2001 it has been possible for most senior managers working in Switzerland to receive part of their short-term variable remuneration in the form of shares from the Employee Share Ownership Plan instead of receiving cash. Within certain limits they are free to choose what proportion of their short-term variable remuneration they receive in the form of such shares. The most senior managers are subject to upper limits; members of the Corporate Executive Committee – who are obliged to receive at least half of their short-term variable remuneration in the form of shares – are not allowed to receive more than 50 per cent of their entitlement in the form of shares from the Employee Share Ownership Plan. The subscription date is 1 March of each year (the same as for the Share Subscription Plan); although title to the shares passes to the relevant employees on this date without any further vesting conditions having to be met, the shares cannot be sold during a three-year restriction period. Until 2011 the subscription date was 1 June of each year. By bringing this date forward to 1 March, Baloise has brought the subscription date into line with the date on which short-term variable remuneration is paid under the new performance management system.

The parameters used to determine the subscription price are decided each year by the Remuneration Committee. The subscription price is based on the volume-weighted average share price during a contemporaneous measurement period. Discounted dividend rights are deducted from this average share price over a period of three years (please refer to the accompanying table for details). Once it has been calculated using this method, the subscription price is published in advance on the intranet. The shares needed for the Employee Share Ownership Plan are purchased in the market as and when required.

In order to increase the impact of this Employee Share Ownership Plan, employees are granted loans on which interest is charged at market rates, which enables them to subscribe for shares whose value constitutes a multiple of the capital invested; these shares are purchased at their fair value net of discounted dividend rights over a period of three years. Repayment of these loans after the three-year restriction period has elapsed is hedged by put options, which are financed by the sale of offsetting call options. After the three-year restriction period has elapsed, the relevant options have been exercised and the loans plus accrued interest have been repaid, the employees concerned receive the remaining shares to do with as they wish.

EMPLOYEE SHARE OWNERSHIP PLAN (ESOP)

	2011	2012
Number of shares subscribed [1]	186,499	218,181
Restricted until	31.5.2014	28.2.2015
Subscription price per share [2] (CHF)	79.88	59.84
Value of shares subscribed [2] (CHF million)	14.9	13.1
Fair value of subscribed shares on subscription date (CHF million)	16.7	15.8
Employees entitled to participate	746	744
Participating employees	150	127
ESOP portion of variable remuneration	10 %	9 %

1 Including shares financed by loans.
2 Net of the discounted dividend right over three years.

18.4.4 Performance quota

The performance quota was introduced in 2007 for the most senior managers in Switzerland and extended in 2008 to include the members of senior management teams in business units outside Switzerland. From 2011, the performance quota figures were transferred to the performance pool in the new performance management system and the performance quota was therefore used for the last time by itself in 2010 (with a payout in 2011). There was therefore no longer any payment under the performance quota in the year under review.

PERFORMANCE QUOTA

	2011	2012
Participating employees	70	–
Total paid out (CHF million)	3.0	–
Number of shares subscribed	17,856	–
Subscription price per share (CHF)	82.43	–
Value of shares subscribed (CHF million)	1.5	–
Fair value of subscribed shares on subscription date (CHF million)	1.6	–
In cash (CHF million)	1.5	–

18.4.5 Performance share units (PSUs)

At the beginning of each vesting period the participating employees are granted rights in the form of PSUs, which entitle them to receive a certain number of shares free of charge after the vesting period has elapsed. The Remuneration Committee specifies the grant date and applies its own discretion in deciding which of the most senior managers are entitled to participate in the programme. It determines the total number of PSUs available and decides how many are to be awarded to each member of the Corporate Executive Committee. PSUs are granted to the other programme participants on the basis of the relevant line manager's proposal, which must be approved by the line manager's manager.

The number of shares that can be subscribed after three years – i.e. at the end of the vesting period – depends on the performance of Baloise shares relative to a peer group. This comparative performance multiplier can be anywhere between 0.5 and 1.5. The peer group comprises the leading European insurance companies contained in the STOXX Europe 600 Insurance Index.

The composition of the index may change over time. Companies may leave the index as a result of mergers, while others may join the index for the first time. Calculation of the performance multiplier is based on the index's composition at the time the relevant PSUs were granted, adjusted to allow for the companies that have left the index. Any companies that have joined the index in the meantime are not factored into those PSU programmes that are already in operation.

One PSU generally confers the right to receive one share. This is the case if Baloise shares perform in line with the median of their peer group. In this case the performance multiplier would be 1.0. Participants in the programme receive more shares in exchange for their PSUs if Baloise shares outperform their peer group. The multiplier reaches the maximum of 1.5 if the performance of Baloise shares is in the top quartile of companies in the peer group. The multiplier amounts to 0.5 if the performance of Baloise shares is in the bottom quartile of companies in the peer group. If the performance of Baloise shares is in either of the two middle quartiles, a linear scale is used to calculate the performance multiplier. The performance multiplier for the entire vesting period ended is based on the closing stock market prices on the final trading day of the respective vesting period.

Participants in the programme receive the pertinent number of shares once the vesting period has elapsed, which means that for the PSUs allocated in 2012 they receive their shares on 1 March 2015. If an individual's employment contract is terminated during the vesting period (except in the case of retirement, disability or death), the PSUs expire without the person concerned receiving any replacement or compensation.

Companies in the STOXX 600 Europe Insurance Index (as at 31 December 2012)

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

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

In addition, since 2012 the Remuneration Committee has had the powers to claw back some or all of the PSUs allocated to an individual or to a group of programme participants if there are specific reasons for doing so. Such specific reasons include, for example, serious breaches of internal or external regulations, the taking of inappropriate risks that are within an individual's control, and the type of conduct or behaviour that would increase the risks to Baloise. In order to emphasise the long-term nature of the programme, 50 per cent of the shares granted are subject to an additional three-year restriction period once the initial vesting period has elapsed.

The PSUs allocated in 2010 were converted into shares as at 1 January 2013. The performance of Baloise shares at the end of the vesting period on 31 December 2012 ranked 25th out of 34 companies in the relevant peer group (STOXX Europe 600 Insurance Index), which meant that it was in the third quartile. The performance multiplier was therefore 0.58, and the 71,055 outstanding PSUs were converted into 41,210 shares (share price of CHF 78.50 on 31 December 2012, market capitalisation of CHF 3.2 million). The value of the converted PSUs has fallen by 49 per cent since they were granted three years ago. The corresponding figures for the previous year: performance multiplier of 0.64, 74,375 outstanding PSUs, converted into 47,599 shares, share price of CHF 64.40 on 31 December 2011, market capitalisation of CHF 3.1 million, 50 per cent fall in the value of PSUs since they were granted).

The shares needed to convert the PSUs are purchased in the market as and when required.

Measurement of the PSUs at their issue date is based on a Monte Carlo simulation, which calculates a present value for the payout expected at the end of the vesting period. This measurement incorporates the following parameters:

- Interest rate of 3 per cent
- The volatilities of all shares in the peer group and their correlations with each other (measured over a three-year track record)
- The expected dividend yields
- Statistical information on eligible programme participants' behaviour in relation to the termination of employment contracts.

PERFORMANCE SHARE UNITS (PSUS)

	Plan 2010	Plan 2011	Plan 2012
Employees entitled to participate at launch of programme	71	73	72
Number of allocated PSUs	83,441	81,739	89,116
Of which: expired without compensation (departures in 2010)	– 1,226	–	–
Number of active PSUs as at 31 December 2010	82,215	–	–
Of which: expired without compensation (departures in 2011)	– 6,736	– 6,937	–
Number of active PSUs as at 31 December 2011	75,479	74,802	–
Of which: expired without compensation (departures in 2012)	– 4,424	– 5,667	– 5,132
Number of active PSUs as at 31 December 2012	71,055	69,135	83,984
Value of allocated PSUs on issue date (CHF million)	7.4	6.9	6.4
PSU expense incurred by the Baloise Group for 2010 (CHF million)	2.1	–	–
PSU expense incurred by the Baloise Group for 2011 (CHF million)	2.4	2.4	–
PSU expense incurred by the Baloise Group for 2012 (CHF million)	1.8	1.6	1.5

19. DEFERRED INCOME TAXES

19.1 Deferred income taxes

	2011	2012
CHF million		
Deferred tax assets	1,154.4	1,234.6
Deferred tax liabilities	– 1,786.6	– 2,105.8
Total (net)	– 632.2	– 871.2
Of which: recognised as deferred tax assets	22.2	23.9
Of which: recognised as deferred tax liabilities	– 654.4	– 895.1

19.2 Deferred tax assets and liabilities

DEFERRED TAX ASSETS

2011	Carrying amount as at 1 January	Change recognised in profit or loss	Change recognised directly in equity	Carrying amount as at 31 December
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 recognised directly in equity	11.5	–	3.6	15.1
Tax losses carried forward	27.4	20.7	–	48.1
Other [1]	135.6	74.1	–	209.7
Total	776.1	374.7	3.6	1,154.4

2012	Carrying amount as at 1 January	Change recognised in profit or loss	Change recognised directly in equity	Carrying amount as at 31 December
CHF million				
Technical reserves	413.0	– 17.6	–	395.4
Financial assets	9.4	47.7	–	57.1
Insurance liabilities	412.2	85.9	–	498.1
Other investments	37.4	3.0	–	40.4
Insurance receivables	9.5	– 4.4	–	5.1
Unrealised losses recognised directly in equity	15.1	–	– 15.1	0.0
Tax losses carried forward	48.1	5.5	–	53.6
Other [1]	209.7	– 24.8	–	184.9
Total	1,154.4	95.3	– 15.1	1,234.6

1 "Other" essentially comprises deferred taxes on liabilities arising from banking business and financial contracts as well as liabilities arising from employee benefits.

DEFERRED TAX LIABILITIES

2011	Carrying amount as at 1 January	Change recognised in profit or loss	Change recognised directly in equity	Carrying amount as at 31 December
CHF million				
Deferred acquisition costs	280.8	– 16.7	–	264.1
Technical reserves	483.9	366.6	–	850.5
Unrealised gains / losses recognised directly in equity	48.6	–	15.8	64.4
Investment property	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

2012	Carrying amount as at 1 January	Change recognised in profit or loss	Change recognised directly in equity	Carrying amount as at 31 December
CHF million				
Deferred acquisition costs	264.1	– 46.6	–	217.5
Technical reserves	850.5	94.1	–	944.6
Unrealised gains / losses recognised directly in equity	64.4	–	237.4	301.8
Investment property	247.0	48.0	–	295.0
Depreciable assets	32.5	– 28.0	–	4.5
Other intangible assets	21.7	– 1.6	–	20.1
Financial assets	58.2	– 5.5	–	52.7
Other investments	61.5	14.6	–	76.1
Insurance receivables	7.0	– 3.8	–	3.2
Other[1]	179.7	10.6	–	190.3
Total	1,786.6	81.8	237.4	2,105.8

1 “Other” essentially comprises deferred taxes on investments and provisions.

The Baloise Group reports its deferred taxes on a net basis. Deferred tax assets and liabilities are offset against each other in cases where the criteria for such offsetting have been met. This is usually the case if the tax jurisdiction, the taxable entity and the type of taxation are identical.

The Baloise Group had recognised deferred tax assets on tax loss carryforwards totalling CHF 211.2 million as at 31 December 2012 (31 December 2011: CHF 194.4 million). Of this total, CHF 2.0 million will expire after one year and CHF 209.2 million will expire after five years or more.

No deferred tax assets had been recognised on tax loss carryforwards amounting to CHF 563.6 million as at 31 December 2012 (31 December 2011: CHF 396.0 million) because the relevant offsetting criteria had not been met. Of this total, CHF 13.9 million will expire after one year, a further CHF 29.5 million will expire after two to four years and CHF 520.2 million will expire after five years or more.

20. OTHER ASSETS

“Other assets” include the fair value of precious metals amounting to CHF 87.1 million in connection with private placement life insurance (31 December 2011: CHF 83.0 million). The insurance policyholder bears the price risk attaching to these precious metal holdings.

21. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

No such non-current assets or discontinued operations were held in either 2011 or 2012.

22. SHARE CAPITAL

	Number of treasury shares	Number of shares in circulation	Number of shares issued	Share capital (CHF million)
Balance as at 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 cancellation	–	–	–	–
Balance as at 31 December 2011	3,247,273	46,752,727	50,000,000	5.0

	Number of treasury shares	Number of shares in circulation	Number of shares issued	Share capital (CHF million)
Balance as at 1 January 2012	3,247,273	46,752,727	50,000,000	5.0
Purchase / sale of treasury shares	– 193,527	193,527	–	–
Capital increases	–	–	–	–
Share buy-back and cancellation	–	–	–	–
Balance as at 31 December 2012	3,053,746	46,946,254	50,000,000	5.0

The registered shares of Bâloise Holding are fully paid-up and each has a par value of CHF 0.10 (31 December 2011: CHF 0.10). As far as individuals, legal entities, and partnerships are concerned, entry in the share register with voting rights is limited to 2 per cent of the registered share capital entered in the commercial register. The Baloise Group buys and sells its own shares as part of its ordinary investing activities and for employee share ownership programmes.

The share capital of Bâloise Holding totals CHF 5.0 million and is divided into 50,000,000 registered, fully paid-up shares with a par value of CHF 0.10 each.

The Annual General Meeting held on 29 April 2012 voted to pay a gross dividend of CHF 4.50 per share for the 2011 financial year. This amounted to a total dividend distribution of CHF 225.0 million. Excluding the treasury shares held by Bâloise Holding at the time that the dividend was paid, the total distribution effectively amounted to CHF 211.7 million.

23. TECHNICAL RESERVES (GROSS)

	2011	2012
CHF million		
Unearned premium reserves (gross)	605.0	613.2
Claims reserve (gross)	5,475.2	5,478.7
Provisions for surplus and profit sharing (gross)	55.0	57.3
Technical reserves (non-life)	6,135.2	6,149.2
Actuarial reserves (gross)	36,304.8	36,863.6
Policyholders' dividends credited and provisions for future policyholders' dividends (gross)	3,121.9	3,689.5
Technical reserves (life)	39,426.7	40,553.1
Technical reserves (gross)	45,561.9	46,702.3

23.1 Technical reserves (non-life)

	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
			2011			2012
CHF million						
Unearned premium reserves	605.0	– 7.9	597.1	613.2	– 1.7	611.5
Claims reserve	4,916.7	–	–	4,930.6	–	–
Provision for claims handling costs	558.5	–	–	548.1	–	–
Claims reserve	5,475.2	– 335.7	5,139.5	5,478.7	– 373.2	5,105.5
Provisions for surplus and profit sharing	55.0	– 0.0	55.0	57.3	– 0.0	57.3
Total technical reserves (non-life)	6,135.2	– 343.6	5,791.6	6,149.2	– 374.9	5,774.3

23.1.1 Maturity structure of technical reserves

	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
			2011			2012
CHF million						
Unearned premium reserves						
Up to 1 year	575.1	– 8.0	567.1	580.2	– 1.9	578.3
More than 1 year	6.1	0.1	6.2	8.0	0.2	8.2
No determinable residual term	23.8	–	23.8	25.0	–	25.0
Total unearned premium reserves	605.0	– 7.9	597.1	613.2	– 1.7	611.5
Claims reserve						
Up to 1 year	776.3	– 32.3	744.0	955.3	– 54.2	901.1
More than 1 year	3,683.4	– 87.9	3,595.5	3,459.9	– 67.9	3,392.0
No determinable residual term	1,015.5	– 215.5	800.0	1,063.5	– 251.1	812.4
Total claims reserve	5,475.2	– 335.7	5,139.5	5,478.7	– 373.2	5,105.5

All figures relating to maturities are based on best estimates. The line item “No determinable residual term” mainly comprises old-age health insurance reserves and annuity reserve funds.

23.1.2 Unearned premium reserves

	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
			2011			2012
CHF million						
Balance as at 1 January	485.3	– 0.8	484.5	605.0	– 7.9	597.1
Netted premiums	3,143.5	– 155.7	2,987.8	3,317.7	– 151.7	3,166.0
Less: premiums earned during the reporting period	– 3,147.1	158.8	– 2,988.3	– 3,306.7	157.8	– 3,148.9
Additions arising from acquisition of policy portfolios and insurance companies	137.9	– 10.4	127.5	–	–	–
Disposals arising from sale of policy portfolios and insurance companies	–	–	–	–	–	–
Exchange differences	– 14.6	0.2	– 14.4	– 2.8	0.1	– 2.7
Balance as at 31 December	605.0	– 7.9	597.1	613.2	– 1.7	611.5

Apart from the actual unearned premium reserves, this item includes health insurance reserves for old age, deferred unearned premiums, and any provisions for impending losses necessitated by a liability adequacy test.

23.1.3 Reserves for surplus and profit sharing

	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
			2011			2012
CHF million						
Balance as at 1 January	55.6	– 0.0	55.6	55.0	– 0.0	55.0
Less: expenditures during the reporting period	– 17.9	0.4	– 17.5	– 19.1	0.4	– 18.7
Additional provisions recognised and unused provisions reversed through profit or loss	17.4	– 0.4	17.0	21.5	– 0.4	21.1
Additions arising from acquisition of policy portfolios and insurance companies	–	–	–	–	–	–
Disposals arising from sale of policy portfolios and insurance companies	–	–	–	–	–	–
Exchange differences	– 0.1	–	– 0.1	– 0.1	–	– 0.1
Balance as at 31 December	55.0	– 0.0	55.0	57.3	– 0.0	57.3

23.1.4 Claims reserve including claims handling expenses

	2011	2012
CHF million		
Balance as at 1 January (gross)	4,853.5	5,475.2
Reinsurers' share	−228.0	−335.7
Balance as at 1 January (net)	4,625.5	5,139.5
Claims incurred (including claims handling costs)		
For the reporting period	2,038.6	2,022.2
For previous years	−119.9	−98.5
Total	1,918.7	1,923.7
Payments for claims and claims handling costs		
For the reporting period	−936.6	−987.3
For previous years	−860.7	−954.9
Total	−1,797.3	−1,942.2
Other changes		
Additions / disposals arising from changes in scope of consolidation	459.2	–
Exchange differences	−66.6	−15.5
Total	392.6	−15.5
Balance as at 31 December (net)	5,139.5	5,105.5
Reinsurers' share	335.7	373.2
Balance as at 31 December (gross)	5,475.2	5,478.7

The Baloise Group pays particular attention to cases of environmental pollution involving landfill sites, refuse, asbestos or any other materials harmful to human beings or the environment.

The relevant net reserves included in the total amounted to CHF 96.8 million at the end of 2012 (31 December 2011: CHF 103.7 million). This decrease was attributable to the level of claims paid (including commutation of reserves) and – since a large proportion of these reserves are recognised for liabilities denominated in foreign currencies – currency effects.

23.2 Technical reserves (life)

CHF million	2011	2012
Actuarial reserves from non-unit-linked life insurance contracts [1]	33,661.1	33,991.4
Actuarial reserves from unit-linked life insurance contracts	2,009.9	2,258.0
Reserves for final policyholders' dividends	356.9	311.6
Unearned revenue reserve	276.9	302.6
Structure of actuarial reserves (life)	36,304.8	36,863.6
Policyholders' dividends credited and provisions for future policyholders' dividends	3,121.9	3,689.5
Total technical reserves (life)	39,426.7	40,553.1

1 The actuarial reserves include unearned premium reserves and claims reserves.

23.2.1 Maturity structure of technical reserves

	2011	2012
CHF million		
Actuarial reserves from non-unit-linked life insurance contracts		
Up to 1 year	1,106.3	1,111.2
1 to 5 years	3,970.1	4,020.6
5 to 10 years	4,148.5	4,000.4
More than 10 years	7,602.3	7,389.0
No determinable residual term	7,968.0	8,274.3
Business from Swiss occupational pension plans [1]	8,865.9	9,195.9
Total actuarial reserves from non-unit-linked life insurance contracts	33,661.1	33,991.4
Actuarial reserves from unit-linked life insurance contracts		
Up to 1 year	75.8	84.9
1 to 5 years	220.8	240.8
5 to 10 years	296.2	323.2
More than 10 years	380.9	417.6
No determinable residual term	1,036.2	1,191.5
Total actuarial reserves from unit-linked life insurance contracts	2,009.9	2,258.0
Policyholders’ dividends credited		
Up to 1 year	112.2	109.2
1 to 5 years	407.8	376.9
5 to 10 years	407.9	397.1
More than 10 years	619.6	576.7
No determinable residual term	288.7	280.4
Total policyholders’ dividends credited	1,836.2	1,740.3
Provisions for future policyholders’ dividends		
Up to 1 year	160.8	172.0
No determinable residual term	1,124.9	1,777.2
Total provisions for future policyholders’ dividends	1,285.7	1,949.2

1 The Swiss pensions business is disclosed separately owing to its specific features. It comprises group contracts which may be cancelled annually by either party, whereas the coverage period for the individuals enrolled is significantly longer.

All figures relating to maturities are based on the residual terms of contracts. The line item “No determinable residual term” mainly comprises deferred and current annuities.

23.2.2 Actuarial reserves from non-unit-linked life insurance contracts

CHF million	2011	2012
Balance as at 1 January	32,102.9	33,661.1
Change in actuarial reserves	541.4	399.0
Additions arising from acquisition of policy portfolios and insurance companies	1,346.5	–
Disposals arising from sale of policy portfolios and insurance companies	–	–
Exchange differences	– 329.7	– 68.7
Balance as at 31 December	33,661.1	33,991.4

The actuarial reserves include unearned premium reserves and claims reserves.
The actuarial reserves for DPF business as at 31 December 2012 amounted to CHF 33,733.6 million (31 December 2011: CHF 33,440.9 million), while for non-DPF business they totalled CHF 257.8 million (31 December 2011: CHF 220.2 million).
The actuarial reserves for assumed business (inward reinsurance) as at 31 December 2012 came to CHF 5.9 million (31 December 2011: CHF 4.0 million).

23.2.3 Actuarial reserves from unit-linked life insurance contracts

CHF million	2011	2012
Balance as at 1 January	2,114.7	2,009.9
Additions	318.4	297.4
Disposals	– 203.4	– 197.7
Fees	– 15.0	– 14.5
Interest on and change in liabilities	– 157.9	171.7
Additions arising from acquisition of policy portfolios and insurance companies	1.8	–
Disposals arising from sale of policy portfolios and insurance companies	–	–
Exchange differences	– 48.7	– 8.8
Balance as at 31 December	2,009.9	2,258.0

23.2.4 Reserve for final policyholders' dividends

CHF million	2011	2012
Balance as at 1 January	416.8	356.9
Adjustment arising from unrealised gains and losses as at 1 January (shadow accounting)	– 3.2	– 6.4
Interest on and change in liability	– 25.0	– 25.4
Final policyholders' dividends paid	– 29.0	– 23.7
Additions arising from acquisition of policy portfolios and insurance companies	–	–
Disposals arising from sale of policy portfolios and insurance companies	–	–
Adjustment arising from unrealised gains and losses as at 31 December (shadow accounting)	6.4	11.9
Exchange differences	– 9.1	– 1.7
Balance as at 31 December	356.9	311.6

Final policyholders' dividends, which are only paid upon contract expiry, are funded and accrued over the duration of the policy in proportion to the profits attributable to the contract.

23.2.5 Unearned revenue reserve

CHF million	2011	2012
Balance as at 1 January	302.9	276.9
Reserved during the reporting period	27.7	29.7
Change in balance	– 45.1	– 2.3
Change due to unrealised gains and losses on investments (shadow accounting)	– 0.1	– 0.2
Additions arising from acquisition of policy portfolios and insurance companies	–	–
Disposals arising from sale of policy portfolios and insurance companies	–	–
Exchange differences	– 8.5	– 1.5
Balance as at 31 December	276.9	302.6

23.2.6 Policyholders' dividends credited and reserves for future policyholders' dividends

CHF million	2011	2012
Policyholders' dividends credited as at 1 January	1,941.7	1,836.2
Dividends credited to policyholders during the reporting period	144.8	97.5
Policyholders' dividends paid	– 209.1	– 185.5
Additions arising from acquisition of policy portfolios and insurance companies	–	–
Disposals arising from sale of policy portfolios and insurance companies	–	–
Exchange differences	– 41.2	– 7.9
Balance as at 31 December	1,836.2	1,740.3
Provisions for future policyholders' dividends as at 1 January	1,172.3	1,285.7
Adjustment arising from unrealised gains and losses as at 1 January	– 145.4	– 234.8
Additions	163.8	268.4
Withdrawals	– 187.4	– 189.2
Change in measurement differences between IFRS and national accounting standards recognised in profit or loss	66.1	49.1
Adjustment arising from unrealised gains and losses as at 31 December (shadow accounting)	234.8	773.5
Additions arising from acquisition of policy portfolios and insurance companies	0.0	–
Disposals arising from sale of policy portfolios and insurance companies	–	–
Exchange differences	– 18.5	– 3.5
Balance as at 31 December	1,285.7	1,949.2
Policyholders' dividends credited and provisions for future policyholders' dividends as at 31 December	3,121.9	3,689.5

24. LIABILITIES ARISING FROM BANKING BUSINESS AND FINANCIAL CONTRACTS

	Carrying amount		Fair value	
	2011	2012	2011	2012
CHF million				
With discretionary participation features (DPFs)				
Financial contracts with discretionary participation features (DPFs) [1]	1,147.5	1,334.0	–	–
Sub-total	1,147.5	1,334.0	–	–
Measured at amortised cost				
Liabilities to banks	163.8	162.3	164.7	162.9
Repurchase agreements	200.0	400.0	200.0	400.0
Liabilities arising from time deposits	5.6	26.8	5.6	27.0
Loans	89.8	70.9	79.8	70.9
Mortgages	–	–	–	–
Savings and customer deposits	4,728.8	4,997.9	4,758.9	4,659.1
Medium-term bonds	418.4	388.2	436.1	402.0
Mortgage-backed bonds	997.3	994.1	1,058.7	1,052.4
Bonds	99.3	99.5	111.0	108.8
Liability for future financial lease payments (present value)	103.9	105.7	103.9	105.7
Other financial contracts	74.3	45.1	74.3	45.1
Sub-total	6,881.2	7,290.5	6,993.0	7,033.9
Recognised at fair value through profit or loss (designated)				
Other financial contracts	5,969.4	6,973.4	5,969.4	6,973.4
Sub-total	5,969.4	6,973.4	5,969.4	6,973.4
Total liabilities arising from banking business and financial contracts	13,998.1	15,597.9	–	–

1 There are currently no internationally accepted mathematical methods available for determining the fair value of financial contracts with discretionary participation features (DPFs).

Savings deposits and customer deposits essentially consist of savings accounts, business accounts and deposit accounts held by Swiss banking clients. The mortgage-backed bonds reported have all been issued by Pfandbriefbank schweizerischer Hypothekarinstitute AG.

The other financial contracts designated as at fair value through profit or loss largely relate to the life insurance liability arising from investment-linked life insurance contracts involving little or no transfer of risk. The year-on-year change in this liability consists entirely of the funds flowing into and out of the pertinent investment portfolio, the latter's market-related price fluctuations and exchange-rate movements.

TERMS & CONDITIONS GOVERNING BONDS OUTSTANDING

Issuer	Baloise Bank SoBa
Type of bond	Senior bond
Face value (CHF million)	100
Interest rate	3.000 %
Early redemption 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

CHF million	2011	2012
Lease term < 1 year	0.0	0.0
Lease term 1 to 5 years	29.9	29.3
Lease term > 5 years	83.9	77.6
Total minimum lease payments	113.8	106.9
Future borrowing costs	–9.9	–1.2
Total liability for future financial lease payments (present value)	103.9	105.7

Including financial leasing of a investment property, as specified in section 11 of the Financial Report.

26. FINANCIAL LIABILITIES

SENIOR DEBT

CHF million	2011	2012
Balance as at 1 January	1,359.4	1,612.6
Issue price of newly issued bonds	247.5	549.0
Embedded derivative	–	–
Additions (sub-total)	247.5	549.0
Disposals / repayments	–	– 150.0
Interest expenses	55.0	61.1
Nominal interest rate	– 49.3	– 55.1
Interest costs (sub-total)	5.7	6.0
Balance as at 31 December	1,612.6	2,017.6

A bond amounting to CHF 150 million (3.250 per cent) was repaid on 19 June 2012.

The fair value of financial liabilities at the balance sheet date totalled CHF 2,139.2 million (31 December 2011: CHF 1,688.9 million).

TERMS & CONDITIONS GOVERNING SENIOR DEBT OUTSTANDING

Issuer	Bâloise Holding	Bâloise Holding	Bâloise Holding	Bâloise Holding	Bâloise Holding	Bâloise Holding	Bâloise Holding	Bâloise Holding
Type of bond	Senior bond	Senior bond	Convertible bond	Senior bond	Senior bond	Senior bond	Senior bond	Senior bond
Face value (CHF million)	550	150	242.5	300	250	175	225	150
Interest rate	4.250 %	3.500 %	1.500 %	2.875 %	3.000 %	2.250 %	1.000 %	2.000 %
Early redemption date	–	–	on or after 8.12.2014	–	–	–	–	–
Repayment	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Issued	2009	2007	2009	2010	2011	2012	2012	2012
Repayment	29.04.2013	19.12.2014	17.11.2016	14.10.2020	07.07.2021	01.03.2019	12.10.2017	12.10.2022
ISIN	CH0039139271	CH0035539334	CH0107130822	CH0117683794	CH0131804616	CH0148295014	CH0188295536	CH0194695083

27. PROVISIONS

	Restructuring	Other	Total	Restructuring	Other	Total
			2011			2012
CHF million						
Balance as at 1 January	0.0	79.9	79.9	12.1	71.0	83.1
Addition arising from change in scope of consolidation	–	0.7	0.7	–	–	–
Disposal arising from change in scope of consolidation	–	–	–	–	–	–
Increases and additional provisions recognised in profit or loss	12.3	19.6	31.9	1.6	29.5	31.1
Unused provisions reversed through profit or loss	–	– 12.5	– 12.5	– 0.1	– 3.7	– 3.8
Usage not recognised in profit or loss	–	– 15.7	– 15.7	– 2.8	– 14.9	– 17.7
Unwinding of discount	–	–	–	–	–	–
Exchange differences	– 0.2	– 1.0	– 1.2	– 0.1	– 0.2	– 0.3
Balance as at 31 December	12.1	71.0	83.1	10.7	81.7	92.4

The balance shown for other provisions includes the usual amounts for legal advice and litigation risks. The recognition of restructuring provisions in profit or loss largely relates to the merger of German entities.

28. INSURANCE LIABILITIES

	2011	2012
CHF million		
Liabilities to policyholders	1,080.8	1,146.4
Liabilities to brokers and agents	109.4	123.9
Liabilities to insurance companies	560.8	588.5
Other insurance liabilities	26.4	22.9
Total insurance liabilities	1,777.4	1,881.7

Notes to the consolidated income statement

29. PREMIUMS EARNED AND POLICY FEES

	Non-life	Life	Total	Non-life	Life	Total
			2011			2012
CHF million						
Gross premiums written and policy fees	3,143.5	3,659.8	6,803.3	3,317.7	3,424.0	6,741.7
Change in unearned premium reserves	3.6	0.0	3.6	−11.0	–	−11.0
Premiums earned and policy fees (gross)	**3,147.1**	**3,659.8**	**6,806.9**	**3,306.7**	**3,424.0**	**6,730.7**
Reinsurance premiums ceded	−155.7	−17.5	−173.2	−151.7	−18.7	−170.4
Reinsurers' share of change in unearned premium reserves	−3.1	–	−3.1	−6.1	–	−6.1
Total premiums earned and policy fees (net)	**2,988.3**	**3,642.3**	**6,630.6**	**3,148.9**	**3,405.3**	**6,554.2**

30. INCOME FROM INVESTMENTS FOR OWN ACCOUNT AND AT OWN RISK

	2011	2012
CHF million		
Investment property	244.8	245.1
Financial assets of an equity nature		
Available for sale	81.7	90.4
Recognised at fair value through profit or loss	0.0	0.1
Financial assets of a debt nature		
Held to maturity	235.2	252.7
Available for sale	627.9	637.0
Recognised at fair value through profit or loss	5.0	5.3
Mortgages and loans		
Carried at cost	552.3	531.8
Recognised at fair value through profit or loss	13.9	16.5
Cash and cash equivalents	5.7	3.3
Total investment income for own account and at own risk	**1,766.5**	**1,782.2**

Income from investment property consists mainly of rental income. Income from financial assets of an equity nature primarily comprises dividend income, while income from financial assets of a debt nature essentially contains interest income and net income from the recognition and reversal of impairment losses owing to application of the effective interest method. Income from mortgages and loans and from cash and cash equivalents is mainly derived from the interest paid on these assets.

Interest income of CHF 5.2 million had been recognised on impaired investments at the balance sheet date (31 December 2011: CHF 8.1 million).

31. REALISED GAINS AND LOSSES ON INVESTMENTS

REALISED GAINS AND LOSSES ON INVESTMENTS AS RECOGNISED IN THE INCOME STATEMENT

	2011	2012
CHF million		
Realised gains and losses on investments for own account and at own risk	–346.3	224.4
Realised gains and losses on investments for the account and at the risk of life insurance policyholders	–597.1	614.7
Realised gains and losses on investments as recognised in the income statement	**–943.4**	**839.1**

31.1 Realised gains and losses on investments in 2011 for own account and at own risk

CHF million	Investment property	Financial assets of an equity nature	Financial assets of a debt nature	Mortgages and loans	Derivative financial instruments	Total
Realised gains on sales and book profits						
Investment property	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
Sub-total	104.2	165.3	113.3	12.7	489.8	885.3
Realised losses on sales and book losses						
Investment property	– 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
Sub-total	– 100.8	– 81.5	– 158.4	– 15.8	– 528.6	– 885.1
Impairment losses 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
Reversal of impairment losses recognised in profit or loss						
Held to maturity	–	–	–	–	–	–
Available for sale	–	–	2.0	–	–	2.0
Carried at cost	–	–	–	11.4	–	11.4
Sub-total	–	– 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 Currency effects relating to held-to-maturity financial assets of a debt nature are reported as realised book profits and / or realised book losses.

31.2 Realised gains and losses on investments in 2012 for own account and at own risk

CHF million	Investment property	Financial assets of an equity nature	Financial assets of a debt nature	Mortgages and loans	Derivative financial instruments	Total
Realised gains on sales and book profits						
Investment property	247.8	–	–	–	–	247.8
Held to maturity [1]	–	–	1.3	–	–	1.3
Available for sale	–	246.1	113.9	–	–	360.0
Recognised at fair value through profit or loss	–	4.3	12.6	6.4	148.2	171.5
Carried at cost	–	–	–	1.0	–	1.0
Sub-total	247.8	250.4	127.8	7.4	148.2	781.6
Realised losses on sales and book losses						
Investment property	– 111.7	–	–	–	–	– 111.7
Held to maturity [1]	–	–	– 39.7	–	–	– 39.7
Available for sale	–	– 119.1	– 78.9	–	–	– 198.0
Recognised at fair value through profit or loss	–	– 1.1	– 1.0	– 1.2	– 129.8	– 133.1
Carried at cost	–	–	–	– 3.3	–	– 3.3
Sub-total	– 111.7	– 120.2	– 119.6	– 4.5	– 129.8	– 485.8
Impairment losses recognised in profit or loss						
Held to maturity	–	–	–	–	–	–
Available for sale	–	– 65.9	– 2.4	–	–	– 68.3
Carried at cost	–	–	–	– 15.4	–	– 15.4
Reversal of impairment losses recognised in profit or loss						
Held to maturity	–	–	–	–	–	–
Available for sale	–	–	–	–	–	–
Carried at cost	–	–	–	12.3	–	12.3
Sub-total	–	– 65.9	– 2.4	– 3.1	–	– 71.4
Total realised gains and losses on investments	136.1	64.3	5.8	– 0.2	18.4	224.4

1 Currency effects relating to held-to-maturity financial assets of a debt nature are reported as realised book profits and / or realised book losses.

31.3 Impairment losses on financial assets recognised in profit or loss

CHF million	2011	2012
Impairment losses on financial assets of an equity nature recognised in profit or loss		
Equities	– 172.8	– 52.2
Equity funds	– 6.7	– 0.0
Mixed funds	– 5.1	– 0.5
Bond funds	– 0.2	–
Real-estate funds	– 11.1	– 2.7
Private equity	– 5.1	– 2.6
Hedge funds	– 6.7	– 7.9
Sub-total	– 207.7	– 65.9
Impairment losses on financial assets of a debt nature recognised in profit or loss		
Public corporations	– 129.7	–
Industrial enterprises	–	–
Financial institutions	– 10.5	– 2.4
Other	–	–
Sub-total	– 140.2	– 2.4
Impairment losses on mortgages and loans recognised in profit or loss		
Mortgages	– 11.6	– 11.1
Policy loans	–	–
Promissory notes and registered bonds	–	–
Time deposits	–	–
Reverse repurchase agreements	–	–
Other loans	– 0.4	– 4.3
Sub-total	– 12.0	– 15.4
Total impairment losses on financial assets recognised in profit or loss	– 359.9	– 83.7

A gross impairment loss of CHF 129.7 million had been recognised in 2011 in respect of the portfolio of Greek government bonds. After deduction of the legal quota, the policyholders' dividends and taxes, the impairment loss had amounted to CHF 78.3 million.

The Baloise Group sold all its holdings of Greek government bonds in the first half of the year under review. It also subsequently disposed of its entire exposure to Portuguese government bonds as a result of the sharp deterioration in Portugal's sovereign credit rating.

CHF million	Carrying amount 31.12.2011	Fair value 31.12.2011	Carrying amount 31.12.2012	Fair value 31.12.2012
Greece [1]	38.5	38.5	–	–
Of which available for sale	36.3	36.3	–	–
Of which held to maturity	2.2	2.2	–	–
Ireland	165.1	163.1	181.6	182.0
Of which available for sale	127.0	127.0	144.0	144.0
Of which held to maturity	38.1	36.1	37.6	38.0
Italy	335.1	329.8	355.0	355.7
Of which available for sale	282.3	282.3	302.9	302.9
Of which held to maturity	52.8	47.5	52.1	52.8
Portugal	123.1	93.6	–	–
Of which available for sale	52.1	52.1	–	–
Of which held to maturity	71.0	41.5	–	–
Spain	207.1	196.5	161.9	152.7
Of which available for sale	83.1	83.1	39.7	39.7
Of which held to maturity	124.0	113.4	122.2	113.0
Total exposure	868.9	821.5	698.5	690.4
Of which available for sale	580.8	580.8	486.6	486.6
Of which held to maturity	288.1	240.7	211.9	203.8

1 A measurement model was used to determine the value of Greek government bonds as at 31 December 2011.

31.4 Currency gains and losses

Excluding exchange-rate losses on transactions involving financial instruments that are recognised at fair value through profit or loss, a currency loss of CHF 78.6 million was reported for 2012 (2011: loss of CHF 98.2 million).

A gross currency gain of CHF 19.5 million was recognised directly in equity for the reporting year (2011: loss of CHF 43.4 million). Allowing for hedges of a net investment in a foreign operation (hedge accounting), a net gain of CHF 21.6 million was recognised for 2012 (2011: net loss of CHF 59.5 million).

32. OTHER OPERATING INCOME

	2011	2012
CHF million		
Asset management	29.6	27.7
Services	73.0	42.6
Banking services	45.9	45.1
Investment management	10.1	9.6
Income from services rendered	158.6	125.0

33. OTHER OPERATING INCOME

	2011	2012
CHF million		
Interest income from insurance and reinsurance receivables	14.2	11.9
Other interest income	3.2	2.9
Gains on the sale of		
property, plant and equipment	0.8	0.5
intangible assets	8.1	–
Currency gains	26.8	3.2
Other income	87.0	73.5
Other operating income	140.1	92.0

34. CLASSIFICATION OF EXPENSES

	2011	2012
CHF million		
Personnel expenses (excluding loss adjustment expenses)	– 755.4	– 784.2
Marketing and advertising	– 61.9	– 55.0
Depreciation, amortisation and impairment of		
property, plant and equipment	– 46.2	– 53.6
intangible assets	– 101.8	– 55.9
IT and other equipment	– 97.1	– 105.3
Expenses for software development	– 1.1	–
Expenses for rent, maintenance and repairs	– 55.0	– 57.5
Currency losses	– 13.6	– 2.9
Expenses for operating leases	– 3.4	– 3.3
Commission and selling expenses	– 408.0	– 475.6
Fees and commission for financial assets and liabilities not recognised at fair value	– 25.5	– 25.3
Fee and commission expenses for assets managed for third parties	– 3.3	– 3.2
Other	– 420.7	– 413.2
Total	– 1,993.0	– 2,035.0

35. PERSONNEL EXPENSES

Total personnel expenses for 2012 came to CHF 919.1 million (2011: CHF 907.3 million).

36. GAINS OR LOSSES ON FINANCIAL CONTRACTS

CHF million	2011	2012
With discretionary participation features (DPFs)		
Financial contracts with discretionary participation features (DPFs)	– 27.2	– 47.5
Sub-total	– 27.2	– 47.5
Measured at amortised cost		
Interest on loans	– 0.6	– 0.4
Interest due	– 19.6	– 24.0
Interest arising from banking business	– 48.7	– 46.3
Interest expenses on repurchase agreements	– 0.0	– 0.0
Acquisition costs in banking business	– 6.8	– 7.4
Interest expenses on bonds	– 3.2	– 3.2
Expenses arising from financial contracts	– 16.1	– 16.8
Sub-total	– 95.0	– 98.1
Recognised at fair value through profit or loss (designated)		
Change in fair value of other financial contracts	446.2	– 418.3
Sub-total	446.2	– 418.3
Total gains or losses on financial contracts	324.0	– 563.9
Of which: gains on interest rate hedging instruments		
Interest rate swaps: cash flow hedges, balance carried forward from cash flow hedge reserves	–	–
Interest rate swaps: fair value hedges	–	–
Total gains on interest rate hedging instruments	–	–

37. INCOME TAXES

37.1 Current and deferred income taxes

	2011	2012
CHF million		
Current income taxes	– 40.2	– 65.0
Deferred income taxes	12.6	12.7
Total current and deferred income taxes	**– 27.6**	**– 52.3**

37.2 Expected and current income taxes

The expected average tax rate for the Baloise Group was 38.9 per cent in 2011 and 25.9 per cent in 2012. These rates correspond to the weighted average tax rates in those countries where the Baloise Group operates.

	2011	2012
CHF million		
Profit before taxes	88.9	494.7
Expected average tax rate (per cent)	38.9 %	25.9 %
Expected income taxes	**– 34.6**	**– 128.0**
Increase / reduction owing to		
tax-exempt profits and losses	– 9.5	16.1
non-deductible expenses	– 21.5	– 9.9
withholding taxes on dividends	– 1.7	– 1.7
change in tax rates	0.1	10.0
tax items related to other reporting periods	10.1	20.0
non-taxable measurement differences	18.3	20.4
other impacts [1]	11.2	20.8
Current income taxes	**– 27.6**	**– 52.3**

1 Other impacts' essentially comprise the offsetting of profits against loss carryforwards for which no deferred tax assets were recognised, the non-capitalisation of losses from the reporting period, and the recognition of losses carried forward from previous years. This item also includes the differences between the Baloise Group's tax rate and the tax rates applied to each individual company.

38. EARNINGS PER SHARE

	2011	2012
Profit for the period attributable to shareholders (CHF million)	60.8	436.6
Average number of shares outstanding	46,900,473	46,831,998
Basic earnings per share (CHF)	**1.30**	**9.32**

	2011	2012
Profit for the period attributable to shareholders (CHF million)	**60.8**	**436.6**
Adjustment of interest expenses on convertible bonds, including tax effects (CHF million)	–	7.6
Adjusted profit for the period attributable to shareholders (CHF million)	**60.8**	**444.2**
Average number of shares outstanding	46,900,473	46,831,998
Adjustment due to theoretical conversion of convertible bond	–	2,000,000
Adjustment due to theoretical exercise of share-based payment plans	84,964	74,899
Adjustment due to theoretical exercise of put options	–	4,803
Adjusted average number of shares outstanding	**46,985,437**	**48,911,700**
Diluted earnings per share (CHF)	**1.29**	**9.08**

The dilution of earnings in 2011 was solely attributable to the Performance Share Units (PSU) share-based payment plan. The criteria for earnings to be diluted by the short-put options issued as part of the Employee Share Ownership Plan and by the convertible bond issued by Bâloise Holding were not met in 2011.

The dilution of earnings in 2012 was attributable to the Performance Share Units (PSU) share-based payment plan, the short-put options issued as part of the Employee Share Ownership Plan (both of which are described in section 18.4), and the convertible bond issued by Bâloise Holding.

39. OTHER COMPREHENSIVE INCOME

39.1 Other comprehensive income

CHF million	2011	2012
Available-for-sale financial assets:		
Gains and losses arising during the reporting period	– 68.5	1,699.4
Reclassification adjustments for gains (losses) included in profit or loss	199.9	– 134.7
Total available-for-sale financial assets	131.4	1,564.7
Unrealised gains and losses of associates:		
Gains and losses arising during the reporting period	– 17.4	6.1
Total unrealised gains and losses of associates	– 17.4	6.1
Reserves on derivative financial instruments held as cash flow hedges:		
Gains and losses arising during the reporting period	–	–
Reclassification adjustments for gains (losses) included in profit or loss	–	–
Total reserves on derivative financial instruments held as cash flow hedges	–	–
Reserves on derivative financial instruments held as hedges of a net investment in a foreign operation:		
Gains and losses arising during the reporting period	– 16.1	29.9
Reclassification adjustments for gains (losses) included in profit or loss	–	– 27.8
Total reserves on derivative financial instruments held as hedges of a net investment in a foreign operation:	– 16.1	2.1
Reserves arising from reclassification of held-to-maturity financial assets:		
Gains and losses arising during the reporting period	0.4	– 0.1
Reclassification adjustments for gains (losses) included in profit or loss	– 5.9	– 4.8
Total reserves arising from reclassification of held-to-maturity financial assets:	– 5.5	– 4.9
Reserves arising from reclassification of investment property:		
Gains and losses arising during the reporting period	–	–
Reclassification adjustments for gains (losses) included in retained earnings	–	–
Total reserves arising from reclassification of investment property:	–	–
Exchange differences:		
Gains and losses arising during the reporting period	– 43.4	19.5
Total exchange differences	– 43.4	19.5
Shadow accounting:		
Gains and losses arising during the reporting period	– 100.8	– 606.8
Total shadow accounting	– 100.8	– 606.8
Income taxes on other comprehensive income	– 11.9	– 252.4
Total other comprehensive income	– 63.7	728.3

39.2 Income taxes on other comprehensive income

	Amount before taxes	Tax expense / tax income	Amount net of taxes	Amount before taxes	Tax expense / tax income	Amount net of taxes
			2011			2012
CHF million						
Available-for-sale financial assets	131.4	– 38.9	92.5	1,564.7	– 411.7	1,153.0
Unrealised gains and losses of associates	– 17.4	4.6	– 12.8	6.1	– 1.8	4.3
Reserves on derivative financial instruments held as cash flow hedges	–	–	–	–	–	–
Reserves on derivative financial instruments held as hedges of a net investment in a foreign operation	– 16.1	3.3	– 12.8	2.1	– 0.2	1.9
Reserves arising from reclassification of held-to-maturity financial assets	– 5.5	1.6	– 3.9	– 4.9	1.3	– 3.6
Reserves arising from reclassification of investment property	–	0.0	0.0	–	0.0	0.0
Exchange differences	– 43.4	–	– 43.4	19.5	–	19.5
Shadow accounting	– 100.8	17.5	– 83.3	– 606.8	160.0	– 446.8
Total	– 51.8	– 11.9	– 63.7	980.7	– 252.4	728.3

Other disclosures

40. ACQUISITION AND DISPOSAL OF COMPANIES

	Cumulative acquisitions		Cumulative disposals	
	2011	2012	2011	2012
CHF million				
Investments	2,573.2	6.9	3.2	–
Other assets	134.9	–	0.0	1.3
Receivables and assets	375.6	–	0.1	0.6
Cash and cash equivalents	265.6	–	3.0	0.3
Actuarial liabilities	– 2,177.2	–	– 2.7	–
Other accounts payable	– 792.4	– 5.2	– 1.1	– 1.3
Minority interests	–	–	–	–
Net assets acquired / disposed of	**379.7**	**1.7**	**2.5**	**0.9**
Funds used / received for acquisitions and disposals				
Cash and cash equivalents	383.0	1.7	1.2	0.4
Offsetting	–	–	–	–
Transfer of assets	–	–	–	–
Directly attributable costs	–	–	–	–
Equity instruments issued	–	–	–	–
Reclassification of investments in associates	6.2	–	–	–
Acquisition / disposal price	**389.2**	**1.7**	**1.2**	**0.4**
Net assets acquired / disposed of	– 379.7	– 1.7	– 2.5	– 0.9
Goodwill / negative goodwill or proceeds from disposals	**9.5**	**0.0**	**– 1.3**	**– 0.5**
Cash and cash equivalents used / received for acquisitions and disposals	– 383.0	– 1.7	1.2	0.4
Cash and cash equivalents acquired / disposed of	265.6	–	– 3.0	– 0.3
Outflow / inflow of cash and cash equivalents	**– 117.4**	**– 1.7**	**– 1.8**	**0.1**

The cumulative acquisitions in 2011 included the acquisitions explained in section 6.2.1, namely that of Avéro Schadeverzekering Benelux NV, Belgian companies Nateus SA / NV and Nateus Life SA / NV, Belgian property company Pacific Real Estate NV and Van Vaeck Zenith NV, and the German brokerage firms Wilhelm Herrmann Assekuranz KG and Wilhelm Herrmann Assekuranz Makler GmbH. The cumulative disposals in 2011 included the disposal of Ant Re NV, Antwerp, Belgium, as well as the sale of Treci element d.o.o. in Croatia.

The Baloise Group acquired two property companies in Austria during the year under review.

The cumulative disposals for 2012 included the sale of Poliklinika Osiguranje Zagreb in Croatia and the disposal of PiL Verwaltungsgesellschaft mbH.

41. RELATED PARTY TRANSACTIONS

As part of its ordinary operating activities the Baloise Group conducts transactions with associates and with members of Bâloise Holding's Board of Directors and Corporate Executive Committee. The terms and conditions governing such transactions can be found on page 78 of the chapter on corporate governance, which forms an integral part of the Financial Report.

The executive management team consists of the members of Bâloise Holding's Board of Directors and Corporate Executive Committee.

RELATED PARTY TRANSACTIONS

	Associates		Executive management		Other related parties		Total	
	2011	2012	2011	2012	2011	2012	2011	2012
CHF million								
Included in the income statement								
Premiums earned and policy fees	–	–	0.5	0.1	–	–	0.5	0.1
Investment income / expenses	0.1	0.0	0.1	0.1	–	–	0.2	0.1
Other income	0.5	0.4	0.2	0.2	–	–	0.7	0.6
Expenses	– 0.0	– 0.3	– 13.2	– 12.6	–	–	– 13.2	– 12.9
Impairment losses on bad debts	–	–	–	–	–	–	–	–
Total income statement	0.6	0.1	– 12.4	– 12.2	–	–	– 11.8	– 12.1
Included on the balance sheet								
Mortgages and loans	–	–	10.0	10.8	–	–	10.0	10.8
Insurance receivables	–	0.0	–	–	–	–	–	0.0
Other receivables	0.1	0.0	–	–	–	–	0.1	0.0
Impairment losses on bad debts	– 0.7	– 0.7	–	–	–	–	– 0.7	– 0.7
Other accounts payable	– 1.4	– 1.9	–	–	–	–	– 1.4	– 1.9
Total on the balance sheet	– 2.0	– 2.6	10.0	10.8	–	–	8.0	8.2
Off-balance-sheet transactions								
Guarantees granted	–	–	–	–	–	–	–	–

EXECUTIVE MANAGEMENT REMUNERATION

	2011	2012
CHF million		
Short-term employee benefits	8.8	7.9
Post-employment benefits	1.1	1.2
Payments under share-based payment plans	3.3	3.5
Total	**13.2**	**12.6**

21,598 shares worth CHF 1.5 million were repurchased from members of the Corporate Executive Committee in 2012 (2011: none) under the Employee Share Ownership Plan (section 18.4.3).

42. REMUNERATION PAID TO THE BOARD OF DIRECTORS AND THE CORPORATE EXECUTIVE COMMITTEE

The information to be disclosed in accordance with sections 663b ^{bis} and 663c of the Swiss Code of Obligations (OR) is contained in the Remuneration Report. Pages 72 to 80 of the chapter on corporate governance form an integral part of the Financial Report. The key information disclosed here includes

→ remuneration paid to the members of the Board of Directors
→ remuneration paid to the 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 in the Baloise Group are regularly involved in litigation, legal claims and lawsuits, which in most cases constitute a normal part of its operating activities as an insurer.

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 statements for 2012.

43.1.2 Guarantees and collateral for the benefit of third parties

The Baloise Group has issued guarantees and provided collateral to third parties. These include obligations – in contractually specified cases – to make capital contributions or payments to increase the amount of equity, provide funds to cover principal and interest payments when they fall due, and issue guarantees as part of its operating activities. The Baloise Group is not aware of any cases of default that could trigger such guarantee payments.

	2011	2012
CHF million		
Guarantees	73.4	67.4
Collateral	413.1	437.7
Total guarantees and collateral for the benefit of third parties	486.5	505.1
Of which: for the benefit of partners in joint ventures	–	–
Of which: from joint ventures	–	–
Of which: for the benefit of joint ventures	–	–

CREDIT RATINGS OF GUARANTEES AND COLLATERAL

2011	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Guarantees	–	2.0	36.8	0.6	34.0	73.4
Collateral	–	–	–	–	413.1	413.1

2012	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Guarantees	–	–	38.3	–	29.1	67.4
Collateral	–	–	–	–	437.7	437.7

43.1.3 Pledged or ceded assets, securities-lending assets, and collateral held

CARRYING AMOUNTS OF ASSETS PLEDGED OR CEDED AS COLLATERAL

CHF million	2011	2012
Financial assets under repurchase agreements	198.1	379.5
Financial assets in the context of securities lending	–	–
Investments	1,616.3	1,521.7
Pledged intangible assets	–	–
Pledged property, plant and equipment	–	–
Other	48.5	–
Total	**1,862.9**	**1,901.2**

FAIR VALUE OF COLLATERAL HELD

CHF million	2011	2012
Financial assets under reverse repurchase agreements	60.4	53.0
Financial assets in the context of securities lending	–	–
Other	–	–
Total	**60.4**	**53.0**
Of which: sold or repledged		
– with an obligation to return the assets	–	–
– with no obligation to return the assets	–	–

The Baloise Group engages in securities-lending transactions that may give rise to credit risk. Collateral is required in order to hedge these credit risks by more than covering the underlying value of the securities that are being lent. The value of the counterparty's lending securities is regularly measured in order to minimise the credit risk involved. Additional collateral is immediately required if this value falls below the value of cover provided.

The Baloise Group retains control over the loaned securities throughout the term of its lending transactions. The income received from securities lending is recognised in profit or loss.

43.2 Future liabilities

43.2.1 Capital commitments

	2011	2012
CHF million		
Commitments undertaken for future acquisition of		
investment property	12.0	30.8
financial assets	614.3	408.2
property, plant and equipment	–	–
intangible assets	18.6	14.3
Total commitments undertaken	644.9	453.3
Of which: in connection with joint ventures	–	–
Of which: own share of joint ventures' capital commitments	–	–

CREDIT RATINGS OF CAPITAL COMMITMENTS

2011	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Capital commitments	312.9	0.6	75.8	21.4	234.2	644.9

2012	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Capital commitments	80.2	1.0	43.0	16.8	312.3	453.3

Obligations undertaken by the Baloise Group to make future purchases of investments include commitments in respect of private equity, which constitute unfunded commitments to invest directly in private equity or to invest in private equity funds.

44. OPERATING LEASING ARRANGEMENTS

44.1 The Baloise Group as a lessee

The Baloise Group has entered into non-cancellable leasing arrangements to lease buildings, vehicles and operating equipment. The average residual term of its leasing arrangements is between three and five years.

DUE DATES OF LEASE PAYMENTS

	2011	2012
CHF million		
Due within one year	–3.2	–3.0
Due after one to five years	–5.4	–4.7
Due after five years or more	–0.8	–0.3
Total	**–9.4**	**–8.0**
Minimum lease payments	–3.4	–3.3
Contingent lease payments	–	–
Leasing expenses	**–3.4**	**–3.3**
Income from sub-leases during the reporting period	–	–
Future income from sub-leases	–	–

Contingent lease payments are made in cases where the lease is indexed.

44.2 The Baloise Group as a lessor

The Baloise Group has entered into operating leasing arrangements in order to lease its investment property to third parties. The average non-cancellable residual term of its leasing arrangements is between four and six years. There were no further leasing arrangements at the balance sheet date.

DUE DATES OF CONTRACTUALLY STIPULATED LEASING INCOME

	2011	2012
CHF million		
Due within one year	40.2	34.8
Due after one to five years	88.8	55.8
Due after five years or more	21.1	11.8
Total	**150.1**	**102.4**
Minimum lease payments	40.2	34.6
Contingent lease payments	0.1	0.1
Leasing income	**40.3**	**34.7**

45. CLAIM PAYMENTS RECEIVED FROM NON-GROUP INSURERS

The companies in the Baloise Group received claim payments totalling CHF 0.1 million in 2012 (2011: CHF 0.1 million) from non-Group insurers in connection with insurance contracts under which the Baloise Group companies are themselves policyholders. Most of these claim payments were made for damage to buildings in Switzerland where, depending on the building's location, mandatory insurance cover is provided by government agencies.

46. EVENTS AFTER THE BALANCE SHEET DATE

By the time that these consolidated annual financial statements had been completed on 13 March 2013, we had not become aware of any further events that would have a material impact on the consolidated annual financial statements as a whole.

47. SIGNIFICANT SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES AS AT 31 DECEMBER 2012

	Primary activity	Operating segment[1]	Group's share (per cent)[2]	Direct share (per cent)[2]	Method of consolidation[3]	Currency	Share capital (million)	Total assets (million)	Gross premiums / policy fees (million)
Switzerland									
Bâloise Holding Ltd, Basel	Holding	O	Holding	Holding	F	CHF	5.0	2,832.9	–
Baloise Insurance Ltd, Basel	Non-life	NL	100.00	100.00	F	CHF	75.0	4,969.4	1,322.3
Baloise Life Ltd, Basel	Life	L	100.00	100.00	F	CHF	50.0	28,057.4	2,510.6
Baloise Bank SoBa AG, Solothurn	Banking	B	100.00	100.00	F	CHF	50.0	6,799.0	–
Haakon AG, Basel	Other	O	74.75	74.75	F	CHF	0.2	39.9	–
Baloise Asset Management Schweiz AG, Basel	Investment management	B	100.00	100.00	F	CHF	1.5	28.5	–
Baloise Asset Management International AG, Basel	Investment consulting	B	100.00	100.00	F	CHF	1.5	16.6	–
Germany									
Basler Versicherung Beteiligungen B.V. & Co KG, Hamburg	Holding	O	100.00	100.00	F	EUR	94.7	377.0	–
Basler Lebensversicherungs-Aktiengesellschaft, Hamburg	Life	L	100.00	100.00	F	EUR	22.0	8,944.5	417.2
Deutscher Ring Sachversicherungs-Aktiengesellschaft, Hamburg	Non-life	NL	100.00	100.00	F	EUR	50.0	396.9	121.5
Basler Securitas Versicherungs-Aktiengesellschaft, Bad Homburg	Non-life	NL	100.00	100.00	F	EUR	15.1	1,025.7	508.6
Avetas Versicherungs-Aktiengesellschaft, Bad Homburg	Non-life	NL	100.00	100.00	F	EUR	0.1	11.0	0.4
Deutscher Ring Bausparkasse Aktiengesellschaft, Hamburg	Banking	B	65.00	65.00	F	EUR	12.8	552.4	–
Deutscher Ring Beteiligungsholding GmbH, Hamburg	Holding	O	100.00	100.00	F	EUR	12.8	193.8	–
DePfa Beteiligungs-Holding II GmbH, Düsseldorf	Other	–	26.00	26.00	E	EUR	–	–	–
Basler Financial Services GmbH, Hamburg	Other	O	100.00	100.00	F	EUR	0.1	3.9	–
GROCON Erste Grundstücksgesellschaft mbH, Hamburg	Other	O	100.00	100.00	F	EUR	0.7	14.9	–
GROCON Grundstücks- und Beteiligungsgesellschaft mbH, Hamburg	Other	O	100.00	100.00	F	EUR	1.5	2.5	–
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	31.0	–
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	13.1	–

1 L: Life, NL: Non-life, B: Banking, O: Other activities / corporate business
2 Shares stated as a percentage are rounded down.
3 F: Full consolidation, E: Equity-accounted investment.

	Primary activity	Operating segment[1]	Group's share (per cent)[2]	Direct share (per cent)[2]	Method of consoli-dation[3]	Currency	Share capital (million)	Total assets (million)	Gross premiums / policy fees (million)
Belgium									
Mercator Verzekeringen NV, Antwerp	Life and non-life	L / NL	100.00	100.00	F	EUR	202.8	4,462.3	637.7
Nateus NV, Antwerp	Non-life	NL	100.00	100.00	F	EUR	27.8	645.3	150.0
Nateus Life NV, Antwerp	Life	L	100.00	100.00	F	EUR	61.7	2,154.1	51.8
Audi NV, Antwerp	Non-life	NL	100.00	100.00	F	EUR	6.5	43.7	13.3
Euromex NV, Antwerp	Non-life	NL	100.00	100.00	F	EUR	2.5	89.5	36.0
Merno-Immo NV, Antwerp	Other	O	100.00	100.00	F	EUR	17.1	27.5	–
Luxembourg									
Bâloise (Luxembourg) Holding S.A., Bertrange (Luxembourg)	Holding	O	100.00	100.00	F	CHF	250.0	1,217.1	–
Bâloise Assurances Luxembourg S.A., Bertrange (Luxembourg)	Non-life	NL	100.00	100.00	F	EUR	9.8	161.1	62.3
Bâloise Vie Luxembourg S.A., Bertrange (Luxembourg)	Life	L	100.00	100.00	F	EUR	32.7	3,731.6	47.1
Baloise Fund Invest Advico, Bertrange (Luxembourg)	Other	B	100.00	100.00	F	EUR	0.1	7.3	–
Bâloise Delta Holding S. à. r. l., Bertrange (Luxembourg)	Holding	O	100.00	100.00	F	EUR	224.3	280.5	–
Austria / Croatia / Serbia									
Basler Versicherungs-Aktiengesellschaft in Österreich, Vienna	Life and non-life	L / NL	100.00	100.00	F	EUR	5.1	452.1	116.8
Basler osiguranje Zagreb d.d., Zagreb	Life and non-life	L / NL	100.00	100.00	F	HRK	45.0	2,496.8	400.1
Neživotno osiguranje "Basler" a.d.o., Belgrade	Non-life	NL	100.00	100.00	F	RSD	675.1	904.2	325.8
Životno osiguranje "Basler" a.d.o., Belgrade	Life	L	100.00	100.00	F	RSD	300.1	497.9	73.9
Other territories									
Baloise Life (Liechtenstein) AG, Balzers	Life	L	100.00	100.00	F	CHF	15.0	2,924.1	5.3
Baloise Insurance Company (Bermuda) Ltd., Hamilton (Bermuda)	Reinsur-ance	NL	100.00	100.00	F	CHF	5.0	1,051.4	186.3
Baloise Alternative Investment Strategies Limited, St. Helier (Jersey / Channel Islands)	Investment manage-ment	L / NL	100.00	100.00	F	USD	0.0	858.4	–
Baloise Finance (Jersey) Ltd., St. Helier (Jersey / Channel Islands)	Other	O	100.00	100.00	F	CHF	1.3	214.2	–
Baloise Private Equity Limited, St. Helier (Jersey / Channel Islands)	Investment manage-ment	L / NL	100.00	100.00	F	USD	0.0	498.4	–

1 L: Life, NL: Non-life, B: Banking, O: Other activities / corporate business.
2 Shares stated as a percentage are rounded down.
3 F: Full consolidation, E: Equity-accounted investment.

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 72 to 80 and 86 to 221), for the year ended 31 December 2012.

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 2012 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	Peter Lüssi
Audit expert	Audit expert
Auditor in charge	

Basel, 14 March 2013

Bâloise Holding Ltd

Income statement Bâloise Holding

CHF million	Note	2011	2012
Income from long-term equity investments		292.6	325.8
Income from interest and securities	2	12.3	13.0
Other income	3	21.3	8.8
Total income		326.2	347.6
Administrative expenses	4	– 36.3	– 43.2
Interest expenses	5	– 49.3	– 55.1
Depreciation, amortisation and impairment	6	– 32.7	0.0
Other expenses	7	– 13.6	– 5.8
Total expenses		– 131.9	– 104.1
Tax expense		– 0.2	– 0.2
Profit for the period		194.1	243.3

Balance sheet Bâloise Holding

	Note	31.12.2011	31.12.2012
CHF million			
Assets			
Cash and cash equivalents		37.8	128.3
Treasury shares		138.5	135.4
Receivables from Group companies		9.2	74.3
Receivables from third parties		6.6	3.7
Prepaid expenses	8	47.0	32.3
Current assets		239.1	374.0
Long-term equity investments	10	2,025.9	1,986.7
Loans to Group companies	9	57.9	167.7
Other financial assets		0.2	215.0
Non-current assets		2,084.0	2,369.4
Total assets		2,323.1	2,743.4
Equity and liabilities			
Share capital		5.0	5.0
Statutory reserve			
General reserve		11.7	11.7
Reserve for treasury shares		182.3	173.9
Other reserves		247.4	224.9
Distributable profit		194.9	244.1
Equity	12	641.3	659.6
Liabilities to Group companies		0.1	0.1
Liabilities to third parties		0.6	0.0
Bonds	11	1,642.5	2,042.5
Provisions		6.0	6.8
Deferred income		32.6	34.4
Liabilities		1,681.8	2,083.8
Total equity and liabilities		2,323.1	2,743.4

Notes to the financial statements of Bâloise Holding

1. ACCOUNTING POLICIES

The annual financial statements of Bâloise Holding have been prepared in compliance with Swiss stock company law.

Cash and cash equivalents

Cash and cash equivalents include bank deposits and cash equivalents such as call money, fixed-term deposits and money market instruments provided that these assets' original maturity period is less than 90 days.

Treasury shares

Treasury shares are measured at the lower of cost and fair value.

Receivables

Receivables are recognised at their nominal amount less any impairment losses.

Prepaid expenses and accrued income

This line item includes expenses relating to the new financial year that have been paid in advance and income from the reporting year that will not be received until a later date. It also comprises dividends approved by subsidiaries' annual general meetings at the balance sheet date, which Bâloise Holding reports as dividends receivable.

Long-term equity investments

Long-term equity investments are recognised at cost less any impairment losses.

Loans to Group companies

These loans are measured at their nominal amount less any impairment losses. Specific write-downs are recognised for all identifiable risks in accordance with the prudence principle.

Other financial assets

Marketable securities are recognised at the lower of cost and fair value.

Liabilities

Liabilities are recognised at their nominal amount.

Bonds

Bonds are shown at their par value. Issuance costs – less any premiums – are charged in full to the income statement at the time the bonds are issued.

Provisions

Provisions are recognised with due care and diligence to cover any risks that may arise.

Deferred income and accrued expenses

This line item comprises income relating to the new financial year that has already been received as well as expenses relating to the reporting year that will not be paid until a later date.

NOTES TO THE INCOME STATEMENT

2. INCOME FROM INTEREST AND SECURITIES

CHF million	2011	2012
Income from treasury shares	9.2	8.6
Interest on loans to Group companies	2.2	3.2
Income from other financial assets	0.7	1.0
Other interest receivable	0.2	0.2
Total income from interest and securities	12.3	13.0

3. OTHER INCOME

CHF million	2011	2012
Income from services rendered	1.6	1.0
Sundry income	19.7	7.8
Total other income	21.3	8.8

4. ADMINISTRATIVE EXPENSES

CHF million	2011	2012
Personnel expenses	– 20.9	– 27.7
Other administrative expenses	– 15.4	– 15.5
Total administrative expenses	– 36.3	– 43.2

5. INTEREST EXPENSES

CHF million	2011	2012
Interest on bonds	– 49.2	– 55.1
Other interest expenses	– 0.1	0.0
Total interest expenses	– 49.3	– 55.1

6. DEPRECIATION, AMORTISATION AND IMPAIRMENT

	2011	2012
CHF million		
Impairment of treasury shares	– 32.7	0.0
Total depreciation, amortisation and impairment	– 32.7	0.0

7. OTHER EXPENSES

	2011	2012
CHF million		
Expenses incurred for services rendered	– 1.4	– 1.0
Sundry expenses	– 12.2	– 4.8
Total other expenses	– 13.6	– 5.8

NOTES TO THE BALANCE SHEET

8. PREPAID EXPENSES AND ACCRUED INCOME

The annual general meeting of Haakon AG, Basel, held on 28 February 2013 and the AGMs of Baloise Asset Management Schweiz AG, Basel, and of Baloise Asset Management International AG, Basel, held on 6 March 2013 voted to recognise the dividends receivable for the 2012 financial year as accrued income (2012: CHF 31.7 million / 2011: CHF 46.6 million).

9. LOANS TO GROUP COMPANIES

	2011	2012
CHF million		
Subordinated loans to Baloise Bank SoBa	30.0	70.0
Subordinated loans to Bâloise (Luxembourg) Holding S.A.	–	70.0
Loan to Bâloise (Luxembourg) Holding S.A.	27.9	27.7
Total loans to Group companies	57.9	167.7

10. LONG-TERM EQUITY INVESTMENTS

Company	Total shareholding as at 31.12.2011 (per cent) [1]	Total shareholding as at 31.12.2012 (per cent) [1]	Currency	Share capital as at 31.12.2012 (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
Basler Saturn Management B.V., Hamburg	100.00	100.00	EUR	0.0
Nateus NV, Antwerp	100.00	–	EUR	–
Nateus Life NV, Antwerp	100.00	–	EUR	–
Bâloise (Luxembourg) Holding S.A., Bertrange (Luxembourg)	100.00	100.00	CHF	250.0
Bâloise 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 Investments stated as a percentage are rounded down.

Further information on the long-term equity investments held directly by Bâloise Holding can be found on pages 220 and 221 in the Financial Report section.

11. BONDS

AMOUNT

	Interest rate	Issued	Maturity date
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 225 million	1.000 %	2012	12.10.2017
CHF 175 million	2.250 %	2012	01.03.2019
CHF 300 million	2.875 %	2010	14.10.2020
CHF 250 million	3.000 %	2011	07.07.2021
CHF 150 million	2.000 %	2012	12.10.2022

12. CHANGES IN EQUITY

	31.12.2011	31.12.2012
CHF million		
Share capital		
Balance as at 1 January	5.0	5.0
Reduced through cancellation of treasury shares as per AGM resolution	–	–
Total share capital	5.0	5.0
Statutory reserves		
General reserve		
Balance as at 1 January	11.7	11.7
Allocated	–	–
Total general reserve	11.7	11.7
Reserve for treasury shares		
Balance as at 1 January	156.4	182.3
Reduced through cancellation of treasury shares as per AGM resolution	–	–
Withdrawn (transferred to other reserves)	–	– 8.4
Allocated (transferred from other reserves) [1]	25.9	–
Total reserve for treasury shares	182.3	173.9
Total statutory reserves	194.0	185.6
Other reserves		
Balance as at 1 January	264.9	247.4
Allocated from distributable profit	8.4	–
Withdrawn for distributable profit	–	– 30.9
Allocated (transferred from reserve for treasury shares)	–	8.4
Withdrawn (transferred to reserve for treasury shares)	– 25.9	–
Total other reserves	247.4	224.9
Distributable profit		
Balance as at 1 January	234.2	194.9
Dividend distributed	– 225.0	– 225.0
Allocated to other reserves	– 8.4	–
Withdrawn from other reserves	–	30.9
Profit for the period	194.1	243.3
Total distributable profit	194.9	244.1
Total equity	641.3	659.6

1 Baloise Group companies purchased a total of 226,275 shares (not including the share buy-back via the secondary trading line) at an average price of CHF 72 during the reporting year. During this period they sold 336,045 shares at an average price of CHF 71 and together held a total of 1,894,302 Bâloise Holding shares as at 31 December 2012. As in the previous year, the number of Bâloise Holding shares acquired via the secondary trading line amounted to 223,565 shares. These shares are reported as “treasury shares” on the balance sheet.

13. SIGNIFICANT SHAREHOLDERS

The information available to the Company reveals that the following significant shareholders and shareholder groups linked by voting rights held long-term equity investments in the Company within the meaning of section 663c of the Swiss Code of Obligations (OR) as at 31 December 2012:

	Total shareholding as at 31.12.2011	Share of voting rights as at 31.12.2011	Total shareholding as at 31.12.2012	Share of voting rights as at 31.12.2012
Per cent				
Shareholders				
Chase Nominees Ltd. [1]	6.5	2.0	5.9	2.0
Black Rock Inc.	› 5.0	0.0	› 5.0	0.0
Signal Iduna Group	› 5.0	2.0	‹ 5.0	2.0
Mellon Bank N.A. [1]	3.5	0.0	3.5	0.0
Credit Suisse Funds AG	› 3.0	‹ 2.0	› 3.0	‹ 2.0
UBS Fund Management AG	2.7	‹ 2.0	› 3.0	‹ 2.0
Nortrust Nominees Ltd. [1]	2.3	0.0	‹ 2.0	0.0
Bank of New York Mellon N.V. [1]	2.5	0.0	‹ 2.0	0.0

1 Custodian nominees who hold shares in trust for third parties are counted as part of the free float under the SIX Exchange regulations. Such shareholder groups are not subject to disclosure requirements under Swiss stock market legislation.

14. CONTINGENT LIABILITIES

The Company's guarantee liabilities as at 31 December 2012 amounted to CHF 164.8 million (31 December 2011: CHF 169.6 million).

Bâloise Holding has issued the following letters of comfort:

As the owner of Baloise Life (Liechtenstein) AG, Bâloise Holding, Basel, undertakes to ensure that its subsidiary Baloise Life (Liechtenstein) AG is at all times in a financial position to meet in full its liabilities to its customers arising from the contracts relating to its RentaSafe, BelRenta Safe, RentaProtect and RentaSafe Time products, especially its guarantee commitments. Since October 2012 this letter of comfort has also applied to customers with contracts relating to its RentaProtect Time, RentaSafe Time (D-CHF), RentaSafe Time Italy and RentaProtect Performance products. The maximum liability corresponds to the actuarial reserves recognised for these products on the balance sheet of Baloise Life (Liechtenstein) AG as at 31 December 2012.

Bâloise Holding has provided Landesbank Baden-Württemberg with an unlimited undertaking to ensure that its partner Life S.A., Contern (Luxembourg), is managed and financially resourced in such a way that it is always in a position to meet all its liabilities to the bank in a timely fashion until it has fully repaid to the bank the latter's loan of EUR 40 million plus interest, costs and commissions.

Bâloise Holding is jointly and severally liable for the value added tax (VAT) owed by all companies that form part of the tax group headed by Baloise Insurance Ltd.

15. CEDED ASSETS

Bâloise Holding lends some of its treasury shares to Baloise Insurance Ltd every year under a securities lending agreement. These shares are used in the Employee Share Ownership Plan run by Baloise Insurance Ltd. No assets had been ceded at the balance sheet date (2011: none).

16. REMUNERATION PAID TO THE BOARD OF DIRECTORS AND THE CORPORATE EXECUTIVE COMMITTEE

The information to be disclosed in accordance with sections 663b bis and 663c of the Swiss Code of Obligations (OR) is contained in the Remuneration Report. Pages 72 to 80 of the chapter on corporate governance form an integral part of the Financial Report. The key information disclosed here includes

- remuneration paid to the members of the Board of Directors
- remuneration paid to the 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.

17. INFORMATION ON THE PERFORMANCE OF RISK ASSESSMENTS

Information on the performance of risk assessments can be found in section "5. Management of insurance risk and financial risk" of the Baloise Group's consolidated annual financial statements.

18. EVENTS AFTER THE BALANCE SHEET DATE

By the time that these annual financial statements had been completed on 13 March 2013, we had not become aware of any further events that would have a material impact on the annual financial statements as a whole.

Appropriation of distributable profit as proposed by the Board of Directors

DISTRIBUTABLE PROFIT AND APPROPRIATION OF PROFIT

The profit for the period amounted to 243,287,209.11 CHF.

The Board of Directors will propose to the Annual General Meeting that the Company's distributable profit be appropriated as shown in the table below.

	2011	2012
CHF		
Profit for the period	194,056,489.07	243,287,209.11
Profit carried forward from the previous year	797,616.90	754,105.97
Distributable profit	194,854,105.97	244,041,315.08
Proposals by the Board of Directors		
Allocated to other reserves	–	– 18,200,000.00
Withdrawn from other reserves	30,900,000.00	–
Dividend	– 225,000,000.00	– 225,000,000.00
Profit to be carried forward	754,105.97	841,315.08

The appropriation of profit is consistent with § 30 of the Articles of Incorporation. Each share confers the right to receive a dividend of 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 72 to 80 and 226 to 234), for the year ended 31 December 2012.

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 2012 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	Peter Lüssi
Audit expert	Audit expert
Auditor in charge	

Basel, 14 March 2013

Notes

Glossary

→ Actuarial reserves
Actuarial reserves are the reserves set aside to cover current life insurance policies.

→ Annual premium equivalent
The annual premium equivalent (APE) is the insurance industry standard for measuring the volume of new life insurance business. It is calculated as the sum of the annual premiums earned from new business plus 10 per cent of the single premiums received during the reporting period.

→ Assets managed for third parties
These are assets held in trust for clients and partners.

→ Baloise
"Baloise" stands for "the Baloise Group", and "Bâloise Holding" means "Bâloise Holding Ltd". Baloise shares are the shares of Bâloise Holding Ltd.

→ Broker
Insurance brokers are independent intermediaries. These are firms or individuals who are not restricted to any particular insurance companies when selling insurance products. They are paid commission for the insurance policies that they sell.

→ Business volume
The total volume of business comprises the premium income earned from non-life and life insurance and from investment-linked life insurance policies during the reporting period. The accounting principles used by the Baloise Group do not allow premium income earned from investment-linked life insurance to be reported as revenue in the consolidated financial statements.

→ Claims incurred
Claims incurred comprise the amounts paid out for claims during the financial year, the reserves set aside to cover unsettled claims, the reversal of reserves for claims that no longer have to be settled or do not have to be paid in full, the costs incurred by the processing of claims, and changes in related reserves.

→ Claims ratio
The total cost of claims settled as a percentage of total premiums.

→ Claims reserve
A reserve for claims that have not been settled by the end of the year.

→ Combined ratio
A non-life insurance ratio that is defined as the sum of the cost of claims settled (claims ratio), total expenses (expense ratio) and profit sharing (profit-sharing ratio) as a percentage of total premiums. This ratio is used to gauge the profitability of non-life insurance business.

→ Deferred taxes
Probable future tax expenses and tax benefits arising from temporary differences between the carrying amounts of assets and liabilities recognised in the consolidated financial statements and the corresponding amounts reported for tax purposes. The pertinent calculations are based on country-specific tax rates.

→ Embedded value
The market-consistent embedded value (MCEV) measures the value of a life insurance portfolio for shareholders at the balance sheet date. Please also refer to the separate MCEV report.

→ Expense ratio
Non-life insurance business expenses as a percentage of total premiums.

→ Fixed-income securities
Securities (primarily bonds) that yield a fixed rate of interest throughout their term to maturity.

→ Gross
The gross figures shown on the face of the balance sheet or income statement in an insurance company's annual report are stated before deduction of reinsurance.

→ Group life business
Insurance policies taken out by companies or their employee benefit units for the occupational pension plans of their entire workforce.

→ International Financial Reporting Standards
Since 2000 the Baloise Group has been preparing its consolidated financial statements in compliance with International Financial Reporting Standards (IFRS), which were previously called International Accounting Standards (IAS).

→ Impairment
An asset write-down that is recognised in profit or loss. An impairment test is carried out to ascertain whether an asset's carrying amount is higher than its recoverable amount. If this is the case, the asset is written down to its recoverable amount and a corresponding impairment loss is recognised in the income statement.

→ Insurance benefit
The benefits provided by the insurer in connection with the occurrence of an insured event.

→ Investments
Investments comprise investment property, equities and alternative financial assets (financial assets of an equity nature), fixed-income securities (financial assets of a debt nature), mortgage assets, policy and other loans, derivatives, and cash and cash equivalents. Precious metals in connection with investment-linked insurance are reported as "other assets."

→ Investment-linked life insurance
Life insurance policies under which policyholders invest their savings for their own account and at their own risk.

→ Investment-linked premium
Premium income from life insurance policies under which the insurance company invests the policyholder's savings for the latter's own account and at his or her own risk. The International Financial Reporting Standards applied by the Baloise Group do not allow the savings component of this premium income to be recognised as revenue on the face of the income statement.

→ Legal quota
A legally or contractually binding percentage requiring life insurance companies to pass on a certain share of their profits to their policyholders.

→ Minimum interest rate
The minimum guaranteed interest rate paid to savers under occupational pension plans.

→ Operating segments
Similar or related business activities are grouped together in operating segments. The Baloise Group's operating segments are Non-Life, Life, Banking (which includes asset management), and Other Activities. The "Other Activities" operating segment includes equity investment companies, real-estate firms and financing companies.

→ Net
The net figures shown on the face of the balance sheet or income statement in an insurance company's annual report are stated after deduction of reinsurance.

→ New business margin
The value of new business divided by the annual premium equivalent (APE).

→ **Performance of investments**
Performance in this context is defined as the rates of return that Baloise generates from its investments. It constitutes the gains, losses, income and expenses recognised in the income statement plus changes in unrealised gains and losses as a percentage of the average portfolio of investments held.

→ **Periodic premium**
Periodically recurring premium income (see definition of "premium").

→ **Policyholder's dividend**
An annual, non-guaranteed benefit paid to life insurance policyholders if the revenue generated by their policies is higher and / or the risks and costs associated with their policies are lower than the assumptions on which the calculation of their premiums was based.

→ **Premium**
The amount paid by the policyholder to cover the cost of insurance.

→ **Premium earned**
The proportion of the policy premium available to cover the risk insured during the financial year, i.e. the premium minus changes in unearned premium reserves.

→ **Profit after taxes**
Profit after taxes is the consolidated net result of all income and expenses, minus all borrowing costs as well as current and deferred income taxes. Profit after taxes includes minority interests.

→ **Profit-sharing ratio**
Total profit sharing as a percentage of total premiums; profit sharing is defined as the reimbursement of amounts to non-life policyholders to reflect the profitability of insurance policies.

→ **Reinsurance**
If an insurance company itself does not wish to bear the full risk arising 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 in all cases.

→ **Reserves**
A measurement of future insurance benefit obligations arising from known and unknown claims that are reported as liabilities on the face of the balance sheet.

→ **Return on equity**
A calculation of the percentage return earned on a company's equity capital during a financial year; it represents the profit generated in a given financial year divided by the company's average equity during that period.

→ **Risk scoring**
Risk scoring uses analytical statistical methods to derive risk assessments from collected data based on empirical values. Insurance companies use this kind of scoring to ensure that the premiums they charge reflect the risks involved.

→ **Run-off business**
An insurance policy portfolio that has ceased to accept new policies and whose existing policies are gradually expiring.

→ **Segment**
Financial reporting in the Baloise Group is carried out in accordance with International Financial Reporting Standards (IFRSs), which require similar transactions and business activities to be grouped and presented together. These aggregated operating activities are presented in "segments," broken down by geographic region and business line.

→ Share buy-back programme
Procedure approved by the Board of Directors under which Baloise can repurchase its own outstanding shares. Companies in Switzerland open a separate trading line in order to carry out such buy-backs.

→ Shares issued
The total number of shares that a company has issued; multiplying the total number of shares in issue by their face value gives the company's nominal share capital.

→ Single premium
Single premiums are used to finance life insurance policies at their inception in the form of a one-off payment. They are mainly used to fund wealth-building life insurance policies, with the prime focus on investment returns and safety.

→ Swiss Leader Index
The Swiss Leader Index (SLI) comprises the 30 largest and most liquid equities on the Swiss stock market.

→ Solvency
Minimum capital requirements that the regulatory authorities impose on insurance companies in order to cover their business risks (investments and claims). These requirements are usually specified at a national level and may vary from country to country.

→ Technical reserve
Insurers disclose on the face of their balance sheets the value of the benefits that they expect to have to provide in future under their existing insurance contracts. This value is calculated from a current perspective in accordance with generally accepted principles.

→ Technical result
Baloise calculates its technical result by netting all income and expenses arising from its insurance business. Its technical result does not include income and expenses unrelated to its insurance business or the net gains or losses on its investments.

→ Unearned premium reserves
Deferred income arising from premiums that have already been paid for periods after the balance sheet date.

→ Unrealised gains and losses (recognised directly in equity)
Unrealised gains and losses are increases or decreases in value that are not recognised in profit or loss and arise from the measurement of assets. They are recognised directly in equity after deduction of deferred policyholders' dividends (life insurance) and deferred taxes. These gains or losses are only taken to income if the underlying asset is sold or if impairment losses are recognised.

→ Value of new business
The value added by new business transacted during the reporting period; this figure is measured at the time the policy is issued.

Addresses

SWITZERLAND

Basler Versicherungen
Aeschengraben 21
CH-4002 Basel
Telephone + 41 58 285 85 85
Fax + 41 58 285 70 70
kundenservice@baloise.ch
www.baloise.ch

Baloise Bank SoBa
Amthausplatz 4
CH-4502 Solothurn
Telephone + 41 58 285 33 33
Fax + 41 58 285 03 33
bank@baloise.ch
www.baloise.ch

GERMANY

Basler Versicherungen
Basler Strasse 4
Postfach 1145
D-61345 Bad Homburg
Telephone + 49 61 72 130
Fax + 49 61 72 13 200
info@basler.de
www.basler.de

AUSTRIA

Basler Versicherungen
Brigittenauer Lände 50 – 54
A-1203 Vienna
Telephone + 43 1 33 160 0
Fax + 43 1 33 160 200
office@basler.at
www.basler.at

LUXEMBOURG

Bâloise Assurances
23, rue du Puits Romain
Bourmicht
L-8070 Bertrange

Boite Postale 28
L-2010 Luxembourg
Telephone + 352 290 190 1
Fax + 352 290 190 592
info@baloise.lu
www.baloise.lu

BELGIUM

Baloise Insurance
Posthofbrug 16
B-2600 Antwerp
Telephone + 32 3 247 21 11
Fax + 32 3 247 27 77
info@baloise.be
www.baloise.be

CROATIA

Basler osiguranje Zagreb
Radnička cesta 37b
HR-10 000 Zagreb
Telephone + 385 1 640 5000
Fax + 385 1 6405 003
info@basler-oz.hr
www.basler-oz.hr

SERBIA

Basler osiguranja
Resavska 29
RS-11 000 Belgrade
Telephone + 381 11 2222 800
Fax + 381 11 334 29 03
office@basler.rs
www.basler.rs

LIECHTENSTEIN

Baloise Life
Alte Landstrasse 6
FL-9496 Balzers
Telephone + 423 388 90 00
Fax + 423 388 90 21
information@baloise-life.com
www.baloise-life.com

Information on the Baloise Group

The 2012 Annual Report is published in German and English. The German version is authoritative in the event of any discrepancy. The Financial Report section contains the audited 2012 annual financial statements together with detailed information.

AVAILABILITY AND ORDERING

The 2012 Annual Report and the Summary of the 2012 Annual Report will be available on the internet at www.baloise.com/annualreport from 19 March 2013.

Corporate publications can be ordered either on the internet or by post from the Baloise Group, Corporate Communications, Aeschengraben 21, 4002 Basel, Switzerland.

INFORMATION FOR SHAREHOLDERS AND FINANCIAL ANALYSTS

Detailed information and data on Baloise shares, the IR agenda, the latest presentations and how to contact the Investor Relations team can be found on the internet at www.baloise.com/investors. This information is available in German and English.

INFORMATION FOR MEMBERS OF THE MEDIA

You will find the latest media releases, presentations, reports, images and podcasts of various Baloise events as well as media contact details at www.baloise.com/media.

CAUTIONARY NOTE ON FORWARD-LOOKING STATEMENTS

This publication is intended to provide an overview of Baloise's operating performance. It contains forward-looking statements that include forecasts of future events, plans, goals, business developments and results and are based on Baloise's current expectations and assumptions. These forward-looking statements should be noted with due caution because they inherently contain both known and unknown risks, are subject to uncertainty and may be adversely affected by other factors. Consequently, business performance, results, plans and goals could differ substantially from those presented explicitly or implicitly in these forward-looking statements. Among the influencing factors are (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) exchange rate movements; (vi) changes in the statutory and regulatory framework, including accounting standards; (vii) frequency and magnitude of claims as well as trends in claims history; (viii) mortality and morbidity rates; (ix) renewal and expiry of insurance policies; (x) legal disputes and administrative proceedings; (xi) departure of key employees; and (xii) negative publicity and media reports.

Baloise accepts no obligation to update or revise these forward-looking statements or to allow for new information, future events, etc. Past performance is not indicative of future results.

Publisher Baloise, Corporate Communications
Concept, design Eclat, Erlenbach (ZH)
Photography Maurice Haas, Zurich / Marc Wetli, Zurich
Publishing System Multimedia Solutions AG, Zurich
Printing UD Print AG, Lucerne

FSC www.fsc.org MIX Paper from responsible sources FSC® C010153

Financial calendar and contacts

19.3.2013	Annual financial results: media conference conference call for analysts
02.5.2013	Annual General Meeting of Bâloise Holding Ltd
29.8.2013	Half-year financial results: conference call for analysts and the media
25.3.2014	Annual financial results: media conference conference call for analysts
24.4.2014	Annual General Meeting of Bâloise Holding Ltd

Corporate Governance
Baloise Group
Andreas Eugster
Aeschengraben 21
CH-4002 Basel
Telephone + 41 58 285 84 50
andreas.eugster@baloise.com

Investor Relations
Baloise Group
Marc Kaiser
Aeschengraben 21
CH-4002 Basel
Telephone + 41 58 285 81 81
investor.relations@baloise.com

Media Relations
Baloise Group
Dominik Müller
Aeschengraben 21
CH-4002 Basel
Telephone + 41 58 285 84 67
media.relations@baloise.com

www.baloise.com

BÂLOISE HOLDING LTD
Aeschengraben 21
CH-4002 Basel

www.baloise.com

Making you safer. For 150 years.