Bâloise Holding

Bâloise Holding Ltd

ANNUAL REPORT

2013

Bâloise Holding Ltd
Annual Report 2013

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, Belgium, Luxembourg, Liechtenstein and Austria. 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 8,000 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 key figures

CHF million	2012 (reported)[6]	2012 (restated)	2013	Change (%)[7]
Business volume				
Gross premiums written (non-life)	3,317.7	3,317.7	3,441.7	3.7
Gross premiums written (life)	3,424.0	3,424.0	3,787.2	10.6
Sub-total of IFRS gross premiums written[1]	6,741.7	6,741.7	7,228.9	7.2
Investment-type premiums	1,616.6	1,616.6	1,780.6	10.1
Total business volume	8,358.3	8,358.3	9,009.5	7.8
Operating profit (loss)				
Profit / loss before borrowing costs and taxes				
Non-life	353.5	409.7	366.3	3.6
Life[2]	176.5	176.7	261.1	47.9
Banking	72.8	78.6	75.4	3.6
Other activities	–46.9	–47.1	–44.5	–5.1
Profit for the period	442.4	485.2	455.4	2.9
Balance sheet				
Technical reserves	46,702.3	46,591.9	47,435.6	1.6
Equity	4,872.8	4,641.3	4,906.4	0.7
Ratios (per cent)				
Return on equity (RoE)	10.3	11.8	9.5	–
Gross combined ratio (non-life)	93.1	93.2	93.1	–
Net combined ratio (non-life)	94.1	94.1	94.9	–
New business margin (life)	8.9	8.9	13.5	–
Investment performance (insurance)[3]	6.6	6.6	2.3	–
Embedded value of life insurance policies				
Embedded value (MCEV)	2,752.8	2,752.8	3,808.6	38.4
Annual premium equivalent (APE)	264.4	264.4	333.2	26.0
Value of new business	23.5	23.5	44.9	91.4
Key figures on the Company's shares				
Shares issued (units)	50,000,000	50,000,000	50,000,000	0.0
Basic earnings per share[4] (CHF)	9.32	10.24	9.65	3.5
Diluted earnings per share[4] (CHF)	9.08	9.96	9.38	3.3
Equity per share[4] (CHF)	103.2	98.3	103.5	0.3
Closing price (CHF)	78.50	78.50	113.60	44.7
Market capitalisation (CHF million)	3,925.0	3,925.0	5,680.0	44.7
Dividend per share[5] (CHF)	4.50	4.50	4.75	5.6

1 Premiums written and policy fees (gross).
2 Of which deferred gains / losses from other operating segments (31 December 2012 (reported): CHF –6.6 million; 31 December 2013: CHF –1.7 million).
3 Excluding investments for the account and at the risk of life insurance policyholders.
4 Calculation is based on the profit for the period attributable to shareholders and the equity attributable to shareholders.
5 2013 based on the proposal submitted to the Annual General Meeting.
6 In the review of its operating performance (pages 18 to 29) Baloise compares the performance of its business in the reporting year with the figures published for the 2012 financial year. Changes in financial reporting standards required figures reported for 2012 to be restated. For further information, please refer to the Financial Report section.
7 The percentage change relates to the figures reported for 2012.

At a glance

Net combined ratio of
94.9 per cent

7.8 per cent
higher total volume of business

Profit of
CHF 453 million

Dividend increased by 5.6 per cent to
CHF 4.75 per share
(will be proposed to Annual General Meeting on 24 April 2014)

Equity of
CHF 4,906.4 million

Return on equity
(RoE) of 9.5 per cent

Solvency ratio of
267 per cent

New business margin of
13.5 per cent

What we want to achieve: By continuing to develop its solid insurance operations, Baloise is once again firmly on track to meet its targets of a combined ratio of between 93 per cent and 96 per cent, a new business margin in excess of 10 per cent and a return on equity of between 8 per cent and 12 per cent. It will continue to pay attractive and consistent dividends.

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

Attractive growth combined with strong profitability

DEAR SHAREHOLDER

This annual report and the Annual General Meeting to be held on 24 April will bring Baloise's anniversary year to a close. For over 150 years we have been identifying our customers' risks and mitigating them successfully. The trust that our clients and shareholders have placed in us forms the solid foundations that have underpinned our success right from the outset.

Baloise generated outstanding growth in 2013 and combined this with impressively strong profitability. It achieved a profit of CHF 452.6 million, thereby underscoring the solidity of its insurance operations. Having systematically targeted specific customers and partners, we now have one of the most profitable insurance portfolios in Europe. This was illustrated by our impressive net combined ratio of 94.9 per cent, which was achieved despite the substantial cost of claims for natural disasters. Large swathes of Germany were flooded back in May of last year. The summer and autumn then brought further severe storms in Baloise's core markets. The claims resulting from these events showed the extent to which the density of valuable assets in these countries has increased, as the cost of large claims caused by storms was the highest seen in the past ten years. And although the amount of such large claims more than doubled compared with the previous year, Baloise's combined ratio remained robust.

Another way in which we create safety and security for our customers and our organisation is by selecting the right investments. These once again yielded impressive gains, achieving a net return of 3.3 per cent on insurance assets. The considerable reliability of our business model was illustrated by our totally sound balance sheet and capitalisation: our equity of just under CHF 5 billion was strong, while our solvency ratio of 267 per cent was excellent.

We continue to boost our strong profitability

By keeping our promise of "Making you safer.", we can offer a skilful combination of insurance and innovative safety and security solutions, and we possess a unique product range that ticks all the boxes for our risk-conscious customers. Our innovative safety and security components enable us to support our customers by offering them exactly the services that they want. We maintain a close dialogue with our Customer Advisory Board. This is key to our ability to innovate. Because we listen to our customers, we now offer facilities such as psychological support after burglaries, self-defence courses for elderly people and driver safety training following accidents. This enables our customers to regain their self-confidence and enhance their safety and security.

Our promise of "Making you safer." applies equally to our employees as well. This approach is reflected in our values-based corporate culture, which we investigate by conducting our staff commitment survey. The already impressive prior-year results improved slightly in 2013. The high participation rate of 78 per cent reaffirmed our belief that it is worth working together to take the Company forwards. The principle that an organisation can only be effective externally if it functions well internally also applies to our own development. We see Baloise as a company that adds value to society: not just because we are an insurer that identifies risks at the earliest-possible stage and mitigates their consequences – which no one would be able to do on their own – but also because we encourage our employees' social engagement and commitment.

The net result of the consistent implementation of our strategy is our robust business model which, despite the recent financial crises, yields high and reliable returns. Our strong balance sheet and capitalisation underpin our dividend policy.

We will propose to the Annual General Meeting on 24 April this year that our dividend be raised by 5.6 per cent to CHF 4.75 per share. This constitutes a continuation of the attractive and consistent dividend policy that we have been pursuing in recent years. Our strong growth, our impressive profit for the period and our payout rate of almost 50 per cent for 2013 once again demonstrate that Baloise continues to enhance the already high profitability of its business and, consequently, remains an attractive and reliable investment for its shareholders.

Safe, secure, reliable and profitable – these are values that we aim to retain in future. To this end we are refining our management of target customers and partners and are opening up new sources of growth. We are putting a Group-wide benchmarking system in place because we are striving to constantly improve our operations and to systematically optimise our business processes. We remain true to our virtues of providing our customers with innovative products and new offerings that have been adapted to the continuing low-interest-rate environment. In order to provide effective support for these focal areas we have set up transnational platforms that address the issues of growth, life insurance, efficiency, non-life insurance and operational excellence.

By continuing to develop its solid insurance operations in this way, Baloise is once again firmly on track to meet its targets of a combined ratio of between 93 per cent and 96 per cent, a new business margin in excess of 10 per cent and a return on equity of between 8 per cent and 12 per cent. It will continue to pay attractive and consistent dividends.

Basel, March 2014

Dr Andreas Burckhardt	**Dr Martin Strobel**
Chairman of the Board of Directors	Group CEO

Stellar share price performance puts Baloise among top six Swiss blue-chip stocks

Baloise shares* continued to post impressive gains in 2013. They closed the year at a price of CHF 113.6, which constituted an annual return of 44.7 per cent. They therefore comfortably outperformed their benchmark indices, ranking among the top six of the 30 largest and most liquid equities on the Swiss stock market.

Although Europe's sovereign debt crisis has yet to be resolved, the economic situation has improved considerably. This trend has manifested itself in the excellent returns available in the equity markets and has boosted insurance stocks, which have significantly gained in value on the back of a strong operating performance and slightly higher interest rates.

The first half of 2013 saw Baloise shares build on their impressive prior-year achievements and add 17.0 per cent, which was far higher than the gains posted by the Swiss Leader Index (SLI) and the Swiss insurance sector index, which rose by 11.6 per cent and 7.1 per cent respectively.

This positive trend was further accentuated in the second half of 2013. Baloise's share price jumped by 23.7 per cent in the second half of the year, easily outperforming both the Swiss Leader Index (up 8.6 per cent) and the Swiss insurance sector index (up 12.1 per cent).

Having closed the year at CHF 113.6, Baloise shares generated a return of 44.7 per cent for 2013 as a whole, thereby comfortably outperforming both the Swiss Market Index and the Swiss Leader Index, which had gained 20.2 per cent and 21.2 per cent respectively since the beginning of the year. Baloise's impressive share price performance shows that investors are looking for companies with highly profitable and reliable business models. The Swiss insurance sector index performed more or less in line with the market as a whole, gaining 20.1 per cent over the year, while its European counterpart (Euro Stoxx 600 Insurance, SXIP) achieved a stronger increase of 29.0 per cent compared with its level at the beginning of 2013.

Baloise shares are included in the 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 24 April 2014 that a cash dividend of CHF 4.75 per share be paid for the 2013 financial year. This would represent a dividend yield of 4.2 per cent of the year-end share price.

Year (CHF million)	Cash dividends	Share buy-backs	Total
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
2013	237.5	–	237.5
Total	1,137.5	123.3	1,260.8

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 2013 financial year. The shareholding owned by the Signal Iduna Group fell below the notifiable threshold of 3 per cent on 18 January 2013. Several portfolios managed by LSV Asset Management collectively rose above the threshold of 3 per cent on 2 July 2013 and

* Baloise shares = shares of Bâloise Holding Ltd.

subsequently amounted to 3.97 per cent of Baloise's outstanding registered shares. Several collective investments managed by Credit Suisse Funds AG together fell below the threshold of 3 per cent on 20 August 2013 and subsequently amounted to 2.99 per cent of Baloise’s outstanding registered shares. Further information on Baloise’s significant shareholders as at 31 December 2013 can be found in the table on page 251.

STATISTICS ON BALOISE SHARES

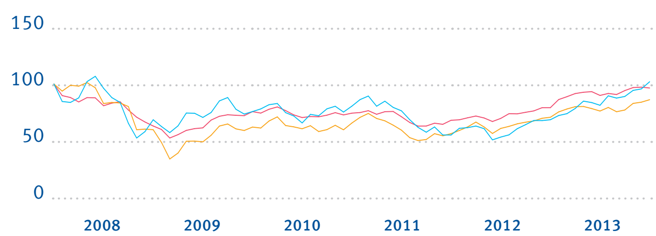
	31.12.2009	31.12.2010	31.12.2011	31.12.2012 (reported)	31.12.2013
Price at year-end (CHF)	86.05	91.00	64.40	78.50	113.60
High (CHF)	102.60	97.85	103.30	80.56	113.60
Low (CHF)	52.60	74.15	60.15	58.30	80.75
Market capitalisation (CHF million)	4,302.5	4,550.0	3,220.0	3,925.0	5,680.0
Basic earnings per share (CHF)	8.64	9.14	1.30	9.32	9.65
Diluted earnings per share (CHF)	8.57	8.89	1.29	9.08	9.38
Price / earnings (p / e) ratio[1]	9.96	9.96	49.54	8.42	11.77
Price / book (p / b) ratio[1]	0.95	1.05	0.78	0.76	1.10
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)	2,282,790	2,800,239	3,247,273	3,053,746	3,028,943
Number of shares in circulation (units)	47,717,210	47,199,761	46,752,727	46,946,254	46,971,057
Average number of shares outstanding[2]	47,905,512	47,394,282	46,900,473	46,831,998	46,896,926
Dividend per share[3] (CHF)	4.50	4.50	4.50	4.50	4.75
Dividend payout ratio[3]	52.1	49.2	>100	48.3	49.2
Dividend yield[3]	5.2	4.9	7.0	5.7	4.2

1 Calculation is based on profit for the period and equity before non-controlling interests respectively.
2 Relevant for calculation of earnings per share (see page 223 of the Financial Report).
3 2013 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 PERFORMANCE[1] BÂLOISE HOLDING REGISTERED SHARES 2008 – 2013



1 31 December 2007 = 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 Insurance" and "Baloise Bank SoBa" brand names. Basler Switzerland is the largest business unit in the Baloise Group. As an insurer and focused financial services provider it specialises in delivering 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.

KEY FIGURES FOR SWITZERLAND

	2012 (reported)	2013
Employees	3,806	3,746
Business volume (CHF million)	3,885.4	4,363.1
Gross combined ratio (per cent)	83.8	86.4

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.

KEY FIGURES FOR GERMANY

	2012 (reported)	2013
Employees	2,373	2,274
Business volume (CHF million)	1,712.1	1,727.3
Gross combined ratio (per cent)	99.1	104.1

BELGIUM

In the Belgian market the Baloise Group has been operating under the "Baloise Insurance" brand name since 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.

KEY FIGURES FOR BELGIUM

	2012 (reported)	2013
Employees	1,389	1,362
Business volume (CHF million)	1,358.6	1,393.5
Gross combined ratio (per cent)	99.8	93.5

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. The Baloise Life unit in Liechtenstein has been managed by Bâloise Luxembourg since 2013.

KEY FIGURES FOR LUXEMBOURG

	2012 (reported)	2013
Employees	297	314
Business volume (CHF million)	1,168.9	1,284.0
Gross combined ratio (per cent)	102.1	83.9

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. Its marketing activities are focused on its insurance sales force.

KEY FIGURES FOR AUSTRIA

	2012 (reported)	2013
Employees	225	219
Business volume (CHF million)	158.2	166.5
Gross combined ratio (per cent)	97.7	92.0

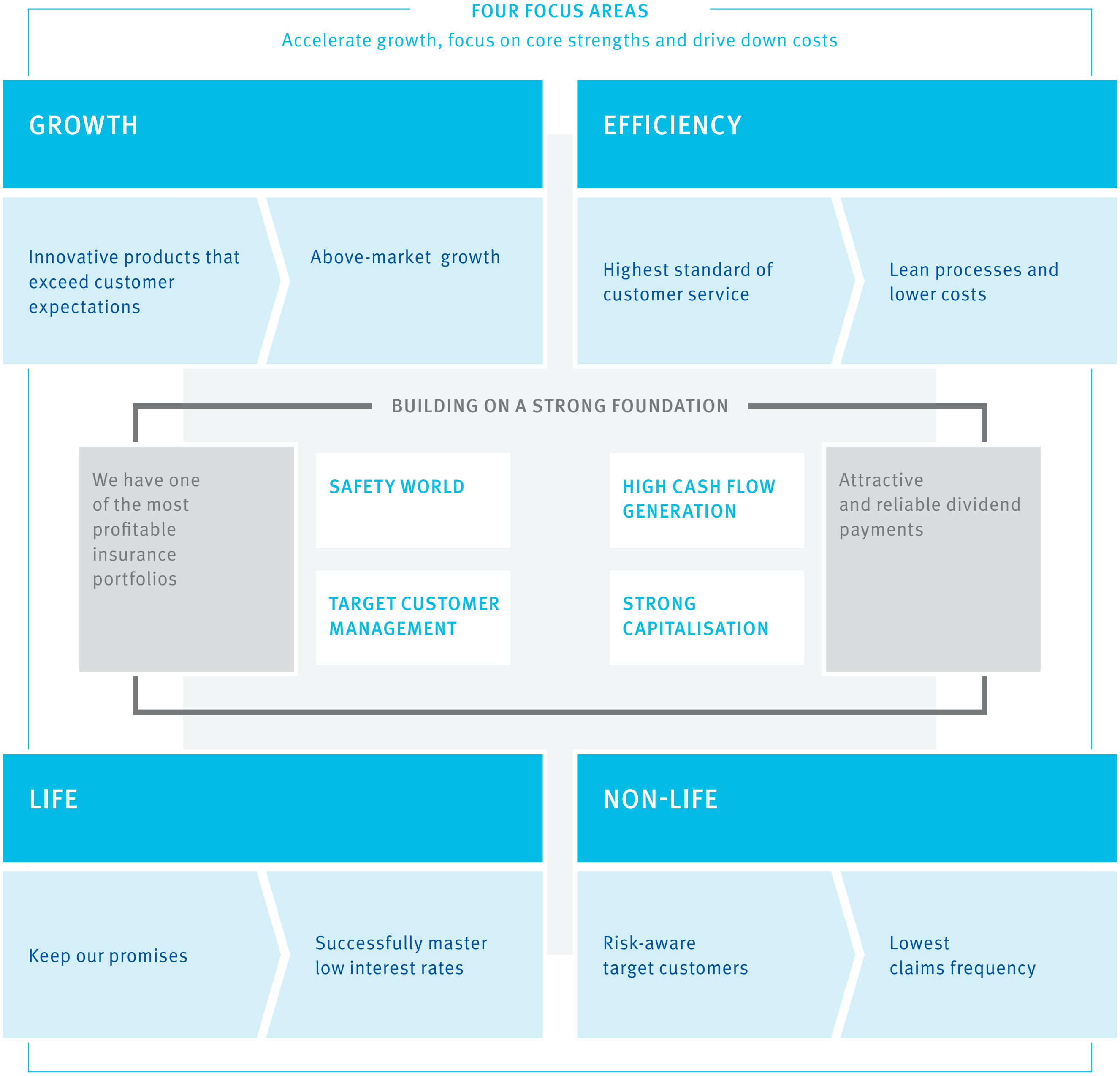
CROATIA AND SERBIA

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. Baloise plans to sell its Croatian and Serbian subsidiaries in 2014.

KEY FIGURES FOR CROATIA AND SERBIA

	2012 (reported)	2013
Employees	701	694
Business volume (CHF million)	68.4	70.0
Gross combined ratio (per cent)	105.8	102.3

Strategic business development
A strong foundation is further enhanced



BUILDING ON A STRONG FOUNDATION

For more than 150 years, Baloise has made its customers safer. With its focus on risk-aware target customers and its unique selling proposition, the "Safety World", Baloise operates from a solid platform with high cash flow generation and strong capitalisation.

SAFETY WORLD

"Making you safer." is the promise we make our key customers. The smart combination of insurance and innovative safety solutions gives us a unique product range that wins over our risk-aware target customers.

TARGET CUSTOMER MANAGEMENT

Our target customer management sets new benchmarks for our industry. The systematic focus on risk-aware key customers is deeply embedded in our culture, in terms of guiding behaviour, processes and remuneration schemes, and provides us with one of the most profitable insurance portfolios in Europe.

HIGH CASH FLOW GENERATION

By consistently implementing our strategy, we have created a robust business model that has ensured reliable profitability, even during the recent capital market crises.

STRONG CAPITALISATION

Thanks to the high reliability of our business model, our balance sheet and capitalisation are rock solid. This has also been the basis of our reliable and attractive dividend policy for more than a decade.

FOUR FOCUS AREAS

The focus areas form the next step in our strategic business development. Starting from the strong foundation we established over the past decade, we aim to expand our core strengths and drive growth and profitability to a new level.

GROWTH

- Enhance target customer and target broker management
- New pricing skills
- New growth areas

EFFICIENCY

- Group-wide benchmarking to identify areas for improvement
- Systematic business process optimisation
- Structural improvements

LIFE

- Innovative products for affluent customers
- Adapt new business to ongoing low-interest environment
- Enhance value of the in-force business

NON-LIFE

- Further strengthen operational excellence
- Improve fraud detection and prevention
- Further improvement of claims management processes

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

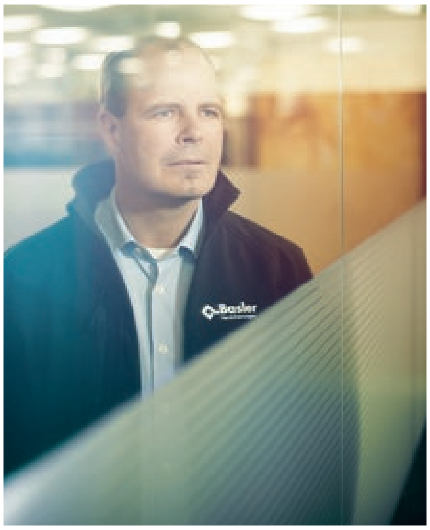
Safety and security constitute our core competences and lie at the heart of all the products, services and benefits that we offer. They act as an exhilarating and energising force that unlocks huge potential.

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.

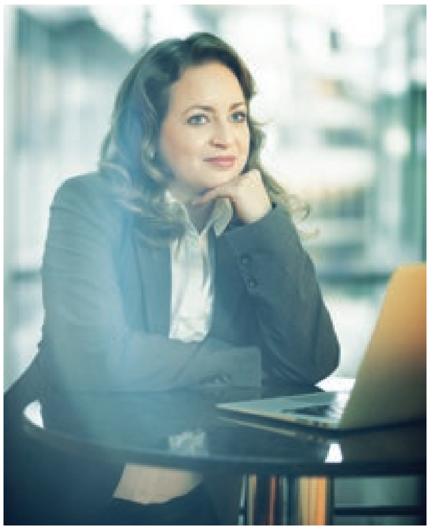


Raphael Strub
Senior Claims Inspector

"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

Baloise generated outstanding growth in 2013 and increased its profit for the period. Its insurance business was highly lucrative and reported a solid combined ratio. In its life insurance business the Company achieved highly impressive growth and further improved its earnings.

OVERVIEW

The Baloise Group generated a profit of CHF 452.6 million for the 2013 financial year (2012: CHF 436.6 million). This profit increase stemmed from the Company's significant growth and robust operating earnings power. All three operating segments in the Baloise Group contributed to this profit expansion. The life insurance business raised its profit contribution by a substantial 47.9 per cent, while the non-life insurance division increased its profit contribution by 3.6 per cent despite considerable storm-related claims. This sound profitability was also reflected in an encouraging net combined ratio of 94.9 per cent. The banking business managed to improve on its impressive prior-year results in a continuing low-interest-rate environment.

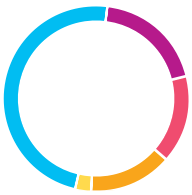
The Company's investments performed well against a backdrop of benign equity markets and rising risk-free long-term interest rates. Investments in the insurance business yielded a return of 2.3 per cent (2012: 6.6 per cent) despite lower bond prices. Equity even grew by a modest 0.7 per cent to more than CHF 4.9 billion, while the solvency ratio of 267 per cent remained at an excellent level.

Baloise possesses a unique product range thanks to its skilful combination of insurance and innovative safety and security solutions offered as part of its "Safety World". By systematically targeting specific customers and partners, the Company operates with one of the most profitable insurance portfolios in Europe. These strong foundations form the basis on which growth can be further expanded through carefully targeted initiatives. 2013 saw business in Switzerland grow promisingly in life insurance and achieve an impressive increase in premium volumes in non-life insurance as well. The Company's operational optimisation initiatives and its sharp focus on attractive segments enabled its business in Germany to return to a successful trajectory. In Belgium, Baloise Insurance improved the profitability of the business that it had acquired in previous years. Baloise strengthened its position in the lucrative Luxembourg market by way of an acquisition, increasing its market share to more than 10 per cent in 2014.

BUSINESS VOLUME 2013 (GROSS) BY STRATEGIC BUSINESS UNIT

As a percentage

Switzerland	48.4
Germany	19.2
Belgium	15.5
Luxembourg	14.3
Other units and Group business	2.7



The total volume of business, which includes investment-linked life insurance, increased by an outstanding 7.8 per cent to CHF 9,009.5 million (2012: CHF 8,358.3 million). Strong growth came from both investment-linked products (10.1 per cent) and conventional life business (10.6 per cent). Premiums earned from non-life insurance rose by 3.7 per cent year on year.

BUSINESS VOLUME

CHF million	2012 (reported)	2013	+/– %
Total business volume	8,358.3	9,009.5	7.8
Life	3,424.0	3,787.2	10.6
Non-life	3,317.7	3,441.7	3.7
Investment-type premiums	1,616.6	1,780.6	10.1

NON-LIFE DIVISION: ROBUST PROFITABILITY

The non-life insurance division (indemnity and personal insurance) delivered an impressive performance on the back of its strong profitability. Although the cost of large claims was the highest for ten years, Baloise achieved a profit of CHF 366.3 million before borrowing costs and taxes in this division (2012: CHF 353.5 million). Its business in Switzerland once again underpinned these results. Nonetheless, the non-life units in Germany, Belgium, Luxembourg and Austria all improved their profitability owing to cost-cutting measures and increased their profit contribution in the Baloise Group's non-life division. Although the cost of large claims more than doubled compared with the previous year, this profit contribution is reflected in the Company's impressive net combined ratio of 94.9 per cent. Baloise expanded the total volume of premiums under IFRS to CHF 3,441.7 million (2012: CHF 3,317.7 million), which constituted an increase of 3.7 per cent in Swiss francs and 2.4 per cent in local-currency terms. All business units in the geographical regions contributed to this growth when measured in local-currency terms.

NET COMBINED RATIO (REPORTED)

As a percentage

LIFE DIVISION: SUBSTANTIAL PROFIT CONTRIBUTION

The life insurance division raised its profit before borrowing costs and taxes by 47.9 per cent to CHF 261.1 million in the reporting year (2012: CHF 176.5 million). This increase was largely attributable to the more benign capital market conditions as well as improvements in the Company's technical result. Although 2013 saw modest interest rate rises, life insurers continued to be faced with the major challenge of generating attractive returns at a time of historically low interest rates. The total volume of business, which includes investment-linked life insurance, grew to CHF 5,567.8 million (2012: CHF 5,040.6 million). One especially encouraging aspect was that the increase of 10.5 per cent in Swiss francs and 9.5 per cent in local-currency terms was equally attributable to exceptional growth of more than 10 per cent in both conventional life insurance and investment-linked products. Baloise's conventional life insurance business increased by 10.6 per cent in Swiss francs and 10.1 per cent in local-currency terms to CHF 3,787.2 million (2012: CHF 3,424.0 million). The Baloise Group's growth in this segment was driven by Switzerland, where conventional life insurance business advanced by 15.5 per cent on the back of the group life operations. Investment-linked life insurance achieved strong growth – especially in Luxembourg and Switzerland – with its aggregate volume expanding by 10.1 per cent in Swiss francs and 8.2 per cent in local-currency terms to CHF 1,780.6 million (2012: CHF 1,616.6 million).

The embedded value of the life insurance business rose from CHF 2,752.8 million to CHF 3,808.6 million in 2013. The return on embedded value came to 35.1 per cent. Operating income contributed CHF 205.4 million of the embedded value. A further CHF 776.4 million stemmed from changes in the economic environment. The value of new business amounted to CHF 44.9 million, and the new business margin was 13.5 per cent (2012: 8.9 per cent).

BANKING DIVISION: CONSISTENT AND SOLID

The banking division managed to defy the continuing low-interest-rate environment by generating a solid profit of CHF 75.4 million before borrowing costs and taxes (2012: CHF 72.8 million) thanks to the robust operating performances delivered by Baloise Asset Management and Baloise Bank SoBa. This profit increase was primarily attributable to higher income from brokerage and services business and to rigorous cost containment.

EQUITY REFLECTS VERY STRONG CAPITAL BASE

On 31 December 2013 the Baloise Group's consolidated equity totalled CHF 4,906.4 million, which was virtually unchanged on its high prior-year figure. The solvency ratio amounted to an impressive 267 per cent. It was 10 percentage points lower year on year owing to the strong growth in business volumes. The economic capital ratio determined under the Swiss Solvency Test (SST) remained comfortably within the green zone.

SIGNIFICANT GAINS ON INVESTMENTS

2013 was characterised by benign equity markets and – reversing the trend towards lower interest rates in recent years – rising risk-free long-term interest rates. The key driver behind these developments was the US Federal Reserve, which took the first steps towards normalising ("tapering") its extremely expansionary monetary policy, while the European Central Bank did what it could to calm the situation in the European markets. These measures increased investors' risk appetite. Baloise's investments continued to perform well in this environment.

These investments generated net income of CHF 1,907.0 million, which was just below the corresponding prior-year figure of CHF 1,947.6 million. This amounted to a net return of 3.1 per cent (2012: 3.3 per cent). Recurring income remained virtually unchanged year on year at CHF 1,765.1 million despite persistently low interest rates (2012: CHF 1,782.2 million).

With our bond investments we exploited specific market opportunities – provided that they met our consistently high quality criteria. The rise in risk-free interest rates caused the prices of the bonds in our portfolio to fall – with the corresponding effect recognised in equity – and book losses to be incurred on interest-rate derivatives. Consequently, the rate of return on insurance assets according to International Financial Reporting Standards (IFRS) – which includes unrealised net gains and losses on investments but excludes gains and losses on held-to-maturity debt instruments – was 2.3 per cent, which was well below the prior-year figure of 6.6 per cent.

Baloise increased its equity exposure during the reporting year, selecting stocks that meet its stringent quality criteria and offer consistently high dividend payments. After their valuations

PROPRIETARY INVESTMENTS BY CATEGORY[1]

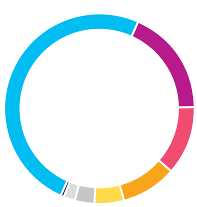
CHF million	2012 (reported)	2013	+/– %
Investment property	5,441.0	5,685.9	4.5
Equities	2,142.7	3,143.3	46.7
Alternative financial assets	1,270.8	1,255.0	– 1.2
Fixed-income securities	30,693.6	30,604.1	– 0.3
Mortgage assets	11,009.9	11,136.8	1.2
Policy loans and other loans	7,501.0	7,192.7	– 4.1
Derivatives	334.9	232.2	– 30.7
Cash and cash equivalents	2,034.4	1,992.2	– 2.1
Total	60,428.3	61,242.2	1.3

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

INVESTMENT COMPONENTS 2013

As a percentage

Fixed-income securities	50.0
Mortgage assets	18.2
Policy loans and other loans	11.7
Investment property	9.3
Equities	5.1
Cash and cash equivalents	3.3
Alternative financial assets	2.0
Derivatives	0.4



ASSETS HELD BY BALOISE

as at 31 December 2012 (restated)	Non-life	Life	Banking	Total for the Group
CHF million				
Proprietary investments	9,384.2	43,725.9	7,274.9	60,428.3
Investment-linked life insurance[1]		8,779.3		9,021.0
Total recognised assets	9,384.2	52,505.2	7,274.9	69,449.3
Asset management for third parties				4,376.4
Total assets under management				**73,825.7**

as at 31 December 2013	Non-life	Life	Banking	Total for the Group
CHF million				
Proprietary investments	9,615.4	44,490.3	7,351.2	61,242.2
Investment-linked life insurance[1]		9,606.8		9,863.5
Total recognised assets	9,615.4	54,097.1	7,351.2	71,105.8
Asset management for third parties				4,473.9
Total assets under management				**75,579.6**

1 Including CHF 47.3 million (2012: CHF 87.1 million) in other assets (precious metal holdings from investment-linked life insurance policies).

had remained more or less flat in the first half of 2013, hedge funds delivered impressive returns in the second half of the year. The performance of private equity investments was also encouraging, albeit somewhat subdued compared with publicly traded shares. The impairment losses recognised on financial instruments with characteristics of equity totalled CHF 32.7 million (gross), which was once again a significant year-on-year decrease. Investment property continued to yield stable returns and higher valuations. The values and income streams generated by our mortgages remained consistent.

Switzerland
Outstanding operational profitability

Baloise was a leading player in the Swiss market in 2013 and continued to improve its already high profitability. It strengthened its product range and exploited growth opportunities in its life insurance business.

KEY FIGURES FOR SWITZERLAND

	2012 (reported)	2013	+/– %
CHF million			
Business volume	3,885.4	4,363.1	12.3
Of which: life	2,569.2	3,019.9	17.5
Of which: non-life	1,316.2	1,343.1	2.0
Gross combined ratio (per cent)	83.8	86.4	–
Profit before borrowing costs and taxes	378.2	434.5	14.9

BASLER INSURANCE: STRONG GROWTH

Basler Switzerland reaffirmed its strong market position by delivering an impressive operating performance as well as excellent growth in life insurance and encouraging growth in indemnity and personal insurance. The life and non-life divisions strengthened their product ranges by adding new safety and security components, thereby underscoring Basler Switzerland's considerable innovative capabilities. Profit before borrowing costs and taxes jumped by 14.9 per cent to CHF 434.5 million (2012: CHF 378.2 million). Life insurance business made a valuable contribution to this encouraging performance. The total volume of business (including investment-linked life insurance) rose sharply by 12.3 per cent to CHF 4,363.1 million (2012: CHF 3,885.4 million) primarily owing to the strong growth in life insurance business. The volumes generated by the unique business model combining banking and insurance continued to grow.

The non-life division remained operationally strong. The gross combined ratio amounted to an excellent 86.4 per cent (2012: 83.8 per cent). Basler Switzerland has been achieving excellent combined ratios for many years. The total volume of premiums rose by 2.0 per cent to CHF 1,343.1 million (2012: CHF 1,316.2 million).

The total volume of business in the life insurance division grew by an outstanding 17.5 per cent to CHF 3,019.9 million (2012: CHF 2,569.2 million). The division's profit before borrowing costs and taxes also rose. The product mix in individual life insurance continued to be fully adapted to the low-interest-rate environment. Overall, Basler Switzerland achieved growth of 15.5 per cent in its conventional life insurance business. The volume of investment-linked life insurance increased mainly as a result of the transfer of the variable annuity products business, which had previously been reported in Liechtenstein.

BALOISE BANK SOBA: HIGHER PROFIT AND ROBUST GROWTH

Baloise Bank SoBa performed well in 2013, gaining further in strength and raising its gross profit. It increased its net profit by 1.6 per cent to CHF 22.2 million (all figures reported according to local accounting standards). Growth and additional cost containment compensated for the lower levels of income generated by the interest-earning business, which continued to contract because interest rates were so low. Brokerage and services business performed very encouragingly. In addition, customer loans and deposits grew further. Baloise Bank SoBa's joint business model in collaboration with Basler Insurance continued to achieve success, with the volumes generated by the insurance sales force growing by 7.4 per cent to CHF 2,476 million.

Germany
Operational optimisation strengthening profitability

The Company's sharp focus on attractive segments, the adjustments made to its sales operations, and its significant cost containment initiatives enabled its German business to return to a successful trajectory. The impressive net result achieved here represented a milestone on this path.

KEY FIGURES FOR GERMANY

CHF million	2012 (reported)	2013	+/– %
Business volume	1,712.1	1,727.3	0.9
Of which: life	854.2	833.0	– 2.5
Of which: non-life	857.9	894.3	4.2
Gross combined ratio (per cent)	99.1	104.1	–
Profit before borrowing costs and taxes	17.2	68.0	295.3

The operational optimisation measures taken in Germany proved effective. The Basler Versicherungen units in Germany raised their profit before borrowing costs and taxes by 295.3 per cent from CHF 17.2 million in 2012 to CHF 68.0 million in 2013. This improvement was all the more remarkable because Germany was battered by severe storms, which caused a huge amount of damage. Flood damage that occurred in May and June resulted in substantial costs for large claims. Because of hailstorms and other storms that occurred in July, August and October, almost 65 per cent of the natural disasters that arose in the Baloise Group affected its German units. The German business reported large claims totalling in excess of CHF 70 million. The gross combined ratio deteriorated year on year to 104.1 per cent owing to the increase in claims incurred (2012: 99.1 per cent). The Basler Versicherungen units in Germany lowered their expense ratio by 1.6 percentage points. By focusing relentlessly on costs and efficiency measures across all processes, these insurance units are gradually reducing their cost base.

The German business expanded its total volume of business from CHF 1,712.1 million in 2012 to CHF 1,727.3 million, which was an increase of 0.9 per cent in Swiss francs. The property insurance division raised its total volume of premiums by 4.2 per cent to CHF 894.3 million (2012: CHF 857.9 million). This positive trend stemmed largely from the target segments, which grew more strongly than the market as a whole. Although this unit achieved growth in life insurance as well in its target segments, the volumes generated by this division contracted overall.

The concentration and optimisation of this business are progressing according to plan. The framework agreement signed at the beginning of March 2014 confirms Bad Homburg and Hamburg as target sites. In Bremen and Nuremberg, individual units will be closed by the end of the first quarter of 2016 and no further staff will be taken on. The Basler Versicherungen units in Germany plan to reduce their costs by roughly EUR 40 million by 2015 and to cut 400 jobs by the end of 2017.

Belgium and Luxembourg
Significant growth stimulus

The business units in Belgium and Luxembourg continued to generate strong growth and further improved their profitability.

BELGIUM: SIGNIFICANT EARNINGS GROWTH

KEY FIGURES FOR BELGIUM

	2012 (reported)	2013	+/– %
CHF million			
Business volume	1,358.6	1,393.5	2.6
Of which: life	453.2	441.2	– 2.7
Of which: non-life	905.4	952.3	5.2
Gross combined ratio (per cent)	99.8	93.5	–
Profit before borrowing costs and taxes	73.8	120.8	63.7

Baloise's Belgian business unit has been operating in the market under the "Baloise Insurance" brand name since January 2013 and, following its acquisitions, it is well positioned in the highly attractive Belgian market. The Belgian business unit increased its profit before borrowing costs and taxes by 63.7 per cent from CHF 73.8 million to CHF 120.8 million. This means that the Belgian units made the second-largest contribution to the Baloise Group's profit for the period (behind only the Swiss units). Baloise Insurance strengthened the profitability of its recently acquired business and significantly lowered the gross combined ratio for its non-life insurance operations by 6.3 percentage points from 99.8 per cent in 2012 to an impressive 93.5 per cent. This encouraging trend was primarily driven by a 4.7 percentage-point decrease in the claims ratio, a 1.7 percentage-point reduction in the expense ratio, and the larger volume of premiums. The total volume of business grew by 2.6 per cent from CHF 1,358.6 million to CHF 1,393.5 million. The property insurance business in Belgium increased by 5.2 per cent in Swiss francs and 3.0 per cent in local-currency terms. The volume of business in the life insurance division, which contracted by 4.7 per cent, declined by much less than the market as a whole, which decreased by 26.5 per cent.

LUXEMBOURG: STRONG GROWTH

KEY FIGURES FOR LUXEMBOURG

	2012 (reported)	2013	+/– %
CHF million			
Business volume	1,168.9	1,284.0	9.8
Of which: life	1,093.8	1,204.9	10.2
Of which: non-life	75.1	79.1	5.3
Gross combined ratio (per cent)	102.1	83.9	–
Profit before borrowing costs and taxes	0.1	16.9	n.a.

The business unit in Luxembourg was again highly successful and reported impressive financial results, generating a profit of CHF 16.9 million before borrowing costs and taxes (2012: CHF 0.1 million). It reduced its gross combined ratio from the exceptionally high prior-year level of 102.1 per cent to an excellent 83.9 per cent. There was highly impressive growth in the total volume of business, which rose by 9.8 per cent to CHF 1,284.0 million (2012: CHF 1,168.9 million). In its local business the Luxembourg unit grew by 5.3 per cent in property insurance and by 2.8 per cent in conventional life insurance.

Other units

Basler Austria posted excellent results, while Baloise improved its operating performance in Croatia and Serbia.

KEY FIGURES FOR OTHER UNITS

	2012 (reported)	2013	+/– %
CHF million			
Business volume	226.5	236.5	4.4
Of which: life	70.1	68.8	– 1.9
Of which: non-life	156.4	167.7	7.2
Gross combined ratio for Basler Austria (per cent)	97.7	92.0	–
Gross combined ratio for Croatia and Serbia (per cent)	105.8	102.3	–
Profit before borrowing costs and taxes	4.6	– 13.5	n.a.

AUSTRIA: OUTSTANDING RESULTS

Basler Austria continued to generate growth and expand its sales activities. Its non-life insurance business grew by 7.3 per cent, while its total volume of business increased by 5.3 per cent to CHF 166.5 million (2012: CHF 158.2 million). The volume of life insurance business contracted slightly owing to market conditions. The combined ratio fell by 5.7 percentage points to an excellent 92.0 per cent owing to cost reductions and the lower level of claims incurred compared with the prior-year figure, which had been impaired by claims for damage caused by storms, snow pressure and frost.

CROATIA AND SERBIA: IMPROVEMENT

Baloise increased the total volume of business transacted in Croatia and Serbia together by 2.4 per cent to CHF 70.0 million (2012: CHF 68.4 million). Both units improved their claims ratios and expense ratios and together achieved a combined ratio of 102.3 per cent (2012: 105.8 per cent). As part of its strategic focus, the Baloise Group has agreed to sell its subsidiaries in Croatia and Serbia to the Austria-based UNIQA Group. Baloise expects to incur a total loss of roughly CHF 30 million on this transaction. Almost all of this amount has been recognised in the annual financial statements for 2013.

Consolidated income statement

FIVE-YEAR OVERVIEW

	2009	2010	2011	2012 (restated)	2013
CHF million					
Income					
Premiums earned and policy fees (gross)[1]	6,841.5	6,854.3	6,806.9	6,731.1	7,212.7
Reinsurance premiums ceded	–190.3	–168.2	–176.3	–176.5	–167.9
Premiums earned and policy fees (net)	6,651.2	6,686.1	6,630.6	6,554.6	7,044.8
Investment income	1,921.2	1,811.2	1,766.5	1,782.2	1,765.1
Realised gains and losses on investments[2]	435.6	501.6	–943.4	852.9	670.3
Income from services rendered	427.3	283.4	158.6	125.0	119.0
Share of profit (loss) of associates	1.4	–0.5	10.2	16.5	40.5
Other operating income	108.1	202.7	140.1	92.0	107.9
Income	**9,544.8**	**9,484.5**	**7,762.6**	**9,423.2**	**9,747.5**
Expense					
Claims and benefits paid (gross)	–5,383.4	–5,212.9	–5,311.5	–5,449.4	–5,439.7
Change in technical reserves (gross)	–968.3	–1,393.2	–639.9	–867.7	–1,359.4
Reinsurance share of claims incurred	58.1	47.5	53.3	113.2	75.5
Acquisition costs	–499.1	–491.5	–576.8	–651.0	–500.5
Operating and administrative expenses for insurance business	–925.1	–856.0	–847.0	–900.0	–897.1
Investment management expenses	–78.8	–64.8	–61.3	–59.0	–70.6
Interest expenses on insurance liabilities	–69.4	–61.2	–51.6	–50.5	–47.3
Gains or losses on financial contracts	–407.9	–219.8	324.0	–577.8	–368.9
Other operating expenses	–708.8	–625.4	–507.9	–363.2	–481.3
Expense	**–8,982.7**	**–8,877.3**	**–7,618.7**	**–8,805.4**	**–9,089.3**
Profit before borrowing costs and taxes	**562.1**	**607.2**	**143.9**	**617.9**	**658.2**
Borrowing costs	–45.1	–52.8	–55.0	–61.0	–50.1
Profit before taxes	**517.0**	**554.4**	**88.9**	**556.8**	**608.1**
Income taxes	–96.0	–117.7	–27.6	–71.6	–152.7
Profit for the period	**421.0**	**436.7**	**61.3**	**485.2**	**455.4**
Attributable to					
Shareholders	414.1	433.4	60.8	479.5	452.6
Non-controlling interests	6.9	3.3	0.5	5.7	2.8
Earnings / loss per share					
Basic (CHF)	8.64	9.14	1.30	10.24	9.65
Diluted (CHF)	8.57	8.89	1.29	9.96	9.38

Footnotes: see next page.

ADDITIONAL INFORMATION

	2009	2010	2011	2012 (restated)	2013
CHF million					
Gross premiums written and policy fees	6,859.8	6,859.8	6,803.3	6,741.7	7,228.9
Investment-type premiums	2,905.6	2,681.6	1,341.2	1,616.6	1,780.6
Total business volume	**9,765.4**	**9,541.4**	**8,144.5**	**8,358.3**	**9,009.5**
Investments for the account and at the risk of life insurance policyholders	6,818.1	7,821.7	7,746.8	8,779.3	9,606.8
Gross combined ratio	91.2	92.2	92.4	93.2	93.1
Funding ratio (non-life) (per cent)	187.7	180.5	195.9	184.3	179.8

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

	2009	2010	2011	2012 (restated)	2013
CHF million					
Assets					
Property, plant and equipment	611.2	535.7	559.9	458.5	422.5
Intangible assets	1,562.4	1,342.6	1,300.2	1,078.5	1,080.3
Investments in associates	143.1	211.3	173.5	227.2	222.0
Investment property	5,071.7	5,046.6	5,138.0	5,441.0	5,685.9
Financial instruments with characteristics of equity	9,486.1	9,844.2	9,703.9	9,475.7	11,344.4
Financial instruments with characteristics of liabilities	26,502.7	25,840.5	28,917.5	32,513.3	32,327.1
Mortgages and loans	18,643.5	17,693.5	18,042.7	18,510.9	18,329.5
Derivative financial instruments	123.7	536.3	334.1	497.6	410.7
Other assets / receivables	2,593.0	2,111.6	2,586.4	2,618.6	2,857.7
Deferred tax assets	26.4	20.2	22.2	32.7	56.0
Cash and cash equivalents	2,528.7	2,208.9	2,287.8	2,923.7	2,960.8
Total assets	67,292.5	65,391.4	69,066.2	73,777.7	75,696.9

	2009	2010	2011	2012 (restated)	2013
CHF million					
Equity and liabilities					
Equity					
Equity before non-controlling interests	4,315.0	4,100.0	3,860.3	4,603.5	4,855.9
Non-controlling interests	195.0	33.5	33.3	37.8	50.5
Total equity	4,510.0	4,133.5	3,893.6	4,641.3	4,906.4
Liabilities					
Gross technical reserves	45,344.2	43,445.7	45,561.9	46,591.9	47,435.6
Liabilities arising from banking business and financial contracts	11,396.4	12,863.3	13,998.1	15,839.6	16,542.1
Derivative financial instruments	49.5	29.9	175.3	64.4	68.2
Other accounts payable	5,299.6	4,277.3	4,782.9	5,802.0	5,862.3
Deferred tax liabilities	692.8	641.7	654.4	838.5	882.3
Total liabilities	62,782.5	61,257.9	65,172.6	69,136.4	70,790.5
Total equity and liabilities	67,292.5	65,391.4	69,066.2	73,777.7	75,696.9

Business volume, premiums and combined ratio

BUSINESS VOLUME

2012 (restated)	Group	Switzerland	Germany	Belgium	Luxem-bourg	Other units[2]
CHF million						
Non-life	3,317.7	1,316.2	857.9	905.4	75.1	156.4
Life	3,424.0	2,510.6	634.7	163.9	62.1	52.7
Sub-total of IFRS gross premiums written[1]	6,741.7	3,826.8	1,492.6	1,069.3	137.2	209.1
Investment-type premiums	1,616.6	58.6	219.5	289.3	1,031.7	17.4
Total business volume	8,358.3	3,885.4	1,712.1	1,358.6	1,168.9	226.5

2013	Group	Switzerland	Germany	Belgium	Luxem-bourg	Other units[2]
CHF million						
Non-life	3,441.7	1,343.1	894.3	952.3	79.1	167.7
Life	3,787.2	2,900.9	609.3	165.2	60.1	51.6
Sub-total of IFRS gross premiums written[1]	7,228.9	4,244.0	1,503.6	1,117.5	139.3	219.3
Investment-type premiums	1,780.6	119.0	223.7	276.0	1,144.8	17.2
Total business volume	9,009.5	4,363.1	1,727.3	1,393.5	1,284.0	236.5

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

GROSS COMBINED RATIO

2012 (restated)	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	36.1	36.7	35.6	36.9
Profit-sharing ratio	0.7	1.3	0.3	0.3	0.2	–
Combined ratio	93.2	83.8	99.2	99.8	102.1	99.1

2013	Group	Switzerland	Germany	Belgium	Luxembourg	Other units[1]
as a percentage of premiums earned						
Claims ratio	61.4	60.3	69.3	58.1	49.3	58.1
Expense ratio	31.0	25.1	34.4	35.0	34.3	36.2
Profit-sharing ratio	0.7	1.0	0.4	0.4	0.3	–
Combined ratio	93.1	86.4	104.1	93.5	83.9	94.3

1 Other units: Austria, Croatia and Serbia.

GROSS AND NET COMBINED RATIO

	Gross		Net	
	2012 (restated)	2013	2012 (restated)	2013
as a percentage of premiums earned				
Claims ratio	60.7	61.4	60.3	62.1
Expense ratio	31.8	31.0	33.1	32.1
Profit-sharing ratio	0.7	0.7	0.7	0.7
Combined ratio	93.2	93.1	94.1	94.9

FUNDING RATIO (NON-LIFE)

	2012 (restated)	2013
CHF million		
Technical reserve for own account[1]	5,834.8	5,933.3
Premiums written and policy fees for own account	3,166.1	3,300.4
Funding ratio (per cent)	184.3	179.8

1 Not including capitalised settlement premiums.

Technical income statement

	Non-life		Life[3]	
	2012 (restated)	2013	2012 (restated)	2013
CHF million				
Gross				
Gross premiums written and policy fees	3,317.7	3,441.7	3,424.0	3,787.2
Change in unearned premium reserves	– 10.6	– 16.2	–	–
Premiums earned and policy fees (gross)	3,307.1	3,425.5	3,424.0	3,787.2
Claims and benefits paid (gross)	– 2,009.1	– 2,073.7	– 3,440.2	– 3,366.0
Change in technical reserves (gross)				
Change in claims reserve / actuarial reserves[1]	– 20.8	– 52.1	– 513.5	– 833.7
Change in other technical reserves	– 21.9	– 59.1	– 311.9	– 414.9
Technical expenses	– 1,086.9	– 1,096.9	– 547.3	– 372.9
Total technical result (gross)	168.4	143.7	– 1,388.9	– 1,200.3
Ceded to reinsurers				
Reinsurance premiums ceded	– 157.8	– 148.3	– 18.7	– 19.5
Claims and benefits paid	66.9	67.6	7.0	4.7
Reinsurers' share of claims incurred	39.3	3.2	– 0.2	– 0.8
Change in other technical reserves	0.4	0.3	0.2	0.8
Technical expenses	9.7	7.7	3.0	3.3
Total technical result of ceded business	– 41.5	– 69.5	– 8.6	– 11.5
For own account				
Premiums earned and policy fees	3,149.3	3,277.1	3,405.3	3,767.7
Claims and benefits paid	– 1,942.3	– 2,006.1	– 3,433.2	– 3,361.3
Change in claims reserve / actuarial reserves[1]	18.5	– 48.9	– 513.8	– 834.5
Change in other technical reserves	– 21.5	– 58.8	– 311.6	– 414.1
Technical expenses	– 1,077.2	– 1,089.2	– 544.3	– 369.6
Total technical result for own account	126.9	74.2	– 1,397.6	– 1,211.8
Investment income (gross)	285.2	276.2	1,347.5	1,349.4
Realised gains and losses on investments[2]	– 1.9	118.1	845.8	532.1
Investment management expenses	– 19.3	– 22.2	– 78.5	– 88.3
Other financial expenses and income	18.8	– 79.9	– 540.5	– 320.3
Gains or losses on investments	282.8	292.1	1,574.3	1,472.9
Profit before borrowing costs and taxes	409.7	366.3	176.7	261.1
Borrowing costs	–	–	–	–
Income taxes	– 21.7	– 75.3	– 27.9	– 65.8
Profit for the period (segment result)	388.0	291.0	148.9	195.3

1 Including change in reserve 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 2012: CHF –6.2 million; 31 December 2013: CHF –1.7 million).

Gross premiums by sector

GROSS PREMIUMS BY SECTOR (NON-LIFE)

CHF million	2012 (restated)	2013	+/– %
Accident	444.7	442.1	– 0.6
Health	124.5	131.8	5.9
General liability	346.5	361.3	4.3
Motor	1,089.1	1,129.4	3.7
Property	1,003.4	1,065.6	6.2
Marine	193.2	185.1	– 4.2
Other	72.2	78.7	9.0
Inward reinsurance	44.1	47.7	8.2
Gross premiums written (non-life)	3,317.7	3,441.7	3.7

GROSS PREMIUMS BY SECTOR (LIFE)

CHF million	2012 (restated)	2013	+/– %
Business volume generated by single premiums	2,427.6	2,910.0	19.9
Business volume generated by periodic premiums	2,613.0	2,657.8	1.7
Investment-type premiums	– 1,616.6	– 1,780.6	10.1
Gross premiums written (life)	3,424.0	3,787.2	10.6

Banking activities

PROFIT OR LOSS FROM BANKING ACTIVITIES

CHF million	2012 (restated)	2013
Total interest income	168.7	156.9
Total interest expenses	– 69.3	– 61.3
Net interest income	**99.3**	**95.6**
Net fee and commission income	63.1	67.0
Trading profit	– 9.4	2.8
Other net income	1.2	5.9
Total operating income	**154.3**	**171.3**
Personnel expenses	– 53.6	– 58.8
General and administrative expenses	– 17.4	– 13.9
Total operating expenses	**– 71.0**	**– 72.7**
Gross profit	**83.3**	**98.5**
Net losses and impairment due to credit risk	6.6	– 4.1
Depreciation, amortisation and impairment of property, plant and equipment and of intangible assets	– 11.4	– 19.1
Profit before taxes	**78.6**	**75.4**
Income taxes	– 14.5	– 13.8
Profit for the period (segment result)	**64.0**	**61.6**

ADDITIONAL INFORMATION

CHF million	2012 (restated)	2013
Assets managed for third parties	4,376.4	4,473.9
Risk-weighted assets of banking activities[1]	3,439.8	3,290.1

ASSET ALLOCATION

CHF million	2012 (restated)	2013
Investment property	–	–
Equities	9.0	8.2
Alternative financial assets	–	–
Fixed-income securities	428.6	435.1
Mortgage assets	6,311.0	6,454.8
Policy loans and other loans	243.1	235.5
Derivative financial instruments	15.3	7.2
Cash and cash equivalents	267.9	210.4
Total	**7,274.9**	**7,351.2**

1 The amount shown as at 31 December 2012 has not been restated.

Investment performance

INVESTMENT PERFORMANCE

2012 (restated)[1]	Fixed-income securities	Equities	Investment property	Mortgage assets, policy loans 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	63.2	136.1	– 0.2	19.4	224.4
Change in unrealised gains and losses recognised directly in equity	1,408.9	117.5	–	–	34.5	1,560.8
Investment management costs	– 26.7	– 2.9	– 5.5	– 13.6	– 10.2	– 58.9
Operating profit	2,282.9	259.4	375.8	534.5	55.9	3,508.4
Average investment portfolio	**29,337.5**	**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**

2013[1]	Fixed-income securities	Equities	Investment property	Mortgage assets, policy loans and other loans	Alternative financial assets, derivatives, cash and cash equivalents	Total
CHF million						
Current income	891.2	88.3	253.3	521.6	10.8	1,765.1
Realised gains and losses and impairment losses recognised in profit or loss (net)	192.0	79.7	127.0	26.2	– 214.2	210.7
Change in unrealised gains and losses recognised directly in equity	– 795.1	203.8	–	–	49.7	– 541.7
Investment management costs	– 27.6	– 4.1	– 8.7	– 16.8	– 11.6	– 68.9
Operating profit	260.4	367.7	371.6	531.0	– 165.4	1,365.3
Average investment portfolio	**30,648.8**	**2,643.0**	**5,563.5**	**18,420.2**	**3,559.8**	**60,835.3**
Performance (per cent)	**0.8**	**13.9**	**6.7**	**2.9**	**– 4.6**	**2.2**

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

CURRENT INCOME FROM INSURANCE[1]

CHF million	2012 (restated) Non-life	2012 (restated) Life	2012 (restated) Total	2013 Non-life	2013 Life	2013 Total
Investment property	36.2	198.3	234.4	34.2	205.8	240.0
Equities	29.8	51.5	81.3	32.8	55.1	87.9
Alternative financial assets	1.3	7.6	8.9	2.0	7.2	9.1
Fixed-income securities	159.9	724.5	884.4	149.8	730.5	880.3
Mortgage assets	10.0	118.8	128.9	8.8	109.1	117.8
Policy loans and other loans	47.3	244.6	291.9	48.3	240.8	289.1
Derivative financial instruments	–	–	–	–	–	–
Cash and cash equivalents	0.7	2.2	2.9	0.3	1.0	1.4
Total current income	285.2	1,347.5	1,632.8	276.2	1,349.4	1,625.6

REALISED GAINS AND LOSSES IN INSURANCE[1]

CHF million	2012 (restated) Non-life	2012 (restated) Life	2012 (restated) Total	2013 Non-life	2013 Life	2013 Total
Investment property	– 7.9	147.1	139.3	21.5	109.7	131.1
Equities	48.3	14.1	62.4	45.7	34.6	80.3
Alternative financial assets	– 2.1	3.1	1.0	3.6	– 2.4	1.2
Fixed-income securities	– 9.2	15.0	5.9	42.5	148.4	190.9
Mortgage assets	– 0.3	– 2.5	– 2.7	– 0.2	– 6.1	– 6.3
Policy loans and other loans	– 0.3	– 3.4	– 3.7	29.9	6.6	36.5
Derivative financial instruments	– 30.5	57.5	27.1	– 24.9	– 202.0	– 226.9
Cash and cash equivalents	–	–	–	–	–	–
Total capital gains and losses	– 1.9	231.1	229.2	118.1	88.8	206.9

ASSET ALLOCATION IN INSURANCE[1]

CHF million	2012 (restated) Non-life	2012 (restated) Life	2012 (restated) Total	2013 Non-life	2013 Life	2013 Total
Investment property	777.4	4,476.0	5,253.4	782.1	4,675.6	5,457.8
Equities	682.8	1,449.4	2,132.2	1,064.8	2,068.0	3,132.8
Alternative financial assets	267.2	1,003.6	1,270.8	270.0	985.0	1,255.0
Fixed-income securities	5,562.0	24,692.8	30,254.8	5,369.3	24,798.6	30,167.9
Mortgage assets	417.1	4,281.7	4,698.9	393.3	4,288.7	4,682.0
Policy loans and other loans	1,149.8	6,490.5	7,640.3	1,247.8	6,357.3	7,605.2
Derivative financial instruments	6.4	311.1	317.4	17.0	196.8	213.8
Cash and cash equivalents	521.5	1,020.8	1,542.3	470.9	1,120.3	1,591.3
Total	9,384.2	43,725.9	53,110.1	9,615.4	44,490.3	54,105.7

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

Sustainable business management

Our highly skilled workforce has been providing our clients with peace of mind for the last 150 years.

The Baloise Group's HR activities are characterised – even in turbulent times – by a sense of continuity. The Company's consistent refinement of the tools and methods available ensures that its employees can bring their full potential to bear.

KEY FIGURES

- 8,613 people (7,805 FTEs) were working for the Baloise Group on 31 December 2013 (end of 2012: 8,795).
- 45.9 per cent of all staff members are women (2012: 45.3 per cent).
- The Baloise Group employs 200 (2012: 241) apprentices, trainees and interns.
- 58.2 per cent of staff members working in our main market of Switzerland participated in our Employee Share Ownership Plan in 2013 (2012: 58.8 per cent).
- Baloise invested CHF 10.7 million in staff training and development in 2013 (2012: CHF 11.2 million).
- Baloise employees work at the Company for an average of 13.3 years.
- Staff turnover as at 31 December 2013 amounted to 6.9 per cent (end of 2012: 5.2 per cent).

NEW HEAD OF HUMAN RESOURCES; STAFF CRITICAL TO OUR SUCCESS

Since 1 June 2013 the Baloise Group's human resources (HR) activities have been headed up by Stephan Ragg, who is continuing the successful work done by Kurt Grois. As a former member of the Executive Committee of Corporate Division Switzerland, Stephan Ragg possesses in-depth knowledge of the Company and is already well acquainted with HR issues from the experience gained in his previous role; consequently, this change of personnel constituted a seamless transition.

The Baloise Group's HR activities continue to be based on the successful implementation of its behavioural values "Develop and engage – yourself and others!", "Act authentically and earn trust!" and "Put yourself in the other's shoes!". These values enable our employees to make the best possible use of their skills and expertise in their day-to-day work so that they can achieve our targets.

Given the prevailing labour market situation, competition for the best workers will remain intense. It is therefore equally as crucial to recruit new, highly qualified employees as it is to develop and retain the Company's existing staff.

The Company's HR strategy will enable it to maintain its strength in the competition for the right talent over the coming years.

The key components of Baloise's 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.

EMPLOYER BRANDING AT BALOISE: MAINTAINING A CONSTANT DIALOGUE

Acting in its capacity as an employer, Baloise continues to use social media as an effective tool for recruiting workers in employee-friendly labour markets and for retaining its own staff. This strategy enables the Company to enter into a dialogue with suitably talented individuals and to strengthen its brand as an employer. Baloise has remained true to its pioneering role in this field: its Employer Branding team has incorporated two new platforms – Pinterest and Google+ – into its portfolio in order to attract applicants to the Company.

Its existing presence on Twitter, LinkedIn, Xing and Facebook has also been further enhanced and usefully exploited. A particularly successful tool has proved to be Facebook, where the Company is followed by more than 10,000 people who are interested in insurance as a potential career.

This dialogue-based strategy is also consistently pursued in the Company's traditional HR marketing activities, and its offering at recruitment events has been optimised so that it can connect as effectively as possible with talented young people.

NURTURING YOUNG TALENT AT BALOISE: PLENTY OF OPPORTUNITIES TO DEVELOP AND GROW

The Baloise Group's national subsidiaries offer a number of attractive training and apprenticeship opportunities for school-leavers and students. These include internships, temporary jobs for students and vocational training and courses for those who have obtained their school-leaving certificate (Matura). This system provides Baloise with a constant internal supply of highly skilled young professionals who, once they have successfully completed their training, can offer fresh ideas and creative input that will help to take the Company forward.

Another continuing success story is Baloise's management trainee programme, which is highly popular with university graduates. The Company has no difficulty in persuading plenty of excellent candidates to apply for this scheme. Once they have completed this programme these management trainees are highly valued employees at the Company, with many of them embarking on careers that take them to the most senior managerial positions.

INTELLIGENT PERFORMANCE MANAGEMENT: RESULTS AND PERFORMANCE ARE WHAT COUNTS AT BALOISE

Baloise uses remuneration systems that enable it to provide performance-related and target-based pay packages. It offers basic salaries in line with 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 the senior management team 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.

The performance management system introduced in 2011 has proved to be a highly valuable tool and has been used successfully ever since. The performance management system used in 2014 has been modified slightly and simplified for the members of the Corporate Executive Committee so that it meets the requirements of the Swiss Ordinance Against Excessive Remuneration at Publicly Listed Companies (VegüV).

TALENT MANAGEMENT: DEVELOPING STAFF FOR FUTURE SUCCESS

The main aim of our integrated performance and talent management system is to strengthen our culture of performance and trust and to encourage continuous learning. This approach centres on regular dialogue between employees and their line managers in order to provide guidance and clarity about shared targets and objectives and about the employees' strengths, areas of activity, and professional development. This dialogue forms part of the culture of continuous feedback at Baloise and encourages target-focused behaviour and the enhancement of skills within the organisation. 2013 saw the piloting of a refined approach that places employees even more firmly at the centre of this process. Because the pilot phase has proved to be such a success, this approach will be progressively rolled out across the entire organisation from 2014.

Succession planning for the whole of the Baloise Group forms part of this integrated performance and talent management system and ensures that key positions are swiftly filled and that long-term succession options are available.

BALOISE CAMPUS: CUSTOMISED EXECUTIVE DEVELOPMENT

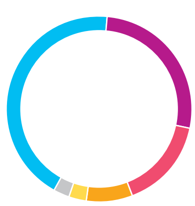
The Company's anniversary year was also the year that witnessed the birth of the Baloise Campus, which is where the Baloise Group's executive development activities take place. 129 employees of various seniority levels took part in its development programmes in its first year. All Baloise Campus programmes teach a mixture of business expertise, leadership skills and corporate culture. The programme draws on top executives from within the Company as speakers and offers support from external coaches, which provides participants with an attractive forum for networking and personal development.

A further programme will be added to the Baloise Campus syllabus in 2014. The Top Leaders Convention will provide an opportunity for senior managers to work on relevant development issues within the Company. Furthermore, the Baloise Campus will be expanded to include new Group-wide and local modules to meet requirements at a variety of levels.

In addition to the Baloise Campus programmes, "extended knowledge conferences" were held at the Company's sites in Basel, Hamburg, Antwerp and Brussels. These events were lecture and discussion forums at which Baloise employees had the opportunity to talk to experts about the strategic challenges of the future.

BALOISE'S 8,613 EMPLOYEES IN 2013 BY COUNTRY

	Per cent	Employees
Switzerland	43.5	3,746
Germany	26.4	2,274
Belgium	15.8	1,362
Croatia and Serbia	8.1	694
Luxembourg	3.6	314
Austria	2.5	219
Other	0.0	4



BALOISE INTERNATIONAL: GROUP-WIDE LEARNING – EXPLOITING SYNERGIES

In addition to the individual Group companies' regional HR activities, which are determined by country-specific business requirements and the applicable legal framework, the Baloise Group is also increasingly working on HR issues that span the entire organisation. The HR Community set up specifically for this purpose comprises the HR heads from the national subsidiaries and the competence centre heads from Group HR and uses this platform as a forum for discussing strategic matters. This approach nurtures a culture of best practice that enables all Group companies to transfer successful strategies and tools to their own markets.

As part of the restructuring being carried out in Germany, a project addressing the issue of process optimisation in HR was launched and a few processes have already been redesigned more efficiently. The findings gained from this project and the results achieved will also enable other companies to optimise their own processes. Some of the other topics being addressed in the form of projects conducted in individual countries are internal mobility in Luxembourg, burn-out prevention in Austria and managerial feedback in Switzerland. These projects – together with Group-wide issues such as talent management, diversity, IT harmonisation and Baloise's brand as an employer – form an integral part of the HR Roadmap, which outlines the focal themes of the Baloise Group's HR activities over the coming years.

DIVERSITY UNDERPINS OUR SUCCESS

Baloise recognises that a diversified workforce is crucial to its success and therefore continues to strongly encourage this trend. Women account for 45.9 per cent of its total employees and 22.3 per cent of its management team. The Company develops and promotes its staff on the basis of their performance, their potential and Baloise's corporate values.

The Company achieved further success in the field of corporate health management when the Basler Insurance companies in Switzerland were once again officially designated "friendly work spaces" in 2013. By receiving excellent ratings across all criteria, the Company comfortably exceeded the legal requirements and underscored its commitment to creating a working environment in which its staff are happy, stay healthy and, consequently, can deliver an excellent performance.

Tips on how to lead a healthy lifestyle both at work and at home are provided in the form of seminars, workshops, information events and other initiatives. Flexible and part-time working, as well as the "Bal4Kids" crèche in Basel, have been available for a number of years now in addition to our corporate health management scheme. Through these measures, we are honouring our “Making you safer.” brand promise to our own employees as well.

EMPLOYEE REPRESENTATION IN THE BALOISE GROUP

Baloise respects the right of all workers to join and participate in employees’ representative bodies. All members of the workforce are represented by staff committees, works councils or other employee bodies and organisations.

The annual European Forum held in 2013 once again provided an opportunity for employee representative delegates from the various Baloise companies to meet and talk to representatives of the Corporate Executive Committee in a spirit of encouraging and deepening transnational dialogue. This event ensures that the Baloise Group’s business runs smoothly and harmoniously, while giving due consideration to all the stakeholders involved.

BALOISE GROUP HUMAN RESOURCES ON THE INTERNET

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

Careers blog:
www.baloisejobs.com

Baloise Group Human Resources on social media:
Facebook, Google+, Twitter, LinkedIn, Xing, YouTube and Pinterest
www.baloisejobs.com/socialmedia

Protecting the environment over the long term

As a signatory to the UNEP declaration* for the insurance industry, Baloise is committed – among other things – to constantly reducing its carbon footprint. In 2013, further major measures were put in place to achieve this goal.

ENERGY EFFICIENCY AT COMPUTER CENTRES

The Baloise Group has achieved lasting reductions in energy consumption at its computer centres in Switzerland. Side and ceiling panels have been added to the open racks housing the servers. This separates the cold and warm air zones, thereby sharply reducing the amount of air that needs to be cooled. In addition, the refrigeration and ventilation systems have been upgraded. This cut the energy consumption of the cooling, ventilation and humidification systems used at our computer centres by more than 979,000 kWh per year – or 53 per cent – in 2013. This represents roughly 9 per cent of the power used by our Group headquarters, which has over 2,000 workstations and includes central facilities such as the staff restaurant, auditorium and computer centres.

SUSTAINABLE PLANNING OF REAL ESTATE

Baloise plans to replace three buildings (one hotel and two office blocks) at its headquarters in Basel with new builds. The three dimensions of sustainability (environmental, economic and social factors) are the key values that inform the project development, construction and subsequent use of this real estate. Since its inception, this project has been supported by sustainability specialists and meets the relevant criteria of the standards for sustainable construction in Switzerland (SNBS).

CUTTING CO_2 EMISSIONS BY TAKING THE TRAIN

Baloise employees 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 claims for expenses. As part of its service, SBB evaluates the train journeys made by Baloise employees and assesses them in terms of their carbon footprint. Basler Switzerland staff travelled 2,371,057 passenger kilometres by train on business in 2013. This represented a saving of 167,248 litres of fuel and 469 tonnes of CO_2, which is roughly equal to the carbon emitted by 187 energy-efficient ("Minergie") houses in one year.

ADDING VALUE WITH BALOISE'S NEW WORKPLACE CONCEPTS

The new workplace concepts being examined by the Baloise Group offer sufficient project spaces and workplaces in pleasant surroundings where people can work in peace and quiet while having enough room for communication and teamwork. Basler Switzerland will be testing its new open-space workplace concept in the spring of 2014. Under this concept, workplaces are no longer permanently assigned to specific employees, which facilitates much more efficient use of office space and therefore lowers both energy consumption and occupancy costs.

LEARNING FROM THE BEST HELPS TO SAVE ENERGY AND CUT COSTS

Basler Switzerland provides financial support for the recently established "environmental platform", a public-private partnership with firms in the Basel region. This "environmental platform" presents both planned and implemented energy-saving projects, encourages dialogue between interested companies and, consequently, helps combat climate change and promote sustainable development.

ENERGY EFFICIENCY AT BALOISE

The total amount of energy and resources used corresponds to the aggregate consumption by the Baloise Group's large office buildings and its computer centres in Switzerland. The figures

* UNEP = United Nations Environment Programme.

ENVIRONMENTAL AUDIT

	2011 absolute	2012 absolute	2013 absolute	Relative	Unit	+/– %
Employees	4,800	4,975	5,315		headcount	6.8
Energy reference area	140,997	141,578	141,032		ERA m²	– 0.4
Locations	13	12	13		number of buildings	1
Electricity consumption	22,859,388 KWh	23,312,615 KWh	20,712,643 KWh	3,897	kWh / employee	– 11.2
Heating consumption	12,110,484 KWh	13,856,250 KWh	11,513,544 KWh	82	kWh / m²	– 16.9
Water consumption	61,968 m³	58,113 m³	53,769 m³	41	l/employee / day	– 7.5
Paper consumption	684 t	822 t	510 t	96	kg / employee	– 38.0
Paper types				2.0 %	recycled	
				77.0 %	chlorine-free-bleached	
				21.0 %	chlorine-bleached	
Copy paper consumption	91.2 million A4 sheets	81.9 million A4 sheets	71.9 million A4 sheets	14,437	A4 sheets / employee	– 12.2
Amount of refuse	928 t	909 t	1,241 t	234	kg / employee	36.5
Types of refuse				55.0 %	paper / cardboard	
				5.0 %	other materials	
				1.0 %	special waste	
				39.0 %	misc. waste / refuse	
Business travel	18.32 million km	21.82 million km	21.26 million km	4,000	km / employee	– 2.6
Mode of transport				30.3 %	km by air	
				36.6 %	km by road	
				33.1 %	km by public transport	
CO_2 emissions	16,591 t	17,855 t	16,020 t	3,014	kg / employee	– 10.3

reported relate to the energy and resources used by 61.7 per cent of the 8,613 people working for the Baloise Group. By making adjustments at our operating sites, we drastically cut the amount of heating that we used for a similar energy reference area. The merger of sites at the Belgian subsidiary and the huge energy efficiencies achieved at the computer centres in Switzerland caused power consumption to fall sharply: electricity use declined by 11.2 per cent overall. We therefore exceeded our target of cutting our electricity consumption by between 2 per cent and 3 per cent each year from 2004 to 2013. Over the next five years we plan to introduce specific measures to cut our annual power consumption per employee by a further 1 per cent to 2 per cent. As a responsible corporate citizen we are both obliged and motivated to use resources efficiently in the face of climate change and rising energy costs.

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

Baloise's risk management constitutes one of the main pillars of its 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 2013. 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 & information risk.

A detailed description of these risks can be found in the Financial Report section on page 126.

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 and Risk Committee. The Chief Risk Officer for the Baloise Group reports regularly to both of these bodies and is partly personally responsible for risk-related issues.

The Board of Directors is empowered 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 economic risk capital derived from Baloise's models 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 appropriate reporting procedures to monitor market risk and financial-structure risk across all our investment units. In addition to upper limits on equity exposures, for example, there are clear and binding guidelines on bond ratings. The applicable "Basel" approach and advanced statistical methods are used to assess credit risk. In addition, we use our risk analysis to monitor the overall solvency position once a month.
- 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. Reports submitted to regulatory authorities complete the picture. In addition, 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.

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 2013

Baloise's risk strategy principles are designed for the long term, as shown by the Company's excellent risk positioning in 2013. Proof positive of this situation was the Baloise Group's solvency ratio, which remained very high at 267 per cent and bears testimony to its financial strength.

2013 was a year when tried-and-tested underwriting approaches continued to be refined:

- 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.
- We continued to actively manage our credit risk and currency risk, making further progress especially in measuring and monitoring the risks attaching to countries and counterparties.
- With a net equity exposure that had risen to 6.3 per cent by 31 December 2013, our equity investments in the reporting year lay comfortably within our risk-bearing capacity.
- The high quality of recurrent investment income generated by our stable real-estate portfolio proved to be a valuable source of revenue.
- Much of our focus is directed at 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 has proved to be highly consistent, with the Baloise Group's net combined ratio of 94.9 per cent demonstrating our excellent capabilities in underwriting and managing non-life risk.

Our risk management will continue to evolve 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 2013 Financial Report (section 5. "Management of insurance risk and financial risk" on pages 124 to 162).

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 own remuneration report as item 5 of its Corporate Governance Report, which 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 5,680 million as at 31 December 2013.

- Information on Baloise shares can be found from page 8 onwards.
- Significant subsidiaries, joint ventures and associates as at 31 December 2013 can be found from page 236 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 165 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 62.

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 20,760 shareholders were registered in Bâloise Holding's share register as at 31 December 2013. The number of registered shareholders had risen by 2.3 per cent compared with the previous year. The "Significant shareholders" section on page 251 provides information on the structure of the Company's shareholder base as at 31 December 2013.

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 2,201,528 treasury shares (4.4 per cent) as at 31 December 2013.

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 1,260.8 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)			
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
2013	237.5	–	237.5
Total	**1,137.5**	**123.3**	**1,260.8**

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)

	2011	2012	2013
CHF million			
Share capital	5.0	5.0	5.0
General reserve	11.7	11.7	11.7
Reserve for treasury shares	182.3	173.9	176.3
Other reserves	247.4	224.9	240.7
Distributable profit	194.9	244.1	56.3
Equity attributable to Bâloise Holding	**641.3**	**659.6**	**490.1**

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 Annual General Meeting voted on 2 May 2013 to extend until 2 May 2015 the resolution adopted on 29 April 2011 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. Section 3 (4) of the Articles of Association was amended accordingly in 2013.

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

Conditional capital

The 2004 Annual General Meeting (section 3 of the Articles of Association) 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' pre-emption 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' pre-emption 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 section 3 of Bâloise Holding's Articles of Association.

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→ Corporate Governance → Rules and regulations

Other equity instruments

The Company has no profit-participation certificates.

The Baloise Group's consolidated equity

The Baloise Group's consolidated equity amounted to CHF 4,906.4 million on 31 December 2013. Details of changes in consolidated equity in 2012 and 2013 can be found in the consolidated statement of changes in equity on pages 96 and 97 in the Financial Report section. All pertinent details relating to 2011 can be found in the consolidated statement of changes in equity on page 92 in the Financial Report section of the 2012 Annual 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 2013. Details of outstanding bonds of Bâloise Holding can be found on pages 213 and 249 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 positive 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

Election and term of appointment

The Board of Directors consisted of nine members at the end of 2013. Until now, each member has been elected for a term of three years at a time. Roughly one-third of members stepped down each year unless they were re-elected ("staggered replacement"). Because of the Ordinance Against Excessive Remuneration at Publicly Listed Companies (VegüV), which came into effect on 1 January 2014, each member of the Board of Directors is to be elected for a term of one year at a time from the 2014 Annual General Meeting. The necessary changes to the Articles of Association will be included on the agenda for the 2014 Annual General Meeting.

The average age on the Board of Directors is currently 61. Each member of the Board of Directors is elected individually.

Members of the 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 Georg F. Krayer, Dr Michael Becker and Werner Kummer were re-elected for a three-year term. Dr Hansjörg Frei stepped down from the Board of Directors at the 2013 Annual General Meeting (AGM). Karin Keller-Sutter was newly elected for a two-year term (replacement for Dr Frei before his term of office had ended).

The terms of appointment of the directors Dr Andreas Beerli, Dr Georges-Antoine de Boccard and Dr Eveline Saupper will expire at the forthcoming 2014 AGM. Because of the switch to a one-year term in accordance with the VegüV, all members of the Board of Directors will have to stand for re-election at the 2014 AGM, irrespective of their previous term of appointment, unless they are stepping down from the Board of Directors. All members of the Board of Directors will stand for re-election except Dr Georg F. Krayer, who will step down as a director at the 2014 AGM. Dr Krayer has been on the Board of Directors since 1995, has been Vice-Chairman since 2004 and was Chairman of the Remuneration Committee between 2003 and 2012. He has made an outstanding contribution to both Bâloise Holding and the Baloise Group. The 2014 AGM will be asked to elect Christoph B. Gloor as a new member of the Board of Directors.

Christoph B. Gloor (1966, Switzerland) holds a university degree in finance and investment and since 1 January 2006 has been a general partner in Basel-based private bank La Roche 1787, where he is responsible for finance and IT and is actively involved in advising and supporting clients. Prior to joining La Roche 1787 on 1 December 1998, he worked for Swiss Bank Corporation (SBC) before moving to Vitra (International). Since 2014 he has chaired the Association of Swiss Private Banks and since September 2013 he has sat on the Board of Directors of the Swiss Bankers Association. 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
Dr Andreas Burckhardt, Chairman, Basel	C			C	CH	1951	1999
Dr Georg F. Krayer, Vice-Chairman, Basel	VC			DC	CH	1943	1995
Dr Michael Becker, Darmstadt		DC		M	D	1948	2010
Dr Andreas Beerli, Oberwil-Lieli	M	M			CH	1951	2011
Dr Georges-Antoine de Boccard, Conches			M		CH	1951	2011
Karin Keller-Sutter, Wil			M		CH	1963	2013
Werner Kummer, Küsnacht	M	C			CH	1947	2000
Thomas Pleines, Munich		M	DC		D	1955	2012
Dr Eveline Saupper, Zurich			C	M	CH	1958	1999

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

BOARD ATTENDANCE IN 2013: MEETINGS OF THE FULL BOARD OF DIRECTORS

	13.3.2013	2.5.2013	20.6.2013	27.8.2013	11.12.2013	12.12.2013
Dr Andreas Burckhardt, Chairman	x	x	x	x	x	x
Dr Georg F. Krayer, Vice-Chairman	x	x	x	x	x	x
Dr Michael Becker	x	x	x	x	x	x
Dr Andreas Beerli	x	x	x	x	x	x
Dr Georges-Antoine de Boccard	x	x	x	x	x	x
Dr Hansjörg Frei	x	x	n/a	n/a	n/a	n/a
Karin Keller-Sutter	n/a	n/a	0	x	x	x
Werner Kummer	x	x	x	x	x	x
Thomas Pleines	x	x	x	x	x	x
Dr Eveline Saupper	x	x	x	x	x	x

x = present, 0 = absent, n / a = not applicable.


Andreas Burckhardt, Chairman


Georg F. Krayer, Vice-Chairman


Michael Becker


Andreas Beerli


Georges-Antoine de Boccard


Karin Keller-Sutter


Werner Kummer


Thomas Pleines


Eveline Saupper

Andreas Burckhardt (1951, Switzerland, Dr iur.) has been a member of the Board of Directors since 1999 and its Chairman since 29 April 2011. He studied jurisprudence at the universities of Basel and Geneva. He worked for Fides Treuhandgesellschaft from 1982 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 its 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. He also sits on the Supervisory Board at 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 adviser 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 is Vice-Chairman of 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 and sits on the Boards of Directors of various foundations. Dr de Boccard is an independent non-executive director.

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. Ms. 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 Chairwoman of the Swiss Retail Federation and a member of the Executive Committee of the Swiss Employers' Federation. Ms. Keller-Sutter 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. Until 2013 he was a member of the Supervisory Board of Schindler Deutschland Holding GmbH. He was CEO of Forbo Holding AG from 1998 until 2004. He is a freelance management consultant, Chairman of the Board of Directors at Gebrüder Meier AG, a member of other Supervisory Boards of non-listed companies in Switzerland and abroad 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 was CEO of Allianz Versicherungs-AG, Munich, and an executive director at Allianz Deutschland AG, Munich. From 1998 to 2013 Mr Pleines has sat on the Supervisory Board of Bilfinger SE, Mannheim. He 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. 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 at Hostettler, Kramarsch & Partner Holding AG, Zurich. Since April 2013 she has been a member of the Board of Directors at Syngenta AG, Basel, and since May 2013 at Stäubli Holding AG, Pfäffikon (SZ). 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.

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 clause 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. In accordance with section 7 VegüV, the members of the Remuneration Committee are to be elected by the Annual General Meeting from 2014. 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 and Risk 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.

Until now the Remuneration Committee has specified 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. Under the VegüV, the remuneration of the Board of Directors and Corporate Executive Committee has to be approved by the Annual General Meeting from 2014. The Remuneration Committee will therefore submit the necessary proposals to the Board of Directors for presentation to the Annual General Meeting. The Remuneration Committee approves the target agreements and performance assessments that are applied to the Corporate Executive Committee members in order to determine their variable 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; from 2014 this remuneration has to be within the maximum amount approved by the Annual General Meeting. 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, including risk management, are well organised and function properly, by assessing the situation with respect to compliance in the Company and by forming its own view of the Company's separate and consolidated annual financial statements. It receives regular reports on the work and findings of Group Internal Audit and on cooperation with the external auditors.

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 no 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 six occasions in 2013. The table on page 53 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 16 committee meetings. This means that the Board of Directors achieved an overall meeting attendance rate of 97 per cent. One meeting of the full Board of Directors focused on providing members with training on regulation in Switzerland and in Europe/Belgium as well as on requirements and developments in the Swiss and EU solvency systems. 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 six times in 2013, which included one two-day strategy meeting. The Investment Committee met on three occasions. The Audit and Risk Committee held four meetings, and the Remuneration Committee convened three times.

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, 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, the Head of the Corporate Centre 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 Association and the Organisational Regulations. The latter are reviewed on an ongoing basis and updated as changing circumstances require.

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 44 onwards and in the Financial Report section starting on page 124.

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 Corporate Division International 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 Corporate Division International from 2009 to 2012. He has also been the CEO 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 and accounting/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 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 Corporate Division Switzerland since March 2011.

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. 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 Strobel


German Egloff


Jan De Meulder


Michael Müller


Thomas Sieber


Martin Wenk

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 adviser 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 Corporate Division Asset Management) 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, and at the Swiss Federal Social Security Funds, 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 2013)

GROUP CHIEF EXECUTIVE OFFICER
Martin Strobel, Dr rer. pol.*

Group Secretary
Markus von Escher, Dr iur.

Corporate Communications
Dominik Müller

SWITZERLAND	INTERNATIONAL	FINANCE	ASSET MANAGEMENT	CORPORATE CENTRE
Michael Müller*	Martin Strobel, Dr rer. pol.*	German Egloff*	Martin Wenk*	Thomas Sieber, Dr iur.*
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. (until 31 May 2013) Mathias Zingg (since 1 June 2013)	**Germany** Jan De Meulder* **Belgium** Gert De Winter **Luxembourg** Romain Braas **Austria** Otmar Bodner, Dr iur. **Croatia & Serbia** Darko Cesar (until 11 March 2014)	**Financial Accounting** German Egloff (a.i. until 31 December 2013) Pierre Girard (since 1 January 2014) **Investor Relations** Marc Kaiser **Group Risk Management** Stefan Nölker, Dr rer. nat. **Corporate IT** Olaf Romer **Appointed Actuary Switzerland** Thomas Müller, Dr sc. math.	**Investment Strategy & Investment Controlling** Thomas Schöb **Baloise Asset Management** Matthias Henny, Dr phil. **Real Estate** Hans-Peter Bissegger (until 31 March 2013) Renato Piffaretti (since 1 April 2013) **Baloise Investment Services** Robert Antonietti	**Corporate Development** Thomas Wodrich (until 30 June 2013) Sybille Fischer (since 1 July 2013) **Group Human Resources** Kurt Grois (until 13 March 2013) Stephan Ragg, Dr iur. (since 1 June 2013) **Group Legal & Tax** Andreas Eugster (until 31 December 2013) Andreas Burki (since 1 January 2014) **Group Compliance** Silvia Kalbermatten, Dr iur. (until 31 August 2013) Peter Kalberer (since 1 September 2013) **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 MEMBERS OF THE BOARD OF DIRECTORS AND THE CORPORATE EXECUTIVE COMMITTEE

By the end of 2014 Baloise will have implemented most of the Ordinance Against Excessive Remuneration at Publicly Listed Companies (VegüV), which was enacted by the Swiss Federal Council with effect from 1 January 2014.

Consequently, all existing change-of-control clauses were repealed with effect from 1 January 2014, and the Remuneration Committee's remit was brought into line with the new legislation. A number of amendments to the Articles of Association will be submitted to the 2014 Annual General Meeting for approval, and the members of the Remuneration Committee will be proposed for election individually.

The 2014 Annual General Meeting will hold three separate ballots in which the shareholders will for the first time have the opportunity to vote on the remuneration paid to the Board of Directors, the fixed remuneration received by the Corporate Executive Committee (both of these paid for the following financial year) and the maximum variable remuneration payable to the Corporate Executive Committee for the current financial year. The Ordinance requires only a few adjustments to be made to the structure of the Corporate Executive Committee's remuneration. The variable remuneration determined by the Company's success and individuals' performance will in future be paid from the performance pool only. The performance-related remuneration currently awarded for the achievement of personal targets and objectives is being integrated into the performance pool. The expected performance pool amount and the fixed remuneration component are being increased for this purpose. The total remuneration paid to the Corporate Executive Committee will remain unchanged. This new system complies with the new legislation and meets the European standard, which stipulates a one-to-one ratio between fixed and variable remuneration (Capital Requirements Directive IV).

This remuneration report relates to the 2013 financial year. It therefore describes the remuneration policies adopted and the remuneration systems in place during the reporting year, and it discloses the remuneration paid to the Board of Directors and the Corporate Executive Committee in 2013. The content and scope of these disclosures are determined by sections 663b^{bis} and 663c (3) 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; 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 (Chairwoman), Thomas Pleines (Deputy Chairman), Dr Georges-Antoine de Boccard and Karin Keller-Sutter. 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 Chairwoman 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 conducted a review of the remuneration system in 2012 and 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 at Baloise 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 good; 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 clearly and transparently aligns individual employees' targets with 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 for them 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 over 80 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 more than five 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 was completed in 2013 owing to the merger of the two companies Basler Germany and Deutscher Ring. Avéro and Nateus – both fairly recent acquisitions in Belgium – were also integrated into the performance management system in 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 in 2012 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 latter's key individual targets and objectives and then – by no 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.

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 2013 they receive their shares on 1 March 2016. Half of the shares granted in this way are then subject to an additional three-year restriction period.

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, the Remuneration Committee has 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.

The PSUs allocated in 2011 were converted into shares as at 1 January 2014. The performance of Baloise shares at the end of the vesting period on 31 December 2013 ranked 21st out of 33 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 0.77, and the 68,244 outstanding PSUs were converted into 52,551 shares (share price of CHF 113.60 on 31 December 2013, market capitalisation of CHF 5.97 million).

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
- → Empirical data on how long eligible programme participants remain with the company.

The value of PSUs is exposed to market risk until the end of the vesting period and may, of course, fluctuate significantly, as shown in the table below:

PERFORMANCE SHARE UNIT (PSU) PLAN

	PSUs granted		PSUs converted				Change in value
	Date	Price (CHF)[1]	Date	Multiplier	Price (CHF)[1]	Value (CHF)[2]	[3]
2007	01.03.2007	125.80	01.01.2010	1.182	86.05	101.71	–19%
2008	01.01.2008	109.50	01.01.2011	1.24	91.00	112.84	3%
2009	01.01.2009	82.40	01.01.2012	0.64	64.40	41.22	–50%
2010	01.01.2010	86.05	01.01.2013	0.58	78.50	45.53	–47%
2011	01.01.2011	91.00	01.01.2014	0.77	113.60	87.47	–4%
2012	01.03.2012	71.20	01.03.2015	[4]1.44	[4]113.60	[4]163.58	[4]130%
2013	01.03.2013	84.50	01.03.2016	[4]1.50	[4]113.60	[4]170.40	[4]102%

1 Price = price of Baloise shares at the PSU grant date or conversion date
2 Value = value of one PSU at the conversion date (share price at the conversion date times the multiplier)
3 Change in value = difference between the value at the conversion date and the share price at the grant date
4 Interim measurement as at 31 December 2013

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, 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. Until 31 December 2013 they and three other members of senior management were 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.

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.

The parameters used to determine the subscription price are decided each year by the Remuneration Committee. The subscription price is based on the closing price on the first day of the subscription period (until 2013: volume-weighted average share price during a contemporaneous measurement period), on which a discount of 10 per cent is granted (please refer to the accompanying table for details). Once it has been calculated using this method, the subscription price is published in

Companies in the STOXX 600 Europe Insurance Index (as at 31 December 2013)

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

Source: http: / / www.stoxx.com / download / indices / factsheets / stx_supersectors_fs.pdf advance on the intranet. The shares needed for the Share Subscription Plan are purchased in the market as and when required.

CHF	Closing quotation and measurement period for average share price	Applicable share price	Subscription price
Share Subscription Plan for 2014 (applies to variable renumeration awarded for the 2013 reporting period)	10.1.2014	114.20	102.78
Share Subscription Plan for 2013 (applies to shares subscribed by the Chairman and members of the Board of Directors during the reporting year)	4. – 15.2.2013	81.70	73.53

Employee Share Ownership Plan

Since May 2001 it has been possible for most 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 (i.e. the same as that 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.

The parameters used to determine the subscription price are decided each year by the Remuneration Committee. The subscription price is based on the closing price on the first day of the subscription period (until 2013: volume-weighted average share price during a contemporaneous measurement period), from which discounted dividend rights are deducted 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.

CHF	Closing quotation and measurement period for average share price	Applicable share price	Subscription price
Employee Share Ownership Plan for 2014 (applies to variable renumeration awarded for the 2013 reporting period)	10.1.2014	114.20	100.87
Employee Share Ownership Plan for 2013 (applies to shares subscribed by the Chairman of the Board of Directors during the reporting year)	4. – 15.2.2013	81.70	68.67

5.7 Employee Incentive Plan

The Baloise 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 Board of Foundation 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 50.30 for the reporting year (2012: CHF 34.20). 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 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 of the Board of Foundation 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 annuity conversion rate from 6.2 per cent to 5.6 per cent and raised employer and employee contributions by an average of 1.5 percentage points each with effect from 1 January 2013.

EMPLOYEE INCENTIVE PLAN

	2012 (restated)	2013
Number of shares subscribed	173,799	167,147
Restricted until	31.8.2015	31.8.2016
Subscription price per share (CHF)	34.20	50.30
Value of shares subscribed (CHF million)	5.9	8.4
Fair value of subscribed shares on subscription date (CHF million)	12.2	16.5
Employees entitled to participate	3,220	3,239
Participating employees	1,894	1,851
Subscribed shares per participant (average)	91.7	90.3

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 74 and 75.

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 Chairman 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 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. The shares that he receives from the Share Subscription Plan are subject to a restriction period of five years.

5.10 Remuneration paid to the members of the Corporate Executive Committee

Please refer to the tables on pages 76 to 79.

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 2013 included ensuring that Baloise's values-based culture continues to be 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 78 and 79 in accordance with the accrual principle. The table includes all forms of remuneration that were awarded for performance in 2013 even though individual components are not paid until a later date.

The total remuneration paid to the Corporate Executive Committee rose by 3.5 per cent. This increase was primarily attributable to the fact that the performance pool payments awarded for 2013 were raised to 120 per cent of their normally expected levels to reflect the Company's strong operating performance. The extent to which targets and objectives were achieved – which affects the performance-related pay awarded for individual merit – also increased year on year.

5.11 Loans to key personnel

Please refer to the table on page 80.

5.12 Shares and options held

Please refer to the tables on pages 81 and 82.

5.13 Amounts of total remuneration and variable remuneration

Please refer to the table on page 83.

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 83 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 2013 even if individual components are not paid until a later date.

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					
Chairman's Committee and Investment Committee		90,000					
Dr Michael Becker	125,000		0	208,333	164,591	43,742	667
Audit Committee		50,000					
Investment Committee (since May 2012)		33,333					
Dr Andreas Beerli	125,000		0	175,000	131,258	43,742	667
Audit Committee		50,000					
Dr Georges-Antoine de Boccard	125,000		0	175,000	131,258	43,742	667
Remuneration Committee		50,000					
Dr Hansjörg Frei	125,000		0	231,666	170,480	61,186	933
Chairman's Committee and Investment Committee (until April 2012)		23,333					
Chairman's Committee (since May 2012)		33,333					
Audit Committee		50,000					
Dr Klaus Jenny	62,500		0	122,500	61,314	61,186	933
Chairman's Committee and Investment Committee (until April 2012)		35,000					
Remuneration Committee		25,000					
Werner Kummer	125,000		0	228,333	179,607	48,726	743
Chair of the Audit Committee		70,000					
Chairman's Committee		33,333					
Thomas Pleines	83,333		0	116,667	116,667	0	0
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					
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, and 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 MEMBERS OF THE BOARD OF DIRECTORS

2013	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	1,008,045	311,955	4,393
Chairman of the Board of Directors		0					
Dr Georg F. Krayer	125,000		0	291,667	210,490	81,177	1,104
Vice-Chairman of the Board of Directors		50,000					
Chairman's Committee		50,000					
Investment Committee		50,000					
Remuneration Committee (until 2 May 2013)		16,667					
Dr Michael Becker	125,000		0	225,000	168,823	56,177	764
Investment Committee		50,000					
Audit and Risk Committee		50,000					
Dr Andreas Beerli	125,000		0	208,333	164,656	43,677	594
Chairman's Committee		33,333					
Audit and Risk Committee		50,000					
Dr Georges-Antoine de Boccard	125,000		0	175,000	131,323	43,677	594
Remuneration Committee		50,000					
Dr Hansjörg Frei (until 2 May 2013)	62,500		0	112,500	56,323	56,177	764
Chairman's Committee		25,000					
Audit and Risk Committee		25,000					
Karin Keller-Sutter (since 2 May 2013)	83,333		0	116,666	116,666	0	0
Remuneration Committee		33,333					
Werner Kummer	125,000		0	245,000	183,823	61,177	832
Chairman's Committee		50,000					
Chair of the Audit and Risk Committee		70,000					
Thomas Pleines	125,000		0	208,333	164,656	43,677	594
Audit and Risk Committee		33,333					
Remuneration Committee		50,000					
Dr Eveline Saupper	125,000		0	245,000	183,823	61,177	832
Investment Committee		50,000					
Chair of the Remuneration Committee		70,000					
Total for the Board of Directors	**2,340,833**	**806,666**	**0**	**3,147,499**	**2,388,628**	**758,871**	**10,471**

Explanatory notes to the table
Karin Keller-Sutter was voted in as a new member of the Board of Directors at the 2013 Annual General Meeting. Consequently, she only received a pro-rata share of the usual remuneration. Hansjörg Frei 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, and 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 73.53, in line with the Share Subscription Plan). Shares received by the Chairman of the Board of Directors amounted to 2,121 shares arising from the Share Subscription Plan (CHF 155,957, with a restriction period of five years instead of the usual three years) and 2,272 shares arising from the Employee Share Ownership Plan (CHF 155,998). Baloise also paid the regulatory employer contributions to the pension fund (CHF 216,725).

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
Group CEO						
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 CHF 170,000 plus employer contributions to the pension fund was paid to a former member of the Corporate Executive Committee during the reporting year owing to a contractual obligation (basic salary payable until the end of the notice period). No remuneration on a non-arm's-length basis was paid to companies or individuals who are related to the members of the Corporate Executive Committee. Related parties are spouses, life partners, children under 18 years, companies owned or controlled by directors, and 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 remuneration report for 2013 shows that the PSUs granted to the members of the Corporate Executive Committee have for the first time been measured at their value on the grant date rather than at their value on the vesting date. The table containing the prior-year figures has been restated accordingly to ensure that a meaningful year-on-year comparison can be made. The prior-year table therefore shows the PSUs at their value on the grant date, which means that this table differs from the list published in the remuneration report for 2012.

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						
Granted in 2012								
Number of PSUs	CHF	Number of shares	CHF	CHF		CHF	CHF	CHF
9,831	708,324	5,857	1,548,324	2,598,324	147 %	3,420	154,060	2,755,804
3,371	242,881	4,000	674,796	1,183,963	133 %	13,420	104,518	1,301,901
4,916	354,198	3,603	884,097	1,584,177	126 %	159,806	204,359	1,948,342
3,863	278,329	3,218	751,665	1,343,335	127 %	3,420	174,331	1,521,086
3,792	273,214	3,788	715,339	1,255,339	132 %	14,670	142,186	1,412,195
4,213	303,547	3,485	816,147	1,416,147	136 %	28,420	192,371	1,636,938
29,986	2,160,493	23,951	5,390,368	9,381,285	135 %	223,156	971,825	10,576,266

Non-cash benefits Based on all remuneration elements required to be declared on the Swiss salary certificate, including long-service awards, taxable 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 fund 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	
2013	CHF	CHF	Number of shares	CHF	Number of shares	CHF
Dr Martin Strobel	1,000,000	469,501	4,568	469,499	0	0
Group CEO						
Michael Müller	544,167	217,514	3,174	326,224	0	0
Head of Corporate Division Switzerland						
Jan De Meulder	772,724	304,628	2,962	304,434	0	0
Head of SBU Germany						
German Egloff	600,000	284,408	2,767	284,392	0	0
Head of Corporate Division Finance						
Dr Thomas Sieber	540,000	235,649	1,273	130,839	1,557	157,052
Head of Corporate Division Corporate Centre						
Martin Wenk	600,000	283,147	2,753	282,953	0	0
Head of Corporate Division Asset Management						
Total for the Corporate Executive Committee	**4,056,891**	**1,794,847**	**17,497**	**1,798,341**	**1,557**	**157,052**

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 2013 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 No remuneration was paid on a non-arm's-length basis to companies or individuals related to the members of the Corporate Executive Committee. Related parties are spouses, life partners, children under 18 years, companies owned or controlled by directors, and 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 102.78.
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 100.87.
Performance share units (PSUs) The remuneration report for 2013 shows that the PSUs granted to the members of the Corporate Executive Committee have for the first time been measured at their value on the grant date rather than at their value on the vesting date. The table containing the prior-year figures has been restated accordingly to ensure that a meaningful year-on-year comparison can be made. The prior-year table therefore shows the PSUs at their value on the grant date, which means that this table differs from the list published in the remuneration report for 2012.

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 (PSUs)		Total variable remuneration						
Granted in 2013								
Number of PSUs	CHF	Number of shares	CHF	CHF		CHF	CHF	CHF
6,540	501,553	4,568	1,440,553	2,440,553	144 %	5,030	159,477	2,605,060
3,062	234,825	3,174	778,563	1,322,730	143 %	5,030	122,092	1,449,852
4,164	319,337	2,962	928,399	1,701,123	120 %	122,261	309,838	2,133,222
3,568	273,630	2,767	842,430	1,442,430	140 %	5,030	200,369	1,647,829
3,211	246,252	2,830	769,792	1,309,792	143 %	5,030	153,590	1,468,412
3,568	273,630	2,753	839,730	1,439,730	140 %	5,030	200,369	1,645,129
24,113	1,849,227	19,054	5,599,467	9,656,358	138 %	147,411	1,145,735	10,949,504

Non-cash benefits Based on all remuneration elements required to be declared on the Swiss salary certificate, including long-service awards, taxable benefits relating to shares received in connection with the Employee Incentive Plan (max. 100 shares per annum), accommodation costs and non-cash benefits (use of a company vehicle) granted to a Corporate Executive Committee member residing abroad.
Pension benefits Employer contributions to the pension fund or, alternatively, a compensatory payment in lieu of employer and employee contributions to the Swiss social security scheme and the pension fund (neither of these is payable if the person concerned is working outside Switzerland) and maintenance of disability insurance cover in the home country of a Corporate Executive Committee member residing 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	
	2012	2013	2012	2013	2012	2013	2012	2013
CHF								
Dr Andreas Burckhardt								
Chairman	0	0	1,479,108	2,403,689	0	0	1,479,108	2,403,689
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 (until 2 May 2013)	0	n/a	0	n/a	0	n/a	0	n/a
Karin Keller-Sutter								
Member (since 2 May 2013)	n/a	0	n/a	0	n/a	0	n/a	0
Werner Kummer								
Member	0	0	0	0	0	0	0	0
Thomas Pleines								
Member	0	0	0	0	0	0	0	0
Dr Eveline Saupper								
Member	0	0	0	0	0	0	0	0
Total for the Board of Directors	0	0	1,479,108	2,403,689	0	0	1,479,108	2,403,689
Corporate Executive Committee member with the highest outstanding loan								
Dr Thomas Sieber								
Head of Corporate Division Corporate Centre	1,000,000	1,000,000	2,454,976	2,497,866	0	0	3,454,976	3,497,866
Other members of the Corporate Executive Committee	1,575,000	2,275,000	4,294,760	3,079,634	0	0	5,869,760	5,354,634
Total for the Corporate Executive Committee	2,575,000	3,275,000	6,749,736	5,577,500	0	0	9,324,736	8,852,500

Explanatory notes to the table:
Loans and advances No loans or 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, and 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 (2013: 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	
	2012	2013	2012	2013	2012	2013	2012	2013
Quantity								
Dr Andreas Burckhardt								
Chairman	1,643	2,241	31,024	47,441	32,667	49,682	0.065 %	0.099 %
Dr Georg F. Krayer								
Vice-Chairman	32,496	33,505	4,027	4,122	36,523	37,627	0.076 %	0.075 %
Dr Michael Becker								
Member	1,000	1,000	2,197	2,961	3,197	3,961	0.006 %	0.008 %
Dr Andreas Beerli								
Member	0	0	1,667	2,261	1,667	2,261	0.003 %	0.005 %
Dr Georges-Antoine de Boccard								
Member	0	0	1,667	2,261	1,667	2,261	0.003 %	0.005 %
Dr Hansjörg Frei								
Member (until 2 May 2013)	1,448	n/a	3,514	n/a	4,962	n/a	0.010 %	n/a
Karin Keller-Sutter								
Member (since 2 May 2013)	n/a	0	n/a	1,000	n/a	1,000	n/a	0.002 %
Werner Kummer								
Member	926	3,593	3,001	3,166	3,927	6,759	0.008 %	0.014 %
Thomas Pleines								
Member	0	0	1,000	1,594	1,000	1,594	0.002 %	0.003 %
Dr Eveline Saupper								
Member	1,643	2,241	2,795	3,029	4,438	5,270	0.009 %	0.011 %
Total for the Board of Directors	39,156	42,580	50,892	67,835	90,048	110,415	0.180 %	0.221 %
Percentage of issued share capital	0.078 %	0.085 %	0.102 %	0.136 %	0.180 %	0.221 %		

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, and 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 Association 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)	
	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Quantity										
Dr Martin Strobel										
Group CEO	0	0	51,361	54,705	51,361	54,705	0.103 %	0.109 %	24,528	23,514
Jan De Meulder										
Head of SBU Germany	3,313	6,229	12,319	13,365	15,632	19,594	0.031 %	0.039 %	12,830	12,927
German Egloff										
Head of Corporate Division Finance	11,513	15,858	29,984	20,811	41,497	36,669	0.083 %	0.073 %	10,081	10,453
Michael Müller										
Head of Corporate Division Switzerland	2,621	2,837	5,907	8,908	8,528	11,745	0.017 %	0.023 %	5,462	7,461
Dr Thomas Sieber										
Head of Corporate Division Corporate Centre	2,100	2,000	48,262	49,337	50,362	51,337	0.101 %	0.103 %	9,898	9,971
Martin Wenk										
Head of Corporate Division Asset Management	8,500	11,500	37,917	22,743	46,417	34,243	0.093 %	0.068 %	10,996	11,078
Total for the members of the Corporate Executive Committee	28,047	38,424	185,750	169,869	213,797	208,293	0.428 %	0.417 %	73,795	75,404
Percentage of issued share capital	0.056 %	0.077 %	0.372 %	0.340 %	0.428 %	0.417 %				

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, and 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 (granted as at 1 January 2011, 1 March 2012 and 1 March 2013).

TOTAL AND VARIABLE REMUNERATION IN THE BALOISE GROUP

	2012				2013			
	In cash	In shares	Prospective entitlements	Total	In cash	In shares	Prospective entitlements	Total
Total remuneration								
CHF million	749.8	6.0	6.4	762.2	776.2	6.2	5.6	788.0
Total variable remuneration (total pool)								
CHF million	152.8	6.0	6.4	165.2	167.0	6.2	5.6	178.8
Number of beneficiaries	6,634	167	72		5,590	151	69	
Of which commission paid to insurance sales force								
CHF million	108.0	0.0	0.0	108.0	111.4	0.0	0.0	111.4
Of which other forms of variable remuneration								
CHF million	44.8	6.0	6.4	57.2	55.5	6.2	5.6	67.3
Total outstanding deferred remuneration								
CHF million	0.0	61.5	20.9	82.4	0.0	93.4	19.9	113.3
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 inducement payments made								
CHF million	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.1
Number of beneficiaries	7	0	0		4	0	0	
Total severance payments made								
CHF million	3.2	0.0	0.0	3.2	7.9	0.0	0.0	7.9
Number of beneficiaries	38	0	0		74	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 taxable benefits 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 entitlements to pension benefits, pensions, allotment of shareholdings, conversion rights 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 Association). 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 Association).

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 Association).

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 Association. Otherwise, resolutions are adopted by a simple majority of the votes cast, subject to compulsory legal provisions (section 17 of the Articles of Association).

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 Association). 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 Association).

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 Association).

Section 5 of the Articles of Association 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. The following arrangement and the corresponding contracts were rescinded at the end of 2013 in accordance with the statutory regulations applicable from 2014. The Chairman of the Board of Directors, the members of the

Corporate Executive Committee and three other members of senior management were 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 Peter Lüssi has held the post of auditor-in-charge since 2013. 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)	2012	2013
Audit fees	6,463,000	5,330,000
Consulting fees	1,000,000	663,000
Tax consultancy and legal advice	638,000	533,000
Corporate finance	44,000	83,000
Insurance-specific consulting	205,000	22,000
Operational consulting	31,000	15,000
Business and IT consulting	82,000	10,000
Total	7,463,000	5,993,000

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 and Risk Committee. The Audit and Risk 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 and Risk 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 and Risk 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 and Risk 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. SIGNIFICANT AMENDMENTS TO THE ARTICLES OF ASSOCIATION SUBMITTED TO THE 2014 ANNUAL GENERAL MEETING

Due to the Ordinance Against Excessive Remuneration at Publicly Listed Companies (VegüV), which came into force on 1 January 2014, various amendments to the Articles of Association will be submitted to the 2014 Annual General Meeting for approval. They largely relate to the following points:

- Annual election of the
  - members of the Board of Directors
  - Chairman of the Board of Directors
  - members of the Remuneration Committee
  - independent proxy
- Approval of the remuneration of the Board of Directors and the Corporate Executive Committee
- Functions and responsibilities of the Remuneration Committee
- Term of the employment contracts of the members of the Corporate Executive Committee.

Further amendments to the Articles of Association that are required because of the VegüV will be submitted to the 2015 Annual General Meeting.

10. 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 on pages 213 and 249.
www.baloise.com → Investor relations → Bonds

Financial calendar

Important dates for investors are available at 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

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Financial Report

Consolidated balance sheet

	Note	1.1.2012 (restated)	31.12.2012 (restated)	31.12.2013
CHF million				
Assets				
Property, plant and equipment	8	559.9	458.5	422.5
Intangible assets	9	1,300.2	1,078.5	1,080.3
Investments in associates	10	173.5	227.2	222.0
Investment property	11	5,138.0	5,441.0	5,685.9
Financial instruments with characteristics of equity	12			
Available for sale		3,447.3	3,337.0	4,096.4
Recognised at fair value through profit or loss		6,256.6	6,138.7	7,248.0
Financial instruments with characteristics of liabilities	12			
Held to maturity		8,027.8	8,188.5	8,100.7
Available for sale		19,855.3	22,433.4	22,431.0
Recognised at fair value through profit or loss		1,034.4	1,891.3	1,795.5
Mortgages and loans	13			
Carried at cost		17,667.5	17,691.2	17,373.4
Recognised at fair value through profit or loss		375.2	819.7	956.1
Derivative financial instruments	14	334.1	497.6	410.7
Receivables from financial contracts	15			
Carried at cost		348.6	370.5	389.4
Recognised at fair value through profit or loss		61.5	56.1	–
Reinsurance assets	16	377.5	398.6	396.4
Receivables from reinsurers	17	16.9	29.3	21.7
Insurance receivables		547.4	542.4	518.4
Receivables from employee benefits	18	1.4	0.6	0.7
Other receivables	15	276.1	269.0	257.0
Receivables from investments	15	661.1	644.5	612.5
Deferred tax assets	19	26.3	32.7	56.0
Current income tax assets		43.3	58.7	47.8
Other assets	20			
Carried at cost		169.7	161.8	165.4
Recognised at fair value through profit or loss		83.0	87.1	47.3
Cash and cash equivalents		2,287.8	2,923.7	2,960.8
Non-current assets and disposal groups classified as held for sale	21	–	–	401.0
Total assets		69,070.3	73,777.7	75,696.9

The notes form an integral part of the consolidated annual financial statements.

CHF million	Note	1.1.2012 (restated)	31.12.2012 (restated)	31.12.2013
Equity and liabilities				
Equity				
Share capital	22	5.0	5.0	5.0
Capital reserves		215.9	218.3	233.1
Treasury shares		– 256.7	– 237.9	– 240.8
Unrealised gains and losses (net)		– 615.3	– 67.8	– 68.1
Retained earnings		4,418.1	4,685.9	4,926.7
Equity before non-controlling interests		3,766.9	4,603.5	4,855.9
Non-controlling interests		32.3	37.8	50.5
Total equity		3,799.3	4,641.3	4,906.4
Liabilities				
Technical reserves (gross)	23	45,542.3	46,591.9	47,435.6
Liabilities arising from banking business and financial contracts	24			
With discretionary participation features		1,147.5	1,334.0	1,492.7
Measured at amortised cost		6,881.2	7,290.5	7,258.4
Recognised at fair value through profit or loss		5,969.4	7,215.1	7,791.1
Financial liabilities	26	1,612.6	2,017.6	1,697.6
Provisions	27	81.8	92.4	129.4
Derivative financial instruments	14	175.3	64.4	68.2
Insurance liabilities	28	1,777.4	1,881.6	2,118.0
Liabilities arising from employee benefits	18	863.2	1,134.9	989.5
Other accounts payable		479.5	542.5	445.2
Deferred tax liabilities	19	630.5	838.5	882.3
Current income tax liabilities		31.0	47.0	50.2
Other liabilities		79.4	86.0	78.6
Liabilities included in disposal groups classified as held for sale	21	–	–	353.9
Total liabilities		65,271.0	69,136.4	70,790.5
Total equity and liabilities		69,070.3	73,777.7	75,696.9

The notes form an integral part of the consolidated annual financial statements.

Consolidated income statement

	Note	2012 (restated)	2013
CHF million			
Income			
Premiums earned and policy fees (gross)	29	6,731.1	7,212.7
Reinsurance premiums ceded	29	–176.5	–167.9
Premiums earned and policy fees (net)	29	6,554.6	7,044.8
Investment income	30	1,782.2	1,765.1
Realised gains and losses on investments	31	852.9	670.3
Income from services rendered	32	125.0	119.0
Share of profit (loss) of associates		16.5	40.5
Other operating income	33	92.0	107.9
Income		9,423.2	9,747.5
Expense			
Claims and benefits paid (gross)	23	–5,449.4	–5,439.7
Change in technical reserves (gross)	23	–867.7	–1,359.4
Reinsurers' share of claims incurred	23	113.2	75.5
Acquisition costs	34	–651.0	–500.5
Operating and administrative expenses for insurance business	34	–900.0	–897.1
Investment management expenses	34	–59.0	–70.6
Interest expenses on insurance liabilities		–50.5	–47.3
Gains or losses on financial contracts	36	–577.8	–368.9
Other operating expenses	34	–363.2	–481.3
Expense		–8,805.4	–9,089.3
Profit before borrowing costs and taxes		617.9	658.2
Borrowing costs	26	–61.0	–50.1
Profit before taxes		556.8	608.1
Income taxes	37	–71.6	–152.7
Profit for the period		485.2	455.4
Attributable to:			
Shareholders		479.5	452.6
Non-controlling interests		5.7	2.8
Earnings / loss per share	38		
Basic (CHF)		10.24	9.65
Diluted (CHF)		9.96	9.38

The notes form an integral part of the consolidated annual financial statements.

Consolidated statement of comprehensive income

	2012 (restated)	2013
CHF million		
Profit for the period	485.2	455.4
Items to be reclassified to retained earnings		
Change in reserves arising from reclassification of investment property	–	0.6
Change in reserves arising from assets and liabilities of post-employment benefits (defined benefit plans)	–327.2	162.4
Change arising from shadow accounting	84.1	–18.4
Income taxes	59.7	–33.2
Total items to be reclassified to retained earnings	–183.4	111.5
Items to be reclassified to the income statement		
Change in unrealised gains and losses on available-for-sale financial assets	1,564.6	–531.7
Change in unrealised gains and losses on associates	6.1	3.2
Change in hedging reserves for derivative financial instruments held as cash flow hedges	–	–
Change in hedging reserves for derivative financial instruments held as hedges of a net investment in a foreign operation	2.1	2.4
Change in reserves arising from reclassification of held-to-maturity financial assets	–4.9	–2.7
Change arising from shadow accounting	–600.3	267.2
Exchange differences	19.6	68.1
Income taxes	–255.4	82.2
Total items to be reclassified to the income statement	731.7	–111.3
Other comprehensive income	548.3	0.1
Comprehensive income	1,033.5	455.5
Attributable to:		
Shareholders	1,027.1	452.2
Non-controlling interests	6.4	3.3

The notes form an integral part of the consolidated annual financial statements.

Consolidated cash flow statement

	Note	2012 (restated)	2013
CHF million			
Summary			
Cash flow from operating activities (net)		580.0	609.7
Cash flow from investing activities (net)		– 97.2	0.9
Cash flow from financing activities (net)		155.3	– 584.9
Total cash flow		638.1	25.7
Effect of changes in exchange rates on cash and cash equivalents		– 2.2	13.2
Reclassification to non-current assets and disposal groups classified as held for sale		–	– 1.8
Balance of cash and cash equivalents as at 1 January		2,287.8	2,923.7
Balance of cash and cash equivalents as at 31 December		2,923.7	2,960.8
Cash flow from operating activities			
Profit before taxes		556.8	608.1
Adjustments for			
Depreciation, amortisation and impairment of property, plant and equipment and of intangible assets	8 / 9	109.5	98.9
Realised gains and losses on property, plant and equipment and on intangible assets		– 0.1	0.7
Income from investments in associates		– 15.8	– 41.2
Realised gains and losses on financial assets, investment property and associates		– 858.4	– 669.4
Changes in other financial contracts		426.7	245.3
Changes in technical reserves (gross), including unearned premium reserves		836.8	1,065.5
Interest expenses on reinsurance liabilities		0.3	0.3
Borrowing costs	26	61.0	50.1
Amortised cost valuation of financial instruments		23.1	11.3
Additions and disposals of assets and liabilities resulting in a cash flow			
Purchase / sale of investment property		– 79.9	– 93.0
Purchase / sale of financial assets of an equity nature		10.1	– 1,078.9
Purchase / sale of financial assets of a debt nature		– 1,363.0	– 534.3
Addition / disposal of mortgages and loans		– 510.0	293.0
Addition / disposal of derivative financial instruments		– 167.4	– 56.3
Addition / disposal of financial contracts and liabilities from banking business		932.1	231.6
Other changes in assets and liabilities from operating activities		682.6	545.8
Taxes paid		– 64.5	– 67.8
Cash flow from operating activities (net)		580.0	609.7

The notes form an integral part of the consolidated annual financial statements.

	Note	2012 (restated)	2013
CHF million			
Cash flow from investing activities			
Purchase of property, plant and equipment	8	– 50.4	– 21.8
Sale of property, plant and equipment		10.7	1.0
Purchase of intangible assets	9	– 24.7	– 23.5
Sale of intangible assets		0.5	0.0
Acquisition of companies, net of cash and cash equivalents	40	– 1.7	– 2.9
Disposal of companies, net of cash and cash equivalents	40	0.1	2.4
Purchase of investments in associates		– 36.2	0.0
Sale of investments in associates		0.0	7.8
Dividends from associates		4.4	37.9
Cash flow from investing activities (net)		– 97.2	0.9
Cash flow from financing activities			
Capital increases	22	–	–
Capital reductions	22	–	–
Additions to financial liabilities	26	549.0	224.5
Disposals of financial liabilities	26	– 150.0	– 550.0
Borrowing costs paid		– 53.2	– 57.6
Purchase of treasury shares		– 49.5	– 60.0
Sale of treasury shares		71.6	71.1
Cash flow attributable to non-controlling interests		– 0.9	– 1.1
Dividends paid		– 211.7	– 211.8
Cash flow from financing activities (net)		155.3	– 584.9
Total cash flow		638.1	25.7
Cash and cash equivalents			
Balance as at 1 January		2,287.8	2,923.7
Change during the financial year		638.1	25.7
Reclassification to non-current assets and disposal groups classified as held for sale		–	– 1.8
Effect of changes in exchange rates on cash and cash equivalents		– 2.2	13.2
Balance as at 31 December		2,923.7	2,960.8
Breakdown of cash and cash equivalents at the balance sheet date			
Cash and bank balances		2,034.3	1,992.2
Cash equivalents		0.0	0.0
Cash and cash equivalents for the account and at the risk of life insurance policyholders		889.4	968.6
Balance as at 31 December		2,923.7	2,960.8
Of which: restricted cash and cash equivalents		16.2	14.5
Supplemental disclosures on cash flow from operating activities			
Interest received		1,145.8	1,132.8
Dividends received		108.7	80.9
Interest paid		– 98.0	– 89.9

The notes form an integral part of the consolidated annual financial statements.

Consolidated statement of changes in equity

2012 (restated)	Note	Share capital	Capital reserves	Treasury shares	Other changes in equity	Retained earnings	Equity before non-controlling interests	Non-controlling interests	Total equity
CHF million									
Balance as at 1 January 2012 (prior to restatement)		5.0	215.9	– 256.7	– 615.3	4,511.4	3,860.3	33.3	3,893.6
First-time adoption of IAS 19 (amendment)		–	–	–	–	– 93.4	– 93.4	– 0.9	– 94.3
First-time adoption of IFRS 10		–	–	–	–	–	–	–	–
Balance as at 1 January 2012 (after restatement)		**5.0**	**215.9**	**– 256.7**	**– 615.3**	**4,418.1**	**3,766.9**	**32.3**	**3,799.3**
Profit for the period		–	–	–	–	479.5	479.5	5.7	485.2
Other comprehensive income	39	–	–	–	547.6	–	547.6	0.7	548.3
Comprehensive income		**–**	**–**	**–**	**547.6**	**479.5**	**1,027.1**	**6.4**	**1,033.5**
Other changes in equity in 2012									
Dividend		–	–	–	–	– 211.7	– 211.7	– 0.9	– 212.5
Capital increase / repayment	22	–	–	–	–	–	–	–	–
Purchase / sale of treasury shares		–	2.3	18.8	–	–	21.1	–	21.1
Cancellation of (treasury) shares		–	–	–	–	–	–	–	–
Increase / decrease due to change in the scope of consolidation	40	–	–	–	–	–	–	–	–
Increase / decrease in non-controlling interests due to change in the percentage of shareholding	6	–	–	–	–	–	–	–	–
Balance as at 31 December 2012		**5.0**	**218.3**	**– 237.9**	**– 67.8**	**4,685.9**	**4,603.5**	**37.8**	**4,641.3**

The notes form an integral part of the consolidated annual financial statements.

2013	Note	Share capital	Capital reserves	Treasury shares	Other changes in equity	Retained earnings	Equity before non-controlling interests	Non-controlling interests	Total equity
CHF million									
Balance as at 1 January 2013 (prior to restatement)		5.0	218.3	– 237.9	109.1	4,736.3	4,830.7	42.1	4,872.8
First-time adoption of IAS 19 (amendment)		–	–	–	– 176.8	– 50.4	– 227.2	– 4.3	– 231.5
First-time adoption of IFRS 10		–	–	–	–	–	–	–	–
Balance as at 1 January 2013 (after restatement)		5.0	218.3	– 237.9	– 67.8	4,685.9	4,603.5	37.8	4,641.3
Profit for the period		–	–	–	–	452.6	452.6	2.8	455.4
Other comprehensive income	39	–	–	–	– 0.3	–	– 0.3	0.5	0.1
Comprehensive income		–	–	–	– 0.3	452.6	452.2	3.3	455.5
Other changes in equity in 2013									
Dividend		–	–	–	–	– 211.8	– 211.8	– 1.1	– 213.0
Capital increase / repayment	22	–	–	–	–	–	–	–	–
Purchase / sale of treasury shares		–	13.9	– 2.8	–	–	11.1	–	11.1
Cancellation of (treasury) shares		–	–	–	–	–	–	–	–
Increase / decrease in non-controlling interests due to change in the scope of consolidation	40	–	0.9	–	–	–	0.9	–	0.9
Increase / decrease in non-controlling interests due to change in the percentage of shareholding	6	–	–	–	–	–	–	10.5	10.5
Balance as at 31 December 2013		5.0	233.1	– 240.8	– 68.1	4,926.7	4,855.9	50.5	4,906.4

The notes form an integral part of the consolidated annual 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 13 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. All amounts shown in these consolidated annual financial statements are stated in millions of Swiss francs (CHF million) and have been rounded to one decimal place. Consequently, the sum total of amounts that have been rounded may in isolated cases differ from the rounded total shown in this report.

At its meeting on 19 March 2014 the Bâloise Holding Board of Directors approved the annual financial statements and the Financial Report and authorised them for issue. The financial statements have yet to be approved by the Annual General Meeting of Bâloise Holding.

2. APPLICATION OF NEW FINANCIAL REPORTING STANDARDS AND RESTATEMENTS

Newly applied IFRSs and interpretations

IAS 1 Other comprehensive income (OCI)

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 are to remain in equity and will not subsequently be reclassified to profit or loss. This amendment impacts on the other comprehensive income reported by the Baloise Group.

Restatement owing to first-time adoption of 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 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 investees. The investor must take into account all relevant facts and circumstances when considering whether it controls an investee 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 impacts on the basis of consolidation for the Baloise Group and increases its total assets. IFRS 10 has been applied retrospectively with effect from 1 January 2012 and, consequently, prior-year comparative figures for the Baloise Group have been restated accordingly. Details of this restatement are summarised in the tables on pages 100 to 104. Further effects of the application of this standard are explained in section 6.2.3.

IFRS 11 Joint Arrangements

IFRS 11 has introduced new accounting requirements for joint arrangements, superseding IAS 31 "Interests in Joint Ventures". The new standard has eliminated the option of using 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 does not 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 impacts on the disclosures made in the notes to the financial statements for the Baloise Group.

IFRS 13 Fair Value Measurement

IFRS 13 replaces with a single standard the existing guidance for measuring fair value in the individual IFRSs currently in force. IFRS 13 does not introduce any additional fair value measurements, nor does it replace any of the existing provisions laid down in other standards. This standard, for which prospective application is required, impacts on the information disclosed by the Baloise Group (more details can be found in section 5.10).

IAS 27 (2011) Separate Financial Statements

The provisions governing separate financial statements remain part of the amended version of IAS 27. The other elements of IAS 27 (consolidated financial statements) have been 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.

Restatement owing to application of IAS 19 Employee Benefits (Amendment)

The most significant change in IAS 19 is that unexpected fluctuations in pension obligations and expected fluctuations in plan assets (actuarial gains and losses) must be recognised directly in other comprehensive income. The previously available options allowing entities to choose between immediate recognition in the income statement or OCI and delayed recognition using the corridor method have been withdrawn. IAS 19 has been applied retrospectively with effect from 1 January 2012 and, consequently, prior-year comparative figures for the Baloise Group have been restated accordingly. Details of this restatement are summarised in the tables on pages 100 to 104.

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 requirements relating to rights associated with the transaction and any other associated arrangements must be satisfied. In addition, enhanced disclosures that also show the theoretical potential for offsetting are required (e.g. in cases of default). This amendment does not impact materially on the Baloise Group's balance sheet or income statement.

Reconciliation of the restated IFRS figures from the application of IAS 19 (amendment) and IFRS 10

IMPACT OF RESTATEMENTS ON BALANCE SHEET LINE ITEMS

	Consolidated balance sheet for the year ended 31 December 2012			
	Prior to restatement	Adoption of IAS 19 (amendment)	Adoption of IFRS 10	After restatement
CHF million				
Assets				
Property, plant and equipment	458.5	–	–	458.5
Intangible assets	1,078.5	–	–	1,078.5
Investments in associates	227.2	–	–	227.2
Investment property	5,441.0	–	–	5,441.0
Financial instruments with characteristics of equity				
Available for sale	3,337.0	–	–	3,337.0
Recognised at fair value through profit or loss	5,897.0	–	241.7	6,138.7
Financial instruments with characteristics of liabilities				
Held to maturity	8,188.5	–	–	8,188.5
Available for sale	22,433.4	–	–	22,433.4
Recognised at fair value through profit or loss	1,891.3	–	–	1,891.3
Mortgages and loans				
Carried at cost	17,691.2	–	–	17,691.2
Recognised at fair value through profit or loss	819.7	–	–	819.7
Derivative financial instruments	497.6	–	–	497.6
Receivables from financial contracts				
Carried at cost	370.5	–	–	370.5
Recognised at fair value through profit or loss	56.1	–	–	56.1
Reinsurance assets	398.6	–	–	398.6
Receivables from reinsurers	29.3	–	–	29.3
Insurance receivables	542.4	–	–	542.4
Receivables from employee benefits	0.6	–	–	0.6
Other receivables	269.0	–	–	269.0
Receivables from investments	644.5	–	–	644.5
Deferred income tax assets	23.9	8.9	–	32.7
Deferred tax assets	58.7	–	–	58.7
Other assets				
Carried at cost	161.8	–	–	161.8
Recognised at fair value through profit or loss	87.1	–	–	87.1
Cash and cash equivalents	2,923.7	–	–	2,923.7
Total assets	**73,527.2**	**8.9**	**241.7**	**73,777.7**

IMPACT OF RESTATEMENTS ON BALANCE SHEET LINE ITEMS

	Consolidated balance sheet for the year ended 31 December 2012			
	Prior to restatement	Adoption of IAS 19 (amendment)	Adoption of IFRS 10	After restatement
CHF million				
Equity and liabilities				
Equity				
Share capital	5.0	–	–	5.0
Capital reserves	218.3	–	–	218.3
Treasury shares	–237.9	–	–	–237.9
Unrealised gains and losses (net)	109.1	–176.8	–	–67.8
Retained earnings	4,736.3	–50.4	–	4,685.9
Equity before non-controlling interests	**4,830.7**	**–227.2**	**–**	**4,603.5**
Non-controlling interests	42.1	–4.3	–	37.8
Total equity	**4,872.8**	**–231.5**	**–**	**4,641.3**
Liabilities				
Technical reserves (gross)	46,702.3	–110.4	–	46,591.9
Liabilities arising from banking business and financial contracts		–	–	
With discretionary participation features (DPFs)	1,334.0	–	–	1,334.0
Measured at amortised cost	7,290.5	–	–	7,290.5
Recognised at fair value through profit or loss	6,973.4	–	241.7	7,215.1
Financial liabilities	2,017.6	–	–	2,017.6
Provisions	92.4	–	–	92.4
Derivative financial instruments	64.4	–	–	64.4
Insurance liabilities	1,881.6	–	–	1,881.6
Liabilities from employee benefits	727.5	407.3	–	1,134.9
Other accounts payable	542.5	–	–	542.5
Deferred tax liabilities	895.1	–56.6	–	838.5
Current income tax liabilities	47.0	–	–	47.0
Other liabilities	86.0	–	–	86.0
Total liabilities	**68,654.3**	**240.4**	**241.7**	**69,136.4**
Total equity and liabilities	**73,527.2**	**8.9**	**241.7**	**73,777.7**

IMPACT OF RESTATEMENTS ON INCOME STATEMENT LINE ITEMS

	Consolidated income statement for 2012			
	Prior to restatement	Adoption of IAS 19 (amendment)	Adoption of IFRS 10	After restatement
CHF million				
Premiums earned and policy fees (gross)	6,731.1	–	–	6,731.1
Premiums ceded to reinsurers	−176.5	–	–	−176.5
Premiums earned and policy fees (net)	6,554.6	–	–	6,554.6
Investment income	1,782.2	–	–	1,782.2
Realised gains and losses on investments	839.1	–	13.9	852.9
Income from services rendered	125.0	–	–	125.0
Share of profit (loss) of associates	16.5	–	–	16.5
Other operating income	92.0	–	–	92.0
Income	**9,409.4**	**–**	**13.9**	**9,423.2**
Claims and benefits paid (gross)	−5,449.3	−0.1	–	−5,449.4
Change in technical reserves (gross)	−868.0	0.3	–	−867.7
Reinsurers' share of claims incurred	113.2	–	–	113.2
Acquisition costs	−650.9	0.0	–	−651.0
Operating and administrative expenses for insurance business	−899.2	−0.7	–	−900.0
Investment management expenses	−59.0	0.0	–	−59.0
Interest expenses on insurance liabilities	−50.5	–	–	−50.5
Gains or losses on financial contracts	−563.9	–	−13.9	−577.8
Other operating expenses	−425.8	62.6	–	−363.2
Expense	**−8,853.6**	**62.1**	**−13.9**	**−8,805.4**
Borrowing costs	−61.0	–	–	−61.0
Profit before taxes	**494.7**	**62.1**	**–**	**556.8**
Income taxes	−52.4	−19.3	–	−71.6
Profit for the period	**442.4**	**42.8**	**–**	**485.2**
Attributable to:				
Shareholders	436.5	43.0	–	479.5
Non-controlling interests	5.8	−0.2	–	5.7
Earnings / loss per share				
Diluted in CHF	9.32	–	–	10.24
Basic in CHF	9.08	–	–	9.96

IMPACT OF RESTATEMENTS ON LINE ITEMS IN THE STATEMENT OF COMPREHENSIVE INCOME

	Consolidated statement of comprehensive income for 2012			
	Prior to restatement	Adoption of IAS 19 (amendment)	Adoption of IFRS 10	After restatement
CHF million				
Profit for the period	442.4	42.8	–	485.2
Items to be reclassified to retained earnings				
Change in reserves arising from reclassification of investment property	–	–	–	–
Change in reserves arising from assets and liabilities of post-employment benefits (defined benefit plans)	–	−327.2	–	−327.2
Change arising from shadow accounting	–	84.1	–	84.1
Income taxes	–	59.7	–	59.7
Total items to be reclassified to retained earnings	–	−183.4	–	−183.4
Items to be reclassified to the income statement				
Change in unrealised gains and losses on available-for-sale financial assets	1,564.6	–	–	1,564.6
Change in unrealised gains and losses on associates	6.1	–	–	6.1
Change in hedging reserves for derivative financial instruments held as cash flow hedges	–	–	–	–
Change in hedging reserves for derivative financial instruments held as hedges of a net investment in a foreign operation	2.1	–	–	2.1
Change in reserves arising from reclassification of held-to-maturity financial assets	−4.9	–	–	−4.9
Change arising from shadow accounting	−606.8	6.5	–	−600.3
Exchange differences	19.5	0.1	–	19.6
Income taxes	−252.4	−3.1	–	−255.4
Total items to be reclassified to the income statement	728.3	3.5	–	731.7
Other comprehensive income	728.3	−180.0	–	548.3
Comprehensive income	1,170.7	−137.2	–	1,033.5
Attributable to:				
Shareholders	1,161.0	−133.8	–	1,027.1
Non-controlling interests	9.7	−3.3	–	6.4

IMPACT OF RESTATEMENTS ON LINE ITEMS IN THE CASH FLOW STATEMENT

	Consolidated cash flow statement for 2012			
	Prior to restatement	Adoption of IAS 19 (amendment)	Adoption of IFRS 10	After restatement
CHF million				
Summary				
Cash flow from operating activities (net)	580.0	–	–	580.0
Cash flow from investing activities (net)	– 97.2	–	–	– 97.2
Cash flow from financing activities (net)	155.3	–	–	155.3
Total cash flow	**638.1**	**–**	**–**	**638.1**
Changes in exchange rates on cash and cash equivalents	– 2.2	–	–	– 2.2
Cash and cash equivalents as at 1 January	2,287.8	–	–	2,287.8
Cash and cash equivalents as at 31 December	**2,923.7**	**–**	**–**	**2,923.7**

The prior-year comparative figures for the financial year ended 31 December 2012 – which are shown on the balance sheet, the income statement, the cash flow statement and the statement of changes in equity as well as in the notes to this Financial Report – have been restated accordingly.

Other standards and interpretations

Currently, there are no requirements to apply any other standards or interpretations that have impact – or material impact – on profit for the period or on balance sheet line 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 2013 consolidated annual financial statements:

Standard / Interpretation	Content	Applicable to annual periods beginning on or after
IFRS 9	Financial instruments	1.1.2018
IAS 19	Employee Benefits (Amendment)	1.7.2014

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 conduct a detailed analysis of the impact on the Baloise Group's balance sheet and income statement because of the various revisions and new versions of the standard published by the IASB.

IAS 19 Employee Benefits (amendment)

As a result of the amendment, contributions from employees or third parties are recognised as a reduction in service cost in the period in which they are paid, provided they are entirely related to the employee's service in that period. This may be the case, in particular, with contributions that constitute a fixed percentage of salary that is not dependent on the number of years worked at the company by the employee. It is not yet possible to fully assess the impact of this amendment on the Baloise Group's balance sheet or income statement.

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 structured entities. A subsidiary is consolidated if the Baloise Group controls it either directly or indirectly. As a rule, this is the case if the Baloise Group has exposure or rights to variable profit components as a result of its involvement with the investee and, because of legal positions, has the ability to influence the investee's business activities that are critical to its financial success and, therefore, to affect the amount of the variable profit components.

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 Structured entities

Structured entities are consolidated. Their inclusion in the consolidated financial statements is governed by the provisions of IFRS 10.

3.1.3 Joint arrangements

Joint arrangements are contractual agreements over which two or more parties have joint control. A joint arrangement is classified as either a joint operation or a joint venture. In a joint operation, the involved parties have direct rights and obligations in respect of the assets and liabilities and the income and expenses. By contrast, the parties involved in a joint venture do not have a direct entitlement to the assets and liabilities and, instead, have rights in respect of the net assets of the joint venture owing to their position as investors.

Joint ventures are accounted for using the equity method, i.e. the Baloise Group initially recognises the joint ventures at cost (fair value at the date of acquisition) and thereafter recognises them under the equity method (the Baloise Group's share of the entity's net assets and profit or loss for the period). In the case of joint operations, the Baloise Group includes directly in its consolidated financial statements the share of the assets, liabilities, income and expenses of the joint operation that is attributable to the Baloise Group.

The Baloise Group is not involved in any joint arrangements 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 (the Baloise Group's share of the entity's profit or loss for the period and 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	
	2012	2013	2012	2013
CHF				
1 EUR (euro)	1.21	1.23	1.21	1.23
1 USD (US dollar)	0.92	0.89	0.94	0.93
100 HRK (Croatian kuna)	15.99	16.10	16.02	16.24

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 Leases

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. 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. By contrast, if one of the Baloise Group's owner-occupied properties becomes an investment property owing to reclassification, then, on the date this change of use 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. Investment property is measured at fair value under the discounted cash flow (DCF) method. The current fair value of a property determined under the DCF method equals the sum total of all net income expected in future and discounted to its present value (before interest payments, taxes, depreciation and amortisation) and includes capital expenditure and renovation costs. The net income is determined individually for each property, depending on the opportunities and risks associated with it, and is discounted in line with market rates and on a risk-adjusted basis. The measurement is carried out internally each year by experts using market-based assumptions that have been verified by respected consultancies. In addition, the properties are assessed by external valuation specialists at regular intervals; roughly 10 per cent of the fair value of the real-estate portfolio is subject to such assessments each year. Changes in fair value are taken to income as realised accounting gains or losses in the period in which they occur.

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 instruments with characteristics of equity 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 instruments with characteristics of equity are generally more frequently exposed to price volatility than financial instruments with characteristics of liabilities are.

The term financial instruments with characteristics of liabilities 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 instruments with characteristics of equity and its financial instruments with characteristics of liabilities as either "recognised at fair value through profit or loss", "held to maturity" or "available for sale". The classification of the financial instruments 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 prices in active markets as at the balance sheet date. 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 publicly quoted prices.

If no publicly quoted prices are available for private equity investments, they are measured on the basis of their net asset value using non-public information from independent external providers. These providers use various methods for their estimates (e.g. 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 external 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 traded 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". Present-value models are used to measure these portfolios.

3.9 Receivables

Receivables from financial contracts dating from 2012 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 maturity value, 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 Financial 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 instruments with characteristics of equity. An impairment loss must be recognised on financial instruments with characteristics of equity 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 instruments with characteristics of equity that have been recognised in profit or loss cannot be reversed and taken to income. Any further reduction in the fair value of financial instruments with characteristics of equity 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 instruments with characteristics of liabilities if their fair value is significantly impaired by default risk.

If the fair value of an available-for-sale financial instrument with characteristics of liabilities 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 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 non-controlling 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 Non-controlling interests

Non-controlling 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
- 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 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 reserves 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 reserves recognised in a given financial year enables the Baloise Group to spot discrepancies as soon as possible and, consequently, to adjust the level of reserves 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 reserves) 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 (including reserves for claims handling costs) and annuity reserves in the non-life segment – are first analysed and, if a shortfall is identified, the relevant reserves are then 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 the Baloise Group has incurred any further liabilities for subsequent periods (future business) besides all its existing contracts maintained during the reporting period. Such business arises, for example, when contracts are automatically extended at the end of the year on the same terms and conditions. Taking account of all the latest data and trends, Baloise conducts a profitability analysis of its insurance business during the reporting year in order to check whether an adequate level of premiums has been charged and, implicitly, whether these liabilities are therefore covered. This amounts to an analysis of unearned premium reserves and an impairment test of deferred acquisition costs at the same time. If a loss is expected to be incurred (also applies to other loss-making insurance contracts in existence at the balance sheet date), 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 in full, a separate provision for impending losses equivalent to the residual amount is recognised under other technical 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 present value of future profits from acquired business).

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 reserves for future policyholders' dividends (section 23). These reserves include policyholders' dividends that are unallocated and have been set aside as a reserve 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. The articles of association of Basler Lebensversicherungs-AG, Germany, 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 transaction 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 reserve 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 foundation). Such assets are measured at fair value. Changes to assumptions, discrepancies between the planned and actual returns on plan assets, and differences between the benefit entitlements effectively received and those calculated using actuarial assumptions give rise to actuarial gains and losses that must be recognised directly in other comprehensive income.

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 various balance sheet line items

Where available, prices in active markets are used to determine fair value. If no publicly quoted 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. Detailed information about fair value measurement can be found in section 5.10.

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 instruments with characteristics of equity and financial instruments with characteristics of liabilities (available for sale or recognised at fair value through profit or loss)
  Fair value is based on prices in active markets. 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 publicly quoted prices are available for private equity investments, they are measured on the basis of their net asset value using non-public information from independent external providers. These providers use various methods for their estimates (e.g. 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) dating from 2012 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 maturity value, 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 instruments with characteristics of liabilities (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 instruments with characteristics of liabilities 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 instruments with characteristics of equity (available for sale)
An impairment loss must be recognised on available-for-sale financial instruments with characteristics of equity 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 instruments with characteristics of liabilities (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 18.2.7.

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. There were no occurrences of note in 2013. 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 & 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 Corporate Division Finance 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	Market risks → Interest → Shares → Currencies → Real estate → Market liquidity → Derivatives → Alternative investments	Asset liability risks → Interest fluctuation risk → (Re) financing, liquidity	Changes to regulations	Computer security → Data → Software / hardware / network → Physical reliability	Structure of organisation
Technical risks Nonlife → Premiums → Claims → Worst-case scenario → Creation of provisions	Credt risks	Regulatory provisions	Market / competitors	Personnel risks → Skills / capacities → Knowledge availability → Incentive systems	Corporate culture
Reinsurance → Premiums / rating → Default → Active reinsurance		Risk capitalisation	External events	Legal risks → Contracts → Liability and litigation → Tax → Pension fund	Business portfolio
Loan management			Investors	Compliance → Breach of Standards → Fraud / illegal actions	Merger and acquisitions
				Business processes → Process risks → Project risks	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 Baloise Insurance Belgium. 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 (2012: CHF 100 million) for Switzerland and at EUR 60 million (2012: EUR 60 million) for Germany and Belgium. The only other comparable underwriting limits in the Group are for marine and liability 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 (2012: 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 Corporate Division Finance. 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 (2012: CHF 20 million). The retentions for individual claims were CHF 16 million (2012: CHF 16 million) for property claims, CHF 15 million (2012: CHF 15 million) for marine claims and CHF 12.5 million on a non-indexed basis (2012: 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 Corporate Division Finance. Reinsurers must generally have a minimum rating of A– from Standard & Poor's, but in exceptional cases – and in specific circumstances – 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 a less important instrument for ceding risk 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 and 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 2013, 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 4,644.2 million (2012: CHF 4,614.5 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 338.4 million (2012: CHF 337.2 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 6.8 million after taxes and before reinsurance (2012: CHF 7.5 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										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
CHF million											
At the end of the year in which the claims occurred	754.2	951.2	684.1	681.4	641.7	690.7	723.1	777.9	732.2	768.5	–
One year later	710.4	918.9	647.6	693.2	631.4	670.6	685.4	736.5	751.1	–	–
Two years later	692.7	905.0	633.0	686.6	628.6	657.4	675.1	731.0	–	–	–
Three years later	692.2	890.8	619.0	674.2	623.6	641.0	666.9	–	–	–	–
Four years later	698.1	862.6	619.7	662.3	622.6	634.4	–	–	–	–	–
Five years later	677.8	855.5	607.8	655.7	606.8	–	–	–	–	–	–
Six years later	679.4	852.0	603.2	643.7	–	–	–	–	–	–	–
Seven years later	674.1	845.1	585.7	–	–	–	–	–	–	–	–
Eight years later	670.2	842.0	–	–	–	–	–	–	–	–	–
Nine years later	679.5	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	679.5	842.0	585.7	643.7	606.8	634.4	666.9	731.0	751.1	768.5	6,909.6
Claims paid	– 608.7	– 776.8	– 521.8	– 563.5	– 507.3	– 539.7	– 561.8	– 590.3	– 568.3	– 384.6	– 5,622.8
Gross claims reserves	70.8	65.2	63.9	80.2	99.5	94.7	105.1	140.7	182.8	383.9	1,286.8
Gross claims reserves prior to 2004 (including large claims and assumed business)											396.7
Gross provision for annuities (non-life, including IBNR)											733.3
Reinsurers' share											– 350.8
Net claims reserves											2,066.0

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										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
EUR million											
At the end of the year in which the claims occurred	325.8	292.2	283.8	306.7	298.2	288.0	302.5	290.8	297.4	382.9	–
One year later	304.2	279.9	288.7	303.0	296.2	286.4	299.7	297.6	298.4	–	–
Two years later	291.8	285.8	283.7	295.5	299.7	289.0	305.6	300.9	–	–	–
Three years later	295.5	276.5	278.8	294.1	300.3	294.6	305.8	–	–	–	–
Four years later	292.4	272.9	276.9	293.1	301.2	294.8	–	–	–	–	–
Five years later	290.4	269.4	277.5	299.3	300.6	–	–	–	–	–	–
Six years later	288.4	268.1	275.6	299.8	–	–	–	–	–	–	–
Seven years later	289.8	269.4	277.3	–	–	–	–	–	–	–	–
Eight years later	288.6	269.8	–	–	–	–	–	–	–	–	–
Nine years later	287.7	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	287.7	269.8	277.3	299.8	300.6	294.8	305.8	300.9	298.4	382.9	3,018.0
Claims paid	– 283.8	– 265.0	– 268.4	– 294.7	– 293.4	– 283.8	– 290.9	– 276.3	– 251.0	– 189.3	– 2,696.6
Gross claims reserves	3.9	4.8	8.9	5.1	7.2	11.0	14.9	24.6	47.4	193.6	321.4
Gross claims reserves prior to 2004 (including large claims and assumed business)											287.6
Gross provision for annuities (non-life, including IBNR)											80.9
Reinsurers' share											– 162.4
Net claims reserves											527.5

ESTIMATED CUMULATIVE CLAIMS INCURRED IN BELGIUM

	Year in which the claims occurred										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
EUR million											
At the end of the year in which the claims occurred	216.8	203.5	188.9	203.2	205.7	228.0	235.1	[1] 308.7	[2] 412.4	403.6	–
One year later	201.0	201.1	185.0	216.3	215.2	248.5	[1] 287.1	[2] 395.1	426.5	–	–
Two years later	203.9	188.7	182.6	213.1	212.3	[1] 252.2	[2] 308.0	392.2	–	–	–
Three years later	192.8	187.4	182.6	208.7	[1] 216.5	[2] 264.5	304.0	–	–	–	–
Four years later	190.3	184.0	179.5	[1] 211.1	[2] 223.0	254.0	–	–	–	–	–
Five years later	187.1	181.4	[1] 179.9	[2] 222.6	222.5	–	–	–	–	–	–
Six years later	183.1	[1] 182.3	[2] 181.0	221.8	–	–	–	–	–	–	–
Seven years later	[1] 184.6	[2] 182.1	187.4	–	–	–	–	–	–	–	–
Eight years later	[2] 183.2	186.2	–	–	–	–	–	–	–	–	–
Nine years later	185.9	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	185.9	186.2	187.4	221.8	222.5	254.0	304.0	392.2	426.5	403.6	2,784.1
Claims paid	– 156.7	– 149.9	– 148.7	– 165.9	– 170.9	– 194.9	– 233.0	– 284.6	– 306.5	– 192.3	– 2,003.4
Gross claims reserves	**29.2**	**36.3**	**38.7**	**55.9**	**51.6**	**59.1**	**71.0**	**107.6**	**120.0**	**211.3**	**780.7**
Gross claims reserves prior to 2004 (including large claims and assumed business)											274.5
Gross provision for annuities (non-life, including IBNR)											149.2
Reinsurers' share											– 227.0
Net claims reserves											**977.4**

1 The increase in the total estimated claims incurred is primarily due to the addition of Avéro Schadevezekering Benelux NV.
1 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										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Total
EUR million											
At the end of the year in which the claims occurred	12.6	11.4	12.7	14.2	15.0	17.5	[1] 25.0	[1] 23.6	24.0	23.6	–
One year later	11.6	11.0	12.0	13.6	14.9	16.9	[1] 22.0	22.7	24.5	–	–
Two years later	11.3	10.7	11.9	13.0	15.1	[1] 21.5	21.8	22.6	–	–	–
Three years later	10.9	10.4	11.7	12.9	[1] 20.8	21.3	21.7	–	–	–	–
Four years later	10.8	10.3	11.6	[1] 18.9	21.1	21.1	–	–	–	–	–
Five years later	10.6	10.2	[1] 16.4	18.7	20.9	–	–	–	–	–	–
Six years later	10.5	[1] 13.6	16.3	18.6	–	–	–	–	–	–	–
Seven years later	[1] 14.6	13.5	16.3	–	–	–	–	–	–	–	–
Eight years later	14.6	13.5	–	–	–	–	–	–	–	–	–
Nine years later	14.5	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	14.5	13.5	16.3	18.6	20.9	21.1	21.7	22.6	24.5	23.6	197.3
Claims paid	– 14.3	– 13.3	– 16.0	– 18.3	– 20.4	– 20.3	– 20.4	– 20.8	– 21.4	– 13.9	– 179.1
Gross claims reserves	**0.2**	**0.2**	**0.3**	**0.3**	**0.5**	**0.8**	**1.3**	**1.8**	**3.1**	**9.7**	**18.2**
Gross claims reserves prior to 2004 (including large claims and assumed business)											15.9
Gross provision for annuities (non-life, including IBNR)											0.0
Reinsurers' share											– 14.0
Net claims reserves											**20.1**

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 34.3 years (2012: 37 years).

5.5 Life

5.5.1 Actuarial risk

Traditional life insurance is called fixed-sum insurance because payments are not made for losses. Instead, 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 2012 (restated)	Switzerland individual life	Switzerland group life	Germany	Belgium	Luxembourg	Other units
CHF million						
Technical reserves without guaranteed returns	598.5	1,250.7	2,808.6	91.0	233.6	83.0
Technical reserves with 0 % guaranteed returns	766.5	646.2	165.6	87.9	88.9	24.4
Technical reserves with guaranteed positive returns	8,205.5	12,624.3	9,338.8	2,705.7	240.8	482.5
Average technical interest rate of guaranteed positive returns	2.7 %	1.8 %	3.4 %	3.7 %	2.7 %	3.2 %

31 December 2013	Switzerland individual life	Switzerland group life	Germany	Belgium	Luxembourg	Other units
Technical reserves without guaranteed returns	582.8	1,265.0	3,057.5	63.6	217.5	115.0
Technical reserves with 0 % guaranteed returns	702.3	706.0	136.3	95.6	87.3	20.2
Technical reserves with guaranteed positive returns	7,974.9	13,391.1	9,415.1	2,883.7	275.1	204.4
Average technical interest rate of guaranteed positive returns	2.7 %	2.0 %	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 is 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, in some cases, guaranteed whole-life annuities via its units in Switzerland and Luxembourg/Liechtenstein. Financial hedges are provided using external reinsurance.

	Switzerland		Germany		Belgium		Luxembourg		Other units	
	31.12.2012 (restated)	31.12.2013	31.12.2012 (restated)	31.12.2013	31.12.2012 (restated)	31.12.2013	31.12.2012 (restated)	31.12.2013	31.12.2012 (restated)	31.12.2013
CHF million										
Actuarial reserves from unit-linked life insurance contracts	466.8	484.8	1,402.4	1,634.7	9.7	13.5	296.2	284.8	83.0	103.3

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 individual 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 individual life business. The technical interest rate for Belgian group life business – unlike individual life business – is also set by the government. However, it is the companies – and not their insurers – that are obliged to guarantee this technical interest rate. Baloise Belgium has started to offer group life insurance policies with interest rates that are lower than the rate stipulated 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 31.12.2012 (restated)		Actuarial reserves 31.12.2013	
	CHF million	Share (%)	CHF million	Share (%)
Traditional insurance				
Longevity risk	9,924.4	27.4	10,308.1	27.8
Mortality risk	12,891.3	35.6	12,509.3	33.7
Disability risk	1,979.8	5.5	1,948.7	5.3
BVG retirement assets	9,195.9	25.4	9,826.4	26.5
Sub-total	33,991.4	93.8	34,592.4	93.2
Unit-linked				
Longevity risk	957.8	2.6	1,162.2	3.1
Mortality risk	1,300.2	3.6	1,358.8	3.7
Sub-total	2,258.0	6.2	2,521.0	6.8
Total	36,249.4	100.0	37,113.5	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 increase in receipts of new money.
- 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 liability adequacy testing had only a marginal effect in Germany, Belgium and Luxembourg and at Baloise Life (Liechtenstein) AG. This was true of the impact on both the income statement and on equity. A mortality increase in the Swiss life insurance business caused a lower amount to be allocated to strengthen annuity reserves, which improved profitability overall by roughly CHF 23 million (2012: by CHF 29 million). The resultant effects on equity were marginal.
- 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 the income statement and on equity. A reduction in mortality in the Swiss life insurance business – with policyholders' dividends adjusted accordingly – had a negative impact of approximately CHF 26 million (2012: CHF 36 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 increase in receipts of new money

This scenario was based on the assumption that receipts of new money (including amounts reinvested) rose by 100 basis points. When applied to the German units, this scenario resulted in a reversal of DAC write-downs and in changes to the financing of final policyholders' dividends. This adverse impact was exacerbated by impairment losses on interest-rate derivatives. The overall impact was substantially mitigated by the prevailing legal requirements governing the distribution of surpluses. On balance there was a negative effect of roughly CHF 2 million on the German units' profitability in the reporting year (2012: CHF 4 million). The negative impact on equity amounted to approximately CHF 8 million (2012: CHF 5 million).

In Belgium this scenario did not have a material effect on profit or loss. The negative effect on unrealised gains amounted to CHF 150 million (2012: CHF 147 million).

In Luxembourg this scenario produced a marginal impact on the income statement and an adverse effect of roughly CHF 13 million (2012: CHF 13 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 reversal of DAC write-downs, a reduction in technical reserves, and the offsetting effect of interest-rate hedges. This improved profitability overall by roughly CHF 16 million (2012: CHF 17 million). The adverse impact on equity amounted to approximately CHF 253 million (2012: CHF 284 million).

→ 100 basis-point fall 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 largely compensated for by the increase in the fair value of interest-rate derivatives in 2013. The overall impact was substantially mitigated by the prevailing legal requirements governing the distribution of surpluses. On balance there was a negative effect of roughly CHF 1 million on the German units' profitability in the reporting year (2012: positive effect of CHF 2 million). The positive impact on their equity amounted to approximately CHF 7 million (2012: CHF 4 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 was greater than in other countries owing to the business model used. Overall there was a negative effect of CHF 26 million on the income statement (2012: CHF 85 million). This adverse impact was more than compensated for by the positive changes in unrealised gains and losses recognised in equity. The positive effect on unrealised gains amounted to CHF 155 million (2012: CHF 147 million).

In Luxembourg this scenario produced a marginal impact on the income statement and a positive effect of roughly CHF 14 million (2012: CHF 14 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 improving profitability overall by roughly CHF 1 million (2012: decrease of CHF 6 million). The positive impact on equity amounted to approximately CHF 278 million (2012: CHF 298 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.

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 33 million (2012: CHF 97 million). Including the impact on profit for the period, equity (after shadow accounting, deferred gains/losses and deferred taxes) would have risen by CHF 370 million (2012: CHF 267 million).

If all interest rates had risen 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 CHF 15 million (2012: CHF 15 million) higher. Including the impact on profit for the period, equity (after shadow accounting, deferred gains/losses and deferred taxes) would have fallen by CHF 485 million (2012: CHF 408 million).

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 4.1 million (2012: +/– CHF 3.0 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	
	2012 (restated)	2013	2012 (restated)	2013
CHF million				
Forward contracts	21.5	19.4	–	0.1
Swaps	–	–	–	–
OTC options	–	–	–	–
Other	–	–	–	–
Traded options	–	–	–	–
Traded futures	–	–	–	–
Total	21.5	19.4	–	0.1

	2012 (restated)	2013
CHF million		
Amount recognised directly in equity	29.9	35.7
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 2013 the Group's Swiss companies did hold a net position in euros equivalent to CHF 886.0 million (2012: no material net position) and a net position in US dollars equivalent to CHF 23.9 million (2012: CHF 288.0 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 similar), 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, which protects investors against banks‘ insolvency or inability to pay. 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 instruments with characteristics of liabilities in section 12.

FINANCIAL ASSETS EXCEEDING 10% OF CONSOLIDATED EQUITY

CHF million	2012 (restated)
Federal Republic of Germany	2,618.4
Swiss Confederation	2,459.0
Kingdom of Belgium	2,254.9
Republic of France	1,589.5
Republic of Austria	1,550.2
European Investment Bank, Luxembourg	1,229.1
Commerzbank AG	1,031.4
Kingdom of the Netherlands	1,014.9
Pfandbriefbank schweizerischer Hypothekarinstitute AG	1,008.8
Deutsche Bank AG	694.9
German federal state of Lower Saxony	692.2
UBS AG	579.0
Free State of Bavaria	565.4
Österreichische Kontrollbank AG (OeKB)	517.5
BNP Paribas	503.1
Credit Suisse Group AG	502.4
Bank Nederlandse Gemeenten	490.0
Rabobank Nederland	486.4
Pfandbriefzentrale der Schweizerischen Kantonalbanken AG	486.1
UniCredit S.p.A.	482.0
Canton of Zurich	480.0

FINANCIAL ASSETS EXCEEDING 10% OF CONSOLIDATED EQUITY

CHF million	2013
Federal Republic of Germany	2,360.8
Kingdom of Belgium	2,341.6
Swiss Confederation	2,193.9
Republic of France	1,446.8
Republic of Austria	1,370.7
European Investment Bank, Luxembourg	1,205.5
Kingdom of the Netherlands	1,040.4
Pfandbriefbank schweizerischer Hypothekarinstitute AG	959.0
Commerzbank AG	796.2
German federal state of Lower Saxony	675.3
German federal state of North Rhine-Westphalia	580.8
Pfandbriefzentrale der Schweizerischen Kantonalbanken AG	545.8
UBS AG	535.1
Free State of Bavaria	516.7
BNP Paribas	513.5
Credit Suisse Group AG	492.3

MAXIMUM DEFAULT RISK OF FINANCIAL ASSETS

	2012 (restated)	2013
CHF million		
Financial assets of a debt nature		
Public corporations	17,363.2	17,354.3
Industrial enterprises	2,489.5	2,860.2
Financial institutions	10,806.7	10,362.4
Other	34.3	27.1
Mortgages and loans		
Mortgages	11,097.5	11,277.0
Policy loans	180.7	168.5
Promissory notes and registered bonds	5,830.5	6,027.2
Time deposits	1,101.0	608.1
Employee loans	42.6	37.3
Reverse repurchase agreements	–	–
Other loans	369.5	358.4
Derivative financial instruments	334.9	232.2
Receivables from financial contracts	426.6	389.4
Reinsurance assets	398.6	396.4
Receivables from reinsurers	29.3	21.7
Insurance receivables	542.4	518.4
Other receivables	269.0	257.0
Receivables from investments	644.5	612.5
Cash and cash equivalents	2,034.4	1,992.2

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 – 516.1 million (2012: – 505.2 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 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	112.2	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	0.8	104.1	133.9	2.6	154.4	395.9
Receivables from reinsurers	–	6.0	9.8	0.8	12.7	29.2
Insurance receivables	1.2	21.1	41.0	60.1	286.5	409.9
Other receivables	1.3	17.6	110.5	14.6	117.5	261.5
Receivables from investments	220.3	141.3	51.9	34.1	170.8	618.4
Cash and cash equivalents	211.1	162.7	1,263.0	21.3	376.3	2,034.4
Total	15,911.8	15,105.1	14,681.6	3,749.1	4,053.6	53,501.1

CREDIT RATINGS OF FINANCIAL ASSETS THAT WERE NEITHER OVERDUE NOR IMPAIRED AT THE BALANCE SHEET DATE IN 2013

	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Financial assets of a debt nature						
Public corporations	6,270.9	9,108.3	895.1	806.9	273.2	17,354.3
Industrial enterprises	35.4	521.5	1,642.5	649.2	11.7	2,860.2
Financial institutions	5,094.4	2,266.8	1,831.8	953.2	214.5	10,360.8
Other	–	13.4	13.5	–	0.2	27.1
Mortgages and loans						
Mortgages	96.8	974.3	8,401.1	890.8	639.0	11,002.0
Policy loans	–	–	–	–	168.5	168.5
Promissory notes and registered bonds	1,552.7	3,858.9	205.0	126.6	283.9	6,027.2
Time deposits	–	179.5	261.7	–	166.9	608.1
Employee loans	–	–	–	–	37.3	37.3
Reverse repurchase agreements	–	–	–	–	–	–
Other loans	1.9	27.4	106.6	101.8	83.3	320.9
Derivative financial instruments	92.2	42.4	74.3	8.0	15.2	232.2
Receivables from financial contracts	–	–	–	–	389.4	389.4
Reinsurance assets	1.0	107.6	97.3	0.7	186.7	393.4
Receivables from reinsurers	0.0	1.7	9.6	0.2	10.3	21.7
Insurance receivables	0.0	8.8	48.7	0.1	350.3	407.9
Other receivables	3.1	18.5	100.7	13.8	111.6	247.5
Receivables from investments	171.5	170.3	55.9	33.9	158.9	590.5
Cash and cash equivalents	162.3	335.9	1,384.4	10.9	98.7	1,992.2
Total	13,482.3	17,635.2	15,128.3	3,596.1	3,199.6	53,041.6

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 2013, financial assets amounting to – 2.1 million (2012: – 2.9 million) and cash and cash equivalents of – 0.2 million (2012: – 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
			2012 (restated)			2013
CHF million						
Financial assets of a debt nature						
Public corporations	–	–	–	–	–	–
Industrial enterprises	3.1	– 3.1	–	3.1	– 3.1	–
Financial institutions	65.6	– 42.2	23.4	26.3	– 24.7	1.6
Other	–	–	–	–	–	–
Mortgages and loans						
Mortgages	201.1	– 50.3	150.8	172.1	– 41.8	130.3
Policy loans	–	–	–	–	–	–
Promissory notes and registered bonds	0.0	0.0	–	0.0	0.0	–
Time deposits	–	–	–	–	–	–
Employee loans	–	–	–	–	–	–
Reverse repurchase agreements	–	–	–	–	–	–
Other loans	54.4	– 18.4	36.0	47.0	– 16.9	30.1
Receivables from financial contracts	–	–	–	–	–	–
Reinsurance assets	–	–	–	–	–	–
Receivables from reinsurers	0.3	– 0.3	0.0	0.3	– 0.3	–
Insurance receivables	156.2	– 35.1	121.1	127.6	– 39.9	87.7
Other receivables	11.8	– 4.4	7.4	12.9	– 3.7	9.3
Receivables from investments	28.4	– 2.3	26.1	24.2	– 2.2	22.0
Total	**520.9**	**– 156.1**	**364.8**	**413.7**	**– 132.6**	**281.1**

FINANCIAL ASSETS OVERDUE BUT NOT IMPAIRED AT THE BALANCE SHEET DATE

Assets as at 31 December 2012 (restated)	‹ 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	0.1	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	2.3	3.2	0.4	11.4
Other receivables	0.0	0.0	0.0	0.1	0.1
Receivables from investments	–	–	–	–	–
Total	6.2	2.4	3.2	6.3	18.1

Assets as at 31 December 2013	‹ 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	0.8	–	–	3.6	4.4
Policy loans	–	–	–	–	–
Promissory notes and registered bonds	–	–	–	–	–
Time deposits	–	–	–	–	–
Employee loans	–	–	–	–	–
Reverse repurchase agreements	–	–	–	–	–
Other loans	0.3	–	–	0.2	0.5
Receivables from financial contracts	–	–	–	–	–
Reinsurance assets	–	–	–	3.0	3.0
Receivables from reinsurers	–	–	–	–	–
Insurance receivables	9.0	5.5	6.8	1.5	22.7
Other receivables	0.1	0.0	0.0	0.1	0.2
Receivables from investments	–	–	–	–	–
Total	10.1	5.5	6.8	8.4	30.8

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:

MATURITIES OF FINANCIAL LIABILITIES [1]

Liquidity risk as at 31 December 2012 (restated)	‹ 1 year [2]	1 – 3 years	4 – 5 years	› 5 years	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	5,624.1	704.6	550.9	412.1	7,291.8	7,290.5
Recognised at fair value through profit or loss	7,098.1	60.1	14.8	42.2	7,215.1	7,215.1
Financial liabilities	591.9	241.5	515.4	921.3	2,270.2	2,017.6
Financial provisions	45.5	26.0	12.2	8.7	92.4	92.4
Derivative financial instruments	26.8	6.4	22.3	8.9	64.4	64.4
Insurance liabilities	1,368.2	512.8	0.1	0.5	1,881.6	1,881.6
Other liabilities	580.2	46.8	0.4	1.2	628.6	628.5
Contingent liabilities and capital commitments	640.5	217.2	0.7	100.0	958.5	–
Total	17,309.3	1,815.5	1,116.8	1,494.9	21,736.5	–

Liquidity risk as at 31 December 2013	‹ 1 year [2]	1 – 3 years	4 – 5 years	› 5 years	Total	Carrying amount
CHF million						
Liabilities arising from banking business and financial contracts						
With discretionary participation features	1,492.7	–	–	–	1,492.7	1,492.7
Measured at amortised cost	5,604.0	514.3	541.3	599.2	7,258.8	7,258.4
Recognised at fair value through profit or loss	7,630.8	26.0	–	134.3	7,791.1	7,791.1
Financial liabilities	188.0	336.6	275.7	1,139.6	1,939.9	1,697.6
Financial provisions	59.6	36.3	5.9	27.6	129.4	129.4
Derivative financial instruments	16.5	9.6	17.5	24.5	68.2	68.2
Insurance liabilities	1,534.2	582.4	0.2	1.2	2,118.0	2,118.0
Other liabilities	476.6	46.3	0.0	0.9	523.8	523.8
Contingent liabilities and capital commitments	975.5	3.0	0.8	20.8	1,000.1	–
Total	17,977.8	1,554.5	841.4	1,948.1	22,321.9	–

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 can 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 instruments with characteristics of equity 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 instruments with characteristics of equity are publicly listed.

If the market price of all financial instruments with characteristics of equity 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)	
	2012 (restated)	2013	2012 (restated)	2013
CHF million				
Market price plus 10 %	6.9	5.8	172.1	206.9
Market price minus 10 %	– 22.5	– 24.1	– 171.9	– 212.8

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 financial instruments with characteristics of equity that are classed as "recognised at fair value through profit or loss" have an impact on the profit for the period. Unrealised gains and losses vary due to changes in the fair value of financial instruments with characteristics of equity 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 Fair value measurement

Where available, quoted market prices are used to determine the fair value of assets and liabilities. 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).

Fair value measurement is divided into the following three hierarchy levels:

→ Fair value determined by publicly quoted prices (level 1)
  Fair value is based on prices in active markets 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, measurement incorporates a significant quantity 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 only 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.

Details of the methods used to measure level 2 and level 3 assets and liabilities

The table below gives an overview of the measurement methods that the Baloise Group uses to determine the fair value of balance sheet line items classified as level 2 or level 3. The table shows the individual measurement methods, the key input factors used for measurement purposes and – where practicable – the range within which these input factors vary.

Balance sheet line item	Measurement method	Key input factors used for measurement purposes	Range of input factors
Level 2			
Financial instruments with characteristics of equity			
Available for sale	Internal measurement methods	Price of underlying instrument, liquidity discount, balance sheet and income statement figures	–
	Net asset value	n / a	–
At fair value through profit or loss	Net asset value	n / a	–
Financial instruments with characteristics of liabilities			
Available for sale	Present-value model	Yield curve, swap rates, default risk	–
At fair value through profit or loss	Present-value model	Interest rate, credit spread, market price	–
Mortgages and loans			
At fair value through profit or loss	Present-value model	LIBOR, swap rates	–
Derivative financial instruments	Black-Scholes option pricing model	Money market interest rate, volatility, price of underlying instrument, exchange rates	–
	Black-76 option pricing model	Volatility, forward interest rate	–
Liabilities arising from banking business and financial contracts			
At fair value through profit or loss	Stochastic present-value model	Investment fund prices, interest rates, cancellation rate	–
	Present-value model	LIBOR, swap rates	–
Level 3			
Financial instruments with characteristics of equity			
Available for sale	Net asset value	n / a	n / a
At fair value through profit or loss	Net asset value	n / a	n / a
Investment property	DCF method	Discount rate [1]	4.5 % – 5.5 % [3]
		Rental income [2]	280 – 310 CHF million [3]
		Vacancy costs [1]	5 – 15 CHF million [3]
		Running costs [1]	22 – 27 CHF million [3]
		Maintenance costs [1]	24 – 28 CHF million [3]
		Capital expenditure [2]	40 – 70 CHF million [3]
		Inflation rate [2]	0 % – 2 % [3]

1 The lower these key input factors are, the higher the fair value of the investment property is.
2 The higher these key input factors are, the lower the fair value of the investment property is.
3 The input factor ranges shown essentially relate to the real-estate portfolios held by the Baloise Group's Swiss entities.

Determining the fair value of assets and liabilities classified as level 3

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 organisational structure is also used to delegate authority and responsibility for proper implementation of, and compliance with, financial reporting standards within the Baloise Group to the individual strategic business units.

The organisation of these individual units varies in terms of how they determine the fair value of financial instruments classified as level 3. This process essentially involves the regular discussion of measurement methods, measurement inconsistencies and classification issues by formal or informal committees at each reporting date. Appropriate adjustments are made where necessary.

Financial instruments with characteristics of equity classed as "available for sale" or "recognised at fair value through profit or loss" and classified as level 3 are primarily private-equity investments and alternative investments held by the Baloise Group as well as non-controlling interests in real-estate companies. The fair value of such investments is usually determined by fund managers (external providers) based on their net asset value (NAV). These external providers generally use non-public information to calculate the individual investments' NAV.

The measurement of investment property classified as level 3 is carried out internally each year by experts using market-based assumptions that have been verified by respected external consultancies. This property is also assessed by external valuation specialists at regular intervals.

FINANCIAL ASSETS AND LIABILITIES FOR OWN ACCOUNT AND AT OWN RISK

2012 (restated)	Level 1	Level 2	Level 3	Total
CHF million				
Assets				
Financial instruments with characteristics of equity				
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 instruments with characteristics of liabilities				
Available for sale	22,387.9	45.5	–	22,433.4
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	**24,332.8**	**2,082.5**	**714.0**	**27,129.3**
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**

FAIR VALUE OF ASSETS AND LIABILITIES FOR OWN ACCOUNT AND AT OWN RISK

2013	Total carrying amount	Total fair value	Level 1	Level 2	Level 3
CHF million					
Assets measured on a recurring basis					
Financial instruments with characteristics of equity					
Available for sale	4,096.4	4,096.4	2,272.6	864.8	959.0
Recognised at fair value through profit or loss	302.0	302.0	145.2	156.8	–
Financial instruments with characteristics of liabilities					
Held to maturity	8,100.7	8,709.4	8,709.4	–	–
Available for sale	22,431.0	22,431.0	22,373.6	57.4	–
Recognised at fair value through profit or loss	72.4	72.4	36.9	35.5	–
Mortgages and loans					
Carried at cost	17,373.4	18,102.8	–	–	18,102.8
Recognised at fair value through profit or loss	956.1	956.1	–	956.1	–
Derivative financial instruments	232.2	232.2	0.3	231.9	–
Receivables from financial contracts					
Carried at cost	389.4	389.4	–	–	389.4
Recognised at fair value through profit or loss	–	–	–	–	–
Other receivables					
Carried at cost	257.0	258.2	–	–	258.2
Receivables from investments					
Carried at cost	612.5	612.5	317.9	0.9	293.7
Investment property	5,685.9	5,685.9	–	–	5,685.9
Total assets measured on a recurring basis	**60,509.0**	**61,848.3**	**33,855.8**	**2,303.4**	**25,689.1**
Liabilities measured on a recurring basis					
Liabilities arising from banking business and financial contracts					
Measured at amortised cost	7,258.4	7,287.7	105.8	7,029.9	151.9
Recognised at fair value through profit or loss	210.7	210.7	–	210.7	–
Derivative financial instruments	68.2	68.2	13.5	54.7	–
Financial liabilities	1,697.6	1,804.4	1,804.4	–	–
Total liabilities measured on a recurring basis	**9,234.9**	**9,370.9**	**1,923.7**	**7,295.3**	**151.9**

The Baloise Group is obliged to apply accounting standard IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) owing to the disposal of its Croatian and Serbian units. The Baloise Group has assets and liabilities measured at fair value on a non-recurring basis as part of the disposal group recognised for this purpose. Information on the fair value of the disposal group can be found in note 21.

FINANCIAL ASSETS AND LIABILITIES FOR THE ACCOUNT AND AT THE RISK OF LIFE INSURANCE POLICYHOLDERS

2012 (restated)	Level 1	Level 2	Level 3	Total
CHF million				
Assets				
Financial instruments with characteristics of equity				
Recognised at fair value through profit or loss	5,964.0	45.0	53.2	6,062.2
Financial instruments with characteristics of liabilities				
Recognised at fair value through profit or loss	1,785.1	34.6	–	1,819.7
Derivative financial instruments	8.8	153.8	–	162.6
Total assets	**7,757.9**	**233.4**	**53.2**	**8,044.5**
Equity and liabilities				
Liabilities arising from banking business and financial contracts				
Recognised at fair value through profit or loss	7,032.2	2.6	–	7,034.8
Total equity and liabilities	**7,032.2**	**2.6**	**–**	**7,034.8**

FAIR VALUE OF ASSETS AND LIABILITIES FOR THE ACCOUNT AND AT THE RISK OF LIFE INSURANCE POLICYHOLDERS AND THIRD PARTIES

2013	Total carrying amount	Total fair value	Level 1	Level 2	Level 3
CHF million					
Assets measured on a recurring basis					
Financial instruments with characteristics of equity					
Recognised at fair value through profit or loss	6,946.1	6,946.1	6,847.0	47.3	51.8
Financial instruments with characteristics of liabilities					
Recognised at fair value through profit or loss	1,723.1	1,723.1	1,692.8	30.3	–
Mortgages and loans					
Recognised at fair value through profit or loss	–	–	–	–	–
Derivative financial instruments	178.5	178.5	28.8	149.7	–
Other assets					
Recognised at fair value through profit or loss	47.3	47.3	47.3	–	–
Total assets measured on a recurring basis	**8,894.9**	**8,894.9**	**8,615.9**	**227.2**	**51.8**
Liabilities measured on a recurring basis					
Liabilities arising from banking business and financial contracts					
Recognised at fair value through profit or loss	7,580.3	7,580.3	7,577.7	2.6	–
Derivative financial instruments	–	–	–	–	–
Total liabilities measured on a recurring basis	**7,580.3**	**7,580.3**	**7,577.7**	**2.6**	**–**

Assets and liabilities measured at fair value and classified as level 3

FINANCIAL ASSETS FOR OWN ACCOUNT AND AT OWN RISK

2012 (restated)	Financial instruments with characteristics of equity		Financial instruments with characteristics of liabilities		Mortgages and loans	Derivative financial instruments	Receivables from financial contracts	Total
	Available for sale	Recognised at fair value through profit or loss	Available for sale	Recognised at fair value through profit or loss	Recognised at fair value through profit or loss	Recognised at fair value through profit or loss	Recognised at fair value through profit or loss	
CHF million								
Assets								
Balance as at 1 January	705.6	–	–	–	–	–	–	705.6
Additions	58.4	–	–	–	–	–	–	58.4
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 and recognised in profit or loss	–4.9	–	–	–	–	–	–	–4.9

These items largely comprise private-equity investments and non-controlling interests in real-estate companies.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS FOR OWN ACCOUNT AND AT OWN RISK AND CLASSIFIED AS LEVEL 3

2013	Financial instruments with characteristics of equity Available for sale	Investment property Recognised at fair value through profit or loss	Total
CHF million			
Assets and liabilities measured on a recurring basis			
Balance as at 1 January	**714.0**	**5,441.0**	**6,155.0**
Additions	96.5	228.6	325.1
Additions arising from change in the scope of consolidation	–	13.0	13.0
Additions arising from change in the percentage of shareholding	–	–	–
Disposals	– 61.5	– 135.6	– 197.1
Disposals arising from change in the scope of consolidation	–	– 1.7	– 1.7
Disposals arising from change in the percentage of shareholding	–	–	–
Reclassified to level 3 [1]	280.3	8.5	288.8
Reclassified from level 3 [1]	– 65.4	– 0.4	– 65.7
Reclassification to non-current assets and disposal groups classified as held for sale	–	– 9.3	– 9.3
Changes in fair value recognised in profit or loss [2]	– 14.4	127.0	112.6
Changes in fair value not recognised in profit or loss [3]	11.8	0.6	12.4
Exchange differences	– 2.4	14.0	11.6
Balance as at 31 December	**959.0**	**5,685.9**	**6,645.0**
Changes in fair value of financial instruments held at the balance sheet date and recognised in profit or loss	**– 14.4**	**126.7**	**112.4**

1 Any reclassification of financial instruments either to or from level 3 during the reporting period was mainly attributable to market inactivity coupled with unobservable inputs or to the cancellation of the lock-up period applicable to certain hedge fund. Investment property reclassified either to or from Level 3 essentially related to real estate that had been repurposed.
2 Changes in fair value recognised in profit or loss arise from realised gains and losses on investments, impairment losses or the reversal of impairment losses.
3 Changes in fair value not recognised in profit or loss arise from unrealised gains and losses on investments.

FINANCIAL ASSETS FOR THE ACCOUNT AND AT THE RISK OF LIFE INSURANCE POLICYHOLDERS

	Financial instruments with characteristics of equity	Financial instruments with characteristics of liabilities	Derivative financial instruments	Total
2012 (restated)	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	75.8	–	–	75.8
Additions	3.1	–	–	3.1
Additions arising from change in the scope of consolidation	–	–	–	–
Additions arising from change in the 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 and recognised in profit or loss	– 0.7	–	–	– 0.7

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS FOR THE ACCOUNT AND AT THE RISK OF LIFE INSURANCE POLICYHOLDERS AND THIRD PARTIES AND CLASSIFIED AS LEVEL 3

2013	Financial instruments with characteristics of equity Recognised at fair value through profit or loss	Total
CHF million		
Assets and liabilities measured on a recurring basis		
Balance as at 1 January	53.2	53.2
Additions	3.1	3.1
Additions arising from change in the scope of consolidation	–	–
Additions arising from change in the percentage of shareholding	–	–
Disposals	– 2.7	– 2.7
Disposals arising from change in the scope of consolidation	–	–
Disposals arising from change in the percentage of shareholding	–	–
Reclassified to level 3 [1]	–	–
Reclassified from level 3 [1]	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	–
Changes in fair value recognised in profit or loss [2]	– 2.6	– 2.6
Changes in fair value not recognised in profit or loss [3]	–	–
Exchange differences	0.8	0.8
Balance as at 31 December	51.8	51.8
Changes in fair value of financial instruments held at the balance sheet date and recognised in profit or loss	– 2.6	– 2.6

1 No financial instruments were reclassified either to or from level 3 during the reporting period.
2 Changes in fair value recognised in profit or loss arise from realised gains and losses on investments, impairment losses or the reversal of impairment losses.

Reclassification of assets and liabilities from level 1 to level 2 and vice versa

Assets and liabilities measured at fair value are generally reclassified from level 1 to level 2 if there is no longer deemed to be an active market in these instruments owing to their low daily trading volumes or lack of liquidity or if the instruments concerned have been de-listed. Financial instruments are reclassified from level 2 to level 1 for the exact opposite reasons.

No significant amounts of assets or liabilities measured at fair value were reclassified from level 1 to level 2 or vice versa during the reporting period.

Discrepancy between a non-financial asset's highest and best use and its current use

The fair value of certain items of investment property in the Swiss portfolio was adjusted owing to the first-time adoption of IFRS 13. Fair value in each case was determined according to the property's highest and best use. A higher fair value was ultimately determined for this property as a result of this analysis, which was based on criteria such as the potential to increase a property's market value by converting it into apartments, the repurposing of some or all of an existing property, the availability of a significant amount of land for further building and development, and the unlocking of added value by demolishing an existing property and building a new one.

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 of the Baloise Group (including the Croatian and Serbian units) for pure insurance business of – 2,160 million (2012 (restated): – 2,096 million) was met in 2012 and 2013. The cover ratio for the capital adequacy requirement in available funds was 267 per cent as at 31 December 2013 (2012 (restated): 266 per cent). 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 III regulations.

The regulatory capital adequacy requirement for Deutscher Ring Bausparkasse AG is governed by the German Solvency Regulation (SolvV).

In both 2012 and 2013, 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 remeasurement of items and the additional incorporation of individual assets and liabilities as well as off-balance-sheet information enable equity to be 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. The capital requirement 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 2012 financial year

6.1.1 Acquisitions

Two property companies in Austria were acquired in 2012.

6.1.2 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.

6.1.3 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 had no net impact on the Baloise Group'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.

6.2 2013 financial year

6.2.1 Acquisitions

The company FIPOP S.A. was acquired in Luxembourg during the reporting year. Goodwill of – 0.6 million was recognised in respect of this acquisition.

6.2.2 Disposals

Belgian company AXIS Life was sold in the first half of 2013. Also in Belgium, the companies Esplan NV and Hermes Verzekeringsgroep NV were disposed of in the second half of the year. In Germany, the firm Partner in Life S.A. was sold in the first half of 2013. The transactions in Belgium and Germany have had a minor impact on the Baloise Group's profit for the reporting period.

The Baloise Group disposed of 35 per cent of its shareholdings in Luxembourg-based Barosa S.à.r.l., which had been founded in 2012.

6.2.3 Other changes in the group of consolidated companies

Belgian companies Nateus Life NV and Nateus NV were merged with Mercator Verzekeringen NV with effect from 1 January 2013; these businesses have all been operating in the market under the name of "Baloise Insurance" since the beginning of 2013. Audi NV – another Belgium-based firm – was merged with Euromex NV with effect from the above date. The German companies Avetas Versicherungs-AG and Deutscher Ring Sachversicherungs-AG were merged with the company Basler Securitas Versicherungs-AG retrospectively from 1 January 2013. These companies have been renamed Basler Sachversicherungs-AG. In addition, the company Apoll Vermittlungs-GmbH was merged with IMAS Gesellschaft für Vermögensbildung und -sicherung mbH. And in Germany, a number of property companies have been merged to form a single company.

The section on segment reporting broken down by strategic business unit now shows the company Baloise Life Liechtenstein as part of the "Luxembourg" segment rather than – as previously – in the "Other units" segment. The section on segment reporting by operating segment now shows the Belgian company NoordSter NV as part of the "Life" segment rather than – as previously – in the "Other activities" segment. The firm Deutscher Pensionsring AG is now reported as part of the "Other activities" (Germany) segment. The prior-year comparative figures have been restated accordingly to ensure the comparability of segment reporting.

The application of the new standard IFRS 10 (Consolidated Financial Statements) for annual periods beginning on or after 1 January 2013 means that in future the Baloise Group will also have to recognise in its consolidated financial statements those units of its investment fund vehicle Baloise Fund Invest (BFI fund) that have been sold to entities outside the Group. In the past it has only had to recognise those fund units that had been sold to clients as part of its investment-linked life insurance business as well as units that Baloise Group companies themselves had acquired as an investment or as seed capital. The application of this standard has no overall impact on the Baloise Group's profitability.

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
- 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.

The "Germany" segment also includes the regional branches of Basler Sachversicherungs-AG and Basler Lebensversicherungs-AG in the Czech Republic and Slovakia. The 'Luxembourg' segment also includes the Baloise Life Liechtenstein unit.

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	
	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013
CHF million						
Income						
Premiums earned and policy fees (gross)	3,834.0	4,249.4	1,490.4	1,504.5	1,063.3	1,104.2
Reinsurance premiums ceded	– 176.8	– 173.9	– 97.3	– 97.4	– 70.8	– 70.0
Premiums earned and policy fees (net)	3,657.2	4,075.6	1,393.1	1,407.2	992.5	1,034.3
Investment income	946.3	927.8	506.8	503.4	260.1	270.1
Realised gains and losses on investments	136.7	137.1	246.1	270.9	33.6	30.3
Income from services rendered	54.5	41.6	52.8	35.6	6.8	2.7
Share of profit (loss) of associates	0.0	0.0	16.3	41.2	0.2	– 0.7
Other operating income	30.4	52.8	25.6	38.9	9.3	13.9
Income	4,825.1	5,234.7	2,240.8	2,297.1	1,302.5	1,350.5
Intersegment income	74.2	69.9	47.8	47.1	20.2	30.8
Income from associates	0.0	0.0	15.6	40.9	0.2	0.3
Expense						
Claims and benefits paid (gross)	– 3,353.8	– 3,279.8	– 1,191.3	– 1,279.1	– 668.0	– 671.1
Change in technical reserves (gross)	– 376.5	– 849.3	– 310.1	– 416.2	– 139.2	– 87.1
Reinsurers' share of claims incurred	51.9	96.9	62.0	106.4	83.2	20.4
Acquisition costs	– 72.4	– 35.7	– 295.6	– 192.4	– 227.4	– 221.4
Operating and administrative expenses for insurance business	– 413.8	– 431.1	– 258.3	– 239.2	– 154.4	– 148.9
Investment management expenses	– 40.3	– 43.1	– 21.7	– 29.8	– 13.1	– 14.5
Interest expenses on insurance liabilities	– 5.1	– 4.8	– 43.2	– 41.3	– 1.3	– 0.7
Gains or losses on financial contracts	– 68.8	– 59.5	– 31.0	– 18.2	– 63.8	– 54.1
Other operating expenses	– 105.2	– 193.8	– 135.6	– 119.3	– 45.0	– 52.2
Expense	– 4,384.1	– 4,800.2	– 2,224.7	– 2,229.1	– 1,229.0	– 1,229.6
Profit / loss before borrowing costs and taxes	441.0	434.5	16.0	68.0	73.5	120.8
Borrowing costs	–	–	–	–	–	–
Profit / loss before taxes	441.0	434.5	16.0	68.0	73.5	120.8
Income taxes	– 81.8	– 87.0	13.1	– 15.8	2.1	– 40.4
Profit / loss for the period (segment result)	359.2	347.6	29.1	52.2	75.6	80.5
Segment assets	39,357.4	40,370.7	15,915.1	16,264.8	8,794.7	9,189.9

Luxembourg		Other units		Sub-total		Group business		Eliminated		Total	
2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013
136.0	139.5	208.2	217.7	6,731.9	7,215.4	258.5	265.6	– 259.2	– 268.3	6,731.1	7,212.7
– 17.1	– 17.3	– 72.2	– 77.3	– 434.2	– 435.9	– 1.5	– 0.3	259.2	268.3	– 176.5	– 167.9
118.9	122.2	136.0	140.4	6,297.7	6,779.5	256.9	265.2	0.0	0.0	6,554.6	7,044.8
15.5	16.3	33.0	30.8	1,761.7	1,748.3	21.9	19.1	– 1.5	– 2.3	1,782.2	1,765.1
408.1	196.0	14.0	15.0	838.5	649.1	14.4	21.2	–	–	852.9	670.3
13.3	12.6	8.2	8.1	135.7	100.5	128.8	150.0	– 139.5	– 131.6	125.0	119.0
–	–	–	–	16.5	40.5	–	–	–	–	16.5	40.5
22.5	21.2	3.4	4.2	91.2	130.9	15.2	19.2	– 14.4	– 42.2	92.0	107.9
578.2	368.2	194.7	198.3	9,141.2	9,448.8	437.4	474.7	– 155.4	– 176.0	9,423.2	9,747.5
3.7	1.1	67.2	71.5	213.1	220.3	– 368.4	– 396.3	155.4	176.0	–	–
–	–	–	–	15.8	41.2	–	–	–	–	15.8	41.2
– 64.3	– 63.6	– 151.0	– 139.6	– 5,428.4	– 5,433.3	– 182.6	– 150.3	161.7	143.9	– 5,449.4	– 5,439.7
– 55.9	– 4.3	– 5.9	– 16.7	– 887.7	– 1,373.7	31.6	– 33.4	– 11.7	47.7	– 867.7	– 1,359.4
16.0	2.2	48.1	44.5	261.1	270.4	2.1	– 3.2	– 150.0	– 191.7	113.2	75.5
– 16.8	– 12.9	– 38.6	– 38.5	– 650.8	– 500.9	– 20.5	– 27.9	20.3	28.4	– 651.0	– 500.5
– 36.2	– 40.0	– 18.1	– 9.7	– 880.8	– 869.0	1.1	0.2	– 20.3	– 28.4	– 900.0	– 897.1
– 0.7	– 0.9	– 2.3	– 2.5	– 78.1	– 90.7	– 12.0	– 12.5	31.0	32.6	– 59.0	– 70.6
– 0.2	– 0.2	– 1.1	– 0.5	– 50.9	– 47.6	–	–	0.3	0.3	– 50.5	– 47.3
– 401.1	– 222.7	– 0.4	– 0.3	– 565.1	– 354.7	– 14.3	– 16.6	1.6	2.4	– 577.8	– 368.9
– 18.8	– 8.7	– 20.1	– 48.5	– 324.6	– 422.5	– 161.0	– 199.4	122.4	140.7	– 363.2	– 481.3
– 578.1	– 351.3	– 189.4	– 211.9	– 8,605.3	– 8,822.1	– 355.4	– 443.2	155.4	176.0	– 8,805.4	– 9,089.3
0.1	16.9	5.3	– 13.5	535.9	626.7	81.9	31.5	–	–	617.9	658.2
–	–	–	–	–	–	– 61.0	– 50.1	–	–	– 61.0	– 50.1
0.1	16.9	5.3	– 13.5	535.9	626.7	20.9	– 18.6	–	–	556.8	608.1
5.2	– 2.5	– 1.2	– 8.1	– 62.7	– 153.8	– 8.9	1.1	–	–	– 71.6	– 152.7
5.3	14.4	4.1	– 21.7	473.3	472.9	11.9	– 17.5	–	–	485.2	455.4
7,635.0	8,161.2	967.3	975.6	72,669.4	74,962.2	2,089.0	1,871.6	– 980.7	– 1,136.9	73,777.7	75,696.9

7.2 Segment reporting by operating segment

	Non-life		Life	
	2012 (restated)	2013	2012 (restated)	2013
CHF million				
Income				
Premiums earned and policy fees (gross)	3,307.1	3,425.5	3,424.0	3,787.2
Reinsurance premiums ceded	– 157.8	– 148.3	– 18.7	– 19.5
Premiums earned and policy fees (net)	3,149.3	3,277.1	3,405.3	3,767.7
Investment income	285.2	276.2	1,347.5	1,349.4
Realised gains and losses on investments	– 1.9	118.1	845.8	532.1
Income from services rendered	27.2	17.5	27.0	13.8
Share of profit (loss) of associates	0.0	0.0	0.9	32.7
Other operating income	25.9	39.7	59.3	79.6
Income	3,485.7	3,728.6	5,685.9	5,775.4
Intersegment income	– 47.7	– 48.3	– 28.3	– 31.7
Income from associates	0.0	0.0	0.2	32.7
Expense				
Claims and benefits paid (gross)	– 2,009.1	– 2,073.7	– 3,440.2	– 3,366.0
Change in technical reserves (gross)	– 42.3	– 110.8	– 825.4	– 1,248.6
Reinsurers’ share of claims incurred	106.2	70.8	7.0	4.7
Acquisition costs	– 448.6	– 464.4	– 202.4	– 36.1
Operating and administrative expenses for insurance business	– 588.7	– 582.8	– 311.2	– 314.3
Investment management expenses	– 19.3	– 22.2	– 78.5	– 88.3
Interest expenses on insurance liabilities	– 1.3	– 0.7	– 49.3	– 46.6
Gains or losses on financial contracts	– 1.0	– 0.8	– 501.0	– 302.5
Other operating expenses	– 71.8	– 177.7	– 108.1	– 116.6
Expense	– 3,076.0	– 3,362.3	– 5,509.1	– 5,514.3
Profit / loss before borrowing costs and taxes	409.7	366.3	176.7	261.1
Borrowing costs	–	–	–	–
Profit / loss before taxes	409.7	366.3	176.7	261.1
Income taxes	– 21.7	– 75.3	– 27.9	– 65.8
Profit / loss for the period (segment result)	388.0	291.0	148.9	195.3

	Banking		Other activities		Eliminated		Total
2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013
–	–	–	–	–	–	6,731.1	7,212.7
–	–	–	–	–	–	– 176.5	– 167.9
–	–	–	–	–	–	6,554.6	7,044.8
165.8	154.1	13.4	16.4	– 29.8	– 30.9	1,782.2	1,765.1
– 2.7	– 1.2	11.8	21.3	–	–	852.9	670.3
113.7	116.9	174.4	183.3	– 217.2	– 212.6	125.0	119.0
–	–	15.6	7.7	–	–	16.5	40.5
6.0	9.8	16.1	21.2	– 15.3	– 42.4	92.0	107.9
282.7	279.5	231.3	249.9	– 262.3	– 285.8	9,423.2	9,747.5
– 52.5	– 55.0	– 134.0	– 151.0	262.3	285.8	–	–
–	–	15.6	8.5	–	–	15.8	41.2
–	–	–	–	–	–	– 5,449.4	– 5,439.7
–	–	–	–	–	–	– 867.7	– 1,359.4
–	–	–	–	–	–	113.2	75.5
–	–	–	–	–	–	– 651.0	– 500.5
–	–	–	–	–	0.0	– 900.0	– 897.1
– 20.4	– 21.7	– 7.4	– 8.2	66.5	69.8	– 59.0	– 70.6
–	–	–	–	–	–	– 50.5	– 47.3
– 76.7	– 67.0	– 29.9	– 30.8	30.9	32.1	– 577.8	– 368.9
– 107.1	– 115.3	– 241.1	– 255.5	164.8	183.9	– 363.2	– 481.3
– 204.2	– 204.1	– 278.4	– 294.5	262.3	285.8	– 8,805.4	– 9,089.3
78.6	75.4	– 47.1	– 44.5	–	–	617.9	658.2
–	–	– 61.0	– 50.1	–	–	– 61.0	– 50.1
78.6	75.4	– 108.2	– 94.7	–	–	556.8	608.1
– 14.5	– 13.8	– 7.6	2.3	–	–	– 71.6	– 152.7
64.0	61.6	– 115.8	– 92.4	–	–	485.2	455.4

Notes to the consolidated balance sheet

8. PROPERTY, PLANT AND EQUIPMENT

8.1 Property, plant and equipment in 2012

2012 (restated)	Land	Buildings	Operating equipment	Machinery, furniture and vehicles	IT equipment	Total
CHF million						
Carrying amount as at 1 January	88.1	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	– 2.1
Carrying amount as at 31 December	95.2	266.8	43.8	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	– 2.0	– 416.7	– 98.4	– 61.8	– 98.1	– 677.0
Balance as at 31 December	95.2	266.8	43.8	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.

8.2 Property, plant and equipment in 2013

2013	Land	Buildings	Operating equipment	Machinery, furniture and vehicles	IT equipment	Total
CHF million						
Carrying amount as at 1 January	95.2	266.8	43.8	30.1	22.7	458.5
Additions	0.0	0.9	8.3	5.0	7.6	21.8
Additions arising from change in the scope of consolidation	–	–	–	0.3	–	0.3
Disposals	–	– 0.3	0.0	– 0.5	– 0.1	– 0.9
Disposals arising from change in the scope of consolidation	–	–	– 0.2	– 0.1	0.0	– 0.3
Reclassification	– 1.9	– 5.3	– 0.5	– 0.5	0.0	– 8.1
Reclassification to non-current assets and disposal groups classified as held for sale	– 0.1	– 11.4	–	– 1.9	– 0.7	– 14.1
Depreciation and impairment						
Depreciation	–	– 12.7	– 8.1	– 6.8	– 10.5	– 38.0
Impairment losses recognised in profit or loss	0.0	– 1.2	–	0.0	–	– 1.2
Reversal of impairment losses recognised in profit or loss	–	0.9	–	–	–	0.9
Exchange differences	0.4	2.7	0.1	0.3	0.1	3.7
Carrying amount as at 31 December	93.6	240.5	43.4	25.9	19.1	422.5
Acquisition costs	95.5	616.9	121.2	76.6	90.3	1,000.5
Accumulated depreciation and impairment	– 2.0	– 376.4	– 77.8	– 50.7	– 71.2	– 578.1
Balance as at 31 December	93.6	240.5	43.4	25.9	19.1	422.5
Of which: Assets held under finance leases	–	–	–	–	–	–

Depreciation and impairment form part of other operating expenses.

9. INTANGIBLE ASSETS

9.1 Intangible assets in 2012

2012 (restated)	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
CHF million							
Carrying amount as at 1 January	75.4	70.4	775.3	161.3	217.6	0.3	1,300.2
Additions arising from change in the scope of consolidation	–	–	–	–	–	–	–
Additions	–	–	–	–	24.4	0.2	24.7
Capitalisation of acquisition costs	–	–	82.4	235.0 [2]	–	–	317.4
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	– 236.5 [2]	– 46.3	– 0.2	– 429.9
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	–	–	–	–	–	–	–
Changes due to 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	– 3.9	– 0.6	– 0.8	0.0	– 6.3
Carrying amount as at 31 December	73.4	62.0	595.2	154.0	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	154.0	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	536.3
Belgium	16.7	26.0	8.7	54.9	93.6	–	199.9
Luxembourg	14.0	–	9.9	3.0	9.8	–	36.7
Other units	10.4	16.3	21.9	19.9	3.0	–	71.4
Group business	–	–	–	–	6.5	0.3	6.7
Total for geographic regions	73.4	62.0	595.2	154.0	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.
2 The way in which the deferral and amortisation of acquisition costs are reported has been harmonised as a result of organisational and systems mergers in the German non-life business. This adjustment has had no impact on profit or loss. The comparative prior-year figures have been restated accordingly.

9.2 Intangible assets in 2013

2013	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
CHF million							
Carrying amount as at 1 January	73.4	62.0	595.2	154.0	193.7	0.3	1,078.5
Additions arising from change in the scope of consolidation	0.6	–	–	–	–	–	0.6
Additions	–	–	–	–	23.4	0.1	23.5
Capitalisation of acquisition costs	–	–	72.2	240.4	–	–	312.6
Disposals	–	–	–	–	−0.8	–	−0.8
Disposals arising from change in the scope of consolidation	–	–	–	–	−0.1	0.0	−0.1
Reclassification	–	–	–	–	0.0	–	0.0
Reclassification to non-current assets and disposal groups classified as held for sale [2]	−10.5	−15.3	−3.8	−0.9	−1.9	–	−32.4
Amortisation and impairment							
Amortisation	–	−5.6	−31.9	−242.7	−37.4	−0.2	−317.8
Write-ups	–	–	1.1	–	–	–	1.1
Impairment losses recognised in profit or loss	–	−0.6	–	–	−16.7	–	−17.4
Reversal of impairment losses recognised in profit or loss	–	–	–	–	–	–	–
Changes due to impending losses	–	–	−0.4	3.3	–	–	2.9
Change due to unrealised gains and losses on financial instruments (shadow accounting)	–	–	17.0	–	–	–	17.0
Exchange differences	1.0	1.0	7.0	1.5	1.8	0.0	12.4
Carrying amount as at 31 December	64.6	41.4	656.6	155.6	162.0	0.2	1,080.3
Acquisition costs	210.2	–	–	–	482.2	10.1	–
Accumulated amortisation and impairment	−145.7	–	–	–	−320.2	−9.9	–
Balance as at 31 December [1]	64.6	41.4	656.6	155.6	162.0	0.2	1,080.3
Intangible assets by segment							
Switzerland	–	–	137.1	51.6	42.7	–	231.3
Germany	32.7	17.3	470.0	19.6	8.4	–	548.0
Belgium	17.0	24.1	14.6	62.4	93.4	–	211.5
Luxembourg	14.8	–	13.0	3.1	9.7	–	40.6
Other units	–	0.0	21.9	19.0	0.5	–	41.4
Group business	–	–	–	–	7.3	0.2	7.5
Total for geographic regions	64.6	41.4	656.6	155.6	162.0	0.2	1,080.3

1 With the possible exception of goodwill, the Baloise Group has no intangible assets with indefinite useful lives.
2 The goodwill recognised on the Croatian unit has been reclassified to the disposal group owing to the application of IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations). Pertinent details can be found in section 21.

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 2012.

Impairment losses totalling CHF 16.7 million were recognised on other intangible assets in respect of large-scale IT projects in 2013.

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	
	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013
Zeus Vermittlungsgesellschaft mbH	14.7	14.9	9.1	9.4	1.0	1.0
Basler Financial Services GmbH	15.3	15.5	7.5	7.7	1.0	1.0
Basler osiguranje Zagreb d.d.	10.4	–	11.5	–	3.0	–
Bâloise Assurances Luxembourg S.A.	12.1	12.3	9.3	9.3	2.6	2.6
Baloise Belgium NV	16.7	17.0	7.0	7.0	2.6	2.6

10. INVESTMENTS IN ASSOCIATES

10.1 Significant investments in associates

OVB Holding AG is a European sales company for risk cover, retirement pension and healthcare products as well as wealth-building products. It also brokers Basler Versicherungen products. The company is strategically important because it constitutes a significant distribution channel.

The financial information reflects the amounts reported in the financial statements of the associate rather than the share of those amounts that is attributable to the Baloise Group. The associate's financial statements are prepared in accordance with IFRS. OVB Holding is included in the Baloise Group's consolidated annual financial statements under the equity method. Because the publicly traded OVB Holding'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

	OVB Holding	
	2012 (restated)	2013
CHF million		
Investments	40.2	49.4
Other assets	26.8	25.5
Receivables and assets	68.2	70.8
Cash and cash equivalents	45.6	37.5
Actuarial liabilities	–	–
Other accounts payable	–83.5	–84.3
Net assets	97.3	98.9
Premiums earned and policy fees (net)	171.2	173.1
Insurance benefits and expenses arising from insurance and asset management business	–113.8	–114.3
Gains on investments	1.3	0.8
Other income and expenses	–48.7	–50.6
Borrowing costs	–	–
Income taxes	–3.5	–2.4
Profit for the period	6.5	6.6
Other comprehensive income	0.0	0.0
Comprehensive income	6.5	6.6
Dividends paid to the Baloise Group	2.0	3.1

RECONCILIATION OF SUMMARY FINANCIAL INFORMATION ON SIGNIFICANT INVESTMENTS IN ASSOCIATES

	OVB Holding	
	2012 (restated)	2013
CHF million		
Net assets as at 1 October	95.8	97.3
Profit for the period	8.3	10.0
Other comprehensive income	–6.8	–8.4
Net assets as at 30 September	97.3	98.9
Baloise Group's interest (per cent)	32.57%	32.57%
Carrying amount as at 30 September	72.1	73.2
Fair value as at 30 September	119.5	114.5

10.2 Non-significant investments in associates

The Baloise Group holds investments in a number of non-significant associates. As at 31 December 2013, it held more than 20 per cent of the capital of three companies but does not have any influence over these companies' management. As a result, they are not reported as associates.

	Carrying amount	Baloise's share of			
		profit or loss for the period from continuing operations	profit or loss for the period from discontinued operations	other comprehensive income	comprehensive income
CHF million					
Total	148.7	4.3	0.0	0.5	4.8

There were no contingent liabilities arising from investments in associates and no unrecognised shares of the losses of associates as at either 31 December 2013 or 31 December 2012.

11. INVESTMENT PROPERTY

CHF million	2012 (restated)	2013
Balance as at 1 January	5,138.0	5,441.0
Additions	190.1	228.6
Additions arising from change in scope of consolidation	6.9	13.0
Disposals	– 110.2	– 135.6
Disposals arising from change in scope of consolidation	–	– 1.7
Reclassification [1]	84.9	8.1
Reclassification to non-current assets and disposal groups classified as held for sale	–	– 9.3
Change in fair value	136.1	127.7
Exchange differences	– 4.7	14.0
Balance as at 31 December	5,441.0	5,685.9
Operating expenses arising from investment property that generates rental income	75.8	70.1
Operating expenses arising from investment property that does not generate rental income	0.1	0.5

1 The items reclassified in the restated 2012 financial year primarily related to a leasing arrangement that offered an option to purchase an investment property. The leasing arrangement includes a repayment schedule and is contractually fixed until mid-2018.

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 2012, this revaluation represented the main component of the amount reported under “Change in fair value”.

The increase in the portfolio during the reporting year was largely attributable to real estate acquired by the Belgian and Luxembourg units. The investment property held by the Croatian and Serbian units that have been sold was reclassified as non-current assets and disposal groups classified as held for sale.

12. FINANCIAL ASSETS

CHF million	2012 (restated)	2013
Financial assets of an equity nature		
Available for sale	3,337.0	4,096.4
Recognised at fair value through profit or loss	76.5	302.0
Financial assets of a debt nature		
Held to maturity	8,188.5	8,100.7
Available for sale	22,433.4	22,431.0
Recognised at fair value through profit or loss	71.7	72.4
Financial assets for own account and at own risk	**34,107.1**	**35,002.4**
Financial assets for the account and at the risk of life insurance policyholders		
Recognised at fair value through profit or loss [1]	7,881.9	8,669.1
Financial assets as reported on the balance sheet	**41,989.0**	**43,671.5**

1 Of which financial assets totalling CHF 72.9 million (2012: CHF 42.1 million) involved insurance policies that had not been fully reviewed by the balance sheet date.

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FINANCIAL ASSETS FOR OWN ACCOUNT AND AT OWN RISK

	Held to maturity	
	2012 (restated)	2013
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	8,188.5	8,040.2
Publicly listed, variable interest rate	–	–
Not publicly listed, fixed interest rate	–	60.5
Not publicly listed, variable interest rate	–	–
Total	8,188.5	8,100.7

IMPAIRMENT OF HELD-TO-MATURITY FINANCIAL ASSETS OF A DEBT NATURE

	2012 (restated)	2013
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	–	– 0.3
Disposal arising from change in scope of consolidation	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	0.3
Currency translation	–	–
Balance as at 31 December	–	–

	Available for sale		Recognised at fair value through profit or loss				Total	
			Trading portfolio		Designated			
	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013
	1,849.0	2,225.5	0.4	0.5	76.1	35.6	1,925.5	2,261.5
	1,488.0	1,870.9	–	–	–	265.9	1,488.0	2,136.8
	3,337.0	4,096.4	0.4	0.5	76.1	301.5	3,413.5	4,398.4
	22,201.6	22,191.4	–	–	12.1	0.1	30,402.2	30,231.7
	186.4	153.8	–	–	43.6	36.8	229.9	190.6
	45.5	85.6	–	–	16.0	35.5	61.5	181.6
	–	0.2	–	–	–	–	–	0.2
	22,433.4	22,431.0	–	–	71.7	72.4	30,693.6	30,604.1

FINANCIAL ASSETS FOR OWN ACCOUNT AND AT OWN RISK

	Held to maturity	
	2012 (restated)	2013
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	6,982.6	6,997.0
Industrial enterprises	33.8	24.0
Financial institutions	1,138.1	1,052.7
Other	34.1	26.9
Financial assets of a debt nature	8,188.5	8,100.7
Total	8,188.5	8,100.7
Secured financial assets of a debt nature		
Public corporations	1.2	–
Industrial enterprises	–	–
Financial institutions	918.6	870.2
Other	–	–
Total	919.8	870.2

Secured financial instruments with characteristics of liabilities 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			
	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013
	1,309.8	2,070.3	–	–	0.0	–	1,309.9	2,070.3
	111.6	168.5	0.1	0.1	18.8	21.9	130.5	190.6
	118.6	97.9	0.3	0.3	52.2	273.9	171.1	372.1
	135.4	79.2	0.1	0.0	5.0	5.7	140.4	84.9
	390.8	425.4	–	–	0.0	0.0	390.8	425.5
	555.0	571.8	–	–	–	–	555.0	571.8
	715.8	683.2	–	–	–	–	715.8	683.2
	3,337.0	4,096.4	0.4	0.5	76.1	301.5	3,413.5	4,398.4
	10,358.8	10,335.0	–	–	21.9	22.3	17,363.2	17,354.3
	2,455.1	2,836.1	–	–	0.6	–	2,489.5	2,860.2
	9,619.4	9,259.6	–	–	49.2	50.1	10,806.7	10,362.4
	0.2	0.2	–	–	–	–	34.3	27.1
	22,433.4	22,431.0	–	–	71.7	72.4	30,693.6	30,604.1
	25,770.4	26,527.3	0.4	0.5	147.7	373.9	34,107.1	35,002.4
	291.0	203.4	–	–	0.1	0.1	292.4	203.4
	–	–	–	–	–	–	–	–
	5,979.9	5,932.0	–	–	0.0	0.0	6,898.5	6,802.2
	0.2	0.2	–	–	–	–	0.2	0.2
	6,271.1	6,135.5	–	–	0.1	0.1	7,191.1	7,005.8

FAIR VALUE OF FINANCIAL ASSETS CLASSIFIED AS HELD TO MATURITY

	Carrying amount		Fair value	
	2012 (restated)	2013	2012 (restated)	2013
CHF million				
Public corporations	6,982.6	6,997.0	7,965.6	7,553.9
Industrial enterprises	33.8	24.0	35.8	25.8
Financial institutions	1,138.1	1,052.7	1,224.6	1,102.2
Other	34.1	26.9	35.5	27.6
Total	8,188.5	8,100.7	9,261.5	8,709.4

13. MORTGAGES AND LOANS

	Gross amount		Impairment		Carrying amount		Fair value	
	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013
CHF million								
Mortgages and loans carried at cost								
Mortgages	10,241.0	10,222.9	– 50.3	– 41.8	10,190.7	10,181.1	10,697.8	10,460.7
Policy loans	180.2	168.1	–	–	180.2	168.1	192.1	175.8
Promissory notes and registered bonds	5,812.4	6,027.2	0.0	0.0	5,812.4	6,027.2	6,552.2	6,456.5
Time deposits	1,101.0	608.1	–	–	1,101.0	608.1	1,101.0	608.1
Employee loans	42.6	37.3	–	–	42.6	37.3	44.1	38.5
Reverse repurchase agreements	–	–	–	–	–	–	–	–
Other loans	382.7	368.5	– 18.4	– 16.9	364.3	351.5	381.7	363.3
Sub-total	**17,759.9**	**17,432.1**	**– 68.7**	**– 58.7**	**17,691.2**	**17,373.4**	**18,968.8**	**18,102.8**
Mortgages and loans recognised at fair value through profit or loss								
Mortgages	819.2	955.7	–	–	819.2	955.7	819.2	955.7
Policy loans	0.5	0.4	–	–	0.5	0.4	0.5	0.4
Sub-total	**819.7**	**956.1**	**–**	**–**	**819.7**	**956.1**	**819.7**	**956.1**
Mortgages and loans	**18,579.6**	**18,388.2**	**– 68.7**	**– 58.7**	**18,510.9**	**18,329.5**	**19,788.5**	**19,058.9**

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

	2012 (restated)	2013
CHF million		
Balance as at 1 January	**– 72.4**	**– 68.7**
Usage not recognised in profit or loss	6.6	9.3
Unused provisions reversed through profit or loss	12.3	12.1
Increases and additional provisions recognised in profit or loss	– 15.4	– 12.2
Disposal arising from change in scope of consolidation	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	1.3
Currency translation	0.2	– 0.6
Balance as at 31 December	**– 68.7**	**– 58.7**

14. DERIVATIVE FINANCIAL INSTRUMENTS

	Fair value assets		Fair value liabilities	
	2012 (restated)	2013	2012 (restated)	2013
CHF million				
Derivative financial instruments for own account and at own risk	334.9	232.2	64.4	68.2
Derivative financial instruments for the account and at the risk of life insurance policyholders	162.6	178.5	–	–
Derivative financial instruments as reported on the balance sheet	497.6	410.7	64.4	68.2

	Contract value		Fair value assets		Fair value liabilities	
	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013
CHF million						
Interest-rate instruments						
Forward contracts	–	–	–	–	–	–
Swaps	1,024.3	1,156.8	28.5	33.9	48.4	45.5
OTC options	1,524.1	1,201.4	265.6	119.7	–	–
Other	0.0	0.0	5.1	5.4	–	1.0
Traded options	–	–	–	–	–	–
Traded futures	–	–	–	–	–	–
Sub-total	2,548.4	2,358.2	299.3	159.0	48.4	46.5
Equity instruments						
Forward contracts	–	–	–	–	–	–
OTC options	361.0	1,484.2	7.7	31.9	–	9.8
Traded options	3.3	640.2	–	0.3	3.4	9.0
Traded futures	–	–	–	–	–	–
Sub-total	364.2	2,124.3	7.7	32.2	3.4	18.8
Foreign-currency instruments						
Forward contracts	5,591.7	4,933.3	27.0	40.6	11.2	1.5
Swaps	–	–	–	–	–	–
OTC options	3,170.9	1,358.3	1.0	0.4	1.4	1.3
Traded options	–	–	–	–	–	–
Traded futures	–	–	–	–	–	–
Sub-total	8,762.7	6,291.6	28.0	41.0	12.6	2.9
Total	11,675.3	10,774.1	334.9	232.2	64.4	68.2
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	1,117.9	1,037.3	21.5	19.4	–	0.1

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	
	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013
CHF million								
Receivables carried at cost								
Receivables from financial contracts	370.5	389.4	–	–	370.5	389.4	370.5	389.4
Other receivables	273.4	260.7	–4.4	–3.7	269.0	257.0	274.0	258.2
Receivables from investments	646.8	614.8	–2.3	–2.2	644.5	612.5	644.5	612.5
Sub-total	1,290.7	1,264.8	–6.7	–5.9	1,284.0	1,259.0	1,289.0	1,260.1
Receivables recognised at fair value through profit or loss								
Receivables from financial contracts	56.1	–	–	–	56.1	–	56.1	–
Sub-total	56.1	–	–	–	56.1	–	56.1	–
Receivables	1,346.8	1,264.8	–6.7	–5.9	1,340.1	1,259.0	1,345.0	1,260.1

IMPAIRMENT OF RECEIVABLES

	2012 (restated)	2013
CHF million		
Balance as at 1 January	–6.9	–6.7
Usage not recognised in profit or loss	0.4	0.2
Unused provisions reversed through profit or loss	3.3	2.7
Increases and additional provisions recognised in profit or loss	–3.9	–2.2
Disposal arising from change in scope of consolidation	0.4	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	0.2
Currency translation	0.0	0.0
Balance as at 31 December	–6.7	–5.9

16. REINSURANCE ASSETS

CHF million	2012 (restated)	2013
Reinsurers' share of technical reserves as at 1 January	377.5	398.6
Change in unearned premium reserves	– 6.2	– 7.1
Benefits paid	– 73.9	– 72.3
Interest on and change in liability	113.0	74.6
Additions / disposals arising from change in scope of consolidation	–	–
Impairment	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	– 3.0
Exchange differences	– 11.9	5.6
Reinsurers' share of technical reserves as at 31 December	398.6	396.4

17. RECEIVABLES FROM REINSURERS

CHF million	2012 (restated)	2013
Reinsurance deposits as at 1 January	5.3	7.0
Additions	2.4	1.1
Disposals	– 0.8	– 0.4
Additions / disposals arising from change in scope of consolidation	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	–
Exchange differences	0.1	0.1
Reinsurance deposits as at 31 December	7.0	7.8
Other reinsurance receivables as at 1 January	12.0	22.5
Additions	15.6	1.8
Disposals	– 5.2	– 10.3
Additions / disposals arising from change in scope of consolidation	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	–
Exchange differences	0.0	0.2
Other reinsurance receivables as at 31 December	22.5	14.2
Impairment of receivables from reinsurers as at 1 January	– 0.4	– 0.3
Usage not recognised in profit or loss	0.0	0.0
Unused provisions reversed through profit or loss	0.2	0.0
Increases and additional provisions recognised in profit or loss	0.0	0.0
Disposal arising from change in scope of consolidation	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	–
Currency translation	–	–
Impairment of receivables from reinsurers as at 31 December	– 0.3	– 0.3
Receivables from reinsurers as at 31 December	29.3	21.7

18. EMPLOYEE BENEFITS

18.1 Receivables and liabilities arising from employee benefits

	Receivables from employee benefits		Liabilities arising from employee benefits	
	2012 (restated)	2013	2012 (restated)	2013
CHF million				
Type of benefit				
Short-term employee benefits	0.6	0.7	125.2	132.0
Post-employment benefits – defined contribution plans	–	–	–	–
Post-employment benefits – defined benefit plans	–	–	965.5	813.6
Other long-term employee benefits	–	–	33.1	32.6
Termination benefits	–	–	11.0	11.3
Total	0.6	0.7	1,134.9	989.5

18.2 Post-employment benefits – defined benefit plans

The Baloise Group 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 that of the former Avéro Schadeverzekering Benelux NV.

Switzerland has the largest plans. The employer and employee each contribute to these plans; the contributions are used to cover benefits paid in the event of death or invalidity as well as being saved up to fund a pension. The employee has the option of receiving all or part of the accumulated capital as a one-off payment. Some of the benefits granted in this way are governed by binding statutory regulations that are applicable to all Swiss employers and, in particular, stipulate certain minimum benefits. The pensions are the responsibility of separate legal entities (foundations) that are run by a committee consisting of employer and employee representatives.

In other countries, the benefits are either granted by the employer directly or covered by an insurance policy that, as a rule, is funded by the employer. Directly granted benefits are particularly relevant in Germany, where benefits are agreed between the employer and the employee representatives.

The pension benefits on offer also comprise special benefits that the Baloise Group grants to retirees (especially those in Switzerland). These benefits include subsidised mortgages. These benefits and concessions are classified as defined benefit pension obligations under IAS 19.

18.2.1 Fair value of plan assets

CHF million	2012 (restated)	2013
Balance as at 1 January	1,947.1	2,068.6
Interest-rate effect	45.3	37.3
Return on plan assets (net of interest-rate effect)	91.1	90.5
Employees' savings and purchases	28.1	25.5
Exchange differences	– 0.1	0.2
Employer contribution	49.7	55.0
Employee contribution	23.5	29.1
Benefits paid	– 116.2	– 123.1
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	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	–
Gains and losses on plan settlements	–	–
Balance as at 31 December	2,068.6	2,183.0

18.2.2 Partially funded liabilities under defined benefit plans

CHF million	2012 (restated)	2013
Balance as at 1 January	– 2,060.6	– 2,277.7
Current service cost	– 69.6	– 76.0
Interest-rate effect	– 49.0	– 39.9
Employees' savings and purchases	– 28.1	– 25.5
Actuarial gains / losses on defined benefit obligations arising from		
changes in financial assumptions	– 119.4	88.0
changes in demographic assumptions	– 143.2	– 5.1
experience adjustments	12.6	– 47.0
Exchange differences	0.1	– 0.3
Unrecognised past service cost	55.9	– 0.7
Benefits paid	116.2	123.1
Additions / disposals arising from change in scope of consolidation	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	–
Gains and losses on plan settlements	7.3	–
Balance as at 31 December	– 2,277.7	– 2,261.1

18.2.3 Unfunded liabilities under defined benefit plans

CHF million	2012 (restated)	2013
Balance as at 1 January	– 587.6	– 756.4
Current service cost	– 12.7	– 16.3
Interest-rate effect	– 27.0	– 21.5
Employees' savings and purchases	–	–
Actuarial gains / losses on defined benefit obligations arising from		
changes in financial assumptions	– 167.3	44.3
changes in demographic assumptions	– 5.9	–
experience adjustments	5.1	– 5.6
Exchange differences	2.9	– 11.0
Unrecognised past service cost	–	1.2
Benefits paid	36.0	29.1
Additions / disposals arising from change in scope of consolidation	–	0.6
Reclassification to non-current assets and disposal groups classified as held for sale	–	–
Gains and losses on plan settlements	–	–
Balance as at 31 December	– 756.4	– 735.6

18.2.4 Net actuarial liabilities under defined benefit plans

CHF million	2012 (restated)	2013
Fair value of plan assets	2,068.6	2,183.0
Present value of (partially) funded liabilities	– 2,277.7	– 2,261.1
Present value of unfunded liabilities	– 756.4	– 735.6
Effect of the asset ceiling	–	–
Net actuarial liabilities under defined benefit plans	– 965.5	– 813.6

18.2.5 Asset allocation

CHF million	2012 (restated)	2013
Cash and cash equivalents	94.9	145.5
Real estate	360.5	377.3
Equities and investment funds		
publicly listed	1,179.5	1,216.7
not publicly listed	–	–
Fixed-interest assets		
publicly listed	137.1	134.7
not publicly listed	–	–
Mortgages and loans	287.2	292.6
Derivatives		
publicly listed	–	–
not publicly listed	0.3	0.3
Other	9.0	16.0
Fair value of plan assets	2,068.6	2,183.0
Of which: Bâloise Holding Ltd shares (fair value) and convertible bonds (fair value)	22.7	25.1
Of which: real estate leased to the Baloise Group	–	–

The investment funds are mainly fixed-income funds.

18.2.6 Expenses for defined benefit plans recognised in the income statement

CHF million	2012 (restated)	2013
Current service cost	– 82.2	– 92.2
Net interest cost	– 30.7	– 24.1
Unrecognised past service cost	55.9	0.5
Gains and losses on plan settlements	7.3	–
Expected return on reimbursement rights	–	–
Regular employee contribution	24.1	29.8
Total expenses for defined benefit plans recognised in the income statement	– 25.6	– 86.0

18.2.7 Actuarial assumptions

	2012 (restated)	2013
Per cent		
Discount rate	2.0	2.4
Expected wage and salary increases	1.7	1.7
Expected increase in pension benefits	0.4	0.4
Weighted pension drawdown rate	81.4	84.5
Years		
Average life expectancy of a 65-year-old woman	23.4	23.6
Average life expectancy of a 65-year-old man	20.7	20.7

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.

18.2.8 Sensitivity analysis for liabilities under defined benefit plans

	2012 (restated)	2013
Total defined benefit obligation as shown	3,034.1	2,996.6
Discount rate plus 1.0 % age points	– 396.6	– 330.4
Discount rate minus 1.0 % age points	503.2	409.7
Expected wage and salary increases plus 0.5 % age points	31.6	31.1
Expected wage and salary increases minus 0.5 % age points	– 34.7	– 31.4
Expected pension benefits increases plus 0.5 % age points	157.4	150.1
Expected pension benefits increases minus 0.5 % age points	– 32.2	– 28.3
Mortality probabilities for 65-year-olds plus 10.0 % age points	– 75.3	– 70.7
Mortality probabilities for 65-year-olds minus 10.0 % age points	81.8	76.9
Weighted share of annuity option plus 10.0 % age points	10.2	6.4

The Baloise Group determines the sensitivities of liabilities under defined benefit plans by recalculating them using the same models as used for the calculation of the effective value. In this calculation, only one parameter of the base scenario is changed. Possible interaction between individual parameters is not taken into consideration. The effect resulting from various parameters occurring simultaneously may vary from the sum total of individually determined differences.

The sensitivity is only calculated for the liability. A possible simultaneous impact on plan assets is not investigated.

18.2.9 Funding of plan benefits

The plan assets of the Swiss plans are funded jointly by the employer and employee. The amount of individual contributions depends largely on an employee's remuneration and age. Statutory regulations require employers to contribute a minimum of 50 per cent of the total contributions for part of the insured benefits.

18.2.10 Estimated employer contribution

The employer's contribution for the following year can only be predicted with a limited degree of certainty. The Baloise Group expects to pay employer contributions of approximately CHF 60.6 million for the 2014 financial year.

18.2.11 Maturity profile

The maturity profile of liabilities under pension plans differs depending on whether benefits are prospective or current entitlements. For prospective benefit entitlements, the average expected remaining service period is 10.62 years; the average present value factor for current benefit entitlements under pension commitments is 13.96 years.

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 in profit or loss.

Long-service bonuses constitute the principal benefit paid. The present value of liabilities as at 31 December 2013 totalled CHF 32.6 million (2012: CHF 33.1 million). There were no disposals of plan assets for long-term employee benefits. Benefits paid out amounted to CHF 4.4 million (2012: CHF 4.1 million).

18.4 Share-based payment plans

For some time now, the Baloise Group has offered employees and management team members the chance to participate in various plans under which shares are granted as part of their overall remuneration packages. The Employee Incentive Plan, the Share Subscription Plan and the Employee Share Ownership Plan are all cash-settled remuneration programmes. Performance share units (PSUs) are an equity-settled remuneration programme. In 2013, a sum of CHF 20.0 million (2012: CHF 16.6 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 Baloise 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 Board of Foundation 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 50.30 for the reporting year (2012: CHF 34.20). 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 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 of the Board of Foundation is Andreas Burki (Head of Legal & Tax at Baloise).

EMPLOYEE INCENTIVE PLAN

	2012 (restated)	2013
Number of shares subscribed	173,799	167,147
Restricted until	31.8.2015	31.8.2016
Subscription price per share (CHF)	34.20	50.30
Value of shares subscribed (CHF million)	5.9	8.4
Fair value of subscribed shares on subscription date (CHF million)	12.2	16.5
Employees entitled to participate	3,220	3,239
Participating employees	1,894	1,851
Subscribed shares per participant (average)	91.7	90.3

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 Executive Committees 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.

The parameters used to determine the subscription price are decided each year by the Remuneration Committee. The subscription price is based on the closing price on the first day of the subscription period (until 2013: volume-weighted average share price during a contemporaneous measurement period), on which a discount of 10 per cent is granted (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)

	2012 (restated)	2013
Number of shares subscribed	47,555	55,830
Restricted until [1]	28.2.2015	29.2.2016
Subscription price per share (CHF)	65.58	73.53
Value of shares subscribed (CHF million)	3.1	4.1
Fair value of subscribed shares on subscription date (CHF million)	3.4	4.7
Employees entitled to participate	744	870
Participating employees	103	115
SSP portion of variable remuneration	14%	15%

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 28 February 2017 and 28 February 2018 respectively.

18.4.3 Employee Share Ownership Plan

Since May 2001 it has been possible for most management team members 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 management team members 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 (i.e. the same as that 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.

The parameters used to determine the subscription price are decided each year by the Remuneration Committee. The subscription price is based on the closing price on the first day of the subscription period (until 2013: volume-weighted average share price during a contemporaneous measurement period), from which discounted dividend rights are deducted 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)

	2012 (restated)	2013
Number of shares subscribed [1]	218,181	185,409
Restricted until	28.2.2015	29.2.2016
Subscription price per share [2] (CHF)	59.84	68.67
Value of shares subscribed [2] (CHF million)	13.1	12.7
Fair value of subscribed shares on subscription date (CHF million)	15.8	15.6
Employees entitled to participate	744	870
Participating employees	127	118
ESOP portion of variable remuneration	9 %	7 %

1 Including shares financed by loans.
2 Net of the discounted dividend right over three years.

18.4.4 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 management team members 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.

Companies in the STOXX 600 Europe Insurance Index (as at 31 December 2013)

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

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

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 2013 they receive their shares on 1 March 2016. Half of the shares granted in this way are then subject to an additional three-year restriction period.

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, the Remuneration Committee has 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.

The PSUs allocated in 2011 were converted into shares as at 1 January 2014. The performance of Baloise shares at the end of the vesting period on 31 December 2013 ranked 21st out of 33 companies in the relevant peer group (STOXX Europe 600 Insurance Index), which meant that it was in the 3rd quartile. The performance multiplier was therefore 0.77, and the 68,244 outstanding PSUs were converted into 55,551 shares (share price of CHF 113.60 on 31 December 2013, market capitalisation of CHF 5.97 million).

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

The value of PSUs is exposed to market risk until the end of the vesting period and may, of course, fluctuate significantly, as shown in the table below:

PERFORMANCE SHARE UNIT (PSU) PLAN

	PSUs granted		PSUs converted				Change in value
	Date	Price (CHF) [1]	Date	Multiplier	Price (CHF) [1]	Value (CHF) [2]	[3]
2007	01.03.2007	125.80	01.01.2010	1.182	86.05	101.71	– 19 %
2008	01.01.2008	109.50	01.01.2011	1.24	91.00	112.84	3 %
2009	01.01.2009	82.40	01.01.2012	0.64	64.40	41.22	– 50 %
2010	01.01.2010	86.05	01.01.2013	0.58	78.50	45.53	– 47 %
2011	01.01.2011	91.00	01.01.2014	0.77	113.60	87.47	– 4 %
2012	01.03.2012	71.20	01.03.2015	[4] 1.44	[4] 113.60	[4] 163.58	[4] 130 %
2013	01.03.2013	84.50	01.03.2016	[4] 1.50	[4] 113.60	[4] 170.40	[4] 102 %

1 Price = price of Baloise shares at the PSU grant date or conversion date
2 Value = value of one PSU at the conversion date (share price at the conversion date times the multiplier)
3 Change in value = difference between the value at the conversion date and the share price at the grant date
4 Interim measurement as at 31 December 2013

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
- Empirical data on how long eligible programme participants remain with the Company.

PERFORMANCE SHARE UNITS (PSU)

	Plan 2011	Plan 2012	Plan 2013
Employees entitled to participate at launch of programme	73	72	69
Number of allocated PSU	81,739	89,116	72,600
Of which: expired without compensation (departures in 2011)	– 6,937	–	–
Number of active PSUs as at 31 December 2011	74,802	–	–
Of which: expired without compensation (departures in 2012)	– 5,667	– 5,132	–
Number of active PSUs as at 31 December 2012	69,135	83,984	–
Of which: expired without compensation (departures in 2013)	– 891	– 2,247	– 1,859
Number of active PSUs as at 31 December 2013	68,244	81,737	70,741
Value of allocated PSUs on issue date (CHF million)	6.9	6.4	5.6
PSU expense incurred by the Baloise Group for 2011 (CHF million)	2.4	–	–
PSU expense incurred by the Baloise Group for 2012 (restated, CHF million)	1.6	1.5	–
PSU expense incurred by the Baloise Group for 2013 (CHF million)	1.8	2.0	1.2

19. DEFERRED INCOME TAXES

19.1 Deferred income taxes

	2012 (restated)	2013
CHF million		
Deferred tax assets	1,340.5	1,319.2
Deferred tax liabilities	– 2,146.3	– 2,145.4
Total (net)	– 805.8	– 826.3
Of which: recognised as deferred tax assets	32.7	56.0
Of which: recognised as deferred tax liabilities	– 838.5	– 882.3

19.2 Deferred tax assets and liabilities

DEFERRED TAX ASSETS

2012 (restated)	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	– 17.7	–	395.3
Financial assets	9.4	47.9	–	57.3
Insurance liabilities	412.2	85.9	–	498.1
Other investments	37.4	3.0	–	40.5
Insurance receivables	9.5	– 4.4	–	5.1
Unrealised losses recognised directly in equity	15.1	–	71.6	86.7
Tax losses carried forward	48.1	5.5	–	53.6
Other[1]	209.7	– 5.7	–	204.0
Total	1,154.4	114.5	71.6	1,340.5

2013	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	395.3	20.7	–	416.0
Financial assets	57.3	– 26.0	–	31.3
Insurance liabilities	498.1	16.9	–	515.1
Other investments	40.5	– 1.7	–	38.7
Insurance receivables	5.1	– 3.9	–	1.2
Unrealised losses recognised directly in equity	86.7	–	– 59.8	26.9
Tax losses carried forward	53.6	– 17.1	–	36.5
Other[1]	204.0	49.5	–	253.5
Total	1,340.5	38.4	– 59.8	1,319.2

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

2012 (restated)	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	99.8	–	950.3
Unrealised gains / losses recognised directly in equity	64.4	–	267.3	331.7
Investment property	247.0	48.0	–	295.0
Depreciable assets	32.5	– 27.9	–	4.5
Other intangible assets	21.7	– 1.6	–	20.1
Financial assets	58.2	– 5.5	–	52.7
Other investments	61.5	14.7	–	76.1
Insurance receivables	7.0	– 3.8	–	3.2
Other [1]	179.7	15.3	–	195.0
Total	**1,786.7**	**92.3**	**267.3**	**2,146.3**

2013	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	217.5	12.6	–	230.1
Technical reserves	950.3	124.1	–	1,074.4
Unrealised gains / losses recognised directly in equity	331.7	–	– 110.0	221.7
Investment property	295.0	34.9	–	329.9
Depreciable assets	4.5	– 0.4	–	4.1
Other intangible assets	20.1	– 5.3	–	14.9
Financial assets	52.7	2.2	–	54.9
Other investments	76.1	– 29.2	–	46.9
Insurance receivables	3.2	4.0	–	7.2
Other [1]	195.0	– 33.7	–	161.4
Total	**2,146.3**	**109.2**	**– 110.0**	**2,145.4**

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 155.3 million as at 31 December 2013 (2012: CHF 211.2 million). Of this total, CHF 0.2 million will expire after one year and CHF 155.1 million will expire after five years or more.

No deferred tax assets had been recognised on tax loss carryforwards amounting to CHF 481.8 million as at 31 December 2013 (2012: CHF 563.6 million) because the relevant offsetting criteria had not been met. Of this total, CHF 1.8 million will expire after one year, a further CHF 11.3 million will expire after two to four years and CHF 468.6 million will expire after five years or more.

20. OTHER ASSETS

"Other assets" include the fair value of precious metals amounting to CHF 47.3 million in connection with private placement life insurance (2012: CHF 87.1 million). The insurance policyholder bears the price risk attaching to these precious metal holdings.

21. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

In the second half of the reporting year, all of the assets and associated liabilities of the Croatian and Serbian companies (Basler osiguranje Zagreb d.d. and Basler osiguranje a.d.o.) were reclassified as held for sale. The disposal of the Croatian and Serbian units was completed on 11 March 2014.

	Disposal groups		Non-current assets	
	31.12.2012 (restated)	31.12.2013	31.12.2012 (restated)	31.12.2013
CHF million				
Property, plant and equipment	–	–	–	–
Intangible assets	–	19.9	–	–
Investment property	–	9.2	–	–
Financial assets	–	350.0	–	–
Other investments	–	–	–	–
Receivables	–	21.9	–	–
Other assets	–	–	–	–
Total assets	–	401.0	–	–
Technical reserves	–	335.4	–	–
Liabilities arising from banking business and financial contracts	–	0.7	–	–
Other financial obligations	–	12.2	–	–
Other liabilities	–	5.5	–	–
Total equity and liabilities	–	353.9	–	–
Unrealised losses directly associated with non-current assets and disposal groups classified as held for sale	–	39.3	–	–

A total impairment loss of CHF 31.7 million was recognised on the assets in the disposal group as at 31 December 2013. This amount includes the write-off of goodwill on the Croatian units.

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 2012 (restated)	**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 (restated)	**3,053,746**	**46,946,254**	**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 2013	**3,053,746**	**46,946,254**	**50,000,000**	**5.0**
Purchase / sale of treasury shares	– 24,803	24,803	–	–
Capital increases	–	–	–	–
Share buy-back and cancellation	–	–	–	–
Balance as at 31 December 2013	**3,028,943**	**46,971,057**	**50,000,000**	**5.0**

The share capital of Bâloise Holding totals CHF 5.0 million and is divided into 50,000,000 registered, fully paid-up registered shares with a par value of CHF 0.10 each (2012: 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 Annual General Meeting held on 2 May 2013 voted to pay a gross dividend of CHF 4.50 per share for the 2012 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 211.8 million.

23. TECHNICAL RESERVES (GROSS)

CHF million	2012 (restated)	2013
Unearned premium reserves (gross)	612.5	617.6
Claims reserve (gross)	5,478.7	5,527.7
Other technical reserves	58.0	97.1
Technical reserves (non-life)	**6,149.2**	**6,242.4**
Actuarial reserves (gross)	36,863.6	37,721.9
Policyholders' dividends credited and provisions for future policyholders' dividends (gross)	3,579.1	3,471.4
Technical reserves (life)	**40,442.7**	**41,193.3**
Technical reserves (gross)	**46,591.9**	**47,435.6**

23.1 Technical reserves (non-life)

CHF million	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
			2012 (restated)			2013
Unearned premium reserves	612.5	–1.6	610.8	617.6	6.1	623.7
Claims reserve	4,930.6	–	–	4,964.6	–	–
Provision for claims handling costs	548.1	–	–	563.1	–	–
Claims reserve	5,478.7	–373.2	5,105.5	5,527.7	–379.4	5,148.3
Other technical reserves	58.0	–0.1	58.0	97.1	–0.1	97.0
Total technical reserves (non-life)	6,149.2	–374.9	5,774.3	6,242.4	–373.3	5,869.0

23.1.1 Maturity structure of technical reserves

	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
			2012 (restated)			2013
CHF million						
Unearned premium reserves						
Up to 1 year	579.5	–1.9	577.6	581.8	5.6	587.4
More than 1 year	8.0	0.2	8.2	10.2	0.5	10.8
No determinable residual term	25.0	–	25.0	25.5	–	25.5
Total unearned premium reserves	**612.5**	**–1.6**	**610.8**	**617.6**	**6.1**	**623.7**
Claims reserve						
Up to 1 year	955.3	–54.2	901.1	949.1	–49.9	899.1
More than 1 year	3,459.9	–67.9	3,392.0	3,473.9	–76.0	3,397.9
No determinable residual term	1,063.5	–251.2	812.4	1,104.8	–253.5	851.3
Total claims reserve	**5,478.7**	**–373.2**	**5,105.5**	**5,527.7**	**–379.4**	**5,148.3**

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
			2012 (restated)			2013
CHF million						
Balance as at 1 January	**604.7**	**–7.9**	**596.8**	**612.5**	**–1.6**	**610.8**
Netted premiums	3,317.7	–151.6	3,166.1	3,441.7	–141.3	3,300.4
Less: premiums earned during the reporting period	–3,307.1	157.8	–3,149.3	–3,425.5	148.3	–3,277.1
Additions arising from acquisition of policy portfolios and insurance companies	–	–	–	–	–	–
Disposals arising from sale of policy portfolios and insurance companies	–	–	–	–	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	–	–	–18.7	0.7	–18.0
Exchange differences	–2.9	0.1	–2.8	7.6	–0.1	7.6
Balance as at 31 December	**612.5**	**–1.6**	**610.8**	**617.6**	**6.1**	**623.7**

Apart from the actual unearned premium reserves, this item includes health insurance reserves for old age and deferred unearned premiums.

23.1.3 Other technical reserves

	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
			2012 (restated)			2013
CHF million						
Balance as at 1 January	**55.3**	**0.0**	**55.3**	**58.0**	**– 0.1**	**58.0**
Less: expenditures during the reporting period	– 19.1	0.4	– 18.8	– 20.1	0.3	– 19.8
Additional provisions recognised and unused provisions reversed through profit or loss	21.9	– 0.4	21.5	59.1	– 0.3	58.8
Additions arising from acquisition of policy portfolios and insurance companies	–	–	–	–	–	–
Disposals arising from sale of policy portfolios and insurance companies	–	–	–	–	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	–	–	–	–	–
Exchange differences	0.0	–	0.0	0.0	–	0.0
Balance as at 31 December	**58.0**	**– 0.1**	**58.0**	**97.1**	**– 0.1**	**97.0**

23.1.4 Claims reserve (including claims handling costs)

CHF million	2012 (restated)	2013
Balance as at 1 January (gross)	5,475.2	5,478.7
Reinsurers' share	–335.7	–373.2
Balance as at 1 January (net)	5,139.6	5,105.5
Claims incurred (including claims handling costs)		
For the reporting period	2,022.2	2,135.1
For previous years	–98.5	–80.1
Total	1,923.7	2,055.0
Payments for claims and claims handling costs		
For the reporting period	–987.2	–1,008.9
For previous years	–954.9	–997.2
Total	–1,942.2	–2,006.1
Other changes		
Additions / disposals arising from changes in scope of consolidation	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	–40.2
Exchange differences	–15.6	34.1
Total	–15.6	–6.1
Balance as at 31 December (net)	5,105.5	5,148.3
Reinsurers' share	373.2	379.4
Balance as at 31 December (gross)	5,478.7	5,527.7

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 88.1 million at the end of 2013 (2012: CHF 96.8 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)

	2012 (restated)	2013
CHF million		
Actuarial reserves from non-unit-linked life insurance contracts [1]	33,991.4	34,592.4
Actuarial reserves from unit-linked life insurance contracts	2,258.0	2,521.0
Reserves for final policyholders' dividends	311.6	270.2
Unearned revenue reserve	302.6	338.3
Structure of actuarial reserves (life)	**36,863.6**	**37,721.9**
Policyholders' dividends credited and provisions for future policyholders' dividends	3,579.1	3,471.4
Total technical reserves (life)	**40,442.7**	**41,193.3**

1 The actuarial reserves include unearned premium reserves and claims reserves.

23.2.1 Maturity structure of technical reserves

	2012 (restated)	2013
CHF million		
Actuarial reserves from non-unit-linked life insurance contracts		
Up to 1 year	1,111.2	1,163.0
1 to 5 years	4,020.6	3,967.2
5 to 10 years	4,000.4	3,793.5
More than 10 years	7,389.0	7,275.7
No determinable residual term	8,274.3	8,566.7
Business from Swiss occupational pension plans [1]	9,195.9	9,826.4
Total actuarial reserves from non-unit-linked life insurance contracts	33,991.4	34,592.4
Actuarial reserves from unit-linked life insurance contracts		
Up to 1 year	84.9	109.0
1 to 5 years	240.8	240.5
5 to 10 years	323.2	328.3
More than 10 years	417.6	460.5
No determinable residual term	1,191.5	1,382.7
Total actuarial reserves from unit-linked life insurance contracts	2,258.0	2,521.0
Policyholders' dividends credited		
Up to 1 year	109.2	111.9
1 to 5 years	376.9	374.6
5 to 10 years	397.1	358.5
More than 10 years	576.7	532.7
No determinable residual term	280.4	281.2
Total policyholders' dividends credited	1,740.3	1,658.9
Provisions for future policyholders' dividends		
Up to 1 year	172.0	166.6
No determinable residual term	1,666.8	1,645.8
Total provisions for future policyholders' dividends	1,838.7	1,812.5

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	2012 (restated)	2013
Balance as at 1 January	33,661.1	33,991.4
Change in actuarial reserves	399.0	693.6
Additions arising from acquisition of policy portfolios and insurance companies	–	–
Disposals arising from sale of policy portfolios and insurance companies	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	– 276.4
Exchange differences	– 68.7	183.7
Balance as at 31 December	33,991.4	34,592.4

The actuarial reserves include unearned premium reserves and claims reserves.
The actuarial reserves for DPF business as at 31 December 2013 amounted to CHF 34,322.0 million (31 December 2012: CHF 33,733.7 million), while for non-DPF business they totalled CHF 270.4 million (31 December 2012: CHF 257.8 million).
The actuarial reserves for assumed business (inward reinsurance) as at 31 December 2013 came to CHF 6.8 million (31 December 2012: CHF 5.9 million).

23.2.3 Actuarial reserves from unit-linked life insurance contracts

CHF million	2012 (restated)	2013
Balance as at 1 January	2,009.9	2,258.0
Additions	297.4	265.9
Disposals	– 197.7	– 219.7
Fees	– 14.5	– 4.4
Interest on and change in liabilities	171.8	196.1
Additions arising from acquisition of policy portfolios and insurance companies	–	–
Disposals arising from sale of policy portfolios and insurance companies	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	0.0
Exchange differences	– 8.8	25.1
Balance as at 31 December	2,258.0	2,521.0

23.2.4 Reserve for final policyholders' dividends

CHF million	2012 (restated)	2013
Balance as at 1 January	**356.9**	**311.6**
Adjustment arising from unrealised gains and losses as at 1 January (shadow accounting)	– 6.4	– 11.9
Interest on and change in liability	– 25.4	– 21.3
Final policyholders' dividends paid	– 23.7	– 21.3
Additions arising from acquisition of policy portfolios and insurance companies	–	–
Disposals arising from sale of policy portfolios and insurance companies	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	– 0.4
Adjustment arising from unrealised gains and losses as at 31 December (shadow accounting)	11.9	9.5
Exchange differences	– 1.7	3.9
Balance as at 31 December	**311.6**	**270.2**

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	2012 (restated)	2013
Balance as at 1 January	**276.9**	**302.6**
Reserved during the reporting period	29.7	30.6
Change in balance	– 2.3	0.9
Change due to unrealised gains and losses on investments (shadow accounting)	– 0.3	0.0
Additions arising from acquisition of policy portfolios and insurance companies	–	–
Disposals arising from sale of policy portfolios and insurance companies	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	–
Exchange differences	– 1.6	4.2
Balance as at 31 December	**302.6**	**338.3**

23.2.6 Policyholders' dividends credited and reserves for future policyholders' dividends

CHF million	2012 (restated)	2013
Policyholders' dividends credited as at 1 January	**1,836.3**	**1,740.3**
Dividends credited to policyholders during the reporting period	97.5	87.0
Policyholders' dividends paid	– 185.5	– 188.0
Additions arising from acquisition of policy portfolios and insurance companies	–	–
Disposals arising from sale of policy portfolios and insurance companies	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	– 0.6
Exchange differences	– 8.0	20.1
Balance as at 31 December	**1,740.3**	**1,658.9**
Provisions for future policyholders' dividends as at 1 January	**1,266.0**	**1,838.7**
Adjustment arising from unrealised gains and losses as at 1 January	– 234.8	– 683.0
Additions	268.4	204.6
Withdrawals	– 189.2	– 214.3
Change in measurement differences between IFRS and national accounting standards recognised in profit or loss	48.9	205.2
Adjustment arising from unrealised gains and losses as at 31 December (shadow accounting)	683.0	452.9
Additions arising from acquisition of policy portfolios and insurance companies	–	–
Disposals arising from sale of policy portfolios and insurance companies	–	–
	–	–
Exchange differences	– 3.4	8.4
Balance as at 31 December	**1,838.7**	**1,812.5**
Policyholders' dividends credited and provisions for future policyholders' dividends as at 31 December	**3,579.1**	**3,471.4**

24. LIABILITIES ARISING FROM BANKING BUSINESS AND FINANCIAL CONTRACTS

	Carrying amount		Fair value	
	2012 (restated)	2013	2012 (restated)	2013
CHF million				
With discretionary participation features (DPFs)				
Financial contracts with discretionary participation features (DPFs) [1]	1,334.0	1,492.7	–	–
Sub-total	1,334.0	1,492.7	–	–
Measured at amortised cost				
Liabilities to banks	162.3	156.9	162.8	156.9
Repurchase agreements	400.0	300.0	400.0	300.0
Liabilities arising from time deposits	26.8	19.9	27.0	20.0
Loans	70.9	0.0	70.9	0.0
Mortgages	–	–	–	–
Savings and customer deposits	4,997.9	5,172.7	4,659.0	5,161.4
Medium-term bonds	388.2	298.4	402.0	306.5
Mortgage-backed bonds	994.2	1,078.9	1,052.4	1,105.1
Bonds	99.5	99.7	108.8	105.8
Liability for future financial lease payments (present value)	105.7	97.3	105.7	97.3
Other financial contracts	45.1	34.6	45.1	34.6
Sub-total	7,290.5	7,258.4	7,033.9	7,287.7
Recognised at fair value through profit or loss (designated)				
Other financial contracts	7,215.1	7,791.1	7,215.1	7,791.1
Sub-total	7,215.1	7,791.1	7,215.1	7,791.1
Total liabilities arising from banking business and financial contracts	15,839.6	16,542.1	–	–

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

	2012 (restated)	2013
CHF million		
Lease term ‹ 1 year	0.0	0.0
Lease term 1 to 5 years	29.3	97.7
Lease term › 5 years	77.6	–
Total minimum lease payments	106.9	97.7
Future borrowing costs	– 1.2	– 0.4
Total liability for future financial lease payments (present value)	105.7	97.3

26. FINANCIAL LIABILITIES

SENIOR DEBT

	2012 (restated)	2013
CHF million		
Balance as at 1 January	**1,612.6**	**2,017.6**
Issue price of newly issued bonds	549.0	224.5
Embedded derivative	–	–
Additions (sub-total)	**549.0**	**224.5**
Disposals / repayments	**– 150.0**	**– 550.0**
Interest expenses	61.0	50.1
Nominal interest rate	– 55.1	– 44.6
Interest costs (sub-total)	**6.0**	**5.5**
Balance as at 31 December	**2,017.6**	**1,697.6**

Bâloise Holding Ltd issued a new bond totalling CHF 225 million (1.75 per cent, 2013 to 2023, ISIN CH0200044821) at an issue price of 100.812 per cent on 26 April 2013. A bond amounting to CHF 550 million (4.250 per cent) was repaid on 29 April 2013. No other new bonds were placed nor were any further bonds repaid during the reporting period.

The fair value of financial liabilities at the balance sheet date totalled CHF 1,804.4 million (2012: CHF 2,139.2 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	Convertible bond	Senior bond	Senior bond	Senior bond	Senior bond	Senior bond	Senior bond
Face value (CHF million)	150	242.5	300	250	175	225	150	225
Interest rate	3.500 %	1.500 %	2.875 %	3.000 %	2.250 %	1.000 %	2.000 %	1.750 %
Early redemption date	–	on or after 8.12.2014	–	–	–	–	–	–
Repayment	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Issued	2007	2009	2010	2011	2012	2012	2012	2013
Repayment	19.12.2014	17.11.2016	14.10.2020	07.07.2021	01.03.2019	12.10.2017	12.10.2022	26.4.2023
ISIN	CH0035539334	CH0107130822	CH0117683794	CH0131804616	CH0148295014	CH0188295536	CH0194695083	CH0200044821

27. PROVISIONS

	Restructuring	Other	Total	Restructuring	Other	Total
			2012 (restated)			2013
CHF million						
Balance as at 1 January	10.9	71.0	81.8	10.7	81.7	92.4
Addition arising from change in scope of consolidation	–	–	–	–	–	–
Disposal arising from change in scope of consolidation	–	–	–	–	0.0	0.0
Reclassification to non-current assets and disposal groups classified as held for sale	–	–	–	–	– 2.8	– 2.8
Increases and additional provisions recognised in profit or loss	1.6	29.6	31.1	15.2	53.7	69.0
Unused provisions reversed through profit or loss	– 0.1	– 3.7	– 3.8	0.0	– 6.5	– 6.6
Usage not recognised in profit or loss	– 1.6	– 15.0	– 16.5	– 3.3	– 20.0	– 23.3
Unwinding of discount	–	–	–	–	–	–
Exchange differences	– 0.1	– 0.2	– 0.3	0.1	0.6	0.7
Balance as at 31 December	10.7	81.7	92.4	22.7	106.7	129.4

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

	2012 (restated)	2013
CHF million		
Liabilities to policyholders	1,146.3	1,350.0
Liabilities to brokers and agents	123.9	122.5
Liabilities to insurance companies	588.5	619.9
Other insurance liabilities	22.9	25.5
Total insurance liabilities	1,881.6	2,118.0

Notes to the consolidated income statement

29. PREMIUMS EARNED AND POLICY FEES

	Non-life	Life	Total 2012 (restated)	Non-life	Life	Total 2013
CHF million						
Gross premiums written and policy fees	3,317.7	3,424.0	6,741.7	3,441.7	3,787.2	7,228.9
Change in unearned premium reserves	–10.6	–	–10.6	–16.2	–	–16.2
Premiums earned and policy fees (gross)	3,307.1	3,424.0	6,731.1	3,425.5	3,787.2	7,212.7
Reinsurance premiums ceded	–151.6	–18.7	–170.3	–141.3	–19.5	–160.8
Reinsurers' share of change in unearned premium reserves	–6.2	–	–6.2	–7.1	–	–7.1
Total premiums earned and policy fees (net)	3,149.3	3,405.3	6,554.6	3,277.1	3,767.7	7,044.8

30. INCOME FROM INVESTMENTS FOR OWN ACCOUNT AND AT OWN RISK

	2012 (restated)	2013
CHF million		
Investment property	245.1	253.3
Financial assets of an equity nature		
Available for sale	90.4	97.2
Recognised at fair value through profit or loss	0.1	0.2
Financial assets of a debt nature		
Held to maturity	252.7	247.9
Available for sale	637.0	639.2
Recognised at fair value through profit or loss	5.3	4.1
Mortgages and loans		
Carried at cost	531.8	501.2
Recognised at fair value through profit or loss	16.5	20.4
Cash and cash equivalents	3.3	1.6
Total investment income for own account and at own risk	1,782.2	1,765.1

Income from investment property consists mainly of rental income. Income from financial instruments with characteristics of equity primarily comprises dividend income, while income from financial instruments with characteristics of liabilities 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 4.2 million had been recognised on impaired investments at the balance sheet date (2012: CHF 5.2 million).

31. REALISED GAINS AND LOSSES ON INVESTMENTS

REALISED GAINS AND LOSSES ON INVESTMENTS AS RECOGNISED IN THE INCOME STATEMENT

	2012 (restated)	2013
CHF million		
Realised gains and losses on investments for own account and at own risk	224.4	210.7
Realised gains and losses on investments for the account and at the risk of life insurance policyholders	628.5	459.6
Realised gains and losses on investments as recognised in the income statement	**852.9**	**670.3**

31.1 Realised gains and losses on investments in 2012 for own account and at own risk

2012 (restated)	Investment property	Financial assets of an equity nature	Financial assets of a debt nature	Mortgages and loans	Derivative financial instruments	Total
CHF million						
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	113.8	–	–	359.9
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	– 3.0	–	– 71.3
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.

31.2 Realised gains and losses on investments in 2013 for own account and at own risk

2013	Investment property	Financial assets of an equity nature	Financial assets of a debt nature	Mortgages and loans	Derivative financial instruments	Total
CHF million						
Realised gains on sales and book profits						
Investment property	221.3	–	–	–	–	221.3
Held to maturity [1]	–	–	29.9	–	–	29.9
Available for sale	–	171.9	188.6	–	–	360.5
Recognised at fair value through profit or loss	–	9.5	3.7	0.1	123.0	136.3
Carried at cost	–	–	–	38.7	–	38.7
Sub-total	221.3	181.4	222.2	38.8	123.0	786.7
Realised losses on sales and book losses						
Investment property	– 94.2	–	–	–	–	– 94.2
Held to maturity [1]	–	–	– 1.4	–	–	– 1.4
Available for sale	–	– 61.8	– 27.4	–	–	– 89.1
Recognised at fair value through profit or loss	–	– 6.0	– 2.0	– 7.3	– 338.4	– 353.6
Carried at cost	–	–	–	– 5.3	–	– 5.3
Sub-total	– 94.2	– 67.8	– 30.8	– 12.5	– 338.4	– 543.7
Impairment losses recognised in profit or loss						
Held to maturity	–	–	– 0.3	–	–	– 0.3
Available for sale	–	– 32.7	– 0.5	–	–	– 33.2
Carried at cost	–	–	–	– 12.2	–	– 12.2
Reversal of impairment losses recognised in profit or loss						
Held to maturity	–	–	–	–	–	–
Available for sale	–	–	1.4	–	–	1.4
Carried at cost	–	–	–	12.1	–	12.1
Sub-total	–	– 32.7	0.5	– 0.1	–	– 32.3
Total realised gains and losses on investments	127.0	80.9	192.0	26.2	– 215.4	210.7

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	2012 (restated)	2013
Impairment losses on financial assets of an equity nature recognised in profit or loss		
Equities	– 52.2	– 12.5
Equity funds	0.0	– 1.0
Mixed funds	– 0.5	–
Bond funds	–	–
Real-estate funds	– 2.7	– 6.6
Private equity	– 2.6	– 8.0
Hedge funds	– 7.9	– 4.6
Sub-total	**– 65.9**	**– 32.7**
Impairment losses on financial assets of a debt nature recognised in profit or loss		
Public corporations	–	–
Industrial enterprises	–	– 0.3
Financial institutions	– 2.4	– 0.5
Other	–	–
Sub-total	**– 2.4**	**– 0.9**
Impairment losses on mortgages and loans recognised in profit or loss		
Mortgages	– 11.0	– 11.2
Policy loans	–	–
Promissory notes and registered bonds	–	–
Time deposits	–	–
Reverse repurchase agreements	–	–
Other loans	– 4.3	– 1.0
Sub-total	**– 15.4**	**– 12.2**
Total impairment losses on financial assets recognised in profit or loss	**– 83.7**	**– 45.7**

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 profit of CHF 26.5 million was reported for 2013 (2012: loss of CHF 78.6 million).

A gross currency gain of CHF 67.4 million was recognised directly in equity for the reporting year (2012: gain of CHF 19.7 million). Allowing for hedges of a net investment in a foreign operation (hedge accounting), a net gain of CHF 69.8 million was recognised for 2013 (2012: net gain of CHF 21.6 million).

32. INCOME FROM SERVICES RENDERED

CHF million	2012 (restated)	2013
Asset management	27.7	30.6
Services	42.6	34.2
Banking services	45.1	43.6
Investment management	9.6	10.6
Income from services rendered	125.0	119.0

33. OTHER OPERATING INCOME

CHF million	2012 (restated)	2013
Interest income from insurance and reinsurance receivables	12.0	12.3
Other interest income	2.9	2.8
Gains on the sale of		
property, plant and equipment	0.5	1.2
intangible assets	–	–
Currency gains	3.2	4.4
Other income	73.5	87.2
Other operating income	92.0	107.9

34. CLASSIFICATION OF EXPENSES

CHF million	2012 (restated)	2013
Personnel expenses (excluding loss adjustment expenses)	– 775.0	– 843.0
Marketing and advertising	– 34.0	– 40.0
Depreciation, amortisation and impairment of		
property, plant and equipment	– 53.7	– 39.3
intangible assets	– 55.9	– 60.5
IT and other equipment	– 57.6	– 61.6
Expenses for software development	–	–
Expenses for rent, maintenance and repairs	– 56.5	– 55.2
Currency losses	– 3.0	– 14.1
Expenses for operating leases	– 3.3	– 3.8
Commission and selling expenses	– 552.7	– 557.3
Fees and commission for financial assets and liabilities not recognised at fair value	– 25.3	– 25.6
Fees and commission expenses for assets managed for third parties	– 3.2	– 3.3
Expenses arising from non-current assets and disposal groups classified as held for sale	–	– 31.7
Other	– 353.2	– 213.9
Total	– 1,973.2	– 1,949.4

35. PERSONNEL EXPENSES

Total personnel expenses for 2013 came to CHF 955.9 million (2012: CHF 903.5 million).

36. GAINS OR LOSSES ON FINANCIAL CONTRACTS

	2012 (restated)	2013
CHF million		
With discretionary participation features (DPFs)		
Financial contracts with discretionary participation features (DPFs)	– 47.5	– 42.7
Sub-total	– 47.5	– 42.7
Measured at amortised cost		
Interest on loans	– 0.4	– 0.4
Interest due	– 24.0	– 9.8
Interest arising from banking business	– 46.3	– 39.6
Interest expenses on repurchase agreements	0.0	0.0
Acquisition costs in banking business	– 7.4	– 5.7
Interest expenses on bonds	– 3.2	– 3.2
Expenses arising from financial contracts	– 16.8	– 17.7
Sub-total	– 98.2	– 76.5
Recognised at fair value through profit or loss (designated)		
Change in fair value of other financial contracts	– 432.2	– 249.7
Sub-total	– 432.2	– 249.7
Total gains or losses on financial contracts	– 577.8	– 368.9
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

	2012 (restated)	2013
CHF million		
Current income taxes	– 65.0	– 82.2
Deferred income taxes	– 6.6	– 70.5
Total current and deferred income taxes	**– 71.6**	**– 152.7**

37.2 Expected and current income taxes

The expected average tax rate for the Baloise Group was 25.3 per cent in 2012 (restated) and 26.8 per cent in 2013. These rates correspond to the weighted average tax rates in those countries where the Baloise Group operates.

	2012 (restated)	2013
CHF million		
Profit before taxes	556.8	608.1
Expected average tax rate (per cent)	25.3 %	26.8 %
Expected income taxes	**– 141.0**	**– 162.8**
Increase / reduction owing to		
tax-exempt profits and losses	16.1	2.5
non-deductible expenses	– 9.9	– 13.1
withholding taxes on dividends	– 1.7	– 2.4
change in tax rates	10.1	– 0.4
tax items related to other reporting periods	20.0	7.0
non-taxable measurement differences	19.9	9.5
other impacts [1]	14.8	6.9
Current income taxes	**– 71.6**	**– 152.7**

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 (and, in the reporting year, the effect arising from the application of IFRS 5 [Non-current Assets Held for Sale and Discontinued Operations]).

38. EARNINGS PER SHARE

	2012 (restated)	2013
Profit for the period attributable to shareholders (CHF million)	479.5	452.6
Average number of shares outstanding	46,831,998	46,896,926
Basic earnings per share (CHF)	**10.24**	**9.65**

	2012 (restated)	2013
Profit for the period attributable to shareholders (CHF million)	**479.5**	**452.6**
Adjustment of interest expenses on convertible bonds, including tax effects (CHF million)	7.6	7.7
Adjusted profit for the period attributable to shareholders (CHF million)	**487.1**	**460.3**
Average number of shares outstanding	46,831,998	46,896,926
Adjustment due to theoretical conversion of convertible bond	2,000,000	2,000,000
Adjustment due to theoretical exercise of share-based payment plans	74,899	183,086
Adjustment due to theoretical exercise of put options	4,803	–
Adjusted average number of shares outstanding	**48,911,700**	**49,080,012**
Diluted earnings per share (CHF)	**9.96**	**9.38**

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.

The dilution of earnings in 2013 was attributable to the Performance Share Units (PSU) share-based payment plan and the convertible bond issued by Bâloise Holding.

39. OTHER COMPREHENSIVE INCOME

39.1 Other comprehensive income

CHF million	2012 (restated)	2013
Items to be reclassified to retained earnings		
Reserves arising from reclassification of investment property:		
Gains and losses arising during the reporting period	–	0.6
Reclassification adjustments for gains (losses) included in retained earnings	–	–
Total reserves arising from reclassification of investment property:	–	0.6
Reserves arising from assets and liabilities of defined benefit plans:		
Change in reserves arising from assets and liabilities of post-employment benefits (defined benefit plans)	–327.2	162.4
Total reserves arising from assets and liabilities of defined benefit plans	–327.2	162.4
Shadow accounting:		
Change arising from shadow accounting	84.1	–18.4
Total shadow accounting	84.1	–18.4
Income taxes	59.7	–33.2
Total items to be reclassified to retained earnings	–183.4	111.5

Continued	2012 (restated)	2013
CHF million		
Items to be reclassified to the income statement		
Available-for-sale financial assets:		
Gains and losses arising during the reporting period	1,699.4	– 301.6
Gains and losses reclassified to the income statement	– 134.8	– 230.1
Total available-for-sale financial assets	1,564.6	– 531.7
Unrealised gains and losses of associates:		
Gains and losses arising during the reporting period	6.1	3.2
Total unrealised gains and losses of associates	6.1	3.2
Hedging reserves for derivative financial instruments held as cash flow hedges:		
Gains and losses arising during the reporting period	–	–
Gains and losses reclassified to the income statement	–	–
Total hedging reserves for derivative financial instruments held as cash flow hedges	–	–
Hedging reserves for derivative financial instruments held as hedges of a net investment in a foreign operation:		
Gains and losses arising during the reporting period	29.9	35.7
Gains and losses reclassified to the income statement	– 27.8	– 33.4
Total hedging reserves for derivative financial instruments held as hedges of a net investment in a foreign operation	2.1	2.4
Reserves arising from reclassification of held-to-maturity financial assets:		
Gains and losses arising during the reporting period	– 0.1	0.1
Gains and losses reclassified to the income statement	– 4.9	– 2.8
Total reserves arising from reclassification of held-to-maturity financial assets:	– 4.9	– 2.7
Shadow accounting:		
Gains and losses arising during the reporting period	– 600.3	267.2
Total shadow accounting	– 600.3	267.2
Exchange differences:		
Gains and losses arising during the reporting period	19.6	68.1
Total exchange differences	19.6	68.1
Income taxes	– 255.4	82.2
Total items to be reclassified to the income statement	731.7	– 111.3
Total other comprehensive income	548.3	0.1

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
			2012 (restated)			2013
CHF million						
Items to be reclassified to retained earnings						
Reserves arising from reclassification of investment property	–	0.0	0.0	0.6	0.0	0.6
Reserves arising from assets and liabilities of defined benefit plans	–327.2	86.6	–240.6	162.4	–39.1	123.3
Shadow accounting	84.1	–26.8	57.3	–18.4	5.9	–12.5
Total items to be reclassified to retained earnings	–243.2	59.7	–183.4	144.6	–33.2	111.5
Items to be reclassified to the income statement						
Available-for-sale financial assets	1,564.6	–414.8	1,149.8	–531.7	148.3	–383.4
Unrealised gains and losses of associates	6.1	–1.8	4.3	3.2	1.4	4.6
Hedging reserves for derivative financial instruments held as cash flow hedges	–	–	–	–	–	–
Hedging reserves for derivative financial instruments held as hedges of a net investment in a foreign operation	2.1	–0.2	1.9	2.4	–0.6	1.8
Reserves arising from reclassification of held-to-maturity financial assets	–4.9	1.3	–3.6	–2.7	0.8	–1.9
Shadow accounting	–600.3	160.1	–440.2	267.2	–67.6	199.6
Exchange differences	19.6	–	19.6	68.1	–	68.1
Total items to be reclassified to the income statement	987.2	–255.4	731.7	–193.5	82.2	–111.3
Total	744.0	–195.7	548.3	–48.9	49.1	0.1

Other disclosures

40. ACQUISITION AND DISPOSAL OF COMPANIES

	Cumulative acquisitions		Cumulative disposals	
	2012 (restated)	2013	2012 (restated)	2013
CHF million				
Investments	6.9	13.0	–	1.7
Other assets	–	0.3	1.3	0.5
Receivables and assets	–	0.0	0.6	69.6
Cash and cash equivalents	–	0.0	0.3	1.0
Actuarial liabilities	–	– 10.2	–	– 65.9
Other accounts payable	– 5.2	– 0.8	– 1.3	– 3.7
Non-controlling interests	–	–	–	–
Net assets acquired / disposed of	1.7	2.3	0.9	3.2
Funds used / received for acquisitions and disposals				
Cash and cash equivalents	1.7	2.9	0.4	3.4
Offsetting	–	–	–	–
Transfer of assets	–	–	–	–
Directly attributable costs	–	–	–	–
Equity instruments issued	–	–	–	–
Reclassification of investments in associates	–	–	–	–
Acquisition / disposal price	1.7	2.9	0.4	3.4
Net assets acquired / disposed of	– 1.7	– 2.3	– 0.9	– 3.1
Goodwill / negative goodwill or proceeds from disposals	0.0	0.6	– 0.5	0.4
Cash and cash equivalents used / received for acquisitions and disposals	– 1.7	– 2.9	0.4	3.4
Cash and cash equivalents acquired / disposed of	–	0.0	– 0.3	– 1.0
Outflow / inflow of cash and cash equivalents	– 1.7	– 2.9	0.1	2.4

The Baloise Group acquired two property companies in Austria during 2012.

The cumulative disposals for 2012 included the sale of Poliklinika Osiguranje Zagreb in Croatia and the disposal of PiL Verwaltungsgesellschaft mbH.

The company FIPOP S.A. was acquired in Luxembourg during the second half of 2013.

Belgian company AXIS Life was sold in the first half of 2013. Also in Belgium, the companies Esplan NV and Hermes Verzekeringsgroep NV were disposed of in the second half of the year. In Germany, the firm Partner in Life S.A. was sold in the first half of 2013.

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 in 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	
	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013	2012 (restated)	2013
CHF million								
Included in the income statement								
Premiums earned and policy fees	13.9	14.1	0.1	0.1	–	–	14.0	14.2
Investment income / expenses	0.0	0.0	0.1	0.1	–	–	0.1	0.1
Other income	0.4	0.4	0.2	0.2	–	–	0.7	0.6
Expenses	– 0.3	– 0.4	– 13.7	– 14.1	–	–	– 14.0	– 14.5
Impairment losses on bad debts	–	–	–	–	–	–	–	–
Total income statement	13.9	14.2	– 13.3	– 13.7	–	–	0.6	0.4
Included on the balance sheet								
Mortgages and loans	–	–	10.8	11.3	–	–	10.8	11.3
Insurance receivables	1.2	0.9	–	–	–	–	1.2	0.9
Other receivables	0.0	0.0	–	–	–	–	0.0	0.0
Impairment losses on bad debts	– 0.7	– 0.7	–	–	–	–	– 0.7	– 0.7
Other accounts payable	– 1.9	– 3.8	–	–	–	–	– 1.9	– 3.8
Total on the balance sheet	– 1.4	– 3.6	10.8	11.3	–	–	9.4	7.6
Off-balance-sheet transactions								
Guarantees granted	–	–	–	–	–	–	–	–

EXECUTIVE MANAGEMENT REMUNERATION

	2012 (restated)	2013
CHF million		
Short-term employee benefits	7.9	8.2
Post-employment benefits	1.2	1.4
Payments under share-based payment plans	4.6	4.6
Total	**13.7**	**14.1**

46,964 shares worth CHF 4.4 million were repurchased from members of the Corporate Executive Committee in 2013 (2012: CHF 1.5 million) 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 74 to 82 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 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 2013.

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.

	2012 (restated)	2013
CHF million		
Guarantees	67.4	63.8
Collateral	437.7	452.3
Total guarantees and collateral for the benefit of third parties	**505.2**	**516.1**
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

2012 (restated)	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Guarantees	–	–	38.3	–	29.2	67.4
Collateral	–	–	–	–	437.7	437.7

2013	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Guarantees	–	–	37.3	–	26.5	63.8
Collateral	–	–	0.2	–	452.1	452.3

43.1.3 Pledged or ceded assets, securities-lending assets, and collateral held

CARRYING AMOUNTS OF ASSETS PLEDGED OR CEDED AS COLLATERAL

CHF million	2012 (restated)	2013
Financial assets under repurchase agreements	379.5	284.7
Financial assets in the context of securities lending	–	–
Investments	1,521.7	1,575.5
Pledged intangible assets	–	–
Pledged property, plant and equipment	–	–
Other	–	–
Total	1,901.2	1,860.1

FAIR VALUE OF COLLATERAL HELD

CHF million	2012 (restated)	2013
Financial assets under reverse repurchase agreements	53.0	67.7
Financial assets in the context of securities lending	–	–
Other	–	–
Total	53.0	67.7
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

CHF million	2012 (restated)	2013
Commitments undertaken for future acquisition of		
investment property	30.8	14.8
financial assets	408.2	449.4
property, plant and equipment	–	–
intangible assets	14.3	19.7
Total commitments undertaken	453.3	484.0
Of which: in connection with joint ventures	–	–
Of which: own share of joint ventures' capital commitments	–	–

CREDIT RATINGS OF CAPITAL COMMITMENTS

2012 (restated)	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

2013	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Capital commitments	18.8	0.8	61.4	18.3	384.7	484.0

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 LEASES

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 leases is between three and five years.

DUE DATES OF LEASE PAYMENTS

	2012 (restated)	2013
CHF million		
Due within one year	– 3.0	– 3.1
Due after one to five years	– 4.7	– 4.2
Due after five years or more	– 0.3	–
Total	– 8.0	– 7.3
Minimum lease payments	– 3.3	– 3.8
Contingent lease payments	–	–
Leasing expenses	– 3.3	– 3.8
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 leases is between four and six years. There were no further leasing arrangements at the balance sheet date.

DUE DATES OF CONTRACTUALLY STIPULATED LEASING INCOME

	2012 (restated)	2013
CHF million		
Due within one year	34.8	35.5
Due after one to five years	55.8	56.1
Due after five years or more	11.8	11.5
Total	102.4	103.1
Minimum lease payments	34.6	41.1
Contingent lease payments	0.1	0.1
Leasing income	34.7	41.3

45. CLAIM PAYMENTS RECEIVED FROM NON-GROUP INSURERS

The companies in the Baloise Group received claim payments totalling CHF 0.1 million in 2013 (2012: 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

The disposal of the Croatian and Serbian units was completed on 11 March 2014.

By the time that these consolidated annual financial statements had been completed on 19 March 2014, we had not become aware of any further events that would have a material impact on the consolidated annual financial statements as a whole.

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47. SIGNIFICANT SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES AS AT 31 DECEMBER 2013

	Primary activity	Operating segment[1]	Group's share of voting rights / capital (per cent)[2]	Direct share of voting rights / capital (per cent)[2]	Method of consolidation[3]	Currency	Share capital (million)	Total assets (million)	Gross premiums / policy fees (million)	Material interests as defined by IFRS[4]
Switzerland										
Bâloise Holding Ltd, Basel	Holding	O	Holding	Holding	F	CHF	5.0	2,489.9	–	X
Baloise Insurance Ltd, Basel	Non-life	NL	100.00	100.00	F	CHF	75.0	5,126.2	1,349.9	X
Baloise Life Ltd, Basel	Life	L	100.00	100.00	F	CHF	50.0	28,801.3	2,900.9	X
Baloise Bank SoBa AG, Solothurn	Banking	B	100.00	100.00	F	CHF	50.0	6,879.5	–	X
Haakon AG, Basel	Other	O	74.75	74.75	F	CHF	0.2	23.3	–	
Baloise Asset Management Schweiz AG, Basel	Investment management	B	100.00	100.00	F	CHF	1.5	30.5	–	X
Baloise Asset Management International AG, Basel	Investment consulting	B	100.00	100.00	F	CHF	1.5	19.3	–	
Germany										
Basler Versicherung Beteiligungen B.V. & Co KG, Hamburg	Holding	O	100.00	100.00	F	EUR	94.7	438.4	–	X
Basler Lebensversicherungs-Aktiengesellschaft, Hamburg	Life	L	100.00	100.00	F	EUR	22.0	9,024.1	393.7	
Basler Versicherungsgesellschaft, Bad Homburg	Non-life	NL	100.00	100.00	F	EUR	15.1	1,515.4	635.8	X
Deutscher Ring Bausparkasse Aktiengesellschaft, Hamburg	Banking	B	65.00	65.00	F	EUR	12.8	532.4	–	
Deutscher Ring Beteiligungsholding GmbH, Hamburg	Holding	O	100.00	100.00	F	EUR	12.8	236.6	–	
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	2.8	–	
GROCON Erste Grundstücksgesellschaft mbH, Hamburg	Other	O	100.00	100.00	F	EUR	0.7	15.0	–	
GROCON Grundstücks- und Beteiligungs-gesellschaft mbH, Hamburg	Other	O	100.00	100.00	F	EUR	1.5	2.9	–	X
OVB Holding AG, Cologne	Other	–	32.57	32.57	F	EUR	–	–	–	X
Roland Rechtsschutz Beteiligungs GmbH, Cologne	Other	O	60.00	60.00	F	EUR	0.1	35.7	–	
Roland Rechtsschutz Versicherungs AG, Cologne	Other	–	15.01	25.02	E	EUR	–	–	–	
ZEUS Vermittlungsgesellschaft mbH, Hamburg	Other	O	100.00	100.00	F	EUR	0.5	14.4	–	X

1 L: Life, NL: Non-life, B: Banking, O: Other activities / Group business.
2 Shares stated as a percentage are rounded down.
3 F: Full consolidation, E: Equity-accounted investment.
4 Material interest required to be disclosed under IFRS 12.

	Primary activity	Operating segment[1]	Group's share of voting rights / capital (per cent)[2]	Direct share of voting rights / capital (per cent)[2]	Method of consolidation[3]	Currency	Share capital (million)	Total assets (million)	Gross premiums / policy fees (million)	Material interests as defined by IFRS[4]
Belgium										
Baloise Belgium NV, Antwerp	Life and non-life	L / NL	100.00	100.00	F	EUR	215.2	7,363.6	858.0	X
Euromex NV, Antwerp	Non-life	NL	100.00	100.00	F	EUR	2.7	135.1	52.0	
Merno-Immo NV, Antwerp	Other	O	100.00	100.00	F	EUR	17.1	28.0	–	
Luxembourg										
Bâloise (Luxembourg) Holding S.A., Bertrange (Luxembourg)	Holding	O	100.00	100.00	F	CHF	250.0	1,146.6	–	X
Bâloise Assurances Luxembourg S.A., Bertrange (Luxembourg)	Non-life	NL	100.00	100.00	F	EUR	9.8	156.0	64.3	X
Bâloise Vie Luxembourg S.A., Bertrange (Luxembourg)	Life	L	100.00	100.00	F	EUR	32.7	4,182.0	47.5	
Baloise Life (Liechtenstein) AG, Balzers	Life	L	100.00	100.00	F	CHF	7.5	2,821.4	1.7	
Baloise Fund Invest Advico, Bertrange (Luxembourg)	Other	B	100.00	100.00	F	EUR	0.1	9.1	–	X
Bâloise Delta Holding S. à. r. l., Bertrange (Luxembourg)	Holding	O	100.00	100.00	F	EUR	224.3	288.4	–	X
Austria / Croatia / Serbia										
Basler Versicherungs-Aktiengesellschaft in Österreich, Vienna	Life and non-life	L / NL	100.00	100.00	F	EUR	5.1	470.2	121.3	
Basler osiguranje Zagreb d.d., Zagreb	Life and non-life	L / NL	100.00	100.00	F	HRK	55.5	2,534.0	398.8	X
Neživotno osiguranje "Basler" a.d.o., Belgrade	Non-life	NL	100.00	100.00	F	RSD	675.1	892.1	397.9	
Životno osiguranje "Basler" a.d.o., Belgrade	Life	L	100.00	100.00	F	RSD	300.1	516.6	86.0	
Other territories										
Bâloise Participations Holding, Amsterdam	Holding	O	100.00	100.00	F	EUR	10.9	0.8	–	X
Baloise Insurance Company (Bermuda) Ltd., Hamilton (Bermuda)	Reinsurance	NL	100.00	100.00	F	CHF	5.0	1,056.8	190.7	
Baloise Alternative Investment Strategies Limited, St. Helier (Jersey / Channel Islands)	Investment management	L / NL	100.00	100.00	F	USD	0.0	846.8	–	
Baloise Finance (Jersey) Ltd., St. Helier (Jersey / Channel Islands)	Other	O	100.00	100.00	F	CHF	1.3	216.7	–	X
Baloise Private Equity Limited, St. Helier (Jersey / Channel Islands)	Investment management	L / NL	100.00	100.00	F	USD	0.0	461.3	–	

1 L: Life, NL: Non-life, B: Banking, O: Other activities / Group business.
2 Shares stated as a percentage are rounded down.
3 F: Full consolidation, E: Equity-accounted investment.
4 Material interest required to be disclosed under IFRS 12.

48. CHANGES TO SHAREHOLDINGS

In 2013, the Baloise Group disposed of 35 per cent of its shareholdings in Luxembourg-based Barosa S.à.r.l., which had been founded in 2012. The remaining shareholding of 65 per cent means that it retains a controlling interest in this long-term equity investment.

	2012 (restated)	2013
CHF million		
Carrying amount of interests acquired or sold (transactions with non-controlling interests)	–	10.5
Amount of the consideration received from or paid to non-controlling interests	–	10.5
Net effect of the purchase or sale of non-controlling interests recognised directly in equity	–	–

In 2013 and in 2012, there were no transactions involving non-controlling interests that led to the loss of control over a subsidiary.

49. CONSOLIDATED STRUCTURED ENTITIES

The Baloise Group held one consolidated structured entity – Baloise Fund Invest (Lux) – at the end of the reporting year. Baloise Fund Invest (Lux) is a Luxembourg-based firm in the legal form of an investment company with variable capital (SICAV managed by a third party). Baloise Fund Invest (Lux) is an umbrella fund consisting of various pools of assets and liabilities (or 'sub-funds'), with each sub-fund pursuing its own investment policy. Baloise Fund Invest (Lux) and its sub-funds collectively constitute a legal entity. However, each sub-fund is deemed to be a separate entity as far as the legal relationship between unitholders is concerned. A sub-fund's assets are liable to third parties only for the liabilities and obligations relating to this sub-fund.

The prime objective of Baloise Fund Invest (Lux) is to enable unitholders to benefit from professional management strategies based on the principle of risk diversification in line with each sub-fund's specified investment policy.

The holding of units in Baloise Fund Invest (Lux) does not give rise to any contractual obligations. There are no arrangements that oblige the Baloise Group to provide financial support to the consolidated entity Baloise Fund Invest (Lux), and no voluntary financial or other support was provided during the reporting year.

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 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 74 to 82 and 90 to 239), for the year ended 31 December 2013.

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 2013 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

Peter Lüssi	Christian Schacher
Audit expert	Audit expert
Auditor in charge	

Basel, 20 March 2014

Bâloise Holding Ltd

Income statement Bâloise Holding

CHF million	Note	2012	2013
Income from long-term equity investments		325.8	284.9
Income from interest and securities	2	13.0	15.5
Other income	3	8.8	8.0
Total income		**347.6**	**308.4**
Administrative expenses	4	–43.2	–53.2
Interest expenses	5	–55.1	–44.6
Depreciation, amortisation and impairment	6	0.0	–151.1
Other expenses	7	–5.8	–3.9
Total expenses		**–104.1**	**–252.8**
Tax expense		**–0.2**	**–0.1**
Profit for the period		**243.3**	**55.5**

Balance sheet Bâloise Holding

	Note	31.12.2012	31.12.2013
CHF million			
Assets			
Cash and cash equivalents		128.3	93.7
Treasury shares		135.4	139.4
Receivables from Group companies		74.3	70.2
Receivables from third parties		3.7	4.0
Prepaid expenses	8	32.3	41.9
Current assets		374.0	349.2
Long-term equity investments	10	1,986.7	1,837.3
Loans to Group companies	9	167.7	77.0
Other financial assets		215.0	–
Non-current assets		2,369.4	1,914.3
Total assets		2,743.4	2,263.5
Equity and liabilities			
Share capital		5.0	5.0
Statutory reserve			
General reserve		11.7	11.7
Reserve for treasury shares		173.9	176.3
Other reserves		224.9	240.7
Distributable profit		244.1	56.3
Equity	12	659.6	490.1
Liabilities to Group companies		0.1	15.1
Liabilities to third parties		0.0	0.0
Bonds	11	2,042.5	1,717.5
Provisions		6.8	8.0
Deferred income		34.4	32.8
Liabilities		2,083.8	1,773.4
Total equity and liabilities		2,743.4	2,263.5

Notes Bâloise Holding

1. ACCOUNTING POLICIES

The annual financial statements of Bâloise Holding have been prepared in compliance with Swiss stock company law. They were prepared in accordance with the transitional provisions of the new financial reporting legislation based on the provisions of the Swiss Code of Obligations concerning bookkeeping and accounting, which had applied until 31 December 2012.

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	2012	2013
Income from treasury shares	8.6	8.5
Interest on loans to Group companies	3.2	5.7
Income from other financial assets	1.0	1.2
Other interest receivable	0.2	0.1
Total income from interest and securities	13.0	15.5

3. OTHER INCOME

CHF million	2012	2013
Income from services rendered	1.0	–
Sundry income	7.8	8.0
Total other income	8.8	8.0

4. ADMINISTRATIVE EXPENSES

CHF million	2012	2013
Personnel expenses	–27.7	–38.6
Other administrative expenses	–15.5	–14.6
Total administrative expenses	–43.2	–53.2

5. INTEREST EXPENSES

CHF million	2012	2013
Interest on bonds	–55.1	–44.6
Other interest expenses	0.0	0.0
Total interest expenses	–55.1	–44.6

6. DEPRECIATION, AMORTISATION AND IMPAIRMENT

CHF million	2012	2013
Impairment of long-term equity investments	–	– 151.1
Impairment of treasury shares	0.0	–
Total depreciation, amortisation and impairment	0.0	– 151.1

In 2013 the Company recognised a one-off impairment loss of CHF 151.1 million on the long-term equity investments in its Croatian and Serbian units, which were due to be sold.

7. OTHER EXPENSES

CHF million	2012	2013
Expenses incurred for services rendered	– 1.0	–
Sundry expenses	– 4.8	– 3.9
Total other expenses	– 5.8	– 3.9

NOTES TO THE BALANCE SHEET

8. PREPAID EXPENSES AND ACCRUED INCOME

The annual general meeting of Baloise Bank SoBa AG, Solothurn, held on 6 March 2014, the AGM of Haakon AG, Basel, held on 18 March 2014 and the AGMs of Baloise Asset Management Schweiz AG, Basel, and of Baloise Asset Management International AG, Basel, held on 20 March 2014 voted to recognise the dividends receivable for the 2013 financial year as accrued income (2013: CHF 41.8 million / 2012: CHF 31.7 million).

9. LOANS TO GROUP COMPANIES

CHF million	2012	2013
Subordinated loans to Baloise Bank SoBa	70.0	40.0
Subordinated loans to Bâloise (Luxembourg) Holding S.A.	70.0	37.0
Loan to Bâloise (Luxembourg) Holding S.A.	27.7	–
Total loans to Group companies	167.7	77.0

10. LONG-TERM EQUITY INVESTMENTS

Company	Total shareholding as at 31.12.2012 (per cent)[1]	Total shareholding as at 31.12.2013 (per cent)[1]	Currency	Share capital as at 31.12.2013 (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	7.5
Basler Saturn Management B.V., Hamburg	100.00	100.00	EUR	0.0
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	55.5
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 236 and 237 in the Financial Report section.

11. BONDS

AMOUNT

	Interest rate	Issued	Maturity date
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
CHF 225 million	1.750 %	2013	26.04.2023

12. CHANGES IN EQUITY

	31.12.2012	31.12.2013
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	182.3	173.9
Reduced through cancellation of treasury shares as per AGM resolution	–	–
Withdrawn (transferred to other reserves)	– 8.4	–
Allocated (transferred from other reserves) [1]	–	2.4
Total reserve for treasury shares	173.9	176.3
Total statutory reserves	185.6	188.0
Other reserves		
Balance as at 1 January	247.4	224.9
Allocated from distributable profit	–	18.2
Withdrawn for distributable profit	– 30.9	–
Allocated (transferred from reserve for treasury shares)	8.4	–
Withdrawn (transferred to reserve for treasury shares)	–	– 2.4
Total other reserves	224.9	240.7
Distributable profit		
Balance as at 1 January	194.9	244.1
Dividend distributed	– 225.0	– 225.0
Allocated to other reserves	–	– 18.2
Withdrawn from other reserves	30.9	–
Profit for the period	243.3	55.5
Total distributable profit	244.1	56.3
Total equity	659.6	490.1

1 Baloise Group companies purchased a total of 393,353 shares (not including the share buy-back via the secondary trading line) at an average price of CHF 93 during the reporting year. During this period they sold 377,392 shares at an average price of CHF 87 and together held a total of 1,910,263 Bâloise Holding shares as at 31 December 2013. 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 2013:

	Total shareholding as at 31.12.2012	Share of voting rights as at 31.12.2012	Total shareholding as at 31.12.2013	Share of voting rights as at 31.12.2013
Per cent				
Shareholders				
Chase Nominees Ltd.[1]	5.9	2.0	7.3	2.0
Black Rock Inc.	>5.0	0.0	<5.0	0.0
Mellon Bank N.A.[1]	3.5	0.0	3.3	0.0
LSV Asset Management	0.0	0.0	>3.0	0.0
UBS Fund Management AG	>3.0	<2.0	>3.0	<2.0
Nortrust Nominees Ltd.[1]	<2.0	0.0	3.0	0.0
Credit Suisse Funds AG	>3.0	<2.0	<3.0	<2.0
Signal Iduna Group	<5.0	2.0	<3.0	0.0
Bank of New York Mellon N.V.[1]	<2.0	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

	2012	2013
CHF million		
Collateral, guarantee commitments	164.8	203.2

Bâloise Holding has issued the following letter 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 2013.

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 (2012: 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 74 to 82 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 19 March 2014, 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 55,480,024.92 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.

	2012	2013
CHF		
Profit for the period	243,287,209.11	55,480,024.92
Profit carried forward from the previous year	754,105.97	841,315.08
Distributable profit	244,041,315.08	56,321,340.00
Proposals by the Board of Directors		
Allocated to other reserves	– 18,200,000.00	–
Withdrawn from other reserves	–	181,900,000.00
Dividend	– 225,000,000.00	– 237,500,000.00
Profit to be carried forward	841,315.08	721,340.00

The appropriation of profit is consistent with § 30 of the Articles of Incorporation. Each share confers the right to receive a dividend of CHF 4.75 gross or CHF 3.09 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 74 to 82 and 244 to 252), for the year ended 31 December 2013.

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 2013 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

Peter Lüssi	Christian Schacher
Audit expert	Audit expert
Auditor in charge	

Basel, 20 March 2014

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 instruments with characteristics of equity), fixed-income securities (financial instruments with characteristics of liabilities), mortgage assets, policy loans 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 non-controlling 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.

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Information on the Baloise Group

The 2013 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 2013 annual financial statements together with detailed information.

AVAILABILITY AND ORDERING

The 2013 Annual Report and the Summary of the 2013 Annual Report will be available on the internet at www.baloise.com/annualreport from 25 March 2014.

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.

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Financial calendar and contacts

25.3.2014	Annual financial results: media conference conference call for analysts
24.4.2014	Annual General Meeting of Bâloise Holding Ltd
28.8.2014	Half-year financial results: conference call for analysts and the media
26.3.2015	Annual financial results: media conference conference call for analysts
30.4.2015	Annual General Meeting of Bâloise Holding Ltd

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Making you safer.