Bâloise Holding

Bâloise Holding Ltd

ANNUAL REPORT

2014

Bâloise Holding Ltd
Annual Report 2014

Baloise key figures

	2013	2014	Change (%)
CHF million			
Business volume			
Gross premiums written (non-life)	3,441.7	3,358.8	– 2.4
Gross premiums written (life)	3,787.2	3,816.8	0.8
Sub-total of IFRS gross premiums written[1]	7,228.9	7,175.6	– 0.7
Investment-type premiums	1,780.6	2,130.2	19.6
Total business volume	9,009.5	9,305.8	3.3
Operating profit (loss)			
Profit / loss before borrowing costs and taxes			
Non-life	366.3	419.1	14.4
Life[2]	261.1	476.8	82.6
Banking	75.4	73.7	– 2.3
Other activities	– 44.5	– 41.1	– 7.6
Profit for the period	455.4	711.9	56.3
Balance sheet			
Technical reserves	47,435.6	48,738.9	2.7
Equity	4,906.4	5,831.0	18.8
Ratios (per cent)			
Return on equity (RoE)	9.8	13.5	–
Gross combined ratio (non-life)	93.1	93.7	–
Net combined ratio (non-life)	94.9	93.6	–
New business margin (life)	13.5	15.0	–
Investment performance (insurance)[3]	2.3	6.9	–
Embedded value of life insurance policies			
Embedded value (MCEV)	3,808.6	3,610.2	– 5.2
Annual premium equivalent (APE)	333.2	389.6	16.9
Value of new business	44.9	58.6	30.4
Key figures on the Company’s shares			
Shares issued (units)	50,000,000	50,000,000	0.0
Basic earnings per share[4] (CHF)	9.65	15.15	57.0
Diluted earnings per share[4] (CHF)	9.38	14.63	56.0
Equity per share[4] (CHF)	103.5	123.4	19.2
Closing price (CHF)	113.60	127.80	12.5
Market capitalisation (CHF million)	5,680.0	6,390.0	12.5
Dividend per share[5] (CHF)	4.75	5.00	5.3

1 Premiums written and policy fees (gross).
2 Of which deferred gains / losses from other operating segments (31 December 2013: CHF –1.7 million; 31 December 2014: CHF 0.6 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 2014 based on the proposal submitted to the Annual General Meeting.

At a glance

Net combined ratio of
93.6 per cent

5.3 per cent
higher business volume [1]

Profit of
CHF 711 million

Dividend increased from CHF 4.75 to
CHF 5.00 per share
(will be proposed to the Annual General Meeting on 30 April 2015)

Equity of
CHF 5,831.0 million

Return on equity
(RoE) of 13.5 per cent

Solvency ratio of
354 per cent

New business margin of
15.0 per cent

1 Calculated in local currency on a like-for-like basis and excluding discontinued operations (Austria, Croatia and Serbia).

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).

Focused growth and outstanding results
Baloise is building on solid foundations

DEAR SHAREHOLDERS

The outstanding financial results achieved by Baloise in 2014 once again underscore its excellent operational profitability and solid foundations. We are growing in attractive segments – which we plan to expand further – over and above the market rate. Our core insurance business is not the only segment that is highly successful and profitable; Baloise has also generated an excellent return on its investments.

The Company's capitalisation remains strong. Standard & Poor's acknowledged this quality by upgrading our credit rating to 'A with a stable outlook' in the middle of last year. The highly focused Baloise Group is excellently placed to continue shaping its future in a way that is geared towards bringing success.

The profit that Baloise earned in 2014 was the second-best in its history – the best profit was reported in 2007 – and advanced by 57.0 per cent year on year to CHF 710.7 million. All business divisions and national Baloise companies contributed to this result. In addition to the Company's improved operating performance, the disposal of its shareholdings in Nationale Suisse and Helvetia and the sale of Basler Austria boosted this outstanding result by around CHF 160 million.

By focusing on attractive target segments in our four core markets – Switzerland, Belgium, Germany and Luxembourg – we have completed the process of consolidating our geographical footprint. We will now strengthen our profitability and continue to grow in these units. We also plan to further expand profitable business lines in which we are already well positioned. Two of the ways in which we can achieve this are by using our safety and security features to deliver attractive add-on services in the field of intelligent prevention and by offering innovative pension solutions, such as the semi-autonomous pension scheme 'Perspectiva', that provide our customers with financial security in their retirement even in today's low-interest-rate environment. The life insurance business conducted by our Swiss unit clearly illustrates this point in the case of occupational pensions, where small and medium-sized enterprises' demand for our comprehensive insurance solutions remains encouragingly strong. Our customers particularly value the fact that the security of these benefits is guaranteed at all times. The guarantees and services that we offer enable these companies to safeguard their employees' pensions and concentrate on their own business.

In Belgium our unit-linked life insurance business is growing well because we are meeting the specific needs of the local market and have forged partnerships with banks. Another innovation that we have developed is a new combination of conventional and unit-linked life insurance.

Focusing on highly profitable niche markets also means being very selective when underwriting new premiums in less profitable areas. This essentially means deciding to forego potential premium income in some cases. In Germany we are therefore exiting the motor vehicle fleet insurance market and significantly scaling back our business with large industrial enterprises in sectors where the risks are too high. Baloise has reduced its net combined ratio by 1.3 percentage points to 93.6 per cent as a result of the benign claims environment and these improvements in portfolio quality. It has also enhanced its efficiency, as reflected in its lower expense ratio.

"The highly focused Baloise Group is excellently placed to continue shaping its future in a way that is geared towards bringing success and adding long-term value for its shareholders"

Our insurance operations and reliable, consistent management of assets are our core competence. The net return that we achieved on these in 2014 was an impressive 4.1 per cent, up by 0.8 percentage points on the previous year. Realised gains and book gains have boosted the substantial gains on our investments, while the higher income earned from equities and alternative investments has partially compensated for the lower income received from fixed-income securities. Interest rates have remained at historically low levels in recent months. However, we have learned how to adapt to this environment and, several years ago, we established appropriate hedging instruments to mitigate the effects of low and falling interest rates.

Knowledge and skills are crucial in a challenging market environment like the one we are currently experiencing. That is why our thanks go to all Baloise employees, whose expertise and hard work day in, day out make us one of the most profitable insurance companies in Europe.

Starting from these solid foundations, we are enthusiastically building Baloise's future – quite literally! The construction of Baloise Park, whose architectural model serves as the backdrop to the photographs of the Board of Directors and the Corporate Executive Committee in this report, represents a significant investment in our Basel head-office site from 2015 onwards, creating some 2,000 state-of-the-art office workplaces for both Baloise and other organisations.

We achieved lasting improvements in our profitability in 2014 and want our shareholders to benefit directly from this success. In view of our excellent financial results, we will propose to the Annual General Meeting on 30 April 2015 that our dividend be raised to CHF 5.00 per share. By repurchasing up to one million treasury shares over the next two years, we are further consolidating our considerable earnings power for our owners.

The Swiss insurance industry is contending with negative interest rates and a strong Swiss franc. But Baloise is pursuing an excellent strategy in operational terms and, despite these difficult conditions, is in a good position. By focusing on our core markets, rigorously implementing our target-customer management policies and offering innovative supplementary services around safety and security, we are confident of achieving our financial targets even in a challenging market.

Basel, March 2015

Dr Andreas Burckhardt
Chairman of the Board of Directors

Dr Martin Strobel
Group CEO

Model of the new buildings at Baloise Park.

Baloise shares continue on their upward trajectory

Baloise shares* made further gains from an already high level in 2014, closing the year at CHF 127.80, which amounted to an annual return of 12.5 per cent. They therefore comfortably outperformed the Swiss Leader Index, ranking among the top ten of the 30 largest and most liquid equities on the Swiss stock market.

The macroeconomic environment in 2014 was largely shaped by central banks' expansionary monetary policies, with financial markets mesmerised by the dramatic erosion of interest rates. Equity markets fared well overall despite growing volatility. Insurance stocks also posted decent price gains on the back of an impressive operating performance. Insurers' profitability is robust and their dividend yields remain attractive.

Having delivered a superb performance in 2013, Baloise shares shed 8 per cent of their value in the first half of last year. The Swiss Leader Index (SLI) and the Swiss insurance sector index notched up gains of 3.4 per cent and 2.1 per cent respectively.

However, the second half of the year saw Baloise shares pick up momentum. The upgrade of the Company's credit rating by Standard & Poor's and the publication of its strong half-year financial results boosted its share price. Baloise shares jumped by 22.3 per cent, easily outperforming both the Swiss Leader Index (up 2.4 per cent) and the Swiss insurance sector index (up 13.4 per cent).

Having closed the year at CHF 127.80, Baloise shares generated a return of 12.5 per cent for 2014 as a whole, comfortably outperforming both the Swiss Market Index and the Swiss Leader Index, which had added 9.5 per cent and 5.9 per cent respectively since the beginning of the year. The robust price performance delivered by Baloise's shares reflects the Company's impressive operating performance during the reporting year. The Swiss insurance sector index outperformed the broad market, posting a return of 15.8 per cent. Its European counterpart – STOXX Europe 600 Insurance Index (SXIP) – achieved an increase of 9.8 per cent compared with its level at the beginning of 2014.

Baloise shares remain a member of the Swiss Leader Index by virtue of their average market capitalisation and trading volumes. 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 30 April 2015 that a cash dividend of CHF 5.00 per share be paid for the 2014 financial year. This would represent a dividend yield of 3.9 per cent of the year-end share price. In addition, the Company will start to repurchase up to one million of its shares over the next two years.

	Cash dividends	Share buy-backs	Total
Year (CHF million)			
2010	225.0	34.7	259.7
2011	225.0	17.1	242.1
2012	225.0	–	225.0
2013	237.5	–	237.5
2014	250.0	–	250.0
Total	1,162.5	51.8	1,214.3

All figures stated as at 31 December.

SHAREHOLDER STRUCTURE

The shares in Bâloise Holding Ltd are widely held and their free float remains unchanged at 100 per cent. A few changes in Baloise's shareholder base took place during the 2014 financial year. Several portfolios managed by Credit Suisse Funds AG

* Baloise shares = shares of Bâloise Holding Ltd.

together briefly exceeded the notifiable threshold of 3 per cent on 9 July 2014 before falling back below this threshold on 17 July. The shareholding collectively owned by BlackRock, Inc., and its subsidiaries rose above the threshold of 5 per cent on 8 December 2014 and now amounts to 5.71 per cent. Further information on Baloise's significant shareholders as at 31 December 2014 can be found in the table on page 253.

STATISTICS ON BALOISE SHARES

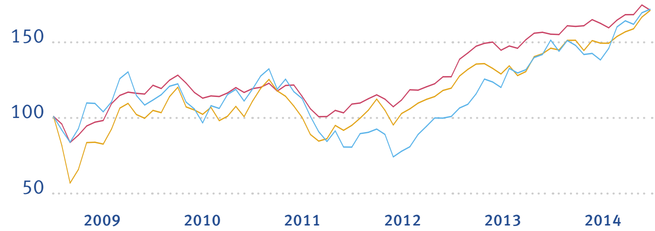
	31.12.2010	31.12.2011	31.12.2012	31.12.2013	31.12.2014
Price at year-end (CHF)	91.00	64.40	78.50	113.60	127.80
High (CHF)	97.85	103.30	80.56	113.60	129.90
Low (CHF)	74.15	60.15	58.30	80.75	101.60
Market capitalisation (CHF million)	4,550.0	3,220.0	3,925.0	5,680.0	6,390.0
Basic earnings per share (CHF)	9.14	1.30	9.32	9.65	15.15
Diluted earnings per share (CHF)	8.89	1.29	9.08	9.38	14.63
Price / earnings (p / e) ratio[1]	9.96	49.54	8.42	11.77	8.44
Price / book (p / b) ratio[1]	1.05	0.78	0.76	1.10	1.04
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)	2,800,239	3,247,273	3,053,746	3,028,943	3,048,791
Number of shares in circulation (units)	47,199,761	46,752,727	46,946,254	46,971,057	46,951,209
Average number of shares outstanding[2]	47,394,282	46,900,473	46,831,998	46,896,926	46,921,282
Dividend per share[3] (CHF)	4.50	4.50	4.50	4.75	5.00
Dividend payout ratio[3]	49.2	>100	48.3	49.2	33.0
Dividend yield[3]	4.9	7.0	5.7	4.2	3.9

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 2014 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

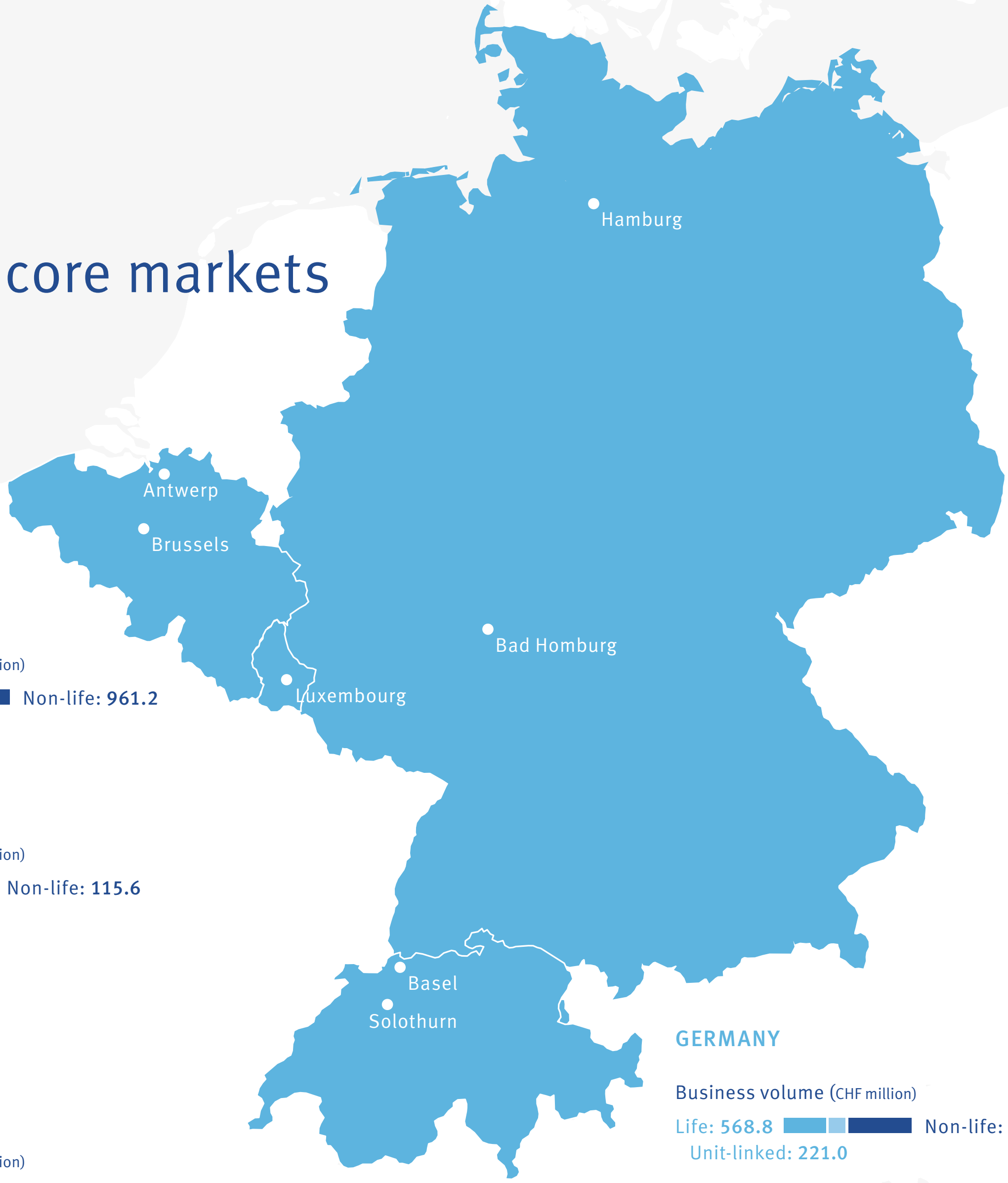
INDEXED SHARE PRICE PERFORMANCE[1] BÂLOISE HOLDING REGISTERED SHARES 2009 – 2014



1 31 December 2008 = 100.

- Bâloise Holding registered shares (BLAN)
- SWX SP Insurance Price Index (SMINNX)
- Swiss Market Index (SMI)

Our four core markets



BELGIUM

Business volume (CHF million)

Life: 157.2 Non-life: **961.2**
Unit-linked: 426.5

LUXEMBOURG

Business volume (CHF million)

Life: 87.1 Non-life: **115.6**
Unit-linked: 1’280.7

SWITZERLAND

Business volume (CHF million)

Life: 2,985.1 Non-life: **1,335.1**
Unit-linked: 189.9

GERMANY

Business volume (CHF million)

Life: 568.8 Non-life: **842.9**
Unit-linked: 221.0

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 and Luxembourg. 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 7,600 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.

SWITZERLAND

Basler Versicherungen Baloise Bank SoBa

KEY FIGURES FOR SWITZERLAND

	2013	2014
Employees	3,746	3,701
Business volume (CHF million)	4,363.1	4,510.0
Gross combined ratio (per cent)	86.4	83.9

BELGIUM

Baloise Insurance

KEY FIGURES FOR BELGIUM

	2013	2014
Employees	1,362	1,343
Business volume (CHF million)	1,393.5	1,544.9
Gross combined ratio (per cent)	93.5	102.4

GERMANY

Basler Versicherungen

KEY FIGURES FOR GERMANY

	2013	2014
Employees	2,274	2,174
Business volume (CHF million)	1,727.3	1,632.7
Gross combined ratio (per cent)	104.1	101.5

LUXEMBOURG

Bâloise Assurances

KEY FIGURES FOR LUXEMBOURG

	2013	2014
Employees	314	395
Business volume (CHF million)	1,284.0	1,483.4
Gross combined ratio (per cent)	83.9	89.3

Our promise — Your safety
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.

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.

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.

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.

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.

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.

Excellence in safety
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 to 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

Review of operating performance

Focusing on attractive target segments

In 2014, Baloise continued to generate above-average growth in attractive target segments and achieved a further significant improvement in its operating performance, which made it one of the most profitable insurance companies in Europe.

OVERVIEW

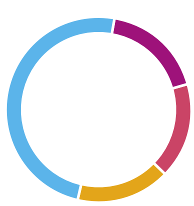
The profit that Baloise earned in 2014 was the second-best in its history – the best profit was reported in 2007 – and advanced by 57.0 per cent year on year to CHF 710.7 million. All business divisions and national Baloise companies contributed to this result. In addition to the Company's improved operating performance, the disposal of its shareholdings in Nationale Suisse and Helvetia and the sale of Basler Austria boosted this outstanding result by around CHF 160 million.

The volume of premiums[1] reported under IFRS in the non-life division grew by 0.4 per cent, while the value of premiums written in the life insurance division increased by a total of 2.0 per cent. The volume of business transacted in unit-linked life insurance jumped by 21.5 per cent. The profit contributed by non-life business rose by an impressive 14.4 per cent to CHF 419.1 million, while the net combined ratio improved by 1.3 percentage points to 93.6 per cent. Baloise significantly improved the operating performance of its life insurance business and raised its profit contribution by 82.6 per cent to CHF 476.8 million. The Group also achieved an excellent return on its investments. Recurring income declined slightly year on year as a result of persistently low interest rates. However, net income came to CHF 2,411.4 million, which was well above the CHF 1,907.0 million reported for 2013. The higher income earned from equities and alternative investments compensated partially for the lower income received from fixed-income assets. Book gains on interest-rate derivatives boosted the substantial gains on our investments.

BUSINESS VOLUME IN 2014[1] (GROSS) BY STRATEGIC BUSINESS UNIT

As a percentage

Switzerland	49.1
Germany	17.8
Belgium	16.8
Luxembourg	16.2



1 The key figures on premiums and business volumes mentioned in the review of operating performance in this annual report have been calculated in local currency on a like-for-like basis and exclude discontinued operations (Austria, Croatia and Serbia).

Earnings before interest and tax (EBIT) from the banking business fell slightly year on year owing to the continuing low-interest-rate environment and the resultant lower level of net interest income.

Baloise has a strong balance sheet. Its consolidated equity grew by 18.8 per cent to CHF 5,831.0 million primarily on the back of the outstanding profit for the period and the lower level of interest rates, which resulted in higher valuation reserves for fixed-income securities. The solvency ratio reached an impressive 354 per cent compared with 267 per cent at the end of 2013.

BUSINESS VOLUME[1]

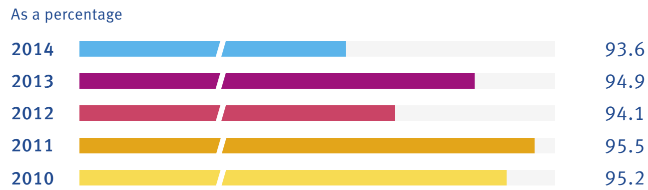
CHF million	2013	2014	+/– %
Total business volume	8,773.0	9,176.7	5.3
Life	3,735.6	3,798.1	2.0
Non-life	3,274.0	3,260.5	0.4
Investment-type premiums	1,763.4	2,118.2	21.5

NON-LIFE DIVISION: STRONG PROFITABILITY

Baloise continued to improve the quality of its portfolio in the non-life division. By pursuing a selective underwriting policy, it reduced the volume of premiums in fairly unprofitable areas and increased them in highly profitable target segments. In Germany the Company continued to exit the motor vehicle fleet insurance market and significantly scaled back its business with large industrial enterprises in individual sectors with high risks. In Switzerland, for example, it wrote fewer premiums in accident insurance and daily sickness allowance insurance. Despite having adjusted its portfolio and optimised its income, Baloise expanded the volume of business in its non-life division (indemnity and personal insurance) by 0.4 per cent to CHF 3,260.5 million. The claims environment prevailing in 2014 was generally benign, which – especially in Switzerland – resulted in a very low combined ratio. In Germany, too, the combined ratio was lower than in the previous year because – despite a few large claims in industrial business – the cost of basic claims decreased. Hail storm Ela hit the Company's Belgian non-life business, but its effective external reinsurance and the lower cost of basic claims mitigated this effect. Baloise reduced its overall net combined ratio by 1.3 percentage points to 93.6 per cent as a result of the benign claims environment and the improvements in portfolio quality. It also enhanced its efficiency, as demonstrated by the 0.2-percentage-point fall in the expense ratio.

Baloise raised its EBIT by 14.4 per cent to CHF 419.1 million despite the low level of gains realised on its investments. This was proof positive of the substantial and further improved profitability of its property insurance business.

NET COMBINED RATIO



LIFE DIVISION: STRONG OPERATING ACTIVITIES

In the life insurance division Baloise generated excellent growth of 21.5 per cent in its unit-linked life insurance business. The volume of business in the life division as a whole expanded by 8.2 per cent to CHF 5,916.2 million. The main factor driving the growth of conventional life insurance was business in Switzerland. Demand for attractive and reliable group life insurance solutions continued on an encouraging scale. The ongoing optimisation of the business mix towards the latest life products also paid off. Baloise improved the operating performance of its life insurance business and raised its profit contribution by 82.6 per cent to CHF 476.8 million. The sources of this success were the Company's strong risk result and its extraordinarily high net savings. The latter were boosted by the proceeds received from the realisation of gains on investments, especially from the sale of Baloise's shareholdings in Nationale Suisse and Helvetia. In addition, the Company has established hedging instruments in recent years to mitigate the effects of low and falling interest rates.

The low level of interest rates depressed the financial value of life insurance; consequently, the embedded value of this business declined from CHF 3,808.6 million to CHF 3,610.2 million in 2014 despite the impressive level of operating income. The return on embedded value came to minus 4.1 per cent. The value of new business amounted to CHF 58.6 million, and the new business margin was 15.0 per cent (2013: 13.5 per cent).

BANKING DIVISION: GOOD EARNINGS DESPITE LOW-INTEREST-RATE ENVIRONMENT

The EBIT reported by the banking division declined by 2.3 per cent year on year to CHF 73.7 million. This modest decrease can be attributed to the lower level of net interest income generated in the continuing low-interest-rate environment.

EQUITY: SOLID FOUNDATIONS

Baloise's solid foundations are underpinned by its strong balance sheet and capitalisation. Its consolidated equity grew by 18.8 per cent to CHF 5,831.0 million on the back of the outstanding profit for the period and the lower level of interest rates, which had a positive impact on the valuation reserves of fixed-income securities. The solvency ratio reached an impressive 354 per cent compared with 267 per cent at the end of 2013. Despite the historically low level of interest rates, Baloise remained within the requirements and in the 'green zone' of the Swiss Solvency Test (SST).

SUBSTANTIAL GAINS ON INVESTMENTS

All asset classes delivered an exceptionally strong performance in 2014. Equity markets were boosted by the economic upturn in the USA and by expansionary monetary policies, even though share prices dipped briefly in October owing to concerns about business activity in the European Union (EU). A combination of expansionary monetary policy and lower inflation expectations caused yields on fixed-income investments and credit spreads on corporate bonds to fall. Baloise's investments delivered an exceptional performance in this environment.

Net income came to CHF 2,411.4 million, which was well above the CHF 1,907.0 million reported for 2013. The net return on insurance assets came to 4.1 per cent (2013: 3.3 per cent). The strategy – which included investing more in high-quality, high-dividend shares and introducing new fixed-income asset classes (senior secured loans) – meant that the recurring income declined only marginally from CHF 1,765.1 million in 2013 to CHF 1,701.9 million in 2014. The increase in net income was largely attributable to gains realised on equities and to book gains on real estate and interest-rate derivatives. In addition, the recent fall in risk-free interest rates caused the prices of the bonds in our portfolio to rise sharply, with the corresponding effect being recognised in equity. 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 6.9 per cent, which was well above the prior-year figure of 2.3 per cent.

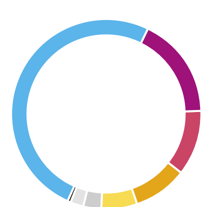
PROPRIETARY INVESTMENTS BY CATEGORY[1]

CHF million	2013	2014	+/– %
Investment property	5,685.9	5,962.9	4.9
Equities	3,143.3	4,028.5	28.2
Alternative financial assets	1,255.0	1,341.2	6.9
Fixed-income securities	30,604.1	32,701.1	6.9
Mortgage assets	11,136.8	11,138.0	0.0
Policy loans and other loans	7,192.7	7,027.9	– 2.3
Derivatives	232.2	341.0	46.9
Cash and cash equivalents	1,992.2	1,954.5	– 1.9
Total	61,242.2	64,495.0	5.3

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

INVESTMENT COMPONENTS IN 2014

As a percentage	
Fixed-income securities	50.7
Mortgage assets	17.3
Policy loans and other loans	10.9
Investment property	9.2
Equities	6.3
Cash and cash equivalents	3.0
Alternative financial assets	2.1
Derivatives	0.5



ASSETS HELD BY BALOISE

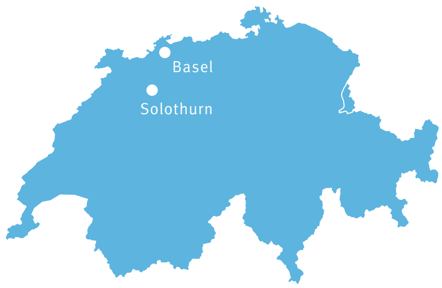
as at 31 December 2013	Non-life	Life	Banking	Total for the Group
CHF million				
Proprietary investments	9,615.4	44,490.3	7,351.2	61,242.2
Investment-linked life insurance[1]		9,606.8		9,863.5
Total recognised assets	9,615.4	54,097.1	7,351.2	71,105.8
Asset management for third parties				4,473.9
Total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

as at 31 December 2014	Non-life	Life	Banking	Total for the Group
CHF million				
Proprietary investments	9,788.8	47,249.5	7,649.1	64,495.0
Investment-linked life insurance[1]		10,904.2		11,182.6
Total recognised assets	9,788.8	58,153.6	7,649.1	75,677.6
Asset management for third parties				5,055.3
Total assets under management				80,733.0

1 Including CHF 53.3 million (2013: CHF 47.3 million) in other assets (precious metal holdings from investment-linked life insurance policies).

Baloise increased its equity exposure further. Whereas private-equity investments delivered an impressive performance, hedge funds yielded only modest returns. The impairment losses recognised on financial instruments with characteristics of equity totalled CHF 35.8 million (gross). Investment property continued to yield stable returns and slightly higher valuations. The values and income streams generated by our mortgages remained consistent.

Switzerland
Outstanding operating performance



BUSINESS VOLUME (CHF million),
(as a percentage of the Group)

4,510.0 (49.1 %)

life: 66.2 %

non-life: 29.6 %

Unit-linked: 4.2 %

KEY FIGURES FOR SWITZERLAND

	2013	2014	+/– %
CHF million			
Business volume	4,363.1	4,510.0	3.4
Of which: life	3,019.9	3,174.9	5.1
Of which: non-life	1,343.1	1,335.1	– 0.6
Gross combined ratio (per cent)	86.4	83.9	–
Profit before borrowing costs and taxes	434.5	587.9	35.3

BASLER VERSICHERUNGEN SWITZERLAND

Our business in Switzerland underscored its strong market position by delivering an outstanding operating performance and continued to impress the markets with its excellent profitability and highly focused growth. Its profit before borrowing costs and taxes jumped by more than 35.3 per cent to CHF 587.9 million. Its total volume of business grew by 3.4 per cent to CHF 4,510.0 million.

The benign claims environment and the low number of natural disasters had a positive impact on the levels of claims incurred. The excellent gross combined ratio of 83.9 per cent was largely attributable to the lower volume of claims incurred and the improved quality of the portfolio. The value of non-life insurance premiums written contracted by a modest 0.6 per cent to CHF 1,335.1 million owing to cautious underwriting of daily sickness allowance insurance and accident insurance. By contrast, the Basler Versicherungen companies in Switzerland achieved above-average growth in target segments. This was partly due to the availability of safety and security features – attractive add-on services offered by Baloise in the field of prevention.

In the life insurance division, Basler Switzerland generated growth in its unit-linked life insurance business, above all in its occupational pension business. Its strong position in this target segment was clearly illustrated by small and medium-sized enterprises' continuing demand for comprehensive insurance solutions. A particularly appealing feature of these products for customers was that the security of pension benefits is guaranteed at all times. The Basler Versicherungen companies also achieved growth in term insurance business. The volume of conventional product premiums written grew by 2.9 per cent year on year to CHF 2,985.1 million. The Swiss unit expanded the volume of its unit-linked life insurance business by an encouraging 59.6 per cent to CHF 189.9 million. Boosted by non-recurring effects, the profit contribution from the life insurance division went up by more than 60 per cent.

BALOISE BANK SOBA

Baloise Bank SoBa delivered a consistently impressive performance. Although its interest margin narrowed, the firm raised its profit for 2014 by 1.4 per cent to CHF 22.5 million (all figures reported according to local accounting standards). This earnings improvement was largely attributable to the higher profitability of the brokerage and services business and to the excellent credit risk situation. The introduction of new private banking services continued to strengthen the firm's investment business. Customer loans and client assets grew by CHF 927 million, or 4.4 per cent, in 2014.

The twin-track business model combining banking and insurance expertise under one roof retained its considerable appeal for customers in 2014. The volumes generated by the insurance sales force grew by a further 5.5 per cent during the reporting year to CHF 2.6 billion. Baloise Bank SoBa and Basler Versicherung will be stepping up this successful collaboration in 2015 in order to make best use of their combined expertise.

Germany
Improvements in portfolio quality

BUSINESS VOLUME (CHF million),
(as a percentage of the Group)

1,632.7 (17.8 %)

life: 34.8 %

non-life: 51.6 %

Unit-linked: 13.5 %

KEY FIGURES FOR GERMANY IN LOCAL CURRENCY

	2013	2014	+/– %
CHF million			
Business volume	1,727.3	1,632.7	–4.2
Of which: life	833.0	789.8	–3.9
Of which: non-life	894.3	842.9	–4.5
Gross combined ratio (per cent)	104.1	101.5	–
Profit before borrowing costs and taxes	68.0	62.6	–7.9

BASLER VERSICHERUNGEN IN GERMANY

Basler Versicherungen in Germany focused on the target segments and optimised its cost structure. It is on track with its measures in this area. It continued to exit the motor vehicle fleet insurance market and significantly scaled back its business with large industrial enterprises in individual sectors where the risks are too high. The volume of business generated by the unit as a whole contracted by 4.2 per cent to CHF 1,632.7 million. While the decrease in premiums in the non-life division was attributable to improvements in both portfolio quality and the business mix, the volume of life insurance business transacted in this challenging environment was consistent with the shrinking German life insurance market. Basler Versicherungen achieved the right amount of growth in its target segments and is already Germany's third-largest insurer in the field of renewable energy.

The volume of large claims grew year on year. However, roughly 70 per cent of claims were attributable to policies that had previously been terminated for reasons of profitability. The improved quality of the portfolio should become clearly evident in one or two years' time. Despite the higher level of large claims incurred, Basler Versicherungen managed to lower the claims ratio in its German business. The unit improved its combined ratio by 2.6 percentage points to 101.5 per cent owing to the lower cost of basic claims. Nonetheless, EBIT fell by 7.9 per cent to CHF 62.6 million. Even though the targeted objectives have not yet been met, the profit trajectory adjusted for the volume of large claims incurred clearly demonstrates that Basler Versicherungen is pursuing the right optimisation strategy in Germany and that it will achieve the desired level of profitability within the planned time frame.

Belgium
Encouraging growth and higher profit contribution

BUSINESS VOLUME (CHF million),
(as a percentage of the Group)

1,544.9 (16.8 %)

life: 10.2 %

non-life: 62.2 %

Unit-linked: 27.6 %

KEY FIGURES FOR BELGIUM IN LOCAL CURRENCY

	2013	2014	+/– %
CHF million			
Business volume	1,393.5	1,544.9	12.3
Of which: life	441.2	583.7	34.1
Of which: non-life	952.3	961.2	2.3
Gross combined ratio (per cent)	93.5	102.4	–
Profit before borrowing costs and taxes	120.8	141.6	17.2

BALOISE INSURANCE BELGIUM

In Belgium, Baloise Insurance achieved highly encouraging growth of 56.6 per cent in its unit-linked life insurance business. It forged new banking partnerships and developed a new hybrid product combining the features of conventional and unit-linked life insurance. The total volume of business transacted was also very pleasing, growing by 12.3 per cent to CHF 1,544.9 million.

Mainly hail storm Ela, which hit in June 2014, raised the claims ratio by an aggregate 9.9 percentage points. Despite this storm, Baloise Insurance improved its profitability in Belgium on the back of its effective external reinsurance and the lower cost of basic claims. The Belgian business raised its EBIT by an impressive 17.2 per cent to CHF 141.6 million and made the second-largest contribution to the Baloise Group's profit for the period after the Swiss unit.

Luxembourg
Stronger market position

BUSINESS VOLUME (CHF million),
(as a percentage of the Group)

1,483.4 (16.2 %)

life: 5.9 %

non-life: 7.8 %

Unit-linked: 86.3 %

KEY FIGURES FOR LUXEMBOURG IN LOCAL CURRENCY

	2013	2014	+/– %
CHF million			
Business volume	1,284.0	1,483.4	16.9
Of which: life	1,204.9	1,367.8	14.9
Of which: non-life	79.1	115.6	48.1
Gross combined ratio (per cent)	83.9	89.3	–
Profit before borrowing costs and taxes	16.9	20.7	22.5

BÂLOISE ASSURANCES LUXEMBOURG

The business unit in Luxembourg completed its acquisition of local firm P&V Assurances, significantly strengthening its position in the highly attractive Luxembourg market. It expanded its share of this market to more than 10 per cent. The integration of this acquisition progressed according to plan, and this business performed very well.

The additional premium income arising from the acquisition made a substantial contribution to the strong growth of 48.1 per cent in non-life insurance. The combined ratio was an excellent 89.3 per cent. The integration of P&V Assurances caused the premiums written in conventional life insurance to jump by 46.6 per cent. The value of conventional life insurance premiums received by the Luxembourg entity would have increased even without the acquisition.

The safety and security features on offer proved highly popular with customers in Luxembourg as well. This business unit raised its EBIT by 22.5 per cent to CHF 20.7 million.

Consolidated income statement

FIVE-YEAR OVERVIEW

	2010	2011	2012 (restated)	2013	2014
CHF million					
Income					
Premiums earned and policy fees (gross)[1]	6,854.3	6,806.9	6,731.1	7,212.7	7,168.1
Reinsurance premiums ceded	–168.2	–176.3	–176.5	–167.9	–163.6
Premiums earned and policy fees (net)	6,686.1	6,630.6	6,554.6	7,044.8	7,004.5
Investment income	1,811.2	1,766.5	1,782.2	1,765.1	1,701.9
Realised gains and losses on investments[2]	501.6	–943.4	852.9	670.3	1,362.5
Income from services rendered	283.4	158.6	125.0	119.0	110.7
Share of profit (loss) of associates	–0.5	10.2	16.5	40.5	8.1
Other operating income	202.7	140.1	92.0	107.9	185.2
Income	9,484.5	7,762.6	9,423.2	9,747.5	10,372.8
Expense					
Claims and benefits paid (gross)	–5,212.9	–5,311.5	–5,449.4	–5,439.7	–5,666.4
Change in technical reserves (gross)	–1,393.2	–639.9	–867.7	–1,359.4	–1,469.5
Reinsurance share of claims incurred	47.5	53.3	113.2	75.5	146.6
Acquisition costs	–491.5	–576.8	–651.0	–500.5	–569.6
Operating and administrative expenses for insurance business	–856.0	–847.0	–900.0	–897.1	–866.5
Investment management expenses	–64.8	–61.3	–59.0	–70.6	–66.9
Interest expenses on insurance liabilities	–61.2	–51.6	–50.5	–47.3	–42.6
Gains or losses on financial contracts	–219.8	324.0	–577.8	–368.9	–462.6
Other operating expenses	–625.4	–507.9	–363.2	–481.3	–446.8
Expense	–8,877.3	–7,618.7	–8,805.4	–9,089.3	–9,444.3
Profit before borrowing costs and taxes	607.2	143.9	617.9	658.2	928.6
Borrowing costs	–52.8	–55.0	–61.0	–50.1	–43.5
Profit before taxes	554.4	88.9	556.8	608.1	885.1
Income taxes	–117.7	–27.6	–71.6	–152.7	–173.2
Profit for the period	436.7	61.3	485.2	455.4	711.9
Attributable to					
Shareholders	433.4	60.8	479.5	452.6	710.7
Non-controlling interests	3.3	0.5	5.7	2.8	1.3
Earnings / loss per share					
Basic (CHF)	9.14	1.30	10.24	9.65	15.15
Diluted (CHF)	8.89	1.29	9.96	9.38	14.63

Footnotes: see next page.

ADDITIONAL INFORMATION

	2010	2011	2012 (restated)	2013	2014
CHF million					
Gross premiums written and policy fees	6,859.8	6,803.3	6,741.7	7,228.9	7,175.6
Investment-type premiums	2,681.6	1,341.2	1,616.6	1,780.6	2,130.2
Total business volume	9,541.4	8,144.5	8,358.3	9,009.5	9,305.8
Investments for the account and at the risk of life insurance policyholders	7,821.7	7,746.8	8,779.3	9,606.8	10,904.2
Gross combined ratio	92.2	92.4	93.2	93.1	93.7
Funding ratio (non-life) (per cent)	180.5	195.9	184.3	179.8	182.9

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

	2010	2011	2012 (restated)	2013	2014
CHF million					
Assets					
Property, plant and equipment	535.7	559.9	458.5	422.5	379.2
Intangible assets	1,342.6	1,300.2	1,078.5	1,080.3	909.2
Investments in associates	211.3	173.5	227.2	222.0	227.9
Investment property	5,046.6	5,138.0	5,441.0	5,685.9	5,962.9
Financial instruments with characteristics of equity	9,844.2	9,703.9	9,475.7	11,344.4	13,451.2
Financial instruments with characteristics of liabilities	25,840.5	28,917.5	32,513.3	32,327.1	34,461.6
Mortgages and loans	17,693.5	18,042.7	18,510.9	18,329.5	18,165.9
Derivative financial instruments	536.3	334.1	497.6	410.7	613.2
Other assets / receivables	2,111.6	2,586.4	2,618.6	2,857.7	2,153.5
Deferred tax assets	20.2	22.2	32.7	56.0	48.3
Cash and cash equivalents	2,208.9	2,287.8	2,923.7	2,960.8	2,969.6
Total assets	65,391.4	69,066.2	73,777.7	75,696.9	79,342.3

	2010	2011	2012 (restated)	2013	2014
CHF million					
Equity and liabilities					
Equity					
Equity before non-controlling interests	4,100.0	3,860.3	4,603.5	4,855.9	5,791.3
Non-controlling interests	33.5	33.3	37.8	50.5	39.7
Total equity	4,133.5	3,893.6	4,641.3	4,906.4	5,831.0
Liabilities					
Gross technical reserves	43,445.7	45,561.9	46,591.9	47,435.6	48,738.9
Liabilities arising from banking business and financial contracts	12,863.3	13,998.1	15,839.6	16,542.1	17,740.8
Derivative financial instruments	29.9	175.3	64.4	68.2	176.4
Other accounts payable	4,277.3	4,782.9	5,802.0	5,862.3	5,789.7
Deferred tax liabilities	641.7	654.4	838.5	882.3	1,065.5
Total liabilities	61,257.9	65,172.6	69,136.4	70,790.5	73,511.4
Total equity and liabilities	65,391.4	69,066.2	73,777.7	75,696.9	79,342.3

Business volume, premiums and combined ratio

BUSINESS VOLUME

2013	Group	Switzerland	Germany	Belgium	Luxembourg	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

2014	Group	Switzerland	Germany	Belgium	Luxembourg	Other units[2]
CHF million						
Non-life	3,358.8	1,335.1	842.9	961.2	115.6	98.2
Life	3,816.8	2,985.1	568.8	157.2	87.1	18.8
Sub-total of IFRS gross premiums written[1]	7,175.6	4,320.1	1,411.7	1,118.3	202.7	117.0
Investment-type premiums	2,130.2	189.9	221.0	426.5	1,280.7	12.0
Total business volume	9,305.8	4,510.0	1,632.7	1,544.9	1,483.4	129.0

1 Premiums written and policy fees (gross).
2 Other units: Austria (until 28th August 2014), Croatia and Serbia (until 11 March 2014).

GROSS COMBINED RATIO

2013	Group	Switzerland	Germany	Belgium	Luxembourg	Other units[1]
as a percentage of premiums earned						
Claims ratio[2]	62.1	61.3	69.7	58.5	49.6	58.1
Expense ratio	31.0	25.1	34.4	35.0	34.3	36.2
Combined ratio	93.1	86.4	104.1	93.5	83.9	94.3

2014	Group	Switzerland	Germany	Belgium	Luxembourg	Other units[1]
as a percentage of premiums earned						
Claims ratio[1]	63.0	59.1	65.4	68.3	56.8	60.2
Expense ratio	30.7	24.8	36.1	34.1	32.5	33.1
Combined ratio	93.7	83.9	101.5	102.4	89.3	93.3

1 Other units: Austria (until 28 August 2014), Croatia and Serbia (until 11 March 2014).
2 Including the profit-sharing ratio.

GROSS AND NET COMBINED RATIO

	Gross		Net	
	2013	2014	2013	2014
as a percentage of premiums earned				
Claims ratio[1]	62.1	63.0	62.8	61.7
Expense ratio	31.0	30.7	32.1	31.9
Combined ratio	93.1	93.7	94.9	93.6

FUNDING RATIO (NON-LIFE)

	2013	2014
CHF million		
Technical reserve for own account[2]	5,933.3	5,879.4
Premiums written and policy fees for own account	3,300.4	3,213.8
Funding ratio (per cent)	179.8	182.9

1 Including the profit-sharing ratio.
2 Not including capitalised settlement premiums.

Technical income statement

	Non-life		Life[3]	
	2013	2014	2013	2014
CHF million				
Gross				
Gross premiums written and policy fees	3,441.7	3,358.8	3,787.2	3,816.8
Change in unearned premium reserves	– 16.2	– 7.5	–	–
Premiums earned and policy fees (gross)	3,425.5	3,351.3	3,787.2	3,816.8
Claims and benefits paid (gross)	– 2,073.7	– 2,050.6	– 3,366.0	– 3,615.8
Change in technical reserves (gross)				
Change in claims reserve / actuarial reserves[1]	– 52.1	– 61.6	– 833.7	– 1,006.0
Change in other technical reserves	– 59.1	– 14.9	– 414.9	– 387.1
Technical expenses	– 1,096.9	– 1,061.9	– 372.9	– 460.6
Total technical result (gross)	143.7	162.2	– 1,200.3	– 1,652.7
Ceded to reinsurers				
Reinsurance premiums ceded	– 148.3	– 143.3	– 19.5	– 20.3
Claims and benefits paid	67.6	120.5	4.7	8.0
Reinsurers' share of claims incurred	3.2	13.2	– 0.8	2.7
Change in other technical reserves	0.3	0.1	0.8	2.2
Technical expenses	7.7	6.2	3.3	1.8
Total technical result of ceded business	– 69.5	– 3.3	– 11.5	– 5.6
For own account				
Premiums earned and policy fees	3,277.1	3,208.0	3,767.7	3,796.5
Claims and benefits paid	– 2,006.1	– 1,930.1	– 3,361.3	– 3,607.8
Change in claims reserve / actuarial reserves[1]	– 48.9	– 48.4	– 834.5	– 1,003.3
Change in other technical reserves	– 58.8	– 14.8	– 414.1	– 384.9
Technical expenses	– 1,089.2	– 1,055.8	– 369.6	– 458.8
Total technical result for own account	74.2	158.9	– 1,211.8	– 1,658.2
Investment income (gross)	276.2	259.9	1,349.4	1,312.6
Realised gains and losses on investments[2]	118.1	63.2	532.1	1,276.0
Investment management expenses	– 22.2	– 22.6	– 88.3	– 89.7
Other financial expenses and income	– 79.9	– 40.1	– 320.3	– 363.9
Gains or losses on investments	292.1	260.3	1,472.9	2,135.0
Profit before borrowing costs and taxes	366.3	419.1	261.1	476.8
Borrowing costs	–	–	–	–
Income taxes	– 75.3	– 88.7	– 65.8	– 88.5
Profit for the period (segment result)	291.0	330.4	195.3	388.2

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 2013: CHF –1.7 million; 31 December 2014: CHF 0.6 million).

Gross premiums by sector

GROSS PREMIUMS BY SECTOR (NON-LIFE)

	2013	2014	+/– %
CHF million			
Accident	442.1	418.1	– 5.4
Health	131.8	124.9	– 5.2
General liability	361.3	347.1	– 3.9
Motor	1,129.4	1,111.9	– 1.5
Property	1,065.6	1,055.8	– 0.9
Marine	185.1	174.8	– 5.6
Other	78.7	81.6	3.7
Inward reinsurance	47.7	44.7	– 6.3
Gross premiums written (non-life)	3,441.7	3,358.8	– 2.4

GROSS PREMIUMS BY SECTOR (LIFE)

	2013	2014	+/– %
CHF million			
Business volume generated by single premiums	2,910.0	3,294.3	13.2
Business volume generated by periodic premiums	2,657.8	2,652.6	– 0.2
Investment-type premiums	– 1,780.6	– 2,130.2	19.6
Gross premiums written (life)	3,787.2	3,816.8	0.8

Banking activities

PROFIT OR LOSS FROM BANKING ACTIVITIES

CHF million	2013	2014
Net interest income	91.2	87.6
Net fee and commission income	67.0	72.4
Trading profit	– 1.1	0.0
Other net income	5.9	2.6
Total operating income	162.9	162.6
Personnel expenses	– 58.8	– 60.6
General and administrative expenses	– 13.9	– 14.4
Total operating expenses	– 72.7	– 75.0
Gross profit	90.2	87.6
Net losses and impairment due to credit risk	4.3	4.6
Depreciation, amortisation and impairment of property, plant and equipment and of intangible assets	– 19.1	– 18.6
Profit before taxes	75.4	73.7
Income taxes	– 13.8	– 12.5
Profit for the period (segment result)	61.6	61.2

ADDITIONAL INFORMATION

CHF million	2013	2014
Assets managed for third parties	4,473.9	5,055.3
Risk-weighted assets of banking activities	3,290.1	3,239.0

ASSET ALLOCATION

CHF million	2013	2014
Investment property	–	–
Equities	8.2	8.2
Alternative financial assets	–	–
Fixed-income securities	435.1	388.0
Mortgage assets	6,454.8	6,535.5
Policy loans and other loans	235.5	273.1
Derivative financial instruments	7.2	6.6
Cash and cash equivalents	210.4	437.7
Total	7,351.2	7,649.1

Investment performance

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.

2014[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	835.5	112.7	256.0	480.0	17.6	1,701.9
Realised gains and losses and impairment losses recognised in profit or loss (net)	147.4	249.7	129.3	58.5	190.2	775.1
Change in unrealised gains and losses recognised directly in equity	1,703.5	– 50.8	–	–	– 116.8	1,535.9
Investment management costs	– 29.5	– 4.6	– 7.8	– 15.0	– 8.6	– 65.6
Operating profit	2,656.8	307.1	377.6	523.5	82.3	3,947.3
Average investment portfolio	31,652.6	3,585.9	5,824.4	18,247.7	3,558.1	62,868.6
Performance (per cent)	8.4	8.6	6.5	2.9	2.3	6.3

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

CURRENT INCOME FROM INSURANCE [1]

	2013			2014		
	Non-life	Life	Total	Non-life	Life	Total
CHF million						
Investment property	34.2	205.8	240.0	36.9	203.7	240.6
Equities	32.8	55.1	87.9	36.6	75.7	112.3
Alternative financial assets	2.0	7.2	9.1	2.7	13.8	16.5
Fixed-income securities	149.8	730.5	880.3	132.5	693.7	826.3
Mortgage assets	8.8	109.1	117.8	7.6	102.3	109.9
Policy loans and other loans	48.3	240.8	289.1	43.3	222.8	266.1
Derivative financial instruments	–	–	–	–	–	–
Cash and cash equivalents	0.3	1.0	1.4	0.2	0.6	0.9
Total current income	276.2	1,349.4	1,625.6	259.9	1,312.6	1,572.5

REALISED GAINS AND LOSSES IN INSURANCE [1]

	2013			2014		
	Non-life	Life	Total	Non-life	Life	Total
CHF million						
Investment property	21.5	109.7	131.1	3.9	126.7	130.6
Equities	45.7	34.6	80.3	32.8	217.0	249.8
Alternative financial assets	3.6	– 2.4	1.2	2.8	10.5	13.3
Fixed-income securities	42.5	148.4	190.9	17.0	130.4	147.4
Mortgage assets	– 0.2	– 6.1	– 6.3	0.0	1.1	1.2
Policy loans and other loans	29.9	6.6	36.5	10.1	28.4	38.5
Derivative financial instruments	– 24.9	– 202.0	– 226.9	– 3.4	192.4	189.0
Cash and cash equivalents	–	–	–	–	–	–
Total capital gains and losses	118.1	88.8	206.9	63.2	706.5	769.7

ASSET ALLOCATION IN INSURANCE [1]

	2013			2014		
	Non-life	Life	Total	Non-life	Life	Total
CHF million						
Investment property	782.1	4,675.6	5,457.8	804.7	4,925.8	5,730.5
Equities	1,064.8	2,068.0	3,132.8	1,106.6	2,912.5	4,019.1
Alternative financial assets	270.0	985.0	1,255.0	298.9	1,042.3	1,341.2
Fixed-income securities	5,369.3	24,798.6	30,167.9	5,346.3	26,965.7	32,312.0
Mortgage assets	393.3	4,288.7	4,682.0	435.9	4,166.6	4,602.5
Policy loans and other loans	1,247.8	6,357.3	7,605.2	1,281.2	6,051.6	7,332.8
Derivative financial instruments	17.0	196.8	213.8	18.9	299.3	318.2
Cash and cash equivalents	470.9	1,120.3	1,591.3	496.3	885.7	1,382.0
Total	9,615.4	44,490.3	54,105.7	9,788.8	47,249.5	57,038.3

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

Sustainable business management

Friendly, pleasant and fair: Baloise as an employer

Sometimes it is important to see things from a different perspective if you want to get a more accurate picture of reality.

KEY FIGURES

- 7,617 people (6,876 FTEs) were working for the Baloise Group on 31 December 2014 (end of 2013: 8,628).
- 43.6 per cent of all staff members are women (2013: 45.9 per cent).
- The Baloise Group employs 206 (2013: 230) apprentices, trainees and interns.
- 60.9 per cent of staff members working in our main market of Switzerland participated in our Employee Share Ownership Plan in 2014 (2013: 58.2 per cent).
- Baloise employees work at the Company for an average of 14.2 years.
- Staff turnover as at 31 December 2014 amounted to 4.8 per cent (end of 2013: 4.9 per cent).

WHAT SETS BALOISE APART AS AN EMPLOYER

What is special about working for Baloise? The following answers to this question were made – not only from our own members of staff but also from applicants. The responses can be summarised in the following four statements:

- Baloise employees are highly trusted from an early stage. They are given the responsibility they need in order to perform their roles, which is an aspect they appreciate. Baloise offers its staff something that is now a hallmark of good employers: the freedom to make their own contribution to the Company's success.
- Baloise is regarded as a very balanced employer. It gives its employees the same feeling that it conveys to its customers: "Making you safer". It is not too young, not too old, not too big and not too small. And it offers a wide range of opportunities for its staff to advance their careers.
- 'Swissness' is one of Baloise's defining characteristics. It is a Swiss company that operates in Europe. This is something that is highly valued by its workforce not only in Switzerland but also in Germany, Belgium and Luxembourg. The attributes associated with Switzerland are also reflected in Baloise as an employer: high quality, solidity and reliability.
- Baloise is a friendly, pleasant and fair employer. The vast majority of employees agree with this statement. People like working for Baloise and are therefore motivated to go the extra mile for customers and partners. This welcoming atmosphere is reflected in Baloise's general approach as an employer, which centres on personal contact and dialogue and stresses the importance of building close relationships.

"WE ADD VALUE THROUGH OUR PEOPLE": BALOISE'S VISION OF CUTTING-EDGE HR ACTIVITIES

In order to secure the Company's lasting appeal for talented individuals, thereby maintaining the high quality of its work, in 2014 the HR heads of the Baloise Group and its national subsidiaries devised a strategy that will shape the Company's HR activities over the coming years. By pursuing its vision of adding value through its people, Baloise is aligning its HR activities even more closely with its relevant business units and its strategies to ensure that they make a substantial contribution to the value creation process.

THE CORNERSTONES OF THE BALOISE GROUP'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 have excellent skills in leadership and management

THE BALOISE GROUP'S BEHAVIOURAL VALUES

- "Put yourself in the other's shoes."
- "Act authentically and earn trust."
- "Develop and engage."

TALENT, CULTURE AND LEADERSHIP: THREE FACTORS THAT ARE CRUCIAL TO FUTURE SUCCESS

Highly skilled, talented individuals seek to improve their prospects. In order to fulfil this justified aspiration and obtain a realistic appraisal of its employees' potential, Baloise has been conducting talent evaluations since 2013. These are designed to identify young and key talent, find potential successors and agree staff development activities so that vacancies can ideally be filled by candidates from within the Company.

The Company also remains fully focused on ensuring that its behavioural values are applied. Surveys of staff members have revealed that these values are already firmly embedded within the organisation. However, this is no reason for the Company to rest on its laurels. Baloise will continue to integrate these behavioural values into its activities going forward.

Baloise believes that another crucial factor for its future success is the quality of its managerial staff and the way in which leadership is practised within the organisation. In 2014 the workforce in Switzerland was therefore asked to give their line managers feedback on the subject of values-based leadership. The resultant management dialogue sessions were then used to identify specific measures that could exploit the potential for improvement.

IDENTIFYING, RECRUITING AND DEVELOPING TALENT: CREATING THE SPACE FOR INDIVIDUALS TO EVOLVE

Baloise's most valuable asset is the skills and expertise of its workforce. It therefore ensures that it develops and promotes its staff in a way that reflects their individual performance and potential and the extent to which its behavioural values are implemented.

Baloise applies these principles to both its recruitment process and its efficient talent management system. By doing so, it ensures that it is always in a position to deploy the right people in the right positions and retain the services of its key employees.

Having a diversified workforce is crucial to Baloise's lasting success. Striking the right work/life balance is also seen as a key aspiration of the Baloise Safety World. By providing flexible and part-time working, the option of working from home, and facilities such as the Bal4Kids crèche in Basel, the Company offers a pleasant environment in which staff can develop their full potential.

In 2010, Baloise became the first all-lines insurer to be awarded the 'Friendly Work Space' quality marque by the Swiss health promotion board. This accolade is awarded to firms that are engaged in corporate health management over and above the legal requirements. Baloise offers a working environment in which its employees are happy, stay healthy and can therefore deliver an excellent performance.

By additionally committing itself to the cause of corporate health management in this way, Baloise is honouring its "Making you safer" brand promise to its own staff.

GOOD PERFORMANCE SHOULD BE REWARDED: FAIR REMUNERATION PRINCIPLES AND BALOISE'S PERFORMANCE MANAGEMENT SYSTEM

As part of its effective performance management system, Baloise offers basic salaries in line with market rates, various forms of variable remuneration, and attractive employee incentive and retention plans.

Variable remuneration is based on both personal performance by staff members and the success of the Company as a whole. A systematic dialogue is maintained with employees with the aim of agreeing personal performance and development targets and ensuring that these targets are met.

Part of this remuneration is paid in the form of restricted shares. Baloise strengthens staff loyalty by insisting that, compared with other companies, senior managers receive a high proportion of their variable remuneration in the form of shares. In doing so, it aligns their remuneration with the Company's long-term success.

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.

BALOISE CONTINUES TO EVOLVE THROUGH THE CONSISTENT PURSUIT OF SHARED GOALS

Baloise uses its integrated performance and talent management system to strengthen its culture of performance and trust and encourage continuous learning within the Company. This process involves managers and staff in an ongoing dialogue about performance and development goals that provides guidance and clarity about shared goals and continuous learning.

The Baloise Group uses its succession planning process for strategic HR planning purposes. In 2014 it identified and discussed more than 200 key roles and tried to find potential short-term or long-term succession options for them. The Company also identified young and key talented individuals who have the potential to take on more demanding roles and responsibilities at Baloise. And the succession planning works. 50 per cent of all vacant key positions were filled by internal candidates last year.

TARGETED INVESTMENT IN CONTINUING PROFESSIONAL DEVELOPMENT: BALOISE SEES LEADERSHIP AS MORE THAN JUST A JOB DESCRIPTION

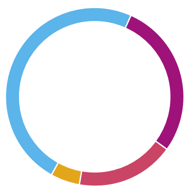
The Baloise Group's decision to pool its executive development resources in the Baloise Campus in 2013 was a strategy that was successfully continued in 2014. This enables the Company to communicate a uniform managerial philosophy and develop a shared identity across all management levels and throughout all corporate divisions. These too are firmly rooted in Baloise's behavioural values and Safety World.

The Company's executive development activities include more than just the Group-wide management programmes that it offers at its Baloise Campus (Early Leadership Programme [ELP], Advanced Leadership Programme [ALP] and Senior Leadership Programme [SLP]).

Baloise invests in executive development at local level as well. In 2014 it continued to support new managers in Switzerland by offering its Führung@Baloise programme.

BALOISE'S 7,617 EMPLOYEES IN 2014 BY COUNTRY

	Per cent	Employees
Switzerland	48.6	3,701
Germany	28.5	2,174
Belgium	17.6	1,343
Luxembourg	5.2	395
Other	0.0	4



AUTHENTIC, RELEVANT AND DISTINCTIVE: SPREADING THE WORD ABOUT BALOISE AS AN EMPLOYER

In order to fulfil these aspirations and engage in a dialogue with potential employees, the Baloise Group's employer branding approach focuses on the highly successful social media activities centred on the baloisejobs.com blog. The Company also maintains a presence on Facebook, Twitter, Google+, Pinterest, Xing and LinkedIn as part of its social media strategy.

However, Baloise pursues a dialogue-driven approach that encompasses more than just the internet. The Employer Branding team's revamped presence at trade fairs provides an opportunity for prospective employees to talk to someone about what it is really like working for an insurance company.

NURTURING YOUNG TALENT AT BALOISE: ATTRACTING SCHOOL-LEAVERS, STUDENTS AND THOSE STARTING THEIR CAREERS

The Baloise Group offers a wide range of training opportunities in Switzerland. It currently has more than 200 apprentices, interns and temporary student employees across all its corporate divisions.

The Company's General and Insurance trainee programmes remain highly popular with university graduates and at Baloise itself. These programmes provide personalised training for graduates starting their careers. These trainees are highly regarded within the Company and often find permanent employment with Baloise.

BALOISE GROUP HUMAN RESOURCES ON THE INTERNET

Career homepage:
→ www.baloise.com/career
Career blog:
→ www.baloisejobs.com
Facebook:
→ www.facebook.com/baloisegroup
YouTube:
→ youtube.com/baloisegroup
Xing:
→ xing.com/companies/baloisegroup
LinkedIn:
→ linkedin.com/company/baloisegroup
Twitter:
→ twitter.com/baloise_jobs
Pinterest:
→ pinterest.com/baloisejobs
Google+:
→ gplus.to/baloisejobs

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 continuously reducing its carbon footprint. In 2014, further major measures were put in place to achieve this goal.

SUSTAINABLE PLANNING OF REAL ESTATE

The three sustainability dimensions (environmental, economic and social factors) are examined in the case of all new builds and maintenance projects and, where necessary, specific modifications are made in order to optimise them. When property is being refurbished or built from scratch, for example, the option of using renewable energy sources is considered and, if feasible, chosen. If heating systems are being overhauled, fuels that generate low CO^2 emissions are selected wherever possible. A further key consideration here is the potential for making the Company's real estate portfolio more compact. Baloise is constantly improving knowledge of sustainability by working closely with universities on specific research projects and by providing its staff with regular training and development in this area.

BASEL WILL SOON BE HOSTING BALOISE PARK

In 2015 Baloise will be pulling down a hotel and two office buildings at its headquarters in Basel and by 2019 plans to replace them with a high-rise building and two office blocks offering twice the gross floor area. The newly constructed site will be called Baloise Park. This new complex will constitute a compact, high-profile development in a central location near the train station and will cover the same area of land. The fine architecture and considerable flexibility of these new buildings will ensure that they can be used over the long term and will maintain their value. Baloise is basing its designs for the buildings on the standards for sustainable construction in Switzerland (SNBS) which means it will comfortably exceed the legal requirements in terms of energy efficiency.

* UNEP = United Nations Environment Programme.

USING SOLAR POWER TO PROVIDE HEATING IN WINTER

The spring of 2015 will see solar panels with a total output of 21 kWp being installed on one of the flat roofs of the Company's head office building in Basel. The power generated by these panels (around 21'400 kWh per year) will be used, among other things, to heat the new entrance ramp to the building in winter.

ENERGY EFFICIENCY AT COMPUTER CENTRES

The Baloise Group has achieved lasting reductions in energy consumption at its computer centres in Switzerland. Panels have been added to the tops and sides of the open racks housing the servers. This separates the cold and warm air zones, which has sharply reduced the amount of air that needs to be cooled. In addition, the energy consumed by our cooling, ventilation and humidification systems in 2014 was cut by 730,000 kWh per year – or 38 per cent – compared with 2013. This represents 7.2 per cent of the power used by our Group headquarters, which has more than 2,000 workstations and includes the central facilities of staff restaurant, auditorium and computer centres.

ADDING VALUE WITH BALOISE'S NEW WORKPLACE CONCEPTS

The new workplace concepts being planned 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 tested its new 'Flex Office' workplace concept in the summer of 2014. In the autumn of that year it was decided to introduce this new concept – which centres on the idea that workstations are not permanently assigned to specific individuals – for 600 members of staff working at Basler Switzerland's head office. This more efficient use of space enables the Baloise Group to significantly reduce its energy consumption and occupancy costs as well as the amount of office space that it requires.

ENVIRONMENTAL AUDIT

	2012 absolute	2013 absolute	2014 absolute	Relative	Unit	+/– %
Employees	4,975	5,315	5,173		headcount	– 2.6
Energy reference area	141,578	141,032	137,276		ERA m²	– 2.6
Locations	12	13	12		number of buildings	– 1
Electricity consumption	23,312,615 kWh	20,712,643 kWh	19,983,237 kWh	3,863	kWh / employee	– 3.5
Heating consumption	13,856,250 kWh	11,513,544 kWh	9,327,534 kWh	68	kWh / m²	– 19.0
Water consumption	58,113 m³	53,769 m³	52'752 m³	41	l / employee / day	– 1.9
Paper consumption	822 t	510 t	490 t	95	kg / employee	– 3.9
Paper types				4.0 %	recycled	
				74.0 %	chlorine-free-bleached	
				23.0 %	chlorine-bleached	
Copy paper consumption	81.9 million A4 sheets	71.9 million A4 sheets	73.5 million A4 sheets	14,212	A4 sheets / employee	2.2
Amount of refuse	909 t	1,241 t	1,319 t	255	kg / employee	6.2
Types of refuse				40.0 %	paper / cardboard	
				4.0 %	other materials	
				1.0 %	special waste	
				55.0 %	misc. waste / refuse	
Business travel	21.82 million km	21.26 million km	16.55 million km	3,199	km / employee	– 22.1
Mode of transport				26.0 %	km by air	
				40.0 %	km by road	
				34.0 %	km by public transport	
CO_2 emissions	17,855 t	16,020 t	14,246 t	2,754	kg / employee	– 11.0

ENERGY EFFICIENCY AT BALOISE

The total energy and resource consumption revealed by the environmental audit shows the amounts used by the Baloise Group's large office buildings and its computer centres. The figures reported relate to the energy and resources consumed by 71 per cent of the 7,617 people working for Baloise. By reconfiguring and merging operating sites, we reduced the amount of heating used per square metre of energy reference area by an impressive 20 per cent. Electricity use declined by 2.1 per cent overall. We are therefore exceeding our target of cutting our electricity consumption by between 1 per cent and 2 per cent each year over the period 2014 to 2018. As a responsible corporate citizen, Baloise is 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 2014. 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 mind-set 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 122.

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 2014

Baloise's risk strategy principles are designed for the long term, as shown by the Company's excellent risk positioning in 2014. Proof positive of this situation was the Baloise Group's solvency ratio, which remained very high at 354 per cent and bears testimony to its financial strength.

Underwriting approaches that have been tried and tested for many years were maintained in 2014:

- 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.
- With a net equity exposure of 7.5 per cent at 31 December 2014, 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 93.6 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 2014 Financial Report (section 5, "Management of insurance risk and financial risk", on pages 120 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. The Company therefore rapidly and transparently implemented the new requirements under the Swiss Ordinance Against Excessive Remuneration in Listed Companies Limited by Shares (ERCO) and, in 2014, gave shareholders the opportunity to hold a binding vote on the total remuneration of the Board of Directors and the Corporate Executive Committee.

This chapter reflects the structure of the SIX Corporate Governance Guidelines as amended on 1 September 2014 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 contains recommendations on the remuneration paid to the Board of Directors and the Executive Committee. 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 6,390 million as at 31 December 2014.

- Information on Baloise shares can be found from page 8 onwards.
- Significant subsidiaries, joint ventures and associates as at 31 December 2014 can be found from page 238 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 60.

Shareholder base

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

Shareholder structure

A total of 19,627 shareholders were registered in Bâloise Holding's share register as at 31 December 2014. The number of registered shareholders had decreased by 5.5 per cent compared with the previous year. The "Significant shareholders" section on page 253 provides information on the structure of the Company's shareholder base as at 31 December 2014.

The reports that were submitted to the issuer and to SIX Swiss Exchange AG's disclosure office during the reporting year in compliance with section 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading (BEHG) and were published on the latter's electronic reporting and publication platform in compliance with section 21 BEHG can be viewed using the search function at http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_de.html

Treasury shares

Bâloise held 2,228,441 treasury shares (4.5 per cent of the issued share capital) as at 31 December 2014.

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 1,214.3 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.

Year (CHF million)	Cash dividends	Share buy-backs	Total
2010	225.0	34.7	259.7
2011	225.0	17.1	242.1
2012	225.0	–	225.0
2013	237.5	–	237.5
2014	250.0	–	250.0
Total	1,162.5	51.8	1,214.3

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)

CHF million	2012	2013	2014
Share capital	5.0	5.0	5.0
General reserve	11.7	11.7	11.7
Reserve for treasury shares	173.9	176.3	182.8
Other reserves	224.9	240.7	52.4
Distributable profit	244.1	56.3	406.5
Equity attributable to Bâloise Holding	659.6	490.1	658.4

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

A resolution adopted by the Annual General Meeting on 2 May 2013 has authorised the Board of Directors until 2 May 2015 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 (see section 3 (4) of the Articles of Association).

→ www.baloise.com/rules-regulations

Conditional capital

The 2004 Annual General Meeting 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 (see section 3 (2) of the Articles of Association). 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.

→ www.baloise.com/rules-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 5,831.0 million on 31 December 2014. Details of changes in consolidated equity in 2013 and 2014 can be found in the consolidated statement of changes in equity on pages 98 and 99 in the Financial Report section. All pertinent details relating to 2012 can be found in the consolidated statement of changes in equity on page 96 in the Financial Report section of the 2013 Annual Report.

Bonds outstanding

Bâloise Holding and one other Baloise Group company have issued bonds publicly. Bâloise Holding and one other Baloise Group company had a total of nine public bonds outstanding at the end of 2014. Details of outstanding bonds of Bâloise Holding can be found on pages 215 and 251 and on the internet.

→ www.baloise.com/bonds

Credit rating

Credit rating agency Standard & Poor's upgraded Baloise Insurance Ltd to 'A' with a stable outlook on 27 June 2014. S&P awarded this rating in recognition of the firm's very strong capitalisation, its excellent operational profitability and its solid competitive position in Baloise's core markets. The agency also rated the firm's risk management as strong. The rating was awarded to Bâloise Holding Ltd's Swiss subsidiary – Baloise Insurance Ltd, which is a core company of the Baloise Group.

→ www.baloise.com/s&prating

3. BOARD OF DIRECTORS

Election and term of appointment

The Board of Directors consisted of nine members at the end of 2014. Since the 2014 Annual General Meeting each member of the Board of Directors has been elected for a term of one year at a time.

The average age on the Board of Directors is currently 60. 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 year, Dr Michael Becker, Dr Andreas Beerli, Dr Georges-Antoine de Boccard, Dr Andreas Burckhardt, Karin Keller-Sutter, Werner Kummer, Thomas Pleines and Dr Eveline Saupper were re-elected as members of the Board of Directors for a one-year term until the end of the next ordinary Annual General Meeting. Dr Georg F. Krayer announced that he was stepping down from the Board of Directors at the 2014 Annual General Meeting. Christoph B. Gloor was newly elected to the Board of Directors.

Because their term of appointment is limited to one year, all members of the Board of Directors will have to be re-elected at the 2015 Annual General Meeting unless they are stepping down from the Board. All members of the Board of Directors are standing for re-election.

Further information on the members of the Board of Directors can be found on the internet.

→ www.baloise.com/board-of-directors

Statutory rules concerning the number of permitted activities

Section 12 (1) clause 1 of the Swiss Ordinance Against Excessive Remuneration in Listed Companies Limited by Shares (ERCO) states that the Articles of Association must contain legal provisions concerning the number of permitted activities that the members of the Board of Directors perform on the senior governing or management bodies of legal entities that are required to be entered in the Swiss commercial register or in an equivalent foreign register and that are not controlled by the Company and do not control the Company. The Board of Directors will propose to the 2015 Annual General Meeting that a legal provision to this effect be incorporated into the Articles of Association.

Interlocking directorates

There are no interlocking directorates.

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
Werner Kummer, Vice-Chairman, Küsnacht	VC	C			CH	1947	2000
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	M	CH	1951	2011
Christoph B. Gloor, Riehen				DC	CH	1966	2014
Karin Keller-Sutter, Wil			M		CH	1963	2013
Thomas Pleines, Munich		M	DC		D	1955	2012
Dr Eveline Saupper, Zurich	M		C		CH	1958	1999

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

BOARD ATTENDANCE IN 2014: MEETINGS OF THE FULL BOARD OF DIRECTORS

	19.03.2014	24.04.2014	06.06.2014	23.06.2014	26.06.2014	26.08.2014	24.09.2014	16.12.2014	17.12.2014
Dr Andreas Burckhardt, Chairman	x	x	x	x	x	x	x	x	x
Dr Georg F. Krayer, Vice-Chairman (until 24 April 2014)	x	x	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Werner Kummer, Vice-Chairman	x	x	x	x	x	x	x	x	x
Dr Michael Becker	x	x	x	x	x	x	x	x	x
Dr Andreas Beerli	x	x	x	x	x	x	x	x	x
Dr Georges-Antoine de Boccard	x	x	x	0	x	x	x	x	x
Christoph B. Gloor	n/a	n/a	0	x	x	x	x	x	x
Karin Keller-Sutter	x	x	x	x	x	x	x	x	x
Thomas Pleines	x	x	x	x	x	x	x	x	x
Dr Eveline Saupper	x	x	x	x	x	x	x	x	x

x = present, 0 = absent, n / a = not applicable.
All members were attending the respective committee meetings.

Dr Andreas Burckhardt, Chairman of the Board of Directors (right), Dr Eveline Saupper (left).

Eveline Saupper (1958, Switzerland, Dr iur., lawyer) 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. Until mid-2014 she was a partner at Homburger AG, Zurich, where she is now 'of counsel'. She sits on the Boards of Directors at hkp group AG, Zurich, Syngenta AG, Basel, and Stäubli Holding AG, Pfäffikon SZ, and chairs the Board of Directors at Mentex Holding AG, Schwyz. Since 18 March 2015 she is a member of the Board of Directors of Georg Fischer AG, Schaffhausen. Dr Saupper is an independent non-executive director.

Andreas Burckhardt (1951, Switzerland, Dr iur., lawyer) 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 in the legal department of Fides Treuhandgesellschaft from 1982 to 1987 and served as Secretary General of the Baloise Group from 1988 to 1994. He was director and head 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 and is Vice-Chairman of the Board of Governors of the Swiss Tropical and Public Health Institute, Basel. He is a member of the Executive Committee of economiesuisse and sits on the Executive Board of the Employers' Federation for Basel and Regio Basiliensis. Dr Burckhardt performs a non-executive function as Chairman of Baloise's Board of Directors.

Werner Kummer, Vice-Chairman of the Board of Directors (left), Dr Andreas Beerli (right).

Dr Michael Becker (left), Christoph B. Gloor (right).

Werner Kummer (1947, Switzerland, Dipl.-Ing. ETH Zurich, MBA Insead) has been a member of the Board of Directors since 2000 and Vice-Chairman since 2014. 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.

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.

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.

Christoph B. Gloor (1966, Switzerland) has been a member of the Board of Directors since 2014. He holds a university degree in business economics and is Chief Executive Officer of Basel-based private bank La Roche & Co AG. Prior to joining La Roche & Co AG on 1 December 1998, he worked for Swiss Bank Corporation (SBC) before moving to Vitra (International). Christoph B. Gloor served as president of the Association of Swiss Private Banks from November 2013 to February 2015 and was a member of the Board of Directors of the Swiss Bankers Association from September 2013 to February 2015. He is a designated member of the management board of the future Notenstein La Roche Privatbank AG. Mr Gloor is an independent non-executive director.

Dr Georges-Antoine de Boccard, Karin Keller-Sutter, Thomas Pleines (from left to right).

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 chairs 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), who holds a university degree in translation and conference interpreting and has a postgraduate qualification in education, has been a member of the Board of Directors since 2013. 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.

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 sat on the Supervisory Board of Bilfinger SE, Mannheim. Since 2011, 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. Mr Pleines is an independent non-executive director.

Secretary to the Board of Directors:
Andreas Eugster, Oberwil (BL) (until 30 April 2015)
Dr Philipp Jermann, Buus (BL) (from 1 May 2015)
Head of Group Internal Audit: Rolf-Christian Andersen, Meilen

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/rules-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 committees appointed by the Board of Directors generally consist of four members, who are newly elected every year by the Board of Directors. Since 2014, section 7 ERCO has required the members of the Remuneration Committee to be elected by the Annual General Meeting. 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. Additional specific regulations applicable to individual committees also govern administrative and other aspects.

→ www.baloise.com/rules-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. The Chairman's Committee also performs the function of a Nominations Committee and prepares personnel-related matters that fall within the remit of the Board of Directors for subsequent approval by the latter.

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

The Remuneration Committee proposes to the Board of Directors – for subsequent approval by the Annual General Meeting – 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 ERCO, the remuneration paid to the Board of Directors and the Corporate Executive Committee has had to be approved by the Annual General Meeting since 2014. 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/rules-regulations

The full Board of Directors of Bâloise Holding met on nine occasions in 2014. The table on page 51 shows Board of Directors members' attendance at these meetings. All members of the relevant committee in each case attended every one of the additional 15 committee meetings. This means that the Board of Directors achieved an overall meeting attendance rate of 99 per cent. One meeting of the Board of Directors was primarily used to provide its members with further information on the latest developments and trends in the sale of insurance products. Meetings of the Board of Directors and its committees usually last half a working day each.

→ www.baloise.com/board-attendance

The Chairman's Committee convened six times in 2014, 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 twice.

Meetings of the Board of Directors are regularly attended by members of the Corporate Executive Committee and the Secretary to 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 the Corporate Centre, the Head of Group Internal Audit, the Secretary to the Board of Directors, and representatives of the external auditors and, occasionally, the Chief Risk Officer, the Chief Investment Officer and the Group Compliance Officer. The main attendees at Remuneration Committee meetings are the Group CEO, 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 and the Secretary to the Board of Directors.

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/rules-regulations

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

Group Internal Audit reports directly to the Chairman of the Board of Directors.

Effective risk management is essential for any insurance group. This is why Baloise has devoted two entire chapters to the subject of financial risk management from page 42 onwards and in the Financial Report section starting on page 120.

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.

Dr Martin Strobel, Group CEO (left), Dr Thomas Sieber, Head of Corporate Divsion Corporate Center (right).

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 headed up Corporate Division International from 2013 to the end of 2014.

Thomas Sieber (1965, Switzerland, Dr iur., M.B.L., lawyer, SDM mediator) 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. Since 6 December 2007 he has been a member of the Corporate Executive Committee and, as Head of the Corporate Centre, is responsible for Group Human Resources, Legal and 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.

Jan De Meulder, CEO of Basler Versicherungen in Germany (left), Michael Müller, Head of Corporate Division Switzerland (right).

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 (now Baloise Belgium NV) 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 been CEO of the insurance companies in Germany since 1 January 2013. Jan De Meulder has decided to retire on 30 April 2015.

Michael Müller (1971, Switzerland, lic. oec. publ.) graduated in economics from the University of Zurich, specialising in 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.

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.


Martin Wenk, Head of Corporate Division Asset Management (left),
German Egloff, Head of Corporate Division Finance (right).

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 corporate communications & investor relations, Group risk management, Group accounting & finance, and corporate IT. The appointed actuary for Baloise's business in Switzerland also reports to German Egloff.

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.

Statutory rules concerning the number of permitted activities

Section 12 (1) clause 1 of the Swiss Ordinance Against Excessive Remuneration in Listed Companies Limited by Shares (ERCO) states that the Articles of Association must contain legal provisions concerning the number of permitted activities that the members of the Corporate Executive Committee perform on the senior governing or management bodies of legal entities that are required to be entered in the Swiss commercial register or in an equivalent foreign register and that are not controlled by the Company and do not control the Company. The Board of Directors will propose to the 2015 Annual General Meeting that legal provisions to this effect be incorporated into the Articles of Association.

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

→ www.baloise.com/corporate-executive-committee

Management structure

(effective date: 31 December 2014)

GROUP CHIEF EXECUTIVE OFFICER

Martin Strobel, Dr rer. pol.*

Group Secretary

Markus von Escher, Dr iur.

SWITZERLAND	INTERNATIONAL (until 31 December 2014)	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	**Germany** Jan De Meulder*	**Group Accounting & Controlling** Pierre Girard	**Investment Strategy & Investment Controlling** Thomas Schöb	**Corporate Development** Sybille Fischer
Product Management Private Customers & Specialised Financial Services Wolfgang Prasser	**Belgium** Gert De Winter	**Corporate Communications & Investor Relations** Marc Kaiser	**Baloise Asset Management** Matthias Henny, Dr phil.	**Group Human Resources** Stephan Ragg, Dr iur.
Sales & Marketing Bernard Dietrich	**Luxembourg** Romain Braas	**Group Risk Management** Stefan Nölker, Dr rer. nat.	**Real Estate** Renato Piffaretti	**Group Legal and Tax** Andreas Burki
Baloise Bank SoBa Jürg Ritz		**Corporate IT** Olaf Romer	**Baloise Investment Services** Robert Antonietti	**Group Compliance** Peter Kalberer
Operations & IT Urs Bienz		**Appointed Actuary Switzerland** Thomas Müller, Dr sc. math.		**Run Off** Bruno Rappo
Finance & Risk Carsten Stolz, Dr rer. pol.				**Group Procurement** Manfred Schneider, Dr rer. nat.
Claims Mathias Zingg				

* 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

This remuneration report relates to the 2014 financial year. It describes the remuneration policies adopted and the remuneration systems in place, and it discloses the remuneration paid to the Board of Directors and the Corporate Executive Committee in 2014. The content and scope of these disclosures are determined by sections 13 to 17 of the Ordinance Against Excessive Remuneration in Listed Companies Limited by Shares (ERCO), section 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 tasked with helping the Board of Directors to frame the Company's remuneration policies. The Remuneration Committee has been vested with special decision-making powers and ensures, among other things, that

- the remuneration offered by Baloise is in line with the going market rate and performance-related 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

- submit proposals to the Board of Directors on the structure of remuneration to be paid in the Baloise Group, especially the remuneration to be paid to the Chairman and members of the Board of Directors and to the members of the Corporate Executive Committee;
- submit proposals to the Board of Directors – for approval by the Annual General Meeting – on the amount of remuneration to be paid to the Chairman and members of the Board of Directors and to the members of the Corporate Executive Committee;
- approve the basic salaries and the variable remuneration paid to individual members of the Corporate Executive Committee (in compliance with the pay caps stipulated by the Annual General Meeting);
- 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 which in individual cases exceed CHF 100,000 (subject to the proviso that no severance packages may be granted to members of the Board of Directors or the Corporate Executive Committee).

The Remuneration Committee consists of at least three independent members of the Board of Directors, who are elected every year by the Annual General Meeting. Dr Eveline Saupper (Chairwoman), Thomas Pleines (Deputy Chairman), Dr Georges-Antoine de Boccard and Karin Keller-Sutter were elected to the Remuneration Committee by the Annual General Meeting on 24 April 2014. The Remuneration Committee maintains an intensive dialogue with senior management throughout the year and generally meets at least twice annually. In addition to the committee secretary being present, these meetings are usually also attended by the Group CEO, 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. The level of remuneration offered by Baloise is in line with the going market rate and performance-related. The clearly defined caps approved by the Annual General Meeting for the pay awarded to members of the Corporate Executive Committee ensure that remuneration is not excessive.

Remuneration Guideline and Remuneration Policy

Responding to a request from the Remuneration Committee, in 2010 the Board of Directors formally adopted a Remuneration Guideline that formulates the remuneration principles and parameters applied across the Baloise Group. This Remuneration Guideline applies 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 that are in line with the market – i.e. around the market median – 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 this Remuneration Guideline as the basis for the Remuneration Policy 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 this Remuneration Guideline and Remuneration Policy, 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.

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; these PSUs must be held for three years before being converted into shares as a form of deferred remuneration. As managers' strategic responsibility and influence grow, the amount of their variable remuneration is largely 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.

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.

The performance management system applies to the most senior level of management and to most other members of the management team throughout the Baloise Group.

Experience has shown, however, that the individual targets and objectives set for the members of the Corporate Executive Committee essentially equate to the successful management of their area of responsibility and, consequently, are largely identical with the Company's targets. The target agreement and performance assessment process has therefore been simplified, and the performance-related remuneration paid to members of the Corporate Executive Committee has been discontinued since 2014. Individual performance is factored into the measurement of the performance pool.

Market comparisons

Baloise regularly compares the salaries paid to its senior executives with those paid in the wider market. To do so it uses function-specific peer groups. 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.

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.

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 or 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, which account for at least 70 per cent of total variable remuneration if the long-term effect of performance share units is included (see page 66). 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 over-achieved). 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. Those entitled to receive performance-related remuneration are the most senior management level in the Baloise Group (except for the members of the Corporate Executive Committee), the majority of senior managers in Switzerland and the corresponding functions abroad. The members of the Corporate Executive Committee do not receive any performance-related remuneration. Instead, their individual performance is recognised in such a way that the contribution made by each and every member of the Corporate Executive Committee to the achievement of the Company's targets and objectives is factored into decisions affecting the measurement of the performance pool.

Performance pool

The performance pool takes account of the entire Baloise Group's performance; its amount is determined by the Remuneration Committee after the end of the financial year concerned, and it factors in the following indicators resulting from systematic analysis:

- Business performance
  The key metric for this criterion is the profit for the period.
- Risks taken
  The indicators used to gauge the success of the Company's business from a risk perspective are the Solvency I ratio, the Swiss Solvency Test (SST) ratio, economic profit, the credit rating awarded by Standard & Poor's, and assessments provided by the Chief Risk Officer and the Head of Group Compliance.
- Capital-markets perspective compared with competitors
  The main metric used to evaluate this criterion is the performance of Baloise's share price compared with the almost 40 European insurance companies represented in the STOXX Europe 600 Insurance Index (the composition of this index is shown in the table on page 66).
- Strategy implementation
  The indicators used here are the changes in the combined ratio and market-consistent embedded value (MCEV) over time as well as the progress made on key strategic initiatives and projects.

The assessments provided by the Chief Risk Officer and the Head of Group Compliance and the evaluations of strategy implementation are also based on qualitative criteria and non-financial indicators such as senior managers' risk behaviour, compliance with procedures and regulations and the practising of a genuine compliance culture, the effectiveness of the internal control system, and the efforts made in respect of talent management and staff engagement.

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 value amounts to 60 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.

For the 2014 financial year the Remuneration Committee decided on a factor of 137 per cent of the normally expected value of performance pool payments. This decision was motivated by the following considerations:

- → Excellent profitability on the back of exceptionally strong operating activities
- → Also positive non-recurring effects arising from the sale of the Company's Austrian subsidiary and its disposal of shares in Nationale Suisse and Helvetia
- → Impressive growth in its target segments
- → Key projects and initiatives are on track for completion
- → Strong balance sheet despite the adverse impact of low interest rates.

The Remuneration Committee conducts a detailed assessment of the Company's performance once a year and adjusts the size of the performance pool accordingly, as the table below shows in the form of a comparison with the consolidated profit for the period:

	Performance pool (as a percentage of the normal expected value	Consolidated profit for the period (CHF million)
2011	70%	61.3
2012	100%	485.2
2013	120%	455.4
2014	137%	711.9

Long-term variable remuneration: Performance share units

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.

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.

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

Companies in the STOXX 600 Europe Insurance Index (as at 31 December 2014)

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

Source: http://www.stoxx.com/indices/index_information.html?symbol=SXIP 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 2014 they receive their shares on 1 March 2017. The arrangement applicable until 2013 was that half of the converted shares were then subject to an additional three-year closed period. This closed period has no longer applied since 2014, which brings the deferral period more closely into line with other such periods commonly found in the market.

The arrangement applicable until 2013 was that if an individual's employment contract was terminated during the vesting period (except in the case of retirement, disability or death), the PSUs expired without the person concerned receiving any replacement or compensation. Since 2014 the arrangement has been that if an employment contract is terminated in such situations, only some of the PSUs expire provided that the programme participant concerned does not join a rival company and is not personally at fault for the termination of the contract. The number of PSUs expiring is proportional to the amount of time remaining until the end of the vesting period. 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 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 1 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] 127.80	[4] 184.03	[4] 159%
2013	01.03.2013	84.50	01.03.2016	[4] 1.50	[4] 127.80	[4] 191.70	[4] 127%
2014	01.03.2014	113.40	01.03.2017	[4] 1.50	[4] 127.80	[4] 191.70	[4] 69%

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 (multiplier times the share price at the conversion date) and the share price at the grant date, expressed as a percentage of the share price at the grant date; example of the PSU plan in 2007: ([{1.182*86.05}–125.80] / 125.80) 100 = –19%.
4 Interim measurement as at 31 December 2014.

Fringe benefits

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

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

The employment contracts of senior managers in Switzerland and – in most cases – in other countries as well have been concluded for an indefinite period. They stipulate a notice period of six months. The Chairman of the Board of Directors and all six members of the Corporate Executive Committee have a notice period of twelve months. The employment contract with the Chairman of the Board of Directors will, with effect from 1 May 2015, no longer stipulate any notice period; the duration of this contract will instead be determined by law and by the term of appointment. Change-of-control clauses were discontinued with effect from 1 January 2014.

The remuneration regulations adopted by the Board of Directors contain clear guidance on inducement payments and severance packages. Such remuneration may only be paid in justified cases. No severance packages may be awarded to members of either the Board of Directors or the Corporate Executive Committee, and any inducement payments granted to such persons – irrespective of their amount – must be approved by the Remuneration Committee. Inducement payments and severance packages for the most senior managers must be approved by the Remuneration Committee if they exceed CHF 100,000. Each individual case is assessed on a discretionary basis.

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 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 for the duration of a three-year closed 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, 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.

	Applicable closing quotation		Subscription price
	from	CHF	CHF
Share Subscription Plan for 2015 (applies to variable renumeration awarded for the 2014 reporting period)	09.01.2015	127.50	114.75
Share Subscription Plan for 2014 (applies to the variable remuneration granted for 2013 and to the shares subscribed by the chairman and members of the Board of Directors in 2014)	10.01.2014	114.20	102.78

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 (the same as for the Share Subscription Plan); although title to the shares passes to the relevant employees on this date without any further vesting conditions having to be met, the shares cannot be sold for the duration of a three-year closed 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, 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.

	Applicable closing quotation		Subscription price
	from	CHF	CHF
Employee Share Ownership Plan for 2015 (applies to variable renumeration awarded for the 2014 reporting period)	09.01.2015	127.50	112.70
Employee Share Ownership Plan for 2014 (applies to the variable remuneration granted for 2013 and to the shares subscribed by the chairman of the Board of Directors in 2014)	10.01.2014	114.20	100.87

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 closed period has elapsed is hedged by put options, which are financed by the sale of offsetting call options. If the price of the shares is below the put options' strike price when the closed period expires, programme participants can sell all their shares at this strike price, which ensures that they can repay their loans plus interest. In this event, however, they lose all the capital that they have invested. If, on the other hand, the price of the shares is above the call options' strike price, programme participants must pay the commercial value of these options. Their upside profit potential is thus limited by the call options. If, when the three-year closed period elapses, the price of the shares is between the put options' strike price and the call options' strike price, once the loans plus accrued interest have been repaid the employees concerned receive the remaining shares to do with as they wish.

EMPLOYEE INCENTIVE PLAN

	2013	2014
Number of shares subscribed	167,147	174,810
Restricted until	31.8.2016	31.8.2017
Subscription price per share (CHF)	50.30	57.30
Value of shares subscribed (CHF million)	8.4	10.0
Fair value of subscribed shares on subscription date (CHF million)	16.5	20.9
Employees entitled to participate	3,239	3,187
Participating employees	1,851	1,949
Subscribed shares per participant (average)	90.3	89.7

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 each subscription year. In 2014 the subscription price amounted to CHF 57.30 (2013: CHF 50.30) and a total of 174,810 shares were subscribed (2013: 167,147). 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 closed 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).

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 covers its insured employees' needs 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 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 Rules stipulated in the Articles of Association

Certain rules governing remuneration are stipulated in the Articles of Association:

- → Section 30 Additional amount for the remuneration paid to Corporate Executive Committee members appointed since the last Annual General Meeting
- → Section 31 Annual General Meeting votes on remuneration
- → Section 32 Principles of profit-related remuneration
- → www.baloise.com/rules-regulations

In compliance with the Swiss Ordinance Against Excessive Remuneration in Listed Companies Limited by Shares (ERCO) the Annual General Meeting being held on 30 April 2015 will be asked to approve further provisions in the Articles of Association concerning loans, credit facilities and pension benefits granted to members of the Board of Directors and the Corporate Executive Committee as well as principles governing the granting of equity instruments, conversion rights and warrants.

5.10 Remuneration paid to the members of the Board of Directors

Please refer to the tables on pages 74 and 75.

The Chairman of the Board of Directors chairs the meetings of both the Board of Directors and the Chairman's Committee. He also chairs the Investment Committee. He represents the Company externally and, acting in this capacity, maintains contact with government agencies, trade associations and other Baloise stakeholders. The Chairman of the Board of Directors liaises with the Group CEO in formulating proposals on Baloise's long-term objectives and its strategic direction and development, and these proposals are then discussed and approved by the Board of Directors as a whole. He works closely with the Corporate Executive Committee to ensure that the Board of Directors is provided with timely information on all matters of material importance to the decision-making and monitoring process at Baloise. The Chairman of the Board of Directors is entitled to attend meetings of the Corporate Executive Committee at any time. He takes part in these meetings when necessary in order to maintain a regular dialogue between himself and the Corporate Executive Committee and whenever matters of strategic or long-term importance are being discussed.

The Chairman of the Board of Directors performs his various functions on a full-time basis, in return for which he is paid a fixed amount of remuneration. He is not entitled to any variable remuneration and, 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 how many shares he receives under the Share Subscription Plan and the Employee Share Ownership Plan respectively. The shares that he receives under the Share Subscription Plan are subject to a closed period of five years (instead of the usual three years).

The other 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.

The table on page 75 includes for the first time (for the 2014 financial year) the contributions payable by the Company into the state-run social security schemes (up to the pensionable or insurable threshold in each case) and the pension fund (applies only to the chairman of the Board of Directors).

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. No remuneration was paid to former members of the Board of Directors.

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

Please refer to the tables on pages 76 to 79.

In order to ensure compliance with the Swiss Ordinance Against Excessive Remuneration at Publicly Listed Companies (VegüV), which came into effect on 1 January 2014, some adjustments have been made to the structure of the remuneration paid to the Corporate Executive Committee.

Since 2014 the only short-term variable remuneration paid to the members of the Corporate Executive Committee has been allocated from the performance pool. The performance-related remuneration awarded for the achievement of personal targets and objectives has been discontinued. Individual performance is factored into the measurement of the performance pool.

Because the expected performance pool value and the fixed remuneration component have been increased to compensate for the discontinuation of performance-related pay, the overall level of remuneration paid to the Corporate Executive Committee has remained unchanged. The expected performance pool payment now amounts to 60 per cent of basic salary instead of 50 per cent. Even in cases of outstanding individual performance and excellent performance by the Company as a whole, this payment cannot exceed 90 per cent of basic salary (cap).

The members of the Corporate Executive Committee continue to receive performance share units (PSUs) as a form of long-term variable remuneration, which is expected to account for 40 per cent of basic salary.

This new system complies with the latest Swiss legislation and meets the European standard, which stipulates that the ratio of fixed to variable remuneration should normally be one-to-one (Capital Requirements Directive IV).

In addition, the Annual General Meeting held on 24 April 2014 passed binding votes in which it set a cap on the variable remuneration payable for 2014 and the amount of fixed remuneration to be paid for 2015.

The structure of remuneration paid to the Corporate Executive Committee is laid down in the remuneration regulations. The actual level of remuneration paid is determined as follows (see table below).

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 Corporate Executive Committee members' remuneration is disclosed on pages 76 to 79 in accordance with the accrual principle. The table includes all forms of remuneration awarded for performance in 2014 even if individual components are not paid until a later date.

The total remuneration paid to the Corporate Executive Committee in 2014 was slightly lower than in the previous year (sum total of basic salary plus variable remuneration down by 1.1 per cent) despite the Company's excellent financial results. This can be attributed to several factors:

- The aforementioned modifications made to the structure of remuneration (discontinuation of performance-related pay, increase in basic salary etc.) reduced the variable component of total remuneration year on year from 130 per cent to 100 per cent of basic salary. Consequently, the Company's excellent profit for the year had less of an impact on remuneration.
- One member of the Corporate Executive Committee was absent for a lengthy period in 2014 owing to illness. The payment received from the performance pool was therefore merely awarded pro rata temporis and amounted to only around one-third of the usual expected value

TYPE OF REMUNERATION	DECIDED BY	APPLICABLE PERIOD
Fixed remuneration	Annual General Meeting	For the next financial year
Variable remuneration		
– cap	Annual General Meeting	For the current financial year
– individual payment	Remuneration Committee (in compliance with the cap set by the Annual General Meeting)	

- The factor used to calculate the performance pool payments awarded to the other members of the Corporate Executive Committee was lower than that used for the other management team members (an average of 130 per cent or a weighted 129 per cent instead of 137 per cent).

The tables on pages 78 and 79 also include for the first time (for the 2014 financial year) the contributions payable by the employer into the state-run social security schemes (up to the pensionable or insurable threshold in each case).

The Annual General Meeting held on 24 April 2014 approved a maximum amount of CHF 6.085 million for the variable remuneration payable for 2014. A total of CHF 5.037 million was paid out, which meant that – despite the Company's excellent financial results – only 83 per cent of the maximum amount available was utilised.

5.12 Loans and credit facilities

Please refer to the table on page 80.

5.13 Shares and options held

Please refer to the tables on pages 81 and 82.

5.14 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 2014 even if individual components are not paid until a later date.

REMUNERATION PAID TO THE MEMBERS OF THE BOARD OF DIRECTORS

2013	Basic remuneration	Remuneration for additional functions	Total remuneration	Pension benefits	Total	Of which: in shares	Number of shares
CHF							
Dr Andreas Burckhardt	1,320,000	0	1,320,000	230,646	1,550,646	311,955	4,393
Chairman of the Board of Directors							
Dr Georg F. Krayer	125,000		291,667	0	291,667	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		225,000	5,743	230,743	56,177	764
Investment Committee		50,000					
Audit and Risk Committee		50,000					
Dr Andreas Beerli	125,000		208,333	5,743	214,076	43,677	594
Chairman's Committee		33,333					
Audit and Risk Committee		50,000					
Dr Georges-Antoine de Boccard	125,000		175,000	5,743	180,743	43,677	594
Remuneration Committee		50,000					
Dr Hansjörg Frei (until 2 May 2013)	62,500		112,500	0	112,500	56,177	764
Chairman's Committee		25,000					
Audit and Risk Committee		25,000					
Karin Keller-Sutter (since 2 May 2013)	83,333		116,666	5,743	122,409	0	0
Remuneration Committee		33,333					
Werner Kummer	125,000		245,000	0	245,000	61,177	832
Chairman's Committee		50,000					
Chair of the Audit and Risk Committee		70,000					
Thomas Pleines	125,000		208,333	5,743	214,076	43,677	594
Audit and Risk Committee		33,333					
Remuneration Committee		50,000					
Dr Eveline Saupper	125,000		245,000	5,743	250,743	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	3,147,499	265,104	3,412,603	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 on a non-arm's-length-basis was paid to individuals or companies who are related to members of the Board of Directors. 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 closed 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).
Pension contributions The information disclosed for 2014 includes for the first time the contributions payable by the employer into the state-run social security schemes (up to the pensionable or insurable threshold in each case) and the pension fund (only for the chairman of the Board of Directors).
In order to ensure that comparisons can be made with the prior year (2013), the table showing the prior-year figures has been adjusted accordingly and therefore differs from the table published in last year's remuneration report.

REMUNERATION PAID TO THE MEMBERS OF THE BOARD OF DIRECTORS

2014	Basic remuneration	Remuneration for additional functions	Total remuneration	Pension benefits	Total	Of which: in shares	Number of shares
CHF							
Dr Andreas Burckhardt	1,320,000	0	1,320,000	230,646	1,550,646	311,907	3,064
Chairman of the Board of Directors							
Dr Georg F. Krayer (until 24 April 2014)	62,500		137,500	0	137,500	68,657	668
Vice-Chairman of the Board of Directors		25,000					
Chairman's Committee		25,000					
Investment Committee		25,000					
Werner Kummer	125,000		278,333	0	278,333	61,154	595
Vice-Chairman of the Board of Directors (since 24 April 2014)		33,333					
Chairman's Committee		50,000					
Chair of the Audit and Risk Committee		70,000					
Dr Michael Becker	125,000		225,000	0	225,000	56,221	547
Investment Committee		50,000					
Audit and Risk Committee		50,000					
Dr Andreas Beerli	125,000		225,000	5,743	230,743	56,221	547
Chairman's Committee		50,000					
Audit and Risk Committee		50,000					
Dr Georges-Antoine de Boccard	125,000		208,333	5,743	214,076	43,682	425
Remuneration Committee		50,000					
Investment Committee (since 24 April 2014)		33,333					
Christoph B. Gloor (since 24 April 2014)	83,333		116,666	5,743	122,409	0	0
Investment Committee		33,333					
Karin Keller-Sutter	125,000		175,000	5,743	180,743	43,682	425
Remuneration Committee		50,000					
Thomas Pleines	125,000		225,000	5,743	230,743	56,221	547
Audit and Risk Committee		50,000					
Remuneration Committee		50,000					
Dr Eveline Saupper	125,000		245,000	5,743	250,743	61,154	595
Chairman's Committee (since 24 April 2014)		33,333					
Chair of the Remuneration Committee		70,000					
Investment Committee (until 24 April 2014)		16,667					
Total for the Board of Directors	2,340,833	814,999	3,155,832	265,104	3,420,936	758,897	7,413

Explanatory notes to the table
Christoph B. Gloor was voted in as a new member of the Board of Directors at the 2014 Annual General Meeting. Consequently, he only received a pro-rata share of the usual remuneration. Dr Georg F. Krayer 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 on a non-arm's-length-basis was paid to individuals or companies who are related to members of the Board of Directors. 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 102.78, in line with the Share Subscription Plan). Shares received by the Chairman of the Board of Directors amounted to 1,517 shares arising from the Share Subscription Plan (CHF 155,917, with a closed period of five years instead of the usual three years) and 1,547 shares arising from the Employee Share Ownership Plan (CHF 155,990).
Pension contributions The information disclosed for 2014 includes for the first time the contributions payable by the employer into the state-run social security schemes (up to the pensionable or insurable threshold in each case) and the pension fund (only for the chairman of the Board of Directors).

REMUNERATION PAID TO THE MEMBERS OF THE CORPORATE EXECUTIVE COMMITTEE

2013	Basic salary Cash payment (fixed) CHF	Cash payment CHF	Share Subscription Plan Number of shares	Share Subscription Plan CHF	Employee Share Ownership Plan Number of shares	Employee Share Ownership Plan 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 forms of remuneration awarded for performance in 2013 even if 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 on a non-arm's-length basis was paid to companies or individuals who are related to 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 loan-financed 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 showed that the PSUs granted to the members of the Corporate Executive Committee had 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 had been restated accordingly to ensure that a meaningful year-on-year comparison could 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 the previous year.

						Total basic salary plus variable remuneration	Variable remuneration as percentage of basic salary	Non-cash benefits	Pension contributions	Total remuneration
	Variable 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	173,398	2,618,981
	3,062	234,825	3,174	778,563		1,322,730	143 %	5,030	141,262	1,469,022
	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	215,181	1,662,641
	3,211	246,252	2,830	769,792		1,309,792	143 %	5,030	174,115	1,488,937
	3,568	273,630	2,753	839,730		1,439,730	140 %	5,030	215,181	1,659,941
	24,113	1,849,227	19,054	5,599,467		9,656,358	138 %	147,411	1,228,975	11,032,744

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 (maximum of 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 These comprise the estimated employer contributions to the state-run social security schemes (up to the pensionable or insurable threshold in each case) and 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.
In order to ensure that comparisons can be made with the prior year (2013), the table showing the prior-year figures has been expanded to include the employer contributions to the state-run social security schemes and therefore differs from the table published in last year's remuneration report.

REMUNERATION PAID TO THE MEMBERS OF THE CORPORATE EXECUTIVE COMMITTEE

	Basic salary					
	Cash payment (fixed)	cash payment	Share Subscription Plan		Employee Share Ownership Plan	
2014	CHF	CHF	Number of shares	CHF	Number of shares	CHF
Dr Martin Strobel	1,150,000	448,557	3,908	448,443	0	0
Group CEO						
Michael Müller	632,500	246,752	2,149	246,598	0	0
Head of Corporate Division Switzerland						
Jan De Meulder	818,382	99,248	863	99,029	0	0
Head of SBU Germany						
German Egloff	690,000	269,111	2,345	269,089	0	0
Head of Corporate Division Finance						
Dr Thomas Sieber	621,000	260,913	1,363	156,404	926	104,323
Head of Corporate Division Corporate Centre						
Martin Wenk	690,000	269,111	2,345	269,089	0	0
Head of Corporate Division Asset Management						
Total for the Corporate Executive Committee	4,601,882	1,593,692	12,973	1,488,652	926	104,323

Explanatory notes to the table
Remuneration is disclosed in accordance with the accrual principle. The table includes all forms of remuneration awarded for performance in 2014 even if 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 on a non-arm's-length basis was paid to companies or individuals who are related to 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 114.75.
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 112.70.
Performance share units (PSUs) These have been disclosed at their value of CHF 113.95 at the grant date and measured using a Monte Carlo simulation, which calculates a present value for the payout expected at the end of the vesting period.

Variable remuneration				Total basic salary plus variable remuneration	Variable remuneration as percentage of basic salary	Non-cash benefits	Pension contributions	Total remuneration
Performance share units (PSUs)		Total variable remuneration						
Granted in 2014								
Number of PSUs	CHF	Number of shares	CHF	CHF		CHF	CHF	CHF
4,037	460,016	3,908	1,357,016	2,507,016	118 %	4,320	173,398	2,684,734
2,221	253,083	2,149	746,433	1,378,933	118 %	4,320	141,262	1,524,515
2,953	336,494	863	534,771	1,353,153	65 %	102,586	317,772	1,773,511
2,423	276,101	2,345	814,301	1,504,301	118 %	4,320	215,181	1,723,802
2,180	248,411	2,289	770,051	1,391,051	124 %	4,320	179,123	1,574,494
2,423	276,101	2,345	814,301	1,504,301	118 %	4,320	215,181	1,723,802
16,237	1,850,206	13,899	5,036,873	9,638,755	109 %	124,186	1,241,917	11,004,858

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 (maximum of 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 These comprise the estimated employer contributions to the state-run social security schemes (up to the pensionable or insurable threshold in each case) and 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 CREDIT FACILITIES 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	
	2013	2014	2013	2014	2013	2014	2013	2014
CHF								
Dr Andreas Burckhardt								
Chairman	0	0	2,403,689	2,706,237	0	0	2,403,689	2,706,237
Dr Georg F. Krayer								
Vice-Chairman (until 24 April 2014)	0	n/a	0	n/a	0	n/a	0	n/a
Werner Kummer								
Vice-Chairman (since 24 April 2014)	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
Christoph B. Gloor								
Member (since 24 April 2014)	n/a	0	n/a	0	n/a	0	n/a	0
Karin Keller-Sutter								
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	2,403,689	2,706,237	0	0	2,403,689	2,706,237
Corporate Executive Committee member with the highest outstanding loan								
Dr Thomas Sieber								
Head of Corporate Division Corporate Centre	1,000,000	1,000,000	2,497,866	2,549,704	0	0	3,497,866	3,549,704
Other members of the Corporate Executive Committee	2,275,000	2,275,000	3,079,634	2,560,621	0	0	5,354,634	4,835,621
Total for the Corporate Executive Committee	3,275,000	3,275,000	5,577,500	5,110,325	0	0	8,852,500	8,385,325

Explanatory notes to the table:
Loans and credit facilities No loans or credit facilities were granted at non-market terms and conditions
a) to former members of the Board of Directors or Corporate Executive Committee,
b) to individuals or companies related to members of the Board of Directors or Corporate Executive Committee. (Related parties are: spouses, life partners, children under 18 years, companies owned or controlled by directors, or legal entities or individuals who act as trustees for them.)
Mortgages Mortgages of up to CHF 1 million are granted to staff at the following terms and conditions: 1 per cent below the customer interest rate for variable-rate mortgages and at a preferential interest rate for fixed-rate mortgages.
Loans associated with the Employee Share Ownership Plan Loans to increase the effect of the Employee Share Ownership Plan (see '5.6. Share Subscription Plan and Employee Share Ownership Plan'). Interest is charged on loans at a market rate (2014: 1 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	
	2013	2014	2013	2014	2013	2014	2013	2014
Quantity								
Dr Andreas Burckhardt								
Chairman	2,241	4,951	47,441	50,576	49,682	55,527	0.099 %	0.111 %
Dr Georg F. Krayer								
Vice-Chairman (until 24 April 2014)	33,505	n/a	4,122	n/a	37,627	n/a	0.075 %	n/a
Werner Kummer								
Vice-Chairman (since 24 April 2014)	3,593	4,184	3,166	3,170	6,759	7,354	0.014 %	0.015 %
Dr Michael Becker								
Member	1,000	1,530	2,961	2,978	3,961	4,508	0.008 %	0.009 %
Dr Andreas Beerli								
Member	0	0	2,261	2,808	2,261	2,808	0.005 %	0.006 %
Dr Georges-Antoine de Boccard								
Member	0	0	2,261	2,686	2,261	2,686	0.005 %	0.005 %
Christoph B. Gloor								
Member (since 24 April 2014)	n/a	7,000	n/a	1,000	n/a	8,000	n/a	0.016 %
Karin Keller-Sutter								
Member	0	0	1,000	1,425	1,000	1,425	0.002 %	0.003 %
Thomas Pleines								
Member	0	0	1,594	2,141	1,594	2,141	0.003 %	0.004 %
Dr Eveline Saupper								
Member	2,241	2,771	3,029	3,094	5,270	5,865	0.011 %	0.012 %
Total for the Board of Directors	42,580	20,436	67,835	69,878	110,415	90,314	0.221 %	0.181 %
Percentage of issued share capital	0.085 %	0.041 %	0.136 %	0.140 %	0.221 %	0.181 %		

Explanatory notes to the table:
Shareholdings Includes 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 closed period of three years. The closed 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)	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Quantity										
Dr Martin Strobel										
Group CEO	0	100	54,705	51,044	54,705	51,144	0.109 %	0.102 %	23,514	20,408
Jan De Meulder										
Head of SBU Germany	6,229	4,593	13,365	11,525	19,594	16,118	0.039 %	0.032 %	12,927	12,033
German Egloff										
Head of Corporate Division Finance	15,858	7,583	20,811	19,280	36,669	26,863	0.073 %	0.054 %	10,453	9,854
Michael Müller										
Head of Corporate Division Switzerland	2,837	2,679	8,908	10,632	11,745	13,311	0.023 %	0.027 %	7,461	8,654
Dr Thomas Sieber										
Head of Corporate Division Corporate Centre	2,000	3,100	49,337	45,239	51,337	48,339	0.103 %	0.097 %	9,971	9,183
Martin Wenk										
Head of Corporate Division Asset Management	11,500	8,000	22,743	11,098	34,243	19,098	0.068 %	0.038 %	11,078	10,204
Total for the members of the Corporate Executive Committee	38,424	26,055	169,869	148,818	208,293	174,873	0.417 %	0.350 %	75,404	70,336
Percentage of issued share capital	0.077 %	0.052 %	0.340 %	0.298 %	0.417 %	0.350 %				

Explanatory notes to the table:
Shareholdings Includes 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 closed 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 March 2012, 1 March 2013 and 1 March 2014).

TOTAL AND VARIABLE REMUNERATION IN THE BALOISE GROUP

	2013				2014			
	In cash	In shares	Prospective entitlements	Total	In cash	In shares	Prospective entitlements	Total
Total remuneration								
CHF million	776.2	6.2	5.6	788.0	762.3	5.7	5.6	773.6
Total variable remuneration (total pool)								
CHF million	167.0	6.2	5.6	178.8	172.3	5.7	5.6	183.6
Number of beneficiaries	5,590	151	69		5,353	148	64	
Of which commission paid to insurance sales force								
CHF million	111.4	0.0	0.0	111.4	102.5	0.0	0.0	102.5
Of which other forms of variable remuneration								
CHF million	55.5	6.2	5.6	67.3	69.8	5.7	5.6	81.1
Total outstanding deferred remuneration								
CHF million	0.0	93.4	19.9	113.3	0.0	100.5	17.5	118.0
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	0.0	0.0	0.0	0.0
Number of beneficiaries	4	0	0		1	0	0	
Total severance payments made								
CHF million	7.9	0.0	0.0	7.9	19.7	0.0	0.0	19.7
Number of beneficiaries	74	0	0		157	0	0	

Explanatory notes to the table:
The table includes all forms of remuneration 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 warrants, 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 and profit-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 in respect of grant dates or 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 Severance packages are paid only in individual, justified cases and are granted only to management team members and to employees, but not to members of either the Board of Directors or the Corporate Executive Committee.

Report of the statutory auditor to the Annual General Meeting of Bâloise Holding Ltd, Basel

STATUTORY AUDITOR'S REPORT ON THE REMUNERATION REPORT FOR 2014

We have audited the remuneration report (pages 74 to 80) of 20 March 2015 published by Bâloise Holding Ltd for the year ended 31 December 2014.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the remuneration report in accordance with Swiss law and the Ordinance Against Excessive Remuneration in Listed Companies Limited by Shares (ERCO). This responsibility includes drafting the Company's remuneration principles and setting remuneration levels in individual cases.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration report based on our audit. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with professional codes of conduct and that we plan and perform the audit to obtain reasonable assurance about whether the remuneration report is consistent with Swiss law and sections 14 to 16 ERCO.

An audit involves performing procedures to obtain audit evidence about the remuneration report's disclosures on remuneration, loans and credit facilities in accordance with sections 14 to 16 ERCO. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the remuneration report, whether due to fraud or error. This audit also includes evaluating the appropriateness of the methods used to measure remuneration elements, as well as evaluating the overall presentation of the remuneration report.

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 remuneration report of Bâloise Holding Ltd for the year ended 31 December 2014 is consistent with Swiss law and sections 14 to 16 ERCO.

PricewaterhouseCoopers Ltd

Peter Lüssi	Christian Konopka
Audit expert	Audit expert
Auditor in charge	

Basel, 20 March 2015

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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 appoint a proxy in writing in order to authorise another shareholder or an independent proxy to exercise his or her voting rights. 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).

The Board of Directors will propose to the 2015 Annual General Meeting that a legal provision be incorporated into the Articles of Association to the effect that electronic powers of attorney and instructions may be given to an independent proxy without requiring a qualifying electronic signature.

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/rules-regulations
→ www.baloise.com/calendar

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).

The members of the Corporate Executive Committee and the Chairman of the Board of Directors have a notice period of twelve months. Bâloise has not agreed any arrangements in respect of changes of control or non-compete clauses with members of either the Board of Directors or the Corporate Executive Committee.

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)	2013	2014
Audit fees	5,330,000	5,186,000
Consulting fees	663,000	608,000
Tax consultancy and legal advice	533,000	269,000
Corporate finance	83,000	0
Insurance-specific consulting	22,000	54,000
Operational consulting	15,000	175,000
Business and IT consulting	10,000	110,000
Total	5,993,000	5,794,000

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.

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 2015 ANNUAL GENERAL MEETING

In connection with the Ordinance Against Excessive Remuneration in Listed Companies Limited by Shares (ERCO), which came into force on 1 January 2014, various amendments to the Articles of Association will be submitted to the 2015 Annual General Meeting for approval. They largely relate to the following points:

- Independent proxies;
- Agreements on remuneration;
- Additional remuneration paid to newly appointed members of the Corporate Executive Committee;
- Consequences of the Annual General Meeting's non-approval of remuneration;
- Principles governing the granting of shares and options;
- Maximum number of external directorships and
- Maximum amount of loans and credit facilities that can be granted to members of the Board of Directors and the Corporate Executive Committee.

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/baloise-share

Information about Baloise bonds

Information about Baloise bonds in circulation can be found on pages 215 and 251.

→ www.baloise.com/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 and the Q3 interim statement 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/calendar

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/mailinglist.

→ www.baloise.com/media

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Financial Report

Consolidated balance sheet

	Note	31.12.2013	31.12.2014
CHF million			
Assets			
Property, plant and equipment	8	422.5	379.2
Intangible assets	9	1,080.3	909.2
Investments in associates	10	222.0	227.9
Investment property	11	5,685.9	5,962.9
Financial instruments with characteristics of equity	12		
Available for sale		4,096.4	4,698.1
Recognised at fair value through profit or loss		7,248.0	8,753.1
Financial instruments with characteristics of liabilities	12		
Held to maturity		8,100.7	8,413.7
Available for sale		22,431.0	24,227.5
Recognised at fair value through profit or loss		1,795.5	1,820.4
Mortgages and loans	13		
Carried at cost		17,373.4	17,326.0
Recognised at fair value through profit or loss		956.1	839.9
Derivative financial instruments	14	410.7	613.2
Receivables from financial contracts	15		
Carried at cost		389.4	21.1
Reinsurance assets	16	396.4	421.5
Receivables from reinsurers	17	21.7	79.7
Insurance receivables		518.4	409.0
Receivables from employee benefits	18	0.7	1.7
Other receivables	15	257.0	375.3
Receivables from investments	15	612.5	564.5
Deferred tax assets	19	56.0	48.3
Current income tax assets		47.8	64.2
Other assets	20		
Carried at cost		165.4	163.2
Recognised at fair value through profit or loss		47.3	53.3
Cash and cash equivalents		2,960.8	2,969.6
Non-current assets and disposal groups classified as held for sale	21	401.0	–
Total assets		75,696.9	79,342.3

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

	Note	31.12.2013	31.12.2014
CHF million			
Equity and liabilities			
Equity			
Share capital	22	5.0	5.0
Capital reserves		233.1	246.6
Treasury shares		– 240.8	– 250.0
Unrealised gains and losses (net)		– 68.1	375.8
Retained earnings		4,926.7	5,413.9
Equity before non-controlling interests		4,855.9	5,791.3
Non-controlling interests		50.5	39.7
Total equity		4,906.4	5,831.0
Liabilities			
Technical reserves (gross)	23	47,435.6	48,738.9
Liabilities arising from banking business and financial contracts	24		
With discretionary participation features		1,492.7	1,766.5
Measured at amortised cost		7,258.4	7,342.0
Recognised at fair value through profit or loss		7,791.1	8,632.3
Financial liabilities	26	1,697.6	1,702.4
Provisions	27	129.4	119.3
Derivative financial instruments	14	68.2	176.4
Insurance liabilities	28	2,118.0	1,780.3
Liabilities arising from employee benefits	18	989.5	1,455.6
Other accounts payable		445.2	571.8
Deferred tax liabilities	19	882.3	1,065.5
Current income tax liabilities		50.2	86.7
Other liabilities		78.6	73.8
Liabilities included in disposal groups classified as held for sale	21	353.9	–
Total liabilities		70,790.5	73,511.4
Total equity and liabilities		75,696.9	79,342.3

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

Consolidated income statement

CHF million	Note	2013	2014
Income			
Premiums earned and policy fees (gross)	29	7,212.7	7,168.1
Reinsurance premiums ceded	29	–167.9	–163.6
Premiums earned and policy fees (net)	29	7,044.8	7,004.5
Investment income	30	1,765.1	1,701.9
Realised gains and losses on investments	31	670.3	1,362.5
Income from services rendered	32	119.0	110.7
Share of profit (loss) of associates		40.5	8.1
Other operating income	33	107.9	185.2
Income		9,747.5	10,372.8
Expense			
Claims and benefits paid (gross)	23	–5,439.7	–5,666.4
Change in technical reserves (gross)	23	–1,359.4	–1,469.5
Reinsurers' share of claims incurred	23	75.5	146.6
Acquisition costs	34	–500.5	–569.6
Operating and administrative expenses for insurance business	34	–897.1	–866.5
Investment management expenses	34	–70.6	–66.9
Interest expenses on insurance liabilities		–47.3	–42.6
Gains or losses on financial contracts	36	–368.9	–462.6
Other operating expenses	34	–481.3	–446.8
Expense		–9,089.3	–9,444.3
Profit before borrowing costs and taxes		658.2	928.6
Borrowing costs	26	–50.1	–43.5
Profit before taxes		608.1	885.1
Income taxes	37	–152.7	–173.2
Profit for the period		455.4	711.9
Attributable to:			
Shareholders		452.6	710.7
Non-controlling interests		2.8	1.3
Earnings / loss per share	38		
Basic (CHF)		9.65	15.15
Diluted (CHF)		9.38	14.63

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

Consolidated statement of comprehensive income

CHF million	2013	2014
Profit for the period	455.4	711.9
Items not to be reclassified to income statement		
Change in reserves arising from reclassification of investment property	0.6	– 0.5
Change in reserves arising from assets and liabilities of post-employment benefits (defined benefit plans)	162.4	– 487.4
Change arising from shadow accounting	– 18.4	84.6
Income taxes	– 33.2	93.2
Total items not to be reclassified to income statement	111.5	– 310.1
Items to be reclassified to the income statement		
Change in unrealised gains and losses on available-for-sale financial assets	– 531.7	1,688.8
Change in unrealised gains and losses on associates	3.2	8.7
Change in hedging reserves for derivative financial instruments held as hedges of a net investment in a foreign operation	2.4	– 136.6
Change in reserves arising from reclassification of held-to-maturity financial assets	– 2.7	– 2.6
Change arising from shadow accounting	267.2	– 737.1
Exchange differences	68.1	177.5
Income taxes	82.2	– 245.4
Total items to be reclassified to the income statement	– 111.3	753.3
Other comprehensive income	0.1	443.2
Comprehensive income	455.5	1,155.1
Attributable to:		
Shareholders	452.2	1,154.6
Non-controlling interests	3.3	0.5

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

Consolidated cash flow statement

	Note	2013	2014
CHF million			
Summary			
Cash flow from operating activities (net)		609.7	73.6
Cash flow from investing activities (net)		0.9	213.0
Cash flow from financing activities (net)		– 584.9	– 258.6
Total cash flow		25.7	28.0
Effect of changes in exchange rates on cash and cash equivalents		13.2	– 19.2
Reclassification to non-current assets and disposal groups classified as held for sale		– 1.8	0.0
Balance of cash and cash equivalents as at 1 January		2,923.7	2,960.8
Balance of cash and cash equivalents as at 31 December		2,960.8	2,969.6
Cash flow from operating activities			
Profit before taxes		608.1	885.1
Adjustments for			
Depreciation, amortisation and impairment of property, plant and equipment and of intangible assets	8 / 9	98.9	135.3
Realised gains and losses on property, plant and equipment and on intangible assets		0.7	– 0.1
Income from investments in associates		– 41.2	– 8.1
Realised gains and losses on financial assets, investment property and associates		– 669.4	– 1,356.8
Changes in other financial contracts		245.3	336.6
Changes in technical reserves (gross), including unearned premium reserves		1,065.5	1,353.5
Interest expenses on reinsurance liabilities		0.3	0.9
Borrowing costs	26	50.1	43.5
Amortised cost valuation of financial instruments		11.3	8.0
Additions and disposals of assets and liabilities resulting in a cash flow			
Purchase / sale of investment property		– 93.0	– 183.3
Purchase / sale of financial assets with characteristics of equity		– 1,078.9	– 1,508.5
Purchase / sale of financial assets with characteristics of liabilities		– 534.3	– 520.9
Addition / disposal of mortgages and loans		293.0	45.3
Addition / disposal of derivative financial instruments		– 56.3	– 16.8
Addition / disposal of financial contracts and liabilities from banking business		231.6	589.7
Other changes in assets and liabilities from operating activities		545.8	384.9
Taxes paid		– 67.8	– 114.7
Cash flow from operating activities (net)		609.7	73.6

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

	Note	2013	2014
CHF million			
Cash flow from investing activities			
Purchase of property, plant and equipment	8	–21.8	–26.7
Sale of property, plant and equipment		1.0	0.6
Purchase of intangible assets	9	–23.5	–20.1
Sale of intangible assets		0.0	0.1
Acquisition of companies, net of cash and cash equivalents	40	–2.9	–16.4
Disposal of companies, net of cash and cash equivalents	40	2.4	267.9
Purchase of investments in associates		0.0	0.0
Sale of investments in associates		7.8	0.0
Dividends from associates		37.9	7.6
Cash flow from investing activities (net)		0.9	213.0
Cash flow from financing activities			
Capital increases	22	–	–
Capital reductions	22	–	–
Additions to financial liabilities	26	224.5	149.4
Disposals of financial liabilities	26	–550.0	–150.0
Borrowing costs paid		–57.6	–38.1
Purchase of treasury shares		–60.0	–60.6
Sale of treasury shares		71.1	64.9
Cash flow attributable to non-controlling interests		–1.1	–0.6
Dividends paid		–211.8	–223.6
Cash flow from financing activities (net)		–584.9	–258.6
Total cash flow		25.7	28.0
Cash and cash equivalents			
Balance as at 1 January		2,923.7	2,960.8
Change during the financial year		25.7	28.0
Reclassification to non-current assets and disposal groups classified as held for sale		–1.8	0.0
Effect of changes in exchange rates on cash and cash equivalents		13.2	–19.2
Balance as at 31 December		2,960.8	2,969.6
Breakdown of cash and cash equivalents at the balance sheet date			
Cash and bank balances		1,992.2	1,954.5
Cash equivalents		0.0	0.0
Cash and cash equivalents for the account and at the risk of life insurance policyholders		968.6	1,015.1
Balance as at 31 December		2,960.8	2,969.6
Of which: restricted cash and cash equivalents		14.5	6.4
Supplemental disclosures on cash flow from operating activities			
Interest received		1,132.8	1,069.5
Dividends received		80.9	110.0
Interest paid		–89.9	–82.1

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

Consolidated statement of changes in equity

2013	Note	Share capital	Capital reserves	Treasury shares	Other changes in equity	Retained earnings	Equity before non-controlling interests	Non-controlling interests	Total equity
Balance as at 1 January 2013		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.

2014	Note	Share capital	Capital reserves	Treasury shares	Other changes in equity	Retained earnings	Equity before non-controlling interests	Non-controlling interests	Total equity
Balance as at 1 January 2014		5.0	233.1	– 240.8	– 68.1	4,926.7	4,855.9	50.5	4,906.4
Profit for the period		–	–	–	–	710.7	710.7	1.3	711.9
Other comprehensive income	39	–	–	–	443.9	–	443.9	– 0.7	443.2
Comprehensive income		–	–	–	443.9	710.7	1,154.6	0.5	1,155.1
Other changes in equity in 2014									
Dividend		–	–	–	–	– 223.6	– 223.6	– 0.6	– 224.2
Capital increase / repayment	22	–	–	–	–	–	–	–	–
Purchase / sale of treasury shares		–	13.4	– 9.2	–	–	4.2	–	4.2
Cancellation of (treasury) shares		–	–	–	–	–	–	–	–
Increase / decrease in non-controlling interests due to change in the scope of consolidation	40	–	–	–	–	–	–	– 10.7	– 10.7
Increase / decrease in non-controlling interests due to change in the percentage of shareholding	6	–	–	–	–	–	–	–	–
Balance as at 31 December 2014		5.0	246.6	– 250.0	375.8	5,413.9	5,791.3	39.7	5,831.0

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 eleven 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, Luxembourg, 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 20 March 2015 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

2.1 Newly applied IFRSs and interpretations

IAS 32 (adaption) 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 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.

2.2 Other standards and interpretations

Entities that qualify as investment entities under IFRS 10

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.

IFRIC 21 Levies

This interpretation provides guidance on how entities should account for levies imposed by government agencies in their IFRS financial statements, in particular at what point the liability arising from the levy is first recognised. IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. This interpretation does not impact materially on the Baloise Group's balance sheet or income statement.

There are no requirements to apply any other standards or interpretations that would have an impact – or a material impact – on profit for the period or on balance sheet line items.

2.3 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 2014 consolidated annual financial statements:

Standard / Inter-pretation	Content	Applicable to annual periods beginning on or after
IAS 19	Employee Benefits (Amendment)	1.7.2014
IFRS 9	Financial Instruments	1.1.2018
IFRS 15	Revenue from Contracts with Customers	1.1.2017

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. This change will have no material impact on the Baloise Group's balance sheet or income statement.

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial instruments. Classification of financial asstets 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 for the carried-at-cost category are not met, financial assets are measured at fair value through profit or loss, although certain equity instruments may be measured at fair value through other comprehensive income. 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.

The existing requirements for financial liabilities have largely been carried over into IFRS 9. The only material new feature concerns financial liabilities for which the fair value option is elected. The amount of change in a financial liability's fair value attributable to changes in its credit risk is presented in other comprehensive income.

The new impairment model shifts the focus to providing for expected credit losses by recognising loss allowances. IFRS 9 specifies three steps that determine the amount of expected losses and interest revenue to be recognised in future. Credit losses already expected at the time of initial recognition are measured at the present value of the twelve-month expected credit losses (step 1). The loss allowance is increased to an amount equal to full lifetime expected credit losses if the credit risk of a financial liability has grown significantly since initial recognition (step 2). Where there is objective evidence of impairment, the recognition of interest revenue is based on its net carrying amount (step 3).

As far as hedge accounting is concerned, IFRS 9 has lifted many of the restrictions imposed by IAS 39 and has significantly widened the range of transactions that may be designated as hedges. However, hedging relationships may no longer be voluntarily discontinued. Such discontinuation is now only permitted under IFRS 9 if the risk management objective of the hedging relationship changes.

It is not yet possible to fully assess what impact this amendment will have on the Baloise Group's balance sheet and income statement.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 will replace IAS 18 (Revenue), IAS 11 (Construction Contracts) and a number of other revenue-related interpretations for annual periods beginning on or after 1 January 2017. Application of IFRS 15 is mandatory for all IFRS users and governs almost all contracts with customers. The main exemptions concern leases, financial instruments and insurance contracts. For those customer contracts that are not covered by the aforementioned exemptions, this new standard provides a single, principles-based five-step model to be applied to the relevant contracts with customers. It is not yet possible to fully assess what impact this new standard will have on the Baloise Group's balance sheet and 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.

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 in other comprehensive income. Exchange differences arising on available-for-sale monetary financial instruments are recognised in profit or loss.

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	
	2013	2014	2013	2014
CHF				
1 EUR (euro)	1.23	1.20	1.23	1.21
1 USD (US dollar)	0.89	0.99	0.93	0.92
100 HRK (Croatian kuna)	16.10	15.71	16.24	15.99

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.

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 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.

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

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 and 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 rights or warrants.

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 pre-vailing 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.

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 that 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 any note in either 2012 or 2013. The autumn of 2014 saw the launch of pre-crisis activities in a small core back-office unit to monitor the development of Ebola (Baloise Group and Swiss entities) and prepare communication measures and crisis plans. Towards the end of the year the all-clear was given and these activities were discontinued.

5.1 Organisation of risk management in the Baloise Group

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

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

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

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

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

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

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

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

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

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

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

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

The Baloise Group's central risk management team forms part of 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. To this end, each business unit compiles an ORSA (Own Risk and Solvency Assessment) report. 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	Market risks	Asset liability risks	Changes to regulations	Computer security	Structure of organisation
→ Interest guarantee	→ Interest	→ Interest fluctuation risk		→ Data	
→ Parameter risks	→ Shares		Market / competitors	→ Software / hardware / network	
→ Worst-case scenario	→ Currencies	→ (Re) financing, liquidity			Corporate culture
→ Creation of provisions	→ Real estate		External events	→ Physical reliability	
	→ Market liquidity				Business portfolio
	→ Derivatives	Regulatory provisions	Investors	Personnel risks	
Technical risks, Non-life	→ Alternative investments			→ Skills / capacities	Merger and acquisitions
→ Premiums		Risk capitalisation		→ Knowledge availability	
→ Claims				→ Incentive systems	External communication
→ Worst-case scenario	Credit risks				
→ Creation of provisions				Legal risks	
				→ Contracts	Projection, plan, budget
				→ Liability and litigation	
Reinsurance				→ Tax	
→ Premiums / rating				→ Pension fund	Project portfolio
→ Default					
→ Active reinsurance				Compliance	Management information
				→ Breach of standards	
Loan management				→ Fraud / illegal actions	
				Business processes	
				→ Process risks	
				→ Project risks	

The risk map is currently being revised as part of an integrated analysis of operational risk in connection with the internal control system (ICS).

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 (2013: CHF 100 million) for Switzerland and at EUR 60 million (2013: 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 (2013: 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 (2013: CHF 20 million). The retentions for individual claims were CHF 16 million (2013: CHF 16 million) for property claims, CHF 15 million (2013: CHF 15 million) for marine claims and CHF 13.7 million on a non-indexed basis (2013: 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 2014, 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 4,596.3 million (2013: CHF 4,644.2million). 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 334.3 million (2013: CHF 338.4 million) in claims payments (after taxes) before reinsurance.

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

Because of the long settlement period, there is a high degree of uncertainty associated with the calculation of these claims reserves. Both the timing at which cases of this type are identified and their potential loss level are much less certain than any other established claims patterns. Some reserves were calculated using external actuaries' reports in which best-case and worst-case scenarios were analysed. The Baloise Group's minimum reserves policy is based on the average of these two scenarios. It is particularly difficult to assess the level of reserves required for IBNR claims, so further fluctuations cannot be ruled out. According to expert estimates, fluctuations of around 10 per cent can be expected, which is equivalent to around CHF 7.0 million after taxes and before reinsurance (2013: CHF 6.8 million) for this reserve.

5.4.5 Claims settlement

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

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

ESTIMATED CUMULATIVE CLAIMS INCURRED IN SWITZERLAND

	Year in which the claims occurred										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
CHF million											
At the end of the year in which the claims occurred	951.2	684.1	681.4	641.7	690.7	723.1	777.9	732.2	768.5	733.6	–
One year later	918.9	647.6	693.2	631.4	670.6	685.4	736.5	751.1	768.2	–	–
Two years later	905.0	633.0	686.6	628.6	657.4	675.1	731.0	736.9	–	–	–
Three years later	890.8	619.0	674.2	623.6	641.0	666.9	729.1	–	–	–	–
Four years later	862.6	619.7	662.3	622.6	634.4	659.6	–	–	–	–	–
Five years later	855.5	607.8	655.7	606.8	638.6	–	–	–	–	–	–
Six years later	852.0	603.2	643.7	597.8	–	–	–	–	–	–	–
Seven years later	845.1	585.7	628.5	–	–	–	–	–	–	–	–
Eight years later	842.0	576.3	–	–	–	–	–	–	–	–	–
Nine years later	829.1	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	829.1	576.3	628.5	597.8	638.6	659.6	729.1	736.9	768.2	733.6	6,897.7
Claims paid	–777.7	–524.2	–565.9	–511.6	–544.1	–570.5	–604.8	–612.0	–597.8	–347.8	–5,656.4
Gross claims reserves	51.4	52.1	62.6	86.2	94.5	89.1	124.3	124.9	170.4	385.8	1,241.3
Gross claims reserves prior to 2005 (including large claims and assumed business)											401.0
Gross provision for annuities (non-life, including IBNR)											767.7
Reinsurers' share											–329.0
Net claims reserves											2,081.0

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										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
EUR million											
At the end of the year in which the claims occurred	292.2	283.8	306.7	298.2	288.0	302.5	290.8	297.4	382.9	319.3	–
One year later	279.9	288.7	303.0	296.2	286.4	299.7	297.6	298.4	384.7	–	–
Two years later	285.8	283.7	295.5	299.7	289.0	305.6	300.9	302.5	–	–	–
Three years later	276.5	278.8	294.1	300.3	294.6	305.8	306.6	–	–	–	–
Four years later	272.9	276.9	293.1	301.2	294.8	306.0	–	–	–	–	–
Five years later	269.4	277.5	299.3	300.6	295.1	–	–	–	–	–	–
Six years later	268.1	275.6	299.8	301.4	–	–	–	–	–	–	–
Seven years later	269.4	277.3	303.0	–	–	–	–	–	–	–	–
Eight years later	269.8	280.0	–	–	–	–	–	–	–	–	–
Nine years later	270.1	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	270.1	280.0	303.0	301.4	295.1	306.0	306.6	302.5	384.7	319.3	3,068.7
Claims paid	– 266.5	– 273.6	– 299.0	– 295.3	– 287.6	– 296.2	– 288.5	– 279.4	– 312.3	– 146.5	– 2,744.9
Gross claims reserves	3.6	6.4	4.0	6.1	7.5	9.8	18.1	23.1	72.4	172.8	323.8
Gross claims reserves prior to 2005 (including large claims and assumed business)											299.4
Gross provision for annuities (non-life, including IBNR)											107.5
Reinsurers' share											– 181.8
Net claims reserves											548.9

ESTIMATED CUMULATIVE CLAIMS INCURRED IN BELGIUM

	Year in which the claims occurred										
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
EUR million											
At the end of the year in which the claims occurred	203.5	188.9	203.2	205.7	228.0	235.1	308.7	[1] 412.4	[2] 403.6	483.7	–
One year later	201.1	185.0	216.3	215.2	248.5	287.1	[1] 395.1	[2] 426.5	402.5	–	–
Two years later	188.7	182.6	213.1	212.3	252.2	[1] 308.0	[2] 392.2	421.9	–	–	–
Three years later	187.4	182.6	208.7	216.5	[1] 264.5	[2] 304.0	387.9	–	–	–	–
Four years later	184.0	179.5	211.1	[1] 223.0	[2] 254.0	308.1	–	–	–	–	–
Five years later	181.4	179.9	[1] 222.6	[2] 222.5	250.7	–	–	–	–	–	–
Six years later	182.3	[1] 181.0	[2] 221.8	226.7	–	–	–	–	–	–	–
Seven years later	[1] 182.1	[2] 187.4	217.8	–	–	–	–	–	–	–	–
Eight years later	[2] 186.2	189.9	–	–	–	–	–	–	–	–	–
Nine years later	185.8	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	185.8	189.9	217.8	226.7	250.7	308.1	387.9	421.9	402.5	483.7	3,075.0
Claims paid	– 151.6	– 152.8	– 169.1	– 176.0	– 202.3	– 243.8	– 301.0	– 330.0	– 295.1	– 249.5	– 2,271.2
Gross claims reserves	34.2	37.1	48.7	50.7	48.4	64.3	86.9	91.9	107.4	234.2	803.8
Gross claims reserves prior to 2005 (including large claims and assumed business)											284.7
Gross provision for annuities (non-life, including IBNR)											147.9
Reinsurers' share											– 257.0
Net claims reserves											979.4

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

ESTIMATED CUMULATIVE CLAIMS INCURRED IN LUXEMBOURG

										Year in which the claims occurred	
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
EUR million											
At the end of the year in which the claims occurred	11.4	12.7	14.2	15.0	17.5	[1] 25.0	[1] 23.6	24.0	23.6	[2] 36.8	–
One year later	11.0	12.0	13.6	14.9	16.9	[1] 22.0	22.7	24.5	[2] 37.8	–	–
Two years later	10.7	11.9	13.0	15.1	[1] 21.5	21.8	22.6	[2] 36.5	–	–	–
Three years later	10.4	11.7	12.9	[1] 20.8	21.3	21.7	[2] 35.3	–	–	–	–
Four years later	10.3	11.6	[1] 18.9	21.1	21.1	[2] 37.0	–	–	–	–	–
Five years later	10.2	[1] 16.4	18.7	20.9	[2] 36.2	–	–	–	–	–	–
Six years later	[1] 13.6	16.3	18.6	[2] 37.9	–	–	–	–	–	–	–
Seven years later	13.5	16.3	[2] 35.0	–	–	–	–	–	–	–	–
Eight years later	13.5	[2] 29.3	–	–	–	–	–	–	–	–	–
Nine years later	[2] 27.9	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	27.9	29.3	35.0	37.9	36.2	37.0	35.3	36.5	37.8	36.8	349.7
Claims paid	–27.3	–28.6	–34.2	–36.6	–34.7	–35.2	–33.0	–33.5	–32.6	–22.4	–318.1
Gross claims reserves	0.6	0.7	0.8	1.3	1.5	1.8	2.3	3.0	5.2	14.4	31.6
Gross claims reserves prior to 2005 (including large claims and assumed business)											50.7
Gross provision for annuities (non-life, including IBNR)											0.0
Reinsurers' share											–30.4
Net claims reserves											51.9

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

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 35 years (2013: 34.3 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 2013	Switzerland individual life	Switzerland group life	Germany	Belgium	Luxembourg	Other units
CHF million						
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 %

31 December 2014	Switzerland individual life	Switzerland group life	Germany	Belgium	Luxembourg	Other units
Technical reserves without guaranteed returns	616.9	1,816.9	3,667.2	89.8	214.9	–
Technical reserves with 0 % guaranteed returns	676.7	734.2	132.6	109.3	97.6	–
Technical reserves with guaranteed positive returns	7,651.0	14,222.5	9,121.5	2,923.1	451.9	–
Average technical interest rate of guaranteed positive returns	2.7 %	2.0 %	3.3 %	3.6 %	2.6 %	–

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	
	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014
CHF million										
Actuarial reserves from unit-linked life insurance contracts	484.8	583.9	1,634.7	1,798.7	13.5	16.0	284.8	279.6	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 31.12.2013		Actuarial reserves 31.12.2014	
	CHF million	Share (%)	CHF million	Share (%)
Traditional insurance				
Longevity risk	10,308.1	27.8	10,651.6	28.2
Mortality risk	12,509.3	33.7	11,995.7	31.8
Disability risk	1,948.7	5.3	1,945.9	5.2
BVG retirement assets	9,826.4	26.5	10,494.5	27.8
Sub-total	34,592.4	93.2	35,087.6	92.9
Unit-linked				
Longevity risk	1,162.2	3.1	1,339.5	3.5
Mortality risk	1,358.8	3.7	1,338.8	3.5
Sub-total	2,521.0	6.8	2,678.3	7.1
Total	37,113.5	100.0	37,765.9	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

Sensitivity analysis shows the consequences of realistic changes in risk parameters to which the Baloise Group is exposed at the balance sheet date. These consequences impact on its consolidated equity and its profit for the period. When sensitivities were investigated, only the assumption being tested was varied. The other parameters were kept constant. One exception to this rule was policyholders' dividends, which were adjusted accordingly. In general, sensitivities do not behave in a linear fashion. Because they relate to a specific balance sheet date, it is not possible to extrapolate from them.

The following scenarios were run:

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

- 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 13 million (2013: by CHF 23 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, in 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 66 million (2013: CHF 26 million) on the income statement. In line with the aforementioned scenario of an increase in mortality, the effect on equity in Switzerland was minor.

- 50 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 50 basis points. This situation therefore differed from the scenario presented in last year's report (100 basis points). When applied to the German units, this scenario resulted in a reversal of DAC write-downs, changes in the financing of final policyholders' dividends, and lower amounts being allocated to the provision recognised for impending losses. 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 marginal negative effect on the German units' profitability in the reporting year (2013: negative effect of CHF 2 million). The negative impact on their equity amounted to approximately CHF 5 million (2013: CHF 8 million).

  In Belgium this scenario resulted in lower amounts being allocated to the provision recognised for impending losses, which constituted a positive effect of roughly CHF 10 million on profitability (2013: marginal effect). The negative effect on unrealised gains amounted to CHF 95 million (2013: CHF 150 million).

  In Luxembourg this scenario produced a marginal impact on the income statement and an adverse effect of roughly CHF 14 million (2013: 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 10 million (2013: CHF 16 million). The adverse impact on equity amounted to approximately CHF 154 million (2013: CHF 253 million).

- 50 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 50 basis points. This situation therefore differed from the scenario presented in last year's report (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 partially compensated for by the increase in the fair value of interest-rate derivatives in 2014. The overall impact was 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 (2013: negative effect of CHF 1 million). The positive impact on their equity amounted to approximately CHF 6 million (2013: CHF 7 million).

  In Belgium this scenario resulted in an additional DAC write-down 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 23 million on the income statement (2013: CHF 26 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 99 million (2013: CHF 155 million).

  In Luxembourg this scenario produced a marginal impact on the income statement and a positive effect of roughly CHF 14 million (2013: 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. On balance these interacting factors had an adverse effect of CHF 56 million on the income statement (2013: positive effect of roughly CHF 1 million). The positive impact on equity amounted to approximately CHF 153 million (2013: CHF 278 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 been 50 basis points lower 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 73 million lower (31 December 2013 with interest rates 100 basis points lower: CHF 33 million lower). Including the impact on profit for the period, equity (after shadow accounting, deferred gains / losses and deferred taxes) would have risen by CHF 102 million (31 December 2013 with interest rates 100 basis points lower: rise of CHF 370 million).

If all interest rates had been 50 basis points higher 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 21 million higher (31 December 2013 with interest rates 100 basis points higher: 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 199 million (31 December 2013 with interest rates 100 basis points higher: fall of CHF 485 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 5.1 million (2013: + / – CHF 4.1 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	
	2013)	2014	2013	2014
CHF million				
Forward contracts	19.4	1.7	0.1	36.9
Swaps	–	–	–	–
OTC options	–	–	–	–
Other	–	–	–	–
Traded options	–	–	–	–
Traded futures	–	–	–	–
Total	19.4	1.7	0.1	36.9

	2013	2014
CHF million		
Amount recognised directly in equity	35.7	– 124.1
Hedge ineffectiveness reclassified to the income statement	–	–

Because equity investments are actively managed, additions to and deductions from equity are carried out ona 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 2014 the Group's Swiss companies did hold a net position in euros equivalent to CHF 1,365.4 million (2013: 886.0) and a net position in US dollars equivalent to CHF 305.4 million (2013: CHF 348.0 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	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

FINANCIAL ASSETS EXCEEDING 10 % OF CONSOLIDATED EQUITY

CHF million	2014
Kingdom of Belgium	2,644.3
Swiss Confederation	2,611.5
Federal Republic of Germany	2,366.3
Republic of France	1,697.5
European Investment Bank, Luxembourg	1,299.4
Republic of Austria	1,189.4
Pfandbriefbank schweizerischer Hypothekarinstitute AG	1,148.6
Kingdom of the Netherlands	1,094.5
Commerzbank AG	806.4
Pfandbriefzentrale der Schweizerischen Kantonalbanken AG	759.9
German federal state of North Rhine-Westphalia	699.7
German federal state of Lower Saxony	667.6
BNP Paribas	587.3

MAXIMUM DEFAULT RISK OF FINANCIAL ASSETS

CHF million	2013	2014
Financial assets with characteristics of liabilities		
Public corporations	17,354.3	18,955.1
Industrial enterprises	2,860.2	3,738.2
Financial institutions	10,362.4	9,987.3
Other	27.1	20.5
Mortgages and loans		
Mortgages	11,277.0	11,233.6
Policy loans	168.5	163.4
Promissory notes and registered bonds	6,027.2	5,945.7
Time deposits	608.1	546.6
Employee loans	37.3	32.1
Reverse repurchase agreements	–	–
Other loans	358.4	344.5
Derivative financial instruments	232.2	341.0
Receivables from financial contracts	389.4	21.1
Reinsurance assets	396.4	421.5
Receivables from reinsurers	21.7	79.7
Insurance receivables	518.4	409.0
Other receivables	257.0	375.3
Receivables from investments	612.5	564.5
Cash and cash equivalents	1,992.2	1,954.5

If no contractually irrevocable future loan commitments have been agreed, the maximum default risk of financial assets corresponds to the carrying amount of the assets for own account and at own risk. In addition, guarantees and collateral for the benefit of third parties totalled CHF 508.5 million (2013: CHF 516.1 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 2013

	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Financial assets with characteristics of liabilities						
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

CREDIT RATINGS OF FINANCIAL ASSETS THAT WERE NEITHER OVERDUE NOR IMPAIRED AT THE BALANCE SHEET DATE IN 2014

	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Financial assets with characteristics of liabilities						
Public corporations	6,216.7	10,392.0	1,091.4	1,086.5	168.6	18,955.1
Industrial enterprises	100.5	771.3	2,063.6	792.8	9.9	3,738.2
Financial institutions	4,877.4	1,468.0	2,715.1	691.8	235.0	9,987.3
Other	0.2	15.3	5.0	–	–	20.5
Mortgages and loans						
Mortgages	98.4	977.3	8,475.2	928.8	540.6	11,020.2
Policy loans	–	–	–	–	163.4	163.4
Promissory notes and registered bonds	1,820.5	3,623.4	106.5	148.8	246.6	5,945.7
Time deposits	36.2	277.2	73.1	13.9	146.2	546.6
Employee loans	–	–	–	–	32.1	32.1
Reverse repurchase agreements	–	–	–	–	–	–
Other loans	2.2	25.9	113.9	91.3	79.0	312.2
Derivative financial instruments	144.2	41.1	104.1	14.4	37.2	341.0
Receivables from financial contracts	–	–	–	–	21.1	21.1
Reinsurance assets	–	202.3	154.3	7.6	54.1	418.3
Receivables from reinsurers	–	14.9	39.3	0.0	25.4	79.6
Insurance receivables	0.0	4.0	23.1	0.2	264.3	291.6
Other receivables	3.1	17.0	110.4	12.6	228.2	371.3
Receivables from investments	155.6	164.2	61.8	31.1	134.0	546.9
Cash and cash equivalents	392.1	286.0	1,229.3	9.4	37.6	1,954.4
Total	13,847.0	18,279.6	16,366.2	3,829.3	2,423.4	54,745.5

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 2014, financial assets amounting to CHF 2.0 million (2013: CHF 2.1 million) and cash and cash equivalents of 0.2 million (2013: 0.2 million) from collateral received were used.

FINANCIAL ASSETS IMPAIRED AT THE BALANCE SHEET DATE

	Gross amount	Impairment	Carrying amount	Gross amount	Impairment	Carrying amount
			2013			2014
CHF million						
Financial assets with characteristics of liabilities						
Public corporations	–	–	–	–	–	–
Industrial enterprises	3.1	– 3.1	–	3.0	– 3.0	–
Financial institutions	26.3	– 24.7	1.6	12.5	– 12.5	0.0
Other	–	–	–	–	–	–
Mortgages and loans						
Mortgages	172.1	– 41.8	130.3	142.7	– 32.7	110.0
Policy loans	–	–	–	–	–	–
Promissory notes and registered bonds	0.0	0.0	–	–	–	–
Time deposits	–	–	–	–	–	–
Employee loans	–	–	–	–	–	–
Reverse repurchase agreements	–	–	–	–	–	–
Other loans	47.0	– 16.9	30.1	43.5	– 16.0	27.5
Receivables from financial contracts	–	–	–	–	–	–
Reinsurance assets	–	–	–	–	–	–
Receivables from reinsurers	0.3	– 0.3	–	0.6	– 0.5	0.1
Insurance receivables	127.6	– 39.9	87.7	128.8	– 38.9	89.8
Other receivables	12.9	– 3.7	9.3	6.3	– 2.7	3.6
Receivables from investments	24.2	– 2.2	22.0	19.3	– 1.7	17.6
Total	413.7	– 132.6	281.1	356.7	– 108.0	248.8

FINANCIAL ASSETS OVERDUE BUT NOT IMPAIRED AT THE BALANCE SHEET DATE

Assets as at 31 December 2013	‹ 3 months	3 – 6 months	7 – 12 months	› 12 months	Total
CHF million					
Financial assets with characteristics of liabilities					
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

Assets as at 31 December 2014	< 3 months	3 – 6 months	7 – 12 months	> 12 months	Total
CHF million					
Financial assets with characteristics of liabilities					
Public corporations	–	–	–	–	–
Industrial enterprises	–	–	–	–	–
Financial institutions	–	–	–	–	–
Other	–	–	–	–	–
Mortgages and loans					
Mortgages	0.5	–	3.0	4.3	7.7
Policy loans	–	–	–	–	–
Promissory notes and registered bonds	–	–	–	–	–
Time deposits	–	–	–	–	–
Employee loans	–	–	–	–	–
Reverse repurchase agreements	–	–	–	–	–
Other loans	0.2	–	0.0	0.1	0.3
Receivables from financial contracts	–	–	–	–	–
Reinsurance assets	–	–	–	3.2	3.2
Receivables from reinsurers	–	–	–	–	–
Insurance receivables	11.1	7.8	6.2	2.5	27.6
Other receivables	0.2	0.1	0.0	0.1	0.4
Receivables from investments	–	–	–	–	–
Total	11.9	7.9	9.3	10.2	39.2

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 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	2,996.6	13.7	–	4,780.8	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	13,343.6	1,542.2	841.4	6,594.6	22,321.9	–

Liquidity risk as at 31 December 2014	‹ 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	1,758.5	0.6	1.1	6.2	1,766.5	1,766.5
Measured at amortised cost	5,535.5	388.7	520.5	897.2	7,342.0	7,342.0
Recognised at fair value through profit or loss	3,273.3	15.2	–	5,343.8	8,632.3	8,632.3
Financial liabilities	34.6	560.8	175.0	1,148.4	1,918.8	1,702.4
Financial provisions	52.5	43.3	9.2	14.3	119.3	119.3
Derivative financial instruments	109.1	25.6	19.4	22.3	176.4	176.4
Insurance liabilities	1,090.2	689.0	0.2	1.0	1,780.3	1,780.3
Other liabilities	601.2	43.2	0.2	1.0	645.6	645.6
Contingent liabilities and capital commitments	979.8	12.1	13.3	1.6	1,006.9	–
Total	13,434.8	1,778.5	738.8	7,435.9	23,388.0	–

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)	
	2013	2014	2013	2014
CHF million				
Market price plus 10 %	5.8	33.3	206.9	262.1
Market price minus 10 %	– 24.1	– 57.1	– 212.8	– 264.2

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 this data 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]	3.5 % – 5.5 % [3]
		Rental income [2]	290 – 320 CHF million [3]
		Vacancy costs [1]	5 – 15 CHF million [3]
		Running costs [1]	22 – 25 CHF million [3]
		Maintenance costs [1]	25 – 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, the higher the fair value of the investment property.
2 The higher these key input factors, the lower the fair value of the investment property.
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.

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
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.

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

2014	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	4,698.1	4,698.1	2,766.5	938.7	993.0
Recognised at fair value through profit or loss	671.6	671.6	242.7	428.9	–
Financial instruments with characteristics of liabilities					
Held to maturity	8,413.7	10,024.2	10,024.2	–	–
Available for sale	24,227.5	24,227.5	24,188.7	38.8	–
Recognised at fair value through profit or loss	59.9	59.9	37.4	22.5	–
Mortgages and loans					
Carried at cost	17,326.0	18,806.8	–	–	18,806.8
Recognised at fair value through profit or loss	839.9	839.9	–	839.9	–
Derivative financial instruments	341.0	341.0	13.6	327.4	–
Receivables from financial contracts					
Carried at cost	21.1	21.1	–	–	21.1
Other receivables					
Carried at cost	375.3	404.2	–	–	404.2
Receivables from investments					
Carried at cost	564.5	564.5	354.5	2.2	207.8
Investment property	5,962.9	5,962.9	–	–	5,962.9
Total assets measured on a recurring basis	63,501.4	66,621.7	37,627.6	2,598.4	26,395.8
Liabilities measured on a recurring basis					
Liabilities arising from banking business and financial contracts					
Measured at amortised cost	7,342.0	7,488.7	103.1	7,258.2	127.5
Recognised at fair value through profit or loss	244.3	244.3	–	244.3	–
Derivative financial instruments	176.4	176.4	18.6	157.9	–
Financial liabilities	1,702.4	1,875.8	1,875.8	–	–
Total liabilities measured on a recurring basis	9,465.1	9,785.2	1,997.5	7,660.3	127.5

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	6,861.2	–	84.9
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	8,630.1	180.0	84.9
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	–

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

2014	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	8,081.5	8,081.5	7,905.0	–	176.5
Financial instruments with characteristics of liabilities					
Recognised at fair value through profit or loss	1,760.5	1,760.5	1,729.0	31.5	–
Mortgages and loans					
Recognised at fair value through profit or loss	–	–	–	–	–
Derivative financial instruments	272.1	272.1	63.8	208.4	–
Other assets					
Recognised at fair value through profit or loss	53.3	53.3	53.3	–	–
Total assets measured on a recurring basis	10,167.5	10,167.5	9,751.1	239.9	176.5
Liabilities measured on a recurring basis					
Liabilities arising from banking business and financial contracts					
Recognised at fair value through profit or loss	8,388.1	8,388.1	8,388.1	–	–
Derivative financial instruments	–	–	–	–	–
Total liabilities measured on a recurring basis	8,388.1	8,388.1	8,388.1	–	–

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

	Financial instruments with characteristics of equity	Investment property	Total
2013	Available for sale	Recognised at fair value through profit or loss	
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 funds. 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.

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

	Financial instruments with characteristics of equity	Investment property	Total
2014	Available for sale	Recognised at fair value through profit or loss	
CHF million			
Assets and liabilities measured on a recurring basis			
Balance as at 1 January	959.0	5,685.9	6,645.0
Additions	66.1	323.9	390.0
Additions arising from change in the scope of consolidation	–	36.7	36.7
Additions arising from change in the percentage of shareholding	–	–	–
Disposals	– 87.5	– 140.5	– 228.1
Disposals arising from change in the scope of consolidation	–	– 30.1	– 30.1
Disposals arising from change in the percentage of shareholding	–	–	–
Reclassified to level 3	–	–	–
Reclassified from level 3	–	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	– 24.9	– 24.9
Changes in fair value recognised in profit or loss [1]	– 9.9	129.3	119.4
Changes in fair value not recognised in profit or loss [2]	49.3	–	49.3
Exchange differences	16.0	– 17.4	– 1.4
Balance as at 31 December	993.0	5,962.9	6,955.9
Changes in fair value of financial instruments held at the balance sheet date and recognised in profit or loss	– 9.9	113.2	103.3

1 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.
2 Changes in fair value not recognised in profit or loss arise from unrealised gains and losses on investments.

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	86.3	86.3
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
Exchange differences	0.8	0.8
Balance as at 31 December	84.9	84.9
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.

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

2014	Financial instruments with characteristics of equity	Total
	Recognised at fair value through profit or loss	
CHF million		
Assets and liabilities measured on a recurring basis		
Balance as at 1 January	84.9	84.9
Additions	94.4	94.4
Additions arising from change in the scope of consolidation	–	–
Additions arising from change in the percentage of shareholding	–	–
Disposals	– 1.0	– 1.0
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]	0.0	0.0
Exchange differences	– 1.8	– 1.8
Balance as at 31 December	176.5	176.5
Changes in fair value of financial instruments held at the balance sheet date and recognised in profit or loss	0.0	0.0

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 or in 2013.

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

The fair value of investment property is determined on the basis of its highest and best use.

This periodic 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 revealed for the reporting period that the highest and best use of only individual investment properties in the Swiss portfolio differed from their current use.

In 2013 the fair value of certain items of investment property in the Swiss portfolio was revised upwards – based on the aforementioned criteria – as a result of the first-time adoption of IFRS 13.

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 for pure insurance business of CHF 2,167 million (2013: CHF 2,160 million) was met in 2013 and 2014. The cover ratio for the capital adequacy requirement in available funds was 354 per cent as at 31 December 2014 (2013: 267 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 requirements applicable to Deutscher Ring Bausparkasse AG is the Capital Requirements Regulation (CRR).

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 2013 financial year

6.1.1 Acquisitions

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

6.1.2 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.

6.1.3 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.

6.2 2014 financial year

6.2.1 Acquisitions

The Baloise Group acquired the Brussels-based real-estate company Singel Office Antwerpen NV in Belgium during the first half of the reporting year. This transaction did not give rise to any goodwill.

The net assets of the firm P&V Assurances were acquired in Luxembourg. This transaction gave rise to goodwill of CHF 8.5 million.

6.2.2 Disposals

All of Baloise's Croatian and Serbian subsidiaries were sold to the Austria-based UNIQA Group on 11 March 2014.

All of its Austrian subsidiaries were then sold to the Helvetia Group on 28 August 2014. Information on the accounting treatment of these disposals can be found in note 21.

In Luxembourg the remaining 65 per cent shareholding in the company Barosa S.à.r.l. was sold during the first half of the reporting year.

6.2.3 Other changes in the group of consolidated companies

Further real-estate companies in Germany were merged with existing companies as planned, continuing the process that had begun in 2013. Basler Financial Services GmbH and GROCON Grundstücks- und Beteiligungsgesellschaft GmbH were merged in the second half of the year under review. These mergers had no net impact on the Baloise Group's profit for the period.

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[1].

The "Other units[1]" 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.

1 Owing to the disposal of Baloise's Croatian and Serbian subsidiaries (completed on 11 March 2014) and the disposal of its Austrian entities (completed on 28 August 2014), the reportable "Other units" segment is expected to be discontinued after the 2016 reporting period.

7.1 Segment reporting by strategic business unit

	Switzerland		Germany		Belgium	
	2013	2014	2013	2014	2013	2014
CHF million						
Income						
Premiums earned and policy fees (gross)	4,249.4	4,328.7	1,504.5	1,416.9	1,104.2	1,112.1
Reinsurance premiums ceded	– 173.9	– 173.6	– 97.4	– 92.1	– 70.0	– 75.9
Premiums earned and policy fees (net)	4,075.6	4,155.2	1,407.2	1,324.8	1,034.3	1,036.2
Investment income	927.8	929.0	503.4	465.4	270.1	264.0
Realised gains and losses on investments	137.1	470.1	270.9	437.6	30.3	116.0
Income from services rendered	41.6	38.4	35.6	34.0	2.7	1.6
Share of profit (loss) of associates	0.0	0.0	41.2	8.1	– 0.7	0.0
Other operating income	52.8	61.8	38.9	45.7	13.9	11.9
Income	5,234.7	5,654.5	2,297.1	2,315.7	1,350.5	1,429.6
Intersegment income	69.9	67.5	47.1	48.4	30.8	30.6
Income from associates	0.0	0.0	40.9	8.1	0.3	0.0
Expense						
Claims and benefits paid (gross)	– 3,279.8	– 3,418.0	– 1,279.1	– 1,313.3	– 671.1	– 753.3
Change in technical reserves (gross)	– 849.3	– 861.5	– 416.2	– 391.2	– 87.1	– 166.2
Reinsurers' share of claims incurred	96.9	57.9	106.4	96.8	20.4	133.6
Acquisition costs	– 35.7	– 89.6	– 192.4	– 205.2	– 221.4	– 239.0
Operating and administrative expenses for insurance business	– 431.1	– 425.9	– 239.2	– 240.7	– 148.9	– 126.9
Investment management expenses	– 43.1	– 42.5	– 29.8	– 30.3	– 14.5	– 13.7
Interest expenses on insurance liabilities	– 4.8	– 2.7	– 41.3	– 38.3	– 0.7	– 0.9
Gains or losses on financial contracts	– 59.5	– 60.2	– 18.2	– 25.5	– 54.1	– 55.9
Other operating expenses	– 193.8	– 224.1	– 119.3	– 105.4	– 52.2	– 65.7
Expense	– 4,800.2	– 5,066.6	– 2,229.1	– 2,253.0	– 1,229.6	– 1,288.0
Profit / loss before borrowing costs and taxes	434.5	587.9	68.0	62.6	120.8	141.6
Borrowing costs	–	–	–	–	–	–
Profit / loss before taxes	434.5	587.9	68.0	62.6	120.8	141.6
Income taxes	– 87.0	– 112.4	– 15.8	– 6.3	– 40.4	– 53.9
Profit / loss for the period (segment result)	347.6	475.5	52.2	56.3	80.5	87.7
Segment assets	40,370.7	42,745.5	16,264.8	16,704.3	9,189.9	9,649.4

Luxembourg		Other units		Sub-total		Group business		Eliminated		Total	
2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
139.5	202.2	217.7	113.0	7,215.4	7,172.8	265.6	242.7	-268.3	-247.4	7,212.7	7,168.1
-17.3	-20.2	-77.3	-49.1	-435.9	-410.7	-0.3	-0.1	268.3	247.3	-167.9	-163.6
122.2	182.0	140.4	63.9	6,779.5	6,762.0	265.2	242.5	0.0	0.0	7,044.8	7,004.5
16.3	21.4	30.8	7.5	1,748.3	1,687.3	19.1	16.4	-2.3	-1.9	1,765.1	1,701.9
196.0	317.8	15.0	7.9	649.1	1,349.4	21.2	13.1	–	–	670.3	1,362.5
12.6	13.3	8.1	2.5	100.5	89.8	150.0	146.1	-131.6	-125.2	119.0	110.7
–	–	–	–	40.5	8.1	–	–	–	–	40.5	8.1
21.2	20.3	4.2	3.8	130.9	143.4	19.2	95.5	-42.2	-53.7	107.9	185.2
368.2	554.7	198.3	85.5	9,448.8	10,040.0	474.7	513.7	-176.0	-180.8	9,747.5	10,372.8
1.1	2.5	71.5	47.1	220.3	196.0	-396.3	-376.9	176.0	180.8	–	–
–	–	–	–	41.2	8.1	–	–	–	–	41.2	8.1
-63.6	-103.6	-139.6	-69.7	-5,433.3	-5,658.0	-150.3	-184.5	143.9	176.0	-5,439.7	-5,666.4
-4.3	-57.4	-16.7	-9.8	-1,373.7	-1,486.1	-33.4	18.8	47.7	-2.2	-1,359.4	-1,469.5
2.2	8.4	44.5	26.7	270.4	323.5	-3.2	-3.1	-191.7	-173.8	75.5	146.6
-12.9	-20.0	-38.5	-16.5	-500.9	-570.3	-27.9	-19.2	28.4	19.9	-500.5	-569.6
-40.0	-48.0	-9.7	-4.7	-869.0	-846.3	0.2	-0.3	-28.4	-19.9	-897.1	-866.5
-0.9	-1.2	-2.5	-1.4	-90.7	-89.1	-12.5	-11.1	32.6	33.3	-70.6	-66.9
-0.2	-0.4	-0.5	-0.7	-47.6	-42.9	–	–	0.3	0.3	-47.3	-42.6
-222.7	-304.4	-0.3	-0.2	-354.7	-446.2	-16.6	-18.5	2.4	2.0	-368.9	-462.6
-8.7	-7.5	-48.5	-3.5	-422.5	-406.2	-199.4	-185.9	140.7	145.2	-481.3	-446.8
-351.3	-534.1	-211.9	-79.7	-8,822.1	-9,221.5	-443.2	-403.6	176.0	180.8	-9,089.3	-9,444.3
16.9	20.7	-13.5	5.7	626.7	818.5	31.5	110.0	–	–	658.2	928.6
–	–	–	–	–	–	-50.1	-43.5	–	–	-50.1	-43.5
16.9	20.7	-13.5	5.7	626.7	818.5	-18.6	66.6	–	–	608.1	885.1
-2.5	-2.3	-8.1	-1.5	-153.8	-176.4	1.1	3.2	–	–	-152.7	-173.2
14.4	18.4	-21.7	4.3	472.9	642.1	-17.5	69.8	–	–	455.4	711.9
8,161.2	9,346.3	975.6	–	74,962.2	78,445.5	1,871.6	1,952.1	-1,136.9	-1,055.3	75,696.9	79,342.3

7.2 Segment reporting by operating segment

	Non-life		Life	
	2013	2014	2013	2014
CHF million				
Income				
Premiums earned and policy fees (gross)	3,425.5	3,351.3	3,787.2	3,816.8
Reinsurance premiums ceded	– 148.3	– 143.3	– 19.5	– 20.3
Premiums earned and policy fees (net)	3,277.1	3,208.0	3,767.7	3,796.5
Investment income	276.2	259.9	1,349.4	1,312.6
Realised gains and losses on investments	118.1	63.2	532.1	1,276.0
Income from services rendered	17.5	18.7	13.8	13.8
Share of profit (loss) of associates	0.0	0.0	32.7	2.9
Other operating income	39.7	75.3	79.6	127.2
Income	3,728.6	3,625.1	5,775.4	6,529.0
Intersegment income	– 48.3	– 53.7	– 31.7	– 33.0
Income from associates	0.0	0.0	32.7	2.9
Expense				
Claims and benefits paid (gross)	– 2,073.7	– 2,050.6	– 3,366.0	– 3,615.8
Change in technical reserves (gross)	– 110.8	– 76.4	– 1,248.6	– 1,393.1
Reinsurers' share of claims incurred	70.8	133.7	4.7	12.9
Acquisition costs	– 464.4	– 461.1	– 36.1	– 108.5
Operating and administrative expenses for insurance business	– 582.8	– 562.0	– 314.3	– 304.5
Investment management expenses	– 22.2	– 22.6	– 88.3	– 89.7
Interest expenses on insurance liabilities	– 0.7	– 1.0	– 46.6	– 41.6
Gains or losses on financial contracts	– 0.8	– 0.8	– 302.5	– 388.7
Other operating expenses	– 177.7	– 165.0	– 116.6	– 123.3
Expense	– 3,362.3	– 3,205.9	– 5,514.3	– 6,052.3
Profit / loss before borrowing costs and taxes	366.3	419.1	261.1	476.8
Borrowing costs	–	–	–	–
Profit / loss before taxes	366.3	419.1	261.1	476.8
Income taxes	– 75.3	– 88.7	– 65.8	– 88.5
Profit / loss for the period (segment result)	291.0	330.4	195.3	388.2

	Banking		Other activities		Eliminated		Total	
	2013	2014	2013	2014	2013	2014	2013	2014
	–	–	–	–	–	–	7,212.7	7,168.1
	–	–	–	–	–	–	−167.9	−163.6
	–	–	–	–	–	–	7,044.8	7,004.5
	154.1	143.4	16.4	17.4	−30.9	−31.4	1,765.1	1,701.9
	−1.2	3.5	21.3	19.9	–	–	670.3	1,362.5
	116.9	124.6	183.3	163.5	−212.6	−209.9	119.0	110.7
	–	–	7.7	5.1	–	–	40.5	8.1
	9.8	6.4	21.2	20.1	−42.4	−43.9	107.9	185.2
	279.5	277.9	249.9	226.0	−285.8	−285.2	9,747.5	10,372.8
	−55.0	−60.7	−151.0	−137.7	285.8	285.2	–	–
	–	–	8.5	5.1	–	–	41.2	8.1
	–	–	–	–	–	–	−5,439.7	−5,666.4
	–	–	–	–	–	–	−1,359.4	−1,469.5
	–	–	–	–	–	–	75.5	146.6
	–	–	–	–	–	–	−500.5	−569.6
	–	–	–	–	0.0	0.0	−897.1	−866.5
	−21.7	−23.0	−8.2	−5.6	69.8	74.1	−70.6	−66.9
	–	–	–	–	–	–	−47.3	−42.6
	−67.0	−72.7	−30.8	−32.0	32.1	31.7	−368.9	−462.6
	−115.3	−108.4	−255.5	−229.5	183.9	179.4	−481.3	−446.8
	−204.1	−204.2	−294.5	−267.1	285.8	285.2	−9,089.3	−9,444.3
	75.4	73.7	−44.5	−41.1	–	–	658.2	928.6
	–	–	−50.1	−43.5	–	–	−50.1	−43.5
	75.4	73.7	−94.7	−84.5	–	–	608.1	885.1
	−13.8	−12.5	2.3	16.5	–	–	−152.7	−173.2
	61.6	61.2	−92.4	−68.0	–	–	455.4	711.9

Notes to the consolidated balance sheet

8. PROPERTY, PLANT AND EQUIPMENT

8.1 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.

8.2 Property, plant and equipment in 2014

2014	Land	Buildings	Operating equipment	Machinery, furniture and vehicles	IT equipment	Total
CHF million						
Carrying amount as at 1 January	93.6	240.5	43.4	25.9	19.1	422.5
Additions	0.0	0.9	6.2	7.6	12.0	26.7
Additions arising from change in the scope of consolidation	–	–	–	0.7	0.2	0.9
Disposals	–	–	–	– 0.5	0.0	– 0.5
Disposals arising from change in the scope of consolidation	–	–	–	0.0	–	0.0
Reclassification	–	–	–	–	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	–	–	– 1.7	–	– 1.7
Depreciation and impairment						
Depreciation	–	– 12.3	– 9.2	– 6.3	– 10.3	– 38.2
Impairment losses recognised in profit or loss [1]	–	– 25.3	– 1.6	–	–	– 26.8
Reversal of impairment losses recognised in profit or loss	–	–	–	–	–	–
Exchange differences	– 0.4	– 2.7	– 0.1	– 0.3	– 0.1	– 3.7
Carrying amount as at 31 December	93.1	201.1	38.7	25.4	20.9	379.2
Acquisition costs	95.1	614.0	124.2	67.8	92.2	993.3
Accumulated depreciation and impairment	– 1.9	– 412.9	– 85.5	– 42.4	– 71.3	– 614.0
Balance as at 31 December	93.1	201.1	38.7	25.4	20.9	379.2
Of which: Assets held under finance leases	–	–	–	–	–	–

1 The impairment losses on buildings largely relate to those recognised on owner-occupied property in connection with the reconfiguration and redesign of Baloise's buildings at its headquarters in Basel (Baloise Park).
Depreciation and impairment form part of other operating expenses.

9. INTANGIBLE ASSETS

9.1 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.

9.2 Intangible assets in 2014

2014	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	64.6	41.4	656.6	155.6	162.0	0.2	1,080.3
Additions arising from change in the scope of consolidation	8.5	–	–	–	9.1	–	17.6
Additions	–	–	–	–	20.1	0.0	20.1
Capitalisation of acquisition costs	–	–	61.9	237.3	–	–	299.2
Disposals	–	–	–	–	–0.1	–	–0.1
Disposals arising from change in the scope of consolidation	–	–	–	–	–	–	–
Reclassification	–	–	–	–	–	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	–	–20.3	–18.7	–0.4	–	–39.5
Amortisation and impairment							
Amortisation	–	–4.3	–103.7	–236.5	–34.0	–0.1	–378.6
Write-ups	–	–	1.7	–	–	–	1.7
Impairment losses recognised in profit or loss	–	–22.5	–	–	–9.4	–	–32.0
Reversal of impairment losses recognised in profit or loss	–	–	–	–	–	–	–
Changes due to impending losses	–	–	–3.4	–0.5	–	–	–3.9
Change due to unrealised gains and losses on financial instruments (shadow accounting)	–	–	–41.0	–	–	–	–41.0
Exchange differences	–1.3	–0.5	–9.1	–1.7	–2.1	–	–14.8
Carrying amount as at 31 December	71.8	14.1	542.7	135.5	145.0	0.2	909.2
Acquisition costs	217.4	–	–	–	485.9	10.0	–
Accumulated amortisation and impairment	–145.6	–	–	–	–340.9	–9.8	–
Balance as at 31 December [1]	71.8	14.1	542.7	135.5	145.0	0.2	909.2
Intangible assets by segment							
Switzerland	–	–	89.7	52.8	26.9	–	169.4
Germany	32.1	14.1	439.3	16.5	7.2	–	509.1
Belgium	16.7	–	3.1	62.0	88.3	–	170.2
Luxembourg	23.0	–	10.6	4.2	16.7	–	54.4
Other units	–	–	–	–	–	–	–
Group business	–	–	–	–	5.9	0.2	6.1
Total for geographic regions	71.8	14.1	542.7	135.5	145.0	0.2	909.2

1 With the possible exception of goodwill, the Baloise Group has no intangible assets with indefinite useful lives.

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

In 2014 an impairment loss of CHF 9.4 million was recognised on other intangible assets in respect of a large-scale IT project.

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	
	2013	2014	2013	2014	2013	2014
Zeus Vermittlungsgesellschaft mbH	14.9	14.7	9.4	10.4	1.0	1.0
Basler Financial Services GmbH	15.5	15.2	7.7	8.3	1.0	1.0
Bâloise Vie Luxembourg S.A.	1.9	7.6	–	8.5	–	2.5
Bâloise Assurances Luxembourg S.A.	12.3	14.8	9.3	8.5	2.6	2.5
Baloise Belgium NV	17.0	16.7	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	
	2013	2014
CHF million		
Investments	49.4	47.6
Other assets	25.5	25.6
Receivables and assets	70.8	62.4
Cash and cash equivalents	37.5	44.0
Actuarial liabilities	–	–
Other accounts payable	– 84.3	– 81.5
Net assets	98.9	98.1
Premiums earned and policy fees (net)	173.1	174.8
Insurance benefits and expenses arising from insurance and asset management business	– 114.3	– 114.1
Gains on investments	0.8	0.6
Other income and expenses	– 50.6	– 50.7
Borrowing costs	–	–
Income taxes	– 2.4	– 2.8
Profit for the period	6.6	7.8
Other comprehensive income	0.0	0.0
Comprehensive income	6.6	7.8
Dividends paid to the Baloise Group	3.1	3.1

RECONCILIATION OF SUMMARY FINANCIAL INFORMATION ON SIGNIFICANT INVESTMENTS IN ASSOCIATES

	OVB Holding	
	2013	2014
CHF million		
Net assets as at 1 October	97.3	98.9
Profit for the period	10.0	11.1
Other comprehensive income	–8.4	–11.9
Net assets as at 30 September	98.9	98.1
Baloise Group's interest (per cent)	32.57%	32.57%
Carrying amount as at 30 September	73.2	72.2
Fair value as at 30 September	114.5	96.7

10.2 Non-significant investments in associates

The Baloise Group holds investments in a number of non-significant associates.

2013	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

2014	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	155.7	10.5	0.0	0.6	11.1

There were no contingent liabilities arising from investments in associates and no substantial unrecognised shares of the losses of associates as at either 31 December 2014 or 31 December 2013.

As at 31 December 2013, the Baloise Group 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.

11. INVESTMENT PROPERTY

	2013	2014
CHF million		
Balance as at 1 January	5,441.0	5,685.9
Additions	228.6	323.9
Additions arising from change in scope of consolidation	13.0	36.7
Disposals	– 135.6	– 140.5
Disposals arising from change in scope of consolidation	– 1.7	– 30.1
Reclassification	8.1	–
Reclassification to non-current assets and disposal groups classified as held for sale	– 9.3	– 24.9
Change in fair value	127.7	129.3
Exchange differences	14.0	– 17.4
Balance as at 31 December	5,685.9	5,962.9
Operating expenses arising from investment property that generates rental income	70.1	68.5
Operating expenses arising from investment property that does not generate rental income	0.5	0.6

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.

The increase in the portfolio during the reporting year was largely attributable to real estate acquired by Baloise's Swiss entities. Information on the disposal of the investment property relating to the Austrian entities sold during the second half of the reporting year can be found in the line item "Reclassification to non-current assets and disposal groups classified as held for sale".

Information on the disposal of the remaining 65 per cent shareholding in the company Barosa S.à.r.l. can be found in the line item "Disposals arising from change in the scope of consolidation".

12. FINANCIAL ASSETS

CHF million	2013	2014
Financial assets with characteristics of equity		
Available for sale	4,096.4	4,698.1
Recognised at fair value through profit or loss	302.0	671.6
Financial assets with characteristics of liabilities		
Held to maturity	8,100.7	8,413.7
Available for sale	22,431.0	24,227.5
Recognised at fair value through profit or loss	72.4	59.9
Financial assets for own account and at own risk	35,002.4	38,070.8
Financial assets for the account and at the risk of life insurance policyholders		
Recognised at fair value through profit or loss [1]	8,669.1	9,842.0
Financial assets as reported on the balance sheet	43,671.5	47,912.8

1 Of which financial assets totalling CHF 114.7 million (2013: CHF 72.9 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	
	2013	2014
CHF million		
Financial assets with characteristics of equity		
Publicly listed	–	–
Not publicly listed	–	–
Total	–	–
Financial assets with characteristics of liabilities		
Publicly listed, fixed interest rate	8,040.2	8,358.3
Publicly listed, variable interest rate	–	–
Not publicly listed, fixed interest rate	60.5	55.4
Not publicly listed, variable interest rate	–	–
Total	8,100.7	8,413.7

IMPAIRMENT OF HELD-TO-MATURITY FINANCIAL ASSETS WITH CHARACTERISTICS OF LIABILITIES

	2013	2014
CHF million		
Balance as at 1 January	–	–
Usage not recognised in profit or loss	–	–
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			
	2013	2014	2013	2014	2013	2014	2013	2014
	2,225.5	2,788.4	0.5	0.7	35.6	242.0	2,261.5	3,031.1
	1,870.9	1,909.7	–	–	265.9	428.9	2,136.8	2,338.6
	4,096.4	4,698.1	0.5	0.7	301.5	670.9	4,398.4	5,369.7
	22,191.4	24,067.6	–	–	0.1	0.1	30,231.7	32,426.0
	153.8	133.5	–	–	36.8	37.3	190.6	170.8
	85.6	26.3	–	–	35.5	22.5	181.6	104.2
	0.2	–	–	–	–	–	0.2	–
	22,431.0	24,227.5	–	–	72.4	59.9	30,604.1	32,701.1

FINANCIAL ASSETS FOR OWN ACCOUNT AND AT OWN RISK

	Held to maturity	
	2013	2014
CHF million		
Type of financial asset		
Equities	–	–
Equity funds	–	–
Mixed funds	–	–
Bond funds	–	–
Real-estate funds	–	–
Private equity	–	–
Hedge funds	–	–
Financial assets with characteristics of equity	–	–
Public corporations	6,997.0	7,335.0
Industrial enterprises	24.0	24.0
Financial institutions	1,052.7	1,034.4
Other	26.9	20.3
Financial assets with characteristics of liabilities	8,100.7	8,413.7
Total	8,100.7	8,413.7
Secured financial assets with characteristics of liabilities		
Public corporations	–	30.4
Industrial enterprises	–	–
Financial institutions	870.2	880.5
Other	–	–
Total	870.2	910.9

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			
	2013	2014	2013	2014	2013	2014	2013	2014
	2,070.3	2,463.0	–	–	–	–	2,070.3	2,463.0
	168.5	260.2	0.1	0.2	21.9	33.4	190.6	293.7
	97.9	149.9	0.3	0.5	273.9	627.3	372.1	777.7
	79.2	83.8	0.0	0.0	5.7	10.3	84.9	94.1
	425.4	400.0	–	–	0.0	0.0	425.5	400.0
	571.8	640.9	–	–	–	–	571.8	640.9
	683.2	700.3	–	–	–	–	683.2	700.3
	4,096.4	4,698.1	0.5	0.7	301.5	670.9	4,398.4	5,369.7
	10,335.0	11,598.9	–	–	22.3	21.1	17,354.3	18,955.1
	2,836.1	3,714.2	–	–	–	–	2,860.2	3,738.2
	9,259.6	8,914.2	–	–	50.1	38.8	10,362.4	9,987.3
	0.2	0.2	–	–	–	–	27.1	20.5
	22,431.0	24,227.5	–	–	72.4	59.9	30,604.1	32,701.1
	26,527.3	28,925.6	0.5	0.7	373.9	730.8	35,002.4	38,070.8
	203.4	386.2	–	–	0.1	–	203.4	416.6
	–	–	–	–	–	–	–	–
	5,932.0	5,805.0	–	–	0.0	–	6,802.2	6,685.5
	0.2	0.2	–	–	–	–	0.2	0.2
	6,135.5	6,191.4	–	–	0.1	–	7,005.8	7,102.3

FAIR VALUE OF FINANCIAL ASSETS CLASSIFIED AS HELD TO MATURITY

	Carrying amount		Fair value	
	2013	2014	2013	2014
CHF million				
Public corporations	6,997.0	7,335.0	7,553.9	8,830.2
Industrial enterprises	24.0	24.0	25.8	25.6
Financial institutions	1,052.7	1,034.4	1,102.2	1,146.9
Other	26.9	20.3	27.6	21.5
Total	8,100.7	8,413.7	8,709.4	10,024.2

13. MORTGAGES AND LOANS

	Gross amount		Impairment		Carrying amount		Fair value	
	2013	2014	2013	2014	2013	2014	2013	2014
CHF million								
Mortgages and loans carried at cost								
Mortgages	10,222.9	10,331.1	–41.8	–32.7	10,181.1	10,298.4	10,460.7	10,808.3
Policy loans	168.1	163.1	–	–	168.1	163.1	175.8	175.9
Promissory notes and registered bonds	6,027.2	5,945.7	0.0	–	6,027.2	5,945.7	6,456.5	6,872.5
Time deposits	608.1	546.6	–	–	608.1	546.6	608.1	549.0
Employee loans	37.3	32.1	–	–	37.3	32.1	38.5	32.8
Reverse repurchase agreements	–	–	–	–	–	–	–	–
Other loans	368.5	356.0	–16.9	–16.0	351.5	340.0	363.3	368.2
Sub-total	17,432.1	17,374.6	–58.7	–48.7	17,373.4	17,326.0	18,102.8	18,806.8
Mortgages and loans recognised at fair value through profit or loss								
Mortgages	955.7	839.6	–	–	955.7	839.6	955.7	839.6
Policy loans	0.4	0.3	–	–	0.4	0.3	0.4	0.3
Sub-total	956.1	839.9	–	–	956.1	839.9	956.1	839.9
Mortgages and loans	18,388.2	18,214.5	–58.7	–48.7	18,329.5	18,165.9	19,058.9	19,646.7

IMPAIRMENT OF MORTGAGES AND LOANS

	2013	2014
CHF million		
Balance as at 1 January	–68.7	–58.7
Usage not recognised in profit or loss	9.3	6.1
Unused provisions reversed through profit or loss	12.1	9.3
Increases and additional provisions recognised in profit or loss	–12.2	–5.4
Disposal arising from change in scope of consolidation	–	–
Reclassification	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	1.3	0.0
Currency translation	–0.6	0.1
Balance as at 31 December	–58.7	–48.7

14. DERIVATIVE FINANCIAL INSTRUMENTS

	Fair value assets		Fair value liabilities	
	2013	2014	2013	2014
CHF million				
Derivative financial instruments for own account and at own risk	232.2	341.0	68.2	176.4
Derivative financial instruments for the account and at the risk of life insurance policyholders	178.5	272.1	–	–
Derivative financial instruments as reported on the balance sheet	410.7	613.2	68.2	176.4

	Contract value		Fair value assets		Fair value liabilities	
	2013	2014	2013	2014	2013	2014
CHF million						
Interest-rate instruments						
Forward contracts	–	–	–	–	–	–
Swaps	1,156.8	881.9	33.9	24.0	45.5	56.4
OTC options	1,201.4	1,110.8	119.7	192.7	–	25.8
Other	0.0	0.5	5.4	52.1	1.0	8.8
Traded options	–	–	–	–	–	–
Traded futures	–	–	–	–	–	–
Sub-total	2,358.2	1,993.2	159.0	268.9	46.5	91.1
Equity instruments						
Forward contracts	–	–	–	–	–	–
OTC options	1,484.2	1,959.7	31.9	50.4	9.8	5.3
Traded options	640.2	954.6	0.3	13.6	9.0	14.0
Traded futures	–	–	–	–	–	–
Sub-total	2,124.3	2,914.3	32.2	64.0	18.8	19.3
Foreign-currency instruments						
Forward contracts	4,933.3	517.7	40.6	5.0	1.5	63.0
Swaps	–	–	–	–	–	–
OTC options	1,358.3	1,050.8	0.4	3.1	1.3	3.0
Traded options	–	–	–	–	–	–
Traded futures	–	–	–	–	–	–
Sub-total	6,291.6	1,568.5	41.0	8.1	2.9	66.0
Total	10,774.1	6,475.9	232.2	341.0	68.2	176.4
Of which: designated as fair value hedges	–	–	–	–	–	–
Of which: designated as cash flow hedges	–	–	–	–	–	–
Of which: designated as hedges of a net investment in a foreign operation	1,037.3	70.0	19.4	1.7	0.1	36.9

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	
	2013	2014	2013	2014	2013	2014	2013	2014
CHF million								
Receivables carried at cost								
Receivables from financial contracts [1]	389.4	21.1	–	–	389.4	21.1	389.4	21.1
Other receivables	260.7	378.0	– 3.7	– 2.7	257.0	375.3	258.2	404.2
Receivables from investments	614.8	566.1	– 2.2	– 1.7	612.5	564.5	612.5	564.5
Receivables	1,264.8	965.2	– 5.9	– 4.4	1,259.0	960.9	1,260.1	989.8

1 The decrease in receivables from financial contracts was primarily attributable to the cancellation of a major financial reinsurance contract in Baloise's Belgian life business.

IMPAIRMENT OF RECEIVABLES

	2013	2014
CHF million		
Balance as at 1 January	– 6.7	– 5.9
Usage not recognised in profit or loss	0.2	1.0
Unused provisions reversed through profit or loss	2.7	1.9
Increases and additional provisions recognised in profit or loss	– 2.2	– 1.4
Disposal arising from change in scope of consolidation	–	–
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	– 5.9	– 4.4

16. REINSURANCE ASSETS

CHF million	2013	2014
Reinsurers' share of technical reserves as at 1 January	398.6	396.4
Change in unearned premium reserves	–7.1	1.7
Benefits paid	–72.3	–128.5
Interest on and change in liability	74.6	144.4
Additions / disposals arising from change in scope of consolidation	–	17.6
Impairment	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–3.0	–4.7
Exchange differences	5.6	–5.4
Reinsurers' share of technical reserves as at 31 December	396.4	421.5

17. RECEIVABLES FROM REINSURERS

CHF million	2013	2014
Reinsurance deposits as at 1 January	7.0	7.8
Additions	1.1	0.9
Disposals	–0.4	–0.3
Additions / disposals arising from change in scope of consolidation	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	–
Exchange differences	0.1	–0.2
Reinsurance deposits as at 31 December	7.8	8.3
Other reinsurance receivables as at 1 January	22.5	14.2
Additions	1.8	134.7
Disposals	–10.3	–77.1
Additions / disposals arising from change in scope of consolidation	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	–
Exchange differences	0.2	0.0
Other reinsurance receivables as at 31 December	14.2	71.8
Impairment of receivables from reinsurers as at 1 January	–0.3	–0.3
Usage not recognised in profit or loss	0.0	1.1
Unused provisions reversed through profit or loss	0.0	0.0
Increases and additional provisions recognised in profit or loss	0.0	–1.4
Disposal arising from change in scope of consolidation	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	–
Currency translation	–	0.0
Impairment of receivables from reinsurers as at 31 December	–0.3	–0.5
Receivables from reinsurers as at 31 December	21.7	79.7

18. EMPLOYEE BENEFITS

18.1 Receivables and liabilities arising from employee benefits

	Receivables from employee benefits		Liabilities arising from employee benefits	
	2013	2014	2013	2014
CHF million				
Type of benefit				
Short-term employee benefits	0.7	1.7	132.0	129.5
Post-employment benefits – defined contribution plans	–	–	–	–
Post-employment benefits – defined benefit plans	–	–	813.6	1,280.8
Other long-term employee benefits	–	–	32.6	33.5
Termination benefits	–	–	11.3	11.7
Total	0.7	1.7	989.5	1,455.6

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	2013	2014
Balance as at 1 January	2,068.6	2,183.0
Interest-rate effect	37.3	48.1
Return on plan assets	90.5	120.1
Employees' savings and purchases	25.5	24.1
Exchange differences	0.2	– 0.2
Employer contribution	55.0	56.2
Employee contribution	29.1	29.4
Benefits paid	– 123.1	– 123.2
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	2,183.0	2,337.4

18.2.2 Partially funded liabilities under defined benefit plans

CHF million	2013	2014
Balance as at 1 January	– 2,277.7	– 2,261.1
Current service cost	– 76.0	– 73.7
Interest-rate effect	– 39.9	– 53.0
Employees' savings and purchases	– 25.5	– 24.1
Actuarial gains / losses on defined benefit obligations arising from		
changes in financial assumptions	88.0	– 438.1
changes in demographic assumptions	– 5.1	12.0
experience adjustments	– 47.0	– 1.1
Exchange differences	– 0.3	0.4
Unrecognised past service cost	– 0.7	– 5.9
Benefits paid	123.1	123.3
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	– 2,261.1	– 2,721.3

18.2.3 Unfunded liabilities under defined benefit plans

	2013	2014
CHF million		
Balance as at 1 January	– 756.4	– 735.6
Current service cost	– 16.3	– 15.1
Interest-rate effect	– 21.5	– 23.1
Employees' savings and purchases	–	–
Actuarial gains / losses on defined benefit obligations arising from		
changes in financial assumptions	44.3	– 188.2
changes in demographic assumptions	–	– 2.4
experience adjustments	– 5.6	– 3.4
Exchange differences	– 11.0	14.4
Unrecognised past service cost	1.2	– 1.9
Benefits paid	29.1	29.2
Additions / disposals arising from change in scope of consolidation	0.6	– 3.3
Reclassification to non-current assets and disposal groups classified as held for sale	–	32.5
Gains and losses on plan settlements	–	–
Balance as at 31 December	– 735.6	– 896.9

18.2.4 Net actuarial liabilities under defined benefit plans

	2013	2014
CHF million		
Fair value of plan assets	2,183.0	2,337.4
Present value of (partially) funded liabilities	– 2,261.1	– 2,721.3
Present value of unfunded liabilities	– 735.6	– 896.9
Effect of the asset ceiling	–	–
Net actuarial liabilities under defined benefit plans	– 813.6	– 1,280.8

18.2.5 Asset allocation

CHF million	2013	2014
Cash and cash equivalents	145.5	108.6
Real estate	377.3	409.4
Equities and investment funds		
publicly listed	1,137.6	1,289.8
not publicly listed	79.1	128.2
Fixed-interest assets		
publicly listed	134.7	99.1
not publicly listed	–	–
Mortgages and loans	292.6	288.8
Derivatives		
publicly listed	–	–
not publicly listed	0.3	– 0.8
Other	16.0	14.3
Fair value of plan assets	2,183.0	2,337.4
Of which: Bâloise Holding Ltd shares (fair value) and convertible bonds (fair value)	25.1	29.7
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	2013	2014
Current service cost	– 92.2	– 88.9
Net interest cost	– 24.1	– 28.1
Unrecognised past service cost	0.5	– 7.8
Gains and losses on plan settlements	–	–
Expected return on reimbursement rights	–	–
Regular employee contribution	29.8	30.2
Total expenses for defined benefit plans recognised in the income statement	– 86.0	– 94.5

18.2.7 Actuarial assumptions

	2013	2014
Per cent		
Discount rate	2.4	1.0
Expected wage and salary increases	1.7	1.7
Expected increase in pension benefits	0.4	0.4
Weighted annuity option take-up rate	84.5	81.4
Years		
Average life expectancy of a 65-year-old woman	23.6	23.9
Average life expectancy of a 65-year-old man	20.7	21.0

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

	2013	2014
Total defined benefit obligation as shown	2,996.6	3,618.2
Discount rate plus 1.0 % age points	– 330.4	– 446.7
Discount rate minus 1.0 % age points	409.7	487.0
Expected wage and salary increases plus 0.5 % age points	31.1	40.1
Expected wage and salary increases minus 0.5 % age points	– 31.4	– 37.5
Expected pension benefits increases plus 0.5 % age points	150.1	203.9
Expected pension benefits increases minus 0.5 % age points	– 28.3	– 39.8
Mortality probabilities for 65-year-olds plus 10.0 % age points	– 70.7	– 90.4
Mortality probabilities for 65-year-olds minus 10.0 % age points	76.9	99.4
Weighted share of annuity option plus 10.0 % age points	6.4	19.7

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 61.6 million for the 2015 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 10.46 years; the average present value factor for current benefit entitlements under pension commitments is 16.25 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 2014 totalled CHF 33.5 million (2013: CHF 32.6 million). There were no disposals of plan assets for long-term employee benefits. Benefits paid out amounted to CHF 4.5 million (2013: CHF 4.4 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 2014, a sum of CHF 22.3 million (2013: CHF 20.0 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 57.30 for the reporting year (2013: CHF 50.30). 174,810 shares were purchased in the subscription period (2013: 167,147) 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 closed 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

	2013	2014
Number of shares subscribed	167,147	174,810
Restricted until	31.8.2016	31.8.2017
Subscription price per share (CHF)	50.30	57.30
Value of shares subscribed (CHF million)	8.4	10.0
Fair value of subscribed shares on subscription date (CHF million)	16.5	20.9
Employees entitled to participate	3,239	3,187
Participating employees	1,851	1,949
Subscribed shares per participant (average)	90.3	89.7

18.4.2 Share Subscription Plan

Since January 2003 those who qualify as eligible persons at Baloise Group companies in Switzerland – and, since 2008, the members of the 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 for the duration of a three-year closed 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, on which a discount of 10 per cent is granted. 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)

	2013	2014
Number of shares subscribed	55,830	46,688
Restricted until[1]	29.2.2016	28.2.2017
Subscription price per share (CHF)	73.53	102.78
Value of shares subscribed (CHF million)	4.1	4.8
Fair value of subscribed shares on subscription date (CHF million)	4.7	5.3
Employees entitled to participate	870	889
Participating employees	115	100
SSP portion of variable remuneration	15%	16%

1 The closed period during which shares allocated to the Chairman of the Board of Directors 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 (the same as for the Share Subscription Plan); although title to the shares passes to the relevant employees on this date without any further vesting conditions having to be met, the shares cannot be sold for the duration of a three-year closed 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, from which discounted dividend rights are deducted over a period of three years. 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 closed period has elapsed is hedged by put options, which are financed by the sale of offsetting call options. If the price of the shares is below the put options' strike price when the closed period expires, programme participants can sell all their shares at this strike price, which ensures that they can repay their loans plus interest. In this event, however, they lose all the capital that they have invested. If, on the other hand, the price of the shares is above the call options' strike price, programme participants must pay the commercial value of these options. Their upside profit potential is thus limited by the call options. If, when the three-year closed period elapses, the price of the shares is between the put options' strike price and the call options' strike price, once 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)

	2013	2014
Number of shares subscribed [1]	185,409	94,389
Restricted until	29.2.2016	28.2.2017
Subscription price per share [2] (CHF)	68.67	100.87
Value of shares subscribed [2] (CHF million)	12.7	9.5
Fair value of subscribed shares on subscription date (CHF million)	15.6	10.7
Employees entitled to participate	870	889
Participating employees	118	88
ESOP portion of variable remuneration	7 %	5 %

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 2014)

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

Source:http://www.stoxx.com/indices/index_information.html?symbol=SXIP

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 2014 they receive their shares on 1 March 2017. The arrangement applicable until 2013 was that half of the converted shares were then subject to an additional three-year closed period. This closed period has no longer applied since 2014, which brings the deferral period more closely into line with other such periods commonly found in the market.

The arrangement applicable until 2013 was that if an individual's employment contract was terminated during the vesting period (except in the case of retirement, disability or death), the PSUs expired without the person concerned receiving any replacement or compensation. Since 2014 the arrangement has been that if an employment contract is terminated in such situations, only some of the PSUs expire provided that the programme participant concerned does not join a rival company and is not personally at fault for the termination of the contract. The number of PSUs expiring is proportional to the amount of time remaining until the end of the vesting period. 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 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] 127.80	[4] 184.03	[4] 159%
2013	01.03.2013	84.50	01.03.2016	[4] 1.50	[4] 127.80	[4] 191.70	[4] 127%
2014	01.03.2014	113.40	01.03.2017	[4] 1.50	[4] 127.80	[4] 191.70	[4] 69%

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 (multiplier times the share price at the conversion date) and the share price at the grant date, expressed as a percentage of the share price at the grant date; example of the PSU plan in 2007: ([{1.182 * 86.05} – 125.80] / 125.80) * 100 = –19%.
4 Interim measurement as at 31 December 2014.

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 1 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 (PSUs)

	2012 Plan	2013 Plan	2014 Plan
Employees entitled to participate at launch of programme	72	69	65
Number of allocated PSUs	89,116	72,600	49,144
Of which: expired without compensation (departures in 2012)	– 5,132	–	–
Number of active PSUs as at 31 December 2012	83,984	–	–
Of which: expired without compensation (departures in 2013)	– 2,247	– 1,859	–
Number of active PSUs as at 31 December 2013	81,737	70,741	–
Of which: expired without compensation (departures in 2014)	– 5,336	– 5,026	– 2,308
Number of active PSUs as at 31 December 2014	76,401	65,715	46,836
Value of allocated PSUs on issue date (CHF million)	6.4	5.6	5.6
PSU expense incurred by the Baloise Group for 2012 (CHF million)	1.5	–	–
PSU expense incurred by the Baloise Group for 2013 (CHF million)	2.0	1.2	–
PSU expense incurred by the Baloise Group for 2014 (CHF million)	1.7	1.6	1.3

19. DEFERRED INCOME TAXES

19.1 Deferred income taxes

CHF million	2013	2014
Deferred tax assets	1,319.2	1,575.3
Deferred tax liabilities	– 2,145.4	– 2,592.5
Total (net)	– 826.3	– 1,017.3
Of which: recognised as deferred tax assets	56.0	48.3
Of which: recognised as deferred tax liabilities	– 882.3	– 1,065.5

19.2 Deferred tax assets and liabilities

DEFERRED TAX ASSETS

2013 CHF million	Carrying amount as at 1 January	Change recognised in profit or loss	Change recognised directly in equity	Carrying amount as at 31 December
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

2014 CHF million	Carrying amount as at 1 January	Change recognised in profit or loss	Change recognised directly in equity	Carrying amount as at 31 December
Technical reserves	416.0	44.1	–	460.1
Financial assets	31.3	14.5	–	45.8
Insurance liabilities	515.1	86.1	–	601.2
Other investments	38.7	– 22.2	–	16.5
Insurance receivables	1.2	4.3	–	5.5
Unrealised losses recognised directly in equity	26.9	–	92.7	119.6
Tax losses carried forward	36.5	7.0	–	43.5
Other[1]	253.5	29.6	–	283.1
Total	1,319.2	163.4	92.7	1,575.3

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

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 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

2014	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	230.1	– 15.2	–	215.0
Technical reserves	1,074.4	143.4	–	1,217.8
Unrealised gains recognised directly in equity	221.7	–	246.1	467.8
Investment property	329.9	22.7	–	352.5
Depreciable assets	4.1	0.0	–	4.0
Other intangible assets	14.9	– 10.0	–	4.9
Financial assets	54.9	48.4	–	103.3
Other investments	46.9	42.7	–	89.6
Insurance receivables	7.2	– 6.0	–	1.2
Other[1]	161.4	– 24.9	–	136.4
Total	2,145.4	201.0	246.1	2,592.5

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 172.1 million as at 31 December 2014 (2013: CHF 155.3 million). Of this total, CHF 0.1 million will expire after one year and CHF 171.7 million will expire after five years or more.

No deferred tax assets had been recognised on tax loss carryforwards amounting to CHF 291.2 million as at 31 December 2014 (2013: CHF 481.8 million) because the relevant offsetting criteria had not been met. Of this total, CHF 2.9 million will expire after one year, a further CHF 8.8 million will expire after two to four years and CHF 279.5 million will expire after five years or more.

20. OTHER ASSETS

"Other assets" include the fair value of precious metals amounting to CHF 53.3 million in connection with private placement life insurance (2013: CHF 47.3 million). The insurance policyholder bears the price risk attaching to these precious metal holdings.

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

The disposal group reported for 2013 includes the assets and associated liabilities of all Croatian and Serbian subsidiaries. A total impairment loss of CHF 31.7 million was recognised on the assets in this disposal group as at 31 December 2013. The disposal of the Croatian and Serbian units was completed on 11 March 2014.

The disposal group shown in the 2014 half-year report (but not presented here) includes the assets and associated liabilities of all Austrian subsidiaries. The disposal of these entities was completed on 28 August 2014. Information on the disposal of these entities can be found in table 40 "Acquisition and disposal of companies".

	Disposal groups		Non-current assets	
	31.12.2013	31.12.2014	31.12.2013	31.12.2014
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**	**–**	**–**	**–**

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 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

	Number of treasury shares	Number of shares in circulation	Number of shares issued	Share capital (CHF million)
Balance as at 1 January 2014	3,028,943	46,971,057	50,000,000	5.0
Purchase / sale of treasury shares	19,848	– 19,848	–	–
Capital increases	–	–	–	–
Share buy-back and cancellation	–	–	–	–
Balance as at 31 December 2014	3,048,791	46,951,209	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 (2013: 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 24 April 2014 voted to pay a gross dividend of CHF 4.75 per share for the 2013 financial year. This amounted to a total dividend distribution of CHF 237.5 million. Excluding the treasury shares held by Bâloise Holding at the time that the dividend was paid, the total distribution effectively amounted to CHF 223.6 million.

23. TECHNICAL RESERVES (GROSS)

CHF million	2013	2014
Unearned premium reserves (gross)	617.6	605.8
Claims reserve (gross)	5,527.7	5,517.6
Other technical reserves	97.1	89.5
Technical reserves (non-life)	6,242.4	6,212.8
Actuarial reserves (gross)	37,721.9	38,399.1
Policyholders' dividends credited and provisions for future policyholders' dividends (gross)	3,471.4	4,126.9
Technical reserves (life)	41,193.3	42,526.1
Technical reserves (gross)	47,435.6	48,738.9

23.1 Technical reserves (non-life)

	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
			2013			2014
CHF million						
Unearned premium reserves	617.6	6.1	623.7	605.8	4.0	609.8
Claims reserve	4,964.6	–	–	4,955.0	–	–
Provision for claims handling costs	563.1	–	–	562.6	–	–
Claims reserve	5,527.7	– 379.4	5,148.3	5,517.6	– 400.5	5,117.1
Other technical reserves	97.1	– 0.1	97.0	89.5	– 0.1	89.4
Total technical reserves (non-life)	6,242.4	– 373.3	5,869.0	6,212.8	– 396.6	5,816.3

23.1.1 Maturity structure of technical reserves

CHF million	Gross 2013	Reinsurance assets 2013	Net 2013	Gross 2014	Reinsurance assets 2014	Net 2014
Unearned premium reserves						
Up to 1 year	581.8	5.6	587.4	593.3	3.5	596.8
More than 1 year	10.2	0.5	10.8	10.8	0.5	11.3
No determinable residual term	25.5	–	25.5	1.7	–	1.7
Total unearned premium reserves	617.6	6.1	623.7	605.8	4.0	609.8
Claims reserve						
Up to 1 year	949.1	–49.9	899.1	1,046.4	–42.0	1,004.4
More than 1 year	3,473.9	–76.0	3,397.9	3,298.8	–78.9	3,219.9
No determinable residual term	1,104.8	–253.5	851.3	1,172.4	–279.6	892.8
Total claims reserve	5,527.7	–379.4	5,148.3	5,517.6	–400.5	5,117.1

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

CHF million	Gross 2013	Reinsurance assets 2013	Net 2013	Gross 2014	Reinsurance assets 2014	Net 2014
Balance as at 1 January	612.5	–1.6	610.8	617.6	6.1	623.7
Netted premiums	3,441.7	–141.3	3,300.4	3,358.8	–145.0	3,213.8
Less: premiums earned during the reporting period	–3,425.5	148.3	–3,277.1	–3,351.3	143.3	–3,208.0
Additions arising from acquisition of policy portfolios and insurance companies	–	–	–	8.5	–0.1	8.4
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	–18.2	–0.3	–18.5
Exchange differences	7.6	–0.1	7.6	–9.7	–0.1	–9.7
Balance as at 31 December	617.6	6.1	623.7	605.8	4.0	609.8

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
			2013			2014
CHF million						
Balance as at 1 January	58.0	–0.1	58.0	97.1	–0.1	97.0
Less: expenditures during the reporting period	–20.1	0.3	–19.8	–22.3	0.1	–22.1
Additional provisions recognised and unused provisions reversed through profit or loss	59.1	–0.3	58.8	14.9	–0.1	14.8
Additions arising from acquisition of policy portfolios and insurance companies	–	–	–	0.0	–	0.0
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	–0.3	–	–0.3
Balance as at 31 December	97.1	–0.1	97.0	89.5	–0.1	89.4

23.1.4 Claims reserve (including claims handling costs)

CHF million	2013	2014
Balance as at 1 January (gross)	5,478.7	5,527.7
Reinsurers' share	–373.2	–379.4
Balance as at 1 January (net)	5,105.5	5,148.3
Claims incurred (including claims handling costs)		
For the reporting period	2,135.1	2,014.7
For previous years	–80.1	–36.2
Total	2,055.0	1,978.5
Payments for claims and claims handling costs		
For the reporting period	–1,008.9	–914.1
For previous years	–997.2	–1,016.0
Total	–2,006.1	–1,930.1
Other changes		
Additions / disposals arising from changes in scope of consolidation	–	50.5
Reclassification to non-current assets and disposal groups classified as held for sale	–40.2	–92.6
Exchange differences	34.1	–37.6
Total	–6.1	–79.7
Balance as at 31 December (net)	5,148.3	5,117.1
Reinsurers' share	379.4	400.5
Balance as at 31 December (gross)	5,527.7	5,517.6

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 90.4 million at the end of 2014 (2013: CHF 88.1 million). Because the bulk of these provisions is held in foreign currency (US dollars), the slight increase can be attributed to currency effects.

23.2 Technical reserves (life)

CHF million	2013	2014
Actuarial reserves from non-unit-linked life insurance contracts [1]	34,592.4	35,087.6
Actuarial reserves from unit-linked life insurance contracts	2,521.0	2,678.3
Reserves for final policyholders' dividends	270.2	274.1
Unearned revenue reserve	338.3	359.1
Structure of actuarial reserves (life)	37,721.9	38,399.1
Policyholders' dividends credited and provisions for future policyholders' dividends	3,471.4	4,126.9
Total technical reserves (life)	41,193.3	42,526.1

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

23.2.1 Maturity structure of technical reserves

CHF million	2013	2014
Actuarial reserves from non-unit-linked life insurance contracts		
Up to 1 year	1,163.0	1,131.8
1 to 5 years	3,967.2	3,849.9
5 to 10 years	3,793.5	3,712.8
More than 10 years	7,275.7	7,060.3
No determinable residual term	8,566.7	8,838.4
Business from Swiss occupational pension plans [1]	9,826.4	10,494.5
Total actuarial reserves from non-unit-linked life insurance contracts	34,592.4	35,087.6
Actuarial reserves from unit-linked life insurance contracts		
Up to 1 year	109.0	66.6
1 to 5 years	240.5	282.5
5 to 10 years	328.3	376.1
More than 10 years	460.5	396.0
No determinable residual term	1,382.7	1,557.1
Total actuarial reserves from unit-linked life insurance contracts	2,521.0	2,678.3
Policyholders' dividends credited		
Up to 1 year	111.9	102.7
1 to 5 years	374.6	354.2
5 to 10 years	358.5	314.4
More than 10 years	532.7	462.0
No determinable residual term	281.2	279.9
Total policyholders' dividends credited	1,658.9	1,513.2
Provisions for future policyholders' dividends		
Up to 1 year	166.6	119.5
No determinable residual term	1,645.8	2,494.2
Total provisions for future policyholders' dividends	1,812.5	2,613.7

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	2013	2014
Balance as at 1 January	33,991.4	34,592.4
Change in actuarial reserves	693.6	757.1
Additions arising from acquisition of policy portfolios and insurance companies	–	151.4
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	– 195.0
Exchange differences	183.7	– 218.4
Balance as at 31 December	34,592.4	35,087.6

The actuarial reserves include unearned premium reserves and claims reserves.
The actuarial reserves for DPF business as at 31 December 2014 amounted to CHF 34,788.4 million (31 December 2013: CHF 34,322.0 million), while for non-DPF business they totalled CHF 299.2 million (31 December 2013: CHF 270.4 million).
The actuarial reserves for assumed business (inward reinsurance) as at 31 December 2014 came to CHF 7.4 million (31 December 2013: CHF 6.8 million).

23.2.3 Actuarial reserves from unit-linked life insurance contracts

CHF million	2013	2014
Balance as at 1 January	2,258.0	2,521.0
Additions	265.9	320.3
Disposals	– 219.7	– 243.0
Fees	– 4.4	– 4.9
Interest on and change in liabilities	196.1	235.6
Additions arising from acquisition of policy portfolios and insurance companies	–	0.0
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	– 113.2
Exchange differences	25.1	– 37.5
Balance as at 31 December	2,521.0	2,678.3

23.2.4 Reserve for final policyholders' dividends

CHF million	2013	2014
Balance as at 1 January	311.6	270.2
Adjustment arising from unrealised gains and losses as at 1 January (shadow accounting)	– 11.9	– 9.5
Interest on and change in liability	– 21.3	36.1
Final policyholders' dividends paid	– 21.3	– 30.2
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	– 0.1
Adjustment arising from unrealised gains and losses as at 31 December (shadow accounting)	9.5	11.5
Exchange differences	3.9	– 4.0
Balance as at 31 December	270.2	274.1

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	2013	2014
Balance as at 1 January	302.6	338.3
Reserved during the reporting period	30.6	30.8
Change in balance	0.9	9.8
Change due to unrealised gains and losses on investments (shadow accounting)	0.0	– 0.6
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	–	– 12.6
Exchange differences	4.2	– 6.5
Balance as at 31 December	338.3	359.1

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

CHF million	2013	2014
Policyholders' dividends credited as at 1 January	1,740.3	1,658.9
Dividends credited to policyholders during the reporting period	87.0	79.7
Policyholders' dividends paid	– 188.0	– 185.2
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	– 18.1
Exchange differences	20.1	– 22.2
Balance as at 31 December	1,658.9	1,513.2
Provisions for future policyholders' dividends as at 1 January	1,838.7	1,812.5
Adjustment arising from unrealised gains and losses as at 1 January	– 683.0	– 452.9
Additions	204.6	152.9
Withdrawals	– 214.3	– 175.3
Change in measurement differences between IFRS and national accounting standards recognised in profit or loss	205.2	226.3
Adjustment arising from unrealised gains and losses as at 31 December (shadow accounting)	452.9	1,067.6
Additions arising from acquisition of policy portfolios and insurance companies	–	0.1
Disposals arising from sale of policy portfolios and insurance companies	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	– 4.1
Exchange differences	8.4	– 13.4
Balance as at 31 December	1,812.5	2,613.7
Policyholders' dividends credited and provisions for future policyholders' dividends as at 31 December	3,471.4	4,126.9

24. LIABILITIES ARISING FROM BANKING BUSINESS AND FINANCIAL CONTRACTS

	Carrying amount		Fair value	
	2013	2014	2013	2014
CHF million				
With discretionary participation features (DPFs)				
Financial contracts with discretionary participation features (DPFs) [1]	1,492.7	1,766.5	–	–
Sub-total	1,492.7	1,766.5	–	–
Measured at amortised cost				
Liabilities to banks	156.9	157.9	156.9	158.0
Repurchase agreements	300.0	150.0	300.0	150.0
Liabilities arising from time deposits	19.9	17.2	20.0	17.3
Loans	0.0	–	0.0	–
Mortgages	–	–	–	–
Savings and customer deposits	5,172.7	5,335.1	5,161.4	5,368.2
Medium-term bonds	298.4	250.2	306.5	276.0
Mortgage-backed bonds	1,078.9	1,221.6	1,105.1	1,305.9
Bonds	99.7	99.9	105.8	103.1
Liability for future financial lease payments (present value)	97.3	86.4	97.3	86.4
Other financial contracts	34.6	23.7	34.6	23.7
Sub-total	7,258.4	7,342.0	7,287.7	7,488.7
Recognised at fair value through profit or loss (designated)				
Other financial contracts	7,791.1	8,632.3	7,791.1	8,632.3
Sub-total	7,791.1	8,632.3	7,791.1	8,632.3
Total liabilities arising from banking business and financial contracts	16,542.1	17,740.8	–	–

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

	2013	2014
CHF million		
Lease term < 1 year	0.0	0.0
Lease term 1 to 5 years	97.7	86.7
Lease term > 5 years	–	–
Total minimum lease payments	97.7	86.7
Future borrowing costs	–0.4	–0.2
Total liability for future financial lease payments (present value)	97.3	86.4

26. FINANCIAL LIABILITIES

SENIOR DEBT

CHF million	2013	2014
Balance as at 1 January	2,017.6	1,697.6
Issue price of newly issued bonds	224.5	149.4
Embedded derivative	–	–
Additions (sub-total)	224.5	149.4
Disposals / repayments / conversions	– 550.0	– 150.0
Interest expenses	50.1	43.5
Nominal interest rate	– 44.6	– 38.0
Interest costs (sub-total)	5.5	5.4
Balance as at 31 December	1,697.6	1,702.4

Bâloise Holding Ltd issued a new bond totalling CHF 150 million (1.125 per cent, 2014 to 2024, ISIN CH0261399064) at an issue price of 100.628 per cent on 19 November 2014 (paid-up on 19 December 2014). A further bond amounting to CHF 150 million (3.5 per cent, 2007 to 2014, ISIN CH0035539334) was repaid on 19 December 2014.

The fair value of financial liabilities at the balance sheet date totalled CHF 1,875.8 million (2013: CHF 1,804.4 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	Convertible bond	Senior bond	Senior bond	Senior bond	Senior bond	Senior bond	Senior bond	Senior bond
Face value (CHF million)	242.5	300	250	175	225	150	225	150
Interest rate	1.500 %	2.875 %	3.000 %	2.250 %	1.000 %	2.000 %	1.750 %	1.125 %
Early redemption date	on or after 8.12.2014	–	–	–	–	–	–	–
Repayment	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Issued	2009	2010	2011	2012	2012	2012	2013	2014
Repayment	17.11.2016	14.10.2020	07.07.2021	01.03.2019	12.10.2017	12.10.2022	26.4.2023	19.12.2024
ISIN	CH0107130822	CH0117683794	CH0131804616	CH0148295014	CH0188295536	CH0194695083	CH0200044821	CH0261399064

27. PROVISIONS

	Restructuring	Other	Total	Restructuring	Other	Total
			2013			2014
CHF million						
Balance as at 1 January	10.7	81.7	92.4	22.7	106.7	129.4
Addition arising from change in scope of consolidation	–	–	–	–	0.4	0.4
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	15.2	53.7	69.0	22.0	67.7	89.7
Unused provisions reversed through profit or loss	0.0	– 6.5	– 6.6	– 0.2	– 11.3	– 11.6
Usage not recognised in profit or loss	– 3.3	– 20.0	– 23.3	– 9.6	– 78.0	– 87.6
Unwinding of discount	–	–	–	0.0	–	0.0
Exchange differences	0.1	0.6	0.7	– 0.5	– 0.6	– 1.1
Balance as at 31 December	22.7	106.7	129.4	34.3	85.0	119.3

The balance shown for other provisions includes the usual amounts for legal advice and litigation risks. Other provisions utilised but not recognised in profit or loss are primarily attributable to Baloise's Belgian and Swiss entities. The recognition of restructuring provisions in profit or loss largely relates to the German entities.

28. INSURANCE LIABILITIES

	2013	2014
CHF million		
Liabilities to policyholders	1,350.0	1,458.9
Liabilities to brokers and agents	122.5	122.9
Liabilities to insurance companies [1]	619.9	176.4
Other insurance liabilities	25.5	22.1
Total insurance liabilities	2,118.0	1,780.3

1 The decrease in liabilities to insurance companies was primarily attributable to the cancellation of a major financial reinsurance contract in Baloise's Belgian life business.

Notes to the consolidated income statement

29. PREMIUMS EARNED AND POLICY FEES

	Non-life	Life	Total	Non-life	Life	Total
			2013			2014
CHF million						
Gross premiums written and policy fees	3,441.7	3,787.2	7,228.9	3,358.8	3,816.8	7,175.6
Change in unearned premium reserves	−16.2	–	−16.2	−7.5	–	−7.5
Premiums earned and policy fees (gross)	3,425.5	3,787.2	7,212.7	3,351.3	3,816.8	7,168.1
Reinsurance premiums ceded	−141.3	−19.5	−160.8	−145.0	−20.3	−165.2
Reinsurers' share of change in unearned premium reserves	−7.1	–	−7.1	1.7	–	1.7
Total premiums earned and policy fees (net)	3,277.1	3,767.7	7,044.8	3,208.0	3,796.5	7,004.5

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

	2013	2014
CHF million		
Investment property	253.3	256.0
Financial assets with characteristics of equity		
Available for sale	97.2	117.1
Recognised at fair value through profit or loss	0.2	12.2
Financial assets with characteristics of liabilities		
Held to maturity	247.9	234.9
Available for sale	639.2	596.4
Recognised at fair value through profit or loss	4.1	4.2
Mortgages and loans		
Carried at cost	501.2	460.2
Recognised at fair value through profit or loss	20.4	19.9
Cash and cash equivalents	1.6	1.1
Total investment income for own account and at own risk	1,765.1	1,701.9

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 3.4 million had been recognised on impaired investments at the balance sheet date (2013: CHF 4.2 million).

31. REALISED GAINS AND LOSSES ON INVESTMENTS

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

	2013	2014
CHF million		
Realised gains and losses on investments for own account and at own risk	210.7	775.1
Realised gains and losses on investments for the account and at the risk of life insurance policyholders	459.6	587.4
Realised gains and losses on investments as recognised in the income statement	**670.3**	**1,362.5**

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

2013	Investment property	Financial assets with characteristics of equity	Financial assets with characteristics of liabilities	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 with characteristics of liabilities are reported as realised book profits and / or realised book losses.

31.2 Realised gains and losses on investments in 2014 for own account and at own risk

2014	Investment property	Financial assets with characteristics of equity	Financial assets with characteristics of liabilities	Mortgages and loans	Derivative financial instruments	Total
CHF million						
Realised gains on sales and book profits						
Investment property	190.9	–	–	–	–	190.9
Held to maturity [1]	–	–	2.8	–	–	2.8
Available for sale	–	331.4	236.4	–	–	567.8
Recognised at fair value through profit or loss	–	48.5	2.9	16.9	355.9	424.3
Carried at cost	–	–	–	40.8	–	40.8
Sub-total	190.9	379.8	242.1	57.7	355.9	1,226.5
Realised losses on sales and book losses						
Investment property	–61.6	–	–	–	–	–61.6
Held to maturity [1]	–	–	–33.4	–	–	–33.4
Available for sale	–	–75.6	–70.7	–	–	–146.3
Recognised at fair value through profit or loss	–	–5.5	–1.5	0.0	–179.0	–186.0
Carried at cost	–	–	–	–3.1	–	–3.1
Sub-total	–61.6	–81.1	–105.7	–3.1	–179.0	–430.4
Impairment losses recognised in profit or loss						
Held to maturity	–	–	–	–	–	–
Available for sale	–	–35.8	–	–	–	–35.8
Carried at cost	–	–	–	–5.4	–	–5.4
Reversal of impairment losses recognised in profit or loss						
Held to maturity	–	–	–	–	–	–
Available for sale	–	–	10.9	–	–	10.9
Carried at cost	–	–	–	9.3	–	9.3
Sub-total	–	–35.8	10.9	3.9	–	–20.9
Total realised gains and losses on investments	129.3	263.0	147.4	58.5	177.0	775.1

1 Currency effects relating to held-to-maturity financial assets with characteristics of liabilities 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	2013	2014
Impairment losses on financial assets with characteristics of equity recognised in profit or loss		
Equities	– 12.5	– 24.3
Equity funds	– 1.0	–
Mixed funds	–	–
Bond funds	–	0.0
Real-estate funds	– 6.6	– 5.1
Private equity	– 8.0	– 5.9
Hedge funds	– 4.6	– 0.4
Sub-total	– 32.7	– 35.8
Impairment losses on financial assets with characteristics of liabilities recognised in profit or loss		
Public corporations	–	–
Industrial enterprises	– 0.3	–
Financial institutions	– 0.5	–
Other	–	–
Sub-total	– 0.9	–
Impairment losses on mortgages and loans recognised in profit or loss		
Mortgages	– 11.2	– 5.2
Policy loans	–	–
Promissory notes and registered bonds	–	–
Time deposits	–	–
Reverse repurchase agreements	–	–
Other loans	– 1.0	– 0.1
Sub-total	– 12.2	– 5.4
Total impairment losses on financial assets recognised in profit or loss	– 45.7	– 41.1

31.4 Currency gains and losses

Excluding exchange-rate losses on transactions involving financial instruments that are recognised at fair value through profit or loss, a currency loss of CHF – 77.0 million was reported for 2014 (2013: gain of CHF 26.5 million).

A gross currency gain of CHF 175.5 million was recognised directly in equity for the reporting year (2013: gain of CHF 67.4 million). Allowing for hedges of a net investment in a foreign operation (hedge accounting), a net gain of CHF 38.9 million was recognised for 2014 (2013: net gain of CHF 69.8 million).

32. INCOME FROM SERVICES RENDERED

CHF million	2013	2014
Asset management	30.6	35.4
Services	34.2	22.4
Banking services	43.6	44.2
Investment management	10.6	8.6
Income from services rendered	119.0	110.7

33. OTHER OPERATING INCOME

CHF million	2013	2014
Interest income from insurance and reinsurance receivables	12.3	11.0
Other interest income	2.8	2.5
Gains on the sale of		
property, plant and equipment	1.2	0.2
intangible assets	–	–
Currency gains on assets and liabilities	4.4	9.6
Reversal of impairment losses recognised on receivables	7.5	7.3
External income from owner-occupied property	10.6	10.9
Other income [1]	69.1	143.8
Other operating income	107.9	185.2

1 The 2014 reporting year includes the gain on the disposal of the Austrian entities.

34. CLASSIFICATION OF EXPENSES

CHF million	2013	2014
Personnel expenses (excluding loss adjustment expenses)	– 854.2	– 834.0
Marketing and advertising	– 40.0	– 32.9
Depreciation and impairment of property, plant and equipment	– 39.3	– 65.0
Amortisation and impairment of intangible assets	– 60.5	– 70.4
IT and other equipment	– 61.6	– 78.2
Expenses for rent, maintenance and repairs	– 59.1	– 55.0
Losses arising from exchange differences in respect of assets and liabilities	– 14.1	– 11.2
Commission and selling expenses	– 557.3	– 526.9
Fees and commission for financial assets and liabilities not recognised at fair value	– 25.6	– 17.0
Fees and commission expenses for assets managed for third parties	– 3.3	– 3.7
Expenses arising from non-current assets and disposal groups classified as held for sale	– 31.7	–
Other	– 202.7	– 255.3
Total	– 1,949.4	– 1,949.8

1 This includes changes in deferred acquisition costs recognised in profit or loss, as shown in table 9.

35. PERSONNEL EXPENSES

Total personnel expenses for 2014 came to CHF 959.4 million (2013: CHF 967.1 million).

36. GAINS OR LOSSES ON FINANCIAL CONTRACTS

CHF million	2013	2014
With discretionary participation features (DPFs)		
Financial contracts with discretionary participation features (DPFs)	– 42.7	– 44.3
Sub-total	– 42.7	– 44.3
Measured at amortised cost		
Interest on loans	– 0.4	– 0.3
Interest due	– 9.8	– 9.7
Interest arising from banking business	– 39.6	– 33.6
Interest expenses on repurchase agreements	0.0	0.0
Acquisition costs in banking business	– 5.7	– 15.6
Interest expenses on bonds	– 3.2	– 3.2
Expenses arising from financial contracts	– 17.7	– 17.0
Sub-total	– 76.5	– 79.4
Recognised at fair value through profit or loss (designated)		
Change in fair value of other financial contracts	– 249.7	– 338.8
Sub-total	– 249.7	– 338.8
Total gains or losses on financial contracts	– 368.9	– 462.6
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

CHF million	2013	2014
Current income taxes	– 82.2	– 135.4
Deferred income taxes	– 70.5	– 37.8
Total current and deferred income taxes	– 152.7	– 173.2

37.2 Expected and current income taxes

The expected average tax rate for the Baloise Group was 26.78 per cent in 2013 and 24.73 per cent in 2014. These rates correspond to the weighted average tax rates in those countries where the Baloise Group operates.

CHF million	2013	2014
Profit before taxes	608.1	885.1
Expected average tax rate (per cent)	26.78 %	24.73 %
Expected income taxes	– 162.8	– 218.9
Increase / reduction owing to		
tax-exempt profits and losses	2.5	36.0
non-deductible expenses	– 13.1	– 10.2
withholding taxes on dividends	– 2.4	– 2.6
change in tax rates	– 0.4	– 0.3
tax items related to other reporting periods	7.0	4.7
non-taxable measurement differences	9.5	2.2
other impacts [1]	6.9	15.9
Current income taxes	– 152.7	– 173.2

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 year 2013, the effect arising from the application of IFRS 5 [Non-current Assets Held for Sale and Discontinued Operations]).

38. EARNINGS PER SHARE

	2013	2014
Profit for the period attributable to shareholders (CHF million)	452.6	710.7
Average number of shares outstanding	46,896,926	46,921,282
Basic earnings per share (CHF)	9.65	15.15

	2013	2014
Profit for the period attributable to shareholders (CHF million)	452.6	710.7
Adjustment of interest expenses on convertible bonds, including tax effects (CHF million)	7.7	7.9
Adjusted profit for the period attributable to shareholders (CHF million)	460.3	718.6
Average number of shares outstanding	46,896,926	46,921,282
Adjustment due to theoretical conversion of convertible bond	2,000,000	1,999,712
Adjustment due to theoretical exercise of share-based payment plans	183,086	203,833
Adjustment due to theoretical exercise of put options	–	–
Adjusted average number of shares outstanding	49,080,012	49,124,827
Diluted earnings per share (CHF)	9.38	14.63

The dilution of earnings in 2013 as well as in 2014 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

	2013	2014
CHF million		
Items not to be reclassified to the income statement		
Change in reserves arising from reclassification of investment property	0.6	– 0.5
Change in reserves arising from assets and liabilities of post-employment benefits (defined benefit plans)	162.4	– 487.4
Change arising from shadow accounting	– 18.4	84.6
Income taxes	– 33.2	93.2
Total items not to be reclassified to the income statement	111.5	– 310.1
Items to be reclassified to the income statement		
Available-for-sale financial assets:		
Gains and losses arising during the reporting period	– 301.6	2,141.4
Gains and losses reclassified to the income statement	– 230.1	– 452.6
Total available-for-sale financial assets	– 531.7	1,688.8
Investments in associates		
Gains and losses arising during the reporting period	3.2	8.7
Gains and losses reclassified to the income statement	–	–
Total investments in associates	3.2	8.7
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	35.7	– 124.1
Gains and losses reclassified to the income statement	– 33.4	– 12.5
Total hedging reserves for derivative financial instruments held as hedges of a net investment in a foreign operation	2.4	– 136.6
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	– 2.8	– 2.5
Total reserves arising from reclassification of held-to-maturity financial assets:	– 2.7	– 2.6
Change arising from shadow accounting	267.2	– 737.1
Change arising from exchange differences	68.1	177.5
Income taxes	82.2	– 245.4
Total items to be reclassified to the income statement	– 111.3	753.3
Total other comprehensive income	0.1	443.2

39.2 Income taxes on other comprehensive income

CHF million	Amount before taxes 2013	Tax expense / tax income 2013	Amount net of taxes 2013	Amount before taxes 2014	Tax expense / tax income 2014	Amount net of taxes 2014
Items not to be reclassified to the income statement						
Change in reserves arising from reclassification of investment property	0.6	0.0	0.6	– 0.5	0.1	– 0.5
Change in reserves arising from assets and liabilities of post-employment benefits (defined benefit plans)	162.4	– 39.1	123.3	– 487.4	120.1	– 367.3
Change arising from shadow accounting	– 18.4	5.9	– 12.5	84.6	– 27.0	57.6
Total items not to be reclassified to the income statement	144.6	– 33.2	111.5	– 403.3	93.2	– 310.1
Items to be reclassified to the income statement						
Available-for-sale financial assets	– 531.7	148.3	– 383.4	1,688.8	– 459.1	1,229.7
Investments in associates	3.2	1.4	4.6	8.7	– 2.6	6.1
Hedging reserves for derivative financial instruments held as hedges of a net investment in a foreign operation	2.4	– 0.6	1.8	– 136.6	27.6	– 109.0
Reserves arising from reclassification of held-to-maturity financial assets	– 2.7	0.8	– 1.9	– 2.6	0.6	– 2.0
Change arising from shadow accounting	267.2	– 67.6	199.6	– 737.1	188.3	– 548.8
Change arising from exchange differences	68.1	–	68.1	177.5	–	177.5
Total items to be reclassified to the income statement	– 193.5	82.2	– 111.3	998.7	– 245.4	753.3
Total	– 48.9	49.1	0.1	595.4	– 152.2	443.2

Other disclosures

40. ACQUISITION AND DISPOSAL OF COMPANIES

	Cumulative acquisitions		Cumulative disposals	
	2013	2014	2013	2014
CHF million				
Investments	13.0	270.6	1.7	30.1
Other assets	0.3	10.0	0.5	988.0
Receivables and assets	0.0	53.9	69.6	0.2
Cash and cash equivalents	0.0	16.2	1.0	1.1
Actuarial liabilities	–10.2	–228.2	–65.9	0.0
Other accounts payable	–0.8	–98.5	–3.7	–870.8
Non-controlling interests	–	–	–	–10.9
Net assets acquired / disposed of	2.3	24.1	3.2	137.7
Funds used / received for acquisitions and disposals				
Cash and cash equivalents	2.9	32.6	3.4	269.0
Offsetting	–	–	–	–
Transfer of assets	–	–	–	–
Directly attributable costs	–	–	–	–
Equity instruments issued	–	–	–	–
Reclassification of investments in associates	–	–	–	–
Acquisition / disposal price	2.9	32.6	3.4	269.0
Net assets acquired / disposed of	–2.3	–24.1	–3.2	–137.7
Other comprehensive income [1]	–	–	0.1	–65.8
Goodwill / negative goodwill or proceeds from disposals	0.6	8.5	0.3	65.5
Cash and cash equivalents used / received for acquisitions and disposals	–2.9	–32.6	3.4	269.0
Cash and cash equivalents acquired / disposed of	0.0	16.2	–1.0	–1.1
Outflow / inflow of cash and cash equivalents	–2.9	–16.4	2.4	267.9

1 This includes primarily historical cumulative exchange differences.

The company FIPOP S.A. was acquired in Luxembourg in 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 2013. In Germany the firm Partner in Life S.A. was sold.

During the first half of the reporting year the Baloise Group acquired the Brussels-based real-estate company Singel Office Antwerpen NV in Belgium and the net assets of the firm P & V Assurances in Luxembourg.

All of Baloise's Croatian and Serbian subsidiaries were sold to the Austria-based UNIQA Group on 11 March 2014. All of its Austrian subsidiaries were then sold to the Helvetia Group on 28 August 2014. In Luxembourg the remaining 65 per cent shareholding in the company Barosa S.à.r.l. was sold during the first half of the reporting year.

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	
	2013	2014	2013	2014	2013	2014	2013	2014
CHF million								
Included in the income statement								
Premiums earned and policy fees	14.1	15.8	0.1	0.2	–	–	14.2	15.9
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	–	–	0.6	0.6
Expenses	– 0.4	– 0.4	– 14.4	– 14.5	–	–	– 14.8	– 14.9
Impairment losses on bad debts	–	–	–	–	–	–	–	–
Total income statement	14.2	15.7	– 14.1	– 14.1	–	–	0.1	1.6
Included on the balance sheet								
Mortgages and loans	–	–	11.3	11.1	–	–	11.3	11.1
Insurance receivables	0.9	0.0	–	–	–	–	0.9	0.0
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	– 3.8	– 4.5	–	–	–	–	– 3.8	– 4.5
Total on the balance sheet	– 3.6	– 5.2	11.3	11.1	–	–	7.6	5.9
Off-balance-sheet transactions								
Guarantees granted	–	–	–	–	–	–	–	–

EXECUTIVE MANAGEMENT REMUNERATION

	2013	2014
CHF million		
Short-term employee benefits	8.4	8.8
Post-employment benefits	1.5	1.5
Payments under share-based payment plans	4.6	4.2
Total	14.4	14.5

28,720 shares worth CHF 3.1 million were repurchased from members of the Corporate Executive Committee in 2014 (2013: CHF 4.4 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 and 663c of the Swiss Code of Obligations (OR) is contained in the Remuneration Report, which can be found on pages 61 to 83 of the chapter on corporate governance. 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 credit facilities 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 2014.

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.

	2013	2014
CHF million		
Guarantees	63.8	49.1
Collateral	452.3	459.4
Total guarantees and collateral for the benefit of third parties	516.1	508.5
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

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

2014	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Guarantees	–	–	32.4	–	16.7	49.1
Collateral	–	–	0.2	–	459.2	459.4

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

CARRYING AMOUNTS OF ASSETS PLEDGED OR CEDED AS COLLATERAL

CHF million	2013	2014
Financial assets under repurchase agreements	284.7	142.4
Financial assets in the context of securities lending	–	3,362.8
Investments	1,575.5	1,716.8
Pledged intangible assets	–	–
Pledged property, plant and equipment	–	–
Other	–	–
Total	1,860.1	5,222.1

FAIR VALUE OF COLLATERAL HELD

CHF million	2013	2014
Financial assets under reverse repurchase agreements	67.7	61.4
Financial assets in the context of securities lending	–	4,206.5
Other	–	–
Total	67.7	4,267.9
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 (mainly bonds). 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

	2013	2014
CHF million		
Commitments undertaken for future acquisition of		
investment property	14.8	40.4
financial assets	449.4	443.9
property, plant and equipment	–	–
intangible assets	19.7	14.1
Total commitments undertaken	484.0	498.4
Of which: in connection with joint ventures	–	–
Of which: own share of joint ventures' capital commitments	–	–

CREDIT RATINGS OF CAPITAL COMMITMENTS

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

2014	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Capital commitments	12.6	0.3	33.0	14.4	438.1	498.4

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

CHF million	2013	2014
Due within one year	–3.1	–3.2
Due after one to five years	–4.2	–3.4
Due after five years or more	–	–
Total	–7.3	–6.6
Minimum lease payments	–3.8	–4.0
Contingent lease payments	–	–
Leasing expenses	–3.8	–4.0
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

CHF million	2013	2014
Due within one year	35.5	33.3
Due after one to five years	56.1	49.4
Due after five years or more	11.5	9.9
Total	103.1	92.6
Minimum lease payments	41.1	40.4
Contingent lease payments	0.1	0.0
Leasing income	41.3	40.4

45. CLAIM PAYMENTS RECEIVED FROM NON-GROUP INSURERS

The companies in the Baloise Group received claim payments totalling CHF 0.1 million in 2014 (2013: 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

On 15 January 2015 the Swiss National Bank announced that it was abandoning its minimum exchange-rate target of 1.20 Swiss francs to the euro with immediate effect. The amounts published in these consolidated annual financial statements do not reflect exchange-rate changes that have occurred since 31 December 2014. Because the Swiss franc is the functional currency used in the Baloise Group's consolidated financial statements, any weakening of foreign currencies against the Swiss franc gives rise to negative exchange differences. Section 5.6 of the Financial Report describes how the Baloise Group manages market risks (including sensitivity analysis).

By the time that these consolidated annual financial statements had been completed on 20 March 2015, 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 2014

	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	2,293.0	–	X
Baloise Insurance Ltd, Basel	Non-life	NL	100.00	100.00	F	CHF	75.0	5,317.4	1,343.5	X
Baloise Life Ltd, Basel	Life	L	100.00	100.00	F	CHF	50.0	30,499.3	2,985.1	X
Baloise Bank SoBa AG, Solothurn	Banking	B	100.00	100.00	F	CHF	50.0	7,135.1	–	
Haakon AG, Basel	Other	O	74.75	74.75	F	CHF	0.2	27.1	–	
Baloise Asset Management Schweiz AG, Basel	Investment management	B	100.00	100.00	F	CHF	1.5	30.9	–	X
Baloise Asset Management International AG, Basel	Investment consulting	B	100.00	100.00	F	CHF	1.5	16.4	–	X
Germany										
Basler Versicherung Beteiligungen B.V. & Co KG, Hamburg	Holding	O	100.00	100.00	F	EUR	94.7	399.2	–	X
Basler Lebensversicherungs-Aktiengesellschaft, Hamburg	Life	L	100.00	100.00	F	EUR	22.0	9,585.5	376.7	
Basler Versicherungsgesellschaft, Bad Homburg	Non-life	NL	100.00	100.00	F	EUR	15.1	1,474.6	600.2	X
Deutscher Ring Bausparkasse Aktiengesellschaft, Hamburg	Banking	B	65.00	65.00	F	EUR	12.8	546.2	–	
Basler Beteiligungsholding GmbH, Hamburg	Holding	O	100.00	100.00	F	EUR	12.8	233.1	–	
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	1.5	5.9	–	
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	34.1	–	
Roland Rechtsschutz Versicherungs AG, Cologne	Other	–	15.01	25.02	E	EUR	–	–	–	
ZEUS Vermittlungsgesellschaft mbH, Hamburg	Other	O	100.00	100.00	F	EUR	0.5	13.2	–	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	7,887.9	865.7	X
Euromex NV, Antwerp	Non-life	NL	100.00	100.00	F	EUR	2.7	153.6	57.3	
Merno-Immo NV, Antwerp	Other	O	100.00	100.00	F	EUR	17.1	25.6	–	
Luxembourg										
Bâloise (Luxembourg) Holding S.A., Bertrange (Luxembourg)	Holding	O	100.00	100.00	F	CHF	250.0	1,171.1	–	X
Bâloise Assurances Luxembourg S.A., Bertrange (Luxembourg)	Non-life	NL	100.00	100.00	F	EUR	9.8	288.1	95.2	X
Bâloise Vie Luxembourg S.A., Bertrange (Luxembourg)	Life	L	100.00	100.00	F	EUR	32.7	5,098.5	70.2	
Baloise Fund Invest Advico, Bertrange (Luxembourg)	Other	B	100.00	100.00	F	EUR	0.1	10.4	–	X
Bâloise Delta Holding S.à.r.l., Bertrange (Luxembourg)	Holding	O	100.00	100.00	F	EUR	224.3	290.9	–	X
Baloise Life (Liechtenstein) AG, Balzers	Life	L	100.00	100.00	F	CHF	7.5	2,856.0	1.8	
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	1,036.9	188.8	x
Baloise Alternative Investment Strategies Limited, St. Helier (Jersey / Channel Islands)	Investment management	L / NL	100.00	100.00	F	USD	0.0	809.7	–	
Baloise Finance (Jersey) Ltd., St. Helier (Jersey / Channel Islands)	Other	O	100.00	100.00	F	CHF	1.3	202.8	–	X
Baloise Private Equity Limited, St. Helier (Jersey / Channel Islands)	Investment management	L / NL	100.00	100.00	F	USD	0.0	485.1	–	

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

CHF million	2013	2014
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	–	–

The Baloise Group sold 35 per cent of its shareholding in the Luxembourg-based company Barosa S.à.r.l. in 2013. The remaining 65 per cent shareholding was sold during the reporting year. Information on this disposal can be found in notes 6.2 and 40.

In 2014 and in 2013 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.

50. JOINT ARRANGEMENTS

There were no joint arrangements in 2013 and in 2014.

Report of the statutory auditor to the Annual 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 92 to 241), for the year ended 31 December 2014.

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 2014 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 Konopka
Audit expert	Audit expert
Auditor in charge	

Basel, 20 March 2015

Bâloise Holding Ltd

Income statement of Bâloise Holding

CHF million	Note	2013	2014
Income from long-term equity investments		284.9	481.2
Income from interest and securities	2	15.5	15.1
Other income		8.0	8.1
Total income		308.4	504.4
Administrative expenses	3	−53.2	−52.4
Interest expenses	4	−44.6	−38.0
Depreciation, amortisation and impairment	5	−151.1	–
Other expenses		−3.9	−8.0
Total expenses		−252.8	−98.4
Tax expense		−0.1	−0.2
Profit for the period		55.5	405.8

Balance sheet of Bâloise Holding

	Note	31.12.2013	31.12.2014
CHF million			
Assets			
Cash and cash equivalents		93.7	58.8
Treasury shares		139.4	141.9
Receivables from Group companies		70.2	70.6
Receivables from third parties		4.0	4.0
Prepaid expenses	6	41.9	217.0
Current assets		349.2	492.3
Long-term equity investments	8	1,837.3	1,730.4
Loans to Group companies	7	77.0	102.0
Other financial assets		–	100.0
Non-current assets		1,914.3	1,932.4
Total assets		2,263.5	2,424.7
Equity and liabilities			
Share capital		5.0	5.0
Statutory reserve			
General reserve		11.7	11.7
Reserve for treasury shares		176.3	182.8
Other reserves		240.7	52.4
Distributable profit		56.3	406.5
Equity	10	490.1	658.4
Liabilities to Group companies		15.1	0.7
Liabilities to third parties		0.0	0.0
Bonds	9	1,717.5	1,717.5
Provisions		8.0	9.6
Deferred income		32.8	38.5
Liabilities		1,773.4	1,766.3
Total equity and liabilities		2,263.5	2,424.7

Notes to the financial statements of Bâloise Holding

1. ACCOUNTING POLICIES

The annual financial statements of Bâloise Holding have been prepared in compliance with Swiss stock company law. 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	2013	2014
Income from treasury shares	8.5	9.5
Interest on loans to Group companies	5.7	3.2
Income from other financial assets	1.2	2.3
Other interest receivable	0.1	0.1
Total income from interest and securities	15.5	15.1

3. ADMINISTRATIVE EXPENSES

CHF million	2013	2014
Personnel expenses	– 38.6	– 38.2
Other administrative expenses	– 14.6	– 14.2
Total administrative expenses	– 53.2	– 52.4

4. INTEREST EXPENSES

CHF million	2013	2014
Interest on bonds	– 44.6	– 38.0
Other interest expenses	0.0	0.0
Total interest expenses	– 44.6	– 38.0

5. DEPRECIATION, AMORTISATION AND IMPAIRMENT

CHF million	2013	2014
Impairment of long-term equity investments	– 151.1	–
Impairment of treasury shares	–	–
Total depreciation, amortisation and impairment	**– 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.

NOTES TO THE BALANCE SHEET

6. PREPAID EXPENSES AND ACCRUED INCOME

The annual general meeting of Haakon AG, Basel, held on 4 March 2015, the AGMs of Baloise Bank SoBa AG, Solothurn, of Baloise Asset Management Schweiz AG and of Baloise Asset Management International AG, Basel, held on 6 March 2015, and the AGM of Basler Versicherung AG, Basel, held on 20 March 2015 voted to recognise the dividends receivable for the 2014 financial year as accrued income (2014: CHF 216.8 million / 2013: CHF 41.8 million).

7. LOANS TO GROUP COMPANIES

CHF million	2013	2014
Subordinated loans to Baloise Bank SoBa	40.0	40.0
Subordinated loans to Bâloise (Luxembourg) Holding S.A.	37.0	62.0
Total loans to Group companies	**77.0**	**102.0**

8. LONG-TERM EQUITY INVESTMENTS

Company	Total shareholding as at 31.12.2013 (per cent)[1]	Total shareholding as at 31.12.2014 (per cent)[1]	Currency	Share capital as at 31.12.2014 (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., Amsterdam	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	–	HRK	–
Neživotno osiguranje “Basler” a.d.o., Belgrade	100.00	–	RSD	–
Životno osiguranje “Basler” a.d.o., Belgrade	100.00	–	RSD	–

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 238 and 239 in the Financial Report section.

9. BONDS

AMOUNT

	Interest rate	Issued	Maturity date
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
CHF 150 million	1.125 %	2014	19.12.2024

10. CHANGES IN EQUITY

CHF million	31.12.2013	31.12.2014
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	173.9	176.3
Reduced through cancellation of treasury shares as per AGM resolution	–	–
Withdrawn (transferred to other reserves)	–	–
Allocated (transferred from other reserves)[1]	2.4	6.5
Total reserve for treasury shares	176.3	182.8
Total statutory reserves	188.0	194.5
Other reserves		
Balance as at 1 January	224.9	240.7
Allocated from distributable profit	18.2	–
Withdrawn for distributable profit	–	– 181.9
Allocated (transferred from reserve for treasury shares)	–	–
Withdrawn (transferred to reserve for treasury shares)	– 2.4	– 6.5
Total other reserves	240.7	52.4
Distributable profit		
Balance as at 1 January	244.1	56.3
Dividend distributed	– 225.0	– 237.5
Allocated to other reserves	– 18.2	–
Withdrawn from other reserves	–	181.9
Profit for the period	55.5	405.8
Total distributable profit	56.3	406.5
Total equity	490.1	658.4

1 Baloise Group companies purchased a total of 246,055 shares (not including the share buy-back via the secondary trading line) at an average price of CHF 112 during the reporting year. During this period they sold 201,442 shares at an average price of CHF 114 and together held a total of 1,954,876 Bâloise Holding shares as at 31 December 2014. 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.

11. 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 2014:

	Total shareholding as at 31.12.2013	Share of voting rights as at 31.12.2013	Total shareholding as at 31.12.2014	Share of voting rights as at 31.12.2014
Per cent				
Shareholders				
Chase Nominees Ltd. [1]	7.3	2.0	6.1	2.0
Black Rock Inc.	‹5.0	0.0	›5.0	‹2.0
UBS Fund Management AG	›3.0	‹2.0	›3.0	‹2.0
LSV Asset Management	›3.0	0.0	›3.0	0.0
Mellon Bank N.A. [1]	3.3	0.0	3.2	0.0
Nortrust Nominees Ltd. [1]	3.0	0.0	2.9	0.0
Bank of New York Mellon N.V. [1]	2.0	0.0	2.1	0.0
Credit Suisse Funds AG	‹3.0	‹2.0	‹3.0	‹2.0

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.

12. CONTINGENT LIABILITIES

	2013	2014
CHF million		
Collateral, guarantee commitments	203.2	164.4

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 2014.

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.

13. 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 (2013: none).

14. REMUNERATION PAID TO THE BOARD OF DIRECTORS AND THE CORPORATE EXECUTIVE COMMITTEE

The information to be disclosed in accordance with sections 663b and 663c of the Swiss Code of Obligations (OR) is contained in the Remuneration Report, which can be found on pages 61 to 83 of the chapter on corporate governance. 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 credit facilities 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.

15. INFORMATION ON THE PERFORMANCE OF RISK ASSESSMENT

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.

16. EVENTS AFTER THE BALANCE SHEET DATE

On 15 January 2015 the Swiss National Bank announced that it was abandoning its minimum exchange-rate target of 1.20 Swiss francs to the euro with immediate effect. For further information please refer to note 46 of the consolidated annual financial statements.

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 CHF 405,812,675.61.

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.

	2013	2014
CHF		
Profit for the period	55,480,024.92	405,812,675.61
Profit carried forward from the previous year	841,315.08	721,340.00
Distributable profit	56,321,340.00	406,534,015.61
Proposals by the Board of Directors		
Allocated to other reserves	–	– 156,000,000.00
Withdrawn from other reserves	181,900,000.00	–
Dividend	– 237,500,000.00	– 250,000,000.00
Profit to be carried forward	721,340.00	534,015.61

The appropriation of profit is consistent with section 30 of the Articles of Incorporation. Each share confers the right to receive a dividend of CHF 5.00 gross or CHF 3.25 net of withholding tax.

Report of the statutory auditor to the Annual 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 246 to 254), for the year ended 31 December 2014.

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 2014 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 Konopka
Audit expert	Audit expert
Auditor in charge	

Basel, 20 March 2015

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 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 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 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 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 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 2014 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 2014 annual financial statements together with detailed information.

AVAILABILITY AND ORDERING

The 2014 Annual Report and the Summary of the 2014 Annual Report will be available on the internet at www.baloise.com/annualreport from 26 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

26.3.2015	Annual financial results: media conference conference call for analysts
30.4.2015	Annual General Meeting of Bâloise Holding Ltd
27.8.2015	Half-year financial results: conference call for analysts and the media
22.3.2016	Annual financial results: media conference conference call for analysts
29.4.2016	Annual General Meeting of Bâloise Holding Ltd

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Making you safer.