

ANNUAL REPORT

2016

Baloise Group

Baloise Group
Annual Report 2016

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BÂLOISE HOLDING LTD

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Baloise key figures

	2015	2016	Change (%)
CHF million			
Business volume			
Gross premiums written (non-life)	3,050.0	3,140.7	3.0
Gross premiums written (life)	3,783.4	3,570.9	-5.6
Sub-total of IFRS gross premiums written¹	6,833.4	6,711.6	-1.8
Investment-type premiums	2,085.1	2,199.2	5.5
Total business volume	8,918.6	8,910.8	-0.1
Operating profit (loss)			
Profit / loss before borrowing costs and taxes			
Non-life	395.5	396.4	0.2
Life ²	277.3	226.1	-18.5
Banking	80.8	92.1	14.0
Other activities	-34.4	-31.0	-9.9
Profit for the period	511.1	533.9	4.5
Balance sheet			
Technical reserves	45,776.6	46,209.0	0.9
Equity	5,453.6	5,773.7	5.9
Ratios (per cent)			
Return on equity (RoE)	9.3	9.7	-
Gross combined ratio (non-life)	92.5	91.1	-
Net combined ratio (non-life)	93.3	92.2	-
New business margin (life)	9.8	21.3	-
Investment performance (insurance) ³	1.7	3.1	-
Embedded value of life insurance policies			
Embedded value (MCEV)	3,876.2	4,409.4	13.8
Annual premium equivalent (APE)	367.0	322.1	-12.2
Value of new business	36.1	68.5	89.8
Key figures on the Company's shares			
Shares issued (units)	50,000,000	50,000,000	0.0
Basic earnings per share ⁴ (CHF)	10.96	11.53	5.2
Diluted earnings per share ⁴ (CHF)	10.65	11.22	5.4
Equity per share ⁴ (CHF)	116.0	123.8	6.7
Closing price (CHF)	127.60	128.30	0.5
Market capitalisation (CHF million)	6,380.0	6,415.0	0.5
Dividend per share ⁵ (CHF)	5.00	5.20	4.0

1 Premiums written and policy fees (gross).

2 Of which deferred gains/losses from other operating segments (31 December 2015: CHF -3.3 million; 31 December 2016: CHF 2.0 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 2016, based on the proposal submitted to the Annual General Meeting.

At a glance

Equity of
CHF **5,773.7** million

Return on equity
(RoE) of
9.7 %

Profit of
CHF **534.8** million
(attributable to shareholders)

Dividend of
CHF **5.20** per share
(will be proposed to the
Annual General Meeting
on 28 April 2017)

5.5 %
higher business volume
with investment-type premiums

Net investment yield
of insurance assets
2.9 %

Net combined ratio of
92.2 %

New business margin of
21.3 %



Dr Andreas Burckhardt, Chairman of the Board of Directors (right), and Gert De Winter, Group CEO (left).

Baloise exceeds expectations

DEAR SHAREHOLDERS

Baloise is ready for the future. We are relying on innovation, agility and an entrepreneurial culture – without neglecting our core insurance business. The Simply Safe strategy sets out ambitious targets for Baloise to achieve by 2021. At the Investor Day in late October, Baloise presented the targets for the coming five years, in which it will be focusing on employees, customers and shareholders. Against a backdrop of changing conditions in the insurance sector, Baloise is thus evolving into an innovative provider of solutions that expand its core business and extend beyond traditional insurance.

Gert De Winter joined as Group CEO in early 2016. He has been tasked with looking after the existing business and, at the same time, daring to embark on new ventures in order to tackle the challenges of a changing environment. The Company's track record over the past decade has been excellent.

Baloise has one of the most profitable non-life portfolios in Europe, a strong market position in its core markets, cutting-edge IT systems and digitalised processes, plus forward-looking capital and risk management. These attributes and our shareholder-friendly dividend policy have long made Baloise one of the most attractive stocks in the sector. A fact that I am sure you already appreciate as shareholders.

Building on its successful past, Baloise is further strengthening its core business and also stepping up its activities outside the traditional insurance business in areas such as safety services, active assistance and prevention. The Company is thus equipping itself for the changing requirements of today's customers. On this journey, Baloise will measure its performance using three clear and simple goals.

1. Baloise aims to become the first choice for people who want to feel "simply safe". By ensuring an even stronger focus on customer needs, tailored omnichannel communication and innovative products and services in the areas of insurance, assistance and pensions, Baloise is striving to attract an additional one million customers by 2021. This equates to an increase of 30 per cent.
2. The workforce is key to implementing the new corporate strategy. Baloise wants to become an employer of choice in its industry. This will be measured in terms of how strongly its employees recommend it as an employer. Currently, Baloise is in the top third of the market

for European financial services providers. The aim is to make it into the top 10 per cent.

3. Finally, you, our shareholders, are to benefit directly from Baloise continuing to pursue an attractive dividend policy and repurchasing up to three million more treasury shares. At the same time, targeted capital investment in new strategic projects will indirectly generate additional profits in existing and new areas of business. We anticipate a cash inflow to Baloise Holding of CHF 2 billion between now and 2021 that will pave the way for this consistently attractive shareholder policy and profit-bringing new capital expenditure.

“The workforce is key to implementing the new corporate strategy.”

However, 2016 was not just about the new strategy. Important foundations for the future were laid in Germany. The strengthening of reserves in the German industrial and liability business, the shift in the business mix towards profitable retail and SME customers and measures to increase the company's sales capability are putting the German business on a firm footing. This strengthening of reserves reduced profit for the period by CHF 37.9 million net. In Switzerland, however, pension plan changes for banking and insurance employees resulting from IAS 19 had a positive impact. The profit for the period of CHF 534.8 million was therefore 4.4 per cent higher than in 2015.

In the life business, our efforts to change the business mix are already having an impact. Premiums from traditional life business declined in all countries, whereas investment-type premiums rose by 5.5 per cent across the Group. In the non-life business, the rise was 3.0 per cent. The net combined ratio improved by 1.1 percentage points year on year to 92.2 per cent. The net return on insurance assets came to 2.9 per cent, which was in line with the long-term trend (2015: 3.0 per cent). This is further proof of the stability of our asset management.

The Swiss business significantly increased its earnings and remains highly profitable. Earnings from the German business were influenced by the strengthening of reserves in non-life insurance. The business volume in Germany remained stable. Thanks to the steps taken, earnings are predicted to improve in future. In Belgium, the volume of business and the profitability of the non-life business grew. However, earnings were down

year on year due to a decline in the life business. Luxembourg enjoyed a good year in 2016. Although earnings fell slightly (by 0.9 per cent), the business volume increased once again and the profitability of the non-life business continues to be very good.

We owe a huge debt of gratitude to our employees for achieving good results once again against a backdrop of continued uncertainty and challenging economic conditions. Day in, day out, our employees contribute to Baloise's success on many different levels.

The profit that we generated in 2016 exceeded expectations. For this reason, the Board of Directors will ask the Annual General Meeting to raise the dividend to CHF 5.20. Moreover, the share buy-back programme launched in 2015 has finished earlier than planned. We have already announced a new programme, in which up to three million shares are to be repurchased over the next three years.

Under its new strategy, Baloise has set itself three clear targets in respect of employees, customers and shareholders. These will enable us to measure our performance over the next five years. We believe the targets are ambitious, especially because low interest rates and the strong Swiss franc continue to present us with difficulties. In view of the challenges facing our industry, we have to be innovative and dare to embark on new ventures. However, we have the necessary strength with which to pursue this strategy successfully. We believe Baloise is very well positioned to get through even difficult periods and achieve the targets that it has set.

Basel, March 2017



Dr Andreas Burckhardt

Chairman of the Board of Directors



Gert De Winter

Group CEO

Baloise shares hold their own despite challenging market conditions

In 2016, Baloise shares* fared well despite the difficult macroeconomic environment. This was due in no small part to the Company's good operating performance and the presentation of its new strategy, which met with a very favourable response. Closing at CHF 128.30, Baloise shares finished slightly higher than at the end of the prior year. This meant that they comfortably outperformed the Swiss Market Index again in 2016.

The equity markets were confronted with a series of unexpected events last year. The United Kingdom's vote to leave the European Union and the surprising outcome of the US presidential election shaped the macroeconomic environment in 2016. Although they were affected at the start of the year by concerns about the general health of the global economy and the slump in prices for energy commodities, the financial markets rallied strongly towards the end of the year. The main reason for this trend was the anticipation of a more pro-business policy in the United States under the newly elected Republican president, Donald Trump. The markets are expecting the Trump administration to deliver lower corporate taxes, deregulation in the banking sector and generous infrastructure programmes, factors that could lead to higher corporate profits and economic growth. These more positive expectations also influenced the bond markets, which eventually benefited from a rise in yields in the fourth quarter. In view of the buoyant US economy, the Federal Reserve raised the key interest rate by 25 basis points in mid-December. This was the second rate hike by the Fed since the start of the most recent financial crisis.

Nonetheless, the financial markets' encouraging performance after the US presidential election was able to only partly offset the significant price falls experienced by many stocks in the earlier quarters of the year. The particularly challenging market situation in the first six months of 2016 caused Baloise shares to drop by around 15 per cent compared with their price at the start of the year. However, the share price responded very well to the good results for the first half of the year and the successful Investor Day in late October. As a result, the price of Baloise shares closed 2016 at CHF 128.30, which was slightly higher than at the end of 2015. Baloise shares thus generated a return of 0.5 per cent for 2016 as a whole (excluding the dividend). By contrast, the STOXX Europe 600 Insurance Index (SXIP) fell by 6.7 per cent overall during the same period. Switzerland's two main share indices also declined: the Swiss Market Index

and the Swiss Leader Index went down by 6.8 per cent and 2.6 per cent respectively over the year as a whole.

Baloise shares are 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 Baloise Holding Ltd will propose to the Annual General Meeting on 28 April 2017 that a cash dividend of CHF 5.20 per share be paid for the 2016 financial year, an increase of CHF 0.20 compared with the dividend for 2015. This would represent an attractive dividend yield of 4.1 per cent of the year-end share price.

The share buy-back programme begun in April 2015 was ended earlier than planned in late July 2016. Under this programme, Baloise Holding Ltd repurchased a total of 1,000,000 registered shares at an average price of CHF 113.83 using a separate trading line in the SIX Swiss Exchange. This equates to 2 per cent of the share capital of Baloise Holding Ltd as entered in the commercial register. The Board of Directors will ask the upcoming Annual General Meeting to reduce the Company's share capital from CHF 5,000,000 to CHF 4,880,000 – a decrease of CHF 120,000 – by cancelling 1,200,000 treasury shares with a par value of CHF 0.10 each and to amend the Articles of Association accordingly. The shares to be cancelled were repurchased under the share buy-back programmes in 2006, 2015 and 2016.

* Baloise shares = shares of Baloise Holding Ltd.

	Cash dividends	Share buy-backs	Total
Year (CHF million)			
2012	225.0	–	225.0
2013	237.5	–	237.5
2014	250.0	–	250.0
2015	250.0	59.1	309.1
2016	260.0 ¹	54.8	314.8
Total	1,222.5	113.8	1,336.3

All figures stated as at 31 December.
 1 Proposal to the Annual General Meeting on 28 April 2017.

STATISTICS ON BALOISE SHARES

	31.12.2012	31.12.2013	31.12.2014	31.12.2015	31.12.2016
Price at year-end (CHF)	78.50	113.60	127.80	127.60	128.30
High (CHF)	80.56	113.60	129.90	136.30	131.00
Low (CHF)	58.30	80.75	101.60	109.60	103.20
Market capitalisation (CHF million)	3,925.0	5,680.0	6,390.0	6,380.0	6,415.0
Basic earnings per share (CHF)	9.32	9.65	15.15	10.96	11.53
Diluted earnings per share (CHF)	9.08	9.38	14.63	10.65	11.22
Price / earnings (p / e) ratio ¹	8.42	11.77	8.44	11.64	12.24
Price / book (p / b) ratio ¹	0.76	1.10	1.04	1.10	1.10
Number of shares issued (units)	50,000,000	50,000,000	50,000,000	50,000,000	50,000,000
Minus the number of treasury shares (units)	3,053,746	3,028,943	3,048,791	3,464,540	2,499,945
Number of shares in circulation (units)	46,946,254	46,971,057	46,951,209	46,535,460	47,500,055
Average number of shares outstanding ²	46,831,998	46,896,926	46,921,282	46,721,219	46,381,359
Dividend per share ³ (CHF)	4.50	4.75	5.00	5.00	5.20
Dividend payout ratio ³	48.3	49.2	33.0	49.0	49.0
Dividend yield ³	5.7	4.2	3.9	3.9	4.1

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 245 of the Financial Report).
 3 2016, based on the proposal submitted to the Annual General Meeting.

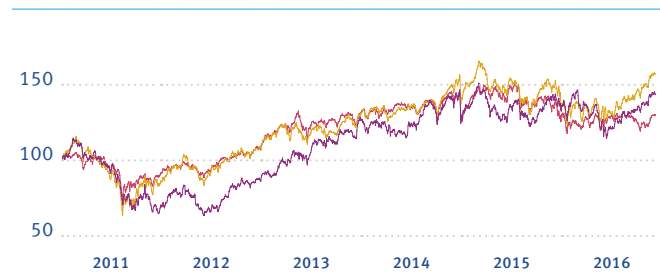
BALOISE SHARES

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

SHAREHOLDER STRUCTURE

The shares in Baloise Holding Ltd are widely held and their free float remains unchanged at 100 per cent. The following notifiable changes to Baloise's shareholder base took place during the financial year: on 19 May 2016, several collective investments managed by UBS Fund Management (Switzerland) AG together fell below the notifiable threshold of 3 per cent pursuant to section 120 of the Swiss Financial Market Infrastructure Act (FMIA). Further information on Baloise's significant shareholders as at 31 December 2016 can be found in table 15 on page 278.

INDEXED SHARE PRICE PERFORMANCE¹ BÂLOISE HOLDING REGISTERED SHARES 2011 – 2016



1 31 December 2010 = 100.

■ Baloise Holding registered shares (BALN)
 ■ SWX SP Insurance Price Index (SMINNX)
 ■ Swiss Market Index (SMI)

Our four core markets

BELGIUM



Business volume (CHF million)

Life: 143.5 | Non-life: 947.1

Investment-type premiums: 470.8

Employees: 1,274

Net combined ratio: 93.4%

LUXEMBOURG



Business volume (CHF million)

Life: 81.9 | Non-life: 116.4

Investment-type premiums: 1,407.3

Employees: 389

Net combined ratio: 93.9%

GERMANY



Business volume (CHF million)

Life: 466.2 | Non-life: 755.9

Investment-type premiums: 209.0

Employees: 1,986

Net combined ratio: 109.7

SWITZERLAND



Business volume (CHF million)

Life: 2,879.3 | Non-life: 1,315.8

Investment-type premiums: 112.1

Employees: 3,621

Net combined ratio: 81.2%

The Simply Safe strategy is about more than just insurance

Baloise is launching its new strategy and its targets up to 2021 under the banner of Simply Safe. Against a backdrop of changing conditions in the insurance sector, Baloise is thus evolving into an innovative provider of solutions that expand its core business and extend beyond traditional insurance. Customer focus is at the core of the new strategy. But it's not just about covering and insuring risks; it's about addressing the wider needs of customers in a changing society. In 2017 the Company is beginning its journey towards future growth with this clear perspective and with three simple yet ambitious objectives focused on employees, customers and shareholders.

CUSTOMERS

Baloise is becoming the first choice for people who want to feel "simply safe". An even stronger focus on customer needs, tailored omnichannel communication and innovative products and services in the areas of insurance, assistance and pensions will help Baloise to attract an additional one million customers by 2021. This would represent an increase of 30 per cent on 2016.

EMPLOYEES

The workforce is key to implementing the new corporate strategy. That is why Baloise wants to become an employer of choice in its industry. Progress will be measured by a performance indicator that shows how often Baloise is recommended as an employer.

SHAREHOLDERS

Thanks to sustained improvements in profitability in its business in Germany, its life business and its banking business, as well as innovative products and services such as the Mobile Insurer, cash of CHF 2 billion will flow into Baloise Holding between now and 2021. This benefits shareholders directly because Baloise will continue to pursue its attractive dividend policy and will repurchase three million treasury shares. Indirectly, shareholders will benefit from targeted capital investment in new strategic projects that will generate additional profits in existing and new areas of business.

SUSTAINABLE BUSINESS MANAGEMENT

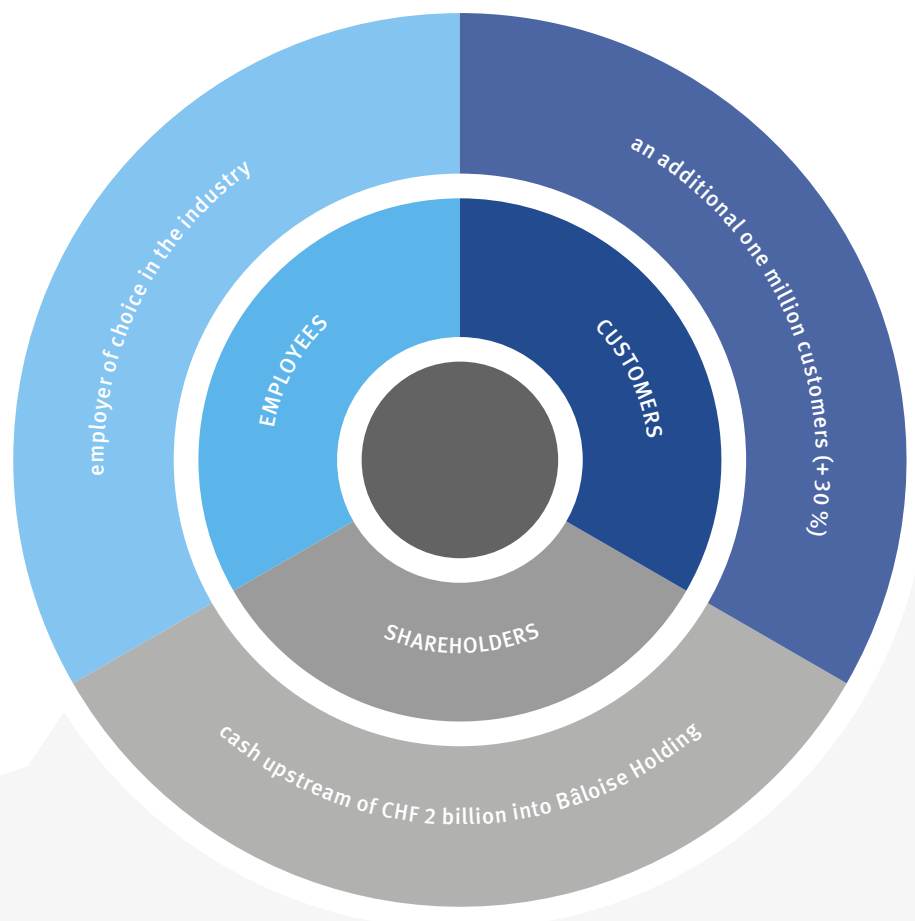
The key success factors in the new strategy will be the strong core business and the unique corporate culture that exists among the around 7,300 Baloise employees in Switzerland, Belgium, Germany and Luxembourg. Baloise aims to establish an agile and entrepreneurial corporate culture in which its employees, on a daily basis, see the world through the eyes of the customer. The idea is to develop services and solutions that go beyond the traditional insurance business.

The new strategy is in line with principles of corporate responsibility and sustainable business management, an approach that Baloise has pursued for a number of years now. The new focus on the customer goes beyond that of a traditional service provider. For this reason, greater importance needs to be attached to the society in which the customers – but also Baloise as a Company – exist. Baloise believes that this new strategy will bolster its efforts to make further improvements in the area of sustainable business management.

The Simply Safe strategy at a glance

“Baloise has a strong base on which to transform its business model, evolving from a historically oriented claims processor, a provider of pension and investment products and a risk-taker into a customer-focused provider of assistance, pension and prevention services.” Gert De Winter, Group CEO

OUR AMBITION BY 2021: BECOME THE TRUSTED CHOICE
FOR PEOPLE WHO WANT TO FEEL “SIMPLY SAFE”.



A BRIGHT FUTURE NEEDS A SOLID PAST:

Baloise's new ambitions are founded on its excellent track record over the past decade: one of the most profitable non-life portfolios in Europe, a strong market position in its core markets, cutting-edge IT systems and digitalised processes, plus forward-looking capital and risk management.

These attributes and the shareholder-friendly dividend policy have long made Baloise one of the most attractive stocks in the sector.

↑ Leveraging the core business

LIFE BUSINESS

- Reduced need for capital owing to an improved business mix
- Contribution to EBIT from the life business of CHF 200 million per year

GERMANY

- A combined ratio in Germany of below 100 per cent from 2017

CAPITAL MANAGEMENT

- Strong capitalisation
- New share buy-back programme for up to three million shares
- Cash upstream of CHF 2 billion to the holding company in the next five years

EMPLOYEES

- Entrepreneurial and agile – evolving corporate culture
- An employer of choice in the industry

↑ Going beyond traditional insurance

MOBILE INSURER “FRIDAY”

- Insurance from a smartphone in just a few minutes
- Ambition is to become the most popular mobile insurer in Germany by 2021
- www.friday.de

CUSTOMER JOURNEY

- Customer journey: knowing what services customers want

CONNECTED CARS – FOCUSING ON MOBILITY

- “Pay how you drive” policies in Luxembourg from 2017
- First platform for mobility in Belgium

INSTITUTIONAL ASSET MANAGEMENT

- New asset management services for Swiss pension funds from 2017
- Increase assets under management by more than CHF 5 billion by 2021

INVESTMENT PARTNERSHIP WITH ANTHEMIS GROUP

- The cooperation with the investment and advisory firm Anthemis Group aims to invest in strategically relevant start-ups
- Pipeline full of projects for taking the company forward

The Baloise brand

Feeling safe made simple.

What is the ambition of the Baloise brand?

→ Baloise wants to be the first choice for all those who wish to feel safer. Our customers should always have peace of mind and a sense of reassurance and safety. We want our customers to feel completely safe with Baloise at their side as a reliable partner. This means that we have to consistently align our services and products to the needs of our customers.

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What does the brand promise?

→ The Baloise brand stands for safety, simplicity and partnership. Safety is the core promise and provides the foundation for every benefit, every service and every product. Simplicity expresses our ambition to offer an outstanding customer experience with simple products, easy processes and clear communication. Partnership is one of our biggest emotional strengths. It is based on appreciation and value creation. We nurture and strengthen our relationships with all our stakeholder groups.

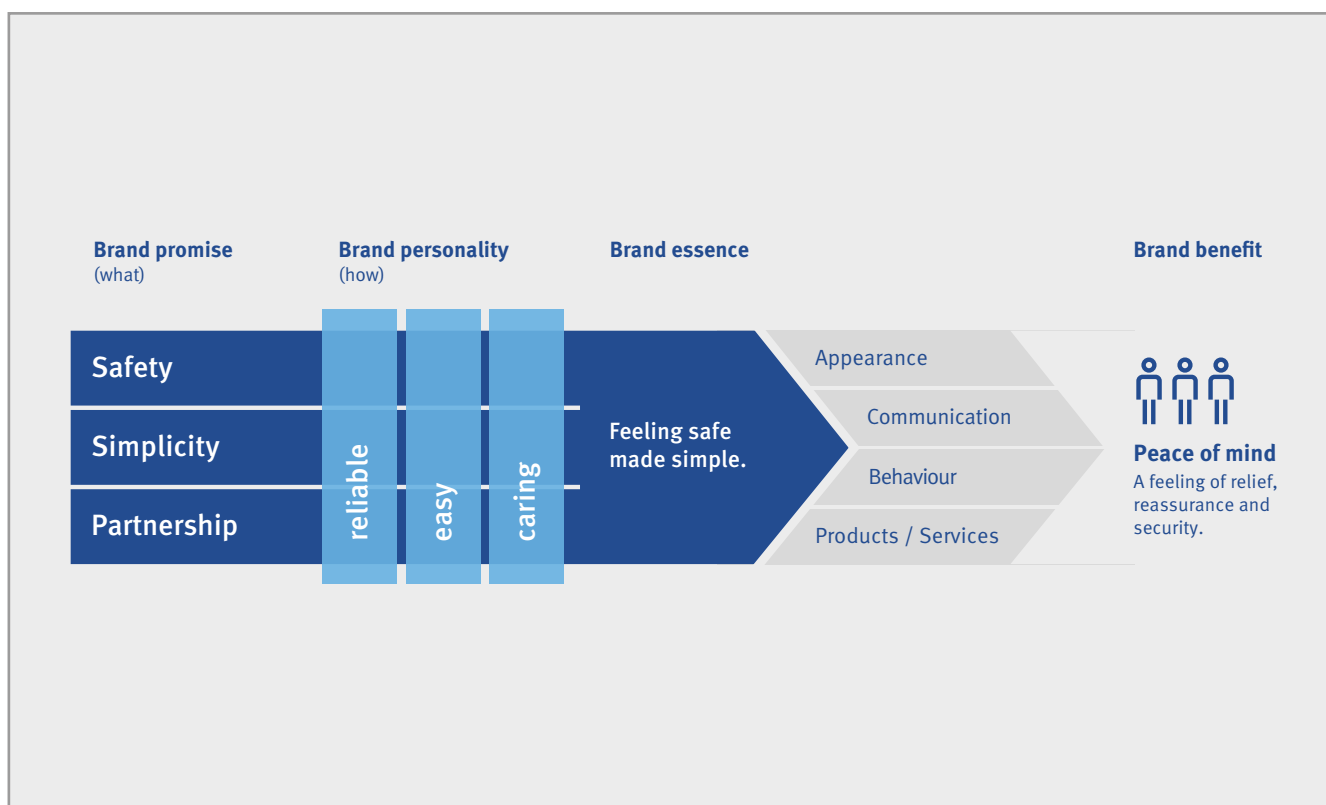
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How does the brand want to be seen?

→ Our brand personality defines how Baloise acts and communicates: reliable, easy to interact with and caring for you. We are competent and steadfast and act with quiet confidence and honesty. This makes us a reliable partner who is there for our customers when they need us. We communicate clearly and respond quickly to our stakeholder groups. We take a direct approach and always try to make things easier. As a committed partner we want to understand the needs of our customers and work to find suitable solutions.

“We make it simple to feel safe – as a reliable partner, who’s easy to interact with and truly cares.”

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Review of operating performance

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Strong profit despite uncertain economic policy

Baloise generated a strong profit in 2016. The year as a whole was shaped by economic policy uncertainties stemming from the vote for Brexit and the US election. These uncertainties impact on the economy, which saw even lower interest rates and volatile stock markets in 2016. From an operating perspective, the focus at Baloise was on the strengthening of reserves, steps to improve the German non-life business, low interest rates and the continuing shift of the business mix in the life business. The business volume grew in the two target segments: non-life and investment-linked premiums. In the traditional life business, however, the volume contracted. All operating segments contributed to the strong profit. In particular, the profitability of the non-life business remained very good.

OVERVIEW

In 2016, Baloise generated a profit of CHF 534.8 million, which was up by 4.4 per cent year on year. Although the climate of persistently low, or even negative, interest rates and the strong Swiss franc can now be considered normal, they are still an ongoing challenge. Moreover, the strengthening of reserves in the German non-life business reduced profit by CHF 37.9 million. Conversely, profit was boosted by roughly the same amount as a result of a positive accounting effect relating to provisions for pensions and other post-employment benefits (IAS 19) in respect of bank and insurance employees in Switzerland. The strength of the Swiss franc barely changed compared with 2015, which means that currency effects were negligible.

The volume of business generated was almost exactly the same as in 2015 at CHF 8.9 billion. The non-life division generated premium income reported under IFRS of CHF 3,140.7 million, an increase of 3.0 per cent. At CHF 396.4 million, the non-life business's profit before borrowing costs and taxes (EBIT) was up slightly year on year, despite a higher level of large claims incurred and the strengthening of reserves in Germany. A year-on-year increase in the profit on claims reserves had a positive impact. In the life division, the traditional life insurance business declined as had been expected, falling by 5.6 per cent compared with 2015. By contrast, investment-type premiums advanced by 5.5 per cent. This trend reflects the strategy of further improving the business mix in the life business. Reserves were strengthened by a substantial amount of more than CHF 300 million in view of the low interest rates. Despite this strengthening of reserves, the life business also generated a healthy profit although, at CHF 226.1 million, its EBIT was down slightly compared with the very good prior-year figure.

The gains achieved on the investment of insurance assets amounted to CHF 1,578.9 million, which was below the 2015 level of CHF 1,685.4 million. The challenging interest rate environment was reflected in the slightly lower recurring income of CHF 1,379.3 million (2015: CHF 1,418.0 million). The gains on investments achieved in these very challenging conditions equated to a net return on insurance assets of 2.9 per cent (2015: 3.0 per cent) and therefore remained broadly in line with the return seen in recent years. The rate of return on insurance assets according to IFRS – which includes unrealised net gains and losses on investments but excludes gains and losses on held-to-maturity debt instruments – was 3.1 per cent, representing an increase on the 1.7 per cent net return in 2015.

BUSINESS VOLUME IN 2016 (GROSS) BY STRATEGIC BUSINESS UNIT

As a percentage

→ Switzerland	48.3
→ Germany	16.1
→ Belgium	17.5
→ Luxembourg	18.0



There was further encouraging growth in the EBIT generated by the banking business, which rose by 14.0 per cent to CHF 92.1 million. The sharp increase was mainly attributable to a change in the pension scheme at Baloise Bank SoBa, which took effect in the first half of the year.

Baloise continues to have a very robust balance sheet. Consolidated equity went up by 5.9 per cent to CHF 5,773.7 million. This figure was bolstered by the profit for the period and by the gains from the sale of treasury shares after a convertible bond, which had not been fully converted, reached maturity in November 2016.

BUSINESS VOLUME

	2015	2016	+ / - %
CHF million			
Total business volume	8,918.6	8,910.8	-0.1
Life	3,783.4	3,570.9	-5.6
Non-life	3,050.0	3,140.7	3.0
Investment-type premiums	2,085.1	2,199.2	5.5

NON-LIFE DIVISION: INCREASED PROFITABILITY AND STRENGTHENING OF RESERVES IN GERMANY

The volume of business rose by 3.0 per cent in the non-life division. While the volume held steady in Switzerland due to the selective underwriting policy for accident and health insurance, Luxembourg (rise of 7.1 per cent), Belgium (rise of 6.6 per cent) and Germany (rise of 2.9 per cent) contributed to the increased volume, which reached a total of CHF 3,140.7 million. The amount paid out for large claims was up on the prior year due to losses across Europe in connection with flooding and hail, various large claims in the industrial business (losses in connection with fires in Germany and Switzerland) and large claims in the Swiss accident business. The claims ratio was also adversely affected by the strengthening of reserves in Germany. Nonetheless, the claims ratio went down overall and the combined ratio improved by a further 1.1 percentage points compared with 2015. One of the contributing factors was the year-on-year improvement in the profit on claims reserves. The net combined ratio stood at 92.2 per cent, underlining the excellent profitability of the non-life business. At CHF 396.4 million, EBIT in the non-life business was down slightly compared with 2015.

NET COMBINED RATIO

As a percentage



LIFE DIVISION: INTEREST RATE-RELATED STRENGTHENING OF RESERVES AND CHANGING BUSINESS MIX

In the life insurance division, the business volume contracted by 1.7 per cent. This decrease reflected the continuing shift in the business mix away from classic life business, which is no longer a focus because of the ongoing phase of low and, in some cases negative, interest rates. Premium income from traditional life business declined by 5.6 per cent, while investment-type premiums were up by 5.5 per cent. Total premium income, including investment-type premiums, amounted to CHF 5,770.1 million. In traditional life insurance, the business volume decreased in Switzerland (by 6.7 per cent), Germany (by 2.3 per cent) and Belgium (by 0.7 per cent) but increased in Luxembourg (by 10.8 per cent). The strong growth rate in Luxembourg was primarily attributable to risk products that pay out in the event of death. In contrast to the traditional life business, investment-type premiums rose to CHF 2,199.2 million, with the volume increasing by 3.4 per cent in Germany, by 14.2 per cent in Belgium and by 7.6 per cent in Luxembourg. In Switzerland, Baloise decided not to launch a second tranche product in view of the extremely low interest rates. As a result, investment-type premiums also declined. There were further encouraging increases in the volume of partially autonomous solutions for occupational pensions in Switzerland. Because interest rates were low, a substantial CHF 316.7 million was added to reserves in the life business in total. Although EBIT in the life business was lower than in 2015, it still amounted to a very healthy CHF 226.1 million. The positive operating income resulted in an increase in the embedded value of the life insurance business from CHF 3,876.2 million to CHF 4,409.4 million in 2016, which is equivalent to a return on embedded value of 14.7 per cent. The new business margin improved to 21.3 per cent (2015: 9.8 per cent) owing to a higher margin in Switzerland. The value of new business also rose, reaching CHF 68.5 million.

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

The banking business achieved a good profit once again, raising its EBIT by 14.0 per cent to CHF 92.1 million. This was due, in particular, to a non-recurring effect in connection with the change to the pension scheme of Baloise Bank SoBa. Profit would have held steady without this one-off item. As usual, the main contributors to profit were Baloise Asset Management (CHF 44.5 million) and Baloise Bank SoBa (CHF 41.7 million).

EQUITY REMAINS ROBUST

Baloise is, and will continue to be, underpinned by a strong capital base. Consolidated equity rose by 5.9 per cent year on year, reaching CHF 5,773.7 million. This figure was bolstered by the good profit for the period and by the gains from the sale of treasury shares after a convertible bond, which had not been fully converted, reached maturity in November 2016. The shares held in reserve for conversion had been recognised at a low purchase price. The total gains from the sale came to CHF 121.4 million. This resulted in an increase in capital reserves, although this was partly offset by dividends paid of CHF 232.0 million and other factors.

SIGNIFICANT GAINS ON INVESTMENTS

Following a significant stock market correction at the start of the year, there was a turnaround at the end of February that was largely the result of the European Central Bank increasing its quantitative easing. Despite political uncertainties, such as the Brexit referendum, the equity markets subsequently performed well. The combination of expansionary monetary policy and political uncertainties pushed interest rates to new lows around the world in mid-2016. The unexpected outcome of the US presidential election resulted in rising inflation expectations that, in turn, led to a moderate increase in interest rates and caused the equity markets to rally. Over the year as a whole, the Swiss stock market fell sharply against its global counterparts. Interest rates in Switzerland and the rest of Europe decreased over 2016 as a whole, despite rising at the end of the year.

The gains achieved on the investment of insurance assets amounted to CHF 1,578.9 million, which was below the 2015 level of CHF 1,685.4 million. The challenging interest rate environment was reflected in the lower recurring income of CHF 1,379.3 million (2015: CHF 1,418.0 million). As reinvesting repaid bonds has limited appeal in Europe, there was a preference for currency-hedged US dollar investments and tangible assets offering regular income. The duration of the bond portfolio was further

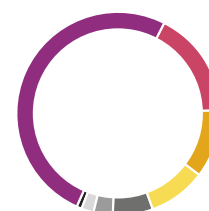
PROPRIETARY INVESTMENTS BY CATEGORY¹

	31.12.2015	31.12.2016	+ / - %
CHF million			
Investment property	6,251.9	6,817.5	9.0
Equities	4,357.5	4,055.3	-6.9
Alternative financial assets	1,259.6	1,304.1	3.5
Fixed-income securities	31,620.6	32,062.1	1.4
Mortgage assets	10,869.5	10,690.6	-1.6
Policy loans and other loans	5,787.0	5,664.1	-2.1
Derivatives	363.2	363.0	-0.1
Cash and cash equivalents	1,765.8	1,935.5	9.6
Total	62,275.3	62,892.3	1.0

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

INVESTMENT COMPONENTS IN 2016

As a percentage	
Fixed-income securities	51.0
Mortgage assets	17.0
Investment property	10.8
Policy loans and other loans	9.0
Equities	6.4
Cash and cash equivalents	3.1
Alternative financial assets	2.1
Derivatives	0.6



ASSETS HELD BY BALOISE

as at 31 December 2015	Non-life	Life	Banking	Total for the Group
CHF million				
Proprietary investments	9,160.2	45,406.3	7,902.1	62,275.3
Investment-linked life insurance ¹		10,873.2		11,186.3
Total recognised assets	9,160.2	56,279.5	7,902.1	73,461.6
Asset management for third parties				4,985.9
Total assets under management				78,447.5

as at 31 December 2016	Non-life	Life	Banking	Total for the Group
CHF million				
Proprietary investments	9,166.6	46,006.1	8,120.6	62,892.3
Investment-linked life insurance ¹		12,001.0		12,337.2
Total recognised assets	9,166.6	58,007.2	8,120.6	75,229.5
Asset management for third parties				4,938.3
Total assets under management				80,167.8

¹ Including CHF 54.5 million (2015: CHF 40.2 million) in other assets (precious metal holdings from investment-linked life insurance policies).

increased. Investment property is a stable source of income. The same applies to mortgages.

The gains recognised in the income statement were lower than in 2015 because it was not possible to increase the valuations of investment property to the same extent as the previous year. Moreover, impairment losses of CHF 108.2 million gross had to be recognised on financial instruments with characteristics of equity (2015: CHF 72.0 million). The flagging Swiss stock market was one of the contributing factors. In the life companies, gains realised on bonds were used to strengthen reserves and were at a lower level than in 2015. Currency effects were much more positive than in the previous year; the currency-related losses of CHF 99.8 million were virtually equal to the currency hedging costs.

The gains on investments achieved in these very challenging conditions equated to a net return on insurance assets of

2.9 per cent (2015: 3.0 per cent) and were therefore broadly in line with the return seen in recent years. The volume of unrealised gains improved. Consequently, the rate of return on insurance assets according to IFRS – which includes unrealised net gains and losses on investments but excludes gains and losses on held-to-maturity debt instruments – was 3.1 per cent, which was above the net return and the prior-year IFRS figure of 1.7 per cent.

Switzerland

Excellent results



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

4,307.2 (48.3 %)

Life: **66.8 %** Non-life: **30.5 %**

Investment-type premiums: **2.6 %**

KEY FIGURES FOR SWITZERLAND

	2015	2016	+ / - %
CHF million			
Business volume	4,565.5	4,307.2	-5.7
Of which: life	3,250.0	2,991.4	-8.0
Of which: non-life	1,315.5	1,315.8	0.0
Net combined ratio (per cent)	87.2	81.2	-
Profit before borrowing costs and taxes	415.3	546.6	31.6

BASLER VERSICHERUNGEN SWITZERLAND

Profit from the non-life business in Switzerland was exceptionally good, rising by 61.1 per cent compared with the excellent prior-year figure. This improvement was due to a higher profit on claims reserves than in 2015. In the life business, profit rose only slightly because of the significant strengthening of reserves required due to low interest rates. The EBIT of the Swiss entities rose by a total of 31.6 per cent to CHF 546.6 million. This was the second-best figure since the introduction of IFRS in 2000. It included a positive non-recurring accounting effect under IAS 19 resulting from changes to the pension funds for Baloise's own banking and insurance employees. The volume of business fell by 5.7 per cent to CHF 4,307.2 million, primarily due to the selective underwriting policy.

In the non-life division, premiums were on a par with 2015 at CHF 1,315.8 million. The selective underwriting policy for accident and health insurance ultimately meant that premium income held steady. Following a low level of claims in 2015, claims incurred were up slightly in 2016, although this was mitigated

by a higher profit on claims reserves than in the previous year. The net combined ratio decreased by 6.0 percentage points year on year to 81.2 per cent. This is another excellent result and reflects the success of the strategy of targeting particular kinds of customer.

In the life division, premium income from classic life insurance reduced by 6.7 per cent year on year to CHF 2,879.3 million. One reason for this decrease was that the growth of comprehensive BVG insurance contracts was deliberately restricted by means of a selective underwriting policy. However, the partially autonomous pension solution *Perspectiva* emerged as one of the fast-growing collective foundations in the Swiss SME segment.

Individual life insurance business continued to contract, declining by 5.8 per cent. The decrease was particularly strong in the case of single premiums, which was the result of the restrictive underwriting policy. Annual premiums from new business were on a par with 2015 thanks to the new Baloise Safe Plan family. Business with investment-type premiums contracted by a substantial 31.0 per cent. This was primarily because it was decided not to launch a tranche product in view of the persistently low interest rates. However, the proportion of insurance assets reinvested was in excess of 30 per cent – an excellent figure. Moreover, the combination of banking and insurance products enables us to offer customers a broader range of savings products.

The banking business conducted by *Baloise Bank SoBa* continued to perform very well. EBIT rose sharply to CHF 41.7 million. However, this was mainly due to plan changes in the pension fund of Baloise Bank SoBa, which had a positive impact under IAS 19. EBIT would have increased year on year even without this effect, which is a very good achievement given the economic environment.

Germany

Foundations for a turnaround laid



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

1,431.2 (16.1 %)

Life: **32.6 %** Non-life: **52.8 %**

Investment-type premiums: **14.6 %**

KEY FIGURES FOR GERMANY

	2015	2016	+ / - %
CHF million			
Business volume	1,414.1	1,431.2	1.2
Of which: life	679.6	675.2	-0.6
Of which: non-life	734.5	755.9	2.9
Net combined ratio (per cent)	103.7	109.7	-
Profit before borrowing costs and taxes	64.9	-60.9	n.a.

BASLER VERSICHERUNGEN IN GERMANY

The strengthening of reserves by CHF 54.8 million gross, which was carried out in the non-life business in the first half of the year, meant that a loss was generated overall. However, this action laid the foundations for a turnaround in 2017 as it will put the German business on a stronger footing. The total volume of business grew by 1.2 per cent to CHF 1,431.2 million in the year under review. While classic life products decreased by 2.3 per cent overall, despite a very encouraging rise relating to risk products, investment-type premiums were up by 3.4 per cent. The shift towards capital-efficient life products, i.e. risk and unit-linked products, is intentional and is a strategy that has already been pursued for a number of years in Germany. It is proving very successful, and the growth in new business from the new products is more than making up for the absence of "Riester" business. The sale of the closed life insurance portfolio of Direktion für Deutschland to the Frankfurter Leben Group was approved by the relevant regulatory authorities at the start of January 2017. The sale was completed on 3 February 2017, which means that 87 employees of Basler Versicherungen in

Germany are definitely moving to the Frankfurter Leben Group. The portfolio comprises around 130,000 life insurance policies and investments amounting to some EUR 1.72 billion.

The total premium income in the non-life business advanced by 2.9 per cent to CHF 755.9 million. In this area, Basler Germany is focusing more on products for retail customers and SMEs rather than on industrial business. The net combined ratio increased by 6.0 percentage points to 109.7 per cent. This was also a consequence of the strengthening of reserves, which had a net negative effect of 7.5 percentage points on the combined ratio. The level of large claims was lower than in 2015 but, at more than CHF 70 million, was still very high. On the basis of the measures already initiated, the aim is to achieve a combined ratio of below 100 per cent in the next few years.

Belgium

Good growth and a good profit



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

1,561.4 (17.5 %)

Life: 9.2 % Non-life: 60.7 %

Investment-type premiums: 30.2 %

KEY FIGURES FOR BELGIUM

	2015	2016	+/- %
CHF million			
Business volume	1,445.0	1,561.4	8.1
Of which: life	556.7	614.4	10.4
Of which: non-life	888.3	947.1	6.6
Net combined ratio (per cent)	93.6	93.4	-
Profit before borrowing costs and taxes	191.7	171.7	-10.4

Growth in the life business has stabilised. Classic life business declined by 0.7 per cent, which was primarily attributable to the challenging environment of low interest rates. At 14.2 per cent, the growth in investment-type premiums was particularly encouraging in 2016.

In view of the low interest rates over the course of 2016, the reserves in the life business were strengthened by an amount of around CHF 50 million, which had a corresponding negative impact on profit in the life business.

BALOISE INSURANCE BELGIUM

The Belgian business continues to generate impressive growth, with premium income rising by 8.1 per cent overall to CHF 1,561.4 million. The non-life business and investment-type premiums continue to be the growth drivers in Belgium.

Owing to the interest rate-related strengthening of reserves in the life business, profit for 2016 was down on the exceptionally good prior-year figure.

EBIT declined by CHF 20.0 million to CHF 171.7 million.

The non-life business grew by 6.6 per cent, which was above the average for the Belgian market. Once again, there were significant increases for transport and marine insurance. Growth in business with SMEs and retail customers was also encouraging. The net combined ratio fell slightly, by 0.2 percentage points, to 93.4 per cent. This was primarily thanks to the improved claims ratio, which was achieved despite Belgium being affected by storm and flood damage in the spring. These results show that the steady growth of the non-life business is not detrimental to profitability as this business continues to be very profitable.

Luxembourg

Good growth and high profitability



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

1,605.5 (18.0%)



KEY FIGURES FOR LUXEMBOURG

	2015	2016	+ / - %
CHF million			
Business volume	1,490.9	1,605.5	7.7
Of which: life	1,382.3	1,489.1	7.7
Of which: non-life	108.6	116.4	7.1
Net combined ratio (per cent)	94.7	93.9	-
Profit before borrowing costs and taxes	23.5	23.3	-0.9

In the traditional life business, the 10.8 per cent growth was predominantly the result of products for biometric risk, while classic savings products were discontinued. Investment-type premiums also generated a strong increase of 7.6 per cent, the main factor being the international life business, which is operated from Luxembourg. The growth of this business outstripped that of the market.

BÂLOISE ASSURANCES LUXEMBOURG

The business unit in Luxembourg continues to grow, increasing the business volume by 7.7 per cent to CHF 1,605.5 million. The non-life business was up by 7.1 per cent. This growth was mainly attributable to the strong motor vehicle business. Baloise has made a name for itself in this market, particularly among young drivers, with its Game of Roads and Game of Roads Experience apps, which analyse driving behaviour in a fun way. The net combined ratio improved slightly, falling to 93.9 per cent. EBIT was virtually unchanged.

Consolidated income statement

FIVE-YEAR OVERVIEW

	2012	2013	2014	2015	2016
CHF million					
Income					
Premiums earned and policy fees (gross) ¹	6,731.1	7,212.7	7,168.1	6,832.4	6,680.6
Reinsurance premiums ceded	-176.5	-167.9	-163.6	-148.6	-168.2
Premiums earned and policy fees (net)	6,554.6	7,044.8	7,004.5	6,683.7	6,512.4
Investment income	1,782.2	1,765.1	1,701.9	1,521.8	1,476.6
Realised gains and losses on investments ²	852.9	670.3	1,362.5	386.2	667.2
Income from services rendered	125.0	119.0	110.7	112.6	110.1
Share of profit (loss) of associates	16.5	40.5	8.1	36.8	7.1
Other operating income	92.0	107.9	185.2	136.6	136.8
Income	9,423.2	9,747.5	10,372.8	8,877.9	8,910.2
Expense					
Claims and benefits paid (gross)	-5,449.4	-5,439.7	-5,666.4	-5,352.4	-5,664.2
Change in technical reserves (gross)	-867.7	-1,359.4	-1,469.5	-1,241.9	-669.1
Reinsurance share of claims incurred	113.2	75.5	146.6	97.9	108.2
Acquisition costs	-651.0	-500.5	-569.6	-472.4	-502.9
Operating and administrative expenses for insurance business	-900.0	-897.1	-866.5	-761.3	-763.9
Investment management expenses	-59.0	-70.6	-66.9	-60.4	-60.3
Interest expenses on insurance liabilities	-50.5	-47.3	-42.6	-34.1	-30.5
Gains or losses on financial contracts	-577.8	-368.9	-462.6	-0.9	-342.9
Other operating expenses	-363.2	-481.3	-446.8	-333.1	-300.9
Expense	-8,805.4	-9,089.3	-9,444.3	-8,158.6	-8,226.6
Profit before borrowing costs and taxes	617.9	658.2	928.6	719.2	683.6
Borrowing costs	-61.0	-50.1	-43.5	-40.0	-38.0
Profit before taxes	556.8	608.1	885.1	679.3	645.6
Income taxes	-71.6	-152.7	-173.2	-168.2	-111.7
Profit for the period	485.2	455.4	711.9	511.1	533.9
Attributable to					
Shareholders	479.5	452.6	710.7	512.1	534.8
Non-controlling interests	5.7	2.8	1.3	-1.0	-0.9
Earnings / loss per share					
Basic (CHF)	10.24	9.65	15.15	10.96	11.53
Diluted (CHF)	9.96	9.38	14.63	10.65	11.22

Footnotes: see next page.

ADDITIONAL INFORMATION

	2012	2013	2014	2015	2016
CHF million					
Gross premiums written and policy fees	6,741.7	7,228.9	7,175.6	6,833.4	6,711.6
Investment-type premiums	1,616.6	1,780.6	2,130.2	2,085.1	2,199.2
Total business volume	8,358.3	9,009.5	9,305.8	8,918.6	8,910.8
Investments for the account and at the risk of life insurance policyholders	8,779.3	9,606.8	10,904.2	10,873.2	12,001.0
Gross combined ratio	93.2	93.1	93.7	92.5	91.1
Funding ratio (non-life) (per cent)	184.3	179.8	182.9	192.4	188.5

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

as at 31.12.	2012	2013	2014	2015 (restated)	2016
CHF million					
Assets					
Property, plant and equipment	458.5	422.5	379.2	399.1	349.3
Intangible assets	1,078.5	1,080.3	909.2	838.2	836.1
Investments in associates	227.2	222.0	227.9	162.3	160.4
Investment property	5,441.0	5,685.9	5,962.9	6,251.9	6,817.5
Financial instruments with characteristics of equity	9,475.7	11,344.4	13,451.2	13,770.8	14,305.6
Financial instruments with characteristics of liabilities	32,513.3	32,327.1	34,461.6	33,248.4	33,766.5
Mortgages and loans	18,510.9	18,329.5	18,165.9	16,656.6	16,354.7
Derivative financial instruments	497.6	410.7	613.2	653.9	757.3
Other assets / receivables	2,618.6	2,857.7	2,153.5	3,921.5	4,024.3
Deferred tax assets	32.7	56.0	48.3	39.8	69.3
Cash and cash equivalents	2,923.7	2,960.8	2,969.6	2,839.8	3,173.3
Total assets	73,777.7	75,696.9	79,342.3	78,782.3	80,614.3

as at 31.12.	2012	2013	2014	2015 (restated)	2016
CHF million					
Equity and liabilities					
Equity					
Equity before non-controlling interests	4,603.5	4,855.9	5,791.3	5,418.9	5,741.3
Non-controlling interests	37.8	50.5	39.7	34.7	32.4
Total equity	4,641.3	4,906.4	5,831.0	5,453.6	5,773.7
Liabilities					
Gross technical reserves	46,591.9	47,435.6	48,738.9	45,776.6	46,209.0
Liabilities arising from banking business and financial contracts	15,839.6	16,542.1	17,740.8	19,012.0	20,317.7
Derivative financial instruments	64.4	68.2	176.4	250.8	299.0
Other accounts payable	5,802.0	5,862.3	5,789.7	7,379.5	7,070.0
Deferred tax liabilities	838.5	882.3	1,065.5	909.7	944.9
Total liabilities	69,136.4	70,790.5	73,511.4	73,328.7	74,840.6
Total equity and liabilities	73,777.7	75,696.9	79,342.3	78,782.3	80,614.3

Business volume, premiums and combined ratio

BUSINESS VOLUME

2015	Group	Switzerland	Germany	Belgium	Luxembourg
CHF million					
Non-life	3,050.0	1,315.5	734.5	888.3	108.6
Life	3,783.4	3,087.6	477.4	144.5	73.9
Sub-total of IFRS gross premiums written ¹	6,833.4	4,403.2	1,211.9	1,032.8	182.5
Investment-type premiums	2,085.1	162.4	202.2	412.2	1,308.4
Total business volume	8,918.6	4,565.5	1,414.1	1,445.0	1,490.9

2016	Group	Switzerland	Germany	Belgium	Luxembourg
CHF million					
Non-life	3,140.7	1,315.8	755.9	947.1	116.4
Life	3,570.9	2,879.3	466.2	143.5	81.9
Sub-total of IFRS gross premiums written ¹	6,711.6	4,195.1	1,222.1	1,090.6	198.3
Investment-type premiums	2,199.2	112.1	209.0	470.8	1,407.3
Total business volume	8,910.8	4,307.2	1,431.2	1,561.4	1,605.5

¹ Premiums written and policy fees (gross).

NET COMBINED RATIO

2015	Group	Switzerland	Germany	Belgium	Luxembourg
as a percentage of premiums earned					
Claims ratio ¹	62.1	60.6	68.0	59.9	60.7
Expense ratio	31.2	26.6	35.7	33.7	34.0
Combined ratio	93.3	87.2	103.7	93.6	94.7

2016	Group	Switzerland	Germany	Belgium	Luxembourg
as a percentage of premiums earned					
Claims ratio ¹	60.8	55.0	72.8	58.9	64.0
Expense ratio	31.4	26.2	36.9	34.5	29.9
Combined ratio	92.2	81.2	109.7	93.4	93.9

¹ Including the profit-sharing ratio.

GROSS AND NET COMBINED RATIO

	Gross		Net	
	2015	2016	2015	2016
as a percentage of premiums earned				
Claims ratio ¹	62.4	60.9	62.1	60.8
Expense ratio	30.1	30.2	31.2	31.4
Combined ratio	92.5	91.1	93.3	92.2

¹ Including the profit-sharing ratio.

FUNDING RATIO (NON-LIFE)

	2015	2016
CHF million		
Technical reserve for own account ¹	5,614.9	5,637.2
Premiums written and policy fees for own account	2,918.9	2,990.8
Funding ratio (per cent)	192.4	188.5

¹ Not including capitalised settlement premiums.

Technical income statement

	Non-life		Life ³	
	2015	2016	2015	2016
CHF million				
Gross				
Gross premiums written and policy fees	3,050.0	3,140.7	3,783.4	3,570.9
Change in unearned premium reserves	-1.1	-31.0	-	-
Premiums earned and policy fees (gross)	3,048.9	3,109.7	3,783.4	3,570.9
Claims and benefits paid (gross)	-1,854.0	-1,859.7	-3,498.4	-3,804.5
Change in technical reserves (gross)				
Change in claims reserve / actuarial reserves ¹	-47.6	-35.3	-741.1	-547.2
Change in other technical reserves	-7.7	-31.5	-445.6	-55.2
Technical expenses	-936.3	-966.1	-353.7	-353.0
Total technical result (gross)	203.3	217.2	-1,255.4	-1,189.2
Ceded to reinsurers				
Reinsurance premiums ceded	-129.5	-149.8	-19.1	-18.4
Claims and benefits paid	70.6	88.0	5.1	7.5
Reinsurers' share of claims incurred	18.9	8.4	2.3	1.1
Change in other technical reserves	0.0	0.1	0.9	3.0
Technical expenses	8.5	8.7	1.5	1.5
Total technical result of ceded business	-31.5	-44.6	-9.3	-5.2
For own account				
Premiums earned and policy fees	2,919.4	2,959.9	3,764.4	3,552.4
Claims and benefits paid	-1,783.3	-1,771.6	-3,493.3	-3,797.0
Change in claims reserve / actuarial reserves ¹	-28.7	-26.9	-738.7	-546.1
Change in other technical reserves	-7.7	-31.4	-444.7	-52.2
Technical expenses	-927.8	-957.4	-352.3	-351.5
Total technical result for own account	171.8	172.6	-1,264.6	-1,194.4
Investment income (gross)	221.4	217.8	1,196.5	1,161.5
Realised gains and losses on investments ²	30.4	47.6	348.3	616.8
Investment management expenses	-22.1	-22.9	-87.6	-85.6
Other financial expenses and income	-6.0	-18.7	84.7	-272.2
Gains or losses on investments	223.7	223.8	1,541.9	1,420.4
Profit before borrowing costs and taxes	395.5	396.4	277.3	226.1
Borrowing costs	-	-	-	-
Income taxes	-74.9	-74.9	-62.2	-34.3
Profit for the period (segment result)	320.6	321.5	215.0	191.8

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 2015: CHF -3.3 million; 31 December 2016: CHF 2.0 million).

Gross premiums by sector

GROSS PREMIUMS BY SECTOR (NON-LIFE)

	2015	2016	+ / - %
CHF million			
Accident	365.8	366.2	0.1
Health	117.2	116.4	-0.7
General liability	323.8	330.6	2.1
Motor	1,007.8	1,036.6	2.9
Property	960.3	987.8	2.9
Marine	180.8	196.5	8.7
Other	68.8	74.0	7.6
Inward reinsurance	25.5	32.7	28.2
Gross premiums written (non-life)	3,050.0	3,140.7	3.0

GROSS PREMIUMS BY SECTOR (LIFE)

	2015	2016	+ / - %
CHF million			
Business volume generated by single premiums	3,340.4	3,241.6	-3.0
Business volume generated by periodic premiums	2,528.2	2,528.4	0.0
Investment-type premiums	-2,085.1	-2,199.2	5.5
Gross premiums written (life)	3,783.4	3,570.9	-5.6

Banking activities

PROFIT OR LOSS FROM BANKING ACTIVITIES

	2015	2016
CHF million		
Net interest income	87.0	86.3
Net fee and commission income	77.4	75.9
Trading profit	-0.1	0.6
Other net income	0.9	11.4
Total operating income	165.2	174.2
Personnel expenses	-57.4	-57.0
General and administrative expenses	-17.4	-14.5
Total operating expenses	-74.8	-71.4
Gross profit	90.4	102.8
Net losses and impairment due to credit risk	1.1	-1.2
Depreciation, amortisation and impairment of property, plant and equipment and of intangible assets	-10.7	-9.4
Profit before taxes	80.8	92.1
Income taxes	-19.9	-19.4
Profit for the period (segment result)	60.9	72.7

ADDITIONAL INFORMATION

	31.12.2015	31.12.2016
CHF million		
Assets managed for third parties	4,985.9	4,938.3
Risk-weighted assets of banking activities	3,261.7	3,253.7

ASSET ALLOCATION

	31.12.2015	31.12.2016
CHF million		
Investment property	-	-
Equities	8.2	11.6
Alternative financial assets	-	-
Fixed-income securities	371.1	379.3
Mortgage assets	6,548.6	6,453.8
Policy loans and other loans	275.6	291.3
Derivative financial instruments	10.2	7.0
Cash and cash equivalents	688.4	977.5
Total	7,902.1	8,120.6

Investment performance

2015 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	721.4	133.9	248.3	405.0	13.3	1,521.8
Realised gains and losses and impairment losses recognised in profit or loss (net)	28.6	43.5	112.7	72.4	122.0	379.1
Change in unrealised gains and losses recognised directly in equity	-657.6	-27.8	-	-	-67.1	-752.6
Investment management costs	-25.4	-4.6	-8.1	-13.8	-7.6	-59.6
Operating profit	66.9	144.9	352.8	463.6	60.5	1,088.7
Average investment portfolio	32,160.8	4,193.0	6,107.4	17,411.2	3,512.7	63,385.2
Performance (per cent)	0.2	3.5	5.8	2.7	1.7	1.7

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

2016 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	696.5	151.3	246.3	366.8	15.7	1,476.6
Realised gains and losses and impairment losses recognised in profit or loss (net)	356.0	23.1	59.7	13.5	-149.1	303.1
Change in unrealised gains and losses recognised directly in equity	119.7	-8.2	-	-	8.6	120.0
Investment management costs	-32.5	-0.5	-5.2	-15.1	-5.6	-58.9
Operating profit	1,139.7	165.7	300.8	365.2	-130.5	1,840.8
Average investment portfolio	31,841.4	4,206.4	6,534.7	16,505.7	3,495.6	62,583.8
Performance (per cent)	3.6	3.9	4.6	2.2	-3.7	2.9

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

CURRENT INCOME FROM INSURANCE¹

	2015			2016		
	Non-life	Life	Total	Non-life	Life	Total
CHF million						
Investment property	36.1	210.9	247.0	37.7	207.6	245.3
Equities	38.4	95.0	133.5	43.8	107.1	150.9
Alternative financial assets	1.9	11.7	13.7	2.5	13.8	16.2
Fixed-income securities	106.5	607.4	713.9	100.9	588.3	689.3
Mortgage assets	8.6	94.5	103.1	8.1	88.4	96.5
Policy loans and other loans	30.4	176.9	207.3	25.1	156.5	181.6
Derivative financial instruments	–	–	–	–	–	–
Cash and cash equivalents	–0.5	0.1	–0.4	–0.3	–0.2	–0.5
Total current income	221.4	1,196.5	1,418.0	217.8	1,161.5	1,379.3

REALISED GAINS AND LOSSES IN INSURANCE¹

	2015			2016		
	Non-life	Life	Total	Non-life	Life	Total
CHF million						
Investment property	19.0	93.6	112.6	10.9	48.3	59.1
Equities	22.3	21.2	43.5	12.3	10.7	23.0
Alternative financial assets	6.8	1.6	8.4	2.7	17.5	20.2
Fixed-income securities	–15.5	44.1	28.6	71.4	283.9	355.4
Mortgage assets	0.1	–0.9	–0.8	–0.1	0.4	0.3
Policy loans and other loans	17.7	56.1	73.8	1.9	28.5	30.4
Derivative financial instruments	–20.0	130.1	110.1	–51.4	–130.1	–181.6
Cash and cash equivalents	–	–	–	–	–	–
Total capital gains and losses	30.4	345.8	376.2	47.6	259.2	306.8

ASSET ALLOCATION IN INSURANCE¹

as at 31.12.	2015			2016		
	Non-life	Life	Total	Non-life	Life	Total
CHF million						
Investment property	913.7	5,314.2	6,227.9	917.4	5,875.3	6,792.7
Equities	1,282.1	3,066.0	4,348.1	1,251.3	2,791.0	4,042.3
Alternative financial assets	260.8	998.7	1,259.6	280.2	1,023.9	1,304.1
Fixed-income securities	4,921.6	26,327.0	31,248.6	4,852.9	26,829.2	31,682.0
Mortgage assets	418.3	3,902.6	4,320.9	427.3	3,809.5	4,236.8
Policy loans and other loans	1,047.4	4,834.6	5,882.0	1,092.5	4,847.2	5,939.7
Derivative financial instruments	24.8	320.8	345.6	21.7	332.8	354.5
Cash and cash equivalents	291.5	642.3	933.8	323.4	497.4	820.8
Total	9,160.2	45,406.3	54,566.5	9,166.6	46,006.1	55,172.7

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

Sustainable business management

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Responsibility

BEING RESPONSIBLE

Being a responsible Company is a core part of the strategy. Responsible companies that give something back to society are critical to the success of any economy, not least because their actions help to build the necessary consensus between business and wider society. The concept of companies acting as good citizens is commonly known as corporate social responsibility (CSR). In a number of countries, including Switzerland, the concept is broadly accepted at a political level. The Swiss Federal Council, for example, makes the case for responsible companies being a vital factor in the success of the Swiss economy and sets out the government's intention to help shape the framework for CSR.

Baloise fundamentally supports these efforts and aligns itself with the position taken by the Federal Council so that it can continually improve its CSR activities. However, it believes that CSR is something that companies should take upon themselves to put into practice and that it should not be prescribed by law. With its new strategy and new focus on customers, Baloise is emphasising that aspects of sustainable business management cannot be viewed in isolation from the commercial management of a company.

Baloise was embracing the idea of corporate social responsibility long before the term became popularised. Sustainability is at the heart of everything that Baloise does. Because every day, through its insurance and pension solutions, it helps companies, economies and communities to function properly, which in turn boosts economic and social stability. The Company can look back on more than 150 years of history and since the day it was founded has been there when its customers have needed it the most. People put their trust in Baloise to look after their futures and in return expect stability, security and a sustainable approach. In life insurance, savings for old age and company pensions for SMEs, Baloise has an investment horizon that stretches several decades. It needs to offer the sort of long-term security that simply cannot be sustained by the pursuit of short-term profits alone. Baloise therefore thinks and acts on a long-term basis, examines risks that may arise in the future and mitigates these in a thorough and professional manner.

Corporate social responsibility covers a broad range of activities and involves a broad range of stakeholders – from employees and shareholders to customers, partners and the wider public.

A RESPONSIBLE EMPLOYER

Baloise's responsibility as an employer is manifested in the new strategy with a clear employee-oriented objective. It wants to position itself as one of the most attractive employers in its industry. This involves continual improvement of the corporate culture. Baloise's past efforts have already created a stable basis for achieving this goal. The concept of social partnership has a long tradition at Baloise Insurance in Switzerland. In 2015 the Company's employee commission (MAKO) celebrated its 40th anniversary. The Baloise MAKO was established long before 1993, when the Swiss federal government passed a co-determination act that made it law for employees to have a say in the workplace and to be given information on particular matters. To this day, the rights of the MAKO go well beyond the provisions of this act. Baloise has always fostered an employee-oriented corporate culture across its organisation. It gives its staff scope to contribute to the success of the Company and to develop both personally and professionally, placing particular emphasis on training and development. In doing so, Baloise secures not only its own long-term viability but also the future employability of its staff in an increasingly competitive economic environment. By giving young people their first experience in the world of work – as trainees, interns and temporary student employees – Baloise is also making an investment in the future of the Company and the employment markets of the countries in which it operates. Every year, across the group, Baloise trains over 200 people who are at the start of their careers. The value that this adds, both for these young employees and the Company, provides a solid basis for the future and enables Baloise to create new jobs and preserve existing ones.

→ Chapter "Sustainable business management / Human Resources"

RESPONSIBILITY TO THE CUSTOMER

Customer focus is central to Baloise's new strategy. Baloise wants to be more than just an insurer. It therefore needs to take account of the wider social environment in which its customers exist. Every day employees should be asking what they can do to make the customer feel safer. To meet this requirement, services need to be available that go beyond those offered by a traditional insurer. Everything that Baloise's employees do is geared towards enhancing safety and security. But if something does go wrong, Baloise will be on hand to help. Baloise strengthens the insurance collective through its strategy of seeking out customers who are cautious and careful and to whom safety and security are as important as they are to Baloise. But it's not just about providing security by covering a particular risk; it's about giving customers everyday peace of mind. Baloise wants to use the means at its disposal to help make customers' broader environment safer.

The collaboration with the Emilie Leus foundation in Belgium illustrates how employees are thinking beyond the traditional parameters of insurance. The foundation was established to combat drink driving across Belgium as part of a broad-ranging campaign. Baloise is contributing to this project at various levels, from providing sponsorship and expertise and raising awareness to lobbying for laws to be changed. And for a number of years now Baloise has been carrying out preventive work in Switzerland to help combat addiction among young people. Several times a year, Baloise employees visit schools to talk about this subject.

→ www.fondsemilieus.be

→ www.cktgmbh.ch/themen/sucht/modul.php

RESPONSIBILITY TO THE SHAREHOLDER

The capital that is made available to Baloise by its shareholders is invested efficiently and in their interests. Risk management, which forms an integral part of our strategic management policies, makes a significant contribution to the positioning of the Baloise Group. As a European insurer with Swiss roots, Baloise possesses a strong balance sheet and strong operational profitability, which have been optimised in terms of the risks taken and the upside potential derived from the business. Baloise's risk management approach involves managing both risk and value at the same time. Its risk model is based on innovative standards so that it can always keep its promise of "Making you safer". This has enabled Baloise to pursue an attractive and sustainable dividend policy for a number of years now. The strength of Baloise's risk management approach has been independently verified by Standard & Poor's. In 2016 the rating agency reaffirmed its assessments from the previous years of "A" with a stable outlook, explicitly strengthening the importance of risk management at Baloise in its rating.

→ [Chapter "Sustainable business management / Risk management"](#)

RESPONSIBILITY TO THE ENVIRONMENT

As a signatory to the declaration for the insurance industry issued by the United Nations Environment Programme, Baloise is committed to reducing its impact on the environment. The Company uses natural resources prudently and responsibly. This responsibility relates to its own energy requirements but also extends to its investments and products. CO₂ emissions have been continually reduced. The Company's focus on energy efficiency, particularly in its IT infrastructure, plays a key part in this. Employees are encouraged to use public transport wherever possible and separate their waste for recycling. Baloise also applies the latest standards in energy efficiency to its real estate. The three new buildings being erected at Baloise Park, the Company's new headquarters in Basel, meet the standards for sustainable construction in Switzerland (SNBS) and sustainability specialists have been involved in their design from the outset. And because Baloise strives to learn from the best in everything that it does, it participates in the "environmental platform", a business initiative of the Basel region. This platform facilitates the sharing of knowledge among businesses and supports climate protection and sustainable development through specific projects. Baloise is committed to environmental protection and is continually stepping up its efforts by launching new initiatives. Baloise reports on the progress it is making in its annual groupwide environmental audit.

→ [Chapter "Sustainable business management / The environment"](#)

RESPONSIBILITY IN SOCIETY

Baloise believes it has a responsibility to society in its role as a corporate citizen and has long been a committed advocate of Switzerland's "milizsystem", in which it falls to volunteers to run public offices. In April 2015 Baloise became a signatory to the declaration by *economiesuisse* (the umbrella organisation representing Swiss business) and the Swiss Employers' Association that commits companies to offering flexible working conditions and working time models that enable employees to participate in the scheme. Baloise not only encourages its employees to engage in voluntary activities by holding annual inhouse events but it also meets its own responsibility to society as a commercial organisation. It creates and preserves jobs that add value and it pays taxes from its profits that help to fund the public sector. This enables Baloise to be an active partner in many areas of society.

For example, the Company has promoted art through the Baloise Art Prize for more than 15 years. Every year this prestigious accolade is awarded to two talented young artists at the Art Basel fair. The winning works are acquired by Baloise and donated to two museums that each mount an exhibition devoted to one of the artists. These are currently the Museum of Modern Art in Frankfurt and the Musée d'Art Moderne in Luxembourg. In addition, Baloise maintains a long-standing collection of artworks that can be seen not only by employees but also by the public at two exhibitions in the Art Forum at the Company's headquarters. These exhibitions are changed each year. In Germany, Baloise opens its art collection to the public once a year as part of the Kunst privat initiative.

The Baloise companies outside Switzerland also play their part in social, sporting and cultural life in their regions by supporting numerous institutions and events. Here are some of the many activities that they engage in:

- Since 2012, employees in Switzerland have regularly carried out CSR activities for the Just for Smiles foundation, the Tierschutz beider Basel animal protection society and the Entlebuch UNESCO Biosphere Reserve
- Presenting sponsor of the Baloise Session, one of Switzerland's biggest music festivals
- Sponsor of Topsport Vlaanderen-Baloise, a team of young racing cyclists
- Staff in Belgium regularly engage in CSR activities, with each employee given one Friday a year for this
- Environmental initiatives with Luxembourg's *natur & umwelt* organisation as part of a collaboration running until 2020
- Long-standing collaboration with Fondation Cancer in Luxembourg. Baloise gets actively involved in the organisation of Relais pour la vie, an annual 24-hour relay run: www.relaispouurlavie.lu
- Support for the NordWest Natur foundation in Bremen, Germany
- Proceeds from the Christmas concerts in Hamburg, Germany, are donated to charities
- Sponsor of the Eschborn-Frankfurt – Rund um den Finanzplatz cycle race in Germany
- www.baloise.com/responsibility

Entrepreneurial and agile Evolving corporate culture

The new Simply Safe strategy, with its emphasis on the workforce, underlines how Baloise will only be able to achieve its ambitious goals for future growth with the support of dedicated employees. In 2016 the Company therefore focused on the transition to a growth culture in which established practices are improved upon and new approaches are tried out.

KEY FIGURES

- 7,270 (2015: 7,387) employees (FTEs in 2016: 6,664).
- 43.9 per cent of all employees are women (2015: 43.9 per cent).
- The Baloise Group employs 230 (2015: 212) apprentices, trainees and interns.
- 65.5 per cent of staff members working in our main market of Switzerland participated in our Share Participation Plan in 2016 (2015: 60.4 per cent).
- Baloise employees work at the Company for an average of 13.4 years.
- Staff turnover as at 31 December 2016 amounted to 5.4 per cent (end of 2015: 5.5 per cent).

BECOMING AN EMPLOYER OF CHOICE BY 2021

The workforce is key to implementing Baloise's new Simply Safe strategy, which is why the Company wants to become a leading employer in its industry by 2021. This objective was announced at the 2016 Investor Day. It is based on the conviction that hard-working, entrepreneurially minded employees will cultivate strong and loyal customer relationships that in turn will help Baloise to achieve its financial targets.

HERE ARE THE KEY POINTS OF THE EMPLOYEE FOCUS PART OF THE STRATEGY:

- The Baloise Group already has a clear focus on its employees. In line with the HR strategy launched in 2014, "We add value through our people", the Baloise Group has, in recent years, fostered a culture of constructive feedback that is characterised by respect, dialogue and continuing personal development. However, Baloise would now like to focus much more heavily on its employees so that it can be even more successful in future.
- The Baloise Group aims to become an employer of choice in its industry. To achieve this, it is looking to make major improvements in the following two areas, one internally focused and one externally focused:
 - engagement of existing employees
 - reputation as an employer
- In 2017 a programme of beacon projects is being launched that will run until 2021 with the aim of achieving these objectives.
- Progress will be measured by a new performance indicator that will be published regularly from 2017.
- Established processes such as the managerial feedback and culture of dialogue are being continued.
- "Employee focus" is not an initiative that is being dictated from above: it is built on the ideas of the employees and their willingness to help shape the future and, in return, promises to give them the freedom they need.

CHANGING THE ORGANISATION. AT ALL LEVELS.

Baloise operates in a challenging market with highly volatile parameters. In 2015 this situation prompted the Company's decision to start concentrating more heavily on growth. So in 2016, the focus in HR was on establishing a culture of growth across the Group. Top-down measures were introduced as a means of driving this cultural shift within the Company, as were initiatives that are being driven from within the organisation itself and accompanying HR programmes.

CHANGING THE MANAGEMENT PHILOSOPHY. UNDERSTANDING AND IMPLEMENTING THE CULTURE OF GROWTH.

Across the Group, managers explained Baloise's new corporate strategy to their employees with the aid of cascade workshops. The workshops were held to help staff understand the strategy and to encourage them to play an active role in the process of change. A lot of emphasis is placed on behaviours that are conducive to growth, such as engagement and personal initiative, trying out new ways of doing things and striving for improvement. The specific aim is for management to lead by example here. This will present challenges for the managers in particular as they will need to learn how to relinquish control, deal with uncertainty and delegate more. To help them, a new format was launched as part of the established Baloise Campus management development programme. And in November 2016 the first Baloise BarCamp took place. This two-day event, during which the participants had to organise themselves, encouraged creating thinking and the development of radical new approaches to problems.

DRIVERS THAT ARE LIBERATED FROM HIERARCHIES: VIRAL CHANGE AND PERSONAL INITIATIVE

The concept of viral change, which was deployed in 2015 in the Belgium corporate division, was used to drive change from the bottom up. This year, a select number of well-connected and highly committed individuals will be embedding within the organisation the behaviours that are necessary to implement the culture of growth. The foundation for their work was laid in 2016.

A prime example of personal initiative and an active contribution by the workforce was the inaugural Baloise Hackathon in 2016, which two employees took it upon themselves to plan and organise.

Baloise BarCamp

- 180 managers
- 5 nations
- 2 days
- Approx. 70 Workshops

The first Baloise BarCamp took place in November 2016. The basic premise of a BarCamp is that anyone is welcome who wants to contribute, have a say in how things are done or learn something.

The objective of the Baloise BarCamp is to facilitate informal networking and, through workshops organised by the participants, to develop approaches for implementing change at Baloise.

Baloise Hackathon

- 35 Baloise employees
- 4 students
- 14 ideas
- 30 hours
- 7 functioning prototypes

The first Baloise Hackathon was held in September 2016 at a venue by Basel's Rhine river docks. Seven functioning prototypes for new apps and products were developed at the event, which was initiated by two employees.

BUILDING ON WHAT'S ALREADY THERE.

TRYING NEW THINGS OUT.

In 2016, to accompany these initiatives and further anchor the new culture, various HR tools and processes were updated. The basis for this is the new management philosophy, which was developed in 2015. The resulting Baloise Leadership Compass answered the key question of what skills are required in order to successfully strive for growth. The answer comes in the form of twelve new management competencies that are based on Baloise's three established behavioural values: "Put yourself

in the other's shoes!", "Act authentically and earn trust!" and "Develop and engage – yourself and others!" Brought together in the Baloise Leadership Compass these give employees guidance on their journey of change. They are also used in our established HR instruments, such as the three dialogue formats and the performance and talent development processes.

DIALOGUE AS A FOUNDATION OF THE BALOISE CULTURE. INTEGRATING THE SKILLS NEEDED FOR GROWTH.

Our current culture is founded on the three hierarchy-transcending dialogue formats that are based on our Baloise behavioural values. These instruments were updated in line with the Baloise Leadership Compass.

1. The twelve management competencies were integrated into the talent assessment questionnaire. This questionnaire serves as a basis for the development dialogues in which the specific skills of individual employees are discussed. These one-to-one meetings between employees and managers focus on continuous learning and helping employees to make the most of the freedom they are given in their work. They also serve to highlight the skills that need to be developed in order for Baloise to achieve its ambitious targets for future growth.
2. The management dialogues in which line managers get feedback from their employees are being reviewed and updated in 2017.
3. The employee engagement survey was also updated in line with the Baloise Leadership Compass in 2016. The new version of the survey was conducted on a groupwide basis for the first time in November 2016. The results will be used to derive a performance indicator that will be published regularly going forward.

CHALLENGING AND DEVELOPING. TRUSTING PEOPLE TO PERFORM.

Baloise cultivates a culture of performance and trust. A key element of this culture is the performance and talent development process, which focuses on continuous learning and on helping employees to make the most of the freedom they are given in their work. This process is made up of two components:

- One-to-one meetings between managers and employees: these provide guidance and clarity about the common objectives and continuous learning. They are the central element in an ongoing dialogue focused on performance and development targets.
- Talent development programme for high-potential employees: every year, Baloise identifies talented young employees and key individuals, finds potential successors and agrees staff development activities. In 2016 this process was also brought into line with the management competencies of the Baloise Leadership Compass. And local measures were added that will make it easier to harness the individual potential of the talented employees who have been identified.

In 2016 we observed a correspondingly significant increase in quality with regard to the intensity of the talent development meetings and the specific action plans for the talented employees.

A WORKING ENVIRONMENT PROVIDING BALANCE FOR ALL. EMPLOYEES ARE OUR MOST VALUABLE RESOURCE.

Our employees play a vital role in the success of our Company. This statement lies at the heart of the new corporate strategy, which puts the emphasis on our employees as one of three main focal points. Baloise gives employees the chance to develop, to give and receive honest feedback and to shape the future of the Company. But we also want to offer a working environment that allows our employees to balance their work lives and personal commitments. We provide the following options to help people do this:

- Flexible and part-time working arrangements
- Remote working
- Company crèche
- Wide-ranging corporate health management service

**RECRUITING TALENTED INDIVIDUALS.
WITH RELEVANCE, AUTHENTICITY AND A PERSONAL TOUCH.**

The Baloise Group wants to become an employer of choice in its industry. The way it presents itself on the labour market will play a key role in achieving this goal – all the more so because competition for the best brains has toughened considerably in recent years and, because of demographic change, will only get tougher. Baloise is finding it particularly hard to recruit IT workers, insurance specialists and apprentices for commercial vocations.

It is therefore hugely important that people are made aware of Baloise as a potential employer. One of the ways that the Company is engaging with the public is via social media. It gets in touch with potential new employees through a variety of channels, giving tips on how to apply and using employee profiles and articles to provide an authentic picture of what it's like to work at Baloise. The Company is always looking for new ways

to reach potential recruits. In 2016, for example, Baloise launched a bi-weekly podcast to accompany its careers blog and in autumn successfully carried out its first two WhatsApp taster days for apprenticeships in commercial vocations.

A lot of emphasis continues to be placed on one-to-one dialogue with potential recruits. In Switzerland, Baloise exhibits at numerous job fairs and regularly holds workshops for students. These traditional face-to-face activities are used by HR to present a realistic picture of what Baloise is like as an employer.

The Baloise Group also offers a wide range of attractive training opportunities. Baloise currently employs around 230 apprentices, interns and temporary student workers. Its established graduate trainee programme, meanwhile, gives participants a deep insight into various parts of the business and thus provides the ideal preparation for a management or specialist role. The alumni of the programme, which has been running for 24 years, are highly regarded within the Company.

Bal4Kids crèche

The Bal4Kids crèche at the Basel offices in Switzerland celebrated its 15th anniversary in September 2016.

WhatsApp taster day for commercial apprenticeships

- 2 WhatsApp taster days
- 101 participants
- 62 % engagement

Baloise is trying out new approaches in an effort to fill apprenticeship places. During two WhatsApp taster days, current commercial apprentices told schoolchildren about their day-to-day work and answered lots of questions.

GLOBAL VISION. LOCAL FLEXIBILITY.

As well as the aforementioned groupwide activities, the HR units for the individual countries also have regional responsibilities. These are dictated not only by the requirements of the local business but also by the local legal system.

Baloise in Switzerland prides itself on being a Friendly Work Space, so re-certification under the scheme for the second time was an important achievement. The Swiss Health Promotion Foundation first awarded the Company its seal of quality in 2010. It recognises how Baloise goes above and beyond the legal requirements to create a healthy working environment. Baloise also goes to great lengths to ensure the quality of the advice that it provides customers. At the end of 2015, for example, all of Baloise's customer advisors who have acquired a basic qualification (VBV insurance broker or equivalent) and thereby met the criteria for certification were added to the searchable Cicero industry register. To maintain the quality of the advice they provide, the registered advisors have to regularly attend courses. In 2016, to allow our employees to earn the relevant Cicero credits, a number of new inhouse training programmes were accredited. And from 1 January 2016, in line with Ordinance 1 of the Swiss Labour Law (ArGV 1), the requirement to record

the working hours of management staff in the inhouse sales team was introduced. In 2017 the emphasis in Switzerland will continue to be on the changing management philosophy, with a focus on approaches such as “having the courage to let go” and “trusting in employees”.

**Activities in 2016 –
engaging with potential new recruits**

- 19 graduate fairs
- 9 workshops
- 89 blog articles
- 19 podcasts
- 216 Facebook posts
- 190 LinkedIn posts
- 161 Xing posts

Friendly Work Space



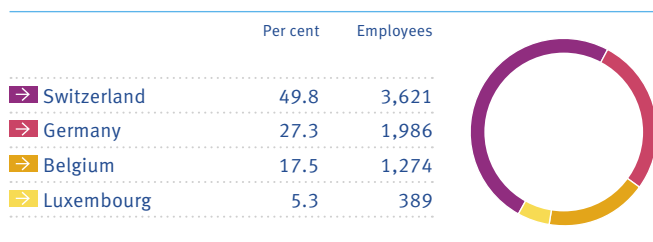
Baloise has been re-certified as a Friendly Work Space for the second time. With an impressive score of 4.3 (out of a possible 5), it is the leading company in the financial services / insurance sector.

In **Germany**, negotiations with the Group Works Council on the efficiency-related restructuring measures were completed in 2016. With regard to the transition to a culture of growth, emphasis was put on encouraging employees to take the initiative. In various groups and task forces, employees have made, and are making, an active contribution in areas such as innovation, employee focus and future visions. The feedback has been very positive. An employee poll on the intranet based on last year's engagement survey identified the three most important areas of action, working groups were established and initial results were achieved. In addition, an agreement on remote working was reached for the Bad Homburg site, giving employees greater flexibility in where they carry out their work. In 2017 attention will focus on the ongoing implementation of the future vision. For example, we are encouraging the inhouse and field sales teams to talk to each other more so that they gain a deeper understanding of their counterparts' processes and requirements. More work is also being done on the feedback culture.

Talent development remained the focus in **Belgium**. Central to this was the development of managers, particularly with regard to the subject of empowerment. We also created more opportunities for talented individuals to develop and progress within the organisation. Numerous positions have already been filled by internal candidates, which shows that these efforts are beginning to bear fruit. The groupwide measures aimed at driving the change in culture were supported by local innovation training courses and initiatives. In 2017 greater emphasis is being placed on the change in culture, for which measures to encourage employees to show personal initiative are planned. Also in 2017, a management trainee programme is being introduced that is modelled on the existing programme in Switzerland.

Because of the merger with HDI-Gerling Assurances at the beginning of October 2015 Luxembourg continued to focus heavily on integration and fostering a shared corporate culture in 2016. In addition, considerable attention is being focused on the development of talented individuals through the creation of a dedicated training department and a mentoring programme. This focus will be maintained in 2017 with efforts to increase the national and international mobility of talented individuals.

BALOISE'S 7,270 EMPLOYEES IN 2016 BY COUNTRY



FAIR PAY. IN LINE WITH PERFORMANCE AND THE MARKET.

Through the aforementioned activities, Baloise aims to offer employees a working environment in which they can perform to the best of their ability. This performance should be rewarded, including through monetary compensation. Baloise therefore offers performance- and target-oriented remuneration packages that are based on fair principles and an established framework of performance management. The packages consist of competitive base salaries and a range of variable remuneration components as well as attractive employee incentives and loyalty bonuses.

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

Variable remuneration is based on both individual performance and the success of the Company as a whole. Employees regularly hold meetings with their managers to make sure they are on track to achieve the individual targets that have been agreed upon.

To help secure long-term success, part of employees' remuneration is paid in the form of restricted shares, with the senior management team receiving a comparatively high proportion of their pay in the form of shares. This form of remuneration strengthens loyalty to Baloise and gives employees the opportunity to share in the Company's success.

The packages also feature attractive fringe benefits that are awarded regardless of function and seniority.

BALOISE GROUP HUMAN RESOURCES ON THE INTERNET

Careers website:

→ www.baloise.com/careers

Careers blog:

→ www.baloisejobs.com



Facebook:

→ www.facebook.com/baloisegroup



YouTube:

→ www.youtube.com/baloisegroup



Xing:

→ www.xing.com/companies/baloisegroup



LinkedIn:

→ www.linkedin.com/company/baloisegroup



Twitter:

→ www.twitter.com/baloise_jobs

Environmental mission statement

In 1995, Baloise became one of the first insurers to sign the insurance industry declaration on sustainable development formulated by the United Nations Environment Programme (UNEP). It drew up its own environmental guidelines in 1999 in order to give concrete form to this general commitment. From the outset, it was deemed important to embed sustainability throughout the Company and in all day-to-day business activities.

What are Baloise's sustainability principles? Which issues take greatest priority? And what are the key principles? The sustainability guidelines adopted in 1999 provide a framework for action and form the basis of all environmental and social activities at Baloise.

PRINCIPLE

As a signatory to the UNEP declaration, Baloise strives for sustainable development from an ecological, economic and social point of view. As a primary insurer, Baloise is prepared to assume responsibility for the preservation of the natural environment.

STAFF AND PUBLIC

Baloise trains its employees with regard to environmental matters and raises their awareness of the relevant issues. Its employees are aware of the ecological targets and the most important initiatives for achieving them. They are kept regularly informed about the implementation of the environmental mission statement and encouraged to suggest measures of their own. Baloise works hand in hand with other companies, organisations and public authorities in finding solutions to environmental problems. It particularly encourages the sharing of information with other insurance companies, maintains an open dialogue with the public and regularly reports on environmental projects and what has been achieved.

ENVIRONMENTAL FOOTPRINT

Baloise continually reduces its direct impact on the environment by planning, building and operating its office buildings in a resource-saving and energy-efficient manner. It observes the same principles in the procurement and use of office equipment and materials. In doing so, it pays particular attention to its published energy mission statement and its environmental audit.

PRODUCTS AND SERVICES

Baloise strives to take environmental aspects into account when developing its products and services and fixing premiums and levels of coverage. Its underwriting policy takes account of its customers' environmental management practices (e.g. ISO 14001) on the basis of identifiable operational and product-related factors. It also advises industrial clients on risk reduction and risk prevention.

INVESTMENT

Baloise's investment policy is geared towards medium- to long-term earnings targets and consciously incorporates environmental criteria whenever possible, especially in the selection of securities and real estate. It also promotes appropriate, environmentally relevant proprietary and third-party financial products. When it comes to investment in real estate, Baloise pays particular attention to energy-saving and economical designs and service systems, as well as the use of environmentally friendly construction materials. The environmental audit takes the entire life cycle of the real estate into consideration.

ORGANISATION

The Corporate Executive Committee bears ultimate responsibility in environmental matters. Each Group company has a coordination unit which implements the environmental mission statement. This working group is made up of representatives drawn from all key corporate functions.

Protecting the environment over the long term

Environmental protection at Baloise is focused on reducing CO₂ emissions and promoting alternative energy sources. The Company's initiatives are guided by recognised directives. It always pursues a pragmatic and practical approach and it helps the environment because it believes this is the right thing to do. Baloise has set itself an ongoing objective of making continual improvements in all areas.

CONTINUOUS REDUCTION OF CO₂ EMISSIONS SINCE 2000

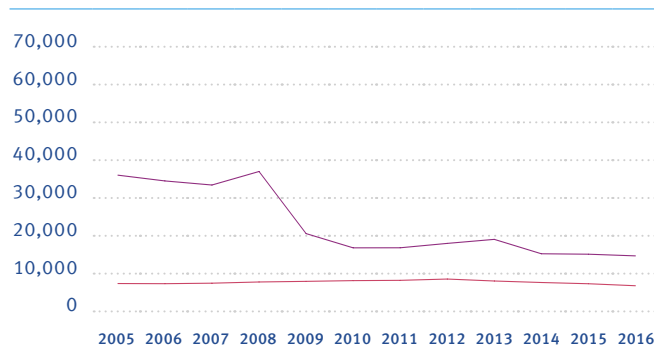
Since the issue of climate change has taken on increasing significance as a result of the Kyoto conference in Japan in 1997, Baloise has been publishing key figures on energy and resource consumption, documenting sustainability measures in its annual report, and calculating its absolute and relative CO₂ emissions in accordance with the directives issued by the Association for Environmental Management and Sustainability in Financial Institutions (VfU). Both absolute and relative CO₂ emissions have been reduced massively at Baloise since the year 2000. Over this period, Baloise cut absolute CO₂ emissions from 53,580 tonnes to 14,257 tonnes. This is equivalent to a 73.4 per cent reduction in CO₂ emissions. CO₂ emissions per employee fell by 32.5 per cent over the same period, from four tonnes to 2.7 tonnes.

These reductions were mainly achieved through the systematic use of new technologies, through improvements in the energy efficiency of Company premises and through state-of-the-art office concepts.

ENERGY EFFICIENCY AT BALOISE

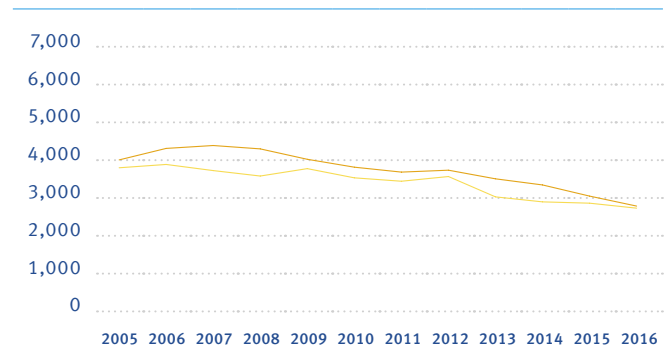
The total energy and resource consumption revealed by the environmental audit shows the amounts used by the Baloise Group's large office buildings and its computer centres. The figures reported relate to the energy and resources used by 72.5 per cent of the 7,300 people working for the Baloise Group. Consumption of energy for heating and consumption of electricity per employee were each reduced by a further 8.2 per cent.

TOTAL CO₂ EMISSIONS IN TONNES



■ CO₂ emissions, Group
 ■ CO₂ emissions, Switzerland

CO₂ EMISSIONS PER EMPLOYEE IN TONNES



■ CO₂ emissions, Switzerland
 ■ CO₂ emissions, Group

ENVIRONMENTAL AUDIT

	2014 absolute	2015 absolute ¹	2016 absolute	Relative	Unit	+ / - %
Employees	5,173	5,196	5,290		headcount	1.8
Energy reference area	137,276	139,080	137,151		ERA m ²	-1.4
Locations	12	13	15		number of buildings	2
Electricity consumption	19,983,267 kWh	19,866,588 kWh	18,236,089 kWh	3,447	kWh / employee	-8.2
Heating consumption	9,327,534 kWh	8,821,860 kWh	10,380,219 kWh	76	kWh / m ²	17.7
Water consumption	52,752 m ³	48,237 m ³	47,128 m ³	36	l / employee / day	-2.3
Paper consumption	490 t	439 t	465 t	88	kg / employee	5.9
Paper types				5.0 %	recycled	
				72.0 %	chlorine-free-bleached	
				23.0 %	chlorine-bleached	
Copy paper consumption	73.5 million A4 sheets	68.7 million A4 sheets	76.0 million A4 sheets	14,341	A4 sheets / employee	10.4
Amount of refuse	979 t	961 t	811 t	153	kg / employee	-15.6
Types of refuse				43.0 %	paper / cardboard	
				10.0 %	other materials	
				2.0 %	special waste	
				45.0 %	misc. waste / refuse	
Business travel	19.0 million km	19.1 million km	18.4 million km	3,486	km / employee	-3.6
Mode of transport				28.5 %	km by air	
				41.6 %	km by road	
				29.9 %	km by public transport	
CO ₂ emissions	14,864 t	14,738 t	14,257 t	2,695	kg / employee	-3.3

¹ The 2015 figures for "Employees" and "Energy reference area" were adjusted in 2015 due to a mistake in consolidation.

BALOISE IS BUILDING SUSTAINABLE OFFICES THAT WILL APPEAL TO EMPLOYEES AS WELL AS A STATE-OF-THE-ART HOTEL.

In a project scheduled for completion in 2020 Baloise is erecting three new buildings at its headquarters in Basel. The buildings are to be the defining landmark of the train station district and reflect Baloise's commitment to the city. The tower block being built on Aeschengraben, which will be around 90 metres in height, will mainly be occupied by a new hotel. The top seven floors will be rented out as office space. 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. An efficient energy centre will provide power for all three buildings, which will be heated by 100 per cent renewable district heating.

ONCE AROUND THE WORLD WITH SOLAR POWER

Since 2015, Baloise customers and employees have been able to charge their electric vehicles at Baloise's company headquarters using solar power. The facility, which does not cost anything to use, has proved very popular. In 2016 enough solar-generated electricity was drawn from the "pumps" to power a total of around 45,000 kilometres – equivalent to one emission-free trip around the globe. Since 2016 customers and employees have also been able to charge their electric vehicles for free at the Zurich site. Among their number are the Company's loss assessors, who use eco-friendly electric bikes to get to local incidents.

MEASURES UNDERTAKEN BY BALOISE IN BELGIUM TO REDUCE TRAFFIC PROBLEMS

In Belgium, Baloise carried out a transport review in conjunction with the local authorities. Each employee's journey from home to work was analysed to determine how the route could be optimised and what the best mode of transport for it would be. To make the switch to emission-free modes of transport more attractive, 100 new bicycle "parking spaces" were created, 20 of which can be used to charge electric bikes for free while the employee is at work.

The employee vehicle fleet is gradually being moved over to low-CO₂ vehicles. As at the end of 2016 the average vehicle in the fleet produced 117.7 g/km.

→ www.baloise.com/responsibility

Baloise's risk management is one of the main pillars of its business model

Risk management makes a significant contribution to the positioning of the Baloise Group and forms an integral part of its strategic management policies. As a European insurer with Swiss roots, Baloise possesses a strong balance sheet and strong operational profitability, which have been optimised in terms of the risks taken and the upside potential derived from the business.

Baloise's risk management approach involves managing both risk and value at the same time. Its risk model is based on innovative standards so that it can always keep its promise to its customers.

The Company's enterprise risk management was once again awarded Standard & Poor's excellent "strong" rating in 2016. This puts it among the top 15 per cent of all European insurance companies.

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

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

RISK MAP

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

- Business risk
- Investment risk
- Financial-structure risk
- Business-environment risk
- Operational risk
- Leadership and information risk.

A detailed description of the risk map can be found in the Financial Report on page 141.

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. It is 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, Baloise's 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 Baloise 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. This inclusive risk organisation approach provides Baloise 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 groupwide standards;
- reporting risks;
- complying with risk processes and procedures;
- 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

The Baloise risk model standardises the process of quantifying 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 groundbreaking 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 – to ensure that the Company remains solvent even in adverse circumstances and can meet its obligations to policyholders at all times. This target capital figure is constantly compared with the capital currently available (the "actual" capital).

In addition to this holistic risk model, Baloise uses the risk map to identify, describe and evaluate specific risks in terms of their likely impact on its operating profit or loss. Baloise's 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. Baloise uses 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 standards stipulate methods, rules and limits that must be applied throughout the Baloise Group. They 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. Issue-specific risks are monitored 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.
- Appropriate reporting procedures are used to monitor market risk and financial-structure risk across all business 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, risk analysis is used to regularly monitor the overall solvency position.
- Baloise captures business-environment risk, operational risk and strategic risk on both a standardised and individual basis, and assesses them in terms of their impact on its capital.

The Own Risk and Solvency Assessment (ORSA), an annual risk report, is discussed with the decision-makers so that suitable measures can be developed. The results of the ORSA are also reported to the regulatory authority. 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 individual managers are personal performance, 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 individual performance pool payments.

STRATEGIC RISK MANAGEMENT

The internal risk model, which uses standard methods to quantify all 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 Baloise's "actual" capital.

This process provides a 360-degree view of key strategic risks and how they are managed. Strategic risk management provides a clear picture of the risks involved in opening up new business lines and of how to optimise the risk / return profile of 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 2016

Baloise's risk strategy principles are designed for the long term, as shown by the Company's excellent risk positioning in 2016. Proof positive of this situation was again the Baloise Group's positive Standard & Poor's rating of "A" with a stable outlook and the upgrading of the significance of the enterprise risk management to "high".

Underwriting approaches that have been tried and tested for many years were maintained in 2016:

- The Baloise Group's investment strategy continues to focus on diversification and on the basic principle of only investing in assets that the Company can itself fully and accurately evaluate through risk management.
- Baloise continued to actively manage its credit risk and currency risk.
- With a net equity exposure of 7.7 per cent at 31 December 2016, Baloise's equity investments in the reporting year lay comfortably within its risk-bearing capacity.
- The high quality of recurrent investment income generated by Baloise's stable real-estate portfolio proved to be a valuable source of revenue.
- Much of Baloise's focus is directed at managing its interest-rate risk. Wherever possible, payment obligations to customers for future years are reconciled with the income earned from investments. The high quality of recurrent investment income generated by Baloise's stable real-estate portfolio has proved very helpful in this respect. Baloise also invests in safe long-term bonds denominated in either Swiss francs or euros and supplements this strategy by using derivative financial instruments such as swaptions.
- Baloise's underwriting business has proved to be highly consistent, with the Baloise Group's net combined ratio of 92.2 per cent demonstrating its excellent capabilities in underwriting and managing non-life risk.

Risk management at Baloise will continue to evolve over the coming years, reaffirming its standing as a company with an outstanding risk strategy and risk positioning.

Further information on risk management can be found in the 2016 Financial Report (section 5. "Management of insurance risk and financial risk" pages 139 to 181).

The Baloise Group's commitment to art

Baloise's art collection is the product of a long-standing commitment to the arts and plays an important part in the Company's culture. Baloise also sees investment in art as a responsibility: works of art are created to be seen and to provoke discussion. It believes that the privilege of owning art comes with an obligation to make it accessible to the wider public. Baloise's commitment also extends to providing recognition and support for contemporary artists.

ART COLLECTION

Collecting art has a long tradition at Baloise. It is part of the Company's very identity. The first acquisitions were made in the late 1940s. These pieces, which were mainly by regional artists, exhibited the same characteristics that define the collection today: outstanding artistic merit, inner depth and an unusual and often revolutionary form of expression for their time. Two further components underpin the success of the Baloise collection: a clearly defined focus – art created in Basel during the first half of the 20th century – and wherever possible the acquisition of groups of works. Since it first began collecting art in the immediate post-war period, Baloise has remained true to its belief that the Company's works of art should be accessible both to employees and visitors.

Baloise displays its collection in foyers and corridors, meeting rooms and offices, with a large number of works on show in publicly accessible reception rooms at its group headquarters. The new building in Baloise Park, which will be completed in 2020, will also offer this opportunity to display art.

Today Baloise collects contemporary art, focusing on acquiring works on paper by the artists of today. Works on paper include drawings, gouaches, watercolours, oil on paper, collages and photographic works. These are fully recognised artistic media, which form part of the significant artistic statements of the modern day. By deciding to focus on one specific medium, Baloise intended to expand its horizon in its choice of artists. The main criterion for selecting artists is the existence of a persuasive body of work that establishes a close emotional and intellectual connection with the hopes and fears of our time.

Today the works of the new collection are categorised in three groups that reflect key movements in contemporary art: the first group is minimal and concept art, which since the 1960s has been dominated by American artists. The second major focus of the collection is the euphorically received art of the 1980s. In Europe this period was dominated by a form of expressive figurative art that led to the establishment of terms such as *Neue Wilde* and *Transavanguardia*. The third part of the collection is devoted to influential artists working in the medium of drawings. In addition to its works on paper, Baloise maintains a collection of works by artists who realise their artistic goals through the medium of photography.

New acquisitions for the collection are made by the Baloise art commission, which comprises six art-loving employees and one external advisor. The items are purchased proactively on an ongoing basis.

ART FORUM

The Baloise Art Forum mounts themed public exhibitions featuring works taken from the Baloise collection and sometimes also relevant loan works. It also hosts talks with artists and runs guided tours for employees and external groups. Every year two exhibitions are mounted.

BALOISE ART PRIZE

Every year since 1999 the Baloise Group has awarded two young artists its Baloise Art Prize at the Statements sector of the Art Basel fair. It is Baloise's way of supporting the development of young, rising talents. The level of interest from young galleries in taking part in this sector at the Art Basel fair is increasing with every year. For the 2016 Art Basel fair no fewer than 380 galleries applied for the opportunity to showcase their artists. The Art Basel committee has the challenging task of selecting 20 positions from a flood of applications, which are then presented to a global audience at the fair. From these 20 positions a panel of judges made up of international experts selects two winners, each receiving an award and prize money of CHF 30,000.

After the announcement at a press conference both the winners and the galleries receive great attention at this event of global significance.

In addition to this publicity, the artists are also given the chance to have their works displayed in a distinguished art museum: Baloise acquires groups of works by the prize winners and donates these to two leading European art museums (in the locations of strategic business units), currently Frankfurt's Museum of Modern Art and the MUDAM in Luxembourg. Baloise invites its top customers to these endowment and exhibition events and uses them to strengthen links with the local cultural media.

Every year, the company spends around a quarter of a million Swiss francs on prize money, acquisitions of works and funding for art statements (on the condition that the galleries may only exhibit one position), and on arranging for works by winners of its art prize to be exhibited at museums. No other art prize offers this combination, making the Baloise Art Prize a coveted and prestigious award.

Further information on Baloise's art activities and on all previous prize winners can be found here:

→ www.baloise.com/art

→ www.baloiseartprize.com



The Baloise Art Forum

Corporate Governance

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Transparent corporate governance

As a company that adds value, Baloise attaches great importance to practising sound, responsible corporate governance.

Operating in line with the requirements of 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 requirements under the Swiss Ordinance Against Excessive Remuneration in Listed Companies Limited by Shares (ERCO).

This chapter reflects the structure of the SIX Corporate Governance Guidelines as amended on 1 January 2016 in order to enhance transparency and, consequently, improve comparability with previous years and other companies. It includes the requirements of 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 a 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, Baloise Holding is a public limited company that is incorporated under Swiss law and listed on the Swiss Exchange (SIX). The Baloise Group had a market capitalisation of CHF 6,415 million as at 31 December 2016.

- Information on Baloise shares can be found from page 8 onwards.
- Significant subsidiaries, joint ventures and associates as at 31 December 2016 can be found from page 256 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 183 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 74.

Shareholder base

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

Shareholder structure

A total of 21,189 shareholders were registered in Baloise Holding's share register as at 31 December 2016. The number of registered shareholders had increased by 2.2 per cent compared with the previous year. The "Significant shareholders" section on page 278 provides information on the structure of the Company's shareholder base as at 31 December 2016.

The reports that were submitted to the issuer and to SIX Swiss Exchange AG's disclosure office during the reporting year in compliance with article 120 of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FinfraG) and were published on the latter's electronic reporting and publication platform in compliance with article 124 FinfraG can be viewed using the search function at www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

Treasury shares

Baloise held 1,829,345 treasury shares (3.659 per cent of the issued share capital) as at 31 December 2016.

Cross-shareholdings

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

2. CAPITAL STRUCTURE

Dividend policy

Baloise 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 1,263.7 million from cash dividends and share buy-backs over the last five years. Baloise has therefore had a combined annual payout rate of between 30 per cent and 50 per cent in recent years.

	Cash dividends	Share buy-backs	Total
Year (CHF million)			
2012	225.0	–	225.0
2013	237.5	–	237.5
2014	250.0	–	250.0
2015	250.0	59.1	309.1
2016	260.0 ¹	54.8	314.8
Total	1,222.5	113.8	1,336.3

All figures stated as at 31 December.

¹ Proposal to the Annual General Meeting on 28 April 2017.

Baloise 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)

	31.12.2014 ¹	31.12.2015	31.12.2016
CHF million			
Share capital	5.0	5.0	5.0
General reserve	11.7	11.7	11.7
Reserve for treasury shares	4.9	3.5	2.3
Free reserves	230.3	387.6	573.9
Distributable profit	406.5	435.4	289.6
Treasury shares	–141.9	–194.8	–156.6
Equity attributable to Baloise Holding	516.5	648.4	725.9

¹ Restated in accordance with the new financial reporting legislation.

The share capital of Baloise 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 30 April 2015 has authorised the Board of Directors until 30 April 2017 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 article 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 article 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 disappplied. 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 5,773.7 million on 31 December 2016. Details of changes in consolidated equity in 2015 and 2016 can be found in the consolidated statement of changes in equity on pages 116 and 117 in the Financial Report section. All pertinent details relating to 2014 can be found in the consolidated statement of changes in equity on page 110 in the Financial Report section of the 2015 Annual Report.

Bonds outstanding

Baloise Holding has issued bonds publicly. As at the end of 2016, a total of seven public bonds were outstanding. Details of outstanding bonds of Baloise Holding can be found on pages 233 and 276 and on the internet.

→ www.baloise.com/bonds

Credit rating

On 11 August 2016, credit rating agency Standard & Poor's confirmed Baloise Insurance Ltd's rating of "A" with a stable outlook. S & P awarded this rating in recognition of Baloise's very strong capitalisation, its excellent operational profitability and its solid competitive position in its core markets. The agency also rated the firm's risk management as strong. The rating was awarded to Baloise 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 ten members at the end of 2016. 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 59. 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 Bocard, Dr Andreas Burckhardt, Christoph B. Gloor, Karin Keller-Sutter, Werner Kummer and Thomas Pleines 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. Prior to the 2016 Annual General Meeting, Dr Eveline Saupper announced that she would be stepping down from the Board of Directors. Professor Marie-Noëlle Venturi - Zen-Ruffinen and Hugo Lasat were elected as new members of the Board of Directors.

All existing members of the Board of Directors are to stand for election at the 2017 Annual General Meeting, with the exception of Dr Michael Becker, who is not putting himself forward for re-election. Dr Becker has been a member of the Board of Directors and of the Audit Committee (now known as the Audit and Risk Committee) since 2010 and was a member of the Investment Committee from 2012 until 2016. He has provided outstanding service to the Baloise Group.

The Board of Directors will propose Dr Thomas von Planta (born in 1961 and qualified as a lawyer in Switzerland) for election at the Annual General Meeting on 28 April 2017. He is the founder and Principal of CorFinAd AG, a company specialising in consultancy for M & A transactions and capital market finance. He has sat on the Board of Directors of Bellevue Group AG since 2007, Bank am Bellevue AG since 2012 and Bellevue Asset Management AG since 2012, and has been Chairman of the Board

of Directors of all three companies since March 2015. Before that, he had worked for Goldman Sachs in Zurich, Frankfurt and London for around ten years and had been the interim Head of Investment Banking and Head of Corporate Finance for the Vontobel Group in Zurich between 2002 and 2006. He will be an independent non-executive director.

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

→ www.baloise.com/board-of-directors

MEMBERS

	Chairman's Committee	Audit Committee	Remuneration Committee	Investment Committee	Nationality	Born in	Appointed in
Dr Andreas Burckhardt, Chairman (since 2011), Basel	C			C	CH	1951	1999
Werner Kummer, Vice-Chairman (since 2014), Küssnacht	VC	C			CH	1947	2000
Dr Michael Becker, Darmstadt (D)		DC			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		M		DC	CH	1966	2014
Karin Keller-Sutter, Wil SG			DC		CH	1963	2013
Hugo Lasat, Kessel-Lo (B)				M	B	1964	2016
Thomas Pleines, Munich (D)	M		C		D	1955	2012
Prof. Dr Marie-Noëlle Venturi - Zen-Ruffinen, Crans-Montana			M		CH	1975	2016

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

BOARD ATTENDANCE IN 2016: MEETINGS OF THE FULL BOARD OF DIRECTORS

	18.03.2016	29.04.2016	24.06.2016	25.08.2016	9.12.2016
Dr Andreas Burckhardt, Chairman	x	x	x	x	x
Werner Kummer, Vice-Chairman	x	x	x	x	x
Dr Michael Becker	x	x	x	x	x
Dr Andreas Beerli	x	x	x	x	x
Dr Georges-Antoine de Boccard	x	x	x	x	x
Christoph B. Gloor	x	x	x	x	x
Karin Keller-Sutter	x	x	x	x	x
Hugo Lasat	n.a.	n.a.	x	x	x
Thomas Pleines	x	x	x	x	x
Dr Eveline Saupper	x	x	n.a.	n.a.	n.a.
Prof. Dr Marie-Noëlle Venturi - Zen-Ruffinen	n.a.	n.a.	x	x	x

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

Statutory rules concerning the number of permitted activities

The 2015 Annual General Meeting approved the addition of a new provision to the Articles of Association (article 33) concerning the maximum number of directorships held outside the Company. Subsection 1 stipulates the principle that the number of external directorships held by members of the Board of Directors or Corporate Executive Committee must be compatible with the commitment, availability, capabilities and independence required of them in order to perform their duties as members of the Board of Directors or Corporate Executive Committee. Subsections 2 and 3 then specify numerical restrictions.

Interlocking directorates

There are no interlocking directorates.

Internal organisation

Functions and responsibilities of the Board of Directors

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

Article 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 2015, article 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 to be approved by the Annual General Meeting. The Remuneration Committee approves the target agreements and performance assessments that are applied to the Corporate Executive Committee members in order to determine their variable remuneration. It also sanctions the remuneration policies applicable to the Corporate Executive Committee members and ensures that they are being correctly implemented. It approves the variable remuneration granted to individual members of the Corporate Executive Committee; 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 (article 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 Baloise Holding met on five occasions in 2016. The table on page 63 shows Board of Directors members' attendance at these meetings. All members of the relevant committee in each case attended every one of the additional 18 committee meetings. This means that the Board of Directors achieved an overall meeting attendance rate of 100 per cent. The Board of Directors held a seminar for the purpose of training its members. Meetings of the Board of Directors and its committees usually last half a working day each.

The Chairman's Committee convened nine times in 2016, 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. Meetings of the Chairman's Committee are usually attended by the Group CEO and the Chief Financial Officer. 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 and, occasionally, representatives of the external

auditors, the Chief Risk 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 Heads of Investment Strategy and Investment Control, Baloise Asset Management and Real Estate. The Secretary to the Board of Directors attends the meetings of the full Board of Directors and those of its committees.

Self-evaluation

Every two years, a comprehensive self-evaluation is carried out in the full Board of Directors and in the Audit and Risk Committee. The results are then discussed in each body.

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 52 onwards and in the Financial Report section starting on page 139.

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.



Andreas Burckhardt



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 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 (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.



Werner Kummer



Michael Becker

←

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 2011. He sits on the Supervisory Board at Symrise AG, Germany. Dr Becker is an independent non-executive director.

→

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



Andreas Beerli

→

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. Dr Georges-Antoine de Boccard chairs the Board at Stellaria Holding SA and at the asset management companies of Citadel Finance SA and GPP-Gestion Patrimoniale Personnal­isée SA. He sits on the Board of Directors at the Swiss International Prostate Center SA and was Chairman of the Swiss Association of Urology from 2005 to 2006. As well as remaining a member of the Swiss Association of Urology, he is a member of 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.



Georges-Antoine de Boccard



Christoph B. Gloor

←

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 has been a member of the Executive Committee of Notenstein La Roche Privatbank AG, St. Gallen, since November 2015. He was previously Chief Executive Officer of Basel-based private bank La Roche & Co AG. Prior to joining La Roche & Co AG in 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 has been a member of the Board of Managing Directors of the Basel Banking Association since 2016. Mr Gloor 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 has been a member of the Council of States – the upper chamber of the Swiss parliament – since the autumn of 2011. Ms Keller-Sutter sat on the Boards of Directors of the NZZ Media Group until April 2016. She also sits on the Board of Directors of the ASGA pension fund. In addition, she chairs the Board of Directors of Pensimo Fondsleitung AG and the Pensimo investment foundation. 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.



Karin Keller-Sutter



Hugo Lasat

←

Hugo Lasat (1964, Belgium, Master in Economic Sciences, Master in Finance) has sat on the Board of Directors since 2016. He has been CEO of Brussels-based Degroof Petercam Asset Management (formerly Petercam Institutional Asset Management) since 2011. His managerial roles prior to that include CEO of Amonis Pension Fund and CEO of Candriam Investors Group (previously known as Dexia Asset Management). He is a guest professor at Hogeschool Universiteit Brussel (HUBrussel) and VIVES University College, Chairman of the Belgian Asset Management Association (BEAMA) and a member of the Board of Directors of the Belgian Financial Sector Federation (Febelfin). He is also a member of the Financial Committee of the Belgian Red Cross and the Financial Committee of the King Baudouin Foundation. Mr Lasat is an independent, non-executive director.



Thomas Pleines



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 he 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 chaired the presidential boards of DEKRA e.V., Stuttgart, and DEKRA e.V. Dresden, as well as the supervisory boards of DEKRA SE, Stuttgart, and SÜDVERS Holding GmbH & Co. KG, Au near Freiburg. Mr Pleines is an independent non-executive director.



Marie-Noëlle Venturi - Zen-Ruffinen (1975, Switzerland, Prof. Dr iur., lawyer) has been a member of the Board of Directors since 2016. She holds a PhD and master's degree in law and a master's degree in philosophy from the University of Fribourg. She is a lawyer and honorary professor at the School of Economics and Management at the University of Geneva, where she mainly lectures on corporate law. Professor Venturi - Zen-Ruffinen was a partner in the Geneva law firm Tavernier Tschanz until 2012, and since that time has been of counsel for the firm. She is president of the Swiss Board Institute foundation and sits on the Board of Management of the Swiss Institute of Directors. Professor Venturi - Zen-Ruffinen is an independent non-executive director.



Marie-Noëlle Venturi - Zen-Ruffinen

Secretary to the Board of Directors:
Dr Philipp Jermann,
Buus (BL)

Head of Group Internal Audit:
Rolf-Christian Andersen,
Meilen (ZH)

4. CORPORATE EXECUTIVE COMMITTEE

←



Gert De Winter

Gert De Winter (1966, Belgium, MSc) studied applied economics at the University of Antwerp. From 1988 to 2004 he performed various roles at Accenture in Brussels for issues relating to IT and business transformation management in the financial sector. He was made a partner at the firm in the year 2000. In 2005 he joined the Baloise Group as Chief Information Officer (CIO) and Head of HR of the Mercator insurance company in Belgium. From 2009 to 2015 Gert De Winter was Chief Executive Officer of Baloise Insurance, which was formed in 2011 from the merger of the three insurance companies Mercator, Nateus and Avéro. He has been Group Chief Executive Officer since 1 January 2016. Since June 2016 he has been a member of the Management Board of the Basel Chamber of Commerce.

→

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 Group Accounting & Finance, Corporate Communications & Investor Relations, Group Risk Management, and Corporate IT. The actuary responsible for Baloise's business in Switzerland and the Head of Regulatory Affairs also report to German Egloff. He has been a member of the Board of Directors of Absolutum AG, Bern, since 2016. On 13 October 2016 German Egloff announced that he will be stepping down from the Corporate Executive Committee with effect from 30 April 2017. The Board of Directors of Baloise Holding Ltd appointed Dr Carsten Stolz as his successor. Dr Stolz has worked for Baloise since 2002. He has been Head of Finance and Risk and thus a member of the Executive Committee of Basler Versicherungen Switzerland since 2011.



German Egloff

→

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. Michael Müller is a member of the Board of Foundation of Stiftung Finanzplatz Basel and a member of the Management Board of the Swiss Insurance Association (SVV).



Michael Müller



Thomas Sieber

←

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 Baloise Holding's Board of Directors until April 2012. Since 6 December 2007 Dr Sieber has been a member of the Corporate Executive Committee and, as Head of the Corporate Centre, is responsible for Group Human Resources, Group Strategy and Digital Transformation, Legal and Tax, Group Compliance, Group Procurement and Run-off Business. He also sits on the Board of Directors at Euro Airport Basel-Mulhouse-Freiburg.

→

Martin Wenk (1957, Switzerland, lic. iur.) held several posts at a major bank from 1982 to 1992 after graduating in law from the University of Basel. He started out as an investment advisor to institutional clients before becoming a Group Manager in private banking in New York and eventually working as Section Head of Securities Sales, where he primarily covered key institutional clients. From 1992 to 2000 he headed up portfolio management in Switzerland for the Baloise Group, where he was responsible for managing the assets of several Swiss companies, including their pension funds. In 2001 he was appointed to the Corporate Executive Committee (as Head of 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 compenswiss (the Swiss Federal Social Security Funds), Geneva. On 13 October 2016 Martin Wenk announced that he will be stepping down from the Corporate Executive Committee with effect from 30 April 2017. The Board of Directors of Baloise Holding Ltd appointed Dr Matthias Henny as his successor. Dr Henny joined Baloise in 2012 as CEO of Baloise Asset Management.



Martin Wenk

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

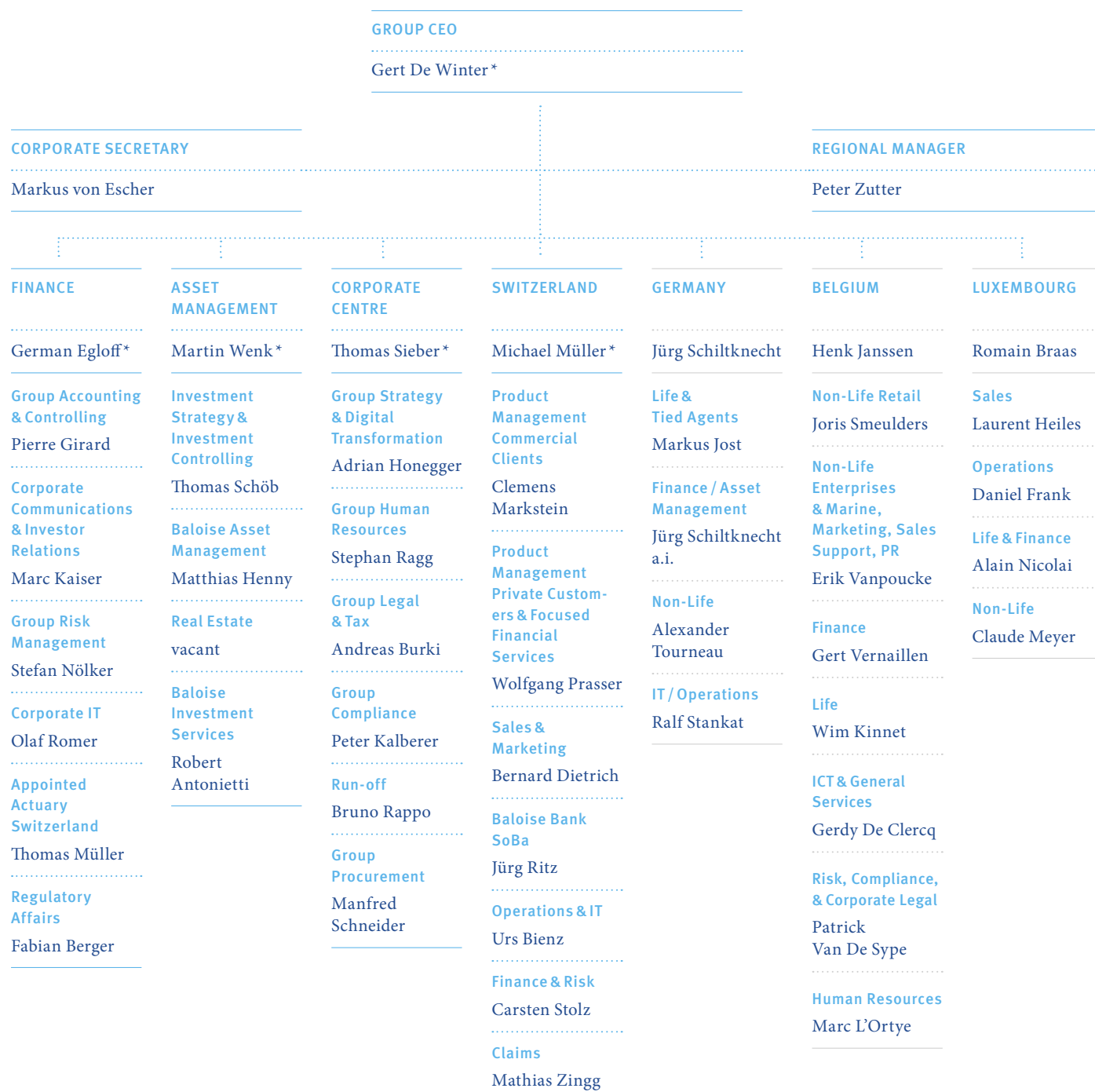
With the exception of the mandates listed above, no Corporate Executive Committee members serve on the boards of directors at companies outside the Baloise Group.

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

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

Management structure

(as at: 31 December 2016)



* Member of the Corporate Executive Committee.

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Overview of remuneration

REMUNERATION GUIDELINE

Basic salary

- Aim for a position around the market median
- Reflection of the responsibilities of the role and the individual's long-term performance

Short-term variable remuneration

- Influencing factors: the individual's performance and the Company's economic value added
- Designed to incentivise staff to achieve outstanding results

Long-term variable remuneration

- Supports the Company's long-term development
- Gives the top level of management a greater stake in the performance of the Company

Fringe benefits

- Not dependent on either an individual's function or performance or the Company's performance
- Demonstration of Baloise's close partnership with employees and its respect for them

APPROVED REMUNERATION VS. AMOUNT PAID OUT

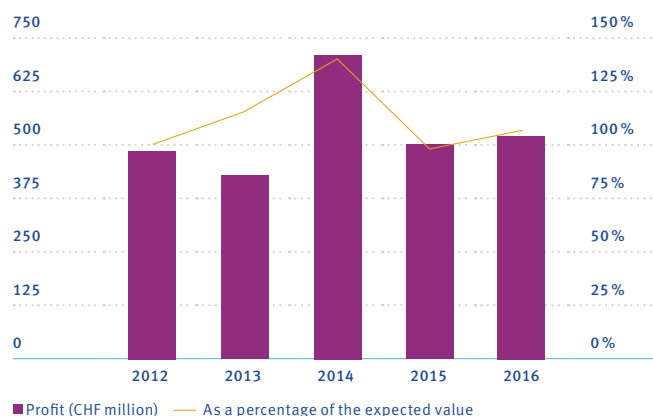
CHF million	Approved	2015 Paid out	Approved	2016 Paid out
Fixed remuneration of Board of Directors	3.4	3.4	3.4	3.4
Fixed remuneration of Corporate Executive Committee	5.5	4.8	4.6	4.9 ¹
Variable remuneration of Corporate Executive Committee	5.3	4.0	4.8	4.0

¹ Incl. CHF 0.452 million for the departing Group CEO, covered by the additional amount pursuant to article 30 of the Articles of Association of Baloise Holding Ltd.

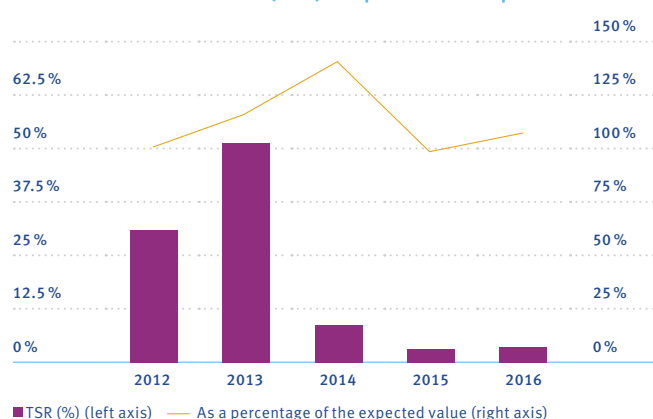
REMUNERATION IN RELATION TO BUSINESS PERFORMANCE

Performance pool	2015	2016
Total performance pool ² for Corporate Executive Committee (CHF million)	2.4	2.4
Performance pool factor ² (%)	100%	107%

Profit vs. performance pool factor²



Total shareholder return (TSR) vs. performance pool factor²



² The performance pool (PP) is the component of short-term variable remuneration that depends on the Company's performance: The Remuneration Committee of the Board of Directors assesses the Company's performance and success during the past financial year. The performance pool factor is the ratio of the pool to its target value.

REMUNERATION OF THE CORPORATE EXECUTIVE COMMITTEE

Member	Year	Fixed	Short-term variable	Long-term variable	Total
Gert De Winter (from 1 Jan 2016)	2015				
	2016	53%	29%	18%	CHF 2.152 million
Dr Martin Strobel	2015	55%	26%	19%	CHF 2.409 million
	2016	100%			CHF 0.452 million
Michael Müller	2015	54%	28%	18%	CHF 1.441 million
	2016	55%	28%	17%	CHF 1.481 million
German Egloff	2015	57%	26%	17%	CHF 1.599 million
	2016	57%	26%	17%	CHF 1.600 million
Dr Thomas Sieber	2015	57%	26%	17%	CHF 1.441 million
	2016	55%	28%	17%	CHF 1.478 million
Martin Wenk	2015	56%	27%	17%	CHF 1.632 million
	2016	54%	30%	16%	CHF 1.682 million

■ Fixed (comprising basic salary, non-cash remuneration and pension benefits) ■ Short-term variable remuneration (comprising share-based and cash payments from the performance pool) ■ Long-term variable remuneration (comprising allocations of share entitlements)

LONG-TERM VARIABLE REMUNERATION

Performance share units (PSUs)

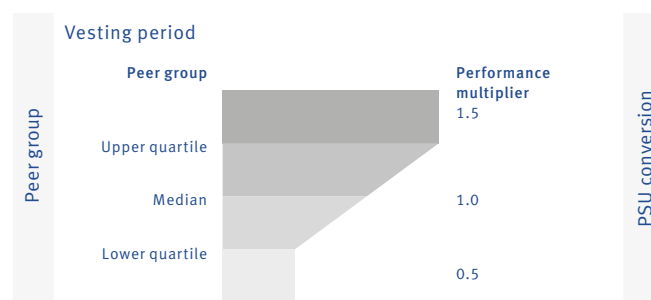
Long-term variable remuneration for members of the Corporate Executive Committee

Allocation

- The total amount for the allocation of PSUs is determined by the Remuneration Committee
- The Remuneration Committee decides on the allocation of PSUs to each individual Corporate Executive Committee member

Conversion

- Performance criterion: profit for shareholders relative to the peer group (EURO STOXX 600 Insurance) after three years
- PSUs are a performance instrument, enabling clear differentiation using a performance multiplier of between 0.5 and 1.5



2016 plan (ended)

Plan term: 1 March 2013 – 29 February 2016

Date	Share value at start of PSU programme	Change in share value during programme term	Performance multiplier	Total
1 Mar 2013	100%			100%
29 Feb 2016	100%	50%	75%	225%

Profit for shareholders: 1 March 2013 – 29 February 2016

Date	Share value at start of PSU programme	Change in share value during programme term	Performance multiplier	Total
1 Mar 2013	100%			100%
29 Feb 2016	100%	50%	17%	167%

■ Share value at start of PSU programme ■ Change in share value during programme term ■ Performance multiplier ■ Dividend payments ■ Change in share value (measured as at 31 Dec 2016) ■ Performance multiplier (measured as at 31 Dec 2016)

Overview of ended and current plans (as at 31 December 2016)

2010 to 2016 plans

Plan period	Share value at start of PSU programme	Change in share value during programme term	Performance multiplier	Total
1 Jan 2010 – 31 Dec 2012	100%	-38%	-9%	-47%
1 Jan 2011 – 31 Dec 2013	100%	-29%	25%	-4%
1 Mar 2012 – 28 Feb 2015	100%	74%	37%	111%
1 Mar 2013 – 29 Feb 2016	100%	50%	75%	125%
1 Mar 2014 – 28 Feb 2017	100%	-6%	13%	7%
1 Mar 2015 – 28 Feb 2018	100%	6%	21%	27%
1 Mar 2016 – 28 Feb 2019	100%	-49%	-1%	-51%

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 2016 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 2016. The content and scope of these disclosures are determined by articles 13 to 17 of the Ordinance Against Excessive Remuneration in Listed Companies Limited by Shares (ERCO), article 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. Thomas Pleines (Chairman), Karin Keller-Sutter (Deputy Chairwoman), Dr Georges-Antoine de Boccard and Prof. Dr Marie-Noëlle Venturi - Zen-Ruffinen were elected to the Remuneration Committee by the Annual General Meeting on 29 April 2016. 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.

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 Board of Directors and 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. It reflects 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, which applies 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 standardised for the entire group. 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 longer 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 taking account of 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.

The members of the Corporate Executive Committee are not entitled to performance-related remuneration. Their individual performance is factored into the allocation of payments from the performance pool.

Market comparisons

Baloise regularly compares the salaries paid to its senior executives with those paid in the wider market. The Corporate Key Position Benchmark survey conducted by Kienbaum uses function-specific peer groups. Each function being compared is assigned to one of three distinct peer groups. Assignment is based on which companies Baloise is competing against for the skill-sets and qualifications needed for each function (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. Functions not covered by the Kienbaum comparison are regularly reviewed using Willis Towers Watson’s Financial Services Compensation Survey. The findings of these benchmarking surveys are fed into the Company’s regular review of its salary structures and presented to the Remuneration Committee.

Baloise also regularly conducts market comparisons of its local functions in the countries outside Switzerland.

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 by bank transfer. 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 directly 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 con-

siderable 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 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 83). 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 Share Participation Plan (see 5.6 Share Subscription Plan and Share Participation Plan).

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

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 and the importance of his or her function. 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 36 European insurance companies represented in the STOXX Europe 600 Insurance Index (the composition of this index is shown in the table on page 83).

→ 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 by the Chief Risk Officer and the Head of Group Compliance of the risks taken and the evaluations by the Head of Group Human Resources and others 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 – except for members of the Corporate Executive Committee – 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; the maximum amount that can be allocated per member of the Corporate Executive Committee is 90 per cent of the basic salary, or 150 per cent of the expected value.

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 entitlement to receive payments from the performance pool.

For the 2016 financial year the Remuneration Committee decided on a factor of 107 per cent of the normally expected value of performance pool payments. This decision was motivated by the following considerations:

- A substantial profit for the period overall – higher than the budgeted figure despite the strengthening of reserves in Germany and the current environment of low interest rates;
- Confirmation of the good risk position;
- Above-average share price performance;
- Successful start to implementation of the Simply Safe strategy.

The Remuneration Committee conducts a detailed assessment of the Company's performance once a year on the basis of the various criteria mentioned above and adjusts the size of the performance pool accordingly. As the table below illustrates in the form of a comparison with the consolidated profit for the period, when the performance pool factor is set in this way, it goes up or down in line with the Company's success, although it is not directly derived from this key figure alone:

	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
2015	100 %	511.1
2016	107 %	533.9

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 eligible for 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 36 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. Programme participants 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 per-

Companies in the STOXX 600 Europe Insurance Index (as at 31 December 2016)

ADMIRAL GRP	DELTA LLOYD	OLD MUTUAL	SWISS LIFE HLDG
AEGON	DIRECT LINE INSURANCE GROUP	PHOENIX GROUP HDG.	SWISS REINSURANCE COMPANY
AGEAS	GJENSIDIGE	POSTE ITALIANE	TOPDANMARK
ALLIANZ	HANNOVER RUECK	PRUDENTIAL	TRYG
ASSICURAZIONI GENERALI	HELVETIA HLDG	RSA INSURANCE GRP	UNIPOLSAI
AVIVA	HISCOX	SAMPO	ZURICH INSURANCE GROUP
AXA	LEGAL & GENERAL GRP	SCOR	
BALOISE	MAPFRE	ST. JAMES'S PLACE CAPITAL	
BEAZLEY	MUENCHENER RUECK	STANDARD LIFE	
CNP ASSURANCES	NN GROUP	STOREBRAND	

Source: <http://www.stoxx.com/index-details?symbol= SXIP>

formance 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 receive the pertinent number of shares once the vesting period has elapsed, which means that for the PSUs allocated in 2016 they receive their shares on 1 March 2019. If an individual's employment contract is terminated during the vesting period, the PSUs expire without the person concerned receiving any consideration or compensation. This does not apply if the employment contract ends due to retirement, disability or death. It also does not apply if the contract is terminated but the programme participant does not join a rival company or is not personally at fault for the termination of the contract. In the latter two cases, some of the allocated PSUs will still expire. 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 ³	
	Date	Price (CHF) ¹	Date	Multiplier	Price (CHF) ¹		Value (CHF) ²
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	1.21	124.00	150.04	111%
2013	01.03.2013	84.50	01.03.2016	1.50	126.00	189.00	124%
2014	01.03.2014	113.40	01.03.2017	⁴ 0.95	⁴ 128.30	⁴ 121.72	⁴ 7%
2015	01.03.2015	124.00	01.03.2018	⁴ 1.20	⁴ 128.30	⁴ 153.33	⁴ 24%
2016	01.03.2016	126.00	01.03.2019	⁴ 0.50	⁴ 128.30	⁴ 64.15	⁴ -49%

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: $\frac{((1.182 \times 86.05) - 125.80)}{125.80} \times 100 = -19\%$.

4 Interim measurement as at 31 December 2016.

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 voluntary 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. All members of the Corporate Executive Committee have a notice period of twelve months. The employment contract with the Chairman of the Board of Directors does not stipulate any notice period; its duration is determined by the term of appointment and by law. There are no change-of-control clauses.

The Remuneration Policy adopted by the Board of Directors contains 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 Share Participation 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 Share Participation 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 before 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 2017 (applies to variable remuneration awarded for the 2016 reporting period)	10.01.2017	129.30	116.37
Share Subscription Plan for 2016 (applies to the variable remuneration granted for 2015 and to the shares subscribed by the Chairman and members of the Board of Directors in 2016)	08.01.2016	121.40	109.26

Share Participation 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 Share Participation 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 40 per cent of their entitlement in the form of shares from the Share Participation Plan. The subscription date is 1 March of each year (the same as for the Share Subscription Plan); although title to the shares passes to the relevant employees on this date without any further vesting conditions having to be met, the shares cannot be sold during a three-year 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 before 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 Share Participation Plan are purchased in the market as and when required.

In order to increase the impact of this Share Participation 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.

	Applicable closing quotation		Subscription price
	from	CHF	CHF
Share Participation Plan for 2017 (applies to variable remuneration awarded for the 2016 reporting period)	10.01.2017	129.30	114.49
Share Participation Plan for 2016 (applies to the variable remuneration granted for 2015 and to the shares subscribed by the Chairman of the Board of Directors in 2016)	08.01.2016	121.40	106.59

EMPLOYEE INCENTIVE PLAN

	2015	2016
Number of shares subscribed	172,796	183,678
Restricted until	31.08.2018	31.08.2019
Subscription price per share (CHF)	60.40	56.40
Value of shares subscribed (CHF million)	10.4	10.4
Fair value of subscribed shares on subscription date (CHF million)	20.5	21.5
Employees entitled to participate	3,181	3,098
Participating employees	1,920	2,029
Subscribed shares per participant (average)	90.0	90.5

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 of Baloise 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 2016 the subscription price amounted to CHF 56.40 (2015: CHF 60.40) and a total of 183,678 shares were subscribed (2015: 172,796). 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 Baloise 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 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. Until May 2016, the pension contributions were also paid on behalf of the Chairman of the Board of Directors, who is also insured. Since June 2016, he has not been entitled to have contributions paid to the pension fund, nor have such contributions been paid to him.

The other members of the Board of Directors have never been entitled to have contributions paid to the pension fund, nor have such contributions been paid to them.

5.9 Rules stipulated in the Articles of Association

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

- Article 30 Additional amount for the remuneration paid to Corporate Executive Committee members appointed since the last Annual General Meeting
- Article 31 Annual General Meeting votes on remuneration
- Article 32 Principles of profit-related remuneration and the granting of equity instruments
- Article 34 Loans and advances granted to members of the Board of Directors and the Corporate Executive Committee
- www.baloise.com/rules-regulations

5.10 Remuneration paid to the members of the Board of Directors

Please refer to the tables on pages 92 and 93.

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 Share Participation 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.

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 94 to 97.

The short-term variable remuneration paid to the members of the Corporate Executive Committee is allocated from the performance pool. The individual performance of each member in achieving the Company's objectives is factored into the measurement of the performance pool. The expected performance pool value amounts to 60 per cent of basic salary. 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 of 150 per cent of the expected value).

The members of the Corporate Executive Committee 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 system complies with 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 29 April 2016 passed binding votes in which it set a cap on the variable remuneration payable for 2016 and the amount of fixed remuneration to be paid for 2017.

The structure of remuneration paid to the Corporate Executive Committee is laid down in the Remuneration Policy. 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 94 to 97 in accordance with the accrual principle. The table includes all forms of remuneration awarded for performance in 2016 even if individual components are not paid until a later date.

The total remuneration paid to the Corporate Executive Committee for 2016 was lower than in the previous year (sum total of basic salary plus variable remuneration down by 4.4 per cent). This can be attributed to several factors:

- Upon Jan De Meulder's retirement in 2015, the Corporate Executive Committee decreased from six to five members.
- The basic salary of the Group CEO, Gert De Winter, is CHF 200,000 less than that of his predecessor.

The lower level of fixed remuneration also reduced the total amount of variable remuneration paid.

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 Annual General Meeting held on 30 April 2015 approved a maximum amount of CHF 4.627 million for the fixed remuneration (including pension contributions) payable to the Corporate Executive Committee for 2016. The sum paid was CHF 4.427 million (excluding the fixed remuneration of the departing Group CEO). During his handover period, which ended on 30 April 2016, the departing Group CEO was paid fixed remuneration (including pension contributions) totalling CHF 0.452 million. The amount, which exceeded the total amount originally requested, is covered by article 30 of the Articles of Association of Baloise Holding Ltd (additional amount for the remuneration of newly appointed members of the Corporate Executive Committee: If the Board of Directors appoints a new Group CEO or one or more new members of the Corporate Executive Committee between two Annual General Meetings, the total amount of Corporate Executive Committee remuneration approved by the Annual General Meeting will be increased. In the case of the Group CEO, the increase may not exceed the remuneration of the incumbent.).

The Annual General Meeting held on 29 April 2016 also approved a maximum amount of CHF 4.840 million for the variable remuneration (including pension contributions) payable for 2016. A total of CHF 3.951 million was paid out, which meant that only around four-fifths of the maximum amount available was utilised.

5.12 Loans and credit facilities

Please refer to the table on page 98.

5.13 Shares and options held

Please refer to the tables on pages 99 and 100.

5.14 Amounts of total remuneration and variable remuneration

Please refer to the table on page 101.

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 101 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 2016 even if individual components are not paid until a later date.

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REMUNERATION PAID TO THE MEMBERS OF THE BOARD OF DIRECTORS

2015	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	231,607	1,551,607	311,940	2,743
Chairman of the Board of Directors							
Werner Kummer	125,000		295,000	0	295,000	73,670	642
Vice-Chairman of the Board of Directors		50,000					
Chairman's Committee		50,000					
Chair of the Audit and Risk Committee		70,000					
Dr Michael Becker	125,000		225,000	0	225,000	56,228	490
Investment Committee		50,000					
Audit and Risk Committee		50,000					
Dr Andreas Beerli	125,000		225,000	5,743	230,743	56,228	490
Chairman's Committee		50,000					
Audit and Risk Committee		50,000					
Dr Georges-Antoine de Boccard	125,000		225,000	5,743	230,743	56,228	490
Investment Committee		50,000					
Remuneration Committee		50,000					
Christoph B. Gloor	125,000		175,000	5,743	180,743	43,720	381
Investment Committee		50,000					
Karin Keller-Sutter	125,000		175,000	5,743	180,743	43,720	381
Remuneration Committee		50,000					
Thomas Pleines	125,000		225,000	5,743	230,743	56,228	490
Audit and Risk Committee		50,000					
Remuneration Committee		50,000					
Dr Eveline Saupper	125,000		245,000	5,743	250,743	61,162	533
Chairman's Committee		50,000					
Chair of the Remuneration Committee		70,000					
Total for the Board of Directors	2,320,000	790,000	3,110,000	266,065	3,376,065	759,121	6,640

Explanatory notes to the table

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 114.75, in line with the Share Subscription Plan). Shares received by the Chairman of the Board of Directors amounted to 1,359 shares in connection with the Share Subscription Plan (CHF 155,945, with a closed period of five years instead of the usual three years) and 1,384 shares in connection with the Share Participation Plan (CHF 155,995).

Pension contributions The information disclosed for 2015 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 BOARD OF DIRECTORS

2016	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	100,076	1,420,076	311,906	2,890
Chairman of the Board of Directors							
Werner Kummer	125,000		295,000	0	295,000	73,641	674
Vice-Chairman of the Board of Directors		50,000					
Chairman's Committee		50,000					
Chair of the Audit and Risk Committee		70,000					
Dr Michael Becker	125,000		191,667	0	191,667	56,160	514
Investment Committee (until 29 April 2016)		16,667					
Audit and Risk Committee		50,000					
Dr Andreas Beerli	125,000		225,000	5,966	230,966	56,160	514
Chairman's Committee		50,000					
Audit and Risk Committee		50,000					
Dr Georges-Antoine de Boccard	125,000		225,000	5,966	230,966	56,160	514
Investment Committee		50,000					
Remuneration Committee		50,000					
Christoph B. Gloor	125,000		208,333	5,966	214,299	43,704	400
Investment Committee		50,000					
Audit and Risk Committee (since 29 April 2016)		33,333					
Karin Keller-Sutter	125,000		175,000	5,966	180,966	43,704	400
Remuneration Committee		50,000					
Hugo Lasat (since 29 April 2016)	83,333		116,667	5,619	122,286	0	0
Investment Committee		33,333					
Thomas Pleines	125,000		238,333	5,966	244,299	56,160	514
Audit and Risk Committee (until 29 April 2016)		16,667					
Remuneration Committee (until 29 April 2016)		16,667					
Chair of the Remuneration Committee (since 29 April 2016)		46,667					
Chairman's Committee (since 29 April 2016)		33,333					
Dr Eveline Saupper (until 29 April 2016)	62,500		122,500	5,683	128,183	61,186	560
Chairman's Committee		25,000					
Chair of the Remuneration Committee		35,000					
Prof. Dr Marie-Noëlle Venturi - Zen-Ruffinen (since 29 April 2016)	83,333		116,667	5,619	122,286	0	0
Remuneration Committee		33,333					
Total for the Board of Directors	2,424,167	810,000	3,234,167	146,827	3,380,994	758,779	6,980

Explanatory notes to the table

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 109.26, in line with the Share Subscription Plan). Shares received by the Chairman of the Board of Directors amounted to 1,427 shares in connection with the Share Subscription Plan (CHF 155,914, with a closed period of five years instead of the usual three years) and 1,463 shares in connection with the Share Participation Plan (CHF 155,992).

Pension contributions The information disclosed for 2016 includes the contributions that the employer is required by law to pay into the state-run social security schemes (up to the pensionable or insurable threshold in each case) and into the pension fund (only for the chairman of the Board of Directors until May 2016). Neither the Chairman (since June 2016) nor the members of the Board of Directors are entitled to have contributions paid to the pension fund, nor have such contributions been paid to the Chairman or the members of the Board of Directors.

REMUNERATION PAID TO THE MEMBERS OF THE CORPORATE EXECUTIVE COMMITTEE

	Basic salary		Share Subscription Plan	Share Participation Plan		
	Cash payment (fixed)	Cash payment		Number of shares	Number of shares	
2015	CHF	CHF	Number of shares	CHF	Number of shares	CHF
Dr Martin Strobel	1,150,000	310,592	2,841	310,408	0	0
Group CEO						
Michael Müller	632,500	123,053	2,625	286,808	0	0
Head of Corporate Division Switzerland						
Jan De Meulder	255,762	143,142	0	0	0	0
Head of SBU Germany (until 30 April 2015)						
German Egloff	690,000	144,975	1,515	165,529	971	103,496
Head of Corporate Division Finance						
Dr Thomas Sieber	621,000	186,318	1,023	111,773	699	74,509
Head of Corporate Division Corporate Centre						
Martin Wenk	690,000	111,801	3,069	335,319	0	0
Head of Corporate Division Asset Management						
Total for the Corporate Executive Committee	4,039,262	1,019,881	11,073	1,209,836	1,670	178,005

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 109.26.

Share Participation 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 106.59.

Performance share units (PSUs) These have been disclosed at their value of CHF 121.20 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 (PSU)		Total variable remuneration						
Granted in 2015								
Number of PSU	CHF	Number of shares	CHF	CHF		CHF	CHF	CHF
3,796	460,075	2,841	1,081,075	2,231,075	94 %	3,901	174,115	2,409,091
2,088	253,066	2,625	662,926	1,295,426	105 %	3,901	141,262	1,440,588
926	112,231	0	255,373	511,135	100 %	62,004	154,443	727,581
2,278	276,094	2,486	690,094	1,380,094	100 %	3,901	215,181	1,599,175
2,050	248,460	1,722	621,060	1,242,060	100 %	3,901	194,648	1,440,609
2,278	276,094	3,069	723,214	1,413,214	105 %	3,901	215,181	1,632,295
13,416	1,626,019	12,743	4,033,741	8,073,003	100 %	81,509	1,094,828	9,249,340

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.

REMUNERATION PAID TO THE MEMBERS OF THE CORPORATE EXECUTIVE COMMITTEE

	Basic salary		Share Subscription Plan		Share Participation Plan	
	Cash payment (fixed)	Cash payment	Number of shares	CHF	Number of shares	CHF
2016	CHF	CHF	Number of shares	CHF	Number of shares	CHF
Gert De Winter Group CEO	950,000	313,616	2,693	313,384	0	0
Dr Martin Strobel (until 30 April 2016) Departing Group CEO	383,333	0	0	0	0	0
Michael Müller Head of Corporate Division Switzerland	632,500	125,245	2,511	292,205	0	0
German Egloff Head of Corporate Division Finance	690,000	207,067	711	82,739	1,085	124,194
Dr Thomas Sieber Head of Corporate Division Corporate Centre	621,000	164,019	1,056	122,887	1,074	122,954
Martin Wenk Head of Corporate Division Asset Management	690,000	124,300	3,201	372,500	0	0
Total for the Corporate Executive Committee	3,966,833	934,246	10,172	1,183,716	2,159	247,148

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 2015 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 116.37.

Share Participation 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 114.49.

Performance share units (PSUs) These have been disclosed at their value of CHF 129.75 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 (PSU)		Total variable remuneration						
Granted in 2016								
Number of PSUs	CHF	Number of shares	CHF	CHF		CHF	CHF	CHF
2,929	380,038	2,693	1,007,038	1,957,038	106 %	0	194,871	2,151,908
0	0	0	0	383,333	0 %	0	68,934	452,268
1,950	253,013	2,511	670,463	1,302,963	106 %	4,183	174,338	1,481,483
2,128	276,108	1,796	690,108	1,380,108	100 %	4,183	215,404	1,599,695
1,915	248,471	2,130	658,331	1,279,331	106 %	4,183	194,871	1,478,385
2,128	276,108	3,201	772,908	1,462,908	112 %	4,183	215,404	1,682,495
11,050	1,433,738	12,331	3,798,848	7,765,681	96 %	16,732	1,063,821	8,846,234

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).

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.

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 Share Participation Plan		Other loans		Total	
	2015	2016	2015	2016	2015	2016	2015	2016
CHF								
Dr Andreas Burckhardt								
Chairman	0	0	2,674,203	2,623,656	0	0	2,674,203	2,623,656
Werner Kummer								
Vice-Chairman	0	0	0	0	0	0	0	0
Dr Michael Becker								
Member	0	0	0	0	0	0	0	0
Dr Andreas Beerli								
Member	0	0	0	0	0	0	0	0
Dr Georges-Antoine de Boccard								
Member	0	0	0	0	0	0	0	0
Christoph B. Gloor								
Member	0	0	0	0	0	0	0	0
Karin Keller-Sutter								
Member	0	0	0	0	0	0	0	0
Hugo Lasat								
Member		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
Prof. Dr Marie-Noëlle Venturi - Zen-Ruffinen								
Member		0				0		0
Total for the Board of Directors	0	0	2,674,203	2,623,656	0	0	2,674,203	2,623,656
Corporate Executive Committee member with the highest outstanding loan								
Dr Thomas Sieber								
Head of Corporate Division Corporate Centre	1,000,000	1,000,000	2,399,986	1,887,700	0	0	3,399,986	2,887,700
Other members of the Corporate Executive Committee	1,850,000	1,600,000	897,885	574,474	0	0	2,747,885	2,174,474
Total for the Corporate Executive Committee	2,850,000	2,600,000	3,297,871	2,462,174	0	0	6,147,871	5,062,174

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 Share Participation Plan Loans to increase the effect of the Share Participation Plan (see "5.6 Share Subscription Plan and Share Participation Plan"). Interest is charged on loans at a market rate (2016: 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	
	2015	2016	2015	2016	2015	2016	2015	2016
Quantity								
Dr Andreas Burckhardt								
Chairman	8,809	13,983	43,919	38,611	52,728	52,594	0.105 %	0.105 %
Werner Kummer								
Vice-Chairman	4,927	5,192	3,069	2,911	7,996	8,103	0.016 %	0.016 %
Dr Michael Becker								
Member	2,197	2,961	2,801	2,551	4,998	5,512	0.010 %	0.011 %
Dr Andreas Beerli								
Member	667	1,261	2,631	2,551	3,298	3,812	0.007 %	0.008 %
Dr Georges-Antoine de Boccard								
Member	667	1,261	2,509	2,429	3,176	3,690	0.006 %	0.007 %
Christoph B. Gloor								
Member	7,312	7,312	1,381	1,781	8,693	9,093	0.017 %	0.018 %
Karin Keller-Sutter								
Member	0	0	1,806	2,206	1,806	2,206	0.004 %	0.004 %
Hugo Lasat (since 29 April 2016)								
Member		0		1,000		1,000		0.002 %
Thomas Pleines								
Member	0	594	2,631	2,551	2,631	3,145	0.005 %	0.006 %
Dr Eveline Saupper (until 29 April 2016)								
Member	3,438	5,270	2,960	1,688	6,398	6,958	0.013 %	0.014 %
Prof. Dr Marie-Noëlle Venturi - Zen-Ruffinen (since 29 April 2016)								
Member		0		1,000		1,000		0.002 %
Total for the Board of Directors	28,017	37,834	63,707	59,279	91,724	97,113	0.183 %	0.194 %
Percentage of issued share capital	0.056 %	0.076 %	0.127 %	0.119 %	0.183 %	0.194 %		

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)	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Quantity										
Gert De Winter										
Group CEO		13,527		3,013		16,540		0.033%		5,852
Dr Martin Strobel (until 30 April 2016)										
Departing Group CEO	100	100	28,960	11,517	29,060	11,617	0.058%	0.023%	14,373	7,833
Jan De Meulder (until 30 April 2015)										
Head of SBU Germany	7,724		8,607		16,331		0.033%		8,043	
Michael Müller										
Head of Corporate Division Switzerland	9,708	16,209	9,931	8,248	19,639	24,457	0.039%	0.049%	7,371	6,259
German Egloff										
Head of Corporate Division Finance	17,457	12,054	9,557	13,293	27,014	25,347	0.054%	0.051%	8,269	6,829
Dr Thomas Sieber										
Head of Corporate Division Corporate Centre	6,050	7,100	36,623	24,819	42,673	31,919	0.085%	0.064%	7,441	6,145
Martin Wenk										
Head of Corporate Division Asset Management	9,000	9,533	9,894	8,467	18,894	18,000	0.038%	0.036%	8,269	6,829
Total for the members of the Corporate Executive Committee	50,039	58,523	103,572	69,357	153,611	127,880	0.307%	0.256%	53,766	39,747
Percentage of issued share capital	0.100%	0.117%	0.207%	0.139%	0.307%	0.256%				

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 Share Participation 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 Share Participation 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 2014, 1 March 2015 and 1 March 2016).

TOTAL AND VARIABLE REMUNERATION IN THE BALOISE GROUP

	2015				2016			
	In cash	In shares	Prospective entitlements	Total	In cash	In shares	Prospective entitlements	Total
Total remuneration								
CHF million	698.8	5.5	5.1	709.4	705.3	5.7	5.3	716.3
Total variable remuneration (total pool)								
CHF million	154.7	5.5	5.1	165.3	153.4	5.7	5.3	164.4
Number of beneficiaries	5,230	168	62		5,176	176	69	
Of which commission paid to insurance sales force								
CHF million	99.9	0.0	0.0	99.9	101.1	0.0	0.0	101.1
Of which other forms of variable remuneration								
CHF million	54.7	5.5	5.1	65.3	52.3	5.7	5.3	63.2
Total outstanding deferred remuneration								
CHF million	0.0	94.1	15.5	109.6	0.0	87.1	15.0	102.2
Debits / credits for remuneration for previous reporting periods recognised in profit or loss								
CHF million	-0.1	0.0	0.0	-0.1	-0.1	0.0	0.0	-0.1
Total inducement payments made								
CHF million	0.2	0.0	0.0	0.2	0.1	0.0	0.0	0.1
Number of beneficiaries	3	0	0		9	0	0	
Total severance payments made								
CHF million	14.7	0.0	0.0	14.7	9.6	0.0	0.0	9.6
Number of beneficiaries	137	0	0		80	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 Remuneration agreed in connection with the termination of an employment contract. 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.



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To the General Meeting of
Baloise Holding AG, Basel

Basle, 17 March 2017

Report of the statutory auditor on the remuneration report

We have audited the remuneration report of Baloise Holding AG (pages 78 - 101) for the year ended 31 December 2016.



Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.



Auditor's responsibility

Our responsibility is to express an opinion on the remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing 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 opinion.



Opinion

In our opinion, the remuneration report for the year ended 31 December 2016 of Baloise Holding AG complies with Swiss law and articles 14 – 16 of the Ordinance.

Other Matter

The remuneration report of Baloise Holding AG for the year ended 31 December 2015 was examined by another statutory auditor who expressed an unmodified opinion on the remuneration report on 18 March 2016.

Ernst & Young Ltd

Stefan Marc Schmid
Licensed audit expert
(Auditor in charge)

Christian Fleig
Licensed audit expert

6. SHAREHOLDER PARTICIPATION RIGHTS

Voting rights

The share capital of Baloise 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 (article 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 (article 16 of the Articles of Association).

Powers of attorney and voting instructions may also be given to an independent proxy electronically without requiring a qualifying electronic signature (article 16 [2] of the Articles of Association).

Statutory quorums

The Annual General Meeting is quorate regardless of the number of shareholders present or proxy votes represented, subject to the mandatory cases stated by law (article 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 article 17 (3)(a) to (h) of the Articles of Association. Otherwise, resolutions are adopted by a simple majority of the votes cast, subject to compulsory legal provisions (article 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. Baloise 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 (article 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 (article 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 (article 16 of the Articles of Association).

Article 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 article 5 and article 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. Baloise 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 Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FinfraG).

The members of the Corporate Executive Committee and the Chairman of the Board of Directors have a notice period of twelve months. Baloise 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. Ernst & Young AG (EY), Basel, have been the external auditing firm for Baloise Holding since 2016. Stefan M. Schmid has held the post of auditor-in-charge since 2016. In accordance with article 730a (2) OR, the role of auditor-in-charge is rotated every seven years. EY is the external auditing firm for almost all Group companies.

AUDITORS FEES

	2015	2016
CHF (including outlays and VAT)		
Audit fees	5,049,000	4,706,926
Consulting fees	953,000	223,944
Total	6,002,000	4,930,870

Audit fees paid to EY (2015: PwC) include fees for engagements with a direct or indirect connection to a particular audit engagement and fees for audit-related activities (namely, the MCEV Review, ISAE 3401 reports and statutory and regulatory special audits).

In 2016, CHF 101,062 of the additional fees for consultancy services were attributable to tax consultancy and legal advice and CHF 46,274 to operational advice. The remainder related to business and IT consultancy and to insurance-specific advice. The services were rendered in accordance with the relevant provisions on independence set forth in the Swiss Code of Obligations, the Swiss Audit Supervision Act and FINMA-Circular 2013 / 3 on “auditing”.

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.

9. AMENDMENTS TO THE ARTICLES OF ASSOCIATION SUBMITTED TO THE 2017 ANNUAL GENERAL MEETING

The Board of Directors will ask the Annual General Meeting on 28 April 2017 to cancel 1,200,000 shares at CHF 0.10 par value each and to thereby reduce the share capital by CHF 120,000 to CHF 4,880,000 (amendment to article 3 [1] of the Articles of Association), and to extend the term of the authorised capital of CHF 500,000.00 to 30 April 2019 (amendment to article 3 [4] of the Articles of Association).

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. In addition, a presentation is created for every set of financial statements that summarises the financial year or period for financial analysts and investors. All publications are simultaneously available to the public. All market participants receive the same information. Baloise offers teleconferences, podcasts, videos and live streaming in order to make information generally and easily 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.
- At its regular Investor Days, the Company presents its corporate strategy and targets as well as any other matters relevant to its business. The documents used for this and the recording of the event are made publicly available on various media.

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 233 and 276.

→ 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/maillinglist.

→ www.baloise.com/media

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Financial Report

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Consolidated balance sheet

	Note	31.12.2015 (restated)	31.12.2016
CHF million			
Assets			
Property, plant and equipment	8	399.1	349.3
Intangible assets	9	838.2	836.1
Investments in associates	10	162.3	160.4
Investment property	11	6,251.9	6,817.5
Financial instruments with characteristics of equity	12		
Available for sale		4,443.3	4,357.1
Recognised at fair value through profit or loss		9,327.5	9,948.5
Financial instruments with characteristics of liabilities	12		
Held to maturity		8,549.5	8,224.6
Available for sale		23,024.6	23,806.7
Recognised at fair value through profit or loss		1,674.3	1,735.2
Mortgages and loans	13		
Carried at cost		15,912.6	15,457.7
Recognised at fair value through profit or loss		744.0	897.0
Derivative financial instruments	14	653.9	757.3
Receivables from financial contracts	15		
Carried at cost		9.9	4.2
Recognised at fair value through profit or loss		–	–
Reinsurance assets	16	410.8	415.2
Receivables from reinsurers	17	52.3	47.5
Insurance receivables		389.4	383.5
Receivables from employee benefits	18	1.1	0.8
Other receivables	15	317.5	463.1
Receivables from investments	15	491.3	451.6
Deferred tax assets	19	39.8	69.3
Current income tax assets		49.5	54.1
Other assets	20		
Carried at cost		140.8	187.6
Recognised at fair value through profit or loss		40.2	54.5
Cash and cash equivalents		2,839.8	3,173.3
Non-current assets and disposal groups classified as held for sale	21	2,018.7	1,962.0
Total assets		78,782.3	80,614.3

	Note	31.12.2015 (restated)	31.12.2016
CHF million			
Equity and liabilities			
Equity			
Share capital	22	5.0	5.0
Capital reserves		253.2	317.3
Treasury shares		-305.4	-248.1
Unrealised gains and losses (net)		-216.5	-318.4
Retained earnings		5,682.7	5,985.5
Equity before non-controlling interests		5,418.9	5,741.3
Non-controlling interests		34.7	32.4
Total equity		5,453.6	5,773.7
Liabilities			
Technical reserves (gross)	23	45,776.6	46,209.0
Liabilities arising from banking business and financial contracts	24		
With discretionary participation features		1,930.1	2,317.4
Measured at amortised cost		8,299.2	8,000.9
Recognised at fair value through profit or loss		8,782.8	9,999.4
Financial liabilities	25	1,707.8	1,470.4
Provisions	26	94.8	80.0
Derivative financial instruments	14	250.8	299.0
Insurance liabilities	27	1,650.4	1,565.2
Liabilities arising from employee benefits	18	1,355.6	1,463.9
Other accounts payable		440.6	456.6
Deferred tax liabilities	19	909.7	944.9
Current income tax liabilities		85.8	44.3
Other liabilities		81.6	81.3
Liabilities included in non-current assets and disposal groups classified as held for sale	21	1,962.9	1,908.3
Total liabilities		73,328.7	74,840.6
Total equity and liabilities		78,782.3	80,614.3

Consolidated income statement

	Note	2015	2016
CHF million			
Income			
Premiums earned and policy fees (gross)	28	6,832.4	6,680.6
Reinsurance premiums ceded	28	-148.6	-168.2
Premiums earned and policy fees (net)	28	6,683.7	6,512.4
Investment income			
Realised gains and losses on investments	30	386.2	667.2
Income from services rendered	31	112.6	110.1
Share of profit (loss) of associates		36.8	7.1
Other operating income	32	136.6	136.8
Income		8,877.9	8,910.2
Expense			
Claims and benefits paid (gross)	23	-5,352.4	-5,664.2
Change in technical reserves (gross)	23	-1,241.9	-669.1
Reinsurers' share of claims incurred	23	97.9	108.2
Acquisition costs	33	-472.4	-502.9
Operating and administrative expenses for insurance business	33	-761.3	-763.9
Investment management expenses	33	-60.4	-60.3
Interest expenses on insurance liabilities		-34.1	-30.5
Gains or losses on financial contracts	35	-0.9	-342.9
Other operating expenses	33	-333.1	-300.9
Expense		-8,158.6	-8,226.6
Profit before borrowing costs and taxes		719.2	683.6
Borrowing costs	25	-40.0	-38.0
Profit before taxes		679.3	645.6
Income taxes	36	-168.2	-111.7
Profit for the period		511.1	533.9
Attributable to:			
Shareholders		512.1	534.8
Non-controlling interests		-1.0	-0.9
Earnings / loss per share			
Basic (CHF)	37	10.96	11.53
Diluted (CHF)		10.65	11.22

Consolidated statement of comprehensive income

	2015	2016
CHF million		
Profit for the period	511.1	533.9
Items not to be reclassified to the income statement		
Change in reserves arising from reclassification of investment property	0.8	7.9
Change in reserves arising from assets and liabilities of post-employment benefits (defined benefit plans)	33.1	-153.7
Change arising from shadow accounting	-39.1	40.5
Deferred income taxes	-8.5	27.2
Total items not to be reclassified to the income statement	-13.6	-78.1
Items to be reclassified to the income statement		
Change in unrealised gains and losses on available-for-sale financial assets	-882.9	126.6
Change in unrealised gains and losses on associates	-27.6	-0.4
Change in hedging reserves for derivative financial instruments held as hedges of a net investment in a foreign operation	-33.7	-15.3
Change in reserves arising from reclassification of held-to-maturity financial assets	-1.7	-1.1
Change arising from shadow accounting	326.4	-117.3
Exchange differences	-130.6	-2.5
Deferred income taxes	167.9	-14.8
Total items to be reclassified to the income statement	-582.2	-24.9
Other comprehensive income	-595.8	-103.0
Comprehensive income	-84.7	430.9
Attributable to:		
Shareholders	-80.2	433.0
Non-controlling interests	-4.5	-2.0

Consolidated cash flow statement

	Note	2015	2016
CHF million			
Summary			
Cash flow from operating activities (net)		330.6	715.9
Cash flow from investing activities (net)		-6.5	-58.4
Cash flow from financing activities (net)		-317.8	-307.5
Total cash flow		6.2	350.0
Effect of changes in exchange rates on cash and cash equivalents		-118.2	-16.6
Reclassification to non-current assets and disposal groups classified as held for sale		-17.9	-
Balance of cash and cash equivalents as at 1 January		2,969.6	2,839.8
Balance of cash and cash equivalents as at 31 December		2,839.8	3,173.3
Cash flow from operating activities			
Profit before taxes		679.3	645.6
Adjustments for			
Depreciation, amortisation and impairment of property, plant and equipment and of intangible assets	8/9	70.4	63.1
Realised gains and losses on property, plant and equipment and on intangible assets		-0.3	-0.3
Income from investments in associates		-36.8	-7.1
Realised gains and losses on financial assets, investment property and associates		-375.4	-667.0
Changes in other financial contracts		-111.6	240.3
Changes in technical reserves (gross), including unearned premium reserves		1,178.3	708.9
Interest expenses on reinsurance liabilities		0.0	-0.1
Borrowing costs	25	40.0	38.0
Amortised cost valuation of financial instruments		10.1	9.9
Net change in operating assets and liabilities			
Purchase / sale of investment property		-312.9	-404.2
Purchase / sale of financial assets of an equity nature		-1,275.1	-252.0
Purchase / sale of financial assets of a debt nature		-1,142.7	-168.5
Addition / disposal of mortgages and loans		-262.2	249.8
Addition / disposal of derivative financial instruments		126.8	-237.4
Addition / disposal of financial contracts and liabilities from banking business		1,769.5	874.1
Other changes in assets and liabilities from operating activities		99.8	-225.4
Taxes paid		-126.5	-151.7
Cash flow from operating activities (net)		330.6	715.9

	Note	2015	2016
CHF million			
Cash flow from investing activities			
Purchase of property, plant and equipment	8	-31.4	-16.4
Sale of property, plant and equipment		1.6	0.6
Purchase of intangible assets	9	-28.9	-26.6
Sale of intangible assets		0.1	0.1
Acquisition of companies, net of cash and cash equivalents	39	-6.1	-22.3
Disposal of companies, net of cash and cash equivalents	39	-	-
Purchase of investments in associates		-	-
Sale of investments in associates		22.7	-
Dividends from associates		35.4	6.2
Cash flow from investing activities (net)		-6.5	-58.4
Cash flow from financing activities			
Additions to financial liabilities	25	-	-
Disposals of financial liabilities	25	-	-163.2
Borrowing costs paid		-34.0	-33.4
Purchase of treasury shares		-107.1	-116.5
Sale of treasury shares		58.4	237.9
Cash flow attributable to non-controlling interests		-0.5	-0.3
Dividends paid		-234.7	-232.0
Cash flow from financing activities (net)		-317.8	-307.5
Total cash flow		6.2	350.0
Cash and cash equivalents			
Balance as at 1 January		2,969.6	2,839.8
Change during the financial year		6.2	350.0
Reclassification to non-current assets and disposal groups classified as held for sale		-17.9	-
Effect of changes in exchange rates on cash and cash equivalents		-118.2	-16.6
Balance as at 31 December		2,839.8	3,173.3
Breakdown of cash and cash equivalents at the balance sheet date			
Cash and bank balances		1,765.8	1,935.5
Cash equivalents		-	-
Cash and cash equivalents for the account and at the risk of life insurance policyholders		1,074.0	1,237.8
Balance as at 31 December		2,839.8	3,173.3
Of which: restricted cash and cash equivalents		89.8	105.3
Supplemental disclosures on cash flow from operating activities			
Interest received		926.7	857.3
Dividends received		126.0	141.4
Interest paid		-61.1	-57.4

Consolidated statement of changes in equity

2015	Note	Share capital	Capital reserves	Treasury shares	Other changes in equity	Retained earnings (restated)	Equity before non-controlling interests (restated)	Non-controlling interests	Total equity (restated)
CHF million									
Balance as at 1 January 2015		5.0	246.6	-250.0	375.8	5,405.2	5,782.6	39.7	5,822.2
Profit for the period		-	-	-	-	512.1	512.1	-1.0	511.1
Other comprehensive income	38	-	-	-	-592.3	-	-592.3	-3.4	-595.8
Comprehensive income		-	-	-	-592.3	512.1	-80.2	-4.5	-84.7
Other changes in equity									
Dividend		-	-	-	-	-234.7	-234.7	-0.5	-235.1
Capital increase / repayment	22	-	-	-	-	-	-	-	-
Purchase / sale of treasury shares		-	6.6	-55.4	-	-	-48.8	-	-48.8
Cancellation of (treasury) shares		-	-	-	-	-	-	-	-
Increase / decrease in non-controlling interests due to change in the scope of consolidation	39	-	-	-	-	-	-	-	-
Increase / decrease in non-controlling interests due to change in the percentage of shareholding	6	-	-	-	-	-	-	-	-
Balance as at 31 December 2015		5.0	253.2	-305.4	-216.5	5,682.7	5,418.9	34.7	5,453.6

2016	Note	Share capital	Capital reserves	Treasury shares	Other changes in equity	Retained earnings (restated)	Equity before non-controlling interests (restated)	Non-controlling interests	Total equity (restated)
CHF million									
Balance as at 1 January 2016		5.0	253.2	-305.4	-216.5	5,682.7	5,418.9	34.7	5,453.6
Profit for the period		-	-	-	-	534.8	534.8	-0.9	533.9
Other comprehensive income	38	-	-	-	-101.9	-	-101.9	-1.1	-103.0
Comprehensive income		-	-	-	-101.9	534.8	433.0	-2.0	430.9
Other changes in equity									
Dividend		-	-	-	-	-232.0	-232.0	-0.3	-232.2
Capital increase / repayment	22	-	-	-	-	-	-	-	-
Purchase / sale of treasury shares		-	64.1	57.3	-	-	121.4	-	121.4
Cancellation of (treasury) shares		-	-	-	-	-	-	-	-
Increase / decrease in non-controlling interests due to change in the scope of consolidation	39	-	-	-	-	-	-	-	-
Increase / decrease in non-controlling interests due to change in the percentage of shareholding	6	-	-	-	-	-	-	-	-
Balance as at 31 December 2016		5.0	317.3	-248.1	-318.4	5,985.5	5,741.3	32.4	5,773.7

Notes to the consolidated annual financial statements

Basis of presentation

1. BASIS OF PREPARATION

The Baloise Group is a European direct insurer comprising nine different insurance companies that operate in virtually every segment of the life and non-life insurance business. Its holding company is Baloise Holding Ltd, a Swiss corporation based in Basel whose shares are listed in the Regulatory Standard for Equity Securities (Sub-Standard: International Reporting) 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 17 March 2017 the Baloise Holding Ltd 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 Baloise Holding Ltd.

2. APPLICATION OF NEW FINANCIAL REPORTING STANDARDS AND RESTATEMENTS

2.1 Newly applied IFRSs and interpretations

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

2.2 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 2016 consolidated annual financial statements:

Standard / Interpretation	Content	Applicable to annual periods beginning on or after
IFRS 9	Financial instruments	1.1.2018
IFRS 15	Revenue from contracts with customers	1.1.2018
IFRS 16	Leasing	1.1.2019

IFRS 9 Financial Instruments

IFRS 9 introduces new requirements for the classification and measurement of financial instruments. Classification of financial assets is based on the entity's business model and on the contractual cash flow characteristics of the financial assets concerned.

IFRS 9 introduces a new impairment model and 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).

On 12 September 2016, the IASB issued Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (Amendments to IFRS 4). The amendments address concerns arising from implementing the new financial instruments Standard IFRS 9 before implementing the replacement Standard that the Board is developing for IFRS 4.

The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will:

- give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued; and
- give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. The entities that defer the application of IFRS 9 will continue to apply the existing financial instruments Standard IAS 39.

The Baloise Group intends to apply the deferral approach for IFRS 9 with effect from 1 January 2018, which will enable it to adopt IFRS 9 and IFRS 17 simultaneously with effect from 1 January 2021. Analysis has already been carried out to clarify whether the Baloise Group fulfils the conditions for applying this approach. The outcome was positive, and there are no indications that would prevent this exemption being applied.

It is not yet possible to fully assess what impact the amendments to IFRS 9 will have on the Baloise Group's balance sheet and income statement from 2021.

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 2018. 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. The Baloise Group will apply this standard from 1 January 2018 and currently does not anticipate any material effect on its consolidated financial statements owing to the exemptions for insurance contracts and financial instruments.

IFRS 16 Leases

IFRS 16 applies to all leases (including sub-leases), although certain exceptions are possible. IFRS 16 governs the recognition, measurement, reporting and disclosure requirements in respect of leases in the financial statements of IFRS users. The standard provides a single accounting treatment model for lessees. This model requires lessees to recognise all lease assets and lease liabilities on the balance sheet, unless the term of the lease is twelve months or less or an asset is of low value. Long-term leases on real estate are covered by the definitions in IFRS 16 and, in future, will have to be recognised with a right of use. The Baloise Group plans to apply this standard from 1 January 2019. It is not yet possible to fully assess what impact these amendments will have on the Baloise Group's balance sheet and income statement. The Baloise Group will assess the effect on the balance sheet and income statement in 2017.

2.3 Restatement

The concept for the calculation of the deferred policyholders' dividends in Germany (reserve for premium refunds) was subject to a comprehensive review as at 30 June 2016 and was re-evaluated and adapted. This resulted in a retrospective restatement amounting to CHF 8.7 million, which was recognised in other comprehensive income in the prior period in accordance with IAS 8.

The prior-year figures stated on the balance sheet, in the statement of changes in equity and in the notes to these financial statements have been restated accordingly.

In the German non-life business, the method for calculating deferred acquisition costs was further harmonised in the individual portfolios, which resulted in assets being transferred between intangible assets and other assets on the balance sheet. In the income statement, these effects were recognised for the first time under acquisition costs. This reclassification has no impact on the Group's equity or profit for the period. For the purposes of comparison, the prior-year figures have also been reclassified.

RECONCILIATION OF THE RESTATED IFRS FIGURES: CORRECTION PROVISION FOR PREMIUM REFUNDS

	Consolidated balance sheet as at 1 January 2015			Consolidated balance sheet as at 31 December 2015		
	prior to restatement	correction according to IAS 8	after restatement	prior to restatement	correction according to IAS 8	after restatement
CHF million						
Balance sheet items						
Deferred tax assets	48.3	-1.6	46.7	41.4	-1.6	39.8
Other assets	79,294.1	-	79,294.1	78,742.4	-	78,742.4
Total assets	79,342.3	-1.6	79,340.8	78,783.8	-1.6	78,782.3
Equity	5,831.0	-8.7	5,822.2	5,462.3	-8.7	5,453.6
Technical reserves (gross)	48,738.9	10.7	48,749.7	45,765.8	10.7	45,776.6
Deferred tax liabilities	1,065.5	-3.6	1,061.9	913.3	-3.6	909.7
Other liabilities	23,706.9	-	23,706.9	26,642.4	-	26,642.4
Total liabilities	79,342.3	-1.6	79,340.8	78,783.8	-1.6	78,782.3

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 Baloise Holding Ltd 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 provided the conditions of IFRS 10 are met.

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	
	31.12.15	31.12.16	Ø 2015	Ø 2016
CHF				
1 EUR (euro)	1.09	1.07	1.07	1.09
1 USD (US dollar)	1.00	1.02	0.96	0.99

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
- Machinery, furniture and vehicles: 4 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.

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 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 con-

sultancies. 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, 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 (less allowance) and disclosed accordingly.

3.8 Mortgages and loans

Mortgages and loans (including policy loans) are 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 (natural hedges) 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 for a period of at least three years and no more than five years. These values are extrapolated for the subsequent period using an annual growth rate. The growth rate is based on the expected inflation rates of the individual countries. The discount rates include the risk mark-ups for the individual operating segments. Permanent impairment losses are recognised in the income statement as other operating expenses. All other non-financial assets are tested for impairment whenever there is objective evidence of such impairment.

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

3.11 Derivative financial instruments

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

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

3.11.1 Structured products

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

3.11.2 Fair value hedges

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

3.11.3 Cash flow hedges

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

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

3.11.4 Hedges of a net investment in a foreign operation

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

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

3.11.5 Derivative financial instruments that do not qualify as hedges

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

3.12 Netting of receivables and liabilities

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

3.13 Non-current assets held for sale and discontinued operations

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

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

3.14 Cash and cash equivalents

Cash and cash equivalents essentially consist of cash, demand deposits and cash equivalents. Cash equivalents are predominantly short-term liquid investments with residual terms of no more than three months.

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 Baloise Holding Ltd, 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), Baloise Holding Ltd share options, gains and losses on the purchase and sale of treasury shares and embedded options in Baloise Holding Ltd convertible bonds.

3.15.3 Treasury shares

Treasury shares held either by Baloise Holding Ltd 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 Baloise Holding Ltd 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 Baloise Holding Ltd 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 (DPF included). 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 both to 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 (chapter 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 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.

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.

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, Share Participation Plan and Performance Share Units (PSUs) are measured and disclosed in compliance with IFRS 2 Share-based Payment. Plans that are paid in Baloise Holding Ltd shares are measured at fair value on the grant date, charged as personnel expenses during the vesting period and recognised directly in equity.

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. KEY ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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 chapter 5.10.

The following asset classes are measured at fair value:

→ **Investment property**

The DCF method is used to determine the fair value of investment property. The assumptions and estimates used for this purpose are described in section 3.6.

→ **Financial instruments with characteristics of equity and financial instruments with characteristics of liabilities (available for sale or recognised at fair value through profit or loss)**

Fair value is based on prices in active markets. If no quoted market prices are available, fair value is estimated using generally accepted methods (such as the present-value method), independent assessments based on comparisons with the market prices of similar instruments or the prevailing market situation. Derivative financial instruments are measured using models or on the basis of quoted market prices. If no publicly quoted prices are available for private equity investments, they are measured on the basis of their net asset value using non-public information from independent external providers. These providers use various methods for their estimates (e. g. analysis of discounted cash flows and reference to similar, fairly recent arm's-length transactions between knowl-

edgeable, 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. Chapter 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 chapter 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 chapter 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 chapter 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 bank's asset and liability management (ALM) committee. 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.

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 operational risks including 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.

An 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
<p>Technical risks, Life</p> <ul style="list-style-type: none"> → Parameter risks → Worst-case scenario <p>Technical risks, Non-Life</p> <ul style="list-style-type: none"> → Premiums → Claims → Worst-case scenario → Creation of provisions <p>Reinsurance</p> <ul style="list-style-type: none"> → Premiums / rating → Default → Active reinsurance 	<p>Market risks</p> <ul style="list-style-type: none"> → Interest → Shares → Currencies → Real estate → Market liquidity → Derivatives → Alternative investments <p>Credit risks</p>	<p>Asset liability risks</p> <ul style="list-style-type: none"> → Interest fluctuation risk → (Re) financing, liquidity <p>Concentration of risks</p> <ul style="list-style-type: none"> → Accumulation risks → Cluster risks <p>Requirements for balance-sheet structure and capital</p> <ul style="list-style-type: none"> → Solvency ratio → Other regulatory requirements 	<p>Changes to regulations</p> <p>Competitive risk</p> <p>External events</p> <p>Investors</p>	<p>IT and data security</p> <ul style="list-style-type: none"> → Data → Software / hardware / network → Physical reliability → End User Computing <p>Personnel risks</p> <ul style="list-style-type: none"> → Skills / capacities → Knowledge availability → Incentive systems <p>Legal risks</p> <ul style="list-style-type: none"> → Contracts → Liability and litigation → Tax <p>Compliance</p> <p>Business processes</p> <ul style="list-style-type: none"> → Process risks → Project risks → In- / Outsourcing <p>Risk analysis and risk reporting</p> <ul style="list-style-type: none"> → Risk analysis and risk assessment → Risk reporting 	<p>Structure of organisation</p> <p>Corporate culture</p> <p>Strategy</p> <ul style="list-style-type: none"> → Business portfolio → Risk steering <p>Merger and acquisitions</p> <p>External communication</p> <p>Financial statement, forecast, plan</p> <p>Project portfolio</p> <p>Internal misinformation</p>

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 amounts to CHF 150 million for Switzerland and EUR 100 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 and cover for earthquakes amounting to CHF 350 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 is CHF 20 million. The retentions for individual claims are CHF 16 million for property claims, CHF 15 million for marine claims and CHF 13.7 million on a non-indexed basis 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 2016, 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 4,324.4 million (2015: CHF 4,372.5 million). A variation of 10 per cent in either direction in the requirement for these reserves would result in a rise or fall of around CHF 316.2 million (2015: CHF 318.6 million) in claims payments (after taxes) before reinsurance.

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

Because of the long settlement period, there is a high degree of uncertainty associated with the calculation of these claims reserves. Both the timing at which cases of this type are identified and their potential loss level are much less certain than any other established claims patterns. Some reserves were calculated using external actuaries' reports in which best-case and worst-case scenarios were analysed. The Baloise Group's minimum reserves policy is based on the average of these two scenarios. It is particularly difficult to assess the level of reserves required for IBNR claims, so further fluctuations cannot be ruled out. According to expert estimates, fluctuations of around 10 per cent can be expected, which is equivalent to around CHF 6.5 million after taxes and before reinsurance (2015: CHF 6.6 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										Total
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
CHF million											
At the end of the year in which the claims occurred	681.4	641.7	690.7	723.1	777.9	732.2	768.5	733.6	707.8	704.8	–
One year later	693.2	631.4	670.6	685.4	736.5	751.1	768.2	715.7	667.8	–	–
Two years later	686.6	628.6	657.4	675.1	731.0	736.9	764.1	701.2	–	–	–
Three years later	674.2	623.6	641.0	666.9	729.1	726.3	764.7	–	–	–	–
Four years later	662.3	622.6	634.4	659.6	722.7	717.0	–	–	–	–	–
Five years later	655.7	606.8	638.6	653.0	717.3	–	–	–	–	–	–
Six years later	643.7	597.8	632.8	650.4	–	–	–	–	–	–	–
Seven years later	628.5	594.3	617.2	–	–	–	–	–	–	–	–
Eight years later	625.6	580.7	–	–	–	–	–	–	–	–	–
Nine years later	614.0	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	614.0	580.7	617.2	650.4	717.3	717.0	764.7	701.2	667.8	704.8	6,735.1
Claims paid	–569.5	–520.7	–561.9	–578.8	–620.2	–631.7	–664.1	–588.5	–530.4	–361.4	–5,627.2
Gross claims reserves	44.5	60.0	55.3	71.6	97.1	85.3	100.6	112.7	137.4	343.4	1,107.9
Gross claims reserves prior to 2007 (including large claims and assumed business)											393.6
Gross provision for annuities (non-life, including IBNR)											804.7
Reinsurers' share											–20.6
Net claims reserves											2,285.6

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

	ESTIMATED CUMULATIVE CLAIMS INCURRED IN GERMANY										Total
	2007	2008	2009	2010	2011	2012	2013	Year in which the claims occurred			
	2014	2015	2016								
EUR million											
At the end of the year in which the claims occurred	306.7	298.2	288.0	302.5	290.8	297.4	382.9	319.3	319.0	332.6	–
One year later	303.0	296.2	286.4	299.7	297.6	298.4	384.7	330.5	322.3	–	–
Two years later	295.5	299.7	289.0	305.6	300.9	302.5	385.9	334.7	–	–	–
Three years later	294.1	300.3	294.6	305.8	306.6	304.3	397.6	–	–	–	–
Four years later	293.1	301.2	294.8	306.0	309.8	302.6	–	–	–	–	–
Five years later	299.3	300.6	295.1	307.9	311.7	–	–	–	–	–	–
Six years later	299.8	301.4	297.1	305.2	–	–	–	–	–	–	–
Seven years later	303.0	301.2	296.2	–	–	–	–	–	–	–	–
Eight years later	304.2	301.3	–	–	–	–	–	–	–	–	–
Nine years later	303.4	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	303.4	301.3	296.2	305.2	311.7	302.6	397.6	334.7	322.3	332.6	3,207.6
Claims paid	–300.0	–296.8	–289.4	–296.3	–297.8	–290.5	–360.7	–283.3	–250.3	–149.0	–2,814.1
Gross claims reserves	3.4	4.5	6.8	8.9	13.9	12.1	36.9	51.4	72.0	183.6	393.5
Gross claims reserves prior to 2007 (including large claims and assumed business)											371.1
Gross provision for annuities (non-life, including IBNR)											156.6
Reinsurers' share											–288.6
Net claims reserves											632.6

ESTIMATED CUMULATIVE CLAIMS INCURRED IN BELGIUM

	Year in which the claims occurred										Total
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
EUR million											
At the end of the year in which the claims occurred	203.2	205.7	228.0	235.1	308.7	¹ 412.4	² 403.6	483.7	459.9	470.3	–
One year later	216.3	215.2	248.5	287.1	¹ 395.1	² 426.5	402.5	494.3	476.0	–	–
Two years later	213.1	212.3	252.2	¹ 308.0	² 392.2	421.9	398.0	488.7	–	–	–
Three years later	208.7	216.5	¹ 264.5	² 304.0	387.9	412.9	396.7	–	–	–	–
Four years later	211.1	¹ 223.0	² 254.0	308.1	392.5	410.7	–	–	–	–	–
Five years later	¹ 222.6	² 222.5	250.7	306.0	388.6	–	–	–	–	–	–
Six years later	² 221.8	226.7	252.5	306.0	–	–	–	–	–	–	–
Seven years later	217.8	223.8	248.5	–	–	–	–	–	–	–	–
Eight years later	219.0	219.8	–	–	–	–	–	–	–	–	–
Nine years later	213.4	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	213.4	219.8	248.5	306.0	388.6	410.7	396.7	488.7	476.0	470.3	3,618.7
Claims paid	–175.1	–183.3	–213.2	–256.9	–318.3	–348.4	–331.7	–400.6	–333.0	–220.4	–2,780.9
Gross claims reserves	38.3	36.5	35.3	49.1	70.3	62.3	65.0	88.1	143.0	249.9	837.8
Gross claims reserves prior to 2007 (including large claims and assumed business)											292.4
Gross provision for annuities (non-life, including IBNR)											157.7
Reinsurers' share											–302.3
Net claims reserves											985.6

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										Total
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
EUR million											
At the end of the year in which the claims occurred	14.2	15.0	17.5	¹ 25.0	¹ 23.6	24.0	23.6	² 36.8	³ 43.8	49.8	–
One year later	13.6	14.9	16.9	¹ 22.0	22.7	24.5	² 37.8	³ 40.8	57.9	–	–
Two years later	13.0	15.1	¹ 21.5	21.8	22.6	² 36.5	³ 41.2	57.1	–	–	–
Three years later	12.9	¹ 20.8	21.3	21.7	² 35.3	³ 39.9	57.7	–	–	–	–
Four years later	¹ 18.9	21.1	21.1	² 37.0	³ 39.7	57.3	–	–	–	–	–
Five years later	18.7	20.9	² 36.2	³ 41.9	57.4	–	–	–	–	–	–
Six years later	18.6	² 37.9	³ 42.0	59.9	–	–	–	–	–	–	–
Seven years later	² 35.0	³ 43.4	60.3	–	–	–	–	–	–	–	–
Eight years later	³ 40.1	61.8	–	–	–	–	–	–	–	–	–
Nine years later	59.0	–	–	–	–	–	–	–	–	–	–
Estimated claims incurred	59.0	61.8	60.3	59.9	57.4	57.3	57.7	57.1	57.9	49.8	578.2
Claims paid	–58.6	–61.3	–59.4	–58.9	–56.2	–55.9	–55.5	–54.3	–52.3	–30.4	–542.8
Gross claims reserves	0.4	0.5	0.9	1.0	1.2	1.4	2.2	2.8	5.6	19.4	35.4
Gross claims reserves prior to 2007 (including large claims and assumed business)											52.6
Gross provision for annuities (non-life, including IBNR)											0.0
Reinsurers' share											–20.3
Net claims reserves											67.7

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

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

3 The increase in the total estimated claims incurred is primarily due to the addition of HDI Gerling Assurances S.A.

Analysis of claims settlement for the “Other units” segment

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

The survival ratio – the ratio of reserves to the average claims paid in the past three years – is a commonly used measure for comparing the adequacy of reserves for asbestos and environmental claims. The ratio shows the number of years for which the reserves will cover claims payments. At the end of the year under review the survival ratio was 55.7 years (2015: 42.7 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

31.12.2015 (restated)	Switzerland individual life	Switzerland group life	Germany	Belgium	Luxembourg
CHF million					
Technical reserves without guaranteed returns	656.4	1,887.1	3,337.6	62.2	272.8
Technical reserves with 0% guaranteed returns	645.7	730.5	74.9	82.7	22.4
Technical reserves with guaranteed positive returns	7,373.6	15,093.9	6,385.6	2,777.8	426.2
Average technical interest rate of guaranteed positive returns	2.6%	1.5%	3.3%	3.5%	2.6%

31.12.2016	Switzerland individual life	Switzerland group life	Germany	Belgium	Luxembourg
Technical reserves without guaranteed returns	668.5	2,183.3	3,362.5	112.9	248.3
Technical reserves with 0% guaranteed returns	621.8	686.3	82.1	91.3	23.3
Technical reserves with guaranteed positive returns	7,095.9	15,461.3	6,365.7	2,766.7	452.6
Average technical interest rate of guaranteed positive returns	2.6%	1.4%	3.2%	3.4%	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 has a number of variable annuities products including unit-linked and, in some cases, guaranteed whole-life annuities in its units in Switzerland and in Luxembourg / Liechtenstein. Financial hedges are provided using external reinsurance.

as at 31.12.	Switzerland		Germany		Belgium		Luxembourg	
	2015	2016	2015	2016	2015	2016	2015	2016
CHF million								
Actuarial reserves from unit-linked life insurance contracts	620.2	639.1	1,736.2	1,847.5	15.8	17.4	250.5	223.3

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 Insurance in Belgium offers 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 31.12.2015		Actuarial reserves 31.12.2016	
	CHF million	Share (%)	CHF million	Share (%)
Traditional insurance				
Longevity risk	9,818.0	27.4	10,572.4	29.1
Mortality risk	10,266.7	28.7	9,919.2	27.3
Disability risk	1,888.2	5.3	1,772.2	4.9
BVG retirement assets	11,186.4	31.3	11,289.4	31.1
Sub-total	33,159.2	92.7	33,553.2	92.5
Unit-linked				
Longevity risk	1,328.1	3.7	1,417.6	3.9
Mortality risk	1,294.6	3.6	1,309.7	3.6
Sub-total	2,622.7	7.3	2,727.3	7.5
Total	35,781.9	100.0	36,280.5	100.0

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

5.5.2 Assumptions

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

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

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

5.5.3 Sensitivities

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, so it is not possible to extrapolate from them because they relate to a specific balance sheet date. To identify sensitivities, we investigated the effect of changes in assumptions on profit for the period and on equity, after shadow accounting, deferred gains / losses and deferred taxes (excluding reinsurance effects which were immaterial) had been taken into account. The assumptions on which liability adequacy testing is based were changed for each calculation.

The following scenarios were run:

- 10 per cent increase in mortality
- 10 per cent fall in mortality (i. e. increase in longevity)
- 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. In the Swiss life insurance business, an increase in mortality caused a lower amount to be allocated to strengthen annuity reserves. This effect improved profitability by around CHF 42 million (2015: CHF 17 million). This year-on-year increase was because the discount rate for loss reserves changed more in 2016 than it had in 2015, thus improving profitability to a greater extent.

→ 10 per cent fall in mortality

Similar to the aforementioned scenario of an increase in mortality, the effects of a reduction in mortality were marginal for the life insurance companies in Germany, Belgium and Luxembourg and for Baloise Life (Liechtenstein) AG. This was true of the impact on both the income statement and on equity. A reduction in mortality in the Swiss life insurance business – with policyholders' dividends adjusted accordingly – had a negative impact of approximately CHF 75 million (2015: CHF 69 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. 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 positive effect from the German units' profitability in the reporting year of CHF 2 million (2015: marginal negative effect). The negative impact on equity amounted to approximately CHF 5 million (2015: CHF 5 million). In Belgium this scenario resulted in a slight increase in DACs and to lower amounts being allocated to the provision recognised for impending losses, which constituted a positive effect of roughly CHF 7 million on profitability (2015: CHF 2 million). The negative effect on unrealised gains amounted to CHF 94 million (2015: CHF 86 million). In Luxembourg this scenario produced a marginal positive impact on the income statement and an adverse effect of roughly CHF 14 million (2015: CHF 11 million) on the unrealised gains and losses recognised in equity. The resultant impact on the profitability and equity of Baloise Life (Liechtenstein) AG was negligible. In Switzerland this scenario resulted in a 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 4 million (2015: CHF 5 million). The adverse impact on equity amounted to approximately CHF 196 million (2015: CHF 188 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. When applied to the German units, this scenario resulted in changes in DAC write-downs, changes in the financing of final policyholders' dividends, and the recognition of a provision for impending losses. These adverse effects were more than compensated for by the increase in the fair value of interest rate derivatives in 2016. The overall impact was mitigated by the prevailing legal requirements governing the distribution of surpluses. On balance there was a negative effect from the German units' profitability in the reporting year of approximately CHF 5 million (2015: marginal positive effect). The positive impact on their equity amounted to approximately CHF 5 million (2015: CHF 4 million). In Belgium this scenario resulted in an additional DAC write-down and a larger 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 21 million on the income statement (2015: CHF 18 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 109 million (2015: CHF 96 million). In Luxembourg this scenario produced a marginal impact on the income statement (2015: marginal negative effect) and a positive effect of roughly CHF 15 million (2015: 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 higher DAC write-down, an increase in technical reserves, and the offsetting effect of interest rate hedges. On balance these interacting factors had an adverse effect of CHF 19 million on the income statement (2015: CHF 46 million). The positive impact on equity amounted to approximately CHF 195 million (2015: CHF 188 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-bearing ability 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 gap, duration and interest rate sensitivity methods. The asset and liability mismatch at Baloise Bank SoBa is also actively managed by the use of appropriate interest rate derivatives, generally fair value hedges.

If all interest rates had fallen by 50 basis points on the balance sheet date but all other variables had remained constant, the profit for the period (after deferred gains/losses and deferred taxes) would have been lower by CHF 51 million (31 December 2015: CHF 69 million). Including the impact on profit for the period, equity (after shadow accounting, deferred gains/losses and deferred taxes) would have risen by CHF 181 million (31 December 2015: CHF 146 million). If all interest rates had risen by 50 basis points on the balance sheet date but all other variables had remained constant, the profit for the period (after deferred gains/losses and deferred taxes) would have been higher by CHF 19 million (31 December 2015: CHF 5 million). Including the impact on profit for the period, equity (after shadow accounting, deferred gains/losses and deferred taxes) would have fallen by CHF 220 million (31 December 2015: CHF 241 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 rate 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 deferred gains/losses and deferred taxes) in the amount of +/- CHF 0.01 (1 centime) would have resulted in a change of +/- CHF 1.4 million (31 December 2015: +/- CHF 2.4 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.

as at 31.12.	Fair value assets		Fair value liabilities	
	2015	2016	2015	2016
CHF million				
Forward contracts	7.2	0.8	10.5	27.5
Swaps	–	–	–	–
OTC options	–	–	–	–
Other	–	–	–	–
Traded options	–	–	–	–
Traded futures	–	–	–	–
Total	7.2	0.8	10.5	27.5

	2015	2016
CHF million		
Amount recognised directly in equity	–0.2	–14.8
Hedge ineffectiveness reclassified to the income statement	–	–

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

For international diversification (risk-spreading), to enhance returns and because there is greater liquidity in certain foreign financial markets, as at 31 December 2016 the Group's Swiss companies did hold a net position in euros equivalent to CHF 765.2 million (2015: 643.8) and a net position in US dollars equivalent to CHF 8.3 million (2015: CHF – 11.2 million). The remaining foreign exchange positions, both assets and liabilities, were negligible.

During the year, the aggregated hedge ratio for the net foreign exchange exposure in US dollars ranged from 80 per cent to 100 per cent and in euros ranged from 90 per cent to 100 per cent.

Except for the German business unit no other foreign entity in the Baloise Group had a 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 interest-bearing securities or loans must have an investment-grade issue rating or be backed by a corresponding third-party guarantee or mortgage. A total limit of 15 per cent of all interest-bearing securities and loans is set for investments with a rating of less than "A-" and investments with no rating. Sub-investment-grade investments are not permitted. If any financial instrument in the portfolio becomes sub-investment grade due to a ratings downgrade, it must be sold within twelve months. Approval is required for any exceptions. Financial derivatives are only permitted to be transacted with issuers holding a rating of at least "A-" or with whom there is a special collateral agreement.

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

Please refer to the table of secured financial instruments with characteristics of liabilities in chapter 12.

FINANCIAL ASSETS EXCEEDING 10 % OF CONSOLIDATED EQUITY

	31.12.2015
CHF million	
Swiss Confederation	3,639.1
Kingdom of Belgium	2,522.9
Federal Republic of Germany	2,193.3
Pfandbriefbank schweizerischer Hypothekarinstitute AG	1,657.6
Republic of France	1,567.5
European Investment Bank, Luxembourg	982.6
Pfandbriefzentrale der schweizerischen Kantonalbanken AG	921.2
Kingdom of the Netherlands	865.2
Republic of Austria	567.1

FINANCIAL ASSETS EXCEEDING 10 % OF CONSOLIDATED EQUITY

	31.12.2016
CHF million	
Swiss Confederation	3,671.8
Kingdom of Belgium	2,590.6
Federal Republic of Germany	1,970.0
Pfandbriefbank schweizerischer Hypothekarinstitute AG	1,649.0
Republic of France	1,531.9
Pfandbriefzentrale der schweizerischen Kantonalbanken AG	996.1
Kingdom of the Netherlands	937.0
European Investment Bank, Luxembourg	827.4

MAXIMUM DEFAULT RISK OF FINANCIAL ASSETS

	31.12.2015	31.12.2016
CHF million		
Financial assets of a debt nature		
Public corporations	18,838.6	18,351.8
Industrial enterprises	4,950.7	6,425.5
Financial institutions	7,815.9	7,269.6
Other	15.4	15.2
Mortgages and loans		
Mortgages	10,999.7	10,852.6
Policy loans	141.0	131.8
Promissory notes and registered bonds	4,382.5	4,349.5
Time deposits	917.8	838.1
Employee loans	28.1	25.7
Reverse repurchase agreements	–	–
Other loans	323.7	325.1
Derivative financial instruments	363.2	363.0
Receivables from financial contracts	9.9	4.2
Reinsurance assets	410.8	415.2
Receivables from reinsurers	52.3	47.5
Insurance receivables	389.4	383.5
Other receivables	317.5	489.7
Receivables from investments	491.3	451.6
Cash and cash equivalents	1,765.8	1,935.5

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 672.8 million (2015: CHF 524.3 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

as at 31.12.2015	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Financial assets of a debt nature						
Public corporations	7,114.9	9,507.8	1,163.8	988.3	63.7	18,838.6
Industrial enterprises	153.0	1,199.6	2,484.8	1,104.8	8.5	4,950.7
Financial institutions	4,835.2	859.3	1,214.6	627.6	279.2	7,815.9
Other	0.2	–	15.2	–	–	15.4
Mortgages and loans						
Mortgages	99.1	988.0	8,490.5	904.7	268.0	10,750.3
Policy loans	–	–	–	–	141.0	141.0
Promissory notes and registered bonds	1,563.4	2,464.1	43.0	82.5	229.5	4,382.5
Time deposits	22.9	225.9	47.2	–	621.9	917.8
Employee loans	–	–	–	–	28.1	28.1
Reverse repurchase agreements	–	–	–	–	–	–
Other loans	2.3	28.5	112.4	80.1	69.6	293.0
Derivative financial instruments	131.9	48.3	94.7	43.5	44.8	363.2
Receivables from financial contracts	–	–	–	–	9.9	9.9
Reinsurance assets	–	202.7	154.6	2.8	47.1	407.2
Receivables from reinsurers	–	16.2	21.2	–	14.8	52.2
Insurance receivables	0.0	4.9	24.5	0.7	236.6	266.8
Other receivables	34.6	20.6	110.3	15.4	132.9	313.9
Receivables from investments	136.5	118.9	44.7	30.3	141.3	471.6
Cash and cash equivalents	663.1	412.1	607.6	14.0	69.1	1,765.8
Total	14,757.1	16,096.9	14,629.1	3,894.8	2,406.0	51,783.9

CREDIT RATINGS OF FINANCIAL ASSETS THAT WERE NEITHER OVERDUE NOR IMPAIRED

as at 31.12.2016	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Financial assets of a debt nature						
Public corporations	6,655.5	8,891.6	1,301.2	924.4	579.2	18,351.8
Industrial enterprises	196.2	1,150.3	3,448.7	1,574.7	55.6	6,425.5
Financial institutions	4,716.4	729.5	1,164.7	373.2	285.9	7,269.6
Other	0.2	15.0	–	–	–	15.2
Mortgages and loans						
Mortgages	97.5	888.2	8,353.6	1,004.1	210.7	10,554.2
Policy loans	–	–	–	–	131.8	131.8
Promissory notes and registered bonds	1,697.2	2,320.4	54.6	35.4	241.8	4,349.5
Time deposits	14.5	131.4	42.3	25.2	624.6	838.1
Employee loans	–	–	–	–	25.7	25.7
Reverse repurchase agreements	–	–	–	–	–	–
Other loans	4.4	29.6	122.4	83.4	65.9	305.7
Derivative financial instruments	91.2	30.2	164.7	31.0	45.8	363.0
Receivables from financial contracts	–	–	–	–	4.2	4.2
Reinsurance assets	–	188.8	171.2	5.0	46.1	411.2
Receivables from reinsurers	–	14.3	22.0	0.1	11.1	47.5
Insurance receivables	0.0	7.9	9.6	0.8	238.8	257.1
Other receivables	135.8	19.2	113.7	18.1	172.8	459.6
Receivables from investments	128.2	106.2	45.4	27.7	125.6	433.1
Cash and cash equivalents	914.0	266.3	674.1	19.5	61.5	1,935.5
Total	14,651.2	14,789.2	15,688.1	4,122.7	2,927.2	52,178.4

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 2016, financial assets amounting to CHF 1.8 million (2015: CHF 1.8 million) and cash and cash equivalents of 0.1 million (2015: 0.1 million) from collateral received were used.

FINANCIAL ASSETS IMPAIRED

	Gross amount	Impairment	Carrying amount	Gross amount	Impairment	Carrying amount
as at 31.12.	2015			2016		
CHF million						
Financial assets of a debt nature						
Public corporations	-	-	-	-	-	-
Industrial enterprises	2.7	-2.7	-	2.7	-2.7	-
Financial institutions	0.4	-0.4	-	0.7	-0.7	-
Other	-	-	-	-	-	-
Mortgages and loans						
Mortgages	146.1	-31.2	114.9	147.0	-24.3	122.7
Policy loans	-	-	-	-	-	-
Promissory notes and registered bonds	-	-	-	2.1	-2.1	-
Time deposits	-	-	-	-	-	-
Employee loans	-	-	-	-	-	-
Reverse repurchase agreements	-	-	-	-	-	-
Other loans	38.2	-13.7	24.5	28.5	-15.3	13.2
Receivables from financial contracts	-	-	-	-	-	-
Reinsurance assets	-	-	-	-	-	-
Receivables from reinsurers	0.1	-0.1	0.0	0.1	-0.1	0.0
Insurance receivables	126.3	-38.0	88.3	132.6	-37.3	95.2
Other receivables	6.0	-2.5	3.5	5.1	-1.8	3.3
Receivables from investments	21.4	-1.7	19.7	20.1	-1.6	18.5
Total	341.3	-90.3	251.0	338.9	-85.9	253.0

FINANCIAL ASSETS OVERDUE BUT NOT IMPAIRED

as at 31.12.2015	< 3 months	3 – 6 months	7 – 12 months	> 12 months	Total
CHF million					
Financial assets of a debt nature					
Public corporations	–	–	–	–	–
Industrial enterprises	–	–	–	–	–
Financial institutions	–	–	–	–	–
Other	–	–	–	–	–
Mortgages and loans					
Mortgages	0.2	–	1.9	2.1	4.3
Policy loans	–	–	–	–	–
Promissory notes and registered bonds	–	–	–	–	–
Time deposits	–	–	–	–	–
Employee loans	–	–	–	–	–
Reverse repurchase agreements	–	–	–	–	–
Other loans	0.1	–	0.0	0.1	0.2
Receivables from financial contracts	–	–	–	–	–
Reinsurance assets	–	–	–	3.7	3.7
Receivables from reinsurers	–	–	–	–	–
Insurance receivables	12.7	9.3	8.7	3.7	34.4
Other receivables	0.0	0.0	0.1	0.0	0.1
Receivables from investments	–	–	–	–	–
Total	13.0	9.3	10.8	9.5	42.6

FINANCIAL ASSETS OVERDUE BUT NOT IMPAIRED

as at 31.12.2016	< 3 months	3–6 months	7–12 months	> 12 months	Total
CHF million					
Financial assets of a debt nature					
Public corporations	–	–	–	–	–
Industrial enterprises	–	–	–	–	–
Financial institutions	–	–	–	–	–
Other	–	–	–	–	–
Mortgages and loans					
Mortgages	0.3	13.3	0.0	0.1	13.7
Policy loans	–	–	–	–	–
Promissory notes and registered bonds	–	–	–	–	–
Time deposits	–	–	–	–	–
Employee loans	–	–	–	–	–
Reverse repurchase agreements	–	–	–	–	–
Other loans	0.1	–	0.0	0.0	0.1
Receivables from financial contracts	–	–	–	–	–
Reinsurance assets	–	–	–	4.0	4.0
Receivables from reinsurers	–	–	–	–	–
Insurance receivables	10.7	7.0	9.0	4.5	31.2
Other receivables	0.1	0.0	0.0	0.0	0.2
Receivables from investments	–	0.0	–	–	0.0
Total	11.1	20.4	9.1	8.7	49.2

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 31.12.2015	< 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	1,866.7	4.8	5.5	53.1	1,930.1	1,930.1
Measured at amortised cost	6,348.2	371.8	468.6	1,110.5	8,299.2	8,299.2
Recognised at fair value through profit or loss	3,203.9	–	42.8	5,536.0	8,782.8	8,782.8
Financial liabilities	277.1	284.6	528.4	807.1	1,897.2	1,707.8
Financial provisions	52.6	16.5	22.4	3.2	94.8	94.8
Derivative financial instruments	156.6	42.0	8.7	43.6	250.8	250.8
Insurance liabilities	929.4	720.4	0.0	0.6	1,650.4	1,650.4
Other liabilities	455.6	40.2	3.5	22.9	522.2	522.2
Contingent liabilities and capital commitments	1,055.0	14.1	110.8	2.0	1,182.0	–
Total	14,345.1	1,494.5	1,190.9	7,579.0	24,609.5	–

Liquidity risk as at 31.12.2016	< 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	2,208.8	1.1	1.2	106.3	2,317.4	2,317.4
Measured at amortised cost	6,295.5	289.9	596.3	819.2	8,000.9	8,000.9
Recognised at fair value through profit or loss	3,406.0	–	6,148.2	445.2	9,999.4	9,999.4
Financial liabilities	255.9	232.4	590.9	540.9	1,620.1	1,470.4
Financial provisions	40.2	24.1	0.0	15.7	80.0	80.0
Derivative financial instruments	237.4	24.6	9.4	27.6	299.0	299.0
Insurance liabilities	971.1	593.4	–	0.6	1,565.2	1,565.2
Other liabilities	489.9	23.7	3.8	20.5	537.9	537.9
Contingent liabilities and capital commitments	1,427.8	172.8	260.2	12.4	1,873.1	–
Total	15,332.6	1,362.1	7,610.0	1,988.5	26,293.1	–

¹ Based on undiscounted contractual cash flows.

² All demand deposits are included in the first maturity band.

Please refer to the tables in chapter 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. Maintenance of liquidity levels and access to further liquidity via the repo market ensure sufficiently high reserves for payments needed at short notice, such as large claim settlements, until such as time as the reinsurer assumes the costs. 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, 68 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)	
	2015	2016	2015	2016
CHF million				
Market price plus 10%	54.2	57.4	266.8	264.9
Market price minus 10%	-75.0	-77.6	-266.3	-267.3

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, in sufficient volume 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	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	Net asset value	n.a.	n.a.
Financial instruments with characteristics of liabilities	Present-value model	Interest rate, credit spread	–
Derivative financial instruments	Net asset value	n.a.	n.a.
Investment property			
	DCF method	Discount rate ¹	3.0% – 5.6% ³
		Rental income ²	290 – 320 CHF million ³
		Vacancy costs ¹	10 – 15 CHF million ³
		Running costs ¹	24 – 27 CHF million ³
		Maintenance costs ¹	26 – 30 CHF million ³
		Capital expenditure ²	50 – 70 CHF million ³
		Inflation rate ²	0% – 2% ³

¹ The lower these key input factors are, the higher the fair value of the investment property is.

² The higher these key input factors are, the lower the fair value of the investment property is.

³ The input factor ranges shown essentially relate to the real estate portfolios held by the Baloise Group's Swiss entities.

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

The Baloise Group organises its operating activities into strategic business units, which are generally combined under a single management team for each region. The financial and management information needed for all relevant executive decisions is held by these strategic business units. This organisational structure is also used to delegate authority and responsibility for proper implementation of, and compliance with, financial reporting standards within the Baloise Group to the individual strategic business units.

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

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

Financial instruments with characteristics of liabilities that are assigned to level 3 are predominantly corporate bonds originating from private placements and for which third-party prices are not available. A present-value model is used to measure their fair value.

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

31.12.2015	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	4,443.3	4,443.3	2,627.7	872.5	943.1
Recognised at fair value through profit or loss	1,173.8	1,173.8	285.7	888.1	–
Financial instruments with characteristics of liabilities					
Held to maturity	8,549.5	10,007.4	10,007.4	–	–
Available for sale	23,024.6	23,024.6	23,001.3	23.3	–
Recognised at fair value through profit or loss	46.6	46.6	28.3	18.3	–
Mortgages and loans					
Carried at cost	15,912.6	16,929.6	–	–	16,929.6
Recognised at fair value through profit or loss	744.0	744.0	–	744.0	–
Derivative financial instruments	363.2	363.2	11.0	352.2	–
Receivables from financial contracts					
Carried at cost	9.9	9.9	–	–	9.9
Other receivables					
Carried at cost	317.5	318.5	–	–	318.5
Receivables from investments					
Carried at cost	491.3	491.3	359.7	1.8	129.9
Investment property	6,251.9	6,251.9	–	–	6,251.9
Liabilities measured on a recurring basis					
Liabilities arising from banking business and financial contracts					
Measured at amortised cost	8,299.2	8,484.0	–	8,438.4	45.6
Recognised at fair value through profit or loss	322.2	322.2	–	322.2	–
Derivative financial instruments	250.8	250.8	22.1	228.7	–
Financial liabilities	1,707.8	1,864.2	1,864.2	–	–

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

31.12.2016	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	4,357.1	4,357.1	2,471.8	921.3	964.0
Recognised at fair value through profit or loss	1,002.3	1,002.3	310.7	691.5	–
Financial instruments with characteristics of liabilities					
Held to maturity	8,224.6	9,904.1	9,904.1	–	–
Available for sale	23,806.7	23,806.7	23,777.4	29.3	–
Recognised at fair value through profit or loss	30.8	30.8	25.4	5.5	–
Mortgages and loans					
Carried at cost	15,457.7	16,494.6	–	–	16,494.6
Recognised at fair value through profit or loss	897.0	897.0	–	897.0	–
Derivative financial instruments					
	363.0	363.0	11.4	351.6	–
Receivables from financial contracts					
Carried at cost	4.2	4.2	–	–	4.2
Other receivables					
Carried at cost	463.1	464.2	–	–	464.2
Receivables from investments					
Carried at cost	451.6	451.6	337.6	0.4	113.7
Investment property					
	6,817.5	6,817.5	–	–	6,817.5
Liabilities measured on a recurring basis					
Liabilities arising from banking business and financial contracts					
Measured at amortised cost	8,000.9	8,153.3	–	8,103.0	50.4
Recognised at fair value through profit or loss	489.0	489.0	–	489.0	–
Derivative financial instruments					
	299.0	299.0	21.8	277.2	–
Financial liabilities					
	1,470.4	1,592.6	1,592.6	–	–

The Baloise Group has applied accounting standard IFRS 5 (non-current assets and disposal groups held for sale and discontinued operations) owing to the disposal of the portfolio of life insurance policies held by the German branch of Baloise Life Ltd (Basler Leben DfD [Direktion für Deutschland]). 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 THE ACCOUNT AND AT THE RISK OF LIFE INSURANCE POLICYHOLDERS
AND THIRD PARTIES**

31.12.2015	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	8,153.7	8,153.7	8,011.7	–	142.1
Financial instruments with characteristics of liabilities					
Recognised at fair value through profit or loss	1,627.7	1,627.7	1,607.8	19.9	–
Mortgages and loans					
Recognised at fair value through profit or loss	–	–	–	–	–
Derivative financial instruments	290.7	290.7	28.0	262.7	–
Other assets					
Recognised at fair value through profit or loss	40.2	40.2	40.2	–	–
Liabilities measured on a recurring basis					
Liabilities arising from banking business and financial contracts					
Recognised at fair value through profit or loss	8,460.6	8,460.6	8,460.6	–	–
Derivative financial instruments	–	–	–	–	–

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

31.12.2016	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	8,946.2	8,946.2	8,825.0	76.5	44.7
Financial instruments with characteristics of liabilities					
Recognised at fair value through profit or loss	1,704.4	1,704.4	1,662.1	0.1	42.2
Mortgages and loans					
Recognised at fair value through profit or loss	–	–	–	–	–
Derivative financial instruments	394.4	394.4	196.6	197.1	0.8
Other assets					
Recognised at fair value through profit or loss	54.5	54.5	54.5	–	–
Liabilities measured on a recurring basis					
Liabilities arising from banking business and financial contracts					
Recognised at fair value through profit or loss	9,510.4	9,510.4	9,510.4	–	–
Derivative financial instruments	–	–	–	–	–

The Baloise Group has applied accounting standard IFRS 5 (non-current assets and disposal groups held for sale and discontinued operations) owing to the disposal of the portfolio of life insurance policies held by the German branch of Baloise Life Ltd (Basler Leben DfD [Direktion für Deutschland]). 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.

**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
	Available for sale	Recognised at fair value through profit or loss	
2015			
CHF million			
Assets and liabilities measured on a recurring basis			
Balance as at 1 January	993.0	5,962.9	6,955.9
Additions	112.6	394.9	507.5
Additions arising from change in the scope of consolidation	–	–	–
Additions arising from change in the percentage of shareholding	–	–	–
Disposals	–96.7	–82.0	–178.7
Disposals arising from change in the scope of consolidation	–	–	–
Disposals arising from change in the percentage of shareholding	–	–	–
Reclassified to level 3	–	28.2	28.2
Reclassified from level 3	–	–75.5	–75.5
Reclassification to non-current assets and disposal groups classified as held for sale	–7.8	–	–7.8
Changes in fair value recognised in profit or loss ¹	–6.1	112.7	106.6
Changes in fair value not recognised in profit or loss ²	14.8	0.8	15.6
Exchange differences	–66.7	–90.1	–156.8
Balance as at 31 December	943.1	6,251.9	7,195.1
Changes in fair value of financial instruments held at the balance sheet date and recognised in profit or loss	–6.1	107.9	101.8

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 OWN ACCOUNT AND AT OWN RISK
AND CLASSIFIED AS LEVEL 3**

	Financial instruments with characteristics of equity	Investment property	Total
	Available for sale	Recognised at fair value through profit or loss	
2016			
CHF million			
Assets and liabilities measured on a recurring basis			
Balance as at 1 January	943.1	6,251.9	7,195.1
Additions	122.3	453.7	576.0
Additions arising from change in the scope of consolidation	–	73.9	73.9
Additions arising from change in the percentage of shareholding	–	–	–
Disposals	–105.7	–49.5	–155.2
Disposals arising from change in the scope of consolidation	–	–	–
Disposals arising from change in the percentage of shareholding	–	–	–
Reclassified to level 3	–	31.8	31.8
Reclassified from level 3	–	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	–	–
Changes in fair value recognised in profit or loss ¹	–6.8	59.7	52.9
Changes in fair value not recognised in profit or loss ²	18.7	8.0	26.7
Exchange differences	–7.5	–12.0	–19.6
Balance as at 31 December	964.0	6,817.5	7,781.5
Changes in fair value of financial instruments held at the balance sheet date and recognised in profit or loss	–5.8	56.7	50.9

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

	Financial instruments with characteristics of equity	Financial instruments with characteristics of liabilities	Derivative financial instruments (assets)	Total
	Recognised at fair value through profit or loss	Recognised at fair value through profit or loss	Recognised at fair value through profit or loss	
2015				
CHF million				
Assets and liabilities measured on a recurring basis				
Balance as at 1 January	176.5	–	–	176.5
Additions	3.1	–	–	3.1
Additions arising from change in the scope of consolidation	–	–	–	–
Additions arising from change in the percentage of shareholding	–	–	–	–
Disposals	–20.1	–	–	–20.1
Disposals arising from change in the scope of consolidation	–	–	–	–
Disposals arising from change in the percentage of shareholding	–	–	–	–
Reclassified to level 3	–	–	–	–
Reclassified from level 3	–	–	–	–
Changes in fair value recognised in profit or loss ¹	–4.1	–	–	–4.1
Exchange differences	–13.4	–	–	–13.4
Balance as at 31 December	142.1	–	–	142.1
Changes in fair value of financial instruments held at the balance sheet date and recognised in profit or loss	–4.1	–	–	–4.1

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.

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

	Financial instruments with characteristics of equity	Financial instruments with characteristics of liabilities	Derivative financial instruments (assets)	Total
	Recognised at fair value through profit or loss	Recognised at fair value through profit or loss	Recognised at fair value through profit or loss	
2016				
CHF million				
Assets and liabilities measured on a recurring basis				
Balance as at 1 January	142.1	–	–	142.1
Additions	–	–	–	–
Additions arising from change in the scope of consolidation	–	–	–	–
Additions arising from change in the percentage of shareholding	–	–	–	–
Disposals	–15.1	–	–	–15.1
Disposals arising from change in the scope of consolidation	–	–	–	–
Disposals arising from change in the percentage of shareholding	–	–	–	–
Reclassified to level 3	19.3	42.9	0.8	63.0
Reclassified from level 3	–101.2	–	–	–101.2
Changes in fair value recognised in profit or loss ¹	–0.4	–	–	–0.4
Exchange differences	0.0	–0.7	0.0	–0.7
Balance as at 31 December	44.7	42.2	0.8	87.7
Changes in fair value of financial instruments held at the balance sheet date and recognised in profit or loss	–0.4	–	–	–0.4

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.

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 2015.

Reclassification of assets and liabilities to and from level 3

In the reporting period, a small volume of financial assets were reclassified owing to changed market activity and new knowledge concerning the composition of investments.

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.

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.

5.11.1 Solvency I ratio at Group level

The solvency ratio (calculated on the basis of the legal requirements in force on 30 June 2015) for pure insurance business of CHF 2,142 million (2015: CHF 2,126 million) was met in 2015 and 2016. The cover ratio for the capital adequacy requirement in available funds was 351 per cent at 31 December 2016 (31 December 2015: 341 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.

5.11.2 Requirements under local legislation

Individual Group companies are also subject to regulation under local legislation which in some cases imposes different solvency rules and permits different methods for defining equity. The ability of the business units, and therefore also of the parent company, to pay dividends is closely linked to the priority placed on meeting these local requirements. Compliance with local solvency requirements is monitored on an ongoing basis. Appropriate action is taken if solvency falls short of these regulations.

The relevant requirements for the banking operations of Baloise Bank SoBa are defined by Basel III regulations. The regulatory capital adequacy requirement applicable to Deutscher Ring Bausparkasse AG is the Capital Requirements Regulation (CRR).

5.11.3 Swiss Solvency Test

The Swiss Solvency Test (SST) came into force as a new statutory requirement on 1 January 2011. In this context, the Baloise Group defines its risk-bearing capital and capital required for the SST using an inhouse model which 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.

5.11.4 Monitoring the solvency situation

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, Solvency II and the inhouse risk model (SST) 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 2015 financial year

6.1.1 Acquisitions

HDI-Gerling Assurances, based in Leudelange, Luxembourg, was acquired during the year under review and was merged with Baloise Assurances Luxembourg S.A. in the same year. This transaction, in which all of its shares were acquired, gave rise to a small amount of goodwill.

6.1.2 Disposals

No companies were sold during the year under review.

6.1.3 Other changes in the group of consolidated companies

The two Gloucester-based companies Lennox Underwriting Agencies and Lennox Underwriting Management were liquidated in the second half of 2015. There were no other changes to the basis of consolidation.

6.2 2016 financial year

6.2.1 Acquisitions

In the second half of 2016, four affiliated real-estate companies were acquired in Belgium (Postsite Aalst). According to the criteria defined in IFRS 3 Business Combinations, this purchase constitutes the acquisition of assets, so goodwill has not been recognised separately in this case.

6.2.2 Disposals

No companies were sold during the year under review.

6.2.3 Other changes in the group of consolidated companies

Baloise Insurance Company (Bermuda) Ltd. merged with Baloise Insurance Ltd (Switzerland) on 1 January 2016. Intercompany reinsurance was thus transferred to Switzerland. This merger took place within the existing group of consolidated companies.

Baloise Immobilien Management AG was founded in the second half of 2016 and is headquartered in Basel. Also in the second half of 2016, the share of capital and share of voting rights in the real-estate company SA Keiberg 401 in Belgium was increased from 46.8 per cent to 100 per cent.

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

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

The “Group business” segment comprises the units engaged in intercompany reinsurance and financing, as well as corporate IT and the holding companies.

The revenue generated by the Baloise Group is broken down into the Non-Life, Life, Banking (including asset management) and Other activities operating segments. The Non-Life segment offers accident and health insurance as well as products relating to liability, motor, property and marine insurance. These products are tailored to the specific needs of our customers – primarily retail clients – and the core competences of the relevant companies in the Baloise Group. The Life segment provides individuals and companies with a wide range of endowment policies, term insurance, investment-linked products and private placement life insurance. The Banking segment essentially comprises Baloise Bank SoBa, which acts as a universal bank in Switzerland, and Deutscher Ring Bausparkasse, which operates in Germany mainly as a conventional building society.

The “Other activities” operating segment includes equity investment companies, real estate firms and financing companies.

The accounting policies applied to the presentation of the operating segments (segment reporting) are those used throughout the rest of the Financial Report. No intersegment relationships recognised either on the balance sheet or in the income statement – with the exception of income from long-term equity investments – are offset against each other.

7.1 Segment reporting by strategic business unit

	Switzerland		Germany		Belgium	
	2015	2016	2015	2016	2015	2016
CHF million						
Income						
Premiums earned and policy fees (gross)	4,408.6	4,188.1	1,205.9	1,219.3	1,041.6	1,078.8
Reinsurance premiums ceded	-167.4	-81.5	-83.5	-85.2	-73.2	-88.0
Premiums earned and policy fees (net)	4,241.2	4,106.6	1,122.4	1,134.1	968.4	990.8
Investment income	884.6	878.2	370.3	336.4	238.2	239.5
Realised gains and losses on investments	104.3	121.0	320.8	215.2	78.8	105.0
Income from services rendered	39.5	37.2	32.5	31.8	1.5	1.6
Share of profit (loss) of associates	0.0	0.0	36.8	7.1	0.1	0.0
Other operating income	72.3	106.8	38.6	27.5	21.6	16.5
Income	5,341.9	5,249.8	1,921.4	1,752.1	1,308.6	1,353.5
Intersegment income	57.8	-29.9	46.4	39.0	31.3	34.2
Income from associates	0.0	0.0	36.8	7.1	0.1	0.0
Expense						
Claims and benefits paid (gross)	-3,458.2	-3,651.7	-1,142.0	-1,209.2	-651.6	-688.6
Change in technical reserves (gross)	-764.7	-351.8	-320.1	-181.6	-124.6	-126.3
Reinsurers' share of claims incurred	48.9	27.1	121.9	103.2	82.8	74.8
Acquisition costs	-57.5	-65.6	-181.8	-188.2	-216.8	-229.2
Operating and administrative expenses for insurance business	-434.5	-416.7	-180.0	-193.3	-102.2	-108.3
Investment management expenses	-43.8	-43.8	-22.0	-24.2	-14.6	-11.6
Interest expenses on insurance liabilities	-2.4	-2.3	-31.5	-28.3	-0.2	-0.2
Gains or losses on financial contracts	-36.6	-19.8	-22.9	-23.8	-52.2	-59.2
Other operating expenses	-177.6	-178.6	-77.9	-67.6	-37.7	-33.1
Expense	-4,926.5	-4,703.2	-1,856.4	-1,813.0	-1,116.9	-1,181.7
Profit / loss before borrowing costs and taxes	415.3	546.6	64.9	-60.9	191.7	171.7
Borrowing costs	-	-	-	-	-	-
Profit / loss before taxes	415.3	546.6	64.9	-60.9	191.7	171.7
Income taxes	-86.4	-99.2	-24.3	12.4	-54.9	-46.3
Profit / loss for the period (segment result)	329.0	447.4	40.6	-48.5	136.7	125.5
Segment assets as at 31 December ¹	44,490.9	45,081.9	15,100.9	15,104.9	9,043.6	9,521.0

¹ restated in segment assets 2015 Germany.

Luxembourg		Sub-total		Group business		Eliminated		Total	
2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
181.5	198.4	6,837.6	6,684.5	189.9	99.6	-195.1	-103.6	6,832.4	6,680.6
-19.6	-17.1	-343.8	-271.8	0.0	0.0	195.1	103.5	-148.6	-168.2
161.9	181.2	6,493.9	6,412.8	189.8	99.6	0.0	0.0	6,683.7	6,512.4
18.6	18.9	1,511.8	1,473.1	11.7	5.3	-1.7	-1.8	1,521.8	1,476.6
-104.2	223.0	399.7	664.2	-13.5	3.1	-	-	386.2	667.2
14.9	15.8	88.3	86.4	153.5	157.5	-129.1	-133.8	112.6	110.1
-	-	36.8	7.1	-	-	-	-	36.8	7.1
20.5	20.6	153.0	171.4	32.3	20.5	-48.7	-55.1	136.6	136.8
111.7	459.5	8,683.5	8,814.9	373.8	286.1	-179.5	-190.8	8,877.9	8,910.2
0.1	2.6	135.7	46.0	-315.2	-236.8	179.5	190.8	-	-
-	-	36.8	7.1	-	-	-	-	36.8	7.1
-99.0	-111.1	-5,350.7	-5,660.6	-108.7	112.5	107.1	-116.1	-5,352.4	-5,664.2
-39.3	-23.1	-1,248.7	-682.8	-51.6	-208.2	58.4	221.8	-1,241.9	-669.1
10.1	9.2	263.6	214.2	-0.4	-0.3	-165.4	-105.7	97.9	108.2
-16.9	-20.6	-473.0	-503.5	-0.5	-0.5	1.1	1.1	-472.4	-502.9
-43.2	-44.4	-759.9	-762.7	-0.3	-0.1	-1.1	-1.1	-761.3	-763.9
-1.3	-1.4	-81.6	-81.0	-9.8	-8.3	31.0	29.0	-60.4	-60.3
-0.1	0.1	-34.3	-30.7	-	-	0.2	0.2	-34.1	-30.5
113.8	-235.6	2.1	-338.5	-7.1	-10.2	4.2	5.8	-0.9	-342.9
-12.2	-9.3	-305.5	-288.7	-171.7	-168.1	144.1	155.8	-333.1	-300.9
-88.2	-436.3	-7,988.0	-8,134.2	-350.1	-283.2	179.5	190.8	-8,158.6	-8,226.6
23.5	23.3	695.4	680.7	23.8	2.9	-	-	719.2	683.6
-	-	-	-	-40.0	-38.0	-	-	-40.0	-38.0
23.5	23.3	695.4	680.7	-16.2	-35.1	-	-	679.3	645.6
-2.0	1.0	-167.6	-132.0	-0.5	20.3	-	-	-168.2	-111.7
21.5	24.3	527.8	548.7	-16.7	-14.8	-	-	511.1	533.9
9,349.2	10,413.8	77,984.5	80,121.6	1,841.7	1,466.1	-1,044.0	-973.4	78,782.3	80,614.3

7.2 Segment reporting by operating segment

	Non-Life		Life	
	2015	2016	2015	2016
CHF million				
Income				
Premiums earned and policy fees (gross)	3,048.9	3,109.7	3,783.4	3,570.9
Reinsurance premiums ceded	-129.5	-149.8	-19.1	-18.4
Premiums earned and policy fees (net)	2,919.4	2,959.9	3,764.4	3,552.4
Investment income	221.4	217.8	1,196.5	1,161.5
Realised gains and losses on investments	30.4	47.6	348.3	616.8
Income from services rendered	20.8	19.6	16.2	17.0
Share of profit (loss) of associates	7.4	0.0	25.1	3.0
Other operating income	76.5	80.7	86.8	87.3
Income	3,276.0	3,325.7	5,437.2	5,437.9
Intersegment income	-50.3	-49.7	-36.7	-42.7
Income from associates	7.4	0.0	25.1	3.0
Expense				
Claims and benefits paid (gross)	-1,854.0	-1,859.7	-3,498.4	-3,804.5
Change in technical reserves (gross)	-55.3	-66.7	-1,186.6	-602.4
Reinsurers' share of claims incurred	89.5	96.5	8.3	11.7
Acquisition costs	-408.9	-440.0	-63.5	-63.0
Operating and administrative expenses for insurance business	-490.0	-488.5	-271.3	-275.4
Investment management expenses	-22.1	-22.9	-87.6	-85.6
Interest expenses on insurance liabilities	-0.2	-0.2	-33.8	-30.3
Gains or losses on financial contracts	-0.8	-0.5	48.6	-303.9
Other operating expenses	-138.6	-147.3	-75.6	-58.4
Expense	-2,880.5	-2,929.3	-5,159.9	-5,211.8
Profit/ loss before borrowing costs and taxes	395.5	396.4	277.3	226.1
Borrowing costs	-	-	-	-
Profit/ loss before taxes	395.5	396.4	277.3	226.1
Income taxes	-74.9	-74.9	-62.2	-34.3
Profit/ loss for the period (segment result)	320.6	321.5	215.0	191.8

Because the management approach within the Belgium strategic business unit has been re-assessed, a small number of long-term equity investments in the "Other activities" segment have been assigned to the "Non-Life" and "Life" segments in 2015. These reclassifications have had no impact on the profit for the period.

	Banking		Other activities		Eliminated		Total	
	2015	2016	2015	2016	2015	2016	2015	2016
	-	-	-	-	-	-	6,832.4	6,680.6
	-	-	-	-	-	-	-148.6	-168.2
	-	-	-	-	-	-	6,683.7	6,512.4
	126.3	118.7	2.5	2.1	-25.0	-23.4	1,521.8	1,476.6
	3.3	-3.4	4.3	6.2	-	-	386.2	667.2
	130.5	131.2	160.1	165.2	-215.0	-222.9	112.6	110.1
	-	-	4.3	4.2	-	-	36.8	7.1
	5.5	16.6	18.8	11.1	-51.0	-58.9	136.6	136.8
	265.6	263.0	190.0	188.7	-291.0	-305.2	8,877.9	8,910.2
	-64.0	-66.3	-139.9	-146.4	291.0	305.2	-	-
	-	-	4.3	4.2	-	-	36.8	7.1
	-	-	-	-	-	-	-5,352.4	-5,664.2
	-	-	-	-	-	-	-1,241.9	-669.1
	-	-	-	-	-	-	97.9	108.2
	-	-	-	-	-	-	-472.4	-502.9
	-	-	-	-	-	-	-761.3	-763.9
	-22.0	-24.9	-4.6	-2.6	75.9	75.8	-60.4	-60.3
	-	-	-	-	-	-	-34.1	-30.5
	-59.5	-46.5	-15.3	-16.4	26.1	24.6	-0.9	-342.9
	-103.3	-99.5	-204.6	-200.6	189.0	204.8	-333.1	-300.9
	-184.8	-170.9	-224.4	-219.7	291.0	305.2	-8,158.6	-8,226.6
	80.8	92.1	-34.4	-31.0	-	-	719.2	683.6
	-	-	-40.0	-38.0	-	-	-40.0	-38.0
	80.8	92.1	-74.3	-68.9	-	-	679.3	645.6
	-19.9	-19.4	-11.1	16.9	-	-	-168.2	-111.7
	60.9	72.7	-85.5	-52.1	-	-	511.1	533.9

Notes to the consolidated balance sheet

8. PROPERTY, PLANT AND EQUIPMENT

2015	Land	Buildings	Operating equipment	Machinery, furniture and vehicles	IT equipment	Total
CHF million						
Balance as at 1 January	93.1	201.1	38.7	25.4	20.9	379.2
Additions	0.4	1.9	10.9	6.4	11.7	31.4
Additions arising from change in the scope of consolidation	–	–	–	0.0	0.0	0.0
Disposals	–	–	–0.1	–0.4	–0.7	–1.2
Disposals arising from change in the scope of consolidation	–	–	–	–	–	–
Reclassification	–26.2	73.4	–	–	–	47.2
Reclassification to non-current assets and disposal groups classified as held for sale	–	–	–	–	–	–
Depreciation and impairment						
Depreciation	–	–14.8	–7.2	–5.1	–9.5	–36.6
Impairment losses recognised in profit or loss	–	–3.2	–	–	–	–3.2
Reversal of impairment losses recognised in profit or loss	–	–	–	–	–	–
Exchange differences	–2.2	–12.7	–0.6	–1.7	–0.5	–17.7
Balance as at 31 December	65.1	245.7	41.7	24.7	21.9	399.1
Acquisition costs	66.8	536.9	118.0	65.8	86.8	874.3
Accumulated depreciation and impairment	–1.7	–291.2	–76.3	–41.1	–64.9	–475.3
Balance as at 31 December	65.1	245.7	41.7	24.7	21.9	399.1
Of which:	–	–	–	–	–	–
Assets held under finance leases	–	–	–	–	–	–

Depreciation and impairment form part of other operating expenses.

Property, plant and equipment

2016	Land	Buildings	Operating equipment	Machinery, furniture and vehicles	IT equipment	Total
CHF million						
Balance as at 1 January	65.1	245.7	41.7	24.7	21.9	399.1
Additions	0.0	0.9	3.5	5.3	6.7	16.4
Additions arising from change in the scope of consolidation	–	–	–	0.0	–	0.0
Disposals	–	–	0.0	–0.3	0.0	–0.3
Disposals arising from change in the scope of consolidation	–	–	–	–	–	–
Reclassification	–0.4	–31.4	–	–	–	–31.8
Reclassification to non-current assets and disposal groups classified as held for sale	–	–	–	–	–	–
Depreciation and impairment						
Depreciation	–	–8.4	–7.4	–5.8	–9.1	–30.7
Impairment losses recognised in profit or loss	–0.1	–1.1	–	–	–	–1.1
Reversal of impairment losses recognised in profit or loss	–	–	–	–	–	–
Exchange differences	–0.3	–1.7	–0.1	–0.2	0.0	–2.2
Balance as at 31 December	64.4	204.1	37.7	23.8	19.4	349.3
Acquisition costs	66.6	474.6	93.6	58.4	80.1	773.3
Accumulated depreciation and impairment	–2.2	–270.6	–56.0	–34.6	–60.7	–424.0
Balance as at 31 December	64.4	204.1	37.7	23.8	19.4	349.3
Of which:	–	–	–	–	–	–
Assets held under finance leases	–	–	–	–	–	–

Depreciation and impairment form part of other operating expenses.

9. INTANGIBLE ASSETS

2015	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							
Balance as at 1 January	71.8	14.1	542.7	154.9	145.0	0.2	928.5
Additions arising from change in the scope of consolidation	2.3	–	–	0.1	–	–	2.4
Additions	–	–	–	–	28.8	0.1	28.9
Capitalisation of acquisition costs	–	–	53.3	237.8	–	–	291.1
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	–	–1.9	–12.7	–	–2.7	–	–17.3
Amortisation and impairment							
Amortisation	–	–1.7	–38.4	–235.7	–27.6	–0.1	–303.6
Write-ups	–	–	2.0	–	–	–	2.0
Impairment losses recognised in profit or loss	–	–1.1	–	–	–	–	–1.1
Reversal of impairment losses recognised in profit or loss	–	–	–	–	–	–	–
Changes due to impending losses	–	–	–26.8	0.8	–	–	–26.0
Change due to unrealised gains and losses on financial instruments (shadow accounting)	–	–	4.9	–	–	–	4.9
Exchange differences	–6.9	–1.4	–44.1	–8.0	–11.0	–	–71.5
Balance as at 31 December	67.1	7.9	480.9	149.9	132.3	0.1	838.2
Acquisition costs	212.7	–	–	–	469.0	9.2	–
Accumulated amortisation and impairment	–145.6	–	–	–	–336.7	–9.0	–
Balance as at 31 December¹	67.1	7.9	480.9	149.9	132.3	0.1	838.2
Segment as at 31 December 2015							
Switzerland	–	–	94.4	53.1	26.0	–	173.5
Germany	29.0	7.9	376.5	39.0	2.7	–	455.2
Belgium	15.1	–	0.5	53.7	84.5	–	153.7
Luxembourg	23.0	–	9.4	4.1	13.6	–	50.1
Group business	–	–	–	–	5.5	0.1	5.7
Total for geographic regions	67.1	7.9	480.9	149.9	132.3	0.1	838.2

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

Intangible assets

2016	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							
Balance as at 1 January	67.1	7.9	480.9	149.9	132.3	0.1	838.2
Additions arising from change in the scope of consolidation	–	–	–	–	–	–	–
Additions	–	–	–	–	26.4	0.2	26.6
Capitalisation of acquisition costs	–	–	77.1	253.3	–	–	330.3
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	–	–	–	–	–	–	–
Amortisation and impairment							
Amortisation	–	–0.8	–57.2	–251.2	–30.3	–0.1	–339.6
Write-ups	–	–	1.8	–	–	–	1.8
Impairment losses recognised in profit or loss	–	–	–	–	–	–	–
Reversal of impairment losses recognised in profit or loss	–	–	–	–	–	–	–
Changes due to impending losses	–	–	–3.0	–0.8	–	–	–3.8
Change due to unrealised gains and losses on financial instruments (shadow accounting)	–	–	–9.0	–	–	–	–9.0
Exchange differences	–0.8	–0.1	–5.0	–1.2	–1.2	–	–8.3
Balance as at 31 December	66.3	7.0	485.6	149.9	127.2	0.2	836.1
Acquisition costs	211.9	–	–	–	479.4	9.2	–
Accumulated amortisation and impairment	–145.6	–	–	–	–352.2	–9.1	–
Balance as at 31 December¹	66.3	7.0	485.6	149.9	127.2	0.2	836.1
Segment as at 31 December 2016							
Switzerland	–	–	88.3	52.6	24.7	–	165.5
Germany	28.7	7.0	389.6	37.8	1.9	–	464.9
Belgium	14.9	–	0.6	55.3	79.3	–	150.1
Luxembourg	22.7	–	7.2	4.2	13.8	–	48.0
Group business	–	–	–	–	7.4	0.2	7.6
Total for geographic regions	66.3	7.0	485.6	149.9	127.2	0.2	836.1

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

9.1 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. The input factors are described in note 3.10.3 (Impairment losses on non-financial assets).

	Goodwill as at 31.12.		Discount rate (%)		Growth rate (%)	
	2015	2016	2015	2016	2015	2016
Zeus Vermittlungsgesellschaft mbH	13.2	13.1	10.4	9.6	1.0	1.0
Basler Financial Services GmbH	13.8	13.6	8.2	6.8	1.0	1.0
Baloise Vie Luxembourg S.A.	6.9	6.8	8.5	7.0	2.5	2.5
Baloise Assurances Luxembourg S.A.	15.6	15.4	8.5	7.0	2.5	2.5
Baloise Belgium NV	15.1	14.9	7.0	7.0	2.6	2.6

The impairment test in 2016 did not reveal any need to recognise impairment losses.

The management is of the opinion that a possible change in the assumptions based on the exercise of appropriate discretion would not have led, either in 2016 or in 2015, to the carrying amount of an entity being significantly higher than its recoverable value.

10. INVESTMENTS IN ASSOCIATES

10.1 Significant investments in associates

OVB Holding Ltd is a European sales company for risk cover, retirement pension and health care 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 Ltd is included in the Baloise Group's consolidated annual financial statements under the equity method. Because the publicly traded OVB Holding Ltd'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 Ltd	
CHF million		
Assets	30.9.2015	30.9.2016
Non-current assets	21.7	24.7
Current assets	145.5	151.8
Total assets	167.2	176.5
Equity and liabilities	30.9.2015	30.9.2016
Equity	90.0	91.6
Non-current liabilities	1.2	1.0
	76.0	83.8
Total assets	167.2	176.5
Profit for the period	1.-9.2015	1.-9.2016
Income	172.4	183.8
Expense	164.4	173.1
Profit for the period	8.0	10.7
Comprehensive income (balance sheet)	0.0	0.0
Comprehensive income (income statement)	0.3	-0.2
Comprehensive income	8.3	10.5
Dividends paid to the Baloise Group	3.4	3.2
Baloise Group's interest (per cent)	32.6%	32.6%
Carrying amount as at 30 September	65.7	65.7
Fair value as at 30 September	79.6	79.9

10.2 Non-significant investments in associates

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

2015	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	96.6	6.1	0.0	0.4	6.5

2016	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	94.7	4.1	0.0	0.0	4.0

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 2016 or 31 December 2015.

As at 31 December 2016, 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

	2015	2016
CHF million		
Balance as at 1 January	5,962.9	6,251.9
Additions	394.9	453.7
Additions arising from change in scope of consolidation	–	73.9
Disposals	–82.0	–49.5
Disposals arising from change in scope of consolidation	–	–
Reclassification	–47.2	31.8
Reclassification to non-current assets and disposal groups classified as held for sale	–	–
Change in fair value	113.5	67.7
Exchange differences	–90.1	–12.0
Balance as at 31 December	6,251.9	6,817.5
Operating expenses arising from investment property that generates rental income	68.8	83.2
Operating expenses arising from investment property that does not generate rental income	0.7	0.6

The increase in the portfolio during the reporting year was largely attributable to real estate acquired by Baloise's Swiss entities. The additions arising from changes in the scope of consolidation primarily related to the acquisition of the Belgian real-estate company Postsite Aalst.

12. FINANCIAL ASSETS

	31.12.2015	31.12.2016
CHF million		
Financial assets of an equity nature		
Available for sale	4,443.3	4,357.1
Recognised at fair value through profit or loss	1,173.8	1,002.3
Financial assets of a debt nature		
Held to maturity	8,549.5	8,224.6
Available for sale	23,024.6	23,806.7
Recognised at fair value through profit or loss	46.6	30.8
Financial assets for own account and at own risk	37,237.7	37,421.6
Financial assets for the account and at the risk of life insurance policyholders and third parties		
Recognised at fair value through profit or loss ¹	9,781.5	10,650.6
Financial assets as reported on the balance sheet	47,019.2	48,072.2

1 Of which financial assets totalling CHF 99.5 million (2015: CHF 98.8 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	
	2015	2016
as at 31.12.		
CHF million		
Financial assets of an equity nature		
Publicly listed	-	-
Not publicly listed	-	-
Total	-	-
Financial assets of a debt nature		
Publicly listed, fixed-interest rate	8,549.5	8,224.6
Publicly listed, variable interest rate	-	-
Not publicly listed, fixed-interest rate	-	-
Not publicly listed, variable interest rate	-	-
Total	8,549.5	8,224.6

No impairment losses had to be recognised on held-to-maturity financial instruments with characteristics of liabilities, during either the reporting year or the prior year.

	Available for sale		Recognised at fair value through profit or loss				Total	
	2015	2016	Trading portfolio		Designated		2015	2016
			2015	2016	2015	2016		
	2,651.2	2,471.8	-	-	285.7	310.7	2,936.9	2,782.6
	1,792.1	1,885.3	-	-	888.1	691.5	2,680.2	2,576.9
	4,443.3	4,357.1	-	-	1,173.8	1,002.3	5,617.1	5,359.4
	22,992.4	23,765.6	-	-	0.1	0.1	31,541.9	31,990.3
	8.9	11.8	-	-	28.2	25.3	37.1	37.1
	23.3	29.3	-	-	18.3	5.5	41.6	34.8
	-	-	-	-	-	-	-	-
	23,024.6	23,806.7	-	-	46.6	30.8	31,620.6	32,062.1

FINANCIAL ASSETS FOR OWN ACCOUNT AND AT OWN RISK

	Held to maturity	
	2015	2016
as at 31.12.		
CHF million		
Type of financial asset		
Equities	-	-
Equity funds	-	-
Mixed funds	-	-
Bond funds	-	-
Real estate funds	-	-
Private equity	-	-
Hedge funds	-	-
Financial assets of an equity nature	-	-
Public corporations	7,475.8	7,208.0
Industrial enterprises	18.0	14.6
Financial institutions	1,040.5	986.9
Other	15.2	15.0
Financial assets of a debt nature	8,549.5	8,224.6
Total	8,549.5	8,224.6
Secured financial assets of a debt nature		
Public corporations	27.3	10.7
Industrial enterprises	-	-
Financial institutions	975.8	922.2
Other	-	-
Total	1,003.1	933.0

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	
	2015	2016	Trading portfolio		Designated		2015	2016
			2015	2016	2015	2016		
	2,596.1	2,466.5	-	-	-	-	2,596.1	2,466.5
	35.3	33.7	-	-	25.7	33.9	61.0	67.6
	145.2	155.6	-	-	1,134.9	933.7	1,280.2	1,089.3
	51.6	58.1	-	-	13.2	34.6	64.8	92.7
	355.4	339.2	-	-	0.0	0.0	355.4	339.2
	587.6	627.7	-	-	-	-	587.6	627.7
	672.0	676.4	-	-	-	-	672.0	676.4
	4,443.3	4,357.1	-	-	1,173.8	1,002.3	5,617.1	5,359.4
	11,344.6	11,126.9	-	-	18.1	16.9	18,838.6	18,351.8
	4,932.7	6,410.9	-	-	-	-	4,950.7	6,425.5
	6,747.0	6,268.8	-	-	28.4	13.9	7,815.9	7,269.6
	0.2	0.2	-	-	-	-	15.4	15.2
	23,024.6	23,806.7	-	-	46.6	30.8	31,620.6	32,062.1
	27,467.8	28,163.9	-	-	1,220.4	1,033.1	37,237.7	37,421.6
	306.3	239.0	-	-	-	-	333.6	249.8
	-	6.5	-	-	-	-	-	6.5
	4,369.3	4,025.7	-	-	-	-	5,345.1	4,947.9
	0.2	0.2	-	-	-	-	0.2	0.2
	4,675.8	4,271.4	-	-	-	-	5,678.9	5,204.4

FAIR VALUE OF FINANCIAL ASSETS CLASSIFIED AS HELD TO MATURITY

as at 31.12.	Carrying amount		Fair value	
	2015	2016	2015	2016
CHF million				
Public corporations	7,475.8	7,208.0	8,822.3	8,774.3
Industrial enterprises	18.0	14.6	19.2	15.5
Financial institutions	1,040.5	986.9	1,149.5	1,098.3
Other	15.2	15.0	16.3	16.0
Total	8,549.5	8,224.6	10,007.4	9,904.1

13. MORTGAGES AND LOANS

as at 31.12.	Gross amount		Impairment		Carrying amount		Fair value	
	2015	2016	2015	2016	2015	2016	2015	2016
CHF million								
Mortgages and loans carried at cost								
Mortgages	10,157.1	9,818.1	-31.2	-24.3	10,125.9	9,793.8	10,644.2	10,265.8
Policy loans	140.7	131.5	-	-	140.7	131.5	152.6	144.1
Promissory notes and registered bonds	4,382.5	4,351.6	-	-2.1	4,382.5	4,349.5	4,856.1	4,893.5
Time deposits	917.8	838.1	-	-	917.8	838.1	919.4	839.5
Employee loans	28.1	25.7	-	-	28.1	25.7	28.6	26.2
Reverse repurchase agreements	-	-	-	-	-	-	-	-
Other loans	331.4	334.4	-13.7	-15.3	317.7	319.1	328.7	325.5
Sub-total	15,957.5	15,499.4	-44.9	-41.7	15,912.6	15,457.7	16,929.6	16,494.6
Mortgages and loans recognised at fair value through profit or loss								
Mortgages	743.7	896.8	-	-	743.7	896.8	743.7	896.8
Policy loans	0.3	0.3	-	-	0.3	0.3	0.3	0.3
Sub-total	744.0	897.0	-	-	744.0	897.0	744.0	897.0
Mortgages and loans	16,701.5	16,396.4	-44.9	-41.7	16,656.6	16,354.7	17,673.6	17,391.7

IMPAIRMENT OF MORTGAGES AND LOANS

	2015	2016
CHF million		
Balance as at 1 January	-48.7	-44.9
Usage not recognised in profit or loss	1.3	11.4
Unused provisions reversed through profit or loss	5.6	2.1
Increases and additional provisions recognised in profit or loss	-5.7	-10.5
Disposal arising from change in scope of consolidation	-	-
Reclassification	-	-
Reclassification to non-current assets and disposal groups classified as held for sale	0.0	-
Currency translation	2.5	0.2
Balance as at 31 December	-44.9	-41.7

14. DERIVATIVE FINANCIAL INSTRUMENTS

as at 31.12.	Fair value assets		Fair value liabilities	
	2015	2016	2015	2016
CHF million				
Derivative financial instruments for own account and at own risk	363.2	363.0	250.8	299.0
Derivative financial instruments for the account and at the risk of life insurance policyholders and third parties	290.7	394.4	–	–
Derivative financial instruments as reported on the balance sheet	653.9	757.3	250.8	299.0

as at 31.12.	Contract value		Fair value assets		Fair value liabilities	
	2015	2016	2015	2016	2015	2016
CHF million						
Interest rate instruments						
Forward contracts	–	–	–	–	–	–
Swaps	971.9	1,313.0	63.5	72.8	88.6	79.7
OTC options	1,121.6	607.3	158.2	90.9	13.3	14.9
Other	0.2	0.9	43.0	113.4	21.2	30.7
Traded options	–	–	–	–	–	–
Traded futures	–	–	–	–	–	–
Sub-total	2,093.6	1,921.1	264.7	277.0	123.1	125.3
Equity instruments						
Forward contracts	–	–	–	–	–	–
OTC options	2,402.8	2,431.0	54.4	39.2	4.9	11.1
Traded options	607.8	703.8	11.0	11.4	17.0	14.8
Traded futures	–	–	–	–	–	–
Sub-total	3,010.6	3,134.8	65.5	50.7	21.9	25.9
Foreign currency instruments						
Forward contracts	8,014.0	8,591.6	31.5	34.2	104.3	146.1
Swaps	–	–	–	–	–	–
OTC options	1,149.7	652.4	1.5	1.0	1.6	1.7
Traded options	–	–	–	–	–	–
Traded futures	–	–	–	–	–	–
Sub-total	9,163.7	9,244.1	33.1	35.3	105.8	147.8
Total	14,267.9	14,300.0	363.2	363.0	250.8	299.0
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	1,162.5	1,086.2	7.2	0.8	10.5	27.5

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

as at 31.12.	Gross amount		Impairment		Carrying amount		Fair value	
	2015	2016	2015	2016	2015	2016	2015	2016
CHF million								
Receivables carried at cost								
Receivables from financial contracts	9.9	4.2	–	–	9.9	4.2	9.9	4.2
Other receivables	320.0	464.9	–2.5	–1.8	317.5	463.1	318.5	464.2
Receivables from investments	493.0	453.3	–1.7	–1.6	491.3	451.6	491.3	451.6
Receivables	822.9	922.4	–4.2	–3.4	818.7	919.0	819.8	920.0

IMPAIRMENT OF RECEIVABLES

	2015	2016
CHF million		
Balance as at 1 January	–4.4	–4.2
Usage not recognised in profit or loss	0.1	0.2
Unused provisions reversed through profit or loss	0.9	1.4
Increases and additional provisions recognised in profit or loss	–1.1	–0.8
Disposal arising from change in scope of consolidation	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	0.0	–
Currency translation	0.2	0.0
Balance as at 31 December	–4.2	–3.4

16. REINSURANCE ASSETS

	2015	2016
CHF million		
Reinsurers' share of technical reserves as at 1 January	421.5	410.8
Change in unearned premium reserves	1.5	0.2
Benefits paid	-75.7	-94.5
Interest on and change in liability	97.0	103.6
Additions / disposals arising from change in scope of consolidation	5.2	-
Impairment	-	-
Reclassification to non-current assets and disposal groups classified as held for sale	-1.7	-
Exchange differences	-36.9	-4.9
Reinsurers' share of technical reserves as at 31 December	410.8	415.2

17. RECEIVABLES FROM REINSURERS

	2015	2016
CHF million		
Reinsurance deposits as at 1 January	8.3	7.8
Additions	1.0	1.2
Disposals	-0.8	-0.2
Additions / disposals arising from change in scope of consolidation	-	-
Reclassification to non-current assets and disposal groups classified as held for sale	-	-
Exchange differences	-0.8	-0.1
Reinsurance deposits as at 31 December	7.8	8.7
Other reinsurance receivables as at 1 January	71.8	44.6
Additions	79.0	99.5
Disposals	-105.5	-104.9
Additions / disposals arising from change in scope of consolidation	-	-
Reclassification to non-current assets and disposal groups classified as held for sale	-	-
Exchange differences	-0.8	-0.3
Other reinsurance receivables as at 31 December	44.6	38.9
Impairment of receivables from reinsurers as at 1 January	-0.5	-0.1
Usage not recognised in profit or loss	-	-
Unused provisions reversed through profit or loss	0.4	0.1
Increases and additional provisions recognised in profit or loss	0.0	-0.1
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	0.0
Impairment of receivables from reinsurers as at 31 December	-0.1	-0.1
Receivables from reinsurers as at 31 December	52.3	47.5

18. EMPLOYEE BENEFITS

18.1 Receivables and liabilities arising from employee benefits

as at 31.12.	Receivables from employee benefits		Liabilities arising from employee benefits	
	2015	2016	2015	2016
CHF million				
Type of benefit				
Short-term employee benefits	1.1	0.8	111.7	107.7
Post-employment benefits – defined contribution plans	–	–	–	–
Post-employment benefits – defined benefit plans	–	–	1,200.5	1,316.9
Other long-term employee benefits	–	–	30.8	29.1
Termination benefits	–	–	12.7	10.2
Total	1.1	0.8	1,355.6	1,463.9

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

	2015	2016
CHF million		
Balance as at 1 January	2,337.4	2,373.2
Interest rate effect	17.7	15.0
Return on plan assets	20.2	10.7
Employees' savings and purchases	32.3	29.2
Exchange differences	-1.2	-0.2
Employer contribution	57.4	57.9
Employee contribution	30.2	30.7
Benefits paid	-120.8	-141.6
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	2,373.2	2,374.8

18.2.2 Partially funded liabilities under defined benefit plans

	2015	2016
CHF million		
Balance as at 1 January	-2,721.3	-2,821.2
Current service cost	-90.0	-92.7
Interest rate effect	-20.8	-17.9
Employees' savings and purchases	-32.3	-29.2
Actuarial gains / losses on defined benefit obligations arising from		
changes in financial assumptions	-33.7	-52.6
changes in demographic assumptions	-	-19.1
experience adjustments	-46.0	-5.3
Exchange differences	2.2	0.2
Unrecognised past service cost	-	47.7
Benefits paid	120.8	141.6
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	-2,821.2	-2,848.5

18.2.3 Unfunded liabilities under defined benefit plans

	2015	2016
CHF million		
Balance as at 1 January	-896.9	-752.5
Current service cost	-16.7	-14.0
Interest rate effect	-12.9	-15.4
Employees' savings and purchases	-1.0	-
Actuarial gains / losses on defined benefit obligations arising from		
changes in financial assumptions	63.7	-88.2
changes in demographic assumptions	-0.4	-1.9
experience adjustments	-1.4	-1.3
Exchange differences	82.5	10.1
Unrecognised past service cost	-0.3	-14.0
Benefits paid	27.8	30.7
Additions / disposals arising from change in scope of consolidation	-0.7	-
Reclassification to non-current assets and disposal groups classified as held for sale	3.8	3.2
Gains and losses on plan settlements	-	-
Balance as at 31 December	-752.5	-843.2

18.2.4 Net actuarial liabilities under defined benefit plans

	31.12.2015	31.12.2016
CHF million		
Fair value of plan assets	2,373.2	2,374.8
Present value of (partially) funded liabilities	-2,821.2	-2,848.5
Present value of unfunded liabilities	-752.5	-843.2
Effect of the asset ceiling	-	-
Net actuarial liabilities under defined benefit plans	-1,200.5	-1,316.9

18.2.5 Asset allocation

	31.12.2015	31.12.2016
CHF million		
Cash and cash equivalents	51.4	52.8
Real estate	430.6	456.1
Equities and investment funds		
publicly listed	1,368.2	1,313.6
not publicly listed	140.5	142.4
Fixed-interest assets		
publicly listed	98.3	114.0
not publicly listed	–	–
Mortgages and loans	292.4	315.2
Derivatives		
publicly listed	–	–
not publicly listed	–4.0	–6.3
Other	–4.1	–12.9
Fair value of plan assets	2,373.2	2,374.8
Of which: Baloise Holding Ltd shares (fair value) and convertible bonds (fair value)	29.4	28.8
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

	2015	2016
CHF million		
Current service cost	–106.7	–106.6
Net interest cost	–16.1	–18.4
Unrecognised past service cost	–0.3	33.7
Gains and losses on plan settlements	–	–
Expected return on reimbursement rights	–	–
Regular employee contribution	30.9	31.4
Total expenses for defined benefit plans recognised in the income statement	–92.2	–59.9

18.2.7 Actuarial assumptions

	2015	2016
Per cent		
Discount rate	0.9	0.8
Expected wage and salary increases	1.4	1.4
Expected increase in pension benefits	0.3	0.3
Weighted annuity option take-up rate	81.3	81.0
Years		
Average life expectancy of a 65-year-old woman	23.9	24.2
Average life expectancy of a 65-year-old man	21.0	21.6

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

	31.12.2015	31.12.2016
CHF million		
Total defined benefit obligation as shown	3,573.7	3,691.7
Discount rate plus 0.5 % age points	-224.3	-268.2
Discount rate minus 0.5 % age points	290.0	303.8
Expected wage and salary increases plus 0.5 % age points	36.0	36.3
Expected wage and salary increases minus 0.5 % age points	-34.1	-34.4
Expected pension benefits increases plus 0.5 % age points	200.2	205.4
Expected pension benefits increases minus 0.5 % age points	-31.3	-36.3
Mortality probabilities for 65-year-olds plus 10.0 % age points	-88.4	-93.5
Mortality probabilities for 65-year-olds minus 10.0 % age points	96.6	102.8
Weighted share of annuity option plus 10.0 % age points	22.7	14.5

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 62.5 million for the 2017 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 10.3 years; the average present value factor for current benefit entitlements under pension commitments is 16.6 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 2016 totalled CHF 29.1 million (2015: CHF 30.8 million). There were no disposals of plan assets for long-term employee benefits. Benefits paid out amounted to CHF 4.7 million (2015: CHF 4.0 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 Share Participation Plan as well as Performance share units (PSU). All these plans are equity-settled remuneration programmes. In 2016, a sum of CHF 21.8 million (2015: CHF 20.8 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 Baloise 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 2016 the subscription price amounted to CHF 56.40 (2015: CHF 60.40) and a total of 183,678 shares were subscribed (2015: 172,796). 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 Baloise 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

	2015	2016
Number of shares subscribed	172,796	183,678
Restricted until	31.8.2018	31.8.2019
Subscription price per share (CHF)	60.40	56.40
Value of shares subscribed (CHF million)	10.4	10.4
Fair value of subscribed shares on subscription date (CHF million)	20.5	21.5
Employees entitled to participate	3,181	3,098
Participating employees	1,920	2,029
Subscribed shares per participant (average)	90.0	90.5

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 before 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)

	2015	2016
Number of shares subscribed	38,386	35,475
Restricted until ¹	28.2.2018	28.2.2019
Subscription price per share (CHF)	114.75	109.26
Value of shares subscribed (CHF million)	4.4	3.9
Fair value of subscribed shares on subscription date (CHF million)	4.8	4.5
Employees entitled to participate	908	929
Participating employees	85	110
SSP portion of variable remuneration	15%	14%

¹ The closed period during which shares are allocated to the Chairman of the Board of Directors is five years instead of three. This means that the shares are restricted until 29 February 2020 and 28 February 2021 respectively.

18.4.3 Share Participation 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 Share Participation 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. 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 40 per cent of their entitlement in the form of shares from the Share Participation 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 before 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 Share Participation Plan are purchased in the market as and when required.

In order to increase the impact of this Share Participation 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.

SHARE PARTICIPATION PLAN (SPP)

	2015	2016
Number of shares subscribed ¹	79,817	104,075
Restricted until	28.2.2018	28.2.2019
Subscription price per share ² (CHF)	112.70	106.59
Value of shares subscribed ² (CHF million)	9.0	11.1
Fair value of subscribed shares on subscription date (CHF million)	9.9	13.1
Employees entitled to participate	908	909
Participating employees	69	104
SPP portion of variable remuneration	5%	6%

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 eligible for 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 36 leading European insurance companies contained in the STOXX Europe 600 Insurance Index.

Companies in the STOXX 600 Europe Insurance Index (as at 31 December 2016)

ADMIRAL GRP	DELTA LLOYD	OLD MUTUAL	SWISS LIFE HLDG
AEGON	DIRECT LINE INSURANCE GROUP	PHOENIX GROUP HDG.	SWISS REINSURANCE COMPANY
AGEAS	GJENSIDIGE	POSTE ITALIANE	TOPDANMARK
ALLIANZ	HANNOVER RUECK	PRUDENTIAL	TRYG
ASSICURAZIONI GENERALI	HELVETIA HLDG	RSA INSURANCE GRP	UNIPOLSAI
AVIVA	HISCOX	SAMPO	ZURICH INSURANCE GROUP
AXA	LEGAL & GENERAL GRP	SCOR	
BALOISE	MAPFRE	ST. JAMES'S PLACE CAPITAL	
BEAZLEY	MUENCHENER RUECK	STANDARD LIFE	
CNP ASSURANCES	NN GROUP	STOREBRAND	

Source: <http://www.stoxx.com/index-details?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. Programme participants 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 receive the pertinent number of shares once the vesting period has elapsed, which means that for the PSUs allocated in 2016 they receive their shares on 1 March 2019. If an individual's employment contract is terminated during the vesting period, the PSUs expire without the person concerned receiving any consideration or compensation. This does not apply if the employment contract ends due to retirement, disability or death. It also does not apply if the contract is terminated but the programme participant does not join a rival company or is not personally at fault for the termination of the contract. In the latter two cases, some of the allocated PSUs will still expire. 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 ³	
	Date	Price (CHF) ¹	Date	Multiplier	Price (CHF) ¹		Value (CHF) ²
2007	1.3.2007	125.80	1.1.2010	1.182	86.05	101.71	-19%
2008	1.1.2008	109.50	1.1.2011	1.24	91.00	112.84	3%
2009	1.1.2009	82.40	1.1.2012	0.64	64.40	41.22	-50%
2010	1.1.2010	86.05	1.1.2013	0.58	78.50	45.53	-47%
2011	1.1.2011	91.00	1.1.2014	0.77	113.60	87.47	-4%
2012	1.3.2012	71.20	1.3.2015	1.21	124.00	150.04	111%
2013	1.3.2013	84.50	1.3.2016	1.50	126.00	189.00	124%
2014	1.3.2014	113.40	1.3.2017	⁴ 0.95	⁴ 128.30	⁴ 121.72	⁴ 7%
2015	1.3.2015	124.00	1.3.2018	⁴ 1.20	⁴ 128.30	⁴ 153.33	⁴ 24%
2016	1.3.2016	126.00	1.3.2019	⁴ 0.50	⁴ 128.30	⁴ 64.15	⁴ -49%

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: $((1.182 \times 86.05) - 125.80) / 125.80 \times 100 = -19\%$.

⁴ Interim measurement as at 31 December 2016.

Measurement of the PSU 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 (PSU)

	Plan 2014	Plan 2015	Plan 2016
Employees entitled to participate at launch of programme	65	62	69
Number of allocated PSU	49,144	42,162	40,748
Of which: expired (departures in 2014)	-2,308	-	-
Number of active PSUs as at 31 December 2014	46,836	-	-
Of which: expired (departures in 2015)	-1,129	0	-
Number of active PSUs as at 31 December 2015	45,707	42,162	-
Of which: expired (departures in 2016)	-1,121	-2,429	-604
Number of active PSUs as at 31 December 2016	44,586	39,733	40,144
Value of allocated PSUs on issue date (CHF million)	5.6	5.1	5.3
PSU expense incurred by the Baloise Group for 2014 (CHF million)	1.3	-	-
PSU expense incurred by the Baloise Group for 2015 (CHF million)	1.9	1.4	-
PSU expense incurred by the Baloise Group for 2016 (CHF million)	1.6	1.5	1.3

19. DEFERRED INCOME TAXES

19.1 Deferred tax assets and liabilities

DEFERRED TAX ASSETS

2015 (restated)	Balance as at 1 January	Change recognised in profit or loss	Change recognised directly in equity	Change in the scope of consolidation	Reclassification in accordance with IFRS 5	Exchange differences	Balance as at 31 December
CHF million							
Financial assets	45.8	-7.2	-	-	-2.4	-4.6	31.6
Other investments	16.5	2.6	-	-	0.0	-0.1	19.0
Other comprehensive income	119.6	-	3.8	-	0.1	-4.7	118.8
Tax losses carried forward	43.5	-10.5	-	-	-	-2.4	30.6
Insurance receivables	5.5	1.8	-	0.3	-	-0.5	7.1
Technical reserves	448.3	60.0	-	-	-22.0	-34.0	452.3
Insurance liabilities	600.3	109.0	-	-	-	-56.5	652.8
Liabilities arising from banking business and financial contracts	156.4	-18.9	-	-	-	-12.0	125.5
Liabilities arising from employee benefits	76.6	-0.4	-	0.1	-0.6	-6.7	69.0
Other	46.8	-1.0	-	0.3	-0.5	-2.1	43.6
Total	1,559.4	135.4	3.8	0.6	-25.4	-123.6	1,550.1

2016	Balance as at 1 January (restated)	Change recognised in profit or loss	Change recognised directly in equity	Change in the scope of consolidation	Reclassification in accordance with IFRS 5	Exchange differences	Balance as at 31 December
CHF million							
Financial assets	31.6	0.3	-	-	-	-0.4	31.5
Other investments	19.0	-2.5	-	-	-	0.0	16.5
Other comprehensive income	118.8	-	27.4	-	-	-0.6	145.6
Tax credits and losses carried forward ¹	30.6	43.9	-	-	-	-0.1	74.3
Insurance receivables	7.1	-1.2	-	-	-	0.0	5.9
Technical reserves	452.3	10.5	-	-	-	-4.1	458.7
Insurance liabilities	652.8	130.5	-	-	-	-9.8	773.5
Liabilities arising from banking business and financial contracts	125.5	8.7	-	-	-	-1.2	133.0
Liabilities arising from employee benefits	69.0	0.1	-	-	-0.9	-0.8	67.5
Other	43.6	2.5	-	0.4	-	-0.1	46.3
Total	1,550.1	192.8	27.4	0.4	-0.9	-17.0	1,752.8

¹ As a result of the transfer of the intercompany reinsurance activities of Baloise Insurance Bermuda to Switzerland, tax assets of CHF 26.9 million were recognised in 2016.

DEFERRED TAX LIABILITIES

2015 (restated)	Balance as at 1 January	Change recognised in profit or loss	Change recognised directly in equity	Change in the scope of consolidation	Reclassification in accordance with IFRS 5	Exchange differences	Balance as at 31 December
CHF million							
Depreciable assets	4.0	-0.1	-	-	-	-0.4	3.6
Other intangible assets	4.9	-0.5	-	-	-0.6	-0.5	3.3
Deferred acquisition costs	215.0	-1.8	-	0.0	-4.0	-17.1	192.0
Long-term equity investments	54.6	-10.0	-	-	-	-1.6	43.1
Investment property	352.5	-10.3	-	-	-	-9.2	333.0
Financial assets	103.3	12.2	-	-	-2.8	-0.7	112.1
Other investments	89.6	4.9	-	-	0.0	-6.0	88.5
Other comprehensive income	467.8	-	-129.0	0.2	-2.2	-31.5	305.3
Insurance receivables	1.2	0.4	-	-	0.0	-0.1	1.5
Technical reserves	1,217.8	168.0	-	0.0	-19.7	-92.5	1,273.7
Other	63.9	1.7	-	-	-	-1.6	64.0
Total	2,574.6	164.5	-129.0	0.2	-29.3	-161.1	2,420.0

2016	Balance as at 1 January (restated)	Change recognised in profit or loss	Change recognised directly in equity	Change in the scope of consolidation	Reclassification in accordance with IFRS 5	Exchange differences	Balance as at 31 December
CHF million							
Depreciable assets	3.6	0.0	-	-	-	0.0	3.5
Other intangible assets	3.3	0.0	-	-	-	0.0	3.3
Deferred acquisition costs	192.0	11.0	-	-	-	-2.1	201.0
Long-term equity investments	43.1	-3.4	-	-	-	-0.1	39.6
Investment property	333.0	19.7	-	9.8	-	-0.9	361.7
Financial assets	112.1	5.8	-	-	-	-0.1	117.8
Other investments	88.5	7.3	-	-	-	-0.7	95.1
Other comprehensive income	305.3	-	19.6	-	-	-2.9	322.0
Insurance receivables	1.5	0.3	-	-	-	0.0	1.7
Technical reserves	1,273.7	150.3	-	-	-	-13.6	1,410.4
Other	64.0	8.5	-	-	-	-0.1	72.4
Total	2,420.0	199.4	19.6	9.8	-	-20.5	2,628.4

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 195.1 million as at 31 December 2016 (2015: CHF 130.4 million). Of this total, CHF 0.6 million will expire after one year, 0.2 million after two to four years and CHF 194.3 million will expire after five years or more.

As a result of the transfer of the intragroup reinsurance business (Baloise Insurance Company Bermuda Ltd) to Switzerland, the Baloise Group had offsettable tax assets of CHF 134.7 million as at 31 December 2016, which it can use until the end of 2025.

No deferred tax assets had been recognised on tax loss carryforwards amounting to CHF 213.5 million as at 31 December 2016 (2015: CHF 238.2 million) because the relevant offsetting criteria had not been met. Of this total, CHF 4.1 million will expire after one year, a further CHF 22.1 million will expire after two to four years and CHF 187.3 million will expire after five years or more.

19.2 Deferred income taxes

CHF million	31.12.2015 (restated)	31.12.2016
Deferred tax assets	1,550.1	1,752.8
Deferred tax liabilities	-2,420.0	-2,628.4
Total (net)	-869.9	-875.6
Of which: recognised as deferred tax assets	39.8	69.3
Of which: recognised as deferred tax liabilities	-909.7	-944.9

20. OTHER ASSETS

“Other assets” include the fair value of precious metals amounting to CHF 54.5 million in connection with private placement life insurance (2015: CHF 40.2 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 sale to the Frankfurter Leben Group of the portfolio of life insurance policies, which had been in run-off since the end of 2011, held by the German branch of Baloise Life Ltd (Basler Leben DfD [Direktion für Deutschland]) was formally completed on 16 September 2015. The portfolio that had been held for sale, and the associated assets and liabilities, have been treated as a disposal group in accordance with IFRS 5.

as at 31.12.	Disposal groups		Non-current assets	
	2015	2016	2015	2016
CHF million				
Property, plant and equipment	–	–	–	–
Intangible assets	17.6	13.2	–	–
Investment property	–	–	–	–
Financial assets	1,963.1	1,911.1	–	–
Other investments	–	–	–	–
Receivables	30.3	27.7	–	–
Other assets	7.7	9.9	–	–
Total assets	2,018.7	1,962.0	–	–
Technical reserves	1,938.8	1,888.5	–	–
Liabilities arising from banking business and financial contracts	–	–	–	–
Other financial obligations	15.0	14.5	–	–
Other liabilities	9.0	5.4	–	–
Total equity and liabilities	1,962.9	1,908.3	–	–
Unrealised losses directly associated with non-current assets and disposal groups classified as held for sale	–3.2	–7.6	–	–

The final subsequent measurement of the disposal group was conducted as at 31 December 2016. The transaction was completed in early 2017 and is explained in more detail in note 49 (Events after the balance sheet date).

22. SHARE CAPITAL

2015	Number of treasury shares	Number of shares in circulation	Number of shares issued	Share capital (CHF million)
Balance as at 1 January	3,048,791	46,951,209	50,000,000	5.0
Purchase / sale of treasury shares	415,749	- 415,749	-	-
Capital increases	-	-	-	-
Share buy-back and cancellation	-	-	-	-
Balance as at 31 December	3,464,540	46,535,460	50,000,000	5.0

2016	Number of treasury shares	Number of shares in circulation	Number of shares issued	Share capital (CHF million)
Balance as at 1 January	3,464,540	46,535,460	50,000,000	5.0
Purchase / sale of treasury shares	- 964,595	964,595	-	-
Capital increases	-	-	-	-
Share buy-back and cancellation	-	-	-	-
Balance as at 31 December	2,499,945	47,500,055	50,000,000	5.0

The share capital of Baloise Holding Ltd 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 (2015: 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 29 April 2016 voted to pay a gross dividend of CHF 5.00 per share for the 2015 financial year. This amounted to a total dividend distribution of CHF 250.0 million. Excluding the treasury shares held by Baloise Holding Ltd at the time that the dividend was paid, the total distribution effectively amounted to CHF 232.0 million.

As part of the share buy-back programme that has been running since 16 April 2015, a total of 1,000,000 shares in Baloise Holding Ltd had been repurchased for a total of CHF 113.8 million by the reporting date (31 December 2016). The share buy-back programme was concluded ahead of schedule on 29 July 2016.

23. TECHNICAL RESERVES (GROSS)

	31.12.2015 (restated)	31.12.2016
CHF million		
Unearned premium reserves (gross)	562.7	589.0
Claims reserve (gross)	5,306.7	5,307.8
Other technical reserves	77.6	89.6
Technical reserves (non-life)	5,947.0	5,986.4
Actuarial reserves (gross)	36,331.9	36,813.2
Policyholders' dividends credited and provisions for future policyholders' dividends (gross)	3,497.6	3,409.4
Technical reserves (life)	39,829.6	40,222.5
Technical reserves (gross)	45,776.6	46,209.0

23.1 Technical reserves (non-life)

	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
	31.12.2015			31.12.2016		
CHF million						
Unearned premium reserves	562.7	2.0	564.8	589.0	1.8	590.8
Claims reserve	4,777.6	–	–	4,787.3	–	–
Provision for claims handling costs	529.1	–	–	520.5	–	–
Claims reserve	5,306.7	–389.6	4,917.1	5,307.8	–393.2	4,914.7
Other technical reserves	77.6	–0.1	77.5	89.6	–	89.6
Total technical reserves (non-life)	5,947.0	–387.6	5,559.4	5,986.4	–391.4	5,595.1

23.1.1 Maturity structure of technical reserves

	31.12.2015			31.12.2016		
	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
CHF million						
Unearned premium reserves						
Up to 1 year	528.6	1.6	530.3	555.8	1.7	557.4
More than 1 year	9.6	0.4	10.0	8.2	0.1	8.4
No determinable residual term	24.5	–	24.5	25.0	–	25.0
Total unearned premium reserves	562.7	2.0	564.8	589.0	1.8	590.8
Claims reserve						
Up to 1 year	867.3	–47.6	819.7	838.9	–45.6	793.3
More than 1 year	3,233.7	–79.6	3,154.1	3,236.8	–80.6	3,156.3
No determinable residual term	1,205.7	–262.4	943.3	1,232.1	–267.0	965.1
Total claims reserve	5,306.7	–389.6	4,917.1	5,307.8	–393.2	4,914.7

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

	2015			2016		
	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
CHF million						
Balance as at 1 January	605.8	4.0	609.8	562.7	2.0	564.8
Netted premiums	3,050.0	–131.1	2,918.9	3,140.7	–150.0	2,990.8
Less: premiums earned during the reporting period	–3,048.9	129.5	–2,919.4	–3,109.7	149.8	–2,959.9
Additions arising from acquisition of policy portfolios and insurance companies	1.8	–0.2	1.7	–	–	–
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	–45.9	–0.3	–46.2	–4.7	0.0	–4.8
Balance as at 31 December	562.7	2.0	564.8	589.0	1.8	590.8

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
	2015			2016		
CHF million						
Balance as at 1 January	89.5	-0.1	89.4	77.6	-0.1	77.5
Less: expenditures during the reporting period	-18.4	0.0	-18.3	-19.2	0.1	-19.1
Additional provisions recognised and unused provisions reversed through profit or loss	7.7	0.0	7.7	31.5	-0.1	31.4
Additions arising from acquisition of policy portfolios and insurance companies	-	-	-	-	-	-
Disposals arising from sale of policy portfolios and insurance companies	-	-	-	-	-	-
Reclassification to non-current assets and disposal groups classified as held for sale	-	-	-	-	-	-
Exchange differences	-1.3	-	-1.3	-0.2	-	-0.2
Balance as at 31 December	77.6	-0.1	77.5	89.6	-	89.6

23.1.4 Claims reserve (including claims handling costs)

	2015	2016
CHF million		
Balance as at 1 January (gross)	5,517.6	5,306.7
Reinsurers' share	-400.5	-389.6
Balance as at 1 January (net)	5,117.1	4,917.1
Claims incurred (including claims handling costs)		
For the reporting period	1,835.6	1,884.2
For previous years	-23.5	-85.7
Total	1,812.0	1,798.5
Payments for claims and claims handling costs		
For the reporting period	-860.1	-884.7
For previous years	-923.3	-886.7
Total	-1,783.3	-1,771.4
Other changes		
Additions / disposals arising from changes in scope of consolidation	5.9	-
Reclassification to non-current assets and disposal groups classified as held for sale	-	-
Exchange differences	-234.6	-29.5
Total	-228.7	-29.5
Balance as at 31 December (net)	4,917.1	4,914.7
Reinsurers' share	389.6	393.2
Balance as at 31 December (gross)	5,306.7	5,307.8

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 81.3 million at the end of 2016 (2015: CHF 84.7 million). The slight decrease was attributable to commutations of reserves and currency effects.

23.2 Technical reserves (life)

	31.12.2015 (restated)	31.12.2016
CHF million		
Actuarial reserves from non-unit-linked life insurance contracts ¹	33,159.2	33,553.2
Actuarial reserves from unit-linked life insurance contracts	2,622.7	2,727.3
Reserves for final policyholders' dividends	201.5	185.1
Unearned revenue reserve	348.5	347.6
Structure of actuarial reserves (life)	36,331.9	36,813.2
Policyholders' dividends credited and provisions for future policyholders' dividends	3,497.6	3,409.4
Total technical reserves (life)	39,829.6	40,222.5

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

23.2.1 Maturity structure of technical reserves

CHF million	31.12.2015 (restated)	31.12.2016
Actuarial reserves from non-unit-linked life insurance contracts		
Up to 1 year	1,004.5	1,193.8
1 to 5 years	3,275.0	3,139.7
5 to 10 years	3,265.1	3,186.7
More than 10 years	6,316.7	5,931.1
No determinable residual term	8,111.6	8,812.4
Business from Swiss occupational pension plans ¹	11,186.4	11,289.4
Total actuarial reserves from non-unit-linked life insurance contracts	33,159.2	33,553.2
Actuarial reserves from unit-linked life insurance contracts		
Up to 1 year	66.4	99.0
1 to 5 years	260.1	296.1
5 to 10 years	405.5	372.9
More than 10 years	366.7	365.3
No determinable residual term	1,524.0	1,593.9
Total actuarial reserves from unit-linked life insurance contracts	2,622.7	2,727.3
Policyholders' dividends credited		
Up to 1 year	63.8	55.1
1 to 5 years	257.5	269.4
5 to 10 years	220.8	215.6
More than 10 years	329.1	311.7
No determinable residual term	239.8	181.2
Total policyholders' dividends credited	1,111.0	1,033.1
Provisions for future policyholders' dividends		
Up to 1 year	79.7	93.3
No determinable residual term	2,307.0	2,283.0
Total provisions for future policyholders' dividends	2,386.6	2,376.3

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

	2015	2016
CHF million		
Balance as at 1 January	35,087.6	33,159.2
Change in actuarial reserves	686.5	508.0
Additions arising from acquisition of policy portfolios and insurance companies	–	–
Disposals arising from sale of policy portfolios and insurance companies	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–1,462.8	–
Exchange differences	–1,152.0	–114.1
Balance as at 31 December	33,159.2	33,553.2

The actuarial reserves include unearned premium reserves and claims reserves.

The actuarial reserves for DPF business as at 31 December 2016 amounted to CHF 33,271.7 million (31 December 2015: CHF 32,876.1 million), while for non-DPF business they totalled CHF 281.5 million (31 December 2015: CHF 283.1 million).

The actuarial reserves for assumed business (inward reinsurance) as at 31 December 2016 came to CHF 8.5 million (31 December 2015: CHF 7.6 million).

23.2.3 Actuarial reserves from unit-linked life insurance contracts

	2015	2016
CHF million		
Balance as at 1 January	2,678.3	2,622.7
Additions	266.6	233.0
Disposals	–189.0	–177.8
Fees	–4.6	–5.1
Interest on and change in liabilities	79.0	80.2
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	–13.2	–
Exchange differences	–194.5	–25.8
Balance as at 31 December	2,622.7	2,727.3

23.2.4 Reserve for final policyholders' dividends

	2015	2016
CHF million		
Balance as at 1 January	274.1	201.5
Adjustment arising from unrealised gains and losses as at 1 January (shadow accounting)	-11.5	-8.0
Interest on and change in liability	10.0	8.6
Final policyholders' dividends paid	-26.7	-22.5
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	-31.2	-
Adjustment arising from unrealised gains and losses as at 31 December (shadow accounting)	8.0	7.0
Exchange differences	-21.2	-1.5
Balance as at 31 December	201.5	185.1

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

	2015	2016
CHF million		
Balance as at 1 January	359.1	348.5
Reserved during the reporting period	26.5	20.8
Change in balance	-0.9	-16.7
Change due to unrealised gains and losses on investments (shadow accounting)	-0.2	-0.8
Additions arising from acquisition of policy portfolios and insurance companies	-	-
Disposals arising from sale of policy portfolios and insurance companies	-	-
Reclassification to non-current assets and disposal groups classified as held for sale	-2.2	-
Exchange differences	-33.8	-4.2
Balance as at 31 December	348.5	347.6

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

	2015 (restated)	2016
CHF million		
Policyholders' dividends credited as at 1 January	1,513.2	1,111.0
Dividends credited to policyholders during the reporting period	66.3	45.0
Policyholders' dividends paid	-155.1	-114.2
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	-199.3	-
Exchange differences	-114.0	-8.8
Balance as at 31 December	1,111.0	1,033.1
Provisions for future policyholders' dividends as at 1 January	2,624.5	2,386.6
Adjustment arising from unrealised gains and losses as at 1 January	-1,067.6	-722.2
Additions	101.3	57.0
Withdrawals	-128.8	-92.9
Change in measurement differences between IFRS and national accounting standards recognised in profit or loss	338.0	-14.3
Adjustment arising from unrealised gains and losses as at 31 December (shadow accounting)	722.2	771.4
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	-127.6	-
Exchange differences	-75.4	-9.4
Balance as at 31 December	2,386.6	2,376.3
Policyholders' dividends credited and provisions for future policyholders' dividends as at 31 December	3,497.6	3,409.4

24. LIABILITIES ARISING FROM BANKING BUSINESS AND FINANCIAL CONTRACTS

as at 31.12.	Carrying amount		Fair value	
	2015	2016	2015	2016
CHF million				
With discretionary participation features (DPFs)				
Financial contracts with discretionary participation features (DPFs) ¹	1,930.1	2,317.4	–	–
Sub-total	1,930.1	2,317.4	–	–
Measured at amortised cost				
Liabilities to banks	287.7	263.9	287.8	263.8
Repurchase agreements	975.0	600.0	975.0	600.0
Liabilities arising from time deposits	8.1	6.1	8.2	6.1
Loans	–	–	–	–
Mortgages	–	–	–	–
Savings and customer deposits	5,375.1	5,682.3	5,437.0	5,737.0
Medium-term bonds	190.7	137.1	197.6	141.8
Mortgage-backed bonds	1,425.4	1,267.3	1,541.1	1,360.3
Bonds	–	–	–	–
Liability for future financial lease payments (present value)	0.0	0.0	0.0	0.0
Other financial contracts	37.2	44.3	37.4	44.3
Sub-total	8,299.2	8,000.9	8,484.0	8,153.3
Recognised at fair value through profit or loss (designated)				
Other financial contracts	8,782.8	9,999.4	8,782.8	9,999.4
Sub-total	8,782.8	9,999.4	8,782.8	9,999.4
Total liabilities arising from banking business and financial contracts	19,012.0	20,317.7	–	–

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.

25. FINANCIAL LIABILITIES

SENIOR DEBT

	2015	2016
CHF million		
Balance as at 1 January	1,702.4	1,707.8
Issue price of newly issued bonds	–	–
Embedded derivative	–	–
Additions (sub-total)	–	–
Disposals / repayments / conversions	0.0	–242.4
Interest expenses	40.0	38.0
Nominal interest rate	–34.6	–33.0
Interest costs (sub-total)	5.4	5.0
Balance as at 31 December	1,707.8	1,470.4

No new bonds were issued in the year under review. On 17 November 2016, a convertible bond was partially converted and the remainder redeemed for a total of CHF 242.5 million (1,500 %, 2009 – 2016, ISIN CH0107130822).

The fair value of financial liabilities at the balance sheet date totalled CHF 1,592.6 million (2015: CHF 1,864.2 million).

TERMS AND CONDITIONS GOVERNING SENIOR DEBT OUTSTANDING (SENIOR BONDS BALOISE HOLDING LTD)

Face value (CHF million)	300	250	175	225	150	225	150
Interest rate	2.875%	3.000%	2.250%	1.000%	2.000%	1.750%	1.125%
Early redemption date	–	–	–	–	–	–	–
Repayment	100%	100%	100%	100%	100%	100%	100%
Issued	2010	2011	2012	2012	2012	2013	2014
Repayment	14.10.2020	7.7.2021	1.3.2019	12.10.2017	12.10.2022	26.4.2023	19.12.2024
ISIN	CH0117683794	CH0131804616	CH0148295014	CH0188295536	CH0194695083	CH0200044821	CH0261399064

26. PROVISIONS

	Restructuring	Other	Total	Restructuring	Other	Total
	2015			2016		
CHF million						
Balance as at 1 January	34.3	85.0	119.3	18.4	76.4	94.8
Addition arising from change in scope of consolidation	–	1.1	1.1	–	–	–
Disposal arising from change in scope of consolidation	–	–	–	–	–	–
Reclassification to non-current assets and disposal groups classified as held for sale	–	–	–	–	–	–
Increases and additional provisions recognised in profit or loss	5.0	15.5	20.5	4.8	14.8	19.6
Unused provisions reversed through profit or loss	–1.5	–8.9	–10.4	–1.1	–11.0	–12.1
Usage not recognised in profit or loss	–16.0	–13.3	–29.3	–10.7	–11.1	–21.8
Unwinding of discount	0.0	–	0.0	–	–	–
Exchange differences	–3.5	–2.9	–6.4	–0.1	–0.4	–0.5
Balance as at 31 December	18.4	76.4	94.8	11.3	68.7	80.0

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. Other provisions recognised in profit or loss were primarily attributable to Baloise's German entities and those utilised but not recognised in profit or loss were primarily attributable to its Swiss entities.

27. INSURANCE LIABILITIES

	31.12.2015	31.12.2016
CHF million		
Liabilities to policyholders	1,329.2	1,255.0
Liabilities to brokers and agents	117.9	126.2
Liabilities to insurance companies	182.8	167.4
Other insurance liabilities	20.6	16.6
Total insurance liabilities	1,650.4	1,565.2

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Notes to the consolidated income statement

28. PREMIUMS EARNED AND POLICY FEES

	Non-Life	Life	Total	Non-Life	Life	Total
	2015			2016		
CHF million						
Gross premiums written and policy fees	3,050.0	3,783.4	6,833.4	3,140.7	3,570.9	6,711.6
Change in unearned premium reserves	- 1.1	-	- 1.1	- 31.0	-	- 31.0
Premiums earned and policy fees (gross)	3,048.9	3,783.4	6,832.4	3,109.7	3,570.9	6,680.6
Reinsurance premiums ceded	- 131.1	- 19.1	- 150.2	- 150.0	- 18.4	- 168.4
Reinsurers' share of change in unearned premium reserves	1.5	-	1.5	0.2	-	0.2
Total premiums earned and policy fees (net)	2,919.4	3,764.4	6,683.7	2,959.9	3,552.4	6,512.4

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

	2015	2016
CHF million		
Investment property	248.3	246.3
Financial assets of an equity nature		
Available for sale	117.3	128.1
Recognised at fair value through profit or loss	30.2	39.4
Financial assets of a debt nature		
Held to maturity	214.5	214.1
Available for sale	503.7	479.6
Recognised at fair value through profit or loss	3.3	2.8
Mortgages and loans		
Carried at cost	387.4	352.2
Recognised at fair value through profit or loss	17.7	14.6
Cash and cash equivalents	- 0.4	- 0.6
Total investment income for own account and at own risk	1,521.8	1,476.6

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 3.1 million had been recognised on impaired investments at the balance sheet date (2015: CHF 3.1 million).

30. REALISED GAINS AND LOSSES ON INVESTMENTS

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

	2015	2016
CHF million		
Realised gains and losses on investments for own account and at own risk	379.1	303.1
Realised gains and losses on investments for the account and at the risk of life insurance policyholders and third parties	7.1	364.1
Realised gains and losses on investments as recognised in the income statement	386.2	667.2

30.1 Realised gains and losses on investments for own account and at own risk

2015	Investment property	Financial assets of an equity nature	Financial assets of a debt nature	Mortgages and loans	Derivative financial instruments	Total
CHF million						
Realised gains on sales and book profits						
Investment property	180.9	–	–	–	–	180.9
Held to maturity ¹	–	–	0.1	–	–	0.1
Available for sale	–	247.1	537.4	–	–	784.4
Recognised at fair value through profit or loss	–	32.5	0.0	3.1	931.8	967.4
Carried at cost	–	–	–	74.4	–	74.4
Sub-total	180.9	279.6	537.4	77.5	931.8	2,007.2
Realised losses on sales and book losses						
Investment property	–68.2	–	–	–	–	–68.2
Held to maturity ¹	–	–	–177.5	–	–	–177.5
Available for sale	–	–106.8	–339.5	–	–	–446.3
Recognised at fair value through profit or loss	–	–48.9	–2.5	–3.7	–818.2	–873.2
Carried at cost	–	–	–	–1.3	–	–1.3
Sub-total	–68.2	–155.7	–519.5	–5.0	–818.2	–1,566.6
Impairment losses recognised in profit or loss						
Held to maturity	–	–	–	–	–	–
Available for sale	–	–72.0	–	–	–	–72.0
Carried at cost	–	–	–	–5.7	–	–5.7
Reversal of impairment losses recognised in profit or loss						
Held to maturity	–	–	–	–	–	–
Available for sale	–	–	10.7	–	–	10.7
Carried at cost	–	–	–	5.6	–	5.6
Sub-total	–	–72.0	10.7	–0.1	–	–61.5
Total realised gains and losses on investments	112.7	51.9	28.6	72.4	113.6	379.1

1 Currency effects relating to held-to-maturity financial assets of a debt nature are reported as realised book profits and / or realised book losses.

30.2 Realised gains and losses on investments for own account and at own risk

2016	Investment property	Financial assets of an equity nature	Financial assets of a debt nature	Mortgages and loans	Derivative financial instruments	Total
CHF million						
Realised gains on sales and book profits						
Investment property	166.1	–	–	–	–	166.1
Held to maturity ¹	–	–	0.3	–	–	0.3
Available for sale	–	148.8	440.2	–	–	589.0
Recognised at fair value through profit or loss	–	52.6	–	6.7	474.1	533.4
Carried at cost	–	–	–	42.5	–	42.5
Sub-total	166.1	201.4	440.5	49.2	474.1	1,331.3
Realised losses on sales and book losses						
Investment property	–106.4	–	–	–	–	–106.4
Held to maturity ¹	–	–	–19.5	–	–	–19.5
Available for sale	–	–41.7	–61.8	–	–	–103.5
Recognised at fair value through profit or loss	–	–8.3	–2.9	–22.7	–643.4	–677.2
Carried at cost	–	–	–	–4.6	–	–4.6
Sub-total	–106.4	–50.0	–84.2	–27.3	–643.4	–911.3
Impairment losses recognised in profit or loss						
Held to maturity	–	–	–	–	–	–
Available for sale	–	–108.2	–0.3	–	–	–108.5
Carried at cost	–	–	–	–10.5	–	–10.5
Reversal of impairment losses recognised in profit or loss						
Held to maturity	–	–	–	–	–	–
Available for sale	–	–	–	–	–	–
Carried at cost	–	–	–	2.1	–	2.1
Sub-total	–	–108.2	–0.3	–8.4	–	–116.9
Total realised gains and losses on investments	59.7	43.2	356.0	13.5	–169.3	303.1

1 Currency effects relating to held-to-maturity financial assets of a debt nature are reported as realised book profits and / or realised book losses.

30.3 Impairment losses on financial assets recognised in profit or loss

	2015	2016
CHF million		
Impairment losses on financial assets of an equity nature recognised in profit or loss		
Equities	-46.1	-90.7
Equity funds	0.0	-
Mixed funds	-1.4	-3.2
Bond funds	-	-
Real estate funds	-12.4	-1.1
Private equity	-6.5	-3.6
Hedge funds	-5.7	-9.6
Sub-total	-72.0	-108.2
Impairment losses on financial assets of a debt nature recognised in profit or loss		
Public corporations	-	-
Industrial enterprises	-	-
Financial institutions	-	-0.3
Other	-	-
Sub-total	-	-0.3
Impairment losses on mortgages and loans recognised in profit or loss		
Mortgages	-5.5	-1.7
Policy loans	-	-
Promissory notes and registered bonds	-	-5.4
Time deposits	-	-
Reverse repurchase agreements	-	-
Other loans	-0.2	-3.4
Sub-total	-5.7	-10.5
Total impairment losses on financial assets recognised in profit or loss	-77.8	-119.0

30.4 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 gain of CHF 45.5 million was reported for 2016 (2015: loss of CHF 377.3 million).

A gross currency loss of CHF 2.2 million was recognised directly in equity for the reporting year (2015: loss of CHF 127.0 million). Allowing for hedges of a net investment in a foreign operation (hedge accounting), a net loss of CHF 17.5 million was recognised for 2016 (2015: net loss of CHF 160.7 million).

31. INCOME FROM SERVICES RENDERED

	2015	2016
CHF million		
Asset management	41.1	40.6
Services	20.3	19.5
Banking services	43.2	41.9
Investment management	8.0	8.0
Income from services rendered	112.6	110.1

32. OTHER OPERATING INCOME

	2015	2016
CHF million		
Interest income from insurance and reinsurance receivables	13.1	12.3
Other interest income	2.2	1.2
Gains on the sale of		
property, plant and equipment	0.4	0.4
intangible assets	–	–
Currency gains on assets and liabilities	26.8	5.5
Reversal of impairment losses recognised on receivables	6.4	6.3
External income from owner-occupied property	5.5	6.8
Other income	82.3	104.2
Other operating income	136.6	136.8

33. CLASSIFICATION OF EXPENSES

	2015 (restated)	2016
CHF million		
Personnel expenses (excluding loss adjustment expenses)	-759.2	-753.7
Marketing and advertising	-33.6	-35.0
Depreciation and impairment of property, plant and equipment	-39.8	-31.9
Amortisation and impairment of intangible assets	-30.6	-31.3
IT and other equipment	-67.1	-63.6
Expenses for rent, maintenance and repairs	-50.2	-43.1
Losses arising from exchange differences in respect of assets and liabilities	-16.8	-2.8
Commission and selling expenses	-466.0	-526.7
Fees and commission for financial assets and liabilities not recognised at fair value	-14.1	-13.9
Fees and commission expenses for assets managed for third parties	-2.8	-6.3
Expenses arising from non-current assets and disposal groups classified as held for sale	-	-
Other ¹	-147.0	-119.8
Total	-1,627.2	-1,628.0

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

34. PERSONNEL EXPENSES

Total personnel expenses for 2016 came to CHF 868.1 million (2015: CHF 875.2 million).

35. GAINS OR LOSSES ON FINANCIAL CONTRACTS

	2015	2016
CHF million		
With discretionary participation features (DPFs)		
Financial contracts with discretionary participation features (DPFs)	-50.3	-52.7
Sub-total	-50.3	-52.7
Measured at amortised cost		
Interest on loans	-0.1	0.0
Interest due	-9.3	-6.7
Interest arising from banking business	-20.1	-16.3
Interest expenses on repurchase agreements	2.3	4.7
Acquisition costs in banking business	-15.7	-15.7
Interest expenses on bonds	-1.5	-
Expenses arising from financial contracts	-16.0	-13.7
Sub-total	-60.4	-47.7
Recognised at fair value through profit or loss (designated)		
Change in fair value of other financial contracts	109.8	-242.5
Sub-total	109.8	-242.5
Total gains or losses on financial contracts	-0.9	-342.9
Of which: gains on interest rate hedging instruments		
Interest rate swaps: cash flow hedges, balance carried forward from cash flow hedge reserves	-	-
Interest rate swaps: fair value hedges	-	-
Total gains on interest rate hedging instruments	-	-

36. INCOME TAXES

36.1 Current and deferred income taxes

	2015	2016
CHF million		
Current income taxes	-139.0	-107.2
Deferred income taxes	-29.1	-4.5
Total current and deferred income taxes	-168.2	-111.7

36.2 Expected and current income taxes

The expected average tax rate for the Baloise Group was 27.0 per cent in 2015 and 25.6 per cent in 2016. These rates correspond to the weighted average tax rates in those countries where the Baloise Group operates.

	2015	2016
CHF million		
Profit before taxes	679.3	645.6
Expected average tax rate (per cent)	26.97%	25.63%
Expected income taxes	-183.2	-165.5
Increase / reduction owing to		
tax-exempt profits and losses	12.3	9.4
non-deductible expenses	-7.6	-6.7
withholding taxes on dividends	-0.5	-0.4
change in tax rates	7.8	-18.0
change in unrecognised tax losses	7.4	18.1
recognition of tax credits	-	31.0
tax items related to other reporting periods	15.9	9.0
non-taxable measurement differences	-6.8	-5.0
intercompany effects	-9.4	6.7
other impacts	-4.0	9.5
Current income taxes	-168.2	-111.7

37. EARNINGS PER SHARE

	2015	2016
Profit for the period attributable to shareholders (CHF million)	512.1	534.8
Average number of shares outstanding	46,721,219	46,381,359
Basic earnings per share (CHF)	10.96	11.53

	2015	2016
Profit for the period attributable to shareholders (CHF million)	512.1	534.8
Adjustment of interest expenses on convertible bonds, including tax effects (CHF million)	8.0	6.0
Adjusted profit for the period attributable to shareholders (CHF million)	520.1	540.8
Average number of shares outstanding	46,721,219	46,381,359
Adjustment due to theoretical conversion of convertible bond ¹	2,012,374	1,756,722
Adjustment due to theoretical exercise of share-based payment plans	115,822	75,748
Adjustment due to theoretical exercise of put options	–	–
Adjusted average number of shares outstanding	48,849,415	48,213,829
Diluted earnings per share (CHF)	10.65	11.22

¹ Pro-rata recognition in 2016 of the convertible bond, which matured on 17 November 2016 (in accordance with IAS 33).

The dilution of earnings in 2015 as well as in 2016 was attributable to the Performance Share Units (PSU) share-based payment plan and the convertible bond issued by Baloise Holding Ltd.

38. OTHER COMPREHENSIVE INCOME

38.1 Other comprehensive income

	2015	2016
CHF million		
Items not to be reclassified to the income statement		
Change in reserves arising from reclassification of investment property	0.8	7.9
Change in reserves arising from assets and liabilities of post-employment benefits (defined benefit plans)	33.1	-153.7
Change arising from shadow accounting	-39.1	40.5
Deferred income taxes	-8.5	27.2
Total items not to be reclassified to the income statement	-13.6	-78.1
Items to be reclassified to the income statement		
Available-for-sale financial assets:		
Gains and losses arising during the reporting period	-411.1	437.9
Gains and losses reclassified to the income statement	-471.8	-311.2
Total available-for-sale financial assets	-882.9	126.6
Investments in associates		
Gains and losses arising during the reporting period	-27.6	-0.4
Gains and losses reclassified to the income statement	-	-
Total investments in associates	-27.6	-0.4
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	-0.2	-14.8
Gains and losses reclassified to the income statement	-33.5	-0.6
Total hedging reserves for derivative financial instruments held as hedges of a net investment in a foreign operation	-33.7	-15.3
Reserves arising from reclassification of held-to-maturity financial assets:		
Gains and losses arising during the reporting period	-0.3	0.0
Gains and losses reclassified to the income statement	-1.4	-1.1
Total reserves arising from reclassification of held-to-maturity financial assets:	-1.7	-1.1
Change arising from shadow accounting	326.4	-117.3
Change arising from exchange differences	-130.6	-2.5
Deferred income taxes	167.9	-14.8
Total items to be reclassified to the income statement	-582.2	-24.9
Total other comprehensive income	-595.8	-103.0

38.2 Income taxes on other comprehensive income

	2015	2016
CHF million		
Other comprehensive income before deferred income taxes	-755.3	-115.4
Deferred income taxes of items not to be reclassified to the income statement		
Change in reserves arising from reclassification of investment property	-0.2	-
Change in reserves arising from assets and liabilities of post-employment benefits (defined benefit plans)	-11.3	41.1
Change arising from shadow accounting	7.7	-13.4
Change arising from exchange differences	-4.7	-0.6
Additions and disposals arising from change in the scope of consolidation	-	-
Total deferred income taxes of items not to be reclassified to the income statement	-8.5	27.2
Items to be reclassified to the income statement		
Available-for-sale financial assets	185.4	-18.4
Investments in associates	5.5	0.0
Hedging reserves for derivative financial instruments held as hedges of a net investment in a foreign operation	6.8	3.1
Reserves arising from reclassification of held-to-maturity financial assets	0.4	0.3
Change arising from shadow accounting	-61.6	-2.6
Change arising from exchange differences	31.5	2.9
Additions and disposals arising from change in the scope of consolidation	-	-
Total deferred income taxes of items to be reclassified to the income statement	167.9	-14.8
Other comprehensive income after deferred income taxes	-595.8	-103.0

Other disclosures

39. ACQUISITION AND DISPOSAL OF COMPANIES

	Cumulative acquisitions		Cumulative disposals	
	2015	2016	2015	2016
CHF million				
Investments	13.7	–	–	–
Other assets	0.1	–	–	–
Receivables and assets	6.4	–	–	–
Cash and cash equivalents	0.5	–	–	–
Actuarial liabilities	–13.0	–	–	–
Other accounts payable	–3.4	–	–	–
Non-controlling interests	–	–	–	–
Net assets acquired / disposed of	4.3	–	–	–
Funds used / received for acquisitions and disposals				
Cash and cash equivalents	6.6	–	–	–
Offsetting	–	–	–	–
Transfer of assets	–	–	–	–
Directly attributable costs	–	–	–	–
Equity instruments issued	–	–	–	–
Reclassification of investments in associates	–	–	–	–
Acquisition / disposal price	6.6	–	–	–
Net assets acquired / disposed of	–4.3	–	–	–
Other comprehensive income ¹	–	–	–	–
Goodwill / negative goodwill or proceeds from disposals	2.3	–	–	–
Cash and cash equivalents used / received for acquisitions and disposals	–6.6	–	–	–
Cash and cash equivalents acquired / disposed of	0.5	–	–	–
Outflow / inflow of cash and cash equivalents	–6.1	–	–	–

¹ This includes primarily historical cumulative exchange differences.

In the year under review, no companies that constituted a business were purchased or sold.

HDI-Gerling Assurances, based in Leudelange, Luxembourg, had been acquired in 2015 and was merged with Baloise Assurances Luxembourg S.A. in the same year. No companies had been sold in 2015.

This table does not include purchases of real-estate companies that, according to the provisions of IFRS 3 Business Combinations, do not constitute a business, which means that these purchases are classified as the acquisition of assets. That is why the outflows and inflows of cash and cash equivalents vary from the presentation in the cash flow statement. Further explanations are provided in note 6 (Changes to the group of consolidated companies).

40. RELATED PARTY TRANSACTIONS

As part of its ordinary operating activities the Baloise Group conducts transactions with associates and with members of Baloise Holding Ltd'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 Baloise Holding Ltd's Board of Directors and Corporate Executive Committee.

RELATED PARTY TRANSACTIONS

	Premiums earned and policy fees		Investment income		Expenses		Mortgages and loans		Liabilities	
	2015	2016	2015	2016	2015	2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016
CHF million										
Associates	0.6	0.1	32.4	2.9	-23.5	-27.7	-	-	-9.2	-6.4
Executive Management	0.2	0.1	0.1	0.0	-12.6	-12.2	8.8	7.7	-	-

EXECUTIVE MANAGEMENT REMUNERATION

	2015	2016
CHF million		
Short-term employee benefits	-7.5	-7.4
Post-employment benefits	-1.4	-1.2
Payments under share-based payment plans	-3.8	-3.6
Total	-12.6	-12.2

33,118 shares worth CHF 4.2 million were repurchased from members of the Corporate Executive Committee in 2016 (2015: CHF 6.0 million) under the Share Participation Plan (section 18.4.3).

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

The information to be disclosed in accordance with sections 663b (bis) and 663c of the Swiss Code of Obligations (OR) is contained in the Remuneration Report, which can be found on pages 76 to 107 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

42. CONTINGENT AND FUTURE LIABILITIES

42.1 Contingent liabilities

42.1.1 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 2016.

42.1.2 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.

There is a contingent liability arising from a release agreement for employees of Baloise Life Ltd in connection with the sale to the Frankfurter Leben Group of the policy portfolio and associated business of the German branch of Baloise Life Ltd, which was announced on 3 February 2017.

In the normal course of its insurance business, the Baloise Group provided contractually binding collateral, mainly joint collateral relating to insurance-backed construction guarantees, and professional and commercial surety bonds.

	31.12.2015	31.12.2016
CHF million		
Guarantees	45.0	54.2
Collateral	479.3	618.6
Total guarantees and collateral for the benefit of third parties	524.3	672.8
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

31.12.2015	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Guarantees	–	–	30.3	–	14.7	45.0
Collateral	–	–	0.2	–	479.1	479.3

31.12.2016	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Guarantees	–	–	30.3	–	23.9	54.2
Collateral	–	–	–	0.2	618.4	618.6

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

CARRYING AMOUNTS OF ASSETS PLEDGED OR CEDED AS COLLATERAL

	31.12.2015	31.12.2016
CHF million		
Financial assets under repurchase agreements	811.1	514.1
Financial assets in the context of securities lending	3,173.1	3,358.2
Investments	1,979.7	1,971.9
Pledged intangible assets	–	–
Pledged property, plant and equipment	–	–
Other	–	–
Total	5,963.9	5,844.2

FAIR VALUE OF COLLATERAL HELD

	31.12.2015	31.12.2016
CHF million		
Financial assets under reverse repurchase agreements	61.3	61.2
Financial assets in the context of securities lending	3,913.9	4,770.4
Other	–	–
Total	3,975.2	4,831.6
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.

42.2 Future liabilities

42.2.1 Capital commitments

	31.12.2015	31.12.2016
CHF million		
Commitments undertaken for future acquisition of		
investment property	84.6	326.5
financial assets	573.0	873.8
property, plant and equipment	–	–
intangible assets	–	–
Total commitments undertaken	657.7	1,200.3
Of which: in connection with joint ventures	–	–
Of which: own share of joint ventures' capital commitments	–	–

CREDIT RATINGS OF CAPITAL COMMITMENTS

31.12.2015	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Capital commitments	110.0	0.4	42.0	17.1	488.0	657.7

31.12.2016	AAA	AA	A	BBB	Lower than BBB or no rating	Total
CHF million						
Capital commitments	318.8	0.4	92.2	18.6	770.3	1,200.3

As at 31 December 2016, there was an investment obligation of CHF 218 million for the purchase of the Belgian real-estate company VAC De Meander. 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.

43. OPERATING LEASES

43.1 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

	2015	2016
CHF million		
Due within one year	- 2.4	- 2.1
Due after one to five years	- 2.1	- 1.4
Due after five years or more	-	-
Total	- 4.4	- 3.5
Minimum lease payments	- 3.4	- 3.4
Contingent lease payments	-	-
Leasing expenses	- 3.4	- 3.4
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.

43.2 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

	2015	2016
CHF million		
Due within one year	29.7	28.1
Due after one to five years	39.4	49.0
Due after five years or more	9.7	24.0
Total	78.7	101.1
Minimum lease payments	36.1	37.6
Contingent lease payments	0.0	0.2
Leasing income	36.1	37.7

44. CLAIM PAYMENTS RECEIVED FROM NON-GROUP INSURERS

The companies in the Baloise Group received claim payments totalling CHF 0.1 million in 2016 (2015: CHF 0.2 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.

45. SIGNIFICANT SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Entities are defined as significant if they either individually or together contribute a significant proportion of the gross premiums, net income or total assets of the Baloise Group. Other long-term equity investments may be included for qualitative reasons, e.g. they are listed on a stock exchange.

31.12.2016	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)
Switzerland									
Bâloise Holding Ltd, Basel	Holding	O	Holding	Holding	F	CHF	5.0	2,102.5	–
Baloise Insurance Ltd, Basel	Non-Life	NL	100.00	100.00	F	CHF	75.0	5,455.8	1,324.3
Baloise Life Ltd, Basel	Life	L	100.00	100.00	F	CHF	50.0	32,213.9	2,879.3
Baloise Bank SoBa AG, Solothurn	Banking	B	100.00	100.00	F	CHF	50.0	7,664.5	–
Haakon AG, Basel	Other	O	74.75	74.75	F	CHF	0.2	53.2	–
Baloise Asset Management Schweiz AG, Basel	Investment management	B	100.00	100.00	F	CHF	1.5	32.5	–
Baloise Asset Management International AG, Basel	Investment consulting	B	100.00	100.00	F	CHF	1.5	16.1	–
Germany									
Basler Versicherung Beteiligungen B.V. & Co KG, Hamburg	Holding	O	100.00	100.00	F	EUR	94.7	381.9	–
Basler Lebensversicherungs-Aktiengesellschaft, Hamburg	Life	L	100.00	100.00	F	EUR	22.0	9,637.7	347.8
Basler Sachversicherungs-Aktiengesellschaft, Bad Homburg	Non-Life	NL	100.00	100.00	F	EUR	15.1	1,622.2	621.5
Deutscher Ring Bausparkasse Aktiengesellschaft, Hamburg	Banking	B	65.00	65.00	F	EUR	12.8	566.9	–
Basler Beteiligungsholding GmbH, Hamburg	Holding	O	100.00	100.00	F	EUR	12.8	230.7	–
Basler Financial Services GmbH, Hamburg	Other	O	100.00	100.00	F	EUR	1.5	12.2	–
OVB Holding AG, Cologne	Other	–	32.57	32.57	E	EUR	–	–	–
Roland Rechtsschutz Beteiligungs GmbH, Cologne	Other	O	60.00	60.00	F	EUR	0.1	35.6	–
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	13.8	–

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.

31.12.2016	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)
Belgium									
Baloise Belgium NV, Antwerp	Life and Non-Life	L / NL	100.00	100.00	F	EUR	215.2	8,638.7	941.5
Euromex NV, Antwerp	Non-Life	NL	100.00	100.00	F	EUR	2.7	180.1	61.6
Merno-Immo NV, Antwerp	Other	NL	100.00	100.00	F	EUR	17.1	25.2	–
Luxembourg									
Bâloise (Luxembourg) Holding S.A., Bertrange (Luxembourg)	Holding	O	100.00	100.00	F	CHF	250.0	1,202.5	–
Bâloise Assurances Luxembourg S.A., Bertrange (Luxembourg)	Non-Life	NL	100.00	100.00	F	EUR	15.8	330.1	106.8
Bâloise Vie Luxembourg S.A., Bertrange (Luxembourg)	Life	L	100.00	100.00	F	EUR	32.7	6,583.2	74.1
Baloise Fund Invest Advico, Bertrange (Luxembourg)	Other	B	100.00	100.00	F	EUR	0.1	13.6	–
Bâloise Delta Holding S.à.r.l., Bertrange (Luxembourg)	Holding	O	100.00	100.00	F	EUR	224.3	274.7	–
Baloise Life (Liechtenstein) AG, Balzers	Life	L	100.00	100.00	F	CHF	7.5	2,981.4	1.1
Other territories									
Bâloise Participations Holding, Amsterdam	Holding	O	100.00	100.00	F	EUR	10.9	0.9	–
Baloise Alternative Investment Strategies Limited, St. Helier (Jersey / Channel Islands)	Investment management	L / NL	100.00	100.00	F	USD	0.0	700.4	–
Baloise Finance (Jersey) Ltd., St. Helier (Jersey / Channel Islands)	Other	O	100.00	100.00	F	CHF	1.3	146.1	–
Baloise Private Equity Limited, St. Helier (Jersey / Channel Islands)	Investment management	L / NL	100.00	100.00	F	USD	0.0	501.9	–

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.

46. CHANGES TO SHAREHOLDINGS

The share of capital and share of voting rights in the real-estate company SA Keiberg 401 in Belgium was increased from 46.8 per cent to 100 per cent in the second half of 2016. As a result, the company switched from being an associate to a fully consolidated subsidiary. In 2015, there had been no transactions resulting in a change of control over a subsidiary.

47. 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.

48. JOINT ARRANGEMENTS

There were no joint arrangements in 2016 and in 2015.

49. EVENTS AFTER THE BALANCE SHEET DATE

On 4 January 2017, Baloise Life Ltd in Germany received approval from the Federal Financial Supervisory Authority (BaFin) to sell the life insurance portfolio of Baloise Life Ltd Direktion für Deutschland to Frankfurter Lebensversicherung AG. The Baloise Group announced on 3 February 2017 that the legal transfer had been carried out. The implementation of this transaction is expected to reduce profit by up to CHF 15 million in the first half of 2017. This effect on profit will be recognised in the life segments and in Group business.

On 6 January 2017, the Baloise Group announced that it was acquiring a majority stake in the real-estate company PAX Anlage AG in Basel. This purchase will be completed in 2017.

On 19 January 2017, Basler Versicherungen in Germany announced the sale of its equity investment in Assekuranz Herrmann to the Artus Group. This sale was completed in January 2017.

It has also been decided to acquire the real-estate company VAC De Meander in Belgium. This company is currently constructing an administrative building in Brussels that is to be leased to the Flemish government on a long-term basis. The sale and purchase agreement is expected to be completed in mid-2017.

By the time that these consolidated annual financial statements had been completed on 17 March 2017, 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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To the General Meeting of
Baloise Holding AG, Basel

Basle, 17 March 2017

Statutory auditor's report on the audit of the financial report



Opinion

We have audited the financial report (pages 110 – 258) of Baloise Holding AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies.

In our opinion the financial report give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.



Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the *auditor's responsibilities for the audit of the financial report* section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.



We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial report.

Technical reserves - non-life

Area of focus Non-life insurance technical reserves include management's estimate of known claims expenses less claims payments, reserves for incurred but not reported losses and provisions for claims handling costs.

Inappropriate valuation of the non-life technical reserves (which includes compliance with regulatory requirements), could result in a misstatement to the financial statements of the Group and its overall financial position. The valuation of technical reserves involves a significant amount of management's judgement. Fluctuations within the underlying assumptions and parameter may significantly affect the annual result and Group's equity position.

The Group describes its valuation principles for technical reserves of non-life insurance contracts in note 5.4 "Non-life" and note 5.4.2 "Assumptions". The impact of various scenarios is described in note 5.4.4 "Sensitivity analysis".

Our audit response As part of the audit, we involved our non-life insurance actuarial specialists to independently test management's methodology and the underlying assumptions used. For significant portfolios, our assessment of the actuarial reserves included an independent valuation and a comparison to the Group's financial statements.

We further assessed the reserves by auditing management's Liability Adequacy Tests (LAT). Furthermore, we agreed the Group's valuation procedures to local regulatory requirements and audited the required disclosures in the notes to the financial statements.



Technical reserves - life

Area of focus Life insurance technical reserves consist of the actuarial reserves, policyholders' dividends credited and provisions for future policyholders' dividends. The actuarial reserves are valued using actuarial methodologies and assumptions (such as biometric, economic and cost assumptions).

Inappropriate valuation of the life insurance technical reserves (which includes compliance with regulatory requirements), could result in a misstatement to the financial statements of the Group and its overall financial position. The valuation of technical reserves for life insurance contracts involves a significant amount of management's judgment. Differences within the underlying assumptions may significantly affect the annual result and Group's equity position.

The Group describes its valuation principles for technical reserves for life insurance contracts in note 5 "Management of insurance and financial risk" and note 5.5.2 "Assumptions". The impact of various scenarios is described in note 5.4.4 "Sensitivity analysis".

Our audit response As part of the audit, we involved our life insurance actuarial specialists to independently test management's methodology and the underlying assumptions used. For significant portfolios, our assessment of the actuarial reserves included an independent valuation and a comparison to the Group's financial statements.

We further assessed the reserves by auditing management's Liability Adequacy Tests (LAT). Furthermore, we agreed the Group's valuation procedures to local regulatory requirements and audited the required disclosures in the notes to the financial statements.



Valuation of investments without publically available market values

Area of focus Certain financial instructions (such as derivatives and investment properties) are valued using models, as they are not quoted on a publically available market. Due to the complexity of the models and significant judgement applied by management to the model parameters, any deficiencies or inaccurate model parameters could lead to material differences within the Group's consolidated financial statements.

We focused on this area because of the complexity of the models and because model parameters are inherently subject to judgement applied by management. Model deficiencies or inaccurate model parameters could lead to material differences within the Group's consolidated financial statements.

The Group describes the risks inherent with the valuation of investments without publically available market values in note 4 "Critical accounting principles and estimate" and the valuation principles in note 5.10 "Fair value measurement".

Our audit response We assessed and tested the design and operating effectiveness of the key controls related to investment valuation including the process over the control over accuracy of prices, and the control over the review of the models and model parameters.

On a sample basis we identified the market data input used by the Group and tested them against independent data. For complex products, we involved our internal valuation specialists, used the Group's input data with the independent model, and calculated an independent valuation. Furthermore, we audited the required disclosures in the notes to the financial statements.

Other matter

The financial report of Baloise Holding AG for the year ended 31 December 2015 was examined by another statutory auditor who expressed an unmodified opinion on the financial report on 18 March 2016.



Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the financial report, the stand-alone financial statements and our auditor's reports thereon.

Our opinion on the financial report does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.



In connection with our audit of the financial report, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibility of the Board of Directors for the financial report

The Board of Directors is responsible for the preparation of the financial report that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial report that are free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial report.

A further description of our responsibilities for the audit of the financial report is located at the website of EXPERTsuisse: <http://www.expertsuisse.ch/en/audit-report-for-public-companies>. This description forms part of our auditor's report.



Report on other legal and regulatory requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial report according to the instructions of the Board of Directors.

We recommend that the financial report submitted to you be approved.

Ernst & Young Ltd

A handwritten signature in black ink, appearing to read 'Stefan'.

Stefan Marc Schmid
Licensed audit expert
(Auditor in charge)

A handwritten signature in black ink, appearing to read 'Christian'.

Christian Fleig
Licensed audit expert

Baloise Holding Ltd

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Income statement of Baloise Holding Ltd

	Note	2015	2016
CHF million			
Income from long-term equity investments		328.1	256.3
Income from interest and securities	2	16.6	102.0
Other income	3	210.4	12.4
Total income		555.1	370.7
Administrative expenses	4	-35.1	-40.7
Depreciation, amortisation and impairment	5	-45.5	-
Interest expenses	6	-34.8	-33.0
Other expenses		-3.8	-2.5
Total expenses		-119.2	-76.2
Tax expense		-1.0	-5.3
Profit for the period		434.9	289.2

Balance sheet of Baloise Holding Ltd

	Note	31.12.2015	31.12.2016
CHF million			
Assets			
Cash and cash equivalents ¹	7	253.4	76.5
Receivables from Group companies ¹	8	169.6	207.5
Receivables from third parties		4.1	5.0
Current assets		427.1	289.0
Financial assets			
Loans to Group companies ¹	9	102.0	102.0
Long-term equity investments	10	1,874.9	1,849.5
Non-current assets		1,976.9	1,951.5
Total assets		2,404.0	2,240.5
Equity and liabilities			
Current liabilities			
Liabilities to Group companies ¹		0.1	8.5
Liabilities to third parties		0.1	0.0
Current interest-bearing liabilities ¹	11	242.5	225.0
Deferred income		28.2	22.9
Non-current liabilities			
Long-term interest-bearing liabilities ¹	12	1,475.0	1,250.0
Provisions		9.7	8.2
Liabilities		1,755.6	1,514.6
Share capital			
Share capital		5.0	5.0
Statutory retained earnings			
General reserve		11.7	11.7
Reserve for treasury shares		3.5	2.3
Voluntary retained earnings¹			
Free reserves ¹		387.6	573.9
Distributable profit:¹			
– Profit carried forward ¹		0.5	0.4
– Profit for the period ¹		434.9	289.2
Treasury shares	13	–194.8	–156.6
Equity	14	648.4	725.9
Total equity and liabilities		2,404.0	2,240.5

1 Adjustments balance items; see notes to the financial statements.

Notes to the financial statements of Baloise Holding Ltd

1. ACCOUNTING POLICIES

General

These annual financial statements of Baloise Holding Ltd domiciled in Basel have been prepared in accordance with the provisions of Swiss accounting law (Title 32 of the Swiss Code of Obligations). To improve comprehensibility, the following adjustments were made to balance sheet line items that did not cause any changes in equity:

- The call money and fixed-term deposits previously recognised as other financial assets are now included in cash and cash equivalents, which is a more accurate disclosure in view of their maturities.
- The dividends receivable previously recognised as accrued income are now included in receivables from Group companies because approval has been granted by the annual general meetings of the subsidiaries.
- The bonds are categorised as current or non-current liabilities depending on their residual term.
- Voluntary retained earnings are disclosed in greater detail, enabling reconciliation to the proposed appropriation of distributable profit.

The main policies applied which are not prescribed by law are described below.

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. They are recognised at their nominal amount.

Receivables from Group companies

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 Baloise Holding reports as dividends receivable. They are recognised at their nominal amount.

Receivables from third parties

Receivables are recognised at their nominal amount 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.

Long-term equity investments

Long-term equity investments are recognised individually at cost less any impairment losses.

Liabilities

Liabilities are recognised at their nominal amount.

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.

Interest-bearing liabilities

Interest-bearing liabilities include bonds and are recognised at their nominal amount. Issuance costs – less any premiums – are charged in full to the income statement at the time the bonds are issued. The liabilities are categorised as current (less than twelve months) or non-current interest-bearing liabilities depending on their residual term.

Provisions

Provisions to cover any risks that may arise are recognised in accordance with the principles of risk-based management and are charged to the income statement.

Treasury shares

Treasury shares are recognised at cost on the date of acquisition as deductions from equity. If the shares are subsequently sold, any gains or losses are recognised in profit or loss as financial income or expense.

NOTES TO THE INCOME STATEMENT

2. INCOME FROM INTEREST AND SECURITIES

	2015	2016
CHF million		
Income from treasury shares	10.4	13.1
Interest on loans to Group companies	3.7	3.7
Realised income treasury shares	2.6	85.2
Other income from interest and securities	-0.1	0.0
Total income from interest and securities	16.6	102.0

3. OTHER INCOME

	2015	2016
CHF million		
Write-up on long-term equity investment	203.5	-
Sundry other income	6.9	12.4
Total other income	210.4	12.4

In connection with the implementation of the new financial reporting standards, the principle of itemised measurement applies since 1 January 2015 to long-term equity investments. The application of this new ruling resulted in the reversal of an impairment loss under commercial law of CHF 203.5 million on the long-term equity investment in Baloise (Luxembourg) Holding S.A. in the 2015 annual financial statements.

4. ADMINISTRATIVE EXPENSES

	2015	2016
CHF million		
Personnel expenses ¹	-22.7	-27.6
Other administrative expenses	-12.4	-13.1
Total administrative expenses	-35.1	-40.7

¹ Baloise Holding Ltd has no direct employees. All staff members are employed by Baloise Insurance Ltd, Basel.

5. DEPRECIATION, AMORTISATION AND IMPAIRMENT

	2015	2016
CHF million		
Impairment losses on long-term equity investments	-45.5	-
Total depreciation, amortisation and impairment	-45.5	0.0

In connection with the implementation of the new financial reporting standards, the principle of itemised measurement applies since 1 January 2015 to long-term equity investments. The application of this new ruling resulted in the recognition of an impairment loss of CHF 45.5 million on the long-term equity investment in Baloise Life (Liechtenstein) AG in the 2015 annual financial statements.

6. INTEREST EXPENSES

	2015	2016
CHF million		
Interest on bonds	-34.6	-33.0
Other interest expenses	-0.2	-0.0
Total interest expenses	-34.8	-33.0

NOTES TO THE BALANCE SHEET

7. CASH AND CASH EQUIVALENTS

	31.12.2015	31.12.2016
CHF million		
Bank credit	58.6	76.5
Call money	124.8	–
Fixed-term deposits	70.0	–
Total cash and cash equivalents	253.4	76.5

8. RECEIVABLES FROM GROUP COMPANIES

	31.12.2015	31.12.2016
CHF million		
Dividends	167.6	207.0
Other receivables	2.0	0.5
Total receivables from Group companies	169.6	207.5

The annual general meeting of Haakon AG, Basel, held on 23 February 2017, the AGMs of Baloise Asset Management Schweiz AG and of Baloise Asset Management International AG, Basel, held on 14 March 2017, the AGM of Basler Versicherung AG and Basler Leben AG, Basel, held on 17 March 2017 and the AGM of Baloise Bank SoBa AG, Solothurn, held on 10 April 2017 voted to recognise the dividends receivable for the 2016 financial year as accrued income.

9. LOANS TO GROUP COMPANIES

	31.12.2015	31.12.2016
CHF million		
Subordinated loans to Baloise Bank SoBa	40.0	40.0
Subordinated loans to Baloise (Luxembourg) Holding S.A.	62.0	62.0
Total loans to Group companies	102.0	102.0

10. LONG-TERM EQUITY INVESTMENTS

Company	Total shareholding as at 31.12.2015 (with voting rights)	Total shareholding as at 31.12.2016 (with voting rights)	Currency	Share capital as at 31.12.2016	Capital share
	(per cent) ¹	(per cent) ¹		(million)	(million)
Basler Versicherung AG, Basel	100.00	100.00	CHF	75.0	75.0
Basler Leben AG, Basel	100.00	100.00	CHF	50.0	50.0
Baloise Bank SoBa AG, Solothurn	100.00	100.00	CHF	50.0	50.0
Baloise Asset Management Schweiz AG, Basel	100.00	100.00	CHF	1.5	1.5
Baloise Asset Management International AG, Basel	100.00	100.00	CHF	1.5	1.5
Baloise Immobilien Management AG, Basel	–	100.00	CHF	0.1	0.1
Haakon AG, Basel	74.75	74.75	CHF	0.2	0.1
Baloise Life (Liechtenstein) AG, Balzers	100.00	100.00	CHF	7.5	7.5
Basler Saturn Management B.V., Amsterdam	100.00	100.00	EUR	0.0	0.0
Baloise (Luxembourg) Holding S.A., Bertrange (Luxembourg)	100.00	100.00	CHF	250.0	250.0
Baloise Delta Holding S.à.r.l., Bertrange (Luxembourg)	100.00	100.00	EUR	224.3	224.3
Baloise Fund Invest Advico, Bertrange (Luxembourg)	100.00	100.00	EUR	0.1	0.1
Baloise Insurance Company (Bermuda) Ltd., Hamilton, Bermuda	100.00	100.00	CHF	5.0	5.0
Baloise Finance (Jersey) Ltd, St. Helier, Jersey	100.00	100.00	CHF	1.3	1.3

¹ Investments stated as a percentage are rounded down.

11. CURRENT INTEREST-BEARING LIABILITIES

31.12.2016	Interest rate	Issued	Maturity date	Amount CHF million
Securities with security number				
Bond 18 829 553	1.000%	12.10.2012	12.10.2017	225.0
Total current interest-bearing liabilities				225.0

12. LONG-TERM INTEREST-BEARING LIABILITIES

31.12.2016	Interest rate	Issued	Maturity date	Amount CHF million
Securities with security number				
Bond 14 829 501	2.250%	1.3.2012	1.3.2019	175.0
Bond 11 768 379	2.875%	14.10.2010	14.10.2020	300.0
Bond 13 180 461	3.000%	7.7.2011	7.7.2021	250.0
Bond 19 469 508	2.000%	12.10.2012	12.10.2022	150.0
Bond 20 004 482	1.750%	26.4.2013	26.4.2023	225.0
Bond 26 139 906	1.125%	19.12.2014	19.12.2024	150.0
Total long-term interest-bearings liabilities				1,250.0

13. TREASURY SHARES

Number of registered shares	Low in CHF	High in CHF	Average share price (CHF)	Number
Balance on 1 January 2015				2,133,376
Purchases	110.2	127.7	116.3	537,256
Sales	-	-	-	0
Disposals in connection with share participation programmes				-97,912
Balance on 31 December 2015				2,572,720
Purchases	103.69	124.55	111.6	581,402
Sales	121.8	129.26	125.8	-768,901
Conversion convertible bonds				-660,973
Disposals in connection with share participation programmes				-99,504
Balance on 31 December 2016				1,624,744

14. CHANGES IN EQUITY

	Share capital	Statutory retained earnings	Voluntary retained earnings	Treasury shares	Total equity		
		General reserve	Reserve for treasury shares	Free reserves	Distributable profit		
CHF million							
Balance as at 1 January 2015 ¹	5.0	11.7	4.9	230.2	406.5	-141.9	516.4
Allocation 2015	-	-	-	156.0	-156.0	-	0.0
Dividend	-	-	-	-	-250.0	-	-250.0
Additions	-	-	-	-	-	-	0.0
Change in treasury shares	-	-	-	-	-	-52.9	-52.9
Recognition / reversal	-	-	-1.4	1.4	-	-	0.0
Profit for the period	-	-	-	-	434.9	-	434.9
Balance as at 31 December 2015	5.0	11.7	3.5	387.6	435.4	-194.8	648.4
Allocation 2015	-	-	-	185.0	-185.0	-	0.0
Dividend	-	-	-	-	-250.0	-	-250.0
Additions	-	-	-	-	-	-	0.0
Change in treasury shares	-	-	-	-	-	38.2	38.2
Recognition / reversal	-	-	-1.2	1.2	-	-	0.0
Profit for the period	-	-	-	-	289.2	-	289.2
Balance as at 31 December 2016	5.0	11.7	2.3	573.8	289.6	-156.6	725.8

1 Adapted to new Financial Reporting Law.

15. 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 2015:

	Total shareholding as at 31.12.2015	Share of voting rights as at 31.12.2015	Total shareholding as at 31.12.2016	Share of voting rights as at 31.12.2016
Per cent				
Shareholders				
Chase Nominees Ltd. ¹	6.0	2.0	7.2	2.0
Black Rock Inc.	>5.0	<2.0	>5.0	<2.0
UBS Fund Management AG	>3.0	<2.0	0.0	0.0
LSV Asset Management	>3.0	0.0	>3.0	0.0
Mellon Bank N.A. ¹	3.1	0.0	–	–
Nortrust Nominees Ltd. ¹	2.6	0.0	2.8	0.0
Bank of New York Mellon N.V. ¹	2.8	0.0	5.9	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.

16. CONTINGENT LIABILITIES

	31.12.2015	31.12.2016
CHF million		
Collateral, guarantee commitments	58.4	57.8

Baloise Holding Ltd has furthermore issued the following letter of comfort:

As the owner of Baloise Life (Liechtenstein) AG, Baloise Holding Ltd, 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) and RentaProtect Performance products. The maximum liability corresponds to the present value of the outstanding guaranteed insurance benefits as at 31 December 2016. As at the balance sheet date, the expected insurance benefits were fully backed by customer deposit accounts governed by individual agreements, the reinsurance contract and the collateral lodged with Baloise Life (Liechtenstein) AG by the reinsurer.

Baloise Holding Ltd 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.

17. CEDED ASSETS

Baloise Holding Ltd lends some of its treasury shares to Baloise Insurance Ltd every year under a securities lending agreement. These shares are used in the Share Participation Plan run by Baloise Insurance Ltd. No assets had been ceded at the balance sheet date (2015: none).

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

The information to be disclosed in accordance with sections 663b (bis) and 663c of the Swiss Code of Obligations (OR) is contained in the Remuneration Report, which can be found on pages 76 to 107 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.

19. NET REVERSAL OF HIDDEN RESERVES

In 2016, no hidden reserves were reversed.

20. EXEMPTIONS DUE TO PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Because Baloise Holding Ltd has prepared consolidated financial statements in accordance with recognised financial reporting standards (IFRS), in accordance with statutory provisions (article 961d [1] of the Swiss Code of Obligations [OR]), it has dispensed with the notes on long-term interest-bearing liabilities and audit fees as well as the presentation of a cash flow statement or a management report in these annual financial statements.

21. EVENTS AFTER THE BALANCE SHEET DATE

By the time that these annual financial statements had been completed on 17 March 2017, we had not become aware of any 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 289,202,029.24.

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.

	2015	2016
CHF		
Profit for the period	434,861,183.39	289,202,029.24
Profit carried forward from the previous year	534,015.61	395,199.00
Distributable profit	435,395,199.00	289,597,228.24
Proposals by the Board of Directors:		
Allocated to free reserves	-185,000,000.00	-29,000,000.00
Withdrawn from free reserves	-	-
Dividend	-250,000,000.00	-260,000,000.00
Profit to be carried forward	395,199.00	597,228.24

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 5.20 gross or CHF 3.38 net of withholding tax.



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To the General Meeting of
Baloise Holding AG, Basel

Basle, 17 March 2017

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements (pages 268 – 280) of Baloise Holding AG, which comprise the balance sheet, income statement and notes, for the year ended 31 December 2016.



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 2016 comply with Swiss law and the company's articles of incorporation.



Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *auditor's responsibilities* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Valuation of long-term equity investments

Area of focus Baloise Holding Ltd accounts for long-term equity investments at cost less necessary impairments and valued on an individual basis. Management assesses whether there are any impairment losses in the carrying value of the long-term equity investments, by comparing the carrying amount to the net asset value of the subsidiary or to a valuation of the subsidiary by using a discounted cash flow analysis. The determination whether a long-term equity investments needs to be impaired involves management's judgement, this includes assumptions about the profitability of the underlying business and growth.

We consider this a key audit matter not only due to this judgment involved but also based on the magnitude of the carry value of the long-term equity investments within the financial statements of Baloise Holding Ltd.

Baloise Holding Ltd describes the valuation principles for long-term equity investments as part of the accounting policy note in the financial statements.

Our audit response In relation to the key audit matter set out above, we assessed the appropriateness of the Company's impairment testing methodology. We reperformed management's impairment test on the carrying value of each investment, including the assessment of management's assumptions and challenged the impairment decisions taken. We have audited the required disclosures in the notes to the financial statements as at 31 December 2016.



Other matter

The financial statements of Baloise Holding Ltd for the year ended 31 December 2015 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 18 March 2016.



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 para. 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 available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Stefan Marc Schmid
Licensed audit expert
(Auditor in charge)

Christian Fleig
Licensed audit expert

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General information

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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 “Baloise Holding” means “Baloise Holding Ltd”. Baloise shares are the shares of Baloise 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.

→ **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.

→ **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).

→ **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.

→ **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).

→ **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.

→ **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 2016 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 2016 annual financial statements together with detailed information.

The annual report contains all of the elements that, in accordance with section 961c of the Swiss Code of Obligations, make up the management report.

AVAILABILITY AND ORDERING

The 2016 Annual Report and the Summary of the 2016 Annual Report will be available from 23 March 2017 on the internet at:

→ www.baloise.com/annualreport

Corporate publications can be ordered either on the internet or by post from the Baloise Group, Corporate Communications, Aeschengraben 21, 4002 Basel, Switzerland.

→ www.baloise.com/order

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

23.03.2017 Annual financial results:
media conference
conference call for analysts

28.04.2017 Annual General Meeting of
Baloise Holding Ltd

30.08.2017 Half-year financial results:
conference call for analysts
and the media

27.03.2018 Annual financial results:
media conference
conference call for analysts

27.04.2018 Annual General Meeting of
Baloise Holding Ltd

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