Q2 2017 Earnings Call

Company Participants

- Carsten Stolz, Chief Financial Officer
- Gert De Winter, Group Chief Executive Officer
- Marc Kaiser, Head-Corporate Communications & Investor Relations
- Matthias Henny, Head-Asset Management

Other Participants

- Daniel Bischof, Analyst
- Guilhem Horvath, Analyst
- Jonny Urwin, Analyst
- Michael Igor Huttner, Analyst
- Peter D. Eliot, Analyst
- René Locher, Analyst
- Stefan Schürmann, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, good morning. Welcome to the Half Year Results 2017 Analyst Conference Call. I'm Elona, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. After the presentation, there will be a Q&A session. The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Marc Kaiser, Head of Corporate Communications & Investor Relations. Please go ahead, sir.

Marc Kaiser {BIO 15056036 <GO>}

Thank you and good morning, everybody, to this analyst call for the half year results 2017 and follow-up. It's a pleasure to have you all online. On this occasion, I would also like to draw your attention to a new product we have in our webpage called C-Level Insights, which gives you a little bit broad context of the story behind the success of Bâloise on the topics we are currently working on and the themes will likely also take off in the following road shows.

I would now like to hand over to Gert with a short summary and then we head into Q&A.

Gert De Winter {BIO 19720616 <GO>}

Thank you, Marc. A very warm welcome to all of you from my side. Together with me is Marc Kaiser, as he made the introduction, but also Matthias Henny, our Chief Investment Officer; and Carsten Stolz, our Chief Financial Officer.

I am very pleased and very satisfied with the half year results, mainly for two reasons. One, we've proven again that the core of our business is reliable and produces strong results over and over again. And secondly because our new Simply Safe strategy is taking more and more concrete forms, we've seen a number of examples and innovation projects over the last couple of months, and I will come back to that in the end of this short summary.

In terms of results, I wanted to highlight on one side growth, the non-life and the life technical results and our capital strengths. And then, as already said, in the end, I would like to name a couple of examples of where our new strategy is taking us in terms of alternative business models and innovation.

In terms of growth, we are growing exactly where we want in our target segments. In local currency, close to 2% in non-life, so the P&C business. And in everything, which is investment terms business unit-linked business, we're growing over 4%. So, we are growing where we want to grow.

In terms of technical results in non-life and life, you've seen the combined ratio of 89.7%, that is almost 3% lower than 2016. So, technically, operationally, a very strong P&C book. One of the bests in Europe. But also our life business has delivered a very strong result with an EBIT of CHF 150 million linked to three things: one, lower reserving as last year; two, a very solid interest margin; and three, a much better business mix, with less guarantees or guarantees limit in time, which also led to a higher new business margin of close to 25%.

In terms of capitalization and capital strength, Standard & Poor's has reconfirmed our A rating with stable outlook and a AAA rating in terms of capitalization. Belgium has got also a specific A rating and Germany an A-minus rating with stable outlook. And if you look at our Swiss Solvency position, we are, in all scenarios, in the green, even in a stress scenario with a 100 basis points lower interest rate and a stock market crash of 50%, we would still be in the green. So, from an operational point of view, core of our business performing very solid and very strong.

And the new strategy Simply Safe where we focus relentlessly on customers on simplifying products and processes, and on additional solutions and services for our customers, we've improved throughout the whole group over the last couple of months of a lot new initiatives, new innovation projects. To name a few, our Mobile Insurer FRIDAY in Berlin, the acquisition of MOVU, the digital moving platform in Switzerland, the first private cyber-insurance in Switzerland, the watch insurance with photo recognition, which makes a lot of possibilities open.

And then other fields, of course, could drive our first telematics product in Luxembourg, Monviso which is a robot asset management advisor in Germany, and SafeHome (04:52) which is in first Internet-of-Things property insurance in Belgium. You see that our strategy is starting to work, so we're not only confident in the near future, but also very confident in the long-term future given our success of the new strategy.

I would leave it to that and actually would be glad to open up for questions.

Q&A

Operator

We will now begin the question-and-answer session. The first question is from Guilhem Horvath from Exane. Please go ahead, sir.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yes. Good morning. Thanks for taking my question. So, I'll start with two. The first one is on loss ratio, and I'd like you to maybe explain the rather

important deterioration in Switzerland loss ratio, because I guess in the press release, you explained the Luxembourg one, but I didn't find anything on Switzerland?

And on loss ratio still, can you discuss a little bit the runoff profits, because it's, I think, the second year in a row excluding the reduction ceiling (06:17) in Germany last year that you are well above what you described as a normal level in terms of run-off profits. And I'd like to understand where is this going and what we should expect for the future, and also if you released something in Germany this half year?

And the second question is on the life EBIT, because you still, I think, have a guidance of CHF 200 million, and you printed something like CHF 115 million in H1, which is well above what you did in the last couple of years and it looks well ahead of the full-year guidance. So, maybe if you can elaborate on this full-year guidance and explain where we should expect the balance to be at year-end and if this guidance is still in force or not? Thank you.

A - Gert De Winter {BIO 19720616 <GO>}

Let me pick up the first wave of answers, and I'm sure that the colleagues will add to that if required. In terms of loss ratio in Switzerland and the run-off profits, I think we need to be careful, we're talking here about the half-year results, which means that we don't steer to the half-year results, so there are seasonalities in there and we should be careful.

I think if you compare Switzerland to last year's – 2016 first half year was a very, very exceptional year with a lot of reserves wins and a very, very benign claims year. So, I think if you compare it to half-year 2015, which was around, combined ratio in Switzerland, about 85%, we're clearly below the 2015. So, 2016 first year half was very exceptional. So, we need to be a bit careful there. Runoff profits are indeed high (07:57) again, it's half year, it's volatile. We don't steer to that. So, we expect a 2% to 3% actually prior year loss development to be the normal thing.

So, coming to your Germany question, there have been no reserve releases in Germany to achieve the 99.5% combined ratio. So, the reserving we did last year are still intact. In terms of life EBIT, the CHF 200 million guidance is indeed our guidance. And we are confident that we'll actually get to that point at the end of the year. But additional details, Carsten or Matthias.

A - Carsten Stolz {BIO 6055047 <GO>}

Maybe just heading to what has been said on the life side, obviously, it all depends on the further development of the interest rate environment. The half-year results you've seen in the slides shows substantially lower interest rate effect than the first half 2016. So, a lot will depend on where interest rates will go until year-end. Maybe that's just as an additional remark to what Gert just said.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay. Thanks.

Operator

The next question is from Daniel Bischof from Baader-Helvea. Please go ahead, sir.

Q - Daniel Bischof {BIO 17407166 <GO>}

Yeah. Good morning, everyone. A couple of questions, the first one is on Germany. I mean the overall profitability improved, combined ratio are below 100%. If you look at the expense ratio in isolation 38%, I mean that's more than 10 points above the market average. How do you look at this?

The second one is on the cash remittance. So, your (09:46) target here is around CHF 400 million per annum. I guess after the first half, you should have a pretty good idea

where you land this year. I mean, some thoughts about this would be helpful.

And then, the last one is on FRIDAY. Could you talk a bit more about the developments there? And (10:05) mentioned that the progress so far is encouraging. But I'd be interested to know how the market responded, how many clients you've won so far, whether the business is performing as expected, just some additional comments here would be helpful. Thank you.

A - Gert De Winter {BIO 19720616 <GO>}

Thank you, Mr. Bischof. Germany, I think what is clear in Germany is that we're actually delivering against what we said and we promised and we planned, which is the shift in the portfolio in non-life, which is on its way. That means away from the volatile industry business, so we have actually 13% less premium this half year than last half year, but we are growing where we want to grow in retail and SME, in retail with 6% compared to last year, in SME with 5% compared to last year; overall, plus 3%.

So, we're moving away from the volatile industry business, and we're investing heavily in the private and in the SME business. And that's also the main reason why the cost ratio has gone up. We're actually investing in additional contacts with brokers. We're investing in the segments in non-life which are the most profitable, but that also means that we pay slightly higher commissions, which is actually the reason why cost ratio has gone up.

I'll leave the cash question to Carsten. Maybe a few words on FRIDAY. FRIDAY has actually been launched in an early bird stage in March-April this year. The objective was to actually have a number of tens to hundreds of clients in which we were testing the processes and the product, and actually continuously seeing where to adapt. So the real go-live (11:53) of FRIDAY will be in this autumn when the renewal season for car insurance in Germany will start. With what we see, although we are still in an early bird and in a pilot phase, is that we are growing the number of clients per week that we're actually acquiring is growing steadily.

We will launch the pay per kilometers insurance which is a very strong innovation in the German market. We have insurance for additional drivers. So, it's not only from a digital point of view, a very strong innovation also from a product and a process point of view, and making it very simply for our customers, FRIDAY is an example. Over to Carsten on the cash question.

A - Carsten Stolz {BIO 6055047 <GO>}

Thank you for the question. With regard to cash remittance half year, we have had a good start into the half year as Gert said. Yet, I would like to remain cautious and would like to look at this question based on the full year results. We have seen many, many years ago that even end of December, tremendous winter storms can hit. So, I would like to have a look at the full year situation first, before answering this question fully. But certainly, we had a good start into the year and, therefore, we'll hope that we can continue this way this year.

Q - Daniel Bischof {BIO 17407166 <GO>}

All right. Thank you very much.

Operator

The next question is from Peter Elliot from Kepler Cheuvreux. Please go ahead, sir.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you very much. Perhaps if I could ask one on the life margin, first of all, and that was very strong. You attributed part of the improvement to model refinements. I was wondering if you could just explain what those refinements were? Second thing was on the share buyback. Well, I guess, (13:58) have been below the required run rate. I was wondering if you could just elaborate on what drove the timing of those and what will drive the timing of those? And then final question on the upcoming referendum on pension reform, I was wondering if you just give us your thoughts on what's (14:18) outcome might mean for you? Thank you very much.

A - Gert De Winter {BIO 19720616 <GO>}

Let me go first on a number of points, I'll leave share buyback to Carsten and also additional details on life also for Carsten. I think if you look at the life result and the new business margin, if you look – there are actually three main reasons why we achieved this strong life results.

One is we are clearly moving into a better business mix away from guarantees and limited guarantees in time. That's one. Given the interest rate environment, we have made less reservations in the life book, although we voluntarily reserved also this year about approximately CHF 70 million and totally our interest rate margin is – the difference between the guarantees, we actually deliver. And the asset management returns are 115 basis points, so a very strong result. If you look at the model changes last year in the life business in Switzerland, they would account approximately for I would say 50% of the improvement. And all the operational things I just mentioned account for the other 50%.

In terms of the pension reform, so the third question, we support fully actually the opinion of the Swiss Insurance – I don't know how you said it – Association indeed. Thank you. This means that we have a very neutral position. There are a number of elements in the proposed reform which are positive. There are a number of elements in the proposed reform, which for a life insurer or a group life insurer are not that positive. So, we actually follow the opinion of (16:07) also the Swiss Insurance Association. Carsten, maybe on additional details or the share buyback?

A - Carsten Stolz {BIO 6055047 <GO>}

Yeah. On the share buyback, as you've seen, we have started the buyback and up to now we have bought back 8% of the up to 3 million shares. The buyback is executed in the context of the stock price market development aiming at buying back the shares below the volume-weighted average price over the whole time horizon where we buy back. And, in that context, we adjust our buying back behavior depending on where the share price goes up or down. That's the pattern which we've largely followed. We follow this pretty closely, me and also Matthias Henny from the Asset Management Department, and therefore, the share buyback is going to continue.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you very much. Could I just come back perhaps quickly on the first one? So, do I understand from your answer that actually that the model changes that you made had a negligible impact on the life margins, but it was all due to other factors?

A - Gert De Winter {BIO 19720616 <GO>}

And so, if you look at the new business margin, the change we did in 2016 in the Swiss model indeed accounts for 50% of the impact on the new business margin. The other

50% are exactly the lowering guarantees, better business mix, less reserving and higher interest rate margin we have. So, 50/50 more or less.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Right. Sorry.

A - Carsten Stolz {BIO 6055047 <GO>}

And the model refinement have been done in the full year closing 2016 and has not been in effect in the half year numbers 2016 that you see on the slide. So, that gives a little bit of a distorted picture there if you compare half year to half year because the modeling refinement has been effected in full year 2016.

A - Gert De Winter {BIO 19720616 <GO>}

I think we also discussed that at last year closing that the business model changes that we did were fully in line with the market in the sense that before that, we actually were very, very conservative on the model assumptions. So, we brought them actually just in line with what the normal market does. So that's actually the impact of the model change.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Yeah. Thanks so much. Sorry for missing your first comment there. Thanks.

Operator

The next question is from Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi there. Good morning. Just one last for me, please. So, just going back to the underlying loss ratio development in non-life, so it obviously got a bit worse year-on-year, almost 2 points. But I understand this can be volatile, but I'm just checking in to make sure you're not seeing any sort of negative trends on claims inflation or anything on that. Could you give us a quick rundown of where you see price increases running versus claims inflation in each of your non-life markets, please? Thank you.

A - Gert De Winter {BIO 19720616 <GO>}

I think the markets in which we operate are always competitive, so there is always price competition going on. That's, I think, not different than before. It depends a bit on the countries and on the branches, so they vary a bit. To give an example, the competition in Switzerland in car business is now pretty strong. In Germany, the competition is overall strong. Belgium, it's strong especially in SME and industry business, transport business. So, it depends a bit and it varies also year to year. But we don't see a sort of a negative trend, both in terms of claims inflation or in terms of price erosion. So, it's pretty stable. I think looking at the half year numbers again, there are seasonal, there are sometimes influenced. So, I think we should look at it at the NDF. So, this kind of volatility is pretty normal half year.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Thanks. So, on average, would you say that pricing is tracking claims inflation?

A - Gert De Winter {BIO 19720616 <GO>}

Yes. Absolutely, they balance out.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay, great. Thank you very much.

Operator

The next question is from Michael Huttner from JPMorgan. Please go ahead, sir.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Fantastic. Thank you very much and well done for lovely results. Three, on the life – on capital and solvency and then very briefly on innovations. On life, the CHF 70 million, if you hadn't added CHF 70 million, would we have seen a profit of CHF 185 million? So, that's the first question.

The second is on the solvency. Will you say even after stress test should be above a 140%? And then, quite a severe stress test, and then you say within the S&P model, you are at AAA. Can you give us a feel for the stress test to look at? Because I know the next step, as you say, is – or when I discussed with one of your colleagues, if you stress it again, you'd still remain in the green. So, that kind of gives me the feeling that each of those stress tests is about 30 points, 35 points, something like that. But to understand a little bit your thinking here. And then, finally, on innovations, if you could give us two figures, maybe the total investments so far in innovations in the digital and all these partnerships, and so far also the revenues? Thank you.

A - Carsten Stolz {BIO 6055047 <GO>}

Yeah.

A - Gert De Winter {BIO 19720616 <GO>}

You go first, Carsten.

A - Carsten Stolz {BIO 6055047 <GO>}

Oh, yes. Absolutely. Thank you for your question. First, on the life question. The answer is yes. If we wouldn't have had the reserve strengthening of around CHF 70 million, then, obviously, the results would have been higher. So, it's a yes. And on the solvency question, that is a little bit more tricky. The numbers you mentioned, it's difficult to confirm them because the stress test don't behave in a linear way. So, why are we taking these stress tests, and they are both on the stressing relevance variables on the market risk side or on the asset management side with stressing the interest rates and stressing the share price performance. This is because this is big building blocks that has a direct impact on the SST, much stronger than technical stress tests. So, that's why we take these to excess. And with this 140%, we are – that translate more or less in one-in-25-years event, bearing in mind of where we stand. So, that's the logic why we take these sensitivity testing for showing our sensitivity to the regimes. The underlying calculation regimes are still a moving target. So, that's why we remain cautious, but we are very close to what's going on.

Innovation?

A - Gert De Winter {BIO 19720616 <GO>}

Maybe on the innovation part, it depends how you define innovation and digitization in terms of what are the investments. If you take a couple of examples, we have in our partnership with Anthemis, we're investing CHF 50 million in European and U.S. start-ups. First investment has been made in (24:08). If you look at MOVU and FRIDAY, those are also investments in the true sense of the word, but they are less important.

If you look at FRIDAY today, we have invested approximately CHF 20 million. We have also invested a lot in other new solutions, alternative business models, small insurances for mobiles, for bikes, for watches and so forth. And in those small innovation projects, additional services and additional insurance products, for every Swiss franc we invest, we obtain CHF 3 of premium. So, actually, they are indeed profitable, but they're all investments in the future, and they require some time to mature.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Great. Thank you very much. And just going briefly back to solvency, if I may, only if I may. But you have – S&P says you're AAA balance sheet but a single A rating. Where is the difference? What do they not like about you?

A - Carsten Stolz {BIO 6055047 <GO>}

I'll take the question with pleasure. Yes, we do have a AAA capitalization under the S&P terms, but in the framework, they're looking at other variables as well, how the business portfolio is constructed, what is in the business portfolio, what are the different sources of earnings. And it's more on the operational side, but they also looked at us. But with a twinkle in my eye, maybe you ask them, and I would be interested in the answer as well. That's the non-factual answer.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Okay. Okay. Thank you. I'll try and do that. Thank you very much. Thank you.

A - Carsten Stolz {BIO 6055047 <GO>}

But to be serious, again, I think it's – they do the combination of their different criteria, and the capitalization is outstanding, risk management as well. And if they would look at us, they would certainly prefer to have a more and even more balanced business portfolio from a geographical perspective I think.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Okay. Okay. Thank you.

A - Carsten Stolz {BIO 6055047 <GO>}

But it is a strong rating, I think.

Operator

The next question is from Stefan Schürmann from Bank Vontobel. Please go ahead, sir.

Q - Stefan Schürmann

Yes. Good morning. I have three questions. First one on the reserve releases again, the 5.2%. Can you provide us a bit more granularity of where that comes from by country or maybe frequency or, again, claims inflation.

The second question on the life part, when I look at the profit by source, risk result and savings result is down year-on-year. Can you give some more details there, if there are some one-offs or if that's a trend?

And the last one, just a small one on the third-party asset management. I see that basically assets under management remain around CHF 5 billion. Can you give some indications about net new money there or the whole development in general?

A - Gert De Winter {BIO 19720616 <GO>}

As Matthias hasn't said anything, let me propose that he starts with third question related to asset management.

A - Matthias Henny {BIO 17600048 <GO>}

Yes. Hello. Thanks for the question. We are currently in the process of building up our third-party asset management capabilities. This naturally takes some time. We have built up a sales force of three people to tackle the institutional market in Switzerland. We're also in the process of transforming the real estate department in funds management company. And the third initiative out of couple of initiatives that we're undertaking is the Monviso robo advisor that we launched together with Deutsche Asset Management. Currently, for a figure on net new assets under management, it's too early to tell.

Q - Stefan Schürmann

Okay.

A - Gert De Winter {BIO 19720616 <GO>}

Your question with regard to the savings results and its development year-on-year, the development is explained by that we have lower realizations in the first half 2017 in comparison to 2016, as well as a little bit lower on current income as well. So, these two factors explain the difference on the savings result.

Q - Stefan Schürmann

Yes. Okay. And the risk result is down quite a bit as well. I mean, that's normal as expected or...

A - Gert De Winter {BIO 19720616 <GO>}

Yeah. The development on the risk result, if I may take this up right away, is mainly explained by last year, because we had a positive one-off effect in the first half 2016 of around CHF 40 million in the risk result. So, it's rather there where the

year-on-year comparison difference stems from – with regards to risk result development.

Q - Stefan Schürmann

Okay. Yeah.

A - Carsten Stolz {BIO 6055047 <GO>}

In terms of the reserve releases in non-life, as we said before, it's half year. We don't see those results to half year, so it's pretty volatile and there are seasonal effects in there. I think there's what we have seen and then that's also true for the last couple of years that in Switzerland, (30:02) cases where actually there's still a number of reserve is being released. In marine and transport, there are a number of reserve releases. So, there are no big changes in terms of the sources. We consider them as normal, and we expect actually the run rate of the reserves to be, on an annual basis, in the area of 2% to 3%.

Q - Stefan Schürmann

Okay. Yeah. Very helpful. Thanks.

Operator

The next question is a follow-up question from Guilhem Horvath from Exane. Please go ahead, sir.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yeah. Thank you. The first one, if I may, is going back on SST, maybe I missed it, but I guess it's the first time you mentioned this 140% as a bottom level. So, if it's the case, why did you decide to speak about this 140% instead of just saying remaining in the green zone? And does this mean that you are going to gradually communicate more and more about SST going forward? And when should we expect you to give more granularity on this?

And the second is, could you elaborate a little bit on M&A? And what you see as opportunity? Then maybe speaking about Belgium a little bit, because there were some press articles mentioning that you were potentially interested in Generali Belgium book. What's your view on this, can you update us? Thank you.

A - Matthias Henny {BIO 17600048 <GO>}

Yes. Thanks for your follow-up questions with regards to the SST disclosure that you've seen, we have disclosed a similar picture in the context of the Investor Day in August 2016, so we build on this. And if you look at the disclosure we had in the Investor Day August 2016, if you half the distance between 100% and 200%, it's more or less where the 140% sits, but it's more connected to this one-in-25-year event consideration, and that's where we think that we are going from green to blue.

And I think it's important if you compare these two disclosures from October 2016 and 2017 now to have a look in the bottom left-hand corner, which shows that the sensitivity has decreased with regards to the impact of these scenarios on SST.

It is a small next step in terms of disclosure. We certainly need a sound and stable disclosure environment. And, there, I'm referring mainly to substantial model discussions still unresolved, but we'll follow up on this certainly. And as the view gets clearer, the disclosure will step by step follow. If nothing substantially changes, then we will probably disclose like this again in the full year. So, remains to be seen. I hope you can understand this.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yeah. Absolutely. Just going back on this. On the discussions regarding the standard model for group life in Switzerland, what's your view on this? Do you rule the, I would say, industry view which is that this will not lead to a more capital consuming model going forward? And when do you expect this to lead to a final implementation of the standard model? Yeah.

A - Matthias Henny {BIO 17600048 <GO>}

Yeah. It's an active and ongoing discussion between the regulator and the industry, as we speak. And I would like to wait until the end of these discussions, so that we then can see what the framework is going to be going forward.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay. And on M&A, please.

A - Gert De Winter {BIO 19720616 <GO>}

On M&A, I think, in the four countries we are active, we have always been looking at opportunities. We'll continue to do that. Meaning, the business case and the cultural fit needs to be appropriate, but we're looking at all the opportunities that are presenting itself in our four core countries. That's one.

Secondly, what else needs to be taken into account is that we see more and more, what I would call, atypical M&A, which is alternative business models, which are initiatives like FRIDAY or the acquisition of MOVU in Switzerland or the acquisition of DrivOlution, which are more platform businesses. So, it's a combination, and I think that the M&A will be balanced in between what we call the traditional M&A in which we are interested in our four countries, and these alternative M&A models, where we are looking into alternative business models and additional services.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay. Thank you.

Operator

The next question is from René Locher from MainFirst. Please go ahead.

Q - René Locher

Yes. Good morning, everyone. Just a follow-up question on the life business on slide 19. So, Gert, you just explained that the saving result is down due to lower current investment income and lower realized gains in (36:18). I'm referring to page 21. So, perhaps, Mr. Henny can explain to me. When I go to other in the current investment income last year, other current investment equals CHF 137 million. And this year it's CHF 99 million. And I guess, apart from fixed income security, this is the main reason why the current investment income is down. So, just wondering what are the main drivers here.

And it's amazing. Here, again, a follow-up. When you are telling us that if you don't have to increase reserve like CHF 70 million in H1, then the EBIT would be CHF 185 million. So this is amazing, because I was just checking in my model, and I'm looking at the period 2004 to 2006. So, the average EBIT was at CHF 226 million. Now, if we assume higher interest rates, then I mean, EBIT life would go up to CHF 300 million, CHF 400 million or is this too easy?

And then, yeah, perhaps quickly on this unit-linked, no, on the realized gains and losses on investments, I mean, IR explained it to me this morning. So, the increase is mainly due to the unit-linked business where investments are valued at market and, at the end of the day, this is then (37:52) in the group P&L? Thank you.

A - Matthias Henny {BIO 17600048 <GO>}

So, I would start with the question on current investment income of other. This had to do with our shift or the change in structure of our senior secured loan investments. We were – up until end of 2016, we were invested in third-party institutional funds and they were classified in this other section. And as of this year, we have set up our own senior secured loan fund which we can fully consolidate. And now, the income of these senior secured loans is shown in fixed income securities.

Q - René Locher

Okay.

A - Matthias Henny {BIO 17600048 <GO>}

That explains the difference.

Q - René Locher

Thank you.

A - Gert De Winter {BIO 19720616 <GO>}

And with regard to your question on the dynamic of the life results, on the back of higher interest rates, we would see higher results, that's clear, further enhanced by our ambition to improve our business mix with regard to lower guarantees in the new business underwritten, as well as the run-off of the guarantees in the back book. When and to what extent that will impact the EBIT, I wouldn't dare to say.

Q - René Locher

Yeah.

A - Gert De Winter {BIO 19720616 <GO>}

But the direction is certainly right. And then, it certainly would also help cash generation coming out from that, which is the key perspective. And the third aspect on the development of the unrealized capital gains, it's correct, as you say. It's a combination of the unit-linked business as well as of the other business, so there is a (40:06) in the balance sheet on that.

Q - René Locher

Okay. Thank you. And then, very quickly, I mean, the shift in business mix, shouldn't I see sooner or later an item, fee income, your profit by sources in the life business?

A - Gert De Winter {BIO 19720616 <GO>}

Yes. It is – I mean, the fee income is currently in the different driver, so...

Q - René Locher

Okay.

A - Gert De Winter {BIO 19720616 <GO>}

...don't see that separately.

Q - René Locher

But, yeah, (40:50). I mean, the more important fee business get – I think it would be helpful just to show it as a stand-alone item.

A - Gert De Winter {BIO 19720616 <GO>}

Fair point.

Q - René Locher

Okay. Thank you very much.

A - Gert De Winter {BIO 19720616 <GO>}

Thanks for the input.

Operator

The next question is a follow-up question from Michael Huttner, JPMorgan. Please go ahead.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Thank you. So, your competitor, Swiss Life, they calculate the return on equity excluding bond gains and shareholders' equity excluding unrealized gains and bonds. I just wondered what that figure would be for you. So, you had CHF 5.8 billion stated equity, but if I exclude unrealized gains and bonds, I don't think it's a huge difference because a lot of your bonds are held for maturity, but maybe you'd have a figure.

And then, if the – assuming the life profitability is – the CHF 70 million was kind of very voluntary (41:58) so, maybe, we'd be looking at CHF 700 million run rate in terms of profits. So, that would give me a (42:07) Swiss Life will be 10.5% or maybe 11%. And here, the question is, can you enhance that more quickly by doing more of this innovation stuff or by accelerating your CapEx?

And then the final question is what – in Germany, at one stage, you had said that you could achieve – the aim would be to achieve profitability similar to Belgium, which is around CHF 50 million for half year, so CHF 100 million for full year in terms of EBIT, I think. How far are you from kind of thinking that this can be achievable in Germany?

A - Carsten Stolz {BIO 6055047 <GO>}

With regard to your question on ROE, in half year, we do not annualize ROE figures. So, we like to look at these figures on a full-year basis. And then, that's – in that context, we would like to look it as – our focus is on the cash generation currently. So, I would like to look at ROE on full year terms, prevailing the guidance that we've given of 8% to 12% over the cycle ROE, if you want to look at it from an accounting perspective.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Okay.

A - Gert De Winter {BIO 19720616 <GO>}

And with regards to Germany, the focus is really on shifting our non-life portfolio into the more profitable segments and out of the volatile segments. So, what is more important is that we actually start to generate a stable income and a stable cash generation out of Germany, and we do not necessarily target fewer EBIT numbers, to be honest. So, focus is on the core of business, the non-life change in portfolio and on generating cash from Germany, which has not been the case over the last years.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

And on the cash, if I may ask, so we've had a few references to it. I was wondering if I missed something. Have you given the figure at the half year for this?

A - Carsten Stolz {BIO 6055047 <GO>}

No. We don't have a cash disclosure half year yet. This is certainly one of the perspectives that we will go deeper in the full year result with regards to referring to the CHF 2 billion cash remittance target that we will look at in the full-year disclosure.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

And the CHF 2 billion, that's a five-year target?

A - Carsten Stolz {BIO 6055047 <GO>}

Correct.

Q - Michael Igor Huttner {BIO 1556863 <GO>}

Okay. Five-year. Okay. That's it. Thank you very much.

Operator

Gentlemen, there are no more questions at this time.

A - Gert De Winter {BIO 19720616 <GO>}

So, if there are no more questions, thanks again for the questions and the input. Again, I think we've delivered in half year a very strong operational results as shown by the figures, and we are very – we trust that we can actually continue 2017 to become a good year, and are looking forward into the long-term future with our new strategy, which is delivering the innovation in the digital world. Thank you very much.

Operator

Ladies and gentlemen, the conference is now over. Thank you for choosing Chorus Call, and thank you for participating in the conference. You may now disconnect your lines. Goodbye.