FY 2010 Earnings Call

Company Participants

- German Egloff, CFO
- Jan De Meulder, Head of International Operations
- Martin Strobel, Group CEO
- Martin Wenk, Chief Investment Officer

Other Participants

- Christopher Hitchings, Analyst
- Dhruv Gahlaut, Analyst
- Fabrizio Croce, Analyst
- Farquhar Murray, Analyst
- Michael Haid, Analyst
- Michael Huttner, Analyst
- Michael Klien, Analyst
- Peter Eliot, Analyst
- Rene Locher, Analyst
- Stefan Schuermann, Analyst
- Thomas Noack, Analyst
- Tim Dawson, Analyst

Presentation

Operator

Good morning. I am Deano, the Chorus Call operator for this conference. Welcome to the Baloise Group Annual Results 2010 conference call and live webcast.

(Operator Instructions)

At this time, I would like to turn the conference over to Mr. Martin Strobel, Group CEO. Please go ahead, sir.

Martin Strobel {BIO 5296838 <GO>}

Thank you very much. Ladies and gentlemen. it is my great pleasure to welcome you to our analyst meeting. German Egloff and I will present our annual results to you. We will both be available for your questions in the question and answer round, as will Martin Wenk be, our Chief Investment Officer.

We intend to concentrate solidly on the essential facts in our presentation. This will give us more time for a detailed question and answer round.

Following this introduction, I would now like to go to slide number 3. First of all, I would like to present the highlights of the annual result 2010. After that, German Egloff will take you through the key financial figures. Building on that, I will illustrate the course of business from a market and customer perspective. To finish off, I would then like to demonstrate to you where we are in terms of our strategic program, Baloise 2012 and will end with our financial outlook.

Let us start with the most important points relating to our annual result, which are illustrated on slide number 5. Ladies and gentlemen. Baloise realized a higher profit and solid growth in 2010. Our profits increased despite large claims, low interest rates and a weak euro. In most markets, we grew at an above market rate and successfully increased our market share. This proves that we are successfully putting the opportunities offered by the market to good use and are able to build on our market position.

In our targeted customer segments, our growth was backed by our Safety World approach. In particular, the cross-selling ratio is increasing, customer loyalty is improving and recommendation quotas are growing.

We have launched Baloise 2012 program to advance Baloise growth and income even more. The aim of this program is to improve the sustainable earning power of Baloise by CHF200 million per year by 2012. This program is right on track. In 2010, we exceeded our targets of an additional profit contribution of CHF92 million generated by our program. Its effect can clearly be seen in our organic growth, our increased efficiency, our lower cost ratio and our very good combined ratio performance that coped successfully with a higher load of large claims.

Our Life business was also supported positively by Baloise 2012; combined with a higher income from our investments, this led to increased earnings.

Our balance sheet is one of the strongest in Europe. At the end, Solvency I amounted to a very good 224%.

A high and sustainable level of earning power is also evident in our dividend policy. Thus the proposed dividend remains unchanged at a high CHF4.50 offering an attractive dividend yield of 4.9%.

We are further expanding our platform for profitable growth by investing in our core markets. We are proud that we were successful in substantially improving our market position in the attractive Belgian market by two bolt-on acquisitions. These successes take us a major step closer to our goal of becoming one of the most profitable and fastest growing insurers of Europe by 2012.

After this brief outline, I would now like to hand you over to German Egloff, who will take you through the main financial points of the annual report.

German Egloff {BIO 4782831 <GO>}

Many thanks, Martin. I'm happy to present the result for the year 2010, and I'd like to start with the key figures on slide 7.

Our annual results are very pleasing. It's worth noting that -- in particular, that the various efficiency initiatives are now bearing fruit. Despite the challenges of the macroeconomic environment, particularly the development of interest rates and currencies, we were able to increase our net profit by 4%.

However, the depreciation of the euro against the Swiss franc has had a negative impact on the 2010 annual results as many of the key figures show. The closing rate relevant for the balance sheet and impairments has fallen further; a devaluation of 15% compared to the beginning of the year. The average rate relevant for the profit contributions of foreign companies also lost some 8% in value. Since the half-year results, interest rates have recovered slightly. However, the positive movement could not offset the negative effect from the first half.

I am very happy about the growth of business volume. In most business units, we were able to achieve above market growth. However, due to the depreciation of the euro, the growth rates in Swiss francs fell to a much lower level than the figures in local currencies relevant for the assessment of the dynamics.

I now would like to explain the main drivers of our 2010 annual results and will begin with Nonlife business on slide 8. In 2010, like in previous years, the Nonlife segment again makes the largest contribution to the Group result.

As already mentioned, there has been a very positive growth in local currencies. In original currency, we were able to increase Nonlife premiums by 2.2%. The first half of the year, as I already mentioned at the half-year results, suffered an above average net claims burden of approximately CHF50 million from large claims. This includes, for example, winter storm Xinthia and the fire at the cold storage in Basel.

There were further large claims in the second half, which brings the total large claims burden for 2010 to around CHF84 million net. This is well above our average large claims loss expectancy of CHF45 million.

I now would like to explain the individual factors influencing the combined ratio. Slide nine shows the main drivers for the development of the net combined ratio. I'm particularly pleased about the positive effects from ongoing efficiency enhancing measures. The low costs resulted in a combined ratio improved by 2.2percentage points.

Gains from the settlement of claims in the previous year were somewhat lower and the large claims burden was slightly higher than last year. Moreover, the growth in Swiss francs was impacted by the negative development of the euro, resulting on balance in a slightly higher combined ratio.

Adjusting the loss rate by large claims and prior year loss developments, results in a decrease of 1 combined ratio point which is within the normal range of fluctuation for weather and business mix.

Slide 10 shows the operating performance of individual business units, with most units showing a combined ratio of well below 100%. For the Group, this results in an excellent gross combined ratio of 92.2%. Luxembourg, in particular, had an excellent combined ratio as, unlike last year, they benefited from a very favorable claims environment. And with 88%, Switzerland has again achieved a peak value.

However, the positive effects from efficiency measures of around 1 combined ratio point were more than offset by the higher loss ratio due to large claims and slightly lower results stemming from the prior year loss developments.

Germany recorded significant progress in the expense ratio, but was negatively affected by winter storm Xinthia and other large claims.

And now to slide 11, I would like to talk in more detail about the Life Insurance business. With regard to growth figures, I would first like to remind us of the extraordinary growth spurt in the second half of 2009, which, fueled by the tax amnesty in Italy, impacted on the investment linked business of Baloise Life Liechtenstein. This effect was still in evidence until April 2010.

Due to the above average previous year values, we are even more proud that we were able to increase the business volume in local currency by 1.5%. The analysis of the growth rate for gross premiums written shows a very encouraging growth in local currency by 5%. A substantial portion of this growth was down to the Swiss Group Life business.

A significantly higher financial result -- positive results from efficiency measures and a positive one-off effect due to the reduction in surpluses on current life annuities resulted in an increase in EBIT by 21%. These positive effects also had a follow-on effect on the MCEV, which I would like to explore in more detail on the next slide.

Slide 12 shows the change in embedded value, which is now calculated market consistently. I am pleased to present an operating return on embedded value of 20.3%. This success was driven primarily by significantly lower costs, strong growth, as well as various operating improvements in the individual companies.

In contrast, low interest rates and currency movements had a negative impact, resulting in a decrease of MCEV by 2.3% in Swiss francs. In the development of new business, the positive operating effects were able to offset the low interest rates, improving the new business margin by 2.5percentage points to 11.8%.

Let us now take a look at asset management on slide 13. The volatile macroeconomic environment will continue to be a challenge for a diversified and risk appropriate investment strategy. The key impact on the 2010 result was the depreciation of the euro by about 15% against the Swiss franc. This is reflected in various positions in the income statement.

Firstly, Swiss bond investments suffer a loss in value; we counteract this effect to a large extent by hedging. Secondly, coupon payments and dividend income from investments held in euros lose in value; this effect is not hedged. Thirdly, the income of the foreign units is reduced to the currency translation, which is not hedged either. And fourthly, there are impairments that become only necessary as a result of converting the value of shares to Swiss francs.

We countered the interest rate movement by slightly increasing the duration of the Life side by buying swaptions. On the Nonlife side, we have reduced the duration by selling bonds to take advantage of attractive market opportunities.

The equity quota, including equity related investments, such as private equity and hedge funds, remains unchanged from the previous year. You see that on the next slide. Because of the risk/return structure, we tend to hold these asset classes in the books of Nonlife business. How well we cope with this demanding challenge is reflected in the solid asset management results. I will explain this on the following slide.

Slide 15 shows investment income according to Nonlife and Life. I would like to thank our colleagues in Asset Management for achieving a solid result on investments in such a demanding environment.

I also would like to point out again that the devaluation of the euro has significantly impacted on our results. This is particularly evident in the lower current income and unrealized losses on fixed income investments. They are offset by profit on currency hedging instruments, which you find in the position other.

Despite this, we were able to significantly improve the performance of our investments. This was due, among other factors, to lower asset impairment charges and higher realizations.

I'd now like to explain the development in shareholders' equity. Slide 16 shows that the balance of unrealized gains has slightly declined over the previous year due to realizations and changes in market value.

Slide 17 shows the net effect on equity after taking into account shares attributable to policyholders, deferred taxes, currency translation and hedging instruments.

Particularly standing out in this analysis of change is the position of currency translations. They are down to the movement of the euro, and contribute considerably to the fact that the gross balance of unrealized gains has resulted in unrealized losses of more than CHF0.5 billion. These are participating interests of our foreign subsidiaries, i.e., the currency translation difference to the historic purchase price.

This now takes me to the change in shareholders equity, on slide 18. The change in unrealized gains largely explains the development of equity. In addition, shareholders equity is further reduced by the payment of dividend, share buyback, and the absence of minority interests, after the deconsolidation of the OVB Group. In contrast, the net profit achieved positive results.

All together, these components result in a decrease in total equity by 8%, and book value per share of 4%. Return on equity for 2010 rose slightly, to 10.4%. Based on the solid and good results for 2010, I now would like to show, on slide 19, the forecast on this year's distribution to shareholders.

Based on the solid result, and strong capitalization, we plan to distribute 59% of the 2010 net profit to our shareholders. We will ask the AGM to keep the dividend at last year's high level, and pay CHF4.50 per share, as a cash dividend. For the shareholders, this means they not only benefit from a performance rate of 6%, but also receive a solid dividend yield of 5%.

In addition, we have continued with our share buyback program, which we intend to finish by the end of April. A new share buyback is currently not scheduled.

Thank you for your attention. I now hand back to Martin Strobel.

Martin Strobel {BIO 5296838 <GO>}

Many thanks, German. I would now like to elaborate on our business from a market and customer perspective. To start with, let's look at growth, which is illustrated on slide 21.

In 2010, we achieved a substantial business volume growth of 1.7%. We grew at an above market rate in most of the markets we operate in. This growth was very well balanced; we grew in the Nonlife business, as well as in our Life business, and were able to successfully build on a strong unit linked business.

Switzerland, our home market, grew at a high 4.5%. This growth was supported by Group Life business in Switzerland, in particular, which grew strongly by 11.5%; successfully increasing our market share. In Belgium, Luxemburg and Austria too, we are achieving strong growth, and are increasing our market share.

From our operations in Liechtenstein, you can see this in the line others in the table on the left, we expected a decline in growth since the Scudo Fiscale, the Italian tax amnesty, ended in April 2010. Nonetheless, the decline was lower than expected, which demonstrates that Baloise Life has broadened its growth base successfully. Having taken a look at growth, I would now like to provide you with some explanatory notes on the income side. These are illustrated on slide 22.

A glance at our EBIT makes Baloise substantial operational earning power apparent. Our EBIT grew by 8%, despite challenging market conditions. Our Swiss business, which again proved to be a reliable earnings pillar, was confronted with a very low interest environment, in the euro and large claims in 2010.

Germany profited from substantial efficiency gains; improved financial income; and positive effects from the unwinding of companies. Both Belgium and Luxemburg achieved excellent results, especially in Nonlife business. Efficiency gains were realized successfully. These were supported by a very good operational result and the positive prior year loss experiences.

From the divisional perspective, it is clear that our Nonlife business is in great shape, and is able to deal with the effects of increases in major claims and natural disasters. In view of this environment, we are, of course, intensifying our efforts to further improve operational excellence.

Our Life business profited from increased investment income, and the successful implementation of our Baloise 2012 measures. EBIT thus increased, despite the low interest environment and weak euro.

Our Banking division was able to improve earning power; not a given, in such eventful times.

And now to our Swiss operations, illustrated on slide 23. In Nonlife business, our Swiss operations achieved a very good combined ratio of 88%, despite an increased claims burden, due to major claims. Our investment in effective processes is paying off.

Despite the high number of large claims, EBIT in Nonlife was negatively affected by lower investment income, mainly caused by the weak euro. In Life business, gross premium grew by 6.6%. We successfully increased our market share. The main source of growth here was Group Life business, which grew at a substantial 11.5%. As an established full service insurer, we enjoyed our customers' trust, and are able to grow with them.

With the eight of our innovative life insurance products, we were able to add a substantial amount of new pension insurance business. Our new product, (inaudible) Time, has been well accepted by our target customers. Its success supported the strong increase in investment type premiums.

This increased investment income, and the successful implementation of our Baloise 2012 measures, we were able to cope successfully with the low interest environment, and the weak euro. Both our EBIT and our new business margin improved.

Our Baloise Bank SoBa also grew substantially. As a bank with regional roots, we benefited from our trust based positioning. Our integrated pan-Swiss[ph] business model of a focused financial service provider, continues to prove successful.

Besides its impressive growth, Baloise Bank SoBa was able to further increase its efficiency. We implemented a new IT platform, that supports more efficient processes. The positive effect can be seen in the cost income ratio, which decreased substantially.

Due to this positive growth and improved efficiency, Baloise Bank SoBa increased its profit to CHF21 million. You can find more information about Baloise Bank SoBa on the Internet, or in the appendix to this presentation.

On slide 24, I would like to give you a brief summary of our international operations. In Germany, the realignment of Deutscher Ring entity is fully on track. Our business volume is stable, in a demanding market, and the improved results are mainly due to substantial efficiency gains, improved financial income, and positive effects from the unwinding of companies.

Our Belgium business is characterized by strong growth; with a growth rate of 8.5% in Life and 5.2% in Nonlife business volume, we increased our market share. This is not least due to our strong positioning, which is now strengthened further by the acquisition of Avero and Nateus. This will further increase our market share in Nonlife business.

In Luxemburg, our local operations made substantial progress. We were able to increase both our Life and Nonlife market share. At the same time, investment type life insurance business gathered pace. The integration of Fortis IARD, leading to a significant improvement of our strategic market positioning, is progressing well.

In Austria, we're continuing to expand our insurance sales force, and so outperform the market significantly in growth terms, with growth of 8.7%.

In Croatia, we now have a single brand, having merged and restructured the business unit successfully. We are number five in the market, and are systematically gearing the unit to achieve profitable growth. Nonetheless, efficiency improvements are offset by the continuing recessionary environment.

Baloise Life in Liechtenstein achieved strong growth, with the aid of its innovative life products. Two product lines are driving this growth; our freedom of service business, and the variable annuities. These products are opening up new growth segments for us that we did not tap into before.

In addition to the organic development of Baloise, we made use of attractive bolt-on acquisition opportunities, to strengthen our core markets further. Not least due to our capital strength, we can invest when others have to restructure.

All targets we look at have to pass three demanding hurdles. They have to fit our business model, they have to suit our culture, and they have to add value. We are very happy that we were able to successfully realize three substantial bolt-on acquisitions in the last two years, in Luxemburg and Belgium, to further strengthen our successful platforms. Both markets belong to our core markets, and are very attractive in terms of growth prospects and profitability.

In Belgium, we doubled our market share in Life. In Nonlife, we now belong to the top five players, with a market share of more than 6%. In Luxemburg, we now belong in both Life and Nonlife to the top five players, with market shares of 6% and 8.5% respectively.

These improved strategic positions will allow for further strengthening of our growth potential, as well as our profitability. In addition, we might even profit from macro effects. Due to our contrarian approach, buy when others have to sell, we were, for instance, able to double our Belgian Life business in a low interest environment; offering interesting upside potential when interest rates pick up.

I would now like to take you through the current status of our strategy. Let's start at slide 27. Our goal is to become one of Europe's most profitable and fastest growing insurers by 2012. In actual and quantifiable terms, this objective is aimed at increasing Baloise's sustainable earning power by CHF200 million per annum by 2012. In order to reach this target, we have initiated the Baloise 2012 program. We are right in the middle of implementation, and are fully on target.

First of all, I would like to inform you about the status of implementation. In total, the Baloise 2012 program comprises around 100 initiatives. These are grouped under the topic headings optimize, grow, and develop new growth segments. At the center, or one might say also at the heart of these three topics is our new positioning strategy, Baloise Safety World. On the lower left side of the slide, you will find a breakdown of the CHF200 million effect of Baloise 2012 by these three categories.

Where are we in terms of implementation? Many optimization initiatives are now well advanced. Thus, our new operating model in Switzerland, the project name is GEPARD, was successfully implemented by the end of 2010. The efficiency increase program in Belgium has been approximately 75% implemented.

In Germany, we are fully on track with the unwinding of companies. In 2010, this led to a substantial positive one-off effect, contributing to the net effect of Baloise 2012. In 2011, we are now investing to reap the synergy benefits from an integrated growth platform from 2012 onwards.

Growth initiatives, detailed here, are customer retention activities in Belgium and Switzerland, as well as the expansion of the insurance sales force in Austria, are making good progress. Therefore, our good growth figures can also be attributed to the success of these initiatives.

The development of new growth segments is also making good progress. We have already spoken about the growth figures in Liechtenstein.

Following this overview, I would now like to take a more detailed look at three initiatives, on slide 28. In Germany, for instance, we are applying the latest process optimization techniques, to further improve our claims processes. The key idea of this approach is to involve third party services in the claims process, as efficiently as possible.

An example might clarify this idea. When one of our car insurance customers in Germany has a broken windscreen on his or her car, he or she sends a claim notification to Baloise. This notification is scanned automatically, and is routed directly at the touch of a button to one of our repair partners, who will contact our customer immediately, to arrange the repair.

Our customers like this process innovation. They are contacted promptly, and the problem is solved in a very efficient manner. At the same time, our claims handling costs are substantially lower, due to the outsourcing of data processing to our partner service.

The second example of Baloise 2012 initiative stems from Switzerland. We established a team to improve customer retention. This team identifies customers who might intend to cancel contracts with Baloise, by applying the latest customer intelligence techniques. These customers are then contacted proactively with the so-called courtesy calls, to find out what we can do better to serve their needs.

The effects of this approach are stunning. We reduced the churn rate of these not so happy customers by at least 50%, or even more. This means that, by improving our services and processes, we can successfully turn not so happy customers into happy customers, which also has positive effects on our growth.

The last example comes from Croatia. Here, we established a new cooperation with TTS roadside assistance. This support, which is not yet established in Croatia, as a standard offer by insurance companies or car companies, offers a unique advantage for our customers, as they receive immediate assistance, if they have a problem with their car. Is there a better way to prove our claim, we make you safer to our customers? Reactions from our customers are very positive, which will further strengthen our position in Croatia.

I hope that these examples were able to provide some insight into how we work to make Baloise better; or in other words, that Baloise 2012 is a very vibrant and realistic program, as the examples hopefully demonstrate.

I am personally very much in favor of regularly reporting to you on our progress in implementing Baloise 2012, as well as we are all at Baloise, from a content perspective, as has just been done, and from an impact perspective. Details regarding impact can be found on slide 29.

Where are we in relation to our target of end profit to the tune of CHF200 million by 2012? In 2010, we improved our results by CHF92 million. We therefore exceeded our own target of between CHF55 million to CHF70 million for 2010 significantly.

This additional CHF92 million resulted -- and you can see this below, on the left, from the impact of optimization initiatives. In 2010, measures to increase efficiency had a major impact in Switzerland and Belgium. We did not solely focus on cost, but also improved our claims handling processes further. Included in the CHF92 million contributions is also a one-effect, stemming from the unwinding of companies in Germany.

These positive effects from optimization initiatives have been complemented by investment in growth. We expanded our sales capacity in our existing markets, for instance, Austria, Croatia and Belgium. Certainly, the most high profile new growth segment is our new subsidiary, Baloise Life, which, as a start up, requires initial investment, but which is already making a major contribution to growth.

In terms of implementing Baloise 2012, we are right on target. Therefore, in 2011, we anticipate that this program will generate a positive effect of between CHF100 million and CHF120 million. In 2012, we will feel the full benefit of this program. By then, Baloise sustainable earning power will have increased by CHF200 million per annum.

To conclude, I would like to take you through our outlook for the future, on slide 30. Our ambitions remain unchanged. Over the cycle, we are aiming for a 15% return on equity. We are looking to steadily increase earnings per share, and keep our combined ratio well below 100. The 2010 annual result demonstrates that we are on track to achieve these ambitious targets. I would like to summarize the most important key issues, once more.

Firstly, we achieved substantial growth; in most markets, we increased our market share. Secondly, we have high earning power, and aim to enhance it further, with the aid of Baloise 2012. The proposed dividend and payout ratio are very high. Thirdly, our balance sheet is strong. Therefore, we are in optimum position to become of Europe's most profitable and fastest growing insurer.

Many thanks for being so attentive. And now, we would be pleased to answer your questions. And for the question and answer round, I also welcome now Jan De Meulder, who is the Head of our International business.

Questions And Answers

Operator

(Operator Instructions) Michael Huttner, JPMorgan.

Q - Michael Huttner {BIO 1556863 <GO>}

Three questions. On the solvency, I saw the very good number on Solvency I. Could you give us an indication where you lie in terms of Swiss solvency test?

On the tax rate, I noticed that had come down quite a bit, or a little bit. And I just wondered whether you could give us a feel for where you would see it, going forward, because you now have quite a number of operations internationally?

Then in terms of the payout, so last year was 70% and this year 57%, with the buyback dying down. What should we be penciling in for a normal payout, going forward, if there is no buyback? Thank you very much.

A - Martin Strobel {BIO 5296838 <GO>}

Thank you, Mr. Huttner, for the questions. I will hand over the first two to German Egloff, and then come back to the payout question; German?

A - German Egloff {BIO 4782831 <GO>}

Well the first one is news on the SST quota, not too surprisingly, is that we are in a green zone. That's about the information we can give at the moment.

As on the tax rate -- well, I can give further information. We are, of course, still further in contact with the regulators, as all our competitors are. And well, I guess that we will there come to a clarification in those points that are still open. But in fact, we have to feed in the figures at the end of the April, so at the moment, that's not priority.

As for the tax rate, you said the tax rate is lower. Actually, the opposite is right, it is higher. But the reason was the previous year, we had an extra effect in Belgium of about CHF30 million. So that kept it up. Nevertheless, you're right that, in the long-term average, it is still quite low. So I would expect that it is probably normally somewhere in between 24% and 26%, or so.

A - Martin Strobel {BIO 5296838 <GO>}

Now coming back here to your question regarding a payout. First of all, I'd like to remember that we have an officially written down payout policy that says that one-third of the annual results should be given to the shareholders.

Actually, for the last years, we exceed this policy, and we are really aiming for keeping our payout at a high end reliable level. We want to be regarded as a company who has a high end reliable payout. So this means we are really proud that we stick to the high CHF4.50, and together with the share buyback, this leads to a total payout of 59%.

We have a dividend yield with this dividend of 4.9%, which makes us I think one of the best insurance titles in the Swiss or Central Western Europe universe. And we will stick at least to this policy to be really the high end reliable payback and payout company.

Q - Michael Huttner {BIO 1556863 <GO>}

Lovely, thank you very much.

Operator

Michael Klien, Nomura.

Q - Michael Klien {BIO 4262408 <GO>}

I had three questions. Firstly on OZ, Osiguranje Zagreb, I see that you haven't impaired the goodwill for that which I think is about CHF70 million. Looking at the numbers at the moment in Croatia and Serbia, somewhat disappointingly I've got a top line being negative; I've got profits, well, losses being generated. You lost a banking distribution partner, so could you help explain what was the decision why you think that there's no impairment needed for this goodwill.

Secondly, on the buyback front, now you aim to finish the current buyback by the end of April, no new buyback plan. What are you planning to do with the shares you have bought under the current buyback program?

And finally, if I understood correctly on the efficiency improvement program, you said that you improved profit by CHF92 million, but if I have understood correctly you said that there were some one-off effects -- positive one-off effects from Germany included in the CHF92 million, could you maybe elaborate and also give us a figure on how much this positive one-off effect was?

A - Martin Strobel {BIO 5296838 <GO>}

Thank you very much, Mr. Klien. I will give the two first questions to German Egloff to answer, and I will personally then answer the third one. German, may I ask you to --

A - German Egloff {BIO 4782831 <GO>}

Okay. OZ goodwill, as you know, you're not entirely free whether you would like to write-off goodwill or not. The question is really whether the model you have in place is triggering an impact or is hitting an impairment trigger or not; so, in fact, in Croatia it has not.

You're right that the top-line came down as for the whole market. But be careful, there is also a currency effect in that, because in Croatia we are cooperating in kuna, which is even a bit lower than euro, and euro was low into Swiss francs already.

In fact, we still think the business case is in place. And obviously, the auditor thinks the same, because, as I said, you are not free what you are doing with the goodwill, so you have to do an impairment test, which is predefined and you can't just change your parameters every year, and then the auditor is looking at that and agrees or not.

Of course, you're right; Croatia is in a difficult economic situation. If that keeps on going like this for the next five years, we will probably have a different situation. But as for now, mid-term we still believe that these economies will grow and will become profitable.

The efficiency progress that Croatia has made is extremely positive in fact. But due to their recessionary environment and the low growth of the market, of course, this was kept off. But in fact, the business as such the basis of the business is a lot more solid than it was in the past. This for OZ.

Then the bought back shares, currently we use them to cover the outstanding convertible, which has its maturity in 2016, and then we will see what we do with it, because, as you know, it needs a second transaction to convert these shares into cancellation or whatsoever.

A - Martin Strobel {BIO 5296838 <GO>}

Then I'd like to come to the last question; Mr. Klien, you asked, what's the one-time effect in Baloise 2012 coming from Germany? This effect is around CHF15 million. And this is a one-off payment received from Signal Iduna since they received in the process of unwinding 40% of our sales force in Hamburg. And we received this payment to be able to invest in new sales capacity in Germany.

So this means we see a positive one-time effect in Germany this year. The investment in Germany, investment in sales force, but also investment in the integration write-down in terms of IT investments, and then all these topics; they will show up very much in the result this year. In Germany now we have cleared up everything with the unions, with all the regulators, so now we are really in the process of doing the unwinding integration physically, and here some investments will be needed in 2011.

So even if you take out the CHF15 million out of the CHF92 million, we still exceed the upper limit, or the upper target we set ourselves of CHF70 million, so this means even including this CHF15 million, Baloise 2012 is progressing better actually than expected, which is very good news from my point of view. And I think it's again very important from our point of view that the effect of B2012 are sustainable, really investing in making Baloise better and are progressing quite well.

Operator

Thomas Noack, WestLB.

Q - Thomas Noack {BIO 7284728 <GO>}

I've got three questions please. On slide I guess it was 14, your Asset Management volatility, you mentioned that you purchased further swaptions here to protect the interest rate; I guess it was in 2010, so what was please the P&L effect of these swaptions in 201?

The second question is on your Life business. You mentioned that you gained strong growth in variable annuity business, especially in Switzerland, could you please give a bit more details on your new business mix in Life; how much is traditional business? How much is normal or unit linked, or variable annuity business? And do you have something like target ranges for the different products?

And the third question is very short on reserve releases, I think still 4% in 2010, so still pretty high, what can we expect here for the future? Is this level coming a bit down in future years? Thank you very much.

A - Martin Strobel {BIO 5296838 <GO>}

Thank you very much Mr. Noack, I will hand over the question on the interest rate effect or the swaption effect in the P&L to Martin Wenk our Chief Investment Officer. I will personally answer the new business mix question, and then I will hand over the reserves in Nonlife to German Egloff. Martin, may I ask you to give some details on the swaptions?

A - Martin Wenk {BIO 4193573 <GO>}

Okay, you are perfectly right about the swaption program being effective in the P&L, as opposed to the movement of the underlying bond, so there is a discrepancy in that. We saw a very positive effect in the first half-year that turned then in a negative in the second half-year, and the bottom line for the full year was a slight positive effect. I wouldn't have the exact figure right here, I can give that to you later, but it was quite a minor effect in that, and you have some more information on page 117 in the financial report. You could look it up there.

A - Martin Strobel {BIO 5296838 <GO>}

Then I will come back Mr. Noack to the question on the new business mix. We disclosed today also the report on the market (inaudible) and there we have a lot of information on obviously the new business and also let's say a breakdown what is classical business and what's unit linked business.

And I think if we look at Baloise Group as a total, and look at the APE, so what's the new business generated, then it's about more than 50% of the new business is unit linked, and this is due to our strategy that we want to shift away from the classical Life business, more towards a better mix in the new business of unit linked and traditional business. I think 54% or above 50%, actually I think it's 54%, it's quite good as a mix or as an indication of how we would proceed going forward.

Now coming to the reserves in Nonlife, German?

A - German Egloff {BIO 4782831 <GO>}

Yes. Well perfectly reserved. IFRS tells you that you should reserve (inaudible) that means there are no prior year profits at all. But of course, the reality is a bit different, especially so if your portfolio continuously improves over the years. And I think that really makes the difference.

Now, we made an analysis what is to expect and within the last couple of years we were in average at about 3% combined ratio, of the combined ratio point or CHF18 million that was about the average; with one exceptionally year 2005 when we had to strengthen reserves, especially in Switzerland, for the whiplash cases. But in fact, I guess, yes, you could assume, or our expectation would be some 3% combined ratio points is appropriate for the next couple of years to come.

Q - Thomas Noack {BIO 7284728 <GO>}

Perfect, thank you very much.

Operator

Christopher Hitchings, KBW.

Q - Christopher Hitchings {BIO 2034501 <GO>}

A couple of things. Can you just remind me how much more of your existing share buyback program has to be done, I've got slightly confused as to CHF50 millions here and CHF50 millions there. It's a technical thing.

More interestingly, I think, is you talked a little bit about CHF50 million negative in the Life result in the first half from the change in liability duration, was any of that reversed in the second half? And I think there's also been a slightly exceptional element from the change in annuity bonuses and again can you give us some help as to whether that was one off, or ongoing?

Thirdly, I know they're relatively small figures but I'm surprised at the significant improvement in new business margins in Germany and Belgium, and I wondered what's behind that.

And finally, can you just help us a little bit more about the management change you announced this morning as well in the background to that? Thank you.

A - Martin Strobel {BIO 5296838 <GO>}

Chris, thanks a lot for your questions. I think the first two, the share buyback and the interest vector and bonus topics in Life, I think can be answered by German. I will give you some details on the new business margin and the management change.

A - German Egloff {BIO 4782831 <GO>}

Yes indeed. Actually with the current share buyback program we will follow that or continue that until there is still some shares are remaining from the last program. So we'll actually continue until we have exactly the number we need to cover the convertible which is outstanding. So that means it's about 80,000 shares which will be bought during the next couple of weeks until end of April. So it's only 0.2%, so we are almost done there.

About the interest movement and so on in the first half and the second half in Switzerland and the surplus, the bonus costs, all in all, I can just summarize it, because it's extremely complicated. Because for the first time currency have actually contaminated this interest rate factor thing as well, because, of course, the ongoing income has changed. And because there is as well an estimate for the long term development of the interest rate in that figure and the euro crisis just started in the second half. So even though, let's say, 10 year interest rates have risen, the prospect for the very long term interest rates are not better than they have been in the first half.

So to summarize that, I would say interest rates and currency effects were a bit bigger than the positive were a bit bigger than the positive influence of the surplus bonus costs. In fact, I would say the result -- the net result of that is probably minus CHF20 million.

Q - Christopher Hitchings {BIO 2034501 <GO>}

Is that for the year or for the second half?

A - German Egloff {BIO 4782831 <GO>}

For the year; for the year.

Q - Christopher Hitchings {BIO 2034501 <GO>}

So there's a CHF30 million positive in the second half?

A - German Egloff {BIO 4782831 <GO>}

No, no, wrong. It's not for the year. It's for the second half actually.

Q - Christopher Hitchings {BIO 2034501 <GO>}

So minus CHF20 million for the second half.

A - German Egloff {BIO 4782831 <GO>}

Wait a minute. I clarify that, Martin's answering the other questions.

A - Martin Strobel {BIO 5296838 <GO>}

So while German is looking up the details regarding the interest rate structure and relation to the bonus adjustment, Chris, I'd like to answer you further questions.

One was the development -- cost development of the new business margin in Germany and Belgium. And here we work heavily in the entire Group to improve the profitability of our Life business.

As you might know, due to our -- in the history of Baloise we focus a lot of improving the Non-Life. And we keep on doing so since we know that the combined ratio performance is one of the key performance drivers. But now, with the start of B2012 we focus also a lot on the Life business.

So what have been the main drivers to increase the new business margin in these countries? Growth -- growth helps a lot. If you had a stronger growth, this has the very positive effect on the margins. Then you see a substantial cost effect also in new business margins, since costs are going down, and this widens, let's say, the margins going forward.

Especially in Germany, we adjusted the shareholder split substantially. This was one of the things we aimed for when doing the unwinding in Hamburg. Now we have full control of our operations in Hamburg. One effect of this full control is that we really now can adjust the shareholder split according to the policy of Baloise Group.

A fourth factor is a product design/product mix we apply in our MCEV based profit tests to all new business in our major operations. And here we are much preciser in terms of what should be the guarantee level given to the customer, what type of guarantee should be given to the customers, resulting in a lower, let's say, time value of option and guarantees for the new business.

And the last factor, it's more a technical point. We apply now in the MCEV also a liquidity premium, being consistent with all the EDC assumptions. And this again also has a positive effect on the new business margin.

So these are the major drivers; how we try to improve the quality of the new Life business.

Now coming to your last question, then I will hand you back over to German. The management change, we disclosed today that Olav Noack will no longer be the CEO of the Swiss business, the reason being different opinions in the area of leadership. Put differently, the reason is not that we are not happy with the development of Switzerland, or the strategy of Switzerland, or the results of Switzerland. As you might see, the results of Switzerland are good, and are quite convincing.

I'm very happy that we have really found a very good internal person to lead now the Swiss business. It's Michael Mueller, who has -- with Baloise now for 14 years. He has worked in the Holding for some time, now for two years in the Swiss business, and takes over the business immediately. And he will pursue actually the same strategy in the Swiss business as before, so I don't expect any major changes to our strategy or direction. I think it was more a question on the leadership topic that led to this management decision.

I would now like to hand you back to German on the question of the interest structure.

A - German Egloff {BIO 4782831 <GO>}

You were perfectly right. Sorry, I was a bit confused, because I got non-verbal signals here that were a bit confusing. So minus CHF20 million, and you had the CHF55 million in the first half, so that means plus CHF30 million more or less in the second half. So perfect.

Q - Christopher Hitchings {BIO 2034501 <GO>}

And that plus CHF30 million can be regarded as an exceptional profit can it, if we are looking going forward?

A - German Egloff {BIO 4782831 <GO>}

Yes, because it was, well, negatively impacted by interest rates and currencies, positively impacted by the -- because of the surpluses. So it was, in both sides, an extra effect if you like.

Q - Christopher Hitchings {BIO 2034501 <GO>}

Okay fine. Thanks very much indeed.

Operator

Stefan Schuermann, Bank Vontobel AG.

Q - Stefan Schuermann {BIO 3235442 <GO>}

One question on the hedging of your foreign exchange exposure. You have CHF430 million net euro exposure and CHF500[ph] million net US dollar. You indicated that was hedged up to 80% -- or 60% to 80% by the end of the year. Can you give us an update today, and your plans on this?

Then the second question on interest rates and activities. You give a nice overview on slide 35 on a lower yield curve. Can you maybe give us some indication if the yield curve goes up 100 basis points as well, and the IFRS result impact?

And maybe the last one on M&A; you increased your market share in Belgium by acquisitions. Can we expect further maybe moves, and should we expect that you will do that on own financing, own funding, as well?

A - Martin Strobel {BIO 5296838 <GO>}

Thank you very much Stefan Schuermann. I will hand the question -- hedging question over to Martin Wenk to give you the actual status. Then the plus on the 100 basis points yield I will ask German to give an indication. And I will personally then answer the M&A question. Martin, may I ask you to give the answer to the hedging?

A - Martin Wenk {BIO 4193573 <GO>}

We have had very high hedge ratio during last year, also even the highest at the end of the year. We have released a little bit of that hedge ratio in the beginning of this year in regard to the euro. What we have done thereafter is we have increased our hedge ratio for the US dollar in the aftermath now of the events in Japan, because we are believing in the fact that the Japanese people will repatriate a lot of their money into Japan.

And the actual hedge ratio as per yesterday was -- in the euro was 87% and in the US dollar it was 85%, while for the Life business it was 95% and for the Nonlife it was about 70%. So that's across the businesses, the hedge ratios.

A - Martin Strobel {BIO 5296838 <GO>}

I hand you over to German, talking about the plus 100 basis points.

A - German Egloff {BIO 4782831 <GO>}

Well sensitivities, I would refer to the MCEV report on page 15. So the IFRS sensitivities are accordingly.

Q - Stefan Schuermann {BIO 3235442 <GO>}

Okay. And maybe on these -- they are still quite high. Are you working to bring them down, or what will you expect here?

A - German Egloff {BIO 4782831 <GO>}

Well one possibility of an answer is that we can actually afford it, to have a bit higher sensitivity on interest rates. That, of course, opens opportunities as well; it's not only negative.

Of course, if you're less sensitive there, it has advantages if interest rates are going down, but it has huge disadvantages if it's going up. So currently we are at quite -- obviously down, or --

Q - Stefan Schuermann {BIO 3235442 <GO>}

That's helpful, yes, thanks.

A - German Egloff {BIO 4782831 <GO>}

managed.

Q - Stefan Schuermann {BIO 3235442 <GO>}

That's helpful, yes, thanks.

A - Martin Strobel {BIO 5296838 <GO>}

And now talking about the M&A. First, our policy remains unchanged. We are -- first of all, we are looking at an organic development of the Group, since I think this is, let's say, the best risk return, also from a shareholder perspective.

Secondly, in our core markets we are looking for bolt-on acquisitions, and we're very happy that we were able to invest and find targets -- appropriate targets that did meet our hurdles, in Belgium and Luxembourg.

Going forward, can you expect from Baloise do such things again? The answer is yes, as soon as we find further targets that meet our criteria, since we have a very good balance sheet, we have a good earnings dynamic, we can really afford to invest further, also in inorganic steps. They will be in our core markets, in our existing markets. They will be bolt-ons; that's the type of transaction you might see, going forward.

Talking about how to finance these, we always look at all, let's say, how do we finance? And I think it is more, let's say, we have a normal refinancing mode; maybe German can give you some details here. And I think we will refinance these transactions as we have done in the past. So I think no real surprises from Baloise regarding these decisions.

Maybe, German, on the financing side?

A - German Egloff {BIO 4782831 <GO>}

Nothing really new there, except for, as you know, there is now a hybrid market in Swiss francs as well, where you can go for smaller portions than in the past. So this is certainly another instrument which you should look at, especially so in a solvency environment. That is progressively developing. Solvency II, we don't really know what's coming there, and so we'll certainly look at different kinds of capital.

But in fact, nothing spectacular; I would say just really the new thing is that hybrid in Swiss francs is a possibility now, and it wasn't a couple of years ago. And you might remember that when everybody was trying to talk us into a hybrid -- an issue of a hybrid bond, we resisted. I think nowadays it's probably more attractive, especially in this interest rate environment. But we will talk to that if we come to it.

Q - Stefan Schuermann {BIO 3235442 <GO>}

Okay, yes, thank you.

Operator

Fabrizio Croce, Kepler Capital Markets.

Q - Fabrizio Croce {BIO 15005585 <GO>}

Three questions please. The first one is on cross-border business. If I look to the growth that you are having on this business I saw actually a nice increase, which pleased me. But still the operation is unprofitable. Even if there is a lot of volume around it's the third largest operation, the other segment. I see that the EBIT loss is of minus CHF17 million. So the question here is, when will this operation be breakeven, if at all, or are you looking to close it down?

Second question is about the return on equity. The return on equity of 15% over the cycle seems a little bit challenging considering that the past two years you had some 10% return. Then I understand, of course, the current macro-economic environment, recession related claims, but the point is here, how much realized capital gain do you need actually to allow us to see the 15%? And is this target still realistic if we keep current environment for up to 10 years, for instance?

And the third question is about Bank SoBa. Bank SoBa is one of the reason because you are not reaching the 15%, because it's yielding some 7% return on equity, diluting actually the Group return on equity.

So I don't know if SoBa is a drag to Baloise, or Baloise is a drag to SoBa, but the fact is that the other Cantonal Banks are yielding around 9%, 10%, so something is going not in a proper direction here.

A - Martin Strobel {BIO 5296838 <GO>}

Thank you very much for your questions. I suggest that Jan De Meulder, who joined us for the Q&A session, is going to answer your question on the cross-border business, and I will answer your question on the return on equity and the Bank SoBa. Jan?

A - Jan De Meulder {BIO 15407344 <GO>}

Thank you. Cross-border business we have in Luxembourg, and we have in Lichtenstein, and you have two streams. One is the unit linked REPA[ph] business, which we have in Luxembourg and Lichtenstein, and which now has reached a sizeable volume. We have about CHF5 billion assets under management, and that activity in itself is profitable.

The other part is the new products, the VA[ph], which we started in Lichtenstein in 2008, we went into the market. And as you know, a start up in Life always takes time to get break-even, and we are very happy with the volumes that we realized here. We are not breakeven yet, but expect that to come in 2012/2013, at the latest.

Of course, with the low interest rate environment last year, the margin suffered a bit on the Swiss business, but nevertheless, we are very confident that we will reach break even soon, and very soon for our new start-up also in Lichtenstein.

Q - Fabrizio Croce {BIO 15005585 <GO>}

So you are still convinced of this business in that sense. I understand it that you're not closing down?

A - Jan De Meulder {BIO 15407344 <GO>}

Absolutely. We're convinced and we are really driving it forward. We -- VA we have in Switzerland, to a large extent, but we are also starting it up in Belgium and Austria. Other markets will follow. And the cross-border life unit linked business is a growing market. We are convinced also in other countries there are opportunities. We are looking at other countries.

We have been very successful this year in Italy. Although the Scudo Fiscale ended in April, we still wrote and write business in Italy. Also, in Belgium we have considerable volumes. And now that the legal situation in Germany is clear, also there we see the business picking up. So we're really committed to drive the business forward.

A - Martin Strobel {BIO 5296838 <GO>}

Mr. Croce, I'd like to come to your second question regarding the RoE. I just can repeat we stick to our ambition of the RoE of 15% over the cycle. I know, and I think you're reasoning is right, that this is really quite ambitious since we are faced now with a very low interest environment. We are faced with a low euro. These are substantial macro effects for our profit and loss statement. But we stick to our ambition, since we are convinced as soon as we will see normal interest rates and normal world in exchange rate, our earning power will increase substantially.

We talked before about the sensitivities, for instance in the Life book, and you can see them from a negative or from a positive point of view, we're looking at them from a positive point of view, in case that interest rates go up, you will see a substantial increase in value for Baloise Life book. And this is substantial and will really affect positively the earnings side.

And in calculating these targets, we're not factoring in, let's say, capital releases or something. This is -- we're aiming for a sustainable business model, so that's what we're aiming for and we won't change the 15%, although we know and we accept this, it's very demanding at the given environment. But we really like, as an attitude, to be ambitious and to really improve Baloise. One very important factor is our Baloise 2012 program; that's progressing well and will help us to improve Baloise further.

Now coming to your third question, talking about Baloise Bank SoBa, first of all a technical point, the RoE that we disclose is a -- is local GAAP, so the IFRS calculation, the internal one, might look a bit better.

The second point here is, yes, the local RoE that we disclose, and you find more details on slide 62 in our presentation that's in the back of materials, the profit and loss statement of SoBa. We disclose a further information -- additional information. So what's the added value to the insurance by the joint business model of the focused financial services provider? As you see here on page 62 in the second line from the bottom that this added RoE. So including the contribution from the insurance side is 11.4%, so this is higher than the RoE of Baloise Group; meaning, the model adds value to Baloise Group.

So I think this shed some light on the integration of the two business models in the environment where it's not so easy to sell individual life -- life insurances, due to the low interest environment. We are quite happy to have the Bank as a integral part of our business model, since we can offer saving products to our customers, so the money sticks within Baloise. We have the highest reinvestment quota in the market; it's still around 40%. So this means 40% of maturing life business in Switzerland is reinvested in Baloise products, be it life insurances or be it saving products with the Bank.

So I think really the model has shown very well that it works, but, Mr. Croce, you are right, we are really aiming for further improving the Bank. You might have seen that the cost income ratio is -- has come down, due to our investment in the IT platform, and that's not the end. We will go forward in further improving SoBa.

Q - Fabrizio Croce {BIO 15005585 <GO>}

Sorry, I have a follow-up on the RoE 15%. If no capital release are offset in the -- actually in the 15% RoE target, by how much should interest rates go up; that's a humungous figure.

A - Martin Strobel {BIO 5296838 <GO>}

Yes, I think, for -- we -- talking about this question, let's say, what's the average interest rate you have seen over the last 20 years in Switzerland, I think that should be a level that what we regard as normal. And if you talk about this, then you see that we're quite in a low interest environment, and far from being in normal times.

And I'd like to remember, in '07 for instance, we had this RoE of 15%, so it's not we have never reached it. We have reached it in '06, '07. We did not in the last years, due to some substantial macro effects, but I think the business model is geared towards, over the cycle, having really a very nice profitability.

A - German Egloff {BIO 4782831 <GO>}

If I might add it's not that we assume absolutely no capital releases. We assume an average return on shares of 7.5%. So that means dividend yield and the difference can be done by capital releases, but no extra releases.

Q - Fabrizio Croce {BIO 15005585 <GO>}

Yes, okay, now it works. Okay. Thank you.

Operator

Farquhar Murray, Autonomous Research.

Q - Farquhar Murray {BIO 15345435 <GO>}

Two, hopefully, quite brief questions around the combined ratio. Firstly, if we just focus on the adjusted loss ratio of 63.8% in the full year, that's deteriorated about 1.1percentage points year on year, and compares to about 59%/60% in the first half. And I wonder if you could just give us some color around what happened there, particularly in the second half.

Then looking forward, I wonder if you could just give us some color around where tariffs and claims' inflation are at the moment, and where you expect those might go through 2011. Thanks.

A - Martin Strobel {BIO 5296838 <GO>}

I will answer these questions from a market perspective. First of all, we disclosed a adjustment for the claims above CHF4 million, and German Egloff already gave these figures; normally we expect CHF45 million and then have seen CHF84 million, so a higher claims' load.

Actually, what you don't see in the figures, we also had a higher claims load on the large claims, a little below the CHF4 million. So this 1 point loss increase -- or increase on the loss ratio you have seen, is largely due to a really major -- major claims, not only above CHF4 million, but also below CHF4 million, let's say, CHF3.8 million, CHF3.7 million, and so on, and so on and so on.

The normal claims' ratios we don't see a difficult picture. So the impression looking at the books in the markets we operate is -- on is that we are still have a very good claims' frequency in the major books, so no adverse development. So I think that's important here.

If you see -- if you talk about tariffs, my impression, talking to my colleagues in the markets is that we have seen the lows in the market. And in some selective cases, we have already been able to increase new rates. For instance, this is true for the car business in Switzerland; this is true for some of the businesses in Germany, some of the businesses in Belgium. But it's too early to really say we will see substantial increase in tariffs, but I think the movement is now going up and not going down any more.

My impression is that also the development now in Japan, from the really large claims' load that the reinsurance companies face, might help, but it's a might; I don't know. But I expect actually that we will see, as a secondary effect, also the increase of reinsurance premiums and that would really start, let's say, the next cycle. As you might know, the pricing cycle insurance business is, in many cases, driven by the reinsurance pricing cycle.

Claims' inflation, we don't see anything particular right. Claims' inflation is within our normal ranges and the normal assumptions we have also on our profit and loss statement and the balance sheet, and we don't see really big, let's say, changes in the inflation itself. What we expect going forward is a further improvement. With Baloise 2012, we work on the claims' processes to further improve also the -- let's say, the claims' quota, and we will see further effects here coming from Baloise 2012.

Q - Farquhar Murray {BIO 15345435 <GO>}

Thanks for that. Just one follow-up, if we took the CHF4 million large claim down to say, CHF3 million large claim. Do you have any sense of what the impact of that number one[ph] is?

A - Martin Strobel {BIO 5296838 <GO>}

I will hand you over to German, who is good at giving such (inaudible).

A - German Egloff {BIO 4782831 <GO>}

Well I couldn't tell you, but it would make a lot more. So if you actually compare the first half and the second half, one -- I can tell you two reasons that make a difference.

The first one is that we had some extra gains out of previous years in Belgium in the first half, so actually that, of course, didn't repeat in the second half. So that means if you have an extra CHF2 million in the first half, but nothing in the second half, so you're loss ratio becames -- becomes worse. And the second effect is that we had quite substantial large losses in the second half, which were not triggering the retention rate of the reinsurance, so that means the gap between gross and net widened actually in the second half.

But you're right, there were quite an amount of cases, so in the magnitude of CHF2 million to CHF4 million. I couldn't give you an amount, but it was -- I think it was substantial. So therefore, that really triggered the -- it could be CHF20 million, I don't know.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. Thanks very much indeed.

Operator

Mr. Michael Haid, CA Cheuvreux.

Q - Michael Haid {BIO 1971310 <GO>}

Just coming back to this before -- to the combined ratio before reinsurance and net of reinsurance. The gap is round about 3percentage points. It seems that you cede attractive profits to the reinsurers. How is this gap explained? You just mentioned one effect could be large losses, which did not hit the reinsurance cover. And do you expect this to -- this gap to come down or to close in 2011 and 2012?

And second question, a standard question these days; yields on the investment, you increased the duration of the fixed income portfolio in Life and you realized some capital gains in Nonlife, where you probably reinvest at lower rates. So where do you see the running yields, both in Life and Nonlife in 2011 and 2012?

A - Martin Strobel {BIO 5296838 <GO>}

Thank you. I will hand you over for the first question to German Egloff and the second to Martin Wenk; German?

A - German Egloff {BIO 4782831 <GO>}

Well firstly, we are buying reinsurance really for catastrophes, so it's -- they are Excel[ph] contracts, which are really covering bad cases. This year, we had the problem -- or, the problem just as it happened. Apart from Xinthia, there were no natural disasters, so they were really single cases; that's one reason. And in those cases that's quite cleared up the gap -- the reinsurance doesn't help you a lot.

Second reason is that couple of years ago, when we started with the first share buyback program, some of the investors said, well, can't you actually use your capital for your core business. And there we increased the retention rate in reinsurance, which made from a risk-return point of view, lot of sense and I think it still does. But of course, you can, in a year that just belongs to the business, run into a claims' structure where you're ahead[ph], but not really, so reinsurance just isn't triggered.

And the third effect, which is quite important, is we are still being part, and are managing, couple of captives for big corporations and that means we have a natural gap, which is quite substantial as well. We did as well -- but that was just finished now, we did as well some fronting business from -- for companies which were not operating in Europe, but had, for their international programs, to have local coverage. So that creates a natural gap, but this is -- you can't really close it, because if somebody tells you he is earning money with his reinsurer over the years, then he's just lying.

Q - Michael Haid {BIO 1971310 <GO>}

Okay.

A - Martin Wenk {BIO 4193573 <GO>}

Regarding the investment yield, I can tell you that you have some details of that on page 43 in the backup of the slides, where you see the direct yield and the guarantees actually we have, and you see there that the yields came back 0.1% over the year.

Now I have to remind you that 2010 was a very special year in this regard. We had a low in the 10-year government bond in Switzerland of 1.0%. We are, right now, again, at much higher rate of about 1.8%. So I think it was quite exceptional over the last year.

On the other hand, it is still the case that the bonds coming due have a higher coupon than the ones we can buy right now. And that means that, if interest rates are not going up this year, we will have another drawback of, probably, about 0.1%. But as I said, it depends heavily on the development of the interest rates this year.

Q - Michael Haid {BIO 1971310 <GO>}

And that goes for the Life business?

A - Martin Wenk {BIO 4193573 <GO>}

That goes basically for both. Of course, we have a shorter duration in Nonlife. And we will be able to reinvest more swiftly in the Nonlife business because of the short duration. But the bonds maturing have approximately the same coupon yield, so it goes for both.

Q - Michael Haid {BIO 1971310 <GO>}

Okay. Thank you very much.

Operator

Tim Dawson from Helvea

Q - Tim Dawson {BIO 3214668 <GO>}

Just a follow up on the question on the business of the claims ratio; if I've missed some information I apologize. But one of the things the previous questioner was asking about was the underlying claims ratio, because, in the response, you mentioned a couple of things about PYDs and large claims, and so on. But if one, very simplistically, splits the business half and half between H1 and H2, you basically got a claims ratio just under 60%

for H1, something around nearly 64% for the year, suggesting something like an adjusted loss ratio of 68% for H2.

I'm just wondering, is that a normal seasonality? Is that all explained by these 2 million to 3 million claims? Or is there something else going on there that we should be aware of, and that might carry through into the future?

A - German Egloff {BIO 4782831 <GO>}

No. I would say that's a normal seasonality. It depends as well as like the calendar days are hit by, let's say, weather diversity. Normally H2 is a bit bigger -- you have more losses in H2, than in H1. That mainly comes from the hail season in Switzerland. Now we had about two or three hail storms in Switzerland, but just smaller ones. Not really big ones. So in fact, of course, they have cost us a couple of million as well. But they have not been so huge that, as I mentioned before, that re-insurance was triggered or so.

But currently what we see, and from the analysis, I would say that's normal volatility you have due to weather, and due to portfolio mix as well; because you might have a bit more property, a bit more liability, so that changes as well, but quite normal.

Q - Tim Dawson {BIO 3214668 <GO>}

Okay.

Operator

Peter Eliot from Berenberg Bank

Q - Peter Eliot {BIO 7556214 <GO>}

If I could just follow up actually on that last question, specifically looking at Belgium. There, I think, the claims ratio in the second half of the year, I reckon, was about 75%, against a normal run rate of about 60% in both halves of the year, if I'm not very mistaken. So I was wondering if you could just comment a little bit more on that?

And also in Belgium on the expense ratio, the cost ratio, which ticked up a bit since the half year, I was wondering whether there's anything in preparation for your acquisitions, or anything else that you'd like to highlight on that?

A - German Egloff {BIO 4782831 <GO>}

You're referring to the 45% in the first half?

Q - Peter Eliot {BIO 7556214 <GO>}

Yes

A - German Egloff {BIO 4782831 <GO>}

And that was exactly those reserves -- gains on reserves that I mentioned a couple of questions before, in Belgium, and that was in the first half; that was one of the reasons. And of course, it wasn't repeated in the second half. That was --

Q - Peter Eliot {BIO 7556214 <GO>}

No, so the implied loss ratio, in the second half, was, therefore, 75%, which is much higher than your normal run rate.

A - German Egloff {BIO 4782831 <GO>}

No, no, I would say the second half. It's just, of course, it's on a lower volume in the first half. You have just half of the premium. So you can't just take the average of the two; it wouldn't work.

In the first half it was, I think the extra gains was, about CHF25 million/CHF30 million something, but, of course, measured just with the half-year premium. So that's why the effect on the claims ratio was relatively huge in the half-year. But in the full year, half of it was then weared[ph] out, let's say.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay, it still seems seasonally quite high in the second half, but okay. And was there anything on the expense side or?

A - German Egloff {BIO 4782831 <GO>}

I mean there was, in the second half, in Belgium. What we had there was this flood in -- where was it, somewhere in Flanders. It was not huge but, nevertheless, a couple of millions as well. One of these cases that --

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thank you.

Operator

Dhruv Gahlaut from HSBC Global Research

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

Just a couple of questions, firstly in terms of cost savings. I just want to know as in the remaining cost savings, how does that split between Life and Nonlife?

Secondly, in terms of your MCEV report, if you could give a breakdown in terms of how much is free surplus, and how much is required capital from the SA[ph]? And if you could say something on the gross strain, where that is? The net strain was about CHF40 million last year. Thanks.

A - Martin Strobel {BIO 5296838 <GO>}

I will give you some details on the Life and Nonlife split. Then I will ask German Egloff to talk about the split on the required capital and the free surplus; and the second question on the MCEV.

Life/Nonlife, in general one can say that if you take these CHF200 million as the total effect of Baloise 2012, then split between Nonlife and Life this is about 20% for Life, and 80% to Nonlife. How come? As you know, in the Life business, if you improve the business then it's a lot of -- it's eaten up, so to say, by, for instance, legal quote mechanisms and shareholder -- or policyholder participation.

So this means, I think it's a general ball-park, between the 80%/20%, or 70%/30% would be a good split to make a split between Life and Nonlife of Baloise 2012 effects.

If you talk of improving the Life business in terms of Baloise 2012, please take into account that some of the improvements we make to Life might not appear in the Life portion of the Life segment of our profit and loss statements. You will see some of the effects in the Banking division.

For instance, if we improve the fee structure of the Asset Management, let's say, from a look-through perspective, that's an improvement of the Life book. But in our profit and loss statement under IFRS deposit effects show up in the Banking segment. So that's a technical detail on where to find the improvements of the Life business.

Now I'd like to hand you over for the MCEV split of the required capital.

A - German Egloff {BIO 4782831 <GO>}

Well the free surplus, unfortunately I have to stick to my answer I gave you a couple of weeks ago. I think, in the current environment, especially so until we don't really know what that kind of Swiss Solvency and Solvency II models are established, it doesn't make sense to make that split, because it might well be that I have to remodel it within a couple of weeks, and I wouldn't run that risk. So currently, I'm sorry, but I'm not able to publish that.

But of course, that doesn't really help you. But you could just make an educated guess. Other people, or other companies, show SoBa[ph] I figure, and this doesn't make sense to us. But as for the moment, we have to stay with that.

Now the third question about gross net strain in the MCEV. The business strain is actually the deferred acquisition cost. You see on page seven of the report, you see the CHF40 million in the shareholders' net assets. And of course, there is no split between policyholder and shareholder here as well, free surplus and required capital.

Q - Dhruv Gahlaut {BIO 16209870 <GO>}

All right. Thanks.

Operator

Rene Locher, NZB.

Q - Rene Locher {BIO 1921075 <GO>}

Just on the acquisition of Nateus, I guess the Solvency I ratio of 224%, that's before the acquisition. So perhaps you could give an indication where Solvency I stands after these acquisition.

Then you mentioned before, German, that you would like to -- or you intend to tap the hybrid market. So I was just wondering what amount you're targeting if then. That's the first question.

And the second one is on Baloise 2012, if I take a look at the chart on slide 29, well, I understand that we've got one-off now in 2010, so that we end up with CHF92 million. That explains a little bit flattish achievements going into 2011, because Mr. Strobel mentioned before that we have to do some investments in German sales. But then we see a huge achievement in 2012. Perhaps you can just explain how you go from 2011 to 2012?

And well, it might be a little bit of a stupid question, but if I take a look at on slide 13, there you mentioned that Nonlife business duration reduced two bonds sales resulting in realized gains. Then I go to page 15, I can see, in the Nonlife business, that you have realized loss, including impairments on the fixed interest securities of CHF41 million. So perhaps Martin Wenk could just give me a little bit more insight here. Thanks.

A - Martin Strobel {BIO 5296838 <GO>}

Thank you very much Mr. Locher. I will hand you over for the acquisition Solvency I effect to German Egloff and also the Hybrid. I will answer the B2012 question personally, and then I will hand you over to Martin Wenk; German?

A - German Egloff {BIO 4782831 <GO>}

Well the first one is, of course, a trap question. As long as, firstly, the purchasing price is not fixed yet. And secondly, it's not decided how to finance it, it is not possible to give you an indication of the Solvency I as well, that's quite clear.

And I just said that hybrid is an option as well within, let's say, the financing orchestra. I didn't say I will tap the hybrid market and, of course, I wouldn't even say to what amount. There are a couple more possibilities. You might as well ask, are you doing a loan in euro, for example, because, obviously you have to pay Nateus in euro, and not in Swiss francs. That would be a good question as well. And I wouldn't answer it either.

Q - Rene Locher {BIO 1921075 <GO>}

Okay.

A - Martin Strobel {BIO 5296838 <GO>}

Coming to the B2012 question, so how come there is a hockey stick at the end of the program? Actually there are two main reasons why you see this type of hockey stick.

First of all, related to Baloise 2012 or interlinked Baloise 2012 are heavy investments. For instance, to change the business model in Switzerland, called the Skephart[ph], it's an internal project, we have to invest heavily in IT, and people training, and all the stuff. And you see the effects, for instance, in 2010, a small part of capital is also into 2011. And the full effect, positive effect, of this measure, without, let's say, investment, you see then in 2012. So that's one reason for this is the, let's say, investment dynamics of Baloise 2012.

Other reason for the hockey stick is that some substantial measures take longer time of realization. I can give you two examples for this class of measures. One is Germany. In Germany we start the real, let's say, physical unwinding and then, afterwards, the integration that we started this year. So this means we have, this year, the big investments; and we start to realize the positive effects next year. So that's a measure that, let's say, really actually starts right now this year. And we see the effect in 2012 and the coming years.

Another example for this type of measure takes a bit longer is corporate IT, and that's taken care of by German Egloff. And here again, we have quite essential investments in, for instance, consolidating the different data centers throughout the Group, before we see the positive results then in '11, and especially in '12.

So these are the two main reasons the investment dynamics, and some measures that take a bit longer for realizing their value that are the drivers for this hockey stick.

Q - Rene Locher {BIO 1921075 <GO>}

Thanks

A - German Egloff {BIO 4782831 <GO>}

Then I will expand on the sale of, or the shortening of the duration. In Nonlife you can see actually the details on page 54, that we have shortened the duration from 4.8 years to 4.5 years in Nonlife.

And now this fact, on page 15, that you see a negative figure there is solely attributable to the foreign exchange. And each figure you also have to foreign exchange variation. And for that reason, you would have to take the other position also together with the loss, because in other you have the hedges. And if you then look at Nonlife and Life, you see that in Nonlife we almost get even with the two figures, and in Life we have even a very positive figure, if you take the two together. And that's why the hedge ratio on Life is netly[ph] higher than in Nonlife.

Q - Rene Locher {BIO 1921075 <GO>}

Thank you very much.

A - Martin Strobel {BIO 5296838 <GO>}

So in case there are no further questions, I thank you very much for your interest in Baloise, and I wish you a nice day. Thanks a lot and talk to you soon. Bye.

A - German Egloff {BIO 4782831 <GO>}

Thank you.

Operator

Ladies and gentlemen, the conference is now over. Thank you for choosing the Chorus Call facility and thank you for participating the conference. You may now disconnect your line. Good bye.