Q2 2014 Earnings Call

Company Participants

- German Egloff, Chief Financial Officer
- Martin Strobel, Group Chief Executive Officer
- Martin Wenk, Head of Asset Management

Other Participants

- Daniel Bischof, Analyst
- Farquhar C. Murray, Analyst
- Marc A. Thiele, Analyst
- Michael I. Huttner, Analyst
- Peter D. Eliot, Analyst
- René Locher, Analyst
- William H. Elderkin, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, good morning or good afternoon depending where you're attending from. Welcome to the Bâloise Group Half-Year Results 2014 Analysts Conference Call. I'm Celina, 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 Mr. Martin Strobel, Group CEO. Please go ahead, sir.

Martin Strobel {BIO 5296838 <GO>}

Thank you very much. Ladies and gentlemen, welcome to our Analyst Conference. German Egloff and I'll be presenting our half-year results to you. So to start, together with Martin Wenk, our Head of Asset Management, we'll be happy to answer your questions at the end of the presentation. In our presentation, we will deliberately focus on only the key facts. This will allow more time for an extensive question-and-answer session afterwards.

That was the introduction. I would now like to go on to slide number three. I will start by presenting the highlights of our half-year results for 2014. German Egloff will then explain the key financials. Following on from what he says, I will talk about our operating performance from a market perspective. To finish, I will be telling you about where we stand with the implementation of our strategy and about the outlook for the future.

Let's start with the key results for the first six months of the year, as shown on slide number five. Ladies and gentlemen, I am delighted to report that Bâloise has posted a strong set of results for the first six months of 2014. Our profits went up by around 43% to reach CHF 350 million.

Our growth in target segments was stronger than before. The volume of business rose by 6.9%. The non-life sector once again proved to be a pillar of Bâloise success. Thanks to our strategy of continually improving our portfolio, we achieved an outstanding combined ratio of 93.2% net. This high margin in our non-life business ensures reliable substantial cash flows.

In changing financial markets, we've recorded investment income at an encouraging and stable level, demonstrating the strength and quality of our asset management. We achieved an investment yield of 2%. We took advantage of our strong balance sheet to further increase our exposure to equities.

In our life business, EBIT increased by around 151%. This leap in profits was driven by an improved product mix and strong gains on investments. Our hedging instruments protected us particularly well against falling interest rates.

We are strongly capitalized. Our equity now stands at around CHF 5.3 billion. Our solvency ratio is an impressive 316%. Our operational strength and robust capitalization are also reflected in the improved rating of A with stable outlook from Standard & Poor's. With these figures and results, we are firmly on track to deliver our financial targets for 2014.

That was a brief overview. I will now hand over to German Egloff who will explain the key financial aspects of the half-year results.

German Egloff {BIO 4782831 <GO>}

Thank you, Martin. Ladies and gentlemen, good morning from my side as well. I'd now like to give you a review of our operating performance in the first six months of 2014 starting with the summary shown on slide seven. But before I begin, I'd just like to point out two things. First, the already announced sale of our Austrian subsidiary is not included in our financial results for the first half of this year. As things stand, we expect this disposal to generate a one-off profit of around CHF 70 million on the IFRS when the deal is closed in the second half of the year.

And second, our first half financial results were also unaffected by the partial sale of our shareholding in (00:04:42). This transaction is also expected to deliver extraordinary profits in the second half of the year. We have already sold more than 6% of our total 10% shareholding in the open market and we have not ruled out the option of offering the remaining shares for sale.

As you can see from our key figures on slide seven, we achieved outstanding results in the first six months of 2014. Our profit for the period jumped by roughly 43%. Growth in income from life insurance business was highly encouraging, which is particularly remarkable when you consider that the interest rates have remained stubbornly low. The non-life insurance division once again demonstrated its operational strength by achieving a net combined ratio of 93.2%. We continued to grow highly successfully in our target segments, expanding our total volume of business by around 7%.

Our equity grew by a further 8% also from its already high level at the beginning of this year. Our strong capitalization was also illustrated by our Solvency I ratio of 316%, which was high compared with other European institutions.

I would now like to take a detailed look at the individual operating segments, starting with our non-life insurance business on slide eight. We achieved an excellent technical result in non-life insurance. The rigorous discipline that we applied to our pricing and underwriting enabled us to further enhance our operational profitability.

Our highly lucrative target segments such as our Swiss motor insurance business generated very impressive growth. The modest overall decline in premium income was attributable to portfolio restructuring measures. We decided to forego some premium income in sectors that yielded unsatisfactory profit margins, the guiding principle here being profit before growth.

The optimization of our German property insurance portfolio, namely our decision to exit the motor fleet business and to focus on attractive niche market segments, also had an adverse impact on our business volumes during the reporting period. However, these measures will improve our business mix and enhance the profitability of our portfolio.

In the first half of last year, we had realized a fairly large amount of gains on investments in our non-life business. In the first six month of this year, we were very restrained in this respect, which is why our earnings before interest and tax in this segment fell by 14% year-on-year despite our stronger operating performance.

Later on, I will take a close look at the gains or losses on the investments in our non-life business. First of all, however, I would like to say something about our insurance claims and costs.

Slide nine shows the change in our net combined ratio. The year-on-year improvement of 1.3 percentage points in this ratio demonstrates how we have strengthened our operational profitability. The combined ratio of 93.2% lies at the preferred end of our target range of 93% to 96%.

We are especially proud of the fact that the substantial improvement in our combined ratio during the first half of 2014 extend largely from the aforementioned further enhancement of the quality of our portfolio. The cost of basic claims fell sharply.

On the other hand, the costs of large claims declined only marginally year-on-year to approximately CHF 47 million. Prior-year claims development was, as usual, favorable. At 0.7 points, however, it was below the historical long-term average, which is around 2 percentage points to 3 percentage points on an annualized basis. Adjusted to include the costs of large claims and the profits on claims reserves, the underlying claims ratio improved by 4.5 percentage points to 58.8%. And this figure underscores the excellent profitability of our non-life insurance portfolio.

The expense ratio rose by over 2 percentage points owing to the aforementioned restructuring of our non-life portfolio. The reinstatement premiums paid to reinsurers are also a relevant factor here. Overall, however, our costs fell as a result of our efficiency device (00:10:17).

Let's now take a closer look at the changes in the gross combined ratios of the individual countries shown on slide 10. Whereas the first half of last year was primarily affected by major storms in Switzerland and Germany, hailstorm Ela was the only significant natural disaster that we registered in the first six-month of 2014. This event added 2.8 percentage points to the Bâloise Group's gross combined ratio.

Our business in Switzerland improved its gross combined ratio further from 86.7% to an outstanding 83.3%, thanks to the generally benign claims environment and the absence of any significant large claims. The gross combined ratio in Germany fell by 1 percentage point year-on-year to 103.3%. Although the level of storm-related claims was lower than in the corresponding period of 2013, a few large claims in our Germany industrial business increased the cost of claims incurred. The expense ratio rose by more than 2 percentage points, owing to the reduction in our premium base resulting from the ongoing restructuring and optimization of our portfolio.

Belgium's gross combined ratio of more than 101% was badly hit by the aforementioned hailstorm Ela. This natural disaster added 8.2 percentage points to our combined ratio in Belgium. By contrast, our costs exhibited an encouraging trend, as shown in the 0.9% decline in our expense ratio. Like our Swiss business, Luxembourg has also benefited from a benign claims environment and it excelled with a gross combined ratio of 81.6%.

Let's move on to the life business on slide 11. The life insurance business, which made a valuable contribution to the strong growth in the Bâloise Group's business volumes and to the sharp rise in its profits in the first half of 2014. The total volume of the business increased by more than 12% to over CHF 3.5 billion. This growth was broadly diversified. We observed consistently robust demand at all national subsidiaries except for Germany. Our group life business in Switzerland achieved especially strong growth. Volumes in so-called modern product also grew significantly in the first six months 2014.

Earnings before interest and tax in our life insurance segment came to CHF 249 million, which constituted a substantial year-on-year increase of more than 150%. Given the prevailing low level of interest rates, this may seem surprising at the first glance. I would therefore like to briefly explain the key drivers behind this result.

Firstly, our operating income grew significantly. The constant optimization of our business mix in recent years, which has seen a gradual shift from traditional life insurance products to more modern ones, is paying off and enhanced our operational profitability in the first half of 2014. And secondly, our life insurance business benefited from what for us was a benign interest rate environment in the first six months of this year. Because interest rates fell, the value of our interest rate hedging instruments rose sharply, which in turn increased the gains on our investments.

On the other hand, the burden on the liability side of our balance sheet was less pronounced. The reason behind this trend is that we monitor our life insurance policies very closely in line with market conditions and have already strengthened our reserve substantially because of the historical low interest rates in recent years. The net result of these interest rate effects was a pre-tax profit of roughly CHF 30 million for the first half of 2014.

Slide 12 shows a structural breakdown of our investments. The robust growth in our insurance business made itself felt here as well. The value of our insurance investments under management rose from CHF 54 billion to just under CHF 56 billion, owing to the higher fair values and the growth in business volumes. Our investment mix remained largely unchanged. More than half of the portfolio is invested in fixed income securities. We attach considerable importance to the quality and flexibility of these assets. Some 90% of these bonds have credit ratings of single A or higher.

We invest mainly in government securities issued by countries in which we operate. We also invest in high-quality corporate bonds. Our investments in longer maturities coupled with falling interest rates helped to lengthen the duration of the portfolio. Consequently, the duration gap narrowed further.

The strength of our balance sheet enabled us to increase our life insurance investments in equities and equity-related financial assets. Our total equity exposure rose by 0.8 percentage points compared with the start of 2014. We only purchased high-quality shares, which is a strategy that has helped to keep our regular income highly consistent. This takes us straight to our next slide.

Slide 13 shows how the recurring income from investments was kept virtually constant despite the fact that the interest rate on new investments remained well below the average of our portfolio of fixed income securities. In recent years, we have constructed a substantial portfolio of swaps and swaptions in order to mitigate the yield compression currently affecting fixed income securities.

The main purpose of these instruments is to hedge against falling interest rates. These hedging instruments help us in our efforts to continue earning an adequate regular investment yield. We can thus ensure that we are able to honor our life insurance guarantees in future and can earn a sufficiently wide margin in the savings results of this business.

The gains and losses realized in our non-life insurance business declined year-on-year and were below the historical long-term average. Gains realized on interest rate and currency derivatives and recognized in profit or loss led to a significant year-on-year rise in capital gains in our life insurance segment, which is reflected in the increase in the other line item. This category also includes valuation gains on real estate. We earned net investment return of 1.5% in our non-life business and 2.1% in life insurance.

I would now like to take a look at the changes in our equity shown on slide 14. The excellent level of profit for the period more than compensated for the dividends paid in the spring of 2014. Unrealized gains on fixed income securities recognized in equity also increased owing to the full in interest rates. Total equity grew by almost 8% compared with year-end 2013 to CHF 5.3 billion, emphasizing the fact that Bâloise was well capitalized. Accordingly, the book value per share rose by more than 8% to around CHF 112 million.

I've given you a summary of our excellent set of key figures for the first half of this year. I would now like to hand you back to Martin Strobel.

Martin Strobel {BIO 5296838 <GO>}

Many thanks, German. I would now like to talk about our business from a market perspective. Let's start by looking at our growth, which is shown on slide 16. Measured in Swiss francs, our business volume expanded by an impressive 6.9% in the first half of this year. This growth has two sources; the traditional life insurance business and modern unit-linked life insurance. In our non-life business, we are growing above the market average in our target segments. However, we are also forging ahead with essential restructuring measures. These two factors are together causing growth in non-life premiums to stagnate, while at the same time improving the quality of our portfolio.

Traditional life insurance was up by 6.1%. The main driver of this growth was our domestic business. In our group life business in Switzerland, we won new target customers, which had a noticeable effect on the growth figures. The unit-linked life insurance business performed very well, growing by 35.3%. In Luxembourg, Switzerland and Belgium, we succeeded in meeting growing customer demand with our modern range of products.

Let's now look at the country-specific breakdown. In Switzerland, our domestic market, we achieved significant growth of 6.5%. This encouraging result comes from the traditional life insurance business and investment-linked life insurance. Growth was particularly remarkable in our group life business, which went up by a considerable amount.

The volume of business in Germany declined, but this was partly due to the restructuring measures in the non-life business and partly due to the poor climate overall for life insurance in Germany, not least because of low interest rates.

Income growth from Belgium was encouraging. The volume of business rose by 13.5%. Our non-life business increased by 103%, while volumes in our modern equity-linked life insurance business almost doubled, growing by 83%.

Growth from our Luxembourg business was strong at 32.5%. This was partly due to the acquisition of Vivium in Luxembourg. However, there was also organic growth in non-life, in traditional life insurance and in unit-linked life insurance. That was the Gulf situation.

I'm now going to talk about our earnings, which are described in slide 17. We are proud that Bâloise EBIT went up by more than 30%. This underlines the profitability of our operating activities. Every business unit and every operating segment contributed to this positive result.

EBIT in Switzerland rose sharply by 45% to reach CHF 302 million. This increase was mainly because of the strong rise in earnings from life business. The non-life business and Bâloise Bank SoBa also delivered improved earnings.

EBIT declined in Germany. The reason for this is that we incurred further social plan and restructuring cost, after coming to an agreement with the workers' council in January with regard to the optimization measures. We are fully on track with optimization measures in Germany.

In Belgium, EBIT rose by 45.4% to reach CHF 95 million. In addition to the excellent operating performance, this was due in large part to the financial income in the life business. This increase more than made up for the negative impact of the Ela hailstorm.

In Luxembourg, EBIT rose sharply by 82.3%. The acquisition of Vivium had positive impact, not only because of its contribution to the business but also because of the beneficial effect of its integration. The acquisition increased our market share to more than 10%. The operating business also performed strongly, helped by a benign claims environment in the first half of the year.

And now, a divisional breakdown. EBIT declined in the non-life segment. This was because realized capital gains were lower than in the previous year. The operational profitability of our non-life business improved again, which can also be seen in the decrease in the combined ratio.

We made considerable gains in our life business, increasing EBIT by around 151%. This leap in profits was driven by an improved product mix and strong financial income. Our hedging instruments protected us particularly well against falling interest rates. Our banking division proved that it is a stable source of income, something that cannot be taken for granted in these challenging times.

Let's now turn to our Swiss business, which is shown on slide 18. As previously mentioned, our Swiss business has delivered excellent operational profitability and generated impressive growth. Non-life. Income from premiums grew at stable rates. We were able to expand business in the target segments through our target customer management and our positioning of Bâloise Safety World, while at the same time, we applied a strict underwriting policy for collective daily sickness allowance insurance and collective accident insurance, which naturally led to a decline in premiums.

Our target customer management program has been in effect for a number of years now. It is now being bolt up by Safety World. This is delivering both growth and high profitability. Our Swiss business achieved an excellent gross operating revenue with a combined ratio of 83.3%. Now, the reason for the strong combined ratio was the low incident of large claims in the first half of the year.

EBIT in the Swiss non-life business rose by 5.6% to reach around CHF 110 million. Gross premiums written rose by an impressive 8.1% in the life business. This strong growth is mainly attributable to the group life business. We've succeeded in accelerating growth in the target customer segment, which was reflected in significant growth in risk premiums.

We also achieved strong growth of around 71% in the unit-linked life insurance business. With our cutting-edge products, we are becoming increasingly successful at meeting customer needs and generating solid profit – solid growth, sorry.

The EBIT of the life business doubled compared to the first six months of 2013. This jump in profits was driven by an improved product mix and strong financial income. Our hedging instruments protected us particularly well against falling interest rates. Low interest rates, however, remain a challenge that requires us to make continual ongoing optimizations to our business. The new business margin at 11.9% is within our target range. This is down on the previous year because interest rates dropped again.

Bâloise Bank SoBa achieved excellent results. Due to growth and lower costs, the operating profit and net income remained stable and the cost income ratio remained practically constant. Because of the very high quality of our mortgage holdings, no impairment losses of any kind were required on this portfolio.

Slide 19 provides a brief overview of our international business. I have already mentioned that all international business units made a positive contribution to the overall results. In Germany, we are on track with our optimization measures. We have further accelerated growth in our target segments, while the rigorous implementation of refocusing and restructuring measures are leading to new improved product mix but also to a decline in the volume of business. Operational efficiency has been improving according to plan.

An update regarding the HR situation in Germany. Jan De Meulder is recovering well. We expect him back during the course of this year. Until further notice, (00:28:15) will continue to serve ably as interim CEO.

Our Belgium business is growing strongly. This is mainly due to the new partnership with banks through which we are selling our modern unit-linked life insurance. In addition to growth, our focus remains on the implementation of measures for improving operational excellence. These are taking effect. The expense ratio is continuing to fall. However, the combined ratio increased overall because of the severe Ela storm that struck in the first half of 2014.

In Luxembourg, the acquisition of Vivium increased our share of the market to more than 10%. The integration measures are proceeding according to plan. Strong growth and higher degree of operational excellence led to excellent earnings from our Luxembourg unit in the first half of 2014. With a combined ratio of 81.6% and 82.3% increase in EBIT, we wouldn't ask for more.

Profitability in Luxembourg also benefited from the positive impact of unit integration and from the low level of large claims incurred. We are expecting the sale of our Austrian unit, (00:29:28) Insurance, to be concluded in the very near future. By selling our business in Austria, we have now concluded our country-specific refocusing strategy.

On slide 21, I would give you an update on our strategy. We are poised to make Bâloise even stronger. We are focusing on profitable future-oriented segments. The sale of our units in Austria, Croatia and Serbia are as much a part of the strategy as the expansion of our target segments in Germany. Switzerland delivers continuously extraordinary results with its strong positioning in the highly attractive Swiss market and its clear focus on operational excellence.

In the attractive markets of Belgium and Luxemburg, we are growing our market position both organically and by making bolt-on acquisitions. But it's not just in terms of our country mix that we are focusing on attractive segments. For more than 10 years now, we have been earning our target capital management concept in order to reach out to the kind of people who value security. We aim to be their trusted partner of choice. We want them to grow together with us.

This clear focusing strategy perhaps is our measure for achieving operational excellence, means that we now have one of the most profitable insurance portfolios in Europe. In order to offer our demanding target customers' added value that is relevant to the needs, we are putting the focus firmly on our Safety World. It hones the basis of our positioning and it is our passion. Making you safer is more than an advertising slogan for us. It is our promise and embodies the added value that the Bâloise group can provide for its target customers.

Specifically, the all – we will integrate the Safety World even more tightly with our insurance products. These are the reasons why our safety and security components, our add-on products focused on intelligent prevention are becoming top sellers. Typically, 40% to 50% of new policies or renewed include one of these products, which clearly shows how attractive they are from the customer perspective.

Their appeals are also undoubtedly enhanced by our pricing, which takes particular account of how prices are perceived by customers. Thanks to these innovative intelligent prevention components, we are able to increase the relevant average premiums by around 6% to 8% by extending the relationship with our customers. This is enabling us to grow at an above average rate in saturated markets.

And these measures are having an impact. We are growing strongly. Our volume of business rose by 6.9% in the first half of 2014. This growth path of high operating margins in non-life and life business generates strong cash flows. This is reflected in our attractive and sustainable dividend policy, which we have been practicing for many years. Thanks to our focusing strategy around attractive proposition for our customers, for our employees and for our shareholders.

I will now finish by taking you through our financial targets on slide 22. The present half-year results demonstrated we are firmly on track to achieve our financial targets. We want to build on our strong operating earnings power, which will be reflected in achieving our target of a combined ratio of 93% to 96%. In our life insurance business, we are aiming for a new business margin of over 10%. Our strong operational profitability will translate into good profits. We are aiming for a ROE of 8% to 12%.

Going forward, the strong and stable level of profitability will continue to facilitate our practice of paying consistent, attractive dividends. We are confident of reaching this ambitious objective, thanks to our clear positioning of the Safety World and our four strategic levers; growth, non-life earnings power, life earnings power, and efficiency.

To finish, I would like to recap the main points from the presentation. We achieved outstanding results for the first six months of 2014 on the back of a clear positioning, strong growth and our substantial operating earnings power. Our profitability and balance sheet are strong, which we continue to facilitate our practice of paying consistent and attractive dividends. Our excellent results in the first half of 2014 and the strength of our company give us cause to be optimistic about achieving future growth.

Thank you for listening. Now is the chance for you to ask questions.

Q&A

Operator

We would now begin the question-and-answer session. The first question comes from Mr. Peter Eliot from Berenberg Bank. Please go ahead.

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

Thanks very much. I have three questions, please. The first one was on the life results. Well, I wanted to clarify how much of this result you considered as one-off. I know you mentioned a CHF 30 million net impact from interest rate falls. I mean, that would seem to imply sort of underlying EBIT of CHF 220 million or an annual rate of CHF 440 million, which obviously is sort of significantly higher than you've guided to in the quite recent past.

So, if the run rate is sort of even close to that level in your view, then I'm just wondering what other than business mix might have caused that change because it seems quite a lot of just sort of change in business mix. And perhaps you might also just comment on the regional split because, for me, Belgium in particular was a big surprise.

Second question I wanted to ask actually was on Germany where the underlying loss ratio, I think you said last year, was 60%, excluding the impact of the floods being a 9% impact last year. Just given the price increases we've seen there and given your actions on the portfolio pruning, I'm guessing, hoping the underlying loss ratio shouldn't be too far away from that at the moment.

So I was just sort of wondering if you could quantify the impact of those large industrial claims that you mentioned and the underlying trend there, and perhaps also just how far we are through the process of portfolio pruning and what we should expect from here in terms of further premium volume declines.

And then the last thing, sorry, was just on capital management cash flows. I'm just wondering how these high life earnings might impact your ability to take dividends after life division, if at all. And I guess on a group level, you've indicated sort of small increases in the dividend before which, on the current run rate, will sort of put you still within your target payout ratio range but towards the bottom of that range. So I'm just wondering maybe you could share your thoughts on what might cause you to sort of change your view there at all and whether small increases versus payout ratio range without in the event that those become inconsistent with each other. Thanks very much.

A - Martin Strobel {BIO 5296838 <GO>}

Thank you very much, Mr. Eliot, and I'd like to answer your second question. This is the underlying earnings for non-life Germany and third one, the – let's say, our capital strategy in general. And the first question, the life results and what's the run rate, I will hand over you then to German. So I'll start with question two and three and then give we go back to German Egloff.

Germany, actually we are fully on track with our optimization measures in all businesses. So this is non-life, life and efficiency. In non-life, the basic claims load is down considerably. So this is all due to the restructuring, for instance, in the housing arena and the house insurance business, but also in the car fleet business. We see it quite strongly declining. What we had in the first half in Germany was a considerable amount of large claims related to some individual customers. The good news is, in this regard, is that if you take these losses, 80% of these losses relate to contracts that we have already terminated before the claim came up.

So, from my point of view, this demonstrates that we, let's say, selected the right big customers, here bigger SME or small industrial clients. We walk away from these customers, as you know, according to our strategy, and the hit rate is quite high. So, 80% of large claims belong to contracts that we actually terminated before. But we have seen this in other businesses as well, but especially in the liability arena, you have, let's say, a certain timeframe where some losses pop up that's related, let's say, to the past.

In general, putting all this together, we are absolutely fully on track to reach a combined ratio in Germany that fits to the level of the group. The group target is 93% to 96%, and I'm absolutely confident that we will reach this quite quickly. So we are really on track to optimize the non-life portfolio in Germany.

You also asked, okay, what does this mean for our portfolio pruning, so what about growth. And we have seen a strong decline in non-life in Germany in the first half, and this will continue, let's say, in the second half. There might be a smaller decline in the first half of next year, but then it should come, let's say, to a stable and – to a stability since on the other side, we've seen acceleration of growth in our target segments. Target segment, as you might remember, are, for instance, the technical insurance business for SME, so the SME business in general where we have a good risk control and pricing power on this segment. And so, yes, there will be further decline, maybe not as fast as it has been in the first half, and let's say, you should see growth again in the next year.

Efficiency-wise, we are also fully on track. What we promise to you is to reach the CHF 40 million cost-cutting effect by 2015, that we are on track to deliver this. And what you see in the EBIT of Germany, the EBITs declined in the first half of this year, and this decline is due to social plan cost.

As you might remember, we communicated this in – I think, in March that we had an agreement. And in January and then in March with the workers' council on all our measures to improve efficiency. And this identity to the thing that we had to take into account fully the social plan and some restructuring costs. And along with the social plan is €12 million effect on the EBIT. So if you add this €12 million back, you see that EBIT in Germany increased. And this is due to the, let's say, underlying improvement of the business.

And so we're on track with the CHF 40 million. We're also on track with the 400 people or 400 FTE we want to reduce by 2017. In half-year this year, 130 FTE has left the company. By end of this year, it will be 230. So, actually, we are a bit before schedule – we're a bit ahead of schedule in terms of the reduction of the FTEs. It goes a bit faster than we expected this to be. So, also the numbers of FTE are declining strongly in Germany as (00:42:02) actually as planned. So, putting this all together, as you know, we are aiming for making Germany as profitable as our other subsidiaries in the international markets. And we are well on track to reach this target.

Now coming to your – sorry, yeah, Mr. Eliot?

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

Yes. (00:42:21). Thank you.

A - Martin Strobel {BIO 5296838 <GO>}

Now, coming to your third question that was the capital management and dividend question. What you know and what Bâloise is famous for, we want to be perceived as really attractive dividend payer. That's absolutely clear. I mean, we have proven so in the past and we will continue to do so in the future. So there's no reason to believe that Bâloise won't be attractive also from a dividend perspective going forward.

Now, we've got a very good year. 2014 has two elements. It's from an operational point of view, it's really good and improving, looking, for instance, at integration in Germany. And we have these extraordinary effects and we look at the big picture, let's say, and checking all options. We're checking all options regarding capital management. What this exactly means then, we will communicate as we do it always at the beginning of next year when we've seen, okay, how we closed this year.

Now, Mr. Eliot, I'd like to hand you over to German Egloff, what is the run rate of the life business.

A - German Egloff {BIO 4782831 <GO>}

Yes, well, the calculation you did is certainly adequate, but you have the CHF 30 million and if you end up with 220 million or something, I would share your opinion that this is too high, probably. If we see the differences year-on-year, then we have this interest rate driven effect. We have operational improvements. However, some of these operational improvements are one-offs as well. For example, we have cut down (00:44:10) Switzerland that is for, for example – is an example for that, and there are others things that are just coming along that one-off. So I would guess that about half of the operational improvement is probably recurring.

And the third effect is that realized capital gains have been a bit higher than in average. And now, it depends, of course, where they're happening due to the tax situation. And this is your other question about – that you were surprised about Belgium. Now in Belgium, our realized capital gains that have been driven by risk management thoughts because our exposure in Belgium government bonds was a bit high. So, therefore, we've realized bonds there and they are tax-free. And that is the reason that this ended up in the result – or one of the reasons that it ended up in the result and why the Belgium life result is that high.

So – and I would say, this has certain one-off effect as well. So, if you do the calculation with the CHF 30 million interest rate effect, I would take some more way to have a run rate, but I guess if you're around CHP 200 million, that's probably a fair estimate, given the current situation. Is that okay?

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

Yes, that's great. Thank you very much.

Operator

The next question is from Mr. Daniel Bischof from Helvea. Please go ahead.

Q - Daniel Bischof {BIO 17407166 <GO>}

Yes, good morning. Three questions from my side. On non-life, firstly that 4.5 percentage point improvement, I mean, the underlying claims ratio. Do you think this improvement is fully sustainable or was there also a degree of luck in there? And secondly, on PYLD, I mean, you have now a three-year downward trend of reserve releases. Could you tell us what were the moving parts in there and maybe also comment on the areas where you may even had increases? And maybe also going forward, should we still take the longer-term average of 2 percentage points to 3 percentage points as a good reference point for reserve releases?

And then just a quick one, I mean, there was quite some media coverage about better related losses in July and August. Just to get a sense, whether these were material events for Bâloise or you consider them as the normal noise?

A - Martin Strobel {BIO 5296838 <GO>}

Thank you very much, Mr. Bischof. And I'd like to answer the question one and three on my own. This is the non-life improvement and the – let's say, the natural disaster claims in the second half. And to prior year loss development, I'd like to hand you over to German Egloff.

So I'll start with your question number one. Actually, I'm very happy about the 4.5% because this demonstrates how we work on the portfolio. And I regard them as pretty sustainable. Why is this so? One fact comes from Switzerland. Here we do quite a big restructuring in the group health and the group accident business. And this will also go on since there the combined ratios do not fulfill our target levels. So we will see there fighting improvement in the loss loads from the Swiss business coming from these two sources.

We see a strong decline of the basic claims load in Germany. We talked about this that the colleagues in Germany are really very, very focused on decreasing the claims load, especially, let's say, the mid-sized normal claims loads. They also focus on large claims, as we discussed, but also on the, let's say, mid-sized claims load. And we see now the full or. let's say, we, yeah, we see more of the things fitting through in Belgium.

As you remember, we bought two companies in Belgium and they had – their loss ratios have been worse than the loss ratios of our operation in Belgium. And now we apply all this re-underwriting and our techniques target, our management target, customer management, Safety World, and this has an effect.

So, yes, I regard them as pretty stable. The 4% to 5% – I mean, to be honest, we had a little lower – large claims load. You might have seen this. It was below 3% in the first half. This was due to no major claims in Switzerland. I mean, the 3% is more or less also the run rate. So actually, on the group level, we didn't – we had to list a non-loss ratio from the more or less on – from the large losses and now this improvement in the midsized losses. So we are on a good track to improve the combined ratio further.

Coming to your third question, losses in July and August, yes, there have been some – it was quite a high media coverage, especially in Switzerland. I mean, you had the impression that half of Switzerland is under water if you open the newspaper here. And it must have been a different country actually because our Switzerland, from our point of view, was not that really affected that heavily by the storms and so on. So, yes, we had some claims. That's clear, but nothing worth mentioning in this call. German?

A - German Egloff {BIO 4782831 <GO>}

Yes. About the loss experience in previous years, well, quite often, that is sort of recognized as if we had a load full of reserves, and the question is just how – why we are opening the tap (00:50:26) and whether there are still reserves around or not. Of course, that's not exactly the reality. In fact, we have re-reserving of old claims and we have gains on old claims.

And I would guess – I mean, this is a half-year result and, as Martin just explained, the underlying was very good. It could well be that this figure, this 0.7% is a different one at the end of the year. It will certainly be. We have – I mean, by theory, it should be near anyway. However, the experience is 2% to 3%, and there is absolutely no indication why this should change. Because if I just think that we had a couple of re-reserving of old claims in Germany, so that's one of the reasons why the large claims load in Germany is that high and that we have coming different technical parameters in Switzerland, which are reserved already as well for the accident portfolio, then I'm quite confident that the substance within the portfolio and the reserve record is unchanged. So, therefore, in the long run, I'm still expecting the 2% to 3%.

Q - Daniel Bischof {BIO 17407166 <GO>}

Very helpful. Thanks a lot.

Operator

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

Q - Michael I. Huttner {BIO 1556863 <GO>}

(00:52:17). Thank you so much. So, three questions, the gain on Nationale, the run rate in non-life and maybe you can provide some of the elements because you've already mentioned quite a few. And then the internal (00:52:33) given you've now exited Austria and sold, maybe you can give an update on that.

On the run rate in non-life, I think it was CHF 193 million EBIT. The gains was a bit low, so maybe that's annualized – that gets us back to about CHF 210 million, then you had very low run rate in terms of reserve releases or prior-year development. So maybe that gets us back to about CHF 235 million. And then we have the German restructuring cost, which I'm assuming, but maybe you can say this is coming through mainly in non-life. So the CHF 235 million will then maybe get to about CHF 250 million for half-year run rate. I'm just wondering, is that roughly the ballpark figure? Those are my questions. Thank you.

A - Martin Strobel {BIO 5296838 <GO>}

Thank you very much, Mr. Huttner. And I would like to answer the first two questions. So this is the, let's say, the gain on Nationale Suisse and then the run rate in non-life, and then I will hand you over to German Egloff to answer your question on the SST.

And gain of Nationale Suisse and actually we're selling two kind of shares, the Nationale Suisse and Helvetia shares. And we expected to be, let's say, the effect and after profitability before tax, let's say, between CHF 90 million to CHF 100 million. So we are proceeding quite nicely in selling these shares and we expect the effect in this magnitude in the second half.

And then run rate, non-life, as you know, Mr. Huttner, we do not give guidance on individual segments. And the only guidance we give is on the group level. And – but let's say, commenting on the factors you said, looking at the non-life business, I mean, we saw a below average prior-year loss development. And as German Egloff just pointed out, we expect this to return to normal more or less and we had some under-average realized gains. So I think the assumption for the realization is a around CHF 50 million a year or something as in ballpark. I mean, you never know when there's a ballpark. So this gives you two indicators on how we look at the moment.

Q - Michael I. Huttner {BIO 1556863 <GO>}

(00:55:16)

A - Martin Strobel {BIO 5296838 <GO>}

Yeah. I mean, restructuring – yes, there was restructuring effect in Germany. We also have integration cost now in Belgium. We will have in the second half in Luxembourg. But I mean, restructuring in Germany has been social planned and restructuring together have been, I think, CHF 70 million EBIT. So that will fade out over time, you're right.

And – but I mean, just to move it to the higher level, the guidance we're giving, as you know very well, is the combined ratio of 93% to 96%. And actually, I'm very confident that we will pursue this target. So I think we will also going forward having a very, very good in non-life business.

Q - Michael I. Huttner {BIO 1556863 <GO>}

The theme on the combined ratio, if I – it's in 93.2% domain or not that I'm aware of would be positive. So PYD would be positive. So my guess is you would be now beating it or was that am I taking the wrong idea here?

A - Martin Strobel {BIO 5296838 <GO>}

I mean, you don't – you're not angry at the management that beats expectations, do you?

Q - Michael I. Huttner {BIO 1556863 <GO>}

It's fantastic. It's nice that it happened. Okay. Thank you.

A - Martin Strobel {BIO 5296838 <GO>}

I hand you over to German Egloff regarding the SST.

A - German Egloff {BIO 4782831 <GO>}

Well, on the SST side, there's nothing really new or spectacular. It's still in the green on our side. However, due to the interest rate movement that we have seen in the first half, the SST growth should be a bit lower than it was at the beginning of the year that will be normal. However – meanwhile, the authorities are fiddling around the parameters and the models as well. So, therefore, I think it was and is still valid that it doesn't make sense to publish it because we have to publish three new statements per year. That I wouldn't like to (00:57:26) on your side. So, therefore, nothing spectacular, nothing with EU, still in the green, but the movement with falling interest rate is that Solvency I is giving up SST or Solvency II to – should go down. That's how the model is working.

Q - Michael I. Huttner {BIO 1556863 <GO>}

And the gains on Austria and Nationale, would they offset this interest rate or they will be peanuts?

A - German Egloff {BIO 4782831 <GO>}

Well, they have been – their SST is based on a market valuation. The participation have been – so shares have been at market value in the books. And the participation had been at market value in the book as well. And now if you just think of the figures, I mean, the whole liabilities on the life side is about CHF 30 billion. And we are talking – and this is very sensitive from an interest rate movement. And we are talking of a one-off gain of CHF 50 million, CHF 60 million from Austria. So that doesn't really change the laws.

Q - Michael I. Huttner {BIO 1556863 <GO>}

Yeah. I understand. That's very helpful. Thank you.

Operator

The next question is from Mr. Marc Thiele from Mediobanca. Please go ahead.

Q - Marc A. Thiele {BIO 3503774 <GO>}

Thank you. Good morning. I have questions related to the life business. The first one is, can you give us a degree of indication of how much of the gains have been utilized on the statutory accounts for the German life ZZR? Have you already met the full-year requirement, or have you utilized any of that?

And then the second question is, previously, I think you mentioned potential options related to the German life business from a strategic standpoint. With the recent change in the law being less supportive, has your view changed in terms of potential disposal options?

And then the third question is related to the entire life division on the reported earnings. Do you think there is a potential increase in the reserve requirements in the second half of the year, given that we've seen a further decline of interest rates quarter-to-date? And yeah, could you quantify that, or could you actually include a table in your disclosure to give us a degree of sensitivities?

A - Martin Strobel {BIO 5296838 <GO>}

Thank you, Mr. Thiele, for your question. And I will answer the first two, so this is the ZZR, and for the ones that do not know, the German term is the so-called Zinszusatzreserve, it's a strengthening measure of the local balance sheet. Second one is, how does the new legislation in Germany make us look at the life business from a strategic point of view, and the third one was the sensitivities, if we could provide a table if interest rates go down in the second half. And to the third one, I would like to hand you over to German Egloff and maybe also Martin Wenk. The first one, I will answer it.

And so, Zinszusatzreserve, this is a mechanism to strengthen local reserves. It does not worry us at all, and we comply with all the rules and do the strengthening. And we do this also, let's say, in a stepwise manner. So there's no – there's nothing, let's say, from an IFRS point of view, and we just closed the IFRS 2000 (01:01:27) level that will affect this, as we have a very sound life business in Germany. We are very well reserved. What we feel in looking at competitors is that we run off the German life business now for many years under an SST regime. And maybe some of the competitors in Germany do not yet fully understand the impact of the Solvency II regime on life business. So we feel that we have quite an advantage here managing the life business in Germany.

Now, coming to your second question, the option for the life business, actually, as you know, we have a run-off book in Germany. This is about CHF 1 billion technical reserves. And here, as we communicated, we're checking all options. This has not been affected by neither the interest rate development nor the new laws or something. So we are constantly in the mood of looking at our business and improving it. So, no news, let's say, in our thinking, or regarding our thinking in this topic.

Now I hand you over to German Egloff regarding the sensitivities.

A - German Egloff {BIO 4782831 <GO>}

Well, a sensitivity table would, of course, be very comfortable for us as well. And in fact, we are in a situation now where the effects are not linear anymore. We have to be – divide two things. The first thing is the level. Well, we – and for how long does it have an effect? So I'll give you an example. If interest rates are staying where they are, then at the moment, nothing happens. Of course, the gains that we had on the derivatives don't reappear. They are consumed now. That would be the situation.

Now, if it stays where it is for the next 10 years, then you have to technically re-reserve on the local areas. So that means a loss recognition test in IFRS are hit sooner or later. And then you have to build reserves as well. But that's not next week. That might happen next year or the year after.

So therefore, this is one component. So, two dimensions. And the third dimension is indeed what happened for this half year closing is that if we have seen even lower levels in the past, we are reserved on that level already. But if those levels are hit again, then we wouldn't see the picture we are seeing now for this half-year closing.

So therefore, it's quite complex. Not only complicated, it's really complex. Depending on the consolation, different things can happen. But we are working on it, and of course, if we find a way to give you more insight in terms of how sensitive the business is reacting and on what kind of parameters you could build on, we will give that to you. But at the moment, it's really a hard one.

Q - Marc A. Thiele {BIO 3503774 <GO>}

Okay. Thank you very much.

A - German Egloff {BIO 4782831 <GO>}

I think Martin has -

A - Martin Wenk {BIO 4193573 <GO>}

But I think, Mr. Thiele, I think in general, what we can say about the balance sheet management of Bâloise that we have, let's say, become less sensitive to interest movements. I mean, if you – especially, let's say, through the downward movements. I mean, this was one of the criticisms we have been faced, let's say, some 10 years ago. And I mean, we did a lot. We strengthened reserves considerably, and this is the passion we have now in the balance sheet, and we bought, I think, Martin, in 2007 until 2011 (01:05:30) they work off now nicely, and they're especially there to correct us from the tail risk, and what we see right now is that this tail risk actually is the interest rates falling at one. So I feel that we have much better protection against falling interest rates than some years ago.

German, you want to add something?

A - German Egloff {BIO 4782831 <GO>}

You summarized it perfectly.

Q - Marc A. Thiele {BIO 3503774 <GO>}

Very helpful. Thank you.

Operator

The next question is from Mr. Farquhar Murray from Autonomous Research. Please go ahead.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Afternoon gentlemen, obviously where you are. Just three kind of topics from my side. Firstly, (01:06:13) EBIT, and could you just quantify the gains that you've gained through from Belgium, the computation of EBIT there? I think it's something of the order of, say, CHF 50 million to CHF 60 million? And then we've kind of indicated that if you look at the operational improvement around half of that is sustainable, can you just quantify what operational improvement you are talking towards that and also perhaps explain why it's kind of partly one-off?

And then finally, I think in the end of your comment to the last question, you kind of said that the run rate would be around about CHF 200 million. Now I think historically, you'd always said that that was the annual run rate, but I'm just trying to clarify what – I mean, the kind of semi-annual annual run rate and you just doubled the guidance.

And then just coming back – actually, just going from there to the non-life side, if you're saying that the underlying loss ratio of 59% is kind of sustainable, prior year should be about 2% to 3%, and a large loss of, say, probably 3%, and let's say, the spend ratio stays static or goes down. And frankly, we're clearly heading toward the kind of target combined ratio of more like 91%, 92%. Are you actually changing the target combined ratio at this stage? Thanks.

A - Martin Strobel {BIO 5296838 <GO>}

Thank you, Mr. Murray. And we have – basically, you asked two questions. It is the run rate for the full year in life, and I will hand you over for this to German Egloff. And I will answer first the question on the combined ratio rate.

So, looking at the results this year, with the combined ratio was for the first half year and then looking, let's say, on the non-life prior-year loss development and capital gains and so on, capital gains is not going to play a role here, but you would come up with a 91% to 92%, so below the 93%.

And I come back to what I said. And first, I mean, we gave – we defined the targets. So, for instance, the non-life target of 93% to 96% to meet them in most years. So this is the idea of the range. It'd be most years, maybe there might be an exception once every five years or whatever, but in most years, it should be in the range. But the ambition is always go to the better fight.

So we're really working on improving the earnings quality, especially out on the non-life side as this is the cash flow generator, as you very well know. So I wouldn't be really sad to learn that we move Bâloise towards, let's say, 93% or even south of this figure. But I mean, let's cross the bridge when we get there. I mean, for the meantime, I think the target is nice, 93% to 96%. We have proven that we can manage the company to remain in the target, but we are working hard, let's say, at an ambition level to make it as low as possible.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Okay.

A - Martin Strobel {BIO 5296838 <GO>}

German? I'll hand you over -

A - German Egloff {BIO 4782831 <GO>}

Yes. Thanks for clarification. Of course, the CHF 200 million was not for the half year, I mentioned. And it might be a bit higher on the whole year. The calculation, I think, was if you made an analysis of change, a primitive one, from half-year 2013 to half-year 2014, we have a CHF 50 million delta from the interest rates because prior year was minus CHF 20 million, and turnkey was CHF 30 million plus. And so, that means on stable interest rates, this will be nil. And then the operational improvement, so the difference year-on-year is CHF 150 million. As I said, one-third is interest rates, one-third is operational improvement, and one-third has to do with that realized gains.

Now, the operational improvement. Included there is, for example, a cut of surpluses of annuities in Switzerland. You can only do that once and that's why it's one-off. And then, therefore, I would guess, but this is really a guess, about 50% of the operational improvement is probably sustainable and 50% might be one-off. So that means about CHF 25 million is probably sustainable.

And the realized capital gains, in normal times, we don't have them. So, part of this is in the interest rate derivatives and in FX derivatives. But this is actually in insurance. This is not due to generated profit. In fact, it has now, but this is not the purpose of these instruments.

And bonds, we are rarely realizing gains in bonds, but we have done this year in Belgium just for risk management purposes. But of course, we are not jeopardizing our risk management standards by building up two big positions in order to be able to realize them afterwards, hoping that there are gains in it. It could be realized losses as well.

So, that was the calculation. And if I take all this into account, let's say, on a yearly basis, a CHF 200 million run rate and agree it might be a bit higher given this situation is probably serious. But interest rate differences might be complicated. And I just said to Marc Thiele before, in certain areas, we just can hardly predict what happens. And what I forgot there, which is very important as well, is that local regulators are currently inventing sometimes strange things. One thing will happen, the ZZR in Germany, and other countries might invent similar things. So, therefore, I'm a bit – depending on how far run rate is taken, if you take it for 10 years, I will be careful; if you take it for two years, okay.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Okay. German, that's extremely helpful actually. Just one quick follow-up. In terms of the Belgian allocations you made out of government bonds, what did you shift those assets (01:13:14)?

A - German Egloff {BIO 4782831 <GO>}

Sorry. I didn't quite get that.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Sorry. In terms of Belgium where you kind of sold government bonds, what did you buy as a follow-up after that?

A - Martin Wenk {BIO 4193573 <GO>}

Okay. Maybe I can answer that. The reason why we sold that is that in Belgium, all insurers have a very high allocation in their own government bonds and that really actually is beyond our credit limit we have. So we have sold it into our limits we have for the group. Back into that limits, mainly coming out of the acquisitions in Belgium and in Luxembourg. And we have just reinvested it in other interest-bearing instruments, mainly bonds again but other debtors.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Okay. Was that mainly Germany there?

A - Martin Wenk {BIO 4193573 <GO>}

No, not Germany. Germany seems to be very low at the moment. But you have seen the spread of Belgium against Germany came down. So we really lowered the allocation against the Belgium, but we have bought other government bonds, as I said, and corporate bonds and other instruments. One of the major shifts basically is also that we went again into high dividend-bearing shares.

Q - Farquhar C. Murray {BIO 15345435 <GO>}

Yeah. Okay. Thanks very much, guys.

Operator

The next question is from Mr. William Elderkin from Goldman Sachs. Please go ahead.

Q - William H. Elderkin {BIO 3349136 <GO>}

Thank you. And hello, everyone. I've got a couple of questions. Most of these are follow-ups. First of all, on the non-life underlying loss ratio, the 58.8%, I got an impression from the previous discussion that this is the number you view as completely sustainable, which is a very good effort on your part. I just – in my mind, I will say – remember, you've made reference to a very benign loss experience in Switzerland, and I just wondered how those two impressions reconciled. In other words, is there an element to that underlying loss ratio that is reflecting below trends claims experience for whatever reason and sort of if you could clarify that.

Secondly, staying with the non-life loss ratio, if you look historically at the claims ratio you've reported in your presentation, for example, the 61% you show on slide nine and compare that with the claims ratio that you calculate of your segments for income statement, the segment's income statement has always been a higher number historically related to the cost of claims on long-term disability business, and that's been a drag of about 1.5% per year traditionally. This year, that's actually been a positive movement by about 20 basis points. And I'm just wondering, has something changed with your accounting policy or presentation which would cause that relationship to change. And then could you quantify what the level of restructuring costs in the first half non-life segment profit actually is? And then finally – I'm sorry, and I'm still for (01:16:30) questions. What fixed income reinvestment rate are you getting on your non-life fixed income portfolio?

A - Martin Strobel {BIO 5296838 <GO>}

Thank you, Mr. Elderkin, for your questions. I will answer the first one and the third one. So the first one was, how does our perception of our, let's say, claims trend performance linked to the benign claims environment, especially how do they fit together? Then there was – your second question was the difference between what we disclosed in combined ratio and in the segment claims numbers, is there any change? I'll hand you over there to German Egloff. And what was the portion of restructuring cost in the non-life segment? It was your third one, and then the reinvestment rate in bonds in non-life was the fourth one. And for this one, I would hand you over to Martin Wenk.

So, answering the first one, yes, we had a benign claims environment in Switzerland regarding large claims. I mean, normally you have – in the first half, you have hailstorms, for instance, and that can be very costly. But as you know, there was no summer in Switzerland in the first half. There was a mild winter. And this led to the case that we didn't have a major hailstorm. And this is the reason why, let's say, from a large claims point of view, we have low average – you might see on the slide that we had, I think, 2.9% of the large claims. It's normally above, let's say, or around 3%. So it's a bit lower here yet, but we had higher low to large claims in Belgium and in Germany.

So group-wise, let's say, we are more or less on track, let's say, with these large claims, but it was a different mix this time, higher claims in Germany and Belgium and lower large claims in Switzerland. But nevertheless, I mean, you're right, there was – there's also a benign – in general, benign claims environment in Switzerland. I mean, for instance, if we look at claims frequency in car liability and you might remember that we compare ourselves to the benchmarking fields, I mean, what we see is that we still have by far the lowest claims frequency in this regard.

So our selection techniques works and we feel this every second (01:18:48). I don't see a reason why we should have a higher load here. So – because we stick to our strategy and I don't see an increase here. So, all in all, I think (01:19:02), we had, let's say, a little bit below average but not far below average in the first half, and this is due to Switzerland, the benign environment here.

And the restructuring cost in non-life, and actually, I know the restructuring cost. For instance, the CHF 12 million social plan in Germany and Europe, and on top, the CHF 5 million, I think, restructuring cost. But actually, I don't know exactly the split between non-life and life segment. And I think I suggest that we come back to you with an indication of this. And to make sure, okay, what was the portion that goes to non-life and life.

And now I would like to hand you over first to German Egloff regarding just the differences here in the two tables you found, and then afterwards, Martin Wenk for the reinvestment. German?

A - German Egloff {BIO 4782831 <GO>}

Yes. I'm not quite sure whether I understood you right. It was about costs being in the combined ratio and being in the secondary report. Was that the question?

Q - William H. Elderkin {BIO 3349136 <GO>}

Yeah. Historically, if you look back and compare the cost ratio that you talked to in your presentation -

A - German Egloff {BIO 4782831 <GO>}

I see. Yeah.

Q - William H. Elderkin {BIO 3349136 <GO>}

– and the cost ratio that you calculated. The one in the income statement is usually about 1.5 percentage points higher and that effect doesn't seem to have a accounted in the first half.

A - German Egloff {BIO 4782831 <GO>}

No, no. Actually, we haven't changed something in the accounting policy. I could imagine that two reasons might be responsible for that. But maybe we should later come back and calculate that back to see your goals. Just the two reasons. The first one, Martin just mentioned the restructuring costs are of course not in the combined ratio, and they are high end now than they are probably normally.

And we have some other costs related to former M&A projects, which are not included as well in this closing. So this is one thing. And the other thing, it might have to do with the structure of the portfolio as well, because it is, of course, the restructuring in Germany, let's say, we are – in attendance, we are losing a large corporate business and replacing them by a smaller SME contract. And that might have an influence as well. But I would propose that you're probably coming back to the IR guys and look for the real figures then. Then we can try to create the bridge. That's okay to you?

Q - William H. Elderkin {BIO 3349136 <GO>}

Yeah. If you would – particularly, it has been a sort of 1.5 percentage point drag in terms of the actual claims ratio (01:22:00) would very helpful.

A - Martin Strobel {BIO 5296838 <GO>}

Okay. Well, we can probably explain that with the effect as we go into details.

A - German Egloff {BIO 4782831 <GO>}

Okay. Now, I can give you the answer for the reinvestment yield in non-life. And the easy answer is it's 1.85%.

Q - William H. Elderkin {BIO 3349136 <GO>}

Thank you. May I ask one follow-up on the life side? The discussion on the life profitability has been very helpful. In the past, you've talked about having very strong risk profits emerging from the group life business, and I sensed that maybe that's not necessarily sustainable. Could you give us a sense of what you're feeling is on that sustainability at this point? And also, when we look at the overall EBIT for the life segment, how much of that profitability is coming from this group life risk effect in a broad sense?

A - Martin Strobel {BIO 5296838 <GO>}

So again, I'm – first of all, the margins we have in the business are quite stable. And what we see in the risk result, especially in group life, is we cannot improve margins further. This relates to the discussion we had – that I mean, the sector in general, but also Bâloise. I mean, we have very good margin, so to say. And I don't think there'll be further increase and there might be also a low, but really a low downward pressure.

What we see is that given these very – let's say, very attractive margin situation, we are able to attract the right customers within our target segment. So, let's say, from an absolute point of view, what is the return of life business, and a lot comes through from these optimizations and business mix and by the selection techniques. We see this quite strongly, especially in Switzerland.

And this comes then back to what German Egloff said, if you do the list of change EBIT wise, half-year-half year, we have to explain the jump of CHF 150 million. And German explained that, let's say, CHF 25 million out of this is really a sustainable improve of the half year earnings part of the life business. And this is due to better business mix, this is due to cost lowering, and this is due to also better products and more unit-linked and so on, better customer mix, more risk-oriented customers, and we will pursue this strategy because we will continue on this – in our strategy.

Q - William H. Elderkin {BIO 3349136 <GO>}

Thank you, Mr. Strobel. The message essentially, whatever the group life risk contribution and the current EBIT is, your view is that level is pretty sustainable?

A - Martin Strobel {BIO 5296838 <GO>}

Yeah. What we said in – at our Investors Day is that if you take the EBIT of life in Switzerland, actually, then 50% of the gross result was the risk result. And I think this figure is more or less at the level. It should, let's say, improve over time, but not, let's say, quickly. But I think 50% of the EBIT is from the risk result. And as you know, we always give for the full-year than the analysis of change given the (01:25:32) information and then March next year for the – or for the full year.

Q - William H. Elderkin {BIO 3349136 <GO>}

Thank you. That's very helpful.

A - Martin Strobel {BIO 5296838 <GO>}

Yeah. Thank you.

Operator

The next question comes from Mr. René Locher from MainFirst. Please go ahead.

Q - René Locher

Yes. Good morning or good afternoon, gentlemen. Just a follow-up question. The first one on the CHF 40 million restructuring cost in Germany, when should or can we include it in our financial model set by 2015, 2016, just a little bit of an idea here? And then on the slide and the combined ratios, these claims from storm Ela, I guess we had a little bit of same impact once when Kyrill happened. And perhaps you can very quickly explain once again your reinsurance strategy of the group because I was surprised to see that one storm can run 8 percentage point negative impact on the combined ratio? I mean, then on group, 2.8%, it's much, much less, but nevertheless, I was a little bit surprised here.

And then just for Martin Wenk, I don't know if we have seen that number before, but I guess on slide 40 – slide 40, when we see the investment property, the net yield of 2.3%, is that the net-net yield you achieved on our investment property? Thank you.

A - Martin Strobel {BIO 5296838 <GO>}

Thank you, Mr. Locher, for your questions. And I will answer the first question, so restructuring cost in Germany, by myself, and then I will hand you over for the reinsurance policy to German Egloff and the return on our property and mortgage portfolio, then Martin Wenk.

Germany, what we have in the first half is €12 million, First, we planned some – on top, some restructuring costs. And I expect a, let's say, more a single-digit figure in the second half in Germany and then the major restructuring sort of plan, cost would be over in Germany. So there might be a remainder, let's say, but it's a very small one than in 2015. So the large chunk of this is, a significant chunk should be over in 2014.

Q - René Locher

And then just the cost savings then, when they see through in the P&L going forward?

A - Martin Strobel {BIO 5296838 <GO>}

Pardon me?

Q - René Locher

Was that the cost savings then? Now, you do restructuring, but then what is then the positive impact we should factor in?

A - Martin Strobel {BIO 5296838 <GO>}

I mean, what we said is the €40 million in Europe, €40 million annually and we will reach them as indicated in 2015.

Q - René Locher

Okay.

A - Martin Strobel {BIO 5296838 <GO>}

So they might not fully show up in 2015, but to a large part. And the actual full effect would then be in 2016. So – and this is €40 million.

Q - René Locher

Yeah. Correct. Thank you very much.

A - Martin Strobel {BIO 5296838 <GO>}

You're welcome. And now, again, on the regional side.

A - German Egloff {BIO 4782831 <GO>}

Well, the very important thing is that the figures I said, the 8.2% in Belgium and the 2.8% for the group, was a rough figure.

Q - René Locher

Yeah.

A - German Egloff {BIO 4782831 <GO>}

On a net basis, that obviously had a far lower impact. Otherwise, it wouldn't be possible that the net combined ratio actually is lower in the year before. So actually, on a net basis, this will actually cost us just the retention for the program plus the recent statement premium. But that's not really changing, I think.

So Ela is not seen on a group level. I would say that's the level that we have to consider that has always happened in a normal year. So I wouldn't like to explain the combined ratio. And it would be wrong to add Ela on to the next combined ratio and talk about this is extraordinary bad luck. This happens somewhere. But it is important to understand the cross-utilization of Belgium.

Q - René Locher

Yeah. No, no. I understand. Yes. Thank you.

A - Martin Strobel {BIO 5296838 <GO>}

Martin?

A - Martin Wenk {BIO 4193573 <GO>}

Okay. Yes. Regarding the yield on our real estate, we published this figure also before. And it is net of cost and based on the IFRS long-term (01:30:36) value. So, if you see the figure going down, the main reason is that the market value has increased as well. If you take the absolute figure of income I have at real estate, it has even increased a little bit.

Q - René Locher

Okay. Okay. Thank you very much.

Operator

Ladies and gentlemen, there are no more questions.

A - Martin Strobel {BIO 5296838 <GO>}

In case that there are no more questions, gentlemen, I thank you very much for your interest in Bâloise, for your very interesting questions. I hope we could provide some insightful information for you. I thank you very much and wish you a nice afternoon. 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.