Q4 2015 Earnings Call

Company Participants

- German Egloff, CFO & Head-Corporate Finance
- Gert De Winter, Group Chief Executive Officer
- Marc Kaiser, Head-Corporate Communications & Investor Relations
- Martin Wenk, Head of Asset Management

Other Participants

- Daniel Bischof, Analyst
- Farquhar C. Murray, Analyst
- In-Yong Hwang, Analyst
- Jonny Urwin, Analyst
- Michael I. Huttner, Analyst
- Ralph Hebgen, Analyst
- René Locher, Analyst
- Stefan Schürmann, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, good morning or good afternoon. Welcome to the Bâloise Group Annual Results 2015 Analysts Conference Call. I'm Moira, the Chorus Call operator. I would like to remind 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 Mr. Marc Kaiser. Please go ahead, sir.

Marc Kaiser {BIO 15056036 <GO>}

Good morning, everybody. Thank you for joining us this morning for our full-year results and Q&A conference call. It's a pleasure for me to introduce you to our new Group CEO, Gert De Winter. Please, Gert.

Gert De Winter {BIO 19720616 <GO>}

Thank you, Marc. Ladies and gentlemen, you all received this morning, of course, the information pack. What I would like to do is run through the highlights and then actually open up immediately for questions. But, let me first run through the most important facts about the results and the outlook.

We are very satisfied with the full-year results 2015 as it stands for another reliable and strong set of results for more than a decade. Bâloise belongs to one of the most profitable insurance companies in Europe. An achievement over the last 10 years which we really feel proud about and to which we are fully committed for the next strategic chapter.

The Group's and others profit for the period of CHF 512 million is underpinned by the following three pillars of success. One, the volume of business increased at a healthy rate of 3.3% and we generated as such above average growth in our target segments and gained additional market shares.

Second, our operational margin with the net combined ratio of 93.3% has never been as good as since 2008. Our ongoing focus on operational excellence, a disciplined risk-based underwriting and our group-wide cost initiatives have led to this successful and reliable core business. And third, following an exceptionally strong year in 2014, the life business delivered a solid profit contribution despite challenging market conditions.

The insurance industry, however, is facing some severe and disruptive changes in the coming years. The current economic climate will likely persist for a long time. Ever increasing regulation and negative interest rates are pushing the industry far away from its core mission – protect life and property for our clients. We at Bâloise have the strong belief that we cannot rely on what worked well in the past, but have to find new ways to deal with today's challenges and get even closer to our customers. Luckily, we did our homework in the past and can build on a very strong platform to engage our future.

We will talk in detail about our future strategic journey on the today announced Investor Day, October 26, 2016. But our future will build on strategic principles. One, we will radically simplify our core business for our customers. Two, we will go beyond traditional insurance business and provide new services in assistance and protection. And three, we will relentlessly embed the customer focus in our corporate culture. With that we will become the trusted choice for our customers, partners will seek to collaborate with us, our employees will be proud by the inspiring jobs they do, and investors will value us highly as a strong and sustainable business with a very attractive and reliable payout.

These were the highlights. So I would like to open up for questions.

Q&A

Operator

We will now begin the question-and-answer session. The first question is from Mr. Daniel Bischof from Baader Helvea. Please go ahead.

Q - Daniel Bischof {BIO 17407166 <GO>}

Yes. Good morning. Two questions, please. The first one on the life side. So stripping out the CHF 80 million of one-offs, you were, I think, nicely in line with the CHF 200 million guidance there. Now, year-to-date, you're seeing bond yields declining by another 30 basis points or so. Should we expect any additional negative impact from reserve strengthening in that segment?

And then, the second one is on capital management. Could you provide some more details what your thoughts were when deciding to go for an unchanged dividend?

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

Let me pick up the second question first, if I may, and then, hand over the other question to the colleagues. Over last couple of months, it is clear that the Swiss regulator has announced a couple of times that they will be moving much more to the standard models in everything that is related to Swiss Solvency Test and – on capital, the intention being to decrease complexity and increase the comparability.

Now, this is a major fundamental shift if you look at what work that has been done over the last five years or so, and it is only generating, at this point in time, open questions, a lot of uncertainty and everybody is actually making its own interpretation of what the Swiss Solvency Test should be. So we think there is no need or even it is not wise to actually disclose numbers that are absolutely unclear today. That's one. What we can say, of course, is that both with the internal models and the standard models, our solvency has always been above 100%, and we've never gone to the market to raise capital for solvency reasons and we don't intend to break that tradition.

Coming back to the life question, I'll hand over to German Egloff, our group CFO.

A - German Egloff {BIO 4782831 <GO>}

Well, that's of course the question finally what the interest rate curve is doing at closing. But, if the trend is going on, you are certainly right, then you need an additional reserve strengthening – that's quite clear. And finally that's done on the local GAAP (07:17) basis. So I just – we just had a board meeting in Belgium a week ago and we heard a figure there, and it's exactly – there for example, the measure to have the additional reserve is the five-year average of the Belgium government bonds. And the year that falls out of that series now is 2011, and 2011 was especially high in yield.

So the pressure to re-reserve the book is still going on. So that's right. Even though, I mean, that's not – I'm not saying it will cost us such and such kind of millions in the half year that I just don't know it. We have to see what's happening there. I mean, we have seen it in the last year. Just because interest rates picked up just before the end of the year, the second half of the year was somehow surprising in the results for us as well.

Q - Daniel Bischof {BIO 17407166 <GO>}

Can I ask a follow up on capital management. I mean, looking at the Bâloise Holding, the CHF 204 million in other income related to Luxembourg, I'm not quite sure I understand the nature of this, is it called impairment reversal?

A - German Egloff {BIO 4782831 <GO>}

That's just the outplays of (08:51) participations. Because in the Luxembourg Holding, it's the Luxembourg business and the Belgium business as well.

Q - Daniel Bischof {BIO 17407166 <GO>}

Okay. So, excluding this item, the holding cash flow – I'm not sure – did it actually (09:04)

A - German Egloff {BIO 4782831 <GO>}

That's not a cash flow issue.

Q - Daniel Bischof {BIO 17407166 <GO>}

Well, therefore, I mean the holding cash flow did actually not cover the dividend, is that correct?

A - German Egloff {BIO 4782831 <GO>}

The cash flow – say it again.

Q - Daniel Bischof {BIO 17407166 <GO>}

The holding cash flow to Bâloise Holding did not cover the 2015 dividend.

A - German Egloff {BIO 4782831 <GO>}

Yes, it did but you wouldn't see it.

Q - Daniel Bischof {BIO 17407166 <GO>}

Okay, so maybe you could provide some more details there? And then also (09:40)

A - German Egloff {BIO 4782831 <GO>}

Yeah. Well, it's mainly that it's always sort of the same. The biggest two dividend payers are up to now, the Swiss non-life business and then the internal reinsurance business, and that's unchanged.

Q - Daniel Bischof {BIO 17407166 <GO>}

Okay. Thanks.

A - German Egloff {BIO 4782831 <GO>}

But we have – the Belgium dividend for example, goes to Luxembourg, and then from Luxembourg that's more like in a, let's say, financial or tax optimization machine that you have to run how much dividend or how much cash flow you're then transferring to from Luxembourg to Brussels.

Q - Daniel Bischof {BIO 17407166 <GO>}

Okay. Understood. Thanks a lot.

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

And maybe, Daniel just – it's me, we can get back to you on that element, just to clarify the holding statement if there are any uncertainties after this question, yeah?

Operator

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

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

Fantastic. Thank you very much. Just on this reserving point. Can you remind us what the cost was to shareholders in the first half of 2015 of that (10:59) that may help us form a view on what could be done now? And the other thing is, you know, as interest rates drop, so you have to add to the reserves, but at some stage the back book, if you stop writing this traditional business, the back book starts shrinking and then will release capital, and I just wondered when will that start?

And then on Germany, so the combined ratio was a little bit higher, I think one of 6% or something. And I just wondered, in the past I had hoped that this is the second half of 2015 was then we'd actually see below 100. Can you give a bit more color when this might happen now? Thank you.

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

May I just ask you to repeat the first part of the question because we didn't get that here? The sound was very bad, so we missed actually half of the question. We got the question about Germany all right, but the other questions we're about blurred in the – somewhere – got lost in the clouds somewhere. Please repeat?

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

It's lost in the clouds, that sounds like me. Yes. No, of course. Thank you. The first question was on the first half 2015 you added to reserve. Now, you can't tell us how much you're going to add this year, but clearly you're going to add something. Can you tell us how much you add and how much was the cost to shareholders back in first half 2015, just so I can understand how the accounting and the reserving works?

And then, the other question on the reserving is a bit more complicated. So, as interest rates drop, you keep adding to the (12:47) liabilities current size. But at some stage, if you stop writing this traditional business, presumably, it will start releasing, I mean, as the policies mature, it will start releasing capital. I just wondered when that might be. And then of course, the question on German non-life. Thank you.

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

Yeah. Well, let me pick up the Germany question, also an attempt to the second question about the traditional business. Germany, first thing I have to say about Germany, of course, is that we do make profit in Germany. That's a one thing.

Secondly, that Germany is certainly a part or a pillar of our strategy and that the strategy we're pursuing in Germany is correct. But it is indeed complex and it will take longer than we expected. I think overall, if you see the optimization program that we're running in Germany, it's delivering very good results, especially in the area of cost reduction. You might have seen that the cost rate has gone down by 1.2% and that we actually have to separate ourselves of 300 of the 400 planned colleagues.

Especially promising is also that we are outgrowing the market in the non-life and the life target segments we selected in Germany. But what is true and where we still have a way to go is the fact that the non-life portfolio in terms of the quality is not good enough yet. So, we need to increase the quality by further sanitizations. And secondly, we need to grow the profitable part of the business in order to really have the sustainable scale to absorb large claims, because this is exactly what happened in 2015. We have a number of large claims which deteriorated the combined ratio.

Besides that, we need to invest in the service we offered to the agents and the brokers in Germany, because that's the way we will be able to grow. But it will indeed take longer as you suggested.

On the life book and then I will hand over to the colleagues, but on the life book question, we are still writing traditional life business, of course. We are extending and diversifying and growing in the modern life insurance product with semi-autonomous solutions like Perspectiva in Switzerland which is pension business. But we are continuing to write the traditional business. So, there is a diversification and a shift into modern life, but we're not stopping traditional life business. We are not going and run-off in traditional life business. But I'll leave it up to the colleagues to comment more on that.

A - German Egloff {BIO 4782831 <GO>}

I'd say it is a hard one. And the main reason for this is that you do this re-reserving on local basis. And the rules for local GAAP are different in every country. So, therefore, it's difficult to give you a sort of company rule and say, well, it's like this and this, and it will be like that. And the other thing which is very important is whether you're talking about a legal quote business or not. Because if it is legal quote business, then of course, you're trying to see it in a way that it is as shareholder-friendly as possible. And sometimes, you have to calculate around some corners and the result might look funny.

Now, you're additional question was, when will it become free again? And sometimes, it happens even now. Because, for example, we have recalculated a conversion rates in the group life business in Switzerland (16:41) for the extra-mandatory part. And that created some of the extra profits which we have seen in the second half of 2015. So, therefore, it's not just the one way road, but it is – I mean, the book of the traditional businesses is so big and so long-running, if you're just thinking about the running in unities, that I think we will not be together at the telephone when we don't have to – if interest rates are going further down so what we don't hold (17:22).

But if we don't have any portfolio risks, that can potentially be re-reserved, at least that's my opinion, without having calculated it. But Martin, maybe you have additional comments.

A - Martin Wenk {BIO 4193573 <GO>}

Well, from the management side, I can only add that the situation is, of course as described by Michael Huttner or by Bischof in the beginning that we had declining interest rates. So, it's a little bit similar to last year. But if we have to add up to the reserves, we also have with the declining interest rates. We have the possibility to do so. So, that's the good news. That's one side.

And the other side is, while the reserving is always according to the risk free rate, we have on the investment side, we have different possibilities. And in the first quarter, the spreads have rather increased. So, what you're trying to do is, you to take advantage of that and still with good quality, but trying to get a little bit of that increased spread into the recurrent income and with the risk-free investments being able to cover the reserves.

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

Okay. But, so I'm just a little bit confused. Does it mean that we could actually have a positive, because you're got this in the accounting, right? So, the IFRS you would – we would see the gains, but we wouldn't necessarily see the extra reserving, or am I making it up or am I being too optimistic?

A - German Egloff {BIO 4782831 <GO>}

No. It's normally for the direct link. It's a sort of the question how you work in latency. I give you one example which I have just in present (19:24). In Belgium, you have in local GAAP a funny thing called the fund for future appropriations. You can do whatever you like with it. So, put money in, put money out. Now, and we have this regime about local reserving, which is called (19:50) reserve. So if we do the (19:55) reserve, it can well be that to provide the money, you have to realize gains. But, in fact, in local GAAP, we can take it from the fund of future appropriations. That means in local GAAP, it might be more or less neutral and in IFRS you see the gains. But in fact, of course, we have put the reserves in, but maybe two years ago. So that makes it complicated, too, and that's just for Belgium, in Luxembourg (20:31) Switzerland as well.

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

Okay.

A - German Egloff {BIO 4782831 <GO>}

But that's just as an example why it's not so easy.

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

Not so easy. Okay. Well, I'm glad I'm (20:39) and not the CFO. Thank you.

A - German Egloff {BIO 4782831 <GO>}

But we are trying to do our best to keep the shareholder happy. Believe me.

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

Right. Yes. No, no. That's very clear. Thank you. Thank you very much.

Operator

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

Q - Stefan Schürmann

Yes. I have two questions. The first one is on the duration gap. Can you update – on this one, I see that the average duration of portfolio has increased by almost a year to 8.9 years, so I assume that the gap for liabilities and assets are more as close now that it means you expect the interest rates will remain low.

And the second one just a small one on the German life run-off deal which you made last year, I see that was, I think CHF 2.6 billion (21:29) of reserves off, but average technical interest rate in the life book remained unchanged at 3.3%. That's right.

A - German Egloff {BIO 4782831 <GO>}

Okay. Maybe to the first question, I can tell you that indeed, we have lowered the duration gap. Overall, you see that also in the interest rate sensitivity that has been coming down quite substantially. I don't think we have closed this completely, because you see what we've done from the investment side, of course, is that we rolled up the yield curve due to the negative yields at the beginning of the curve and to still positive at the latter side. We rolled it up and so, it's actually good if you still have a little duration gap where you can do that, because once you're fully matched, you couldn't do that anymore. So, I wouldn't say the duration gap is fully closed. We are probably still around one year to one-and-a-half years.

Q - Stefan Schürmann

Okay. Good.

Operator

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

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, there. Thanks for taking my questions. Just two from me today. Firstly, just going back to capital returns. I was just wondering if you could give us any insight into what the headroom on the statutory payout ratio basis would be. I know it's getting tight on IFRS and cash. So, I'm just wondering what is the binding constraint there.

And then, thinking about the non-life business, I was just wondering if you could run us through briefly what the pricing trends and the claims inflation trends are that you're seeing in each of your key country markets. That would be very interesting. Thank you.

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

Well, let me try to describe the pricing situation in the different countries and then get back to the first part of the question and I'll leave it to the colleagues.

I think the pricing situation overall – and I'm not going to give the details per country – but overall, what you see is that the competition is increasing and the price pressure is increasing in the different countries. It depends a bit on the level of intensity. But we see everywhere in the non-life business throughout our countries, in Europe, we see indeed a tougher game in terms of pricing. Be it both in the retail business and be it in the SME and the industry-related business.

A - German Egloff {BIO 4782831 <GO>}

For the first question, can you put the question again, because we haven't quite got it.

Q - Jonny Urwin {BIO 17445508 <GO>}

Yeah, sure. So, I guess – it's interesting to look at your payout ratio on an IFRS basis, which is just under 50%. But I was just wondering what the payout from statutory earnings is as well, whether or not it's more (24:27) of a constraint.

A - German Egloff {BIO 4782831 <GO>}

Yeah. We could actually be the real thing. (24:31) I'll answer it later. I have to calculate it.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thanks.

Operator

The next question is from In-Yong Hwang from Goldman Sachs. Please go ahead.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Hello. Two questions from me, both on non-life. Firstly on your expense ratio. Most of the reduction in the expense ratio seems to be from the acquisition cost rather than on operating costs. So, given the ongoing cost reduction you have in Germany, could you just give us your outlook for what you expect to happen to this going forward?

Secondly on the long-term disability claim (25:12) I think the difference between the stated combined ratio in your presentation and the claims number on your IFRS accounts, that seems to have decreased significantly since 2013. Should the current level be assumed to be continuing going forward? Thank you.

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

I mean, first on the expense ratio, the expense ratio in non-life is indeed going down. It's driven by different countries, Germany, certainly. As I said, we've brought the cost ratio down by 1.2% by a variety of measures and of course also the reduction of full-time equivalents. It's also driven in Belgium where actually the same has happened.

I don't think it's – I don't know the details, but I don't think it's on acquisition cost, it's actually the gross reductions are material on the administration costs. We have growth in Belgium which is actually driven by – we have growth and actually stable acquisition costs. So, I think, certainly on administration part. Germany going forward, we still have the – the cost program and the optimization program is still outstanding. So, we will further work on reducing the cost levels in Germany. You come to the average benchmark of the German market.

The long-term disability, I didn't get really – I didn't get the question or at least maybe you can repeat the question about the long-term disability.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Sure. So, I understand that the difference between the claims number on your IFRS accounts and the stated number in your presentation, your claims ratio, arises from employed (27:05) cost of long-term disability claims which is included in one but not the other. But that seems to have gone down substantially since 2013. So, I was wondering whether this current low level is a sustainable level.

A - Marc Kaiser {BIO 15056036 <GO>}

This is Marc. This is Marc speaking. In-Yong (27:30). Maybe to answer your question, I think your question is, if you recalculate the combined ratio according to our disclosed numbers, so, it's always a little bit of gap between what we disclosed and the figures you have there. And you are referring to the annuities we have out of the accident business. And because (27:51) and the gap there is actually more or less pretty stable all the past years. But we can get back to you by phone and clarify that. You have there the details.

A - German Egloff {BIO 4782831 <GO>}

I think I know what you mean. I think this is the legal yield you have to put on annuity reserves in Belgium and in Switzerland, and that is producing a systematic previous year loss.

A - Marc Kaiser {BIO 15056036 <GO>}

This is it. We have the details (28:21) we'll get back to you about that.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Sure. Great. All right. Thanks very much.

Operator

The next question is from Ralph Hebgen from KBW. Please go ahead sir.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes. Hi. Ralph Hebgen from KBW. I've got three things and they all relate to the life book or the life business. Starting off, I've noticed in the life MCEV accounting that your earnings unwind from in-force was very strong indeed in 2015. It will help us, I think if you could illustrate the driving forces behind that increase, especially whether these dynamics are sustainable into the future or whether that perhaps were driven by effects which are more isolated in nature. So, that's the first point.

Number two relates to slide 10 where you helpfully (29:40) outlined the analysis by source (29:43) Just relating that to the risk result which was CHF 240 million in 2015 and CHF 213 million in 2014. Just asking these two numbers there, are they relatively clean or are they also supported by any one-offs or any gains harvesting? What I wish to just see is whether that's a very strong increase here, whether that increase again is pure and then perhaps a sustainable in the future.

And the last thing I wanted to ask is, you have the sort of guidance that your EBIT in life is going to be around CHF 200 million. Do you confirm that guidance for the future or not? Or if not, under what circumstances would you see the need to reduce this guidance. Thank you very much.

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

Let me maybe start with the last question on the life result and the expected result in EBIT going forward. If you look at the strong life result in 2015, it's mainly driven by two reasons. First one is that in the first semester, the first half year, we did a number of clearly additional reserving given the lower interest environment. But in the second year, as there although interests have gone – dropped also by the end of the year, interest rates have gone up again. And that means that we didn't have to reserve as much as in the first half year in the second semester. And that's why the second semester result was so good in life.

The second reason, something that Chairman already alluded to, (31:39) reserve or the flashing light reserve in Belgium which is a regulatory requirement and where we have to realize gains in order to fulfill that requirement. Those are the two major reasons why our life reserve is up to CHF 270 million plus. If you would normalize it out of those two effects, we would, indeed, be in the area of CHF 200 or just below the CHF 200 million. German, may be adding to that.

A - German Egloff {BIO 4782831 <GO>}

Yeah. Well, first for the risk result, that is the only thing that comes to my mind, which has sort of one-off character, was the change in biometric basis in the group life business in Switzerland what I already mentioned in the extra-mandatory business, so conversion rates mainly. And that has, of course for mortality and influence. I think the effect was CHF 20 million to CHF 30 million, something like this.

Then in the MCEV on life (32:55) I mean, operationally, we did a couple of improvements. You see that in the cost development as well. Then there were a couple of management decisions like they just mentioned conversion rates and the duration on the active side has been increased. So, that are probably the most important factors that have led to the higher earnings.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Thank you very much. Just two quick follow-ups. You mentioned the CHF 20 million to CHF 30 million impact in the risk result. Was this positive or negative impact in 2015?

A - German Egloff {BIO 4782831 <GO>}

Positive. It's probably around the CHF 30 million (33:44). I think about it.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes. Indeed. And so that was a positive impact there. In 2014, any distorting impact in the risk result of a similar nature?

A - German Egloff {BIO 4782831 <GO>}

I can't remember at the moment. I have to think about it. Come back to it later. (34:10) answer to the payout ratio on local step basis. That's about 58% without the share buyback.

Q - Ralph Hebgen {BIO 6297020 <GO>}

And can I just have one more follow-up. What I meant with my third question is whether your guidance that's CHF 200 million EBIT in life, will be a sustainable number going forward. This particular guidance, do you confirm this today?

A - German Egloff {BIO 4782831 <GO>}

Well, from what we know at the moment, yes.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. And what would the circumstances be which would perhaps urge you to lower that guidance?

A - German Egloff {BIO 4782831 <GO>}

Well, let's say a massive interest rate movement, be it up or down. And massive regulatory changes. Anything like this.

Q - Ralph Hebgen {BIO 6297020 <GO>}

That's very clear. Thank you very much, indeed.

A - German Egloff {BIO 4782831 <GO>}

Yeah. Market movement of course.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Of course. Thank you. Thank you very much.

Operator

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

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

Good afternoon, gentlemen. Just two questions from me both with regards to ALM. (35:34). Firstly, on the duration gap, could you just elaborate on the rationale for reducing that now after having capital position opened for quite long? Is that a change in view or does it reflect the shift in the SST model towards the standard formula (35:49) manage capital?

And then, secondly, the speech refers to liquidity management challenges, could you just detail what precisely those are? Is that just reinvesting into a very low rate or something more than that? Thanks.

A - German Egloff {BIO 4782831 <GO>}

Okay. For the first question – I just can repeat myself or explain that, I think there was the opportunity last year because of the negative yields of quite substantial duration bond or maturity bonds that were in negative territory. We had the chance to get rid of paper that has a negative yield and invest into paper that has a positive yield. And at the same time realizing the gains, the profits that were necessary to fund the reserves.

Third, it was basically a market position to do so while the interest rate or the running yield we have been able to have a good situation in going into other currencies, because currency is the second effect that was, let's say, a second order effect of the decision of the Swiss National Bank. Due to that decision and the substantial increased cost of hedging, euro denominated bonds for Swiss investments were simply not attractive anymore. They had also a negative yield beyond the yield they have in the market in Europe, because of the high hedging cost. So, we switched from euro into U.S. dollar and we're taking advantage as I said of the yield curve that was still higher at the later end. So, it was an economic decision to do so.

The second question was the liquidity management. I mean, the biggest impact was that we got risk of liquidity. We were carrying something between CHF 1 billion and CHF 2 billion in cash usually to – for our needs. And given the negative interest rates, we were cutting that down to almost zero. We can do that, because we have a repo agreement with the Swiss National Bank, so I can get liquidity at all time for the operational need and I'm just at the level of new liquidity and time and so I am also not hit by the negative interest rate.

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

Okay. Just little follow-on on that, I mean, in terms of the shift towards a standard model, I mean, how much does that change the way you've been managing the funds so far and how much pressure does that put on the kind of headline ratio that we're kind of looking at?

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

We wouldn't have at the moment. I mean, frankly spoken, we have no calculation in the standard model for the whole group at the moment. It's just that we have signal that it goes that direction . Depends a bit with whom you're speaking, but I mean somehow, the whole thing has to be comparable and currently it isn't. And that – so, we will see what's happening. And it might well be that certain constellation or certain decisions are then taken a bit differently.

Even though, I think at the moment, what was the idea of the (39:26) behind it is that the steering (39:32) is according to an internal model that the regulation is somehow fixed on the standard model. So, that's the difference to the idea we used that was always sort of postulated there in the past.

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

Okay. Thanks very much.

Operator

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

Q - René Locher

Yes. Thank you. And good morning, good afternoon to all of you. First on slide 9, the Swiss combined ratio of 83.2%. You mentioned in the video presentation that Swiss Non-Life business benefited from low level of claims, and I guess a healthy PYD. So, simple question is the Swiss combined ratio current level is this something sustainable, or do we actually anticipate a little bit higher more again to that 85% or 86% level? That's my first question.

And then second question on slide 31, still looking on these German business because I guess the outgoing CEO promised us an EBIT of some CHF 100 million sooner or later. So I was just wondering a little bit where the uplift should come when compared to last year. The life business in Germany decreased from CHF 35 million to CHF 20 million and the non-life business improved from CHF 46 million to CHF 53 million. Now, I got quite a lot of information, like the 6.6 percentage points lodged claims. But if I deduct it from the 107, I would end up some of that 100%. So, is it fair to assume that the understanding quality of the German portfolio is not as good as it should be? And here again, I remember that an old target was some 94% to 96% combined ratio.

And then, the third question is on slide 39, slide 41. It's the Swiss Group life business. So, very simple question, the guarantees on the extra-mandatory is 0.75%. So that's the first question. And then on slide 41, there you can see quite a sharp drop in the average guarantee in the Swiss Group business from 180 to 140. And I was just wondering if you could explain a bit more, or if you can split it between the reserve strengthening, lower guarantees business mix? Thank you.

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

Well, I'll try to answer at least partially some of the questions. Coming back first to the combined ratio in Switzerland, we do believe it is sustainable. It's an outstanding performance, of course. But I think by focusing on our target customer management and our operational excellence for the last decade, we have been able to outperform the market every time. We are also continuously working on the quality of the non-life portfolio in Switzerland as in the other countries and where we don't have profitable business, we actually take the necessary action. So we're growing and profitable, and we are actually changing if we need in less profitable. So going forward, it's indeed the combined ratio Switzerland should be sustainable.

Germany, I've alluded to that before. It is a difficult market, that is true. The optimization program is running. Costs are going down and growth in the target segments is coming where we want it in non-life and in life. But it is true that the quality of the non-life book is not sufficient and we need to further work on improving that one by looking even deeper into the industry book of business, and on the other hand, by increasing the growth in the retail and the SME business branches because they are profitable.

I'm looking around to see which colleagues can actually add to this and provide somewhat more detail.

A - German Egloff {BIO 4782831 <GO>}

Well, now I think you've said the essential (44:25) thing. I mean I know you said we promised certain target (44:31). I mean nowadays, you'd probably say it's not related (44:42). About the mix, life, non-life, this is not to over-interpret. I was just looking, I think in the previous year we have realized quite a lot out on the life book and that was the reason that disrupt (45:05) on the life side. But the mix between life and non-life that to a certain degree that's accidental as well of course. And I think that is not an indication of a systematic change in the business mix as far as I see.

And in Germany, of course, we have the same situation that I explained before. With Belgium, you have on the local have this (45:26-45:40) and then you have a a weak portfolio (45:43) business. So therefore, it might look funny sometimes on the IFRS side even if the legal (45:56) thing was quite normal.

Q - René Locher

No, but – very quick (46:00) I mean you have roughly CHF 700 million German non-life premiums now. Now if you achieve CHF 100 million, that would – yeah, 7% on this CHF

700 million, that would add CHF 49 million to the EBIT level. So what I was just asking a little bit more is that the uplift in the German EBIT should come from the non-life business.

A - German Egloff {BIO 4782831 <GO>}

Yeah. Basically, yes. I mean the German life business is to a large extent, a traditional business as well.

Q - René Locher

Okay. And just on the group life, the slide 39 and 41.

A - German Egloff {BIO 4782831 <GO>}

The mixture there, the average technical rate includes already the lowered BVG rate to 1.25% in the mandatory part and 0.75% in the over mandatory part. So that is about how the mixture is composed.

Q - René Locher

But I think that also benefited from reserve strengthening you took in H1 2015, I guess.

A - German Egloff {BIO 4782831 <GO>}

Yes. That's true.

Q - René Locher

Okay. Okay. And just a follow-up. I remember that you always mentioned that you would like to have an extra dividend at holding level. And I was just wondering where we stand these days.

A - German Egloff {BIO 4782831 <GO>}

Yeah. Sorry. The question was about the dividend, whether we have retained earnings.

Q - René Locher

Yeah. I remember that you always mentioned or that you would like to have an extra dividend at holding level.

A - German Egloff {BIO 4782831 <GO>}

Another extra dividend. That's how it works (48:37).

Q - René Locher

Yeah.

A - German Egloff {BIO 4782831 <GO>}

On a certain amount in stocks...

Q - René Locher

Yeah.

A - German Egloff {BIO 4782831 <GO>}

To be able to compensate if we have a cash flow problem from the entities (48:52)

Q - René Locher

And this is still the case?

A - German Egloff {BIO 4782831 <GO>}

This is still the case, of course, because that sounds sensible, doesn't it?

Q - René Locher

Yeah. Thank you very much.

A - German Egloff {BIO 4782831 <GO>}

Thank you.

Operator

The next question is a follow-up question from In-Yong Hwang from Goldman Sachs. Please go ahead.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Hello. Just a very quick numbers question on slide 14 I think you show us the reinvestment rate – the average of investment rate over the year and in non-life, it's 1.8%. Could you tell us what the non-life reinvestment rate is like now please?

A - German Egloff {BIO 4782831 <GO>}

Okay. The reinvestment rate now, I would put it at about the same level between 1.8%, 1.9%.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Great. Thanks very much.

Operator

The next question is a follow-up question from Ralph Hebgen from KBW. Please go ahead.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes. Hi. Thanks for letting me on the call again. So three more things, if I may. One is – and apologies if perhaps you have answered this already. I wasn't on the call all the time. It's in Germany, the industrialized business in the P&C segment. I noticed you had to strengthen reserves again this year, and that's an ongoing requirement. But perhaps could you sort of add some explanation on the dynamics there, for how long do you expect that reserve in requirement is going to be ongoing?

And number two is just a quick numbers question. I wonder whether – if it's possible for you to share with us the amount of cash that was actually remitted to the holding.

And third, going back to the guidance question which we discussed, I remember you lowered your guidance from the range of CHF 200 million to CHF 250 million to a spot 200 CHF million I think in 2014. What were the drivers for that decision to lower the guidance in 2014? Thank you very much.

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

And maybe going back to the first question about the industry business in Germany. As I told you, the quality of the non-life book and especially the industry business in Germany is not satisfactory. And that is why we actually are looking into it deeper now on a risk-based level, on a contract-by-contract based level, on a client-by-client based level in order to get the improvement in there. And we expect this to last at least another one to two years before we can actually stabilize and improve the quality of the non-life industry business in Germany.

On the cash – on the second and the third question. The third question is difficult for me because I was not here at the time. So I leave that to the colleagues and I'll see to the second question what comes out of it.

A - German Egloff {BIO 4782831 <GO>}

Well, the third question was that – the reason was actually the movement of the interest rates. Because there we have seen the trend in (52:17). It's a bit like the question we had just at the beginning of the call today. It's about – if it's going on like this, it's probably rather closer in the 200 and 250. Because for 250, we need at least favorable interest rates or even rising interest rates. And in 2013, we have good reason that interest rates could actually go up to a certain extent. About the cash flow to the holding, I mean, you see just the holding. You see that the local closing in the holding in the financial report. Apart from that we don't really do a cash flow reporting. And if we did that that would be sort of a change in policy which could be this half that's probably a good idea, but then we have to drop a couple of other things, and that's the reason I think.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay, that's fine. But perhaps just on that. I think in the past you sort of indicated that the businesses other than life sort of remitted close to 100% up to the holding...

A - German Egloff {BIO 4782831 <GO>}

Yeah.

Q - Ralph Hebgen {BIO 6297020 <GO>}

All right. So, that's correct. And if there was a bottleneck that would be basically the life business. I mean that sort of interpretation is broadly indiscernible (53:51).

A - German Egloff {BIO 4782831 <GO>}

Yeah. No, no. That's still true. With the attachment, what I said before that of course, where you have in between holdings like for example, in Luxembourg, and that sometimes you look that you'll have the optimal mix for loans – internal loans you have and tax situations and that sort of things.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yeah.

A - German Egloff {BIO 4782831 <GO>}

So there are a couple of intercompany effects that are in there as well. And the other thing is, of course that it's not only dividends that come up to the holding, it is other things as well.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes. As in loan interest and internal loans and reinsurance and things like that.

A - German Egloff {BIO 4782831 <GO>}

Exactly. Advisory fees, that sort of things. I mean, as probably the look-through – the look-through component in the MCV gives you an ID what kind of cash is from the life business coming to the holding as well.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yeah. Okay. That's very helpful. Thank you very much.

A - German Egloff {BIO 4782831 <GO>}

Thank you.

Operator

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

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

Fantastic. Thank you very much for this opportunity. Just on the non-life and I guess I am bit sick really – don't answer that. Sorry. It's not a question. But on slide 8, so you show the large claims which are now being stable and yet – and in your presentation and then the comments and discussion, one of the issues is the large claims are specifically in Germany. But at the group level, it seems absolutely fine. So I'm kind of trying to weigh up in my mind if you improve Germany, does it mean that the rest will worsen to keep that ratio roughly where it is?

And the other on the prior year, effectively I'm trying to home in on the Germany a bit – the prior year, I have in mind that the run rate, normal run rate is about 1.5%. Is that right, or should it be closer to 2%? Yeah it's – and finally on Germany, so you explained and everywhere, you explained the pressure on pricing, but the feeling I have is that claims remain quite benign, or am I wrong? I was thinking thanks to low inflation and mild winter and whatever. Thank you – in Q1 2016 of course?

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

I think if you look at the overall group, it is true that indeed 2015 has been a year without major large claims on a group level. So the claim situation in 2015 on a group level is certainly satisfactory, exception made of course for Germany. Now, if Germany will improve which is absolutely of course the intent, would the rest actually worsen? The answer is no. I don't – Germany is not the benchmark in terms of the cost ratio or the, sorry the claims ratio – it's into the other countries that are setting the benchmark, of course.

On the second question about the 1.5% and the 2%, I didn't fully get that one.

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

The prior year – you call it PYLD, prior-year loss development.

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

Yeah. Prior year loss development.

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

I was just wondering what's the normal run rate here.

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

That's a bit difficult to give an indication there because if in an ideal world, it won't be nil. And of course, it isn't normally. And now, we said the experience is actually between 1% and 2% now. It was even higher in the past. But the reason there was the whiplash reserves from Switzerland and because the law and decisions have changed there. But that's calm now, so that's why it's going to be a bit lower, I guess between 1% and 2%.

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

Okay. That's perfect. And then just on Q1 trends, you said pricing is tough but I got the impression maybe from speaking with your peers that claims actually is very low as well. Is that fair?

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

That's fair, yeah. I think price competition is good but in terms of the claims situation as of to-date, I think...

A - German Egloff {BIO 4782831 <GO>}

There has been a couple but...

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

No special things.

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

Good. Perfect. All right. Thank you very much.

Operator

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

Maybe I can shortly summarize then the key points and then come to an end of the call.

Again, I think in 2015, we have proven some very solid results in line with the expectations, in line with what we have delivered over the last decade. The CHF 512 million is what we think upon or slightly above the market expectation, healthy growth of 3.3%, excellent combined ratio of 93% which is the second best since (59:13) the second best ever, probably, because – and then, also in the life business, especially by the solid risk products and solid profit.

So we are overall absolutely satisfied with 2015 and absolutely committed to continue this kind of track record into the next chapter.

A - Marc Kaiser {BIO 15056036 <GO>}

So, thank you everybody for joining in in this call. If you have any follow-up questions in terms of clarifying, the IR Team is, of course, is at the phone service. Please feel free to call us or write us mail. And have a good day, then. Bye.