

Sustainable business management

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How Baloise creates value

RESOURCES

INVESTORS

The shareholder base is broadly diversified. Most of the shares are held by institutional investors from Europe and the USA who have a long-term investment horizon.

EMPLOYEES

Using 21st century working models, we focus on employees with initiative and offer opportunities for internal mobility and development.

- ▶ Culture of growth and learning supported by initiative, dialogue and performance to equip the company for the future
- ▶ Values-based culture
- ▶ Equality-based working environment, and communication on equal terms
- ▶ Scope for personal initiative
- ▶ Focus on development
- ▶ Individual working models (remote working, part-time, job-sharing) and a modern work environment

PARTNERS

Baloise works with a wide network of distributors (agents, brokers and banks), service providers, advisors and start-ups in various markets. We work with our partners to optimise and expand our core business.

- ▶ Start-up fund: CHF 50 million for investment in European, UK and US-based start-ups
- ▶ Baloise's own start-ups: e.g. FRIDAY, Mobly and Movu
- ▶ Selected partners such as TCS, Bank Cler, BLKB, Möbel Pfister and many others

RELIABLE.

The funding of risk protection for customers and of the return on equities for shareholders is balanced and robust.

ENGAGED.

Inspired employees with a strong sense of personal responsibility deliver the right solutions for our customers.

EFFECT

Our shareholders expect a long-term attractive investment. The high level of security comes from a strong balance sheet, a proactive approach to risk management and a conservative investment policy.

Through our ambition of achieving a cash upstream of CHF 2 billion to Baloise Holding by 2021, we are creating the financial basis for investment in future growth in order to continue our attractive and consistent distribution policy.

Committed employees strengthen customer relationships and foster long-term customer loyalty.

- ▶ Among the top 10% of employers in the insurance sector by 2021
- ▶ Enhancing the employability of our employees through continuing professional development
- ▶ Competitive basic salaries, variable remuneration, and attractive profit-sharing and employee retention schemes
- ▶ Average length of service is 13 years
- ▶ Teamwork, individual responsibility
- ▶ Appreciative working environment
- ▶ Loyal and satisfied employees who make a difference to the customer experience

The strength and innovation of the Baloise partnerships ensure competitiveness and enable future growth.

- ▶ Fast pace of innovation through shortened product development time. Around 30 new products in 2018
- ▶ Ability to respond quickly to customer needs and come up with new products in weeks rather than months
- ▶ Around 50 start-ups in the portfolio / funding initiatives for innovative solutions for tomorrow's market

INVESTORS

EMPLOYEES

PARTNERS



CUSTOMERS

We have a strategy of seeking out customers who are cautious and careful, and to whom safety and security are as important as they are to Baloise. Our customer base includes private and corporate customers. We gained 186,000 new customers in 2018.

We involve customers in our product design process through customer forums, panels and surveys because we want to do more than cover risks: we want to make customers feel more safe and secure in their everyday live.

SOCIETY

Baloise assumes responsibility as an employer, partner to its customers and member of society in a variety of ways, including

- ▶ sponsorship
- ▶ CSR activities in all countries
- ▶ art collection / art prize
- ▶ commitment to voluntary work

Group Compliance is a key part of our corporate governance and deals with socially relevant matters such as privacy, money laundering and corruption. In addition, our code of conduct sets out rules for how we interact with our employees.

ENVIRONMENT

Baloise is committed to the responsible use of natural resources in its day-to-day operations.

- ▶ First insurance company to sign up to the insurance declaration on sustainable development of the United Nations Environment Programme (UNEP) in 1995
- ▶ Own environmental mission statement since 1999
- ▶ Signed up to the Principles for Responsible Investment (PRI) in 2018
- ▶ Supporter of the “environmental platform”, a business initiative of the Basel region



SUSTAINABLE.

Simple processes and good relationships shape the lifelong partnership with customers that share our values to create a sustainable future.

INNOVATIVE.

Employees and external partners operate a functioning innovation network that can respond quickly.

«Simply Safe» strengthens the focus on customer needs, supports tailored omnichannel communication and innovative products and services in the areas of insurance, assistance and pensions.

- ▶ Target is to attract 1,000,000 new customers between 2017 and 2021 (+30%)
- ▶ Strong insurance collective
- ▶ Baloise does everything it can to make the lives of its customers safer and more secure

- ▶ Maintenance and expansion of the community sharing the risk
- ▶ At Baloise, we manage and coordinate this community, and we protect it in the interest of the various stakeholders
- ▶ Baloise's actions have an impact on the relationship between business and the general public
- ▶ Helping to shape society and promote sustainable development, both within and outside our own business

Baloise is working to continuously reduce its direct environmental footprint and use of non-renewable resources by using economical, smart, energy-efficient buildings. It observes the same principles in the procurement and use of office equipment and materials.

- ▶ Energy-efficiency in buildings and IT
- ▶ Reducing CO₂ emissions
- ▶ Use of 100% hydroelectric power in Switzerland
- ▶ Training for employees to raise awareness of environmental impact
- ▶ Integration of ESG criteria into our investment universe

CUSTOMERS

SOCIETY

ENVIRONMENT

Responsibility

TAKING RESPONSIBILITY

Insurance companies grew out of the idea of risk sharing. The strength of the community sharing the risk is determined by the sum of the sense of responsibility of each individual member of the community. As insurers, we have always been aware of the importance of taking responsibility and of endeavouring to promote sustainable development in all of our activities. This basic tenet has remained unchanged since the foundation of Baloise in the 19th century. Insurance companies are still based on a community of policyholders. At Baloise, we manage and coordinate this community, and we protect it in the interest of the various stakeholders. Responsible and socially engaged behaviour is also part of Baloise's current strategy, Simply Safe. Ultimately, our actions affect the relationship between business and the general public. The Swiss Federal Council regards responsible companies as a vital factor in the success of the Swiss economy and is helping to shape a framework for corporate social responsibility. It has published a position paper and an action plan on companies' responsibility towards society and the environment.

www.csr.admin.ch

Baloise inherently supports these efforts and is adopting the position taken by the Federal Council to enable it to continually adapt to the prevailing social conditions and become a better corporate citizen. With its new strategy and new focus on customers, Baloise is emphasising that aspects of sustainable business management cannot be viewed in isolation from the commercial management of a company. The Company itself has a long tradition of embracing its corporate social responsibility. Every day, through its insurance and pension solutions, Baloise not only looks after individuals but also protects companies, economies and communities and helps them to function properly, which in turn boosts economic and social stability in the countries where it and its customers operate. It must be able to offer the sort of long-term security that cannot be sustained by the pursuit of short-term profits alone. When it comes to life insurance, for example, Baloise thinks and acts on a long-term basis, examines risks – such as cyber risks – that may arise in the future and mitigates these in a thorough and professional manner.

Baloise is realigning its sustainable business management with the Baloise value creation model (see pages 40 and 41). It is based on the International Integrated Reporting Council (IIRC) model, but focuses specifically on the Baloise business model, the aspects that are important to the Company and its corporate values.

Corporate social responsibility covers a broad range of activities and involves a broad range of stakeholders – from employees and shareholders to customers, partners and the wider public – as well as the environment around us. Baloise's policies are based on the United Nations' sustainable development goals (SDGs), in particular SDG 3 (good health and well-being), SDG 5 (gender equality), SDG 8 (decent work and economic growth), SDG 10 (reduced inequalities), SDG 11 (sustainable cities and communities), SDG 12 (responsible consumption and production) and SDG 13 (climate action).

RESPONSIBILITY TO EMPLOYEES

Baloise's responsibility as an employer is manifested in the new strategy with a clear employee-oriented objective. The Company wants to position itself as one of the most attractive employers in its industry. To achieve this aim, it offers its staff the scope required to contribute to its success and to develop both personally and professionally. This results in satisfied employees, helping Baloise to become an employer of choice in the insurance sector. This involves creating a working environment that is focused on the health and well-being of its staff (SDG 3) and where gender equality is paramount (SDG 5). By improving the employability of our employees, we aim to not only increase our attractiveness as an employer but also create opportunities for economic growth by producing well-trained employees (SDG 8). The Company's appeal as an employer is measured regularly across the Group through "pulse checks". Every three months, randomly selected employees are asked to score Baloise in terms of attractiveness.

Baloise has worked hard over the years to develop and promote an employee-friendly corporate culture, building on the stable foundations put in place long ago. At Baloise in Switzerland, the concept of social partnership has a long tradition. The Company's employee commission (MAKO) was founded in 1970, i. e. long before 1993, when the Swiss federal government passed a co-determination act that gave employees the legal right to have a say in the workplace and to be given

information on particular matters. To this day, the rights of the MAKO go well beyond the provisions of that legislation. There is also a code of conduct, which contains the essential ethical and legal regulations that govern employees' behaviour. Baloise has always promoted an employee-focused corporate culture across the Group, involving employees at different levels in

shaping the working environment (see also the chapter on human resources). In doing so, Baloise secures not only its own long-term viability but also the future employability of its staff in an increasingly competitive economic environment. By giving young people their first experience in the world of work – as trainees, interns and temporary student employees – Baloise is also

WE TAKE RESPONSIBILITY

SDG 3: good health and well-being

- ▶ Corporate health management at all national units
- ▶ Baloise Code (see chapter “Sustainable business management / Human resources”)

SDG 5: gender equality

- ▶ Salaries that are in line with market rates; difference between the genders within a statistically insignificant range
- ▶ Baloise Code of Conduct on equal treatment and sexual harassment (www.baloise.com/code-of-conduct)

SDG 8: decent work and economic growth

- ▶ Ongoing professional development for our employees
- ▶ Friendly Work Space quality seal (see chapter “Sustainable business management / Human resources”)

SDG 10: reduced inequalities

- ▶ Action plan to promote diversity
- ▶ Yellow Equities gender-friendly life insurance (www.baloise.ch/yellowequities)
- ▶ Europaforum for regular dialogue among employee representatives from every national unit

SDG 11: sustainable cities and communities

- ▶ Raising of employees' awareness of environmental issues
- ▶ Promotion of use of public transport
- ▶ Application of the standards for sustainable construction in Switzerland (SNBS) at the new Baloise Park development

SDG 12: responsible consumption and production

- ▶ Implementation of measures for sustainable business operations (see chapter “Sustainable business management / The environment”)
- ▶ Signing of and compliance with the Principles for Responsible Investment (PRI)

SDG 13: climate action

- ▶ Member of the “environmental platform” initiative in the Basel region
- ▶ Reduction of our investment portfolio's carbon footprint by investing responsibly in accordance with the PRI (www.unpri.org)

making an investment in the future of the Company and the employment markets of the countries in which it operates. Every year, across the Group, Baloise trains over 200 people who are at the start of their careers, which represents a proportion of trainees in the workforce of just under 3 per cent. The value that this adds, both for these young employees and the Company, provides a solid basis for the future and enables Baloise to create new jobs and preserve existing ones.

- ▶ Chapter “Sustainable business management/ Human Resources”
- ▶ Code of Conduct: www.baloise.com/code-of-conduct

RESPONSIBILITY TO THE CUSTOMER

Customer focus is central to the Company’s strategy. Baloise wants to be more than just an insurer and therefore needs to take account of the wider social environment in which its customers exist. New risks (e.g. cyber risks) are identified and made insurable, enabling Baloise to promote innovation and social development for corporate and retail clients. To foster the required proactive mindset, the Company encourages employees to ask themselves every day what they can do to make the customer feel “simply safe” – in line with the Baloise strategic maxim. One way to achieve this is to provide services that go beyond those offered by a traditional insurer. Everything that Baloise’s employees do is geared towards enhancing safety and security. But if something does go wrong, Baloise will be on hand to help. Baloise strengthens the insurance collective through its strategy of seeking out customers who are cautious and careful, and to whom safety and security are as important as they are to Baloise. But it is not just about providing security by covering a particular risk, it is also about giving customers everyday peace of mind. Baloise wants to do everything it can to help make customers’ broader environment safer. The customers themselves also get a say, through customer forums, panels and surveys.

Prevention, safety and security have a long tradition at Baloise. In Switzerland, Basler Insurance operates the Baloise cloud seeder, a specially equipped light aircraft, to protect the population against hail damage. The three-year pilot programme was launched in 2018.

The collaboration with the Emilie Leus Foundation in Belgium illustrates how employees are thinking beyond the traditional parameters of insurance. The foundation was established to combat drink driving across Belgium as part of a broad-ranging campaign. Similarly, Baloise in Switzerland was involved in work to help prevent addiction among young people for a number of years, with employees visiting schools several times a year to talk about the subject. This task has now been taken over by our partner TCS.

www.baloise.ch/de/ueber-uns/engagement/hagelflieger.html
www.fondsemilieus.be
www.cktgmbh.ch/themen/sucht/modul.php

RESPONSIBILITY TO THE SHAREHOLDER

The capital that is made available to Baloise by its shareholders is invested efficiently and in their interests. Risk management, which forms an integral part of our strategic management policies, makes a significant contribution to the positioning of the Baloise Group. As a European insurer with Swiss roots, Baloise possesses a strong balance sheet and strong operational profitability, which have been optimised in terms of the risks capacity and the upside potential derived from the business. Baloise’s risk management approach involves managing both risk and value at the same time. Its risk model is based on innovative standards so that it can keep its promise to shareholders. This has enabled Baloise to pursue an attractive and sustainable dividend policy for a number of years now. Its very strong capital base was acknowledged by the ratings agency Standard & Poor’s last year when it raised the Company’s credit rating from “A” with a positive outlook to “A+” with a stable outlook. The new credit rating means Baloise has now attained a top position among the field of medium-sized European insurers. Standard & Poor’s awarded this credit rating in recognition of Baloise’s excellent capitalisation – which is comfortably above the AAA level according to the S&P capital model – as well as its high operational profitability, robust risk management and solid competitive position in its profitable core markets.

www.baloise.com/rating

- ▶ Chapter “Sustainable business management/ Risk management”

RESPONSIBILITY TO THE ENVIRONMENT

As a signatory to the declaration for the insurance industry issued by the United Nations Environment Programme, Baloise is committed to reducing its impact on the environment. The Company's environmental policies focus on responsible consumption and production (SDG 12) and climate action (SDG 13). The Company uses natural resources prudently and responsibly. This responsibility relates to its own energy requirements but also extends to its investments and the procurement of products and services. As we are an insurance company, we do not produce any goods. At our sites, we predominantly require energy for electricity and heating. We also monitor the impact of travel, both business trips during working hours and journeys to and from work. CO₂ emissions have been continually reduced over a number of years. The Company's focus on energy efficiency, particularly in its IT infrastructure and buildings, plays a key part in this. Employees are encouraged to use public transport wherever possible and to separate their waste for recycling.

Baloise also endeavours to make a contribution to sustainable cities and communities (SDG 11) by raising employees' awareness and providing them with information on environmental topics. They are encouraged to use public transport whenever possible. In Belgium, Baloise conducted a transport review in collaboration with the city of Antwerp, resulting in the development of a travel action plan and a business plan. Each employee's commuting route was analysed to determine how it could be optimised and which mode of transport would be most appropriate. In Switzerland, Baloise is a member of the "environmental platform" initiative in the Basel region (www.klimaplattform-basel.ch). This platform facilitates the sharing of knowledge among businesses and supports climate protection and sustainable development in the local region. The three new buildings being erected at Baloise Park, the Company's new headquarters in Basel, meet the standards for sustainable construction in Switzerland (SNBS) and sustainability specialists have been involved in their design from the outset.

Baloise is committed to environmental protection and is continually stepping up its efforts by launching new initiatives. Baloise reports on the progress it is making in its annual group-wide environmental audit within the annual report.

- ▶ Chapter "Sustainable business management/
The environment"

www.klimaplattform-basel.ch

RESPONSIBILITY IN SOCIETY

Baloise believes it has a responsibility to society in its role as a corporate citizen and conducts its business activities pursuant to the applicable legal provisions and in compliance with the constitution of the Swiss Confederation. Anyone involved in the insurance sector or the financial markets is subject to an approval requirement which demands an assurance of proper business conduct. This stipulates that the Board of Directors and the Corporate Executive Committee must organise Baloise in such a way as to ensure it complies with all applicable laws, including constitutional human rights, at all times. The Swiss Financial Market Supervisory Authority (FINMA) continuously monitors compliance with this approval requirement.

For many years, Baloise has also been a committed advocate of voluntary work. In April 2015, Baloise became a signatory to the declaration by *economiesuisse* (the umbrella organisation representing Swiss business) and the Swiss Employers' Association. The declaration requires companies to offer flexible working conditions and working time models that enable employees to participate in voluntary work. Baloise not only encourages its employees to engage in voluntary activities by holding annual inhouse events but it also meets its own responsibility to society as a commercial organisation. Five Baloise employees in Switzerland are currently members of cantonal parliaments, and many others are involved in politics at local level. Karin Keller-Sutter, a former member of the Baloise Board of Directors, was appointed President of the Council of States (upper chamber of the Swiss parliament) for 2018 before being elected to the Swiss Federal Council in December of last year. Furthermore, the Company creates and preserves jobs that add value and it pays taxes from its profits that help to fund the public sector. This enables Baloise to be an active partner in many areas of society. Baloise runs a number of projects and initiatives that benefit society in its various national subsidiaries (see also weblinks to the activities of the national companies).

Since 2012, Baloise has given its employees in Switzerland the opportunity to do valuable voluntary work in the community and environmental sectors. Baloise is mainly involved with four institutions, the Entlebuch UNESCO biosphere reserve, the "just for smiles" foundation, the "beider Basel" animal shelter and the PluSport disabled sports day. In Belgium, employees from all sites get involved in events for the "Warmest Week Music for Life" initiative as part of the "Baloise For Life" week at the end

The Baloise companies outside Switzerland also play their part in social, sporting and cultural life in their regions by supporting numerous institutions and events. Some of the Baloise activities and initiatives that enrich socio-cultural life are listed here:

WEBLINKS TO THE ACTIVITIES OF THE NATIONAL COMPANIES

- ▶ Baloise Group and Switzerland
www.baloise.com/responsibility
www.baloise.ch/de/ueber-uns/engagement.html
- ▶ Belgium
<https://www.baloise.be/nl/over-baloise-insurance/voorstelling/sponsoring.html>
- ▶ Germany
www.basler.de/ueber-uns/unternehmen/basler-versicherungen-stellen-sich-vor/nachhaltigkeit.html
- ▶ Luxembourg
www.baloise.lu/fr/assurance-baloise-luxembourg/Qui-sommes-nous/engagements-sponsoring.html

of December. All proceeds from these activities go to charity, represented by 24 non-profit organisations selected by employees. More than EUR 60,000 has been collected over the last few years. In Germany, a Christmas concert for all current and former employees, along with their families and friends, has been held in Hamburg for more than 30 years. The proceeds from this event support the operations of charitable initiatives in Hamburg.

Baloise also promotes the cultural diversity of society through its sponsorship activities. The Company sponsors the arts and has funded the Baloise Art Prize for 20 years. Every year, this prestigious accolade is awarded to two talented young artists at the Art Basel fair. The winning works are acquired by Baloise and donated to two museums that each mount an exhibition devoted to one of the artists. These are currently the Hamburger Bahnhof museum in Berlin and the Musée d'Art Moderne (MUDAM) in Luxembourg. In addition, Baloise maintains a long-standing collection of artworks that can be seen not only by employees but also by the public at two exhibitions in the Art Forum at the Company's headquarters. These exhibitions are changed each year. In Germany, Baloise opens its art collection to the public once a year as part of the "Kunst privat" initiative. Since 2013, Baloise has been the presenting sponsor of Baloise Session, a prestigious music festival in Basel with an intimate club-like setting in which the audience sit at tables. Baloise session is an important cultural event that enhances the reputation of the city of Basel. In Belgium, Baloise is a major sponsor of cycling. Sport Vlaanderen-Baloise is a professional cycling team that focuses on the Pro Tour competition's Benelux races and the international calendar for professional continental cycling teams in Europe. It receives financial backing from Baloise. The team's overriding objective is to provide professional support for talented young riders.

Establishing the culture of growth

Early success and the need for faster change

Dedicated employees build up strong customer relationships that in turn help the Company to achieve its financial targets. This firmly held conviction is the basis for the Simply Safe strategy introduced in 2016. Many new aspects were implemented in 2017, thereby anchoring the “employee focus” element of the strategy. In 2018, mid-way to 2021, Baloise notched up some early success but also identified the need for further simplification and a faster pace of change if it is to achieve the objective of becoming a leading employer in the industry.

KEY FIGURES

- ▶ 7, 203 (2017: 7,286) employees respectively 6,571 (2017: 6,655) full-time equivalents.
 - ▶ 43.6 per cent of all employees are women (2017: 43.5 per cent).
 - ▶ The Baloise Group employs 283 (2017: 245) apprentices, trainees and interns.
 - ▶ 66.0 per cent of staff members working in our main market of Switzerland participated in our Share Participation Plan in 2018 (2017: 64.0 per cent).
 - ▶ Baloise employees work at the Company for an average of 12.9 years.
 - ▶ Staff turnover as at 31 December 2018 amounted to 5.9 per cent (end of 2017: 5.2 per cent).
-

BALOISE'S EVOLUTION: SHARED JOURNEY FROM A PROUD PAST TO A SUCCESSFUL FUTURE

For the past three years, Baloise has been pursuing a growth strategy that is based both on its strong core business and on its unique corporate culture. The transition to a culture of growth is clear to see, and many initiatives – such as those aimed at encouraging innovation, enablement and career development – made a positive impact in 2018. This was also reflected in the employee engagement survey conducted during the year under review.

Alongside people development, another area of focus in 2018 was organisational development. There was a particular emphasis on supporting forms of agile collaboration. One stand-out example was the introduction of a big-Group planning event (PI planning) in the Swiss Group life and non-life businesses, at which around 200 experts, departmental representatives and

managers worked together to prepare the implementation planning for the coming quarter. This type of agile planning resulted in greater transparency, a better understanding of interdependencies and, ultimately, more commitment from everyone involved.

A NEW APPROACH TO LEADERSHIP IS KEY TO SUCCESS IN THE DIGITAL AGE

In 2018, Baloise afforded even greater attention to digitalisation in the context of its growth strategy. To accelerate the process of encouraging people to show drive and initiative, to help shape the process of change, to try new things out and to strive for improvement at all levels, the Company formulated an approach to leadership for the digital age and integrated it into the tried-and-tested Group-wide Baloise Campus management development programme as well as similar local programmes. After all, Baloise firmly believes that the professional development of its managers is vital to the success of the digital transformation.

Also in 2018, a dedicated digital leadership programme (DLP) for senior management was developed and piloted with support from investment and consultancy partner Anthemis. The DLP teaches senior managers about the paradigm shift that is required as a result of the digital transformation and explores subjects such as customers, digital strategy, organisation and leadership.

Baloise's leadership approach

The essence of our approach to leadership is aimed at facilitating three shifts:

- ▶ From expert to coach
- ▶ From “command and control” to “challenge and support”
- ▶ From “either / or” to “both”

VIRAL CHANGE AND PERSONAL INITIATIVE: DRIVING CHANGE FROM THE BOTTOM UP

The concept of viral change was introduced in 2017. In the reporting year, responsibility for the concept was handed to the “sparks”: highly engaged and well-connected employees who ensure that the Baloise Code remains in the spotlight and initiatives such as the TopicTable are launched. This is speeding up the cultural transition, while the voluntary nature of the resulting networks contributes to eliminating obstacles and makes interdepartmental collaboration easier. International focal topics will be introduced in 2019 that will build on these initial achievements and help to shift the emphasis away from individual initiatives to a multinational “social movement”.

TopicTable

The TopicTable was set up in line with two of the behaviours enshrined in the Baloise Code: “Appreciate colleagues: build personal connections” and “Share insights: collaborate beyond your role”. Every day, anyone who wishes can organise a “TopicTable” at lunchtime in the staff canteen on a particular issue or even their hobby. This gives employees from across the Company the chance to discuss such topics informally, both with like-minded people and with those offering a different perspective.

DIALOGUE AS THE BASIS FOR OUR SUCCESS; CONTINUOUS IMPROVEMENT

Our three established formats for dialogue between managers and employees are the bedrock of the Baloise culture. All three focus on development for the future. However, this is a continuous process, rather than an annual event taking place on set dates. That is why the performance and talent development process was simplified in 2017. To emphasise the ongoing nature of the dialogue, the “feedback day” concept was introduced in 2018.

1. In the individual development dialogue, an employee and their manager talk specifically about the employee's skill set and behaviour. The focus is on continuous learning at both professional and personal level, particularly in relation to the skills that are needed to achieve the envisioned growth. The meetings are structured around a talent assessment questionnaire that covers the skills relevant to growth.
2. The managerial feedback session is aimed at continually improving the capabilities of managers. Every two years, all employees are given the opportunity to fill out a questionnaire for their manager on the twelve growth-relevant management competencies of the Baloise Leadership Compass. Afterwards, the manager discusses the results with his or her team.
3. In the years in between, the biennial employee engagement survey is conducted at departmental level in order to identify and discuss areas that have potential for improvement. Each quarter, “pulse checks” take place in which 30 per cent of employees are polled on whether they would recommend the Company as a good employer. These surveys provide a regular indication of whether Baloise is getting closer to its goal of becoming a leading employer in its industry.

Baloise Code

- ▶ Keep promises: walk the talk.
- ▶ Ask questions: learn new things all the time.
- ▶ Speak up: every voice matters.
- ▶ Share insights: collaborate beyond your role.
- ▶ Understand the impact of your work: look for constant improvements.
- ▶ Appreciate colleagues: build personal connections.
- ▶ Bring in customer needs: take their perspective.
- ▶ Meet others with a smile!

The Baloise Code was developed on the basis of the Company's core strategies and in line with Baloise's behavioural values "Put yourself in the other's shoes!", "Act authentically and earn trust!" and "Develop and engage – yourself and others!" The eight behaviours are designed to accelerate the change in culture that Baloise needs if it is to achieve its strategic objectives.

Feedback day

"Do you want to go for a walk with me and give me some feedback? Yes. No. Maybe." In the spring, posters featuring this question were used to make Baloise employees more aware of the important issue of feedback and to prompt them to ask a colleague to go on a "feedback walk". The initiative was designed to shine the spotlight on using feedback as part of a continuous improvement process.

MID-TERM RESULT: TOP 23 PER CENT AFTER TWO YEARS; TARGET: TOP 10 PER CENT

In autumn 2018, the Group-wide employee engagement survey was carried out again. The questionnaire is primarily aimed at gauging levels of engagement and enablement among employees. Responses to the question "Would you recommend Baloise as an employer?" are crucial to measuring achievement of the target of being in the top 10 per cent of European financial institutions.

In the year under review, 76 per cent of the total workforce (around 4,700 employees) took part in the survey. The results from the 2016 survey put Baloise in the top 30 per cent. In 2018, the Company moved up into the top 23 per cent thanks to 82 per cent of respondents stating that they would recommend Baloise as an employer. This positive trend had already been apparent from the slight improvement in the results of the quarterly pulse checks. In terms of both engagement and enablement, Baloise improved on the already high level that it had reached in 2016. Overall, 78 per cent of employees rated their own engagement as positive (increase of 1 percentage point); the figure for enablement was 77 per cent (increase of 3 percentage points). Baloise thus stands head and shoulders above its European competitors. The biggest positive changes were in relation to innovation (increase of 8 percentage points to 77 per cent), development opportunities (increase of 7 percentage points to 72 per cent) and respect and appreciation (increase of 7 percentage points to 76 per cent), i. e. precisely the areas in which Baloise has launched a number of initiatives since embarking on Simply Safe. The areas with potential for improvement that were identified in 2016 – achieving career goals, addressing behaviour that is out of step with our values and having sufficient resources to be able to work effectively – also scored better in 2018. These increases are proof positive of the benefits of feedback and of investing in projects such as the "change of perspective" initiative for career development. The task now is to maintain this positive trend and move up the final 13 percentage points in order to reach the top 10 per cent by 2021.

Kununu ranking

Baloise's positive rating as an employer is also reflected in our Kununu ranking. Our score of 3.98 points (out of a possible five) puts us in a respectable third place among all of the major Swiss insurers (including health insurance companies). The employer comparison site enables former and current employees to anonymously rate aspects such as working atmosphere, manager behaviour and work-life balance.

CONTINUOUS IMPROVEMENT; INTERDEPARTMENTAL COLLABORATION; PERFORMANCE AND TALENT DEVELOPMENT PROCESSES

Development is not an annual event. Performance is not due to the efforts of just one person. These statements are reflected in our performance and talent development process, which incorporates regular meetings between managers and employees to ensure continuous learning and clarity about common objectives. Since the start of 2018, there have also been overarching team objectives that are founded on the belief that good interaction within teams and between departments and divisions of the Group will lead to better performance.

In the established annual process of talent development for well-qualified high-potential employees, Baloise is also continuing to identify talented young employees and key individuals, find potential successors and agree targeted development activities for them.

INDIVIDUAL WORKING MODELS: FLEXIBLE, FAMILY-FRIENDLY, MOBILE

Employees are key to the achievement of our targets. This statement is underlined by the current corporate strategy, which puts the emphasis on our employees as one of three main focal points. To this end, Baloise has set itself the objective of offering every employee suitable working conditions in addition to encouraging their development, engaging in honest dialogue with them and giving them the opportunity to help shape the Company. This can be seen from our flexible working models, which include options to work part-time and from home, an inhouse crèche and an extensive corporate health management service. Baloise is also investing in employees' individual development through the "change of perspective" initiative, which offers flexible placements of between one day and several months.

Change of perspective

Under the temporary job change initiative, employees perform a new role or work on Group-wide projects for a defined period of time, before returning to their original function. These temporary vacancies arise when employees go on parental leave, for example, or when additional resources are needed for a particular project. In 2018, there were 81 such temporary job changes. Shadow for a day is the shorter version of the two "change of perspective" options. Under this scheme, an employee is given the chance to shadow a colleague for one day, ask them questions and take on board invaluable information and ideas for their own work.

BALOISE IN THE LABOUR MARKET – AUTHENTIC AND APPROACHABLE

Baloise wants to become an employer of choice in the financial services sector. The way in which we present ourselves in the labour market has a direct impact on this objective, not least because competition for the best brains remains fierce due to demographic change. The analysis of target groups carried out in late 2017 / early 2018 confirmed our existing view that a particular focus is required on recruiting IT workers, insurance advisors and apprentices for commercial vocations. Various initiatives have been introduced to tackle this challenge, including a new employee referral scheme that emerged as the third biggest source of applicants and the most important hiring channel in 2018.

Baloise also overhauled its employer brand as part of a Group-wide project in 2018. The resulting unique selling propositions are designed to portray the Company in a targeted and concise manner in the job market. Implementation campaigns are planned for 2019.

Baloise generally engages with potential candidates in various ways, including through our careers blog, through our profiles on social media and at university fairs. Concepts aimed at particular target groups, such as “bring a friend” events, have also been tested with success. All of these activities are aimed at conveying an authentic, attractive and unique image of Baloise that will enable it to attract sufficient and, above all, the right candidates.

Baloise offers an appealing range of training opportunities. Around 283 young people currently work as apprentices, interns and temporary student workers under the established training scheme. The Company’s graduate trainee programme, now in its 26th year, gives participants a deep insight into various parts of the business and thus provides the ideal preparation for a management or specialist role. The alumni of the programme can be found in a wide range of roles, departments and management levels within the Company. Previously only available in Switzerland, the programme was rolled out to all other national units in 2018.

Activities in 2018 – spreading the word about Baloise as an employer

- ▶ 6 graduate fairs
- ▶ 10 workshops and other events
- ▶ 2 WhatsApp taster days
- ▶ 105 blog articles
- ▶ 20 videos and podcasts

SHARED GOALS; LOCAL FOCAL POINTS

The activities of the country-specific HR units are aligned with the wider objectives of the Group but are also dictated by regional circumstances and the local legal system.

The emphasis in **Switzerland** was again on the transition to a culture of growth. In 2018, the focus was on encouraging agile working methods and enhancing the working environment. Further managers rotated jobs in 2018, which helped to drive the “change of perspective” initiative at this level. Drawing on input from the previous year’s “Baloise wants to know” workshops, which were initiated by the employee commission, Baloise made a number of changes to make it more attractive in the labour market. This included a clear commitment to part-time working models, for example a quota of “60 per cent” positions that should make Baloise more appealing to women returning to work. Furthermore, annual leave has been standardised at five weeks across the board and parental leave for expectant mothers has been simplified and expanded. Workshops are not the only forum for employees’ interests, however. The employee commission represents the interests of the workforce at monthly meetings with the Executive Committee and employees participate in various committees, such as the body responsible for assigning functions to pay categories. Another topic of particular focus in Switzerland was diversity. Networks, such as for the internal LGBTQ community, are now actively supported.

In **Germany** too, everything centred on the cultural transition. A particular emphasis was the approach to leadership. The related activities included working on the results of the 2017 managerial feedback, holding regular meetings for divisional, departmental and team managers and providing development opportunities devised by the leadership working group. The Chief Executive Officer released a weekly video blog, thereby giving clear and direct insights into strategic matters and

Diversity at the Swiss offices

- ▶ 39 nationalities
- ▶ 100 per cent return rate after maternity leave (2015 / 2016)
- ▶ 20 per cent of employees work part-time (75 per cent women, 25 per cent men)
- ▶ 40 per cent of those promoted in 2017 were women

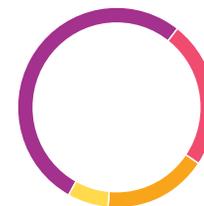
decisions and prompting debate by addressing specific issues. Initiatives and formats relating to the digital transformation and agility became embedded and now cover a broad section of the workforce. The employee engagement survey in the year under review showed improved results following activities such as development dialogues and medium-term changes of perspective. The target agreement process helped to give employees a better understanding of their part in the Company's success and how they can make a meaningful contribution. Moreover, the works councils are invited to participate in the different formats for cooperation and involvement, enabling them to represent employees' interests from the outset.

In **Belgium**, the focus for 2018 was on support for innovation and on manager and employee development. An innovation competition was run for the second time, in which 30 teams submitted ideas on an area defined by the management team. Seven teams were selected to present their idea to the management team. As part of a new programme, manager development was concentrated on the topics of personal ambition and collective leadership and on the change in the management approach from expert to coach and from "command and control" to "challenge and support". A new learning management system was introduced to drive employee development within the organisation and to promote new forms of learning. The action plan signed off in 2017 to promote diversity was rolled out. Related activities – such as reverse mentoring, where senior managers learn from millennials – were organised with the help of ambassadors. Monthly meetings with the works council and internal trade union representatives are another way in which employees' interests are upheld.

A focal point in **Luxembourg** in 2018 was to encourage employees to be innovative by asking them to participate in activities such as an innovation project competition. The "sneak preview" training courses were continued with the aim of piquing employees' interest in continuing professional development; the central topic for 2018 was customer focus. The broad-ranging training programme was further expanded, with a particular emphasis on English for everyone. The latter also had a positive impact on the results of the employee engagement survey in the reporting year. To raise its profile in the labour market, Baloise increased its attendance at recruitment and HR forums.

BALOISE'S 7,203 EMPLOYEES IN 2018 BY COUNTRY

	Per cent	Employees
➤ Switzerland	52.5	3,782
➤ Germany	23.9	1,722
➤ Belgium	17.0	1,224
➤ Luxembourg	6.6	475



Friendly Work Space



Baloise was labelled a Friendly Work Space® for the first time back in 2010. This certification has to be renewed every three years, and Baloise was recertified in both 2013 and 2016. In fact, it achieved the highest score in 2016 and is the leading company in the financial services / insurance sector.

FAIR PAY BASED ON PERFORMANCE AND TARGETS

Baloise attaches great importance to rewarding its employees for their performance, including through monetary compensation. It therefore offers performance- and target-oriented remuneration packages that are based on fair principles and an updated framework of performance management. The total remuneration package consists of competitive base salaries, a range of variable remuneration components, fringe benefits and attractive employee incentives and loyalty bonuses.

Overall, remuneration is regarded as a hygiene factor rather than a strategic selling point. It is determined by the following criteria:

- ▶ Competitiveness in the marketplace
- ▶ Individual performance and the Company's success
- ▶ Fairness and transparency
- ▶ Sustainability

With effect from 2018, the system of performance-related remuneration based solely on individual performance was abolished. Now, variable remuneration is systematically aligned to the attainment of overarching Company targets by means of the performance pool. The variable pay components are allocated on the basis of team performance and employees' individual contribution to their team's success, another factor being interdepartmental and international cooperation. This should motivate employees to work towards the success of areas beyond their own sphere of responsibility.

To help secure long-term success, part of employees' remuneration is paid in the form of restricted shares, with the senior management team receiving a comparatively high proportion of their pay in the form of shares. This form of remuneration strengthens loyalty to Baloise and gives employees the opportunity to share in the Company's success. The packages also feature attractive fringe benefits that are awarded regardless of function and seniority.

In 2018, Baloise voluntarily conducted an internal wage equality analysis to ensure that it offers equal pay. To do so, it used the same tool (Logib) as when it participated in the official wage equality dialogue in 2013 / 2014. The analysis revealed that unexplainable differences between wages for men and women are still well below the tolerance limit of 5 per cent. So that this good statistic is maintained going forward, the Company

will step up its efforts to ensure equal remuneration for men and women when it comes to hiring and pay rises.

Further information on the remuneration system and the remuneration paid in the reporting year can be found in the remuneration report on pages 88 to 113.

EMPLOYEE STORIES AND THE LATEST FROM THE COMPANY BALOISE GROUP HUMAN RESOURCES ON THE INTERNET

Baloise maintains a presence on various media in order to reach potential employees and to convey an authentic picture of itself as an employer. The following platforms are used to present career stories, the corporate culture, employees and the latest news and events at Baloise.

Careers website:

www.baloise.com/careers

Careers blog:

www.baloise.com/karriereblog

 Facebook:

www.facebook.com/baloisegroup

 YouTube:

www.youtube.com/baloisegroup

 Instagram:

www.instagram.com/baloisejobs

 Xing:

www.xing.com/companies/baloisegroup

 LinkedIn:

www.linkedin.com/company/baloisegroup

 Twitter:

www.twitter.com/baloise_jobs

Environmental mission statement

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

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

PRINCIPLE

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

STAFF AND PUBLIC

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

ENVIRONMENTAL FOOTPRINT

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

PRODUCTS AND SERVICES

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

LONG-TERM FINANCIAL ASSETS

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

ORGANISATION

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

Protecting the environment over the long term

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

CONTINUOUS REDUCTION OF CO₂ EMISSIONS SINCE 2000

Ever since the Kyoto conference in Japan put the issue of climate change firmly in the public spotlight in 1997, Baloise has been publishing key figures on energy and resource consumption, documenting sustainability measures in its annual report, and calculating its absolute and relative CO₂ emissions in accordance with the directives issued by the Association for Environmental Management and Sustainability in Financial Institutions (VfU). The 2015 Paris Agreement, the successor to the Kyoto Protocol, has spurred the Company on in its ambition, and future measures will be based on the Paris objectives. Both absolute and relative CO₂ emissions have been reduced massively at Baloise since the year 2000. Over an 18-year period, Baloise has cut absolute CO₂ emissions from 53,580 tonnes to 14,772 tonnes. This is

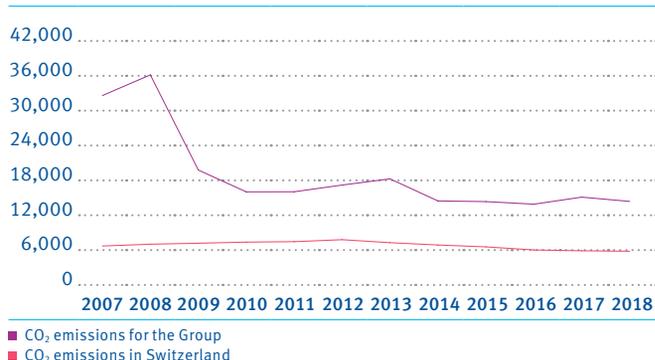
equivalent to a 72.4 per cent reduction in CO₂ emissions, while emissions per employee fell by 30 per cent over the same period, from four tonnes to 2.8 tonnes.

FOCUS ON OPTIMISED OPERATIONS IN 2018

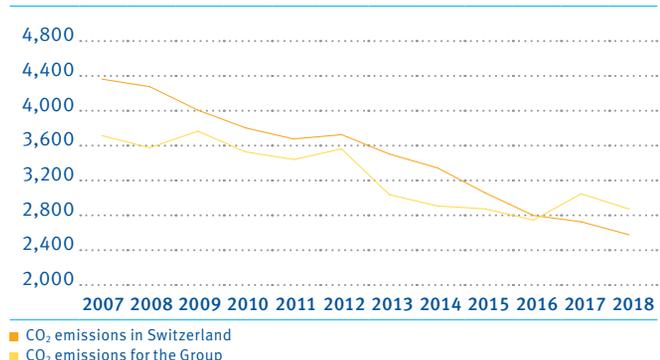
Measures aimed at a lasting reduction in energy consumption in Switzerland and Germany focused on optimising how buildings are run. The periods during which the air conditioning system is on were adjusted, and default temperatures in office areas over winter and summer were modified to ensure a more sustainable use of energy.

The introduction of a range of working models further increased the efficient use of space in all buildings. Following a review of employee catering at headquarters in Basel in 2015

TOTAL CO₂ EMISSIONS IN TONNES



CO₂ EMISSIONS PER EMPLOYEE IN KILOGRAMME



ENVIRONMENTAL AUDIT

	2016 absolute	2017 absolute	2018 absolute	Relative	Unit	+ / - %
Employees	5,290	5,148	5,214		headcount	1.3
Energy reference area	137,151	136,601	142,409		ERA m ²	4.3
Locations	15	15	14		number of buildings	-1
Electricity consumption	18,236,089	19,137,677	18,314,747	3,513	kWh / employee	-4.3
Heating consumption	10,380,219	9,830,542	8,269,769	58	kWh / m ²	-15.9
Water consumption	47,128 m ³	47,768 m ³	45,421 m ³	35	l / employee / day	-4.9
Paper consumption	465 t	413 t	300 t	58	kg / employee	-27.4
Paper types				2.0%	recycled	
				89.0%	chlorine-free-bleached	
				9.0%	chlorine-bleached	
Copy paper consumption	76.0 million A4 sheets	72.4 million A4 sheets	66.1 million A4 sheets	12,679	A4 sheets / employee	-8.7
Amount of refuse	811 t	1,009 t	843 t	162	kg / employee	-16.5
Types of refuse				53.0%	paper / cardboard	
				7.0%	other materials	
				2.0%	special waste	
				38.0%	misc. waste / refuse	
Business travel	18.4 million km	22.5 million km	22.4 million km	4,290	km / employee	-0.4
Mode of transport				23.1%	km by air	
				52.3%	km by road	
				24.6%	km by public transport	
CO ₂ emissions	14,257 t	15,579 t	14,773 t	2,833	kg / employee	-5.2

with a focus on regionality, seasonality and animal welfare, the Company embarked on the refurbishment of its employee cafeteria in 2018 with a view to improving energy efficiency and the use of space.

By replacing several hundred lights with LED lighting and using LEDs in all new installations in its buildings, the Company switched to a technology that will save energy for years to come.

FOCUS ON PERSONAL TRANSPORT IN BELGIUM AND LUXEMBOURG TO REDUCE TRAFFIC PROBLEMS

Electric vehicles were purchased in Belgium and Luxembourg to provide emission-free modes of transport. The employees in Belgium have access to eight electric vehicles, while those in Luxembourg have access to two. This allows for the bulk of day-to-day business to be conducted with zero emissions.

The CO₂ emissions of the Belgian vehicle fleet were reduced to 111g / km in 2018. In Luxembourg, Basler joined the state-run car sharing platform (<https://de.copilote.lu>) as part of European Mobility Week.

RIGHT AROUND THE WORLD WITH SWISS SOLAR POWER

Since 2015, Baloise customers and employees have been able to charge their electric vehicles at Baloise's company headquarters using solar power. The facility, which does not cost anything to use, has proved very popular. During a very sunny 2018, enough solar-generated electricity was drawn from the "pumps" to power a total of almost 80,000 kilometres – equivalent to nearly two emission-free trips around the globe. Since 2016, customers and employees have also been able to charge their electric vehicles for free at the Zurich site. Among their number are the Company's loss assessors, who use eco-friendly electric bikes to get to local incidents. This service has been maintained at a consistent level since its introduction.

FRIDAY OFFERS CAR INSURANCE WITH BUILT-IN CLIMATE PROTECTION

Since October 2018, FRIDAY customers have been able to make their own contribution to climate protection by offsetting the CO₂ emitted by their cars. FRIDAY, the online car insurance provider owned by Baloise in Germany, aims to reach customers who care about the environment but cannot do without a car, for example because they need it for work. The product was developed in cooperation with myclimate, a renowned climate protection organisation that – like FRIDAY – has its roots in Switzerland. The climate protection contribution is calculated based on the estimated annual mileage. Emissions that are offset include carbon dioxide (CO₂), other harmful greenhouse gases such as methane (CH₄) and nitrous oxide (N₂O), and so-called "grey" emissions, which are generated during the production of the vehicle, the construction of the road infrastructure and the production, transport and processing of crude oil.

This contribution is invested in climate protection projects, jointly chosen with myclimate, that meet the highest standards (Gold Standard, CDM, Plan Vivo) and are proven to reduce damaging CO₂ emissions.

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

In a project scheduled for completion in 2020, Baloise is erecting three new buildings at its headquarters in Basel. The buildings are to be the defining landmark of the train station district and reflect Baloise's commitment to the city. The tower block being built on Aeschengraben, which will be around 90 metres in height, will mainly be occupied by a new hotel. The top seven floors will be rented out as office space. Baloise is basing its designs for the buildings on the standards for sustainable construction in Switzerland (SNBS), which means it will comfortably exceed the legal requirements in terms of energy efficiency. An efficient energy centre will provide power for all three buildings, which will be heated by 100% renewable district heating.

ENERGY EFFICIENCY AT BALOISE

The total energy and resource consumption revealed by the environmental audit shows the amounts used by the Baloise Group's large office buildings and its computer centres. The figures reported relate to the energy and resources used by 72.4 per cent of the 7,200 or so people working for the Baloise Group. Per-employee consumption of heating has been reduced by around 35 per cent and of electricity by 30 per cent over the last ten years. With the objectives of the Paris Agreement in mind, a wide range of energy-saving measures have been analysed which will be implemented in each country over the coming years.

www.baloise.com/responsibility

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

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

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

The Company's enterprise risk management was once again awarded Standard & Poor's excellent "strong" rating in 2018. This puts it among the top 15 per cent of all European insurance companies.

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

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



BUSINESS RISKS

Actuarial Risks Life

- ▶ Parameter Risks
- ▶ Catastrophe Risks

Actuarial Risks Non-Life

- ▶ Premiums
- ▶ Claims
- ▶ Catastrophe Risks
- ▶ Reserving

Reinsurance

- ▶ Premiums/Pricing
- ▶ Reinsurance Default
- ▶ Active Reinsurance



INVESTMENT RISKS

Market Risks

- ▶ Interest Rates
- ▶ Equities
- ▶ Currencies
- ▶ Real Estate
- ▶ Market Liquidity
- ▶ Derivatives
- ▶ Alternative Investments

Credit Risks



FINANCIAL STRUCTURE RISKS

Asset Liability Risks

- ▶ Interest Rate Change Risk
- ▶ (Re-)Financing, Liquidity

Risk Concentration

- ▶ Accumulation Risks
- ▶ Cluster Risks

Balance Sheet Structure and Capital Requirements

- ▶ Solvency
- ▶ Other Regulatory Requirements



OPERATIONAL RISKS

IT Risks

- ▶ IT Governance
- ▶ IT Architecture
- ▶ IT Operations
- ▶ Cyber Security

HR Risks

- ▶ Skills/Capacities
- ▶ Availability of Knowledge
- ▶ Incentive System

Legal Risks

- ▶ Contracts
- ▶ Liability and Litigations
- ▶ Tax

Compliance

Business Processes

- ▶ Process Risks
- ▶ Project Risks
- ▶ In-/Outsourcing

Risk Analysis and Risk Reporting

- ▶ Risk Analysis and Risk Assessment
- ▶ Risk Reporting



BUSINESS ENVIRONMENT RISKS

Change in Standards

Competition Risks

External Events

Investors



LEADERSHIP AND INFORMATION RISKS

Organisational Structure

Corporate Culture

Business Strategy

- ▶ Business Portfolio
- ▶ Risk Steering

Merger & Acquisitions

External Communication

- ▶ External Reporting
- ▶ Reputation Management

Financial Statements, Forecast, Planning

Project Portfolio

Internal Misinformation

THE RISK MAP

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

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

The risk map is firmly embedded in the organisational structure and responsibilities of the entire Baloise Group. Each risk is assigned to a risk owner (with overall responsibility) and to a separate risk controller (responsible for risk management and control).

RISK GOVERNANCE AND RISK CULTURE

The development and expansion of risk governance and risk culture has a long tradition at Baloise. It is constantly working to enhance this culture across the entire organisation. Risk owners and risk controllers tasked with specific risk issues are as much a part of this culture as committees that meet regularly to discuss risks. At the same time, Baloise's risk models and processes are continually refined. The internal control system (ICS) and the compliance function are further major pillars of this strategy.

The most senior decision-making body in Baloise's risk organisation is the Board of Directors of Baloise Holding Ltd, while ultimate responsibility for risk control lies with the Board of Directors' Audit and Risk Committee. The Chief Risk Officer for the Baloise Group reports regularly to both of these bodies.

The Board of Directors is empowered to determine the risk strategy, which is derived from Baloise's business strategy and objectives and addresses issues around the Company's risk appetite and risk tolerance.

The Group Risk Committee and the local risk committees in each business unit – which comprise members of the Corporate Executive Committee and of the local senior management teams respectively – decide how the risk strategy is developed and designed and how the pertinent policies are implemented in day-to-day business. Bodies specially set up to examine specific risk areas such as asset/liability management, compliance, IT risk and the use of reserves also compile submissions for the committees to facilitate their decision-making on these issues. The Group Risk Management team works closely with the local risk experts. This inclusive risk organisation approach provides Baloise with a platform for sharing and constantly refining best practice.

Group Risk Management is responsible for:

- ▶ developing consistent, mandatory risk models for the entire Baloise Group;
- ▶ monitoring Group-wide standards;
- ▶ reporting risks;
- ▶ complying with risk processes and procedures;
- ▶ communicating with external partners such as auditors, corporate supervisory bodies and credit rating agencies.

The business units are responsible for local implementation of the standards and requirements specified by the Baloise Group. Overall responsibility lies with the Baloise Group's Chief Financial Officer, followed by its Chief Risk Officer.

RISK MEASUREMENT

The Baloise risk model standardises the process of quantifying business risks and financial market risks across all strategic business units. It is consistent with the principles and calculation methods applied by the Swiss Solvency Test and with the European Union's Solvency II directives. As a groundbreaking risk management tool, it provides a firm foundation on which management can make strategic and operational decisions.

The economic risk capital derived from Baloise's models is currently the most advanced market standard. For this, risk metrics are used to calculate a target capital figure (required capital) – irrespective of any financial accounting treatment – to ensure that the Company remains solvent even in adverse circumstances and can meet its obligations to policyholders at all times. This target capital figure is constantly compared with the capital currently available (the risk-bearing capital).

In addition to this holistic risk model, Baloise uses the risk map to identify, describe and evaluate specific risks in terms of their likely impact on its operating profit or loss. Baloise's corporate database of specific risks – which contains a detailed description of the risks concerned, their classification on the risk map, and early-warning indicators – is generated from this standardised process. Baloise uses quantitative methods to supplement this description by measuring these risks' probable financial impact on the Company's balance sheet. Each risk is documented together with the measures needed to mitigate it. The database is updated every twelve months.

This combination of a holistic risk model with analysis of specific risks ensures that Baloise maintains an adequate overview of the prevailing risk situation at all times.

RISK PROCESSES

Group-wide risk management standards place the risk process on a mandatory footing. These standards stipulate methods, rules and limits that must be applied throughout the Baloise Group. They determine how the various risk issues are evaluated, managed and reported. A number of risk limits act as early-warning indicators to mitigate the risks taken.

The Baloise Group uses a system of limits in order to mitigate its risks holistically at an aggregate level. This system tracks the risk capital held by the Baloise Group and individual business units in a timely manner. Issue-specific risks are monitored individually by imposing limits, as illustrated by the following examples:

- ▶ Actuarial risk is determined by underwriting guidelines on which local underwriters base their decisions. Risk metrics analysis of the deductibles payable supplements the Company's key reinsurance strategies.
- ▶ Appropriate reporting procedures are used to monitor market risk and financial-structure risk across all business units. In addition to upper limits on equity exposures, for example, there are clear and binding guidelines on bond ratings. The applicable "Basel" approach and advanced statistical methods are used to assess credit risk. In addition, the overall solvency position is regularly monitored.
- ▶ Baloise captures business-environment risk, operational risk and strategic risk on both a standardised and individual basis, and assesses them in terms of their impact on its capital.

The Own Risk and Solvency Assessment (ORSA), a risk report that has to be prepared annually, is discussed with the decision-makers so that suitable measures can be developed. The results of the ORSA are also reported to the regulatory authority. In addition, risk managers' assessment of the risk situation is factored into the remuneration paid to executives.

STRATEGIC RISK MANAGEMENT

The risk model, which uses standard methods to quantify all business risks and financial market risks, forms the basis for strategic discussions about Baloise's risk appetite.

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

Profit targets for individual business units that factor in their specific risk situation are a major aspect of this risk management system. These targets form part of the overall objectives agreed with local management teams.

OUR PROFESSIONAL RISK MANAGEMENT DEMONSTRATED ITS PROVEN STRENGTHS IN 2018

Baloise's risk strategy principles are designed for the long term, as shown by the Company's excellent risk positioning in 2018. This is underlined by the improvement in the credit rating from Standard & Poor's, which was upgraded to A+ with a stable outlook, and by the reconfirmed assessment of enterprise risk management as "strong".

Risk management approaches that have been tried and tested for many years were maintained in 2018:

- ▶ The Baloise Group's investment strategy continues to focus on diversification and on the basic principle of only investing in assets that risk management can itself fully and accurately evaluate.
- ▶ Baloise continued to actively manage its credit risk and currency risk.
- ▶ With a net equity exposure of 5.6 per cent at 31 December 2018, Baloise's equity investments in the reporting year lay comfortably within its risk-bearing capacity.
- ▶ The high quality of recurrent investment income generated by Baloise's stable real-estate portfolio proved to be a valuable source of revenue.
- ▶ There is a particular focus on the management of interest-rate risk. Wherever possible, payment obligations to customers for future years are reconciled with the income earned from investments. Baloise's real-estate portfolio has proved very helpful in this respect. Baloise also invests in safe long-term bonds denominated in either Swiss francs or euros and supplements this strategy by using derivative financial instruments such as swaptions.
- ▶ Baloise's underwriting business has proved to be highly consistent, with the Baloise Group's net combined ratio of 91.7 per cent demonstrating its excellent capabilities in underwriting and managing non-life risk.

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

Further information on risk management can be found in the 2018 Financial Report (section 5. Management of insurance risk and financial risk, pages 153 to 195).

The Baloise Group's commitment to art

Art provides a space for reflection and a lens through which to view the world in a different way. It should stimulate discussion. Baloise's art collection is an important part of its corporate culture. Baloise believes that the privilege of owning art comes with an obligation to make it accessible to the wider public. Its commitment also extends to providing recognition and support for contemporary artists.

TAKING RESPONSIBILITY – AN IMPORTANT ASPECT OF CORPORATE CULTURE

Corporate collecting is an important aspect of our culture at Baloise. Its primary objective is not to achieve monetary gain, but to integrate spiritual and creative values into our corporate culture. The foundations for this engagement were laid at a time when it was by no means typical for companies to collect art. Since it first began collecting in the immediate post-war period, the Company's art works have always been accessible both to employees and visitors. The collection is on display in foyers, corridors, meeting rooms and offices, as well as in reception rooms that are open to the public. Baloise is of the opinion that works of art ought to be seen, to enrich lives, inspire reflection and also to provoke discussion.

BALOISE ART PRIZE

Baloise has a long-standing tradition of promoting talent. For many years, its training and development programmes have provided an entry into careers with substance. Around 245 young people currently work for Baloise as apprentices, interns and temporary student workers. The company's established graduate trainee programme, meanwhile, gives participants a deep insight into various parts of the business and thus provides the ideal preparation for a management or specialist role. For these people, Baloise offers a launchpad for a long and successful future.

Its commitment to sponsoring modern art – through acquisitions for its own collection and in the form of the Baloise Art Prize – also represents part of this approach. It is Baloise's way of supporting the development of young and emerging artistic talent.

For 20 years, the Baloise Group has been awarding the annual Baloise Art Prize at Art Basel, an international art fair. The challenging task of selecting 20 pieces for the Statements sector from a flood of applications, which are then presented to a global audience at the fair, falls to the Art Basel committee. On behalf of Baloise, a panel of judges consisting of international experts then selects two winners from this shortlist of 20, who each receive CHF 30,000 in prize money. After the announcement at the Art Basel media conference, both the winners and the galleries receive considerable attention at this globally significant event.

Due to its prestige, the Baloise Art Prize has become a springboard for artists to embark on successful careers. The prize money enables the young recipients to continue their work. At the same time, the acquisition of their artworks, which are then donated to well-known museums, offers an ideal platform to present their talent. This combination of prize money, acquisition, donation and exhibition within one art prize is unique, and continues to make the Baloise Art Prize much sought-after and highly acclaimed.

The 2018 Baloise Art Prize was awarded to Suki Seokyeong Kang and Lawrence Abu Hamdan. Kang's award was for her installation, which plays with different materials, shapes and colours. The work is based on translation of these different media into a visual language of "jeongganbo", a traditional Korean notation system. It organises squares into a grid system according to rules regarding pitch and length of musical notes.

Lawrence Abu Hamdan's video and sound installation "The Shouting Valley" is based on an actual event: the crossing of the border between Syria and Israel in the Golan Heights by a group of Palestinians on 15 May 2011. The acoustic phenomenon of the wandering, intensifying voices produced by the topography of the valley invites us to draw parallels with the wider geopolitical context.

ART AT THE BALOISE PARK COMPLEX

Many of the past winners of the Baloise Art Prize are now among the stars of the international art scene, including Karsten Födinger, who received the prize in 2012. His work visualises forces in the most basic sense: statics and movement, the diagonal and the horizontal, mass and emptiness. Getting an artist whose work resides somewhere between architecture and sculpture to design the “cornerstones” for Baloise Park seemed an obvious choice. Employees had the opportunity to engrave their wishes for the new Group headquarters on seven metres of copper cladding which is going to be attached to one of the building’s outside supports.

The Group headquarters at Baloise Park will also provide space to display the Baloise collection. The publicly accessible Art Forum on the ground floor is going to present two exhibitions a year on different themes, although in keeping with the Baloise corporate philosophy, the upper floors will also display works from the collection in specially provided spaces.

THE ART COLLECTION

New acquisitions for the collection are made by the Baloise art commission, which comprises six art-loving employees from various parts of the Company and one external advisor. They will be focusing on acquiring works on paper by contemporary artists. The decisive factor for inclusion in the collection is the persuasive quality of the work and its emotional and intellectual connection to the hopes and fears of our time. This acquisition policy also allows the art commission to include the winners of the Baloise Art Prize in the collection, and thus to help shape the way in which it promotes art.

The website www.baloise.com/art presents the themed exhibitions at the Baloise Art Forum, giving some initial insights into the collection. In this digital age, Baloise is not going to limit itself to putting on exhibitions, but rather aims to make its collection available to an even broader audience. An online platform that is currently being developed will soon give access to the entire collection.

www.baloise.com/art
www.baloiseartprize.com



In the customer centre at the new headquarters in Basel: left, works by Thomas Ruff; right, a work by Alain Huck. Photo: André-Marc Räubig.

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