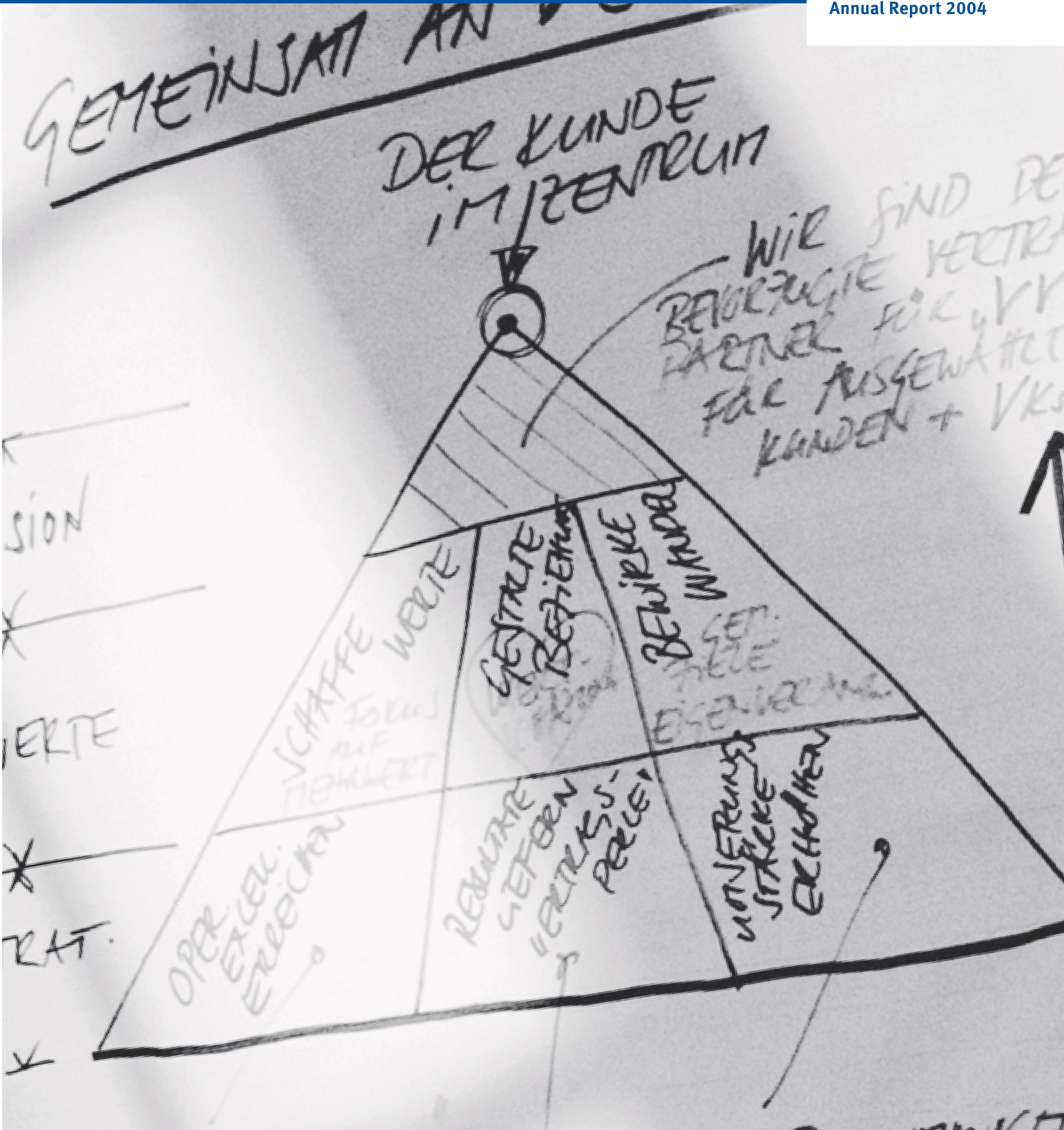
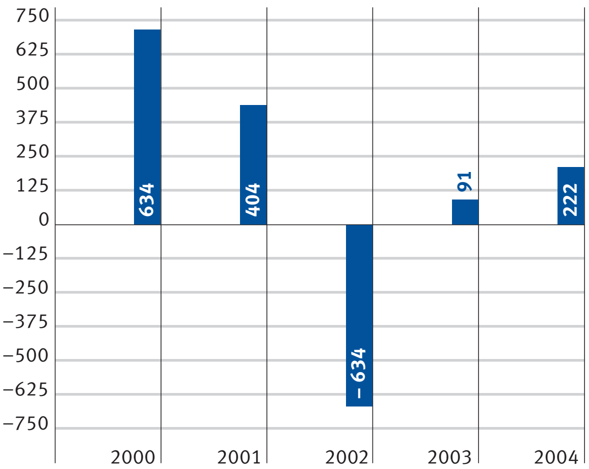
“Finding and retaining
the right customers …”

Bâloise-Holding
Annual Report 2004

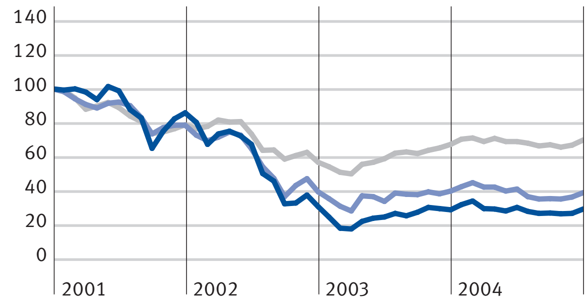


Profit development 2000–2004



in CHF m

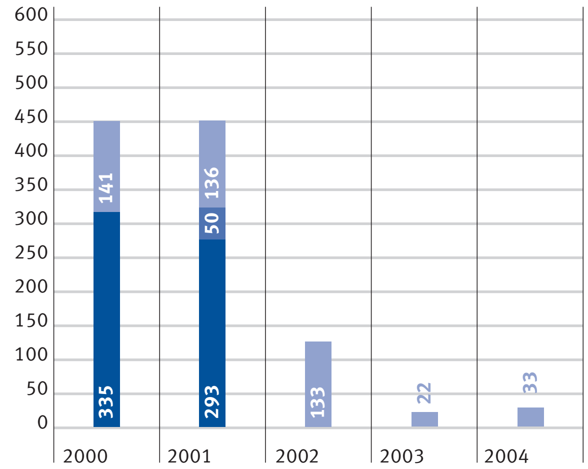
Indexed share price development[1] 2001–2004



Bâloise Holding, registered[2]
SWX MS Insurance Price Index (SMINNX)
Swiss Market Index

[1] December 29, 2000 = 100
[2] adjusted after 1:10 split of July 24, 2001

Distributions 2000–2004



in CHF m

Dividends paid
Nominal value repayments
Share repurchases

The most important figures at a glance

Income statement	2003	**2004**	Change in %
Total premium income (gross)	7,374.7	7,022.1	–4.8
Of which non-life	3,088.8	3,081.4	–0.2
Of which life	4,301.1	3,956.4	–8.0
Investment-type premiums	261.0	443.5	69.9
Consolidated net profit	91.4	221.7	142.6
Balance sheet			
Investments	56,307.7	52,799.3	–6.2
Technical provisions	42,328.7	42,703.3	0.9
Capital and reserves	3,319.8	3,482.5	4.9
Assets under management			
Total assets under management	65,551.1	61,274.8	–6.5

in CHF m

Ratios	2003	2004	Change in %
Return on equity (ROE)			
On capital and reserves as shown in the balance sheet	2.9	6.5	
Excl. unrealized gains/losses	2.9	6.8	
Combined ratio non-life (net)	103.2	97.5	
Combined ratio non-life (gross)	97.6	93.0	
Technical reserve ratio non-life	177.4	179.6	

in percent

Embedded value life insurance	2003	2004	Change in %
Value of insurance portfolio	1,236.1	1,181.7	
Adjusted capital and reserves	1,008.7	1,400.3	
Solvency costs	–264.0	–445.2	
Total	**1,980.2**	**2,136.8**	
Of which value new business	15.5	15.2	

in CHF m

Key share data	2003	2004	Change in %
Shares issued as at 12.31. in units	55,307,150	55,307,150	
Capital and reserves per share as at 12.31. in CHF	60.02	62.97	4.9
Consolidated net profit per share in CHF	1.67	4.04	
Price at year-end in CHF	51.65	52.50	1.6
Market capitalization as at 12.31. in CHF m	2,857	2,904	
Price-earnings ratio	30.9	13.1	
Dividend per share in CHF	0.6	1.1[1]	

[1] based on proposal to the Annual General Meeting

Number of staff	2003	2004	Change in %
Total at 12.31.[1]	8,745	8,090	–7.5
Of which Switzerland	3,774	3,781	0.2
Of which other countries	4,971	4,309	–13.3

[1] adjusted for degree of employment

The essentials in brief

The Baloise more than doubled its net profit to CHF 222 million (2003: CHF 91 million). All business units raised their operating profitability.

The non-life segment generated a net profit of CHF 184.1 million (previous year: CHF 48.5 million). The claims-cost ratio (combined ratio) improved to 93.0% gross and 97.5% net. Since 2002 we have pushed down this key indicator net by over 13 percentage points.

The life insurance segment generated a net profit of CHF 54.6 million (2003: CHF 34.1 million) despite uncertain financial markets and continuing low interest rates. The embedded value improved to CHF 2,137 million, while the margin in new business advanced from 5.0% to 5.8%.

The banking unit earned a net profit of CHF 9.7 million (2003: CHF 14.3 million). Baloise Bank SoBa boosted its profit by 25% to CHF 14.5 million.

Premium income amounted to CHF 7.0 billion. The 4.8% year-on-year decline reflects our selective underwriting policy that is strictly focused on profitability. Premium income in non-life insurance contracted slightly by 0.2%, while Switzerland, Austria and Luxembourg each registered significant increases. Life insurance premiums receded by 8%, with the extremely low global interest rate levels proving a major dampening factor. The sales volume in unit-linked life insurance on the other hand surged by 70%.

Capital investments performed at 4.1% compared to 4.6% the previous year.

Capital and reserves rose 5% year-on-year to CHF 3.5 billion. The solvency margin of 258% (incl. banking assets) was well over the prior years value of 241%.

In keeping with our distribution policy, we will propose to the Annual Meeting a dividend of CHF 1.10 per share (2003: CHF 0.60).

Annual Report 2004

Contents

Dear Shareholders

The Baloise significantly increased its net profit to CHF 222 million in fiscal 2004. Rolf Schäuble, Chairman of the Board of Directors, and CEO Frank Schnewlin, present their views on the business result and look ahead to the future.

Have you achieved your goals?

ROLF SCHÄUBLE: We are certainly satisfied. Compared with last year, the group's profit has more than doubled. Our strategic realignment, with the focus on the core business of insurance and pensions, as well as the clear orientation toward target customers, are both starting to have a noticeable impact.

FRANK SCHNEWLIN: It is particularly gratifying that the increase in profit has come mainly from the operational side of business, and that every business area and all of the business units have contributed. I would nevertheless like to emphasize the excellent result in the non-life segment where net profit was nearly four times higher than in 2003. All business units were able to significantly increase their operating profitability from the previous year. 2004 was just one stage on our journey: we will continue to boost operational profitability in the coming years because we want to achieve a sustainable return on equity of at least 10% by 2006.

How do you judge the reported profit in terms of quality?

FRANK SCHNEWLIN: As I have already said: the good result is based on the continuing improvement in operating performance, not only in each class of business, but also in the core markets. Our efforts are aimed at strong, sustainable profitability, something we will achieve by means of a sound operating performance. Since 2002 we have im-

Frank Schnewlin (left) and Rolf Schäuble analyzing the Baloise's successful year 2004.

proved the gross non-life combined ratio by more than 12 percentage points to its current standing of 93.0%, and we have lowered the net ratio by over 13 percentage points to 97.5%. In the life segment we have written only profitable new business. The Baloise Bank SoBa has increased net profit yet again. We have managed to achieve all this by focussing resolutely on operational excellence.

"Operational excellence" – what does it mean?

FRANK SCHNEWLIN: Our credo is: "Finding and retaining the right customers." The challenge is to provide qualified customers and sales partners with first-class services while at the same time increasing profitability. These are clients and sales partners who are risk conscious, loyal, and whose business relationship with us has potential for expansion. Both sides, the customers and the Baloise, stand to gain from such a relationship. It's a win–win situation. In order to succeed, we need to run our business in a highly professional manner on all fronts, for example in knowing and understanding our customers and their requirements, in setting rates for products that are commensurate with the risk, in our handling of claims, in preserving the value of our relationships with customer and sales partners. Competitive cost structures are a prerequisite here.

But other insurers are doing just the same …

FRANK SCHNEWLIN: That may well be; investing in operational business at a time when the capital markets are no longer generating the dream returns they used to is hardly rocket science. What we are doing differently is to ensure all our employees have a deep understanding of target customer management and develop the requisite skills. We are constantly learning from practical experience and optimizing our processes and systems accordingly. On top of that we have our values, our passion for performance. I place special importance on our company's distinguishing itself through letting "actions speak louder than words." A business model of this kind cannot be copied, since the skills and the attitude of the people at the Baloise are the decisive factor.

How sound is the Baloise?

ROLF SCHÄUBLE: The Baloise has a sound balance sheet, also with regard to the new requirements under the "Swiss

“The decisive factor is to ensure that all employees have a deep understanding of target customer management and develop the requisite skills.”

Solvency Test” as far as the latter has been made known to date. Capital and reserves have grown since the end of 2003. The non-life segment is exceptionally well capitalized. Liabilities may be mounting in life business, but so too is the eligible capital. At the end of 2004 the solvency margin stood at 258% (incl. banking assets), i.e. clearly more than double the statutory minimum requirements.

It was and remains our policy to make responsible use of the capital entrusted to us. The company’s risk capacity has always been the yardstick for managing our capital and investments. And, in recent, turbulent times, we have proven that we are capable managers; please remember that we were one of the very few insurance companies that did not require additional capital. Our analysis and management instruments have been tried and tested and proven effective.

The premium volume declined. Are you not aiming for growth?

FRANK SCHNEWLIN: Of course we would like to see growth. But we have a clear business policy: earnings before growth, i.e. every franc or euro in premium income must generate additional value. Over the past two years we have deliberately restructured those portfolios from which we could not recover sufficient value – meaning we consciously put the brake on premium development, in Swiss group life business for example. In 2004 we remained very selective and yet recorded strong growth in specific areas such as Swiss non-life business, in Austria and in Luxembourg.

In Belgium you posted a loss for 2004. When will you return to profit on this market?

FRANK SCHNEWLIN: Two things have to be borne in mind concerning Belgium: Firstly, we are making a profit on the operations side, i.e. in the insurance and pensions business. The new management has clearly aligned Mercator toward this core business. The portfolios have been reorganized, in non-life we have lowered the long-term combined ratio, which currently stands at 95.3%.

Secondly, the net loss of CHF 116 million in the Benelux countries was caused by extraordinary expenses in Belgium. The sale of Mercator Bank generated a loss of CHF 70.2 million; the rest is attributable to value adjustments on investments of Mercator Insurance.

We expect Mercator to become profitable again from 2005.

By selling Mercator Bank in Belgium you have downsized the banking business. What are your aims in this segment?

FRANK SCHNEWLIN: Mercator Bank was sold because maintaining a banking presence in Belgium in the light of the changed market conditions was no longer sufficiently attractive to us. We had a choice: either to expand within the banking segment or to reduce capital investment in this area. We decided on the second option and to focus Mercator on the core business of insurance and pension provision.

Our banking strategy remains in force: it is to maintain a selective presence in sufficiently attractive markets in

conjunction with a firm attachment to the core business of insurance and pensions. This is the case in Switzerland – the business model involving the Baloise Bank SoBa is continuing to put in a positive performance. The insurance sales force sold 10% more banking products in 2004 than in the previous year.

The regulatory environment is becoming increasingly tough for insurers. What view do you take?

ROLF SCHÄUBLE: I personally regret that the regulatory network for insurers is becoming more and more dense, especially since certain stipulations hardly lead to greater transparency. It cannot be allowed to reach the stage where investors are no longer able to evaluate the companies. That would lead to an outflow of capital from the industry. In this context the discussions surrounding the valuation of life insurance contracts under IFRS is a particularly delicate issue.

We are facing up to these challenges, but we expect politicians to set the parameters according to economic criteria. Where occupational pension provision in Switzerland is concerned we are still waiting for a workable formula for calculating the minimum interest rate. Moreover, it is time to face up to the fact that people are generally growing older and living longer and that pensions therefore need to last for longer, too. That is the reason why the conversion rate also needs to be lowered.

How do you sum up the performance of Baloise shares?

ROLF SCHÄUBLE: Baloise stocks rose by 1.6% in 2004. We are not satisfied with this, although this performance is clearly above that of our benchmark, the SWX MS Insurance Price Index, which fell 2.5%. In general, 2004 was not a good year for insurance stocks. The low interest rates impacted on the entire industry and for Swiss group life providers this was compounded by the government's decision to increase the minimum interest rate for occupational benefits to 2.5%.

What kind of dividend can be expected?

ROLF SCHÄUBLE: We have regularly increased dividend payments since 2002. We intend to maintain our established policy of continuous distributions for investors with a long-term horizon. The excellent result allows us to propose a dividend of CHF 1.10 per share to the Annual General Meeting.

What goals do you have for 2005?

FRANK SCHNEWLIN: We want to see another significant rise in profit this year, assuming there will be no extraordinary events. This will be based on ongoing improvements in operating earnings potential. We are looking for above-average growth in those target customer segments that we have identified as profitable.

We are assuming that premium growth in the non-life and life segments will be in line with the market. We want to at least maintain our combined ratio, but in view of the very favorable claims experience in 2004 this will require further improvement to our long-term operational earning power. We anticipate higher profitability in life insurance.

What is the strategic focus for the coming years?

ROLF SCHÄUBLE: Through our strategic alignment we aim to become one of the most profitable insurers in the long term and to achieve a return on equity of at least 10% by the end of 2006. The increasing ability of our employees to recognize risk-conscious, loyal target customers with development potential and to strengthen their partnerships with the Baloise will be the key to above-average, profitable growth. We will expand our business primarily through organic growth and acquisitions in non-life business, especially in Germany and Austria.

Frank Schnewlin's corporate management credo

Finding and retaining the right customers

The Baloise wants to get to the top. We want to be the trusted partner of choice for our target customers. Our customers are risk-conscious, loyal and have a proven development potential. We offer them first-class products and services and strive to build up a lasting, mutually beneficial partnership.

For the benefit of our shareholders and employees, we aim to achieve and sustain an outstanding level of profitability. In doing so, we will secure our future.

Building on our corporate values, the following four skills are decisive:

1 **Everything we do, we do with the focus on adding value.** When we select target customers, markets, business lines and distribution channels. When we design our products and provide services to our customers.

2 **We consistently act in a highly professional manner.** We are the best when it comes to pinpointing, getting to know and retaining target customers. We understand their needs, convince them through the quality of our advice and services, and consolidate the relationship on an ongoing basis. We maintain competitive cost structures.

3 **We are good at implementing.** Our actions are characterized by a strong measure of personal responsibility and the motto "actions speak louder than words." Together we are strong.

4 **We are passionate about performance and relationship quality.** They represent the heart of the Baloise.

No successful implementation without clarity on the basic principles. As noted by Frank Schnewlin in December 2004.

Sen [illegible]

Jeunesse [illegible]

femmes [illegible]

Leadership [illegible]

[illegible]

Finding and retaining the right customers

Everyday life at the Baloise – a glimpse behind the scenes

The Baloise wants to be the trusted partner of choice for our target customers.

Three examples from everyday life at the Baloise demonstrate how management and staff are putting this strategic goal into practice. A discussion on the skills needed to do so rounds off this look behind the scenes.

Management meeting in the Vienna Woods (Austria) page 10

Two Board members and seven sales and marketing executives from Basler Austria take an in-depth look at the procedures for managing target customers, specifically the corporate focus on risk-conscious and high-revenue clients, with the aim of expanding relationships with these customers. What has been reached to date, what still needs to be done.

Claims management conference in Biel/Bienne (Switzerland) page 16

Repairing vehicles after an accident is everyday work for the 61 organizations that make up the Baloise partner network.

In the first all-Switzerland symposium of its kind, Baloise experts join with accident analysts from the Dynamic Test Center to inform participants about further aspects of efficient claims management.

Strategy meeting in Antwerp (Belgium) page 20

The Mercator Group, which operates in the Belgian state of Flanders, is currently undergoing a transformation – GoFor is the magic word. Management members hammer out the exact details of how to implement the Group’s growth strategy. The prime focus is on the partnership with brokers.

Roundtable discussion on skills development page 24

Bruno Dallo, Baloise Group, Wolfgang Fauter, Deutscher Ring, and Heike Bruch, University of St. Gallen, summarize their views on the topic of enhancing implementation skills as part of change processes. An exchange of experiences from both an in-house and external point of view.

Transparency boosts the implementation process.

Management meeting in the Vienna Woods (Austria)

Focusing on the perfect customer

A three-day Basler Austria leadership meeting in a conference hotel in the Vienna Woods. Two Board members and seven sales-and-marketing executives are on retreat here to plan for 2005.
The first day is devoted to customer relationship management, in particular the focus on high-revenue customers, with the goal of strengthening relationships with these customers and continually enhancing service quality.

EXECUTIVE DIRECTOR Lothar Mayrhofer greets the participants at precisely 9 a.m. He expresses his satisfaction with the business figures for fiscal year 2004 and moves straight on to the topic of focusing on target customers. If the customer is doing well, the company does well and vice versa, he explains, adding that it is not enough just to know the customer – one must also understand his needs. “Customers have to be won over by the quality of our advice and services. Only if we provide first-class services will the customer remain loyal and recommend us to others,” says Mayrhofer. He calls on the executives to share their experiences in focusing on profitable customers.

Praise is given for involving the sales department in developing special offers for target customers, especially the new accident insurance rate and the new pension product. More than half of all contracts with target customers are concluded in connection with these special offers, the man responsible for controlling adds. Despite this positive initiative, the 1.8% decline in premium income from target customers is unsatisfactory, Mayrhofer adds. It is therefore necessary to concentrate even more strongly on this segment and use experience to enhance customer management on an ongoing basis.

Knowing customers’ needs

“But how do target customers know that they are receiving preferential service at the Baloise?” the executives object, pointing out that advisers need to be made more aware of this issue. “What does the quality of customer care actually consist of?” asks Mayrhofer. “Regular customer visits,” says one attendee. “Know your customer, his needs, and his potential,” adds the next. Using this approach, all policies held by a number of claim-free customers with only one Baloise contract were examined, including those of other insurers, and the customers were then sold comprehensive packages.

Potential must be utilized more systematically, some maintain. But the example also illustrates the challenge that such customer-specific consultation presents for many external salespeople and managers. The executives agree that the priority is to intensify the use of customer-management tools among sales managers, and then expand the use step by step. In the past, small group workshops have already provided the best learning experience. Planned marketing activities oriented toward specific customer groups, primarily in relation to the new accident product for women and the new children’s savings program, support this approach. These activities build on outstanding selling technique aids and are aimed at customers with whom there is a high probability of reaching a contract closing.

Greater involvement of customer advisers

10:30 a.m., time for a brief coffee break. Then the meeting, now headed by Director Otmar Bodner, continues with an action plan for the new accident insurance rate to be launched at the start of 2005. Competitor and revenue analysis for the product are complete, rates and premiums have been defined, the marketing manager confirms. Preparations for IT implementation and sales support are likewise under way. This time, at the executives’ request, the special

“Customers have to be won over by the quality of our advice and services.”

“Our product adjustments

are based on

profound market

and customer analyses.”

offers will be coordinated even more closely with the customer advisers. Incorporating their experiences has already proven to be a success factor for the new motor vehicle rate. Coordination is especially important this time, emphasize participants, who fear difficulties managing the almost simultaneous introduction of the children’s savings product.

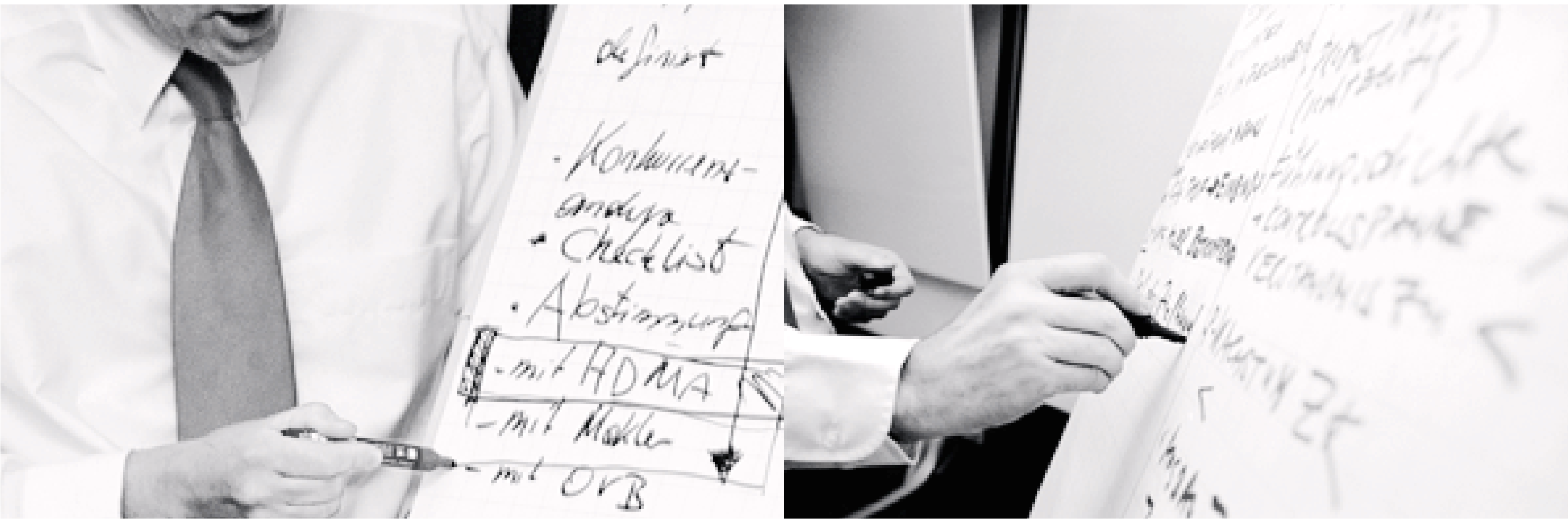
Unit-linked life insurance

The executives agree that, after introduction of the children’s savings product, unit-linked life insurance is to be the top priority. It offers the greatest potential, particularly in relation to customers seeking to finance the purchase, construction, or renovation of residential property. The second priority, in their view, is a restructuring of conventional life insurance. The changes in these products must, of course, be based on a thorough analysis of the market situation and customer needs, and also be in line with profitability targets, emphasizes Mayrhofer.

After lunch, the executives move on to the very core of customer management: the definition of target customers and selection criteria for high-revenue customers. In 2004, special marketing initiatives focused on customers who, in the two years before, had demonstrated an excellent contribution margin of over 60% and had initially concluded life and/or non-life contracts. For 2005, the executives have agreed to make customer selection even more systematic, set the frame of reference at eight years of claims experience, and implement restrictions for certain age groups. Input from the discussion will be taken into account in the final definition of target customers.

Selection criteria for target customers

The discussion begins with a description of the typical target customer according to the Head of Controlling: He/She is at least 25 years old, has generated an average margin of 60% over up to eight years, and pays an annual net premium of at least EUR 100, which can be expanded through cross-selling. The managers basically agree with this definition but disagree with the age limit. The duration of the customer relationship is a more pertinent criterion, in their opinion.



Both customers and the Baloise benefit from a positive loss experience. This is the foundation of a genuine partnership.

Starting from the defined base of 20,000 target customers for 2005, the Head of Controlling demonstrates that he can produce any number of individual analyses with specific, additional criteria. For example, all customers who have not been sent more than two payment reminders during a given period can be filtered out, or all women who hold a life insurance policy but no accident policy. The sales staff have the same analysis capabilities for their daily customer service work.

For salespeople, such analyses generate important additional data, which allow them to provide specific, needs-based customer care. The data not only enable systematic processing of their customer files, but also demonstrate the potential for cross-selling. The executives agree, however, that managing customers is not limited to special, product-related marketing offers. On the contrary, a full assessment of the customer's needs must be carried out and appropriate measures defined to ensure that customers bring their entire portfolio to Basler Austria. The idea behind this strategy is that a customer with a good claims history over many years will also show good claims performance in his or her other risks. Thus each additional premium will provide a relatively high margin while also increasing customer loyalty. Accompanying measures include "customer accounts" and, with a continuing good claims history, customer bonuses. Such interrelationship is indicative of a genuine partnership.

BASLER AUSTRIA AS A PIONEER

Thorough knowledge of one's customers and heightened sensitivity to their needs is one of the three premises of the Baloise Group's Operational Excellence initiative. With this initiative, the Group has made a commitment to differentiate by customer segment and to focus on relationships with high-revenue customers. This is a shift away from the primary focus on products that is widespread in the insurance industry. Basler Austria, with 300 employees and a premium volume of CHF 114 million, is a pioneer in customer management within the Baloise Group. In 2004 it created the fundamental tools for this approach and began to implement them across the board. The approach is based on a set of sales management tools adjusted for use down to the level of individual advisers, tools for managing the profitability of customers, products, and distribution, as well as measuring the effectiveness of special initiatives.

Claims management conference in Biel/Bienne (Switzerland)

On the trail of accidents

Repairing vehicles after an accident is everyday work for the 61 organizations in Baloise Insurance's Swiss partner network. At the first all-Switzerland claims management conference near Biel/Bienne, Baloise specialists and accident analysts from the Dynamic Test Center showed participants what else is necessary for efficient claims management.

DENSE FOG, just before 9 a.m. The silver-grey halls of the Dynamic Test Center in Vauffelin are barely discernible. Drivers know they have come to the right place when they see the Baloise Insurance "Helpmobile." Gradually some 60 garage operators and body shop owners arrive from every part of Switzerland. They represent Baloise's partner network and are here to take part in the first claims management conference.

Just before 9:30 a.m., conference leader Eva Staubli invites the attendees into the training center, where the seats are usually occupied by students of the Automotive Technology Department of the Bern Technical University. There the attendees split into two groups. In one room the proceedings will be in German, in the other they will be in French. The conference leader opens the official program by emphasizing that comprehensive motor insurance claims service is both a core service and a key success factor.

This, the participants are told, requires a network of capable partner workshops. Eight of the attendees were present four years ago when Baloise began gathering experience in a pilot program. Since then, 53 organizations operating at 98 locations have joined. The claims service team representative is pleased that the network has been functioning nationwide since June 2004 and that delegates from all participating shops can meet here. Looking back, she adds later, the list of criteria by which shops were selected has proved its worth.

Partnerships for the benefit of all

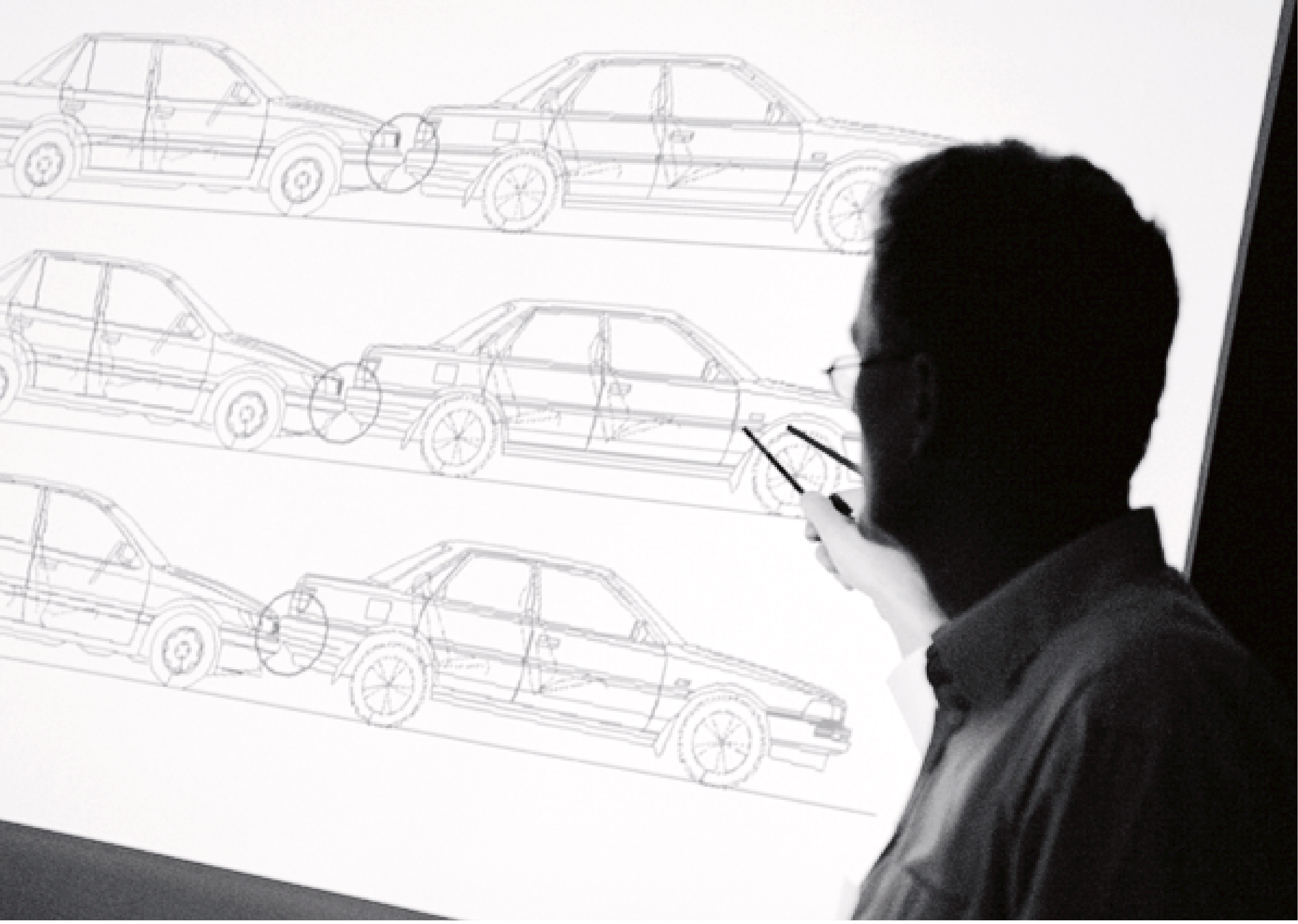
Next, Baloise's claims specialist uses glass damage as an example of how teamwork and cost cutting can be combined. Whenever possible, the Baloise's partner garages repair a damaged windscreen rather than replacing it at high cost. Thus the garage owners get more work and customers benefit from top-class services.

By now over an hour has passed, and it is time for the attendees to stretch their legs. Glancing at the agenda, we see that the next topic is "N&S Issues." N&S? Baloise's claims lawyer provides the key: it stands for "neck and spine." Most participants know this phenomenon as whiplash, which affects the seven neck vertebrae.

N&S issues are of equal concern to physicians, lawyers and engineers – and with good reason, as a case example reveals. What looks like a mere fender-bender at the scene of an accident can unexpectedly develop into a whiplash case with costs running into the millions. The claims lawyer shows that much of the damage, both the physical injury and the financial loss, could have been avoided if the insurance company had become aware of these issues earlier. But how can the partner organizations help? "By reacting correctly at the right moment," the claims lawyer answers simply.

The right moment is when the damaged vehicle is brought in to one of the partner shops. Attendees agree that, as specialists, they can recognize the signs of a rear impact at a glance. "If you notify the auto expert on the case, you will have accomplished a great deal with just one phone call," the claims lawyer says. The Baloise can then provide early input on measures to be taken.

> "Garage owners get more work and customers benefit from top-class services."



Reliable accident analysis requires a careful documentation of traces and other evidence.

CLAIMS MANAGEMENT AS A WIN-WIN SCENARIO

Motor vehicle insurance remains the leading pillar of the Baloise's non-life business. Premium revenues grew again in fiscal 2004, providing the largest share of total premiums at about 33%, ahead of property and accident insurance. At the same time, claims payments have become a key expense item in recent years. For growth to continue in the motor vehicle line and provide reliable income, premium revenues and claims must remain in equilibrium. Strict cost discipline is therefore just as essential as improving operating efficiency. This requires tighter control of the entire claims process, with benefits to everyone involved.

Accordingly, claims management is a key focus of the Operational Excellence initiative launched by the Baloise in 2003. At its core is a network of partner organizations across all of Switzerland. These shops meet the highest standards for technical equipment and provide both policyholders and the Baloise with quick and professional processing of claims. Some 8% of total vehicle damage claims of some CHF 108 million were processed through the partnership network in 2004. The aim is to achieve a rate of 15 to 20% by 2008.

This uncomplicated form of assistance relieves the burden on policyholders and reduces claims costs. The involvement of automotive experts where appropriate, lower auto liability rates for car rentals and a decline in fraud have generated savings of CHF 1.2 million this fiscal year. These savings make lower premiums possible, which in turn benefits the policyholders. Efficient claims management generates added value in three ways: policyholders benefit from comprehensive service, the partner organizations from greater sales volumes, and Baloise Switzerland from optimized claims costs. The Baloise will now implement the claims management concept step by step in other insurance lines.

Accident analysis

In the event of a whiplash case, technical reports by experts may be required, the claims processor says, ending his talk and providing a link the next speaker, the head of the Dynamic Test Center (DTC). Processing accident analyses is a core competence of the DTC. It requires careful documentation of evidence, the DTC manager emphasizes, especially since it may not be processed until six months after the accident.

The speaker encourages the attendees to keep photographs of the vehicle damage on file. He presents computer simulations showing how such damage photos are used in calculations by accident analysts, adding that it is sometimes necessary to recreate an accident in the real world. Participants, he announces, will have the opportunity to experience such a crash test live that very day.

At lunch some lively conversation ensues among the various partner organization delegates and the Baloise representatives. They discuss billing formalities and their experience with certification. The partner organization representatives unanimously express their appreciation of the close-knit relationship with the Baloise and of its initiatives.

Afterwards the participants gather in the testing hall. Two mid-range cars are in starting positions in the crash-test facility. The DTC manager explains that the rear vehicle will collide at low speed with the stationary one. He asks the audience to stay behind the guardrails and gives the signal to start. Split seconds later, the remote-controlled vehicle smashes into the stationary car with full force. There is a deafening crash, a clatter of metal, sounds of splintering.

Immediate accident reporting

Back in the classroom, the DTC manager plays back the videotape of the collision test. Only now do the attendees realize how seriously the dummy at the wheel of the stationary vehicle was affected by the impact. It is surprising how little the body damage to the vehicle, although considerable, reveals about the effect on the neck vertebrae. The decisive factor is the change in the velocity of the front vehicle as a result of the rear impact, the accident analyst explains. This acceleration is easily seen in the film.

The demonstration has clearly shown the importance of reporting rear-impact collisions to the insurance company immediately. As a souvenir and reminder, each attendee receives an add-on headrest which provides protection against whiplash in the event of a rear-impact collision. Now nothing stands between the attendees and a safe drive home.

The claims process has been fully professionalized – from which all parties benefit.

Strategy meeting in Antwerp (Belgium)

Mercator — success through GoFor

The Mercator Group, which operates in the Belgian state of Flanders, is presently undergoing a metamorphosis. Its banking arm was sold, as it was no longer sufficiently attractive for the Baloise under the changed market circumstances. The Mercator Group is now focusing on the broker channel, and its GoFor growth strategy is putting it back on the road to success. A strategy meeting recently highlighted the challenges facing Mercator and the demanding tasks ahead, which call for total commitment from everyone involved.

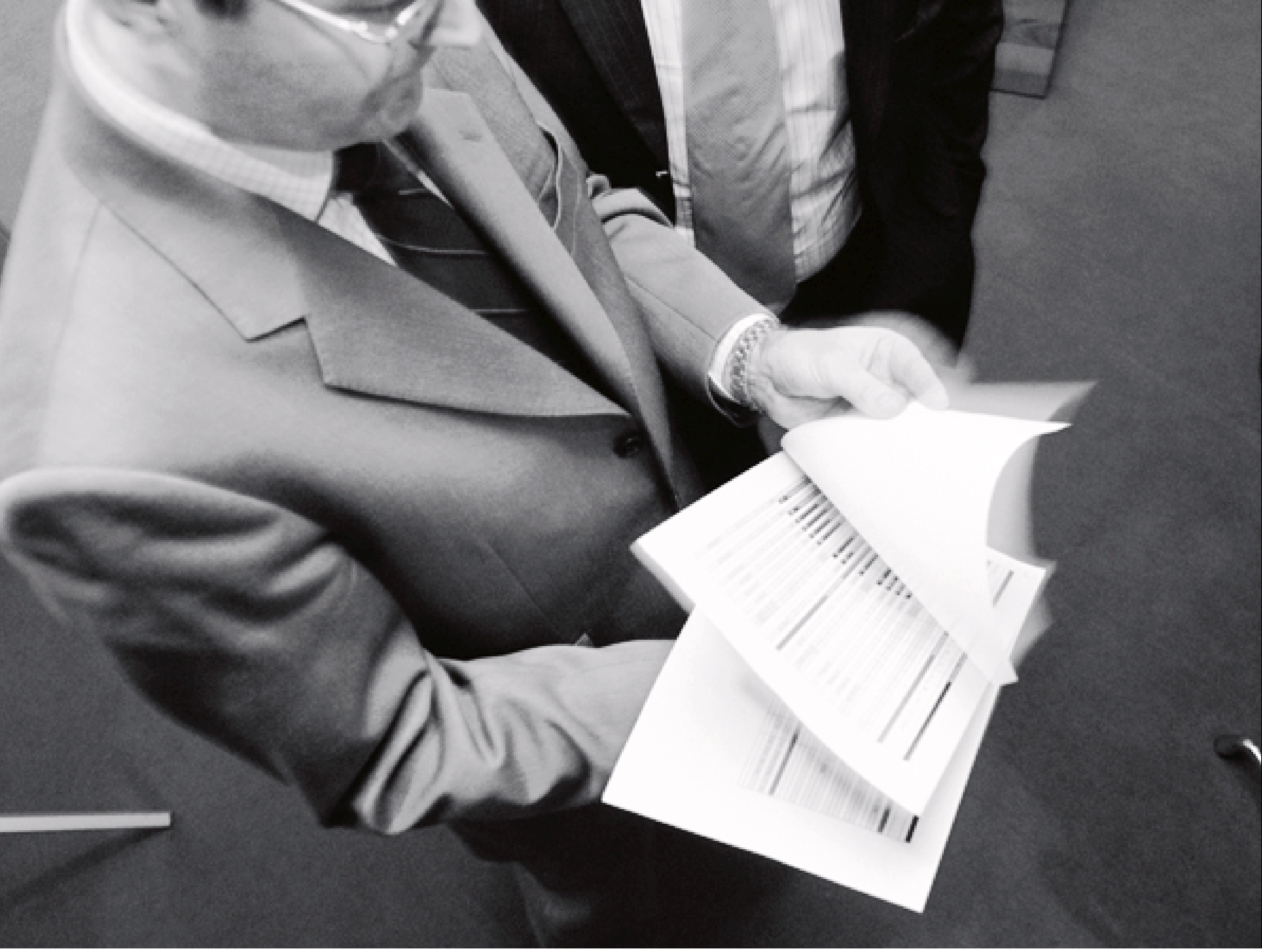
LUC VERHAERT, deputy CEO and head of Distribution, Sales, and Marketing, has made a clear target statement: the Baloise's Belgian subsidiary aims to improve its return on capital employed. Mercator's second-in-command leaves no doubt about how this goal is to be attained: harder work and better performance are the order of the day. The organization's GoFor growth strategy seeks answers to fundamental questions: How can we not merely assert ourselves in the market, but also clearly distinguish ourselves from the competition? Mercator needs to channel the passion and expertise of its staff towards supporting the brokers in their day-to-day work, thus contributing to their success. In this arena, Mercator aims to be among the very best. This is no simple undertaking for an organization in the midst of transformation. When returns from the banking business proved unreliable and the necessary critical mass for success was not attained, the Group spun off its banking activities and is now focused wholly on insurance. In order to ensure a successful and profitable future, incisive changes are essential to meet the needs and peculiarities of the Belgian market. Products of doubtful yield potential will be cut from the product range or replaced.

The Belgian market

For the future, Mercator will rely on the property/casualty and life insurance market segments, in which it already performs strongly. Life insurance especially, in light of political discussions on early retirement and the call for longer working careers in the Benelux countries, looks like a very promising growth market. The structure of the market shows that a commitment to Belgium could be quite lucrative. Flanders is one of the more affluent regions in Western Europe, a fact that is reflected in the real-estate market. It is often said that Belgians are born with a brick in their body, meaning that the people in this country, bordering on the Netherlands, Germany, Luxembourg, and France, begin considering the funding of a home of their own at a very early age. In light of such an attitude, it is clear that there is a great deal of property to insure here. The Belgian insurance market also has some distinctive traits. Especially in the non-life sector, customers generally do not purchase policies directly from the insurer, but rather from one of 4,400 independent insurance brokers in Flanders. These brokers, with over 60% of the non-life market, remain one of the most important distribution channels in the country. It is their standing that Mercator's management is seeking to leverage.

A genuine partnership with insurance brokers

The top priority for the future will be attracting brokers interested in a genuine, trust-based partnership, emphasizes Sales Director Johan Van Eeckhout, who is responsible for the sales-related implementation of the GoFor project. Mercator will offer these brokers the best possible service, so the brokers in turn can advise and serve their customers with the greatest possible efficiency. Besides the quality requirements for brokers, clearly defined by the Mercator Group, their growth potential is also of great interest. Mr. Van Eeckhout puts it very simply: the better the brokers' performance, the better their chances of making it into the "top group." The latter currently includes some 540 brokers for whom Mercator is the uncontested number one. Such top brokers, in return, benefit from top-rate Mercator services. Mercator is also among the top three for another 750 independent insurance brokers. Considerable growth potential has been identified for this group as well as for a third set of 2,500 brokers also defined as a target group. Members of this last category do not yet count Mercator among their top insurers, but efforts are being made to build a fruitful relationship. The target customer-management guidelines are clear: Mercator's target market consists of private individuals along with small and medium enterprises (SMEs) with an attractive risk potential. These two groups already make up the bulk of Mercator's clien-



Mercator aims to optimize services for local, professional brokers and enhance customer satisfaction.

TOP-RANKING PARTNER THANKS TO GOFOR

Mercator's aim is to be the number one partner for brokers in every way. The company is concentrating on optimizing its performance for local professional brokers and on keeping customers satisfied. This ambitious goal is being pursued through its GoFor growth strategy. The acronym represents the successive phases of the strategy:

Go = Ensuring employee commitment and motivation. Enthusiasm and initiative are the determining factors for meeting goals.
F = Focus. Courage to make the decisions necessary to achieve the intended results.
O = Operational excellence. A high level of professionalism reflected in everything Mercator does.
R = Return. The right results ensure long-term returns.

tele: private individuals account for 55% and SMEs for 32% of the company's property/casualty premium volume.

It is now evident that an even stronger focus on this segment is needed. The Flemish economy, with growth rates substantially better than those in most other euro-zone countries, is driven primarily by SMEs.

Good quality and satisfied brokers

In terms of product and service quality, Mercator compares quite favorably to its competitors. This commitment to quality is a central element in GoFor. Mercator wants to be one of the best in the market at helping the brokers to better serve their customers. Broker satisfaction with Mercator already rates among the highest in the country, leaving all other major insurers in Belgium behind. Nevertheless, there is room for improvement in this area as well. To more fully exploit this potential, Marketing Director Dirk Wauters and his team have developed the “We want to do it better” philosophy. Mercator has been in business since 1920 and its name is well-known to the Flemish public. This is certainly a

major advantage and is recognized as such by the management. Mercator's strategy emphasizes highest quality levels, which also implies that brokers be given the feeling that Mercator understands their specific needs and is ready to offer them full support. Only in this way can the relationships develop into long-term partnerships.

There is no doubt that Mercator is going through a challenging transformation. It will take the dedication of the entire workforce for the company to reach its goals. To promote team spirit, Mercator is putting more effort into analyzing the strengths and weaknesses of its own employees as well as those of its brokers. Part of this effort is to ensure that expectations and accountability are clearly defined. Good internal and external communication are therefore of utmost importance. The core of the transformation is not simply the question of what must be changed but also the daily challenge of how to successfully implement the new strategy. The prerequisites are an extraordinary team effort and the determination to give brokers optimum support in their contact with clients.

“Mercator's strategy emphasizes highest quality levels.”

Roundtable discussion on skills development

"Operational excellence and leadership"

Strength in execution is the foundation of our strategy. It comprises both professional craftsmanship and the management skills necessary to systematically and effectively drive the change process forward. These were the issues discussed by Group Executive Committee member Bruno Dallo, Deutscher Ring Group CEO Wolfgang Fauter and St. Gallen University Professor and Director of the Institute for Leadership and Human Resource Management Heike Bruch.

Mr. Dallo, what are the skills that the Baloise needs most of all to implement its strategy?

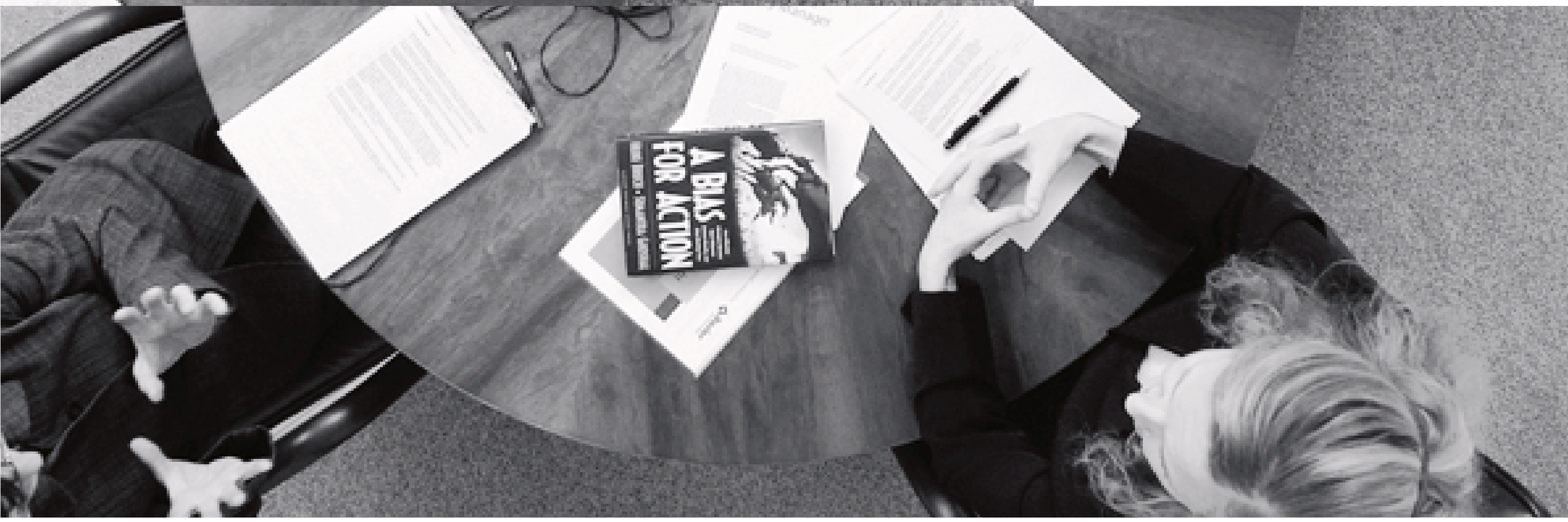
Strategy and skills are like twins — you can keep them apart, but you don't get a full picture until you see them both. Our strength in execution is based on two skills. The first is operational excellence, i.e. professional craftsmanship in our core business of insurance and pensions. The second is the ability of our management team to motivate employees, to set an example and to drive the change process.

Mr. Fauter, what were the most important challenges for managers in the realignment of the German Ring Group?

No enterprise can develop faster than the ability and willingness of its employees, so the biggest challenge was to get our employees on the right path. This meant not only imbuing them with motivation for change, but also giving them the capacity for new things and bringing the two into balance. Completely rebuilding existing structures, dismantling hierarchies, putting new people in leadership positions and cutting staff levels are all tasks that require change management skills.

BRUCH: The demands these processes place on managers are often underestimated. The boss is the one under pressure as bearer of everything that affects the employees' everyday actions. This means that managers must set a personal example of commitment, tenacity and determination. They have the responsibility for other people's strength of execution. Their job is to create the new everyday, that is, to be the masters of change. This includes not only developing enthusiasm for change but also soothing fears. People who are worried about their own personal future are not going to be filled with enthusiasm.

New models of skills development are born at roundtable discussions.



Mr. Fauter, you have made substantial investments in developing your employees. What was your main focus?

The “old economy” situation in the insurance industry saw a significant acceleration due to the crisis in the capital markets. Customer and service orientation have become much more important, and this is exactly where we have put our focus: on being closer to salespeople and customers and on developing service – although it can be difficult to make someone who has lived in the traditional world for twenty or thirty years enthusiastic about new things like scoring and customer value models and to quickly build up the needed skills. We have set up department-specific training programs to cover the skill gaps in the various units.

And we have given our management recruitment program substantial new inputs. Tomorrow’s managers must prove themselves through project-based tasks. A strict

GROUPWIDE STANDARDS FOR INDIVIDUAL PERFORMANCE MANAGEMENT AND SKILLS DEVELOPMENT

All Baloise Group companies are to meet the following standards by the beginning of 2007 at the latest:

› Objectives are agreed and their attainment assessed annually for all employees. All managers have a variable salary component, the amount of which depends on the degree to which objectives are attained. The result of the Group company in question features among the managers’ performance objectives. Leadership and general aspects of conduct are taken into account besides the objectives achievement.

› Personal development requirements are discussed annually and the results laid down in writing in the form of a development plan. Corresponding training options are offered and supported financially.

Bruno Dallo builds on managers who can kindle passion in their teams.

REVISION OF THE OBJECTIVE SETTING AND PERFORMANCE ASSESSMENT SYSTEM

The current objective setting and performance assessment system, in force now for five years, will be overhauled in the course of 2005. The new system is to ensure that

› the **individual's performance** is given a comprehensive assessment and is focused on the appropriate strategic and operational targets,
› the **individual's skills' development** is put on track in a strategy-aligned and systematic way in conformity with the relevant job requirements,
› **corporate performance** is also duly considered in the determination of the performance-related remuneration.

In Switzerland, the new system is scheduled for launching in 2006. The Baloise expects this to lead to a significant improvement in our Group's implementation prowess.

multi-level selection process involving interviews and assessments is followed by a two-year program in several business units, with no guarantee of ultimately obtaining a management position.

DALLO: It is just this job rotation process that is often underestimated. A manager should be someone who has worked in technology and sales and who has experience in financial management.

In its Advanced Management Program (AMP) and Strategic Leadership Program (SLP), the Baloise has developed programs that link elements such as strategy, managerial judgment and corporate values. What is the importance of these programs?

DALLO: Both programs are carefully adapted to our strategic needs. We have been conducting the SLP since 2004 along with the University of St. Gallen. It is a significant element in the further development and enhancement of our strategy and an important component of the change process. Participants include top executives, who take part in the program on a staggered four-year cycle, and group employees with high potential. This enables professional and personal exchanges across hierarchical and business unit lines. The

AMP offers our upcoming managers a chance for group networking and learning our strategy in greater depth. Topics proposed by management give these leaders the opportunity to work on strategically significant projects, which are presented to the Executive Committee.

Mrs. Bruch, what did you experience as an SLP participant?

The participation by senior management is what made the experience a positive one. Preparatory work to enable them to participate was one element of the Baloise's change agenda. In contrast to pure academic education, the point is to supply input that will drive the enterprise and those who act on its behalf forward. The SLP generated an extraordinary dynamic and was characterized also by an astonishing cordiality. Now I recommend implementing the many good ideas that came out of it with courage and determination. The overarching cooperation should be strengthened; it allows many people to benefit from each other.

Mr. Dallo, is the group assuming a greater coaching role here?

Open dialogue between CEOs and the Corporate Executive Board is creating a culture of cooperation which will carry us further in the direction that Mrs. Bruch mentioned. Two examples: We have developed a business simulation which we use to train our managers and employees in the application of such tools as customer value models, scoring and cancellation reduction. The simulation shows the financial consequences of an action, for example in improving the claims cost ratio or the combined ratio. We also have the Opex Award, an award and remuneration for the best measures to improve our core operating business in 2007.

Mr. Fauter, what do you expect from the group?

The group should make best-practice opportunities transparent and continue to promote them. We can learn from each other in the group and benefit as a whole. A program like AMP, in which high potentials from all companies work together, is beneficial not only in an economic sense. It also allows individuals to peek over the fence and see things that others may be doing better. I also see value in the exchange of expertise in risk controlling or risk management, for example.

As Corporate Executive Committee member for HR, Mr. Dallo, you have certain aims and expectations. What are the most important ones?

For us to succeed in continually driving this cultural transformation process in the group forward. For us to link the strategic development of the enterprise with development planning for our employees and managers and to strengthen both. I expect each individual to use this strategic process to seize opportunities to achieve what is best for himself or herself as well as the company. And for us to realize the opportunity it brings to make our group really thrive.

Heike Bruch, professor at the University of St. Gallen, discussing leadership issues with Wolfgang Fauter, CEO Deutscher Ring Group.

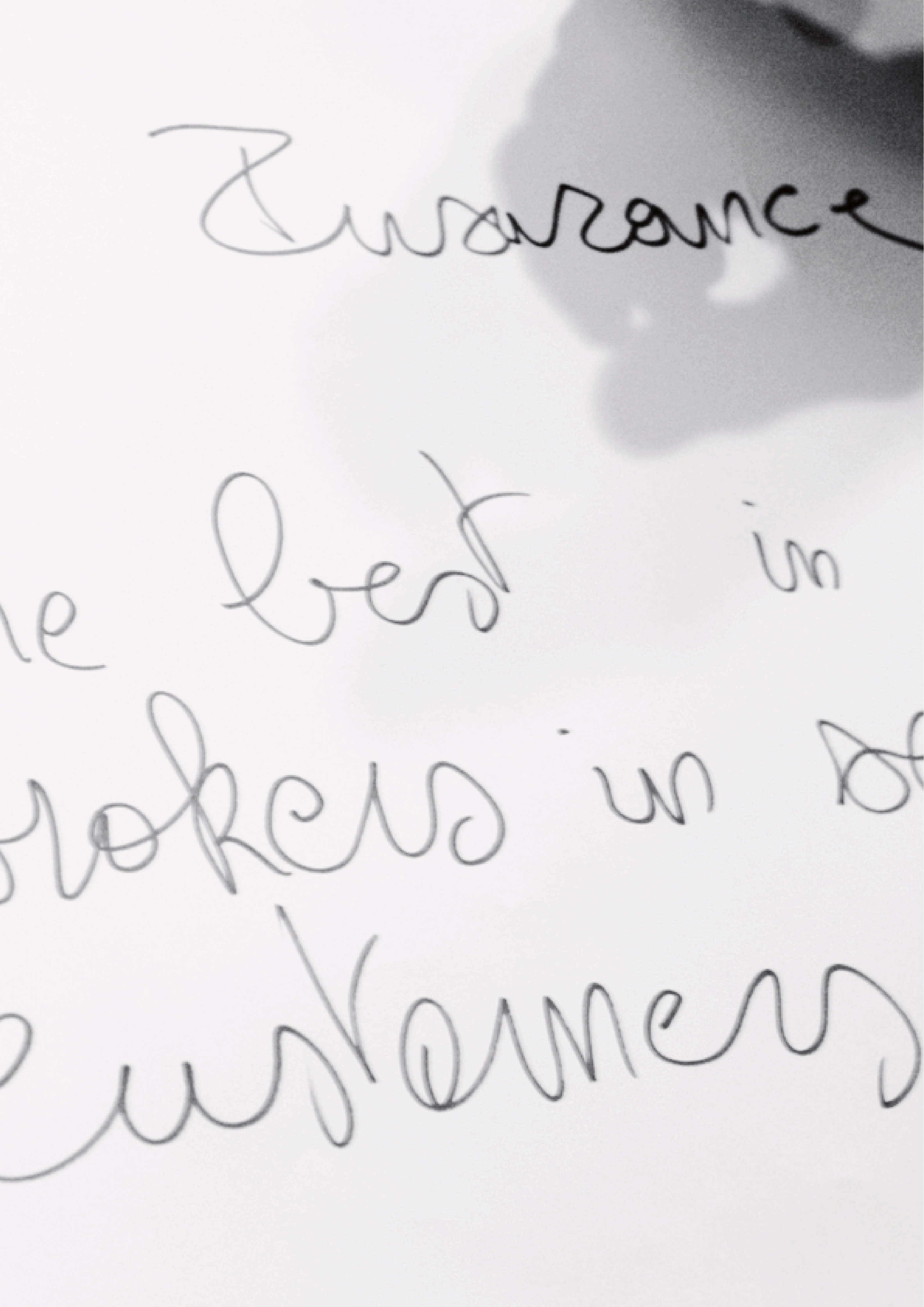
KEY FIGURES

The number of staff at the Baloise Group as at December 31, 2004, came to 8,090 (2003: 8,745).

Staff per country	2003	**2004**	Change
Switzerland	3,774	3,781[1]	7
Germany	3,249	3,025	–224
Benelux	1,417	989	–428
Other countries	305	295	–10
Total	**8,745**	**8,090**	**–655**

[1] of which 255 Group

In 2004, employees spent 12,646 days overall on basic and advanced training courses. The Baloise runs three training centers of its own and invested around CHF 14.3 million in staff training and development. Finally, 320 positions offered to apprentices, trainees and interns throughout the Group reflect the significance that the Baloise attaches to the education and training of young people.


Insurance
best in

Business Year 2004

Contents

Review of business year 2004

Operating performance leads to profit surge

The Baloise Group more than doubled its net profit against the previous year and achieved its operational goals for 2004. We see this success as a clear confirmation that the numerous measures taken to strengthen operating profitability are working. New business for example is only taken on when it meets our profitability requirements. We have streamlined and refocused our existing business portfolio in accordance with these guidelines. We will build on this foundation in the coming years to focus operations even more sharply on adding value, growing in the attractive target customer segment, and thereby steadily increasing our operating profit.

General market developments

Positive data from the United States shaped the economic environment in the first half, but the sharp rise in the price of oil and the fall of the US dollar raised doubts about the sustainability of a global upswing in the second half of the year. Meanwhile, fears grew that China could be approaching a hard crash after a time of overheated growth and would thus fail as the second growth engine of the world economy.

The terrorist attacks in Madrid, the high price of oil and the sharp drop in the value of the US dollar had a negative impact on the financial markets in 2004. High oil prices put a damper on economic growth. At the same time the low US dollar caused expectations of inflation to lessen, bringing a further easing of interest rates, especially at the long end. Declining interest rates in turn buoyed share prices, leading to a 10.1% rise in the MSCI EMU index over the whole year. The greatest part of this positive movement, however, came in the fourth quarter, when relief was great that the US economy was again strengthening.

The low interest rates also affected the bond markets. At the end of 2004, the yield on 10-year federal bonds was only 2.3%. Against all forecasts, bonds once again more or less held their own compared to the year-on-year performance of equities.

Major currencies were tranquil during the first half of the year. The US dollar was less volatile than in the previous year. The situation in the second half, however, presented a stark contrast. The US dollar sank to its lowest point in many years against both the euro and the Swiss franc. Over the whole year, the US dollar lost 8.1% against the Swiss franc. The euro ended the year down 0.9% against the franc from the start of the year.

Whereas strong equity market performance triggered an upward trend in insurance shares during the previous year, performance this year was slowed by the interest rate situation. Very low interest rates raised doubts about the profitability of the insurance business, in particular life insurance.

For banks, the low interest rate environment strengthened demand for both fixed-interest loans and variable-interest investments.

Baloise Group

The Baloise Group achieved a net profit of CHF 222 million in fiscal 2004, compared to CHF 91 million the previous year. All business lines contributed to this profit, and every single business unit raised its operating profitability. Here we can emphasize the excellent results of the non-life sector, whose net profit lay nearly four times higher than in 2003. The gross combined ratio again improved strongly from 97.6% to 93.0%. The life insurance sector likewise saw improved results, although the introduction of the “legal quote” in Swiss group insurance brought a negative impact of around CHF 26 million. New business recorded an increase in margins.

In all Group companies we are implementing extensive measures to strengthen the profitability of the insurance and pension businesses. The focus has been and continues to be on pricing products in line with the corresponding risks, correctly estimating customer risks, concentrating sales efforts on high-revenue customers and enhancing the efficiency of business processes.

The entire business volume – including the vigorously growing unit-linked life insurance sector – reached an amount of CHF 7.5 billion (2003: CHF 7.6 billion), a decline by 2.2% in CHF.

Premium incomes, in accordance with IFRS accounting standards, amounted to CHF 7.0 billion as compared to CHF 7.4 billion in 2003, a decline of 4.8% in CHF. We have deliberately throttled premium growth, as we place higher priority on profitability rather than pure business volume growth. Non-life registered a slight minus of 0.2%, while life insurance contracted by 8.0% in CHF, a clear reflection of the extremely low interest rate levels and our selective underwriting policies.

Life insurance accounted for 56% of the total premium volume (2003: 58%), 44% came from the non-life sector (2003: 42%). The country units' share of premium volume remained almost unchanged: Switzerland contributed 57% (2003: 58%), the German companies Basler Securitas and Deutscher Ring together 30% (2003: 30%), the Benelux countries 11% (2003: 10%) and Austria 2%.

Mercator Bank of Belgium ceased to be Baloise Group company in fiscal 2004. We sold the bank in August 2004 to the Dutch ING Group, as maintaining a banking presence in Belgium had become less desirable under the changed market conditions.

Non-life

The non-life sector generated a net profit of CHF 184.1 million (2003: CHF 48.5 million). The combined ratio continued to improve: the gross figure declined 4.6 percentage points to 93.0% (2003: 97.6%), while the net figure fell 5.7 percentage points from 103.2% to 97.5%. Since 2002 we have improved the most important indicator in this line of business by over 13 percentage points net. The combined ratio ended better in all business units; our German subsidiaries Basler Securitas and Deutscher Ring saw especially significant improvements.

We achieved these clear improvements by consistently directing our business activities toward profitability, optimizing costs and processes, selectively restructuring our portfolios, adjusting premium rates and concluding new business on the basis of clear yield targets. A very favorable claims record, especially in the settlement of major claims and the absence of natural disasters, had an especially strong positive impact.

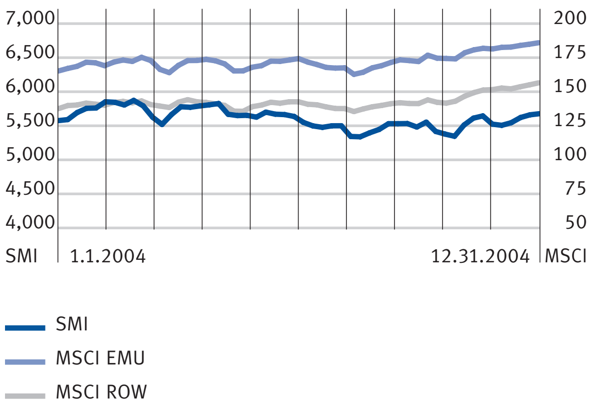
Non-life premium incomes came to CHF 3.1 billion, thus remaining in line with the previous year's level.

Life

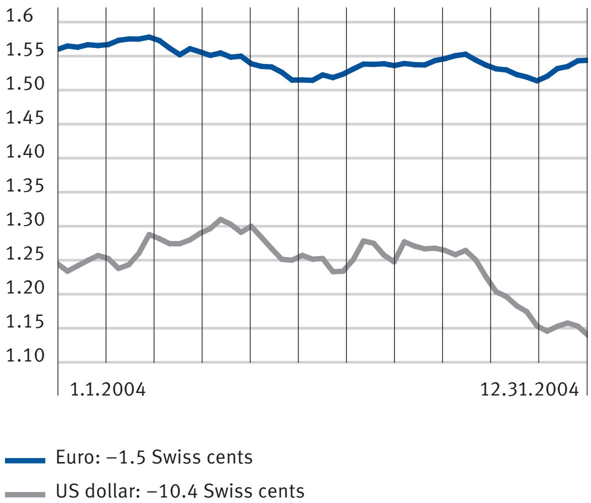
The life insurance sector generated a net profit of CHF 54.6 million (2003: CHF 34.1 million), a strong performance in view of the uncertain financial markets and continuing low interest rates. Because we also accept only profitable new business in this line, we successfully boosted profits, more than making up for the negative effect of approximately CHF 26 million from the introduction of the "legal quote" in the Swiss group life insurance market. In Switzerland in particular, the margin in new business is gratifying.

The business volume – including unit-linked life insurance – came to CHF 4.4 billion (2003: CHF 4.6 billion), a decline of 3.6%. Premium volume in accordance with IFRS ac-

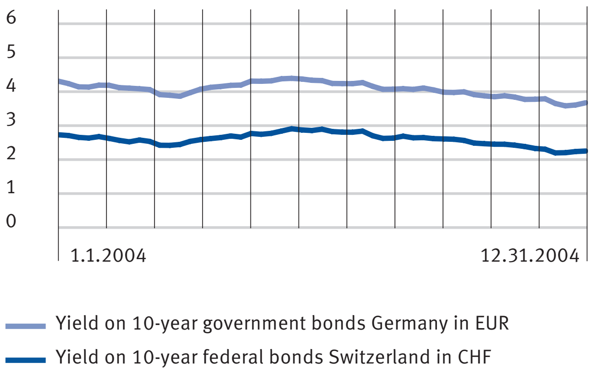
Stock markets performance
January 1 – December 31, 2004



Development USD – CHF and EUR – CHF
January 1 – December 31, 2004

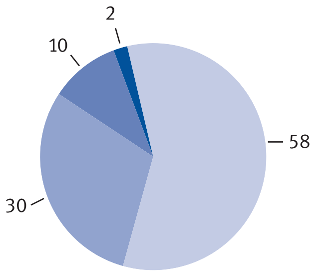


Interest rate development January 1 – December 31, 2004



Premium income (gross) by regional segment 2003

in percent



Premium income (gross) by regional segment 2004

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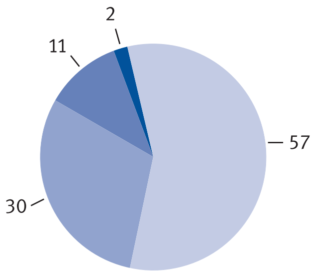


	2003	2004	Change in %
Switzerland	4,269	3,996	−6.4
Germany	2,200	2,121	−3.6
Benelux	745	748	0.5
Other countries (incl. elimination)	161	157	−2.7
Total	**7,375**	**7,022**	**−4.8**

in CHF m

counting standards contracted by roughly 8.0% in CHF and 8.4% in local currencies to CHF 4.0 billion (2003: CHF 4.3 billion). This development reflects our business policy, which focuses strictly on profitability. We regard this emphasis as particularly important in the life line, since life insurance is a long-term contract. In Switzerland and in Germany, which account for over 90% of the Group's life business, single premiums in the individual life sector experienced an especially sharp decline. In Switzerland, meanwhile — where most of our life business is written — we saw a strong increase in sales in the second half of 2004 in comparison to the previous year. In the Swiss group life business premium income declined somewhat less sharply, in line with the slowdown in the market as a whole.

Unit-linked life insurance did extremely well: thanks to continuing improvements in sales performance, business volume grew 70% to CHF 443 million. Growth was especially marked at Deutscher Ring and Baloise Luxembourg. IFRS accounting standards do not permit these "premiums with investment character" to be included in the premium volume.

The embedded value of the life business rose from CHF 1,980 million to CHF 2,137 million in the year under review. The lower future investment income anticipated was partially offset by lower surplus allocation to policyholders. The value of new business came to CHF 15.2 million. The margin for new business climbed to 5.8% (2003: 5.0%).

Banking

The bank sector recorded a net profit of CHF 9.7 million (2003: CHF 14.3 million). This strong performance was attributable primarily to Baloise Bank SoBa. Thanks to cost discipline and improvements in the quality of the credit portfolio, the bank boosted net profit by 25%. The insurance company's "mobile banking" business (sales of bank products through the insurance distribution channel) also registered robust growth. In August 2004 we sold Mercator Bank to the ING Group. The Deutscher Ring building and loan society performed according to plan.

Investments, capital and reserves, taxes

Earnings from investments during the fiscal year grew to CHF 1,996.4 million (2003: CHF 1,988 million). Realized net gains/losses rose to CHF 188 million (2003: CHF −41 million) as a result of the improved state of the markets and the fact that the year, unlike 2003, passed largely without realization of losses.

The Baloise Group's capital and reserves amounted to CHF 3.5 billion at year-end (2003: CHF 3.3 billion). The increase was due primarily to significantly improved earnings. The Group's solvency margin (including banking assets) stood at 258% at the end of 2004 (2003: 241%), which we consider very solid.

Tax outlays for 2004 came to CHF 99.0 million (2003: CHF 125.4 million), of which current income taxes accounted for CHF 86.3 million (2003: CHF 114.6 million). The decrease is explained by special effects in 2003, when taxes rose sharply at German life insurance companies due to changes in the tax code. Deferred taxes are CHF 12.7 million (2003: CHF 10.8 million).

Outlook

For 2005 we anticipate continuing uncertainty in the economies of our core European markets. We remain cautiously optimistic with respect to the financial markets. We shall continue to concentrate on increasing sustainable operating profitability in all markets with the goal of obtaining return on equity of at least 10% by 2006. To do so we are aiming for above-average growth in the customer segments where we anticipate the greatest earnings potential in the long term.

In the non-life sector we expect a combined ratio of at most 93% gross by the end of 2005, which we rate as a challenging goal in view of the highly favorable claims record of 2004.

In developing our business we adhere strictly to the principle of "income before growth". In non-life and life we anticipate organic premium development in line with the market. In the life insurance sector we expect increased profit.

Overall, we aim for a further significant profit increase in the year 2005, provided there are no extraordinary events.

Switzerland

Baloise Switzerland, the Baloise's largest operating unit, put in a significantly stronger performance. It achieved a net profit of CHF 127.2 million (2003: CHF 62.1 million), thanks to management's single-minded focus on those customers providing the highest income and the goal of continuously strengthening operating yields. The Baloise Bank SoBa also saw positive results, achieving a net profit of CHF 14.5 million, an increase of 25% over the previous year.

Baloise Switzerland, which accounts for 57% of the Baloise Group's premiums, considerably improved its operating performance. Despite the new burden of the "legal quote," it achieved a net profit of CHF 127.2 million (2003: CHF 62.1 million). All lines contributed to this strong growth performance, in which tight cost management, underwriting policies focused on profitability, portfolio restructuring and premium adjustments were the deciding factors. The "focused financial service provider" business model (insurance with pension banking) continues to bear fruit.

Baloise Switzerland's premium income reached CHF 3.996 billion (2003: CHF 4.269 billion), a decline of 6.4%, attributable to generally weak demand for life insurance along with our business policy of only concluding profitable business.

Non-life

Premium income in the non-life sector amounted to CHF 1.281 billion (2003: CHF 1.238 billion). This represents an increase of 3.5%. The growth is a result of business development and adjustments in premiums for general liability, property, motor vehicle and transport insurance. Our marketing partnership with the Touring Club of Switzerland gave a substantial boost to the motor vehicle insurance business. Premium income for accident and health insurance declined due to the restructuring forced by technical demands.

Owing to consistent cost management and underwriting in line with risk along with judicious premium adjustments, Baloise Switzerland recorded a gross combined ratio of 93.1%, again substantially better than the previous year's value of 95.9% gross.

Major elemental damage claims were largely absent, though obligations increased with respect to motor vehicle liability and comprehensive as well as fire insurance. In the accident and health insurance lines the number of new claims and claim payments decreased substantially as compared to 2003. We were able to successfully restructure our loss-making contracts in these sectors.

Life

A premium volume of CHF 2.715 billion was achieved in the life insurance sector (2003: CHF 3.032 billion). This decrease of 10.4% is explained by an underwriting policy focusing strictly on profitability as well as weak demand due to the historically low interest rate levels. Single premiums saw an especially strong decline of 30.7%, but we managed to stem the losses in the second half through a promotional campaign in which we did not charge our customers for the stamp duty. The group life business also declined, but less sharply. With a slightly higher number of contracts, premiums decreased by 6.8%; new business contracted for single premiums, but revenues from recurring premiums rose due to rate adjustments.

Despite declining premiums, numerous measures have succeeded in increasing the earnings performance of the life insurance sector as compared to 2003. Both established and new business are profitable, and the margin of new business increased in comparison to the previous year.

Baloise Bank SoBa

Baloise Bank SoBa achieved a net profit of CHF 14.5 million (2003: CHF 11.6 million), corresponding to an increase of 25%. Mobile Banking, the sale of bank products by the insurance company's field sales force, was again successful; the volume of business acquired was 9.5% greater than the previous year, representing a gain of some 6,600 new customers for the bank. These achievements clearly illustrate the success of the "focused financial service provider" business model.

Net interest income was influenced by fierce competition and a lack of growth in the mortgage business, dropping by 8.1% against the previous year to CHF 82.6 million. The bank successfully took measures to increase its commission and service income to CHF 20.5 million; various actions were also taken to reduce costs. The on-line service contributed, with Internet banking contracts growing by about a third.

Germany

The German market saw a short-term surge in demand for life insurance due to loss of the tax exemption at year's end, in spite of a generally weak economic situation and high unemployment. Property insurers benefited from the low major claims level. The fourth quarter saw a price war in motor vehicle insurance. The Baloise's German business achieved a net profit of CHF 58.5 million (2003: CHF –17.1 million). Highlights at the two units included enhancements in operating efficiency, a focus on target customers and the integration work at Basler Securitas.

The Baloise's two German units, Deutscher Ring and Basler Securitas, together brought in a premium volume of CHF 2.121 billion (2003: CHF 2.200 billion), a decline of 3.6% in CHF and 5.0% in EUR. Both units achieved significant gains in operating income by lowering costs, thoroughly restructuring their business portfolios and enhancing sales efficiency. The two units earned a net profit of CHF 58.5 million (2003: CHF –17.1 million).

Basler Securitas

Basler Securitas recorded a premium intake of CHF 1.094 billion (2003: CHF 1.141 billion) during the 2004 fiscal year. The decrease of 4.1% in CHF and 5.5% in EUR was the result of restructuring the motor vehicle and industrial portfolios. The premium level in life insurance remained stable as compared to the previous year. Despite the decline in premiums, profits rose substantially as compared to 2003 thanks to lower costs and a selective restructuring of outstanding policies. The excellent combined ratio of 92.9% gross (2003: 99.9%) proves the success of these measures.

The property insurance line accounted for a premium income of CHF 853 million (2003: CHF 901 million). The decrease of 6.8% in EUR reflects the reduction caused by extensive restructuring, especially in motor vehicle and industrial insurance. These adjustments, along with measures to increase the efficiency of operations and lower costs, have strengthened the operating performance of the line substantially. Major claims and elemental damage claims were largely absent.

The life insurance sector recorded a premium volume of CHF 242 million (2003: CHF 240 million), an increase of 0.6% in CHF and a decrease of 0.8% in EUR. A moderate decline in single premiums stands in contrast to the increased contribution of recurring premiums.

The new company Basler Securitas is now firmly established. Its structures, organization, brand, products, processes, systems and sales structure are mostly in place. In both non-life and life insurance, a new or revised range of products has been developed, some of which have been accorded very good results by independent testing organizations.

Deutscher Ring

The company achieved a business volume – including unit-linked life insurance – of CHF 1,106 billion (2003: CHF 1,120 billion). The premium income in accordance with IFRS accounting standards came to CHF 1.027 billion (2003: CHF 1.059 billion), a decrease of 3.0% in CHF or 4.5% in EUR.

Life insurance premiums amounted to CHF 897 million (2003: CHF 899 million) – including unit-linked products, which registered a growth of 30%. By IFRS accounting standards, the premium volume came to CHF 818 million (2003: CHF 838 million), a decline by 2.3% in CHF and 3.8% in EUR. The decline was caused primarily by a decrease in single premiums throughout the market. The company took advantage of the opportunity provided by the loss of tax-exempt status from 2005 to drive up the number of contracts written by 52%, a performance well above the market average of 40%. For the most part, the new business will be reflected in the premium volume for 2005.

The property insurance business achieved a combined ratio of 95.8% gross (2003: 106.8%, of which 103.1% from direct property business). We are enjoying a markedly improved earnings situation in this line due to reduced claim outlays and, once again, significant cost reductions. The previous year's high figure was the result of a one-time effect from stocking up accident annuity reserves.

Deutscher Ring focuses exclusively on private customers for old-age and disability pensions, building-related savings and investments. In the year under review it concentrated on making both its existing insurance portfolio and new business more profitable. At the same time it managed to substantially reduce costs and progress according to plan in the reorganization of the building society. Friendlier capital markets buttressed the positive trend in its profitability.

The building society's new business performance was again significantly above the market level. Earnings improved, and developments continue to meet our expectations.

Benelux

The Benelux division, which consists of Mercator in Flanders and Bâloise Luxembourg, saw a net loss of CHF 116.1 million in fiscal year 2004 (2003: CHF –121.9 million). The main causes were the loss of approximately CHF 70.2 million from the sale of Mercator Bank in the second half of 2004 and extraordinary adjustments to the value of Mercator Insurance investments. Operationally, Mercator has achieved a turnaround and successfully restructured its insurance portfolio. Bâloise Assurance, Luxembourg, saw a significant growth in profit over the previous year.

Belgium

2004 marks a milestone in the history of Mercator. The new management has led the company in a new operational direction, with a focus on the core insurance and pension business, whereby Mercator concentrates entirely on brokerage sales and seeks to further develop its above-average consulting quality in the field. The insurance portfolios have been restructured, Mercator Bank was sold and the administration of private equity and real estate holdings has been entrusted to professional partners.

Mercator recorded a total premium income of CHF 673 million (2003: CHF 674 million), a decline of 0.3% in CHF and 1.7% in EUR, nearly equalling the previous year's level despite the portfolio restructuring.

In the non-life sector Mercator achieved a premium income of CHF 557 million (2003: CHF 545 million), representing an increase of 2.4% in CHF and 0.8% in EUR. The combined ratio reached 95.3% gross, again improving on the previous year's results. Premium growth and the good claims-cost ratio testify that the company has achieved a comfortable operating position in this line, which makes up 83% of its total business volume.

The life insurance sector saw premium revenues of CHF 115 million (2003: CHF 130 million). The decline of 11.2% in CHF and 12.5% in EUR is a consequence of the sale of Mercator Bank and the concomitant loss of business. Single premiums declined in line with the market, while recurring premiums increased.

Mercator Bank was sold in August 2004 to the ING Group as part of the strategy of focusing Mercator on its core insurance and pensions businesses.

Luxembourg

Bâloise Luxembourg's premium volume reached CHF 76 million (2003: CHF 70 million), an encouraging increase of 7.9% in CHF or 6.3% in EUR. The company significantly increased its profit over the previous year thanks to low claims outlays and the good investment results.

In the non-life sector the company achieved premium revenues of CHF 40 million (2003: CHF 39 million), an increase of 3.3% in CHF and 1.7% in EUR. The gross combined ratio was 99.2%, an improvement over the previous year's figure of 100.5%.

The life insurance sector has performed solidly despite the difficult environment. The premium volume rose to CHF 36 million (2003: CHF 31 million), an increase of 13.6% in CHF and 12.0% in EUR. This growth came mainly in the individual life insurance business owing to a substantial sales effort. The strong position in the group life insurance business was successfully maintained. In cooperation with capable partner banks, Bâloise gained 166% by comparison with 2003 and achieved a volume of CHF 250 million in unit-linked life insurance, not regarded as premiums under IFRS rules.

Other countries

Austria and Croatia

Basler in Austria and its Croatian units brought in a premium income of CHF 114 million (2003: CHF 105 million), which corresponds to a significant increase of 9.0% in CHF and 7.4% in EUR. Since 2001 the Austrian company has invested judiciously in profitable growth: in that period customer and contract figures have grown by approximately a third, the sales organization has been expanded and administrative overhead substantially reduced.

In the non-life sector — three-quarters of the premium volume — the companies achieved premium growth of 12.6% in CHF and 11.0% in EUR, well above the market average. The main drivers of this growth were motor vehicle and accident insurance. A strong increase in sales productivity, differentiated underwriting polices and lower total costs despite expansion of the sales organization resulted in a substantially improved 105.2% gross combined ratio (2003: 108.0%).

The life insurance sector saw an increase in premiums by 0.3% in CHF and a decrease of 1.2% in EUR due to weak demand in single premium insurance. The increase in recurring premiums was offset by a decline in single premiums.

Reinsurance, finance and participation companies

This sector includes reinsurance companies, financing operations and participations, and group-level operations. The positive result of CHF 142.6 million (2003: CHF 190.2 million) is primarily a result of the highly favorable operational performance of the reinsurance companies. Currency losses were offset by realized investment gains.

Investments: continued upswing on the stock markets

2004 was an unexpectedly good year for bonds, even although the central banks began to gradually increase key interest rates over the period. The Swiss Bond index (SBI) generated a performance of 4.2% and the Euro BIG index (for EUR bonds) advanced by as much as 7.4%.

This corresponds to an increase of more than 6.4% in Swiss franc terms. While yields picked up on the money markets, driven by the interest turnaround initiated by the central banks, rates at the long end of the interest curve continued to fall, due to the slowing down of the economy and the moderate inflation levels experienced in the second half of the year. In the wake of these developments, real interest rates (nominal interest rates adjusted for the effect of inflation) sank to an all-time low, at the same time as many global bond indices climbed to record highs.

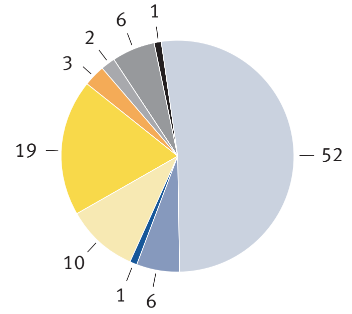
Last year's positive trend on the equity markets carried over into the first few months of 2004. Investors lost confidence after the terrorist attacks in Madrid in March and the rapid surge in crude oil and commodity prices. In the months that followed, right up to the US presidential elections at the start of November, a volatile sideways movement unfolded on the stock market. The market's positive response to the reelection of the Bush administration and the stabilization of commodity prices triggered an uptrend, so that the equity markets were able to grow after all in a year-on-year comparison. The SMI, the Swiss blue chip index, rose 3.7% in 2004 and the Swiss Performance index, which also includes stocks from the small- and mid-cap segments, advanced 6.9%. European equities achieved a performance of 9.4% in local currency terms, gauged by the EuroSTOXX 50 index (8.4% in CHF), and the Standard and Poor's index of US stocks gained 9.0% (1.0% in CHF).

On the currency side, performance was dominated by the collapse of the dollar against all the major currencies. This trend is primarily attributable to the US balance of payments and budget deficits and to the reversal in growth momentum in the US economy. The Swiss franc gained ground during the year, thanks to better-than-expected economic figures and the Swiss National Bank's raising of the interest rate by 50 base points. The CHF rose almost 8% against the dollar and gained approximately 1% on the EUR.

The risk situation at the Baloise Group improved as a result of the upswing on the financial markets over the last two years and the expansion of its active risk management, which once more allowed a cautious increase in the Group's equity exposure (shares including participations), within the scope of the investment strategy, to 8.0% as at the end

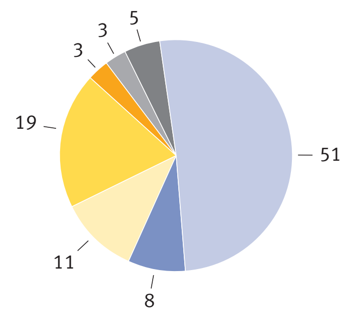
Own capital investments by category 2003

in percent



Own capital investments by category 2004

in percent



	2003	2004
Fixed-interest securities	52%	51%
Shares	6%	8%
Derivatives	1%	0%
Investment property	10%	11%
Mortgage loans	19%	19%
Policy and other loans	3%	3%
Alternative financial investments	2%	3%
Other short-term capital investment, cash and cash equivalents	6%	5%
Participating interests in associates	1%	0%

Own capital investments by category

	2003	2004	Change in %
Fixed-interest securities	29,525.4	27,170.3	–8.0
Shares	3,475.9	4,067.2	17.0
Derivatives	292.9	262.5	–10.4
Investment property	5,653.4	5,619.2	–0.6
Mortgage loans	11,002.4	9,798.3	–10.9
Policy and other loans	1,456.6	1,400.3	–3.9
Participating interests in associates	223.8	148.2	–33.8
Alternative financial investments	1,337.9	1,636.1	22.3
Other short-term capital investments, cash and cash equivalents	3,339.4	2,697.2	–19.2
Total	**56,307.7**	**52,799.3**	**–6.2**

in CHF m

of 2004. Investments thus profited not only from the performance on the bond markets, but also from the positive stock market trends in Europe, the US and the emerging markets. Apart from equities, significant amounts were invested in real estate and alternative financial investments. These investments both promise solid returns and help to diversify the portfolio risk. In addition, they reduce the relatively high interest exposure in the asset allocation. In real estate, investment property performance came to 3.3%, while alternative investments saw an increase of 2.3%.

To reduce the foreign currency exposures, the USD was almost fully hedged and the EUR by over 50%. In addition, fixed-interest investments totalling more than EUR 460 million were sold, making it possible to offset the majority of currency losses on our foreign currency investments with corresponding gains on the hedging derivatives. Due to the use of hedge accounting (cash flow hedge), however, under IFRS the income from USD currency hedges is primarily reflected in capital and reserves and only to a slight extent in the income statement.

In the mortgage segment, we managed to hold our own in a competitive market through BALOISEHYPO PLUS, a product launched in Switzerland. In view of the interest turnaround initiated by the central banks, many customers preferred to opt for low long-term interest rates, thus increasing the proportion of fixed-rate mortgages in our portfolio. The average yield in the mortgage, policy and other loans segment contracted to 3.2% in 2004 as a result of falling interest rates.

Successful BFI funds

The BFI funds achieved an extremely gratifying result in 2004, with all products performing well. In a peer group comparison, 9 of the 12 funds were positioned in the first and second quartiles, i.e. they performed above the average of comparable products. The impressive performance of the 6 strategy funds should be emphasized. Following on from their excellent ranking of the previous year, all stood their ground in the first half of 2004. Particular mention should also be given to the BFI Capital Protect (EUR) guaranteed fund, launched at the start of 2003, which once again experienced a satisfactory increase in value, reporting a guaranteed performance of 7.7% at the end of December. The positive response of our customers to this product encourages Baloise Fund Invest to issue further guaranteed funds.

Growing demands on risk management

Internal and external pressure and demands on risk management systems have grown sharply in recent years. In 2004, the regulatory environment played a major part in this trend. At the Baloise Group, the focus was on the pilot projects for the Swiss Solvency Test and the introduction of a Groupwide standardized risk management system in line with the supervision of conglomerates by the Federal Office of Private Insurance.

The risks facing insurance companies have increased considerably in recent years, due in part to the higher volatility of investment income relative to overall corporate results, and in part to rising insurance risks. In particular, longer life spans, greater stress in people's lives and the associated risks of disability, a high level of economic integration, increasing population density and changes in the environment have contributed to rising costs. These trends continued unabated in 2004. Examples include the catastrophic effects of the tsunami in Southeast Asia and the exceptionally severe hurricane season in the United States.

A changing regulatory environment

Europe's regulatory authorities and legislatures have taken note of these developments and have begun to review and develop the regulatory framework for the industry in recent years. The Baloise Group is affected by developments in both the European Union and Switzerland. In all these countries, the focus is on new models for adequate, risk-based capitalization of insurance companies for the protection of policyholders, and on bringing finance companies under the purview of the supervisory structures. In Switzerland, the relevant projects of the Federal Office of Private Insurance are the Swiss Solvency Test (SST) and "conglomerate supervision." In the EU, the corresponding projects are called Solvency 2 and EU "group supervision."

The Baloise is active

Swiss insurance companies focused on the Swiss Solvency Test in 2004. Unlike the EU's Solvency 2, the SST has reached the stage where a pilot project involving initial calculations and analyses has already been carried out with selected Swiss insurance companies. The Baloise Insurance Company in particular took an active part, not only contributing to the development of the SST, but also preparing itself in the best way possible for future requirements.

In 2004, the Group's risk management operation concentrated on implementing the conglomerate supervision rules set forth by the Federal Office of Private Insurance (BPV) in December 2003. These rules expanded the BPV's supervisory authority to cover the entire Baloise Group. In exercising this authority, it works in close coordination with the EU's supervisory body in Luxembourg, which is responsible for Groupwide supervision. Since 2004, the Baloise has kept the BPV regularly informed of developments in its risk and capital indicators based on its consolidated IFRS balance sheet. In addition, we have implemented the supervisory office's instructions concerning standardization and organization of the Baloise's risk management. We have developed Groupwide risk management standards (RMS) to address the following main points:

- Organization and accountabilities
- Methods, rules and limits
- Risk controlling

We have introduced these standards in all insurance and banking units of the Group and have included all activities directly related to risk management in a common set of rules. The Baloise's risks are summarized in the table below. Individuals responsible for efficient and comprehensive risk management have been designated in all business units and in the parent corporation along the lines of the "risk map" below. We have been especially careful to segregate management and controlling functions.

Further improvement in the risk situation

The Group's risk situation continued to improve in 2004, as seen in the evolution of its solvency. The solvency ratio rose from 214% at the end of 2003 to 242% at the end of 2004. Even more important was the progress made in operations at all business units. For example, the combined ratio in the non-life business has further improved, the life insurance line has become more profitable, the integration of non-life insurance in Germany has moved forward decisively and Mercator in Belgium has undergone a strategic realignment. These measures will have an ongoing effect in years to come. Through them and through continuing improvements in our risk management systems, the Baloise will gain further scope to enhance shareholder value.

Solvency Group	2003	**2004**
Insurance requirements	2,076	2,096
Capital and reserves Group	5,008	5,418
Solvency margin (incl. banking assets)	241%	258%
Capital and reserves insurance	4,453	5,075
Solvency margin insurance	214%	242%
8% of risk weighted assets banks	437	266

in CHF m

Baloise Group risk map

Business risks	Investment risks	Financial structure	Business environment	Operating risks	Management and information risks
Risks due to claims _Fluctuations _Catastrophes	**Credit risks** _Counterparties _Countries	**Asset-liability mismatch risks** _Asset/liability structure _Financing/refinancing	_Changing standards _Market and competitors _External events _Investors	_Security _Human resources _Legal risks _Compliance _Settlement/ transactions	_Organizational structure _Corporate structure _Business portfolio _Mergers & acquisitions _External communications _Planning & budgeting _Project portfolio _Management information
Premiums/rate setting **Credit management** **Reserves** **Reinsurance** _Premiums/rate setting _Availability _Reinsurance assumed	**Market risks** _Interest rates _Equities _Currencies _Liquidity _Real estate _Derivatives	**Regulatory requirements** _Capital and reserves requirements _Actuarial cover fund/ security fund			

Corporate governance

Corporate governance at the Baloise

As a value-oriented company, the Baloise is committed to good corporate governance. In keeping with the description of corporate governance in the Swiss Code of Best Practice, we are convinced that – while preserving management's decision-taking competencies and efficiency – transparency and checks and balances are desirable goals that serve the interests of our shareholders.

The first section of this chapter focuses on the steps implemented in 2004. The second section then essentially follows the structure of the SWX guideline with the aim of increasing transparency and hence comparability with other companies.

Important changes

The Baloise also introduced a number of innovations in 2004 with important consequences for its corporate governance.

A practical concept was implemented in 2004 for the purposes of training staff in relation to the Code of Conduct, introduced in 2003. This involved members of staff, together with their line managers, developing an awareness and understanding of the issues involved, using examples of specific dilemma situations, and learning how to apply the Code.

■ www.baloise.com → Profile → Sustainability → Corporate Culture

At the elections to the Board of Directors held in the year under review, the body was reduced in size from 12 to 10 members. This development took place in the context of optimizing the work processes and decision-making processes of the Board of Directors. At the same time, additional members were coopted onto the Board of Directors' committees.

The "change of control" agreement exclusively in favor of the Members of the Board of Directors and the Corporate Executive Committee of Baloise-Holding expired in November 2004 and was not renewed.

1. Group structure and breakdown of shareholders

Group structure

The Baloise is organized as a joint-stock holding company under Swiss law. The company has its head office in Basel and is quoted on the SWX Swiss exchange. As at December 31, 2004, the Baloise Group had a market capitalization of CHF 2,903.6 million. Information about Baloise shares can be found on page 52. A list of important Group companies and participations as at December 31, 2004, can be found in the Notes from page 119. Apart from Bâloise-Holding, no Group companies have a stock exchange listing.

Segment reporting by regions and business segments can be found from page 86 of the Annual Report. The Group's operational management structure is presented on page 51.

Breakdown of shareholders

Changes in share ownership

The spread of share ownership and trading liquidity remain unchanged from the previous year. No single shareholder owns more than 5% of the registered shares.

As a widely held joint-stock company, the Baloise is included in the Swiss Market Index (SMI) and continues to feature in the SWX's index calculations with a free float of 100%.

Shareholder structure

As at December 31, 2004, the most significant registered shareholder (Chase Nominees Ltd.) held 4.0% of the company's outstanding shares, of which 2.0% were voting shares. No shareholder held a stake in the company that was legally required to be disclosed as at the end of the year. As at December 31, 2004, 16,251 shareholders were recorded in the Baloise's share register. By comparison with the previous year, the number of registered shareholders rose by 8%.

The "Baloise Shares" section from page 52 provides further information on the breakdown of our shareholders as at March 31, 2005.

Own shares

As at December 31, 2004, the Baloise held 411,992 of its own shares. These shares are used for, inter alia, incentive and employee profit-sharing programs.

Cross-shareholdings

There are no cross-shareholdings either in terms of capital or voting rights.

2. Capital structure

Distribution policy

The capital changes in recent years were marked by a shareholder-friendly distribution policy. In the last five years alone, over CHF 1.1 billion was paid out to shareholders in the form of cash dividends, share buybacks and nominal value repayments.

Distributions to shareholders over the past five years

Year	Dividend payments	Share buybacks	Nominal value repayments	Total
2000	140.7	335.3	–/–	476.0
2001	136.1	293.2	49.8	479.1
2002	132.7	–/–	–/–	132.7
2003	22.1	–/–	–/–	22.1
2004	33.2	–/–	–/–	33.2
Total	**464.8**	**628.5**	**49.8**	**1,143.1**

In CHF m as at March 31

The Baloise's distribution policy and details of all distributions and capital operations in favor of shareholders since 1997 are published on the Internet.

■ www.baloise.com → Investor Relations → Shares

Bâloise-Holding capital and reserves

Bâloise-Holding's share capital stands at CHF 5.5 million, a figure that has not changed in the last three financial years. The table below illustrates the changes in Bâloise-Holding's capital and reserves over that period.

Changes in Bâloise-Holding capital and reserves (before appropriation of profit)

	Financial year 2002/2003	Financial year 2003/2004	**Financial year 2004/2005**
Share capital	5.5	5.5	5.5
General reserve	11.7	11.7	11.7
Reserve for own shares	20.0	14.0	16.7
Free reserve	509.5	515.5	520.8
Accumulated profit	22.8	41.9	125.0
Bâloise-Holding capital and reserves	569.5	588.6	679.7

In CHF m as at March 31

Bâloise Holding's share capital is divided into 55,307,150 registered shares entitled to dividends with a nominal value of CHF 0.10 each. Further information on Baloise shares can be found in the section on "Shareholder's participation rights."

■ Shareholders' participation rights, page 47

Authorized and conditional capital, other financial instruments

Authorized capital

Bâloise-Holding does not have any authorized capital.

Conditional capital

Bâloise-Holding has a conditional capital of a maximum of 10%. This capital can be used to increase the share capital by a maximum of 5,530,715 registered shares with a nominal value of CHF –.10 each, corresponding to a maximum nominal increase in share capital of CHF 553,072. The conditional capital was newly created at the 2004 Annual General Meeting (Articles of Incorporation, Art.3).

It serves to safeguard any warrants or conversion rights granted in connection with bonds or other similar instruments. No such financial instruments have been issued to date.

Shareholders subscription rights shall be waived. The holders of the warrants or conversion rights, as the case may be, are entitled to subscribe the new registered shares. In connection with the issue of warrants and convertible bonds on the international capital markets, shareholders' preferential subscription rights may be restricted or waived by a resolution of the Board of Directors. Further details of the conditional capital can be found in Article 3 of the Articles of Incorporation of Bâloise-Holding.

■ www.baloise.com → Profile → Corporate Governance → Rules and Regulations

Other financial instruments

There are likewise no participation certificates, dividend rights certificates or convertible bonds relating to participation rights of the company or options issued by the latter.

Consolidated capital and reserves of the Baloise

On December 31, 2004, the consolidated capital and reserves of the Baloise Group came to CHF 3,482.5 million, representing a 4.9% increase compared with the previous year.

Details of the changes in 2004 and 2003 are shown in the statements of changes in consolidated capital and reserves on pages 74/75 of the consolidated financial statements in the present Report. For the 2002 financial year, full details can be found in the statement of changes to consolidated capital and reserves on page 56 of the 2002 Annual Report.

Outstanding bonds

Bâloise-Holding and other companies in the Group have issued bonds on public markets. At year-end 2004 a total of six public bond issues by Bâloise-Holding and other companies in the Group were outstanding. Details of the outstanding bonds can be found in the Notes to the Financial Statements from page 104 and on the Internet.

■ www.baloise.com → Investor Relations → Bonds

3. Board of Directors

Members of the Board of Directors

Name	Nationality	Age	Board member since	Expiry of term of office
Rolf Schäuble, Chairman	CH	61	1993	2005
Georg F. Krayer, Vice-Chairman	CH	62	1995	2007
Christoph J.C. Albrecht	CH	67	1985	2006
Andreas Burckhardt	CH	54	1999	2006
Hansjörg Frei	CH	63	2004	2007
Gertrud Höhler	D	64	1998	2007
Klaus Jenny	CH	63	2003	2006
Werner Kummer	CH	58	2000	2007
Arend Oetker	D	66	1996	2005
Eveline Saupper	CH	47	1999	2005

Only the Chairman of the Board of Directors has an executive function. All other Members of the Board of Directors are independent, nonexecutive Members. None of them held executive responsibilities at any Group company in the past three financial years and none of them has any other substantive business relationships with the Group.

In the year under review, Gertrud Höhler, Georg F. Krayer and Werner Kummer were confirmed in office for another three years. Hansjörg Frei, a proven insurance specialist, was elected as a new Member of the Board, with a three-year term of office. Pursuant to the provisions of the regulations, Walter G. Frehner stepped down from the Board, having latterly been Vice-Chairman of the Board, Chairman of the Audit Committee and Vice-Chairman of the Compensation Committee. Dietrich J.J. Forcart, a long-serving Member of the Board, died suddenly and unexpectedly in 2004. Prof. Jean-Marc Rapp resigned from the Board of Directors, taking the number of Members down from 12 to 10. Georg F. Krayer took over as Vice-Chairman of the Board, while Hansjörg Frei acquired a seat on the Chairman's Committee and the Audit Committee. Werner Kummer took on the chairmanship of the Audit Committee, and Klaus Jenny was made Vice-Chairman of the Compensation Committee. Andreas Burckhardt was newly appointed to the Audit Committee and Eveline Saupper to the Compensation Committee.

Rolf Schäuble (born 1944, CH, Dr. oec. University of St. Gallen) has been a Member of the Board of Directors since 1993 and Chairman since 1994. From 1996 to February 28, 2002, he was also Managing Director and CEO. He graduated in economics and obtained a doctorate from the University of St. Gallen. From 1975 to 1993, Rolf Schäuble held various positions at the Zurich Insurance Group, Zurich, culminating in a seat on the Corporate Executive Board.

Georg F. Krayer (born 1943, CH, Dr. iur.) has been a Member of the Board of Directors since 1995 and Vice-Chairman since 2004. He has a PhD in law. He is Chairman of the Board of Directors of Bank Sarasin & Cie AG, Basel, a Member of the Board of Directors of Pirelli SpA, Milan, and was Chairman of the Swiss Bankers Association until 2003. He is an independent, nonexecutive director.

Christoph J.C. Albrecht (born 1938, CH, Dr. iur.) has been a Member of the Board of Directors since 1985. He graduated from the University of Basel with a PhD in law. Today he works as an attorney at law and notary with Joerin Hopf, Basel. Christoph J.C. Albrecht is Chairman of the Board of Directors of Thüring AG, Basel, and sole Member of the Board of Directors of Interhaba AG, Basel. He is an independent, nonexecutive director.

Andreas Burckhardt (born 1951, CH, Dr. iur.) has been a Member of the Board of Directors since 1999. He studied law at the Universities of Basel and Geneva and obtained a PhD. From 1982 to 1987 he worked for the Fides Treuhandgesellschaft and was General Secretary of the Baloise Group. He has been Director of the Chamber of Commerce of both Basel-Landschaft and Basel-Stadt since 1994. Andreas Burckhardt is an independent, nonexecutive director.

Hansjörg Frei (born 1941, CH, Dr. iur.) has been a Member of the Board of Directors since 2004. He graduated from the University of Zurich with a Ph.D. in law, and worked for the insurance company Winterthur from 1982 to 2000, latterly as Corporate Executive Board Member responsible for Swiss operations. From 2000 until his retirement in mid-2003 he was on the Executive Board of Credit Suisse Financial Services as Head International Country Management. From 2000 to 2003 he also served as Chairman of the Swiss Insurance Association (SVV). Hansjörg Frei is a Member of the Board of Directors of EMS-Chemie Holding AG. He is an independent, nonexecutive director.

Gertrud Höhler (born 1941, D, Dr. phil.) has been a Member of the Board of Directors since 1998. She is an economic and political consultant, and was a professor of literature and German studies at the University of Paderborn from 1976 to 1993. She studied literature and history of art in

Bonn, Berlin, Zurich and Mannheim. From 1987 to 1990 Gertrud Höhler was a PR consultant for Deutsche Bank AG, and from 1992 to 1995 a nonexecutive director of Grand Metropolitan PLC, London. She is a Member of the Board of Directors of Ciba Specialty Chemicals Inc, Basel, and of Georg Fischer AG, Schaffhausen. Gertrud Höhler is an independent, nonexecutive director.

Klaus Jenny (born 1942, CH, Dr. oec. University of St. Gallen) has been a Member of the Board of Directors since 2003. He graduated with a PhD in economics from the University of St. Gallen. From 1987 Klaus Jenny was a Member of the Executive Board of Credit Suisse (later the Credit Suisse Group), Before leaving the Credit Suisse Group, he was CEO of the Credit Suisse Private Banking Business Unit. Since 1999 he is independent financial advisor to companies and private individuals. He is also a Member of the Board of Directors of Maus Frères SA and of various other nonlisted companies. Klaus Jenny is an independent, nonexecutive director.

Werner Kummer (born 1947, CH, Dipl. Ing. ETH, MBA Insead) has been a Member of the Board of Directors since 2000. From 1990 to 1994 he was CEO of Schindler Elevator Limited and then until 1998 a Member of the Executive Committee of the Schindler Group, responsible for the Asia Pacific region. From 1998 to March 2004 he was CEO of Forbo Holding AG. Werner Kummer is an independent business consultant and Member of the Board of Directors of WMH Walter Meier Holding AG and a Member of the Board of the Zurich Chamber of Commerce. He is an independent, nonexecutive director.

Arend Oetker (1939, D, Dr. rer. pol.) has been a Member of the Board of Directors since 1996. He studied business management and political science at the Universities of Hamburg, Berlin and Cologne, obtaining a PhD in political science from the University of Cologne. He is Executive Partner of Dr. Arend Oetker GmbH & Co., Berlin. Arend Oetker is Chairman of the Supervisory Board of Schwartauer Werke GmbH & Co. KGaA, Bad Schwartau, Chairman of the Board of Directors of Hero AG, Lenzburg, Member of the Supervisory Board of Degussa AG, Düsseldorf, Member of the Supervisory Board and Board of Partners of Merck KGaA, Darmstadt, and Deputy Chairman of the Supervisory Board of KWS Saat AG, Einbeck. He is an independent, non-executive director.

Eveline Saupper (born 1958, CH, Dr. iur.) has been a Member of the Board of Directors since 1999. She studied law at the University of St. Gallen, where she obtained her PhD. She is an attorney at law and a certified Swiss federal tax expert. From 1983 to 1985 she worked for Peat Marwick Mitchell (today KPMG Fides), Zurich, and from 1985 to 1992 for Baker & McKenzie, Zurich and Chicago. In 1992 she joined the firm Homburger Attorneys, Zurich, where she is a partner. Eveline Saupper is Chairman of the Board of Directors of BZ Bank AG, Freienbach, and Member of the Board of Directors of Intershop Holding AG, Winterthur. She is an independent, nonexecutive director.

Further information about the Members of the Board of Directors can be found on the Internet.

■ www.baloise.com → Profile → Organization → Board of Directors

Cross-involvements

There are no cross-involvements.

Elections and terms of office

As at year-end 2004 the Board of Directors consisted of 10 Members, who are elected by the General Meeting for a term of three years. Each year, one third of the Members leave unless reelected (staggered renewal). Under an age restriction, Board mandates end at the latest at the AGM that follows the Member's 70th birthday. The average age is currently around 60. Each Member of the Board of Directors is elected – and, at the shareholders' request, granted discharge – individually.

Internal organization

Functions of the Board of Directors

Subject to the decision-making powers of the shareholders at the General Meeting, the Board of Directors is the highest decision-making body of the company. In principle, unless the organizational regulations delegate powers to the Chairman of the Board of Directors, the committees or the Corporate Executive Committee, decisions are taken by the Board of Directors.

Under Art. 716a of the Swiss Code of Obligations and Section 1 II of the organizational regulations, the main tasks of the Board of Directors are to oversee, supervize and financially oversee the operations of the company and determine how it is organized.

■ www.baloise.com → Profile → Corporate Governance → Rules and Regulations

Committees of the Board of Directors

The Board of Directors has four committees to assist it in its work. The committees report to the Board of Directors and submit the necessary proposals for their area of responsibility. The Compensation Committee in particular has its own decision-making powers.

■ Board of Directors and Management Structure, page 50

Committees of the Board of Directors

Name	Chairman's Committee	Audit Committee	Compensation Committee	Investment Committee
Rolf Schäuble	C			C
Georg F. Krayer	VC		C	VC
Christoph J.C. Albrecht		VC		
Andreas Burckhardt		M		
Hansjörg Frei	M	M		M
Gertrud Höhler			M	
Klaus Jenny	M		VC	M
Werner Kummer		C		
Arend Oetker				
Eveline Saupper			M	

C: Chairman; VC: Vice-Chairman; M: Member

The committees appointed by the Board of Directors each consist of four Members, reelected annually by the Board of Directors. Further points to bear in mind are that the Chairman and Vice-Chairman of the Board of Directors are ex officio Members of the Chairman's Committee and that the Chairman of the Board of Directors cannot be a Member of the Audit Committee. The committees' basic tasks are defined by the organizational regulations and the written regulations applicable to the committees.

■ www.baloise.com → Profile → Corporate Governance → Rules and Regulations

The **Chairman's Committee** is responsible for deliberating on particularly important business, especially in connection with major decisions on strategy or personnel. The Chairman's Committee also functions as the Nomination Committee. The Members of the Chairman's Committee also meet as the **Investment Committee** to approve the Group's investment policy and investments in real estate for the Group's own use at Head Office.

The **Compensation Committee** determines the structure and amount of compensation for Board Members and the salaries of the Members of the Corporate Executive Committee. In the incentive plan, it defines the overriding Group objectives and their attainment, and it approves the rules governing compensation for Corporate Executive Committee Members and monitors their correct application.

The **Audit Committee** assists the Board of Directors in tasks that cannot be delegated relating to supervision and financial monitoring (Art. 716a Swiss Code of Obligations) by forming its own judgment on the organization and functioning of the internal and external monitoring systems and on the annual and consolidated financial statements. The Audit Committee assesses the functioning of the internal monitoring system for risk management and reviews the state of compliance. The Audit Committee discussed the Group financial statements for the 2004 financial year with the management and the external auditors. As a result, the Audit Committee recommended that these audited annual statements be incorporated into the Group's Annual Report for the financial year ended on December 31, 2004, that is to be presented to the General Meeting. The Board of Directors accepted this recommendation.

Meetings of the Board of Directors and the committees

In accordance with the organizational regulations, the full Board of Directors meets as often as business requires, but at least four times a year.

■ www.baloise.com → Profile → Corporate Governance → Rules and Regulations

In 2004, the full Board of Directors met six times. Members' attendance at the meetings has been excellent, standing at 95.8% in 2003 and 97.0% in 2004.

■ www.baloise.com → Profile → Corporate Governance → Board and Management/Board Attendance

In 2004 – as in every year – a seminar was held for the Members of the Board of Directors. The subject this year was "Regulatory issues" with the focus on legal and regulatory requirements.

The Board of Directors then went on to devote one meeting primarily to corporate strategy.

The Chairman's Committee met six times last year, the Investment Committee twice. The Audit Committee held four sessions and the Compensation Committee three.

Meetings of the Board of Directors as a whole are regularly attended by Members of the Corporate Executive Committee, whereas meetings of the Audit Committee are mainly attended by the President of the Corporate Executive Committee, the Chief Financial Officer, the Head of Internal Audit and representatives of the external auditors.

Division of powers and duties between the Board of Directors and the Corporate Executive Committee

The division of powers and duties between the Board of Directors and the Corporate Executive Committee is laid down primarily in the organizational and investment regulations.

Both documents are continuously reviewed to ensure that they are appropriate and if need be are adjusted to changes in circumstances. The organizational regulations were revised in 2002 and the investment regulations in 2003.

■ www.baloise.com → Profile → Corporate Governance → Rules and Regulations

Auditing and monitoring the Corporate Executive Committee

The ten internal Group auditors report directly to the Chairman of the Board. Their specialist knowledge covers the fields of underwriting, mathematics, finance and IT.

Furthermore, the significance of a well-functioning risk management at an insurance group cannot be emphasized enough, which is why this Report devotes a separate chapter to the risk management at the Baloise (pages 38/39).

4. Corporate Executive Committee

The management structure of the Baloise Group can be found on page 51.

Changes on the Corporate Executive Committee

Wolfgang Drunk stepped down from the Corporate Executive Committee on August 31, 2004. German Egloff was appointed Chief Financial Officer on December 1, 2004. Martin Wenk, Chief Investment Officer, served as Acting Head of the Finance Division during the transitional period.

Frank Schnewlin (born 1951, CH, Dr. ès. sc. écon., Master of Science LSE, MBA Harvard) studied business management at the University of St. Gallen and graduated with a degree in economics (lic. oec. HSG), majoring in insurance and risk management. After gaining an M.Sc. at the London School of Economics, he took an MBA at Harvard Business School in Boston. While a Research Fellow of the Harvard Business School, Frank Schnewlin obtained his doctorate in economics at the University of Lausanne. He worked at the Institut für Versicherungswirtschaft in St. Gallen and at Citibank N.A., New York. From 1983 to 2002, he was employed at Zurich Financial Services in various positions. In 1993 he was appointed a Member of the Group Management Board with responsibility for the Business Division Southern Europe, Asia/Pacific, Latin America, Middle East and Africa. From November 2000 he was Head of Corporate Center and a Member of the Executive Committee of the Group Management Board. Frank Schnewlin has been Chief Executive Officer of the Baloise Group since March 2002 and Head of the International Corporate Division. He is a Board Member of the Basel Chamber of Commerce and Industry.

Bruno Dallo (born 1957, CH, Dr. iur.) graduated from the University of Basel with a PhD in law. He is an attorney at law. After a period in various law offices and in the legal department of a major bank, he joined the Baloise Group in 1986. From 1994 to 2001 he was General Counsel (Legal and Taxes); from 1999 to 2001 he was also Secretary to the Board of Directors. He was in charge of various merger and acquisition projects. He has been a Member of the Corporate Executive Committee since 2001, responsible for corporate development, human resources, legal, tax, compliance and run off. Bruno Dallo is Chairman of the Board of Trustees of the Baloise occupational benefits foundation. Furthermore, he is a Member of the Basel-Stadt tax appeals committee and the tax and finance committee of the Basel Chamber of Commerce as well as a Member of the Board of Trustees of the “Finanzplatz Basel” Foundation.

German Egloff (born 1958, CH, lic. oec. HSG) studied economics at the University of St. Gallen, before joining Winterthur Insurance, Switzerland, in 1985 where he held a variety of management positions. As Head of Management Support from 1990 to 1995 he was responsible, among other things, for developing a management information system. In 1997 he became a Member of the Executive Board in charge of Swiss personal line insurance, which also involved managing Wincare and Sancare, the latter as Chairman of the Board of Directors. Between 1998 and 2002 German Egloff was Chief Financial Officer at Winterthur Insurance, Switzerland, and a Member of the Wincare Board of Directors, becoming its Chairman in 2000. From 2002 to 2004 he was Chief Financial Officer at Zurich Financial Services, Switzerland, his remit including Finance, Human Resources, IT and Logistics and Procurement. German Egloff became a Member of the Corporate Executive Committee (Head of Corporate Finance) on December 1, 2004, and is responsible for financial relations, financial management and financial accounting.

Martin Strobel (born 1966, G, Dr. rer. pol.) studied computer science, business management and business systems at the Universities of Kaiserslautern, Windsor (Canada) and Bamberg, where he obtained his PhD. From 1993 to 1999 he worked for the Boston Consulting Group, Düsseldorf, in different positions dealing with questions of strategic IT management in the banking and insurance sectors. He joined the Baloise Group at the beginning of 1999. He was Head of IT at Baloise Switzerland and responsible for large interdivisional projects in the fields of insurance and finance. Since 2003, he has been a Member of the Corporate Executive Committee (Head of Corporate Division Switzerland), responsible for the core Swiss business. Martin Strobel is a Member of the Board of the Swiss Insurance Association (ASA/SVV) and a Member of the Board of Directors of Prevo-System AG, Basel.

Martin Wenk (born 1957, CH) graduated in law from the University of Basel, before working for a large bank in different positions between 1982 and 1992. After initially working as an investment advisor to institutional clients, he went on to head a Private Banking group in New York and then became a sector head in securities sales, attending primarily to the needs of major institutionals. During this period, he completed further training courses in Switzerland and the USA. From 1992 to 2000 he headed Portfolio Management Switzerland at the Baloise Group, with responsibility for managing the assets of various Baloise Group companies in Switzerland and abroad, including pension funds. In 2001 he was appointed a Member of the Corporate Executive Committee, responsible for Corporate Asset Management comprising the units Baloise Asset Management, Real Estate and Mortgages, and Baloise Fund Invest. Martin Wenk is a Member of the Board of Directors of Unigestion Holding, Geneva and of HW Finanz AG, Pratteln.

Further information about the Members of the Corporate Executive Committee and about other activities and interests can be found on the Internet.

With the exception of Martin Strobel and Martin Wenk, none of the Members of the Corporate Executive Committee holds a seat on the board of any company outside the Baloise Group.

There are no management agreements in which management functions are transferred to third parties.

- www.baloise.com → Profile → Organization → Corporate Executive Committee

5. Compensation, shareholdings, loans

The compensation for the entire operational management consists of a basic salary and an incentive dependent on achieving corporate targets on the one hand and individual targets on the other.

This section is subdivided into three parts:

- Members of the Board of Directors other than the Chairman,
- the Chairman of the Board of Directors and
- the Corporate Executive Committee.

To facilitate assessment of the Baloise's compensation policy, the focus is on gross compensation figures, rather than on tax figures.

Members of the Board of Directors

With the exception of the Chairman, the Members of the Board of Directors receive flat-rate compensation in cash, which is determined by the Compensation Committee of the Board of Directors.

The 2004 figures, required to be published by the guidelines, are as follows for the nine nonexecutive Members of the Board of Directors:

Compensation during the year under review

Cash compensation	CHF 1,430,000
Allocation in the form of shares	0
Allocation in the form of options	0

Ownership of shares and options

Share ownership	59,520 registered shares

Loans granted by governing bodies[1]

Mortgages and policy loans	CHF 650,000 (1 person)

[1] Mortgage loans are granted at conditions that apply to employees (1% below the interest rate paid by customers for variable-rate mortgages). There are no outstanding loans against insurance policies.

The Chairman of the Board of Directors and the Corporate Executive Committee

The nature and amount of the compensation paid to the Chairman of the Board of Directors and the Members of the Corporate Executive Committee is also determined by the Compensation Committee of the Board of Directors. It consists of a basic salary and an incentive, dependent on achieving corporate targets on the one hand and individual targets on the other, up to a maximum amount equal to two-thirds of the basic salary. 50% of the incentive must be taken in the form of shares or options. The corporate objectives for the coming year are determined in a multistage process and approved by the Compensation Committee at the end of each year. Individual objectives are directly related to the respective responsibilities of each Member of the Corporate Executive Committee; they are set in consultation with the superior and approved by the Compensation Committee.

All persons entitled to an incentive can choose between two types of share allocation. Shares can either be allocated directly at a preferential price (a subscription price which is always 10% below the market quotation at that time), or can be linked to a loan to maximize the impact of the shares allocated (leverage effect). The loan repayment after a three-year blocking period is hedged with a put option financed by the sale of a corresponding call option. After expiry of the blocking period, employees receive the shares remaining after repayment of the loan for their free disposal.

No options plan is currently in place.

Chairman of the Board of Directors
Rolf Schäuble

Compensation during the year under review

Cash compensation	CHF 1,840,436
Allocation in the form of shares	CHF 451,694
Allocation in the form of options	0
Additional fees and payments	0
Highest total compensation	CHF 2,292,130

Ownership of shares and options

Share ownership	30,566 registered shares

Loans granted by governing bodies[1]

Mortgages and policy loans	CHF 500,000

[1] Mortgage loans are granted at conditions that apply to employees (1% below the interest rate paid by customers for variable-rate mortgages). There are no outstanding loans against insurance policies.

Members of the Corporate Executive Committee

The Corporate Executive Committee consists of five Members. Wolfgang Drunk stepped down from his position as Chief Financial Officer on August 31, 2004, and was succeeded by German Egloff on December 1, 2004. No severance payments were made during 2004, even accounting for Wolfgang Drunk, whose salary is included in the total compensation for the Corporate Executive Committee. However, he will receive a severance package in 2005, the amount of which will partly depend on the achievement of Group objectives in 2004. It will be disclosed in the 2005 Annual Report under the heading of "compensation for former Members of governing bodies."

Compensation during the year under review

Cash compensation	CHF 3,860,273
Allocation in the form of shares	CHF 1,427,440
Allocation in the form of options	0
Additional fees and payments	0
Total compensation	CHF 5,287,713

Ownership of shares and options

Share ownership	223,880 registered shares

Loans granted by governing bodies[1]

Mortgages and policy loans	CHF 1,581,200 (2 persons)

[1] Mortgage loans are granted at conditions that apply to employees (1% below the interest rate paid by customers for variable-rate mortgages). There are no outstanding loans against insurance policies.

6. Shareholders' participation rights

Voting rights

The share capital of the Baloise consists exclusively of registered shares. There are no shares with preferential voting rights. In order to ensure broad-based shareholding and to protect minority shareholders, no shareholder, regardless of the size of holding involved, is registered with more than two percent of voting rights. The Board of Directors may approve exceptions to this rule by a majority of two thirds of all Members (Articles of Incorporation, Art. 5). There are no exceptions.

Each share gives the right to one vote. In exercising voting rights, no shareholder may hold more than one-fifth of the shares entitled to vote at the Annual General Meeting either directly or indirectly based on a combination of his own votes and proxy votes (Articles of Incorporation, Art. 16). Any shareholder may transfer his/her voting rights to another shareholder by written power of attorney (Articles of Incorporation, Art.16).

■ www.baloise.com → Profile → Corporate Governance → Rules and Regulations

Statutory quorums

The Annual General Meeting constitutes a quorum regardless of the number of shareholders and represented votes attending the Meeting (Articles of Incorporation, Art. 17).

■ www.baloise.com → Profile → Corporate Governance → Rules and Regulations

Any annulment of restrictions on voting rights imposed by the Articles of Incorporation will require the agreement of at least three quarters of the votes represented at the Annual General Meeting which must also account for at least one-third of the total shares issued by the company. This qualified majority is also required in the cases envisaged in Art. 17 (3) a–h of the Articles of Incorporation. Otherwise, unless there are compelling statutory requirements to the contrary, resolutions will be adopted by a simple majority of votes cast (Articles of Incorporation, Art. 17).

■ www.baloise.com → Profile → Corporate Governance → Rules and Regulations

Convening the Annual General Meeting

As a rule, the Annual General Meeting takes place in May, but no later than six months after the end of the financial year. Bâloise-Holding's financial year ends on March 31. Notice of the convening of the Annual General Meeting must be given at least 20 days before the appointed date. Each registered shareholder receives a personal invitation that includes an agenda for the Meeting. Invitation and agenda are also published in the Swiss Commercial Gazette (Schweizerisches Handelsamtsblatt), in various newspapers and on the Internet. Extraordinary General Meetings may be convened by decision of the Annual General Meeting, the Board of Directors or the external auditors. Furthermore, in accordance with the statutory provisions, the Board of Directors has to convene an extraordinary General Meeting if requested to do so by shareholders (Articles of Incorporation, Art. 11). According to Article 699 (3) of the Swiss Code of Obligations, the request must represent at least 10% of the company's share capital.

■ www.baloise.com → Profile → Corporate Governance → Rules and Regulations

Including items on the agenda

Shareholders' requests pursuant to Article 699 (3) of the Swiss Code of Obligations for the inclusion of items on the agenda for discussion may be submitted by one or more shareholders representing at least 10 percent of the share capital or shares with a nominal value of at least CHF 100,000. Such requests must be submitted to the Board of Directors in writing at least six weeks ahead of the ordinary General Meeting specifying the proposals (Articles of Incorporation, Art.14).

■ www.baloise.com → Profile → Corporate Governance → Rules and Regulations

Registration of shares

The shareholders entitled to vote at the Annual General Meeting will be those who on the reference date specified in the invitation from the Board of Directors (a date a few days ahead of the General Meeting) are entered in the share register as shareholders with voting rights (Articles of Incorporation, Art. 16).

■ www.baloise.com → Profile → Corporate Governance → Rules and Regulations

The admissibility of nominee registrations is dealt with in Article 5 of the Articles of Incorporation (reference being made to any percentage clauses or conditions of registration). The procedures and preconditions for cancelling or restricting transferability are determined by the provisions in Articles 5 and 17 of the Articles of Incorporation.

■ www.baloise.com → Profile → Corporate Governance → Rules and Regulations

7. Change of control and countermeasures

Shareholders, whether acting alone or as a group by agreement, that acquire 33 1/3% of all Baloise shares are obliged to submit a take-over bid to all remaining shareholders. The Baloise has never made use of the possibility to deviate from or waive this regulation. The Articles of Incorporation contain neither an opt-out nor an opt-in clause as defined in the Federal Act on the stock exchanges and share trading (Stock Exchange Law).

Agreements also exist with the Members of the Corporate Executive Committee and other Members of senior management, whereby severance compensation payments will be triggered in the event of notice being given by the employer (or, under certain conditions, by the employee) within a certain period of time following the change of control. The amount of these payments is within the usual market framework.

8. Statutory auditors

PricewaterhouseCoopers (PwC) and its predecessor, Schweizerische Treuhandgesellschaft / STG-Coopers & Lybrand, have been the statutory auditors of the Baloise since 1962. The statutory auditors are chosen by the General Meeting each year. The lead auditor, Mr. Peter Lüssi, who assumed this office in 2002, has worked on the Baloise audit since 1999.

The following fees were charged by Pricewaterhouse Coopers in the year under review. Following a tender offer in 2004, PwC was appointed external auditor to all Group companies, which is why the fee levels have risen correspondingly. This move has already been largely implemented and will be completed in 2005.

PricewaterhouseCoopers fees	2003	**2004**
Auditors' fees	1,469,000	3,278,000
Fee for audit-related activity	358,573	499,000
Consultancy fee	552,302	1,017,000
Total	2,379,875	4,794,000

in CHF

The Baloise has an Audit Committee made up of independent Members qualified in the fields of finance and accounting. The Audit Committee met four times in the year under review, all four times with the external auditors.

The Audit Committee monitors the coordination between Internal Audit, Risk Management, and Compliance and the external auditors. The Audit Committee discusses with the external auditors the audit work performed by them and the reports drawn up by them, as well as the most important results and issues arising from the audit. Prior to the annual audit, the Audit Committee reviews the scope of the audit and suggests areas which require particular attention.

The Audit Committee then verifies the independence of the external auditors. It makes recommendations to the Board of Directors regarding the external auditors to be elected by the General Meeting and regarding such auditors' remuneration. The Audit Committee reviews the fees paid to the external auditors on an annual basis.

The Audit Committee reviews the benefits of any nonaudit services provided by the external auditors. A written directive requires that any nonaudit services be preapproved by Internal Audit.

9. Information policy

Basic information principles

The Baloise Group provides information for shareholders, potential investors, employees, customers and the public on a comprehensive, open and regular basis.

All registered shareholders receive a copy of the annual and semiannual reports, comprising information on the course of business as well as the financial report. All publications are made available to all shareholders at the same time.

All investors are treated equally with respect to the timing and content of information. We use technologies such as webcasts and teleconferencing to make our financial analysts' meetings publicly accessible.

Information events

The Baloise provides detailed information on its business activities at

- Press conferences: The business results are presented at press conferences (annual and half-year media conferences), and goals, strategies and business activities explained.
- Financial analysts' meeting: Meetings with financial analysts are held for the publication of each annual and semiannual report, with parallel webcasts and teleconferencing. These events remain available on the Internet, where they can be downloaded at a later date.
- Annual General Meeting: The shareholders are informed about the course of business at the Annual General Meeting. Speeches held at the AGM are published on the Internet.
- Roadshows: Roadshows are regularly held at various financial centers.
- Individual meetings with analysts, investors and media professionals: An ongoing dialogue is maintained with analysts, investors and media professionals.

Information about Baloise shares

■ Information about Baloise shares can be found on page 54.

Financial calendar

Important dates for investors can be found on the Internet, where publication dates for the Annual and Semi-Annual Reports are featured. In connection with the Annual General Meeting, the calendar contains the date of and the invitation to the Annual General Meeting, the closing of shareholder registration, and, if applicable, the exdividend date.

■ www.baloise.com → Investor Relations → IR Agenda (not in EN)

Availability of documents

Shareholders can access media releases, disclosure reports, presentations, addresses and Annual and Semi-Annual Reports on the Internet. All documents can be obtained through Investor Relations (see below) or ordered on the Internet.

■ www.baloise.com → Investor Relations → Presentations and Speeches

Contacts

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E-mail: thomas.sieber@baloise.com

www.baloise.com

Organization
Board of Directors and management structure

Board of Directors

Members
Rolf Schäuble, Chairman, Lenzburg
Georg F. Krayer, Vice Chairman, Basel
Christoph J.C. Albrecht, Basel
Andreas Burckhardt, Basel
Hansjörg Frei, Mönchaltorf
Gertrud Höhler, Berlin
Klaus Jenny, Zurich
Werner Kummer, Küsnacht
Arend Oetker, Berlin
Eveline Saupper, Pfäffikon SZ

Secretary of the Board of Directors
Thomas Sieber, Rheinfelden

Internal audit

Erich Benischke, Basel

Auditors

PricewaterhouseCoopers AG, Basel

Board committees

Chairman's Committee
Rolf Schäuble, Chairman
Georg F. Krayer, Vice-Chairman
Hansjörg Frei
Klaus Jenny

Audit Committee
Werner Kummer, Chairman
Christoph J.C. Albrecht, Vice-Chairman
Andreas Burckhardt
Hansjörg Frei

Compensation Committee
Georg F. Krayer, Chairman
Klaus Jenny, Vice-Chairman
Gertrud Höhler
Eveline Saupper

Investment Committee
Rolf Schäuble, Chairman
Georg F. Krayer, Vice-Chairman
Hansjörg Frei
Klaus Jenny

Management structure on April 1, 2005

CEO
Frank Schnewlin*

Group / Regional Performance Management
Annemarie D'Hulster
Martin Kampik

Group Secretariat/ Corporate Communications
Thomas Kähr

Switzerland
Martin Strobel*

Private and Corporate Customers
Franz Josef Kaltenbach

Baloise Bank SoBa
Alois Müller

Sales Management
Daniel Fluri

Information Systems and Logistics
René Güttinger

Accounting/ Controlling
Urs Bienz

International
Frank Schnewlin*

Germany, Deutscher Ring
Wolfgang Fauter

Germany, Basler Securitas
Frank Grund

Belgium, Mercator
Jan De Meulder

Luxembourg, Bâloise
André Bredimus

Austria, Basler
Lothar Mayrhofer

Finance
German Egloff*

Financial Relations
Carsten Stolz

Financial Management
Stefan Nölker

Financial Accounting
Michael Müller

Asset Management
Martin Wenk*

Baloise Asset Management
Reto Diezi

Real Estate/ Mortgages
Urs Degen

Baloise Fund Invest
Robert Antonietti

Corporate Center
Bruno Dallo*

Corporate Development
Thomas Wodrich

Human Resources
Frank Sigl

Legal and Taxes
Thomas Sieber

Compliance
Peter Kalberer

Runoff
Bruno Rappo

* Member of the Corporate Executive Commitee

Baloise shares

Solid performance in peer comparison

2004 was a satisfactory year for investors, with Swiss Market Index performance up 3.7%. The insurance sector, on the other hand, was unable to satisfy investors' demands, trailing badly behind the rest of the market with a 2.5% drop in performance (SWX MS Insurance Price Index).

The second half of the year, which was dominated by the turmoil surrounding the Spitzer cases in the USA and the continuing decline in interest rates, was largely to blame for the poor showing of insurance stocks. Baloise shares closed the year at CHF 52.50, equivalent to a 1.7% price rise.

In the first two months of 2004 the insurance sector was able to continue its uninterrupted run of positive performance from the previous year. However, the terrorist attacks in Madrid subsequently brought rising prices to a crashing halt. The uncertainty triggered among investors in the wake of the attacks was reflected in the slump in insurance stocks. While Swiss insurance stocks had kept average performance in double figures up to the end of February, by the end of March share prices were almost back to their year-opening level. Even the Baloise shares were part of this trend and, after a 17.8% outperformance in the first two months of the year, were back to trading at CHF 53.10 at the end of the quarter – just above their year-opening level.

A slight rise in interest rates toward the end of the first semester helped the insurance sector to gain ground on the market as a whole, with Baloise shares also benefitting from this trend. The share price finally stood at CHF 54.40 at the end of the turbulent first half, representing an increase of 5.3%. It thus outperformed the sector by 2.5%. The Swiss Market Index closed the same period with performance up by 2.4%.

Bâloise-Holding, registered
Ticker symbol: Tk, B: BALN; R: BALZn
Nominal value: CHF 0.10
Security no.: 1.241.051
ISIN: CH0012410517
Listing: virt-x

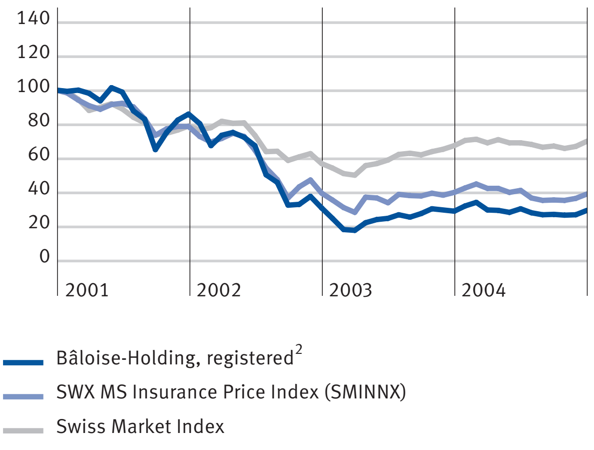
Developments in the second semester were much less spectacular. With a significant drop in volatility, insurance stocks lost more and more ground to the overall market. In that same period the performance of Swiss insurance stocks fell by 5.2% on average, considerably underperforming the market (SMI), which was up 1.3%. One of the most important factors to affect insurance share prices during the second half of the year was the Spitzer cases in the USA. The accusations of unfair practices and pocketing money from special reserves brought by the Attorney General not only hit the American insurance sector hard, it also impacted on European companies. Since the Baloise does not conduct business operations in the USA, it was able to once more assert itself against the rest of the sector during this phase.

But the Baloise share performance was also influenced by company-specific and regulatory factors in the last six months of the year. Aside from the announcement of the first-half figures, the sale of Mercator Bank in Belgium should be mentioned. The announcement by the Federal Council of its intention to fix the minimum rate of interest for occupational pensions at 2.5%, up again from its 2004 level of 2.25%, was met with dismay by the Swiss insurance sector. In particular, the industry criticized the lack of any real basis for this interest decision.

Over the year as a whole, the poor performance of the insurance sector compared to the SMI can be mainly attributed to the continuous drop in interest rates. While shares generally tend to profit from falling interest rates, very low bond yields have a negative impact on the profitability of insurers, all else being equal. At the end of 2004 10-year federal government bonds were yielding 2.3%, close to their prior-year low. Baloise shares, up 1.7% in a sector comparison, held their own against the SWX MS Insurance Price Index, which fell by 2.5%.

Baloise shareholdings remain broadly spread. No single shareholder owns more than 5% of the capital shareholdings. The Baloise share's free float stands at 100%. The number of registered shareholders rose by 8.1% year-on-year to 16,251.

Indexed share price development[1] Bâloise-Holding, registered, 2001–2004



In this year's Report, the Swiss Performance Inde Insurance (SXIS) has been replaced by the SMINNX. The time horizon has been reduced to 4 years, as the SMINNX was only created in 2000.

[1] December 29, 2000 = 100
[2] adjusted after 1:10 split of July 24, 2001

Significant shareholders at March 31, 2005

	Total holding	Share of voting rights
Chase Nominees	4.8	2.0
Investors Bank & Trust	2.6	0.0
UBS Group	2.5	2.0
Nortrust Nominees Ltd.	2.4	0.0
Mellon Bank N. A.	2.2	0.0
CS Group	2.1	1.6
Deutsche Bank Nominee	‹ 2.0	‹ 2.0
Fidelity Group	‹ 2.0	‹ 2.0
Rolex Group	‹ 2.0	‹ 2.0

in percent

Bonds issued

Issuer	CHF m	Interest rate	Issue	Redemption
Baloise Finance (Jersey) Ltd.	200	1.00%	1998	4.7.2006
Bâloise-Holding	300	3.25%	1998	4.7.2008
Bâloise-Holding	600	4.25%	2000	9.28.2005
Baloise Bank SoBa	175	3.625%	2002	6.12.2007
Bâloise-Holding	250	3.375%	2003	12.15.2009
Bâloise-Holding	250	2.375%	2004	12.20.2010

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Share statistics	2000 [5]	2001 [5]	2002	2003	**2004**
Net profit per share[1] in CHF	11.2	7.3	−11.6	1.7	4.0
Consolidated capital and reserves per share[2] in CHF	130.0	97.4	55.8	60.0	63.0
Dividend per share in CHF	2.4	2.4	0.4	0.6	1.1[4]
Total shares issued in units	56,704,000	55,307,150	55,307,150	55,307,150	55,307,150
Number of shares entitled to dividend in units	56,704,000	55,307,150	55,307,150	55,307,150	55,307,150
Time-weighted number of shares entitled to dividend in units	57,824,280	56,087,855	55,307,150	55,307,150	55,307,150
Daily volume traded shares in CHF m	24.5	15.4	21.4	23.6	24.2
Number of shareholders	8,988	9,725	11,974	15,027	16,251
Treasury stock in shares	830,000	560,000	702,540	414,303	411,992
Price at year-end in CHF	178.0	153.0	55.0	51.6	52.5
High in CHF	186.0	182.6	155.5	63.2	63.1
Low in CHF	123.4	110.0	46.3	25.45	45.75
Market capitalization in CHF m	10,093.3	8,461.9	3,041.9	2,856.6	2,903.6
Consolidated capital and reserves in CHF m	7,372.8	5,384.8	3,088.1	3,319.8	3,482.5
Ratio, market capitalization/ consolidated capital and reserves	1.37	1.57	0.99	0.86	0.83
Ratio, market capitalization/gross premium	1.51	1.28	0.42	0.39	0.41
Return on Equity (ROE)					
On capital and reserves as shown in the balance sheet[3] in percent	8.5	6.3	−15.0	2.9	6.5
Excl. unrealized gains and losses[3] in percent	19.0	10.5	−18.3	2.9	6.8
Dividend yield in percent	1.3	1.6	0.7	1.2	2.1[4]
Price-earnings ratio	15.9	20.1	n.s.[7]	30.9	13.1
Pay-out ratio in percent	29.5 [6]	32.8	n.s.[7]	36.3	27.4

All figures as per calendar year, at December 31. Figures rounded up/down; calculations based on precise figures.

[1] see Notes to the Consolidated Financial Statements, section 25
[2] number of shares ranking for dividend at December 31
[3] average of beginning and year-end values
[4] to be proposed to the Annual General Meeting
[5] adjusted due to share split
[6] additional free put options
[7] not significant

Sustainability

Sustainability at every level

Sustainability is reflected in many of our activities. Long-term action is at the heart of everything we do.

Sustainability for the future: recognizing risks

An in-house management training program at the Baloise resulted in the launch of a research project which enables major social risks to be identified based on the analysis of large amounts of social and environmental information. A method of systematically mapping the data thus acquired was also developed.

With the involvement of a number of reinsurance companies and experts from Federal agencies and Swiss universities, the information gathered was processed in such a way that allows the relevant trends to be identified. The results were presented at the first Emerging Risks Forum, organized by the Baloise, where they were elaborated on by expert speakers and discussed by the floor. The main topics focussed on were liability risk, climate change and gene technology.

Through this project and related activities, the Baloise has again made a contribution to establishing sustainable thinking and practices in business and society.

Sustainability in our core business: preventing claims through road safety training

Every driver wants to avoid traffic accidents. Together with our partner TCS, we are playing an active role in promoting road safety. By learning to increase their safety behind the wheel, customers can also influence the premiums they pay. And by taking part in a one-day training course recognized by the Swiss Road Safety Council, customers who have motor vehicle insurance with us can take a personal step towards reducing the likelihood of a claim. If they submit their course certificate, they will be credited with two premium levels for liability and collision cover insurance. Such credits can be granted once every five years per contract until the maximum bonus has been reached.

In conjunction with “Test & Training tcs,” the Baloise is also offering all its remaining customers the opportunity to attend a training course at a heavily discounted price. This represents a long-term success – for our customers, our partner TCS and everyone’s safety.

Career sustainability: Bal4Kids – the Baloise crèche

For more and more employees, combining career and family is an increasingly crucial issue. We aim to retain our first-rate executives and specialized staff when they start a family or have more children. For the past three years the Baloise has provided child-care facilities, built around the daily routine of children with working parents, at its Basel offices.

The individual needs of children ranging from 8-week-old babies to youngsters of official school-leaving age are taken care of from 7:00 a.m. to 6:00 p.m. For example, the children can be dropped off at kindergarten in the morning and picked up again at the end of the day. They have their midday meal together at the crèche and schoolchildren do their homework under supervision. Since school holidays often leave parents with child-care problems, the day nursery remains open for this period, too. A staff of 12 looks after the 53 children who currently attend. This service costs the parents 8–12% of their gross income, up to a maximum of CHF 2,000 per child per month. The Baloise is making a substantial financial contribution to the running of these child-care facilities.

The space occupied by the crèche was expanded in the summer of 2004, proving that this facility satisifies a continually growing demand, which we as a company actively support.

Further information about our sustainability activities on our website

- www.baloise.com → Profile → Sustainability

Management information

The same consolidation rules are applied for the management information as for the segment reports. This means that, in line with IFRS requirements, group-internal transactions between the segments are not eliminated.

	Gross		Net	
Combined ratio: non-life	2003	**2004**	2003	**2004**
Loss ratio	67.3	63.0	71.2	66.0
Expense ratio	29.9	29.6	31.6	31.1
Surplus sharing ratio	0.4	0.4	0.4	0.4
Combined ratio	**97.6**	**93.0**	**103.2**	**97.5**

as a percentage of premiums earned

Combined ratio (gross): non-life,	Switzerland		Germany		Benelux		Other countries	
by geographical segment	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**
Loss ratio	71.3	68.5	64.9	57.5	67.1	64.4	53.8	61.2
Expense ratio	23.8	23.7	36.1	35.9	31.2	31.2	18.4	20.2
Surplus sharing ratio	0.8	0.9	0.1	0.1	0.0	0.0	0.2	0.2
Combined ratio	**95.9**	**93.1**	**101.1**	**93.5**	**98.3**	**95.6**	**72.4**	**81.6**

as a percentage of premiums earned

Reserve ratio: non-life	2003	**2004**
Technical provision for own account	5,097.6	5,204.9
Premiums written and policy fees for own account	2,873.4	2,897.8
Reserve ratio in percent	**177.4**	**179.6**

in CHF m

Technical income statement

	Non-life		Life	
Gross	2003	**2004**	2003	**2004**
Gross premiums written and policy fees	3,088.8	3,081.4	4,301.1	3,956.4
Change in unearned premiums reserves	–4.0	–4.5	–/–	–/–
Premiums earned and policy fees	3,084.8	3,076.9	4,301.1	3,956.4
Claims and benefits paid	–1,969.2	–1,527.8	–3,600.1	–3,999.3
Change in loss reserves/actuarial reserve	–108.4	–409.2	–1,096.6	–292.3
Claims and benefits paid	–2,077.6	–1,937.0	–4,696.7	–4,291.6
Policyholder bonuses paid	–12.7	–12.9	–428.1	–476.1
Technical costs	–921.8	–910.6	–301.6	–481.2
Total underwriting result (gross)	**72.7**	**216.4**	**–1,125.3**	**–1,292.5**
Reinsurance ceded				
Premiums earned and policy fees	–218.6	–183.3	–53.0	–61.3
Claims and benefits paid	38.5	30.5	49.0	49.9
Policyholder bonuses paid	0.3	–/–	–/–	–/–
Technical costs	15.7	9.5	4.3	6.6
Total underwriting result of business ceded	**–164.1**	**–143.3**	**0.3**	**–4.8**
Net				
Premiums earned and policy fees	2,866.2	2,893.6	4,248.1	3,895.1
Claims and benefits paid	–2,039.1	–1,906.5	–4,647.7	–4,241.7
Policyholder bonuses paid	–12.4	–12.9	–428.1	–476.1
Technical costs	–906.1	–901.1	–297.3	–474.6
Total underwriting result for own account	**–91.4**	**73.1**	**–1,125.0**	**–1,297.3**
Investment income (gross)	262.8	265.1	1,492.8	1,364.2
Realized gains and losses on investments (net)[1]	–43.0	–50.2	–66.5	199.2
Investment expenses	–20.6	–17.3	–54.9	–58.2
Other nontechnical income and expenses	–16.0	–26.1	–170.6	–144.3
Investment result	**183.2**	**171.5**	**1,200.8**	**1,360.9**
Annual profit before tax and minority interests	**91.8**	**244.6**	**75.8**	**63.6**
Tax on income	–43.3	–60.5	–41.7	–9.3
Annual profit after tax and before minority interests	**48.5**	**184.1**	**34.1**	**54.3**
Minority interests	0.0	0.0	0.0	0.3
Annual net profit	**48.5**	**184.1**	**34.1**	**54.6**

in CHF m

[1] Including financial liabilities held for trading (derivative financial instruments)

The reported technical costs comprise costs arising from insurance operations which have been charged in the fiscal year, including the change in the figure for deferred acquisition costs. Claims-processing costs which relate to claims and benefits paid and to loss reserves are not included; neither are other costs of the Baloise Group (especially costs incurred by Asset Management).

Embedded value

The embedded value of the life insurance business consists of three elements: the adjusted net asset value of the life insurance activities, the value of insurance business in force and the cost of solvency capital. Embedded value does not take into account any new business that will be written in the future.

The adjusted net asset value is based on the market value of investments and the statutory value of liabilities from insurance operations. The unrealized gains and losses on investments (equities and properties), which can be subject to significant fluctuations, represent a significant part of the adjusted net asset value. For the life operations of Luxembourg, Austria and Croatia, the embedded value consists only of the shareholders' capital.

The value of insurance business in force corresponds to the earnings generated by the insurance portfolio in the future. These earnings are obtained by discounting expected future cash flows arising from the existing insurance contracts. A large number of assumptions need to be made to calculate this value, the most important of which are listed in the table below.

The cost of solvency is the charge for the cost of capital supporting the solvency requirements of the business.

Assumptions	2003	**2004**
Risk discount rate	7.6	7.6
Bond yield	3.5–3.9	2.8–3.4
Equity return	7.2	7.2
Property return	5.1	5.1
Tax rate	23.7	23.6

in percent

Embedded value	2003	2004
Embedded value at January 1	**1,630.8**	**1,980.2**
Of which value of insurance business in force	855.4	1,236.1
Of which adjusted net asset value	1,192.4	1,231.5[1]
Of which cost of solvency	–417.0	–487.4[1]
Operating income from insurance in force, adjusted net asset value and new business contribution	275.7	118.8
Economic changes, including changes in unrealized gains and losses on investments (equities and properties)	20.5	–5.2
Dividends and capital movements	26.8	46.6
Differences arising from exchange rates	26.4	–3.6
Embedded value at December 31	**1,980.2**	**2,136.8**
Of which value of insurance business in force	1,236.1	1,181.7
Of which adjusted net asset value	1,008.1	1,400.3
Of which cost of solvency	–264.0	–445.2

in CHF m, all figures "after tax"

[1] Unrealized capital gains allocated to Swiss group business are used to cover part of the solvency requirements. The presentation of this element under the legal quote has been changed to be consistent with other Swiss companies. This led to CHF 223.4 million being transferred from cost of solvency to adjusted net asset value.

Sensitivities	2003	2004
Base value in CHF m	1,980.2	2,136.8
+/– 1% change in risk discount rate	–7.2/+8.4	–6.9/+8.1
+/– 10% change in market value of equities	+4.3/–4.8	+4.9/–4.8
+/– 10% change in market value of property	+4.6/–7.6	+5.3/–5.3
+/– 0.5% change in new money rate	+17.5/–17.6	+7.8/–8.5

in percent

New business	2003	2004
Value new business in CHF m	15.5	15.2
APE[1] in CHF m	306.5	261.0
New business margin	5.0	5.8

in percent

[1] Annual Premium Equivalent = 100% regular premium of new business +10% single premium

External review: Deloitte have reviewed the choice of methodology together with the assumption and calculations made by Baloise Group in the calculation of the embedded value results of its Life Business at December 31, 2004. Deloitte have reported to Baloise that they consider that the methodology is appropriate, Baloise's assumptions are reasonable and that the embedded value results as published above have been properly compiled on the basis of methodology and assumptions chosen. For the purpose of this report, Deloitte have performed certain checks on data provided.

Investment performance in 2003

	Fixed-interest securities	Shares	Investment property	Mortgage loans, policy loans and other loans	Alternative financial assets, derivative financial instruments and other	Total
Current investment income	1,163.5	95.0	259.9	505.8	81.0	**2,105.2**
Realized gains	513.1	462.4	44.1	21.0	177.6	**1,218.2**
Realized losses	–60.8	–1,426.2	–28.3	–79.8	–267.1	**–1,862.2**
Change in unrealized gains and losses taken to capital and reserves	–307.3	642.4	–/–	–/–	180.2	**515.3**
Impairment in value charged to income (net)	10.0	607.6	–/–	18.4	–33.3	**602.7**
Investment management costs	–30.8	–8.7	–9.8	–10.2	–16.4	**–75.9**
Operating profit	**1,287.7**	**372.5**	**265.9**	**455.2**	**122.0**	**2,503.3**
Average level of investments	**26,389.8**	**4,642.6**	**5,510.4**	**12,398.7**	**5,127.9**	**54,069.4**
Performance in percent	**4.9**	**8.0**	**4.8**	**3.7**	**2.4**	**4.6**

in CHF m

Investment performance in 2004

	Fixed-interest securities	Shares	Investment property	Mortgage loans, policy loans and other loans	Alternative financial assets, derivative financial instruments and other	Total
Current investment income	1,051.3	80.8	262.7	440.3	48.7	**1,883.8**
Realized gains	189.1	407.0	45.0	25.7	188.6	**855.4**
Realized losses	–81.5	–261.5	–109.5	–89.7	–240.1	**–782.3**
Change in unrealized gains and losses taken to capital and reserves	85.3	4.9	–/–	–/–	168.3	**258.5**
Impairment in value charged to income (net)	–1.6	121.6	–/–	15.0	–19.7	**115.3**
Investment management costs	–27.7	–6.5	–12.0	–9.0	–20.6	**–75.8**
Operating profit	**1,214.9**	**346.3**	**186.2**	**382.3**	**125.2**	**2,254.9**
Average level of investments	**28,347.9**	**3,771.5**	**5,636.3**	**11,828.8**	**4,969.0**	**54,553.5**
Performance in percent	**4.3**	**9.2**	**3.3**	**3.2**	**2.5**	**4.1**

in CHF m

Results from banking business

Interest income	2003	2004
Due from banks	1.9	1.4
Loans to customers	261.6	208.8
Investments	138.5	78.4
Other	1.0	0.1
Total interest income	403.0	288.7
Interest payable		
Due to banks and customers	–107.9	–70.5
Medium-term fixed-rate notes, bonds and mortgage bonds	–99.5	–110.0
Other	–27.7	–32.4
Total interest payable	–235.1	–212.9
Net interest income	**167.9**	**75.8**
Result from commission business and services	19.2	29.0
Realized gains and losses on investments	27.5	49.6
Other income	8.3	2.1
Total income from banking business	**222.9**	**156.5**
Expenses related to banking business		
Staff costs	–93.9	–68.1
Operating expenses	–73.5	–48.7
Total expenses related to banking business	–167.4	–116.8
Gross profit	**55.5**	**39.7**
Losses and provisions relating to credit risks	–16.6	1.9
Revaluation, amortization and depreciation of intangible assets and tangible noncurrent assets	–9.6	–8.4
Annual profit before tax and minority interests	29.3	33.2
Tax on income	–15.0	–23.5
Minority interests	0.0	0.0
Annual net profit	**14.3**	**9.7**

in CHF m

Mercator Banque S.A. has been included in the banking business result up to August 2004, the date of its sale.

Assets under management	2003	2004
Own investments	56,307.7	52,799.3
Investments for account and risk of life insurance policyholders	798.2	1,143.6
Assets managed for third parties	8,445.2	7,331.9
Total	**65,551.1**	**61,274.8**

in CHF m

Other sales	2003	2004
Sales other than premium type, in particular sale of fund units for unit-linked life insurance	541.8	587.6

in CHF m

Five-year review

Consolidated income statement

Income

	Note	2000	2001	2002	2003	2004
Gross premiums written and policy fees[1]	6	6,701.2	6,632.7	7,274.5	7,374.7	7,022.1
Reinsurance premiums ceded	18	−230.8	−207.4	−203.6	−253.2	−229.3
Premiums written and policy fees for own account		6,470.4	6,425.3	7,070.9	7,121.5	6,792.8
Change in unearned premiums reserves for own account		14.3	8.1	−24.9	−6.8	−5.0
Premiums earned and policy fees for own account		6,484.7	6,433.4	7,046.0	7,114.7	6,787.8
Investment income (net)	7.1	2,154.4	2,081.2	2,024.1	2,029.3	1,808.0
Realized gains and losses on investments (net)[2]	7.3	826.7	149.4	−806.5	−41.3	188.4
Income from other services		265.5	271.8	249.4	254.7	254.6
Other income		108.7	154.1	183.7	147.2	107.2
Total income		**9,840.0**	**9,089.9**	**8,696.7**	**9,504.6**	**9,146.0**

Expenses

	Note	2000	2001	2002	2003	2004
Claims incurred including processing costs (non-life)	15	−1,727.9	−1,785.0	−1,920.8	−2,031.1	−1,899.5
Claims and benefits paid (life)		−2,756.5	−2,896.6	−2,946.5	−3,704.2	−3,916.4
Change in actuarial reserve (life)	16	−1,680.3	−1,449.4	−2,235.0	−952.2	−332.0
Surplus and profit allocations to policyholders	17	−870.9	−177.6	29.2	−440.5	−489.1
Acquisition costs	14	−311.3	−367.8	−461.7	−277.1	−488.0
Administrative and other operating expenses		−1,267.3	−1,238.6	−1,226.5	−1,318.4	−1,200.8
Interest payable	27	−380.0	−498.6	−464.9	−405.1	−392.1
Revaluation, amortization and depreciation of intangible assets and tangible noncurrent assets	12/13	−113.7	−153.3	−184.8	−152.3	−94.4
Total expenses		**−9,107.9**	**−8,566.9**	**−9,411.0**	**−9,280.9**	**−8,812.3**
Annual profit/loss before tax and minority interests		**732.1**	**523.0**	**−714.3**	**223.7**	**333.7**
Tax on income	21	−94.6	−116.9	82.7	−125.4	−99.0
Annual profit/loss after tax and before minority interests		**637.5**	**406.1**	**−631.6**	**98.3**	**234.7**
Minority interests	26	−3.1	−1.7	−2.9	−6.9	−13.0
Consolidated annual net profit/loss		**634.4**	**404.4**	**−634.5**	**91.4**	**221.7**

in CHF m

1 Additional information

	2000	2001	2002	2003	2004
Gross premiums written and policy fees	6,701.2	6,632.7	7,274.5	7,374.7	7,022.1
Investment-type premiums	176.4	248.4	253.0	261.0	443.5
Gross premiums, policy fees and investment-type premiums	**6,877.6**	**6,881.1**	**7,527.5**	**7,635.7**	**7,465.6**

in CHF m

	2000	2001	2002	2003	2004
Combined ratio (gross)	104.7	105.7	105.2	97.6	93.0
Reserve ratio non-life	186.0	184.3	181.1	177.4	179.6

in percent

[1] In accordance with the accounting policies of the Baloise Group, investment-type premiums are not included in gross premiums and policy fees.

[2] Including financial liabilities held for trading (derivative financial instruments)

Consolidated balance sheet

Assets

Investments	Note	12.31.2000	12.31.2001	12.31.2002	12.31.2003	12.31.2004
Fixed-interest securities		19,908.1	20,569.3	21,906.8	29,525.4	27,170.3
Shares		13,330.4	10,000.8	5,752.4	3,475.9	4,067.2
Alternative financial assets		920.9	1,117.2	1,039.0	1,337.9	1,636.1
Derivative financial instruments	10	85.9	19.3	212.8	292.9	262.5
Investment property	8	4,965.8	5,042.2	5,305.7	5,653.4	5,619.2
Mortgage loans		10,438.7	10,500.4	10,532.0	11,002.4	9,798.3
Policy and other loans		1,856.7	1,663.1	1,520.4	1,456.6	1,400.3
Participating interests in associates	9	316.3	289.1	286.9	223.8	148.2
Other short-term investments		631.2	695.1	2,829.6	2,647.4	2,010.6
Cash and cash equivalents	29	759.9	888.3	675.8	692.0	686.6
Total investments	6	**53,213.9**	**50,784.8**	**50,061.4**	**56,307.7**	**52,799.3**
Investments for account and risk of life insurance policyholders	11	362.4	512.4	550.5	798.2	1,143.6
Deferred tax	21	447.2	567.6	529.9	905.9	876.1
Other assets		5,260.5	5,630.0	5,772.0	6,289.0	4,801.8
Total assets		**59,284.0**	**57,494.8**	**56,913.8**	**64,300.8**	**59,620.8**

Liabilities and capital and reserves

	Note	12.31.2000	12.31.2001	12.31.2002	12.31.2003	12.31.2004
Capital and reserves		**7,372.8**	**5,384.8**	**3,088.1**	**3,319.8**	**3,482.5**
Minority interests	26	**46.2**	**41.5**	**28.1**	**40.7**	**63.5**
Liabilities						
Unearned premiums reserves (gross)		629.9	380.9	419.3	493.3	494.1
Loss reserves (gross)	15	4,021.5	4,182.0	4,196.1	4,786.3	4,829.9
Actuarial reserve life (gross)	16	26,314.5	27,558.9	29,757.7	32,985.7	33,158.7
Policyholder bonuses credited and provision for future policyholder bonuses	17	4,768.6	4,197.7	3,685.0	4,063.4	4,220.6
Technical provisions for account and risk of life insurance policyholders		356.7	513.7	554.6	798.1	1,143.6
Payables arising from insurance operations		1,349.7	1,521.2	1,682.5	1,620.7	1,534.0
Deposit fund liabilities arising from reinsurance		281.7	269.0	205.1	451.5	403.7
Liabilities from banking business and loans	19	10,048.9	9,697.2	9,659.2	11,411.7	6,272.5
Derivative financial instruments	10	84.2	59.9	87.0	252.4	160.3
Nontechnical provisions	20	127.5	112.6	131.7	118.9	117.9
Benefits due to employees	23	563.6	559.6	596.6	680.0	663.0
Deferred tax	21	1,946.8	1,640.9	1,211.5	1,640.8	1,638.4
Other liabilities and deferred income		1,371.4	1,374.9	1,611.3	1,637.5	1,438.1
Total liabilities		**51,865.0**	**52,068.5**	**53,797.6**	**60,940.3**	**56,074.8**
Total liabilities and capital and reserves		**59,284.0**	**57,494.8**	**56,913.8**	**64,300.8**	**59,620.8**

in CHF m


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Financial Report 2004

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Consolidated Financial Statements of the Baloise Group

Financial Statements of Bâloise-Holding 2004/2005

Consolidated income statement

Income

	Note	2003	2004
Gross premiums written and policy fees[1]	6	7,374.7	7,022.1
Reinsurance premiums ceded	18	–253.2	–229.3
Premiums written and policy fees for own account		7,121.5	6,792.8
Change in unearned premiums reserves for own account		–6.8	–5.0
Premiums earned and policy fees for own account		7,114.7	6,787.8
Investment income (net)	7.1	2,029.3	1,808.0
Realized gains and losses on investments (net)[2]	7.3	–41.3	188.4
Income from other services		254.7	254.6
Other income		147.2	107.2
Total income		**9,504.6**	**9,146.0**

Expenses

	Note	2003	2004
Claims incurred including processing costs (non-life)	15	–2,031.1	–1,899.5
Claims and benefits paid (life)		–3,704.2	–3,916.4
Change in actuarial reserve (life)	16	–952.2	–332.0
Surplus and profit allocations to policyholders	17	–440.5	–489.1
Acquisition costs	14	–277.1	–488.0
Administrative and other operating expenses		–1,318.4	–1,200.8
Interest payable	27	–405.1	–392.1
Revaluation and amortization of intangible assets	12	–77.5	–30.5
Revaluation and depreciation of tangible noncurrent assets	13	–74.8	–63.9
Total expenses		**–9,280.9**	**–8,812.3**
Annual profit before tax and minority interests		**223.7**	**333.7**
Tax on income	21	–125.4	–99.0
Annual profit after tax and before minority interests		**98.3**	**234.7**
Minority interests	26	–6.9	–13.0
Consolidated annual net profit		**91.4**	**221.7**

in CHF m

	Note	2003	2004
Basic earnings per share	25	1.67	4.04
Diluted earnings per share	25	1.67	4.04

in CHF

[1] In accordance with the accounting policies of the Baloise Group, investment-type premiums are not included in gross premiums and policy fees.

[2] Including financial liabilities held for trading (derivative financial instruments)

Consolidated balance sheet

Assets

Investments	Note	12.31.2003	12.31.2004
Fixed-interest securities			
Held for trading		334.3	277.2
Held to maturity		10,348.6	10,455.2
Available for sale		18,842.5	16,437.9
Shares			
Held for trading		200.6	219.3
Available for sale		3,275.3	3,847.9
Alternative financial assets – available for sale		1,337.9	1,636.1
Derivative financial instruments – held for trading	10	292.9	262.5
Investment property	8	5,653.4	5,619.2
Mortgage loans		11,002.4	9,798.3
Policy and other loans		1,456.6	1,400.3
Participating interests in associates	9	223.8	148.2
Other short-term investments			
Held for trading		1.2	–/–
Held to maturity		1,840.7	1,715.1
Available for sale		805.5	295.5
Cash and cash equivalents	29	692.0	686.6
Total investments	6	**56,307.7**	**52,799.3**
Total investments for account and risk of life insurance policyholders	11	**798.2**	**1,143.6**
Other assets			
Reinsurance assets	18	737.1	627.0
Receivables arising out of insurance operations		1,289.0	1,108.1
Receivables relating to employee benefits	23	41.2	33.3
Other receivables		1,385.6	363.9
Accrued investment income		798.2	657.8
Deferred acquisition costs	14	985.9	969.7
Intangible assets	12	122.3	157.0
Property, plant and equipment for own use	13	605.3	564.5
Other tangible noncurrent assets	13	91.4	83.0
Deferred tax	21	905.9	876.1
Other assets		233.0	237.5
Total other assets		**7,194.9**	**5,677.9**
Total assets		**64,300.8**	**59,620.8**

in CHF m

Liabilities and capital and reserves

Capital and reserves	Note	12.31.2003	12.31.2004
Share capital	24	5.5	5.5
Capital reserves		90.3	77.6
Less treasury stock		–49.7	–50.2
Unrealized gains and losses (net)	7	161.1	148.5
Accumulated profit		3,112.6	3,301.1
Total capital and reserves		**3,319.8**	**3,482.5**
Minority interests	26	**40.7**	**63.5**
Liabilities			
Unearned premiums reserves (gross)		493.3	494.1
Loss reserves (gross)	15	4,786.3	4,829.9
Actuarial reserve life (gross)	16	32,985.7	33,158.7
Policyholder bonuses credited and provision for future policyholder bonuses	17	4,063.4	4,220.6
Technical provisions for account and risk of life insurance policyholders		798.1	1,143.6
Payables arising from insurance operations		1,620.7	1,534.0
Deposit fund liabilities arising from reinsurance		451.5	403.7
Liabilities from banking business and loans	19	11,411.7	6,272.5
Derivative financial instruments	10	252.4	160.3
Nontechnical provisions	20	118.9	117.9
Benefits due to employees	23	680.0	663.0
Deferred tax	21	1,640.8	1,638.4
Other liabilities and deferred income		1,637.5	1,438.1
Total liabilities		**60,940.3**	**56,074.8**
Total liabilities and capital and reserves		**64,300.8**	**59,620.8**

in CHF m

Consolidated cash flow statement

Cash flow from operating activities	Note	2003	2004
Annual profit/loss for the year before tax		223.7	333.7
Adjustments for			
Realized gains and losses on the sale of investments	7	41.3	−188.4
Income from participating interests in associates		−41.6	−21.7
Interest income on security deposits		0.2	13.3
Policy fees on investment-type products		−10.1	−0.8
Revaluation, amortization and depreciation of intangible assets and tangible noncurrent assets		152.3	94.4
Foreign exchange gains and losses		−19.2	−18.4
Movements in operating assets and liabilities			
Assets from reinsurance business		−125.5	101.9
Deferred acquisition costs		−218.2	−38.1
Unearned premiums reserves		8.1	5.2
Loss reserves		82.9	66.3
Actuarial reserve (life)		1,068.6	296.4
Technical provisions for account and risk of insurance policyholders		4.3	0.0
Other movements in operating assets and liabilities		62.4	1,041.5
Cash flow from operating activities (gross)		**1,229.2**	**1,685.3**
Tax paid		−26.3	−60.2
Cash flow from operating activities (net)		**1,202.9**	**1,625.1**
Of which from joint ventures		−16.3	−24.9
Cash flow from investing activities			
Purchase of fixed-interest securities and similar		−19,007.7	−9,968.9
Disposal of fixed-interest securities and similar		13,976.1	13,606.2
Purchase of shares		−5,094.2	−5,100.4
Disposal of shares		7,890.9	4,731.4
Purchase of investment property		−462.8	−155.6
Disposal of investment property		305.3	115.3
Purchase of other investments		−9,735.6	−4,679.3
Disposal of other investments		9,256.2	4,617.6
Purchase of intangible assets and tangible noncurrent assets		−138.8	−109.5
Disposal of intangible assets and tangible noncurrent assets		47.8	32.4
Cash flow from increase in share of investments held		−/−	0.0
Acquisition of subsidiaries where there is no effect on cash and cash equivalents	5	−115.1	0.0
Disposal of subsidiaries where there is no effect on cash and cash equivalents	5	37.5	148.0
Acquisition of participating interests in associates (net)		94.4	−10.4
Dividends received from associates		9.1	9.2
Cash flow from investing activities (net)		**−2,936.9**	**3,236.0**
Of which from joint ventures		28.3	13.2

in CHF m

Cash flow from financing activities	Note	2003	2004
Capital increases		–/–	–/–
Capital reductions		–/–	–/–
Cash inflow from investment-type products		354.5	360.9
Cash outflow from investment-type products		–138.2	–11.2
Increases in liabilities from banking business and loans		1,806.4	964.0
Decreases in liabilities from banking business and loans		–289.5	–6,128.5
Cash flow from own shares		16.5	–13.2
Dividends paid		–22.1	–33.2
Cash flow from financing activities (net)		**1,727.6**	**–4,861.2**
Of which from joint ventures		–4.2	–38.6
Effect of foreign exchange rate changes on cash and cash equivalents		**22.6**	**–5.3**
Total movement in cash and cash equivalents		**16.2**	**–5.4**
Cash and cash equivalents			
Balance at January 1		675.8	692.0
Movement during year		16.2	–5.4
Balance at December 31		**692.0**	**686.6**

in CHF m

Additional information on cash flow from operating activities	2003	2004
Other interest received	1,244.8	1,027.9
Dividends received	47.6	60.8
Interest paid	–350.0	–203.6

in CHF m

Consolidated capital and reserves

	Share capital	Capital reserves	Less treasury stock	Unrealized gains and losses (net)	Accumulated profit	Total capital and reserves
Balance at December 31, 2002	**5.5**	**108.9**	**–84.8**	**15.2**	**3,043.3**	**3,088.1**
Movement on unrealized gains and losses on investments (gross)	–/–	–/–	–/–	515.3	–/–	515.3
Less movement on						
Policyholder surplus	–/–	–/–	–/–	–141.2	–/–	–141.2
Deferred acquisition costs not charged to income	–/–	–/–	–/–	–99.1	–/–	–99.1
Deferred tax	–/–	–/–	–/–	–13.6	–/–	–13.6
Foreign exchange differences	–/–	–/–	–/–	–115.3	–/–	–115.3
Minority interests	–/–	–/–	–/–	–0.2	–/–	–0.2
Movement on unrealized gains and losses on investments (net)	–/–	–/–	–/–	145.9	–/–	145.9
Dividends	–/–	–/–	–/–	–/–	–22.1	–22.1
Consolidated annual net profit	–/–	–/–	–/–	–/–	91.4	91.4
Purchase/disposal of treasury stock	–/–	–18.6	35.1	–/–	–/–	16.5
Balance at December 31, 2003	**5.5**	**90.3**	**–49.7**	**161.1**	**3,112.6**	**3,319.8**

in CHF m

Continued

	Share capital	Capital reserves	Less treasury stock	Unrealized gains and losses (net)	Accumulated profit	Total capital and reserves
Balance at December 31, 2003	**5.5**	**90.3**	**–49.7**	**161.1**	**3,112.6**	**3,319.8**
Movement on unrealized gains and losses on investments (gross)	–/–	–/–	–/–	258.5	–/–	258.5
Less movement on						
Policyholder surplus	–/–	–/–	–/–	–117.7	–/–	–117.7
Deferred acquisition costs not charged to income	–/–	–/–	–/–	–46.0	–/–	–46.0
Deferred tax	–/–	–/–	–/–	–6.4	–/–	–6.4
Foreign exchange differences	–/–	–/–	–/–	–100.9	–/–	–100.9
Minority interests	–/–	–/–	–/–	–0.1	–/–	–0.1
Movement on unrealized gains and losses on investments (net)	–/–	–/–	–/–	–12.6	–/–	–12.6
Dividends	–/–	–/–	–/–	–/–	–33.2	–33.2
Consolidated annual net profit	–/–	–/–	–/–	–/–	221.7	221.7
Purchase/disposal of treasury stock	–/–	–12.7	–0.5	–/–	–/–	–13.2
Balance at December 31, 2004	**5.5**	**77.6**	**–50.2**	**148.5**	**3,301.1**	**3,482.5**

in CHF m

Notes to the consolidated financial statements

1. Basis of accounting

The Baloise Group operates solely in Europe. It comprises 14 insurance companies, which provide almost all types of life and non-life insurance. The holding company is Bâloise-Holding, a Swiss stock corporation (Aktiengesellschaft) which has its registered office in Basel, Switzerland. The shares of Bâloise-Holding are quoted on SWX Swiss Exchange. Its subsidiaries operate in the insurance markets of Switzerland, Germany, Belgium, Austria, Luxembourg and Croatia. The banking business is carried out by subsidiaries in Switzerland and Germany. The Baloise Group also has an investment fund structure in Luxembourg.

The consolidated financial statements of the Baloise Group are prepared on a historical cost basis, taking into account adjustments resulting from regular reassessments of the fair market value of certain investments, and are established in accordance with the International Financial Reporting Standards (IFRS). They comply with Swiss legal requirements. As the IFRS do not currently contain any insurance-specific guidelines, insurance business has been valued in accordance with the Generally Accepted Accounting Principles in the United States (US GAAP).

At its meeting of March 23, 2005, the Board of Directors of Bâloise-Holding approved the annual financial statements and the financial report and released them for publication. The Bâloise-Holding Annual General Meeting is able to propose changes to the published financial statements.

2. Application of new accounting standards

In fiscal 2003

No IFRS or US-GAAP standards affecting the Baloise Group were introduced or modified in fiscal 2003.

In fiscal 2004

IFRS 3, which governs the purchase of companies as of March 31, 2004, was applied to fiscal 2004 for the first time.

From fiscal 2005

From January 1, 2005, new and/or revised IFRS/IAS standards are to be applied, in part retroactively from December 31, 2003. The Baloise Group is adapting its reporting standards for fiscal 2005 accordingly, in particular based on the new IFRS 2 “Share-based Payment”, IFRS 3 “Business Combinations”, IFRS 4 “Insurance Contracts”, IFRS 5 “Non-Current Assets Held for Sale and Discontinued Operations”, as well as the revised IAS 36 “Impairment of Assets”, IAS 38 “Intangible Assets” and IAS 39 “Financial Instruments: Recognition and Measurement”.

The effects resulting from the application of the new and/or changed standards cannot be assessed yet at the time of writing this report.

3. Accounting policies

3.1 Method of consolidation

The consolidated financial statements consist of the financial statements of Bâloise-Holding and of its subsidiaries. A subsidiary is consolidated where the Baloise Group has over 50% of the voting rights, whether directly or indirectly, or exercises control over it.

Companies acquired in the course of the year under review are included in the consolidation from the date when effective control was acquired, while all companies disposed of during the year are included in the consolidation until the date of disposal. Companies which are acquired for the purpose of resale are held and accounted for as financial assets.

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control. Deutscher Ring Beteiligungsholding is a joint venture in which the Baloise Group has a direct 65% interest. The remaining 35% are held by Deutscher Ring Krankenversicherungsverein, a mutual insurance company. The contractual arrangements are such that the majority shareholder does not have overall control. These companies are consolidated on a proportionate basis, therefore the Baloise Group reports only its share of assets, liabilities, expenses and income.

Participating interests in associates are accounted for under the equity method (Baloise Group’s share in the intrinsic value of the participating interest) if the Baloise Group has significant influence on the management of the company and the company is not being held exclusively with a view to its disposal in the near future. Changes in the value of equity participations, including the effect of any dividend flows, are as a rule recognized in the income statement.

All intragroup transactions or profits and losses arising therefrom are eliminated. By contrast, the non-Group share of intragroup transactions involving companies consolidated on a proportionate basis is not eliminated.

3.2 Foreign currency translation

The financial statements of the Baloise Group are stated in Swiss francs (CHF).

Foreign currency translation: The financial statements of all business units which were not originally prepared in CHF have been translated at year-end rates (for balance sheet figures excluding goodwill) or at average rates for the year (for the income statement). The total exchange differences arising are taken directly to capital and reserves. When a foreign subsidiary is disposed of, exchange differences from the sale are recognized in the income statement as transaction income or expenses.

Monetary balance sheet items from foreign currency transactions at individual companies are translated at year-end rates. Nonmonetary items are reported using the exchange rate at the date of the transaction. However, nonmonetary foreign currency positions carried at fair value are translated at year-end rates (rate that existed when the fair values were determined). Income and expenses are translated at the rate applicable on the transaction date or at the average rate for the year. The resulting exchange differences are taken to the income statement.

3.3 Investments

3.3.1 Financial assets

The business activities of the Baloise Group include the issuing of insurance policies, as a result of which the Group incurs financial liabilities and assumes guarantees. To ensure that it is in a position to meet its financial liabilities, the Baloise Group acquires financial instruments which correspond as closely as possible in type and maturity period to the expected level of claims and benefits paid. The composition of the investment portfolio is therefore determined mainly by the expected investment return for each type of investment by the type of liabilities arising from insurance business and by the availability of risk capital, which is used to even out fluctuations in the price of investments.

The following criteria are used to classify financial assets: Financial assets which were acquired with the purpose of realizing a short-term gain by taking advantage of fluctuations in market price are shown under the “Held for trading” heading. Financial assets which are held for an indefinite period of time and may be sold at any time to improve liquidity or to react to changes in market conditions are shown as “Available for sale”. Financial assets with a fixed maturity date are shown under the heading “Held to maturity”, provided the Baloise Group has the opportunity and intention of holding them until their maturity date. Loans, policy loans, mortgage loans and similar financial assets issued by the Baloise Group are shown under the heading “Originated by the Group”. Investments are classified under one of these headings when they are first recorded in the books. The classification is then reviewed at year-end to ensure that it is still appropriate.

Alternative financial assets such as private equity investments and hedge funds are held as “Available for sale”.

Financial assets under the headings “Held for trading” and “Available for sale” are recorded in the balance sheet at fair market value.

Financial assets under the headings “Held to maturity” or “Originated by the Group” are valued at amortized cost, less any necessary adjustments for permanent diminution in value (impairment). The effective-interest method is used to amortize or write back the difference between purchase value and the redemption value.

All purchases and sales of financial assets are recorded at the trade date.

Changes in the value of financial assets under “Held for trading” are recognized as realized book profits/losses in the income statement in the period in which they arise. Financial assets under “Available for sale” are revalued at their market value, and unrealized gains and losses are taken to capital and reserves. For monetary financial assets classified as “Available for sale”, on the other hand, the amortized cost determined using the effective-interest method is recognized in income. The difference between this and market value is in turn not charged to income. The foreign currency revaluation of such positions is recorded in the income statement. Monetary assets include primarily fixed-interest securities. Shares do not count as monetary assets. For life insurance companies, deductions are made from the unrealized gains and losses in view of those amounts which will be used in future to amortize acquisition costs and to pay bonuses and dividends to policyholders (shadow accounting).

When financial assets are disposed of, any unrealized gains or losses are transferred from capital and reserves to the income statement. The same applies where an investment has suffered a permanent diminution in value (impairment).

Changes to the fair values of financial assets which are the subject of a fair value hedge are recognized, regardless of classification, in the income statement over the period of the hedge. Interest income from fixed-interest investments which have been written down is recognized when it is received.

3.3.2 Investment property

Investment property comprises land and buildings held to earn rental income and/or for capital appreciation.

Investment property is shown at fair market value. This is determined each year by a valuation based on prevailing market conditions and carried out by in-house specialists. The fair value of holdings is derived principally from future cash flows, using mathematical calculations based on similar transactions. External valuation reports are obtained at regular intervals. No systematic depreciation is charged on investment property. Changes in value are immediately recognized in the income statement, in the period of occurrence, as realized book profits/losses.

3.4 Permanent diminution in value

3.4.1 Financial assets

The Baloise Group determines any permanent diminution in value (impairment) of financial assets classified as “Available for sale” according to the following rules:

If the market value of participating interests is more than 50% below the purchase value, an impairment entry must be booked in any case. Provided the market value is more than 20% but less than 50% below purchase value, impairment is to be considered and an entry made where applicable. The impairment will be assessed on the basis of reports by bank analysts and ratings by ratings agencies. Dividend developments, underlying capital and other factors will also be taken into account. The prime yardstick for the formation of the impairment is, however, the appraisal by the asset manager responsible. In forming the impairment, the accumulated net loss recorded in the capital and reserves will be transferred to the income statement.

An investment that is classified as “Held to maturity” or “Originated by the Group” is revaluated if the present value of the future cash flows – taking into account actual interest rates and any hedging activities – drops below the book value for more than just a temporary period.

3.4.2 Other assets

The book value of other assets is reviewed on a regular basis for recoverability. A permanent diminution in value (impairment) loss arises if the recoverable amount of an asset is less than its book value. The recoverable amount is the higher of an asset’s net selling price (the estimated amount obtainable from the sale of an asset less incremental costs directly attributable to the disposal of the asset) and the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

The estimated future cash flows are based on reasonable assumptions about the economic conditions that will exist over the remaining useful life of the asset and on cash flow projections and budgets/forecasts approved by the Corporate Executive Committee. Permanent diminutions in value are recognized in the income statement. Any permanent diminution in value of majority or minority interests acquired in companies is described in section 3.6.

3.5 Derivative financial instruments

The main tool for the management of investment risk and return on the asset side of the balance sheet is the strategic allocation of investments to the various investment categories (asset allocation). Derivative instruments are used to underpin this asset allocation. They are particularly useful for hedging investments, when preparing to purchase or sell investments, or to slightly increase investment income. However, no trading or speculative business is undertaken in derivatives. Derivative transactions are undertaken only with counterparties who have at least an A-credit rating from Standard & Poor’s.

All derivative financial instruments are recorded in the balance sheet at their market value. When the contract is concluded, the derivative is classified either as a hedging instrument against the market value of an asset or a liability (fair value hedge), as a hedge against future transactions (cash flow hedge) or as a trading instrument. Derivative financial instruments which do not fulfill IFRS requirements for hedging transactions are treated as trading instruments, even if they have a hedging function according to the Baloise Group’s own risk management regulations.

Changes in the market value of derivative financial instruments which have been classified as fair value hedging instruments are shown in the income statement. Changes in the market value of derivative financial instruments which have been classified as cash flow hedging instruments are taken directly to capital and reserves. The amounts accounted for in capital and reserves will be recorded at a later date in the income statement or balance sheet together with the hedged cash flows.

Changes in the market value of derivative financial instruments which are classified as trading instruments or do not fulfill the requirements of a hedging transaction are shown in the income statement, under "Realized gains and losses on investments (net)".

The Baloise Group keeps records of hedge effectiveness and the aims and strategies pursued for each hedging transaction. Hedge effectiveness is closely monitored from the date the contract begins. Derivative financial instruments which no longer meet the requirements for a hedging instrument are reclassified as trading instruments.

Structured products are financial instruments, either assets or liabilities, which consist of a host contract and embedded derivative financial instruments. In the majority of cases, the embedded derivative financial instruments are not separated from the host contract and are classified in the trading portfolio of the host business, with the effect that unrealized gains and losses are recorded directly in the income statement. Some derivative financial instruments are separated from the host contract and are separately recorded, valued and disclosed. For this to be the case, the following conditions must apply: that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract and that the embedded derivative itself would meet the definition of a derivative financial instrument.

3.6 Intangible assets

Company acquisitions (fully consolidated and consolidated on a proportionate basis) are accounted for using the purchase method. Under this method, the purchase price is compared, on the date of acquisition, with the fair values of the assets and liabilities acquired as well as the intangible assets identified but not yet recognized in the balance sheet. The balance is accounted for as goodwill. Goodwill relating to subsidiaries which do not prepare their financial statements in Swiss francs is translated at the exchange rate applicable on the date of the acquisition.

Goodwill capitalized before March 31, 2004, is amortized on a straight-line basis over its expected useful life, which may not exceed 20 years. The period over which the goodwill is to be amortized is determined mainly by the future economic benefits expected to flow from the company acquired. These depend, among other things, on the type of business acquired, the lifespan of the insurance contracts, relationships with clients and sales channels. The value of capitalized goodwill is assessed annually. If the book value of the goodwill is greater than the recoverable amount, the difference will be amortized via the income statement.

Goodwill capitalized after March 31, 2004, is reevaluated annually and in the event of any extraordinary occurrence. If the book value of the goodwill is greater than the recoverable amount, the difference will be charged to income.

Badwill capitalized before March 31, 2004, is written off as income (offset against the amortization expense) on a systematic basis over the remaining average useful life of the acquired, nonmonetary assets, at most, however, over 20 years.

Badwill accrued after March 31, 2004, is taken directly to the income statement.

The present value of profits from insurance contracts acquired is amortized over the underlying period of premium payments taken to income. The value of the profits is reviewed on an annual basis. Other intangible assets consist mainly of software and external IT-consultancy services and are written off on a straight-line basis over their useful life, at most, however, over 5 or 10 years respectively. This figure also includes software developed in-house, carried for the first time at production cost.

3.7 Tangible noncurrent assets

Tangible noncurrent assets are shown at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, as follows: buildings for own use 25 to 50 years, equipment and furnishings 5 to 10 years, computer hardware 3 to 5 years. Land is shown at purchase value less any necessary provisions for impairment. Repairs and maintenance are always charged to the income statement.

3.8 Leasing

Lease agreements relating to real estate, fixtures, fittings and other tangible noncurrent assets, whereby basically all the risks and rewards relating to ownership of the asset are transferred to the Baloise Group, are defined and treated as finance leases. The fair value of the leased property, or the present value of the leasing payments if lower, is disclosed as a tangible noncurrent asset at the inception of the lease. Each lease payment comprises a depreciation expense for the asset and interest payment. The depreciation expense is deducted from the liability for the leased asset, which is shown under "Liabilities from banking business and loans". The value of the leased item is reviewed on the balance sheet reference date.

Other lease agreements are classified as "Operating leases". Lease payments under an operating lease are recognized as an expense in the income statement on a straight-line basis over the lease term.

3.9 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term highly liquid investments with maturity periods of up to 24 hours. Cash and cash equivalents are stated at their nominal value. Term deposits are entered under "Other short-term investments."

3.10 Receivables

Receivables arising out of insurance operations and other receivables are recognized and stated at amortized cost. This generally corresponds to the nominal value of the amount receivable. Permanent diminutions in value (impairment losses) are charged directly to the income statement.

3.11 Life insurance

Premiums are accounted for as income when due. Claims and benefits paid and costs are accounted for so as to ensure that the profit from the contracts is allocated equally over the anticipated term of the policies. Premiums and services relating to investment-type products are accounted for as follows: the risk and cost element is taken to the income statement, while the savings element is directly credited to or deducted from the policyholder's deposit.

The actuarial reserve is calculated on the basis of actuarial principles from the present value of future claims and benefits paid less the present value of premiums not yet paid. The calculation is made in accordance with the following Financial Accounting Standards: FAS 60, FAS 97 or FAS 120. The accounting principles (e.g. in respect of interest or mortality) vary depending on the country, product and year of acquisition and take country-specific empirical values into consideration. Unearned premiums, unearned revenue reserves and provisions for final policyholder bonuses are included in the actuarial reserve.

Amounts for future surplus shares to policyholders are fixed on the basis of local statutory and contractual regulations and are allocated to a separate provision. This provision also includes policyholders' share of the unrealized gains and losses covered by the IFRS shareholders' capital and reserves and their share of the higher or lower values recorded in the consolidated financial statement – as compared with the statement based on commercial law – and taken to income. Statutory regulations and the rules set out in contracts and company articles of incorporation are authoritative in determining the share of future policyholder bonuses. Where there are no such statutory regulations or rules set out in contracts and company articles of incorporation – as in the case of Belgium, Luxembourg and in Swiss individual life business – an allocation to policyholder bonuses will not apply.

Policyholder bonuses credited: Bonuses already allocated which have been accrued on an interest-bearing basis are included in policyholder bonuses credited and provision for future policyholder bonuses.

This provision comprises the following:

- Sums irrevocably set aside for future policyholder bonuses,
- Policyholders' shares of the reported result,
- Policyholders' shares of unrealized gains and losses on investments.

Investments and technical provisions relating to unit-linked life policies: These amounts relate to investment-type products. With these products, it is the policyholder who bears the investment risk in accordance with specific investment aims. Current investment income and market price fluctuations are directly debited or credited to the policyholders. The investments are held separately and are not available to meet claims arising from other business activities of the Baloise Group. Investments and liabilities are stated at market value. Administrative and redemption costs charged to policyholders are recognized as policy fee income.

3.12 Non-life insurance

The term gross is added to technical account headings where these refer to business concluded by the Baloise itself. The terms net or for own account are used after deducting any reinsurance element.

Gross premiums written are recognized in the fiscal year in which they fall due. They include an amount required to cover the insurance risk and any loading. Any part of the premium which relates to future fiscal years is deferred under the contract and is included in the unearned premiums reserves in the balance sheet, together with any provisions for premium shortfalls relating to the fiscal year. Premiums which do relate to the fiscal year are referred to as premiums earned. This figure comprises premiums written and the change in the unearned premiums reserves.

Loss reserves and provisions for the associated claims-processing costs are set up for all losses which have occurred before the end of the fiscal year, whether or not these have been notified to the Baloise Group.

These provisions represent a projection of all future payments to be made in respect of these losses. Loss reserves are calculated on the basis of prior-year experience and expected developments in the future.

The process involves the application of mathematical, statistical methods and the expertise of claims-handling specialists. The aim is to establish provisions for outstanding claims and for claims-processing costs which are as realistic as possible. An additional provision is set for claims-processing costs.

The combined loss reserves have three components. The provisions calculated according to actuarial methods form the basis of the combined provision; a second component is provisions for those complex special cases and events which do not lend themselves to purely mathematical calculations. These two components are determined without discounting. The third component is annuities, which are capitalized on the basis of technical principles such as mortality rates, technical interest rates, etc.

The whole process of projecting the future can never entirely eliminate the uncertainties inherent in future developments. Therefore, future developments may well be different to those projected. The provisions established in a particular year are systematically reviewed, which means that variances can be controlled. On the basis of such reviews, the projection process can be adjusted if necessary.

Surplus and profit allocations to policyholders: insurance contracts may provide for surplus sharing with a client arising from the surplus on his contracts. Payments made during the fiscal year and the change in the relevant provisions combine to give the figure referred to in the income statement as surplus and profit allocations to policyholders.

3.13 Deferred acquisition costs

Costs which are directly associated with the acquisition of insurance contracts (e.g. commissions) are deferred and written off over the period of the contract, or over the premium payment period, if shorter. Deferred acquisition costs are reviewed when the contract is acquired and thereafter on an annual basis for recoverability.

3.14 Reinsurance

Reinsurance contracts are insurance contracts between insurance companies. If a transaction is to be recognized as a reinsurance transaction, there must be a transfer of risk as defined the US GAAP, otherwise the contract would be dealt with outside the income statement as deposit accounting.

Reinsurance assumed is recognized in the same accounting period as the initial risk. The technical provisions are included in liabilities under the headings “Unearned premiums reserves (gross)” and “Loss reserves (gross)”. These provisions are as realistic as possible and are based on empirical values and the most up-to-date information available.

Reinsurance ceded is business which has been ceded to insurance companies outside the Group and comprises amounts which relate to direct life and non-life business and reinsurance assumed which is to be ceded.

Assets from reinsurance ceded are calculated on the same basis and for the same period as the original transaction and shown in assets from reinsurance. Where deposits are at risk due to insolvency, appropriate write-downs are made in the income statement.

Receivables and payables from deposit accounting contracts are recognized mainly using the interest method. The effective interest rate is calculated on the basis of cash flows which have already occurred or are expected in the future. Otherwise, the insurance coverage financed by the deposit is amortized over the expected term of the deposit. Liabilities are included in “Deposit fund liabilities arising from reinsurance”.

3.15 Own shares

Own shares (treasury stock) held by Bâloise-Holding or by its subsidiaries are shown at purchase value in the consolidated financial statements as a deduction from “Capital and reserves”. The shares are not restated at their current market value. When the shares are sold, the difference between purchase value and selling price is adjusted under “Capital and reserves”. Only Bâloise-Holding shares are counted as own shares.

3.16 Liabilities from banking business and loans

Liabilities from banking business and loans are if not classified as Fair Value Hedge, stated at amortized cost. The effective-interest rate method is used to amortize or write back the difference between purchase value and redemption value. The cost figure also includes transaction costs.

The convertible loan issued by Baloise Finance Jersey, which confers the right to subscribe for shares in a non-group company, consists of a liability and an embedded option. When the loan was issued, the market value of the embedded option was determined and shown separately as a derivative financial instrument. The purchase value of the liability component is the present value of future cash flows, which was calculated when the issue was made. The discount factor applied is the market interest rate for similar loans without conversion or option rights.

3.17 Financial provisions

Financial (nontechnical) provisions are recognized when the Baloise has a present obligation (legal or de facto), when it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate can be made of the amount of the obligation. The amount of the provision is based on the best estimate of possible outcomes. If no reliable estimate can be made of the liability, it is disclosed as a contingent liability.

3.18 Tax

The provision for deferred tax in the consolidated financial statements is calculated under the liability method, i.e. based on current or future expected tax rates. Deferred tax takes into account the income tax effects of temporary differences between the assets and liabilities carried in the (IFRS-conform) consolidated balance sheet and their fiscal base. When deferred tax is calculated, unused tax losses are only carried forward to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilized.

3.19 Benefits due to employees

Amounts due from the Baloise Group to employees include all types of employee benefits given in exchange for services rendered by employees or in special circumstances.

The following amounts need to be established: short-term benefits (such as wages), benefits due in the long term (such as anniversary payments) and benefits upon termination of employment (such as severance pay and benefits from redundancy schemes). Because of the amounts involved, the following benefits can be particularly significant:

Postemployment benefits: The main retirement benefits are pensions and insurance contributions assumed by the employer. The benefits are paid when the employee ceases to be employed and are financed during the period in which the employee is working. The retirement pensions in the Baloise Group are predominantly defined benefit plans. The present value of the defined benefit obligation is discounted using the Projected Unit Credit Method (accrued benefit method prorated on service).

Plan assets which match the benefits payable are only recognized if they are brought into an entity which is legally separate from the employer, e.g. a foundation. The plan assets are stated at market value. The unrecognized actuarial gains and losses which at the end of the previous financial period exeeded by 10% the greater of (1) the present value of liabilities relating to defined benefit plans and (2) the fair value of plan assets are recognized in the income statement on the basis of the expected average of the remaining years of service of those employees who participate in the plan.

Pension plans of the Baloise Group are tailor-made for local circumstances as regards enrolment and the extent of benefits. Benefits in the narrow sense are pension benefits. Other plan benefits may be subsidized premiums or contributions to health insurance and are of minor significance. Payments are made mainly by the employer and in some countries also by the employees. Pension plans are sometimes implemented within companies and sometimes in entities which are legally separate from the employer.

Equity benefits: Employee shares, share participation schemes, direct allocation of shares and shares subscribed through options are equity benefits.

Employee shares: The Baloise Employee Trust set up in 1989 gives the employees of various Group companies the opportunity, subject to the rules issued by the Trust's Board, to acquire shares in Bâloise-Holding, usually on an annual basis, at a preferential subscription price. The Trust acquired the shares set aside for this purpose from previous increases in the share capital of Bâloise-Holding. Due to the low acquisition cost of the shares held by the Trust and the number of shares held, Bâloise-Holding will be able to continue with this profit-sharing initiative in the years to come. The Trust is managed by a Trust Board which is independent of the Corporate Executive Committee, reports to the cantonal fund authority of the city of Basel and is not consolidated.

Share participation scheme: Since May 2001, most middle and senior managers working in Switzerland can opt to have a freely determinable part of their performance-related earnings (incentive) remitted as shares instead of cash. To boost the effectiveness of the share participation scheme, employees receive a loan at a market rate of interest, enabling them to purchase a far greater number of shares than provided by the incentive scheme. The loan repayment after a three-year blocking period is hedged with a put option that is financed by the sale of a corresponding call option. After expiry of the three-year blocking period, employees receive the shares remaining after repayment of the loan for their free disposal. The Baloise does not incur any additional costs by this share participation scheme.

Direct allocation of shares: Since January 2003, employees of all Group companies who are eligible for incentives have been able to subscribe shares at a preferential price as part of their variable, performance-related pay component (incentive). The subscription price is always 10% lower than the market value at the time of subscription. The shares are committed to safe custody for a blocking period of three years.

Option rights: The members of the Corporate Executive Committee and of the Executive Boards of the subsidiaries, and other employees in key positions, were, up to 2002, granted options to purchase shares in Bâloise-Holding as part of their remuneration. These options were purchased from third parties by the Baloise Group at market value and are quoted on the stock market. The conditions which apply to the option rights were specified at the beginning of the fiscal year. The number of options allocated by the end of the financial year depended on whether the parties concerned met their personal performance objectives. The allocated share options could not be sold for two years. The associated costs were included in personnel expenses.

3.20 Other liabilities

Other liabilities are recognized and stated at amortized cost, which is generally the same as nominal value.

3.21 Fair value of financial assets and liabilities

The fair value of financial instruments is based on quoted market values or on estimates (present-value method, etc.) and on the following assumptions:

Cash, cash equivalents and short-term investments: The amounts shown in the balance sheet are stated at market value (fair value).

Fixed-interest securities: The fair value is generally based on quoted prices. If quoted prices are not available, the price is determined by independent valuations or by comparing the market prices of similar financial instruments.

Shares: Fair value is the quoted share price. If this is not available, the fair value is estimated using generally recognized methods and in light of the current state of the market. If the value cannot be estimated reliably, stocks are reported at purchase value.

Mortgage loans, policy loans and other loans: The fair values are determined by discounting the cash flows, using the current interest rate applied by the Baloise Group to similar loans.

Derivative financial instruments: The market value is stated at prices as supplied by independent brokers or in accordance with market practice.

Other financial assets: The fair value is generally a quoted market price. If no market prices are available, the market value is estimated. If the value cannot be estimated reliably, financial assets are reported at purchase value.

Deposits and other amounts due to policyholders: The fair values are determined by discounting the cash flows, using the current interest rate applied by the Baloise Group to similar financial instruments with similar time remaining to maturity.

Liabilities from banking business and loans: The fair values are determined by discounting the cash flows, using the current interest rate payable by the Baloise Group for similar financial instruments with similar periods of time to maturity.

Other financial liabilities: The fair value is generally a quoted market price. If no market prices are available, the market value is estimated. If the value cannot be estimated reliably, financial liabilities will be reported at purchase value.

3.22 Offsetting assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and the Baloise Group intends to realize the asset and settle the liability simultaneously.

3.23 Use of accounting estimates

In order to prepare annual financial statements in accordance with IFRS, it is necessary for the Corporate Executive Committee to make assumptions and estimates which have an effect on the amounts disclosed in the balance sheet and income statement for the current fiscal year. Therefore, it is possible that the actual figures may differ from the estimates.

4. Foreign currency translation

4.1 Rates of exchange

	Balance		Income statement/ cash flow statement	
Currency	2003	**2004**	2003	**2004**
EUR (euro)	1.56	1.55	1.52	1.54
USD (US dollar)	1.24	1.14	1.34	1.24
GBP (pound sterling)	2.21	2.18	2.20	2.28
JPY (yen)	1.15	1.11	1.15	1.15

in CHF

4.2 Foreign exchange differences

Exchange differences arising from transactions in foreign currencies included in the consolidated income statement resulted in a loss of CHF 70.1 million in 2004 (2003: gain of CHF 47.0 million).

This also comprises a foreign exchange gain of CHF 25.9 million (2003: gain of 135.6 million) resulting from monetary investments classified as “Available for sale.”

Capital and reserves contain a currency loss (gross) – not charged to income – of CHF 100.9 million (2003: loss of CHF 115.3 million). After hedge accounting (taking cash flow hedges into account), there remains a net loss of CHF 2.3 million (2003: net loss of CHF 13.7 million).

5. Acquisitions and disposals of subsidiaries and other business units

5.1 Acquisitions and disposals of subsidiaries and other business units in 2003

The purchase of the German insurance group Securitas was formally and substantively completed as of January 7, 2003. During the course of fiscal 2003 Securitas was merged with parts of the German branch of the Baloise, Insurance Company Limited, Basel, to form Basler Securitas Versicherungs-Aktiengesellschaft.

Gilde Lebensversicherungs AG which forms part of the Securitas Group was acquired by the German branch of the Baloise Life Insurance Company Ltd, Basel.

DePfa Beteiligungs-Holding II GmbH, Düsseldorf, valued at equity, sold its participating interest to DePfa Bank PLC, Dublin, through the stock market in the second half of 2003.

During the year under review, the fully consolidated real estate company Rubens 2000 N.V., Antwerp, was sold for CHF 37.5 million.

No other significant acquisitions or disposals were effected.

5.2 Acquisitions and disposals of subsidiaries and other business units in 2004

In the year under review , other smaller entities were sold in addition to Mercator Banque S.A., Antwerpen.

	2003	**2004**
Investments	4,710.6	4,689.5
Cash and cash equivalents	93.6	89.0
Other assets	1,077.3	1,074.2
Other liabilities	–5,628.6	–5,647.7
Net asset disposed	**252.8**	**205.0**
Disposal income		140.9

in CHF m

Mercator Banque S.A. was sold on August 11, 2004. This transaction resulted in a one-time charge against income of CHF 70.2 million in 2004.

6. Information about geographical and business segments

The Baloise Group has strategic operations in the following regions: Switzerland (including the Principality of Liechtenstein), Germany, the Benelux and other countries.

The business segments are non-life insurance, life insurance, banking (including asset management and investment funds) and other activities and Group business. Non-life insurance includes accident insurance, health insurance and products for liability, automobile, property and transport lines of business. The products are geared to the requirements of our clients – mainly private clients – and the core competencies of the companies in the Baloise Group. On the life insurance side, a broad range of asset-forming insurance, pure risk coverage and unit-linked products is provided for private individuals and companies. The banking segment comprises Baloise Bank SoBa, an all-purpose bank operating in Switzerland, and Deutscher Ring Bausparkasse in Germany, predominantly active in traditional real estate financing. The other activities and Group business segment include in particular investment and real estate companies.

The accounting principles applied to the segment reporting are the same as apply to the entire financial report. Transactions between business segments and geographical segments within the Baloise Group are conducted on the same terms as transactions with third parties. Information analyzed by geographical and business segments is given in the segment reports, in the Management Information section and in the following tables.

6.1 Segment reporting by region

	Switzerland		Germany	
Income	2003	**2004**	2003	**2004**
Gross premiums written and policy fees	4,269.3	3,996.1	2,199.9	2,120.9
Reinsurance premiums ceded	–169.2	–184.2	–269.6	–237.8
Premiums written and policy fees for own account	4,100.1	3,811.9	1,930.3	1,883.1
Change in unearned premiums reserves for own account	–5.9	–8.7	10.6	5.4
Premiums earned and policy fees for own account	4,094.2	3,803.2	1,940.9	1,888.5
Investment income (net)	939.5	854.7	769.0	701.1
Realized gains and losses on investments (net)[1]	–38.3	149.1	–82.1	66.0
Income from other services	27.3	31.2	96.8	111.8
Other income	28.2	3.4	46.6	32.9
Total income	**5,050.9**	**4,841.6**	**2,771.2**	**2,800.3**
Income between regions	75.4	86.9	179.6	182.9
Income from associates	–0.1	0.0	48.9	16.3
Expenses				
Claims incurred including processing costs (non-life)	–836.7	–796.2	–606.4	–484.8
Claims and benefits paid (life)	–2,372.1	–2,735.3	–1,096.1	–1,054.8
Change in actuarial reserve (life)	–962.5	–259.3	6.7	–10.9
Surplus and profit allocations to policyholders	–126.8	–196.7	–346.9	–287.8
Acquisition costs	–83.0	–83.9	–30.8	–249.7
Administrative and other operating expenses	–483.9	–457.8	–470.0	–423.7
Interest payable	–75.8	–104.1	–114.7	–121.8
Revaluation and amortization of intangible assets	–14.3	–24.8	–8.8	–10.9
Revaluation and depreciation of tangible noncurrent assets	–34.3	–25.3	–27.1	–22.4
Total expenses	**–4,989.4**	**–4,683.4**	**–2,694.1**	**–2,666.8**
Annual profit/loss before tax and minority interests	**61.5**	**158.2**	**77.1**	**133.5**
Tax on income	0.6	–31.0	–87.4	–61.9
Annual profit/loss after tax and before minority interests	**62.1**	**127.2**	**–10.3**	**71.6**
Minority interests	–/–	–/–	–6.8	–13.1
Annual net profit/loss by region	**62.1**	**127.2**	**–17.1**	**58.5**
Additional information				
Assets by geographical segment	34,481.6	34,761.1	18,193.9	18,130.7
Of which investments	30,055.1	30,293.9	15,255.7	15,235.4
Of which participating interests	0.1	0.1	118.7	117.7
Liabilities by region	31,287.8	31,641.1	17,691.2	17,484.1
Of which technical provisions	23,847.2	24,351.4	14,883.5	14,717.6
Cash flow from operating activities (net)	722.2	280.3	132.7	–3.3
Cash flow from investing activities (net)	–1,161.8	–269.6	–182.5	–96.7
Cash flow from financing activities (net)	114.0	3.4	90.7	50.4
Acquisition of property, plant and equipment and intangible assets for own use	33.0	32.3	17.9	28.7
Impairment in value charged to income	–57.1	–38.5	–73.2	–31.2
Reinstatement of original value charged to income	502.7	100.1	219.8	86.2

in CHF m

[1] Including financial liabilities held for trading (derivative financial instruments)

	Benelux		Other countries		Elimination		**Total**
2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**
744.6	748.4	441.0	441.4	–280.1	–284.7	7,374.7	7,022.1
–56.7	–65.5	–37.8	–26.5	280.1	284.7	–253.2	–229.3
687.9	682.9	403.2	414.9	–/–	–/–	7,121.5	6,792.8
–4.3	0.6	–7.6	–1.6	0.4	–0.7	–6.8	–5.0
683.6	683.5	395.6	413.3	0.4	–0.7	7,114.7	6,787.8
268.9	209.5	57.1	46.5	–5.2	–3.8	2,029.3	1,808.0
–46.3	–91.9	125.4	65.2	–/–	0.0	–41.3	188.4
102.8	80.0	27.8	31.6	–/–	0.0	254.7	254.6
48.1	29.1	33.7	50.7	–9.4	–8.9	147.2	107.2
1,057.1	**910.2**	**639.6**	**607.3**	**–14.2**	**–13.4**	**9,504.6**	**9,146.0**
13.5	14.3	–282.7	–297.5	14.2	13.4	–/–	–/–
–7.2	5.4	0.0	0.0	–/–	–/–	41.6	21.7
–386.8	–379.4	–209.2	–246.1	8.0	7.0	–2,031.1	–1,899.5
–204.5	–112.8	–23.6	–16.7	–7.9	3.2	–3,704.2	–3,916.4
15.0	–35.1	–10.6	–16.8	–0.8	–9.9	–952.2	–332.0
36.6	0.0	–3.4	–4.6	0.0	–/–	–440.5	–489.1
–141.4	–134.4	–56.2	–63.9	34.3	43.9	–277.1	–488.0
–256.1	–209.0	–74.5	–66.9	–33.9	–43.4	–1,318.4	–1,200.8
–181.4	–129.1	–47.7	–49.7	14.5	12.6	–405.1	–392.1
–30.3	–18.4	–24.1	23.6	–/–	–/–	–77.5	–30.5
–12.1	–15.0	–1.3	–1.2	–/–	–/–	–74.8	–63.9
–1,161.0	**–1,033.2**	**–450.6**	**–442.3**	**14.2**	**13.4**	**–9,280.9**	**–8,812.3**
–103.9	**–123.0**	**189.0**	**165.0**	**–/–**	**–/–**	223.7	333.7
–18.2	6.8	–20.4	–12.9	–/–	–/–	–125.4	–99.0
–122.1	**–116.2**	**168.6**	**152.1**	**–/–**	**–/–**	98.3	234.7
0.2	0.1	–0.3	0.0	–/–	–/–	–6.9	–13.0
–121.9	**–116.1**	**168.3**	**152.1**	**–/–**	**–/–**	91.4	221.7
10,100.6	5,061.8	3,473.3	4,001.5	–1,948.6	–2,334.3	64,300.8	59,620.8
7,753.6	3,525.6	3,327.6	3,828.3	–84.3	–83.9	56,307.7	52,799.3
104.8	30.3	0.2	0.1	–/–	–/–	223.8	148.2
9,891.4	4,814.7	4,018.5	4,469.9	–1,948.6	–2,335.0	60,940.3	56,074.8
2,829.3	2,893.0	1,107.8	1,218.0	–339.1	–476.7	42,328.7	42,703.3
53.2	1,372.1	299.5	230.1	–4.7	–254.1	1,202.9	1,625.1
–1,039.4	4,098.0	–328.2	–494.2	–225.0	–1.5	–2,936.9	3,236.0
1,054.2	–5,388.7	239.0	218.1	229.7	255.6	1,727.6	–4,861.2
32.9	14.9	–48.9	4.3	–/–	–/–	34.9	80.2
–119.9	–55.8	–13.4	–19.1	–/–	–/–	–263.6	–144.6
135.4	61.3	8.4	12.3	–/–	–/–	866.3	259.9

6.2 Segment reporting by line of business

		Non-life		Life
Income	2003	**2004**	2003	**2004**
Gross premiums written and policy fees	3,088.8	3,081.4	4,301.1	3,956.4
Reinsurance premiums ceded	–215.4	–183.6	–53.0	–61.4
Premiums written and policy fees for own account	2,873.4	2,897.8	4,248.1	3,895.0
Change in unearned premiums reserves for own account	–7.2	–4.3	–/–	–/–
Premiums earned and policy fees for own account	2,866.2	2,893.5	4,248.1	3,895.0
Investment income (net)	242.1	247.8	1,437.9	1,306.0
Realized gains and losses on investments (net)[1]	–43.0	–50.2	–66.5	199.2
Income from other services	–1.7	–2.2	–8.3	–9.3
Other income	54.6	26.8	28.6	45.1
Total income	**3,118.2**	**3,115.7**	**5,639.8**	**5,436.0**
Income between business segments	–32.5	–26.3	–25.1	–14.1
Income from associates	5.3	7.4	28.0	6.1
Expenses				
Claims incurred including processing costs (non-life)	–2,039.1	–1,906.5	–/–	–/–
Claims and benefits paid (life)	–/–	–/–	–3,696.3	–3,919.6
Change in actuarial reserve (life)	–/–	–/–	–951.4	–322.1
Surplus and profit allocations to policyholders	–12.4	–13.0	–428.1	–476.1
Acquisition costs	–342.2	–381.7	64.4	–107.8
Administrative and other operating expenses	–564.7	–514.3	–353.2	–353.0
Interest payable	–9.4	–15.5	–145.9	–140.7
Revaluation and amortization of intangible assets	–32.9	–18.3	–16.1	–22.1
Revaluation and depreciation of tangible noncurrent assets	–25.7	–21.8	–37.4	–31.0
Total expenses	**–3,026.4**	**–2,871.1**	**–5,564.0**	**–5,372.4**
Annual profit/loss before tax and minority interests	**91.8**	**244.6**	**75.8**	**63.6**
Tax on income	–43.3	–60.5	–41.7	–9.3
Annual profit/loss after tax and before minority interests	**48.5**	**184.1**	**34.1**	**54.3**
Minority interests	0.0	–/–	0.0	0.3
Annual net profit/loss by business segment	**48.5**	**184.1**	**34.1**	**54.6**
Additional information				
Assets by business segment	10,489.4	10,756.5	43,943.5	44,930.4
Liabilities by business segment	8,179.6	8,158.3	42,696.4	43,348.9
Acquisition of property, plant and equipment and intangible assets for own use	32.8	27.9	15.1	16.7

in CHF m

[1] Including financial liabilities held for trading (derivative financial instruments)

In fisical 2004, Baloise Alternative Investment Strategies Ltd., Cayman Island and Baloise Equity Ltd., Cayman Island were allocated to the life and non-life segments respectively in line with the participation ratios. To enable comparison, the previous year's figures were adjusted accordingly.

	Banking		Other activities/ Group business		Elimination		**Total**
2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**
–/–	–/–	–/–	–/–	–15.2	–15.7	**7,374.7**	**7,022.1**
–/–	–/–	–/–	–/–	15.2	15.7	**–253.2**	**–229.3**
–/–	–/–	–/–	–/–	–/–	–/–	**7,121.5**	**6,792.8**
–/–	–/–	–/–	–/–	0.4	–0.7	**–6.8**	**–5.0**
–/–	–/–	–/–	–/–	0.4	–0.7	**7,114.7**	**6,787.8**
354.9	261.9	41.2	26.6	–46.8	–34.3	**2,029.3**	**1,808.0**
10.9	51.4	57.3	–12.0	–/–	–/–	**–41.3**	**188.4**
19.2	29.0	245.5	237.1	–/–	–/–	**254.7**	**254.6**
56.4	29.0	23.6	17.8	–16.0	–11.5	**147.2**	**107.2**
441.4	**371.3**	**367.6**	**269.5**	**–62.4**	**–46.5**	**9,504.6**	**9,146.0**
13.4	15.1	–18.2	–21.2	62.4	46.5	**–/–**	**–/–**
0.3	0.1	8.0	8.1	–/–	–/–	**41.6**	**21.7**
–/–	–/–	–/–	–/–	8.0	7.0	**–2,031.1**	**–1,899.5**
–/–	–/–	–/–	–/–	–7.9	3.2	**–3,704.2**	**–3,916.4**
–/–	–/–	–/–	–/–	–0.8	–9.9	**–952.2**	**–332.0**
–/–	–/–	–/–	–/–	–/–	–/–	**–440.5**	**–489.1**
–/–	–/–	–/–	–/–	0.7	1.5	**–277.1**	**–488.0**
–167.4	–116.8	–232.7	–215.7	–0.4	–1.0	**–1,318.4**	**–1,200.8**
–235.1	–212.9	–77.5	–68.7	62.8	45.7	**–405.1**	**–392.1**
–3.1	–3.8	–25.4	13.7	–/–	–/–	**–77.5**	**–30.5**
–6.5	–4.6	–5.2	–6.5	–/–	–/–	**–74.8**	**–63.9**
–412.1	**–338.1**	**–340.8**	**–277.2**	**62.4**	**46.5**	**–9,280.9**	**–8,812.3**
29.3	**33.2**	**26.8**	**–7.7**	**–/–**	**–/–**	**223.7**	**333.7**
–15.0	–23.5	–25.4	–5.7	–/–	–/–	**–125.4**	**–99.0**
14.3	**9.7**	**1.4**	**–13.4**	**–/–**	**–/–**	**98.3**	**234.7**
–/–	0.0	–6.9	–13.3	–/–	–/–	**–6.9**	**–13.0**
14.3	**9.7**	**–5.5**	**–26.7**	**0.0**	**0.0**	**91.4**	**221.7**
11,670.6	5,765.8	1,615.1	1,554.1	–3,417.8	–3,386.0	**64,300.8**	**59,620.8**
11,065.6	5,389.0	2,416.5	2,564.6	–3,417.8	–3,386.0	**60,940.3**	**56,074.8**
4.5	3.5	–17.5	32.1	–/–	–/–	**34.9**	**80.2**

6.3 Gross premiums by geographical and business segments

6.3.1 Gross premiums by geographical and business segments 2003

	Non-life	Life	Elimination	Total
Switzerland	1,237.7	3,031.6	–/–	**4,269.3**
Germany	1,122.3	1,077.6	–/–	**2,199.9**
Benelux	583.4	161.2	–/–	**744.6**
Other countries	410.2	30.8	–/–	**441.0**
Elimination	–264.8	–0.1	–15.2	**–280.1**
Total	**3,088.8**	**4,301.1**	**–15.2**	**7,374.7**

in CHF m

6.3.2 Gross premiums by geographical and business segments 2004

	Non-life	Life	Elimination	Total
Switzerland	1,281.0	2,715.1	–/–	**3,996.1**
Germany	1,061.3	1,059.6	–/–	**2,120.9**
Benelux	597.5	150.9	–/–	**748.4**
Other countries	410.8	30.8	–0.2	**441.4**
Elimination	–269.2	0.0	–15.5	**–284.7**
Total	**3,081.4**	**3,956.4**	**–15.7**	**7,022.1**

in CHF m

6.4 Change in gross premiums by geographical and business segments

	Non-life		Life		Total	
	2003	**2004**	**2003**	**2004**	**2003**	**2004**
Switzerland	5.3	3.5	–12.8	–10.4	–8.2	**–6.4**
Germany	38.0	–6.8	7.1	–3.1	20.9	**–5.0**
Benelux	0.6	0.9	1.0	–7.8	0.7	**–1.0**
Other countries	4.1	–4.3	–3.8	–1.2	2.5	**–3.7**
Total	**14.0**	**–1.1**	**–8.1**	**–8.4**	**–0.1**	**–5.4**

in percent of original currency

6.5 Gross premiums by line of business

Non-life	2003	2004	Change in percent
Accident	448.1	435.0	–2.9
Health	122.5	120.9	–1.3
General liability	317.2	314.1	–1.0
Automobile	979.5	1,026.0	4.7
Transport	164.5	151.8	–7.7
Property	914.3	919.7	0.6
Other	39.6	42.3	6.8
Reinsurance assumed	103.1	71.6	–30.6
Total	**3,088.8**	**3,081.4**	**–0.2**
Life			
Single premiums	1,932.4	1,709.8	–11.5
Recurring premiums	2,629.7	2,690.1	2.3
Premiums for investment-type products	–261.0	–443.5	69.9
Total	**4,301.1**	**3,956.4**	**–8.0**

in CHF m

6.6 Investments by business segment

6.6.1 Investments by business segment 2003

	Non-life	Life	Banking	Other activities/ Group business	Total
Fixed-interest securities	4,579.0	20,914.2	3,850.5	181.7	**29,525.4**
Shares	634.6	2,587.7	11.1	242.5	**3,475.9**
Alternative financial assets	240.2	1,076.0	0.0	21.7	**1,337.9**
Derivative financial instruments	47.7	166.9	48.5	29.8	**292.9**
Investment property	1,025.9	4,077.7	45.2	504.6	**5,653.4**
Mortgage loans	396.6	4,818.7	5,787.1	0.0	**11,002.4**
Policy and other loans	62.5	1,088.0	306.1	–/–	**1,456.6**
Participating interests in associates	29.4	153.4	7.5	33.5	**223.8**
Other short-term investments	542.1	1,951.5	55.2	98.6	**2,647.4**
Cash and cash equivalents	251.5	183.5	164.5	92.5	**692.0**
Total	**7,809.5**	**37,017.6**	**10,275.7**	**1,204.9**	**56,307.7**

in CHF m

6.6.2 Investments by business segment 2004

	Non-life	Life	Banking	Other activities/ Group business	Total
Fixed-interest securities	4,708.4	21,962.1	332.3	167.5	**27,170.3**
Shares	932.6	2,905.4	1.6	227.6	**4,067.2**
Alternative financial assets	254.3	1,356.7	0.0	25.1	**1,636.1**
Derivative financial instruments	49.7	172.3	40.5	–/–	**262.5**
Investment property	1,000.1	4,286.1	34.2	298.8	**5,619.2**
Mortgage loans	379.3	4,755.1	4,663.8	0.1	**9,798.3**
Policy and other loans	58.9	1,028.2	312.6	0.6	**1,400.3**
Participating interests in associates	19.6	92.5	0.0	36.1	**148.2**
Other short-term investments	558.2	1,075.6	30.4	346.4	**2,010.6**
Cash and cash equivalents	323.8	221.4	98.8	42.6	**686.6**
Total	**8,284.9**	**37,855.4**	**5,514.2**	**1,144.8**	**52,799.3**

in CHF m

7. Profits arising from investments

7.1 Investment income (net)

	2003	2004
Fixed-interest securities	1,163.5	1,051.3
Shares	95.0	80.8
Alternative financial assets	7.5	2.3
Derivative financial instruments	–/–	–/–
Investment property	259.9	262.7
Mortgage loans	431.8	379.2
Policy and other loans	74.0	61.1
Participating interests in associates	41.6	21.7
Other short-term investments, cash and cash equivalents	31.9	24.7
Total (gross)	**2,105.2**	**1,883.8**
Investment management costs	–75.9	–75.8
Total (net)	**2,029.3**	**1,808.0**
Of which from associates	41.6	21.7

in CHF m

Investment income of CHF 48.8 million (2003: CHF 58.1 million) from value-adjusted mortgage loans and policy and other loans accrued as at December 31, 2004, but has not been recognized in the income statement.

7.2 Realized gains and losses on investments (net) 2003

Realized gains on disposal and book gains	Fixed-interest securities	Shares	Alternative financial assets	Derivative financial instruments[2]	Other short-term investments	Other investments[3]	Total
Held for trading	22.9	40.4	–/–	81.6	0.0	–/–	**144.9**
Available for sale	490.2	422.0	47.1	14.9	1.4	32.6	**1,008.2**
Held to maturity	–/–	–/–	–/–	–/–	–/–	–/–	**–/–**
Originated by the Group	–/–	–/–	–/–	–/–	–/–	20.9	**20.9**
Subtotal	513.1	462.4	47.1	96.5	1.4	53.5	**1,174.0**
Realized losses on disposal and book losses							
Held for trading	–29.4	–3.3	–/–	–217.5	–/–	–/–	**–250.2**
Available for sale	–31.4	–1,422.9	–32.1	–/–	–0.4	–17.0	**–1,503.8**
Held to maturity	–/–	–/–	–/–	–/–	–/–	–/–	**–/–**
Originated by the Group	–/–	–/–	–/–	–/–	–/–	–79.8	**–79.8**
Subtotal	–60.8	–1,426.2	–32.1	–217.5	–0.4	–96.8	**–1,833.8**
Impairment in value charged to income							
Available for sale	–3.6	–128.9	–39.3	–/–	0.0	–24.2	**–196.0**
Held to maturity	–/–	–/–	–/–	–/–	–/–	–67.6	**–67.6**
Reinstatement of original value charged to income[1]							
Available for sale	13.6	736.5	30.2	–/–	–/–	–/–	**780.3**
Held to maturity	0.0	–/–	–/–	–/–	–/–	86.0	**86.0**
Subtotal	10.0	607.6	–9.1	–/–	0.0	–5.8	**602.7**
Subtotal financial instruments	**462.3**	**–356.2**	**5.9**	**–121.0**	**1.0**	**–49.1**	**–57.1**

Continued	Fixed-interest securities	Shares	Alternative financial assets	Derivative financial instruments[2]	Other short-term investments	Other investments[3]	Total
Investment property							
Realized book profits							**44.1**
Realized book losses							**–28.3**
Subtotal investment property							**15.8**
Total investments							**–41.3**
Cumulative impairment in value charged to income (net)	22.1	356.9	146.9	–/–	0.1	398.3	**924.3**

in CHF m

7.3 Realized gains and losses on investments (net) 2004

Realized gains on disposal and book gains	Fixed-interest securities	Shares	Alternative financial assets	Derivative financial instruments[2]	Other short-term investments	Other investments[3]	Total
Held for trading	23.1	24.6	–/–	54.2	0.0	–/–	**101.9**
Available for sale	165.9	382.4	74.5	33.7	2.0	15.5	**674.0**
Held to maturity	0.1	–/–	–/–	–/–	8.7	–/–	**8.8**
Originated by the Group	–/–	–/–	–/–	–/–	–/–	25.7	**25.7**
Subtotal	189.1	407.0	74.5	87.9	10.7	41.2	**810.4**
Realized losses on disposal and book losses							
Held for trading	–10.8	–0.5	–/–	–77.4	–/–	–/–	**–88.7**
Available for sale	–47.3	–261.0	–54.5	–14.1	–0.6	–83.5	**–461.0**
Held to maturity	–23.4	–/–	–/–	–/–	–10.0	–/–	**–33.4**
Originated by the Group	–/–	–/–	–/–	–/–	–/–	–89.7	**–89.7**
Subtotal	–81.5	–261.5	–54.5	–91.5	–10.6	–173.2	**–672.8**
Impairment in value charged to income							
Available for sale	–4.1	–17.4	–33.5	–/–	–/–	–7.2	**–62.2**
Held to maturity	–/–	–/–	–/–	–/–	–/–	–82.4	**–82.4**
Reinstatement of original value charged to income[1]							
Available for sale	2.5	139.0	2.8	–/–	–/–	16.6	**160.9**
Held to maturity	–/–	–/–	–/–	–/–	–/–	99.0	**99.0**
Subtotal	–1.6	121.6	–30.7	–/–	–/–	26.0	**115.3**
Subtotal financial instruments	**106.0**	**267.1**	**–10.7**	**–3.6**	**0.1**	**–106.0**	**252.9**
Investment property							
Realized book profits							**45.0**
Realized book losses							**–109.5**
Subtotal investment property							**–64.5**
Total investments							**188.4**
Cumulative impairment in value charged to income (net)	23.5	233.8	173.9	–/–	–/–	355.5	**786.7**

in CHF m

[1] Upon disposal of financial instruments, any impairment in value charged to the income statements of former periods is registered as reinstatement of original value in the income statement. The difference between the original purchase value and the income from sale is recorded as profit or loss.

[2] Including financial liabilities held for trading (derivative financial instruments)

[3] Mortage loans, policy and other loans, and participating interests in associates

7.4 Unrealized gains and losses (included in capital and reserves)

	2003	2004	Movement in business year
Fixed-interest securities	690.6	775.9	85.3
Shares	321.4	326.3	4.9
Alternative financial assets	138.4	227.0	88.6
Derivative financial instruments held for cash flow hedges	96.6	185.8	89.2
Investment property	–/–	–/–	–/–
Mortgage loans	–/–	–/–	–/–
Policy and other loans	–/–	–/–	–/–
Participating interests in associates	50.0	40.3	–9.7
Other short-term investments	–0.2	0.0	0.2
Subtotal (gross)	1,296.8	1,555.3	258.5
Less amounts relating to			
Deferred acquisition costs (life)	–239.3	–285.3	–46.0
Surplus shares to policyholders (life)	–275.8	–393.5	–117.7
Minority interests	0.1	0.0	–0.1
Deferred tax	–129.1	–135.5	–6.4
Foreign exchange differences	–491.6	–592.5	–100.9
Total (net)	**161.1**	**148.5**	**–12.6**

in CHF m

As in the previons year, the fixed-interest securities classified as at December 31, 2004, as "Available for sale" do not include any securities valued at purchase value.

During the year 2004, no fixed-interest securities without market value were sold. The change in book value is due to the reclassification of securities for which, in the meantime, reliable market values have become available.

Shares not stated at market value to the amount of CHF 9.3 million (2003: CHF 89.2 million) are included in the financial statements at December 31, 2004. It was not possible to establish a market price or make a reliable estimate of the value of these shares. They have been entered at purchase value, or lower if there are justifiable reasons for this.

7.5 Movement in unrealized gains and losses (included in capital and reserves)

	2003	2004
Balance at January 1 (gross)	**781.5**	**1,296.8**
Movement in unrealized gains and losses on financial assets available for sale	368.3	179.0
Movement in unrealized gains and losses on associates	61.0	–9.7
Movement in hedging reserve relating to derivative financial instruments held for cash flow hedges	86.0	89.2
Balance at December 31 (gross)	**1,296.8**	**1,555.3**

in CHF m

8. Investment property

	2003	2004
Balance at January 1	**5,305.7**	**5,653.4**
Additions	464.9	155.6
Additions due to changes in composition of consolidated Group	84.5	–/–
Disposals	–288.2	–85.6
Disposals due to changes in composition of consolidated Group	–28.6	–22.3
Reclassification	29.1	–/–
Change in market value	–6.2	–68.8
Foreign exchange differences	92.2	–13.1
Balance at December 31	**5,653.4**	**5,619.2**

in CHF m

As a result of various restructuring measures in Germany and Belgium, vacated properties for the company's own use were converted to investment properties (see also table 13.2., "Property, plant and equipment for own use"). Most of the investment property is located in Switzerland.

Operating expenses for investment property with rental income came to CHF 76.0 million in 2004 (2003: CHF 80.8 million). Operating expenses for investment property without rental income came to around CHF 1.2 million in the year under review (2003: CHF 1.3 million).

9. Participating interests in associates

	Balance sheet value		Share of profit		Holding	
	2003	2004	2003	2004	2003	2004
DePfa Beteiligungs-Holding II GmbH, Düsseldorf	89.9	84.4	39.8	7.2	26.0%	26.0%
Brinvest N.V., Antwerp	61.4	–/–	–4.8	–/–	31.2%	–/–
Roland Rechtsschutz Versicherungs-AG, Cologne	20.3	20.1	1.5	1.2	25.0%	25.0%
Other	52.2	43.7	5.1	13.3	–/–	–/–
Total	**223.8**	**148.2**	**41.6**	**21.7**		

in CHF m

There are no significant amounts due from or to associates. In fiscal 2004, the participating interest in Brinvest N.V., Antwerp, was sold. Further information about associates is given in Note 34, "Significant subsidiaries and participating interests at December 31, 2004".

10. Derivative financial instruments

	Contract values		Fair value: assets		Fair value: liabilities	
Interest rate instruments	2003	**2004**	2003	**2004**	2003	**2004**
Forward transactions	–/–	–/–	–/–	–/–	–/–	–/–
Swaps	3,539.7	1,661.5	135.3	139.8	125.2	121.6
OTC options	582.0	–/–	10.0	–/–	–/–	–/–
Other	–/–	–/–	–/–	–/–	–/–	–/–
Traded options	0.2	–/–	–/–	–/–	0.0	–/–
Traded futures	–/–	–/–	–/–	–/–	–/–	–/–
Subtotal	4,121.9	1,661.5	145.3	139.8	125.2	121.6
Equity instruments						
Forward transactions	–/–	–/–	–/–	–/–	–/–	–/–
OTC options	1,281.3	202.5	3.7	–/–	31.2	27.0
Traded options	1.4	0.0	0.0	0.0	0.1	–/–
Traded futures	–/–	–/–	–/–	–/–	–/–	–/–
Subtotal	1,282.7	202.5	3.7	0.0	31.3	27.0
Foreign exchange instruments						
Forward transactions	222.7	1,213.7	32.8	6.2	36.8	0.8
Swaps	22.6	0.2	–/–	–/–	1.3	0.2
OTC options	4,635.9	2,888.5	111.1	116.5	57.8	10.7
Traded options	–/–	–/–	–/–	–/–	–/–	–/–
Traded futures	–/–	–/–	–/–	–/–	–/–	–/–
Subtotal	4,881.2	4,102.4	143.9	122.7	95.9	11.7
Total	**10,285.8**	**5,966.4**	**292.9**	**262.5**	**252.4**	**160.3**

in CHF m

11. Investments for account and risk of life insurance policyholders

	2003	**2004**
Fixed-interest securities	101.3	105.3
Shares	599.9	934.5
Other short-term financial instruments	93.1	92.3
Cash and cash equivalents	3.9	11.5
Total	**798.2**	**1,143.6**

in CHF m

For technical reasons, it is possible that there may be slight differences between the investments for account and risk of life insurance policyholders and the corresponding liabilities.

12. Intangible assets

12.1 Intangible assets 2003

	Goodwill	Badwill	Present value of profits from insurance contracts acquired	Other intangible assets	**Total**
Book value at January 1	66.1	–30.7	–/–	127.5	**162.9**
Additions arising from changes in composition of consolidated Group	7.4	–43.4	28.3	0.1	**–7.6**
Additions arising from changes in share of investments held	–/–	–/–	–/–	–/–	**–/–**
Additions from internal development	–/–	–/–	–/–	58.6	**58.6**
Disposals	–/–	–/–	–/–	–15.0	**–15.0**
Disposals arising from changes in composition of consolidated Group	–3.9	–/–	–/–	–/–	**–3.9**
Subsequent goodwill adjustment	–/–	–/–	–/–	–/–	**–/–**
Revaluation and amortization					
Amortization/write-backs	–15.3	15.3	–1.8	–37.5	**–39.3**
Impairment in value charged to income	–37.6	–/–	–/–	–0.7	**–38.3**
Reinstatement of original value charged to income	–/–	–/–	–/–	–/–	**–/–**
Deferred interest	–/–	–/–	–/–	–/–	**–/–**
Foreign exchange differences	–/–	–/–	–/–	4.9	**4.9**
Book value at December 31	16.7	–58.8	26.5	137.9	**122.3**
Cost	591.0	–146.6	28.3	327.9	**800.6**
Accumulated amortization and revaluation	–574.3	87.8	–1.8	–190.0	**–678.3**
Balance at December 31 (net)	**16.7**	**–58.8**	**26.5**	**137.9**	**122.3**

in CHF m

12.2 Intangible assets 2004

	Goodwill	Badwill	Present value of profits from insurance contracts acquired	Other intangible assets	**Total**
Book value at January 1	16.7	–58.8	26.5	137.9	**122.3**
Additions arising from changes in composition of consolidated Group	–/–	–/–	–/–	–/–	**–/–**
Additions arising from changes in share of investements held	11.8	–3.0	–/–	–/–	**8.8**
Additions from internal development	–/–	–/–	–/–	56.1	**56.1**
Disposals	–/–	–/–	–/–	–2.6	**–2.6**
Disposals arising from changes in composition of consolidated Group	–5.2	10.6	–/–	–2.0	**3.4**
Subsequent goodwill adjustment	–/–	–/–	–/–	–/–	**–/–**
Revaluation and amortization					
Amortization/write-backs	–7.5	28.8	0.2	–30.4	**–8.9**
Impairment in value charged to income	–8.3	–/–	–/–	–13.3	**–21.6**
Reinstatement of original value charged to income	–/–	–/–	–/–	–/–	**–/–**
Deferred interest	–/–	–/–	–/–	–/–	**–/–**
Foreign exchange differences	–0.2	–/–	–0.2	–0.1	**–0.5**
Book value at December 31	7.3	–22.4	26.5	145.6	**157.0**
Cost	597.4	–139.0	28.1	331.7	**818.2**
Accumulated amortization and revaluation	–590.1	116.6	–1.6	–186.1	**–661.2**
Balance at December 31 (net)	**7.3**	**–22.4**	**26.5**	**145.6**	**157.0**

in CHF m

13. Tangible noncurrent assets

13.1 Property, plant and equipment for own use 2003

	Land	Buildings	Plant and equipment	**Total**
Cost	96.6	764.0	101.0	**961.6**
Accumulated depreciation and revaluation	–/–	–292.4	–63.9	**–356.3**
Balance at December 31 (net)	**96.6**	**471.6**	**37.1**	**605.3**
Of which assets under finance leases	–/–	139.8	–/–	**139.8**

in CHF in

13.2 Property, plant and equipment for own use 2004

	Land	Buildings	Plant and equipment	**Total**
Book value at January 1	96.6	471.6	37.1	**605.3**
Additions	–/–	6.5	5.4	**11.9**
Additions arising from changes in composition of consolidated Group	–/–	–/–	0.3	**0.3**
Disposals	–6.3	–7.1	–2.5	**–15.9**
Disposals arising from changes in composition of consolidated Group	–/–	–/–	–0.3	**–0.3**
Reclassification	–/–	–/–	–/–	**–/–**
Revaluation and depreciation				
Depreciation	–/–	–18.8	–9.6	**–28.4**
Impairment in value charged to income	–/–	–5.4	–/–	**–5.4**
Reinstatement of original value charged to income	–/–	–/–	–/–	**–/–**
Foreign exchange differences	–0.2	–2.7	–0.1	**–3.0**
Book value at December 31	90.1	444.1	30.3	**564.5**
Cost	90.1	693.1	82.4	**865.6**
Accumulated depreciation and revaluation	–/–	–249.0	–52.1	**–301.1**
Balance at December 31 (net)	**90.1**	**444.1**	**30.3**	**564.5**
Of which assets under finance leases	–/–	135.2	–/–	**135.2**

in CHF m

The assets under financial leasing mainly consist of a lease with purchase option on an administration building occupied by the Group. The lease is contractually fixed until mid 2018 and includes a repayment plan.

13.3 Other tangible noncurrent assets 2003

	Machinery/furniture/ motor vehicles	IT equipment	Total
Cost	128.6	138.9	**267.5**
Accumulated depreciation and revaluation	–69.9	–106.2	**–176.1**
Balance at December 31 (net)	**58.7**	**32.7**	**91.4**
Of which assets under finance leases	0.1	0.7	**0.8**

in CHF m

13.4 Other tangible noncurrent assets 2004

	Machinery/furniture/ motor vehicles	IT equipment	Total
Book value at January 1	58.7	32.7	**91.4**
Additions	11.8	19.6	**31.4**
Additions arising from changes in composition of consolidated Group	0.7	1.0	**1.7**
Disposals	–9.2	–0.8	**–10.0**
Disposals arising from changes in composition of consolidated Group	–0.9	–0.1	**–1.0**
Revaluation and depreciation			
Depreciation	–10.5	–19.6	**–30.1**
Impairment in value charged to income	–/–	–/–	**–/–**
Reinstatement of original value charged to income	–/–	–/–	**–/–**
Foreign exchange differences	–0.3	–0.1	**–0.4**
Book value at December 31	50.3	32.7	**83.0**
Cost	108.8	122.1	**230.9**
Accumulated depreciation and revaluation	–58.5	–89.4	**–147.9**
Balance at December 31 (net)	**50.3**	**32.7**	**83.0**
Of which assets under finance leases	0.0	–/–	**0.0**

in CHF m

14. Deferred acquisition costs

	Non-life		Life		Total	
	2003	**2004**	2003	**2004**	2003	**2004**
Balance at January 1	**153.9**	**174.5**	**656.6**	**811.4**	**810.5**	**985.9**
Deferred during the year under review	266.5	302.3	135.4	163.2	401.9	**465.5**
Written off in the year under review	–249.3	–319.2	71.4	–107.5	–177.9	**–426.7**
Written off in the year under review due to anticipated loss	–2.3	–0.8	–/–	–/–	–2.3	**–0.8**
Change as a result of unrealized gains and losses on investment (shadow accounting)	–/–	–/–	–89.6	–47.9	–89.6	**–47.9**
Disposals arising from changes in composition of the consolidated Group	–/–	–/–	–/–	–/–	–/–	**–/–**
Foreign exchange differences	5.7	–0.9	37.6	–5.4	43.3	**–6.3**
Balance at December 31	**174.5**	**155.9**	**811.4**	**813.8**	**985.9**	**969.7**

in CHF m

15. Loss reserves including claims processing costs

	2003	2004
Balance at January 1 (gross)	**4,196.1**	**4,786.3**
Amount attributable to reinsurers	−280.8	−353.1
Loss reserves for own account	3,915.3	4,433.2
Claims incurred (including claims processing costs)		
For current year	2,017.2	1,957.4
For prior years	13.9	−57.9
Total	**2,031.1**	**1,899.5**
Payments made for loss and claims processing costs		
For current year	−996.7	−939.8
For prior years	−885.6	−815.8
Total	**−1,882.3**	**−1,755.6**
Other movements		
Changes in composition of consolidated Group	239.7	–/–
Foreign exchange differences	129.4	−37.2
Total	**369.1**	**−37.2**
Balance at December 31 (net)	**4,433.2**	**4,539.9**
Loss reserves for own account	4,433.2	4,539.9
Amount attributable to reinsurers	353.1	290.0
Loss reserves at December 31 (gross)	**4,786.3**	**4,829.9**

in CHF m

Particular attention is paid to environmental claims relating to disposal sites, waste, asbestos material and, in general, substances which are harmful to humans and to the environment. Ascertaining when such cases might arise and determining the potential extent of such claims involves much greater uncertainty than in all traditionally used claims models. Therefore, the provisions set up for these claims are surrounded by a higher level of uncertainty. At the end of 2003, these gross provisions, which are included in the total provision, amounted to CHF 320.1 million, and they stood at CHF 284.0 million at the end of 2004. The decline by 36.1 million is due to claims processing amounting to CHF 19.5 million and currency effects amounting to CHF 16.6 million, as a large part of these provisions are held in foreign currencies.

16. Actuarial reserve life

Long-term contracts	2003	2004
Contracts with surplus sharing	32,847.5	33,068.4
Contracts without surplus sharing	138.2	90.3
Total	**32,985.7**	**33,158.7**

in CHF m

17. Policyholder bonuses credited and provision for future policyholder bonuses

	2003	2004
Policyholder bonuses credited	3,214.1	2,996.7
Provision for future policyholder bonuses	849.3	1,223.9
Total	**4,063.4**	**4,220.6**

in CHF m

18. Reinsurance

18.1 Technical provisions and assets from reinsurance

		Gross		Reinsurance assets		Net
	2003	2004	2003	2004	2003	2004
Unearned premiums reserves	493.3	494.1	4.3	4.5	489.0	489.6
Loss reserves	4,786.3	4,829.9	353.1	290.0	4,433.2	4,539.9
Actuarial reserve (life)	32,985.7	33,158.7	294.7	244.3	32,691.0	32,914.4
Policyholder bonuses credited and provision for future policyholder bonuses	4,063.4	4,220.6	–/–	–/–	4,063.4	4,220.6
Total technical provisions	**42,328.7**	**42,703.3**	**652.1**	**538.8**	**41,676.6**	**42,164.5**
Deposits and assets from reinsurance	–/–	–/–	85.0	88.2	–/–	–/–
Impairment in value charged to income	–/–	–/–	–/–	–/–	–/–	–/–
Total reinsurance assets	**–/–**	**–/–**	**737.1**	**627.0**	**–/–**	**–/–**

in CHF m

No single reinsurer or reinsurance contract is so material to the Group that its loss would have a significant effect on consolidated annual net profit.

In 2004, 3.5% (2003: 3.7%) of gross premiums and policy fees were ceded to external reinsurers. 96% (2003: 99%) of reinsurance is ceded to reinsurers rated A (Standard & Poor's) or better.

18.2 Premiums earned and policy fees

18.2.1 Premiums earned and policy fees 2003

	Non-life	Life	Elimination	Total
Direct gross premiums earned	2,982.7	4,301.1	0.0	**7,283.8**
Indirect gross premiums earned	102.1	–/–	–14.8	**87.3**
Total gross premiums earned	**3,084.8**	**4,301.1**	**–14.8**	**7,371.1**
Reinsurance ceded	–218.6	–53.0	15.2	**–256.4**
Total premiums earned and policy fees for own account	**2,866.2**	**4,248.1**	**0.4**	**7,114.7**

in CHF m

18.2.2 Premiums earned and policy fees 2004

	Non-life	Life	Elimination	Total
Direct gross premiums earned	3,004.4	3,956.3	–/–	**6,960.7**
Indirect gross premiums earned	72.5	0.1	–16.5	**56.1**
Total gross premiums earned	**3,076.9**	**3,956.4**	**–16.5**	**7,016.8**
Reinsurance ceded	–183.4	–61.4	15.8	**–229.0**
Total premiums earned and policy fees for own account	**2,893.5**	**3,895.0**	**–0.7**	**6,787.8**

in CHF m

18.3 Deposit assets and liabilities from deposit accounting

	2003	**2004**
Deposit assets	0.3	54.3
Deposit liabilities	–0.2	–12.3
Balance at January 1	**0.1**	**42.0**
Increases in deposits	41.0	1.4
Redemptions	–0.2	0.1
Foreign exchange differences	1.1	–0.4
Balance at December 31	**42.0**	**43.1**
Of which deposit assets[1]	54.3	64.0
Of which deposit liabilities[2]	–12.3	–20.9

in CHF m

[1] Shown in the balance sheet as reinsurance assets
[2] Shown in the balance sheet as deposit fund liabilities arising from reinsurance

19. Liabilities from banking business and bonds

19.1 Liabilities from banking business and financing operations

	2003	2004
Amounts due to banks	1,313.8	185.9
Fixed-term deposits payable	106.3	12.8
Loans	14.1	1.7
Mortgages	0.4	0.9
Savings and bank customer deposits	5,513.9	3,124.0
Medium-term fixed-rate notes	2,064.1	208.7
Mortgage bonds	709.0	790.7
Bonds	1,519.9	1,779.9
Financial leasing liabilities (present value)	170.2	167.9
Total	**11,411.7**	**6,272.5**

in CHF m

Of these, CHF 12.8 million (2003: CHF 106.3 million) relate to subordinated liabilities as at December 31, 2004.

19.2 Bonds

	2003	2004
Balance at January 1	**1,266.0**	**1,519.9**
Initial offer price of newly issued bonds	251.1	250.5
Embedded derivative	–/–	–/–
Deferred tax portion	–/–	–/–
Additions (subtotal)	251.1	250.5
Disposals/redemptions	–/–	–/–
Interest expense	42.2	50.5
Nominal interest	–39.4	–47.7
Accrued interest (subtotal)	2.8	2.8
Present value statement owing to application of hedge accounting	–/–	6.7
Balance at December 31	**1,519.9**	**1,779.9**

in CHF m

19.3 Terms applicable to the bonds outstanding

	Baloise Finance (Jersey) Ltd.	Bâloise-Holding	Bâloise-Holding
Nominal value in CHF m	200	300	600
Interest rate	1.0%	3.25%	4.25%
Effective interest rate	3.200%	3.250%	4.250%
Advance redemption date	–/–	–/–	–/–
Redemption amount	100%	100%	100%
Conversion rights	in UBS shares	no	no
Year of issue	1998	1998	2000
Redemption date	4.7.2006	4.7.2008	9.28.2005
Security number	SWX 858858	SWX 858851	SWX 1123532

	Baloise Bank SoBa	Bâloise-Holding	Baloise-Holding
Nominal value in CHF m	175	250	250
Interest rate	3.625%	3.375%	2.375%
Effective interest rate	3.625%	3.375%	2.375%
Advance redemption date	–/–	–/–	–/–
Redemption amount	100%	100%	100%
Conversion rights	no	no	no
Year of issue	2002	2003	2004
Redemption date	6.12.2007	12.15.2009	12.20.2010
Security number	SWX 1422292	SWX 1726032	SWX 2011789

19.4 Reconciliation between minimum lease and their present value for financial leasing

Lease period	2003	**2004**
< 1 year	10.2	10.4
1 – 5 years	45.3	48.8
> 5 years	195.4	180.9
Total minimum lease payments	**250.9**	**240.1**
Future finance expenses	–80.7	–72.2
Total present value	**170.2**	**167.9**

in CHF m

Including property for own use in accordance with section 13 of the Notes.

20. Financial provisions for the year 2004

	Restructuring	Other	Total
Balance at January 1	**22.7**	**96.2**	**118.9**
Addition due to changes in composition of consolidated Group	–/–	–/–	**–/–**
Currency translation	–/–	–0.6	**–0.6**
Additional provisions charged to income	0.7	24.6	**25.3**
Unused amounts released and charged to income	–17.7	–1.4	**–19.1**
Amounts used not charged to income	–1.1	–5.5	**–6.6**
Increase owing to mark-up for interest	–/–	–/–	**–/–**
Balance at December 31	**4.6**	**113.3**	**117.9**

in CHF m

The financial provisions for restructuring primarily contain funds for the reorganization of businesses acquired in the past few years in Switzerland. The other provisions are earmarked mostly for legal advice and procedural risks in law cases.

21. Tax on income

21.1 Current and deferred tax on income

	2003	2004
Switzerland		
Current tax	18.8	28.7
Deferred tax	–19.3	2.3
Subtotal	–0.5	31.0
Germany		
Current tax	71.0	33.2
Deferred tax	16.4	28.7
Subtotal	87.4	61.9
Benelux		
Current tax	3.3	7.5
Deferred tax	14.9	–14.3
Subtotal	18.2	–6.8
Other countries		
Current tax	21.5	16.9
Deferred tax	–1.7	–4.0
Subtotal	20.3	12.9
Total all countries		
Current tax	114.6	86.3
Deferred tax	10.8	12.7
Total	**125.4**	**99.0**

in CHF m

21.2 Expected and actual tax on income

	2003	2004
Expected tax on income	39.9	76.9
Increase/decrease due to		
Tax-exempt interest and dividend credits	−5.1	−1.1
Tax-exempt gains from shares and participating interests	−1.7	−14.4
Nondeductible losses from shares and participating interests	43.5	16.0
Withholding tax for dividends	–/–	0.0
Change in interest rates	−3.4	−0.3
Tax elements unrelated to accounting period	59.1	10.3
Disposal of enterprises	–/–	20.4
Other factors	−6.9	−8.8
Actual tax on income	**125.4**	**99.0**

in CHF m

The expected average tax rate of the Baloise Group came to 17.8% in 2003 and to 23.0% in 2004. These rates correspond to the weighted average of the tax rates of those countries in which the Baloise Group operates. The increase of the actual as against the expected tax on income for the disposal of enterprises amounting to CHF 20.4 million results to greatest extent from the sale of Mercator Bank.

21.3 Deferred tax assets and liabilities

Reasons for deferred tax assets	2003	2004
Unearned premiums reserves	24.7	20.0
Loss reserves	8.5	7.8
Actuarial reserve (life)	362.5	354.9
Unrealized losses on investments	0.4	3.5
Losses carried forward	45.9	16.1
Other	463.9	473.8
Total	**905.9**	**876.1**
Reasons for deferred tax liabilities		
Deferred acquisition costs	404.2	403.1
Unearned premiums reserves	29.3	30.7
Loss reserves	183.3	194.5
Actuarial reserve (life)	132.1	168.9
Unrealized gains on financial assets	134.3	141.7
Depreciable assets	67.3	60.8
Other intangible assets	2.4	2.8
Other	687.9	635.9
Total	**1,640.8**	**1,638.4**
Total (net)	**734.9**	**762.3**

in CHF m

The tax on income payable at the end of 2003 and 2004, which is included in the balance sheet under “Other liabilities and deferred income”, amounted to CHF 108.5 million and 125.0 million respectively. At December 31, 2004, the Baloise Group capitalized losses brought forward that can be offset against tax amounting to CHF 48.8 million (subject to statutory regulations; 2003: CHF 143.4 million). All expire after five years or more.

As at December 31, 2004, no tax assets were capitalized on losses carried forward amounting to CHF 606.7 million (2003: CHF 584.3 million). Of these, CHF 21.4 million expire after one year, a further CHF 0.5 million expire after two to four years and CHF 584.8 million expire after five or more years.

22. Number of employees and personnel costs

The Baloise Group had 8,090 employees on December 31, 2004; on December 31, 2003, the number of employees was 8,745. Total personnel costs for the fiscal year 2004 amounted to CHF 1,052.9 million, compared with CHF 1,100.6 million in the previous year.

23. Benefits due to employees

The most significant part of total personnel costs consists of actual direct benefits provided to employees. These are divided into the following categories: short-term and long-term benefits, postemployment benefits, termination benefits and equity benefits.

23.1 Assets and liabilities relating to employee benefits

	Assets relating to employee benefits		Liabilities relating to employee benefits	
Assets relating to	2003	**2004**	2003	**2004**
Short-term benefits	8.6	8.3	110.4	93.9
Postemployment benefits: defined contribution plans	–/–	–/–	2.8	3.0
Postemployment benefits: defined benefit plans	30.2	25.0	491.9	492.2
Other long-term benefits	–/–	–/–	23.6	24.3
Termination benefits	2.4	–/–	51.3	49.6
Equity benefits	–/–	–/–	–/–	–/–
Total	**41.2**	**33.3**	**680.0**	**663.0**

in CHF m

23.2 Benefits from occupational benefit plans

Benefits from occupational benefit plans comprise all amounts provided for current employees and pensioners.

23.2.1 Liabilities relating to defined benefit plans

	2003	**2004**
Present value of funded obligations	–1,785.1	–1,783.7
Fair value of plan assets	1,716.0	1,763.5
Funding surplus/shortfall	–69.1	–20.2
Present value of unfunded obligations	–497.2	–526.1
Unrecognized actuarial gains or losses	202.0	167.1
Net liabilities relating to defined benefit plans	**–364.3**	**–379.2**
Of which disclosed as liabilities	–491.9	–492.2
Of which disclosed as assets	30.2	25.0
Of which not disclosed as assets	97.4	88.0

in CHF m

Liabilities for other benefits, previously totalled together as a single item, has been broken down into its individual components and recorded in the table above.

In countries in which pension plans are secured by means of separate funds into which contributions are made, it is possible that funding surpluses or shortfalls may arise, as evidenced in the table above. Such surpluses are only capitalized and recognized as assets to the extent that they represent future cost savings to the Baloise Group.

The net liabilities relating to defined benefit plans do not contain any reimbursement rights. The plan assets include shares in Bâloise-Holding which had a market value of CHF 38.4 million at December 2003 and CHF 39.1 million at December 2004. They do not include property leased to the Baloise Group.

23.2.2 Expenses relating to defined benefit plans

	2003	**2004**
Current service costs	66.8	65.7
Interest costs	91.0	88.7
Expected return on plan assets	–50.7	–50.5
Redemption of actuarial losses or gains	19.6	1.6
Effects from plan cuts and plan compensation payments	1.0	–2.1
Effects of any changes and use restrictions	–21.5	–8.5
Employees’ contributions	–13.0	–15.4
Total expense relating to defined benefit plans	**93.2**	**79.5**

in CHF m

Expense for other benefits, previously totalled together as a single item, has been broken down into its individual components and recorded in the table above.

This expediture has been recorded under “Administrative and other operating expenses.”

23.2.3 Income from plan assets

	2003	**2004**
Expected return on plan assets	–50.7	–50.5
Gains or losses on plan assets	–2.3	–28.9
Total income from plan assets	**–53.0**	**–79.4**

in CHF m

23.2.4 Net obligations in respect of pension benefits

	2003	2004
Balance at January 1	**327.8**	**424.1**
Foreign exchange differences	29.0	–4.2
Addition due to changes in composition of consolidated Group	49.4	0.0
Disposal due to changes in composition of consolidated Group	–0.5	–4.2
Amount recognized in income statement	74.8	78.6
Payments by employer	–56.4	–63.9
Balance at December 31	**424.1**	**430.4**

in CHF m

23.2.5 Actuarial assumptions

	2003	2004
Discount rate	4.1	3.8
Expected rate of return on plan assets	3.0	3.0
Expected increases in wages and salaries	2.2	1.9
Expected increases in pension benefits	1.2	0.8

in percent

Actuarial and other assumptions are used in calculating expenditure and obligations relating to defined benefit plans, by company and by country. The assumptions set out above are weighted averages.

23.3 Other long-term employee benefits

Benefits payable to current employees twelve months or more after the end of the fiscal year are disclosed separately in accordance with specific requirements. The requirements are similar to those applying to pension obligations. Most of the benefits are employee service anniversary benefits. At December 31, 2004, the present value of the obligation was CHF 24.2 million (2003: CHF 23.6 million). No plan assets were deducted for long-term benefits. Other long-term employee benefits amounting to CHF 2.8 million (2003: CHF 3.0 million) are included in the income statement.

23.4 Equity benefits: employee shares

During the year under review, 190,294 shares (2003: 212,744 shares) were purchased through the Baloise Employee Trust set up in 1989 at a price of CHF 23.80 (2003: CHF 23.10). The fair market value of the shares subscribed amounted to CHF 47.65 (2003: CHF 45.90).

23.5 Equity benefits: share participation scheme

	2003	2004
Number of shares subscribed to	382,601	413,166
Blocked until	5.31.2006	5.31.2007
Subscription price per share in CHF	38.98	45.81
Value of shares subscribed to in CHF m	14.9	18.9
Market value of subscribed shares at time of subscription in CHF m	16.4	20.8

23.6 Equity benefits: direct allocation of shares

	2003	2004
Number of shares subscribed to	45,613	41,143
Blocked until	5.31.2006	5.31.2007
Subscription price per share in CHF	36.63	44.90
Value of shares subscribed to in CHF m	1.7	1.8
Market value of subscribed shares at time of subscription in CHF m	2.0	2.1

23.7 Equity benefits: share option scheme

	2001	2002
Stock exchange designation for options	BALUP	BALIX
Number of options issued	6,666,040	2,088,103
Blocked until	1.6.2003	1.6.2004
Number of underlying Bâloise-Holding shares	66,660	41,762
Exercise price in CHF	167.80	197.10
Expiry date	15.6.2005	15.6.2005
Expenses of the Baloise Group in CHF m	1.6	1.3

The benefits listed above originate from the share option schemes of the years 2001 and 2002.

24. Capital and reserves

24.1 Share capital

	Number of own shares	Number of shares in circulation	Number of shares issued	Share capital
Balance at December 31, 2003	**414,303**	**54,892,847**	**55,307,150**	**5.5**
Purchase/disposals of own shares	–2,311	2,311	–/–	–/–
Capital increases	–/–	–/–	–/–	–/–
Share buy-back and cancellation	–/–	–/–	–/–	–/–
Balance at December 31, 2004	**411,992**	**54,895,158**	**55,307,150**	**5.5**

in CHF m

The Bâloise-Holding registered shares are fully paid up and have a nominal value of CHF 0.10 (2003: CHF 0.10). Entry in the share register is limited to 2% of voting rights for individuals and bodies corporate. In the course of its normal investment business, the Baloise Group purchases and sells its own shares.

Capitalization regulations: Under supervisory law, minimum capital regulations (solvency regulations) apply to subsidiaries which carry out insurance business. With regard to the business years 2003 and 2004, the subsidiaries complied with all relevant supervisory regulations in respect of capitalization.

24.2 Dividends

Dividends proposed are not paid until they have been approved by the Annual General Meeting. At the Annual General Meeting on May 18, 2005, a dividend of CHF 1.10 per share (2003: CHF 0.60) will be proposed for the 2004 fiscal year, a total figure of CHF 60.8 million (2003: CHF 33.2 million). The proposed dividend has not been included in the consolidated financial statements for the 2004 fiscal year. It will be charged to accumulated profit following the adoption of the resolution at the 2005 Annual General Meeting.

Restrictions on dividend payments by subsidiaries: Subsidiaries of the Baloise Group which carry out insurance business are subject to certain supervisory restrictions relating to dividend payments.

25. Earnings per share

	2003	**2004**
Consolidated net profit in CHF m	91.4	221.7
Average number of outstanding shares	54,794,476	54’843’390
Earnings per share in CHF	**1.67**	**4.04**

The diluted net earnings coincide with the basic earnings per share because none of the existing share option plans (for capital market transactions or for employee share schemes) have a dilutive effect. The option holder’s counterparty is a financial institution outside the Group, which will procure the shares required on the market if the options are exercised.

26. Minority interests

	2003	**2004**
Balance at January 1	**28.1**	**40.7**
Share of consolidated net profit	6.9	13.0
Change in share of unrealized gains and losses in capital and reserves	–0.2	–0.1
Addition/disposal due to changes in share of investment held	11.6	20.3
Addition/disposal due to changes in composition of consolidated Group	–/–	–1.3
Dividends paid	–7.8	–8.8
Foreign exchange differences	2.1	–0.3
Balance at December 31	**40.7**	**63.5**

in CHF m

27. Interest payable

	2003	**2004**
Interest on policyholder bonuses credited	84.3	80.0
Savings and customer deposits	107.9	70.5
Medium-term fixed-rate notes	90.3	76.4
Mortgage bonds	9.2	33.6
Bonds	42.2	57.2
Other interest	71.2	74.4
Total	**405.1**	**392.1**

in CHF m

28. Related-party transactions

In the course of its ordinary business activities, the Baloise Group conducts transactions with associated companies and with members of the Board of Directors and the Corporate Executive Committee of Bâloise-Holding. Deutscher Ring Krankenversicherung, a mutual insurance company, is not included in the consolidation of the Baloise Group, yet is linked with Deutscher Ring Lebensversicherung and Deutscher Ring Sachversicherung through an organization agreement and is therefore considered to be a related party. These transactions are not material to the Baloise Group either individually or in aggregate and are conducted at market conditions.

Included in balance sheet and income statement	2003	**2004**
Mortgage loans	2.7	12.6
Policy and other loans	7.7	11.5
Receivables arising out of insurance operations	1.2	0.9
Other receivables	0.2	0.1
Other liabilities	–/–	–/–
Gross premiums written and policy fees	0.1	0.2
Investment income	3.5	1.1
Other income	0.4	0.1

in CHF m

Remuneration remitted to the members of the Board of Directors and the Corporate Executive Committee amounted to CHF 9.0 million in fiscal 2004 (2003: CHF 7.7 million).

In the year under review, provisions amounting to CHF 0.6 million were set aside for expenditure in the event of the termination of employment of persons in key management positions.

29. Supplemental cash flow disclosure

	2003	**2004**
Cash and bank balances	691.9	686.5
Cash equivalents	0.1	0.1
Total	**692.0**	**686.6**

in CHF m

30. Market risk relating to financial instruments

The Baloise Group conducts insurance business in various European countries and holds investments worldwide and is therefore exposed to financial risks, such as currency risk, credit risk, interest rate risk, liquidity risk and market risk.

In 1998, the Baloise Group implemented comprehensive, groupwide risk management at all levels to control these risks. This involves both the active operational management of individual and portfolio risks on the finance and insurance side, and the development of general risk-based business management systems. Not only does this provide security for shareholders and clients; it also leads to a positive rating on the capital market. By benchmarking all activities based on their contribution to value added (measured by the return on risk-adjusted capital), it is possible to focus on the most profitable segments.

Decentralized risk management units track economic market developments on a monthly basis and the effects of these on the risk portfolio and individual risk capacity. In addition, they ensure that limits are being adhered to and market-derived benchmarks monitored, thus ensuring that financial risk is restricted to market risk that cannot be dealt with by diversification. Stochastic and other methods (value at risk for operational short-term management, extreme value methods for long-term management) and extensive scenario analyses are used to manage the remaining market risk. By applying this risk management concept, the Baloise Group is in a position to react quickly to changes in the market environment and to optimize its strategic long-term-position profitably.

30.1 Derivative financial instruments: fair value hedges

	Contract values		Fair value: assets		Fair value: liabilities	
Interest rate instruments	2003	**2004**	2003	**2004**	2003	**2004**
Forward transactions	–/–	–/–	–/–	–/–	–/–	–/–
Swaps	201.6	1,369.0	6.5	37.7	–/–	21.4
OTC options	582.0	–/–	10.1	–/–	–/–	–/–
Other	–/–	–/–	–/–	–/–	–/–	–/–
Traded options	–/–	–/–	–/–	–/–	–/–	–/–
Traded futures	–/–	–/–	–/–	–/–	–/–	–/–
Total	**783.6**	**1,369.0**	**16.6**	**37.7**	**–/–**	**21.4**

in CHF m

30.2 Derivative financial instruments: cash flow hedges

	Contract values		Fair value: assets		Fair value: liabilities	
Interest rate instruments	2003	**2004**	2003	**2004**	2003	**2004**
Forward transactions	–/–	–/–	–/–	–/–	–/–	–/–
Swaps	2,748.8	192.6	28.8	2.0	14.3	0.2
OTC options	–/–	–/–	–/–	–/–	–/–	–/–
Other	–/–	–/–	–/–	–/–	–/–	–/–
Traded options	–/–	–/–	–/–	–/–	–/–	–/–
Traded futures	–/–	–/–	–/–	–/–	–/–	–/–
Subtotal	2,748.8	192.6	28.8	2.0	14.3	0.2
Foreign exchange instruments						
Forward transactions	–/–	866.8	–/–	0.2	–/–	–/–
Swaps	–/–	–/–	–/–	–/–	–/–	–/–
OTC options	1,313.3	1,408.4	110.9	116.1	–/–	–/–
Other	–/–	–/–	–/–	–/–	–/–	–/–
Traded options	–/–	–/–	–/–	–/–	–/–	–/–
Traded futures	–/–	–/–	–/–	–/–	–/–	–/–
Subtotal	1,313.3	2,275.2	110.9	116.3	–/–	–/–
Total	**4,062.1**	**2,467.8**	**139.7**	**118.3**	**14.3**	**0.2**

in CHF m

30.3 Currency risk
The insurance activities of the Baloise Group are conducted almost entirely in Swiss francs and in euro, and therefore the technical provisions are also predominantly in these two currencies. Most of the provisions are currency-matched by investments. In order to increase income, the Swiss companies hold a net euro position of CHF 2,807.3 million (2003: CHF 4,119.7 million), a net US dollar position of CHF 446.7 million (2003: CHF 237.6 million) and a net Japanese yen position of CHF 23.7 million (2003: CHF 11.0 million). The remaining currency excess positions are of little significance. For risk reasons, USD foreign currency exposure was almost fully hedged and EUR exposure hedged to around one third.

30.4 Credit risk
Credit risk is defined as the risk that one party or counterparty to a financial instrument will fail to discharge an obligation. The risk is managed by reviewing the creditworthiness of each individual counterparty, setting high standards as regards their rating. As the credit risk of the Baloise Group is spread over a large number of counterparties, clients, etc., the Baloise Group has no significant credit risk with a single counterparty.

Credit risk grows as the concentration of counterparties in a single line of business or geographical area increases. Economic developments which affect entire lines of business or geographical areas can put at risk the debt-paying ability of a whole group of otherwise independent counterparties. For this reason, the Baloise Group permanently reviews its portfolios of counterparties on a groupwide basis.

30.5 Concentration of credit risks

Shares and fixed-interest securities >10% of consolidated capital and reserves	2003	**2004**
Confederation of Switzerland	1,507.4	1,694.6
Federal Republic of Germany	745.5	1,150.5
UBS AG, Zurich/Basel	1,105.9	1,012.1
Eurohypo AG, Frankfurt a.M.	506.4	929.5
Bayerische Landesbank, Munich	311.8	820.3
Kingdom of Belgium	2,714.8	806.3
Landesbank Baden-Württemberg, Stuttgart	560.6	770.6
Hypo Real Estate, Munich	275.2	584.9
Bayerische Hypo- und Vereinsbank, Munich	322.6	581.0
HSH Nordbank, Hamburg/Kiel	305.0	516.1
Republic of Italy	497.2	486.4
Republic of Austria	491.6	478.0
Allgemeine Hypothekenbank Rheinboden AG	270.6	473.4
DZ Bank AG, Frankfurt a.M.	329.2	473.3
Pfandbriefbank Schweizerischer Hypothekarinstitute	236.0	472.9
DePfa Bank plc, Dublin	317.2	389.2
Dexia Bank, Brussels	287.3	378.0
Republic of France	318.0	374.1
Hypothekenbank in Essen	299.0	345.1

in CHF m

Time deposits make up CHF 699.0 million of the total amount placed with UBS AG, Zurich/Basel (2003: CHF 668.0 million).

30.6 Interest rate risk of financial instruments
Interest rate risk refers to the potential fluctuations in the market value of assets and liabilities as a result of changes in market interest rates. In the Baloise Group, the interest rate risk for fixed-interest securities is controlled by regular, active, benchmark-oriented reviews of maturity dates.

30.7 Liquidity risks

30.7.1 Liquidity risk at December 31, 2003

	Due in: <1 year	Due in: 1–5 years	Due in: >5 years	Total
Assets with due date	15,387.8	18,995.9	14,687.1	**49,070.8**
Assets without fixed due date	–/–	–/–	–/–	**15,230.0**
Liabilities with due date	–9,049.1	–2,336.1	–4,458.0	**–15,843.2**
Liabilities without fixed due date	–/–	–/–	–/–	**–45,097.1**
Net liquidity risk	**6,338.7**	**16,659.8**	**10,229.1**	**3,360.5**

in CHF m

30.7.2 Liquidity risk at December 31, 2004

	Due in: <1 year	Due in: 1–5 years	Due in: >5 years	Total
Fixed-interest securities	1,107.9	12,866.8	13,195.6	**27,170.3**
Mortgage loans	3,719.0	5,175.7	903.6	**9,798.3**
Policy and other loans	397.7	665.5	337.1	**1,400.3**
Other investments	1,906.6	104.0	–/–	**2,010.6**
Other assets	3,086.1	1.0	–/–	**3,087.1**
Assets without fixed due date	–/–	–/–	–/–	**16,154.2**
Total	**10,217.3**	**18,813.0**	**14,436.3**	**59,620.8**
Liabilities from banking business and loans	–2,897.6	–1,564.2	–1,810.6	**–6,272.4**
Payables arising out of insurance operations	–2,012.5	–15.3	–0.3	**–2,028.1**
Other liabilities	–1,532.2	–49.6	–519.5	**–2,101.3**
Liabilities without fixed due date	–/–	–/–	–/–	**–45,673.0**
Total	**–6,442.3**	**–1,629.1**	**–2,330.4**	**–56,074.8**
Net liquidity risk	**3,775.0**	**17,183.9**	**12,105.9**	**3,546.0**

in CHF m

30.8 Market value of financial assets and liabilities and market risks

		Book value		Market value
	2003	**2004**	2003	**2004**
Fixed-interest securities held to maturity	10,348.6	10,455.2	10,371.0	10,765.1
Mortgage loans	11,002.4	9,798.3	11,376.7	9,964.5
Policy and other loans	1,456.6	1,400.3	1,509.7	1,432.4
Liabilities from banking business and loans	11,411.7	6,272.5	11,548.8	6,351.4

in CHF m

The foregoing table contains information on the book and market values of significant financial assets and liabilities which are not shown in the balance sheet at market or fair value.

31. Companies consolidated on a proportionate basis

Included in balance sheet and income statement	2003	2004
Investments	768.9	707.9
Intangible assets and tangible noncurrent assets	31.7	36.1
Liabilities	758.0	668.8
Capital and reserves	158.8	181.8
Income	149.5	158.7
Expenses	131.6	140.1

in CHF m

32. Contingent liabilities and commitments

32.1 Legal disputes

The Baloise Group and its subsidiaries are constantly faced with legal disputes, claims and complaints which in most cases stem from normal insurance operations. No new facts in this respect have been reported to the Corporate Executive Committee since the last balance sheet date that could have a significant impact on the consolidated annual accounts 2004.

32.2 Capital commitments

Commitments entered into for the future purchase of	2003	2004
Investments	469.5	**263.5**
Tangible noncurrent assets	–/–	–/–
Intangible assets	–/–	–/–
Total commitments entered into	**469.5**	**263.5**
Of which relating to joint ventures	–/–	–/–
Of which own share of joint venture capital commitments	–/–	–/–

in CHF m

Commitments entered into for the future purchase of investments include private equity commitments, which are unfinanced commitments toward direct investment in private equity or investment in private equity funds.

32.3 Warranties and guaranties for the benefit of third parties

The Baloise Group has issued warranties and incurred obligations to third parties, associates, partnerships and joint ventures. These include obligations under contracts to pay capital contributions or contributions to capital and reserves, to allocate funds to cover redemptions or interest payments due, or to provide warranties in connection with their business activities. The Baloise Group is not aware of any cases of default which could have an effect on warranties.

32.4 Warranties and guaranties for the benefit of third parties

	2003	2004
Warranties	634.3	598.8
Guaranties	328.3	377.4
Total warranties and guaranties for the benefit of third parties	**962.6**	**976.2**
Of which for the benefit of partners in joint ventures	–/–	–/–
Of which from joint ventures	–/–	–/–
Of which for the benefit of joint ventures	–/–	–/–

in CHF m

32.5 Assets assigned or pledged and securities lending

		Assets		Amount of hedged obligation
	2003	2004	2003	2004
Investments	4,030.6	3,601.5	1,665.6	771.4
Tangible noncurrent assets	–/–	–/–	–/–	–/–
Intangible assets	–/–	–/–	–/–	–/–
Other assets	–/–	3.7	–/–	–/–
Total	**4,030.6**	**3,605.2**	**1,665.6**	**771.4**

in CHF m

32.6 Obligations under operating leases

2005	2.8
2006	2.1
2007	1.8
2008	0.1
2009 and later	0.2
Total	**7.0**

in CHF m

33. Events after the balance sheet date

Up to the completion of the present consolidated financial statements on March 23, 2005, we were not aware of any events that would have a significant effect on the financial statements as a whole.

34. Significant subsidiaries and participating interests at December 31, 2004

Switzerland	Principal activity	Business segments[1]	Holding in percent	Method of inclusion[2]	Currency	Share/ company capital in millions	Total assets in millions	Gross premiums/ policy fees in millions
Bâloise-Holding, Basel	Holding	O	Holding	F	CHF	5.5	2,192.6	–/–
Baloise Insurance Company, Basel	Non-life	NL	100.00	F	CHF	75.0	5,516.5	1,281.1
Baloise Life Insurance Company, Basel	Life	L	100.00	F	CHF	50.0	25,230.9	2,715.0
Baloise Bank SoBa, Solothurn	Banking	B	100.00	F	CHF	50.0	5,190.4	–/–
Haakon AG, Basel	Other	O	74.75	F	CHF	0.2	26.1	–/–
Baloise Asset Management Switzerland AG, Basel	Asset management	B	100.00	F	CHF	1.5	15.1	–/–
Baloise Asset Management International AG, Basel	Investment advice	B	100.00	F	CHF	1.5	7.7	–/–

Germany								
Basler Versicherung Beteiligungsgesellschaft mbH, Hamburg	Holding	O	100.00	F	EUR	20.5	254.7	–/–
Baloise Beteiligungs-Holding GmbH, Bad Homburg	Holding	O	100.00	F	EUR	0.0	115.1	–/–
Deutscher Ring Lebensversicherungs-AG, Hamburg	Life	L	100.00	F	EUR	22.0	7,771.1	528.9
SECURITAS Gilde Lebensversicherung AG, Bremen	Life	L	100.00	F	EUR	4.1	958.3	77.3
Deutscher Ring Sachversicherungs-AG, Hamburg	Non-Life	NL	100.00	F	EUR	50.0	396.0	135.2
Basler Securitas Versicherungs-Aktiengesellschaft, Bad Homburg	Non-Life	NL	100.00	F	EUR	15.1	953.8	442.9
Deutscher Ring Bausparkasse AG, Hamburg	Banking	B	100.00	F/P	EUR	12.8	560.5	–/–
Deutscher Ring Beteiligungsholding GmbH, Hamburg	Other	O	65.00	F/P	EUR	12.8	324.7	–/–
DePfa Beteiligungs-Holding II GmbH, Düsseldorf	Other	O	26.00	E	EUR	–/–	–/–	–/–
Deutscher Ring Financial Services GmbH, Hamburg	Other	O	100.00	F/P	EUR	0.1	6.1	–/–
Grocon Erste Grundstücksgesellschaft mbH, Hamburg	Other	O	100.00	F	EUR	0.7	16.9	–/–
Grocon Zweite Grundstücksgesellschaft mbH, Hamburg	Other	O	100.00	F/P	EUR	1.5	14.8	–/–
OVB Vermögensberatung AG, Köln	Other	O	54.44	F/P	EUR	10.0	59.4	–/–
Roland Rechtsschutz Beteiligungs GmbH, Cologne	Other	O	60.00	F/P	EUR	0.1	22.3	–/–
Roland Rechtsschutz Versicherungs-AG, Cologne	Other	O	25.02	E	EUR	–/–	–/–	–/–
Zeus Vermittlungsgesellschaft mbH, Hamburg	Other	O	90.10	F/P	EUR	0.5	17.6	–/–

Belgium								
Mercator Verzekeringen N.V., Ghent/Antwerp	Life and non-life	L/NL	100.00	F	EUR	185.0	2,722.0	399.2
Amazon Insurance N.V., Antwerp	Non-life	NL	100.00	F	EUR	3.7	21.0	16.7
Mercator, Re N.V., Antwerp	Reinsurance	NL	100.00	F	EUR	1.2	5.3	0.0
Euromex N.V., Antwerp	Non-life	NL	100.00	F	EUR	2.5	50.6	19.8
Corluy en C° Beurvennootschap N.V., Antwerp	Banking	B	37.50	E	EUR	–/–	–/–	–/–
Amid N.V., Ghent	Other	O	97.85	F	EUR	0.5	2.7	–/–
Antwerp Real Estate N.V., Antwerp	Other	O	84.00	F	EUR	1.2	3.1	–/–
Automobielcenter Gent N.V., Ledeberg	Other	O	74.38	F	EUR	0.3	5.5	–/–
Hondius N.V., Antwerp	Other	O	100.00	F	EUR	2.5	10.6	–/–
Merno-Immo N.V., Ghent	Other	O	99.75	F	EUR	14.5	17.9	–/–
Plastic Investment Company, Kortrijk	Other	O	29.00	E	EUR	–/–	–/–	–/–
Sogaplim N.V., Ghent	Other	O	50.00	P	EUR	4.2	17.4	–/–

[1] L: Life, NL: Non-life, B: Banking, O: Other activities/Group business
[2] F: Fully consolidated, P: Consolidated on a proportionate basis, E: Stated at equity valuation

Continued

Luxembourg	Principal activity	Business segments[1]	Holding in percent	Method of inclusion[2]	Currency	Share/ company capital in millions	Total assets in millions	Gross premiums/ policy fees in millions
Bâloise (Luxembourg) Holding S.A., Luxembourg	Holding	O	100.00	F	CHF	437.9	957.2	–/–
Bâloise Assurances Luxembourg S.A., Luxembourg	Non-life	NL	100.00	F	EUR	7.5	123.1	26.0
Bâloise Vie Luxembourg S.A., Luxembourg	Life	L	100.00	F	EUR	12.5	456.3	23.0
Baloise Fund Invest Advico, Luxembourg	Investment advice	B	100.00	F	EUR	0.1	4.1	–/–

Austria								
Basler Versicherungs-Aktiengesellschaft in Österreich, Vienna	Life and non-life	L/NL	100.00	F	EUR	5.1	465.4	70.9
Basler osiguranje d.d., Zagreb	Non-life	NL	97.00	F	HRK	18.0	49.0	16.2
Basler Zivotno osiguranje d.d., Zagreb	Life	L	97.00	F	HRK	15.0	30.2	8.0
Basler Immobilien GmbH, Vienna	Other	O	100.00	F	EUR	14.5	40.0	–/–

Other countries								
Baloise Insurance Co. (I.O. M.) Ltd., Douglas / Isle of Man/British Isles	Reinsurance	NL	100.00	F	CHF	31.2	438.5	–/–
Baloise Insurance Company (Bermuda) Ltd., Hamilton / Bermuda	Reinsurance	NL	100.00	F	CHF	5.0	572.7	–/–
Baloise Alternative Investment Strategies Ltd., Grand Cayman, Cayman Islands	Asset management	L/NL/O	100.00	F	USD	0.0	1,137.0	–/–
Baloise Finance (Jersey) Ltd., St. Helier/Jersey/Channel Islands	Other	O	100.00	F	CHF	1.4	504.4	–/–
Baloise Private Equity Ltd., Cayman Islands	Asset management	L/NL/O	100.00	F	USD	0.0	309.7	–/–
Baloise (España) S.A., Madrid	Other	NL	100.00	F	EUR	18.0	17.4	–/–

[1] L: Life, NL: Non-life, B: Banking, O: Other activities/Group business
[2] F: Fully consolidated, P: Consolidated on a proportionate basis, E: Stated at equity valuation

Report of the Group auditors

to the General Meeting of Bâloise-Holding, Basel

As auditors of the Group, we have audited the consolidated financial statements (income statement, balance sheet, cash flow statement, statement of changes in capital and reserves, and notes to the financial statements, pages 69 to 120)[1] of the Baloise Group for the year ended December 31, 2004.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Edgar Fluri   Peter Lüssi

Basel, April 5, 2005

[1] The German version of the Financial Report is binding.

Income statement: Bâloise-Holding

Income

	2003/2004	2004/2005
Income from securities	–/–	5,775,682
Gains on securities	–/–	40,001,336
Income from participating interests	169,615,616	223,875,840
Interest on loans to Group companies	2,798,352	2,017,044
Income from financial assets	5,357,325	1,068,555
Other interest receivable	612,677	2,732,821
Realized gains on noncurrent assets	19,710,756	11,787,420
Other income	3,480,670	2,332,738
Total income	**201,575,396**	**289,591,436**

Expenses

Administrative expenses	–5,347,099	–5,907,108
Interest payable	–40,391,024	–45,336,805
Amortization of/losses from noncurrent assets	–114,499,511	–62,499,123
Other expenses	–38	–51,253,192
Total expenses	**–160,237,672**	**–164,996,228**

Overall result

Total income	201,575,396	289,591,436
Total expenses	–160,237,672	–164,996,228
Total profit before tax	41,337,724	124,595,208
Tax on income and capital	–119,795	–310,948
Annual net profit	**41,217,929**	**124,284,260**

in CHF

Balance sheet: Bâloise-Holding

Assets

	Note	3.31.2004	3.31.2005
Bank balances		6,523	85,907,278
Receivables from Group companies		183,956,724	194,250,961
Other receivables		1,804,309	2,276,161
Accruals deferrals		589,920	702,693
Securities	2	–/–	173,166,552
Current assets		**186,357,476**	**456,303,645**
Participating interests	3	1,418,884,115	1,446,124,075
Financial assets		162,625,973	255,758,786
Noncurrent assets		**1,581,510,088**	**1,701,882,861**
Total assets		**1,767,867,564**	**2,158,186,506**

Liabilities and capital and reserves

	Note	3.31.2004	3.31.2005
Short-term liabilities		12,769	12,252
Payables to Group companies		3,051,111	1,034,067
Bonds	4	1,150,000,000	1,400,000,000
Provisions		73,200	50,704,148
Accruals deferrals		26,118,457	26,724,042
Liabilities		**1,179,255,537**	**1,478,474,509**
Share capital		5,530,715	5,530,715
General reserve		11,724,001	11,724,001
Reserve for own shares	5	14,005,321	16,698,848
Free reserve		515,497,921	520,804,394
Accumulated profit		41,854,069	124,954,039
Capital and reserves		**588,612,027**	**679,711,997**
Total liabilities and capital and reserves		**1,767,867,564**	**2,158,186,506**

in CHF

Notes to the financial statements of Bâloise-Holding

1. Basis of accounting

The Bâloise-Holding accounts comply with Swiss legal requirements.

2. Securities

For strategic reasons, shares amounting to CHF 133.2 million in value were reclassified from noncurrent assets (financial assets) to current assets. This generated a book profit of CHF 40.0 million.

3. Participating interests

Company	Holding at 3.31.2004 in %	Holding at 3.31.2005 in %	Currency	Share/company capital at 3.31.2005 in millions
Baloise Insurance Company, Basel	100	100	CHF	75.0
Baloise Life Insurance Company, Basel	100	100	CHF	50.0
Baloise Bank SoBa, Solothurn	100	100	CHF	50.0
Baloise Asset Management Switzerland AG, Basel	100	100	CHF	1.5
Baloise Asset Management International AG, Basel	100	100	CHF	1.5
Haakon AG, Basel	75	75	CHF	0.2
Basler Versicherung Beteiligungsges. mbH, Hamburg	100	100	EUR	20.5
Baloise Beteiligungs-Holding GmbH, Bad Homburg	100	100	EUR	0.0
Bâloise (Luxembourg) Holding S.A., Luxembourg	100	100	CHF	437.9
Baloise Fund Invest Advico, Luxembourg	100	100	EUR	0.1
Baloise Insurance Co. (I.O.M.) Ltd., Isle of Man	100	100	CHF	31.2
Baloise Insurance Company (Bermuda) Ltd., Bermuda	100	100	CHF	5.0
Baloise Finance (Jersey) Ltd., Jersey	100	100	CHF	1.4

The holdings have been rounded to the nearest percent. Additional information about the participating interests of Bâloise-Holding is given on pages 119 to 120.

4. Bonds

Amount	Interest rate	Issued	Maturity date
CHF 300 million	3.25%	1998	4.7.2008
CHF 600 million	4.25%	2000	9.28.2005
CHF 250 million	3.375%	2003	12.15.2009
CHF 250 million	2.375%	2004	12.20.2010

5. Own shares

The companies in the Baloise Group bought a total of 523,850 shares at an average price of CHF 54 per share during the year under review, and sold 472,809 shares at an average price of CHF 50. At March 31, 2005, they together held a total of 230,499 Bâloise-Holding shares.

At March 31, 2005, an amount of CHF 2.7 million was transferred from the free reserve of Bâloise-Holding to the reserve for own shares.

6. Significant shareholders

There were no significant changes in the composition of shareholders in the year under review. As at March 31, 2005, no shareholder held more than 5% of the outstanding Bâloise-Holding stock.

As a widely held joint stock company, the Baloise is included in the Swiss Market Index (SMI) and features in the SWX's index calculations with a free float of 100%.

The following table provides a current breakdown of shareholders as at March 31, 2005.

Shareholders	Total holding at 3.31.2004	Share of voting rights 3.31.2004	**Total holding at 3.31.2005**	Share of voting rights 3.31.2005
Chase Nominees	**4.0**	2.0	**4.8**	2.0
Investors Bank & Trust	< **2.0**	< 2.0	**2.6**	0.0
UBS Group	< **2.0**	< 2.0	**2.5**	2.0
Nortrust Nominees Ltd.	< **2.0**	< 2.0	**2.4**	0.0
Mellon Bank N. A.	< **2.0**	< 2.0	**2.2**	0.0
CS Group	< **2.0**	< 2.0	**2.1**	1.6
Deutsche Bank Nominee	**2.3**	2.0	< **2.0**	< 2.0
Fidelity Group	**2.5**	2.0	< **2.0**	< 2.0
Rolex Group	**2.0**	2.0	< **2.0**	< 2.0

in percent

7. Contingent liabilities

At March 31, 2005, warranty obligations amounted to CHF 446,3 million (prior year: CHF 435.8 million). Of these, CHF 204,0 million relate to the warranty in respect of the convertible bond issued by Baloise Finance (Jersey) Ltd. The securities needed for hedging are recognized as "Securities".

Bâloise-Holding is jointly and severally liable for value-added tax payable with all the companies in the tax group set up by the Baloise Insurance Company.

8. Personnel expenses

Administrative costs include CHF 1.1 million relating to personnel expenses in the year under review (2003: CHF 1.1 million).

Proposed allocation of accumulated profit

Included in balance sheet and income statement	2003/2004	2004/2005
Annual net profit	41,217,929	124,284,260
Retained profit carried forward	636,140	669,779
Accumulated profit	41,854,069	124,954,039
Dividend distribution required by Articles of Incorporation	−276,536	−276,536
Available for distribution at General Meeting	41,577,533	124,677,503
Proposed by the Board of Directors		
Allocation to free reserve	−8,000,000	−63,500,000
Additional dividend distribution	−32,907,754	−60,561,329
Retained profit carried forward	**669,779**	**616,174**

in CHF

The above distribution is in accordance with the provisions of Article 30 of the Articles of Incorporation and results in a distribution of CHF 1.10 gross per share (CHF 0.71 after deduction of withholding tax).

Report of the statutory auditors

to the General Meeting of Bâloise-Holding, Basel

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes to the financial statements, pages 123 to 126)[1] of Bâloise-Holding for the financial year ended March 31, 2005.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of the accumulated profit comply with Swiss law and the Company's Articles of Incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Edgar Fluri   Peter Lüssi

Basel, April 5, 2005

[1] The German version of the Financial Report is binding.

The Baloise

Profile

Headquartered in Basel (Switzerland) and with operations in continental Europe, the Baloise Group is a solution provider in the fields of insurance and provision for the future. The Group's strategic focus is on sustainable, income-oriented growth. Core markets are Switzerland, Germany, Belgium, Austria and Luxembourg. The Baloise Group employs a staff of around 8,000. Bâloise-Holding registered shares are included in the Swiss Market Index (SMI) and are traded on virt-x under the symbol BALN.

Our conduct guidelines

Create value

Value means nurturing and creating quality. We care for the value of relationships and the value to be found in change. We value ourselves and others. We focus on the requirements of our customers, our shareholders and our staff. We employ our time, money and human resources with great care. Creating and adding value are our targets.

Foster relations

We live in a networked world which links us to a lot of people. We care about these relationships. We talk to others and we are prepared to listen. We are honest, open and communicative. We are critical and able to accept criticism. We create unambiguous mutual expectations. We stand by our word. Together we are strong.

Bring about change

The world is changing fast. It is changing us. We change. The pressures of a changing world are a call for action. We analyze. We decide. We intervene and we implement. We deliver results. Changing in order to innovate and to add value is our goal.

Publishing details

Bâloise-Holding Annual Report 2004

Published by
Baloise, Corporate Communications

Concept, design
Primafila AG, Zurich

Text
Baloise, Corporate Communications
Corin Ballhaus, CLS
René Vautravers

Photographs
Andreas Schwaiger
Markus Bühler

Production
Boncept AG, Zurich

Printing
Werner Druck AG, Basel

Paper
Environmentally friendly, wood-free offset paper, bleached without chlorine

This Annual Report ist also available in German and French.

The German version is binding.

The Annual Report can be found under www.baloise.com

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Key dates and contacts

May 18, 2005
Annual General Meeting
Bâloise-Holding

September 7, 2005
Half-Year Media Conference

September 7, 2005
Meeting of Financial Analysts

March 21, 2006
Annual Media Conference

March 21, 2006
Meeting of Financial Analysts

April 28, 2006
Annual General Meeting
Bâloise-Holding

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