Bâloise Holding

“Finding and retaining the right customers...”

Bâloise-Holding
Annual Report 2005
Business Review

Swiss market in practice – **how we stay close to customers and become trusted partners of choice** *page 19*

Recognizing customers‘ risk profile – **revolutionary pricing policy in Luxembourg** *page 31*

Optimized claims management in Germany – **for the benefit of all** *page 27*

The essentials in brief

The Baloise Group's net profit rose markedly by 81% to CHF 404 million (2004: CHF 223 million), equivalent to CHF 7.3 (2004: CHF 3.9) per share. All business units and lines of operation contributed to this success. Return on equity advanced to 10.3% (2004: 6.5%).

The non-life segment posted a profit before tax and financing costs of CHF 254 million, up by 6% (2004: CHF 239 million). The net combined ratio (combined loss and expense ratios) amounted to 100.0% (2004: 97.5%). It was severely burdened by the claims incurred in connection with the major floods in 2005.

Life insurance recorded a profit before tax and borrowing costs of CHF 151 million (2004: CHF 68 million), despite the continuously low interest rate environment. The embedded value improved to CHF 2,360 million. The value of new business amounted to CHF 12 million, with a margin of 5.3%.

The banking sector achieved a profit before tax and borrowing costs of CHF 77 million (2004: CHF 33 million). Baloise Bank SoBa increased its profit significantly.

The total business volume (including unit-linked life insurance) came to CHF 7,394 million (2004: CHF 7,384 million). The volume from non-life insurance amounted to CHF 3,055 million (2004: CHF 3,065 million). This is a reflection of our "profit before growth" business policy. The life insurance business volume rose to CHF 4,338 million (2004: CHF 4,319 million), with the extremely low interest rates exerting a dampening influence on growth. Unit-linked life insurance advanced by 25%.

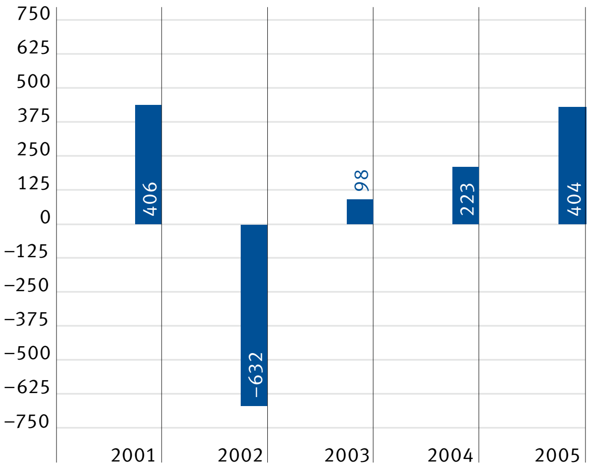
Investment income posted a performance of 5.0% (2004: 4.3%).

Shareholders' equity increased by 26% to CHF 4.4 billion. The solvency margin amounted to 309% (2004: 242%), three times the legally required minimum.

In line with our earnings-related distribution policy, we will propose to the Annual General Meeting a dividend of CHF 2.20 (2004: CHF 1.10) per share.

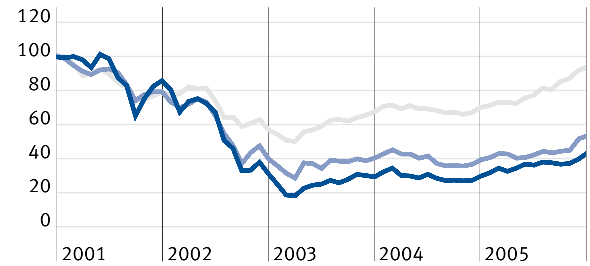
In view of ongoing operational progress and based on our cautiously optimistic assessment of financial market developments, we are striving for a return on equity of 15% by 2008. The net combined ratio is to be brought to a level below 100%.

Profit/loss after tax and before minority interests 2001–2005



in CHF million

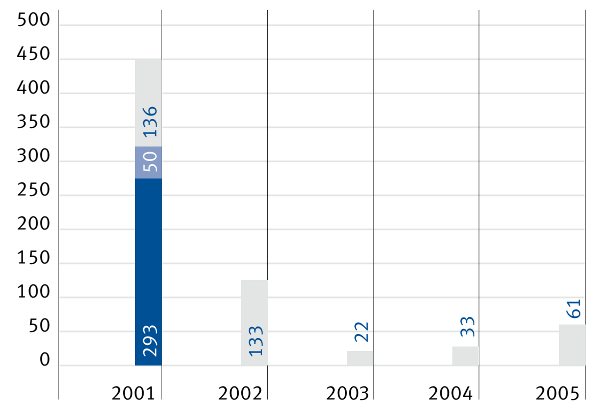
Indexed share price development[1] Bâloise-Holding, registered 2001–2005



- Bâloise-Holding, registered[2]
- SWX SP Insurance PR INDX
- Swiss Market Index

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

Distributions 2001–2005



in CHF million

- Dividends paid
- Nominal value repayments
- Share repurchases

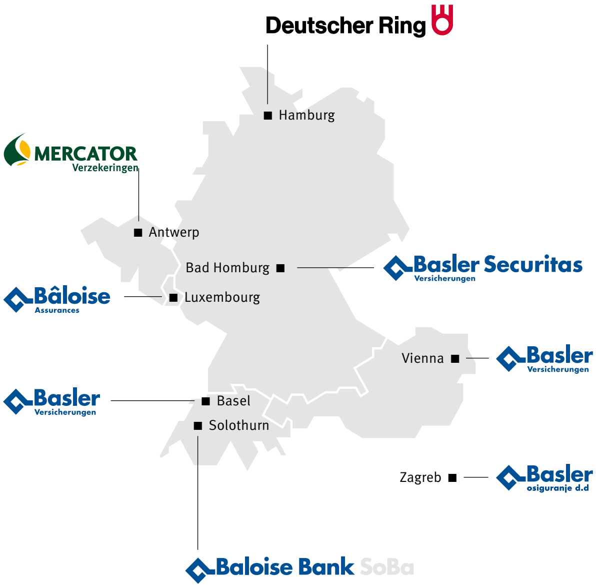
Key figures at a glance

	2004 (restated)*	2005	+/– %
Income statement			
Total premium income (gross)	6,941.3	6,839.1	−1.5
of which: Non-life	3,065.1	3,055.4	−0.3
of which: Life	3,876.2	3,783.7	−2.4
Investment-type premiums	443.0	554.4	25.1
Consolidated annual profit	223.3	403.5	80.7
Balance sheet			
Investments (incl. investment-type insurance)	53,543.9	56,470.1	5.5
Actuarial provisions	42,825.8	44,721.1	4.4
Shareholders' equity	3,497.8	4,391.3	25.5
Assets under management			
Total assets under management	60,875.8	64,657.8	6.2
in CHF million			
Ratios			
Return on equity (ROE)			
On equity as shown in the balance sheet	6.5	10.3	
Excl. unrealized gains/losses	6.8	11.4	
Combined ratio non-life (net)	97.5	100.0	
Combined ratio non-life (gross)	93.0	100.6	
Actuarial reserve ratio non-life	179.6	187.0	
in percent			
Embedded value life insurance			
Value of insurance portfolio	1,181.7	1,072.9	
Adjusted equity	1,400.3	1,761.9	
Solvency costs	−445.2	−475.1	
Total	2,136.8	2,359.7	
of which: Value new business	15.2	12.0	
in CHF million			
Key share data			
Shares issued as at 12.31. in units	55,307,150	55,307,150	
Equity per share as at 12.31. in CHF	63.6	79.8	
Consolidated annual profit per share in CHF	3.9	7.3	
Price at year-end in CHF	52.50	76.75	
Market capitalization as at 12.31. in CHF million	2,903.6	4,244.8	
Price-earnings ratio	13.5	10.5	
Dividend per share in CHF	1.1	2.2[1]	
Number of staff			
Total per 12.31.[1]	7,609	7,548	
Of which Switzerland	3,632	3,579	
Of which other countries	3,977	3,969	

[1] Based on proposal to the Annual General Meeting

* The previous year's figures have been restated in accordance with the modified IFRS regulations.
[1] The mode of determining the number of employees changed in 2004. The numbers are now stated in terms of full-time equivalents.

The Baloise in five attractive markets



Switzerland	Full time equivalents	Premium volume*
Basler Versicherungen	3,277[1]	3,819
Baloise Bank SoBa	302	–/–

[1] of which 253 Group

Germany		
Deutscher Ring	1,663[2]	1,052
Basler Securitas Versicherungen	1,191	1,058

Belgium		
Mercator Verzekeringen	709[2]	658

[2] incl. participating interests

Luxembourg		
Bâloise Assurances	120	78

Austria (incl. Croatia)		
Basler Versicherungen	286	128

* in CHF m

The Baloise Group, headquartered in Basel, Switzerland, operates in continental Europe. It provides insurance and pension solutions primarily for private individuals and small and medium sized enterprises. The Group's strategic focus is on sustainable, income-oriented growth. Core markets are Switzerland, Germany, Belgium, Austria and Luxembourg.

Switzerland

Basler Switzerland, domiciled in Basel, is one of Switzerland's leading insurers and the largest business unit within the Baloise Group. Its insurance and pension solutions for individuals and small and medium sized enterprises are supplemented by matching banking products and services provided by **Baloise Bank SoBa.**

Germany

The Baloise maintains two business units in the German market. **Basler Securitas** in Bad Homburg offers predominantly personal and property insurance for private individuals, small and medium sized enterprises, and selected industrial clients. **Deutscher Ring** in Hamburg focuses on comprehensive insurance and pension solutions for private individuals. The unit's own sales force is supplemented by partnerships with the brokerage organizations OVB and Zeus.

Belgium

Mercator, domiciled in Antwerp, is a significant player in the Flemish insurance market. It provides top-quality support for local professional brokers. Its wide range of personal and property insurance products is targeted primarily at private individuals and small and medium sized enterprises.

Luxembourg

Bâloise Luxembourg is an established provider of life, personal and property insurance in the Grand Duchy of Luxembourg. It serves both private and business clients. It also provides life insurance in other EU countries under the EU's freedom of services regime.

Austria (incl. Croatia)

Basler Austria in Vienna provides private and business clients with a wide range of insurance and pension solutions. It is a leading insurance provider for medical practitioners. In this market segment, **Basler osiguranje** has been operating successfully in Croatia for five years.

Annual Report 2005 – Business Review

Contents

A successful duo:
Chairman of the Board Rolf Schäuble (left) and
CEO Frank Schnewlin look back on an excellent business year.

The Baloise raises its net profit by 81% – despite major floods

In the following, Chairman of the Board Rolf Schäuble and CEO Frank Schnewlin express their pleasure in another excellent business year for the Baloise Group. Amounting to CHF 404 million, the net profit again recorded a marked increase.

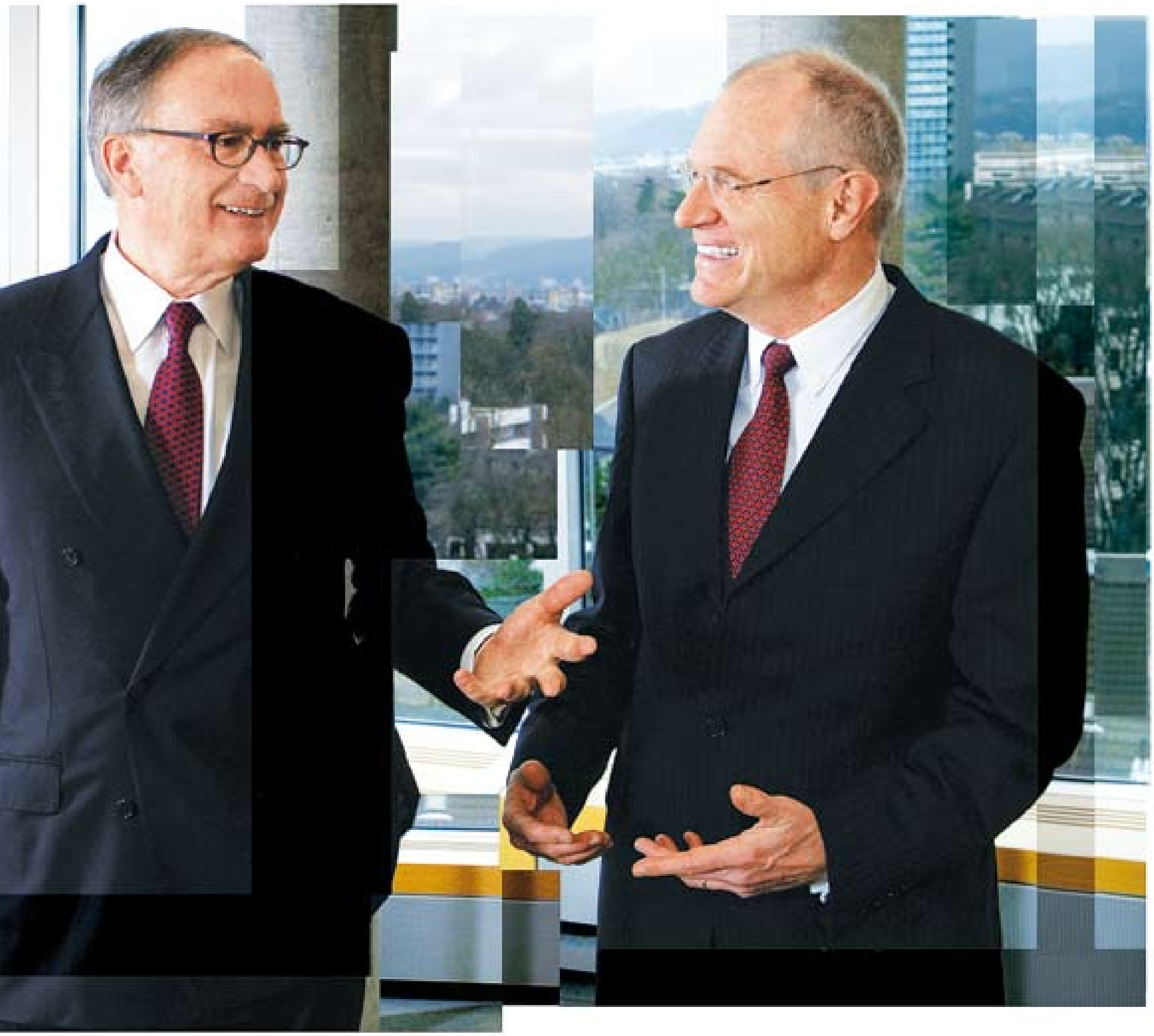
Did you achieve your targets in 2005?

ROLF SCHÄUBLE: We had an excellent year. Our profit again rose substantially. All business lines and units made a significant contribution to our earnings. The stock exchange rewarded our performance: the Baloise share price increased 46.2%, more than our benchmark indices.

FRANK SCHNEWLIN: We have in fact exceeded our most important targets. We increased profit by 81% despite the CHF 68 million impact before tax of the disastrous floods in Switzerland, Germany and Austria. We reached our goal of realizing a return on equity of at least 10% by the end of 2006, a year ahead of schedule. This is all the more remarkable in light of our solid capital structure: our shareholders' equity grew by 26% and our solvency margin at 309% is three times greater than required by law.

What were the highlights of the 2005 financial year? Where do you see an additional need for action?

ROLF SCHÄUBLE: As an insurance man to the bone and Chairman of the Baloise I am proud that we were able to



help so many of the victims of the terrible flooding so efficiently. Although we are a business minded, exchange listed company and must satisfy the stringent requirements of our investors, we must never forget that we also have to take charge of situations like this one for the good of the community. The fact that we were able to do both is proof of the excellent shape our company is in. All this was only feasible because of the outstanding work performed by our staff and managers.

FRANK SCHNEWLIN: We have seen improvements throughout our core insurance and pension business. All of our business units are profitable and in excellent shape and the contributions to our bottom line are evenly distributed among them. We have substantially improved our self-financing ability and our reserve ratio is also considerably higher, enabling us to attain an even more solid financial base. We see a need for action primarily in two areas: first of all, we must come to an even more profound understanding of risks and use the value-generating potential of our customer relationships with a greater precision. And secondly we must grow in those segments where our target customers are to be found.

You have again substantially raised your profit. How do you assess the quality of this result?

FRANK SCHNEWLIN: Our profit surge of 81% is truly remarkable and is rooted in solid performance in our core business. However, we also experienced extraordinary secondary effects: the claims from the major floods had an adverse effect, while the sale of equity holdings in Belgium, the expiry of shareholder commitment agreements and the one-off reversal of credit risk allowances produced positive effects. We will certainly continue to have such effects in future — they are in the very nature of our business and of the IFRS accounting rules, which do not permit provisions for fluctuations. But we are striving to keep our earnings performance as sustainable as possible.

How would you assess your capital situation and what are your dividend distribution policies?

ROLF SCHÄUBLE: Our shareholders' equity has grown by 26%, meaning that we were able to significantly add to our capital base. Although we see solid financial resources as important for our company's lasting prosperity, we will always be looking for new ways to best leverage our capital in order to deliver added value — just as our shareholders rightly expect. We have a policy of income-based, continuing dividend distribution and we supplement cash dividends with additional distribution methods such as share repurchases and options. We generally distribute one-third of our annual net profit, taking self-financing of Group growth into account. We will request the Annual General Meeting to double the dividend to CHF 2.20 per share.

“We assess all our acquisitions according to strict added-value criteria.”

How are you managing your capital? What do regulations such as Solvency II or the Swiss Solvency Test mean for you?

ROLF SCHÄUBLE: For years we have been managing our capital in accordance with the business risks incurred by our insurance activities and our investments. Regulations such as Solvency II in the European Union or the Swiss Solvency Test have the same objectives. We welcome these endeavors as their implementation will enhance confidence in our industry. However, these regulations also have a side that we find annoying because it needlessly limits our freedom to do business, without offering the client any appreciable advantages. The guaranteed minimum interest in the Swiss group life insurance business or the so-called unisex rate in Germany are cases in point. Our message to the regulatory bodies is: moderation, please.

FRANK SCHNEWLIN: We learned a good deal from the stock market crash of a few years ago and have made our asset and liability management even more stable. So Solvency II and the Swiss Solvency Test are fundamentally nothing new for us because we are already working with similar risk-based models. We consciously take clearly identifiable risks in order to optimize our profitability and utilize our excellent risk-bearing capacity. This provides our shareholders and customers with an attractive return on their invested capital or premiums paid.

How do you plan to generate growth in the next few years? Where do you see opportunities for expansion?

FRANK SCHNEWLIN: Organic profitable growth is a priority for us. In our core markets the focus is on growth in business sectors with high added value, selectively supplemented by acquisitions. Our plans include using cross- and upselling to improve penetration of our target customer segments. This is precisely where we are focusing our sales efforts, which are increasingly based on measurable customer value.

ROLF SCHÄUBLE: Of course we will also utilize future opportunities for growth through acquisition of companies or insurance portfolios, as we did in 2005, for example, by acquiring MONEYMAXX Lebensversicherungen in Germany from the Dutch Aegon Group. This portfolio consists largely of unit-linked insurance, putting it squarely where we are focusing in our life insurance segment. We assess all our acquisitions according to strict added-value criteria.

How do you see the outlook in your insurance lines and your banking activities?

FRANK SCHNEWLIN: Based on our solid balance sheet and reserves, we see our earning power developing very well in all business segments. Thanks to our progressively refined risk selection process and the integration of our customer value model in all our business units, we are continually improving the quality of our insurance portfolio. This will prevent any massive damage to our earning power through price erosion. We also assess our banking business positively as we have seen a continuous increase in its earning power in the past few years. Baloise Bank SoBa ought to, for example, attain a target return on equity of at least 10% in 2006.

How do you proceed in your investments with regard to interest rate sensitivities?

ROLF SCHÄUBLE: We monitor interest rates and their effect on investments closely as part of our risk management procedures. However, I would like to put the effect of interest fluctuations on the market value of bonds into perspective. Our business depends on recurring investment income, so we generally hold bonds to maturity. That is why we have classified roughly 32% of our fixed-interest securities as “held to maturity”. This reduces the effect of market fluctuations on our shareholders' equity.

FRANK SCHNEWLIN: As we anticipate rising interest rates in the medium term, we have a slightly shorter duration for our investments than for our liabilities, which enables us to profit more quickly from interest rate hikes. This, however, requires more equity capital, so our strong balance sheet is a key advantage. The Swiss Solvency Test will create greater awareness in the insurance industry of asset and liability management. In contrast to the traditional solvency regime, the SST model incorporates correlations between assets and liabilities.

What opportunities do you see in the equity markets and how does this influence your investment policies?

ROLF SCHÄUBLE: Historically shares have always outperformed other forms of investment in the long term. But the most recent stock market crash taught us that we need to take our profits during an upswing instead of losing them in the next market correction. Accordingly we must actively manage the proportion of equities in our investment portfolio.

FRANK SCHNEWLIN: Because we believe that equity markets will remain an attractive place to invest and because of our excellent risk-bearing capacity, we aim to place 10–15% of our investment portfolio in equities. After all, equities are real assets because they are backed by enterprises. In addition to equities, other real assets such as investment properties play an important role in our portfolio. In our investment policies we have to find the right balance between covering the claims of policyholders, creating attractive terms for our life insurance products, and meeting the dividend expectations of our investors. Looking at the strong three-year upward trend in the equity markets and the high proportion of shares in our investment portfolio compared to the industry average, we will be making adjustments in line with market conditions.

What do you want to achieve in 2006 and in the following years? What are your operational priorities?

FRANK SCHNEWLIN: We are striving for a return on equity of 15% by 2008. This target is backed by a return on equity from business operations of at least 10% and a net combined ratio of under 100%. Given that the stock market has been steadily rising for three years already, we will actively adjust to market our stock holdings, which are high in comparison with the industry average. An additional contribution to the return on equity by 2008 is expected from our active asset and capital management. After all, we want to become the preferred and trusted partner of our target customers and sales partners. We are aiming for above-average growth in the target customer segment and in unit-linked life insurance. A great deal of groundwork has been done in recent years. We have acquired new capabilities, for example in scoring, risk selection, claims management, or in managing sales based on customer value. But we haven't yet crossed the finishing line. In 2006 and in the coming years, our operational priorities will continue to be improving and cementing customer loyalty by providing first-class service and advice. Over time we want to become the best in this field.

“We are striving for a return on equity of 15% by 2008.”

Where is your strategic focus in future?

ROLF SCHÄUBLE: Our long-term focus is definitely on our target of becoming and remaining one of the most profitable insurers, and the key lies in the exceptional quality of our operational business. This may not sound particularly spectacular, but it is precisely what people expect from us: predictability by providing enduring outstanding performance.

Baloise shares

46% rise clearly outperforms indices

Baloise shares posted a highly gratifying price increase of 46.2% during 2005. Performance was 10.3 percentage points higher than that of the Swiss stock exchange's relevant sector index, which advanced by 35.9%. The Swiss Market Index SMI rose by 33.2%.

On December 29, 2005, Baloise shares reached a three-year peak of CHF 77.00 and went on to close the year at CHF 76.75 on December 30. We regard this performance as an expression of the faith of our investors in the operational progress and convincing results that we have achieved.

Baloise shares – and the insurance industry as a whole – defied all of the negative factors of 2005, particularly the devastating natural disasters around the globe. Payouts totaling more than CHF 100 billion[1] made 2005 the most expensive year in the history of the global insurance industry. The Swiss Insurance Association estimates that August's floods in large parts of Switzerland cost private insurers at least CHF 1.3 billion. Furthermore, stock markets in 2005 were impacted by the strengthening of the US dollar and high energy prices. The interest differential compared with Europe boosted the US currency and thereby helped to improve the competitiveness of European exporters. In late August, the destruction caused by Hurricane Katrina drove already-high oil prices even higher.

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

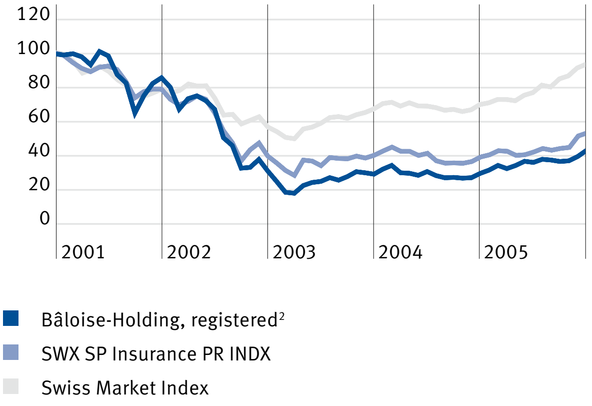
The first half of 2005 saw Baloise shares record a performance of 21.9% – attributable to the positive response of investors to full-year results for 2004. By comparison, the SMI rose by 9.8% during the same period. Share prices in the Swiss insurance sector overall were also rather weaker, with the SWX SP Insurance PR INDX putting on 7.5%. One of the reasons for this was lower interest rates, which dampened demand for insurance stocks in the second quarter in particular. With this in mind, the performance of Baloise shares becomes all the more satisfying.

The insurance sector suffered a number of heavy blows as we moved into the second half of the year. Flooding in Switzerland between August 20 and 24 resulted in record insurance claims. A short time later, Hurricane Katrina in the USA caused insured losses of around CHF 60 billion[1]. These figures compare with claims of approximately CHF 27 billion in the wake of the terrorist attacks of September 11, 2001 (at 2005 prices and exchange rates). The equity markets responded with great restraint to these natural disasters. This was due to some degree to expectations of higher premiums. The insurance sector was nonetheless unable to keep pace with the market as a whole during the third quarter, underperforming the SMI by 5.5%. Fears of inflation and the subsequent increases in base interest rates in the EU and Switzerland reversed the trend during the fourth quarter. Since insurers welcome rising interest rates, their share prices began to outperform the market once again. As a result, the sector index advanced by 20.6% during the last three months of the year, while the SMI went up by 9.9%. In spite of natural disasters, the insurance industry index thus rose by 26.4% overall during the second half of the year, compared to the SMI's 21.3% advance. This trend was sustained even though interest rates returned to a downward path.

There were no significant changes to the Baloise's share-holder base during the reporting period, and the free float remains at 100%. No single shareholder owns more than 5% of the company's shares.

[1] Source: Swiss Re

Indexed share price development[1] Bâloise-Holding, registered 2001–2005



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

Significant shareholders at December 31, 2005

	Total holding	Share of votings rights
Chase Nominees Group	5.5	2.0
Nortrust Nominees Ltd.	3.1	0.0
Mellon Bank N. A.	2.7	0.0
Investors Bank & Trust	2.6	2.0
HSBC Overseas Nominee UK	2.5	0.0
Cominvest Asset Management	2.0	0.0
UBS Group	‹2.0	‹2.0
CS Group	‹2.0	‹2.0

in percent

Share statistics	2001[5]	2002	2003	2004 (restated)	**2005**
Net profit per share[1] in CHF	7.3	–11.6	1.7	3.9	7.3
Consolidated equity per share[2,3] in CHF	97.4	56.3	60.6	63.6	79.8
Dividend per share in CHF	2.4	0.4	0.6	1.1	2.2[5]
Total shares issued in units	55,307,150	55,307,150	55,307,150	55,307,150	55,307,150
Number of shares entitled to dividend in units	55,307,150	55,307,150	55,307,150	55,307,150	55,307,150
Time-weighted number of shares entitled to dividend in units	56,087,855	55,307,150	55,307,150	55,307,150	55,307,150
Average number of outstanding shares[1] in units	55,286,619	54,837,865	54,794,476	54,001,678	54,280,154
Daily volume traded shares in CHF million	15.4	21.4	23.6	24.2	26.8
Number of shareholders	9,725	11,974	15,027	16,251	14,614
Treasury stock in shares	560,000	702,540	414,303	1,176,237	887,879
Price at year-end in CHF	153.00	55.00	51.65	52.50	76.75
High in CHF	182.60	155.50	63.20	63.10	77.00
Low in CHF	110.00	46.30	25.45	45.75	52.70
Market capitalization in CHF million	8,461.9	3,041.9	2,856.6	2,903.6	4,244.8
Consolidated equity [since 2004 incl. minority interests] in CHF million	5,384.8	3,088.1	3,319.8	3,497.8	4,391.3
Ratio, market capitalization/consolidated equity[3]	1.57	0.99	0.86	0.83	0.97
Ratio, market capitalization/gross premiums	1.28	0.42	0.39	0.42	0.62
Return on equity (ROE)					
On equity as shown in the balance sheet[4] in percent	6.3	–15.0	2.9	6.5	10.3
Excl. unrealized gains and losses[4] in percent	10.5	–18.3	2.9	6.9	11.5
Dividend yield in percent	1.6	0.7	1.2	2.1	2.9[5]
Price-earnings ratio [based on price at year-end]	20.1	n.a.[7]	30.9	13.5	10.5
Pay-out ratio in percent	32.8	n.a.[7]	36.3	28.9	30.7[5]

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

[1] See Financial Report section 36

[2] Average number of outstanding shares

[3] Calculated on the basis of consolidated equity before minority interests

[4] From 2004 calculated on the basis of average equity incl. minority interests net of the dividend sum of the previous year

[5] To be proposed to the Annual General Meeting

[6] Adjusted due to share split

[7] Not significant

The Baloise Group

Strong earnings despite natural disasters

The 2005 financial year was a very successful one for the Baloise Group. Profit rose by 81% to CHF 404 million despite a heavy claims burden due to catastrophic flooding in Switzerland, Germany and Austria. All business units and lines made a substantial contribution to earnings. Shareholders' equity grew by 26% while return on equity rose to 10.3%. Our capital base continued to improve, and at 309% the solvency margin reached almost triple the legally required minimum. Investors showed confidence in Baloise shares, whose price rose by 46.2% during the course of the year, outpacing the relevant stock market indices.

Overview

The solid operating performance of all business units provided the foundation for our remarkable 81% increase in profit to CHF 404 million (2004: CHF 223 million). The Group-wide strategic focus on operational excellence has proven highly effective. Its objective is to gain higher competence levels than our competitions in our core insurance and pension business and thereby achieve outstanding and sustainable profitability levels. The pillars of this strategic thrust are management of our sales force and distribution partners with a clear focus on added value, risk-aligned products and prices, efficient claims management and continual improvement of business processes.

Various other factors also had an impact on earnings. Claims resulting from severe floods had a net adverse effect of CHF 68 million on our operating income, eroding profit from our business in Switzerland. In connnection with the refinement of statistical methods, the actuarial provisions were reinforced, in particular for losses in the personal insurance lines. The sale of non-strategic equity holdings and expiry of shareholder agreements in Belgium and one-off reversals of allowances all had a positive effect.

The total volume of business – including unit-linked life products, which continued to grow – came to CHF 7,394 million (2004: CHF 7,384 million). Premium income in accordance with IFRS accounting amounted to CHF 6,839 million (2004: CHF 6,941 million), a decline of 1.5% in CHF. Business volume in the non-life segment nearly equalled the previous year's level, while volume advanced slightly in the life insurance segment despite weak demand in specific areas. Non-life accounted for 41% of volume (2004: 42%) while life insurance made up 59% (2004: 58%). The country units' shares in the total business volume remained unchanged with 53% coming from Switzerland, 30% from the Basler Securitas and Deutscher Ring units in Germany, 15% from Belgium and Luxembourg and 2% from Austria.

The Baloise Group's consolidation base grew in the second half of the year with the acquisition of MONEYMAXX Lebensversicherung AG in Düsseldorf by Deutscher Ring Lebensversicherungs AG of Hamburg from the Dutch Aegon Group on July 14, 2005.

Non-life insurance

The non-life segment (property and casualty) achieved a profit before tax and borrowing costs of CHF 253.6 million (2004: CHF 239.2 million). The business units outside of Switzerland as well as strong investment income and cost reductions helped offset the record expense of the devastating flooding in Switzerland, resulting in profit growth of 6.0%. The extraordinarily high damage claims were also the reason for the rise in the combined ratio to 100.6% gross (2004: 93.0%) and 100.0% net (2004: 97.5%). With the exception of Switzerland (as a result of the natural disasters) and Basler Securitas, the gross figures of the other business units as compared to the previous year either held steady or improved, with the Baloise in Luxembourg showing the strongest increase. We continued to improve operational efficiency.

Premium income in accordance with IFRS accounting came to CHF 3,055 million (2004: CHF 3,065 million). Premium revenues grew in Switzerland, at Deutscher Ring and especially in Austria and Luxembourg. Premium growth was generally reined in by our "profit before growth" policy in writing new business. Belgium, Basler Securitas and specific product segments showed negative effects resulting from intense price pressure.

[3] Specific implementation projects in Switzerland (pages 18 ff.), Germany (pages 27 ff.) and Luxembourg (pages 31 ff.) are described in detail in this Business Review.

Life insurance

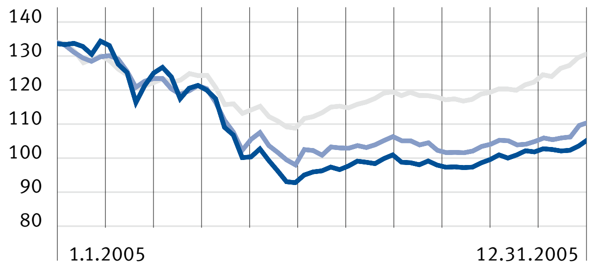
The life segment achieved a profit before tax and borrowing costs of CHF 150.7 million (2004: CHF 67.5 million). In the year-on-year comparison it is important to take into account the CHF 30 million impact on the prior year's result of the introduction of the "legal quote" in the Swiss group life business. The adjustment of surpluses (policyholder bonuses) for individual life policies in line with low interest rates and strong investment income contributed to the improved performance. In this business segment as well, we only accept new insurance business that meets our ROI requirements. This policy has had a positive effect on our earnings.

The total volume of business including unit-linked life insurance products came to CHF 4,338 million (2004: CHF 4,319 million). The main source of this slight growth was the upward trend in unit-linked insurance products, where volume rose by 25% on the prior year to CHF 554 million. The life insurer MONEYMAXX, which was acquired from the Dutch Aegon Group by Deutscher Ring, also made a substantial contribution to this promising business area: its volume is derived largely from unit-linked products. Premium volume in accordance with IFRS accounting came to CHF 3,784 million (2004: CHF 3,876 million), a decline of 2.4%, testimony to a continuing difficult market environment characterized by low interest rates and correspondingly weakened demand for life insurance products with a savings component. The individual life business on the Swiss market saw a particularly steep decline while the group life business rose to slightly above last year's level. Our strongest growth markets were Belgium and Austria. Deutscher Ring's premium revenues were slightly above the 2004 figure, marking an end to the premium erosion prevalent in recent years.

The embedded value of the life business rose from CHF 2,137 million to CHF 2,360 million in the year under review. Lower projected investment income (CHF -244 million) was offset by the more positive than anticipated capital market developments in 2005 (CHF +169 million) and reduced surplus participation (CHF +77 million). The value of new business amounted to CHF 12.0 million. The margin of new business declined slightly to 5.3% (2004: 5.8%).

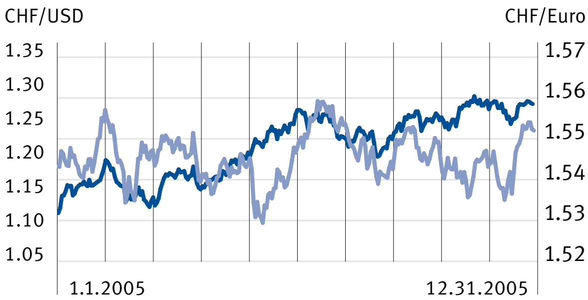
Stock market performance

January 1 – December 31, 2005



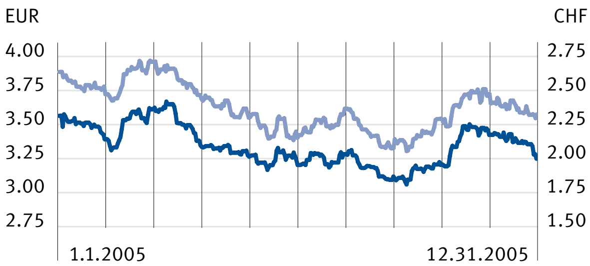
SPI Index
MSCI EMU
MSCI ROW

Currencies development January 1 – December 31, 2005



Euro: +1 Swiss cent
US dollar: +17 Swiss cents

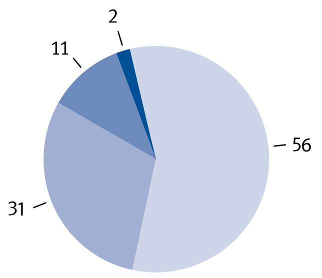
Interest rate development January 1 – December 31, 2005



Yield on 10-year government bonds Germany in EUR
Yield on 10-year government bonds Switzerland in CHF

Premium income (gross) by regional segment 2005

in percent



	2004 (restated)	2005	+/– %
Switzerland	3,921.3	3,819.3	–2.6
Germany	2,120.9	2,110.1	–0.5
Benelux	743.0	736.3	–0.9
Other countries	156.1	173.4	11.1
Total	**6,941.3**	**6,839.1**	**–1.5**

in CHF m

Banking

The banking segment achieved a profit before tax and borrowing costs of CHF 77.2 million (2004: CHF 33.2 million). The main contributor to the strong operating performance was Baloise Bank SoBa whose profit climbed by 46.4%. It achieved growth in all business segments while keeping costs and credit risks low. Baloise Asset Management and Baloise Fund Invest jointly made a significantly higher contribution of more than CHF 20 million. The one-off effect of a CHF 29 million reversal of credit risk allowances at Deutscher Ring Bausparkasse also contributed to the segment‘s profit. In all other respects the Bausparkasse is developing according to plan.

Shareholders’ equity

The shareholders’ equity of the Baloise Group rose by 25.5% to a gratifying CHF 4.4 billion in the year under review. The main sources of the upswing were the annual profit and a positive trend on the capital markets, particularly in equities. The Group solvency ratio was 309% taking banking assets into account. This gives the Baloise Group a very solid equity base.

Taxes

Tax expenses for 2005 came to CHF 72.4 million, including current taxes of CHF 112.9 million and deferred tax income of CHF 40.5 million. Measured against annual profit, tax expenses are very low. Various effects are responsible for this circumstance, for example tax-free capital gains in Belgium.

Outlook

We are striving for a return on equity of 15% by 2008. This target is backed by a return on equity from business operations of at least 10% and a net combined ratio of under 100%. Given that the stock market has been steadily rising for three years already, we will actively adjust to market our stock holdings, which are high in comparison with the industry average. An additional contribution to the return on equity by 2008 is expected from our active asset and capital management.

We are aiming for above-average growth in the target customer segment and in unit-linked life insurance. A lot of groundwork has been done over the past few years, so that we can now boast advanced skills in areas such as scoring, risk selection, claims management, and distribution on the basis of customer value. But there is still a lot to be done. For 2006 and the years beyond, our operational priority will remain set on strengthening and expanding customer loyalty through top-of-the-range services and advice. In this field, we want, over time, to be the best.

Investments

Thanks to a buoyant economic climate and a sharp rise in company earnings, the global equity markets put in an excellent performance. The upsurge is reflected in our investments: The investment result for fiscal 2005 rose by 14% to CHF 2,654.0 million year on year.

Reduced income owing to lower reinvestment interest rates was offset by realized investment gains amounting to a net CHF 353.8 million (2004: CHF 261.2 million). This corresponds to 0.66% of the average investment total. The investment operating result improved by 14% to CHF 2,654.0 million, the associated investment performance in accordance with IFRS thereby coming to 5.0% (2004: 4.3%).

The Swiss Performance Index shot up by 35% year on year while the European equity index (MSCI EMU Index) gained over 26%. The Standard & Poor's 500 index only managed to generate a return of 3%. Owing to the USD's almost 16% rise against the CHF, however, the gain for Swiss investors was more than 18%. The performance of emerging markets shares was especially impressive: these advanced by 34%, or by 55% in CHF.

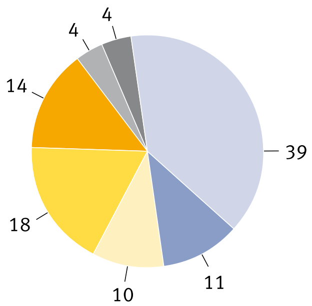
With the bond markets still exhibiting a demand overhang, yields on 10-year government bonds fell again from their 2004 levels and stood at 1.97% (Switzerland) and 3.31% (Eurozone). The European bond benchmark (Euro BIG index) benefited from this movement, returning a performance of 4.96%, or 5.57% expressed in Swiss francs. The Swiss Bond Index (SBI) also rose again year on year, advancing by 3.15%. In the United States, however, yields on 10-year US treasuries rose only marginally, edging up to 4.37%.

On the currency front, the USD staged a significant recovery while the EUR fluctuated only very slightly against the CHF. As we took the strategic decision at the beginning of the year to hedge the major part of our US investments out of fundamental as well as risk considerations, we were able to limit the exchange rate risk, but were largely unable to benefit from the unforeseen surge of the US dollar. Conversely, our decision to hedge less than half the EUR exposures also proved right, as the EUR spent a long time moving sideways against the CHF within a narrow band: by year-end it had advanced against the Swiss franc by 0.5% to CHF 1.5565.

This positive currency constellation, an excellent stockmarket showing and a solid performance by the other investment categories generated further growth in the Baloise Group's equity. At the same time, the risk situation also improved substantially. With targeted investments and growth in market value, the share allocation rose to 10.6% in 2005, up from 8.0% a year earlier.

Own capital investments[1] by category 2005

in percent



	2004 (restated)	2005
Fixed-interest securities	40.1%	39.1%
Shares	8.0%	10.6%
Derivatives	0.5%	0.1%
Investment properties	10.7%	10.3%
Mortgage loans	18.7%	18.1%
Policy and other loans	13.7%	14.4%
Alternative financial assets	3.1%	3.9%
Other short-term capital investment, cash and cash equivalents	5.2%	3.5%

Own capital investments by category[1]

	2004 (restated)	2005	+/– %
Fixed-interest securities	21,023.8	21,219.7	0.9
Shares	4,163.6	5,716.2	37.3
Derivatives	264.9	48.6	–81.6
Investment properties	5,619.2	5,581.7	–0.7
Mortgage loans	9,798.3	9,833.1	0.4
Policy and other loans	7,197.2	7,802.4	8.4
Alternative financial assets	1,636.1	2,122.8	29.7
Other short-term capital investments, cash and cash equivalents	2,697.1	1,899.8	–29.6
Total	**52,400.2**	**54,224.3**	**3.5**

in CHF m

[1] Excl. investment-type insurance

In the mortgage field we were able – despite stiff competition – to acquire new business to take the place of much of the loans falling due. Nevertheless, the portfolio's mortgage allocation slipped to 18%. Overall, low interest rates and expectations of a rate hike resulted in a further shift towards fixed-rate mortgages. On the Swiss market, we extended our product range for fixed-rate mortgages to include 6-10 year terms.

In the investment properties sector, higher demand from institutional investors pushed up the prices of residential property while demand for commercial properties eased. The number of properties that meet our strict yield and risk criteria is dwindling. As a result, we have launched several construction projects of our own. In our international organization, the lack of suitable properties and the need to diversify our investments prompted us to invest in European institutional real estate funds.

The allocation in fixed-interest securities rose to 39% in the year under review. We have partially immunized the resulting slight rise in the interest exposure against a rise in interest rates by classifying part of the bonds as "held to maturity" and the debt instruments and registered securities as "loans and receivables". Under the IFRS standards, these instruments are stated according to the amortized cost method, thus reducing the impact of possible interest rate fluctuations on the income statement. To diversify further, we continued to expand our holdings of alternative financial assets (hedge funds, private equity), bringing the total allocation to 3.9%.

2005 was a very successful year for the funds operated by Baloise Fund Invest. Led by the equity-heavy portfolios, all products recorded a positive performance. As in previous years, the majority (64%) of our funds outperformed their competitors. On March 1, 2005 we launched BFI Capital Protect (CHF), which met with great interest among the more defensive investors. In the space of only ten months, over CHF 40 million flowed into this new and innovative protected-capital product. The volume of assets invested in the BFI funds leapt ahead in 2005, due in particular to a merger with Aegon International (SICAV). Assets invested in these funds more than doubled during the year, reaching CHF 1.39 billion by the end of 2005.

Switzerland

The severe floods and persistent low interest rates resulted in a decline in profit before tax and borrowing costs for the Baloise Group's largest business unit to CHF 96.6 million (2004: CHF 156.1 million). Baloise Bank SoBa experienced growth in all its business segments and achieved a significant increase in profit by 46.4% to CHF 21.8 million.

Key figures Switzerland

	2004 (restated)	2005
Gross premium income	3,921.3	3,819.3
of which: Life	2,640.2	2,532.4
of which: Non-life	1,281.1	1,286.9
Combined ratio non-life (gross)[1]	93.1	113.3
Profit/loss before tax	156.1	96.6

in CHF m

[1] in percent

Basler Versicherungen

By implementing various measures Basler Versicherungen appreciably increased its earning power, although the severe floods and low interest rates took their toll on net profit. Priorities included consistently focusing sales efforts on profitable target customer segments, streamlining and managing the business portfolio from the perspective of customer value and instituting new rates in line with the associated risks. We continued to improve claims processes and other operating procedures through a variety of measures including the implementation of new IT systems. The premium volume totalled CHF 3,819 million (2004: CHF 3,921 million), a 2.6% decline attributable mainly to the life segment. Because of low interest rates, demand for single-premium policies in the individual life sector was down sharply from the previous year. With a premium volume of CHF 1,287 million (2004: CHF 1,281 million) the non-life segment saw premium growth of 0.5%, a figure in keeping with both the sluggish market and our "profit before growth" business strategy. There were marked gains in transport and accident insurance from new business in the target customer sector while liability and motor vehicle insurance also posted growth thanks in part to a successful partnership with the Swiss Touring Club. We expect the new motor vehicle insurance rates introduced on October 1, 2005 to boost our competitiveness in the target customer segments. Premium income in property insurance was slightly down, largely as a result of terminated contracts in the industrial business. Premiums for health insurance also declined as a result of legally mandated discontinuation of the birth benefit as part of the daily sickness allowance in group health, along with portfolio restructuring pursuant to actuarial requirements. The flood-related claims were reflected in the segment's underwriting performance: the combined ratio rose to 113.3% gross (2004: 93.1%).

The business volume of the life sector (including unit-linked products) came to CHF 2,578 million (2004: CHF 2,668 million), a decline of 3.4%. The trend in unit-linked life policies was very gratifying with growth of 67.2%. Premium volume in accordance with IFRS accounting shrank by 4.1% to CHF 2,532 million (2004: CHF 2,640 million) due to weak demand for single-premium policies in the individual life business as a result of low interest rates. The individual life sector experienced a decline in premiums of 13.0% although the annual premiums in this difficult market were slightly up on last year's level. Single premium income lost significant ground as a result of both lower interest rates and a one-off effect: a stamp tax campaign in the second half of 2004 was not repeated in 2005, leading to lower premium revenue. In the group life sector, premium revenue rose by 0.6%, which means that we actually gained market share in this shrinking comprehensive insurance market. Increasing demand for comprehensive insurance helped offset the loss of several major clients. The implementation of the new Swiss regulatory requirements diminished the annual profit of the life insurance segment for 2005 as did the continuing low interest rates. This trend prompted us to adjust the policyholder bonuses for insurance products with a savings component and for pensions accordingly.

Baloise Bank SoBa

Baloise Bank SoBa held its ground very well in a harshly competitive market and exceeded our expectations. Growth in all business sectors along with lower costs and the net reversal of allowances in the lending business led to a substantial increase in profit. Baloise Bank SoBa's return on equity including the results from our Focused Financial Service Provider business model rose to 9.0%. The bank increased its share in the private banking market and held its position in the small and mediumsized enterprises segment. The volume of banking products and mortgages sold by the insurance sales force rose by 24.4% year on year. Our "insurance and banking" business model has won us some 11,700 new customers over the past three years including 3,400 in 2005 alone.

Sales agents and the Customer Value Model

"Being a trusted partner of choice"

Giving a piece of spot-on information over the phone, pointing out a case of under-insurance, or simply a friendly word when passing a customer in the street. Daniel Bieri, Jean-Marie Dumoulin and Pasquale Zarra are sales agents in Switzerland with a passion for turning the Baloise's strategy into practice and maintaining close relationships with customers. A day in their life.

To become a trusted partner of choice, it takes close acquaintance
with the customer and his requirements, commitment and regular contact.

MANY OTHERS WERE STILL rubbing the sleep from their eyes when Jean-Marie Dumoulin returned to the Baloise General Agency in Fribourg with a pension scheme contract concluded at an engineering firm in his hands. After Dumoulin had started up his laptop in his office at half past five like every morning, he saw an urgent message clamouring for attention. A client of many years needed to have the occupational pension scheme for his firm settled – that very day. At 7 a.m. Dumoulin was at the customer's door with a ready-to-sign contract in his briefcase.

For Jean-Marie Dumoulin, such emergency operations are part and parcel of the kind of customer service he believes in. Even if in this case the manager at the engineering firm had simply neglected the pension scheme issue for too long. "I've always had this philosophy of building up close relations with key customers and so having a chance to look after the whole range of his insurance needs. This was an instinctive approach with no back-up tools. The fact that the Baloise is now pursuing this philosophy in a structured manner with its new Customer Value Model confirms that I've been on the right track all along."

On the road again. Close contact with customers cannot be maintained from the office alone.

The Customer Value Model (CVM) means that from now on sales agents no longer have to rely on their intuition alone when it comes to classifying customers by risk parameters. The CVM system divides a sales agent's portfolio into segments and provides all the relevant data of the most lucrative customers at a glance. With the help of this tool, the sales agent can address the requirements and expectations of the individual customer groups in a more targeted fashion. After all, you cannot offer more than standard products and advice without being acquainted with the real needs of any individual customer. So the customers benefit, knowing that they are "in good company", as the claim goes, and so does the Baloise, since satisfied clients will easily be interested in further products and services.

The Customer Value Model signifies a paradigm change for the Baloise and its staff, away from the previously applied product-oriented approach. Instead of differentiating by customer segments, the focus is on the profitability of customer relationships. Nowadays, market image depends less on a company's products and more on the quality of the services provided by staff members. Customer service is a key competitive advantage.

For Pasquale Zarra in Chur, Canton of Grisons, customer service is also of prime importance. At 7.30 a.m. he is organizing the coming day at his agency. Benefits are due for payment in four endowment policies, and in the case of four other customer contacts he is accompanying and supporting a new staff member. What can an experienced sales agent like Zarra teach a newcomer on the one-hour drive up to Arosa about what it takes to succeed in this field? "You cannot earn money on every visit. First, the foundations have to be laid."

While Zarra is preparing his documentation in Chur, Daniel Bieri picks up the phone in Ostermundigen, 300 kilometers to the west. A customer wants to thank him for the useful information sheet on accident and health insurance he had devised for the 75 employees of her firm. It's nothing he will get paid for, but it belongs to the added

“The Customer Value Model confirms that
I’ve been
on the right track all along.”
JEAN-MARIE DUMOULIN

value he is prepared to offer his customers. “I want customers to feel that I’m there for them.” Three years earlier he had initiated contacts with a large-scale client. It took three years before he could, a few weeks ago, celebrate the first contract conclusion with his staff.

Shortly before 9.30, Bieri is on the motorway heading to the south of Berne. At 10 o’clock, he is due to present an analysis to the owner of a small construction company together with suggestions not only on how the company’s insurance coverage can be optimized, but also for improvements in the owner’s personal pension scheme.

At the same time, Pasquale Zarra is walking through the historic center of Chur to meet Celestine Meyer in her store. Her teenage son had accidentally kicked a stone through the shop window. “This is no sales talk,” Zarra insists, just a chance to exchange a few personal words with Celestine and her husband Fred. The latter had considered switching to another insurer, explains Zarra on his way to the shop where Celestine sells her husband’s glass blowing art. “After several changes at the Baloise agency, he was left without personal contact.” Now Zarra has personally taken over the portfolio.

Jean-Marie Dumoulin, together with Christian Berset, is sitting in the meeting room of Yvan Menétrey, the director of Ascenseurs Menétrey SA, a firm producing customized lifts. They will be going through the terms of the new business liability insurance. Dumoulin already has the lift producer’s other insurance policies in his portfolio.

“Today’s target is not necessarily the conclusion of a contract,” says Daniel Bieri before presenting his analysis to the building contractor. “Quickly done business is often quickly gone business.” The discussions last for over an hour. “Raise the waiting period to 24 months (occupa-

tional benefit coverage); “According to the national accident insurance statistics, you are 0.92 percentage points below last year’s figure” (accident insurance); “The insurance sum of CHF 3 million is far too low for the business liability of a construction firm.”

For Daniel Bieri, such an analysis paves the way for negotiations. The building contractor gives him clear instructions to sort out the problem of insufficient business liability coverage. Next week, they are scheduled to

“I want customers to feel that I’m there for them”
DANIEL BIERI

Trust is gained only by proving your competence. Good preparation and in-depth analysis are the key.

meet again to finalize some of the details. "He was dissatisfied with the status quo, which gives me the chance to prove that this is a genuine partnership," explains Bieri. "Any risks an entrepreneur can bear himself, he should bear himself. My job is to take care of the rest."

Before going for lunch at one of Chur's hotel restaurants, Pasquale Zarra passes by Franco Passanantes' stonemason's workshop to discuss the washbasin damage in the bathroom. The hotel owner whom Zarra and his sales manager, Ivan De Gani, are meeting for lunch recently announced his intention of cancelling his insurance policies with the Baloise. They now want to find out the reason why.

Jean-Marie Dumoulin is also combining lunch and business. Claude Joye, the director of the La Providence old people's home in the heart of Fribourg, wants to expand the up-market home and needs insurance coverage for the building phase. Other topics during lunch include supplementary accident insurance and Joye's private pension plan. For ten years now, Dumoulin has been Joye's contact in insurance matters. "My relationship is with Mr. Dumoulin, not with the Baloise," says Claude Joye. When Dumoulin moved on to the Baloise four years ago, he was allowed to take the Joye portfolio along. "In Switzerland, personal relations play a far greater role in the insurance business than for example in England."

The Customer Value Model takes this into account. With its CVM, the Baloise has created an efficient target customer management system. Pasquale Zarra, too, believes it is a useful tool that adds transparency to his customer relations. "At the press of a button I get an overview of a client's claim history and can see whether he pays his premiums on time. These are important factors when assessing the quality of a customer relationship."

> "I don't promise anything I can't keep"
>
> PASQUALE ZARRA

Zarra's conversation with the hotel owner preparing to turn his back on the Baloise is showing progress. The hotel owner has asked for some counter-business in return for staying with the Baloise. "I don't promise anything I can't keep. This much I made clear to him." Nevertheless, he has arranged a follow-up meeting with the man. "This customer is not lost to us yet."

3 p.m. Bieri is back in his office. Time to write up the details of the day's customer visits. "This gives me the assurance that I will be broaching the right subjects when we meet next time". And how does CVM help him structure his work and find the right kind of clients? "It helps me avoid unproductive work processes and approach sales and advice talks with clearly defined selection criteria. Target customer management is also a good tool for customer retention." However, CVM also means additional administrative work. "Here I would like to offload some of the burden to have more time to spend with customers."

In the late afternoon, Daniel Bieri has a meeting with Robert Wälti, his General Agent, who has just received the provisional target figures for 2006. "Turning C customers into B customers and B customers into A customers sounds simple in theory," says Wälti. In practice it means a lot of hard work. They discuss the possibility of organizing an information event on the topic of occupational pension schemes. Getting together a list of whom to invite will, at least, be easy thanks to CVM.

After the meeting Bieri sits down at his desk with some thick files in order to prepare some analyses for the coming week before calling it a day at 6 o'clock. He takes particular pleasure in analyzing the file of a business IT specialist, an Iranian who came to Switzerland as a student and took out a household contents policy with the Baloise in 1991 with an insurance sum of CHF 20,000. One single contract. According to CVM a C customer, whom the agency in Zurich was happy to transfer to him. In the meantime, the man has become a Swiss citizen, is now in management position, and has inherited a seven-digit sum. Bieri laughs out loud and is already looking forward to their meeting. An overall counselling session has been arranged "Nobody ever bothered to contact him, although his policy expired in 2001." Bieri had met this potential A customer at an information event on pensions organized by the Iranian-Swiss man's

«TRUSTED PARTNERS OF OUR TARGET CUSTOMERS»

In 2005 Baloise Switzerland introduced the Customer Value Model (CVM) for the first time in the form of a pilot project. CVM classifies customer relationships by value-adding criteria and generates corresponding overviews. All insurance contracts are included in the system and together reflect the "value" of the customer in question. Based on the portfolio value, a statement is made on the profitability and loyalty of the customer. A customers are those with a relationship of proven value to the Baloise, B and C customers are those with fewer contracts and/or a less longstanding relationship with the company. The Customer Value Model is supplemented by a value in terms of development potential: To what extent does the relationship have development potential and is the customer receptive for further business with the Baloise (cross-selling)?
The Customer Value Model is one of the Baloise's strategic tools in the Swiss market. The underlying goal is market leadership in target customer management.

employer, himself a customer of Bieri's. After the event, the former student contacted Bieri of his own accord.

Jean-Marie Dumoulin is using the early evening hours to update his customer files and organize some forthcoming meetings when the phone rings with a customer on the line. He has just totaled his BMW. Can Dumoulin handle the claim? Of course he can. Customer service is everything.

Pasquale Zarra is sitting with his new colleague, Oliver Mark, to work out the schedule for the next day's field trip to Arosa. Together, they go through the standard questions: What is the issue, who do we talk to, what is the aim of the visit? The last meeting on the agenda is at 7 o'clock in the evening. Mark and Zarra will be visiting a customer who wants to turn her fixed (3a) private pension plan into a paid-up policy. "I have the suspicion that her new employer, a bank, is behind this. They want her to change to one of their accounts." His best trump card in the discussion will be the rate of interest. "With the terms and conditions of 1994 in force, she is guaranteed 3.5 percent interest. She won't find that anywhere else nowadays." As to the other reservations the client has raised – premium reduction and changed terms of payment – "I'm sure we'll find a way around the problems. After all, we want to retain her as a customer and stay her trusted partner of choice in all matters of pension and insurance."

Daniel Bieri, Jean-Marie Dumoulin and Pasquale Zarra are among the Baloise's top sales agents in Switzerland. They are also living proof of the excellence of the company's internal training system. All three originally worked in different industries before making their mark in the insurance business. They were given the opportunity to acquire a thorough knowledge of insurance matters and spend several weeks a year undergoing further training (legal changes, new products, technical issues, etc.), which enables them to give first-class, up-to-date advice to customers.

Pasquale Zarra (48) is an expert in overall solutions, a certified investment fund adviser and a certified financial planner at the Baloise. In 2005 he attended a specialist course in social security. Before joining the Baloise in Chur in 1995, he was head of sales for Ferrari at an auto dealership. He is in charge of a portfolio worth around CHF 2.3 million, mostly made up of private individuals.

Daniel Bieri (52) is an expert in risk management and asset/liability protection at the Berne-East General Agency in Ostermundigen and, as a corporate advisor, manages a portfolio worth around CHF 2.6 million. Before joining the Baloise in 1998, Bieri worked as a sales agent instructor at another insurance company, where he was subsequently made agency head in the Canton of Berne.

Jean-Marie Dumoulin (55) is an expert in risk management and asset/liability protection at the Fribourg General Agency. The premium volume of his portfolio consisting primarily (approx. 70 %) of SME clients, amounts to roughly CHF 4.3 million. Before switching to a competitor in 1980, he worked as a Baloise sales agent for 3 years. In 2001, Dumoulin returned to the Baloise as a corporate adviser.

Germany

With a combined CHF 145.6 million profit before tax and borrowing costs, the Basler Securitas and Deutscher Ring business units made a substantial contribution to the Group's profit despite sharp price competition in the property insurance segment and the unfavourable environment in the traditional life segment.

Key figures Germany

	2004 (restated)	2005
Gross premium income	2,120.9	2,110.1
of which: Life	1,059.6	1,061.5
of which: Non-life	1,061.3	1,048.6
Combined ratio non-life (gross)[1]	93.5	94.0
Profit/loss before tax	135.9	145.6

in CHF m

[1] in percent

Basler Securitas

Basler Securitas successfully completed its integration in 2005 resulting in more efficient business processes and an income-oriented customer portfolio. Beginning in 2006 we will implement additional improvements in the sales organization, in claims processing and in operating procedures. The business unit increased its contribution to profits significantly compared to 2004, primarily thanks to the impressive result in the property insurance business and excellent returns on investments. Business volume came to CHF 1,058 million (2004: CHF 1,094 million), a decline of 3.4% due particularly to adjustments in the business portfolio and the unfavourable economic environment in the life insurance segment.

The core property insurance segment shrank by 2.1%, resulting in a premium volume of CHF 835 million (2004: CHF 853 million), a reflection of price competition particularly in the motor vehicle and industrial insurance sectors and of our profit-oriented business policies. The combined ratio was 93.9% gross (2004: 92.9%), a very good figure.

Premium revenue in the life segment came to CHF 223 million (2004: CHF 242 million), a decline of 7.8%. The crucial factor in this trend was the considerable market-wide drop in demand for lump-sum life insurance products since the new retirement income act came into force. This created a very high demand in late 2004 before adoption of the law, leading to a saturation of the market in 2005. The trend was further exacerbated by continuing very low interest rates.

Deutscher Ring

Deutscher Ring held its ground well and generated a substantial contribution to the consolidated earnings, a consequence of various operational improvements. Satisfactory business growth and significantly lower lapse rates are proof of the progress made in building customer loyalty and positioning the company in the market. Starting in July 2005 the acquisition of life insurer MONEYMAXX brought additional business volume of CHF 63 million, primarily unit-linked life insurance products.

Overall Deutscher Ring's business volume including unit-linked life insurance increased to CHF 1,196 million (2004: CHF 1,106 million), a gain of 8.1% attributable to property insurance, unit-linked products and MONEYMAXX. Premium revenue in accordance with IFRS accounting came to CHF 1,053 million (2004: CHF 1,027 million).

Business volume in the life segment increased by 9.4% to CHF 982 million (2004: CHF 897 million) while the volume for unit-linked life products grew by 17.4% to CHF 93 million (2004: CHF 79 million). If volume from the acquisition of MONEYMAXX in July 2005 is included the increase comes to 80.7%. Deutscher Ring's focus on this growth segment has proven timely. Premium revenue in accordance with IFRS accounting came to CHF 839 million (2004: CHF 818 million), an increase of 2.5%. Thanks to innovative products, new business is doing significantly better than the market overall, which is shrinking by about 50%. The segment's earning power continued to grow.

The property insurance segment grew by 2.4% resulting in a premium volume of CHF 214 million (2004: CHF 209 million). The gross combined ratio improved to 94.5% (2004: 95.8%). Together with the better lapse rate this is evidence for stronger customer loyalty in the target segment and better operational efficiency.

The Bausparkasse increased its business volume both in savings and in financing transactions and is developing in accordance with our expectations; we are anticipating that the break-even point will be reached in 2006.

Learning from the past and pinpointing potential for improvement: an organization geared to the needs of company and clients.

Dieter Hack,
Head of Claims, Basler Securitas

Claims optimization – a major project

Assuming direct control

Many companies talk about cost-cutting and process optimization. Basler Securitas in Germany is taking action to achieve these targets in a major project with the core objective of enhanced customer service through more efficient claims processing. A recent visit shows the progress that has been made.

Manfred Feldmann of Basler Securitas in Bad Homburg, explains: "First of all, we had to merge two companies with different corporate cultures." The past years were dominated by the incorporation of Deutscher Ring's automobile and commercial insurance portfolios and the integration of Basler and Securitas to form a new combined company. The next step is now optimization. This refers specifically to the claims handling area, where there is a substantial potential for improvement. As part of a claims data analysis, roughly 900 settled claims in different segments were analyzed in detail. Dieter Hack, Head of Claims at Basler Securitas, explained: "It was a representative cross-section of all claims. We were particularly interested in how claims were processed in the past and where there is potential for improvement. The results were used to make projections covering the total annual number of claims. We expect to realize about two thirds of the total amount of potential savings calculated, i.e. between seven and ten million euro." However, according to Manfred Feldmann, cost-cutting is not the only goal of the exercise: "On the contrary, the object is to optimize our organization in the interests of customers and company. The changes in the processes and structures will directly affect about 170 employees in the claims section." Concrete improvements are possible in the routing of incoming damage claims alone. "For instance, we do not have a uniform telephone system. To become even more service-oriented, we urgently need to shorten communication paths and to process claims more quickly."

“Many success factors already exist within the company.”

MANFRED FELDMANN

Motivating and training staff results in better communication and swifter claims handling.

A new way of thinking

An internal road show highlighted the potential for improvement in the field of claims processing and presented a new target organization. This attracted a lot of attention and awakened people’s curiosity, although in some quarters it also generated fears of job cuts and structural changes. Dealing with such a situation requires proper change management to prepare employees for the full impact of changes at an early stage. According to Feldmann, key elements in achieving the set goals are a new way of thinking among employees and a high degree of motivation: “We want to make a concerted effort to support our employees and train them particularly in initial claims handling, partner management and the handling of dubious claims. One must never forget that although the new business model was developed by experienced claims experts, its implementation depends on our employees’ practical knowledge and skills.” Nevertheless, says the project head, there is no need to reinvent the wheel: “Many success factors already exist within the company. We just have to get these seedlings to grow.”

Impact

Basler Securitas’s first internal analysis of claims data – a common practice throughout the industry – revealed a theoretical savings potential of around EUR 13 million. This is expressed as “lost economic opportunities” (LEO; see box). Every single identified improvement approach will have to be realized for the entire potential to be exploited. According to Hack, the associated changes will have a far-reaching impact: “This project will involve structural, process and content related changes. Almost every interface within the company will be affected.” At present the claims optimization project is one of several major ongoing projects. Others include the optimization of target-customer management, targeting a more efficient cooperation with Deutscher Ring and the reorganization of our core non-life business. Many of the data and insights gained in the other projects will be incorporated in the claims optimization project.

Action, not reaction

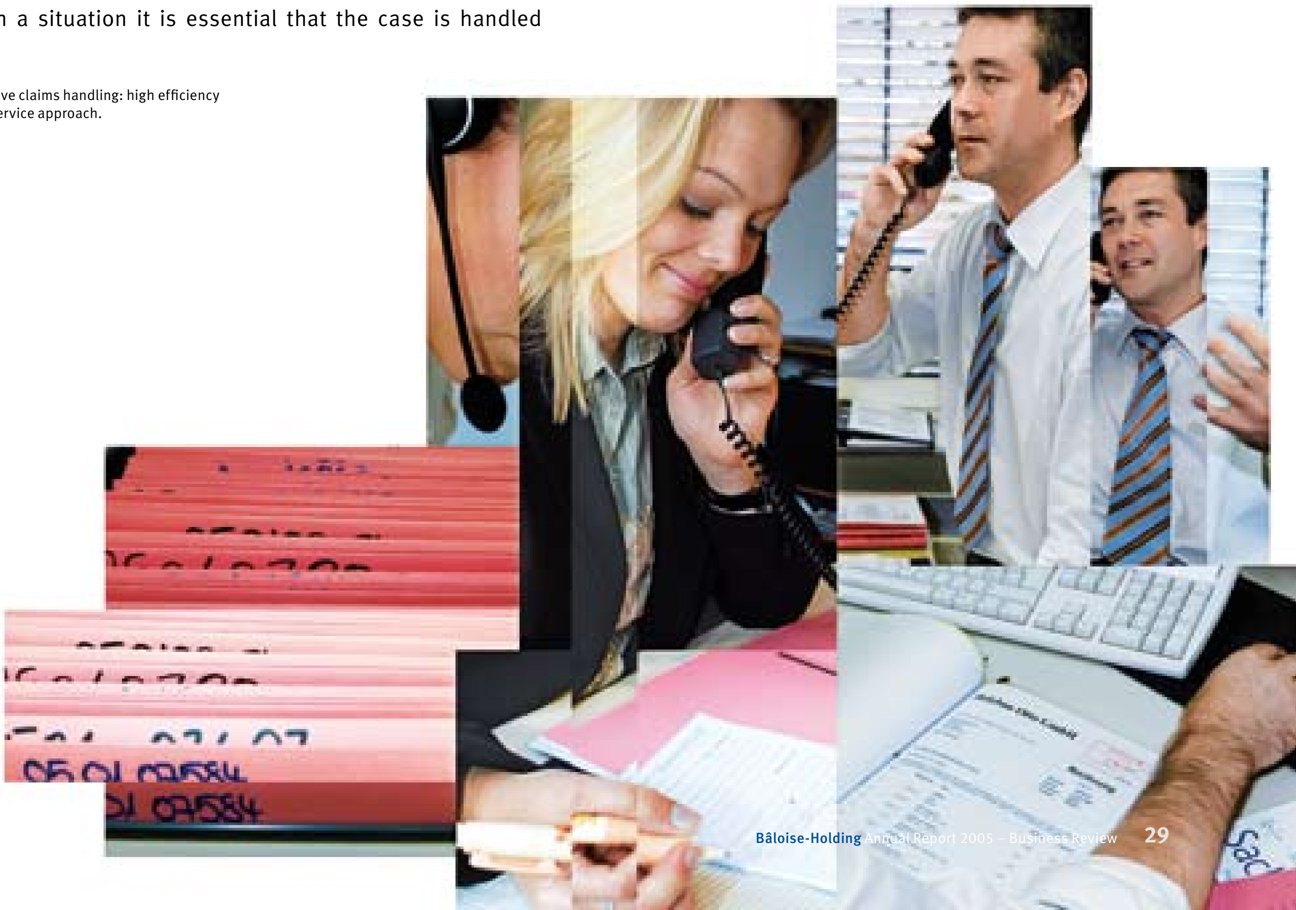
A recently conducted customer survey revealed a concrete scope for improvement in direct comparison with our competitors. Appropriate channeling of claims notifications for instance can substantially increase the quality of service. Achieving this will require far-reaching changes in the structural organization, which illustrates the impact that the claims optimization project is set to have within the company.

> “We expect to realize savings of seven to ten million euro.”
>
> DIETER HACK

And what are they saying in the front line? The visit to the Bad Homburg Service Center and meetings with employees provided some interesting insights. Marco Gottwalt, who participated in the large-scale claims data analysis, is of the opinion that “many processes will have to be rethought from scratch.” Rudolf Schön, his office colleague, underscores this: “Our task was to analyze a representative sample of claims files and identify potential cost savings. And there are lots. However, many of them cannot be implemented straight away for technical and legal reasons.” Angela Teske sees each claim as unique: “I don’t think you can process claims by the book.” Her colleague Jessica Kleinschmidt takes a similar view: “There are some tragic cases that really get to you. Recently, for instance, a young family lost the roof of their house in a storm. In such a situation it is essential that the case is handled quickly and unbureaucratically.” Of course, direct personal customer contact will always remain extremely important. Manfred Feldmann concludes by emphasizing that “field claims adjusters are the insurer’s on-the-spot eyes and ears.” For this reason Feldmann also attaches great importance to telephone contact: “In contrast to correspondence, when you have the customer on the line he has to justify his claim. Thus, it is possible to clarify the problem in advance and act quickly if necessary.” The elementary philosophy of claims optimization: instead of reacting to claims, the topic is tackled proactively. In other words: Basler Securitas would like, as it were, to assume direct control of each claim. The claims optimization project seeks to enhance efficiency and quality of service through process optimization and leaner structures. No mean target for the coming months.

LEO: LOST ECONOMIC OPPORTUNITIES

Cases of lost economic opportunities (LEO) play a crucial role in claims data analysis. They reflect qualitative and quantitative possibilities of optimization and hence are a key factor in professionalizing claims management.



Pro-active claims handling: high efficiency and a service approach.

Belgium and Luxembourg

The Benelux segment, which consists of the Flemish company Mercator and Bâloise Luxembourg, generated a profit before tax and borrowing costs of CHF 94.9 million (2004: CHF –135.0 million). Mercator was successful in accomplishing a turnaround and realized a veritable surge in profits. Bâloise Luxembourg doubled its profit.

Key figures Benelux

	2004 (restated)	2005
Gross premium income	743.0	736.3
of which: Life	145.5	153.5
of which: Non-life	597.5	582.8
Combined ratio non-life (gross)[1]	95.6	93.5
Profit/loss before tax	–135.0	94.9

in CHF million

[1]in percent

Belgium

The Belgian company Mercator made good on the promise of a very positive trend that was already beginning to emerge at the 2005 mid-year mark. The successful completion of restructuring measures and the explicit strategic concentration on its core business of insurance and pensions resulted in a jump in profits after the major loss posted the previous year. Tax-free capital gains from the sale of equity holdings and expiring shareholder commitment agreements had a significant impact on the gratifying annual profit.

Business volume grew only slightly, reaching CHF 758 million (2004: CHF 752 million), an 0.7% increase, due primarily to substantial competitive pressure on the Belgian market, in particular in the motor vehicle insurance sector, and our profit-oriented policy with regard to pricing and new business that is directed toward achievement of a minimum margin. Premium volume under IFRS declined by 1.4% to CHF 658 million.

In the non-life segment Mercator posted premium revenue of CHF 540 million (2004: CHF 557 million), a decline of 3.2%. With a gross combined ratio of 94.1% we were able to improve on the previous year's figure of 95.3% despite the disposal of the bank as cost bearer and the aggressive price competition on the market. This enabled Mercator's core segment to significantly build its operating earning power within a short period of time.

Business volume in the life segment including unit-linked products grew by 11.8% to CHF 218 million (2004: CHF 195 million). At the half-year mark the trend had still been declining so we regard this as a positive course of events, even though overall growth lagged the Belgian market. Owing to the sale of Mercator Bank, the premium volume generated by this distribution channel is below the previous year's level. Premium volume life under IFRS rose by 7.4% to CHF 118 million. The business unit lowered interest rate guarantees during the second half, as did the market overall, in order to improve the profitability of the life segment.

Luxembourg

The year 2005 was a successful one for Bâloise Luxembourg. It no less than doubled its previous year's profit. Substantially lower costs and lower claims incurred, very positive growth in the property insurance business and gratifying performance in the unit-linked life segment were the determining factors, resulting in a 5.3% increase in business volume to CHF 342 million. Premium revenue in accordance with IFRS accounting grew by 3.7% to CHF 78 million (2004: CHF 75 million).

With a premium volume of CHF 43 million the non-life segment posted an increase of 7.2%, nearly twice the growth rate of the overall Luxembourg market. Thanks to the absence of major claims, more efficient claim and cost management and new products, the combined ratio improved sharply to 86.8% (2004: 99.2%). In the highly contested motor vehicle insurance market the new polyCARe product, built strictly on scoring techniques, helped us achieve both a strong competitive position and efficiency gains.

The life segment, heavily affected by ongoing low interest rates, achieved a premium volume under IFRS of CHF 35 million (2004: CHF 35 million). This stagnation is primarily attributable to the interest rate-sensitive individual life insurance business. Business volume in the unit-linked life segment (not counted as premiums under IFRS accounting rules) reached CHF 264 million. This figure surpasses our expectations, exceeding even last year's already very high CHF 250 million. We continued to improve our market position in the group life sector.

“Our agents now have to get accustomed to new ways of thinking and acting.”

ANDRÉ BREDIMUS, CEO BÂLOISE LUXEMBOURG

Motor insurance

(R)evolution in Luxembourg

Bâloise Luxembourg's CEO André Bredimus and Senior Manager Claude Meyer have good reasons to be pleased. polyCARe, the new motor insurance product, is a genuine innovation. They now see themselves in a challenger position in their market.

Is Luxembourg a fertile ground for innovation?

ANDRÉ BREDIMUS: Until recently, the Luxembourg insurance market was pretty much set in its ways. Two companies together controlled two thirds of the market, obviously benefiting from the recognition value that this bestowed. In addition, prices in the past decades were laid down by the political authorities according to social criteria. For customers, it hardly made any difference which insurer they opted for, given that price differences from one provider to another were minimal at best. Even ten years after deregulation, the situation hasn't changed much. We have now decided to tread new paths in our attempt to find and retain good customers.

Why did you decide to launch a new product?

CLAUDE MEYER: Because this was the best way to distinguish ourselves from the competition. Certain insurers prefer undercutting their rivals' prices, but this sooner or later takes its toll on their profitability. Nor does this, as a rule, help the company's market share. It is not a procedure that would be in line with the Baloise philosophy.

Is polyCARe really such an innovative product?

A.B. The concept of polyCARe is a true novelty in Luxembourg. We insure all the vehicles of one family (cars, motor bikes, etc.) in a single contract. Customers can also opt to pay their premiums in monthly instalments without this adding to their premium bill, which is a by no means negligible competitive advantage. The other insurance companies raise their premiums by 3% in the case of half-yearly payment and by no less than 5% in the case of quarterly payment.

How did polyCARe come about? From a gut feeling?

C.M. I would sooner say out of a good knowledge of the market. Many people in Luxembourg are crazy about cars. Nowhere in Europe are there more families that own more than one car. Besides, young people tend to live with their parents for longer now. And the parents usually pay for their offspring's motor insurance. So you see that with our offer of a single family insurance covering several vehicles we anticipate a latent customer requirement.

Finding and retaining good customers.
New approach, new products.

A great product is not automatically a profitable product…

A.B. You're quite right. However, the most innovative thing about polyCARe is its rate structure. We have introduced a strongly segmented and technically well founded pricing concept. And this is a novelty in our market. We are finally basing our pricing on objective criteria. We now have a completely new tool at our disposal. Over a period of three years, we built up a very extensive database. This has enabled us to identify roughly a dozen pricing criteria. We no longer have to rely exclusively on crude data such as replacement value and engine capacity. And this is a true revolution. Thanks to this new approach, we can rest assured that all new risks we will be taking on with polyCARe will be priced in a proper, risk-aligned way.

All insurers dream of acquiring good customers. Have you discovered a magic recipe?

C.M. No. Not even we can work miracles! But we have the edge on our rivals because we know what the good risks are. Let me give you an example, one that came as a surprise to us: Statistics show that cars running on diesel are more frequently involved in accidents than those powered by petrol. The reason behind this is probably that people who drive a lot – which from a statistical point of view makes them more liable to have an accident – tend to use diesel for cost reasons. This makes the question of whether the car to be insured runs on diesel or petrol one of our objective pricing criteria.

Were there any other surprises?

C.M. Yes. For example, it stands to reason that a car in a locked garage is less likely to be stolen than one that is parked in the open. We have now found out that this factor is also relevant for other points of coverage, such as hull damage or accident. The fact whether a car is kept in a garage also gives us some insight into the owner's general behavioral tendencies. Garage owners, it turns out, are often elderly people living in the country who do not use their car all that often. In many ways, our rates are a simplified reflection of reality.

There is the danger that clients will see their premiums surge with this new product...

A.B. This is certainly an exaggeration. At the point of purchase, we offer the client a favorable rate. We then have to make up the difference over the term of the contract. But the numbers speak for themselves. For 51% of the insureds, polyCARe actually leads to a reduction in premium. In 25% of the cases the price remains unchanged. And only for 24% of the persons insured is there a premium increase involved. But these are not the customers we are keen on.

"We have to edge on our rivals because we know what the good risks are."

CLAUDE MEYER, HEAD NON-LIFE BUSINESS BÂLOISE LUXEMBOURG

What problems were you confronted with in connection with polyCARe?

A.B. Technical problems, particularly in the software field, were solved pretty quickly. The real challenge was to see how our sales agents would react. We work together with nine independent general agencies and 200 "agences non professionelles" who sell exclusively Baloise products. We did take account of this human factor in the planning phase, but admittedly underestimated it. Our product is more performant but also more complex than its predecessor. Now sales agents are obliged to contact their customers and ask them to fill out a short questionnaire. After working with the same price structures for thirty years, agents now have to get accustomed to new ways of thinking and acting. It was not always easy for the agents to understand the new rates, let alone explain them to their customers. Introducing the product to the agents therefore proved rather disappointing at first.

C.M. This brings us to another problem. The less dynamic among the agents will lose customers whose premiums are set to rise. To maintain their own income level, they will have to actively acquire new customers who fit our new model. And as we know, it is not easy changing firmly established habits and work patterns.

Looking back, what would you do differently?

A.B. We should have invested more in communication and the motivation of our sales agents. Those who grasped the philosophy behind the new product have become convinced of its potential, often turning into keen proponents. At present, 95% of Luxembourg's vehicle owners are not customers of the Baloise. This gives us a huge number of potentially interesting clients. For the past eight months, we've been on the right track. Good sales agents have realized that they can count on a sales growth of up to 30%, which is enormous given the fact that the average market growth at present is around 3 to 4%.

And how do your competitors react?

C.M. At the moment they're just observing us. But we can feel that they're getting nervous. Our innovation is going to hurt them not in the short term, but certainly in the long run. I believe some insurers are going to wake up simply too late.

polyCARe was launched at the beginning of the year. Can you already draw some conclusions?

C.M. It's a bit too early for that. We have a portfolio of around 15,000 vehicles. It will take two years for us to have some reliable results and five years before the portfolio has been thoroughly renewed. But already now we can say that we have made progress as far as the good risks are concerned.

Do you think you will manage to hold on to the lead you have over other insurers?

A.B. I am sure we will. polyCARe is much more than a short-lived marketing gag. It is a revolution in the way that we do business here in Luxembourg. And if we continue to update and expand our statistical database, we will keep our competitive edge. In 2007 we are going to evaluate and fine-tune the model and, if necessary, add new pricing criteria.

What other targets are you pursuing?

A.B. We are determined to take on a challenger role in this line of insurance. We aim to double the average market growth, in other words to up our market position to anything between 7.5 to 10%. And we will use the experience gained to develop further new products. For instance a comprehensive property and household contents insurance. I can't tell you any more at this stage. But come back again next year...

POLYCARE, THE CLEVER CONTRACT

It took nine months, three full-time staff members and a budget of EUR 200,000 to plan, draft and launch polyCARe. Now Luxembourg's vehicle owners can opt for a revolutionary form of motor insurance. Here are some of the advantages offered by this new product:

- polyCARe covers all the vehicles of a family in a single contract
- polyCARe offers a choice of seven contract types adjusted to customer preferences
- polyCARe comprises 12 insurance modules to cover the driver, his/her family, the vehicle(s), the vehicle contents and third party liability
- polyCARe offers the possibility of monthly premium payment provided at least one car has full comprehensive insurance. There are no additional fees.

Other countries

Austria and Croatia

Basler Austria and the Croatian business unit that it manages generated sizable organic growth and higher operating income in 2005. Basler Austria's consistent customer orientation together with the ongoing expansion of its sales force is evidenced in a marked 11.7% expansion in premium volume to CHF 128 million (2004: CHF 114 million). Growth in both of its business sectors, property and life insurance, outpaced that of the Austrian market overall. The consistent implementation of scoring instruments in product development and in customer value-based sales management resulted in stable operating earning power in the core segments. The Croatian unit shored up its already strong position with significant growth in the core medical practitioner segment.

In the non-life insurance segment Basler Austria continued to improve its business performance compared to the previous year with a 9.5% increase in premium volume to CHF 92 million (2004: CHF 84 million). Despite expansion of the sales force the combined ratio improved to 103.7% (2004: 105.2%), resulting from ongoing cost reduction and lower claims as this business unit continues to focus on profitable, risk-conscious target customers.
With a 17.6% increase in premiums to a volume of CHF 36 million (2004: CHF 31 million) the life segment exceeded all expectations, with growth resulting primarily from single-premium policies.

Reinsurance, financing companies and equity holdings

Under "Other countries" we also include reinsurance, financing companies and equity holdings as well as activities at Group level. The profit before tax and borrowing costs in this segment amounted to CHF 192.2 million (2004: CHF 220.4 million). The main reason for the decline in profit is lower reinsurance earnings due to higher claims. The impact of the run-off business was positive.

Key figures Austria

	2004 (restated)	2005
Gross premium income	114.5	127.9
Of which life	30.9	36.3
Of which non-life	83.6	91.6
Combined ratio non-life (gross)[1]	105.2	103.7
Profit/loss before tax	9.3	3.8

in CHF m

[1]in percent

Human Resources

Based on our corporate values "create value", "foster relations" and "bring about change" we focus on implementing the corporate strategy. Human Resources supports this process with the appropriate methods and systems.

Putting the Baloise strategy into practice regularly requires new skills of our employees. One of the key tasks of Human Resources is to provide tools and methods with which employees can develop and hone such skills. The chief responsibility, however, lies with the line managers. They must ensure that their staff are properly equipped for present and future tasks, and that the skills they have are adequately deployed.

All-around performance management

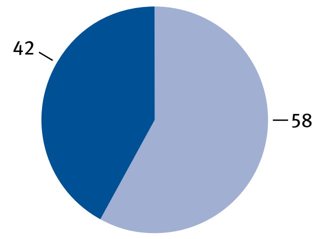
We have redesigned this important management process in our Individual Performance Management project. Besides setting targets and measuring target attainment, appraisals are also made of employees' main tasks as well as their skillset and general conduct. This gives us an all-around view and enables us to steer an employees performance from a variety of perspectives. From 2006 this new task setting and performance assessment process, with electronic support, will be introduced at all our Swiss locations. Direct personal contact between employee and line manager will still be at the heart of the process, but there is now a stronger focus on an employee's skillset and the development steps that need to be taken.

Ongoing training as a basis for personnel development

One of the characteristics of the Baloise's corporate culture is its emphasis on recruiting future senior executives from our own ranks wherever possible. We build on personalities that can point and lead the way with natural authority and play a part in shaping their company's identity. This is what the program launched at Deutscher Ring for future executives focuses on most. Following a rigorous selection process, twelve staff members have been undergoing a two-year, on-the-job preparation for the challenges of senior management and project leadership since spring 2005.

Workforce by gender

in percent



Men
Women

Category	Men in %	Women in %	Men in %	Women in %
	2004		**2005**	
Staff	48	52	49	51
Middle Management	83	17	83	17
Senior Management	92	8	93	7
Total	**58**	**42**	**58**	**42**

The Board of Directors of Bâloise-Holding comprises eight men and two women.

PERSONNEL FIGURES

The mode of determining the number of employees was changed in 2004. The numbers are now stated in terms of full time equivalents (FTEs). The Baloise Group staff count as at December 31, 2005 thus comes 7,548 (2004: 7,609).

Staff	2004	**2005**	Change
Switzerland	3,632	3,579[1]	–53
Germany	2,785	2,854	69
Benelux	910	829	–81
Other countries	282	286	4
Total	7,609	**7,548**	–61

[1] of which 253 Group

Staff training expenses amounted to around CHF 16.7 million in 2005. Overall, employees spent 15,232 days on basic and advanced training courses. Finally, 326 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.

Personnel portfolio: assessment of skills and potential

The focus at Basler Securitas was primarily on its senior executives. At the German company's Personnel Portfolio Conference, a Board-level discussion was held on the skills and potential of the individual management members. The insights gained are serving to initiate targeted and ongoing personnel development measures. This is a successful example of targeted staff development policy. Other Baloise Group business units will no doubt follow suit.

Human Resources help shape corporate culture

Accompanying change, fostering a culture of togetherness, strengthening the Baloise spirit – these were some of the further focal points of Human Resources in 2005. Tangible results were produced for instance by Mercator in Belgium and Basler Austria, who devised training concepts aimed at improving communication with clients and at fostering collective energy within the company.

Staff development at all management levels

The groupwide Management Development Programs have been geared to the requirements of the corporate strategy. Participants in the Advanced Management Program – middle ranking managers – were given various strategic topics in project form to deal with. One of the key items of the annual Strategic Leadership Program for our top executives required participants to work intensively on the topic of customer value management.

Sustainability

Long-term thinking and acting is in the nature of insurance business. We can only be successful in the long-run if we are guided not only by economic but also by ecological and social considerations.

In early 2004 the Baloise was the first among Swiss primary insurers to publish a sustainability report. In our second, 2005/2006 report, we measure ourselves by the promises made, report on ongoing projects and outline possible future developments. Sustainability is an integral part of our day-to-day business.

Sustainability for us means responsible resource management from an economic, social and ecological point of view. We support society in handling its risks and thereby make a key contribution to economic sustainability. Sustainable and successful business activities-particularly in the world of insurance – can only be based on trust. By being transparent and maintaining an open dialogue with stakeholders, we provide evidence of our credibility on a daily basis.

A Leader among primary insurers

The 2005/2006 Sustainability Report reflects the broad scope of our commitment to sustainability and its influence on our core business, and also the Baloise's social responsibility and the corresponding initiatives and activities it undertakes. We have already met around 70% of the promises made in our initial, 2003/2004 report. But this does not mean we are resting on our laurels. We aim to remain a leader among Swiss primary insurers in matters of sustainability. This ensures that our commitment will not subside. The Baloise's dedication to sustainability has not gone unrecognized. We have been included in the globally significant Dow Jones Sustainability Index and the FTSE4good Index, and the Baloise stock (BALN) features in the investment universe of Ethos, the Swiss sustainable development investment foundation.

The Baloise's 2005/2006 Sustainability Report

www.baloise.com/sustainability

Group Compliance

"We don't just react to outside pressure"

As a value-oriented company, the Baloise is committed to good corporate governance. Compliance is an important aspect in this context. Compliance for us means strategies to ensure ethical conduct in conformity with applicable laws and regulations. The Baloise has given systematic attention to this issue since 2002, says Peter Kalberer, Group Compliance Officer.

Managing compliance with foresight: Peter Kalberer

How did you approach this issue in 2002?

PETER KALBERER: Quite a lot was already being done in the field of compliance, but the Executive Committee decided to go a step further. Top priority was given to the establishment of a Code of Conduct. First came an analysis of existing responsibilities such as data protection and prevention of money laundering, which were already being dealt with at national company level. The next step was a groupwide risk based analysis. Then we introduced the Code of Conduct, which represented the first compliance standard for the entire Group. It took account of legal provisions as well as requiring a day-by-day conduct of our employees in line with our corporate values.

Code of Conduct sounds good.
Do the staff really abide by it?

PK: Intensive courses and workshops were held to introduce the Code of Conduct. Of course adherence can never be subject to complete control. But that is not the idea. The Code of Conduct is primarily intended to sharpen people's awareness.

And how do you achieve this target?

PK: We raise awareness by giving practical examples. In so-called "dilemma games" we work our way through delicate situations arising from everyday business practice. Staff members discuss various possible behaviors and thereby sharpen their perceptiveness. Doing this in the context of a game enables an unselfconscious exchange of opinion with regard to critical situations. This makes it easier for individuals to relate to the Code of Conduct. Staff members learn to identify tricky situations and, if in doubt, raise the issue with a specialist. Compliance is something that concerns everyone. Everyone is a compliance officer in their field. The trust of clients, investors and other stakeholders is our most precious commodity, and it depends on the daily conduct of every single staff member.

Are there other compliance tools?

PK: Yes, the Compliance Policy. It defines standards governing the organization and the responsibilities within the Baloise Group. The Compliance Policy is the basis for groupwide compliance reporting, our internal control tool. The reports inform the Executive Committee and the Board of Directors' Audit Committee on adherence to these standards. The Executive Committee then decides on appropriate measures and implements them.

Do you also report directly to shareholders?

PK: Shareholders are informed on Corporate Governance through the Annual Report. The Baloise's Sustainability Report provides them with further information on our corporate policy, which contains important compliance aspects.

What will the future bring?

PK: By industry standards, we are already a progressive company in terms of compliance. But we must and want to aim higher. "Action, not reaction" is our motto. We don't just wait until there is pressure from the outside. An example is our introduction of software that enables us to monitor all business relationships with regard to possible financing of terrorism. In addition, the reporting system ensures that all business units optimize their processes on a regular basis. This reduces the risk of incidents occurring that could cause reputational damage, and at the same time bolsters stakeholders' trust in the Baloise.

Corporate Governance Report

Transparency in Management

As a value-oriented enterprise, the Baloise is committed to good corporate governance. This is for the benefit of our shareholders, policyholders and employees. In accordance with the definition of corporate governance in the Swiss Code of Best Practice, we strive in the shareholder's interest to achieve transparency and a system of checks and balances in management and control, while preserving the decision-making ability and efficiency of corporate management.

To enhance transparency and comparability with other companies, this section follows the structure of the SWX guidelines.

1. Group structure and shareholders

Corporate structure

The Baloise is organized as a holding company in the form of a joint-stock company under Swiss law. It is domiciled in Basel and is listed on the SWX Swiss Exchange. On December 31, 2005 the Baloise Group had a market capitalization of CHF 4,244.8 million. Information on the Baloise's shares can be found from page 10 of the Annual Report – Business Review. The major companies and equity holdings as at December 31, 2005 are found in the Notes to the financial statements in the Financial Report starting on page 74. Other than Bâloise-Holding there are no exchange-listed companies in the Group.

Segment reports by region and line of business are found in the Notes to the financial statements in the Financial Report from page 38.

The Group's operating management structure is presented on page 49 of the Annual Report – Business Review.

Shareholders

Changes in share ownership

The distribution of shareholdings and trading liquidity of the shares remains unchanged from the previous year. As before, no single shareholder holds more than 5% of registered shares.

As a widely-held public corporation, the Baloise is part of the Swiss Market Index (SMI) and is included in the SWX's index calculations with 100% of shares in free float.

Shareholder structure

As at December 31, 2005 the biggest registered shareholder, Chase Nominees Ltd., held 4.9% of outstanding shares, of which 2.0% are voting shares. There were no equity holdings subject to disclosure under stock exchange law at the end of 2005. A total of 14,614 shareholders were recorded in the Baloise share register on December 31, 2005. The number of registered shareholders was 10.1% lower than in the previous year.

More information on the structure of shareholders as at December 31, 2005 can be found in the section "Baloise shares" starting on page 10 of the Annual Report – Business Review.

Treasury stock

The Baloise held 887,879 treasury shares on December 31, 2005. These shares are used in the incentive and employee share ownership programs, among other things.

Cross-shareholdings

There are no cross-holdings either of share capital or voting rights.

2. Capital structure

Distribution policy

The changes in capital in recent years have been a result of our shareholder-friendly dividend policy. Since 2001 the Baloise has repaid over CHF 700 million to its shareholders through cash dividends, share repurchases and par value repayments.

Distributions to shareholders

Year	Dividend payments	Share buybacks	Par value repayments	Total
2001	136.1	293.2	49.8	479.1
2002	132.7	–/–	–/–	132.7
2003	22.1	–/–	–/–	22.1
2004	33.2	–/–	–/–	33.2
2005	60.8	–/–	–/–	60.8
Total	384.9	293.2	49.8	727.9

in CHF, at March 31 of each year before 2005, at December 31 in 2005.
In accordance with the amendment to Art. 29 of the Articles of Incorporation adopted at the 2005 Annual General Meeting, the financial year ends on December 31.

All dividend distributions and capital operations in favor of shareholders since 1997, along with the dividend policy, are published on the Internet.

www.baloise.com → Investor Relations → Shares

Bâloise-Holding shareholders' equity

The following table shows changes in shareholders' equity over the past three reporting years.

Changes in Bâloise-Holding shareholders' equity (before allocation of profit)

	Financial year 2003/2004	Financial year 2004/2005	Financial year 2005
Share capital	5.5	5.5	5.5
General reserve	11.7	11.7	11.7
Reserve for treasury stock	14.0	16.7	7.9
Unallocated reserve	515.5	520.8	593.2
Retained earnings	41.9	125.0	138.5
Bâloise-Holding shareholders' equity	588.6	679.7	756.8

in CHF million, at March 31 of each year before 2005, at December 31 in 2005.
In accordance with the amendment to Art. 29 of the Articles of Incorporation adopted at the 2005 Annual General Meeting, the financial year ends on December 31.

Bâloise-Holding's share capital remains unchanged over the past three reporting years at CHF 5.5 million. It is divided into 55,307,150 dividend-entitled registered shares with a par value of CHF 0.10. Further information on Baloise shares can be found in the section "Shareholders' participation rights" on page 45.

Authorized and conditional capital, other financing instruments

Authorized capital

Bâloise-Holding has no authorized capital.

Conditional capital

Bâloise-Holding has conditional capital of no more than 10%, whereby the share capital may be increased by a maximum of 5,530,715 registered shares with a par value of CHF 0.10 each, for a maximum increase in nominal share capital of CHF 553,072. This conditional capital was created by the Annual General Meeting of 2004 (Art. 3 of the Articles of Incorporation).

The conditional capital is intended to secure any option or conversion rights granted in connection with bonds or similar instruments. No such financing instruments have been issued to date.

Subscription rights for shareholders are excluded. The right to purchase the new registered shares belongs to the current holders of options and conversion rights. The Board of Directors may restrict or exclude shareholders' pre-emption rights for the issue of options and convertible bonds on international capital markets. Further details on the structure of the conditional capital can be found in Art. 3 of Bâloise-Holding's Articles of Incorporation.

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

Other financing instruments

There are no participation certificates, bonus certificates or bonds convertible to Company participation rights or options issued by the Company.

Baloise Group consolidated equity

The consolidated shareholders' equity of the Baloise Group as at December 31, 2005 totalled CHF 4,391.4 million. Details on developments in 2005 and 2004 can be found in the Financial Report on pages 10 to 11 in the "Consolidated statement of changes in equity" in the consolidated financial statements. All details for 2003 can be found in the "Consolidated statement of changes in equity" on page 75 of the 2003 Annual Report.

Outstanding bonds

Bâloise-Holding and other companies in the Group have issued bonds to the public. At the end of 2005 a total of five bond issues from Bâloise-Holding and subsidiaries were outstanding with the public. Details on the outstanding bonds can be found in the Notes to the Annual Financial Statements in the Financial Report from page 61 and on the Internet.

www.baloise.com → Investor Relations → Bonds

3. Board of Directors

Members

Name	Nationality	Age	Term began	Term ends
Rolf Schäuble, Chairman	Swiss	62	1993	2008
Georg F. Krayer, Vice-Chairman	Swiss	63	1995	2007
Christoph J.C. Albrecht	Swiss	68	1985	2006
Andreas Burckhardt	Swiss	55	1999	2006
Hansjörg Frei	Swiss	64	2004	2007
Gertrud Höhler	German	65	1998	2007
Klaus Jenny	Swiss	64	2003	2006
Werner Kummer	Swiss	59	2000	2007
Arend Oetker	German	67	1996	2008
Eveline Saupper	Swiss	48	1999	2008

Only the Chairman of the Board of Directors holds an executive position. All other members are non-executive and independent. They were not responsible for management of any company of the Group during the three fiscal years preceding the period under review and have no material business relations with the Baloise Group.

Rolf Schäuble, Arend Oetker and Eveline Saupper were confirmed in office for a new three-year term in the year under review.

Rolf Schäuble (1944, Swiss, Dr. oec. HSG) has served on the Board of Directors since 1993, since 1994 as Chairman. From 1996 until February 28, 2002 he was also Managing Director and CEO. Upon completing his studies in economics he was awarded the degree of Dr. oec. at the University of St. Gallen. He held various positions at the Zurich Insurance Group in Zurich culminating in membership of the Group Executive Board.

Georg F. Krayer (1943, Swiss, Dr. iur.) has served on the Board of Directors since 1995, as Vice-Chairman since 2004. He studied law and holds the degree of Dr. iur. He is Chairman of the Board of Directors of Bank Sarasin & Cie AG, Basel and was Chairman of the Swiss Bankers Association until 2003. He is an independent non-executive director.

Christoph J. C. Albrecht (1938, Swiss, Dr. iur.) has served on the Board of Directors since 1985. He studied law and was awarded the Dr. iur. at the University of Basel and is currently a partner at the law firm of Joerin Hopf, Basel, working as an attorney-at-law and a notary. 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 non-executive director.

Andreas Burckhardt (1951, Swiss, Dr. iur.) has served on the Board of Directors since 1999. He studied law at the Universities of Basel and Geneva and holds a Dr. iur. degree. He worked at Fides Treuhandgesellschaft from 1982 to 1987 and was General Secretary of the Baloise Group from 1988 to 1994. He has been Director of the Basel Chamber of Commerce since 1994. Andreas Burckhardt is Vice President of the Swiss Association of Chambers of Commerce and President of the Great Council of the Canton of Basel-Stadt for 2006/2007. He is an independent non-executive director.

Hansjörg Frei (1941, Swiss, Dr. iur.) has served on the Board of Directors since 2004. He studied law and was awarded the Dr. iur. at the University of Zurich. Hansjörg Frei was employed at Winterthur from 1982, culminating as member of the Group Executive Board for operations in Switzerland, and was a member of the Executive Board (Head of International Country Management) at Credit Suisse Financial Services from 2000 until his retirement in mid-2003. From 2000 to 2003 he was Chairman of the Swiss Insurance Association (SIA). Hansjörg Frei is a member of the Board of Directors of Ems-Chemie Holding AG and Chairman of the Pension Fund of the Ems Group. Since February 2006 he has been Chairman of the SVP (Swiss People's Party) for the Canton of Zurich. He is an independent non-executive director.

Gertrud Höhler (1941, German, Prof. Dr. phil.) has served on the Board of Directors since 1998. She is a business and political consultant and was Professor of Literature and German at the University of Paderborn from 1976 to 1993. She studied literature and art history in Bonn, Berlin, Zurich and Mannheim. Gertrud Höhler served as consultant for public relations issues at Deutsche Bank AG from 1987 to 1990 and as Non-executive Director for Grand Metropolitan PLC, London from 1992 to 1995. She serves on the Boards of Directors of Ciba Spezialitätenchemie AG, Basel and Georg Fischer AG, Schaffhausen. Gertrud Höhler is an independent non-executive director.

Klaus Jenny (1942, Swiss, Dr. oec. HSG) has served on the Board of Directors since 2003. He studied economics and was awarded the Dr. oec. at the University of St. Gallen. Klaus Jenny was a member of the General Directorate of Schweizerische Kreditanstalt and member of the Credit Suisse Group Executive Board from 1987, serving most recently as CEO of the Credit Suisse Private Banking business unit. Since 1999 he has been a private financial advisor for businesses and individuals. He serves on the Boards of Directors of Clariant AG, Maus Frères SA and several private companies. Klaus Jenny is an independent non-executive director.

Werner Kummer (1947, Swiss, Dipl. Ing. ETH, MBA Insead) has served on the Board of Directors since 2000. From 1990 to 1994 he chaired the Executive Board of Schindler Aufzüge AG, joining the Schindler Group Management Committee with responsibility for the Asia Pacific region in 1978. From 1998 to March 2004 he was CEO of Forbo Holding AG. Werner Kummer is a self-employed business consultant, member of the Board of Directors of WMH Walter Meier Holding AG, Chairman of the Board of Directors of Gebrüder Meier AG, Regensdorf and member of the board of the Zurich Chamber of Commerce. He is an independent non-executive director.

Arend Oetker (1939, German, Dr. rer. pol.) has served on the Board of Directors since 1996. He studied management and political science at the Universities of Hamburg, Berlin and Cologne and was awarded the Dr. rer. pol. at the University of Cologne. He is Executive Partner of Dr. Arend Oetker GmbH & Co. KG, Berlin as well as Chairman of the Supervisory Board of Schwartauer Werke GmbH & Co. KGaA, Bad Schwartau, Chairman of the Board of Hero AG, Lenzburg, member of the Supervisory Board of Degussa AG, Düsseldorf, member of the Supervisory and Partnership Board of Merck KGaA, Darmstadt and Deputy Chairman of the Supervisory Board of KWS Saat AG, Einbeck. He is also Chairman of the German Council on Foreign Relations. Arend Oetker is an independent non-executive director.

Eveline Saupper (1958, Swiss, Dr. iur.) has served on the Board of Directors since 1999. She studied law at the University of St. Gallen and holds a Dr. iur. degree. Today she is an attorney-at-law and certified tax expert. From 1983 to 1985 she worked at Peat Marwick Mitchell (now KPMG Fides), Zurich and from 1985 to 1992 for Baker & McKenzie, Zurich and Chicago. Since 1992 she has been a partner at Homburger Rechtsanwälte, Zurich. Eveline Saupper is Chairwoman 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 non-executive director.

Further information on the members of the Board of Directors is available on the Internet.

www.baloise.com –› Profile –› Organization –› Board of Directors

Cross-involvements

There are no cross-involvements.

Election and term of office

The Board of Directors was made up of ten members at the close of 2005. Members are elected by the Annual General Meeting of Shareholders for terms of three years each. Terms are staggered, with one-third of members' terms expiring each year unless they are re-elected. Under age restriction rules, a director's mandate expires at the time of the Annual General Meeting following his or her 70th birthday, at the latest. The present average age of members is approximately 61. 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 authority of the shareholders at the General Meeting, the Board of Directors is the Company's supreme decision-making body. Decisions are in principle taken by the Board of Directors unless competencies have been delegated by the bylaws to the Chairman of the Board of Directors, the Committees, the Corporate Executive Committee or the CEO.

The main functions of the Board of Directors, pursuant to Art. 716a of the Swiss Code of Obligations and Section 1 II of the Bylaws, are the general management, overall supervision and financial supervision of the company and determination of its organizational structure.

www.baloise.com –› Profile –› Corporate Governance –› Rules and Regulations

Committees of the Board of Directors

The work of the Board of Directors is supported by four Committees. These Committees report to the Board of Directors and submit the necessary proposals in their respective areas of responsibility. The Compensation Committee in particular possesses autonomous decision-making authority.

Overview ot the Committees

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

C: Chairman, VC: Vice-Chairman, DC: Deputy, M: Member

Each of the Committees appointed by the Board of Directors is composed of four members, who are elected each year by the Board. The Chairman and Deputy Chairman of the Board of Directors are ex officio members of the Chairman's Committee. The Chairman of the Board of Directors may not be a member of the Audit Committee. The basic duties of the Committees are governed by the Bylaws and the written regulations pertaining to each Committee.

www.baloise.com –› Profile –› Corporate Governance –› Rules and Regulations

The Chairman's Committee provides advice on particularly important business transactions, especially important strategic and personnel decisions. It also functions as a Nomination Committee. The same members make up the Investment Committee, which approves the Group's investment policies and real estate investments for the Group's own use at Head Office.

The Compensation Committee sets the structure and amount of compensation to members of the Board of Directors and salaries of Corporate Executive Committee members. It formulates an incentive plan setting forth high-level corporate goals and defining attainment of these goals. It approves compensation policies for Corporate Executive Committee members and oversees their proper application.

The Audit Committee supports the Board of Directors in its general and financial oversight duties, which cannot be delegated (Art. 716a, Swiss Code of Obligations), by forming its own judgement of the organizational structure and functioning of the internal and external auditing system and the annual and consolidated financial statements.

The Audit Committee additionally assesses the quality of the internal control system, including risk management, and gives scrutiny to the state of compliance within the company. The Audit Committee discussed the fiscal 2005 consolidated financial statements both with management and with the external auditors. On the basis of these discussions, the Audit Committee recommended that the audited annual financial statements be incorporated into the Group's Annual Report for the fiscal year ended December 31, 2005 for submission to the Annual General Meeting. The Board of Directors concurred with this proposal.

Board of Directors and Committee meetings

In accordance with the Bylaws, the full Board of Directors meets as often as business requires, but no less than four times a year.

www.baloise.com –› Porträt –› Corporate Governance –› Rules and Regulations

In 2005 the full Board of Directors met five times. The directors' attendance at full Board meetings can been seen in the following table. All Committee members were present at all of the additional 13 Committee meetings. Thus board attendance by members of the Baloise Board of Directors is a respectable 97.8%.

2005 Board attendance: meetings of the Board of Directors

Name	3.23.05	5.18.05	8.31.05	12.7.05	12.8.05
Rolf Schäuble, Chairman	x	x	x	x	x
Georg F. Krayer, Vice-Chairman	x	x	x	x	x
Christoph J.C. Albrecht	x	x	x	x	x
Andreas Burckhardt	x	x	x	o	x
Hansjörg Frei	x	x	x	x	x
Gertrud Höhler	x	x	x	x	x
Klaus Jenny	x	x	x	x	x
Werner Kummer	x	x	x	x	x
Arend Oetker	o	x	x	o	o
Eveline Saupper	x	x	x	x	x

x = present; o = absent

www.baloise.com –› Porträt –› Corporate Governance –› Board and Management

In 2005, as every year, a seminar was held for members of the Board of Directors. This year's topic was corporate strategy.

The Chairman's Committee met five times last year, including one two-day strategy session. The Investment Committee met twice. The Audit Committee held five meetings, the Compensation Committee two.

Members of the Corporate Executive Committee are regularly invited to meetings of the full Board of Directors. Meetings of the Audit Committee are generally attended by the Chief Executive Officer, the Chief Financial Officer, the head of the Corporate Audit department and representatives of the external auditors.

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

The division of authorities and duties between the Board of Directors and the Corporate Executive Committee is primarily governed by the Bylaws and Investment Policies. Both documents are continually reviewed and adjusted to changing circumstances as needed.

www.baloise.com –› Porträt –› Corporate Governance –› Rules and Regulations

Auditing and monitoring the Corporate Executive Committee

The Corporate Audit department with its ten auditors reports directly to the Chairman of the Board of Directors. The auditors are experts in underwriting, actuarial theory, finance and information technology.

Since effective risk management is of central importance for an insurance group, a section of the Financial Report starting on page 24 is dedicated to the management of financial risks.

4. The Corporate Executive Committee

The management structure of the Baloise Group is presented on page 49.

Changes on the Corporate Executive Committee

Bruno Dallo resigned from the Corporate Executive Committee effective August 31, 2005. The Executive Committee now consists of four members. Corporate Human Resources reports to the Chief Executive Officer. Corporate Development and Run-off now report to German Egloff, CFO. Compliance reports to Thomas Sieber, head of Legal, Tax and Compliance, who in turn reports to the Chief Executive Officer.

Frank Schnewlin (1951, Swiss, Dr. ès. sc. écon., Master of Science LSE, MBA Harvard) studied business management at the University of St. Gallen, graduating with a degree in economics (lic. oec. HSG) with specialization in insurance and risk management. He earned a Master of Science at the London School of Economics, Master of Business Administration at Harvard Business School, Boston and a doctorate in economics (Dr. ès. sc. écon.) at the University of Lausanne. He was a research fellow at Harvard Business School. He worked at the Institut für Versicherungswirtschaft, St. Gallen and Citibank N.A., New York. He was employed at Zurich Financial Services Group from 1983 to 2002 in various positions. He joined its Group Management Board in 1993 with responsibility for the Southern Europe, Asia/Pacific, Latin America, Middle East and Africa business division and served as Head of Corporate Center and on the Executive Committee of the Group Management Board from November 2000. Frank Schnewlin has been Chief Executive Officer and Head of the International Division at the Baloise Group since March 2002. He is a board member of the Basel Chamber of Commerce.

German Egloff (1958, Swiss, lic. oec. HSG) graduated in management studies from the University of St. Gallen. From 1985 he held various management positions at Winterthur Insurance, Switzerland. He served as head of Management Support from 1990 to 1995, where among other things he was responsible for developing a management information system. From 1997 he was responsible for individual non-life insurance as a member of the Executive Board, including managing Wincare and serving as Chairman of the Board for Sancare. From 1998 to 2002 he was Chief Financial Officer of Winterthur Switzerland and member of the Administrative Board of Wincare, serving as Chairman from 2000. From 2002 to 2004 he was Chief Financial Officer at Zurich Financial Services, Switzerland, with responsibility for finance, human resources, IT, logistics and procurement. Since December 1, 2004 he has served on the Corporate Executive Committee (Head of Corporate Finance) with responsibility for financial relations, financial management and financial accounting, as well as corporate development and run-off since August 31, 2005.

Martin Strobel (1966, German, Dr. rer. pol.) studied computer science, business management and business information systems at the universities of Kaiserslautern, Windsor (Canada) and Bamberg, completing his studies with a doctorate (Dr. rer. pol.). From 1993 to 1999 he held various posts at Boston Consulting Group, Düsseldorf, in the fields of strategic IT management in the banking and insurance sector. He joined the Baloise Group at the start of 1999, serving as head of IT at Baloise Switzerland and responsible for major cross-division insurance and finance projects within the Baloise Group. Since 2003 he has served on the Corporate Executive Committee with responsibility for the Switzerland division. Martin Strobel serves on the Board of the Swiss Insurance Association (SIA) and on the Board of Prevo-System AG, Basel.

Martin Wenk (1957, Swiss, lic. iur) studied law at the University of Basel, graduating with a lic. iur. degree. From 1982 to 1992 he worked for a major bank, where he occupied a number of posts: 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, where he primarily attended to the needs of major institutionals. During this period, he attended further training courses in Switzerland and the USA. From 1992 to 2000 he headed Portfolio Management Switzerland at the Baloise Group. Here he was responsible for managing the assets of various Baloise Group companies (in Switzerland and abroad), including a number of pension funds. In 2001 he was appointed as member of the Corporate Executive Committee, responsible for Asset Management, comprising Investment Strategy and Investment Controlling, Baloise Asset Management, Real Estate and Baloise Fund Invest. Martin Wenk is Chairman of the Investment Commission of the Swiss Insurance Association SIA and serves on the boards of Unigestion Holding, Geneva and HW Finanz AG, Pratteln.

Further information on the members of the Corporate Executive Committee is available on the Internet.

With the exception of Martin Strobel and Martin Wenk, the members of the Corporate Executive Committee do not serve on the boards of companies outside the Baloise Group.

There are no management contracts assigning management duties to third parties

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

5. Compensation, sharehodings, loans

Compensation for the entire operating management team consists of a base salary and an incentive based on the attainment of corporate and individual goals.

The following section is divided into three parts:

- Members of the Board of Directors (other than the Chairman)
- Chairman of the Board of Directors
- Corporate Executive Committee

Members of the Board of Directors

The members of the Board of Directors other than the Chairman receive a lump-sum cash emolument established by the Board's Compensation Committee. Beginning in 2006, 25% of directors' annual fees will be paid in shares with a vesting period of three years. As is the case for direct share subscriptions by management, the members of the Board of Directors will receive a discount of 10% from the market price.

The 2005 figures subject to disclosure pursuant to the relevant directive are as follows for the nine non-executive members of the Board of Directors:

Compensation during the year under review	
Cash compensation	CHF 1,360,000
Shares granted	0
Options granted	0
Additional fees and remunerations	0
Total compensation	CHF 1,360,000

Shareholdings and options	
Shareholdings	57,520 registered shares

Loans to members of governing bodies[1]	
Mortgages and policy loans	CHF 650,000 (1 person)

[1] Mortgages are granted at employee terms (1% below the client interest rate for variable-ate mortgages; preferred interrest for fixed-rate mortgages). There are no outstanding policy loans.

A former member of the Board of Directors received compensation of CHF 160,000.

Chairman of the Board of Directors and Corporate Executive Committee

The Compensation Committee of the Board of Directors establishes the amount and type of compensation for the Chairman of the Board of Directors and members of the Corporate Executive Committee. Compensation is composed of a base salary plus an incentive of up to two-thirds of the base salary based on attainment of corporate and individual goals. 50% of the incentive must be drawn in shares. The corporate goals are developed in a multi-stage process and approved by the Compensation Committee at the end of each year for the following year. The individual goals are closely related to the accountabilities of each member of the Corporate Executive Committee. They are established jointly with the individual's supervisor and likewise approved by the Compensation Committee.

Two forms of share-based compensation are available to all individuals eligible for an incentive:

The shares may be subscribed directly at a preferred price 10% below the current market price.

Or the subscription is associated with a loan which leverages the effect of the share subscription. Repayment of the loan upon expiry of a three-year vesting period is hedged by a put option financed by the sale of a call option. Upon expiry of the vesting period, the employee may freely dispose of the shares remaining after repayment of the loan.

Chairman of the Board of Directors: Rolf Schäuble

Compensation during the year under review	
Cash compensation	CHF 1,926,302
Shares granted	CHF 420,019
Options granted	0
Additional fees and remunerations	0
Total compensation	CHF 2,346,321

Shareholdings and options	
Shareholdings	38,165 registered shares

Loans to members of governing bodies[1]	
Mortgages and policy loans	CHF 500,000

[1] Mortgages are granted at employee terms (1% below the client interest rate for variable-ate mortgages; preferred interrest for fixed-rate mortgages). There are no outstanding policy loans.

Members of the Corporate Executive Committee

Since the resignation of Bruno Dallo effective August 31, 2005 the Corporate Executive Committee has consisted of four members. Bruno Dallo's compesation up to his resignation date is included in total compensation for the Corporate Executive Committee.

Compensation during the year under review

Cash compensation	CHF 3,761,302
Shares granted	CHF 1,290,852
Options granted	0
Additional fees and remunerations	0
Total compensation	CHF 5,052,154

Shareholdings and options

Shareholdings	204,958 registered shares

Loans to members of governing bodies[1]

Mortgages and policy loans	CHF 1,000,000 (1 Person)

[1] Mortgages are granted at employee terms (1% below the client interest rate for variable-ate mortgages; preferred interrest for fixed-rate mortgages). There are no outstanding policy loans.

CHF 666,668 was paid to the departing member of the Corporate Executive Committee in settlement of continuing contractual obligations, pay continuation and severance. A total of CHF 881,750 was disbursed to a former member of the Corporate Executive Committee for incentive payments from previous years, pay continuation and severance.

6. Shareholders' participation rights

Baloise share capital consists solely of registered shares. There are no shares with preferred voting rights. With a view to maintaining a broad shareholder base and protecting minority shareholders, no shareholder is registered with more than 2% of voting rights, regardless of the number of shares held. The Board of Directors may approve exceptions to this rule by a two-thirds majority of all members (Art. 5 of the Articles of Incorporation). There are currently no exceptions.

Each share conveys a right to one vote. In exercising voting rights, no shareholder may directly or indirectly combine his own and proxy votes for a total of more than one-fifth of shares entitled to vote at the Annual General Meeting. Each shareholder may assign the exercise of his voting right by a written proxy to another shareholder (Art. 16 Articles of Incorporation).

www.baloise.com –› Profile –› Corporate Governance –› Rules and Regulations

Statutory quorums

The Annual General Meeting has a quorum regardless of the number of shareholders and proxy votes present, subject to the obligatory cases specified by law (Art. 17 Articles of Incorporation).

www.baloise.com –› Profile –› Corporate Governance –› Rules and Regulations

Waiver of statutory voting rights limitations requires the consent of at least three-fourths of the votes represented at the Annual General Meeting, which must also comprise at least one-third of all shares issued by the Company. The same qualified majority applies likewise in the other cases specified in Art. 17 (3) a–h Articles of Incorporation. In other cases, resolutions are taken by a simple majority of shares voted (Art. 17 Articles of Incorporation), subject to mandatory provisions of law.

www.baloise.com –› Profile –› Corporate Governance –› Rules and Regulations

Convocation of the Annual General Meeting

The Annual General Meeting is generally held in April, but no later than six months after the end of the fiscal year. The Articles of Incorporation (Art. 29) were amended at the 2005 Annual General Meeting so that the Bâloise-Holding fiscal year now ends on December 31. The General Meeting is convoked at least 20 days before the assembly date. Each registered shareholder receives a personal invitation with agenda. The invitation and agenda are published in the "Schweizerisches Handelsblatt", in various newspapers and on the Internet. Extraordinary General Meetings are convoked by resolution of the Annual General Meeting, the Board of Directors or the external auditors. An extraordinary General Meeting must also be convoked by the Board of Directors, in accordance with applicable law, at the request of shareholders (Art. 11 Articles of Incorporation). Pursuant to Art. 699 (3) Swiss Code of Obligations, these shareholders must represent at least 10% of the share capital.

www.baloise.com –› Profile –› Corporate Governance –› Rules and Regulations

Agenda items

Pursuant to Art. 699 (3) Swiss Code of Obligations, one or more shareholders who together represent shares with a par value of at least CHF 100,000 may apply for items to be placed on the agenda. Such application must be submitted to the Board of Directors in writing with indication of the items to be addressed to the General Meeting no later than six weeks before the regular Annual General Meeting (Art. 14 Articles of Incorporation).

www.baloise.com –› Profile –› Corporate Governance –› Rules and Regulations

Registrations in the share register

Those shareholders entered in the share register as holding voting rights on the closing date specified in the invitation from the Board of Directors, a few days before the General Meeting, are entitled to vote at the Annual General Meeting (Art. 16 Articles of Incorporation).

Admissibility of nominee registrations, along with an in--dication of percent clauses, if any, and registration conditions are governed by Art. 5 of the Articles of Incorporation. Procedures and requirements for prohibition or restriction of transferability are governed by the provisions of Art. 5 and Art. 17.

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

7. Changes of control and defence measures

Shareholders or groups of shareholders acting in collusion have an obligation, upon acquiring 33⅓% of all Baloise shares, to tender a takeover offer to all remaining shareholders. The Baloise has not opted to modify or waive this rule. There is neither a statutory opting-out nor an opting-up clause as specified in the Federal Act on Stock Exchanges and Securities Trading (SESTA).

There are agreements with the members of the Corporate Executive Committee and other senior managers which, in the event of termination by the employer (or under certain circumstances by the employee) will trigger a severance benefit within a certain period after a change of control. The amount of these benefits is within the customary range for the market.

8. Auditors

PricewaterhouseCoopers (PwC) or its predecessor Schweizerische Treuhandgesellschaft/STG-Coopers & Lybrand have been the Baloise's external auditors since 1962, elected annually by the Annual General Meeting. The statutory auditors are chosen by the General Meeting each year. Peter Lüssi has performed auditing functions for the Baloise since 1999 and has served as Lead Auditor since 2002.

In 2004 PwC was appointed external auditor for all Group companies in a competitive bidding process. Implementation was largely complete in 2004 and concluded in 2005. This and the comprehensive IFRS restatements (one-off effect) explain the 2005 rise in fees.

PricewaterhouseCoopers fees	2004	**2005**
Auditing fee	3,278,000	5,358,000
Fee for audit-related activities	499,000	238,000
Consulting fee	1,017,000	1,076,000
Total	**4,794,000**	**6,672,000**

in CHF

The Baloise has an Audit Committee made up of independent members qualified in finance and accountancy. The Audit Committee met four times during the year under review, with the external auditors present each time.

The Audit Committee assesses the performance of the external auditors and their collaboration with the Internal Audit group, Risk Management and Compliance. It discusses with the external auditors in particular the latters' audit work and reports along with the material results and the most important issues arising during the audit process. Before the start of the annual audit, the Audit Committee reviews the scope of the examination and proposes areas warranting special attention.

The Audit Committee thereupon investigates the independence of the external auditors. It proposes external auditors to the Board of Directors for election by the Annual General Meeting and makes recommendations concerning the auditors' fees. The Audit Committee reviews the external auditors' fees annually.

The Audit Committee reviews the usefulness of the external auditors' services not performed in connection with their auditing activities. There is a written instruction stipulating that material services not related to auditing activities require prior approval by the Internal Audit unit.

9. Information policy

Information principles

The Baloise Group provides comprehensive, open and regular information to shareholders, potential investors, employees, clients and the general public.

All registered shareholders receive Annual (Business Review) and Semi-Annual Reports providing commentary on the course of business. The Financial Report is sent to shareholders upon request. All publications are made available to all shareholders simultaneously.

All investors enjoy equal information rights. We use technologies such as webcasting and teleconferencing to open our meetings with financial analysts to the general public.

Information occasions

The Baloise provides comprehensive information on its business activities at

- Media conferences: Earnings are presented and goals, strategies and business activities explained at media conferences (a conference on release of the annual financial statements and an interim conference at the half-year mark).
- Financial analyst meetings: Financial analyst meetings take place at the close of each year and half-year, with a parallel webcast and teleconference. The events can be downloaded afterwards from the Internet.
- Annual General Meeting: Shareholders are given information on the course of business at the Annual General Meeting. Speeches given at the Annual General Meeting are published on the Internet.
- Road shows: Regular road shows are held at various financial centers.
- Investor conference: Key business and strategy topics are reviewed in depth.
- Individual meetings with analysts, investors and media representatives. Relations with analysts, investors and the media are continually cultivated.

Information on Baloise shares

Information on Baloise shares can be found from page 10 of the Annual Report – Business Review.

Financial calendar

Important dates for investors, including publication dates of the annual and semi-annual financial statements, are available on the Internet. The date and invitation to the Annual General Meeting, date of closure of the share register and ex-dividend date if any are also published.

- www.baloise.com → Investor Relations → IR Agenda

Available documents

Press releases, disclosures, presentations, Annual Reports, Financial Reports, Semi-Annual Reports and further documents are available to the public on the Internet. All documents are available from the Investor Relations department or can be downloaded from the Internet.

- www.baloise.com → Investor Relations → Prasentations

Contacts

Investor Relations

Carsten Stolz
Head of Financial Relations
Aeschengraben 21
CH-4002 Basel
Phone +41 61 285 83 65
Fax +41 61 285 75 62
E-mail carsten.stolz@baloise.com

Corporate Governance

Thomas Sieber
Secretary to the Board of Directors
Head of Legal, Tax and Compliance
Aeschengraben 21
CH-4002 Basel
Phone +41 61 285 86 48
Fax +41 61 285 91 90
E-mail thomas.sieber@baloise.com

www.baloise.com

Organization

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 to 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 March 1, 2006)

CEO
Frank Schnewlin*

Group/Regional Performance Management
Annemarie D'Hulster / Martin Kampik

Corporate Secretary
Markus von Escher

Legal, Tax and Compliance
Thomas Sieber

Corporate Communications
Thomas Kähr

Human Resources
Frank Sigl

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*

Deutscher Ring Germany
Wolfgang Fauter

Basler Securitas Germany
Frank Grund

Bâloise Luxembourg
André Bredimus

Basler Austria
Lothar Mayrhofer

Mercator Belgium
Jan De Meulder

Finance
German Egloff*

Financial Accounting
Michael Müller

Financial Management
Stefan Nölker

Financial Relations
Carsten Stolz

Corporate Development
Thomas Wodrich

Run Off
Bruno Rappo

Asset Management
Martin Wenk*

Investment Strategy and Investment Controlling
Bernhard Casar

Baloise Asset Management
Reto Diezi

Baloise Fund Invest
Robert Antonietti

Real Estate
Urs Degen

* Member ot the Corporate Executive Committee

Frank Schnewlin, Chief Executive Officer

Martin Wenk, Asset Management

German Egloff, Finance

Martin Strobel, Switzerland

Management Information

Contents

The previous year's figures have been restated in accordance with the modified IFRS regulations.

The consolidated annual financial statements of Baloise Group and the annual financial statements of Bâloise-Holding for the 2005 financial year as well as the reports of the Group and external auditors are contained in the Financial Report. These annual financial statements have been examined by PricewaterhouseCoopers AG as Group and external auditors. PricewaterhouseCoopers provided an unqualified opinion in its auditor's reports of March 10, 2006, recommending that the financial statements be approved by the Annual General Meeting.

Consolidated income statement

Five-year review

	2001	2002	2003	2004 (restated)	2005
Income					
Premiums earned and policy fees (gross) [1]	6,642.3	7,249.0	7,371.1	6,936.0	6,835.1
Reinsurance premiums ceded	−208.9	−203.0	−256.4	−211.2	−197.3
Premiums earned and policy fees for own account	6,433.4	7,046.0	7,114.7	6,724.8	6,637.8
Income from capital investments	2,121.8	2,021.9	2,063.8	1,862.1	1,794.5
Realized gains and losses on capital investments [2]	155.7	−793.2	−32.7	265.2	549.4
Income from services	318.1	300.9	319.0	312.2	211.9
Net income from associated companies	11.8	53.5	26.4	3.7	35.5
Other operating income	155.7	191.5	157.7	137.1	74.3
Income	**9,196.5**	**8,820.6**	**9,648.9**	**9,305.1**	**9,303.4**
Expense					
Claims and benefits paid (gross)	−4,643.8	−4,773.1	−5,561.3	−5,418.4	−5,772.1
Change in actuarial provisions (gross)	−1,824.8	−2,358.2	−1,645.4	−1,251.4	−1,094.6
Share of reinsurance in claim payments	160.0	58.2	78.7	51.6	189.7
Acquisition costs	−367.9	−461.8	−277.1	−475.3	−524.8
Operating and administrative expenses for insurance business	−720.8	−740.3	−835.6	−806.4	−815.1
Expense for management of capital investments	−60.8	−67.1	−75.9	−75.9	−88.1
Interest expense on the insurance business	−111.3	−111.7	−98.9	−90.1	−78.5
Expense from financial contracts	−366.6	−334.2	−296.4	−248.9	−130.0
Other operating expenses	−697.6	−703.2	−671.1	−612.9	−460.6
Expense	**−8,633.6**	**−9,491.4**	**−9,383.0**	**−8,927.7**	**−8,774.1**
Borrowing costs	−39.9	−43.5	−42.2	−52.6	−53.4
Pre-tax annual profit/loss	**523.0**	**−714.3**	**223.7**	**324.8**	**475.9**
Income taxes	−116.9	82.7	−125.4	−101.5	−72.4
Consolidated annual profit/loss	**406.1**	**−631.6**	**98.3**	**223.3**	**403.5**
Allocated to:					
Shareholders	404.4	−634.5	91.4	210.0	395.8
Minority interests	1.7	2.9	6.9	13.3	7.7

in CHF million

	2001	2002	2003	2004 (restated)	2005
Earnigs/loss per share					
Diluted	7.31	−11.56	1.67	3.89	7.29
Basic	7.31	−11.56	1.67	3.89	7.29

in CHF

Additional information	2001	2002	2003	2004 (restated)	2005
Gross premiums written and policy fees (gross)	6,632.7	7,274.5	7,374.7	6,941.3	6,839.1
Investment-type premiums	248.4	253.0	261.0	443.0	554.4
Gross premiums, policy fees and investment-type premiums	6,881.1	7,527.5	7,635.7	7,384.3	7,393.5

in CHF million

Investments for the account and the risk of life insurance policyholders	512.4	550.5	798.2	1,143.6	2,245.8
Combined ratio (gross)	105.7	105.2	97.6	93.0	100.6[3]
Reserve ratio non-life	184.3	181.1	177.4	179.6	187.0

in percent

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

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

[3] Excluding legally required interest on annuity reserves

Consolidated balance sheet

Five-year review

Assets

	2001	2002	2003	2004 (restated)	**2005**
Property, plant and equipment	735.0	705.5	696.8	647.5	626.3
Intangible assets	930.7	958.0	1,091.0	1,223.1	1,162.4
Investments in associated companies	305.6	302.3	241.0	152.6	174.7
Investment properties	5,042.1	5,305.7	5,653.4	5,619.2	5,581.7
Financial assets of an equity nature	11,472.4	7,175.7	5,413.7	6,757.4	9,839.0
Financial assets of a debt nature	21,421.6	24,899.1	32,367.0	23,208.8	22,915.1
Mortgages and loans	12,163.5	12,052.4	12,459.1	16,995.5	17,635.5
Derivative financial instruments	19.3	212.8	292.9	264.9	48.6
Other assets/receivables	3,947.9	4,093.0	4,484.1	2,516.9	2,652.3
Deferred tax assets	567.6	529.9	905.9	999.7	1,022.2
Cash and cash equivalents	889.1	679.4	695.9	698.0	450.2
Total assets	**57,494.8**	**56,913.8**	**64,300.8**	**59,083.6**	**62,108.0**

in CHF m

Liabilities & Equity

	2001	2002	2003	2004 (restated)	2005
Equity					
Equity before minority interests	**5,384.8**	**3,088.1**	**3,319.8**	**3,433.9**	**4,330.4**
Minority interests	41.5	28.0	40.7	63.9	60.9
Total equity	**5,426.3**	**3,116.1**	**3,360.5**	**3,497.8**	**4,391.3**
Liabilities					
Actuarial provisions (gross)	37,196.5	38,921.0	43,521.2	42,825.8	44,721.1
Financial liabilities	8,609.2	8,393.5	9,904.1	5,493.9	6,062.5
Derivative financial instruments	59.9	87.0	252.4	160.3	243.4
Other liabilities and deferrals	4,562.0	5,184.7	5,621.8	5,395.7	4,965.1
Deferred tax liabilities	1,640.9	1,211.5	1,640.8	1,710.1	1,724.6
Total liabilities	**52,068.5**	**53,797.7**	**60,940.3**	**55,585.8**	**57,716.7**
Total equity and liabilities	**57,494.8**	**56,913.8**	**64,300.8**	**59,083.6**	**62,108.0**

in CHF m

Premiums and combined ratio

Gross premiums[1] 2004 (restated)	Group	Switzerland	Germany Basler Securitas	Germany Deutscher Ring	Germany Total	Benelux Belgium	Benelux Luxembourg	Benelux Total	Other countries Austria	Other countries Other[2]	Other countries Total
Non-life	3,065.1	1,281.1	852.7	208.6	1,061.3	557.4	40.1	597.5	83.6	41.6	125.2
Life	3,876.2	2,640.2	241.5	818.1	1,059.6	110.2	35.3	145.5	30.9	–/–	30.9
Total	**6,941.3**	**3,921.3**	**1,094.2**	**1,026.7**	**2,120.9**	**667.6**	**75.4**	**743.0**	**114.5**	**41.6**	**156.1**

in CHF million

Gross premiums[1] 2005	Group	Switzerland	Germany Basler Securitas	Germany Deutscher Ring	Germany Total	Benelux Belgium	Benelux Luxembourg	Benelux Total	Other countries Austria	Other countries Other[2]	Other countries Total
Non-life	3,055.4	1,286.9	835.0	213.6	1,048.6	539.8	43.0	582.8	91.6	45.5	137.1
Life	3,783.7	2,532.4	222.7	838.8	1,061.5	118.3	35.2	153.5	36.3	–/–	36.3
Total	**6,839.1**	**3,819.3**	**1,057.7**	**1,052.4**	**2,110.1**	**658.1**	**78.2**	**736.3**	**127.9**	**45.5**	**173.4**

in CHF million

Combined ratio (gross), non-life 2004 (restated)	Group	Switzerland	Germany Basler Securitas	Germany Deutscher Ring	Germany Total	Benelux Belgium	Benelux Luxembourg	Benelux Total	Other countries Austria	Other countries Other[2]	Other countries Total
Loss ratio	63.0	68.5	61.2	42.1	57.5	64.9	56.5	64.4	65.0	18.6	49.5
Expense ratio	29.6	23.7	31.6	53.7	35.9	30.4	42.7	31.2	40.2	12.7	31.0
Surplus sharing ratio	0.4	0.9	0.1	–/–	0.1	0.0	–/–	0.0	–/–	1.5	0.5
Combined ratio	**93.0**	**93.1**	**92.9**	**95.8**	**93.5**	**95.3**	**99.2**	**95.6**	**105.2**	**32.8**	**81.0**

as a percentage of premiums earned

Combined ratio (gross), non-life 2005	Group	Switzerland	Germany Basler Securitas	Germany Deutscher Ring	Germany Total	Benelux Belgium	Benelux Luxembourg	Benelux Total	Other countries Austria	Other countries Other[2]	Other countries Total
Loss ratio	70.5	88.4	63.9	37.8	58.6	61.9	47.4	60.8	64.7	–11.3	39.2
Expense ratio	29.7	24.1	29.7	56.7	35.2	32.2	39.4	32.7	39.0	16.5	31.4
Surplus sharing ratio	0.4	0.8	0.3	–/–	0.2	0.0	–/–	0.0	–/–	–1.0	–0.3
Combined ratio	**100.6**	**113.3**	**93.9**	**94.5**	**94.0**	**94.1**	**86.8**	**93.5**	**103.7**	**4.2**	**70.3**

as a percentage of premiums earned

Combined ratio non-life	Gross 2004*	Gross 2005	Net 2004*	Net 2005[3]
Loss ratio	63.0	70.5	66.0	68.3
Expense ratio	29.6	29.7	31.1	31.3
Surplus sharing ratio	0.4	0.4	0.4	0.4
Combined ratio	**93.0**	**100.6**	**97.5**	**100.0**

as a percentage of premiums earned

* restated

Reserve ratio non-life	2004 (restated)	2005
Acturial provision for own account	5,204.8	5,401.7
Premiums written and policy fees for own account	2,897.2	2,888.9
Reserve ratio in percent	**179.6**	**187.0**

in CHF million

[1] Premiums written and policy fees (gross)
[2] Group business, run-off
[3] Excluding legally required interest on annuity reserves

Technical income statement

	Non-life		Life	
Gross	2004 (restated)	**2005**	2004 (restated)	**2005**
Gross premiums written and policy fees	3,080.8	3,062.9	3,876.2	3,783.6
Changes in unearned premiums	–4.5	4.9	–/–	–/–
Premiums earned and policy fees (gross)	3,076.3	3,067.8	3,876.2	3,783.6
Claims and benefits incurred (gross)	–1,527.8	–1,853.0	–3,887.5	–3,924.7
Change in actuarial provisions (gross)				
Change in claim reserves / actuarial reserves[1]	–409.3	–333.0	–388.0	–462.9
Policyholders bonuses incurred	–13.0	–11.4	–451.2	–286.8
Technical costs	–910.5	–913.3	–469.8	–524.3
Total underwriting result (gross)	**215.7**	**–42.9**	**–1,320.3**	**–1,415.1**
Reinsurance ceded				
Reinsurance premiums ceded	–183.3	**–183.6**	–43.6	**–21.0**
Share of reinsurance in claim payments	30.5	191.7	27.8	–6.4
Technical costs	9.5	10.1	6.4	29.5
Total underwriting result of business ceded	**–143.3**	**18.2**	**–9.4**	**2.1**
Net for own account				
Premiums earned and policy fees	2,893.0	2,884.2	3,832.6	3,762.6
Claims and benefits paid	–1,527.8	–1,853.0	–3,887.5	–3,924.7
Change in claim reserves / actuarial reserves[1]	–378.8	–141.3	–360.2	–469.3
Policyholder bonuses incurred	–13.0	–11.4	–451.2	–286.8
Technical costs	–901.0	–903.2	–463.4	–494.8
Total underwriting result for own account	**72.4**	**–24.7**	**–1,329.7**	**–1,413.0**
Income from capital investments (gross)	257.7	282.8	1,358.2	1,350.7
Realized gains and losses on capital investments (net)[2]	–14.8	65.3	276.0	428.6
Expenses for management of capital investments	–17.2	–19.5	–58.4	–68.3
Other financial income and expenses	–58.9	–50.3	–178.6	–147.3
Investment result	**166.8**	**278.3**	**1,397.2**	**1,563.7**
Borrowing costs	–/–	–/–	–/–	–/–
Pre-tax annual profit	**239.2**	**253.6**	**67.5**	**150.7**
Income taxes	–60.9	–10.8	–11.3	–23.3
Annual net profit/loss	**178.3**	**242.8**	**56.2**	**127.4**

in CHF million

[1] including claim processing costs
[2] including financial liabilities held for sale (derivative financial instruments)

Gross premiums by line of business

Non-life	2004 (restated)	2005	Change in percent
Accident	435.0	435.6	0.1
Health	120.9	110.3	−8.8
General liability	314.1	328.9	4.7
Automobile	1,026.0	1,010.3	−1.5
Transport	151.8	148.9	−1.9
Property	919.7	917.3	−0.3
Other	42.4	41.5	−2.1
Reinsurance assumed	70.9	70.1	−1.1
Gross premiums written – non-life	**3,080.8**	**3,062.9**	−0.6

in CHF million

Life	2004 (restated)	2005	Change in percent
Single premiums	1,679.4	1,637.8	−2.5
Recurring premiums	2,639.8	2,700.3	2.3
Investment-type premiums	−443.0	−554.4	25.1
Gross premiums written – life	**3,876.2**	**3,783.7**	−2.4

in CHF million

Embedded value

Development of embedded value

	2004	2005
Embedded value at January 1	**1,980.2**	**2,136.8**
Operating profit from insurance business in force and adjusted equity and profit from new business	118.8	206.3
Economic changes, including changes in unrealized gains and losses on investments (equities and properties)	–5.2	14.1
Dividends and capital movements	46.6	0.0
Currency translation adjustments	–3.6	2.5
Embedded value at December 31	**2,136.8**	**2,359.7**
of which: Value of insurance business in force	1,181.7	1,072.9
of which: Adjusted equity	1,400.3	1,761.9
of which: Cost of solvency	–445.2	–475.1

in CHF m; all figures "after tax"

New business

	2004	2005
Value new business in CHF million	15.2	12.0
APE[1] in CHF million	261.2	225.4
Sensitivity of new business value to risk discout rate (+/– 1.0%)	–/–	–47.1/+54.6
Ratio new business value to APE	**5.8**	**5.3**

in percent

Sensitivities

	2004	2005
+/– 1% change in risk discount rate	–6.9 / +8.1	–6.3/+7.3
+/– 10% change in market value of equities	+4.9 / –4.8	+6.3/–6.3
+/– 10% change in market value of properties	+5.3 / –5.3	+5.1/–5.1
+/– 0.5% change in new money rate	+7.8 / –8.5	+4.5/–4.9

in percent

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

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 and for the German companies MONEYMAXX Insurance and Deutscher Pensions-Ring 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.

Geographic breakdown of embedded value

	2004	2005
Switzerland	**1,780.1**	**1,974.2**
of which: Value of insurance business in force	962.7	872.9
of which: Adjusted equity	1,175.2	1,474.0
of which: Cost of solvency	–357.8	–372.7
EU	**391.9**	**445.5**
of which: Value of insurance business in force	219.0	200.0
of which: Adjusted equity	260.3	347.9
of which: Cost of solvency	–87.3	–102.4
Consolidation	–35.2	–60.0[1]
Embedded Value am 31. Dezember	**2,136.8**	**2,359.7**

in CHF m; all figures "after tax"

[1] Consolidation effects are enhanced by the first-time inclusion of further Group companies such as MONEYMAXX Versicherungen and Deutscher PensionsRing as well as the elimination of income generated outside the life insurance segment.

New business

	2004	2005
New business margin Switzerland in percent	**11.1**	**6.5**
Value new business in CHF million	11.6	7.6
APE in CHF million	103.8	117.8
New business margin EU in percent	**2.3**	**4.1**
Value new business in CHF m	3.7	4.4
APE in CHF million	157.3	107.7

Assumptions in percent

	2004	2005
Group		
Risk discount rate	7.6	7.6
Bond yield	2.8 – 3.4	2.7–2.9
Share return	7.2	7.2
Property return	5.1	4.8
Switzerland		
Risk discount rate	7.5	7.5
Bond yield	2.6–3.2	2.5.–2.7.
Equity return	7.0	7.0
Property return	5.0	4.75
EU		
Risk discount rate	8.2	8.2
Bond yield	4.0–4.6	3.6–3.9
Equity return	8.0	8.0
Property return	5.5	5.0

External review: Deloitte and Touche LLP have reviewed the choice of methodology together with the assumptions and calculations made by Baloise Group in the calculation of the embedded value results of its Life Business at December 31, 2005. Deloitte have reported to the Baloise Group that they consider that the methodology is appropriate, Baloise's assumptions are altogether 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 by the Baloise Group, but have relied on financial information underlying the Group's financial statements.

Banking business

Results from banking business	2004 (restated)	2005
Total interest income	288.8	177.4
Total interest payable	−185.3	−78.5
Net interest income	**103.5**	**98.9**
Result from commission business and services	29.0	53.2
Result from trading business	34.3	−2.1
Other income	2.3	−1.6
Total income from banking business	**169.1**	**148.4**
Staff costs	−50.4	−49.8
Operating expenses	−66.5	−42.6
Total expenses related to banking business	−116.9	−92.4
Gross profit/loss	**52.2**	**56.0**
Losses and provisions related to credit risks	−11.2	31.7
Amortization and depreciation of intangible assets and tangible noncurrent assets	−7.9	−10.5
Annual profit/loss before tax and minority interests	**33.1**	**77.2**
Income taxes	−23.5	−10.0
Minority interests	−/−	−/−
Annual net profit/loss	**9.6**	**67.2**

in CHF million

Additional information	2004 (restated)	2005
Assets managed for third parties	7,331.9	8,187.7
Risk weighted assets banking activities	3,319.0	3,295.0

in CHF million

Asset allocation	2004 (restated)	2005
Fixed-interest securities	332.2	311.7
Shares	1.6	1.7
Derivative financial instruments	40.5	35.0
Alternative financial assets	−/−	−/−
Investment properties	34.2	24.9
Mortgage loans	4,663.8	4,808.5
Policy loans and other loans	312.6	296.6
Other short-term investments	129.2	111.9
Total	**5,514.1**	**5,590.3**

in CHF million

Investment performance

Investment performance 2004 (restated)

	Fixed-interest securities	Shares	Investment properties	Mortgage loans, policy loans and other loans	Alternative financial assets, derivative financial instruments and other	Total
Current investment income	756.7	82.2	262.7	733.6	26.9	**1,862.1**
Realized gains and losses and valuation changes charged to income (net)	104.4	283.9	–64.4	–47.8	–14.9	**261.2**
Change in unrealized gains and losses taken to equity	83.8	–8.9	–/–	–/–	198.3	**273.2**
Investment management costs	–27.7	–6.5	–12.0	–9.1	–20.6	**–75.9**
Operating profit	**917.2**	**350.7**	**186.3**	**676.7**	**189.7**	**2,320.6**
Average level of investments	**22,380.8**	**3,842.6**	**5,636.3**	**17,464.7**	**4,791.7**	**54,116.1**
Performance in percent	**4.1**	**9.1**	**3.3**	**3.9**	**4.0**	**4.3**

in CHF million

Investment performance 2005

	Fixed-interest securities	Shares	Investment properties	Mortgage loans, policy loans and other loans	Alternative financial assets, derivative financial instruments and other	Total
Current investment income	692.7	113.4	253.1	694.7	40.6	**1,794.5**
Realized gains and losses and valuation changes charged to income (net)	159.0	362.8	–58.8	7.2	–116.4	**353.8**
Change in unrealized gains and losses taken to equity	–70.0	763.4	–/–	–/–	–99.6	**593.8**
Investment management costs	–34.3	–8.9	–12.1	–12.8	–20.0	**–88.1**
Operating profit	**747.4**	**1,230.7**	**182.2**	**689.1**	**–195.4**	**2,654.0**
Average level of investments	**21,121.7**	**4,939.9**	**5,600.5**	**17,315.5**	**4,334.7**	**53,312.3**
Performance in percent	**3.5**	**24.9**	**3.3**	**4.0**	**–4.5**	**5.0**

in CHF million

Current investment income

	2004 (restated)			2005		
	Non-life	Life	Total	Non-life	Life	Total
Fixed-interest securities	128.9	550.4	**679.3**	136.3	541.1	**677.4**
Shares	18.6	56.9	**75.5**	23.1	83.1	**106.2**
Derivative financial instruments	–/–	–/–	–/–	–/–	–/–	–/–
Alternative financial assets	0.8	1.5	**2.3**	1.5	3.2	**4.7**
Investment properties	49.6	208.0	**257.6**	49.9	188.3	**238.2**
Mortgage loans	14.7	192.4	**207.1**	13.2	180.8	**194.0**
Policy loans and other loans	37.4	337.2	**374.6**	47.6	333.7	**381.3**
Other short-term investments	7.7	11.8	**19.4**	11.2	20.5	**31.7**
Total current investment income	**257.7**	**1,358.2**	**1,615.9**	**282.8**	**1,350.7**	**1,633.5**

in CHF million

Realized gains and losses

	2004 (restated)			2005		
	Non-life	Life	Total	Non-life	Life	Total
Fixed-interest securities	–8.3	67.9	**59.6**	39.7	119.6	**159.3**
Shares	14.2	235.1	**249.3**	79.5	219.4	**298.9**
Derivative financial instruments	9.1	–15.1	**–6.0**	–33.5	–81.7	**–115.2**
Alternative financial assets	–5.7	1.3	**–4.4**	7.6	23.9	**31.5**
Investment properties	–8.2	–14.6	**–22.8**	–26.9	–30.9	**–57.8**
Mortgage loans	0.8	–30.9	**–30.1**	–1.5	–16.4	**–17.9**
Policy loans and other loans	–14.7	–2.1	**–16.8**	–1.0	1.3	**0.3**
Other short-term investments	–2.0	2.1	**0.1**	1.4	–0.4	**1.0**
Total investment gains and losses	–14.8	243.7	**228.9**	65.3	234.8	**300.1**

in CHF million

Asset allocation

	2004 (restated)			2005		
	Non-life	Life	Total	Non-life	Life	Total
Fixed-interest securities	3,897.3	16,626.7	**20,524.0**	4,418.0	16,475.3	**20,893.3**
Shares	932.6	3,001.9	**3,934.5**	1,145.7	4,284.4	**5,430.1**
Derivative financial instruments	49.8	172.3	**222.1**	0.4	1.1	**1.5**
Alternative financial assets	254.3	1,356.7	**1,611.0**	341.1	1,754.9	**2,096.0**
Investment properties	1,000.1	4,286.1	**5,286.2**	959.0	4,275.7	**5,234.7**
Mortgage loans	379.3	4,755.1	**5,134.4**	355.4	4,669.2	**5,024.6**
Policy loans and other loans	1,051.0	7,154.9	**8,205.9**	973.0	7,562.1	**8,535.1**
Other short-term investments	882.0	1,296.9	**2,178.9**	676.0	802.3	**1,478.3**
Total	**8,446.4**	**38,650.6**	**47,097.0**	**8,868.6**	**39,825.0**	**48,693.6**

in CHF million

Key dates and contacts

April 28, 2006
Annual General Meeting
Bâloise-Holding

September 5, 2006
Half-Year Media Conference

September 5, 2006
Meeting of Financial Analysts

March 21, 2007
Annual Media Conference

March 21, 2007
Meeting of Financial Analysts

April 27, 2007
Annual General Meeting
Bâloise-Holding

Investor Relations
Carsten Stolz
Aeschengraben 21
CH-4002 Basel
Phone +41 61 285 83 65
Fax +41 61 285 75 62
E-Mail investor.relations@baloise.com

Media Relations
Philipp Senn
Aeschengraben 21
CH-4002 Basel
Phone +41 61 285 84 67
Fax +41 61 285 90 06
E-Mail media.relations@baloise.com

www.baloise.com

Addresses

Switzerland
Basler Versicherungen
Aeschengraben 21
CH-4002 Basel
Phone +41 61 285 85 85
Fax +41 61 285 70 70
E-mail insurance@baloise.ch
www.baloise.ch

Baloise Bank SoBa
Amthausplatz 4
CH-4502 Solothurn
Phone +41 32 626 02 02
Fax +41 32 623 36 92
E-mail bank@baloise.ch
www.baloise.ch

Germany
Basler Securitas Versicherungen
Basler Strasse 4, Postfach 1145
D-61281 Bad Homburg
Phone +49 61 7213 0
Fax +49 61 7213 200
E-mail info@basec.de
www.basler-securitas.de

Deutscher Ring
Versicherungsunternehmen
Ludwig-Erhard-Strasse 22
D-20459 Hamburg
Phone +49 40 3599 0
Fax +49 40 3599 2500
E-mail Service@DeutscherRing.de
www.DeutscherRing.de

Austria
Basler Versicherungen
Brigittenauer Lände 50–54
A-1203 Vienna
Phone +43 1 33 160 0
Fax +43 1 33 160 200
E-mail office@basler.co.at
www.basler.co.at

Belgium
Mercator Verzekeringen
Desguinlei 100
B-2018 Antwerp
Phone +32 3 247 21 11
Fax +32 3 247 27 77
E-mail info@mercator.be
www.mercator.be

Luxembourg
Bâloise Assurances
1, rue Emile Bian
L-1235 Luxembourg
Phone +352 290 190 1
Fax +352 290 591
E-mail info@baloise.lu
www.baloise.lu

Croatia
Basler osiguranje d.d.
Basler životno osiguranje d.d.
Ulica grada Vukovara 269 d/1
HR-10000 Zagreb
Phone +385 1 48 17 808
Fax +385 1 48 16 932
E-mail info@basler.hr
www.basler.hr

The Baloise

Our Profile

Headquartered in Basel (Switzerland) and with operations in continental Europe, the Baloise Group is a solution provider in the fields of insurance and pension 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 under the symbol BALN.

Our values

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.

Baloise Group information

The **Annual Report 2005 – Business Review** is published in German, English and French. The German version is binding. The **Financial Report 2005** contains the audited 2005 annual financial statements with detailed information. It is available in German and in English.

Finding and ordering

The **Annual Report 2005 – Business Review** and the **Financial Report 2005** are available on the Internet at www.baloise.com/annualreport. They can be ordered through the Internet or at Bâloise-Holding, Corporate Communications, Aeschengraben 21, 4002 Basel.

Information for shareholders and financial analysts

You will find detailed information and data on the Baloise stock, the IR agenda, dividends, the latest presentations and contacts with Investor Relations on the Internet at www.baloise.com/investors.
The information is available in German and English.

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Bâloise-Holding
Aeschengraben 21
CH-4002 Basel

www.baloise.com