

# Semi-Annual Report 2002

## Dear Shareholders

Two fundamentally different trends marked developments at the Baloise Group in the first six months of the current year.

On the one hand, we are proud to report an excellent result for insurance operations in the first six months of 2002. This figure is proof of the stable and operating performance of the Baloise Group. Premium volume rose to CHF 4,399 million, which represents organic growth of 7.4 percent in local currencies. This bears testimony to the strength of our brands, the efficiency of our sales organization and business processes and the acceptance enjoyed by our solutions and products. Our technical values are just as convincing: the combined ratio in the non-life segment was 98.8 percent gross; the life segment recorded a gratifying low level of costs.

On the other hand, the sharp downturn in the capital markets and the resulting value adjustments amounting to CHF 430 million as well as unfavorable currency movements of CHF 57 million significantly reduced investment income and led to a consolidated net loss of CHF 45.1 million. Similar developments were recorded by all other players in the financial services and insurance field. Under the given economic circumstances and in comparison with our competitors, we consider the result to be acceptable, particularly in view of our still extremely solid capital and reserve figures.

Mindful of the persistent uncertainty in capital markets, we will continue to focus on strengthening the earnings power of our operations through uninterrupted premium growth, further optimization of our business processes and rectifying existing weaknesses in our operations, for instance in Belgium. In view of our long history of solid technical performance, we are extremely well placed to meet this challenge.



**Rolf Schäuble**  
Chairman of the Board  
of Directors



**Frank Schnewlin**  
President of the Executive  
Committee

## The most important figures at a glance

	6.30.01	6.30.02	Change in %
<b>Income statement</b>			
Total premium income	4,161.9	4,399.3	5.7
of which non-life	1,719.1	1,676.4	- 2.5
of which life	2,500.0	2,730.3	9.2
Investment-type premiums	96.0	96.4	0.4
Consolidated net profit	313.1	- 45.1	-
in CHF m			
<b>Balance sheet</b>			
Investments	50,784.8	50,155.5	- 1.2
Technical provisions	36,319.5	37,636.2	3.6
Capital and reserves	5,384.8	4,453.2	- 17.3
in CHF m			
<b>Ratios</b>			
Combined ratio non-life (gross)	102.9	98.8	-
in percent			
<b>Key share data</b>			
Shares issued in units	55,307,150*	55,307,150	0.0
Equity capital per share in CHF	97.36*	80.52	- 17.3
Consolidated net profit per share (adjusted) in CHF	7.31*	- 0.82	-
Closing price in CHF	153*	120	- 21.6
Market capitalization in CHF m	8,462	6,637	- 21.6

\* adjusted after 1:10 split of July 24, 2001

# Business Development in the First Half of 2002

## General Market Developments

The growth rate in the global **real economy** was considerably lower than expected.

At present **financial markets** are characterized by low investor confidence, instability and uncertainty. Weaker corporate earnings, accounting scandals, bankruptcies and downward revisions in growth forecasts caused stock markets to plumb new lows. In the period under review, the Swiss Market Index fell by 6.8 percent, the MSCI EMU index by 14.6 percent and the MSCI ROW index by 9.4 percent compared with year-end 2001. This trend accelerated after the balance sheet date, in particular in the second half of July. Owing to high liquidity and low inflationary expectations, interest rates declined in the debt capital markets, while risk premiums for corporate bonds rose substantially.

The strong pressure on financial markets also affected **insurance markets**. There was a marked upturn in the popularity of traditional life insurance products with guaranteed yields and risk coverage as investment instruments. In the non-life segment, competition became even more cut-throat.

The **banking sector** was characterized by two contrary developments: overall income from commissions and services slipped in the weak financial markets, whereas falling interest rates boosted income from interest business.

## Consolidated Business Developments by Segment in the First Half of 2002

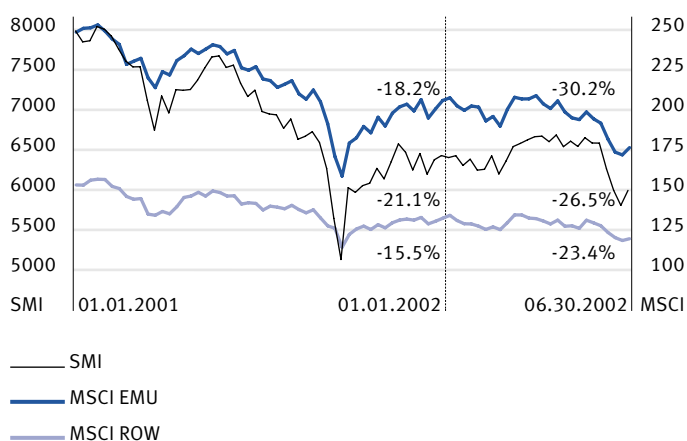
In an overall stagnant market, the **non-life segment** reported a premium volume of CHF 1,676 million, which translates into gratifying organic growth of 3.8 percent in local currencies compared with 2001. The combined ratio (claims incurred, plus costs, plus dividends to policyholders as a percentage of premium income) fell to 98.8 percent, a marked improvement on the previous year's figure of 102.9 percent gross. Owing to the favorable development in claims, the gross loss ratio fell from 71.9 percent to 66.6 percent, while the expense ratio of 31.7 percent gross was only marginally higher than the figure in the previous year. The main cause of this small increase is greater sales efforts to meet an extremely competitive situation. The non-life segment produced a net profit of CHF 101.4 million in the first six months of 2002. The result in the previous year was CHF 233.6 million, but the comparison is not meaningful because of the radical changed situation in financial markets and differences in the policy of realizing gains on investments.

Premium volume in the **life segment** of CHF 2,730 million represents organic premium growth in local currencies of 9.6 percent year on year. This growth was generated primarily in the Swiss market. The life segment reported a loss of CHF 71.8 million, largely caused by the situation in the financial markets.

In the **banking segment**, income from interest business reached the level of the previous year. In a difficult environment and low trading volumes, commission and services income receded somewhat. Developments in the financial markets, including above-average losses on investments in Belgium and the costs of restructuring Deutscher Ring Bausparkasse, affected banking operations, which posted a half-year loss of CHF 46.6 million.

In the first six months of 2002 the equity allocation in our **investment portfolio** was reduced to 18 percent, compared with 20 percent at the end of 2001. Own investments amounted to CHF 50.2 billion on the balance sheet date, practically unchanged from CHF 50.8 billion in the previous year. Owing to developments in capital markets, gross unrealized gains decreased from CHF 2,460 million to CHF 1,508 million.

Stock market developments and performance 01.01.2001 – 06.30.2002



## Developments in Core Markets

The **Baloise in Switzerland** made great strides in its development towards a focused financial services provider. At the heart of this process is the uniform business model that calls for the ongoing integration of banking into the insurance business. Compared with the first six months of 2001, higher numbers of policies written in the life segment showed that the marketing of insurance products through the bank is developing well. In the insurance sector, premium income in individual life business rose by ten percent in the first half of the year thanks to attractive products and the new marketing agreement with UBS. The non-life segment also recorded strong growth in premiums compared with the year before. The Baloise in Switzerland launched innovative products in line with new and changing customer requirements, for instance motor insurance for mopeds and motorized scooters, “scooter.b@loise”, or the “Baloise Liborhypotheek”. All in all, the unit generated organic premium growth of 11.5 percent to a total

of CHF 3,022 million. The combined ratio of 95.6 percent gross confirms the outstanding operational earning power of this business unit. Overall earnings fell to CHF 33.5 million, primarily on account of negative developments in capital markets.

In **Germany**, premiums of the two business units together slipped slightly by two percent. At the beginning of April 2002, the motor and commercial portfolio of Deutscher Ring was transferred to the Baloise in Germany. Henceforth, Deutscher Ring will focus on pensions business, while non-life insurance will form the core of the Baloise in Germany.

**Deutscher Ring** continued to increase its marketing strength by expanding its own sales organization. Experience shows that it will take a while for this expansion to bear fruit in the form of higher premium income. Deutscher Ring achieved a premium volume of CHF 567.2 million and a good combined ratio of 87.0 percent gross.

Results by Business Segment	1st half	Gross premiums 1st half	1st half	Profit before taxes and minority interests 1st half
	2001	2002	2001	2002
Non-life	1,719.1	1,676.4	233.6	101.4
Life	2,500.0	2,730.3	155.5	- 71.8
Banking	-	-	6.8	- 46.6
Other activities	-	-	14.0	3.1
Elimination	- 57.2	- 7.4	-	-
<b>Total</b>	<b>4,161.9</b>	<b>4,399.3</b>	<b>409.9</b>	<b>- 13.9</b>

in CHF m

Results by Geographical Segment	1st half	Gross premiums 1st half	1st half	Profit before taxes and minority interests 1st half
	2001	2002	2001	2002
Switzerland	2,710.9	3,022.4	312.9	33.5
Germany	927.9	901.4	49.2	45.6
Benelux countries	403.7	400.8	13.7	- 127.6
Other countries	235.8	214.1	34.1	34.6
Elimination	- 116.4	- 139.4	-	-
<b>Total</b>	<b>4,161.9</b>	<b>4,399.3</b>	<b>409.9</b>	<b>- 13.9</b>

in CHF m

The **Baloise in Germany** is also selectively strengthening its marketing ability by expanding its own sales organization and improving the integration of brokers. It was able to generate above-average premium growth in particular on the back of the marketwide trend towards reorganization in industrial insurance. In the period under review, this operating unit achieved a premium volume of CHF 334.1 million and a combined ratio of 96.3 percent gross.

The Belgian Group company **Mercator** reported premium income of CHF 361.3 million, which represents a decrease of 1.9 percent compared with 2001. The company made further progress in reorganizing its motor insurance business. As there is always a time lag before changes translate into positive results, the combined ratio of 120.6 percent gross was practically the same as in the previous year. In addition, results were hit by impairments and the realization of losses on investments.

Compared with the year before, the **Baloise in Luxembourg** produced a premium income of CHF 39.6 million, which represents organic growth of 23.9 percent in local currency. The life segment made the principal contribution to this growth. The combined ratio was 88.3 percent gross.

In the **Other countries** segment, results of the companies through which the Group settles internal financing and reinsurance held steady at the level of the previous year. The **Baloise in Austria** achieved a premium volume of CHF 48.8 million, much the same as in the year before. Losses resulting from natural hazards caused the combined ratio to rise sharply from the level in the first half of 2001 to 131.8 percent gross.

### **Shareholders' Equity**

Since the end of 2001, consolidated shareholders' equity has fallen by CHF 931.6 million to CHF 4,453 million. The main reason for this is the continued bear market on the world bourses, which caused a further drop of CHF 749.0 million in unrealized gains on investments. After deducting deferred taxes and policyholders' share of profit, unrealized gains still amount to CHF 777.6 million.

### **Changes in Share Ownership**

On January 22, 2002, the BZ Group announced that it and the BZ Bank AG together now held a 20.1 percent stake in Bâloise-Holding. Deutsche Bank announced that as of May 21, 2002 it held 5.25 percent of the shareholders' equity in Bâloise-Holding. For changes in share ownership after the balance sheet date, please see the "Notes to the Consolidated First-Half Financial Statements, Events after the Balance Sheet Date", p. 10.

# Consolidated Income Statement

INCOME	1st half	1st half
	2001	2002
Gross premiums written and policy fees <sup>1</sup>	4,161.9	4,399.3
Reinsurance premiums ceded	- 119.2	- 114.2
Premiums written and policy fees for own account	4,042.7	4,285.1
Change in unearned premiums reserves for own account	- 343.2	- 352.5
Premiums earned and policy fees for own account	3,699.5	3,932.6
Investment income (net)	1,099.4	977.2
Realized gains and losses on investments incl. impairments (net)	461.6	- 209.0
Income from other services	148.6	116.3
Other income	56.4	89.7
<b>Total income</b>	<b>5,465.5</b>	<b>4,906.8</b>

## EXPENSES

Claims incurred including processing costs (non-life)	- 865.2	- 860.4
Claims and benefits paid (life)	- 1,538.7	- 1,551.7
Change in actuarial reserve (life)	- 1,107.7	- 1,341.8
Surplus and profit allocations to policyholders	- 388.4	- 76.0
Acquisition costs	- 160.4	- 187.9
Administrative and other operating expenses	- 663.2	- 605.3
Interests payable	- 273.9	- 238.8
Amortization of intangible assets and depreciation of tangible non-current assets	- 58.1	- 58.8
<b>Total expenses</b>	<b>- 5,055.6</b>	<b>- 4,920.7</b>

1st half profit before taxes and minority interests	409.9	- 13.9
Taxes on income	- 97.6	- 29.8
1st half profit after taxes before minority interests	312.3	- 43.7
Minority interests	0.8	- 1.4
<b>Consolidated 1st half profit</b>	<b>313.1</b>	<b>- 45.1</b>

in CHF m

1st half earnings per share (Identical values for "diluted" and "basic")	56	- 1
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in CHF

### <sup>1</sup> Additional information

Gross premiums written and policy fees	4,161.9	4,399.3
Investment-type premiums	96.0	96.4
<b>Gross premiums, policy fees and investment-type premiums</b>	<b>4,257.9</b>	<b>4,495.7</b>

in CHF m

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

# Consolidated Balance Sheet

## ASSETS

	12.31.2001	6.30.2002
<b>Investments</b>		
Fixed-interest securities		
Held for trading	480.9	497.8
Held to maturity	159.7	174.6
Available for sale	19,928.7	19,324.7
Shares		
Held for trading	198.5	168.8
Available for sale	9,802.3	8,927.6
Alternative financial assets	1,117.2	1,227.6
Derivatives	19.3	10.5
Investment property	5,042.2	5,059.0
Mortgage loans	10,500.4	10,565.3
Policy and other loans	1,663.1	1,605.7
Participating interests in associates	289.1	320.2
Other short-term investments	695.1	1,340.9
Cash and cash equivalents	888.3	932.8
<b>Total investments</b>	<b>50,784.8</b>	<b>50,155.5</b>
<b>Total investments for unit-linked life insurance</b>	<b>512.4</b>	<b>533.2</b>
<b>Intangible and tangible non-current assets</b>		
Goodwill	105.6	103.9
Present value of profits from insurance contracts acquired	–	–
Other intangible assets	117.5	120.6
Property, plant and equipment for own use	646.7	638.3
Other tangible non-current assets	88.3	83.3
<b>Total intangible and tangible non-current assets</b>	<b>958.1</b>	<b>946.1</b>
<b>Other assets</b>		
Investments and deposits arising from reinsurance business	584.1	349.7
Receivables arising out of insurance operations	1,377.9	1,525.8
Assets relating to employee benefits	52.3	53.0
Other receivables	948.2	1,225.4
Accrued investment income	695.4	560.3
Deferred acquisition costs	724.1	877.0
Deferred tax	567.6	736.8
Other assets	289.9	713.5
<b>Total other assets</b>	<b>5,239.5</b>	<b>6,041.5</b>
<b>Total assets</b>	<b>57,494.8</b>	<b>57,676.3</b>

in CHF m

## LIABILITIES AND EQUITY

12.31.2001

6.30.2002

### Capital and reserves

Share capital	5.5	5.5
Capital reserves	109.3	113.5
Less: treasury stock	- 67.1	- 76.1
Unrealized gains and losses	1,526.6	777.6
Accumulated profit	3,810.5	3,632.7
<b>Total capital and reserves</b>	<b>5,384.8</b>	<b>4,453.2</b>
<b>Minority interests</b>	<b>41.5</b>	<b>11.3</b>

### Liabilities

Unearned premiums reserves (gross)	380.9	759.8
Loss reserves (gross)	4,182.0	4,097.5
Actuarial reserve life (gross)	27,558.9	28,823.5
Policyholder bonuses credited and provision for future policyholder bonuses	4,197.7	3,955.4
Technical provisions for unit-linked life insurance	513.7	535.6
Payables arising out of insurance operations	1,521.2	1,729.9
Deposit fund liabilities arising from reinsurance	269.0	78.4
Liabilities from banking business and loans	9,697.2	9,782.6
Derivatives	59.9	53.8
Non-technical provisions	112.6	128.5
Benefits due to employees	559.6	556.7
Deferred tax	1,640.9	1,623.2
Other liabilities and deferred income	1,374.9	1,086.9
<b>Total liabilities</b>	<b>52,068.5</b>	<b>53,211.8</b>
<b>Total liabilities and equity</b>	<b>57,494.8</b>	<b>57,676.3</b>

in CHF m

## Consolidated Equity

	Share capital	Capital reserves	Less: treasury stock	Unrealized gains and losses (net)	Accumulated profit	Total capital and reserves
<b>Balance at December 31, 2001 (adjusted)</b>	<b>5.5</b>	<b>109.3</b>	<b>- 67.1</b>	<b>1,526.6</b>	<b>3,810.5</b>	<b>5,384.8</b>
Movement on unrealized gains and losses on investments (net)	-	-	-	- 599.4	-	- 599.4
Foreign exchange differences	-	-	-	- 149.6	-	- 149.6
Dividends	-	-	-	-	- 132.7	- 132.7
Consolidated 1st half profit	-	-	-	-	- 45.1	- 45.1
Purchase/sale of treasury stock	-	4.2	- 9.0	-	-	- 4.8
Nominal value repayment	-	-	-	-	-	-
Stock buyback and cancellation	-	-	-	-	-	-
<b>Balance at June 30, 2002</b>	<b>5.5</b>	<b>113.5</b>	<b>- 76.1</b>	<b>777.6</b>	<b>3,632.7</b>	<b>4,453.2</b>

in CHF m

## Combined Ratio (Non-Life)

Group (gross)	06.30.01	06.30.02
Loss ratio	71.9	66.6
Expense ratio	30.6	31.7
Surplus sharing ratio	0.4	0.5
<b>Combined ratio</b>	<b>102.9</b>	<b>98.8</b>

as a percentage of premiums earned

By geographical segment (gross)	Switzerland		Germany		Benelux		Other countries	
	06.30.01	06.30.02	06.30.01	06.30.02	06.30.01	06.30.02	06.30.01	06.30.02
Loss ratio	75.6	68.6	64.1	53.8	78.6	84.9	66.9	71.8
Expense ratio	27.0	26.0	39.1	39.2	30.4	33.0	25.2	27.8
Surplus sharing ratio	1.2	1.0	-	-	-	-	-	-
<b>Combined ratio</b>	<b>103.8</b>	<b>95.6</b>	<b>103.2</b>	<b>93.0</b>	<b>109.0</b>	<b>117.9</b>	<b>92.1</b>	<b>99.6</b>

as a percentage of premiums earned



## Consolidated Cash Flow Statement (Abridged)

	1st half 2001	1st half <b>2002</b>
Realized gains and losses on the sale of investments	- 461.6	209.1
Amortization of intangible assets and depreciation of tangible non-current assets	58.1	58.8
Unearned premium reserves	687.1	380.5
Loss reserves	102.0	- 72.3
Actuarial reserve (life)	835.9	1,345.1
Other cash flow from operating activities	- 183.8	- 915.7
<b>Cash flow from operating activities</b>	<b>1,037.7</b>	<b>1,005.5</b>
Purchase / disposal of fixed-interest securities	- 2,234.3	415.2
Purchase / disposal of shares	1,804.0	- 221.8
Purchase / disposal of property	- 29.6	- 22.7
Purchase / disposal of participating interests	- 92.2	- 2.9
Other cash flow from investing activities	- 325.3	- 1,117.9
<b>Cash flow from investing activities</b>	<b>- 877.4</b>	<b>- 950.1</b>
Capital increases / capital reductions	-	-
Cash flow from investment-type products	56.6	23.5
Changes in liabilities from banking business and loans	- 145.4	118.2
Dividends paid	- 136.1	- 132.7
Other cash flow from financing activities	-	-
<b>Cash flow from financing activities</b>	<b>- 224.9</b>	<b>9.0</b>
Effect of foreign exchange rate changes on cash and cash equivalents	-	- 19.9
<b>Total movement in cash and cash equivalents</b>	<b>- 64.6</b>	<b>44.5</b>
<b>Cash and cash equivalents</b>		
As at January 1	759.9	888.3
Movement during first half year	- 64.6	44.5
<b>As at June 30</b>	<b>695.3</b>	<b>932.8</b>

in CHF m

# Notes to the Consolidated First-Half Financial Statements

## Basis of Accounting

The Semi-Annual Report – which has not been verified by the auditors – was prepared in accordance with International Accounting Standards (IAS) on the basis of IAS 34 by way of interim reporting. The first-half report should be read in conjunction with the 2001 Consolidated Financial Statements. The result of the insurance operations of the Baloise Group is not subject to any pronounced seasonal fluctuations. The general principles and accounting standards have not changed in comparison with 2001.

## Change in the Scope of Consolidation

In the first half of 2002, the Baloise Group did not make any major acquisitions or disposals. Owing to the sale of the entire insurance portfolio of Baloise España with effect from the end of September 2001, only its results for the first nine months were recognized in the Group's consolidated financial statements for 2001.

## Bonds

Baloise Bank SoBa issued a five-year 3<sup>5</sup>/<sub>8</sub> percent CHF 175 million bond in the first half of 2002, for which Baloise-Holding has given an absolute and irrevocable guarantee. This bond issue is carried at par value.

## Equity

On May 17, 2002, a dividend of CHF 2.40 per share was paid out for fiscal 2001 in accordance with the resolution of the General Meeting held on May 14, 2002. This corresponds to a total dividend of CHF 132.7 million.

## Contingent Liabilities and Commitments

Since the last balance sheet date, the Corporate Executive Committee is not aware of any new facts that could have a significant impact on the consolidated accounts for the first half of 2002.

## Events after the Balance Sheet Date

The downward trend on the stock markets prevalent throughout the first half of the year accelerated sharply at the beginning of the second. Price drops of 10 to 20 percent within four weeks were commonplace on most of the world's major stock exchanges.

In accordance with its risk management strategy, the Baloise Group has therefore reduced the stock ratio held by the various Group companies to safeguard their ability to meet commitments at all times. In some business units, small stock purchases were effected in order to benefit from some extremely low share prices.

The Group's stock ratio is now approximately 14 percent and that of the Group insurance companies approximately 17 percent, with sizeable parts of these shareholdings hedged against further price declines.

Changes in share ownership: The BZ Group and Deutsche Bank have reduced their shareholdings in Baloise-Holding. On July 18, 2002, Deutsche Bank announced that it had reduced its stake from 5.25 percent to 1.75 percent of the share capital. At the end of July, the BZ Group announced that it had reduced its shareholding from more than 20 percent to 10.9 percent. By contrast, Zurich Cantonal Bank has increased its stake, announcing a shareholding of 5.3 percent as at July 24, 2002. Moreover, as at July 30, Zurich Cantonal Bank acquired the majority of shares in BK Vision, which held 4.6 percent of the equity in Baloise-Holding on that date.

## Outlook for Full Year 2002

In the second half of the year, we do not expect any notable changes in the general conditions shaping the economic environment of the insurance and pensions businesses. The economic outlook is still muted and in the absence of positive stimuli the stock markets will remain volatile. The life insurance business will be able to derive some benefit from this situation, whereas fierce competition in the non-life segment is likely to prolong the pattern of modest growth rates.

■ The convincing growth in our business in the first half of the year gives us reason to expect year-on-year organic premium growth of around 5 percent in local currencies for 2002 as a whole. While contract conditions ensure that insurance premiums tend to be bunched in the first half of the year, experience shows that the majority of losses from natural hazards occur in the second half of the year. In view of these facts, the current low combined ratio will, if anything, rise towards the end of the 2002.

■ In both the insurance and banking business segments we will continue to position ourselves as a provider of targeted financial services. In all markets, we are focused on improving the earnings power of our operations by optimizing customer care, introducing new solutions and increasing the efficiency of our structures and business processes.

■ In view of the ongoing uncertainty in capital markets, and equity markets in particular, it is impossible to make a reliable forecast about the Group's financial performance and profit for the year as a whole. However, it is already clear that the Baloise will not achieve its goal of a 10 percent year-on-year increase in net profit announced early in 2002 on the assumption that the performance of the capital markets would return to normal.

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## Key Dates

- **April 3, 2003, 10:45**  
Balance Sheet Media Conference, Basel, Head Office
- **April 3, 2003, 13:00**  
Meeting of Financial Analysts, Basel, Head Office
- **May 16, 2003, 10:15**  
Annual General Meeting Bâloise-Holding, Basel, Messe Basel
- **September 11, 2003, 10:45**  
Half-Year Media Conference, Zurich, Hotel Savoy Baur en Ville
- **September 11, 2003, 13:00**  
Meeting of Financial Analysts, Zurich, Hotel Savoy Baur en Ville

This Semi-Annual Report is also available in German and French. The German version is binding.

The Semi-Annual Report 2002 is available on the Internet [www.baloise.com](http://www.baloise.com) from September 12, 2002.