Bâloise Holding

“Growing with our customers”

Bâloise-Holding
Financial Report 2006

Contents

Consolidated annual financial statements of the Baloise Group

Consolidated balance sheet

Assets

	Note	12/31/2005	**12/31/2006**
Property, plant and equipment	7	626.3	638.3
Intangible assets	8	1,357.2	1,357.5
Investments in associates	9	174.7	175.0
Investment properties	10	5,581.7	5,312.6
Financial assets of an equity nature	11		
Available for sale		7,537.8	8,222.9
Recognized at fair value through profit and loss		2,301.2	2,679.4
Financial assets of a debt nature	11		
Held to maturity		8,037.0	7,608.1
Available for sale		14,411.1	16,271.8
Recognized at fair value through profit and loss		467.0	643.4
Mortgages and loans	12	17,635.5	17,801.6
Derivative financial instruments	13	48.6	75.8
Receivables from financial contracts	14	242.9	271.2
Reinsurance assets	15	438.2	362.0
Receivables from reinsurers	16	59.0	23.2
Insurance receivables	17	593.8	565.9
Receivables from employee benefits	18	36.9	32.7
Other receivables		451.5	328.6
Accrued investment income		623.0	650.5
Deferred tax assets	19	34.5	25.8
Current income tax assets		61.4	70.4
Other assets		145.6	174.3
Cash and cash equivalents		450.2	741.5
Total assets		**61,315.1**	**64,032.5**

in CHF million

Liabilities and equity

Equity	Note	12/31/2005	**12/31/2006**
Share capital	21	5.5	5.5
Capital reserves		105.4	121.0
Treasury shares		−43.8	−161.7
Unrealized gains and losses (net)	22	664.5	780.6
Retained earnings		3,598.8	4,176.5
Equity before minority interests		**4,330.4**	**4,921.9**
Minority interests		60.9	64.6
Total equity		**4,391.3**	**4,986.5**

Liabilities			
Technical reserves (gross)	23	44,915.9	46,521.8
Liabilities from the banking business and financial contracts	24		
With discretionary participation feature (DPF)		326.3	381.0
Measured at amortized cost		4,628.9	4,830.4
Recognized at fair value through profit and loss		1,107.3	1,532.6
Financial liabilities	26	1,084.1	895.4
Financial provisions	27	104.5	145.3
Derivative financial instruments	13	243.4	44.6
Insurance liabilities	28	1,648.4	1,621.7
Liabilities from employee benefits	18	1,418.4	1,502.2
Accrued and other liabilities		562.8	593.5
Deferred tax liabilities	19	736.9	806.3
Liabilities from current income taxes		146.9	171.2
Total liabilities		**56,923.8**	**59,046.0**
Total equity and liability		**61,315.1**	**64,032.5**

in CHF million

Consolidated income statement

	Note	2005	2006
Premiums earned and policy fees (gross)	29	6,835.1	6,706.6
Reinsurance premiums ceded	29	–197.3	–187.5
Premiums earned and policy fees for own account	29	6,637.8	6,519.1
Investment income	30	1,794.5	1,823.7
Realized gains and losses on investments	31	549.4	702.8
Income from services rendered	32	211.9	286.4
Results from investments in associates		35.5	62.0
Other operating income	33	74.3	144.3
Income		**9,303.4**	**9,538.3**
Claims and benefits paid (gross)	23	–5,772.1	–5,325.0
Change in technical reserves (gross)	23	–1,094.6	–1,080.8
Share of reinsurance in losses incurred	23	189.7	43.4
Acquisition costs	34	–524.8	–493.8
Operating and administrative expenses for insurance business	34	–815.1	–847.8
Investment expenses	34	–88.1	–93.9
Interest expense on insurance liabilities		–78.5	–67.0
Expense from financial contracts	36	–130.0	–156.5
Other operating expenses	34	–460.6	–575.5
Expense		**–8,774.1**	**–8,596.9**
Borrowing costs		–53.4	–28.2
Profit before taxes		**475.9**	**913.2**
Income taxes	37	–72.4	–206.1
Profit for the period		**403.5**	**707.1**
Attributable to:			
Shareholders		395.8	699.4
Minority interests		7.7	7.7

in CHF million

	Note	2005	2006
Earnings per share	38		
Diluted		7.3	12.9
Basic		7.3	12.9

in CHF

Consolidated statement of cash flow

	Note	2005	2006
Cash flow from operating activities			
Profit before taxes		475.9	913.2
Adjustments for			
Depreciation, amortization and impairment on fixed and intangible assets	7/8	100.5	104.5
Realized gains and losses on property, plant and equipment and on intangible assets		2.3	1.3
Income from investments in associates		2.0	–16.3
Realized gains and losses on financial instruments, investment properties, and associates		–568.2	–756.0
Changes in technical reserves (gross)		672.8	636.2
Interest income on reinsurance assets		0.2	1.5
Borrowing costs paid		53.4	28.2
Amortized cost valuation of financial instruments		42.7	46.1
Additions and disposals of cash assets and liabilities			
Purchase / sale of investment properties		59.3	357.2
Purchase / sale of financial assets of an equity nature		–713.0	160.8
Purchase / sale of financial assets of a debt nature		434.5	–1,706.2
Addition / disposal of mortgages and loans		–577.7	96.9
Addition / disposal of derivative financial instruments		–87.4	–246.5
Addition / disposal of financial contracts and liabilities from banking business		878.6	907.5
Other changes in assets and liabilities from operating activities		–183.6	320.5
Cash flow from operating activities (gross)		**592.3**	**848.9**
Taxes paid		–92.7	–120.1
Cash flow from operating activities (net)		**499.6**	**728.8**
Cash flow from investing activities			
Purchase of property, plant and equipment	7	–84.0	–94.6
Sale of property, plant and equipment		37.9	30.7
Purchase of intangible assets	8	–84.4	–42.5
Sale of intangible assets		9.0	12.0
Acquisition of companies, net of cash and cash equivalents	39	–60.8	–5.7
Disposal of companies, net of cash and cash equivalents	40	2.3	74.9
Purchase of investments in associates	9	–19.0	–3.1
Sale of investments in associates	9	42.5	12.6
Dividends from associates	9	2.6	11.3
Cash flow from investing activities (net)		**–153.9**	**–4.4**

	Note	2005	2006
Cash flow from financing activities			
Capital increases	21	–/–	–/–
Capital reductions	21	–/–	–/–
Additions to financial liabilities		106.6	1.6
Disposals of financial liabilities		–608.4	–190.3
Borrowing costs paid		–53.4	–28.2
Cash flow from treasury shares		15.5	–102.3
Cash flow minority interests		–/–	4.8
Dividend payments		–70.4	–130.5
Cash flow from financing activities (net)		**–610.1**	**–444.9**
Total cash flow		**–264.4**	**279.5**
Cash and cash equivalents			
Balance as of January 1		698.0	450.2
Change during the fiscal year		–264.4	279.5
Changes in exchange rates on cash and cash equivalents		16.6	11.8
Balance as of December 31		**450.2**	**741.5**
of which: Cash equivalents		0.0	0.1
Supplemental disclosures on cash flow from business activities			
Other interest received		1,107.5	1,006.9
Dividends received		76.9	111.4
Interest paid		179.3	150.2

in CHF million

Consolidated statement of changes in equity

	Note	Share capital	Capital reserves	Treasury shares	Unrealized gains and losses (net)	Retained earnings	**Equity before minority interests**	**Minority interests**	**Total equity**
Balance as of January 1, 2005		**5.5**	**125.6**	**–79.5**	**140.9**	**3,263.8**	**3,456.3**	**63.9**	**3,520.2**
Change in unrealized gains and losses on available for sale financial assets	22				810.1		810.1	0.0	810.1
Change in unrealized gains and losses from associates	22				27.0		27.0		27.0
Change in hedging reserve on derivative financial instruments held for cash flow hedging	22				–0.9		–0.9		–0.9
Change in hedging reserve on derivative financial instruments as hedge of net investment in a foreign entity	22				–240.0		–240.0		–240.0
Change in reserves from reclassification of held to maturity financial instruments	22				19.5		19.5		19.5
Change in reserves from reclassification of investment properties	22				–/–		–/–		–/–
Exchange differences	22				300.2		300.2	–0.4	299.8
Less change:									
in policyholders' dividends	22				–319.1		–319.1		–319.1
in shadow accounting (DAC, URR, terminal policyholders' dividends)	22				–41.0		–41.0		–41.0
in deferred taxes	22				–32.2		–32.2		–32.2
Total effects on equity not recognized in the income statement		**–/–**	**–/–**	**–/–**	**523.6**	**–/–**	**523.6**	**–0.4**	**523.2**
Profit of the period						395.8	395.8	7.7	403.5
Total effects on equity recognized and not recognized directly in the income statement		**–/–**	**–/–**	**–/–**	**523.6**	**395.8**	**919.4**	**7.3**	**926.7**
Dividends						–60.8	–60.8	–9.6	–70.4
Capital increase / repayment	21						–/–		–/–
Purchase / sale of treasury shares			–20.2	35.7			15.5		15.5
Increase / decrease in minority interests due to change in the scope of consolidation							–/–	–0.7	–0.7
Increase / decrease in minority interests due to change in percentage of participation							–/–	–/–	–/–
Balance as of December 31, 2005		**5.5**	**105.4**	**–43.8**	**664.5**	**3,598.8**	**4,330.4**	**60.9**	**4,391.3**

in CHF million

	Note	Share capital	Capital reserves	Treasury shares	Unrealized gains and losses (net)	Retained earnings	**Equity before minority interests**	**Minority interests**	**Total equity**
Balance as of January 1, 2006		**5.5**	**105.4**	**–43.8**	**664.5**	**3,598.8**	**4,330.4**	**60.9**	**4,391.3**
Change in unrealized gains and losses on available for sale financial assets	22				102.5		102.5	0.0	102.5
Change in unrealized gains and losses from associates	22				20.0		20.0		20.0
Change in hedging reserve on derivative financial instruments held for cash flow hedging	22				–0.4		–0.4		–0.4
Change in hedging reserve on derivative financial instruments as hedge of net investment in a foreign entity	22				74.6		74.6		74.6
Change in reserves from reclassification of held to maturity financial instruments	22				–12.4		–12.4		–12.4
Change in reserves from reclassification of investment properties	22				–/–		–/–		–/–
Exchange differences	22				–20.0		–20.0	0.0	–20.0
Less change:									
in policyholders' dividends	22				–27.4		–27.4		–27.4
in shadow accounting (DAC, URR, terminal policyholders' dividends)	22				–17.0		–17.0		–17.0
in deferred taxes	22				–3.8		–3.8		–3.8
Total effects on equity not recognized in the income statement		**–/–**	**–/–**	**–/–**	**116.1**	**–/–**	**116.1**	**0.0**	**116.1**
Profit of the period						699.4	699.4	7.7	707.1
Total effects on equity recognized and not recognized directly in the income statement		**–/–**	**–/–**	**–/–**	**116.1**	**699.4**	**815.5**	**7.7**	**823.2**
Dividends						–121.7	–121.7	–8.8	–130.5
Capital increase / repayment	21						–/–		–/–
Purchase / sale of treasury shares			15.6	–117.9			–102.3		–102.3
Increase / decrease in minority interests due to change in the scope of consolidation							–/–		–/–
Increase / decrease in minority interests due to change in percentage of participation							–/–	4.8	4.8
Balance as of December 31, 2006		**5.5**	**121.0**	**–161.7**	**780.6**	**4,176.5**	**4,921.9**	**64.6**	**4,986.5**

in CHF million

Notes to the consolidated annual financial statements

General remarks

1. Basis of preparation

The Baloise Group operates in Europe in the insurance business and comprises 13 insurance companies, which provide almost all types of life and nonlife insurance. The parent company is Bâloise-Holding, a Swiss stock corporation domiciled in Basel, Switzerland. The shares of Bâloise-Holding are quoted on the Swiss Exchange (SWX). Its subsidiaries operate in the insurance markets in Switzerland, Germany, Belgium, Austria, Luxembourg, Croatia, Slovakia and Czech Republic. The banking business is operated by subsidiaries in Switzerland and Germany. In addition, the Baloise Group has an investment fund structure in Luxembourg.

The consolidated annual financial statements of the Baloise Group are prepared on a historical cost basis, taking into account adjustments resulting from regular market value appraisal of investment properties as well as of financial assets and liabilities classified as available for sale or taken to income at fair value and are prepared in accordance with International Financial Reporting Standards (IFRS), which correspond to Swiss legal requirements. IFRS 4 regulates the accounting and disclosure of insurance and reinsurance contracts. Measurement is done based on local accounting principles. In the case of the Baloise Group, these were, at the time of introduction of IFRS 4, the American Generally Accepted Accounting Principles (US GAAP).

At its meeting of March 9, 2007, the Board of Directors of Bâloise-Holding approved the annual financial statements and the Financial Report and released them for publication. The financial statements and report are subject to approval by the Annual General Meeting of Bâloise-Holding.

2. Adoption of new accounting standards

IAS 19 Amendments – actuarial gains and losses, group plans and disclosures

IAS 19 Amendments contain, besides further-going disclosure requirements, additional changes in the areas of group plans involving several employers and a choice of options regarding actuarial gains and losses. The Baloise currently does not make use of the new option with regard to actuarial gains and losses. Provisions with regard to group plans of several employers are not relevant to the Baloise.

Restructuring

The Baloise Group now discloses deferred taxes on a net basis. Deferred tax assets and liabilities are mutually offset where the requirements to do so are met, as they generally are when the taxing authority, taxpaying entity and type of tax are identical.

Reinsurance relations were newly structured between the life and nonlife segments so that there are no longer any reinsurance relations between these segments.

Due to statutory requirements in Germany, unrealized gains are first allocated to each policyholder's legal quote share and only then apportioned to the remaining shadow accounting items (DAC, URR, final dividends). This led to an increase in deferred acquisition costs (DAC) and the policyholder shares.

Prior year values have been restated accordingly in the respective disclosures. These restatements do not affect shareholders' equity or profit for the year.

New IFRS and interpretations not yet applied

The following new standards affecting the Baloise Group have been published by the IASB but have not yet taken effect and are therefore not applied in the 2006 consolidated financial statements.

Standard / interpretation	Subject	Applied as of:
IAS 1 Amendments	Amendments equity disclosures	1/1/2007
IFRS 7	Financial instruments: Disclosures	1/1/2007
IFRS 8	Operative segments	1/1/2009
IFRIC 8	Scope of application IFRS 2	5/1/2006
IFRIC 9	Reassessment of embedded derivatives	6/1/2006
IFRIC 10	Interim financial reporting and impairment	11/1/2006
IFRIC 11	Group and treasury share transactions	3/1/2007

IAS 1 Amendments equity disclosures

deals with additional disclosures about equity The entity must disclose information enabling the users of financial statements to assess the entity's objectives, policies and processes for managing capital. IAS 1 requires a description and quantitative data about what the entity regards and manages as capital. A description of whether the entity has complied with any externally imposed capital requirements is also required. If it has not complied, the consequences of such non-compliance must be disclosed. Application of this amendment exclusively affects disclosure, so no material effect on the corporation's earnings or balance sheet is expected.

IFRS 7 Financial instruments: Disclosures

replaces IAS 30 Disclosures in Financial Statements of Banks and Similar Financial Institutions and parts of IAS 32 *Financial Instruments: Presentation* dealing with disclosure requirements. The new standard requires information on the significance of financial instruments for an entity's financial position and performance. It also comprises requirements concerning qualitative and quantitative reporting of risks arising from financial instruments. IFRS 7 applies to financial instruments both on and off the balance sheet. Application of this standard primarily affects disclosure, so no material effect on the corporation's earnings or balance sheet is expected.

IFRS 8 Operative segments
requires in particular application of a “management approach” to reporting the business performance of the segments. This means that the segment reporting must be carried out on the same basis as that used for internal control.

Application of IFRS 8 may affect disclosure in relation to segments as well as measurement principles within segments and may therefore result in changes in segment results. The Baloise Group has not yet conclusively analyzed the application of IFRS 8 and thus cannot yet make a definitive statement concerning its impact.

IFRIC 8 Scope of IFRS 2
clarifies that IFRS 2 Share-based Payment applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration.

IFRIC 8 explains that, if the identifiable consideration given is less than the documented fair value of the equity instruments granted or liability incurred, this situation typically indicates that other consideration has been or will be received. IFRS 2 therefore applies. Share-based payments at the Baloise are always based on consideration that is measured accordingly. To the best of our current knowledge, no material effect on the corporation’s earnings or balance sheet is expected from application of IFRIC 8.

IFRIC 9 Reassessment of embedded derivatives
addresses the peculiarities of accounting for embedded derivatives under IAS 39. An assessment is required as to whether the embedded derivative must be separated from the host contract and accounted for under the rules for derivative financial instruments. This assessment must be made when the entity first becomes a party to the contract. Subsequent reassessment is permitted only if there is a change in the terms of the contract that significantly modifies the associated cash flows. No material effect on the corporation’s earnings or balance sheet is expected from application of IFRIC 9.

IFRIC 10 Interim financial reporting and impairment
addresses the issue of to what extent impairment losses on goodwill, equity instruments or financial assets carried at cost may be reversed at the balance sheet date if a higher valuation is determined while applying the same valuation principles (the impairment is less or there is no impairment). The IFRIC concludes that impairments recognized in an interim period remain in effect at the balance sheet date. There is no adjustment to a higher valuation due to a lower or nil impairment at the balance sheet date. The relevant accounting policies of the Baloise Group already call for interim adjustments to remain in effect at the balance sheet date. Therefore application of IFRIC 10 has no effect on the corporation’s earnings or balance sheet.

IFRIC 11 Group and treasury share transactions
addresses problem areas in connection with share-based payment programs in consideration of services based on IFRS 2, which does not make it immediately clear whether share-based transactions should be recognized as cash-settled or equity-settled share-based paymApplication of IFRIC 11 will have no material effect on the corporation’s earnings or balance sheet.

3. Consolidation and accounting principles

The accounting principles applied by the Baloise Group are described below. Unless otherwise indicated, the accounting principles are applied consistently in all reporting periods presented.

3.1 Consolidation method

3.1.1 Subsidiaries

The consolidated annual financial statements comprise the financial statements of Bâloise-Holding and its subsidiaries, including special purpose entities (“SPEs”). A subsidiary is consolidated if the Baloise Group directly or indirectly controls the company. This is normally the case if more than 50% of the voting rights are held. Potential voting rights are included when determining control.

Companies newly acquired during the course of the reporting period are included in the consolidated annual financial statements as of the date of the effective assumption of control, and all companies disposed of during the year are included up to the relinquishment of control.

Acquisitions of companies (fully and proportionately consolidated) are recognized using the purchase method. The identifiable assets and liabilities of the company are recognized at fair value as of the date of the first-time consolidation, regardless of possible minority interests. If the purchase price exceeds the assets and liabilities measured at fair value, the difference is recognized as goodwill. Conversely, if the fair value exceeds the purchase price, the difference is recognized directly in income in “Other operating income.”

All intercompany transactions and the resulting gains or losses are eliminated.

3.1.2 Special Purpose Entities (SPEs)

SPEs are consolidated along the same lines as subsidiaries (Section 3.1.1). For inclusion among the consolidated entities, however, the provisions of SIC 12 apply.

3.1.3 Joint ventures

Joint ventures are companies jointly controlled by contractual agreement between two or more partners. Deutscher Ring Beteiligungsholding, including its subsidiaries, is a joint venture. The Baloise Group has a direct 65% interest. The remaining 35% is held by Deutscher Ring Krankenversicherung, a mutual insurance association. The contractual agreements are structured such that the majority shareholder does not have control. These companies are consolidated on a proportional basis, i.e. the Baloise Group recognizes its share of the assets, liabilities, income and expenses. Intercompany transactions are also proportionately consolidated.

3.1.4 Associates

Associates are initially recognized at cost and subsequently using the equity method (the Baloise Group's share in the intrinsic value of the company) if the Baloise Group has significant influence on the management of the company in question. Adjustments of associates are normally recognized in income, taking possible dividend flows into account. If the share in the losses exceeds the value of the associate, no additional loss shares are recognized. The goodwill paid for associates is included in the carrying value of the equity investment.

3.2 Foreign currency translation

3.2.1 Functional and reporting currency

Each subsidiary prepares its annual financial statements using its functional currency, i.e. in the currency of its primary business environment. The consolidated annual financial statements are presented in millions of Swiss francs (CHF), the Baloise Group's reporting currency.

3.2.2 Translation of transaction currencies into the functional currency for Group companies

Income and expenses in foreign currencies are measured using the rates as of the transaction date or average exchange rates. Monetary and non-monetary balance sheet items carried at fair value from foreign currency transactions of Group companies are measured using the rates as of the transaction date. Nonmonetary items carried at historical cost are measured using historical rates. The resulting exchange rate differences are recognized in income. An exception are exchange rate differences that are recognized directly in the hedging reserve in connection with cash flow hedges or that are used to hedge a net investment in a foreign entity.

Exchange rate differences arising on nonmonetary financial instruments measured at fair value through profit and loss are disclosed in the gains and losses realized on these instruments. Exchange rate differences on available for sale nonmonetary financial instruments are recognized in unrealized gains and losses within equity.

3.2.3 Translation of functional currency into reporting currency

The financial statements of subsidiaries with a functional currency other than CHF are translated as follows for preparing the consolidated financial statements:

- Assets and liabilities at closing rates
- Income and expenses at average annual rates
- The resulting exchange differences are accumulated and recognized directly in equity

Upon the disposal of foreign subsidiaries, the cumulated currency translation adjustment from the sale are recognized in income as gain or loss from the transaction.

3.2.4 Exchange rates

	Balance sheet		Income statement	
Currency	2005	**2006**	2005	**2006**
EUR (euro)	1.55	1.61	1.55	1.57
USD (US dollar)	1.32	1.22	1.25	1.25
GBP (pound sterling)	2.26	2.39	2.26	2.31
JPY (yen)	1.12	1.02	1.13	1.08

in CHF

3.3 Property, plant and equipment

Property, plant and equipment are recognized at cost less accumulated depreciation. The cost of an item of property, plant and equipment includes all directly allocable costs. Subsequent costs are capitalized only if there is a future economic benefit related to the asset and these costs can be reliably measured. All other repair and maintenance costs are recognized as an expense when incurred.

Property, plant and equipment are normally self-financed. If any dept financing is used, interest is capitalized during the construction period.

Land is not depreciated on a basis. Straight-line depreciation on other property, plant and equipment is taken based on the expected useful life as follows:

- Owner-occupied property – 25 to 50 years
- Equipment and furnishings – 5 to 10 years
- Computer hardware – 3 to 5 years

The recoverability of the value and the expected useful life of an item of property, plant and equipment are reviewed at balance sheet date. An impairment is recognized as soon as the recoverable amount falls below the carrying value (see also section 3.10.3).

The gain or loss resulting from the sale of an item of property, plant and equipment is immediately recognized in the income statement under "Other operating income" or "Other operating expenses," respectively.

3.4 Leasing

3.4.1 The Baloise Group as lessee

Finance lease agreements: Lease agreements on real estate, equipment and fixtures and other property, plant and equipment under which the Baloise Group essentially assumes all risks and rewards incident to ownership are classified and treated as finance lease agreements. The fair value of the leased property or the lower present value of the minimum lease payments is recognized at the inception of the lease agreement as property, plant and equipment. Each lease payment is apportioned into a reduction of the outstanding liability and interest expense. The portion reducing the outstanding liability is deducted from the liability for future lease payments, which is recognized under "Liabilities from the banking business and financial contracts." Property, plant and equipment in finance leases are depreciated over the shorter of the expected useful life or term of the lease agreement.

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

3.4.2 The Baloise Group as lessor

Investment properties leased in connection with operating lease agreements are recognized in the consolidated balance sheet as investment properties. There are no additional lease agreements as a lessor as of the reporting period.

3.5 Intangible assets

3.5.1 Goodwill

Goodwill arises as the difference between the purchase price and the assets less liabilities taken over recognized at market value at the acquisition date. Goodwill is disclosed in intangible assets. Goodwill is measured at cost less all accumulated amortization and impairment losses. Upon acquisition of a new equity investment, the closing date for future impairment tests is determined and subsequently conducted annually at the same date. In case of a disposal, pro rata Goodwill is recognized in income. For purposes of impairment testing, goodwill is allocated to cash-generating units ("CGUs").

3.5.2 Present value of the profits on acquired insurance contracts (present value of future profits – PVFP)

The present value of the profits from acquired insurance contracts arises from the purchase of a life insurance company or upon the purchase of a life insurance portfolio. The initial measurement as well as the determination of the amortization model is made in accordance with actuarial principles and the PVFP is subjected to regular impairment testing. See also section 3.18.2.

3.5.3 Deferred acquisition costs (DAC)

The costs incurred in direct connection with the acquisition of insurance contracts and financial contracts with discretionary participation features (DPF) (e.g. commissions) are capitalized and amortized over the term of the agreements, or over the period of premium payments if shorter. The deferred acquisition costs are reviewed for recoverability and each balance sheet closing date. See also section 3.18.3.

3.5.4 Deferred investment fees

Acquisition costs which can be directly attributed to the achievement of investment income from asset management activities are capitalized under intangible assets provided they can be individually identified and attributed and it is likely that they can be recovered. Amortization recognized in income is effected over the term of the underlying financial contract in proportion to the resulting income. The recoverability of the carrying value is reassessed annually.

3.5.5 Internally generated and other intangible assets

Other intangible assets consist primarily of equipment software, external IT consultancy and internally generated assets (e.g. software). These are recognized at cost and amortized on a straight-line basis over the expected useful life, but no longer than 10 years as a rule. Intangible assets are, usually self-financed.

In the case of debt financing, the interest is capitalized during the construction period.

3.6 Investment properties

Investment properties comprise land as well as buildings held to generate rental income and/or for purposes of capital appreciation. For mixed-used investment properties (used by the Group/used by a third party), if a division is not possible the entire property is allocated based on the intended purpose of the majority of usable space. Investment properties are recognized at fair value using the discounted cash flow (DCF) method. This is determined internally each year by trained experts by using assumptions approaching market conditions. The fair values are derived primarily from the future cash flows (net cash flows from rental income, maintenance expenses and administrative costs) and by means of mathematical methods from comparable transactions. The majority of the Baloise Group's directly held real estate portfolio is in Switzerland. The interest rate for the calculation under the DCF method is determined on a hedonic basis. The expected change in vacancy rates is also included in the calculation. External appraisals are obtained at regular intervals. Changes in fair value are recognized in income immediately in the period in which they arise as realized book gains or losses.

If an investment property becomes owner-occupied it is reclassified to property, plant and equipment. The reclassification is made at the fair value as of the reclassification date.

If an owner-occupied used property becomes an investment property as a result of a change in use, the difference between the carrying value and the fair value at the time of the change is recognized directly in equity (in unrealized gains and losses) if a gain, or in income for the period if a loss. If a reclassified investment property is disposed of in earlier periods, the amount recognized in equity is reclassified directly into retained earnings.

3.7 Financial assets

For reasons of comprehensibility, in some places in the financial report and paragraph headers in the notes the term investments is used. The term investments itself is not defined in the IFRS. In addition to financial assets, mortgages and loans, derivative financial instruments and cash and cash equivalents, investments also include investment properties.

The following investment categories are recognized in the financial assets of an equity nature: stocks, equity securities, shares in stock and bond funds along with alternative financial assets such as private equity investments and hedge funds. Financial assets of an equity nature are normally exposed to higher risks than financial assets of a debt nature.

Financial assets of a debt nature comprise securities such as bonds and other fixed-income securities. They normally bear interest and are issued in a fixed or determinable amount.

The Baloise Group classifies its financial assets of an equity or debt nature in the following categories: recognized at fair value through profit and loss, held to maturity, and available for sale financial assets. Classification follows the motive in the acquisition of the financial asset. Mortgages and loans are, as a rule, not classified as held to maturity (see section 3.8).

3.7.1 Financial assets recognized at fair value in income

This category consists of two subcategories: financial assets held for trading (trading portfolio), and those that are assigned to this category. A financial instrument is classified in this category if it was acquired primarily with the intention to resell it in the short term, or if it is part of a portfolio for which there are recent indications of the realization of short-term gains, or if it was assigned to this category. Derivative financial instruments are classified as held for trading (trading portfolio), with the exception of derivative financial instruments that have been designated for hedge accounting.

3.7.2 Held to maturity financial assets

Held to maturity financial assets are nonderivative financial assets with fixed or determinable payments – but not mortgages, loans (section 3.8) and accounts receivable (section 3.9) – which the Baloise Group can and intends to hold to maturity.

3.7.3 Available for sale financial assets

Available for sale financial assets are those nonderivative financial instruments that are classified as available for sale or have not been classified in any of the categories mentioned above or as mortgages, loans, or receivables.

Alternative financial assets such as private equity investments and hedge funds are mainly classified as available for sale.

3.7.4 Recognition, measurement and derecognition

All commercial purchases and sales of financial assets are recognized as of the trade date. Financial assets are initially recognized at fair value. With the exception of financial assets recognized at fair value through profit and loss, transaction costs are included in the acquisition costs.

Financial assets are derecognized if the rights to the cash flows from the financial instrument have expired or the financial instrument has been sold and substantially all of the associated risks and opportunities have been transferred. The cash outflows arising with reverse repurchase transactions are recognized as receivables. Financial assets received as collateral from the transaction are not recognized. The recognition in the balance sheet is at the settlement date. Financial assets transferred as collateral with repurchase transactions continue to be recognized in financial assets. The cash inflow is recognized under liabilities. With respect to securities and lending transactions, the Baloise Group only conducts securities lending transactions. The lent financial instruments continue to be recognized as financial assets. The securities coverage of repurchase and reverse-repurchase transactions, as well as securities lending transactions is made daily at the current fair values.

Available for sale financial assets and financial assets recognized at fair value through profit and loss are measured at fair value. Held to maturity financial assets are measured in accordance with the amortized cost method by applying the effective interest method. Realized and unrealized gains and losses on financial assets recognized at fair value through profit and loss are recognized in income. If available for sale financial assets are sold or remeasured, the accumulated amount recognized in shareholders' equity is recognized in income as a realized gain or loss on financial assets. Regardless of the classification, changes to the fair market values of financial assets which are secured by a fair value hedge are recognized in the income statement for the duration of the hedge.

The fair value of listed financial assets is based on quoted prices. If there is no such value, the fair market value is estimated based on generally accepted methods (net present value concept etc.), independent appraisals, by comparison with the market prices of similar instruments and the current market situation.

Derivative financial instruments are measured based on listed market prices or on models.

For private equity investments, to the extent that no fair value is available, various methods are applied for the estimate, such as analysis of the discounted cash flows or reference to comparable recent transactions between knowledgeable, willing and arm's-length contractual partners.

If the estimates do not permit any reliable measurement, these financial assets are recognized at cost and disclosed accordingly.

3.8 Mortgages and loans

Mortgages and loans (including policy loans) are non-derivative financial instruments with fixed or determinable payments which are not quoted on an active market. Mortgages and loans are measured at amortized cost appliying the effective interest method. Mortgages and loans are tested for impairment as part of an impairment process.

3.9 Receivables

Receivables are recognized at amortized cost (i.e. using the amortized cost method), less any valuation allowances for doubtful receivables. The amortized cost normally corresponds to the nominal value of the receivables.

3.10 Impairment of assets

3.10.1 Financial assets measured using the amortized cost method (mortgages, loans, receivables and held to maturity financial assets)

At each balance sheet date the Baloise Group determines whether there is objective evidence that a financial asset or a group of financial assets maybe imparied. A financial asset or a group of financial assets is only impaired if, as a result of one or more events, there is an objective evidence of an impairment that has an effect on the financial asset's expected future cash flows which can be reliably estimated. Evidence of an impairment of a financial asset includes observable data on the following cases:

- significant financial difficulties of the debtor,
- a breach of contract such as a default on or delinquency in interest or principal payments,
- an increased probability that the borrower will enter into insolvency or another reorganization proceeding,
- the disappearance of an active market for that financial asset,
- observable data that indicates a measurable reduction in the expected future cash flows from a group of financial assets since its initial presentation.

Analyst reports from banks as well as ratings by rating agencies are used for assessing an impairment.

If there is an objective evidence for an impairment loss on loans and accounts receivable or financial assets held to maturity, the impairment loss is determined as the difference between the asset's carrying value and the present value of the future cash flows, discounted using the financial asset's adequate effective interest rate. If the amount of the write-down decreases in one of the following reporting periods, and this reduction can be traced back to a circumstance arising after recognition of the impairment, the write-down previously recorded must be reversed (reversal of an impairment loss).

The mortgage portfolio is tested for impairment at regular intervals. If there is objective evidence that the entire amount owed pursuant to the original contractual conditions or the corresponding equivalent value of a receivable cannot be recovered, an impairment is recognized. Loan commitments are measured individually, taking into consideration the character of the borrower, its financial situation, its payment behavior, the existence of any guarantor and, if necessary, the disposal value of possible collateral recognized.

3.10.2 Financial assets measured at fair value

On each balance sheet date the Baloise Group determines whether there is objective evidence that financial assets classified as available for sale, which also include financial assets of an equity nature mabe impaired. An impairment loss must be recognized for financial assets of an equity nature if the fair value at the balance sheet date is more than 50 percent below cost, or if fair value was below cost during the previous 12 months. An impairment test is conducted for securities whose fair value on the balance sheet date is between 20 and 50% below cost and an impairment is recognized if necessary.

In the case of an impairment, the cumulative net loss recorded directly to equity is reversed to the income statement.

Impairment losses on available for sale financial assets of an equity nature recognized in the income statement may no longer be recognized in income retroactively.

In the case of financial investments of an equity nature that were already impaired in prior periods, any further impairment of fair value must be charged directly to income.

If the fair value of an available for sale financial asset of a debt nature increases in a subsequent reporting period and the increase is objectively traced back to an event which arose after the recognition of the impairment in the income statement, the adjustment must be reversed and the amount must be recognized in the income statement as a reversal of an impairment loss.

3.10.3 Impairment losses on non-financial assets

Goodwill and any assets of undefined useful life are subject to impairment testing once a year at the same date or immediately if there are indications of actual impairment.

For purposes of impairment testing, goodwill is allocated to cash-generating units ("CGUs"). The carrying value of the CGU, including the goodwill, is compared with the recoverable amount. The recoverable amount is the higher of the net proceeds from disposal (estimated sales proceeds less all costs incurred directly in connection with the sale) and the present value of the estimated future cash inflows and outflows from the utilization and later sale of an asset. The estimate of the future cash inflows and outflows is based on realistic assumptions regarding the future development of the asset as well as on approved extrapolations and financial planning. An impairment exists if the carrying value is higher than the recoverable amount. An impairment is recognized in the income statement under the item "Other operating expenses."

Other nonfinancial assets are subject to impairment testing whenever there is objective evidence of an impairment.

An impairment loss recognized on an asset with a finite useful life in prior periods is reversed if there has been a change in the estimates that were used to determine the recoverable amount since the recognition of the last impairment loss. This increase represents a reversal of an impairment loss. An impairment loss on goodwill or on assets with indefinite useful lives recognized in prior periods is no longer reversed. In the case of securities that were already impairment-adjusted in former periods, any further impairment of the fair value is taken directly to income.

3.11 Derivative financial instruments

Derivative financial instruments are understood to be swaps, futures, forward and option contracts whose value is derived primarily from the underlying interest rates, exchange rates, commodity prices or share prices. As a rule, derivative financial instruments have little or no acquisition value. Derivative financial instruments are recognized on the balance sheet at fair value. Upon the conclusion of a contract, they are classified either as a hedging instrument for the fair value of an asset or liability (fair value hedge), as a hedge of future transactions (cash flow hedge), as a hedge of a net investment in a foreign entity, or as a trading instrument. Derivative financial instruments which did not satisfy the IFRS requirements for a hedging transaction, even though they have a hedging function pursuant to the Baloise Group's risk management rules, are treated as trading instruments.

The Baloise Group documents the effectiveness of the hedge as well as the goals and strategies followed for each hedging transaction in hedge accounting. Effectiveness of the hedge is monitored continuously from the conclusion of a contract. Derivatives that no longer satisfy the requirements of a hedging transaction are reclassified as trading instruments.

3.11.1 Fair value hedges

Changes in the fair value of derivatives classified as fair value hedging instruments, together with the hedged part of the fair value of the asset or liability, are recognized in the income statement.

3.11.2 Cash flow hedges

Changes to the fair value of derivatives classified as cash flow hedging instruments are recognized directly to equity. The amounts recognized in shareholders' equity are later recognized in the income statement in accordance with the hedged cash flows.

If a hedging instrument is disposed of, terminates or is exercised, or no longer satisfies the criteria for a hedging transaction, the cumulative gain or loss remains recognized in shareholders' equity until the planned transaction occurs. If the anticipated transaction is no longer expected to occur, the cumulative gains and losses recognized in shareholders' equity are transferred to the income statement.

3.11.3 Hedging of a net investment in a foreign entity

The hedging of a net investment in a foreign entity is treated as a cash flow hedge. The gain or loss of the hedging instrument on the effective hedge is recognized in shareholders' equity; the ineffective portion is recognized on the income statement.

The gain or loss recognized in shareholders' equity is transferred to the income statement upon the (partial) disposal of the foreign entity.

3.11.4 Derivative financial instruments that do not satisfy the requirements of a hedging transaction

Changes to the fair value of derivative financial instruments that do not satisfy the requirements of a hedging transaction are recognized in income as "Realized gains and losses on investments."

3.11.5 Hybrid (combined) instruments

Hybrid (combined) instruments are financial instruments (assets or liabilities) which include embedded derivatives in addition to the host contract. For the most part, the host contract and derivative are not separated but are classified as a unit under the subject of the host contract, so that the unrealized gains and losses are recognized immediately in the income statement. Sometimes the derivative is separated and presented, measured and disclosed separately. In this case the economic characteristics and risks of the embedded derivative must differ from those of the host contract and it must itself satisfy the definition of a derivative financial instrument.

3.12 Offsetting of receivables and liabilities
Receivables and liabilities are offset and recognized on the balance sheet at net value if offsetting is permitted and the Baloise Group intends to realize these assets and liabilities at the same time.

3.13 Noncurrent assets held for sale and discontinued operations
Noncurrent assets or asset groups which are held for sale and meet the criteria of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are presented separately in the balance sheet. Those assets addressed by the standard are measured at the lower of carrying value or fair value, less cost to sell. Adjustments arising on such assets are recognized in the income statement. Any regular depreciation/amortization is halted as of the reclassification date.

The detailed disclosure of discontinued operations, if any, is made in the notes to the annual financial statements.

3.14 Cash and cash equivalents
Cash and cash equivalents consist predominantly of cash, demand deposits and short-term liquid assets with maturities of up to 24 hours. They are measured at their nominal value.

3.15 Equity
Equity instruments are classified as equity unless there is a contractual obligation for repayment or the contribution of other financial assets. Transaction costs in connection with equity transactions are reduced by all income tax advantages related to the transactions and are accounted for as a deduction from equity. The transaction costs of an equity capital transaction in connection with a business combination are allocated to the cost of the acquisition.

3.15.1 Share capital
The reported share capital equals the registered share capital of Bâloise-Holding, Basel. The share capital of Bâloise-Holding is made up exclusively of registered shares. There are no shares with preferential voting rights.

3.15.2 Capital reserves
Paid-in share capital in excess of the nominal value (premium) as well as the results from the purchase and sale of treasury shares is contained in capital reserves.

3.15.3 Treasury shares
Treasury shares held by Bâloise-Holding or by subsidiaries appears in the consolidated financial statements at cost (including transaction costs) as a deduction from shareholders' equity. There is no ongoing adjustment to fair market value. Upon resale, the difference between the cost and the sales price is recognized directly in equity. Only shares of Bâloise-Holding are considered treasury shares.

3.15.4 Unrealized gains and losses (net)
This item includes changes in market value of financial instruments classified as available for sale, effects from cash flow hedges, effects from hedging net investments in a foreign entity, currency translation differences and gains in the reclassification of own-use properties to investment properties.

Unrealized gains and losses of a life insurance company are reduced by the share that will be used to amortize deferred acquisition costs and to pay policyholders' dividends (shadow accounting). Minority shareholdings, too, if applicable, will be deducted from this item.

3.15.5 Retained earnings
Retained earnings contain the Baloise Group's retained earnings and its net income for the fiscal year. Dividend distributions to shareholders of Bâloise-Holding are only recognized once they have been approved by the Annual General Meeting.

3.15.6 Minority interests
Minority interests are those shares in the equity of Group companies which are allocated to third parties outside the Group based on the relevant ownership relationships.

3.16 Insurance contracts
An insurance contract is defined as "a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder." An insurance risk is any direct or reinsured risk that is not a financial risk. The significance of insurance risk is assessed according to the amount of additional benefits to be paid by the insurer if the insured event occurs.

Contracts without any significant insurance risk are financial contracts. Such financial contracts may contain a discretionary participation feature (DPF), which determines which recognition and valuation regulations are to be applied.

The Baloise Group considers an insurance risk to be significant if, in a plausible scenario, a payment is linked to the occurrence of the insured event during the contractual period which is 5% greater than the contractual benefits if the insured event does not occur.

A discretionary participation feature (DPF) is present if the policyholder has a contractual or legal right to benefits in excess of the guaranteed benefits:

- that are likely to be a significant portion of the total contractual benefits;
- whose payment amount or timing is contractually at the discretion of the insurer; and that are contractually dependent on the performance of a specified pool of contracts or a specified type of contract; realized and/or unrealized investment returns on a specified pool of investments held by the insurer; or the insurer's net income.

Self-insurance contracts are eliminated from the annual financial statements. This applies particularly to the contracts with the company's own pension plans insofar as the employees covered by these plans belong to the Baloise Group.

In addition, IFRS 4 creates exceptions for the treatment of embedded derivatives that are contained in an insurance contract or financing contract with DPF. To the extent that such embedded derivatives themselves satisfy the definition of an insurance contract, separate measurement and disclosure are not required. For the Baloise Group, this concerns among others certain guarantees for annuity conversion rates as well as additional special exceptions, such as certain guaranteed surrender values on traditional policies.

3.17 Nonlife insurance

Basically, all standard products in the nonlife business contain sufficient insurance risk for classification as insurance contracts under IFRS 4. Within the Group, the nonlife business is divided into seven main segments:

- Accident

All standard product types that are normal for the respective market are offered in the accident segment. In particular in Switzerland and Belgium, there are additional special, government-regulated occupational accident products which do not correspond to the usual products.

- Health

The Baloise Group writes health insurance only in Switzerland and Belgium. In addition to the typical treatment costs, the products in this segment also comprise benefits such as daily sickness allowance and are offered to individuals as well as small and medium-sized enterprises as so-called group insurance.

- General liability

In addition to conventional private liability, business liability policies are also sold for certain professions. In Switzerland and Germany there are policies, especially combined products, for small and medium-sized companies or for clients in manufacturing which include features such as product liability.

- Motor

The two standard products normal to the market, comprehensive and liability insurance are offered here. In certain countries there are also special products for cooperative agreements with automobile clubs or with individual automobile companies.

- Fire and other property insurance

Beginning with conventional home insurance policies, there is a broad offering of property insurance including fire, buildings, water and all other usual forms.

- Marine

Marine insurance policies are primarily sold in Switzerland and Germany. In addition to the typical merchandise insurance, the products may also contain liability components.

- Miscellaneous

Small segments such as credit and legal protection insurance are normally combined here.

Actuarial items for business concluded by the company itself, including inward reinsurance, are designated with the term "gross". After deducting reisurance, the items are designated "net" or "for own account."

3.17.1 Premiums

The gross premiums written are those that have become due in the fiscal year. They include an amount necessary for covering the insurance risk as well as all cost markups. Those portions of the premiums attributable to future fiscal years are contractually deferred and, together with any provisions for premium shortfalls for the fiscal year (impending loss) as well as aging reserves and any capitalized settlement premiums, comprise the unearned premiums disclosed on the balance sheet. Owing to the special characteristics of marine insurance, premiums are deferred not by contract, but on the basis of estimates. The premiums actually attributable to the fiscal year are designated as earned premiums. They are calculated from the premiums written and the change in unearned premium reserves.

3.17.2 Loss reserves

Loss reserves and reserves for loss adjustment expenses are calculated for all claims arising by the end of the fiscal year, whether reported to the Baloise Group or not.

These reserves represent a forecast of all payments to be made in future for these claims. The loss reserves are determined based on experience from recent years and future expectations.

The process uses statistical methods as well as the expertise of the specialists handling the claims. The company strives for as realistic a reserve for claims as possible. A reserve for loss adjustmen expenses is also recognized.

The total loss reserves consist of three components. The base component is the reserves calculated using actuarial methods. A second component is reserves for those complex special cases and events that do not lend themselves to a purely actuarial calculation (major claims). These two components are calculated without discounting. Annuities form the third component; these are capitalized using actuarial principles such as mortality, technical (guaranteed minimum) interest rate etc. and potentially arise from claims from the automobile, liability and accident segments.

The forecast process does not completely eliminate uncertainties inherent in forecasting future developments. Systematic tracking of the reserves in a particular fiscal year allows deviations to be monitored and, if necessary, the forecast process to be adjusted accordingly.

3.17.3 Policyholder participition in surplus and profit

Insurance contracts can provide for the customer's participation in the surplus on his contracts (in particular in his claims history). The paymnets and the change in the related reserves together account for the policyholder participation in surplus and profit.

3.17.4 Liability adequacy test (LAT)

The "Liability Adequacy Test" (LAT) is used at every balance sheet date to review whether existing provisions appear sufficient taking all known developments into consideration.

In addition, all existing provisions, loss reserves and annuity provisions from the nonlife segment are analyzed. An appropriate subsequent provision is recognized in case of a shortfall. All liabilities are thus recognized with regard to the claims already incurred.

This LAT also involves a determination of whether the company can in each case meet the obligations it has undertaken under all of the current contracts in the fiscal year. Contracts that automatically renew at the same terms are also taken into account. In addition, it is especially important to conduct a profitability analysis of these transactions and/or impairment testing of the deferred acquisition costs. If a loss is expected, the deferred acquisition costs must be reduced by the appropriate amount. If the total deferred acquisition costs are insufficient or the resulting liability cannot be covered, a separate provision for impending losses is recognized within the unearned premium reserves.

3.18 Recognition and measurement of life insurance contracts and financial contracts with DPF

For insurance contracts and financial contracts with DPF, IFRS 4 grants users the option to continue using the previous measurement principles (see section 1) for the obligations as well as assets resulting directly from the contracts (deferred acquisition costs and portfolio assets).

The following Baloise Group life insurance products include sufficient insurance risk to be classified as insurance contracts under IFRS 4:

- Endowment life insurance, conventional life insurance and unit linked life insurance policies
- The Swiss group life business (BVG)
- Pure term insurance policies
- Immediate annuities
- Deferred annuity insurance with pension conversion rate guaranteed as of conclusion of the contract
- All supplemental insurance policies such as premium waiver, additional accidental death, disability, etc.

Hence, the following accounting principles find application:

3.18.1 General measurement principles

For traditional life insurance different standards are applied depending on the type of profit participation. In so doing, premiums are basically recognized as income and benefits as expenses when due. In each case, the establishment of provisions is based on actuarial principles or the net premium principal, which provides for a balanced development of the provision from the premium. The actuarial assumptions for calculating provisions are determined either as best estimates with explicit safety margins for particular transactions or pursuant to local practice regarding provisions and thus also take premium loading into account when contracts are concluded. The assumptions used are retained unchanged over the contractual period ("lock-in") unless a liability adequacy test (LAT) shows that the resulting reserves, after deducting deferred acquisition costs (DAC) or the present value of future profit (PVFP), must be increased. Unearned premiums, provisions for terminal dividends, as well as certain cost premium components to be deferred (unearned revenue reserve – URR) are also maintained as a component of the premium reserve.

The liability adequacy test is conducted over the entire life insurance line at every balance sheet date. A reserve is determined as of the valuation date, taking into consideration all future cash flows based on the best estimates applicable to the assumptions at that time. If the minimum reserve for individual business lines thus determined exceeds the existing reserve (after deduction of DAC and PVFB), the reserves are immediately increased to the minimum level and the increase is recognized in income.

In the case of unit-linked policies and traditional policies with low coverage, those parts of premiums that are not used to cover costs and risks are, in contrast to traditional insurance business, not booked to income but directly to provisions. For unit-linked insurance without maturity guarantees, the reserves normally corresponds to the deposit account value of the shares per policyholder and hence to the fair value of the related share in the fund. The change in the value of the corresponding fund is recognized in income in the same manner as the corresponding change in the provision. The liability adequacy test is conducted analogously to traditional products. For unit-linked life insurance with maturity guarantees, for which the maturity guarantee is not secured either by an investment approach or by the purchase of cover at an investment company, a provision to cover this obligation is also established. This supplemental provision is posted under the actuarial reserve for non-unit-linked life insurance.

3.18.2 Present value of the future profits (PVFP) on acquired insurance contracts

The present value of the profits on acquired insurance contracts represents an identifiable intangible asset that arises in connection with the purchase of a life insurance company or of a life insurance portfolio. The initial measurement as well as the determination of the amortization model is made in accordance with actuarial principles. The PVFP is regularly tested for impairment using the liability adequacy test.

3.18.3 Capitalization of acquisition costs

Acquisition costs are deferred as part of the paid commissions (DAC). Depending on the contract, amortization is taken over the period of premium payments or insurance period. Impairment of the DAC is checked using the loss recognition test.

3.18.4 Unearned revenue reserve (URR)

The unearned revenue reserve (URR) concerns premium components charged for services in future periods. These premium components are recognized as liabilities and reversed analogously to the deferred acquisition costs.

3.18.5 Policyholders' dividends

For a major portion of the life insurance contracts, the policyholders have a claim to surplus participation (policyholders' dividends).

The surpluses are refunded in the form of benefit increases, premium reductions, or terminal bonuse' or are aggregated at interest to a surplus account. Surpluses already allocated, which are aggregated on an interest-bearing basis, are recognized the position "Policyholders' dividends credited and provision for future policyholders' dividends" (section 23). Surpluses that have been used to finance an increase in the insurance benefit are recognized in the actuarial reserve.

For unit-linked life insurance, generally all investment income is credited to the policyholder.

IFRS 4 introduces the concept of a discretionary participation feature (DPF), which is not only relevant for the classification of contracts, but also for the disclosure in accordance with policyholders' share in the unrealized gains and losses recorded in the IFRS equity and the share in the higher or lower values recognized in income in the consolidated financial statements – as compared to the statutory financial statement. Accordingly, that portion of the obligation from an insurance contract that is attributable to a DPF ("DPF component") must be presented separately. The standard does not provide any clear guidelines regarding the measurement and disclosure of the DPF component.

For contracts with a DPF, the Baloise Group considers the portion of the measurement differences attributable to these contracts which are to be credited to the policyholder pursuant to a statutory or contractual minimum quota as a DPF component. The DPF component thus determined is recognized in the position "Provision for future policyholders' dividends" (section 23). This item also contains policyholders' dividends that are deferred and not yet allocated pursuant to local accounting practices.

If there is no contractual or legal stipulation of a minimum quota, the Baloise Group defines DPF as the existing reserve for premium refunds after taking into account final policyholders' dividends. All other measurement differences between statutory and the IFRS financial statements, in the absence of a minimum quota, are maintained as part of equity.

The applicable minimum quotas prescribed by statute, by contract or in corporate by-laws are specific to each country.

In Germany, Austria and for some of the Swiss group life insurance, life insurance companies are obligated under law to refund a minimum portion of their profit to policyholders in the form of bonuses.

In Germany, this minimum quota is 90%. However, in its corporate articles Deutscher Ring has obligated itself to a minimum quota of 95%.

In Austria, the minimum quota is stipulated in the contract terms and conditions. It is normally 90%.

Minimum quotas are also applied to some of the business under the Swiss Pension Fund Law (BVG) – the business subject to the "legal quote". The quotas applied are 100% on the change in liabilities and 90% on the change in assets.

3.19 Reinsurance

Reinsurance contracts are insurance contracts between insurance companies and/or reinsurance companies. There must be a risk transfer for a transaction to be recognized as reinsurance; otherwise the contract is treated as a financial instrument.

Inward (i.e. assumed) reinsurance is recognized in the same period as the initial risk. The technical reserves for the nonlife insurance line are contained in the "Unearned premiums (gross)" and "Loss reserves (gross)" liabilities accounts and in the "Actuarial reserve (gross)" liabilities for the life insurance business. For nonlife insurance they are estimated as realistically as possible based on experience and the most recent information; for life insurance they are established based on the opening transaction. Outward reinsurance (i.e. insurance ceded) is the business ceded to non-Group insurance companies and includes levies from the life and nonlife business and from inward reinsurance.

Outward reinsurance assets are calculated over the same period and on the same bases as the original transaction and are recognized under the "Reinsurance assets" (section 15) account. Adjustments to income are recognized for assets that are at risk due to recognizable insolvency.

Receivables and liabilities from financial contracts are primarily determined based on the effective interest method. The effective interest is determined as an internal interest rate based on the estimated amounts and timing of the expected payments. If the amount or timing of the actual payments deviate from expectations or the expectations change, the effective interest must be determined anew. The deposit account balance is then revalued as if this new effective interest rate had been in effect from the beginning and the change in the deposit account value is recognized as interest income or expense. Otherwise, the insurance cover financed from the deposit account is amortized over the expected term of the deposit account.

3.20 Liabilities from the banking business and financial contracts

3.20.1 With discretionary participation features (DPF)

Financial contracts with discretionary participation features (DPF) represent an investment by the customer with a surplus participation feature. The accounting principle for these financial contracts with DPF follows that for insurance contracts, the measurement principles for which are described in section 3.18.

3.20.2 Measured at amortized cost

Liabilities measured at amortized cost consist primarily of savings deposits, medium-term notes, loans from central mortgage bond institutions and miscellaneous liabilities. They are initially measured at cost. The difference between the cost and the redemption value is recognized over the term of the liability under "Expense from financial contracts" pursuant to the amortized cost method using the effective interest method.

3.20.3 Measured at fair value and recognized in income

In addition to financial contracts for which the holder bears the investor's risk himself, this item also includes liabilities from the banking business that have been classified as fair value hedges. The banking segment's bonds are also included in the liabilities from the banking business. These items are measured at fair value by discounting the cash flow using the current interest rate charged by the Baloise Group for comparable instruments of the same maturity.

3.21 Financial liabilities

Bonds issued on the capital market, with the exception of bonds from the banking segment, are recognized in financial liabilities. Financial liabilities are initially measured at cost (fair market value) including transaction costs.

The difference between the cost and the redemption value is recognized over the term as borrowing costs pursuant to the amortized cost method using the effective interest method.

A convertible bond issued by Baloise Finance Jersey, which confers the right to subscribe to shares of UBS AG, includes a liability as well as an embedded option. The fair value of the embedded option was determined as of the balance sheet date and was presented separately as a derivative financial instrument. The cost of the liability component corresponded to the present value of the future cash flow, which was calculated at the issue date. The market interest rate of similar bonds without conversion or option rights was used as the discount factor. The bond was cancelled as of february 17 2006, and therefore repaid in advance.

3.22 Employee benefits

The Baloise Group's benefits to employees comprise all forms of compensation granted in exchange for services rendered or in special circumstances.

The following benefits are measured: short-term benefits (such as wages), benefits due over the long term (such as anniversary payments) and post-employment benefits (such as severance pay and benefits from employee benefit plans and post-employment benefits). The following benefits may be especially significant due to their extent:

3.22.1 Post employment benefits

The main pension benefits are pensions from the retirement pension and contributions to mortgages assumed by the employer, as well as certain insurance policies for pensioned employees. The benefits are paid upon completion of employment but are financed during the period the employee is actively working. The Baloise Group's pension benefits currently consist almost exclusively of defined benefit plans. The liabilities are calculated using the projected unit credit method.

The assets to match the liabilities are only recognized if they are brought into an entity separate from the employer, e.g. a foundation. Such assets are measured at fair value. Unrecognized actuarial gains and losses which at the end of the preceding reporting period exceeded by 10% the greater of the present value of the defined-benefit liabilities or the current value of the plan assets are recognized in the income statement based on the expected average of the remaining years of service of the employees participating in the plans.

The Baloise Group's pension agreements are tailored to local conditions with regard to enrolment and the scope of benefits.

3.22.2 Share-based payment

The Baloise Group offers staff and management members various plans in which shares or stock options are granted as part of the total compensation package. Employee shares, employee share ownership plans, direct share subscriptions and option subscriptions are measured and disclosed in accordance with IFRS 2 "Share-based Payment". Plans that are serviced by shares in Bâloise-Holding are measured at fair value as of the grant date and are recognized as personnel expense during the vesting period and credited to equity. Plans that are serviced in cash and the amount of which is based on the market value of Bâloise-Holding shares are recognized at fair value on the balance sheet date as a liability.

3.23 Financial provisions

Financial provisions for restructuring and legal claims are recognized for current legal or constructive obligation which will probably result in a future outflow of funds that can be reliably estimated. The assessment is based on the best possible estimate of the expected outlays. If the liability cannot be estimated with sufficient reliability, it is recognized as a contingent liability.

3.24 Taxes

Provisions for deferred income taxes are recognized pursuant to the liability method, i.e., they are based on the current or future expected tax rate. Deferred income taxes take into account the income tax effects of the temporary differences in recognition and measurement of assets and liabilities under IFRS and for tax purposes. When calculating deferred income taxes, tax loss carry-forwards are accounted for only insofar as it is probable that sufficient taxable profits will be generated in future.

Deferred tax assets and liabilities are offset and reported net provided the preconditions for offsetting are met. They are, as a rule, met if tax sovereignty, tax subject and tax type are identical.

3.25 Revenue recognition

Income is recognized at the fair value of the consideration received or to be claimed. inter-company transactions and the resulting gains or losses are eliminated. Income is recognized as follows:

3.25.1 Income from services

Income from services is recognized in the period in which the service is provided.

3.25.2 Interest income

Interest income on financial instruments which are not recognized at fair value through profit and loss is recognized using the effective interest method. If a receivable is remeasured, a write-down equal to the present value of the estimated future cash inflows and outflows is made to the recoverable amount, discounted using the contract's original discount rate. The future write-up is recognized in "Other operating income."

3.25.3 Dividend income

Dividend income on financial assets is recognized as soon as the legal claim to payment arises.

4. Cautious accounting policies and estimation uncertainties

The consolidated annual financial statements of the Baloise Group contain estimates and assumptions, which could have an influence on the annual financial statements of the next fiscal year. Estimates and management's exercise of discretion are continually reviewed and are based on experience and other factors, including expectations regarding future events that appear reasonable when the financial statements are prepared.

4.1 Measurement uncertainties specific to insurance

The measurement uncertainties in relation to insurance risks are explained in section 5.4 ff.

4.2 Impairment losses of mortgages and loans

The mortgage portfolio is tested for impairment at regular intervals. The methods and assumptions used in impairment testing are also reviewed regularly in order to minimize deviations between the actual and expected default probability.

4.3 Impairment losses on available for sale financial assets of an equity nature

An impairment must be recognized on available for sale financial assets of an equity nature whose fair value on the balance sheet date is more than 50 percent below cost or whose fair value between the balance sheet date and the previous year's balance sheet date is constantly below cost. An impairment test is conducted for securities whose fair value on the balance sheet date is between 20 and 50% below cost.

The assessment of an impairment includes various factors such as the volatility of the security, its rating, analysts' reports, the economic environment, the industry outlook, etc.

4.4 Held to maturity financial assets of a debt nature

The Baloise Group applies the provisions of IAS 39 for classifying nonderivative financial instruments with fixed or determinable payments as "held to maturity." To do so it assesses the positive intent and ability of holding these financial instruments to maturity. If, contrary to the original intent, these financial instruments are not held to maturity (disregarding specific circumstances such as the sale of an insignificant portion), the Baloise Group must reclassify all held to maturity financial instruments into the "available for sale" category with a subsequent measurement at fair value. Pursuant to section 5.6.4, the fair value of those financial assets of a debt nature which are classified as "held to maturity" may be excluded.

4.5 Payments to employees

In calculating performance-based liabilities to employees, assumptions are made concerning the expected return on budgeted assets, economic use of assets, future pay and pension benefits, the applicable discount rate and other parameters. The most important assumptions are derived from experience with earlier estimates. The assumptions used are explained in Section 18.2.10.

4.6 Deferred taxes on income

Losses carried forward and not yet applied to taxes and other deferred tax assets are capitalized if it is probable that they will be realized. Assumptions concerning the likelihood that these tax benefits will be realized are made for this purpose based on business history and on the future income of the given tax-paying entity.

5. Management of insurance and financial risks

The companies of the Baloise Group offer its customers nonlife and life insurance as well as (in Switzerland and, with some restrictions, Germany) banking products. The Baloise Group is exposed to various corresponding risks.

The relevant risks in the nonlife domain are: natural disasters, major industrial risks, liability risks and personal injury risks. The insurance business as a whole is regularly reviewed with extensive analyses. The results of these analyses are applied in establishing reserves, setting rates and designing insurance products and reinsurance contracts. In the nonlife domain, particular studies have been carried out in recent years in relation to natural disaster risks, some in cooperation with reinsurers, to determine exposure and the necessary level of risk transfer.

In the life insurance domain, the following biometric risks are predominant:

- Longevity risk in the case of pensions and policies with maturity benefits.
- Mortality risk for death-benefit and endowment insurance.
- Disability risk in the form of the risk of an inadequate rate due to an unfavorable disability loss experience.

By providing interest rate guarantees, the Group is also exposed to the risk of interest rate fluctuations. Further, there are implicit financial guarantees and options that affect the companies' liquidity, investment planning and revenues, particularly the provision of a guaranteed surrender value and guaranteed annuity factors on entry into the disbursement phase of pension policies.

The longevity, mortality and disability risks specific to life insurance are monitored continuously. The Baloise Group companies review and analyze the mortality and surrender, disability and reactivation behavior of their respective client bases in a decentralized fashion. Generally, they utilize standard market statistics that are determined actuarially and include sufficient safety margins. The information obtained in this way is used both in price setting (premium setting) and to establish sufficient provisions for fulfilling future insurance obligations. The conservative rate calculation required by the relevant legislation and the comparatively good statistical basis make the risks here well manageable. In the pension insurance segment there is also a trend risk, namely the continuous increase in life expectancy, which results in longer and longer pension payments. This risk is taken into account by including appropriate actuarial bases. In addition, an increasing number of pension insurance agreements are being concluded for which the annuity conversion rate is not fixed when the contract is concluded; instead the conversion is made at the then applicable actuarial bases. This is the case especially for unit-linked annuity products.

In addition, the local units' statistics also form the basis for determining the risk capital that is required for covering unexpected deviations in the economic actuarial reserve.

In the case of dividend-entitled contracts it is possible to influence business risk directly since policyholder dividends are generally not guaranteed. One option in the event of an altered risk situation, for example, may be to adjust the dividends to match altered circumstances as specified in local regulations. But apportionment of surpluses between policyholders and the company is subject not only to local law, but also to the demands of the market.

The significant risk categories for the banking segment of the Baloise Group are credit risk, interest risk and liquidity risk. These risks are recorded and controlled by the banks locally. The loan portfolio is continually reviewed and analyzed using various tools such as standardized lending regulations and processes, scoring and rating processes, focusing on low risk markets and automatic reminder systems. Information thus obtained is then used in the loan decision. Deutsche Ring Bausparkasse AG also has a so-called collective risk: the home construction savers must collectively provide for longterm equal allocation of building loan contracts. This requirement is met if it can be proven based on simulated calculations that the fluctuation provision remains at least positive over the long term. Collective risk is monitored and controlled at Deutsche Ring Bausparkasse using a simulation model, with the collective overall portfolio of the building and loan association carried forward on an individual contract basis by including new business scenarios and behaviors observed in the past.

Special contingency plans are established in every business unit for extraordinary events such as natural disasters, terrorist attacks, etc. to ensure the continuation of business operations.

5.1 Organization of risk management at the Baloise Group

With its insurance and banking activities in various European countries and worldwide investments, the Baloise Group is exposed to market risks such as exchange rate risks, credit risks, interest rate risks and liquidity risks.

The Baloise Group has implemented an extensive, Group-wide risk management system in all of the Group's insurance and banking units in recent years. The Group-wide risk management standards (GwRMS) emphasize:

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

All activities directly related to risk management have been combined in a common set of rules and coordinated. At the highest level, the total risks of the Group and the individual business units are restricted and monitored by appropriate internal and external performance bandwidths. There are various limits and rules at the finance and business risk level to keep identified individual risks to a level acceptable for the Group or eliminate them altogether.

Responsibility for each individually identified risk is assumed by a risk owner within each business unit or at the Group level.

The Group's most senior risk owner is the Chief Executive Officer of the Baloise Group. The risk controllers, who are defined in tandem with the risk owners, are responsible for conducting systematic risk controlling and risk reporting. Particular attention was paid to the independence of the job position when selecting the risk controllers.

Within the Baloise Group, risk controlling focuses on investment risks, business risks (actuarial or banking risks), financial structure risk and compliance. The Group's most senior risk controller is the Chief Financial Officer of the Baloise Group.

The Baloise Group's central risk management function falls within the purview of the Group CFO within the Corporate Finance Division. The office coordinates intercompany guidelines, risk reporting and the ongoing technical development of suitable risk management processes and tools. On a monthly basis, it monitors economic market developments and their effects on the risk portfolio and individual risk-bearing capacity of all business units and of the Group as a whole. The accountable risk owners and risk controllers verify the figures and take them into account in their management decisions.

The residual, non-diversifiable market risk is managed by stochastic methods and comprehensive scenario analyses by both central and peripheral units, among other approaches.

All identified risk category is reported annually. Each business unit prepares a risk report which serves as a basis for the Group risk report.

Financial risk indicators are internally reported monthly by means of a risk controlling tool for the benefit of the entire Group as well as the individual strategic business units.

5.2 Underwriting strategy life and nonlife

The Baloise Group primarily underwrites insurance risks of private individuals and of small and medium-sized enterprises in selected countries in continental Europe. Industry insurance in the property and liability segments is offered predominantly by Basler Versicherungsgesellschaft in Basel, Switzerland and its branch in Bad Homburg, Germany. Centralized control of the industrial insurance business ensures consistent quality and high transparency of the business underwritten in this particularly high-risk segment.

Each business unit in the Baloise Group issues underwriting and risk auditing policies which contain unambiguous rules on authority and underwriting limits by segments. The business unit's top management body sets the underwriting limits and informs Group management. The maximum underwriting limit net in the industrial insurance business has been set at CHF 100 million for Switzerland and EUR 30 million for Germany. The only other comparable underwriting limits in the Group are for transport insurance. Additional tools for determining adequate premium levels and for overall portfolio management are applied for risk management in industrial insurance.

5.3 Nonlife and life reinsurance strategy

The Baloise Group's obligatory reinsurance in nonlife business is structured and placed on the market for all of the Group's business by Corporate Reinsurance in the Corporate Finance Division. Corporate Reinsurance structures the programs with an eye on the entire Group's ability to carry risk.

Currently, the Group has placed only nonproportional reinsurance programs. The Group's maximum retention for accumulation losses is CHF 20 million. For individual claims, the maximum retention is CHF 16 million for property claims or CHF 12 million for liability claims.

In individual cases, the local business units of the Baloise Group also take on additional facultative reinsurance cover. This type of reinsurance is highly dependent on the respective individual risk and is placed accordingly by the business units themselves.

Reinsurance contracts may only be concluded with counterparties who have been approved in advance by Corporate Finance. The reinsurers must normally have a minimum Standard & Poor's rating of "A–". A "BBB+" rating or a comparable rating by another recognized rating agency is permitted in exceptional cases. However, these reinsurance policies are only used for property insurance business that settles quickly.

The default risk of the reinsurance companies is regularly reviewed. A watch list is maintained of reinsurers who have become insolvent or have financial difficulties. The list contains details concerning all relationships, open receivables and Group provisions vis-à-vis these reinsurers and is updated regularly. In the life insurance business, the standards for reinsurers are the same as for the nonlife insurance business, although, reinsurance plays only a very minor role.

5.4 Nonlife

5.4.1 Insurance-specific risk

The Baloise Group primarily underwrites insurance risks of private individuals as well as of small and medium-sized enterprises in selected countries in continental Europe. In addition, business with industrial customers is also conducted in Switzerland and Germany. Rate monitoring and adjustments, as well as underwriting guidelines and limits adapted to the respective portfolio's size and country are used to limit underwriting risks.

5.4.2 Assumptions

- Loss reserves/claims development:

For determining loss reserves, the portfolio in question must be structured such that the data at hand is sufficiently homogeneous to apply certain actuarial analytical methods. In particular, it is assumed that the typical development pattern of recent years allows a meaningful extrapolation. Only if there are extreme discontinuities in the processing procedure, for example, must additional assumptions be made in certain cases under some circumstances.

- Loss adjustment expenses:

Reserves for loss adjustment expenses are made on a pro rata basis to the outstanding loss reserves using the ratio of average costs incurred in recent years for processing claims to claims and benefits paid during the same period.

- Annuities:

Normally, the bases for calculating annuities (mortality tables, interest rates, etc.) per country are prescribed and/or approved by the respective public authority. However, because certain parameters can quickly change the adequacy of these annuity provisions is reviewed annually (as part of the LAT) and an appropriate additional provision is made for any shortage.

5.4.3 Changes to the assumptions

The assumptions for establishing loss reserves are basically constant. The basis for calculating annuities is readjusted from time to time over the years.

No changes to these assumptions were made compared to the previous year.

5.4.4 Sensitivity analysis

In addition to the natural volatility of the insurance business, there are parameters for determining technical reserves which have a significant influence on the earnings of an insurance company. Therefore, a sensitivity analysis is carried out in the nonlife segment examining the following assumptions or their direct effect on net income for the year: estimation errors for the claims reserves (including IBNR), annuity provisions and provisions in the runoff segment.

- All Baloise Group reserves calculated by actuarial methods or individually for specific claims (among them major claims, but no runoff and provisions for disability pension claims) came to CHF 4,370.4 million at the end of 2006. Thus an estimation error of 10% would result in higher or lower claims expenditure before reinsurance of approximately CHF 437 million.
- The majority of the reserves in the runoff segment are the result of liabilities incurred by the Baloise Group in the "London market." Specifically, these include asbestos and environmental liability claims.

Calculating such reserves is always fraught with a measure of uncertainty. Ascertaining when such cases might arise and determining the potential extent of such claims involves much greater uncertainty than in all traditionally used claims models.

Expert opinions from external actuaries are used to help establish these provisions. In so doing, an optimistic and a pessimistic scenario are normally analyzed. Baloise's provision policy here is based on at least the mean value ("best estimate"). Estimating the amount of provisions for incurred but not reported losses is particularly difficult, and the possibility of additional fluctuations cannot be excluded. According to expert estimates, therefore, one must assume that variances of roughly 10%, or about CHF 23 million based on the relevant provision, may occur.

5.4.5 Claims development

Analysis of claims devlopment – gross (before reinsurance) by regions

Estimated losses incurred			**Year of loss occurrence**				
Switzerland (cumulative)	2001	2002	2003	2004	2005	2006	**Total**
At the end of the year of the loss occurrence	691.2	735.2	766.3	754.2	951.2	684.1	
One year later	699.9	734.4	736.3	710.4	918.9		
Two years later	708.3	724.7	744.9	692.7			
Three years later	705.5	760.1	752.9				
Four years later	731.2	757.8					
Five years later	722.7						
Estimated loss expenses	722.7	757.8	752.9	692.7	918.9	684.1	**4,529.1**
Claims paid	–615.7	–626.9	–592.2	–541.5	–656.3	–285.7	**–3,318.3**
Loss reserves – gross	**107.0**	**130.9**	**160.7**	**151.2**	**262.6**	**398.4**	**1,210.8**
Loss reserves before 2001 – gross (incl. major losses and assumed business)							541.7
Reserves for annuities (nonlife) – gross							491.1
Reinsurance share							–332.0
Loss reserves – net							**1,911.6**

in CHF million

For better comprehensibility, the following claims development analyses will be stated in euro.

Estimated losses incurred			**Year of loss occurrence**				
Germany (cumulative)	2001	2002	2003	2004	2005	2006	**Total**
At the end of the year of the loss occurrence	276.4	276.4	370.8[1]	325.8	292.2	283.8	
One year later	265.8	409.9[1]	348.5	304.2	279.9		
Two years later	376.0[1]	412.2	346.7	291.8			
Three years later	377.8	411.0	334.4				
Four years later	377.8	406.1					
Five years later	373.9						
Estimated losses incurred	373.9	406.1	334.4	291.8	279.9	283.8	**1,969.9**
Claims paid	–362.1	–390.4	–318.6	–264.9	–234.0	–146.2	**–1,716.2**
Loss reserves – gross	**11.8**	**15.7**	**15.8**	**26.9**	**45.9**	**137.6**	**253.7**
Loss reserves before 2001 – gross (incl. major losses and assumed business)							248.3
Reserves for annuities (nonlife) – gross							47.2
Reinsurance share							–110.9
Loss reserves – net							**438.3**

in EUR million

[1] The increase in the overall amount of estimated claim payments is primarily due to the inclusion of the Securitas Group.

Estimated losses incurred			Year of loss occurrence				
Benelux (cumulative)	2001	2002	2003	2004	2005	2006	**Total**
At the end of the year of the loss occurrence	271.9	253.2	229.6	229.4	214.8	201.6	
One year later	301.0	249.3	209.6	212.6	212.2		
Two years later	265.6	239.3	210.5	215.1			
Three years later	262.5	228.3	205.0				
Four years later	255.4	224.7					
Five years later	255.4						
Estimated losses incurred	255.4	224.7	205.0	215.1	212.2	201.6	**1,314.0**
Claims paid	–206.0	–177.2	–149.6	–146.1	–127.8	–83.5	**–890.2**
Loss reserves – gross	**49.4**	**47.5**	**55.4**	**69.0**	**84.4**	**118.1**	**423.8**
Loss reserves before 2001 – gross (incl. major losses and assumed business)							285.3
Reserves for annuities (nonlife) – gross							103.3
Reinsurance share							–114.1
Loss reserves – net							**698.3**

in EUR million

Analysis of claims development for the “Other” segment

A major part of the reserves in this segment originates from runoff business. Due to the special nature of this business, it is difficult to conduct meaningful analyses. The reserves established are therefore fraught with a higher degree of uncertainty.

The “survival ratio” – the ratio of provisions to the average claim payments over the past three years – is a commonly used indicator of the adequacy of reserves for asbestos and environmental claims. The ratio shows for how many years the reserves suffice to cover claim payments. At the end of the year under review the survival ratio was at 20.3 years (previous year: 44.5 years). Significantly higher claims payments than in previous years, and consequently a reduction in the survival ratio, were the result of the redemption of a partial portfolio.

5.5 Life

5.5.1 Insurance-specific risk

Traditional life insurance is insurance for a specified sum. An amount is not paid out for a claim, but rather a fixed sum upon the occurrence of the insured event, e.g. survival to a certain age/date or death. Pure risk insurance provides lump-sum and/or annuity payments upon early death (term or whole life insurance) and upon disability (disability insurance), while saving for old age is at the forefront with capital redemption insurance (savings-oriented insurance). Endowment insurance combines risk protection with savings.

The guaranteed technical interest rate represents a risk for the traditional life insurance and group life business.

When the interest rate rises, there is a risk of increased contract terminations (surrenders), which could result in liquidity problems due to benefit payments. This risk is reduced by surrender charges. In the past, no significant connection between interest rate increases and a material rise in contract terminations has been observed.

With declining interest rates, there is the risk that the investment income is no longer sufficient to finance the technical interest. This risk is reduced both through asset liability management (ALM) and by the policyholders’ dividends.

Average technical interest rate	Switzerland Individual life	Switzerland Group life	Germany	Benelux	Other
December 31, 2005					
Technical reserves excluding interest guarantee	790.9	655.8	2,567.1	365.9	15.8
Technical reserves with 0% interest guarantee	975.3	351.7	214.2	63.8	52.4
Technical reserves with positive interest guarantee	9,562.2	9,724.0	12,220.1	1,293.0	305.9
Technical reserves interest of positive interest guarantees	2.9%	2.6%	3.4%	4.2%	3.4%
December 31, 2006					
Technical reserves excluding interest guarantee	838.9	739.8	3,076.2	360.0	6.6
Technical reserves with 0% interest guarantee	954.3	446.9	265.9	72.3	50.9
Technical reserves with positive interest guarantee	9,600.2	9,968.3	12,468.9	1,426.3	335.0
Average technical interest of positive interest guarantees	2.9%	2.6%	3.4%	4.1%	3.4%

in CHF million

Unit-linked life insurance in general refers to endowment insurance or deferred annuity insurance, which gives the insured greater flexibility in investing. During the deferral period, unit-linked annuity insurance is similar to endowment insurance. During the pension payment period, the contract converts to a traditional pension insurance policy.

In case of death, the beneficiary receives either the amount insured or the policyholder's balance in the fund if it exceeds the amount insured. If there is capital at risk (corresponding to the positive difference between the amount insured and the policyholder's fund balance), the fund is charged with a monthly risk premium to finance the mortality risk.

Depending on the product, the fund underlying the savings process is selected from a number of different funds after determining the policyholder's investment profile.

The policyholder normally bears the entire investor's risk and profits from any positive performance.

With unit-linked life insurance, neither the surrender value nor the maturity payment is guaranteed in principle. However, a maturity payment is sometimes granted based on the selection of the fund. Typically this involves funds that fix the maturity value for a given contract duration by taking a certain investment approach (reducing the allocation in shares when share prices are falling). This type of business is offered in Switzerland and Germany. With these specific contracts, the life insurance maturity guarantee can deviate somewhat from the fund value based on the terms of the contract. This risk is taken into account using appropriate actuarial methods.

In Germany, there are still a small number of contracts guaranteeing a minimum endowment benefit in the amount of the contributions paid without this minimum being secured by the fund. This product has not been offered since 1999.

A fixed number of contracts in Switzerland have an interest guarantee. This guarantee was granted in connection with statutory retirement provisions (3a policies). In case of survival, the insured receives the greater of the value of the fund share or the net savings premium compounded using the technical interest rate (3.25%). The funds approved for these premiums invest only a small percentage of assets in equities and therefore show very low volatility. A corresponding technical reserve is recognized for the guarantee.

In Belgium, certain closed funds also offer a maturity payment guarantee. These funds are managed by non-Group banks which bear the liability for the guarantee.

	Switzerland		Germany		Benelux	
	12.31.05	12.31.06	12.31.05	12.31.06	12.31.05	12.31.06
Actuarial reserve from unit-linked life insurance	404.4	444.7	936.8	1,194.8	299.4	288.4

in CHF million

In pure *risk insurance*, substantial risks can arise, for example from epidemics and terrorist attacks, as well as lifestyle changes such as a lack of movement.

For contracts that cover survival, there are significant longevity risks which may further increase with ongoing progress in medical care and further improvements in the standard of living.

The identified risk does not differ significantly from one region to another.

The group life business mainly comprises *occupational pension insurance* in Switzerland, which covers mortality, disability and endowment risks similar to those in the individual life business. The special feature of the Swiss group business is the influence of political decisions. The minimum interest that must be paid on savings deposits, as well as the regulatory conversion rate used to convert the capital saved into an annuity upon retirement, is determined by the government. However, these directives only concern that portion of the accumulated capital that, under the law, must at least be accrued. Actuarially appropriate annuity conversion rates are used for the additional portion. A change in the minimum interest rate also affects the statutory portfolio already existing and not just new business, as is normally the case in the individual life business.

The majority of disability insurance contracts concern supplemental insurance, i.e. premium waiver for life insurance contracts with periodic premium payments in case of disability. The independent disability insurance business is of minor importance. Overall, measured on the actuarial reserve, the disability risk represents approximately 6% of the business.

	Actuarial reserve 12.31.05		Actuarial reserve 12.31.06	
	in CHF m	Share %	in CHF m	Share %
Traditional insurance				
Longevity risk	8,091.0	23.9	8,314.7	23.8
Mortality risk	14,961.3	44.2	15,335.8	43.8
Disability risk	2,120.1	6.3	2,172.0	6.2
BVG retirement assets	7,016.0	20.8	7,232.2	20.7
Subtotal	**32,188.4**	**95.2**	**33,054.7**	**94.5**
Unit-linked				
Longevity risk	383.0	1.1	584.4	1.6
Mortality risk	1,257.6	3.7	1,348.9	3.9
Subtotal	**1,640.6**	**4.8**	**1,933.3**	**5.5**
Total	**33,829.0**	**100.0**	**34,988.0**	**100.0**

Allocation of the actuarial reserve to the above risk categories was made based on products, i.e. each product was assigned to a risk type. The actuarial reserve was not apportioned into various risks within a product. Each product was allocated to a category based on the actuarial table used.

The mortality table concerned is, as a rule, used for the allocation within a category.

5.5.2 Assumptions

The actuarial reserve is calculated using the bases in effect upon conclusion of a contract. These bases are recommended or approved by the authorities. When setting the premium for life insurance products, safety margins are built into these bases in order to anticipate possible adverse future developments, mainly in relation to the technical interest rate and the actuarial tables. The inclusion of safety margins, together with the consideration of adverse selection effects, explains why the annuity tables differ from the actuarial (mortality) tables. Surrenders are not calculated into the establishment of reserves.

The bases are continually reviewed using an LAT (liability adequacy test). This ensures that the provisions are sufficient. The assumptions used in this test are “best estimate” assumptions. The major assumptions are the expected future investment income and the actuarial table. The expected future investment income is determined based on the current and target investment portfolio (strategic asset allocation). Yields on the investment of new capital in flow are based on capital market interest. Depending on the size of the portfolio, the actuarial tables are based on publicly accessible tables adjusted to reflect our own experience, or on the company’s own actuarial tables.

Surrenders are also taken into account during the LAT, based on the companies’ experience. The effects of a change in the surrender assumption on the results of the LAT are as a rule negligible.

5.5.3 Sensitivities

For the sensitivities, the effect of changes in assumptions on net income for the year and on equity was determined. The calculations examine variances in the assumptions used for the liability adequacy test (LAT).

The following scenarios were played out:

- Increase in mortality by 10%
- Reduction in mortality (i.e. increase in longevity) by 10%
- Reduction in net new capital inflow by 50 base points

Only the tested assumption is changed when determining sensitivities. The other parameters are held constant, except for the policyholders’ dividends, which is adjusted appropriately.

For the “reduction in net new capital inflow” scenario, the fair values of the investments are not adjusted. This means, in particular, that the amount of unrealized gains and losses on fixed-income securities in equity is not changed.

Sensitivities generally show a linear development, so no extrapolation is possible.

- 10% increase in mortality

A 10% increase in mortality in the LAT has only a marginal effect on net income and equity for most Baloise Group life insurance companies, thanks to adequate margins even after the increase in mortality. In the German, Belgian and Luxembourgian life insurance units, the effect on the income statement is attributable especially to changes in DAC, URR and PVFP amortization and financing of terminal dividends. The total effect on net income for these units is less than CHF 1 million per unit. In the Swiss unit, the lower allocations to supplemental annuity provisions actually result in a net positive effect on net income of roughly CHF 23 million, even after the added cost of additional DAC amortization is considered. Direct equity effects are marginal for all units.

- 10% decrease in mortality

Similarly to the mortality increase scenario, the effects of a decrease in mortality on the life insurance companies in Germany, Belgium and Luxembourg are marginal. This is true of both income and equity effects.

In the Swiss life business, a reduction in mortality results in a roughly CHF 25 million charge to the income statement assuming a reasonable adjustment of the policyholders’ dividends. As in the scenario above, the effect on equity is very small.

- 50 basis points reduction in the net new capital inflow

This scenario assumes that net new capital inflows (including reinvestments) fall by 50 basis points. The change in unrealized gains and losses on fixed-income securities is ignored, as explained above.

At the German units, this scenario leads to a faster amortization of the DAC balance. The development of the final policyholders’ dividends is – depending on the type of dividend – not linear. The amount of this total effect is greatly ameliorated by the applicable statutory surplus distribution rules. The net income effect on the German units is less than CHF 1 million. The non-income equity effect is negligible.

In Belgium this scenario leads to increased DAC amortization and to a provision for anticipated losses. The effect on the income statement is greater than in other countries due to a business model involving high guaranteed interest rates and small surpluses. The result is a negative income effect of CHF 18 million, combined with a marginal decrease in nonincome equity. This increase is due to the reduction in shadow DAC.

In Luxembourg the scenario leads to marginally negative impact on income and equity.

In Switzerland this scenario results in a negative impact on the income statement of approximately CHF 20 million. This is mainly due to higher DAC amortization and the increase in technical reserves with sinking provisions for policyholders' dividends. The nonincome effect on equity at the Swiss business unit is an increase of around CHF 11 million.

5.5.4 Changes to the assumptions

Assumptions with regard to future investment income are adjusted to market situations on an ongoing basis. They have been showing an upward tendency in the Group as whole. In Switzerland in particular this slowed down the increase in pension provisions. Updated surrender expectations in Germany led to a reduction in provisions for final policyholder dividends. The increase in current surpluses in Germany enabled a swifter amortization of capitalized acquisition costs.

5.6 Risk management of market risks

Market risks are reflected in losses due to changed or fluctuating market prices which may lead to a potential recoverability of asset items. The amount of the risk here depends on the extent of the price fluctuations on the market and the value of the exposed item. Interest rate risks, foreign exchange risks and credit risks and liquidity risks are discussed below.

5.6.1 Interest rate risks

Interest rate risk is the risk that the interest margin and with it the income of a company will shrink (income effect) or that the market value of a portfolio of interest-rate-sensitive products will decline (asset effect) due to interest rate fluctuations on money and capital markets. Aside from the economic risk that asset and liability maturities may be mismatched, there is also a balance sheet risk due to sometimes differing financial reporting regulations.

Accordingly, a change in interest rates or the interest rate structure may not only result in significantly less favorable conditions if rollover is necessary, but also in write-offs. The nonlife units manage maturities on the basis of benchmarks. In the life units, maturity management is driven by obligations on the liabilities side.

As part of the Baloise Group's corporate-wide risk management standards, investment planning and appropriate asset liability management ensures that maturity mismatches, and thus interest risk, are maintained at a reasonable level taking into account the organization's risk-bearing capacity.

In addition, stress tests are defined and conducted to serve as an early warning system. Their effects may be simulated for all of the company's segments and thereby also for operating income.

The effect of a stress test on financial performance figures is measured monthly. The underlying stress scenario (potential loss from a risk) is regularly reviewed and adjusted as necessary.

The magnitude of a stress test is normally based on the simple annual volatility of the financial risk under consideration, on a 100-year occurrence of a business risk or on international standard practice.

The following table summarizes investment yields on balance sheet items that are susceptible to interest rate risks owing to their interest rate-sensitive nature:

Investment return on interest-rate-sensitive items[1]

	2005	**2006**
Investment properties	3.3	5.5
Financial assets of a debt nature	3.7	3.3
Mortgages and loans	4.0	3.7
Cash and cash equivalents	1.8	2.5
Total interest-rate-sensitive items	**3.7**	**3.7**

in percent

[1] Excluding assets for the account and at the risk of life insurance policyholders.

The life insurance companies in the Baloise Group manage their risks due to changes in interest rates directly using an appropriate strategic asset allocation. Determinants of asset allocation include the ability to carry risk and the ability to finance guarantees. In addition, the decision process includes Asset Management's expectations for the capital markets and clients' expectations of life insurance. The Baloise Group's Chief Investment Officer (CIO) reviews the strategic asset allocation of all business units twice a year.

At the banks, interest rate risks are likewise managed as part of a suitable asset liability management strategy. Interest rate risks are only accepted if they are dependent on business volume and business activity. Interest rate risk is measured by software on the basis of the value-at-risk, gap, duration and interest rate sensitivity methods. Asset liability mismatch is actively managed using appropriate interest rate derivatives, generally fair value hedges.

The limits of interest rate risk are defined so that the fair value of shareholders' equity as of the statement date may not decline by more than 2.5% (warning limit) or 4.0% (action limit) in the event of a parallel shift in the market interest rate curve of +/– 100 basis points. In addition to these percentage values, an absolute figure is also defined and approved by the Board of Directors each year for both the warning and action limit; these amounts may not be exceeded either.

Derivative interest-rate instruments employed as **fair value hedges:**

	Fair market values – assets		Fair market values – liabilities	
	2005	**2006**	2005	**2006**
Forward transactions	–/–	–/–	–/–	–/–
Swaps	33.7	11.8	10.9	0.9
OTC options	–/–	–/–	–/–	–/–
Other	–/–	–/–	–/–	–/–
Traded options	–/–	–/–	–/–	–/–
Traded futures	–/–	–/–	–/–	–/–
Total	**33.7**	**11.8**	**10.9**	**0.9**

in CHF million

Derivative interest-rate instruments employed as **Cash Flow Hedge:**

	Fair market values – assets[1]		Fair market values – liabilities[1]	
	2005	**2006**	2005	**2006**
Forward transactions	–/–	–/–	–/–	–/–
Swaps	0.7	–/–	0.1	0.0
OTC options	–/–	–/–	–/–	–/–
Other	–/–	–/–	–/–	–/–
Traded options	–/–	–/–	–/–	–/–
Traded futures	–/–	–/–	–/–	–/–
Total	**0.7**	**–/–**	**0.1**	**0.0**

in CHF million

[1] The host contract (IAS 39.12) is expected to be effected in 2007.

5.6.2 Foreign exchange risks

Forex risk is the term for the potential financial loss arising from changes in foreign exchange rates. The extent of the effective forex risks is dependent upon:

- net foreign currency exposure, i.e. the net balance of foreign currency assets and liabilities.
- the intensity of fluctuations (volatility) in the respective currencies.
- correlations of the currencies with other risk parameters in the context of the portfolio.

The Group-wide risk management standards require ongoing monitoring of foreign exchange risks and the effectiveness of currency derivative transactions entered into. Taking the diversification effect attained in the portfolio into account, forex risk exposure is in a reasonable relationship to the potential additional revenue to be gained.

The Baloise Group's insurance activities are denominated almost entirely in Swiss francs and euros, so technical reserves are also primarily maintained in these currencies. There are also technical liabilities of a low amount in USD and GPB. These provisions are as a rule hedged by investments in the same currencies.

For the sake of international diversification (risk spreading) and revenue enhancement and due to the greater liquidity of certain foreign financial markets, the Swiss companies as of December 31, 2006 held a net EUR position of CHF 4,089.4 million (previous year: CHF 3,803.3 million), a net USD position of CHF 1,843.6 million (previous year: CHF 547.9 million) and a net JPY position of CHF 23.5 million (previous year: CHF 41.1 million).

Currency exposure (gross) excluding banking assets[1]

	CHF		EUR		Other	
	2005	**2006**	2005	**2006**	2005	**2006**
Group	46.2%	45.8%	47.8%	48.4%	6.0%	5.8%
Switzerland	77.0%	77.4%	13.1%	12.9%	9.9%	9.7%
Foreign activities	3.2%	3.3%	96.4%	96.1%	0.4%	0.6%

[1] The currency exposure (gross) comprises assets only. Liabilities are not included in this table.

The remaining net asset/liability currency balances are minor. The currency management department has hedged about one third of the net USD and two third of the EUR currency exposures to address risk concerns.

The Baloise Group uses derivative foreign currency instruments for hedging a net investment in a foreign entity.

Derivative interest-rate instruments employed as currency **hedges for net investments in a foreign entity**:

	Fair market values – assets		Fair market values – liabilities	
	2005	**2006**	**2005**	**2006**
Forward transactions	–/–	5.1	155.5	2.7
Swaps	–/–	–/–	–/–	–/–
OTC options	–/–	–/–	–/–	–/–
Other	–/–	–/–	–/–	–/–
Traded options	–/–	–/–	–/–	–/–
Traded futures	–/–	–/–	–/–	–/–
Total	**–/–**	**5.1**	**155.5**	**2.7**

in CHF million

The Group hedges net investments in a foreign entity by means of USD forwards.

5.6.3 Credit risk

Credit risks to the investments of insurance companies include all potential risks of loss that could result from a negative change in a debtor's or issuer's creditworthiness or from a decline in value of collateral. Credit risk is managed by reviewing the creditworthiness of each individual counterparty and having a high rating requirement.

Credit risk increases with the increasing concentration of counterparties in a given industry and region. Economic developments affecting entire segments and regions may jeopardize the ability to pay of an entire group of otherwise independent counterparties.

For this reason, the Baloise Group continually observes the counterparty portfolio and monitors the risk of default on a Group-wide basis. Because the Baloise Group's credit risk is distributed across a large number of counterparties and customers, the Baloise Group does not have any significant credit risk with a single counterparty.

In order to limit credit and cumulative credit risk in the Baloise Group, the Group-wide risk management standards strictly and sufficiently limit the portion of capital that Group companies may invest in a single issuer or borrower. The corresponding rules are explicitly defined in the Group's investment instructions:

The investment portfolio generally comprises only investments in bonds, loans or financial derivatives whose issuer and borrower have at least a Standard & Poor's "A–" rating or comparable, or for whom there is a corresponding third-party guarantee or real security. For other borrowers and issuers with at least a Standard & Poor's "BBB" rating, or no rating, a further overall limit of 10% of all fixed-income securities applies, based on fair values. Exceptions must be explicitly approved.

Investments in mortgage bonds are secured by mortgage insurance, investments in debenture loans by deposit guarantee funds. Mortgage loans are secured by the corresponding real estate. Lending is restricted by limits.

The Group-wide risk management standards further restrict the maximum counterparty risk of an individual issuer and debtor for the individual business units or the Group as a whole.

Credit rating	2005				**2006**			
	AAA	AA-A	BBB and below	No rating	AAA	AA-A	BBB and below	No rating
Financial assets of a debt nature	62%	31%	3%	4%	65%	31%	3%	1%
Receivables and reinsurance assets	–/–	96%	4%	–/–	–/–	98%	2%	–/–

Investments > 10% of consolidated equity:

	2005
Swiss Confederation	1,691.6
Federal Republic of Germany	1,051.7
UBS AG, Zürich / Basel	1,039.3
Bayerische Landesbank, Munich	907.2
Eurohypo AG, Frankfurt a.M.	826.2
Landesbank Baden-Württemberg, Stuttgart	808.7
Kingdom of Belgium	794.1
DZ Bank AG, Frankfurt a.M.	653.7
HSH Nordbank, Hamburg / Kiel	649.0
Hypo Real Estate, Munich	538.7
Bayerische Hypo- and Vereinsbank, Munich	506.4
WestLB AG, Düsseldorf / Münster	455.4
Republic of France	442.9

in CHF million

	2006
Swiss Confederation	1,585.5
Commerzbank	1,263.3
Federal Republic of Germany	1,067.7
UBS AG, Zürich / Basel	871.6
Bayerische Landesbank, Munich	827.5
Kingdom of Belgium	768.7
Landesbank Baden-Württemberg, Stuttgart	766.1
Hypo Real Estate, Munich	703.4
HSH Nordbank, Hamburg / Kiel	592.2
DZ Bank AG, Frankfurt a.M.	588.1
Uni Credito Italiano	547.4
Republic of France	528.1
DePfa Bank plc, Dublin	509.2

in CHF million

5.6.4 Liquidity risk

There is a latent liquidity risk for both banks and insurance companies: an extraordinary reduction in equity and liabilities cannot be offset by disposal of assets and alternative refinancing cannot be implemented with sufficient speed. In an extreme case, a liquidity shortfall may result in insolvency. Statutory requirements apply along with the following rules:

The Group-wide risk management standards require centralized liquidity planning for each business unit. This is done in close cooperation among the business unit's investment, actuarial, underwriting and finance departments. The maturity structure of liabilities must be considered when managing liquidity:

Liquidity risk as of December 31, 2005	Maturity in: < 1 year	Maturity in: 1–3 years	Maturity in: 3–5 years	Maturity in: > 5 years	Without fixed maturity	**Total**
Fixed-income securities	1,277.8	3,188.3	5,266.3	11,487.3	–/–	**21,219.7**
Mortgage assets	3,121.0	1,374.4	4,129.3	1,208.4	–/–	**9,833.1**
Policy and other loans	940.8	545.1	2,641.7	3,674.8	–/–	**7,802.4**
Other investments	1,474.9	–/–	3.2	–/–	–/–	**1,478.1**
Other assets	2,579.7	–/–	–/–	–/–	–/–	**2,579.7**
Assets without fixed maturity					18,402.1	**18,402.1**
Total	**9,394.2**	**5,107.8**	**12,040.5**	**16,370.5**	**18,402.1**	**61,315.1**
Liabilities from banking business and bonds	–3,234.0	–244.9	–1,956.7	–626.9	–/–	**–6,062.5**
Insurance liabilities	–1,644.6	–3.4	–0.1	–0.3	–/–	**–1,648.4**
Other liabilities	–2,085.0	–/–	–0.7	–/–	–/–	**–2,085.7**
Liabilities without fixed maturity[1]					–47,127.2	**–47,127.2**
Total	**–6,963.6**	**–248.3**	**–1,957.5**	**–627.2**	**–47,127.2**	**–56,923.8**
Net liquidity risk	**2,430.6**	**4,859.5**	**10,083.0**	**15,743.3**	**–28,725.1**	**4,391.3**

in CHF million

[1] The residual terms and maturities of the technical reserves concerned are stated in the tables of section 23.

Continued

Liquidity risk as of December 31, 2006	Maturity in: ‹1 year	Maturity in: 1–3 years	Maturity in: 3–5 years	Maturity in: ›5 years	Without fixed maturity	**Total**
Fixed-income securities	1,894.0	3,651.1	5,200.8	12,358.3	–/–	**23,104.2**
Mortgage assets	3,448.4	1,335.7	3,682.3	1,475.0	–/–	**9,941.4**
Policy and other loans	819.1	854.0	2,147.0	4,040.1	–/–	**7,860.2**
Other investments	1,413.9	–/–	5.2	–/–	–/–	**1,419.1**
Other assets	2,562.9	1.0	–/–	–/–	–/–	**2,563.9**
Assets without fixed maturity	–/–	–/–	–/–	–/–	19,143.7	**19,143.7**
Total	**10,138.3**	**5,841.8**	**11,035.3**	**17,873.4**	**19,143.7**	64,032.5
Liabilities from banking business and bonds	–4,814.5	–219.1	–1,026.5	–683.9	–/–	**–6,744.0**
Insurance liabilities	–1,613.1	–8.6	–/–	0.0	–/–	**–1,621.7**
Other liabilities	–1,851.7	–97.3	–13.1	–450.1	–/–	**–2,412.2**
Liabilities without fixed maturity[1]	–/–	–/–	–/–	–/–	–48,268.1	**–48,268.1**
Total	**–8,279.3**	**–325.0**	**–1,039.6**	**–1,134.0**	**–48,268.1**	–59,046.0
Net liquidity risk	**1,859.0**	**5,516.8**	**9,995.7**	**16,739.4**	**–29,124.4**	4,986.5

in CHF million

[1] The residual terms and maturities of the technical reserves concerned are stated in the tables of section 23.

Pursuant to the Group-wide risk management standards, asset-liability committees have been established in all of the Baloise Group's strategic business units. Among other things, these supervisory bodies analyze maturities, earnings on assets and liabilities generated or required.

Fair values of financial assets and liabilities along with market risks:

	Carrying value		Fair Value	
	2005	**2006**	2005	**2006**
Held-to-maturity financial assets of a debt nature	8,037.0	7,608.1	8,294.4	7,671.8
Mortgages and loans	17,635.5	17,801.6	18,029.3	17,883.9
Liabilities from banking business and financing contracts				
– with discretionary participation features (DPF)	326.3	381.0	326.3	381.0
– Financial liabilities measured at amortized cost	4,628.9	4,830.4	4,702.0	4,969.5
Financial liabilities	1,084.1	895.4	1,114.4	903.5

in CHF million

The above table contains information on the carrying and fair values of the material financial assets and liabilities which are not measured on the balance sheet at fair value.

6. Information on regions and business segments

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

The segments are divided into nonlife insurance, life insurance, banking (including asset management) and other activities and corporate business. Accident and health insurance and products for the liability, motor, property and marine insurance lines are offered in the nonlife insurance segment. The products are tailored to the needs of our customers – primarily private customers – and the core competencies of the companies in the Baloise Group. The life insurance segment offers private individuals and companies a broad spectrum of capital formation insurance, pure risk coverage, as well as unit-linked insurance products. The banking segment comprises Baloise Bank SoBa, a full-service bank operating in Switzerland, and Deutsche Ring Bausparkasse in Germany, which operates primarily as a traditional building and loan savings bank. The other activities and corporate business segment include primarily associated as well as real estate and investment companies.

The accounting principles applied for segment reporting correspond to those for the rest of the financial report. The Baloise Group conducts business between the business segments and the regions at the same terms as with third parties. Information broken down by regions and business segments is included in segment reporting, management information and the following tables.

Segment reporting

A region (geographical segment) offers its insurance products and services within a particular economic environment that is subject to risks and returns different from those of other regions. A business line (business segment) is a distinguishable component of an enterprise that offers products and services with risks and returns different from those of other business segments.

6.1 By region

	Switzerland		Germany	
Income	2005	**2006**	2005	**2006**
Premiums earned and policy fees (gross)	3,812.7	3,694.4	2,111.0	2,086.3
Reinsurance premiums ceded	–186.4	–185.6	–221.3	–98.4
Premiums earned and policy fees for own account	3,626.3	3,508.8	1,889.7	1,987.9
Investment income	900.0	932.0	684.9	682.0
Realized capital gains and losses on investments	99.8	159.5	288.9	252.1
Income from services rendered	41.0	46.1	127.0	135.4
Result from investments in associates	0.0	0.0	10.8	14.8
Other operating income	36.7	44.1	52.1	77.3
Income	**4,703.8**	**4,690.5**	**3,053.4**	**3,149.5**
Intersegment income	82.4	70.0	183.1	49.7
Income from associates	0.0	0.0	10.9	14.7
Expense				
Claims and benefits paid (gross)	–3,620.4	–3,084.6	–1,659.6	–1,697.0
Change in technical reserves (gross)	–422.3	–574.3	–520.4	–398.9
Reinsurance share in losses paid	286.2	72.4	115.3	39.6
Acquisition costs	–102.2	–75.1	–248.7	–255.6
Operating and administrative expenses for insurance business	–368.7	–374.7	–280.9	–358.4
Investment expenses	–33.7	–37.8	–26.7	–23.3
Interest expense on insurance liabilities	–10.8	–9.5	–67.4	–54.5
Expense from financial contracts	–77.9	–79.7	–32.1	–29.2
Other operating expenses	–257.4	–239.4	–187.3	–203.1
Expense	**–4,607.2**	**–4,402.7**	**–2,907.8**	**–2,980.4**
Net segment income	**96.6**	**287.8**	**145.6**	**169.1**
Borrowing costs				
Profit before tax				
Income taxes				
Profit from ongoing business segments				
Profit from discontinued business segments				
Profit for the period				
Additional information				
Segment assets	33,532.6	34,291.6	18,694.9	19,570.9
of which: Investments	31,139.0	32,214.0	16,481.2	17,359.7
of which: Investments in associates	0.1	0.1	153.4	163.3
Segment liabilities	29,676.0	29,999.2	17,683.3	18,494.8
of which: Technical reserves	24,624.4	25,130.5	16,110.1	16,986.1
Cash flow from operating activities (net)	117.8	66.8	93.3	31.0
Cash flow from investing activities (net)	–51.8	40.0	–126.1	–32.6
Cash flow from financing activities (net)	–143.0	24.7	10.4	4.8
Acquisition of property, operating equipment and intangible assets for own use	49.4	43.6	79.1	51.7
Regular depreciation and amortization of tangible and intangible assets	–45.0	–47.4	–39.0	–39.4

in CHF million

Continued

Benelux		Other countries		Elimination			Total
2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**
739.3	747.5	462.5	342.9	−290.4	−164.5	6,835.1	**6,706.6**
−43.4	−42.1	−27.6	−25.9	281.4	164.5	−197.3	**−187.5**
695.9	705.4	434.9	317.0	−9.0	0.0	6,637.8	**6,519.1**
143.3	147.0	77.3	62.7	−11.0	0.0	1,794.5	**1,823.7**
58.5	151.8	102.2	139.4	−/−	−/−	549.4	**702.8**
5.6	7.7	39.1	99.0	−0.8	−1.8	211.9	**286.4**
24.7	47.2	0.0	0.0	−/−	−/−	35.5	**62.0**
5.0	8.0	44.7	53.1	−64.2	−38.2	74.3	**144.3**
933.0	**1,067.1**	**698.2**	**671.2**	**−85.0**	**−40.0**	**9,303.4**	**9,538.3**
13.7	12.3	−308.5	−172.0	29.3	40.0	−/−	**−/−**
4.4	1.6	−/−	−/−	−/−	−/−	15.3	**16.3**
−401.3	−430.5	−368.5	−194.6	277.7	81.7	−5,772.1	**−5,325.0**
−148.1	−97.9	33.5	−31.6	−37.3	21.9	−1,094.6	**−1,080.8**
13.5	17.7	5.4	17.3	−230.7	−103.6	189.7	**43.4**
−150.1	−137.6	−68.1	−26.5	44.3	1.0	−524.8	**−493.8**
−81.8	−84.0	−26.6	−29.7	−57.1	−1.0	−815.1	**−847.8**
−11.5	−12.0	−16.2	−20.8	−/−	−/−	−88.1	**−93.9**
−2.4	−3.1	−1.1	−1.2	3.2	1.3	−78.5	**−67.0**
−34.2	−53.0	−2.1	−4.9	16.3	10.3	−130.0	**−156.5**
−22.2	−35.6	−62.3	−125.8	68.6	28.4	−460.6	**−575.5**
−838.1	**−836.0**	**−506.0**	**−417.8**	**85.0**	**40.0**	**−8,774.1**	**−8,596.9**
94.9	**231.1**	**192.2**	**253.4**	**−/−**	**−/−**	**529.3**	**941.4**
						−53.4	**−28.2**
						475.9	**913.2**
						−72.4	**−206.1**
						403.5	**707.1**
						−/−	**−/−**
						403.5	**707.1**
5,608.6	6,590.3	4,388.0	4,314.1	−1,004.9	−830.6	61,219.2	**63,936.3**
4,782.8	5,772.6	4,144.2	4,040.8	−77.1	−30.0	56,470.1	**59,357.1**
21.1	11.5	0.1	0.1	−/−	−/−	174.7	**175.0**
5,132.3	5,940.4	3,470.0	3,569.3	−1,005.7	−830.6	54,955.9	**57,173.1**
3,403.9	3,617.0	1,139.2	1,175.8	−361.7	−387.6	44,915.9	**46,521.8**
−168.5	104.7	470.8	526.3	−13.8	−/−	499.6	**728.8**
23.6	−2.4	0.4	−9.4	−/−	−/−	−153.9	**−4.4**
−9.8	0.0	−481.5	−474.4	13.8	−/−	−610.1	**−444.9**
40.9	30.5	−37.9	9.4	−/−	−/−	131.5	**135.2**
−10.0	−9.8	−2.8	−3.0	−/−	−/−	−96.8	**−99.6**

6.2 By business segment

	Nonlife		Life	
Income	2005	**2006**	2005	**2006**
Premiums earned and policy fees (gross)	3,051.4	3,055.2	3,783.7	3,651.4
Reinsurance premiums ceded	–183.5	–167.7	–13.8	–19.8
Premiums earned and policy fees for own account	2,867.9	2,887.5	3,769.9	3,631.6
Investment income	282.8	296.6	1,350.7	1,368.2
Realized capital gains and losses on investments	65.3	121.6	428.6	474.3
Income from services rendered	0.5	0.2	3.9	6.1
Result from investments in associates	8.0	0.9	16.4	47.3
Other operating income	43.4	78.1	52.0	67.2
Income	**3,267.9**	**3,384.9**	**5,621.5**	**5,594.7**
Intersegment income	–50.5	–53.0	–41.2	–28.1
Income from associates	2.8	3.1	1.9	0.8
Expense				
Claims and benefits paid (gross)	–1,847.4	–1,801.9	–3,924.7	–3,523.1
Change in technical reserves (gross)	–344.9	–63.6	–749.7	–1,017.2
Reinsurance share in losses paid	191.8	34.8	–2.1	8.6
Acquisition costs	–375.5	–388.0	–149.3	–105.8
Operating and administrative expenses for insurance business	–485.2	–477.9	–329.9	–369.9
Investment expenses	–19.5	–19.8	–68.3	–73.6
Interest expense on insurance liabilities	–2.0	–2.5	–76.5	–64.5
Expense from financial contracts	–6.4	–12.1	–101.9	–100.0
Other operating expenses	–123.7	–111.7	–69.9	–103.0
Expense	**–3,012.8**	**–2,842.7**	**–5,472.3**	**–5,348.5**
Net segment income	**255.1**	**542.2**	**149.2**	**246.2**
Borrowing costs				
Profit before tax				
Income taxes				
Profit from ongoing business segments				
Profit from discontinued business segments				
Profit for the period				
Additional information				
Segment assets	11,214.4	11,531.7	45,150.2	47,234.3
Segment liabilities	8,092.7	8,132.6	42,770.5	44,631.0
Acquisition of real estate, operating equipment, and intangible assets for own use	78.1	69.6	58.5	45.5

in CHF million

Reinsurance relations were newly structured between the life and nonlife segments so that there are no longer any reinsurance relations between these segments.

The real estate investment company Drei Linden AG, originally belonging to Baloise Bank SoBa, was moved from the banking segment to the "miscellaneous" segment.

The corresponding previous-year values were restated to ensure comparability of segment reporting. These restatements have no material effect on segment reporting.

Continued

Banking		Other activities / corporate business		Elimination			Total
2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**
–/–	–/–	–/–	–/–	–/–	–/–	6,835.1	**6,706.6**
–/–	–/–	–/–	–/–	–/–	–/–	–197.3	**–187.5**
–/–	–/–	–/–	–/–	–/–	–/–	6,637.8	**6,519.1**
169.9	174.4	30.9	11.9	–39.8	–27.4	1,794.5	**1,823.7**
29.7	–7.3	25.8	114.2	–/–	–/–	549.4	**702.8**
64.2	81.2	162.3	220.5	–19.0	–21.6	211.9	**286.4**
–/–	–/–	11.1	13.8	–/–	–/–	35.5	**62.0**
9.2	12.1	27.5	47.1	–57.8	–60.2	74.3	**144.3**
273.0	**260.4**	**257.6**	**407.5**	**–116.6**	**–109.2**	**9,303.4**	**9,538.3**
–/–	0.0	–24.8	–28.1	116.5	109.2	–/–	**–/–**
–/–	–/–	10.6	12.4	–/–	–/–	15.3	**16.3**
–/–	–/–	–/–	–/–	–/–	–/–	–5,772.1	**–5,325.0**
–/–	–/–	–/–	–/–	–/–	–/–	–1,094.6	**–1,080.8**
–/–	–/–	–/–	–/–	–/–	–/–	189.7	**43.4**
–/–	–/–	–/–	–/–	–/–	–/–	–524.8	**–493.8**
–/–	–/–	–/–	0.0	–/–	–/–	–815.1	**–847.8**
–/–	0.0	–0.3	–0.5	–/–	–/–	–88.1	**–93.9**
–/–	–/–	–/–	–/–	–/–	–/–	–78.5	**–67.0**
–82.4	–86.1	–36.9	–39.5	97.6	81.2	–130.0	**–156.5**
–113.6	–110.7	–172.4	–278.1	19.0	28.0	–460.6	**–575.5**
–196.0	**–196.8**	**–209.6**	**–318.1**	**116.6**	**109.2**	**–8,774.1**	**–8,596.9**
77.0	**63.6**	**48.0**	**89.4**	**–/–**	**–/–**	**529.3**	**941.4**
						–53.4	**–28.2**
						475.9	**913.2**
						–/–	**–/–**
						–72.4	**–206.1**
						403.5	**707.1**
						–/–	**–/–**
						403.5	**707.1**
5,838.0	5,869.2	1,492.4	1,202.2	–2,475.8	–1,901.1	61,219.2	**63,936.3**
5,472.6	5,589.6	1,078.7	703.7	–2,458.6	–1,883.8	54,955.9	**57,173.1**
4.8	5.6	–9.9	14.5	–/–	–/–	131.5	**135.2**

Notes to the consolidated balance sheet

7. Property, plant and equipment

7.1 Property, plant and equipment 2005

	Land	Buildings	Operating equipment	Machines/ furniture/ vehicles	IT equipment	Total
Carrying value as of January 1	**90.1**	**444.1**	**30.3**	**50.3**	**32.7**	**647.5**
Additions	–/–	14.4	30.1	10.2	28.9	**83.6**
Additions from change in scope of consolidation	–/–	–/–	–/–	0.2	0.2	**0.4**
Disposals	–0.5	–12.0	–19.8	–4.5	–3.4	**–40.2**
Disposals from change in scope of consolidation	–/–	–/–	–/–	–/–	–/–	**–/–**
Reclassification	–3.0	–6.8	20.6	–20.9	–/–	**–10.1**
Adjustments and depreciation						
Depreciation	–/–	–18.4	–11.7	–6.8	–20.0	**–56.9**
Impairment losses recognized in income	–/–	–0.1	–/–	–/–	–/–	**–0.1**
Reversals of an impairment loss recognized in income	–/–	–/–	–/–	–/–	–/–	**–/–**
Exchange differences	0.1	1.7	0.1	0.1	0.1	**2.1**
Carrying value as of December 31	**86.7**	**422.9**	**49.6**	**28.6**	**38.5**	**626.3**
Cost	86.7	781.8	135.7	86.5	148.1	**1,238.8**
Accumulated depreciation and adjustments	–/–	–358.9	–86.1	–57.9	–109.6	**–612.5**
Balance as of December 31	**86.7**	**422.9**	**49.6**	**28.6**	**38.5**	**626.3**
of which: Assets in finance leases	–/–	132.7	–/–	0.0	–/–	**132.7**

in CHF million

7.2 Property, plant and equipment 2006

	Land	Buildings	Operating equipment	Machines/ furniture/ vehicles	IT equipment	Total
Carrying value as of January 1	**86.7**	**422.9**	**49.6**	**28.6**	**38.5**	**626.3**
Additions	4.5	25.7	27.8	9.8	26.6	**94.4**
Additions from change in scope of consolidation	–/–	–/–	0.1	0.0	0.1	**0.2**
Disposals	–0.7	–/–	–18.5	–2.5	–5.0	**–26.7**
Disposals from change in scope of consolidation	–/–	–/–	–/–	–0.3	0.0	**–0.3**
Reclassification	–2.6	–7.1	–2.1	–0.4	0.4	**–11.8**
Adjustments and depreciation						
Depreciation	–/–	–21.4	–10.4	–6.9	–21.4	**–60.1**
Impairment losses recognized in income	–/–	–/–	–/–	–/–	–/–	**–/–**
Reversals of an impairment loss recognized in income	–/–	3.8	–/–	–/–	–/–	**3.8**
Exchange differences	0.5	10.1	0.4	0.7	0.8	**12.5**
Carrying value as of December 31	**88.4**	**434.0**	**46.9**	**29.0**	**40.0**	**638.3**
Cost	90.0	814.1	141.3	85.0	156.9	**1,287.3**
Accumulated depreciation and adjustments	–1.6	–380.1	–94.4	–56.0	–116.9	**–649.0**
Balance as of December 31	**88.4**	**434.0**	**46.9**	**29.0**	**40.0**	**638.3**
of which: Assets in finance leases	–/–	134.0	–/–	–/–	–/–	**134.0**

in CHF million

The assets in finance leases primarily concern a lease agreement with a purchase option for an administrative building for owner-occupied property. The lease agreement includes a repayment schedule and is contractually fixed until mid-2018.

The adjustments and depreciation are included in the other operating expenses.

8. Intangible assets

8.1 Intangible assets 2005

	Goodwill and negative goodwill	Present value of gains on acquired insurance contracts	Deferred acquisition cost Life	Deferred acquisition cost Nonlife	Capitalized investment fees	Other intangible assets	Internally developped intangible assets	Total
Carrying value as of January 1	**–19.5**	**26.5**	**1,052.2**	**155.9**	**–/–**	**120.8**	**11.5**	**1,347.4**
Reclassification of negative goodwill (IFRS 3)[2]	22.4	–/–	–/–	–/–	–/–	–/–	–/–	**22.4**
Carrying value as of January 1 (restated)	**2.9**	**26.5**	**1,052.2**	**155.9**	**–/–**	**120.8**	**11.5**	**1,369.8**
Additions from change in scope of consolidation	–2.3	30.4	–/–	–/–	–/–	1.2	–/–	**29.3**
Additions from change in percentage of participation	12.9	–/–	–/–	–/–	–/–	–/–	–/–	**12.9**
Additions	–/–	–/–	–/–	–/–	–/–	42.1	0.1	**42.2**
Capitalization of acquisition costs	–/–	–/–	106.5	307.4	–/–	–/–	–/–	**413.9**
Disposals	–/–	–/–	–/–	–/–	–/–	–8.3	–0.7	**–9.0**
Disposals from change in scope of consolidation	–/–	–/–	–/–	–/–	–/–	–/–	–/–	**–/–**
Reclassification	–/–	–/–	–/–	–/–	–/–	–/–	–/–	**–/–**
Adjustments and amortization								
Amortization	–/–	–2.1	–138.2	–309.7	–/–	–36.9	–3.0	**–489.9**
Write-ups	2.3	–/–	–/–	–/–	–/–	–/–	–/–	**2.3**
Impairment losses recognized in income	–/–	–2.6	–/–	–/–	–/–	–1.2	–/–	**–3.8**
Reversals of an impairment loss recognized in income	–/–	–/–	–/–	–/–	–/–	–/–	–/–	**–/–**
Amortization as a result of impending losses	–/–	–/–	–/–	–0.2	–/–	–/–	–/–	**–0.2**
Change due to unrealized gains and losses on financial instruments (shadow accounting)	–/–	–/–	–15.9	–/–	–/–	–/–	–/–	**–15.9**
Deferred interest	–/–	–/–	–/–	–/–	–/–	–/–	–/–	**–/–**
Exchange differences	–/–	0.3	4.4	0.5	–/–	0.4	0.0	**5.6**
Carrying value as of December 31	**15.8**	**52.5**	**1,009.0**	**153.9**	**–/–**	**118.1**	**7.9**	**1,357.2**
Cost[3]	36.5					301.5	16.5	
Accumulated amortization and adjustments[3]	–20.7					–183.4	–8.6	
Balance as of December 31[1]	**15.8**	**52.5**	**1,009.0**	**153.9**	**–/–**	**118.1**	**7.9**	**1,357.2**

in CHF million

1 Other than possible goodwill, the Baloise has no intangible assets of indefinite useful life.
2 As of January 1, 2005, negative goodwill (badwill) amounting to CHF 22.4 million was reclassified to retained earnings recognized directly in equity.
3 Owing to the application of IFRS 3 "Business Conbinations", and the related changes in IAS 36 "Impairment of Assets", accumulated amortization is offset against liabilities cost. Accumulated adjustments continue to be presented separately.

8.2 Intangible assets 2006

	Goodwill	Present value of gains on acquired insurance contracts	Deferred acquisition cost Life	Deferred acquisition cost Nonlife	Capitalized investment fees	Other intangible assets	Internally developped intangible assets	Total
Carrying value as of January 1 (restated)	**15.8**	**52.5**	**1,009.0**	**153.9**	**–/–**	**118.1**	**7.9**	**1,357.2**
Additions from change in scope of consolidation	1.9	–/–	–/–	–/–	–/–	–/–	–/–	**1.9**
Additions from change in percentage of participation	–/–	–/–	–/–	–/–	–/–	5.7	–/–	**5.7**
Additions	–/–	–/–	–/–	–/–	–/–	34.3	0.6	**34.9**
Capitalization of acquisition costs	–/–	–/–	101.0	308.8	–/–	–/–	–/–	**409.8**
Disposals	–/–	–/–	–/–	–/–	–/–	–12.0	–/–	**–12.0**
Disposals from change in scope of consolidation	–/–	–/–	–/–	–/–	–/–	–0.2	–/–	**–0.2**
Reclassification	–/–	–/–	–/–	–/–	–/–	–/–	–/–	**–/–**
Adjustments and amortization	–/–	–/–	–/–	–/–	–/–	–/–	–/–	**–/–**
Amortization	–/–	–2.8	–109.4	–312.0	–/–	–36.9	–2.6	**–463.7**
Write-ups	–/–	–/–	–/–	–/–	–/–	–/–	–/–	**–/–**
Impairment losses recognized in income	–/–	–5.0	–/–	–/–	–/–	–0.9	–/–	**–5.9**
Reversals of an impairment loss recognized in income	–/–	–/–	–/–	–/–	–/–	–/–	–/–	**–/–**
Amortization as a result of impending losses	–/–	–/–	–/–	–1.0	–/–	–/–	–/–	**–1.0**
Change due to unrealized gains and losses on financial instruments (shadow accounting)	–/–	–/–	–3.3	–/–	–/–	–/–	–/–	**–3.3**
Deferred interest	–/–	–/–	–/–	–/–	–/–	–/–	–/–	**–/–**
Exchange differences	–/–	1.9	27.0	2.9	–/–	2.1	0.2	**34.1**
Carrying value as of December 31	**17.7**	**46.6**	**1,024.3**	**152.6**	**–/–**	**110.2**	**6.1**	**1,357.5**
Cost[2]	162.9					324.1	17.6	
Accumulated amortization and adjustments[2]	–145.2					–213.9	–11.5	
Balance as of December 31[1]	**17.7**	**46.6**	**1,024.3**	**152.6**	**–/–**	**110.2**	**6.1**	**1,357.5**

in CHF million

[1] Other than possible goodwill, the Baloise has no intangible assets of indefinite useful life.
[2] Owing to the application of IFRS 3 "Business Conbinations", and the related changes in IAS 36 "Impairment of Assets", accumulated amortization is offset against liabilities cost. Accumulated adjustments continue to be presented separately.

The major part of the goodwill as of end 2006 was allocated to Zeus Vermittlungsgesellschaft mgH, Hamburg. The corresponding impairment test revealed no need for any adjustment.

9. Investments in associates

	2005	2006
Balance as of January 1	152.6	**174.7**
Additions	19.0	**3.1**
Disposals / equity repayments	–60.6	**–56.3**
Reclassification due to change in percentage of shares held	–/–	**–16.7**
Realized gains / losses on disposals	18.1	**43.7**
Adjustments	47.0	**30.3**
Dividend payments	–2.6	**–11.3**
Exchange differences	1.2	**7.5**
Balance as of December 31	**174.7**	**175.0**

in CHF million

Significant investments in associates, 2006

	Assets	Liabilities	Revenue	Profit	Share in %
DePfa Beteiligungs-Holding II GmbH, Düsseldorf	220.3	3.0	1.7	1.0	26.0%
Roland Rechtschutz Versicherungs-AG, Köln	608.0	506.5	286.8	11.5	25.0%
Other	374.7	165.1	100.1	6.3	–/–

in CHF million

Investments in associates do not include listed companies.

10. Investment properties

	2005	2006
Balance as of January 1	**5,619.2**	**5,581.7**
Additions	188.4	**131.0**
Additions from change in the scope of consolidation	–/–	**33.9**
Disposals	–175.0	**–424.5**
Disposals from change in the scope of consolidation	–/–	**–63.1**
Reclassification	10.1	**11.8**
Change in fair value	–67.9	**6.9**
Exchange differences	6.9	**34.9**
Balance as of December 31	**5,581.7**	**5,312.6**
Operating expense for investment properties with rental income	83.7	**102.1**
Operating expense for investment properties without rental income	1.2	**1.1**

in CHF million

Additions from change in the scope of consolidation is due mainly to the buy-out of Immo Trefles N. V., Anderlecht, which was consolidated on a pro-rata basis. Disposals from change in the scope of consolidation is primarily due to the sale of Basler Immobilien GmbH, Vienna.

The lion share of disposals stems from the sale of the Zuiderpoort property park in Ghent besides a number of other sales.

11. Financial assets

	Held to maturity		Available for sale		Recognized in income at fair value				Total	
					Trading portfolio		Designated			
	2005	2006	2005	2006	2005	2006	2005	2006	2005	**2006**
Balance as of January 1	8,390.5	8,037.0	19,947.0	21,948.9	10.8	0.0	1,617.9	2,768.2	29,966.2	**32,754.1**
Additions	65,565.5	48,276.7	15,217.3	15,163.0	65.1	–/–	623.1	1,375.4	81,471.0	**64,815.1**
Additions from change in the scope of consolidation	0.6	–/–	30.6	–/–	–/–	–/–	477.0	–/–	508.2	**–/–**
Additions from change in percentage of equity investment	–/–	–/–	–/–	–/–	–/–	–/–	–/–	–/–	–/–	**–/–**
Reclassifications	459.7	–/–	–459.7	–/–	–9.7	–/–	9.7	–/–	0.0	**–/–**
Disposals	–66,379.1	–48,759.9	–14,003.0	–13,006.6	–66.6	0.0	–212.2	–1,024.4	–80,660.9	**–62,790.9**
Disposals from change in the scope of consolidation	–/–	0.0	–/–	0.0	–/–	–/–	–/–	–/–	–/–	**0.0**
Disposals from change in percentage of equity investment	–/–	–/–	–/–	–/–	–/–	–/–	–/–	–/–	–/–	**–/–**
Change in value recognized directly in equity	–/–	–/–	784.1	107.7	–/–	–/–	–/–	–/–	784.1	**107.7**
Change in value recognized in income	–28.9	–29.7	–16.8	–14.9	–/–	–/–	235.5	122.5	189.8	**77.9**
Adjustments (net)	–/–	–/–	86.0	74.2	–/–	–/–	–/–	–/–	86.0	**74.2**
Currency translation	28.7	84.0	363.4	222.4	0.4	–/–	17.2	81.1	409.7	**387.5**
Balance as of December 31	**8,037.0**	**7,608.1**	**21,948.9**	**24,494.7**	**0.0**	**–/–**	**2,768.2**	**3,322.8**	**32,754.1**	**35,425.6**

in CHF million

In fiscal 2005, the Baloise Group business unit in Belgium invested in long-dated fixed-income securities. This has substantially increased the interest rate risk on equity. To counter this risk, a part of the portfolio was reclassified from “available for sale” to “held to maturity.”

In the case of financial assets held to maturity and available for sale, the multiple reinvestment of time deposits in the course of the financial year leads to correspondingly high amounts under “additions” and “disposals.”

Continued	Held to maturity		Available for sale		Recognized in income at fair value				**Total**	
					Trading portfolio		Designated			
	2005	2006	2005	2006	2005	2006	2005	2006	2005	**2006**
Financial assets of an equity nature										
Publicly listed	–/–	–/–	4,908.0	5,289.1	–/–	–/–	1,881.0	2,117.3	6,789.0	**7,406.4**
Not publicly listed	–/–	–/–	2,629.8	2,933.8	–/–	–/–	420.2	562.1	3,050.0	**3,495.9**
Total	**–/–**	**–/–**	**7,537.8**	**8,222.9**	**–/–**	**–/–**	**2,301.2**	**2,679.4**	**9,839.0**	**10,902.3**
Financial assets of a debt nature										
Publicly listed, fixed interest rate	7,110.3	6,702.3	13,753.1	15,799.2	0.0	–/–	113.4	372.7	20,976.8	**22,874.2**
Publicly listed, variable interest rate	–/–	–/–	218.9	195.7	–/–	–/–	30.3	13.9	249.2	**209.6**
Not publicly listed	926.7	905.8	439.1	276.9	–/–	–/–	323.3	256.8	1,689.1	**1,439.5**
Total	**8,037.0**	**7,608.1**	**14,411.1**	**16,271.8**	**0.0**	**–/–**	**467.0**	**643.4**	**22,915.1**	**24,523.3**
Type of capital investment										
Fixed-income securities	6,891.6	6,607.1	14,078.3	15,935.5	–/–	–/–	363.8	561.6	21,333.7	**23,104.2**
Shares (incl. funds)	–/–	–/–	5,415.0	6,008.3	0.0	–/–	2,301.2	2,679.4	7,716.2	**8,687.7**
Alternative financial investments	–/–	–/–	2,122.8	2,214.6	–/–	–/–	–/–	–/–	2,122.8	**2,214.6**
Other short-term capital investments	1,145.4	1,001.0	332.8	336.3	–/–	–/–	103.2	81.8	1,581.4	**1,419.1**
Total	**8,037.0**	**7,608.1**	**21,948.9**	**24,494.7**	**0.0**	**–/–**	**2,768.2**	**3,322.8**	**32,754.1**	**35,425.6**

in CHF million

Alternative financial assets contain hedge funds at a carrying value of CHF 1,631.3 million (2005: CHF 1,617.9 million).

12. Mortgages and loans

Mortgages and loans	2005	**2006**
Mortgages	10,000.4	**10,051.0**
Policy loans	412.2	**368.9**
Other loans	7,437.7	**7,525.2**
Adjustments	–214.8	**–143.5**
Mortgages and loans (net)	**17,635.5**	**17,801.6**

in CHF million

13. Derivative financial instruments

	Contract value		Fair market value – assets		Fair market value – liabilities	
	2005	**2006**	2005	**2006**	2005	**2006**
Interest rate instruments						
Forward transactions	–/–	–/–	–/–	–/–	–/–	–/–
Swaps	1,297.6	1,108.4	34.4	11.8	11.0	1.0
OTC options	–/–	482.9	–/–	15.5	–/–	–/–
Other	–/–	–/–	–/–	–/–	–/–	–/–
Traded options	–/–	–/–	–/–	–/–	–/–	–/–
Traded futures	51.1	–/–	–/–	–/–	0.2	–/–
Subtotal	**1,348.7**	**1,591.3**	**34.4**	**27.3**	**11.2**	**1.0**
Equity instruments						
Forward transactions	–/–	–/–	–/–	–/–	–/–	–/–
OTC options	206.2	38.6	12.1	38.6	75.6	–/–
Traded options	0.1	120.7	0.0	3.2	0.1	–/–
Traded futures	–/–	–/–	–/–	–/–	–/–	–/–
Subtotal	**206.3**	**159.3**	**12.1**	**41.8**	**75.7**	**–/–**
Foreign currency instruments						
Forward transactions	1,869.1	672.5	0.6	5.6	156.0	3.2
Swaps	9.5	9.9	0.6	0.6	–/–	–/–
OTC options	2,700.6	3,432.1	0.9	0.2	0.5	27.3
Traded options	–/–	–/–	–/–	–/–	–/–	–/–
Traded futures	–/–	621.9	–/–	0.3	–/–	13.1
Subtotal	**4,579.2**	**4,736.4**	**2.1**	**6.7**	**156.5**	**43.6**
Total	**6,134.2**	**6,487.0**	**48.6**	**75.8**	**243.4**	**44.6**
of which: Designated for fair value hedging	1,235.0	1,105.7	33.7	11.8	10.9	0.9
of which: Designated for cash flow hedging	62.6	2.7	0.7	–/–	0.1	0.0
of which: Designated for hedging of net investment in a foreign entity	1,796.4	631.1	–/–	5.1	155.5	2.7

in CHF million

The nominal contract value is used for derivative financial instruments where the underlying asset may be exchanged upon maturity (options, futures and currency swap transactions), while the nominal value is used for instruments whose underlying asset is only nominally lent or borrowed (interest rate swap). Contract and nominal values are disclosed to express the scope of the derivative transactions in which the Baloise Group is involved.

14. Receivables from financial contracts

	2005	2006
Receivables from financial contracts as of January 1	**222.2**	**242.9**
Addition	19.4	21.2
Disposal	–/–	–2.0
Additions / disposals from change in the scope of consolidation	–/–	–/–
Exchange differences	1.3	9.1
Receivables from financal contracts as of December 31	**242.9**	**271.2**

in CHF million

15. Reinsurance assets

	2005	2006
Reinsurance provisions as of January 1	**379.8**	**438.2**
Change in unearned premiums	–9.6	10.8
Benefits paid	–123.9	–138.8
Interest and change in liability	189.4	42.6
Additions / disposals from change in the scope of consolidation	–/–	–/–
Exchange differences	2.5	9.2
Reinsurance provisions as of December 31	**438.2**	**362.0**

in CHF million

16. Receivables from reinsurers

	2005	2006
Reinsurance account as of January 1	**25.1**	**17.0**
Addition	4.1	1.0
Disposal	–11.8	–14.9
Additions / disposals from change in the scope of consolidation	–/–	–/–
Exchange differences	–0.4	0.2
Reinsurance account as of December 31	**17.0**	**3.3**
Other receivables vis-à-vis reinsurers as of January 1	**63.5**	**42.0**
Addition	42.4	1.2
Disposal	–63.2	–23.8
Additions / disposals from change in the scope of consolidation	–/–	–/–
Exchange differences	–0.7	0.5
Other receivables vis-à-vis reinsurers as of December 31	**42.0**	**19.9**
Reinsurance account	17.0	3.3
Other receivables from reinsurance	42.0	19.9
Receivables vis-à-vis reinsurers as of December 31	**59.0**	**23.2**

in CHF million

17. Insurance receivables

	2005	2006
Receivables from policyholders	322.5	293.4
Receivables from insurance agents and brokers	91.5	82.4
Receivables from insurance companies	149.7	129.6
Other insurance receivables	55.1	96.4
Adjustment for credit risks	–25.0	–35.9
Insurance receivables	**593.8**	**565.9**

in CHF million

18. Employee benefits

18.1 Receivables from and liabilities to employees

	Receivables from benefits to employees		Liabilities from benefits to employees	
	2005	**2006**	2005	**2006**
Type of benefit				
Short-term benefits due	11.9	**7.7**	100.8	**114.1**
Postemployment benefits – defined-contribution plans	–/–	**–/–**	1.7	**–/–**
Postemployment benefits – defined-benefit plans	25.0	**25.0**	1,228.3	**1,299.6**
Other long-term benefits	–/–	**–/–**	29.9	**31.8**
Postemployment benefits	–/–	**–/–**	57.7	**56.7**
Equity compensation benefits	–/–	**–/–**	–/–	**–/–**
Total	**36.9**	**32.7**	**1,418.4**	**1,502.2**

in CHF million

18.2 Pension benefits

The Baloise provides a variety of employee pension benefits. They vary in design depending on national circumstances. Liabilities (partially) financed through a fund refer to employee benefits in Switzerland. The Baloise has various pension funds for its banking and insurance employees. Pension benefits also include a number of special discounts on products which the Baloise grants also to its retired staff. These are primarily specific discounts granted in Switzerland (such as preferential mortgage rates). They are classified as defined-benefit pension liabilities in accordance with IAS 19.

18.2.1 Liabilities from defined-benefit plans

	2005	**2006**
Present value of liabilities partially financed by a fund	–1,818.1	**–1,815.1**
Current value of the plan assets	1,239.0	**1,305.1**
Net obligation	–579.1	**–510.0**
Present value of liabilities not totally or partially financed by a fund	–658.0	**–684.4**
Unrecognized actuarial gains or losses	102.9	**–6.0**
Employee service costs not yet recognized to be taken into account retrospectively (plan changes)	–/–	**–/–**
Effects from plan curtailments / settlements	–/–	**–/–**
Resources not recognized as assets	–69.1	**–74.2**
Net liabilities from defined-benefit plans	**–1,203.3**	**–1,274.6**
of which: Recognized as an asset	25.0	**25.0**
of which: Recognized as a liability	–1,228.3	**–1,299.6**

in CHF million

The plan assets include shares in Bâloise-Holding with a fair value of CHF 80.0 million as of December 31, 2006, and CHF 57.1 million as of December 31, 2005. The plan assets do not include any real estate leased to the Baloise Group.

The pension funds of the Baloise office staff and sales force in Switzerland have a group life contract with Basler Lebens-Versicherungs-Gesellschaft, Basel. Under IFRS, this contract is not treated as an insurance contract and is therefore not included in the plan assets. As of December 31, 2006, this contract had assets vis-à-vis the pension funds of CHF 655.6 million (2005: CHF 641.2 million).

The investments resulting from the group life contract and further investments carried in the balance sheets of the consolidated corporate units serve to cover the net liabilities from defined benefit plans.

18.2.2 Present value of liabilities partially financed through a fund	2005	2006
Balance as of January 1	**–1,755.2**	**–1,818.1**
Service costs	–52.1	**–54.6**
Interest expense	–57.4	**–59.0**
Savings contributions and additional benefit purchases by employees	–19.9	**–23.4**
Actuarial gains / losses from defined-benefit plan liabilities of the current year	–50.5	**31.6**
Exchange differences	–/–	**–/–**
Benefits paid	117.0	**108.4**
Service costs to be taken into account retrospectively	–/–	**–/–**
Additions and disposals from changes in the scope of consolidation	–/–	**–/–**
Effects from plan curtailments	–/–	**–/–**
Effects from plan settlements	–/–	**–/–**
Balance as of December 31	**–1,818.1**	**–1,815.1**

in CHF million

18.2.3 Present value of liabilities not partially financed through a fund	2005	2006
Balance as of January 1	**–569.8**	**–658.0**
Service costs	–14.8	**–18.1**
Interest expense	–27.3	**–29.1**
Employee contribution	–/–	**–/–**
Actuarial gains / losses from defined-benefit plan liabilities of the current year	–69.2	**15.0**
Exchange differences	–3.2	**–21.9**
Benefits paid	26.3	**27.7**
Service costs to be taken into account retrospectively	–/–	**–/–**
Additions and disposals from changes in the scope of consolidation	–/–	**–/–**
Effects from plan curtailments	–/–	**–/–**
Effects from plan settlements	–/–	**–/–**
Balance as of December 31	**–658.0**	**–684.4**

in CHF million

18.2.4 Current value of plan assets	2005	2006
Balance as of January 1	**1,152.8**	**1,239.0**
Expected return on plan assets	35.9	**43.2**
Actuarial gains / losses on plan assets of the current year	66.6	**55.5**
Exchange differences	–/–	**–/–**
Employer contribution	41.4	**40.8**
Employee contribution	37.9	**40.4**
Benefits paid	–117.0	**–108.4**
Cash flow between the Baloise Group and plan assets (excl. benefits paid to employees and employer contribution)	21.4	**–5.4**
Additions and disposals from changes in the scope of consolidation	–/–	**–/–**
Effects from plan settlements	–/–	**–/–**
Balance as of December 31	**1,239.0**	**1,305.1**

in CHF million

18.2.5 Net actuarial liabilities from defined-benefit plans

	2005	2006
Present value of liabilities partially financed through a fund	−1,818.1	**−1,815.1**
Current value of the plan assets	1,239.0	**1,305.1**
Present value of liabilities not financed through a fund	−658.0	**−684.4**
Net actuarial liabilities from defined-benefit plans	**−1,237.1**	**−1,194.4**
Experience-based adjustment of liabilities	−13.5	**−6.0**
Experience-based adjustment of the plan assets	66.6	**55.5**

in CHF million

18.2.6 Expenses for defined-benefit plans

	2005	2006
Service cost	67.1	**72.7**
Interest expense	84.5	**88.1**
Expected return on plan assets	−35.9	**−43.2**
Expected return on refund claims	–/–	**–/–**
Repayment of actuarial gains / losses	13.9	**10.8**
Repayment of service cost to be taken into account retrospectively	–/–	**–/–**
Effects from plan curtailments / settlements	–/–	**–/–**
Effects from amendments and limitations on use	–/–	**–/–**
Employee contribution	−18.7	**−17.5**
Total expense for defined-benefit plans	**110.9**	**110.9**

in CHF million

18.2.7 Estimated employer contribution

The employer contribution for the following year can only be predicted with a certain measure of uncertainty, particularly as it is linked to the payroll. For the year 2007 we anticipate an overall employer contribution of CHF 40 million.

18.2.8 Returns achieved	2005	2006
Expected return on plan assets	35.9	**43.2**
Gains / losses on plan assets	66.6	**55.5**
Return achieved on plan assets	**102.5**	**98.7**

in CHF million

18.2.9 Allocation of plan assets	2005	2006
Equities and similar financial assets[1]	699.9	**804.9**
Properties	185.7	**189.3**
Fixed-interest assets	243.5	**221.4**
Other	109.9	**89.5**
Current value of the plan assets	**1,239.0**	**1,305.1**
of which: Bâloise-Holding shares	55.3	**80.0**
of which: Properties let to the Baloise Group	–/–	**–/–**

in CHF million

[1] In the position 'equities and similar financial assets' investment fonds are included.

18.2.10 Actuarial assumptions	2005	2006
Discounted interest rate	3.5	**3.6**
Expected return on plan assets	3.4	**3.5**
Expected wage and salary increases	2.0	**2.0**
Expected increase in pension benefits	0.5	**0.4**

in percent

Calculating liabilities and expenses for defined-benefit plans require actuarial and other assumptions made for each company and country. The assumptions presented above are weighted averages.

The expected return on the plan assets of the financial liabilities (partially) financed through a fund is determined taking into account the asset allocation and the long-term capital market outlook. The specific traits of the individual plan assets are considered separately. We base our return expectations for shares on a long-term assumption of 6 to 8%. Return expectations were clearly exceeded in 2005 and 2006 owing to the exceptionally good performance of the stock markets.

18.3 Other long-term benefits

Benefits for active employees due twelve or more months after the close of the fiscal year must be accounted for separately based on special rules. The accounting is based on rules similar to those applicable for pension liabilities, with the exception that actuarial gains or losses are recognized immediately.

Compensation upon service anniversaries is the primary benefit. The present value of the liabilities totalled CHF 31.8 million on December 31, 2006 (2005: CHF 29.9 million). No plan assets are disposed of for long-term benefits. The benefits recognized in income totalled CHF 8.0 million (2005: CHF 6.8 million).

18.4 Share-based payment

The Baloise Group offers staff and management members various plans in which shares are granted as part of the total compensation package. Employee shares, employee share ownership plans and direct share subscriptions are treated in accordance with IFRS 2 "Share-based Payment".

From the share-based compensation plans listed, CHF 16.6 million were recognized in the income statement in fiscal 2006 (2005: CHF 11.0 million).

18.4.1 Employee shares

The Baloise Employee Share Ownership Trust established in 1989 offers employees of different Group companies the opportunity to acquire shares in Bâloise-Holding, generally once a year at a preferred price, based on rules approved by the pension fund Board of Trustees. The Trust acquired the stock used for this plan from previous capital increases of Bâloise-Holding. Thanks to the low cost basis of the shares held by the Trust and the existing portfolio, it will be able to continue this share ownership program in the coming years. The Trust is managed by the pension fund Board of Trustees, which is independent from Group management. It is subject to the cantonal Supervisory Board for Foundations of Basel City and is included in the scope of consolidation.

In the reporting period, 188,901 shares (2005: 168,759 shares) were subscribed at a price of CHF 49.10 (2005: CHF 33.80). The fair market value per share was CHF 103.10 (2005: CHF 67.10).

18.4.2 Employee share ownership plan

Since May 2001, the majority of management personnel working in Switzerland have been able to obtain any desired fraction – within a given bandwidth – of their variable, performance-based compensation component (incentive) in shares instead of cash. To increase the effectiveness of this share ownership plan, employees receive an interest-bearing loan at market conditions, allowing them to acquire shares, at fair value, at a multiple of the incentive net of the discounted dividend right over three years. Repayment of the loan on expiry of the three-year holding period is secured using a put option, which is financed by the sale of a countering call option. Since the long call option includes a net share settlement clause, it is measured via the income statement.

The profit for the year is CHF 36.7 million (previous year: CHF 8.6 million profit). After expiration of the three-year holding period, the employee receives the shares remaining after exercizing of options und repayment of the loan, which are freely disposable. Baloise does not incur any additional cost from this employee share ownership plan.

	2005	**2006**
Number of subscribed shares	295,443	**259,683**
Blocked until	31.05.08	**31.05.09**
Subscription price per share (in CHF)	56.04	**83.53**
Value of subscribed shares[1]*	16.6	**21.7**
Fair value of the subscribed shares as of the subscription date*	18.4	**24.2**

*in CHF million

[1] Net of the discounted dividend right over three years.

18.4.3 Direct share subscriptions

Since January 2003, individuals at all group companies eligible for an incentive have been able to obtain shares at a preferred price as a deduction from their variable, performance-based compensation component (incentive). The subscription price in each case is 10% less than the market price as of the subscription date. The shares are deposited during a three-year holding period.

Since 2006, members of the Board of Directors have received 25% of their annual fees in shares. Subscription conditions are analogous to those for direct share subscriptions by persons entitled to share incentives.

	2005	**2006**
Number of subscribed shares	38,826	**32,154**
Blocked until	31.05.08	**31.05.09**
Subscription price per share (in CHF)	56.0	**83.9**
Value of subscribed shares*	2.2	**2.7**
Fair value of the subscribed shares as of the subscription date*	2.4	**3.0**

*in CHF million

19. Deferred income taxes

19.1 Change in deferred income tax liabilities (net)

	2005	2006
Balance as of January 1	**710.4**	**702.4**
Additions from change in the scope of consolidation	0.0	**–0.9**
Disposals from change in the scope of consolidation	–/–	**0.0**
Recognized in income	–40.5	**71.3**
Recognized as a reduction / increase in equity	31.8	**1.8**
Exchange differences	0.7	**5.9**
Balance as of December 31	**702.4**	**780.5**
of which: As an asset	34.5	**25.8**
of which: As a liability	736.9	**806.3**

in CHF million

19.2 Deferred tax assets and liabilities

Causes of deferred tax assets	2005	2006
Technical reserves	483.0	**510.4**
Insurance liabilities	257.4	**315.7**
Unrealized losses charged to equity	0.1	**1.5**
Tax loss carry-forwards	25.7	**29.9**
Other	256.0	**270.5**
Total	**1,022.2**	**1,128.0**

in CHF million

Causes of deferred tax liabilities	2005	2006
Deferred acquisition costs	402.0	**427.3**
Technical reserves	450.7	**502.7**
Unrealized gains charged to equity	167.1	**172.3**
Investment properties	240.5	**266.1**
Depreciable / amortizable assets	58.8	**58.6**
Other intangible assets	3.3	**8.7**
Other	402.2	**472.8**
Total	**1,724.6**	**1,908.5**
Total (net)	**702.4**	**780.5**
of which: Shown in the balance sheet as deferred tax assets	34.5	**25.8**
of which: Shown in the balance sheet as deferred tax liabilities	736.9	**806.3**

in CHF million

As of December 31, 2006, the Baloise Group had recognized tax loss carry-forwards of CHF 84.9 million (which are dependent on statutory regulations; 2005: CHF 76.1 million). All expire in five or more years.

As of December 31, 2006, no tax assets had been recognized on loss carry-forwards in the amount of CHF 574.9 million (2005: CHF 674.0 million). Of these, CHF 0.1 million expire after one year, another CHF 0.1 million after two to four years and CHF 574.7 million after five or more years.

The Baloise Group now discloses deferred taxes in net form. Deferred tax assets and liabilities are offset provided the preconditions for offsetting are met. They are, as a rule, met if tax sovereignty, tax subject and tax type are identical. The previous year's figures have been restated accordingly. This restatement does not affect the shareholders' equity or the income statement.

20. Noncurrent assets held for sale and discontinued operations

In the 2005 and 2006 fiscal years no long-term assets or discontinued operations were held for sale.

21. Share capital

	Number of treasury shares	Number of shares outstanding	Number of shares issued	Share capital (in CHF m)
Balance as of January 1, 2005	**1,176,237**	**54,130,913**	**55,307,150**	**5.5**
Purchase / sale of treasury shares	–288,358	288,358	–/–	–/–
Capital increases	–/–	–/–	–/–	–/–
Share buyback and capital reduction	–/–	–/–	–/–	–/–
Balance as of December 31, 2005	**887,879**	**54,419,271**	**55,307,150**	**5.5**
Balance as of January 1, 2006	**887,879**	**54,419,271**	**55,307,150**	**5.5**
Purchase / sale of treasury shares	961,669	–961,669	–/–	–/–
Capital increases	–/–	–/–	–/–	–/–
Share buyback and capital reduction	–/–	–/–	–/–	–/–
Balance as of December 31, 2006	**1,849,548**	**53,457,602**	**55,307,150**	**5.5**

The registered shares of Bâloise-Holding are fully paid up and have a nominal value of CHF 0.10 (2005: CHF 0.10). Registration in the share register with voting rights is restricted to 2% for natural and legal persons. The Baloise Group acquires and disposes of treasury shares as part of its normal investment activities and for the staff share ownership plans.

Under the share buyback program announced on March 21, 2006, 1,074,000 Bâloise-Holding shares were repurchased for a total value of CHF 113.8 million between May 22, 2006, and December 31, 2006. Moreover, Baloise Group companies sold net 112,331 shares.

Capitalization requirements:
Minimum capital (solvency) regulations pursuant to the applicable supervisory law apply to subsidiaries in the insurance business. For the 2005 and 2006 fiscal years, the subsidiaries met all applicable regulatory provisions regarding capitalization.

22. Change in unrealized gains and losses in shareholders' equity

	2005	2006
Balance as of January 1	**140.9**	**664.5**
Change recognized directly in equity in unrealized gains and losses on (available-for-sale) financial assets as a result of a change in fair value	1,264.7	661.1
Impairment losses taken to the income statement	28.0	25.3
Gains and losses from sales taken to the income statement	–482.6	–583.9
Change in unrealized gains and losses from associates	27.0	20.0
Change in hedging reserves on derivative financial instruments held for cash flow hedges	–0.9	–0.4
Gains taken to the income statement (net)	–/–	–/–
Change recognized directly in equity in hedging reserves on derivative financial assets as a hedge of a net investment in a foreign company	–243.2	85.1
Gains taken to the income statement (net)	3.2	–10.5
Addition as a result of reclassification of held-to-maturity financial assets[1]	32.9	–/–
Settlement taken to the income statement	–13.4	–12.4
Addition as a result of reclassification of investment properties	–/–	–/–
Transfer to retained earnings as a result of disposal	–/–	–/–
Change in shadow accounting (DAC, URR, terminal policyholders' dividends)	–41.0	–17.0
Change in policyholders' dividends	–319.1	–27.4
Change in deferred income taxes recognized directly to equity	–32.2	–3.8
Exchange differences	300.2	–20.0
Balance as of December 31	**664.5**	**780.6**

in CHF million

[1] See comments to section 11.

23. Technical reserves (gross)

	2005	2006
Unearned premium reserves (gross)	501.8	527.0
Loss reserves (gross)	5,207.4	5,330.2
Provisions for surplus and profit sharing (gross)	48.6	54.1
Technical reserves nonlife	**5,757.8**	**5,911.3**
Technical reserves (gross)	34,700.9	35,960.0
Policyholders' dividends credited and provision for future policyholders' dividends (gross)	4,457.2	4,650.5
Technical reserves life	**39,158.1**	**40,610.5**
Technical reserves (gross)	**44,915.9**	**46,521.8**

in CHF million

23.1 Technical reserves nonlife

	2005			2006		
	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
Unearned premium reserves	**501.8**	**5.1**	**506.9**	**527.0**	**–6.0**	**521.0**
Loss reserves	4,700.7			4,770.2		
Reserve for loss adjustment expenses	506.7			560.0		
Loss reserves	**5,207.4**	**–424.0**	**4,783.4**	**5,330.2**	**–334.5**	**4,995.7**
Provision for policyholders' dividends and profit sharing	**48.6**	**0.0**	**48.6**	**54.1**	**0.0**	**54.1**
Total technical reserves nonlife	**5,757.8**	**–418.9**	**5,338.9**	**5,911.3**	**–340.5**	**5,570.8**

in CHF million

23.1.1 Technical reserves by maturities

	2005			2006		
	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
Unearned premium reserves						
Up to 1 year	480.6	5.1	485.7	496.7	–6.0	490.7
More than 1 year	2.2	0.0	2.2	2.0	0.0	2.0
No determinable residual term	19.0	0.0	19.0	28.3	–/–	28.3
Total unearned premium reserves	**501.8**	**5.1**	**506.9**	**527.0**	**–6.0**	**521.0**
Loss reserves						
Up to 1 year	829.5	–137.8	691.7	807.4	–91.7	715.7
More than 1 year	3,838.8	–163.9	3,674.9	3,720.0	–116.7	3,603.3
No determinable residual term	539.1	–122.3	416.8	802.8	–126.1	676.7
Total loss reserves	**5,207.4**	**–424.0**	**4,783.4**	**5,330.2**	**–334.5**	**4,995.7**

in CHF million

All maturity data is based on assumptions. The item "No determinable residual term" contains in particular aging provisions and annuity reserves.

23.1.2 Unearned premiums

	2005			2006		
	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
Balance as of January 1	**494.1**	**–4.5**	**489.6**	**501.8**	**5.1**	**506.9**
Premiums charged	3,055.4	–174.0	2,881.4	3,065.1	–178.5	2,886.6
Less: Premiums earned during reporting period	–3,051.4	183.6	–2,867.8	–3,055.2	167.7	–2,887.5
Additions / disposals from changes in scope of consolidation	–/–	–/–	–/–	–/–	–/–	–/–
Exchange differences	3.7	0.0	3.7	15.3	–0.3	15.0
Balance as of December 31	**501.8**	**5.1**	**506.9**	**527.0**	**–6.0**	**521.0**

in CHF million

In addition to the actual unearned premiums, this item also comprises aging reserves from health insurance, pipline premiums and any provisions for anticipated losses required based on the LAT.

23.1.3 Provision for policyholders' dividends and profit sharing

	2005			2006		
	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
Balance as of January 1	**47.6**	**0.0**	**47.6**	**48.6**	**0.0**	**48.6**
Less: Expenditures in the reporting period	–10.8	0.0	–10.8	–15.4	–/–	–15.4
Reversals / new provisions recognized in income	11.8	0.0	11.8	20.9	–/–	20.9
Additions / disposals from changes in scope of consolidation	–/–	–/–	–/–	–/–	–/–	–/–
Exchange differences	0.0	0.0	0.0	0.0	–/–	0.0
Balance as of December 31	**48.6**	**0.0**	**48.6**	**54.1**	**0.0**	**54.1**

in CHF million

23.1.4 Reserves for loss adjustment expenses	2005	2006
Balance as of January 1 (gross)	**4,829.9**	**5,207.4**
Reinsurers' share	–290.0	–424.0
Balance as of January 1 (net)	**4,539.9**	**4,783.4**
Incurred losses (incl. Loss adjustment expenses)		
For year under review	1,915.9	1,889.1
For previous years	73.0	–79.7
Total	**1,988.9**	**1,809.4**
Payments for losses and loss adjustment expenses		
For year under review	–1,034.7	–847.6
For previous years	–752.7	–821.6
Total	**–1,787.4**	**–1,669.2**
Other changes		
Additions / disposals from changes in the scope of consolidation	–/–	–/–
Exchange differences	42.0	72.1
Total	**42.0**	**72.1**
Balance as of December 31 (net)	**4,783.4**	**4,995.7**
Reinsurers' share	424.0	334.5
Loss reserves as of December 31 (gross)	**5,207.4**	**5,330.2**

in CHF million

Special attention is paid to cases of environmental damage caused by deposits, waste, asbestos and generally substances which harm humans and the natural environment.

The corresponding reserves, contained in the overall amount, came to CHF 226.5 million at the end of 2006 and CHF 256.8 million CHF at the end of 2005. The decline is attributable to claims payments including redemptions and, since a large part of these provisions are denominated in foreign currencies, to exchange rate effects.

23.2 Technical reserves – life insurance

	2005	2006
Actuarial reserve from non-unit-linked life insurance[1]	32,188.4	33,054.7
Actuarial reserve from unit-linked life insurance	1,640.6	1,933.3
Provision for terminal policyholders' dividends	568.5	597.0
Unearned revenue reserve	303.4	375.0
Composition of actuarial reserve – life	**34,700.9**	**35,960.0**
Policyholders' dividends credited and provision for future policyholders' dividends	**4,457.2**	**4,650.5**
Total technical reserves – life	**39,158.1**	**40,610.5**

in CHF million

[1] The actuarial reserve also includes unearned premiums and loss reserves.

23.2.1 Technical reserves by maturities

Actuarial reserve for non-unit-linked life insurance	2005	2006
Up to 1 year	1,089.7	1,165.3
1 to 5 years	3,914.2	4,017.7
5 to 10 years	4,434.9	4,592.2
More than 10 years	8,700.4	8,665.2
No determinable residual term	7,033.2	7,382.8
Business from Swiss occupational pension plans[2]	7,016.0	7,231.5
Total actuarial reserve for non-unit linked life insurance	**32,188.4**	**33,054.7**
Actuarial reserve from unit-linked life insurance		
Up to 1 year	17.1	22.3
1 to 5 years	212.5	305.6
5 to 10 years	314.7	317.1
More than 10 years	426.8	485.3
No determinable residual term	669.5	803.0
Total actuarial reserve from unit-linked life insurance	**1,640.6**	**1,933.3**
Policyholders' dividends credited		
Up to 1 year	169.9	152.7
1 to 5 years	572.6	554.4
5 to 10 years	541.6	524.4
More than 10 years	1,095.1	1,050.4
No determinable residual term	390.7	371.1
Total policyholders' dividends credited	**2,769.9**	**2,653.0**
Provisions for future policyholders' dividends		
Up to 1 year	226.6	242.0
No determinable residual term	1,460.7	1,755.5
Total provisions for future policyholders' dividends	**1,687.3**	**1,997.5**

in CHF million

[2] The Swiss pension business is disclosed separately due to its special features. It comprises group contracts which may be cancelled annually by both parties, while the coverage period of the individuals enrolled is significantly longer.

All maturity information is based on residual term of the contract. The item "No determinable residual term" includes in particular deferred as well as current annuity.

23.2.2 Actuarial reserve from non-unit-linked life insurance

	2005	2006
Balance as of January 1	**31,935.4**	**32,188.4**
Change in actuarial reserve	182.5	428.8
Additions from the acquisition of policy portfolios or insurance companies	0.8	–/–
Disposals from the sale of policy portfolios or insurance companies	–/–	–/–
Exchange differences	69.7	437.5
Balance as of December 31	**32,188.4**	**33,054.7**

in CHF million

The actuarial reserve also includes unearned premiums and loss reserves.

The actuarial reserve as of December 31, 2006, for business with DPF is CHF 32,957.9 million (previous year CHF 32,083.3 million); for business without a DPF CHF 96.7 million (previous year CHF 105.1 million).

The actuarial reserve as of December 31, 2006, for indirect business (inward reinsurance) totals CHF 0.1 million (previous year CHF 0.1 million).

23.2.3 Actuarial reserve from unit-linked life insurance

	2005	2006
Balance as of January 1	**725.7**	**1,640.6**
Additions	300.1	242.5
Disposals	–44.2	–132.7
Interest and increase of liabilities (fees deducted)	178.4	117.5
Additions from the acquisition of insurance portfolios or companies	477.0	–/–
Disposals from the sale of insurance portfolios or companies	–/–	–/–
Exchange differences	3.6	65.4
Balance as of December 31	**1,640.6**	**1,933.3**

in CHF million

23.2.4 Provisions for terminal policyholders' dividends

	2005	2006
Balance as of January 1	**516.8**	**568.5**
Adjustment from unrealized gains and losses as of January 1 (shadow accounting)	–27.2	–51.9
Interest and change in liability	64.3	54.6
Terminal policyholders' dividends paid	–39.5	–40.4
Additions from the acquisition of insurance portfolios or companies	–/–	–/–
Disposals from the sale of insurance portfolios or companies	–/–	–/–
Adjustment from unrealized gains and losses as of December 31 (shadow accounting)	51.9	53.1
Exchange differences	2.2	13.1
Balance as of December 31	**568.5**	**597.0**

in CHF million

Terminal policyholders' dividends, which are only paid upon the contract's expiry, are financed and accrued over the life of the policy in proportion to the profits attributable to the contract.

23.2.5 Unearned revenue reserve

	2005	2006
Balance as of January 1	**229.3**	**303.4**
Reserved during the reporting period	76.8	66.1
Change in balance	–4.2	–6.6
Change due to unrealized gains and losses on investments (shadow accounting)	–0.1	0.0
Additions from the acquisition of insurance portfolios or companies	–/–	–/–
Disposals from the sale of insurance portfolios or companies	–/–	–/–
Exchange differences	1.6	12.1
Balance as of December 31	**303.4**	**375.0**

in CHF million

23.2.6 Policyholders' dividends credited and provisions for future policyholders' dividends

Policyholders' dividends credited	2005	2006
Balance as of January 1	**2,949.1**	**2,769.9**
Policyholders' dividends credited for periods of less than one year	134.6	141.9
Policyholders' dividends paid	–325.7	–327.9
Additions / disposals from change in the scope of consolidation	–/–	–/–
Exchange differences	11.9	69.1
Balance as of December 31	**2,769.9**	**2,653.0**
Provision for future policyholders' dividends		
Balance as of January 1	**1,222.2**	**1,687.3**
Adjustment from unrealized gains and losses as of January 1	–444.7	–763.8
Additions	323.6	390.2
Withdrawals	–179.4	–189.4
Change in measurement differences between IFRS and local accounting recognized in income	–1.5	71.8
Adjustment from unrealized gains and losses as of December 31 (shadow accounting)	763.8	791.2
Additions / disposals from change in the scope of consolidation	–/–	–/–
Exchange differences	3.3	10.2
Balance as of December 31	**1,687.3**	**1,997.5**
Policyholders' dividends credited and provisions for future policyholders' dividends as of December 31	**4,457.2**	**4,650.5**

in CHF million

24. Liabilities from banking business and financial contracts

With discretionary participation features (DPF)	2005	2006
Financial contracts with discretionary participation features (DPF)	326.3	381.0
Subtotal	**326.3**	**381.0**
Measured at amortized cost		
Liabilities to banks	120.1	91.8
Liabilities from time deposits	–/–	–/–
Loans	28.1	31.5
Mortgages	0.9	3.0
Savings and customer deposits	3,352.4	3,482.0
Medium-term notes	250.2	318.2
Mortgage bond loans	580.3	637.5
Liability for future financial lease payments (present value)	166.7	154.0
Financing contracts	130.2	112.4
Subtotal	**4,628.9**	**4,830.4**
Recognized at fair value through profit and loss		
Operating bonds	178.1	175.5
Financing contracts for third parties and at third-party risk	929.2	1,357.1
Subtotal	**1,107.3**	**1,532.6**
Total liabilities from the banking business and financial contracts	**6,062.5**	**6,744.0**

in CHF million

Terms of the outstanding operating bond	
Face value in CHF million	175
Interest rate	3.625%
Effective interest yield	3.914%
Early redemption date	–/–
Repayment	100%
Conversion right	no
Issued	2002
Repayment	6/12/07
Securities number	SWX 1422292

The liabilities from the banking business measured at amortized cost are composed primarily of customers' savings and bank deposits and mortgage bond loans for refinancing mortgages secured by property liens.

Fair value hedge accounting on the operational loan from the banking business recognized in income at fair value was terminated as at April 7, 2006.

25. Reconciliation between the gross investment in finance leases and the present value of minimun lease payment

Contractual period	2005	**2006**
‹1 year	12.1	**9.1**
1–5 years	50.4	**40.6**
›5 years	168.8	**147.3**
Total minimum lease payments	**231.3**	**197.0**
Future borrowing costs	–64.6	**–43.0**
Total liability for future lease payments (present value)	**166.7**	**154.0**

in CHF million

Including: Financial leasing of property for own use in accordance with section 7 of the financial report.

26. Financial liabilities

Bonds	2005	**2006**
Balance as of January 1	**1,585.9**	**1,084.1**
Issue price of newly issued bonds	99.4	**–/–**
Embedded derivative	–/–	**–/–**
Deferred tax portion	–/–	**–/–**
Additions (subtotal)	**99.4**	**–/–**
Disposals / repayments	**–608.4**	**–190.3**
Interest expense	53.4	**28.2**
Nominal interest rate	–46.2	**–26.6**
Interest costs (subtotal)	**7.2**	**1.6**
Balance as of December 31	**1,084.1**	**895.4**

in CHF million

Terms of outstanding finance bonds	Bâloise-Holding	Bâloise-Holding	Bâloise-Holding
Face value in CHF million	300	250	350 [1]
Interest rate	3.25%	3.375%	2.375%
Effective interest yield	3.45%	3.574%	2.580%
Early redemption date	–/–	–/–	–/–
Repayment	100%	100%	100%
Conversion right	No	No	No
Issued	1998	2003	2004
Repayment	4/7/08	12/15/09	12/20/10
Securities number	SWX 858851	SWX 1726032	SWX 2011789

[1] Upped by CHF 100 million in 2005.

The convertible bond (1%) 1998 – 2006 issued by Baloise Finance (Jersey) Ltd was called for redemption as at February 17, 2006, and thus repaid prematurely. Apart from this premature repayment, there were no transactions with a substantial impact on the results.

27. Financial provisions

	Restructuring	Other	Total
Balance as of January 1, 2006	**2.4**	**102.1**	**104.5**
Addition from change in the scope of consolidation	–/–	–/–	**–/–**
Disposal from change in the scope of consolidation	–/–	–/–	**–/–**
Formation recognized in income	0.7	82.3	**83.0**
Reversal recognized in income	–0.1	–28.6	**–28.7**
Utilization recognized directly to equity	–2.3	–14.4	**–16.7**
Increase as a result of compounding	–/–	–/–	**–/–**
Exchange differences	0.0	3.2	**3.2**
Balance as of December 31, 2006	**0.7**	**144.6**	**145.3**

in CHF million

The financial provisions for restructuring contain primarily amounts for the reorganization of companies in Switzerland acquired in previous years.

The other financial provisions recognized in income comprise primarily estimated liabilities from rental guarantees given in connection with the sale of properties. They also contain sums for legal advice and litigation risks.

The other financial provisions comprise predominantly sums for legal advice and litigation risks.

28. Insurance liabilities

	2005	2006
Liabilities to policyholders	1,040.5	1,008.7
Liabilities to brokers and agents	97.0	119.7
Liabilities to insurance companies	438.3	441.1
Other insurance liabilities	72.6	52.2
Total insurance liabilities	**1,648.4**	**1,621.7**

in CHF million

Notes to the consolidated income statement

29. Premiums earned and policy fees

	2005			2006		
	Nonlife	Life	**Total**	Nonlife	Life	**Total**
Gross premiums written and policy fees	3,055.4	3,783.7	**6,839.1**	3,065.1	3,651.4	**6,716.5**
Change in unearned premiums	–4.0	–/–	**–4.0**	–9.9	–/–	**–9.9**
Premiums earned and policy fees (gross)	3,051.4	3,783.7	**6,835.1**	3,055.2	3,651.4	**6,706.6**
Reinsurance premiums ceded	–173.9	–13.8	**–187.7**	–178.5	–19.8	**–198.3**
Reinsurers' share of change in unearned premiums	–9.6	–/–	**–9.6**	10.8	–/–	**10.8**
Total premiums earned and policy fees for own account	**2,867.9**	**3,769.9**	**6,637.8**	**2,887.5**	**3,631.6**	**6,519.1**

in CHF million

30. Investment income

	2005	**2006**
Investment properties	253.0	231.1
Financial assets of an equity nature		
Available for sale	111.5	147.5
Recognized at fair value through profit and loss	6.7	0.0
Financial assets of a debt nature		
Held to maturity	233.5	232.3
Available for sale	470.7	500.8
Recognized at fair value in income	14.7	14.6
Mortgages and loans	694.7	683.3
Cash and cash equivalents	9.7	14.1
Total investment income[1]	**1,794.5**	**1,823.7**

in CHF million

1 Excluding income from associates

Income from investment properties comprises primarily rental income. Income from financial assets of an equity nature contains predominantly dividend income, income from financial assets of a debt nature primarily interest income and net income from write-ups/amortization owing to the application of the actual interest method. Income from mortgages and loans as well as cash and cash equivalents is mostly interest income.

As of the balance sheet date, interest income of CHF 9.6 million has accumulated on investments (2005: CHF 12.9 million), which is not recognized in the income statement.

31. Realized capital gains and losses on investments

31.1 Realized capital gains and losses on investments 2005

	Investment properties	Financial assets of an equity nature[2]	Financial assets of a liabilitiy nature	Mortgages and loans[3]	Derivative financial instruments	Total
Realized disposal and book profits						
Investment properties	25.4					**25.4**
Held to maturity[4]			38.2			**38.2**
Available for sale		449.4	151.4			**600.8**
Recognized at fair value in income		256.2	22.5		60.2	**338.9**
Mortgages and loans				15.4		**15.4**
Subtotal	**25.4**	**705.6**	**212.1**	**15.4**	**60.2**	**1,018.7**
Realized disposal and book losses						
Investment properties	–84.2					**–84.2**
Held to maturity[4]			–15.6			**–15.6**
Available for sale		–103.4	–22.3			**–125.7**
Recognized at fair value in income		–1.1	–5.1		–217.4	**–223.6**
Mortgages and loans				–101.9		**–101.9**
Subtotal	**–84.2**	**–104.5**	**–43.0**	**–101.9**	**–217.4**	**–551.0**
Impairment losses recognized in income						
Held to maturity						**–/–**
Available for sale		–26.9	–1.1			**–28.0**
Mortgages and loans				–48.7		**–48.7**
Reversals of an impairment loss recognized in income						
Held to maturity						**–/–**
Available for sale			7.5			**7.5**
Mortgages and loans				150.9		**150.9**
Subtotal	**–/–**	**–26.9**	**6.4**	**102.2**	**–/–**	**81.7**
Total realized capital gains and losses on investments[1]	**–58.8**	**574.2**	**175.5**	**15.7**	**–157.2**	**549.4**

in CHF million

[1] Excluding investments in associates.
[2] The realized profit on alternative financial investments is CHF 33.2 million.
[3] A gain of CHF 8.5 million from fair value hedging was included in the realized disposal and book profits from mortgages and loans.
[4] In case of investments of a debt nature held to maturity, currency effects are carried under realized book profits / realized book losses.

31.2 Realized capital gains and losses on investments 2006

	Investment properties	Financial assets of an equity nature[2]	Financial assets of a liabilitiy nature	Mortgages and loans[3]	Derivative financial instruments	Total
Realized disposal and book profits						
Investment properties	107.0					**107.0**
Held to maturity[4]			49.2			**49.2**
Available for sale		713.0	102.1			**815.1**
Recognized at fair value in income		170.5	21.6		59.8	**251.9**
Mortgages and loans				18.2		**18.2**
Subtotal	**107.0**	**883.5**	**172.9**	**18.2**	**59.8**	**1,241.4**
Realized disposal and book losses						
Investment properties	–26.6					**–26.6**
Held to maturity[4]			–8.2			**–8.2**
Available for sale		–168.1	–71.5			**–239.6**
Recognized at fair value in income		–30.7	–15.1		–180.8	**–226.6**
Mortgages and loans				–95.0		**–95.0**
Subtotal	**–26.6**	**–198.8**	**–94.8**	**–95.0**	**–180.8**	**–596.0**
Impairment losses recognized in income						
Held to maturity						**–/–**
Available for sale		–25.3	0.0			**–25.3**
Mortgages and loans				–41.8		**–41.8**
Reversals of an impairment loss recognized in income						
Held to maturity						**–/–**
Available for sale			8.3			**8.3**
Mortgages and loans				116.2		**116.2**
Subtotal	**–/–**	**–25.3**	**8.3**	**74.4**	**–/–**	**57.4**
Total realized capital gains and losses on investments	**80.4**	**659.4**	**86.4**	**–2.4**	**–121.0**	**702.8**

in CHF million

1 Excluding investments in associates.
2 The realized profit on alternative financial investments is CHF 89.1 million.
3 A gain of CHF 9.4 million from fair value hedging was included in the realized disposal and book profits from mortgages and loans.
4 In case of investments of a debt nature held-to-maturity, currency effects are carried under realized book profits / realized book losses.

31.3 Exchange rate gains

The net income from transactions in foreign currencies recognized in the consolidated income statement shows a loss of CHF 69.1 million in the reporting period (2005: loss of CHF 105.6 million).

Excluding the foreign exchange loss from transactions with financial instruments, which are recognized in income reported in the balance sheet at fair value, the foreign exchange profit amounts to CHF 44.4 million (2005: loss of CHF 27.9 million).

This includes a foreign currency profit of CHF 48.0 million (2005: profit of CHF 19.3 million) incurred on monetary financial assets classified as available for sale.

Shareholders' equity contains a foreign-exchange loss (gross) of CHF 20.0 million (2005: profit of CHF 299.8 million) not recognized in income. A net profit of CHF 54.7 million (2005: net profit of CHF 59.8 million) remains after offsetting cash flow hedges (hedge accounting).

32. Income from services rendered

	2005	2006
Asset management	14.9	**26.5**
Services	130.0	**184.0**
Banking services	49.5	**53.6**
Investment management	17.5	**22.3**
Income from services rendered	**211.9**	**286.4**

in CHF million

33. Other operating income

	2005	2006
Interest income on insurance and reinsurance receivables	25.6	28.1
Other interest income	6.7	7.1
Gains from the sale of:		
Property, plant and equipment	0.5	0.1
Intangible assets	–/–	–/–
Other income	41.5	109.0
Other operating income	**74.3**	**144.3**

in CHF million

34. Classification of expenses

	2005	2006
Personnel expense (excluding claims development)	784.6	764.0
Marketing and advertising	127.1	152.3
Adjustments and depreciation		
On property, plant and equipment	57.0	57.1
On intangible assets	43.5	46.4
IT and other technical equipment	54.7	77.7
Expense for software development	1.4	0.1
Expense for rent, upkeep, and repairs	28.8	48.7
Other	791.5	864.7
Total	**1,888.6**	**2,011.0**

in CHF million

The income statement includes the expenses for the items acquisition costs, operating and administrative expenses for the insurance business, investment expense and other operating expenses.

"Other" primarily includes costs incurred in connection with distribution structures which are, in accordance with labor law, not tied to the Baloise Group.

35. Number of employees

As of the balance sheet date, the Baloise Group employed 7,459 full time staff members (2005: 7,548). The total personnel expense for the current fiscal year was CHF 1,084.5 million (2004: CHF 1,076.7 million).

36. Expense from financial contracts

	2005	**2006**
With discretionary participation features (DPF)		
Financial contracts with discretionary participation features (DPF)	11.4	15.2
Measured at amortized cost		
Interest on loans	0.0	0.6
Interest due	29.2	27.1
Interest from banking business	45.0	46.6
Acquisition costs – banking business	4.5	5.0
Expenses from financial contracts for the account and at the risk of third parties	4.4	4.4
Recognized at fair value in income		
Interest expense from operating bonds	2.8	6.3
Adjustments in bond values	–2.2	–2.0
Interest expense on loans from central mortgage bond institutions	18.3	21.1
Change in value in loans from central mortgage bond institutions	–/–	–/–
Interest from banking business	–0.1	–/–
Expenses from financial contracts for the account and at the risk of third parties	16.7	32.2
Total expense from financial contracts	**130.0**	**156.5**
of which: Net income from interest rate hedging instruments		
Interest rate swaps: Cash flow hedges, carryover from cash flow hedge reserve	–/–	–/–
Interest rate swaps: Fair value hedges	–1.7	–14.6
Total income from interest rate hedging instruments	**–1.7**	**–14.6**

in CHF million

37. Income taxes

37.1 Current and deferred income taxes

	2005	2006
Current income taxes	112.9	134.8
Deferred income taxes	–40.5	71.3
Total	**72.4**	**206.1**

in CHF million

Deferred income taxes in fiscal 2006 contain liabilities of CHF 38.9 million resulting primarily from a change in the tax rate affecting the Swiss life insurance unit.

The temporary differences between IFRS and fiscal values in the technical reserves were reduced in fiscal 2005. This reduction contributed greatly to the CHF 40.5 million income from deferred income tax.

37.2 Expected and actual income taxes

	2005	2006
Expected income taxes	104.8	220.8
Increase / reduction due to:		
Tax-free interest and dividend deductions	–10.7	–18.2
Tax-free profits on stocks and equity investments	–26.3	–42.9
Nondeductible expenses	8.8	12.1
Change in the tax rates	–0.5	38.9
Tax items related to other accounting periods	–5.3	–11.6
Other influences	1.6	7.0
Actual income taxes	**72.4**	**206.1**

in CHF million

The Baloise Group’s anticipated average tax rate came to 22.0% in 2005 and 24.2 % in 2006. These rates correspond to the weighted averages of the corporate tax rates of the countries in which the Baloise Group operates.

The Swiss life unit was responsible for the material effect from the change in tax rates.

38. Earnings per share

	2005	2006
Profit for the period (attributable to shareholders) (in CHF million)	395.8	699.4
Average number of outstanding shares	54,280,154	54,086,516
Earnings per share in CHF	**7.3**	**12.9**

The diluted profit corresponds to the basic earnings per share, because there are no option plans that could have a diluting effect.

Other disclosures

39. Acquisition of companies

	Cumulative acquisitions	
	2005 Fair value	**2006 Fair value**
Property, plant and equipment	0.4	0.2
Intangible assets	31.6	–/–
Investments in associates	–/–	–/–
Investment properties	–/–	33.9
Financial assets	508.2	–/–
Receivables and assets from reinsurance	–/–	–/–
Insurance receivables	–/–	–/–
Other receivables	33.8	1.5
Cash and cash equivalents	5.2	0.5
Technical reserves	–477.8	–/–
Liabilities from banking business and financial contracts	–/–	–/–
Financial liabilities	–/–	–/–
Financial provisions	–/–	–/–
Other liabilities	–33.1	–31.4
Net assets	**68.3**	**4.7**
Minority interest	–/–	–0.4
Net assets acquired	**68.3**	**4.3**
Purchase price financed by:		
Cash and cash equivalents	65.8	6.2
Offsetting	–/–	–/–
Transfer of assets	–/–	–/–
Directly allocable costs	0.2	–/–
Equity instruments issued	–/–	–/–
Total purchase price	**66.0**	**6.2**
Net assets acquired	68.3	4.3
Goodwill / negative goodwill	**–2.3**	**1.9**
Cash and cash equivalents used for the acquisition	66.0	6.2
Cash and cash equivalents acquired	–5.2	–0.5
Outflow of cash and cash equivalents for the acquisition	**60.8**	**5.7**

in CHF million

Cumulative acquisitions for 2006 include the acquired companies Partner in Life S.A., Luxembourg, GAP Management AG, Ahrensburg, and the buyout of remaining shares of Immo Trefles N.V., Anderlecht, which was previously consolidated proportionately.

Cumulative acquisitions for 2005 essentially consist of amounts for MONEYMAXX Lebensversicherung-AG, Düsseldorf, Germany, included in the consolidated accounts for the first time as of July 14, 2005.

40. Disposal of companies

40.1 Disposal of companies in 2005

The fully consolidated participating interest in NV Automobielcenter, Ledeberg (Belgium) was sold in fiscal 2005.

	2005
Investments	0.3
Cash and cash equivalents	0.1
Other assets	8.0
Other liabilities	−5.7
Net assets disposed of	**2.7**
Disposal prices	2.4

in CHF million

40.2 Disposal of companies in 2006

The proportionately consolidated companies Immo Merpa N.V., Zaventem, Belgium, Pylon AG, Hamburg and the fully consolidated Basler Immobilien GmbH, Vienna were disposed of during fiscal year 2006.

	2006
Investments	65.6
Cash and cash equivalents	4.3
Other assets	2.9
Other liabilities	−69.5
Net assets disposed of	**3.3**
Disposal prices	20.1

in CHF million

The cash flow from the disposal of companies amounted to CHF 79.2 million overall. This includes the repayment of a Group-internal loan of CHF 59.1 million.

41. Related party transactions

During the course of its ordinary business activities, the Baloise Group conducts transactions with associates and members of the Board of Directors and the corporate executive management of Bâloise-Holding. As a mutual insurance association, Deutscher Ring Krankenversicherung is not in the Baloise Group's scope of consolidation. However, it is linked to the Group by an organizational agreement with Deutscher Ring Leben and Deutscher Ring Sach and must be considered as a related party. Both individually and as a whole, the transactions are not material in volume for the Baloise Group and are conducted at arm's-length.

	Associates		Executive management		Other related companies and individuals		**Total**	
Related party transactions	2005	2006	2005	2006	2005	2006	2005	2006
Included in the income statement								
Premiums earned and policy fees	–/–	–/–	0.3	1.0	0.0	–/–	0.3	1.0
Investment income	–/–	48.4	0.1	0.0	1.9	–/–	2.0	48.4
Other income	0.7	0.9	0.2	0.2	0.1	0.1	1.0	1.2
Expenses	0.0	0.0	–10.0	–10.1	–/–	–/–	–10.0	–10.1
Impairment losses on doubtful receivables	–/–	–/–	–/–	–/–	–/–	–/–	–/–	–/–
	0.7	**49.3**	**–9.4**	**–8.9**	**2.0**	**0.1**	**–6.7**	**40.5**
Included in the balance sheet								
Mortgages and loans	–/–	0.7	10.5	10.6	19.9	–/–	30.4	11.3
Insurance receivables	–/–	0.6	–/–	–/–	1.2	–/–	1.2	0.6
Other receivables	0.0	0.0	–/–	–/–	0.0	–/–	0.0	0.0
Allowances for doubtful receivables	–/–	–/–	–/–	–/–	–/–	–/–	–/–	–/–
Other liabilities	–0.3	–0.1	–/–	–/–	–/–	–/–	–0.3	–0.1
	–0.3	**1.2**	**10.5**	**10.6**	**21.1**	**–/–**	**31.3**	**11.8**
Off-balance-sheet transactions								
Guarantees granted	–/–	–/–	–/–	–/–	–/–	–/–	–/–	–/–

in CHF million

Compensation for members of the Board of Directors and the executive management came to CHF 9.8 million during the reporting period (2005: CHF 8.8 million). Of these, CHF 3.0 million were remitted in connection with share-based compensation plans (2005: CHF 1.7 million).

Pay continuation, incentive claims and severance payments to executive management members who have left the Baloise amounted to CHF 0.4 million in the reporting period. CHF 0.1 million of this amount was taken from corresponding provisions set up the year before.

The increase in premiums earned and policy fees from the previous year is attributable primarily to single premium deposits in the life insurance business.

42. Proportionately consolidated companies

Included in the balance sheet and income statement	2005	2006
Investments	655.0	696.3
Intangible assets and property, plant and equipment	49.8	47.2
Liabilities	591.5	547.4
Income	215.0	253.0
Expense	167.5	206.6

in CHF million

43. Contingent liabilities and future commitments

43.1 Contingent liabilities

43.1.1 Legal disputes

The Baloise Group and its subsidiaries are continually confronted with legal disputes, claims and litigation stemming in most cases from the normal operating activities as an insurer. Since the previous balance sheet date, the Group management is unaware of any new circumstances that could have a significant influence on the 2006 consolidated annual financial statements.

43.1.2 Guarantees and payment guarantees for the benefit of third parties

The Baloise Group has provided guarantees and obligations to third parties, associates, partnerships and joint ventures. This includes obligations in contractually stipulated cases to make additional capital contributions or payments to equity, resources for covering outstanding repayments or interest payments, or guarantees in connection with its operating activities. The Baloise Group is unaware of any case of default which could trigger guarantee payments.

	2005	2006
Guarantees	634.5	357.6
Payment guarantees	340.4	349.2
Total guarantees and payment guarantees for the benefit of third parties	**974.9**	**706.8**
of which: For the benefit of partners in joint ventures	–/–	–/–
of which: From joint ventures	–/–	–/–
of which: For the benefit of joint ventures	–/–	–/–

in CHF million

43.1.3 Pledged or assigned assets and assets in securities lending

	Assets		Amount of hedged obligations	
	2005	**2006**	2005	**2006**
Investments	2,414.7	1,259.0	880.0	**940.0**
Property, plant and equipment	–/–	–/–	–/–	**–/–**
Intangible assets	–/–	–/–	–/–	**–/–**
Other assets	3.3	5.4	–/–	**–/–**
Total	**2,418.0**	**1,264.4**	**880.0**	**940.0**

in CHF million

43.2 Future liabilities

43.2.1 Capital commitments

Liabilities entered into for the future acquisition of:	2005	**2006**
Investments	572.7	571.1
Property, plant and equipment	–/–	–/–
Intangible assets	–/–	–/–
Total liabilities entered into	**572.7**	**571.1**
of which: In connection with joint ventures	–/–	–/–
of which: Own share in the capital commitments of the joint ventures	–/–	–/–

in CHF million

Liabilities entered into for the future acquisition of investments include private equity commitments too, which are unfinanced commitments for direct investment in private equity or for investment in private equity funds.

44. Operating leases

44.1 Baloise Group as lessee

The Baloise Group has concluded nonterminable leasing agreements for buildings, vehicles and operating equipment as a lessee. The average residual term of the leasing agreements is between three and five years.

Future liabilities from operating leases	2005	**2006**
Due within one year	3.7	4.2
Due from one to five years	2.7	2.8
Due after five years	0.6	1.0
Total	**7.0**	**8.0**
Minimum lease payments	4.9	5.7
Contingent lease payments	–/–	–/–
Leasing expenses	**4.9**	**5.7**
Income from subleasing in the fiscal year under review	–/–	–/–
Future income from subleasing	–/–	–/–

in CHF million

Contingent lease payments result if the tenancy is linked to an index.

44.2 Baloise Group as lessor

The Baloise Group has concluded operating leases in connection with the leasing of investment properties to third parties. The average nonterminable residual term of the lease agreements is between four and six years. There were no additional leasing agreements on the balance sheet date.

Future contractually stipulated leasing income	2005	2006
Due within one year	28.6	36.7
Due from one to five years	46.8	56.1
Due after five years	24.8	19.6
Total	**100.2**	**112.4**
Minimum lease payments	32.1	46.9
Contingent lease payments	0.2	0.2
Leasing income	**32.3**	**47.1**

in CHF million

45. Claim payments received from insurance companies outside the Baloise Group

In fiscal 2006, the Baloise Group companies received CHF 0.3 million (2005: CHF 0.6 million) in claim payments from insurance companies outside the Group in connection with insurance contracts in which Baloise Group companies are the policyholder. The claim payments predominantly cover damage to buildings in Switzerland. In numerous locations in Switzerland, state building insurance is mandatory.

46. Events after the balance sheet date

No further events have become known up to the completion of these consolidated annual financial statements dated March 9, 2007 which would have a significant influence on the annual financial statements as a whole.

47. Significant subsidiaries, joint ventures and investments in associates as of December 31, 2006

	Primary activity	Business area[1]	Share of the Group in percent	Direct share in percent	Manner of inclusion[2]	Currency	Share capital in million	Total assets in million	Gross premiums/ policy fees in million
Switzerland									
Bâloise-Holding, Basel	Holding company	O	Holding	Holding	F	CHF	5.5	1,925.1	–/–
Basler, Versicherungs-Gesellschaft, Basel	Nonlife	NL	100.00	100.00	F	CHF	75.0	5,923.0	1,280.5
Basler Lebens-Versicherungs-Gesellschaft, Basel	Life	L	100.00	100.00	F	CHF	50.0	25,978.4	2,413.8
Baloise Bank SoBa, Solothurn	Banking	B	100.00	100.00	F	CHF	50.0	5,306.7	–/–
Haakon AG, Basel	Other	O	74.75	74.75	F	CHF	0.2	42.7	–/–
Baloise Asset Management Schweiz AG, Basel	Investment management	B	100.00	100.00	F	CHF	1.5	24.1	–/–
Baloise Asset Management International AG, Basel	Investment management	B	100.00	100.00	F	CHF	1.5	8.7	–/–
Germany									
Basler Versicherung Beteiligungsgesellschaft GmbH, Hamburg	Holding company	O	100.00	100.00	F	EUR	20.5	266.3	–/–
Baloise Beteiligungs-Holding GmbH, Bad Homburg	Holding company	O	100.00	100.00	F	EUR	0.0	114.1	–/–
Deutscher Ring Lebensversicherungs-AG, Hamburg	Life	L	100.00	100.00	F	EUR	22.0	8,241.9	498.6
Deutscher Ring Sachversicherungs-AG, Hamburg	Nonlife	NL	100.00	100.00	F	EUR	50.0	372.3	137.4
Basler Securitas Versicherungs Aktiengesellschaft, Bad Homburg	Nonlife	NL	100.00	100.00	F	EUR	15.1	1,003.1	468.5
Deutscher Ring Bausparkasse AG, Hamburg	Bank	B	65.00	65.00	P	EUR	12.8	495.1	–/–
Deutscher Ring Beteiligungsholding GmbH, Hamburg	Holding	O	65.00	65.00	P	EUR	12.8	242.8	–/–
DePfa Beteiligungs-Holding II GmbH, Düsseldorf	Other	–/–	26.00	26.00	E	EUR	–/–	–/–	–/–
Deutscher Ring Financial Services GmbH, Hamburg	Other	O	65.00	100.00	P	EUR	0.1	7.4	–/–
GROCON Erste Grundstücksgesellschaft GmbH, Hamburg	Other	O	100.00	100.00	F	EUR	0.7	16.3	–/–
GROCON Zweite Grundstücksgesellschaft GmbH, Hamburg	Other	O	65.00	100.00	P	EUR	1.5	7.5	–/–
OVB Vermögensberatung AG, Köln	Other	O	32.57	100.00	P	EUR	10.0	47.3	–/–
Roland Rechtsschutz Beteiligungs GmbH, Köln	Other	O	39.00	60.00	P	EUR	0.1	21.8	–/–
Roland Rechtsschutz Versicherungs-AG, Köln	Other	–/–	9.76	25.02	E	EUR	–/–	–/–	–/–
Zeus Vermittlungsgesellschaft GmbH, Hamburg	Other	O	65.00	100.00	P	EUR	0.5	16.2	–/–

[1] L: Life, NL: Nonlife, B: Banking, O: Other activities / corporate business
[2] F: Full consolidation, P: Proportional, E: At equity measurement

The business activities and associated assets and liabilities of SECURITAS Gilde Lebensversicherungs AG, Bremen, have been transferred to the German subsidiary of Basler, Lebens-Versicherungs-Gesellschaft, Basel.

SECURITAS Gilde AG, Bremen, therefore no longer operates in the insurance business and is therefore no longer included in the above overview.

MONEYMAXX Lebensversicherung-AG, Düsseldorf, acquired in 2005, was merged with Deutscher Ring Lebensversicherungs-AG, Hamburg, as at July 1, 2006. Neither of these transactions had any impact on the shareholders‘ equity or the result of the Baloise Group.

	Primary activity	Business area[1]	Share of the Group in percent	Direct share in percent	Manner of inclusion[2]	Currency	Share capital in million	Total assets in million	Gross premiums/ policy fees in million
Belgium									
Mercator Verzekeringen N.V., Gent / Antwerpen	Life and Nonlife	L / NL	100.00	100.00	F	EUR	168.0	3,031.1	380.3
Amazon Insurance N.V., Antwerpen	Nonlife	NL	100.00	100.00	F	EUR	3.7	23.3	19.1
Mercator Re N.V., Antwerpen	Reinsurance	NL	100.00	100.00	F	EUR	1.2	4.7	0.0
Euromex N.V., Antwerpen	Nonlife	NL	100.00	100.00	F	EUR	2.5	56.7	21.3
Antwerp Real Estate N.V., Antwerpen	Other	O	100.00	100.00	F	EUR	1.2	3.1	–/–
Hondius N.V., Antwerpen	Other	O	100.00	100.00	F	EUR	2.5	1.9	–/–
Merno-Immo N.V., Gent	Other	O	100.00	100.00	F	EUR	17.1	18.3	–/–
Sogaplim N.V., Gent	Other	O	50.00	50.00	P	EUR	4.2	19.6	–/–
Luxembourg									
Baloise (Luxembourg) Holding S.A., Bertrange (Luxembourg)	Holding company	O	100.00	100.00	F	CHF	228.9	936.9	–/–
Baloise Assurances Luxembourg S.A., Bertrange (Luxembourg)	Nonlife	NL	100.00	100.00	F	EUR	7.5	119.9	30.4
Baloise Vie Luxembourg S.A., Bertrange (Luxembourg)	Life	L	100.00	100.00	F	EUR	12.5	924.1	27.5
Baloise Fund Invest Advico, Bertrange (Luxembourg)	Investment management	B	100.00	100.00	F	EUR	0.1	7.7	–/–
Austria									
Basler Versicherungs-Aktiengesellschaft in Österreich, Wien	Life and Nonlife	L / NL	100.00	100.00	F	EUR	5.1	491.7	78.8
Basler Osiguranje d.d., Zagreb	Nonlife	NL	94.00	94.00	F	HRK	22.5	71.2	21.1
Basler Zivotno Osiguranje d.d., Zagreb	Life	L	94.00	94.00	F	HRK	22.5	84.1	42.1
OVB Allfinanzvermittlungs GmbH, Salzburg	Other	O	32.57	100.00	P	EUR	1.0	11.1	–/–
Other territories									
Baloise Insurance Co. (I.O.M.) Ltd. Douglas / Isle of Man / British Isles	Reinsurance	NL	100.00	100.00	F	CHF	31.2	298.8	–/–
Baloise Insurance Company (Bermuda) Ltd. Hamilton / Bermuda	Reinsurance	NL	100.00	100.00	F	CHF	5.0	642.4	–/–
Baloise Alternative Investment Strategies Ltd. Grand Cayman / Cayman Islands	Investment management	NL / L / O	100.00	100.00	F	USD	0.0	1,380.5	–/–
Baloise Finance (Jersey) Ltd. St. Helier / Jersey / Channel Islands	Other	O	100.00	100.00	F	CHF	1.3	345.6	–/–
Baloise Private Equity Ltd., Cayman Islands	Investment management	NL / L / O	100.00	100.00	F	USD	0.0	452.0	–/–
Baloise (España) S.A., Madrid	Other	NL	100.00	100.00	F	EUR	18.0	15.8	–/–
OVB Allfinanz s.v.o. Czech Republic, Prague	Other	O	32.57	100.00	P	CZK	16.5	303.6	–/–
OVB ALLFINANZ Slovensko, Bratislava	Other	O	32.57	100.00	P	SKK	20.0	572.6	–/–
OVB Polska Allfinanz z.o.o., Warsaw	Other	O	32.57	100.00	P	PLN	1.1	8.4	–/–

[1] L: Life, NL: Nonlife, B: Banking, O: Other activities / corporate business
[2] F: Full consolidation, P: Proportional, E: At equity measurement

Report of the Group Auditors

to the General Shareholders' Meeting of Bâloise-Holding, Basel

As auditors of the Group, we have audited the consolidated financial statements (income statement, balance sheet, statement of cash flow, statement of changes in equity, and notes, pages 2 to 75) of the Bâloise-Holding for the year ended December 31, 2006.

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

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

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

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

PricewaterhouseCoopers AG

Prof. Dr. Edgar Fluri	Peter Lüssi Lead Auditor

Basel, March 9, 2007

Income statement: Bâloise-Holding

Income	4/1/05–12/31/05	**1/1/06–12/31/06**
Income from securities	6,651,261	154
Gains on securities	1,096,732	25,310,753
Income from participating interests	108,684,691	296,367,229
Interest on loans to Group companies	997,317	76,250
Income from financial assets	726,134	538,882
Other interest receivable	2,817,633	4,504,038
Realized gains on noncurrent assets	2,118,235	–/–
Other income	52,012,799	1,981,336
Total income	**175,104,802**	**328,778,642**
Expense		
Administrative expense	–4,267,612	–3,742,074
Interest payable	–32,496,238	–27,145,016
Amortization of / losses from noncurrent assets	–/–	–30,000,000
Other expense	–188,698	–8,677,454
Total expense	**–36,952,548**	**–69,564,544**
Overall result		
Total income	175,104,802	328,778,642
Total expense	–36,952,548	–69,564,544
Profit before tax	138,152,254	259,214,098
Tax on income and capital	–240,296	–1,775,000
Profit for the period	**137,911,958**	**257,439,098**

in CHF

Balance sheet: Bâloise-Holding

Assets	Note	12/31/2005	12/31/2006
Cash and cash equivalents		3,534	165,255,888
Receivables from Group companies		118,675,178	60,000,000
Other receivables		3,895,912	302,023
Accrued assets		38,684,692	66,039,185
Securities		165,976,512	113,771,232
Current assets		**327,235,828**	**405,368,328**
Participating interests	2	1,446,104,075	1,416,104,075
Loans to Group companies	3	–/–	30,000,000
Financial assets		11,795,298	11,795,298
Noncurrent assets		**1,457,899,373**	**1,457,899,373**
Total assets		**1,785,135,201**	**1,863,267,701**

Liabilities and equity	Note	12/31/2005	12/31/2006
Short-term liabilities		12,470	13,659,447
Payables to Group companies		113,350,509	34,246,220
Bonds	4	900,000,000	900,000,000
Provisions	5	688,250	9,081,676
Deferrals		14,297,882	13,730,900
Liabilities		**1,028,349,111**	**970,718,243**
Share capital		5,530,715	5,530,715
General reserve		11,724,001	11,724,001
Reserve for treasury shares	6	7,817,186	119,058,201
Unappropriated reserve		593,186,056	498,145,041
Retained earnings		138,528,132	258,091,500
Shareholders' equity		**756,786,090**	**892,549,458**
Total liabilities and equity		**1,785,135,201**	**1,863,267,701**

in CHF

Notes to the financial statements of Bâloise-Holding

1. Basis of preparation

The Bâloise-Holding accounts comply with Swiss legal requirements.

2. Participations

Company	Holding at 3/31/2005 in %	Holding at 12/31/2006 in %	Currency	Shares / holdings at 12/31/2006 in million
Basler, Versicherungs-Gesellschaft, Basel	100	100	CHF	75.0
Basler Lebens-Versicherungs-Gesellschaft, Basel	100	100	CHF	50.0
Baloise Bank SoBa, Solothurn	100	100	CHF	50.0
Baloise Asset Management Schweiz AG, Basel	100	100	CHF	1.5
Baloise Asset Management International AG, Basel	100	100	CHF	1.5
Haakon AG, Basel	75	75	CHF	0.2
Basler Versicherung Beteiligungsgesellschaft mbH, Hamburg	100	100	EUR	20.5
Baloise Beteiligungs-Holding GmbH, Bad Homburg	100	100	EUR	0.0
Baloise (Luxembourg) Holding S.A., Bertrange (Luxembourg)	100	100	CHF	229.0
Baloise Fund Invest Advico, Bertrange / Luxembourg	100	100	EUR	0.1
Baloise Insurance Co. (I.O.M), Ltd, Douglas / Isle of Man	100	100	CHF	31.2
Baloise Insurance Company (Bermuda) Ltd., Hamilton / Bermuda	100	100	CHF	5.0
Baloise Finance (Jersey) Ltd., St. Helier / Jersey	100	100	CHF	1.4

The holdings have been rounded to the nearest percent. Additional information about the participating interests of Bâloise-Holding is given on pages 74 and 75.

3. Loans to Group companies

Baloise Bank SoBa was given a subordinated loan of CHF 30 million.

4. Bonds

Amount	Interes rate	Issued	Maturity date
CHF 300 million	3.25%	1998	4/7/2008
CHF 250 million	3.375%	2003	12/15/2009
CHF 350 million[1]	2.375%	2004	12/20/2010

[1] Raised by CHF 100 million in 2005

5. Provisions

Fluctuation provision amounting to CHF 50 million was reversed in 2005 and taken to “Other income”.

6. Treasury shares

Baloise Group companies purchased a total of 291,837 shares at an average price of CHF 91 (excluding share buybacks through the second trading line). They sold 337,837 shares during the year under review, also at an average price of CHF 91, and together held 95,560 Bâloise-Holding shares as of December 31, 2006. Bâloise-Holding also purchased 1,074,000 shares through a second trading line at an average price of CHF 106. These shares are included in the Securities item on the balance sheet.

The average purchase price including shares bought back through the second trading line is CHF 103.

Bâloise-Holding's reserve for treasury shares was increased by CHF 111.2 million, charged against the general reserve, at December 31, 2006.

7. Significant shareholders

One single shareholder held over 5% of outstanding Baloise shares on December 31, 2006. This was Barclays Group with 5.4% of outstanding shares as of December 31, 2006.

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.

The following table displays the current shareholder structure as of December 31, 2006.

Shareholders	Total holding at 12/31/2005	Share of voting rights 12/31/2005	Total holding at 12/31/2006	Share of voting rights 12/31/2006
Chase Nominees Group[1]	5.5	2.0	10.5	2.0
Barclays Gruppe	0.0	0.0	5.4	<2.0
Investors Bank & Trust[1]	2.6	2.0	3.5	0.0
Mellon Bank N. A.[1]	2.7	0.0	3.2	0.0
HSBC Overseas Nominee UK[1]	2.5	0.0	2.7	0.0
Nortrust Nominees Ltd.[1]	3.1	0.0	2.4	0.0
UBS Group	<2.0	<2.0	2.2	<2.0
Cominvest Asset Management	2.0	0.0	<2.0	<2.0

in percent

[1] Custodian Nominees who hold shares in trust for third parties are considered as belonging to the free float pursuant to the Swiss Exchange (SWX) regulations. Such shareholder groups are not subject to registration by stock exchange law.

8. Contingent liabilities

Guarantee liabilities amounted to CHF 214.9 million at December 31, 2006 (previous year: CHF 447.6 million). During the previous year CHF 204.0 for the guarantee of the convertible bond issued by Baloise Finance (Jersey) Ltd was written back; the bond was repaid during the year under review.

Bâloise-Holding is jointly liable for value-added tax payable by all companies under the leadership of Basler Versicherungen subject to group taxation.

9. Income from participating interests

Dividend claims pursuant to resolutions of the Annual General Meetings of Baloise Fund Invest Advico, Luxembourg, February 8, 2007; of Baloise Finance (Jersey) Ltd., St. Helier (Jersey), February 15, 2007; of Baloise Asset Management Schweiz AG, Basel, Baloise Asset Management International AG, Basel and Haakon AG, Basel, February 22, 2007; and of Baloise Bank SoBa, Solothurn, March 8, 2007 (income from participating interests) for fiscal year 2006 are reported as accrued income accruals.

10. Personnel expenses

Administrative expenses include CHF 1.5 million in personnel expenses for the year under review (previous year: CHF 1.3 million).

Proposed appropriation of retained earnings

	4/1/05–12/31/05	**1/1/06–12/31/06**
Profit for the period	137,911,958	257,439,098
Earnings carried forward	616,174	652,402
Retained earnings	138,528,132	258,091,500
Dividend in accordance with Articles of Incorporation	–276,536	–276,536
Available for distribution at General Meeting	138,251,596	257,814,964
Proposals by the Board of Directors		
Appropriation to unallocated reserve	–16,200,000	–47,300,000
Additional dividend	–121,399,194	–209,890,634
Retained earnings to be carried forward	**652,402**	**624,330**

in CHF

The above distribution is in accordance with the provisions of Article 30 of the Articles of Incorporation and results in a distribution of CHF 3.80 gross per share (CHF 2.47 after deduction of withholding tax).

Report of the statutory auditors

to the General Meeting of Bâloise-Holding, Basel

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes, pages 78 to 81) of Bâloise-Holding for the financial year, ended December 31, 2006.

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

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

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

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

PricewaterhouseCoopers AG

Prof. Dr. Edgar Fluri

Peter Lüssi
Lead Auditor

Basel, March 9, 2007

Register

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