Bâloise Holding

Bâloise-Holding
Financial Report 2007

Content

Consolidated Annual Financial Statements of the Baloise Group

Consolidated Balance Sheet 2

Consolidated Income Statement 4

Consolidated Cash Flow Statement 6

Consolidated Statement of Changes in Equity 8

Notes to the Consolidated Annual Financial Statements 10

General Notes 10

1. Reporting Standards 10
2. Application of New Financial Reporting Standards 10
3. Consolidation and Accounting Principles 12
4. Critical Accounting Principles and Estimation Uncertainties 24
5. Management of Insurance Risks and Finance Risks 24
6. Information on Geographical Regions and Business Areas 43

Notes to the Consolidated Balance Sheet 48

7. Property, Plant and Equipment 48
8. Intangible Assets 49
9. Investments in Associates 51
10. Investment Properties 51
11. Financial Assets 52
12. Mortgages and Loans 56
13. Derivative Financial Instruments 57
14. Financial Receivables 58
15. Reinsurance Assets 58
16. Receivables from Reinsurers 59
17. Employee Benefits 59
18. Deferred Income Taxes 65
19. Noncurrent Assets Held for Sale and Discontinued Business Segments 65
20. Share Capital 66
21. Change in Unrealised Gains and Losses in Equity 67
22. Technical Reserves (Gross) 67
23. Liabilities from Banking Business and Financial Contracts 73
24. Reconciliation Between the Gross Investment in Financial Leasing and the Present Value of Minimum Lease Payment 74
25. Financial Liabilities 74
26. Financial Provisions 75
27. Insurance Liabilities 75

Notes to the Consolidated Income Statement 76
28. Premiums Earned and Policy Fees 76
29. Investment Income 76
30. Realised Gains and Losses on Investments 77
31. Income from Services Rendered 79
32. Other Operating Income 80
33. Classification of Expenses 80
34. Number of Employees 81
35. Expense from Financial Contracts 81
36. Income Taxes 82
37. Earnings per Share 82

Other Disclosures 83
38. Acquisition of Companies 83
39. Related Party Transactions 84
40. Board of Directors and Corporate Executive Committee Compensation 85
41. Proportionately Consolidated Companies 90
42. Contingent Liabilities and Future Liabilities 90
43. Operating Leases 92
44. Claim Payments Received from Non-Group Insurers 93
45. After Balance Sheet Date Events 93
46. Significant Subsidiaries, Joint Ventures and Associates as of 31st December 2007 94

Group Auditors' Report 96

Annual Financial Statements of Bâloise-Holding

Income Statement Bâloise-Holding 98
Balance Sheet Bâloise-Holding 99
Notes Bâloise-Holding 100
Notes on Income Statement and Balance Sheet 101
Appropriation of the Retained Earnings Proposed by the Board of Directors 105
Auditors' Report 106

Register 108

Consolidated Balance Sheet

Assets

	Notes	31.12.2006	**31.12.2007**
Property, plant and equipment	7	638.3	672.6
Intangible assets	8	1,357.5	1,601.7
Investments in associates	9	175.0	177.6
Investment properties	10	5,312.6	5,269.5
Financial assets of an equity nature	11		
Available for sale		8,222.9	7,787.2
Recognised at market value through profit or loss		2,679.4	4,350.6
Financial assets of a debt nature	11		
Held to maturity		7,608.1	6,854.2
Available for sale		16,271.8	16,884.8
Recognised at market value through profit or loss		643.4	549.9
Mortgages and loans	12		
Carried at cost		17,007.6	17,743.6
Recognised at market value through profit or loss		794.0	655.6
Derivative financial instruments	13	75.8	54.2
Receivables from financial contracts	14	271.2	318.3
Reinsurance assets	15	362.0	350.6
Receivables from reinsurers	16	23.2	85.3
Insurance receivables		565.9	601.1
Receivables from employee benefits	17	32.7	45.8
Other receivables	14	328.6	361.4
Receivables from investments	14	650.5	684.8
Deferred tax assets	18	25.8	51.3
Current income tax assets		70.4	58.2
Other assets		174.3	216.8
Cash and cash equivalents		741.5	1,620.4
Total assets		**64,032.5**	**66,995.5**

in CHF million

The notes are an integral component of the consolidated financial statements.

Liabilities and Equity

Equity	Notes	31.12.2006	**31.12.2007**
Share capital	20	5.5	5.4
Capital reserves		121.0	139.3
Treasury shares		–161.7	–439.2
Unrealised gains and losses (net)	21	780.6	450.4
Retained earnings		4,176.5	4,626.0
Equity before minority interests		**4,921.9**	**4,781.9**
Minority interests		64.6	83.7
Total equity		**4,986.5**	**4,865.6**
Liabilities			
Technical reserves (gross)	22	46,521.8	47,811.0
Liabilities from the banking business and financial contracts	23		
With discretionary participation feature (DPF)		381.0	440.7
Measured at amortised cost		4,830.4	5,162.8
Recognised at market value through profit or loss		1,532.6	2,475.6
Financial liabilities	25	895.4	1,194.0
Financial provisions	26	145.3	116.6
Derivative financial instruments		44.6	34.9
Insurance liabilities	27	1,621.7	1,799.5
Liabilities from employee benefits	17	1,502.2	1,569.1
Other liabilities		535.1	546.2
Deferred tax liabilities	18	806.3	693.2
Current income tax liabilities		171.2	215.7
Other liabilities		58.4	70.6
Total liabilities		**59,046.0**	**62,129.9**
Total liabilities and equity		**64,032.5**	**66,995.5**

in CHF million

The notes are an integral component of the consolidated financial statements.

Consolidated Income Statement

	Notes	2006	**2007**
Premiums earned and policy fees (gross)	28	6,706.6	6,880.2
Reinsurance premiums ceded	28	–187.5	–207.9
Premiums earned and policy fees (net)	28	6,519.1	6,672.3
Investment income	29	1,823.7	2,033.1
Realised gains and losses on investments	30	702.8	598.1
Income from services rendered	31	286.4	387.5
Results from investments in associates		62.0	8.3
Other operating income	32	144.3	125.6
Income		**9,538.3**	**9,824.9**
Claims and benefits paid (gross)	22	–5,325.0	–5,597.9
Change in technical reserves (gross)	22	–1,080.8	–833.6
Losses ceded to reinsurers	22	43.4	107.6
Acquisition costs	33	–493.8	–524.8
Operating and administrative expenses for insurance business	33	–847.8	–938.3
Investment expenses	33	–93.9	–104.3
Interest expense on insurance liabilities		–67.0	–76.1
Expenses from financial contracts	35	–156.5	–162.3
Other operating expenses	33	–575.5	–660.5
Expense		**–8,596.9**	**–8,790.2**
Borrowing costs		–28.2	–28.4
Profit before tax		**913.2**	**1,006.3**
Income taxes	36	–206.1	–192.5
Profit for the period		**707.1**	**813.8**
Attributable to:			
Shareholders		699.4	803.3
Minority interests		7.7	10.5

in CHF million

Earnings / loss per share	37		
Diluted		12.93	15.48
Undiluted		12.93	15.48

in CHF

The notes are an integral component of the consolidated financial statements.

Consolidated Cash Flow Statement

	Notes	2006	**2007**
Summary			
Cash flow from operating activities (net)		683.5	1,356.2
Cash flow from investing activities (net)		39.3	–152.3
Cash flow from financing activities (net)		–443.3	–336.3
Total cash flow		**279.5**	**867.6**
Changes in exchange rates on cash and cash equivalents		11.8	11.3
Balance of cash and cash equivalents as of 1st January		450.2	741.5
Balance of cash and cash equivalents as of 31st December		**741.5**	**1,620.4**
Cash flow from operating activities			
Profit for the period before taxes		913.2	1,006.3
Adjustments for			
Impairment and depreciation on property, plant and equipment and intangible assets	7/8	104.5	142.2
Realised gains and losses on property, plant and equipment and intangible assets		1.3	1.3
Income from investments in associates		–16.3	–4.9
Realised gains and losses on financial instruments, investment properties and investments in associates		–799.7	–597.8
Changes in technical reserves (gross), including unearned premium reserves		636.2	486.5
Interest expense on reinsurance liabilities		1.5	–1.4
Borrowing costs paid	25	26.6	26.8
Amortised cost valuation of financial instruments		46.1	26.1
Additions and disposals of assets and liabilities affecting liquidity			
Purchase / sale of investment property		295.8	84.3
Purchase / sale of financial assets of an equity nature		160.8	–72.3
Purchase / sale of financial assets of a debt nature		–1,706.2	92.8
Addition / disposal of mortgages and loans		158.3	–233.7
Addition / disposal of derivative financial instruments		–246.5	–28.5
Addition / disposal of financial contracts and liabilities from banking business		907.5	477.3
Other changes in assets and liabilities from operating activities		320.5	121.3
Cash flow from operating activities (gross)		**803.6**	**1,526.3**
Taxes paid		–120.1	–170.1
Cash flow from operating activities (net)		**683.5**	**1,356.2**

in CHF million

The notes are an integral component of the consolidated financial statements.

	Notes	2006	**2007**
Cash flow from investing activities			
Purchase of property, plant and equipment	7	–94.6	–159.5
Sale of property, plant and equipment		30.7	113.4
Purchase of intangible assets	8	–42.5	–45.3
Sale of intangible assets		12.0	6.8
Acquisition of companies, net of cash and cash equivalents	38	–5.7	–100.3
Disposal of companies, net of cash and cash equivalents	38	74.9	28.3
Purchase of investments in associates	9	–3.1	–7.1
Sale of investments in associates	9	56.3	10.7
Dividends from associates	9	11.3	0.7
Cash flow from investing activities (net)		**39.3**	**–152.3**
Cash flow from financing activities			
Capital increases	20	–/–	–/–
Capital reductions	20	–/–	–/–
Additions to financial liabilities	25	1.6	298.6
Disposals of financial liabilities	25	–190.3	–/–
Borrowing costs paid	25	–26.6	–26.8
Purchase of treasury shares		–155.2	–470.6
Sale of treasury shares		52.9	67.7
Cash flow minority interests		4.8	24.7
Dividend payments		–130.5	–229.9
Cash flow from financing activities (net)		**–443.3**	**–336.3**
Total cash flow		**279.5**	**867.6**
Cash and cash equivalents			
Balance as of 1st January		450.2	741.5
Change during the fiscal year		279.5	867.6
Changes in exchange rates on cash and cash equivalents		11.8	11.3
Balance as of 31st December		**741.5**	**1,620.4**
Structure of the balance of cash and cash equivalents on the balance sheet date			
Cash and bank balance		697.9	1,611.6
Cash equivalents		0.2	0.1
Cash and cash equivalents for the account and at the risk of life insurance policyholders		43.4	8.7
Balance as of 31st December		**741.5**	**1,620.4**
of which are cash and cash equivalents of limited availability		–/–	–/–
Supplemental disclosures on cash flow from operating activities			
Other interest received		1,006.9	1,043.1
Dividends received		111.4	123.5
Interest paid		150.2	159.8

in CHF million

The notes are an integral component of the consolidated financial statements.

Consolidated Statement of Changes in Equity

	Notes	Share capital	Capital reserves	Treasury shares	Unrealised gains and losses (net)	Retained earnings	**Equity before minority interests**	**Minority interests**	**Total equity**
Balance as of 1st January 2006		**5.5**	**105.4**	**–43.8**	**664.5**	**3,598.8**	**4,330.4**	**60.9**	**4,391.3**
Change in unrealised gains and losses on financial assets available for sale	21				102.5		102.5	0.0	102.5
Change in unrealised gains and losses from associates	21				20.0		20.0		20.0
Change in hedge reserves on derivative financial instruments held for cash flow hedge	21				–0.4		–0.4		–0.4
Change in hedge reserves on derivative financial instruments held to hedge a net investment in a foreign company	21				74.6		74.6		74.6
Change in reserves from reclassification of held-to-maturity financial instruments	21				–12.4		–12.4		–12.4
Change in reserves from reclassification of investment property	21				–/–		–/–		–/–
Exchange differences	21				–20.0		–20.0	0.0	–20.0
Change in shadow accounting									
Policyholders' dividends	21				–27.4		–27.4		–27.4
DAC, URR, terminal policyholders' dividends	21				–17.0		–17.0		–17.0
Deferred tax assets and liabilities	21				–3.8		–3.8		–3.8
Total effects not recognised in equity		**–/–**	**–/–**	**–/–**	**116.1**	**–/–**	**116.1**	**0.0**	**116.1**
Profit for the period						699.4	699.4	7.7	707.1
Total effects recognised and not recognised in equity		**–/–**	**–/–**	**–/–**	**116.1**	**699.4**	**815.5**	**7.7**	**823.2**
Dividends						–121.7	–121.7	–8.8	–130.5
Capital increase / repayment	20						–/–		–/–
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 interest							–/–	4.8	4.8
Balance as of 31st December 2006		**5.5**	**121.0**	**–161.7**	**780.6**	**4,176.5**	**4,921.9**	**64.6**	**4,986.5**

in CHF million

The notes are an integral component of the consolidated financial statements.

	Notes	Share capital	Capital reserves	Treasury shares	Unrealised gains and losses (net)	Retained earnings	**Equity before minority interests**	**Minority interests**	**Total equity**
Balance as of 1st January 2007		**5.5**	**121.0**	**–161.7**	**780.6**	**4,176.5**	**4,921.9**	**64.6**	**4,986.5**
Change in unrealised gains and losses on financial assets available for sale	21				–829.3		–829.3		–829.3
Change in unrealised gains and losses from associates	21				–8.3		–8.3		–8.3
Change in hedge reserves on derivative financial instruments held for cash flow hedge	21				–0.0		–0.0		–0.0
Change in hedge reserves on derivative financial instruments held to hedge a net investment in a foreign company	21				36.5		36.5		36.5
Change in reserves from reclassification of held-to-maturity financial instruments	21				–14.8		–14.8		–14.8
Change in reserves from reclassification of investment property	21				–/–		–/–		–/–
Exchange differences	21				–20.6		–20.6	0.7	–19.9
Change in shadow accounting									
Policyholders' dividends	21				327.8		327.8		327.8
DAC, URR, terminal policyholders' dividends	21				76.6		76.6		76.6
Deferred tax assets and liabilities	21				101.9		101.9		101.9
Total effects not recognised in equity		**–/–**	**–/–**	**–/–**	**–330.2**	**–/–**	**–330.2**	**0.7**	**–329.5**
Profit for the period						803.3	803.3	10.5	813.8
Total effects recognised and not recognised in equity		**–/–**	**–/–**	**–/–**	**–330.2**	**803.3**	**473.1**	**11.2**	**484.3**
Dividends						–210.2	–210.2	–19.7	–229.9
Capital increase / repayment	20						–/–		–/–
Purchase / sale of treasury shares			18.3	–421.2			–402.9		–402.9
Capital reduction	20	–0.1		143.7		–143.6	–/–		–/–
Increase / decrease in minority interests due to change in the scope of consolidation							–/–	2.9	2.9
Increase / decrease in minority interests due to change in percentage of interest							–/–	24.7	24.7
Balance as of 31st December 2007		**5.4**	**139.3**	**–439.2**	**450.4**	**4,626.0**	**4,781.9**	**83.7**	**4,865.6**

in CHF million

The notes are an integral component of the consolidated financial statements.

Notes to the Consolidated Annual Financial Statements

General Notes

1. Reporting Standards

The Baloise Group is a European direct insurer comprising 20 different insurance companies operating in almost every segment of the life and nonlife insurance business. The holding company is Bâloise-Holding, a Swiss incorporation based in Basel whose shares are listed on the Swiss Exchange (SWX). It has subsidiaries that work the direct insurance markets in Switzerland, Liechtenstein, Germany, Belgium, Austria, Luxemburg, Croatia, Slovakia and the Czech Republic. Its banking business is handled by subsidiaries in Switzerland and Germany. The Baloise Group also has a fund management company in Luxemburg.

The Baloise Group's Consolidated Annual Financial Statements recognise equity and liabilities at cost, taking adjustments into consideration that result from the regularly appraised fair value of investment properties, and from financial assets and liabilities that are classified as available for sale or recognised at fair value through profit or loss. The Baloise Group's Consolidated Annual Financial Statements were prepared in conformity with the International Financial Reporting Standards (IFRS), which comply with Swiss law. IFRS 4 governs how to account for and disclose insurance and reinsurance contracts. The contracts are measured based on local financial reporting guidelines. When IFRS 4 was introduced, the Baloise Group used US Generally Accepted Accounting Principles (US-GAAP) as its local financial reporting guidelines.

At its meeting on 18th March 2008, the Bâloise-Holding Board of Directors approved the Annual Financial Statements and the Financial Report and released it for publication. The Financial Statements still have to be approved by the Annual General Meeting of Bâloise-Holding.

2. Application of New Financial Reporting Standards

Newly applied IFRS

IAS 1 Amendments, Capital Disclosures

The IAS 1 Amendments deal with additional capital disclosures. A company shall disclose information that enables users of its financial statements to evaluate the company's objectives, policies and processes for managing capital. IAS 1 requires a description of and quantitative data on what the company defines and manages as capital. The company must also disclose whether it could meet externally imposed capital requirements. Could the company not meet externally imposed capital requirements, it must disclose the consequences of such non-compliance. The application of IAS 1 Amendments has no impact on the Baloise Group's profit for the period or balance sheet items.

IFRS 7 Financial Instruments: Disclosures and Presentation

"IFRS 7 Financial Instruments: Disclosures and Presentation" was issued in August 2005. This standard supersedes IAS 30 Disclosures in the Financial Statements of Banks and similar financial institutions as well as those parts of "IAS 32 Financial Instruments: Disclosures and Presentations" regarding disclosure obligations. The new standard requires companies to disclose information on the significance of financial instruments on the companies' financial position, cash flows and income, and also contains new requirements regarding qualitative and quantitative risk reporting associated with financial instruments and individual insurance contracts in accordance with IFRS 4. IFRS 7 covers on-balance-sheet and off-balance-sheet financial instruments. The application of IFRS 7 has no impact on consolidated income, expenses, assets, liabilities or equity; it simply ensures the disclosures regarding financial instruments in the notes are more detailed.

IFRIC 8 Scope of IFRS 2

IFRIC 8 Scope of IFRS 2 was issued in January 2006. The Interpretation states that IFRS 2 Share-based Payment applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration.

The Baloise Group's share-based payments are all based on considerations that are appropriately valued. Thus, the application of IFRIC 8 has no impact on the Baloise Group's income, expenses, assets, liabilities or equity.

IFRIC 9 Reassessment of Embedded Derivatives

Issued in March 2006, this Interpretation covers distinctive accounting for embedded derivatives in accordance with IAS 39. A decision must be made whether the embedded derivatives contained in the contract are to be separated from the host contract and accounted for as if they were stand-alone, derivative financial instruments. The application of IFRIC 9 has no impact on the current reporting of the Baloise Group.

IFRIC 10 Interim Financial Reporting and Impairment Losses

IFRIC 10 Interim Financial Reporting and Impairment Losses was issued in July 2006. This resolves the issues regarding the reversal of impairment losses in quarterly or half-yearly reports that relate to goodwill, equity instruments or financial assets carried at acquisition cost on the balance sheet date, if the carrying amount of these items would be higher using the same accounting principles (impairment is lower or non-existent). The IFRIC concludes that such impairment recognised in an interim period must remain recognised on the balance sheet date. Adjustments to a higher carrying amount due to the impairment being lower or non-existant on the balance sheet date do not take place. On the balance sheet date, Baloise does not reverse any impairment losses for goodwill,

equity instruments or financial instruments carried at acquisition cost that are recognised in the half-yearly financial statements. Therefore, the application of IFRIC 10 has no impact on the Baloise Group's profit for the period or balance sheet items.

Reclassification

Due to the adoption of new accounting standards, the value of isolated figures have been adjusted in the Cash Flow Statement and in the Notes. These adjustments pertain to the disclosure and thus have no impact on equity and the period result.

New IFRS and Interpretations Not Yet Applied

The IASB has issued the following new Standards and Interpretations of relevance to the Baloise Group. However, they have not yet entered into effect and have, thus, not been applied to the consolidated annual financial statements for 2007:

Standard / Interpretation	Content	To be applied for financial years beginning on / after:
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	1.3.2007
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1.1.2008
IAS 1	Presentation of Financial Statements	1.1.2009
IAS 23	Borrowing Costs	1.1.2009
IFRS 8	Operating Segments	1.1.2009
IAS 32 / IAS 1 Amendments	Puttable Financial Instruments and Obligations Arising on Liquidation	1.1.2009
IFRS 3 / IAS 27 revised	Company mergers and Group and separate individual financial statements according to IFRS	1.7.2009

IFRIC 11 Group and Treasury Share Transactions

addresses certain issues that arise under IFRS 2 when a share-based payment is made for services rendered, and it is not immediately clear whether the share-based transactions should be accounted for as equity-settled or cash-settled. The application of IFRIC 11 does not have a material impact on consolidated income or balance sheet items.

IFRIC 14 Availability of Economic Benefits and Minimum Funding Requirements

governs the interaction between an existing obligation to make additional contributions to a pension plan on the balance sheet date (minimum funding requirements) and the arrangements set forth in IAS 19 to limit the measurement of the defined benefit asset and the present value of economic benefits that can be recognised as an asset (asset ceiling).

Under IFRIC 14, an employer cannot recognise an additional liability as long as he can derive benefits from a minimum contribution payment.

The Baloise Group cannot make any definitive statements regarding the impact of the application of IFRIC 14.

IAS 1 Presentation of Financial Statements

was issued in a revised version. It prescribes, amongst other things, that owner changes in equity are to be presented, either in one comprehensive income statement, or in two statements (separate Income Statement and Other Comprehensive Income). Some changes were also made to the titles of the financial statements, but they are optional. This is mainly a disclosure standard.

IAS 23 Borrowing Costs

was issued in a revised version. It prescribes that in future the acquisition costs of an asset includes all costs incurred when preparing the asset for its intended use. This removes the option of immediate recognition of borrowing costs regarding assets that require a substantial period of time to get ready for sale as an expense. The application of IAS 23 Amendment is not expected to have a material impact on consolidated income or balance sheet items.

IFRS 8 Operating Segments

requires, in particular, the use of the so-called "Management Approach" for reporting on the business development of the segments. This means that segment reporting must be based on the same information as is used to make internal management decisions.

The application of IFRS 8 can have an impact on segment disclosure (for example, goodwill allocation) and on the measurement bases within segments. The segment results may change accordingly. The Baloise Group is in the process of definitively analysing the application of IFRS 8. In addition, further adjustments will be published in the Financial Statements.

IAS 32 / IAS 1 Amendments

Changes regarding "Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation" were issued on 14th February 2008. IAS 32 governs the classification of instruments as equity or as liabilities. The amendment addresses two types of obligation (Financial Instruments Puttable at Fair Value, and Obligations Arising on Liquidation) that were previously classified as liabilities; since, when called on, an obligation on the company exists, which the company cannot be relieved of absolutely. They now must be reclassified as equity provided they meet specific conditions. The Baloise Group has not yet analysed the impact of these changes on its income and cash flows.

IFRS 3 / IAS 27 revised

A revised version of Business Combinations, and an amended version of Consolidated and Separate Financial Statements in accordance with IFRS were issued on 10th January 2008. The changes mainly address accounting for minority interests ("Full Goodwill Method"), step acquisitions, equity transactions, handling the loss of control of a subsidiary, acquisition-related costs, changes to contingent consideration as a result of a post-acquisition event, the effective settlement of pre-existing relationships, and re-acquired rights. The Baloise Group has not yet analysed the impact of these changes on its income and cash flows.

3. Consolidation and Accounting Principles

3.1 Method of Consolidation

3.1.1 Subsidiaries

The Consolidated Annual Financial Statements comprise the financial statements of the Bâloise-Holding, its subsidiaries including its Special Purpose Entities (SPEs). A subsidiary is included in the Consolidated Annual Financial Statements, if the Baloise Group directly or indirectly controls it. This is generally the case if it holds over 50% of the voting rights. Potential voting rights are also considered in determining whether the Baloise Group controls the subsidiary.

Companies acquired during the year under review are included in the Consolidated Annual Financial Statements starting on the date on which control was effectively assumed; all companies sold are included until the date on which control was ceded.

Acquisitions of companies are accounted for using the Purchase Method. The company's identifiable assets and liabilities are measured at fair value as of the first consolidation date, regardless of any minority interests. If the purchase price exceeds the assets and liabilities assessed at fair value, the difference is recognised as goodwill. Likewise, if the fair value exceeds the purchase price, the difference is recognised as "Other Operating Income".

All inter-company transactions and the resulting gains and losses are eliminated.

3.1.2 Special Purpose Entities (SPEs)

Like subsidiaries (3.1.1), special purpose entities are included in the scope of consolidation. However, the provisions of SIC 12 govern the inclusion in the scope of consolidation.

3.1.3 Joint Ventures

Joint ventures are companies that are under the common control of two or more partners by contractual arrangement. The joint ventures include the members of the Deutscher Ring Group, which are held together with Deutscher Ring Krankenversicherung, a mutual insurance company. The Baloise Group holds some shares directly and some shares indirectly through Deutscher Ring Beteiligungsholding; in total, it holds 65% of the shares directly and indirectly. The contracts are designed so that the majority shareholder does not control these companies. Instead, these companies are accounted for using the Proportionate Consolidation Method. In other words, the Baloise Group recognises its proportion of assets, liabilities, expenses and revenue.

3.1.4 Associates

Associates are assessed for the first time by the Acquisition Cost and, subsequently according to the Equity Method (share of the period results of the Baloise Group and net assets of the company), should the Baloise Group be able to have a decisive impact on the management of the company in question. Changes to Fair Value of Associates are usually recognised in profit or loss as while taking any occurring dividend effects into consideration. If the share of losses exceeds the value of the associate, then no further loss is recorded. The goodwill paid for associates is contained in the book value of the investment.

3.2 Conversion of Foreign Currencies

3.2.1 Functional Currency and Reporting Currency

Each subsidiary prepares its annual financial statements in its functional currency, which means the currency of its primary financial environment. The Consolidated Financial Statement is presented in millions of Swiss Franks (CHF), which corresponds to the reporting currency of the Baloise Group.

3.2.2 Conversion of Transaction Currency into Functional Currency for Group Companies

Expenses and revenue in foreign currencies are measured using the exchange rates on the transaction dates or average exchange rates. Monetary as well as non-monetary balance sheet items assessed at fair value and stemming from foreign currency transactions of Group companies are measured using balance sheet date exchange rates. Non-monetary items assessed using historical acquisition costs are measured using the historical exchange rates. The resulting exchange rate differences are recognised in profit or loss. This excludes exchange rate differences entered directly into the hedging reserves as part of cash flow hedges, or those used to hedge a net investment in a foreign company.

Exchange rate differences that arise from non-monetary financial instruments that are assessed at fair value through profit or loss are reported in the realised gains and losses of these instruments. Exchange rate differences held on non-monetary financial instruments as "Available for Sale" are entered in the Unrealised Gains and Losses of equity.

3.2.3 Conversion of Functional Currency into Reporting Currency

The Annual Financial Statements of all business units that weren't prepared in CHF are converted as follows when the consolidated financial statement is being prepared:

- Assets and liabilities at the exchange rate on the balance sheet date.
- Expenses and revenue at the annual average rates.
- The resulting exchange differences are accumulated and recorded directly in equity.

When foreign subsidiaries are sold, the conversion differences from the sale are entered as a transaction income or an expense recognised in profit or loss.

3.2.4 Most Important Exchange Rates

		Balance sheet		Income statement	
	Currency	2006	**2007**	2006	**2007**
1	EUR (Euro)	1.61	1.66	1.57	1.64
1	USD (US dollar)	1.22	1.13	1.25	1.20
1	GBP (pound sterling)	2.39	2.25	2.31	2.40
100	JPY (yen)	1.02	1.01	1.08	1.02
100	HRK (Croatian Kuna)	21.89	22.60	21.50	22.42

in CHF

3.3 Property, Plant and Equipment

Property, plant and equipment are measured at their acquisition costs less the accumulated depreciation. The acquisition cost of property, plant and equipment is also part of the directly allocable costs. Subsequent acquisition costs are only capitalised if a future financial benefit related to the property, plant and equipment occurs and these costs can be reliably assessed. All other repair and maintenance costs are charged to the income statement on an ongoing basis.

As a rule, property, plant and equipment are completely self-financed. In the event of possible external financing, the accrued interest is capitalised accordingly as it occurs.

Property is not depreciated on a systematic basis. Depreciation of other property, plant and equipment is linear on the basis of the estimated useful life as follows:

- Buildings for own use: 25 to 50 years,
- Equipment: 5 to 10 years,
- Computer hardware: 3 to 5 years.

The recoverability and the useful life of property, plant and equipment is checked on the balance sheet date.

The book value of property, plant and equipment is adjusted as soon as the recoverable amount drops below the book value (see Section 3.10.3 regarding this).

The profit or loss resulting from the sale of property, plant and equipment is immediately entered in the income statement under "Other Operating Income", or "Other Operating Expenses", respectively.

3.4 Leasing

3.4.1 Baloise Group as a Lessee

Financial leasing contracts: Leasing contracts for property, equipment and other tangible assets, for which the Baloise Group essentially assumes all risks and opportunities connected to ownership, are classified and treated as financial leasing contracts. The fair value of the leasing item or the lower cash value of the leasing payments is reported in Property, Plants and Equipment at the beginning of the leasing contract. Each leasing payment is broken down into amortisation and interest. The amortisation share is deducted from the liability for future lease payments, which is reported under the item "Liabilities from Banking Business and Financial Contracts". Property, plant and equipment in Financial Leasing are depreciated over the shorter time period of the useful life or the term of the leasing agreement.

Operating leases: Other leasing contracts are classified as operating leases. The leasing payments are entered linearly as expense in the income statement over the term of the leasing relationship.

3.4.2 Baloise Group as a Lessor

Investment properties that are leased within the scope of operating leases are reported in the Consolidated Balance Sheet as "Investment Properties". There were no other leasing agreements as a lessor in the reporting period.

3.5 Intangible Assets

3.5.1 Goodwill

Goodwill is the result of the balance between the purchase price and the assets that are assumed less the liabilities, measured at fair value at the time of the takeover. Goodwill is reported in the intangible assets. Goodwill is subject to an Annual Impairment Test. When a new investment is acquired, the key date for future verification of the recoverability is defined and conducted at the same time each year. In the event of disposal, the proportional goodwill is taken into consideration in the earnings. In order to verify the recoverability of the goodwill, the goodwill is allocated to definable units (Cash Generating Units, CGUs).

3.5.2 Present Value of Gains on Acquired Insurance Contracts (Present Value of Future Profits, PVFP)

The present value of gains on acquired insurance contracts is the result of the purchase of a life insurance company or the purchase of a life insurance portfolio. The first measurement is based on actuarial principles. Depreciation is linear. The recoverability is verified through the Loss Recognition Test (also see Section 3.18.2).

3.5.3 Deferred Acquisition Costs (DAC)

The costs incurred that directly depend on the conclusion of insurance contracts and financial contracts with Discretionary Participation Features (DPF) (commission, for example) are capitalised and depreciated over the term of the contracts, or over the shorter premium payment period. The recoverability of Deferred Acquisition Costs is verified on each balance sheet date (see also Section 3.18.3).

3.5.4 Capitalised Investment Fees

Acquisition costs that can be directly allocated to the realisation of investment income from asset management are capitalised under "Intangible Assets" if they can be identified individually and reliably determined and it is likely that they are recoverable. The depreciation recognised in profit or loss takes place over the term of the underlying financial contract in proportion to the occurring income. The recoverability is verified yearly.

3.5.5 Other Intangible Assets and Own Development

The other intangible assets consist primarily of software, external IT consulting, own development (software for example), as well as assets identified from the acquisition of companies (for example brands, customer relationships, etc.). They are recognised at their acquisition or production costs and depreciated linearly over their useful life, however, this is usually a maximum of ten years. Intangible assets with an unlimited useful life are not depreciated and are recognised at their acquisition costs less accrued impairment losses.

As a rule, intangible assets are completely self-financed. In the event of possible external financing, the accrued interest is capitalised accordingly as it occurs.

3.6 Investment Properties

Investment properties comprises land as well as buildings that are held for the purpose of generating rental income and / or for the purpose of value enhancement. If a breakdown is not possible for mixed-use properties (own-use / external-use), then the entire item is allocated on the basis of the majority usage of the floor space used.

Investment properties are measured on the basis of the fair value according to the Discounted Cash Flow (DCF) Method. This is determined each year by experts using close to market assumptions. The fair values are mainly derived from the future cash flow (net cash flow from rental income, maintenance costs, and administrative expenses) and using mathematical methods from comparable transactions. The majority of the directly held real estate portfolio of the Baloise Group is in Switzerland. Here, the interest rate for the calculation is determined on a hedonistic basis according to the DCF Method. The expected vacancy development is also included in the calculation. External appraisal reports are obtained at regular intervals. Thus, around 10% of the fair value of the real estate inventory is verified each year by means of external expert reports. Changes in fair value are entered immediately in the periods in which they occur as realised book profits or losses respectively, recognised in profit or loss.

If, as a consequence of a change of use, an investment property is used by the company itself, then the property, plant and equipment is reclassified as Property, Plant and Equipment. The reclassification is based on the fair value at the time of the reclassification.

If an owner-occupied property becomes an investment property as a consequence of a change of use, the difference between the book value and the fair value at the time of the change of use is entered directly as a gain or loss in value into equity as unrealised gains and losses in the period. If an investment property that was restructured in an earlier period is sold, the amount entered in equity is reclassified as retained earnings not recognised in profit and loss.

3.7 Financial Assets

For comprehensibility reasons, the term "Capital Investments" is used in some places in the financial report and in appendix headings. The term capital investments itself is not defined in the IFRS. Besides financial assets, mortgages and loans, derivative financial instruments and cash and cash equivalents, capital investments also include investment properties.

In financial assets of an *equity nature*, the following investment categories are entered: shares, share certificates, shares in stock and bond funds, as well as alternative financial investments such as private equity investments and hedge funds. Financial assets of an equity nature are usually subject to greater price fluctuations than financial assets of a debt nature.

Financial assets of a *debt nature* include securities such as bonds and other fixed-income securities. They are also as a rule interest bearing and are issued for a fixed or determinable amount.

The Baloise Group classifies its financial assets of equity and debt nature into the following categories: recognised at fair value through profit or loss, held-to-maturity, and financial assets that are held available for sale. The classification is aligned with the nature of the acquired financial assets.

Mortgages and loans are principally classified as carried at cost. Within the scope of hedge transactions (Fair Value Hedge), however, parts of holdings are designated as recognised at fair value through profit or loss.

3.7.1 Financial Assets Recognised at Fair Value through Profit or Loss

This category consists of two sub-categories: financial assets that are held for trading purposes (trading portfolio), and those that are designated to this category. A financial instrument is classi-

fied in this category if it was principally acquired with the intention of selling the financial instrument in the short term, or if it is part of a portfolio for which in the recent past there were indications of realising a gain in the short term, or if it was designated to this category. Derivative financial investments are classified as held-to-trade (trading portfolio), with the exception of derivative financial instruments that are designated for Hedge Accounting. The financial assets held as part of the investment-type life insurance business are exclusively designated to be recognised at fair value through profit or loss.

3.7.2 Held-to-maturity Financial Assets

Held-to-maturity financial assets are non-derivative financial instruments with fixed or determinable payments. However, they do not include mortgages, loans (Section 3.8) and receivables (Section 3.9), which the Baloise Group can and will hold until final maturity.

3.7.3 Available for Sale Financial Assets

Available for sale financial assets are those non-derivative financial instruments that have been classified as available for sale or have also not been classified in any of the above-mentioned categories and have also not been classified 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 Entering, Evaluating, and Charge Off

All commercially available purchases of financial assets are entered on the trade date. Financial assets are initially measured at fair value. The transaction costs are part of the acquisition costs, with the exception of financial assets recognised at fair value through profit or loss.

Financial assets are charged off, if the rights to the cash flow from the financial instrument have expired or if the financial instrument is sold and all related risks and opportunities have essentially been transferred. The cash outflow from reverse repurchase transactions (repo) is offset by the respective receivables. The financial assets from a transaction that are held as securities are not recognised. Booking in the balance sheet takes place on the due date. Financial assets transferred as securities for repurchase transactions continue to be recognised in financial assets. The cash flow is offset by the respective liabilities. Here, the Baloise Group is only involved in securities lending. The financial instruments used for lending remain recognised as financial assets. The coverage of the repurchase and reverse repurchase transactions securities, as well as the securities lending transactions take place daily at the effective market values.

Financial assets that are available for sale and recognised at market value through profit or loss are valuated at market value. Financial assets held-to-maturity are evaluated according to the Amortised Cost Method using the Effective Interest Method. Realised and unrealised gains and losses on financial assets recognised at market value through profit or loss continue to be recognised in the income statement. Unrealised gains and losses on financial assets that have been classified as available for sale are recorded in equity. If financial assets in the available for sale category are sold or value adjusted, the accumulated amount is recognised in equity as a realised gain and loss on financial assets. Changes to the fair value of the hedged risks of financial assets that are hedged by a Fair Value Hedge are recognised in the income statement for the duration of the hedge independent of the classification.

The market value of listed financial assets is based on stock market prices. If there is no such value, then the fair value is estimated based on generally recognised methods (Present Value Method etc.), independent assessments based on comparisons with market prices of similar instruments and the current market situation.

Derivative financial instruments are evaluated based on listed market prices or on the basis of models.

For private equity investments, provided no market value is available, different methods of appraisal are applied such as the analysis of the discounted cash flow or reference to comparable transactions in the recent past between experts, partners that are willing to enter into a contract and independent contractual partners.

If the estimates don't lead to a reliable evaluation, then those financial assets are set at the acquisition value and disclosed accordingly.

3.8 Mortgages and Loans

Mortgages and loans (including policy loans) are non-derivative financial instruments with fixed or determinable payments that are not listed on an active market. Mortgages and loans classified as carried at cost are measured using the Amortised Cost Method while applying the Effective Interest Method. Their recoverability is verified as part of an impairment process.

Mortgages and loans that are held as part of a fair value hedge (Hedge Accounting) are designated to be "recognised at market value through profit or loss". These portfolios are valuated using the model of a term structure curve.

3.9 Receivables

Receivables are recognised and carried at cost, according to the Amortised Cost Method less any impairments for receivables at risk. As a rule, the carried at cost value corresponds to the nominal value of the receivables.

3.10 Sustained Impairment Losses

3.10.1 Financial Assets Evaluated According to the Amortised Cost Method (Mortgages, Loans, Receivables, and Held-to-Maturity Financial Assets)

On each balance sheet date, the Baloise Group determines whether there is any objective evidence of a sustained impairment loss for a financial asset or a group of financial assets. A financial asset or a group of financial assets is only impaired if there is any evidence of an impairment loss as a consequence of one or more events that have an effect on the expected future cash flow of the financial asset, which can be estimated reliably. Objective evidence of an impairment loss of a financial asset include observable data for the following cases:

- considerable financial difficulties on the part of the debtor,
- a breach of contract such as the failure to pay or delayed payment of interest or repayment instalments,
- increased probability that a borrower will declare bankruptcy or enter into other re-underwriting processes,
- the disappearance of an active market for this financial asset
- observable data indicating a measurable reduction of the expected future cash flow from a group of financial assets since the initial evaluation.

Analysis reports from banks as well as appraisals by rating agencies are used to assess an impairment loss.

Should objective evidence for a sustained impairment of loans and receivables or held-to-maturity financial assets exist, the impairment loss expense, representing the difference between the book value of the asset and the present value of the future cash flow discounted by the respective effective interest rate of the financial asset, is determined. If the impairment value decreases in one of the subsequent reporting periods, and if this decrease can be attributed to an objectively occurring circumstance, then the impairment loss recognised earlier must be reversed (value recovery).

The recoverability of the mortgage portfolio is verified at regular intervals. Should there be objective evidence that the entire amount owed as per the original contractual conditions or the respective present value of a receivable cannot be recovered, then an impairment loss is set up. Loan commitments are assessed individually taking the following into consideration: the nature of the borrower, the borrower's financial situation, his payment history, the existence of a possible guarantor, and, if necessary, the sales value of possible securities.

3.10.2 Financial Assets Measured at Market Value

On each balance sheet date, the Baloise Group determines whether there are objective evidence of a sustained impairment loss on financial assets classified as available for sale. This includes financial assets of an equity nature. It is mandatory to write impairment losses for financial assets of an equity nature where the market value on the balance sheet date is less than half the cost value, or where the market value is less than the cost value during the twelve months preceding the balance sheet date. For securities where the market value on the balance sheet date is between 20 and 50% below the cost value, the necessity to establish an impairment loss is reviewed and set up if necessary.

In the event of an impairment loss, the accumulated net loss is recognised directly in equity and transferred to the income statement.

Reversals of impairment losses on available for sale financial assets of an equity nature recognised in profit and loss may no longer be made. For financial assets of an equity nature that were impaired in earlier periods, a further reduction of the market value must be charged directly to the income statement.

If the market value of an available for sale financial asset of a debt nature increases in one of the subsequent reporting periods and the increase can be objectively attributed to an event that occured after recognising the impairment loss in profit and loss, the impairment must be reversed and the amount recognised in profit and loss as value recovery.

3.10.3 Impairment Losses on Non-Financial Assets

Goodwill and any assets with an indefinite useful life are subject to an impairment loss test at the same time each year, or if there are objective indications of an impairment loss. In order to verify the recoverability of goodwill, the goodwill is allocated to identifiable Cash Generating Units (CGUs). These CGUs form the lowest possible level in the company at which goodwill is observed for internal management purposes. To verify the recoverability, the useful life of a CGU is determined based on discounted cash flows. The basis of this useful life calculation is provided by the long-term financial planning approved by management. A sustained impairment loss is recognised in the income statement under the item "Other Operating Expenses".

The other non-financial assets are subject to an Impairment Loss Test whenever there is objective evidence of an impairment loss.

An impairment loss expense for an asset with a finite useful life that was recognised in earlier reporting periods is removed if there is a change to the estimations since entering the last impairment loss expense used to determine the recoverable amount. This represents a value recovery. An impairment loss expense on goodwill or assets with an indefinite useful life entered in an earlier reporting period will no longer be reversed.

3.11 Derivative Financial Instruments

Derivative financial instruments are Swaps, Futures, Forward and Option Contracts, etc. where the value is mainly derived from the underlying interest rates, exchange rates, raw material prices, or share values. As a rule, derivative financial instruments have no or only a low acquisition value. Derivative financial instruments are recognised in the balance sheet at market value. When a contract is concluded, it is either classified as a hedging instrument for the market value of an asset or a liability (Fair Value Hedge), as a hedge for future transactions (Cash Flow Hedge), as a hedge for the net investment in a foreign company, or as a trading instrument. Derivative financial instruments that don't comply with the IFRS hedging requirements although they have a hedge function according to the risk management rules of the Baloise Group, are treated as trade instruments.

The Baloise Group documents the effectiveness of the hedge as well as the targeted goals and strategies for all hedge transactions in hedge accounting. The effectiveness of the hedge is monitored on an ongoing basis after concluding the contract. Derivatives, that no longer fulfil the requirements of hedging, are reclassified as trade instruments.

3.11.1 Structured Products

Structured products are active or passive financial instruments that contain embedded derivatives in addition to the basic business. The majority of basic business and derivatives are not separated and classified as basic business recognised at market value through profit and loss, so that the unrealised gains and losses are recognised immediately in the income statement. Sometimes, the derivative is separated, entered separately, evaluated and disclosed. This requires that the financial features and risks of the embedded derivative are different to those of the basic business and that the derivative itself fulfils the definition of a derivative financial instrument.

3.11.2 Fair Value Hedge

For the effective part of the hedge relationship, changes to the market value of derivative financial instruments that have been classified as fair value hedge instruments are recognised in the income statement together with the hedged part of the fair value of the asset or liability. The ineffective part of the hedge is recognised separately in the income statement.

3.11.3 Cash Flow Hedge

Changes to the market value of derivative financial instruments classified as cash flow hedge instruments from effective hedge relationships are recognised directly in equity. The amounts recognised in equity are recognised in the income statement at a later time in accordance with the hedged cash flow. The ineffective part of the hedge relationship is recognised in the income statement.

If a hedge instrument is sold, terminated, or exercised, or no longer fulfils the criteria of a hedge, then the accumulated gain or loss remains in equity until the designated transaction occurs. If the occurrence of the expected transaction can no longer be anticipated, then the accumulated gains and losses in equity are transferred to the income statement.

3.11.4 Hedging a Net Investment in a Foreign Company

Hedging a net investment in a foreign company is handled as a cash flow hedge. The gain or loss of the hedging instrument on the effective hedge is entered in the equity capital; the ineffective part is recognised in profit or loss.

The gain or loss recognised in equity is transferred to the income statement if the foreign company is (partly) sold.

3.11.3 Derivative Financial Instruments That Do Not Meet Hedging Requirements

Changes to the market value of derivative financial instruments that do not meet hedging requirements are recognised in profit or loss as "Realised Gains and Losses on Investments".

3.12 Offsetting of Receivables and Liabilities

Receivables and liabilities are offset and the net value is recognised in the balance sheet, provided that there is a right to offset and the Baloise Group intends to realise these assets and liabilities concurrently.

3.13 Non-Current Assets Held for Sale and Discontinued Business Segments

Non-current assets or asset groups which are held for sale and meet the criteria of IFRS 5 "Non-Current Assets Held for Sale and Discontinued Business Segments" are reported separately in the balance sheet. Those assets addressed by the standard are valuated at the lower of book value or present value, less selling costs. Adjustments arising are recognised in profit or loss. Any scheduled depreciation is halted as of the reclassification date.

Detailed disclosure of discontinued business segments, if any, is made in the notes to the financial report.

3.14 Cash and Cash Equivalents

Cash and cash equivalents consist predominantly of cash, demand deposits and cash equivalents. Cash equivalents are, in particular, short-term liquid assets with maturities of up to 24 hours as well as cheques not yet cashed.

3.15 Equity

Equity instruments are classified as equity unless there is a contractual obligation for the repayment or surrender of other financial assets. Transaction costs relating to equity transactions are reduced and all associated income tax benefits recognised in the balance sheet as a deduction from equity. The transaction costs of an equity transaction relating to a merger are allocated at cost.

3.15.1 Share Capital

The reported share capital corresponds to 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 (premium) in excess of the face value, Bâloise-Holding share options and the results from the purchase and sale of treasury shares are included under capital reserves.

3.15.3 Treasury Shares

Treasury shares held by the Bâloise-Holding or by subsidiaries appear as a deduction from equity in the Group financial statements at cost (including transaction costs). No ongoing adjustment to fair value is performed. Upon resale, the difference between cost and sales price is recognised as a change in equity. Only shares of Bâloise-Holding are considered treasury shares.

3.15.4 Unrealised Gains and Losses (net)

This item includes changes in market value of financial instruments classified as available for sale, effects from cash flow hedging, effects from hedging a net investment in a foreign company, exchange differences as well as gains from the reclassification of owner-occupied property to investment property.

Unrealised gains and losses are reduced by the associated deferred tax assets and liabilities and, for life insurance companies, additionally by the share that will in future be used to amortise acquisition costs and to pay policyholders' dividends (Shadow Accounting). Minority interests, if applicable, will also be deducted from this item.

3.15.5 Retained Earnings

Retained earnings include the Baloise Group's retained earnings and its profit for the fiscal year. Dividend distributions to shareholders of Bâloise-Holding are only recognised 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 on the basis of the relevant ownerships.

3.16 Insurance Contracts

An insurance contract is defined as "a contract under which one party (the insurer) accepts a significant insurance risk from another party (the policyholder) and must pay compensation should a specified contingent future event (the insured event) adversely affect 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 include a Discretionary Participation Feature (DPF) that determines which recognition and valuation regulations are to be applied.

The Bâloise 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 did 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 make up a significant portion of the total contractual benefits;
- where the payment amount or date is contractually at the discretion of the insurer and is contractually dependent on the performance of a specified pool of contracts or a specified type of contract; the realised and / or unrealised investment income of a specified pool of investments held by the insurer; or the insurer's income.

Self-insurance contracts are eliminated from the Annual Financial Statements. This applies particularly to 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 makes exceptions for the treatment of embedded derivatives that are contained in an insurance contract or financial contract with a Discretionary Participation Feature. In as far as such embedded derivatives themselves satisfy the definition of an insurance contract, separate valuation 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 buyback values on traditional policies.

3.17 Nonlife Insurance Contracts

Basically, all standard products in the nonlife business contain sufficient insurance risk so as to be classified 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 typical for the respective market are offered in the accident segment. In Belgium and Switzerland in particular, there are additional specific, 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 businesses as so-called group insurance.
- General Liability
  In addition to conventional personal liability, third-party liability policies are also sold for certain professions. In Switzerland and Germany there are policies, in particular combined products, for small and medium-sized companies or for partners in industry, which include features such as product liability.
- Motor
  The two standard products common in 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, building and water damage insurance policies and all the other usual forms.
- Marine
  Marine insurance policies are primarily sold in Switzerland and in Germany. In addition to the typical merchandise insurance, the products may also contain liability components.
- Miscellaneous
  Small segments such as loan and legal protection insurance are normally combined here.
  Technical items for business concluded by the company itself, including the active reinsurance business, are designated with the term “gross”. After deducting passive (that is ceded) reinsurance, the items are designated “net” or “for own account”.

3.17.1 Premiums

The gross premiums written are those that have become due during the fiscal year. They include an amount necessary for covering the insurance risk as well as all cost mark-ups. 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) and retirement provisions and any capitalised settlement premiums, comprise the unearned premium reserves disclosed in 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 premiums earned. They are calculated from the premiums written and the change in unearned premium reserves.

3.17.2 Loss Reserves

Loss reserves and provisions for the corresponding 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 provisions represent a forecast of all payments to be made in future for these claims. The loss reserves are calculated on the basis of past experience and future expectations.

The processes used applies statistical methods as well as the expertise of the specialists handling the claims. The company strives to achieve a loss reserve that is as realistic as possible. A reserve for loss adjustment expenses is also established.

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

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

3.17.3 Policyholder Participation in Surplus and Profit

Insurance contracts can provide for the customer's participation in the surplus on their contracts (in particular in their claims history). The expense for policyholder participation in surplus and profit arises from the payments and the change in the related provisions.

3.17.4 Liability Adequacy Test (LAT)

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

To this purpose, all existing provisions, both loss reserves and annuity provisions from the nonlife segment, are analysed and, in the event of a shortfall, an appropriate subsequent provision is made. These calculations explicitly include belated claims and therefore result in adequate provisions for all claims which have already been made.

The Liability Adequacy Test as prescribed by IFRS requires, however, that an analysis also be made as to whether the company entered into further obligations with all current contracts in the reporting year. A profitability analysis of the insurance business for the current fiscal year must therefore be conducted to prove that adequate premiums were demanded and also that the amount of unearned premium reserves for liabilities in the ensuing reporting periods is covered. In addition, there are usually contracts that automatically renew for a further year on the same terms, which must likewise be analysed for their profitability. At the same time, this corresponds to an analysis of the recoverability of Deferred Acquisition Costs (DAC). Here, expected investment income from the relevant unearned premium reserves and existing loss reserves are taken into consideration. If a loss is expected, the deferred acquisition costs are reduced by the respective amount. If the total deferred acquisition costs are insufficient or the resulting liability cannot be covered, a separate provision for impending losses is set up within the unearned premium reserves.

3.18 Life Insurance Contracts and Financial Contracts with Discretionary Participation Features

For insurance contracts and financial contracts with Discretionary Participation Features, IFRS 4 allows users to continue to use the previous valuation principles in accordance with Section 1 for liabilities as well as assets resulting directly from the contracts (Deferred Acquisition Costs and Portfolio Assets).

On principle, the following Baloise Group life insurance products contain sufficient insurance risk to be classified as insurance contracts under IFRS 4:

- Endowment Life Insurance, Conventional Life Insurance and Unit-linked Life Insurance
- The Switzerland Group Life Business (BVG)
- Term Insurance Policies
- Immediate Annuity Insurances
- Deferred Pension Policies with an annuity conversion rate guaranteed at conclusion of contract
- All supplementary insurance policies such as Premium Waiver, Accidental Death Supplement, Disability etc.

The following accounting principles apply:

3.18.1 General Evaluation Principles

For the traditional life insurance business, different principles are applied depending on the type of profit participation. Principally, premiums are recognised as income and benefits as expenses when due. In each case, the provision is based on actuarial principles or the net premium principle, which provides a balanced development of the provision from the premium. The technical 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 preium loading into consideration 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 provisions, after deducting Deferred Acquisition Costs (DAC) or the Present Value of Future Profits (PVFP) on acquired insurance contracts, are to be increased. Unearned premium reserves, provisions for terminal dividends as well as certain cost premium components to be deferred (Unearned Revenue Reserve, URR) are also carried as a component of the premium reserve.

The Liability Adequacy Test is conducted for the entire life insurance business on every balance sheet date. A reserve is determined as of the valuation date, taking into consideration all future cash flows (such as insurance benefits, surpluses, contract-related administrative expenses etc.) 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 Deffered Acquisition Costs and Present Value of Future Profits), the reserves are immediately raised to the minimum level and the increase is recognised in the balance sheet.

In the case of unit-linked policies and traditional policies with low coverage, the parts of premiums that are not used to cover costs and risks are, in contrast to traditional insurance business, not recognised in the income statement but directly in provisions. For unit-linked policies without maturity guarantees, the reserve or liability usually corresponds to the deposit account value of the share per policyholder and hence to the market value of the related share in the fund. The change in the value of the corresponding fund is recognised in the income statement in exactly the same manner as the corresponding change in provisions. The Liability Adequacy Test is conducted by analogy to traditional products. For unit-linked life insurance policies with maturity guarantees, for which the maturity guarantee is neither secured by an investment approach nor by purchasing cover at an investment company, a provision to cover this liability is also established. This supplementary provision is posted under the actuarial reserves from non-unit-linked life insurance.

3.18.2 Present Value of Future Profits on Acquired Insurance Contracts (PVFP)

The Present Value of Future 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 valuation is made in accordance to actuarial principles. Depreciation is on a straight-line basis. The Loss Recognition Test is used regularly to check the recoverability of Deferred Acquisition Costs.

3.18.3 Deferral of Acquisition Costs

Acquisition costs are deferred as part of the recognised and paid commissions (Deferred Acquisition Costs). Depending on the contract, amortisation occurs over the period of premium payments or insurance period. The Loss Recognition Test is used to check recoverability.

3.18.4 Unearned Revenue Reserve (URR)

The Unearned Revenue Reserve (URR) are premium components charged for services in future periods. These premium components are recognised as liabilities and reversed by analogy in the deferred acquisition costs.

3.18.5 Policyholders' Dividends

In a majority of life insurance contracts, the policyholders have a right to surplus participation (Policyholders' Dividends)

The surpluses are paid in the form of benefit increases, premium reductions or terminal policyholders' dividends or accrued at interest to a surplus account. Surpluses already allocated, which are accrued on an interest-bearing basis, are recognised under the item "Policyholders' Dividends Credited and Provision for Future Policyholders' Dividends" (Section 22). The relevant interest expense is included under the item "Interest Expense on Insurance Liabilities". Surpluses that have been used to finance an increase in insurance benefits are recognised in the actuarial reserve.

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

IFRS 4 introduces the concept of a Discretionary Participation Feature (DPF), which is not only relevant to the classification of contracts but also to the disclosure of surplus funds in accordance with the policyholders' share in the unrealised gains and losses recognised in IFRS equity and regarding the share of the higher or lower values recognised in profit or loss in the Consolidated Financial Statements – as compared to the Statutory Financial Statement. Hence, the portion of the liability under an insurance contract that is attributable to a Discretionary Participation Feature (Discretionary Participation Feature component) is to be reported separately. The standard does not provide any clear guidelines regarding the valuation and disclosure of the Discretionary Participation Feature component.

In the case of contracts with a Discretionary Participation Feature, the Baloise Group considers the portion of the valuation differences attributable to these contracts, which are to be credited to policyholders pursuant to a statutory or contractual minimum quota as a Discretionary Participation Feature component. The Discretionary Participation Feature component thus determined is reported under the item "Provision for Future Policyholders' Dividends" (Section 22). This item also includes policyholders' dividends that are deferred and not yet allocated pursuant to local accounting practice.

If no contractual or legal minimum quota is stipulated, the Baloise Group defines Discretionary Participation Feature as the existing reserve for premium refunds after considering terminal policyholders' dividends. All other valuation differences between local and IFRS financial statements – in the absence of a minimum quota – are carried as part of equity.

The applicable minimum quotas prescribed by law, contract or the company's articles of association are country-specific.

In Germany, Austria and for some Swiss Group life insurance business, life insurance companies are obliged by law to pay out a minimum portion of their profit to policyholders in the form of surplus participation.

In Germany, this minimum quota is 90%. Deutsche Ring has committed itself to this minimum quota for new business in its Articles of Association. For a portion of its stock (existing stock) however, the previously stipulated minimum quota of 95% is still valid.

In Austria, the minimum quota is stipulated in the Terms and Conditions of the contract. As a rule, it is 90%.

Minimum quotas are also applied to some of Swiss BVG (occupational benefit plan) business (business subject to the legal quota), that is 100% on change in liabilities and 90% on change in assets.

3.19 Reinsurance

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

Active (i.e. assumed) reinsurance is recognised in the same period as the initial risk. The technical reserves are included in the "Unearned Premium Reserves (gross)" and "Loss Reserves (gross)" liabilities accounts for the nonlife insurance line and in the "Actuarial Reserves (gross)" liabilities accounts 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 insurances they are established based on the opening transaction. Passive reinsurance (i.e. insurance ceded) is the business ceded to insurance companies outside the Group and includes imposts from direct life and nonlife business and from actve reinsurance.

Passive reinsurance assets are calculated over the same period and on the same basis as the original transaction and are recognised in the item "Reinsurance Assets" (Section 15). Impairments are recognised in profit or loss for assets deemed to be at risk due to recognisable insolvency.

Receivables and liabilities from financial contracts are primarily calculated on the basis of the Effective Interest Method. The effective interest is determined as an internal interest rate based on the estimated amounts and dates of the expected payments. If the amount or date of the actual payments differs from expectations or the expectations change, the effective interest must be newly determined. The deposit account balance is then re-valued as if this new effective interest rate had been in effect from the beginning and the change in the deposit account value is recognised as interest income or expense.

Otherwise, the insurance cover financed from the deposit account is amortised over the expected life of the deposit account.

3.20 Liabilities from 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 Discretionary Participation Features is the same as that for life insurance contracts, for which the valuation principles are described in Section 3.18.

3.20.2 Financial Liabilities Measured at Amortised Cost

Savings deposits, medium-term bonds, mortgage-backed bonds and other liabilities are specifically recognised under liabilities valuated at amortised cost. They are initially valuated at cost (Fair Value).

The difference between acquisition cost and repayment value is recognised over the term in profit or loss in "Expense from Financial Contracts" pursuant to the Amortised Cost Method using the Effective Interest Method.

3.20.3 Recognised at Fair Value through Profit or Loss

In addition to financial contracts for which the holder bears the investment risk himself, this item also includes liabilities from the banking business that have been classified as Fair Value Hedges. Bonds from the banking segment are also included in the liabilities from banking business. These items are valuated at market value by discounting the cash flow using the current interest rate payable 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 recognised in financial liabilities. Financial liabilities are initially valuated at cost (fair value). Transaction costs are also included in acquisition cost.

The difference between the acquisition cost and repayment value is recognised over the term as borrowing costs in profit or loss pursuant to the Amortised Cost Method using the Effective Interest Method.

3.22 Employee Benefits

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

The following benefits are calculated: short-term benefits (such as wages), benefits over the long term (such as anniversary payments), as well as benefits upon termination of employment (such as severance pay and benefits from social compensation plans) and post-employment benefits. The following benefits may be especially significant due to their scope:

3.22.1 Post-Employment Benefits

The main retirement benefits are annuities from retirement provisions and contributions made by the employer to mortgages as well as certain insurance policies for retired employees. The benefits are paid after termination of employment; they are financed during the period in which the employee is active. The retirement benefits of the Baloise Group currently consist almost exclusively of defined benefit plans. The liabilities are calculated using the Projected Unit Credit Method.

The assets that correspond to the liabilities are only considered if they are paid to an entity separate than the employer, e.g. a foundation. Such assets are valuated at market value. Unrecognised technical gains and losses that exceeded the greater of the present value of the defined-benefit liabilities or the replacement value of plan assets by 10% at the end of the preceding reporting period are recognised in the income statement based on the expected average of the remaining years of service of the employee participating in the plans.

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

3.22.2 Share-Based Payment

The Baloise Group offers employees and senior members of staff various plans in which shares are granted as part of the overall compensation package. Employee profit-sharing schemes, qualified stock option schemes, Employee Share Ownership Plans, performance quota and Performance Share Units (PSU) are evaluated and disclosed in accordance with IFRS 2 "Share-based Payment". Plans that are serviced by shares in Bâloise-Holding are valuated at the calculated value on the date of granting and are recognised as personnel expenses during the blocking 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 recognised at the calculated value on the balance sheet date and reported as a liability.

3.23 Financial Provisions

Financial provisions for restructuring and legal claims are set up for current legal or constructive obligations, 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 reported as a contingent liability.

3.24 Taxes

Provisions for deferred income taxes are set up pursuant to the Liability Method, i.e. they are based on the current or future expected tax rate. Deferred income taxes consider the income tax effects of temporary variances in recognition and valuation of assets and liabilities under IFRS and for tax purposes. When calculating deferred income taxes, unused tax losses are taken into consideration 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 fulfilled. These are, as a rule, fulfilled if fiscal sovereignty, taxable entity and tax type are identical.

3.25 Recognition of Income

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

3.25.1 Income from Services Rendered

Income from services rendered is recognised in the period in which the service is provided.

3.25.2 Interest Income

Interest income on financial instruments which are not recognised at market value through profit or loss is recognised using the Effective Interest Method. If the value of a receivable is adjusted, the recoverable amount is depreciated to equal the difference between the effective value of the estimated future cash inflows and outflows and discounted using the original interest rate in the contract.

3.25.3 Dividend Income

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

4. Critical Accounting Principles and Estimation Uncertainties

The Consolidated Annual Financial Statements of the Baloise Group include estimates and assumptions, which could have an impact on the Annual Financial Statements of the next fiscal year. Estimates and the discretionary power of the management are continuously reviewed and are based on experience and other factors, including expectations of future events that appear reasonable on the balance sheet date.

4.1 Sustainable Impairment Losses on Available for Sale Financial Assets of an Equity Nature

An impairment loss must be recognised for financial assets of an equity nature available for sale if the market value at the balance sheet date is more than 50 percent below the acquisition cost or if its market value has remained constantly below the acquisition cost in the period between the balance sheet date and the balance sheet date of the previous year. An impairment test is conducted for securities whose market value is between 20 and 50% below the acquisition cost on the balance sheet date and an impairment loss is set up if necessary.

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.

4.2 Held-to-Maturity Financial Assets of a Debt Nature

The Baloise Group applies the provisions of IAS 39 for the classification of non-derivative financial instruments with fixed or determinable payments as held-to-maturity. To do so, it assesses the positive intent and feasibility of holding these financial instruments to maturity. If, contrary to the original intention, these financial instruments are not held-to-maturity – disregarding specific circumstances such as the sale of a negligible portion – the Baloise Group must reclassify all held-to-maturity financial instruments to the "available for sale" category with a subsequent valuation at market value. Pursuant to Section 11, the market values of those financial assets of a debt nature classified as "held-to-maturity" may be removed.

4.3 Impairment Losses on Mortgages and Loans

The mortgage portfolio is tested for recoverability at regular intervals. The methods and assumptions used to test recoverability are also reviewed regularly in order to minimise discrepancies between the actual and expected default probability.

4.4 Deferred Income Taxes

Unused tax losses and other deferred tax assets are capitalised if it is probable that they will be recovered. Assumptions regarding the probability that these tax benefits will be recovered are made for this purpose based on the business history and on the future income of the respective taxable entity.

4.5 Estimation Uncertainties Specific to Insurance

Estimation uncertanties in the area of technical risks are explained in Section 5.4 et seq.

4.6 Financial Provisions

The assessment of financial provisions includes assumptions concerning the probability, the date and the amount of an outflow of funds representing an economic benefit. If such an outflow of funds is probable and a reliable estimate is possible, an appropriate provision is set up.

4.7 Payments to Employees

In calculating performance-based payments to employees, assumptions are made regarding the expected return on plan assets, the economic use of assets, future pay and pension benefits, the applicable discount and other parameters. The most important assumptions are derived from previous estimate experience. The assumptions used are explained in Section 17.2.10.

5. Management of Insurance Risks and Finance Risks

The companies of the Baloise Group offer their customers nonlife insurances and life insurances, as well as (in Switzerland and, with certain restrictions, in Germany) bank products. Accordingly the Baloise Group is exposed to various risks.

The main risks in the nonlife insurance sector are: natural disasters, large-scale industrial risks, liability risks and personal injury risks. The whole insurance business is regularly examined by means of comprehensive analyses. The results of these analyses flow into the formation of reserves, the pricing and the structuring of insurance products, as well as reinsurance contracts. In the nonlife business, studies were carried out, particularly in recent years, regarding natural disasters, partly together with reinsurance companies and brokers, in order to determine the exposure and the necessary degree of risk transfer.

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

- longevity risk in the cases of pension insurance and endowment insurance respectively,
- mortality risk in the cases of death insurance and endowment insurances,
- disability risk in the sense of a risk of insufficient plan, due to a disability taking an unfavourable course of development.

Through the provision of interest rate guarantees, the Group is in addition exposed to the risk of interest rate change. Furthermore, implicit financial guarantees and options exist, which have an impact on the liquidity, investment planning and the income of the companies; these are, in particular, the provision of a guaranteed buy-back value in the case of cancellation, and guaranteed pension factors upon entry into the payout phase, in the case of pension insurances.

The risks specific to life insurance – longevity, death and disability – are monitored on an ongoing basis. The Baloise Group companies monitor and analyse mortality rates, as well as behaviour regarding cancellation, invalidations and reactivations, on a decentralised basis. In this process, statistics, which are customary in the market and are defined by actuaries and accompanied by sufficient safety margins are used. The information gained flows, on the one hand, into appropriate pricing and, on the other, it is used set up sufficient provisions to fulfil future insurance obligations. Due to the conservative pricing calculation demanded by government legislation and the comparatively good statistical basis, the risks here are controlable. In the pension insurance sector, there is, an additional risk inherent to the trend – the constant increase in life expectancy, leading to longer and longer pension payouts. This risk is taken into account accordingly, by using suitable foundations for calculation. In addition, more and more pension insurance policies are being signed whereby the pension conversion factor is not fixed at the time of signing, but rather based on a calculation of the basis for a pension valid at a specific time. This is particularly the case regarding unit-linked pension products.

In addition, the statistics from the decentralised units also form the basis for determining risk capital, which is required to balance unexpected deviations in the actuarial reserves.

In the case of contracts with participation features, there is the possibility of having an active impact on the entrepreneurial risk, since the surplus is usually not guaranteed. One possible course of action in a changed risk situation can consist of the surpluses being adapted to local stipulations. However, the division of the surpluses between the insured and the company is subject not only to local law, but also to the demands of the market.

The main risk categories of the banking division of the Baloise Group are credit risk, interest rate risk and liquidity risk. These risks are recorded and managed locally by the banks. The credit portfolio is monitored and analysed on an ongoing basis. In this process, various instruments are used, such as standardised credit stipulations and procedures, scoring and rating procedures, focusing on low-risk markets, and automatic dunning. The information gained flows into the loan decisions.

In the case of Deutscher Ring Bausparkasse AG, there is also a so-called collective risk, meaning that the long-term even-handed allocation of building society savings contracts must be guaranteed by the collective group of savers. This guarantee is provided by the collective group provided that it can be proved that the reserves for fluctuations at least remain in credit over the long term based on simulation calculations. In the case of the Deutscher Ring Bausparkasse, the collective risk is monitored and managed with the help of a simulation model. In this process, the collective total customer base of the building society is updated with future projections, on a contract-by-contract basis, incorporating new business scenarios and lessons from previously-observed patterns of behaviour.

For extraordinary events such as natural disasters, terrorist attacks or similar emergency plans have also been drawn up in all the companies of the Group, so that the continuation of business operations can be ensured.

5.1 Organisation of Risk Management of the Baloise Group

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

To monitor these risks, the Baloise Group has implemented a comprehensive, Group-wide risk management in all the Group's insurance and banking units. The Group-wide Risk Management Standards (GwRMS) have the following points of emphasis:

- Organisation and Responsibilities
- Methods, Rules and Limits
- Risk Monitoring

In this process, all activities directly related to risk management are summarised in a collective series of rules and internally coordinated.

At the highest level, the total risks of the Group and the individual business units are restricted and directed by means of corresponding internal and external bandwidths. At the level of finance risks and business risks, there are various limits and rules which either reduce the identified individual risks to a level acceptable to the Group or eliminate them completely.

Each Group or each business unit respectively takes responsibility for each individual identified risk through a Risk Owner. The Risk Owners are defined all along the line and according to levels of seniority. The most senior Risk Owner of the Group is the Chief Executive Officer of the Baloise Group. The persons responsible for the implementation of systematic Risk Controlling and of Risk Reporting are the Risk Controllers, defined parallel to the Risk Owners. In selecting Risk Controllers, particular care was taken to ensure the independence of the function. Points of emphasis for Risk Controlling within the Baloise Group are the following areas: Investment Risks, Business Risks (risks relating to the technicalities and the bank risks respectively), Financial Structural Risks and Compliance. The most senior Risk Controller of the Group is the Chief Financial Officer of the Baloise Group.

The Risk Map of the Baloise Group presents the categorisation of the identified risks. The risks are subdivided into the following three levels:

- nature of risk,
- secondary nature of risk,
- type of risk.

The risk types "Business Risks", "Investment Risks" and "Financial Structure Risks" are directly related to the core business activity of the Baloise Group. These risks are systematically addressed, managed and optimised by the management and various risk committees. The analysis of these risks is model-based and ultimately leads to a comprehensive, overall view.

"Business Environment Risks", "Operational Risks" and "Leadership and Information Risks" arise directly or indirectly from the operation of the business, the business environment or the strategic activities of any company. The risks of this type are also quantitatively recorded, evaluated and managed.

Throughout the whole quantification process, the relevance of the risk in question can likewise be analysed, in the context of the overall risk situation for the Baloise Group, or for the individual company respectively.

Risk Map

Business Risks

- Technical risks L (N)
  - Interest-Rate Guarantee
  - Parameter Risks
  - Disaster Scenarios
  - Formation of Reserves
- Technical risks NL (N)
  - Premiums
  - Losses
  - Disaster Scenarios
  - Formation of Reserves
- Reinsurance
  - Premiums / Pricing
  - Deficit
  - Active Reinsurance
- Credit Stewardship

Investment Risks

- Market Risks
  - Interest
  - Shares
  - Currencies
  - Real Estate Property
  - Market Liquidity
  - Derivatives
  - Alternative Investments
- Credit Risks

Financial Structure Risks

- Asset & Liability Risks
  - Risk of Interest-Rate Change
  - (Re-)Financing, Liquidity
- Provisions of Right of Control
- Risk Capitalisation

Business Environment Risks

- Change in Norms
- Market Risks
- External Events
- Investors

Operational Risks

- Security of Information Management
  - Data
  - Software / Hardware / Network
  - Physical Security
- Personnel Risks
  - Capabilities / Capacities
  - Availability of Knowledge
  - Incentive Systems
- Legal Risks
  - Contracts
  - Liability and Legal Action
  - Tax
  - Pension Fund
- Compliance
  - Breach of Standards
  - Fraud / Illegal Activity
- Business Processes
  - Process Risks
  - Project Risks

Leadership and Information Risks

Organisational Structure
Corporate Culture
Business Portfolio
Mergers & Acquisitions
External Communications
Projection, Plan, Budget
Project Portfolio
Management Information

Central Risk Management for the Baloise Group is under the control of the Group CFO in the Group division Finance. It coordinates Group-internal directives, risk reporting and the continued specialist development of suitable risk management processes and tools. On a monthly basis, it follows the economic market developments and their implications for the risk portfolio and the individual risk capacity of all business units, as well as of the Group as a whole. The responsible Risk Owners and Risk Controllers evaluate the plausibility of the figures submitted, considering them accordingly in their management decisions.

The non-diversifiable market risk is managed using, amongst other things, stochastic methods and comprehensive scenario analyses from centralised and decentralised units.

For each identified risk category there is a corresponding half-yearly reporting procedure. For this purpose each business unit produces a risk report, serving as a basis for the Group-wide risk report. Key figures for financial risks and technical risks are released internally each month, within the scope of a risk-controlling tool for both the Group and also for each strategic business unit.

5.2 Underwriting Strategy: Nonlife and Life

Primarily, the Baloise Group underwrites insurance risks of private individuals, as well as small to medium-sized enterprises in selected countries of mainland Europe. Industrial insurance in the Property, Liability, Marine and Technical sectors is mainly offered through the Basler Versicherungsgesellschaft in Basel or, its subsidiary in Bad Homburg (Germany), respectively. In this particularly high-risk segment, the central management of industrial insurance ensures a consistent level of quality and a high degree of transparency for the underwritten business.

Each business unit of the Baloise Group issues rules of procedure regarding the underwriting and checking of risks. These contain definitive allocations of responsibility and underwriting limits according to the business sector. The underwriting limits are approved by the most senior committee of the business unit and made known to the Corporate Excecutive Committee. In the Industrial Insurance sector the maximum underwriting limit was set at CHF 100 million for Switzerland and EUR 60 million for Germany, respectively. Within the Group, comparable underwriting limits continue to exist only for marine insurance. Risk management in industrial insurance also uses instruments to determine the required premium, as well as a risk-oriented overall portfolio management.

For its Elementary Losses Exposure, Baloise buys in reinsurance capacities to the value of CHF 200 million for the total Group.

5.3 Reinsurance Strategy: Nonlife and Life

The contractual reinsurance in the nonlife sector of the Baloise Group is structured by the Finance division for all the business units of the Group through the Group-wide reinsurance and placed in the market. In structuring the programmes, Group-wide reinsurance takes the risk-bearing capacity of the Group as a whole as its reference point. At present, the Group has placed exclusively non-proportional reinsurance programmes. The Group's maximum excess charge for cumulative damages amounts to CHF 20 million, for individual cases of loss it equals CHF 16 million for property losses and CHF 12 million for liability losses. In individual cases, the local business units of the Baloise Group take out further optional reinsurance protection. This type of reinsurance is heavily dependent on the respective individual risk and, accordingly it is placed by the business units themselves.

Reinsurance contracts can only be concluded with organisations which have received advance approval from the Finance division of the Group. The reinsurers usually have a minimum A– rating from Standard & Poors. In exceptional cases, a BBB+ rating or a comparable rating from another recognised rating agency is approved. However, these reinsurances are only used for nonlife asset insurance, regarding rapidly-handled claims.

The default risk amongst reinsurers is regularly checked. A "watchlist" is maintained regarding reinsurers who are bankrupt or who have payment difficulties. This list states in detail all the Group's relationships, open and written-off receivables and provisions with respect to these reinsurers. The "watchlist" is regularly updated.

In principle, the same demands are made of a reinsurer for life insurances as for the nonlife sector. In the Life Insurance business reinsurance has a lower degree of significance.

5.4 Nonlife

5.4.1 Insurance-Specific Risk

Primarily, the Baloise Group underwrites insurance risks of private individuals, as well as of small to medium-sized enterprises, in selected countries of mainland Europe. Apart from that, there is also business with industrial customers in Switzerland and Germany. Underwriting risks are limited by price monitoring and adjustment, as well as directives and limits on underwriting (adjusted to the size and the country of the portfolio in question).

5.4.2 Assumptions

- Loss Reserves / Claims Processing
  To determine the reserves for losses, the existing portfolios must be structured so that the existing data material is sufficiently homogeneous to allow the application of certain analysis procedures. In particular, it is assumed that the typical pattern of processing of the last years lends itself to meaningful extrapolation. It is only in cases where, for example, processing performance is subject to extreme breakouts, that additional assumptions might have to be made.
- Loss Adjustment Expenses
  Taking the relationship of average costs incurred for loss adjustment over the last years and the payments made in that period as a basis, provisions are set up for claim processing, proportionate to the available loss reserves.
- Pensions
  Normally, the basis for calculating pensions (mortality tables, interest rates etc.) for each country is provided or approved by the appropriate public authorities there. As certain parameters can however change relatively quickly, an annual check is performed (as part of the Liability Adequacy Test) to gauge the appropriacy of the provisions for pensions; in a case of insufficient coverage, additional reserves are allocated accordingly.

5.4.3 Changes in the Assumptions

In principle, the assumptions underlying the formation of loss reserves are constant. In the case of the basis for calculating pensions, adjustments are made time and again over the years. With respect to the previous year, no changes were made to these assumptions.

5.4.4 Sensitivity Analysis

Apart from the natural volatility of the insurance business, there are parameters to determine technical provisions, which have a considerable impact on an insurance company's earnings. Therefore, in the nonlife sector the following assumptions and their immediate implications for annual results were examined, within the scope of a Sensitivity Analysis: errors in estimation for loss reserves (including Incurred But Not Reported – IBNR) and the provisions in the run-off sector.

- All Baloise Group reserves calculated using actuarial methods or were placed individually for special claims (amongst others, large claims loss, but excluding run-off and coverage reserves in the case of pensions) equalled CHF 4,518.3 million at the end of 2007 (previous year: CHF 4,370.4 million). Thus, the consequence of a 10% deviation from this reserve requirement would be a claim payment (before deferred taxes) that is approximately CHF 451.8 million higher or lower respectively, before reinsurance (previous year: CHF 437.0 million).
- The majority of the reserves in the run-off sector originate from liabilities which the Baloise Group assumed on the London market in the 1960s. In this regard the primary burden for us are liability losses from the asbestos and environmental sectors.

The calculation of these loss reserves is always associated with a degree of uncertainty. Both the point in time for recognising such cases and the size of such possible claims contain a substantially higher degree of uncertainty than is the case with all traditionally established claims patterns. The reserves are in part calculated based on reports by external actuaries. In this process, an analysis is usually made of an optimistic and a pessimistic scenario respectively. The Baloise Group's reserve policy always orientates itself at least on the mean value. In particular, it is difficult to evaluate the level of reserves for long-term losses; consequently additional fluctuations can not be ruled out. According to experts' estimates one must therefore work on the basis that variances of approximately 10% could occur, or, related to the corresponding reserves, before tax, the sum of about CHF 20 million (previous year: CHF 23 million).

5.4.5 Claims Processing

Analysis of the claims processing – gross (before reinsurance) by geographical segments

The reinsurance share is small and would not change the validity of the following claims processing tables.

Estimated losses incurred						**Year of loss occurrence**		
Switzerland (cumulative)	2001	2002	2003	2004	2005	2006	2007	**Total**
At the end of the year of the loss occurrence	691.2	735.2	766.3	754.2	951.2	684.1	681.4	
One year later	699.9	734.4	736.3	710.4	918.9	647.6		
Two years later	708.3	724.7	744.9	692.7	905.0			
Three years later	705.5	760.1	752.9	692.2				
Four years later	731.2	757.8	744.4					
Five years later	722.7	748.8						
Six years later	718.7							
Estimated losses incurred	718.7	748.8	744.4	692.2	905.0	647.6	681.4	**5,138.1**
Claims paid	–631.7	–639.2	–610.4	–558.4	–731.4	–450.0	–303.9	**–3,925.0**
Loss reserves – gross	**87.0**	**109.6**	**134.0**	**133.8**	**173.6**	**197.6**	**377.5**	**1,213.1**
Loss reserves before 2001 – gross (including major losses and assumed business)								**497.8**
Reserves for annuities (nonlife) – gross								**555.0**
Reinsurers' share								**–337.6**
Loss reserves – net								**1,928.3**

in CHF million

For improved comprehensibility, the following claims development analyses are specified in EUR.

Estimated losses incurred						**Year of loss occurrence**		
Germany (cumulative)	2001	2002	2003	2004	2005	2006	2007	**Total**
At the end of the year of the loss occurrence	276.4	276.4	370.8[1]	325.8	292.2	283.8	306.7	
One year later	265.8	409.9[1]	348.5	304.2	279.9	288.7		
Two years later	376.0[1]	412.2	346.7	291.8	285.8			
Three years later	377.8	411.0	334.4	295.5				
Four years later	377.8	406.1	336.5					
Five years later	373.9	407.3						
Six years later	364.1							
Estimated losses incurred	364.1	407.3	336.5	295.5	285.8	288.7	306.7	**2,284.6**
Claims paid	–349.4	–389.2	–316.4	–275.6	–251.9	–230.6	–170.0	**–1,983.1**
Loss reserves – gross	**14.7**	**18.1**	**20.1**	**19.9**	**33.9**	**58.1**	**136.7**	**301.5**
Loss reserves before 2001 – gross (including major losses and assumed business)								**212.4**
Reserves for annuities (nonlife) – gross								**54.1**
Reinsurers' share								**–108.0**
Loss reserves – net								**460.0**

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	2007	**Total**
At the end of the year of the loss occurrence	271.9	253.2	229.6	229.4	214.8	201.6	217.3	
One year later	301.0	249.3	209.6	212.6	212.2	197.0		
Two years later	265.6	239.3	210.5	215.1	199.4			
Three years later	262.5	228.3	205.0	203.7				
Four years later	255.4	224.7	197.7					
Five years later	255.4	220.1						
Six years later	254.8							
Estimated losses incurred	254.8	220.1	197.7	203.7	199.4	197.0	217.3	**1,490.0**
Claims paid	–209.2	–180.3	–153.3	–151.3	–139.9	–127.1	–100.8	**–1,061.9**
Loss reserves – gross	**45.6**	**39.8**	**44.4**	**52.4**	**59.5**	**69.9**	**116.5**	**428.1**
Loss reserves before 2001 – gross (including major losses and assumed business)								**283.9**
Reserves for annuities (nonlife) – gross								**104.9**
Reinsurers' share								**–101.8**
Loss reserves – net								**715.1**

in EUR million

Analysis of claims processing for the "other" segment

A large part of the provisions of this segment come from the run-off area. Due to the special nature of the business, it is difficult to conduct meaningful analyses. Therefore, the provisions formed involve an increased uncertainty.

The survival ratio – the ratio of the provisions to the average claims payments of the last three years – is a common parameter for assessing the adequacy of the provisions for asbestos and environmental damages. The ratio indicates for how many years the provisions will last for covering the claims payments. At the end of the reporting period, the survival ratio was at a comfortable level of 25 years (previous year: 20.3 years), which represents a slight increase compared to the previous year.

5.5 Life

5.5.1 Insurance-Specific Risk

Traditional *life insurance* is referred to as "fixed-sum insurance"; rather than being an amount due to a claim, a fixed sum is paid out when the insured event (e.g., survival or death) occurs. Capital and / or pension benefits in the event of premature death (death insurance) and disability (disability insurance) are insured in the form of risk insurance, while the savings insurance focuses primarily on savings for old age. The combined life insurance combines risk protection with the savings process.

Average technical interest rate	Switzerland Individual life	Switzerland Group life	Germany	Benelux	Other
31th December 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%
31th December 2007					
Technical reserves excluding interest guarantee	803.0	698.3	3,214.6	425.7	16.6
Technical reserves with 0% interest guarantee	907.5	584.0	307.7	84.6	56.9
Technical reserves with positive interest guarantee	9,461.4	10,137.1	12,791.9	1,549.2	623.0
Average technical interest of positive interest guarantees	2.9%	2.6%	3.4%	4.1%	3.5%

in CHF million

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

Interest increases are associated with the risk of increased contract terminations (cancellations), which could lead to liquidity problems due to the pay-out of benefits. This risk is reduced by cancellation deductions. In the past, no significant connection could be observed between interest increases and extensive contract terminations.

On the other hand, decreasing interest entails the risk that the investment income may no longer be sufficient to finance the technical interest. This risk is reduced by asset liability management (ALM) and by surplus participation.

Unit-linked life insurance is usually a combined life insurance or a deferred pension insurance, which gives the policyholder more flexibility in the investment process. During the deferment period, the unit-linked pension insurance works in a similar way to the combined life insurance. In the pension payment period, the contract turns into a traditional pension insurance.

In the event of death, the beneficiary receives the insurance sum or the fund balance, in cases where the fund balance exceeds the insurance sum. For the financing of the mortality cover in cases where risk capital exists (corresponds to the positive difference between the insurance sum and the fund balance), a risk premium is debited from the fund on a monthly basis.

The fund underlying the savings scheme is selected from a different number of funds – depending on the product – according to the specifications of the investor profile of the policyholder.

Usually, the policyholder bears the full investment risk and benefits from any positive performance.

In the case of the unit-linked life insurance, neither the repurchase value nor the maturity value is guaranteed. However, a maturity value is partly granted via the selection of the fund. Typically, these are funds that secure the maturity value by means of the investment method (decreasing proportion of shares when share prices drop) in connection with a certain contract term. This type of business is offered in Switzerland and in Germany. For these specific contracts, the maturity guarantee of the life insurance may differ slightly from the fund value due to the arrangement of the contract. This risk is duly taken into consideration actuarially.

In Germany, there are still a small number of contracts for which a minimum survival benefit amounting to the contributions paid is guaranteed without any fund-based hedging. Since 1999, this product is no longer offered.

In Switzerland, an interest guarantee exists for a closed portfolio segment. This interest guarantee was granted within the scope of the statutory pension scheme (3a policy). In the case of survival, the policyholder receives the value of the fund portion, but no less than the net savings premium plus technical interest (3.25%). The funds permitted for these tariffs merely contain a small proportion of shares and are therefore characterised by a low volatility. An actuarial provision is formed for the guarantee.

In Belgium, some closed funds also provide a maturity value guarantee. Banks not associated with the Group take care of the fund management and the securing of the guarantee.

	Switzerland		Germany		Benelux		Other	
	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007
Actuarial reserve from unit-linked life insurance	444.7	445.9	1,194.8	1,387.3	288.4	352.6	5.4	13.7

in CHF million

Risk insurance can entail substantial risks, e.g. due to epidemics, lifestyle changes such as a lack of exercise, and terror attacks. Contracts that cover the survival risk are mainly subject to longevity risks, which may increase even more due to further progress in the field of medicine and further improvements to the standard of living.

In the field of activity, the named risks do not differ significantly.

The group life business comprises in particular *occupational pensions* in *Switzerland*, which cover the risks of death, disability and survival in the same way as the individual life business. The speciality of the Swiss group business is the impact of political decisions. The government determines the minimum interest to be paid on savings as well as the conversion rate with which the saved capital is to be converted into a pension upon retirement. However, these rules only apply to the minimum part of the accumulated capital that must be financed according to law. For the part exceeding this level, actuarially appropriate pension conversion rates are used. However, a change of the minimum interest rate also affects the existing statutory portfolio, not only the new business, as is usually the case in the individual life business.

Disability insurance is predominantly concerned with add-on insurances, i.e. with premium exemption for life insurance contracts with periodical premium payments in the event of disability. The independent disability insurances are insignificant. In terms of actuarial reserves, the disability risk accounts for approximately 6% of the business.

	Actuarial reserve 31.12.06		Actuarial reserve 31.12.07	
	in CHF million	Share %	in CHF million	Share %
Traditional insurance				
Longevity risk	8,314.7	23.8	8,785.0	24.3
Mortality risk	15,335.8	43.8	15,501.8	43.0
Disability risk	2,172.0	6.2	2,204.0	6.1
BVG retirement assets	7,232.2	20.7	7,380.5	20.5
Subtotal	**33,054.7**	**94.5**	**33,871.3**	**93.9**
Unit-linked				
Longevity risk	584.4	1.6	644.9	1.8
Mortality risk	1,348.9	3.9	1,554.6	4.3
Subtotal	**1,933.3**	**5.5**	**2,199.5**	**6.1**
Total	**34,988.0**	**100.0**	**36,070.8**	**100.0**

The allocation of the actuarial reserves to the above categories has been performed on the basis of the products, i.e. each product has been allocated to a risk type. Within a product, the actuarial reserves have not been distributed to different risks. Usually, the mortality tables that are used are authoritative for the allocation to a category.

5.5.2 Assumptions

The actuarial reserves are calculated according to the principles valid when a contract is concluded. These principles are proposed or approved by the authorities. During the determination of tariffs of life insurance products, safety margins are included in these principles in order to forestall any adverse developments in the future. This mainly concerns the technical interest and the mortality tables. Along with the consideration of anti-selection effects, this inclusion of safety margins explains why pension tables differ from mortality tables. Cancellations are not taken into account in the reserving.

The principles used are checked continually by means of an LAT (liability adequacy test). This test ensures the adequacy of the provisions. The assumptions used for this test represent “best estimate” assumptions. The two main assumptions of this test are the prospective investment income and the mortality table. The expected investment income is determined on the basis of the current and the target investment portfolio (strategic asset allocation). The yield on new capital investments is aligned to the capital market interest. Depending on the size of the portfolio, the mortality tables are based on publicly accessible tables that are adjusted by empirical values or on the company’s own mortality tables.

Cancellation is also taken into consideration in the LAT. This assumption is based on the companies’ experience. The impact of a change of the cancellation assumption on the result of the LAT is usually negligible.

5.5.3 Sensitivities

In connection with the sensitivities, the effect of changes in the assumptions on the annual result and on the equity was determined. The effects of shadow accounting, latency calculation, and deferred tax assets and liabilities, and reinsurance effects were taken into account, but are negligible due to their insignificance. In these calculations, the assumptions according to which the liability adequacy test (LAT) was conducted were varied.

Simulated scenarios:

- Increase in mortality by 10%
- Decrease in mortality (i.e., increase of longevity) by 10%
- Reduction of new capital inflow by 50 basis points

For the determination of the sensitivities, only the tested assumption is changed. The other parameters are kept constant, except for the surplus participation, which is duly adjusted.

Usually, sensitivities are not linear. Thus, extrapolation is not possible.

- Increase in mortality by 10%
  A mortality increase of 10% in the LAT merely has a marginal effect on the income statement and equity in most life insurance companies of the Baloise Group. One of the reasons for this is that the margins are sufficient even after the mortality increase. In the life insurance units in Germany, Belgium and Luxemburg, the effect on the income statement is especially caused by the modified DAC, URR, and PVFP depreciation and the financing with terminal policyholders’ dividends. In these units, the total effect on the income statement is below CHF 1 million per unit. In the Swiss unit, the reduced appropriation to subsequent pension reserving even resulted in a generally relieving effect amounting to approximately CHF 24 million (previous year: CHF 23 million). This relieving effect already takes into consideration the increased burden due to the additional DAC depreciation. The effects on the equity that are not recognised through profit or loss are marginal in all units.
- Reduction in mortality by 10%
  As is the case in the “mortality increase” scenario, the effects of a reduction of the mortality are marginal for the life insurance companies in Germany, Luxemburg, and Belgium. This applies both to the effect on the income statement and to the effect on the equity.
  In the Swiss life business, a reduction of the mortality along with a corresponding adjustment of the surplus participation would result in a burden of approximately CHF 25 million (previous year: CHF 25 million) on the income statement. As in the above scenario, the equity effect is small.

- Reduction of the New Capital Inflow by 50 Basis Points
  This scenario assumes that the new capital inflow (including reinvestments) drops by 50 basis points.
  For the German units, the scenario results in a modified depreciation of the DAC balance. The development of the terminal policyholders' dividends is irregular, depending on the type of dividend. The size of the total effect is greatly alleviated by the existing statutory dividend distribution. The total effect on the result from the German units is below CHF 1 million (previous year: also under CHF 1 million). The effect on the equity that is not recognised through profit or loss amounts to CHF 3 million (previous year: CHF 3 million).
  In Belgium, the scenario results in an additional DAC depreciation and a provision for impending losses. Due to the business model with high guaranteed interest rates and few dividends, the effect on the income statement is higher than in other countries. In total, this results in a negative effect of CHF 18 million (previous year: CHF 18 million) in the income. The negative effect of the income statement is over-compensated by the positive change in unrealised gains and losses in equity. The positive effect on the unrealised gains amounts to CHF 24 million (previous year: CHF 19 million).
  In Luxemburg, the scenario results in a marginal negative effect on the income statement and on the unrealised gains and losses of CHF 6 million (previous year: CHF 5 million).
  In the Swiss business, the scenario results in a burden of approximately CHF 19 million on the income statement (previous year: CHF 20 million). This is due in particular to an increased DAC depreciation and increased technical reserves together with decreasing reserves for terminal policyholders' dividends. In the Swiss unit, the equity not recognised through profit or loss increases by CHF 101 million (previous year: CHF 128 million).

5.5.4 Changes in the Assumptions

The prospective investment income is continuously adapted to the market conditions. The investment income followed an upward trend in all units. This resulted in a reduced pension reinforcement, particularly in Switzerland. Further assumptions such as, e.g. cancellations and mortality are permanently updated, but without having any major effects.

5.6 Market Risk Management

Within the scope of the life insurance business, companies of the Baloise Group offer investment-type life insurance contracts for the account and risk of the policyholder. The financial liabilities that accrue in this context are backed with assets – mostly funds – from these contracts. As the market risk of the assets underlying these contracts is borne by the policyholder, these are listed separately in the notes to the consolidated annual financial statements.

Generally, however, market risks are reflected in losses due to changing or fluctuating market prices, which can result in potential impairment losses of the assets. The degree of risk depends on the extent of the price fluctuations in the market and on the exposure.

The following sections address the issues of interest rate risks, foreign currency risks, credit risks, liquidity risks, and share price risks.

5.6.1 Interest Rate Risks

The interest rate risk refers to the danger that the interest margin – and thus also the income of a company (income effect) or the fair value of the interest rate sensitive products portfolio (asset effect) is reduced due to interest rate fluctuations on the money and capital markets. Apart from the economic risk of asset investments not being maturity-matched in relation to liabilities, the partially different balance sheet regulations entail a balance sheet risk.

Consequently, a change in the interest rate or in the interest structure may not only result in a considerable deterioration of the conditions in case a reinvestment is necessary, but may even necessitate depreciation. The nonlife units engage in benchmark-oriented maturity control. In the life units, the maturity control is driven by the obligations on the liabilities side.

Within the scope of the Group-wide Risk Management Standards of the Baloise Group, investment planning and suitable asset liability management are used to control divergences in the maturity periods; and thereby the interest rate risk in consideration of the available risk capacity.

Additionally, stress tests are defined and conducted. These stress tests serve as an early warning system, and their effects can be simulated for all areas of the company and thus for the operational result.

The effect of a stress test on the financial figures is measured on a monthly basis. The underlying stress scenario (potential loss due to a risk) is reviewed on a regular basis and adapted if necessary. The magnitude of a stress test is usually geared to the simple annual volatility of the financial risk under examination, to a 100-year event of a business risk, or to international common practice.

The life insurance companies of the Baloise Group control their risks in relation to interest rate changes directly by means of suitably geared strategic asset allocation. In determining the asset allocation, in particular the factors of risk capacity and financeability of the guarantees are taken into consideration. Moreover, the expectations of the asset management from the capital markets and the expectations of the customers from the life insurance play a role in the decision process. The Chief Investment Officer (CIO) of the Baloise Group reviews the strategic asset allocation of all business units twice a year in collaboration with these business units.

At the banks, interest rate risks are also controlled and monitored within the scope of a suitable asset liability management. Interest rate risks are only taken if they are related to the business volume and the business activity. The interest rate risks are measured by a software application using value-at-risk, gap, duration, and interest sensitivity methods. The so-called asset liability mismatch is actively controlled by means of suitable interest derivatives, usually fair value hedges.

The limits of the interest rate risk are determined in such a way that when the market interest curve exhibits a shift of +/– 100 basis points the fair value of the equity may diminish by no more than 2.5% (warning limit) or 4.0% (action limit) per calculation date. In addition to these percentages, absolute values are determined for the warning and action limits on an annual basis and are approved by the Board of Directors. These must also not be exceeded.

Had the general interest level been 50 basis points lower with all other variables remaining constant on the balance sheet closing date the consolidated result (after consideration of latency calculation and deferred tax assets and liabilities) would have been CHF 36 million (previous year: CHF 37 million). Including the effects on the consolidated results, the equity would have grown (after consideration of shadow accounting, latency calculation, and deferred taxes) by CHF 181 million (previous year: CHF 199 million). This is due especially to the increase in unrealised gains on fixed-income securities.

Derivative Financial Instruments, Employed as Fair Value Hedge

In the Swiss banking business, changes in the interest rate can have a substantial impact on the interest margin and thus on the result of the interest business. These interest rate risks emerge from a variety of factors and include the different fixed-interest periods of loans and liabilities. The interest result also depends on the changes of the market interest rates, as the time for the adjustment of the conditions for loans may not always correspond to that of the customer deposits and securitised debts. Assets and liabilities with variable interest rates are also subject to a basic risk due to different interest rate adjustments, e.g. between the interest rates on savings and the 6-month LIBOR. To hedge such interest risks, the hedge accounting mainly makes use of interest rate swaps.

Derivative financial instruments employed as **fair value hedges:**

	Fair value – assets		Fair value – liabilities	
	2006	**2007**	2006	**2007**
Forward transactions	–/–	–/–	–/–	–/–
Swaps	11.8	17.9	0.9	6.4
OTC options	–/–	–/–	–/–	–/–
Other	–/–	–/–	–/–	–/–
Traded options	–/–	–/–	–/–	–/–
Traded futures	–/–	–/–	–/–	–/–
Total	**11.8**	**17.9**	**0.9**	**6.4**

in CHF million

Gains and losses recognised in the income statement

	2006	**2007**
from the derivative financial instrument	–6.9	–0.2
from the basic business	7.2	0.3

in CHF million

Derivative financial instruments employed as **cash flow hedges:**

	Fair value – assets [1]		Fair value – liabilities [1]	
	2006	**2007**	2006	**2007**
Forward transactions	–/–	–/–	–/–	–/–
Swaps	–/–	–/–	0.0	–/–
OTC options	–/–	–/–	–/–	–/–
Other	–/–	–/–	–/–	–/–
Exchange-traded options	–/–	–/–	–/–	–/–
Exchange-traded futures	–/–	–/–	–/–	–/–
Total	**–/–**	**–/–**	**0.0**	**–/–**

in CHF million

[1] The basic business is expected to be effected in October 2007.

	2006	**2007**
Amount recognised in equity	0.0	–/–
Ineffectiveness reclassified to income statement	–/–	–/–

in CHF million

5.6.2 Foreign Currency Risks

The term "currency risk" refers to the potential financial loss resulting from changes in exchange rates. The extent of the effective currency risk depends:

- On the net foreign currency exposure, i.e. on the balance of foreign currency assets and liabilities;
- On the volatility of the respective currencies;
- On the correlations of the currencies with other risk parameters in the portfolio context.

Due to the investments in foreign currency bonds (especially EUR bonds) for investment and diversification purposes, changes in the exchange rate can result in currency effects in the income statement – even for unrealised positions. To comply with the defined risk budget for currency effects recognised through profit or loss the currency management first determines adequate target hedge ratios. Under consideration of this target hedge ratio and the bandwidths granted for freedom of action, the currency management implements the required hedging strategies and makes use of overreaction phases in the market price development for deliberate overweighting or underweighting of the hedge ratios in relation to the defined benchmark. The implementation of these hedging strategies takes place by means of currency forwards, options, or option combinations; the selection of instruments depends on factors such as the expected exchange rate development and the volatility.

The currency effect of the foreign currency bonds and of the actuarial foreign currency liabilities and the change in fair value of the derivative financial instruments held for hedging purposes are always reported in the income statement.

Two thirds of the hedging strategy is implemented by means of currency forwards and one third in the form of puts or option combinations.

The Group-wide Risk Management Standards prescribe ongoing monitoring of the currency risks and of the effectiveness of the concluded currency derivatives. Under consideration of the achieved diversification effect in the portfolio, the currency risks that are taken stand in a reasonable relationship to the potential surplus to be gained.

For its insurance activities, the Baloise Group almost exclusively uses Swiss francs and euros; thus, most of the technical provisions are also denominated in these currencies. Furthermore, there is a small amount of technical liabilities in USD and GBP. These provisions are usually covered by currency-matched investments (natural hedge).

For the international diversification (risk distribution) and for the purpose of increasing the income and due to greater liquidity in certain foreign financial markets the Swiss companies held a net EUR position of CHF 2,533.7 million (previous year: CHF 4,089.4 million), a net USD position of CHF 2,053.8 million (previous year: CHF 1,843.6 million), as well as a net JPY position of CHF 38.0 million (previous year: CHF 41.1 million) as of 31st December 2007.

The remaining active and passive currency exposure is low. To control the risk, the currency management has hedged about one quarter of the net foreign currency exposure in USD and three quarters of the net foreign currency exposure in EUR.

Under the precondition that all other variables remain constant, transactional currency changes of CHF +/– 0.01 (1 Rappen) compared to the functional currency to monetary balance sheet items (after consideration of shadow accounting, latency calculation, and deferred tax assets and liabilities) would result in a change of the profit for the period and thereby of the equity of CHF +/– 4.8 million (previous year: CHF +/– 3.5 million); a positive (+) change of CHF 0.01 CHF would result in a gain from exchange differences and a negative (–) change of CHF 0.01 would result in a loss from exchange differences.

Derivative financial instruments designated for **hedging a net investment in a foreign company** for protection against currency risks:
Substantive alternative financial investments such as hedge funds and private equities are managed by separate companies: Baloise Alternative Investment Strategies Ltd., Cayman Islands, and Baloise Private Equity Ltd., Cayman Islands.

To limit the currency risk of the net investments in these two foreign companies, which report in USD, the currency management of Baloise performs hedging transactions in the form of currency forwards. The limitation of the implementation of hedging strategies to currency forwards facilitates the assessment of the hedge efficiency and the use of hedge accounting. Due to the use of hedge accounting, the change in market value of these derivatives is recorded cumulatively under a special equity item and only derecognised in profit or loss upon sale of the underlying investment together with the accrued currency effects of the net investments in these foreign companies.

	Fair value – assets		Fair value – liabilities	
	2006	**2007**	2006	**2007**
Forward transactions	5.1	6.9	2.7	6.0
Swaps	–/–	–/–	–/–	–/–
OTC options	–/–	–/–	–/–	–/–
Other	–/–	–/–	–/–	–/–
Traded options	–/–	–/–	–/–	–/–
Traded futures	–/–	–/–	–/–	–/–
Total	**5.1**	**6.9**	**2.7**	**6.0**

in CHF million

	2006	**2007**
Amount recognised in equity	85.1	49.3
Ineffectiveness reclassified to income statement	–/–	–/–

in CHF million

Due to the active management of the participation investments, capital repayments and payments are regularly performed in the course of the year. Thus, the basic effects underlying the hedge accounting and the recognition of the cash flow in profit or loss apply pro rata.

5.6.3 Credit Risk

Credit risks on the assets side of insurance companies include all potential risks of loss, which may result due to a decline in the creditworthiness of a debtor or issuer or a value impairment of the securities. The credit risk is managed by means of creditworthiness audits of every individual counterparty and high rating standards.

The credit risk grows with the increasing concentration of counterparties in an individual industry or geographical region. Economic developments affecting entire industries or geographical regions can affect the liquidity of an entire group of otherwise independent counterparties. For this reason, the Baloise Group permanently tracks the counterparty balances and monitors the default risk on a group-wide basis. The regional expertise of the business units also has an impact on the selection of securities and changes in the existing credit portfolio.

As the credit risk of the Baloise Group is diversified across industries and geographical regions and is distributed over a large number of counterparties and customers, the Baloise Group does not have a major credit risk involving a single counterparty or a specific industry or region.

To contain the credit risk and the credit accumulation risk in the Baloise Group, the share of investments that a single issuer or debtor may have at the Group companies is limited sufficiently in the Group-wide Risk Management Standards. The rules are explicitly defined in the Group's investment directive.

As a matter of principle, portfolio investments are only made in bonds, loans, or financial derivatives whose issuer or debtor has at least an "A" rating of Standard & Poor's or a comparable rating or for which a third-party guarantee or mortgage exists. For other debtors and issuers whose Standard & Poor's rating is at least "BBB" and for those who do not have a rating, an additional total limit of 10% of all fixed-income securities is determined on the basis of their fair value. Exceptions are subject to explicit approval.

Investments in mortgage bonds are secured by mortgage. Investments in note loans and registered bonds are secured by the deposit insurance fund. The deposit insurance fund serves as investor protection in the event of bankruptcy or insolvency of banks. For these investments, banks provide a repayment guarantee. Mortgage lendings are covered by corresponding property; the pledged amounts are capped.

Financial assets › 10% of consolidated equity:

	2006
Swiss Confederation	1,585.5
Commerzbank	1,263.3
Federal Republic of Germany	1,067.7
UBS AG, Zurich / 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

	2007
Commerzbank	1,530.8
Hypo Real Estate, Munich	1,442.5
Federal Republic of Germany	1,428.1
Swiss Confederation	1,322.9
Bayerische Landesbank, Munich	1,107.3
UBS AG, Zurich / Basel	991.6
Austrian Republic	937.6
Kingdom of Belgium	768.8
Landesbank Baden-Württemberg, Stuttgart	700.2
HSH Nordbank, Hamburg / Kiel	634.1
Republic of France	627.0
Uni Credito Italiano	519.7

in CHF million

Maximum default risk of financial assets	2006	**2007**
Financial assets of a debt nature		
Public corporations	9,053.5	8,896.3
Industrial enterprises	1,229.1	1,297.1
Financial institutions	13,894.8	13,942.9
Other	54.2	91.0
Mortgages and loans		
Mortgages	10,236.4	10,510.6
Policy loans	369.9	344.0
Promissory note loans and registered bonds	6,927.9	7,218.8
Reverse repurchase agreements	–/–	–/–
Other loans	569.3	609.0
Derivative financial instruments	75.8	54.2
Receivables from financial contracts	271.2	318.3
Reinsurance assets	362.0	350.6
Receivables from reinsurers	23.2	85.3
Insurance receivables	565.9	601.1
Other receivables	328.6	361.4
Receivables from investments	650.5	684.8
Cash and cash equivalents	698.1	1,611.7

in CHF million

If no contractually irrevocable loan commitments were agreed, the maximum default risk of financial assets corresponds to the book value for own account and own risk.

The principles for the management and credit risk control in the mortgage business are defined in directives and work instructions. The mandatory credit regulations are defined in these documents. These credit regulations provide for strict processes in order to be able to immediately identify, precisely assess, duly approve, and continually monitor credit risks. All loan applications are entered by means of standardised loan templates, reviewed, and centrally recorded and managed. All valuation principles and guidelines are duly mapped or integrated in the respective loan templates.

Thanks to the ongoing recording of mortgage transactions, the compliance with the credit policy can be reviewed, and corrective measures can be initiated if necessary. Moreover, all mortgages are managed by means of periodic engagement audits. Outstanding interest lists are maintained amongst other things. The procedure and intervals are defined in a separate directive. The management is regularly informed about the composition and development of the risks in the mortgage portfolio by means of comprehensive risk reports.

The guidelines, directives, and competency regulations define the conditions according to which mortgages are to be granted. This includes the amount, the creditworthiness of the counterparty, the coverage and the term of the transaction as well as the professional qualification of the mortgage specialist.

The valuation and pledging of the securities are governed by special directives. The purpose of these provisions is to ensure uniform assessment procedures to determine the relevant value of the security. Focussing mainly on the mortgage business, determining the fair value and the pledged value of property are of central importance. One of the purposes of active mortgage management is to identify potential loss risks at an early stage.

The mortgage portfolio comprises lendings to natural persons and legal entities. The type, scope, hedging and quality requirements of the risks to be taken are recorded in the directives and in the competency regulations. To minimise the risk, the portfolio is as geographically diverse as possible.

Creditworthiness of financial assets that were neither overdue nor had an impairment loss as of the balance sheet date 2006

	AAA	AA	A	BBB	Lower than BBB or no rating	**Total**
Financial assets of a debt nature						
Public corporations	5,791.1	2,045.9	1,042.4	121.9	52.2	**9,053.5**
Industrial enterprises	217.6	306.0	234.9	237.2	212.0	**1,207.7**
Financial institutions	9,068.6	3,249.8	877.5	213.7	485.2	**13,894.8**
Other	0.4	14.3	14.1	2.1	23.3	**54.2**
Mortgages and loans						
Mortgages	–/–	–/–	3,634.6	202.0	5,799.5	**9,636.1**
Policy loans	–/–	–/–	–/–	–/–	369.9	**369.9**
Promissory note loans and registered bonds	5,618.0	107.4	517.1	49.3	636.1	**6,927.9**
Reverse repurchase agreements	–/–	–/–	–/–	–/–	–/–	**–/–**
Other loans	–/–	59.2	75.7	149.4	269.9	**554.2**
Derivative financial instruments	1.2	32.9	–/–	–/–	41.7	**75.8**
Receivables from financial contracts	–/–	–/–	–/–	–/–	271.2	**271.2**
Reinsurance assets	4.4	97.4	33.0	0.6	226.6	**362.0**
Receivables from reinsurers	0.1	4.8	0.9	0.8	16.6	**23.2**
Insurance receivables	0.7	1.2	4.2	0.2	353.3	**359.6**
Other receivables	24.2	31.6	0.9	–/–	271.4	**328.1**
Receivables from investments	209.0	50.4	31.5	6.0	324.3	**621.2**
Cash and cash equivalents	59.9	500.3	31.8	–/–	149.5	**741.5**

in CHF million

Creditworthiness of financial assets that were neither overdue nor had an impairment loss as of the balance sheet date 2007

	AAA	AA	A	BBB	Lower than BBB or no rating	**Total**
Financial assets of a debt nature						
Public corporations	5,610.4	1,878.1	987.3	291.7	128.8	**8,896.3**
Industrial enterprises	226.0	344.5	371.4	314.2	19.6	**1,275.7**
Financial institutions	9,324.0	2,648.7	1,053.0	234.6	666.2	**13,926.5**
Other	1.2	56.5	11.4	1.9	15.2	**86.2**
Mortgages and loans						
Mortgages	233.7	19.1	7,763.2	823.5	1,213.0	**10,052.5**
Policy loans	–/–	–/–	–/–	–/–	344.0	**344.0**
Promissory note loans and registered bonds	6,067.8	252.0	371.8	16.6	510.6	**7,218.8**
Reverse repurchase agreements	–/–	–/–	–/–	–/–	–/–	**–/–**
Other loans	79.6	44.6	126.6	186.2	130.8	**567.8**
Derivative financial instruments	9.1	29.6	2.5	–/–	13.0	**54.2**
Receivables from financial contracts	–/–	–/–	–/–	–/–	318.3	**318.3**
Reinsurance assets	4.6	78.5	29.2	0.4	231.7	**344.4**
Receivables from reinsurers	0.3	27.4	6.6	0.0	48.8	**83.1**
Insurance receivables	0.4	5.7	17.3	0.0	309.3	**332.7**
Other receivables	36.1	42.7	10.8	–/–	268.7	**358.3**
Receivables from investments	234.0	66.6	32.2	7.6	304.3	**644.7**
Cash and cash equivalents	64.4	1,173.4	61.1	–/–	321.5	**1,620.4**

in CHF million

Generally, the ratings of Standard & Poor's and Moody's, the world's most prominent rating agencies, along with Fitch Ratings, are used.

As the two agencies do not cover the domestic financial market exhaustively, three Swiss banks are used as additional sources. These are Credit Suisse, UBS, and the Zurich Cantonal Bank.Due to the risk management processes, an internal rating is performed for the mortgage assets in the Swiss insurance business. In line with the previous disclosure, granted mortgages can be pooled in two main rating categories.

The disclosure of these items takes place in the "lowest" rating category. Mortgage assets without indications of creditworthiness losses are listed under the category "A". Those with indications of creditworthiness losses are listed under the category "smaller than BBB or no rating".

Assets that were neither overdue nor had an impairment loss on the balance sheet date because their conditions were newly negotiated amounted to CHF 22.2 million (previous year: CHF 65.0 million) for mortgage assets and CHF 2.4 million (previous year: CHF 0 million) for insurance receivables.

As in the previous year, no financial assets or cash and cash equivalents were drawn on from hedge accounting in the reporting period

Asset impairment losses on the balance sheet date

			2006			**2007**
	Gross amount	Impairment	Book value	Gross amount	Impairment	Book value
Financial assets of a debt nature						
Public corporations	–/–	–/–	–/–	–/–	–/–	–/–
Industrial enterprises	30.6	–9.2	21.4	30.6	–9.2	21.4
Financial institutions	–/–	–/–	–/–	33.5	–17.1	16.4
Other	–/–	–/–	–/–	5.3	–0.5	4.8
Mortgages and loans						
Mortgages	329.4	–109.6	219.8	232.6	–89.7	142.9
Policy loans	0.0	0.0	0.0	–/–	0.0	–/–
Promissory note loans and registered bonds	6.3	–6.3	0.0	5.3	–5.3	–/–
Reverse repurchase agreements	–/–	–/–	–/–	–/–	–/–	–/–
Other loans	35.2	–27.6	7.6	49.9	–16.3	33.6
Derivative financial instruments	–/–	–/–	–/–	–/–	–/–	–/–
Receivables from financial contracts	–/–	–/–	–/–	–/–	–/–	–/–
Reinsurance assets	–/–	–/–	–/–	–/–	–/–	–/–
Receivables from reinsurers	–/–	–/–	–/–	6.2	–4.0	2.2
Insurance receivables	208.4	–35.9	172.5	235.2	–33.7	201.5
Other receivables	15.8	–15.8	0.0	11.0	–8.3	2.7
Receivables from investments	30.4	–5.8	24.6	45.2	–5.1	40.1
Cash and cash equivalents	–/–	–/–	–/–	–/–	–/–	–/–

in CHF million

Assets, that were overdue and not impaired at the balance sheet date, amount to CHF 17.2 million (previous year: CHF 20.6 million) for mortgage assets, for insurance receivables (in particular in the Swiss group life business) to CHF 64.5 million (previous year: CHF 39.0 million), for other loans and receivables to CHF 0.6 million (previous year: CHF 0.5 million) and for reinsurance assets to CHF 6.2 million (previous year: CHF 0 million).

5.6.4 Liquidity Risk

Both for banks and insurance companies, a latent liquidity risk exists, i.e. the risk that any extraordinary reduction of equity and liabilities cannot be buffered by a reduction of assets or any alternative refinancing cannot be implemented quickly enough. In extreme cases, a lack of liquidity may result in insolvency. In addition to legal regulations, the following rules apply:

The Group-wide Risk Management Standards prescribe central liquidity planning for each business unit. This takes place in close collaboration between the Investments, Actuarial, Actuarial Practise and Finance departments of a business unit.

In the liquidity management, the sequence of the liabilities must be taken into consideration:

Expected maturities from financial liabilities [1]

Liquidity risk as of 31st December 2006	‹1 Year [2]	1 – 3 years	3 – 5 years	›5 years	No maturity	**Total**	Book values
Liabilities from banking business and financial contracts							
with discretionary participation features (DPF)	381.0	–/–	–/–	–/–	–/–	**381.0**	381.0
measured at amortised cost	1,004.9	603.9	362.4	550.8	2,309.4	**4,831.4**	4,830.4
recognised at market value through profit or loss	104.2	6.1	52.1	1,370.2	–/–	**1,532.6**	1,532.6
Financial liabilities	226.8	449.1	113.8	113.8	–/–	**903.5**	895.4
Derivative financial instruments	37.1	0.8	0.6	6.1	–/–	**44.6**	44.6
Insurance liabilities	1,068.7	497.9	1.6	4.9	48.6	**1,621.7**	1,621.7
Other liabilities	583.4	9.5	0.0	0.6	0.0	**593.5**	593.5
Contingent liabilities	299.0	12.3	5.9	1.7	784.0	**1,102.9**	
Total	**3,705.1**	**1,579.6**	**536.4**	**2,048.1**	**3,142.0**	**11,011.2**	

in CHF million

Liquidity risk as of 31st December 2007	‹1 Year[2]	1 – 3 years	3 – 5 years	›5 years	no maturity	**Total**	Book values
Liabilities from banking business and financial contracts							
with discretionary participation features (DPF)	440.7	–/–	–/–	–/–	–/–	**440.7**	440.7
measured at amortised cost	1,073.0	644.9	385.8	589.8	2,464.2	**5,157.7**	5,162.8
recognised at market value through profit or loss	168.7	10.1	82.7	2,214.1	–/–	**2,475.6**	2,475.6
Financial liabilities	300.2	594.2	151.1	150.0	–/–	**1,195.5**	1,194.0
Derivative financial instruments	29.0	0.6	0.5	4.8	–/–	**34.9**	34.9
Insurance liabilities	1,187.3	552.1	1.0	5.4	53.7	**1,799.5**	1,799.5
Other liabilities	606.1	9.7	0.1	0.9	0.0	**616.8**	616.8
Contingent liabilities	171.4	13.0	1.8	2.4	806.4	**995.0**	
Total	**3,976.4**	**1,824.6**	**623.0**	**2,967.4**	**3,324.3**	**12,715.7**	

in CHF million

[1] The undiscounted contractual payment flows constitute the basis
[2] All the demand deposits are included in the first maturity range

Earliest possible maturities of financial liabilities [1]

Liquidity risk as of 31st December 2006	‹1 Year[2]	1 – 3 years	3 – 5 years	›5 years	No maturity	**Total**	Book values
Liabilities from banking business and financial contracts							
with discretionary participation features (DPF)	381.0	–/–	–/–	–/–	–/–	**381.0**	381.0
measured at amortised cost	1,087.1	560.4	338.2	536.3	2,309.4	**4,831.4**	4,830.4
recognised at market value through profit or loss	1,370.2	6.1	52.1	104.2	–/–	**1,532.6**	1,532.6
Financial liabilities	226.8	449.1	113.8	113.8	–/–	**903.5**	895.4
Derivative financial instruments	37.1	0.8	0.6	6.1	–/–	**44.6**	44.6
Insurance liabilities	1,560.1	8.1	1.6	4.9	47.0	**1,621.7**	1,621.7
Other liabilities	590.5	3.0	–/–	–/–	0.0	**593.5**	593.5
Contingent liabilities	1,102.9	–/–	–/–	–/–	–/–	**1,102.9**	
Total	**6,355.7**	**1,027.5**	**506.3**	**765.3**	**2,356.4**	**11,011.2**	

in CHF million

Liquidity risk as of 31st December 2007	‹1 Year[2]	1 – 3 years	3 – 5 years	›5 years	no maturity	**Total**	Book values
Liabilities from banking business and financial contracts							
with discretionary participation features (DPF)	440.7	–/–	–/–	–/–	–/–	**440.7**	440.7
measured at amortised cost	1,162.1	596.6	361.2	573.6	2,464.2	**5,157.7**	5,162.8
recognised at market value through profit or loss	2,213.4	10.1	82.7	169.4	–/–	**2,475.6**	2,475.6
Financial liabilities	300.2	594.2	151.1	150.0	–/–	**1,195.5**	1,194.0
Derivative financial instruments	29.0	0.6	0.5	4.8	–/–	**34.9**	34.9
Insurance liabilities	1,730.6	9.0	1.0	5.4	53.5	**1,799.5**	1,799.5
Other liabilities	613.6	3.2	–/–	–/–	0.0	**616.8**	616.8
Contingent liabilities	995.0	–/–	–/–	–/–	–/–	**995.0**	
Total	**7,484.6**	**1,213.7**	**596.5**	**903.2**	**2,517.7**	**12,715.7**	

in CHF million

[1] The undiscounted contractual payment flows constitute the basis
[2] All the demand deposits are included in the first maturity range

The residual terms and maturities of the technical reserves concerned are stated in the tables of section 22.

According to the Group-wide Risk Management Standards, asset liabilities committees have been introduced in all strategic business units of the Baloise Group. For asset liability management purposes, these committees conduct analyses concerning the maturities and realised / required income of the assets and liabilities.

Within the scope of the tactical and strategic investment planning, the asset allocation of the individual life and nonlife units of Baloise ensures that a sufficiently high level of liquidity is available for the investment activities and the operational handling of all business processes. To determine the required liquidity amounts, the maturity structure on the investments side, the outgoing payment structure of the liabilities on the insurance side and the average historical incoming and outgoing payment patterns of the last five years are examined in Cash Management. Major extraordinary incoming or outgoing payments that are known in advance are explicitly considered in investment planning. In the event of payments suddenly becoming necessary, e.g. due to large claims, the careful provision of liquid funds and the possibility of drawing on reinsurers guarantee a sufficiently large reserve. Moreover, arrangements such as cash pooling of the Swiss companies of the Baloise Group allow excess liquidity of one unit to be used to compensate a temporary liquidity bottleneck of another unit by means of an internal overdraft that is subject to interest.

5.6.5 Share Price Risk

With its financial assets of an equity nature of the categories "recognised at fair value through profit or loss" and "available for sale", the Baloise Group is exposed to the share price risk. This share price risk is substantially reduced by means of international diversification, e.g. wide spread of risks across industries, countries, and currencies. Moreover, the share price risk is duly limited by means of active Overlay Management via derivatives when certain intervention levels are reached or market or risk indicators, continually monitored by Baloise, suggest increased hedging activity.

Most of the financial assets of an equity nature are publicly listed.

Should the market prices of all financial assets of an equity nature change by +/– 10%, this would have the following consequences, after consideration of shadow accounting, latency calculation, deferred tax assets and liabilities, hedging derivatives, and the effect of the value adjustment rules stated in section 3.10.2:

	Effect on consolidated profit		Effect on equity (including consolidated profit)	
	2006	**2007**	2006	**2007**
Market price + 10%	7.6	18.7	451.2	428.9
Market price – 10%	–17.7	–25.9	–451.7	–425.1

in CHF million

As the effects generated by value adjustment criteria (Section 3.10.2) due to an assumed market price increase are different to those generated in the event of an analogous decrease, the effects differ accordingly. The same applies to compensatory effects from hedging with derivatives.

The profit for the period changes as a result of the changes in the market value of the financial instruments of an equity nature of the category "recognised at fair value through profit or loss", which are recognised in profit or loss. Unrealised gains and losses change due to changes in the market value of the financial instruments of an equity nature of the category "available for sale". In the case of life insurance companies, the policyholders' participation in the company's profit, depending on contract and local circumstances (Section 3.18.5). In the above presentation, this profit sharing is also taken into consideration.

5.7 Capital Management

The framework conditions regarding the amount of capital to be used are determined by regulatory requirements as well as internal risk management guidelines. While the regulatory requirements mainly serve to protect the policyholder, the internal guidelines are geared specifically to the risk-oriented control of the operating activities.

The decisive equity requirement for insurance companies is Solvency I. This requirement for the Group's solvency amounts to CHF 2,225 million (previous year: CHF 2,175 million) for the pure insurance business and was met at all times in 2006 and 2007. The coverage of capital resource requirements with available funds amounted to 287% as of 31st December 2007 (previous year: 320%). Based on regulatory requirements, the available capital resources consist of the IFRS equity, deferred tax assets and liabilities, policyholders' dividends that have not been allocated and the terminal bonus reserve. Thus, liabilities are also recognised at the individual company level in consideration of the respective solvency cover options. Items such as planned dividend payments and intangible assets are deducted. Additionally, the individual Group companies are monitored in accordance with local laws. In this connection, different recognition options apply in some cases. The business units' and therefore the Holding's ability to distribute profits is closely related to the prioritised fulfilment of these local requirements. In 2006 and 2007, all Group companies met the Solvency I requirement.

The requirement that is relevant for the banking business is Basel I. In this respect, too, the affected Group companies met the requirements in 2006 and 2007.

The risk-bearing capital is calculated within the scope of the Internal Model Approach. IFRS equity forms the basis for this calculation. By means of additionally considering individual asset, equity and liability items, as well as off-balance items and information, an equity valued at market prices is determined. This way, all capital items that could be used to cover losses in the event of a negative business development are considered.

The risk-bearing capital requirement is compared to the risk-adjusted, internally formulated capital requirement. For this risk analysis, the Baloise Group especially examines insurance-specific risks and investment risks in the course of the risk considerations. The risk factor is determined by means of a correlation-based Value at Risk Method. The capital for insurance-specific requirements represents a factor that defines the funds necessary to cover insurance-specific risks. for operational reasons. The claims risk is modelled on normal and large claim distributions taking the current reinsurance structure into consideration. At the same time, a requirement that is, with a given probability, sufficient to balance value and yield fluctuations of the investments is calculated for the investments. The analysis of these risks is based on quantitative models that use statistical methods to evaluate historical data and establish a relationship to the current exposures. By means of stress tests, various scenarios are simulated, and possible effects on the risk capacity are analysed. The ratio of risk-bearing capital to risk-adjusted capital is calculated for the strategic business units and for the Group. The Group's risk does not merely represent a simple addition of the individual items; rather, diversification and consolidation effects are also considered. The current ratios of risk-bearing capital to risk-adjusted capital are set in relation to the Global Risk Management Limits defined in the GwRMS. In 2006 and 2007, the Group remained within these limits at all times.

The responsible Risk Owners and Risk Controllers of the business units and of the Group are involved in a regular reporting process. This enables a situational reaction to changes in the risk situation and the introduction and implementation of further risk control considerations within the organisation as a whole.

6. Information on Geographical Regions and Business Areas

The Baloise Group operates strategically in the following geographical regions: Switzerland, Germany, Benelux, and other countries.

The business areas are split into nonlife, life, banking (including asset management), and other activities and corporate business. Nonlife features accident and health insurances as well as products of the liability, motor, property, and marine sectors. The products are geared to the needs of our customers – mainly private customers – and the core competencies of the companies of the Baloise Group. In the life insurance business, private persons and companies are offered a wide spectrum of capital-forming insurances, pure risk covers, and investment-type products. The business area banking includes Baloise Bank SoBa in Switzerland, which is active as a universal bank, and Deutscher Ring Bausparkasse in Germany, which mainly operates in the conventional building savings business. The segment of other activities and corporate business comprises participation, property, and investment companies in particular.

The accounting principles applied in segment reporting are the same as those applied in the other parts of the financial report. The Baloise Group performs business transactions between the business areas and geographical regions on the same conditions as with third parties. Segment reporting, management information, and the following tables present information sorted according to geographical segments and business areas.

Segment Reporting

A region (geographical segment) offers its insurance products and services within a specific economic environment that is exposed to risks and opportunities that differ from those of other regions. A business area (business segment) is a distinctive sub-activity that offers products and services whose risks and opportunities differ from those of other business areas.

6.1 Segment Reporting by Geographical Regions

		Switzerland		Germany
Income	2006	**2007**	2006	**2007**
Premiums earned and policy fees (gross)	3,694.4	3,706.4	2,086.3	2,131.0
Reinsurance premiums ceded	–185.6	–186.2	–98.4	–113.1
Premiums earned and policy fees (net)	3,508.8	3,520.2	1,987.9	2,017.9
Investment income	932.0	1,022.1	682.0	734.2
Realised gains and losses on investments	159.5	164.6	252.1	161.3
Income from services rendered	46.1	68.1	135.4	161.1
Result from investments in associates	0.0	0.0	14.8	3.7
Other operating income	44.1	51.2	77.3	34.8
Income	**4,690.5**	**4,826.2**	**3,149.5**	**3,113.0**
Intersegment income	70.0	79.6	49.7	45.3
Income from associates	0.0	0.0	14.7	3.7
Expenses				
Claims and benefits paid (gross)	–3,084.6	–3,276.6	–1,697.0	–1,728.8
Change in technical reserves (gross)	–574.3	–397.6	–398.9	–302.1
Reinsurance share in losses paid	72.4	110.2	39.6	97.9
Acquisition costs	–75.1	–59.1	–255.6	–280.0
Operating and administrative expenses for insurance business	–374.7	–393.4	–358.4	–380.9
Investment expenses	–37.8	–38.5	–23.3	–27.5
Interest expense on insurance liabilities	–9.5	–8.7	–54.5	–67.4
Expense from financial contracts	–79.7	–92.0	–29.2	–26.3
Other operating expenses	–239.4	–256.7	–203.1	–207.9
Expenses	**–4,402.7**	**–4,412.4**	**–2,980.4**	**–2,923.0**
Segment income	**287.8**	**413.8**	**169.1**	**190.0**
Borrowing costs				
Profit before tax				
Income taxes				
Profit / loss for the period				
Additional information				
Segment assets	34,291.6	34,437.4	19,570.9	20,314.3
Of which: investments	32,214.0	32,282.5	17,359.7	17,994.6
Of which: investments in associates	0.1	0.1	163.3	156.8
Segment liabilities	29,999.2	30,293.2	18,494.8	19,203.8
Of which: technical reserves	25,130.5	25,217.6	16,986.1	17,543.9
Cash flow from operating activities (net)	66.8	942.3	31.0	60.4
Cash flow from investing activities (net)	40.0	–40.6	–32.6	–56.5
Cash flow from financing activities (net)	24.7	–18.1	4.8	14.4
Acquisition of property, plant and equipment and intangible assets	43.6	41.6	51.7	149.7
Depreciation on a systematic basis of property, plant and equipment and intangible assets	–47.4	–46.3	–39.4	–39.9

in CHF million

	Benelux		Other countries		Elimination		**Total**
2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**
747.5	797.9	342.9	416.3	–164.5	–171.4	6,706.6	**6,880.2**
–42.1	–46.6	–25.9	–33.4	164.5	171.4	–187.5	**–207.9**
705.4	751.3	317.0	382.9	0.0	0.0	6,519.1	**6,672.3**
147.0	201.6	62.7	76.1	0.0	–0.9	1,823.7	**2,033.1**
151.8	65.2	139.4	207.0	–/–	–/–	702.8	**598.1**
7.7	17.3	99.0	163.6	–1.8	–22.6	286.4	**387.5**
47.2	4.6	0.0	–/–	–/–	–/–	62.0	**8.3**
8.0	16.6	53.1	72.7	–38.2	–49.7	144.3	**125.6**
1,067.1	**1,056.6**	**671.2**	**902.3**	**–40.0**	**–73.2**	**9,538.3**	**9,824.9**
12.3	13.6	–172.0	–211.7	40.0	73.2	–/–	**–/–**
1.6	1.2	–/–	–/–	–/–	–/–	16.3	**4.9**
–430.5	–476.8	–194.6	–216.6	81.7	100.9	–5,325.0	**–5,597.9**
–97.9	–78.1	–31.6	–98.5	21.9	42.7	–1,080.8	**–833.6**
17.7	26.6	17.3	16.5	–103.6	–143.6	43.4	**107.6**
–137.6	–152.6	–26.5	–34.4	1.0	1.3	–493.8	**–524.8**
–84.0	–117.4	–29.7	–45.3	–1.0	–1.3	–847.8	**–938.3**
–12.0	–14.1	–20.8	–24.2	–/–	–/–	–93.9	**–104.3**
–3.1	–3.1	–1.2	1.8	1.3	1.3	–67.0	**–76.1**
–53.0	–41.5	–4.9	–11.0	10.3	8.5	–156.5	**–162.3**
–35.6	–16.0	–125.8	–243.3	28.4	63.4	–575.5	**–660.5**
–836.0	**–873.0**	**–417.8**	**–655.0**	**40.0**	**73.2**	**–8,596.9**	**–8,790.2**
231.1	**183.6**	**253.4**	**247.3**	**–/–**	**–/–**	**941.4**	**1,034.7**
						–28.2	**–28.4**
						913.2	**1,006.3**
						–206.1	**–192.5**
						707.1	**813.8**
6,590.3	8,265.7	4,314.1	4,793.8	–830.6	–925.2	63,936.3	**66,886.0**
5,772.6	7,343.7	4,040.8	4,180.8	–30.0	–31.6	59,357.1	**61,770.0**
11.5	20.6	0.1	0.1	–/–	–/–	175.0	**177.6**
5,940.4	7,491.2	3,569.3	3,964.0	–830.6	–925.2	57,173.1	**60,027.0**
3,617.0	3,873.5	1,175.8	1,616.0	–387.6	–440.0	46,521.8	**47,811.0**
61.0	–43.9	524.7	397.4	–/–	–/–	683.5	**1,356.2**
41.3	–2.2	–9.4	–53.0	–/–	–/–	39.3	**–152.3**
0.0	0.1	–472.8	–332.7	–/–	–/–	–443.3	**–336.3**
30.5	9.9	9.4	64.3	–/–	–/–	135.2	**265.5**
–9.8	–9.7	–3.0	–6.7	–/–	–/–	–99.6	**–102.6**

6.2 Segment Reporting by Business Areas

		Nonlife		Life
Income	2006	**2007**	2006	**2007**
Premiums earned and policy fees (gross)	3,055.2	3,202.4	3,651.4	3,677.8
Reinsurance premiums ceded	–167.7	–182.7	–19.8	–25.2
Premiums earned and policy fees (net)	2,887.5	3,019.7	3,631.6	3,652.6
Investment income	296.6	340.6	1,368.2	1,507.2
Realised gains and losses on investments	121.6	141.3	474.3	438.8
Income from services rendered	0.2	12.3	6.1	21.8
Result from investments in associates	0.9	2.1	47.3	2.6
Other operating income	78.1	51.3	67.2	66.9
Income	**3,384.9**	**3,567.3**	**5,594.7**	**5,689.9**
Intersegment income	–53.0	–44.1	–28.1	–39.6
Income from associates	3.1	1.2	0.8	0.2
Expenses				
Claims and benefits paid (gross)	–1,801.9	–1,882.0	–3,523.1	–3,715.9
Change in technical reserves (gross)	–63.6	–117.8	–1,017.2	–715.8
Reinsurance share in losses paid	34.8	96.2	8.6	11.4
Acquisition costs	–388.0	–403.0	–105.8	–121.8
Operating and administrative expenses for insurance business	–477.9	–544.1	–369.9	–394.2
Investment expenses	–19.8	–21.0	–73.6	–79.8
Interest expense on insurance liabilities	–2.5	–2.1	–64.5	–74.0
Expenses from financial contracts	–12.1	–7.2	–100.0	–82.5
Other operating expenses	–111.7	–169.8	–103.0	–98.4
Expenses	**–2,842.7**	**–3,050.8**	**–5,348.5**	**–5,271.0**
Segment income	**542.2**	**516.5**	**246.2**	**418.9**
Borrowing costs				
Profit before tax				
Income taxes				
Profit / loss for the period				
Additional information				
Segment assets	11,531.7	12,003.0	47,234.3	49,709.1
Segment liabilities	8,132.6	8,663.7	44,631.0	46,960.7
Acquisition of property, plant and equipment and intangible assets	69.6	75.3	45.5	158.1

in CHF million

	Banking		Other activities		Elimination		**Total**
2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**
–/–	–/–	–/–	–/–	–/–	–/–	6,706.6	**6,880.2**
–/–	–/–	–/–	–/–	–/–	–/–	–187.5	**–207.9**
–/–	–/–	–/–	–/–	–/–	–/–	6,519.1	**6,672.3**
174.4	186.5	11.9	18.2	–27.4	–19.4	1,823.7	**2,033.1**
–7.3	0.8	114.2	17.2	–/–	–/–	702.8	**598.1**
81.2	78.7	220.5	320.0	–21.6	–45.3	286.4	**387.5**
–/–	–/–	13.8	3.6	–/–	–/–	62.0	**8.3**
12.1	16.7	47.1	34.7	–60.2	–44.0	144.3	**125.6**
260.4	**282.7**	**407.5**	**393.7**	**–109.2**	**–108.7**	**9,538.3**	**9,824.9**
0.0	–1.1	–28.1	–24.0	109.2	108.8	–/–	**–/–**
–/–	–/–	12.4	3.5	–/–	–/–	16.3	**4.9**
–/–	–/–	–/–	–/–	–/–	–/–	–5,325.0	**–5,597.9**
–/–	–/–	–/–	–/–	–/–	–/–	–1,080.8	**–833.6**
–/–	–/–	–/–	–/–	–/–	–/–	43.4	**107.6**
–/–	–/–	–/–	–/–	–/–	–/–	–493.8	**–524.8**
–/–	–/–	–/–	–/–	–/–	–/–	–847.8	**–938.3**
0.0	0.0	–0.5	–3.5	–/–	–/–	–93.9	**–104.3**
–/–	–/–	–/–	–/–	–/–	–/–	–67.0	**–76.1**
–86.1	–98.4	–39.5	–26.1	81.2	51.9	–156.5	**–162.3**
–110.7	–115.2	–278.1	–333.9	28.0	56.8	–575.5	**–660.5**
–196.8	**–213.6**	**–318.1**	**–363.5**	**109.2**	**108.7**	**–8,596.9**	**–8,790.2**
63.6	**69.1**	**89.4**	**30.2**	**–/–**	**–/–**	**941.4**	**1,034.7**
						–28.2	**–28.4**
						913.2	**1,006.3**
						–206.1	**–192.5**
						707.1	**813.8**
5,869.2	5,928.5	1,202.2	1,182.2	–1,901.1	–1,936.8	63,936.3	**66,886.0**
5,589.6	5,650.1	703.7	672.1	–1,883.8	–1,919.6	57,173.1	**60,027.0**
5.6	13.1	14.5	19.0	–/–	–/–	135.2	**265.5**

Notes to the Consolidated Balance Sheet

7. Property, Plant and Equipment

7.1 Property, Plant and Equipment 2006	Land	Buildings	Operating equipment	Machines/ furniture/ vehicles	IT equipment	Total
Book value as of 1st January	**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 the 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 the scope of consolidation	–/–	–/–	–/–	–0.3	0.0	**–0.3**
Reclassification	–2.6	–7.1	–2.1	–0.4	0.4	**–11.8**
Impairment and depreciation						
Depreciation		–21.4	–10.4	–6.9	–21.4	**–60.1**
Impairment losses recognised in profit or loss	–/–	–/–	–/–	–/–	–/–	**–/–**
Reversals of an impairment loss recognised in profit or loss	–/–	3.8	–/–	–/–	–/–	**3.8**
Exchange differences	0.5	10.1	0.4	0.7	0.8	**12.5**
Book value as of 31st December	**88.4**	**434.0**	**46.9**	**29.0**	**40.0**	**638.3**
Acquisition cost	90.0	814.1	141.3	85.0	156.9	**1,287.3**
Accumulated depreciation and impairment	–1.6	–380.1	–94.4	–56.0	–116.9	**–649.0**
Balance as of 31st December	**88.4**	**434.0**	**46.9**	**29.0**	**40.0**	**638.3**
of which: Assets held under a finance lease [1]	–/–	134.0	–/–	–/–	–/–	**134.0**

in CHF million

7.2 Property, Plant and Equipment 2007	Land	Buildings	Operating equipment	Machines/ furniture/ vehicles	IT equipment	Total
Book value as of 1st January	**88.4**	**434.0**	**46.9**	**29.0**	**40.0**	**638.3**
Additions	2.2	115.5	10.4	14.5	16.9	**159.5**
Additions from change in the scope of consolidation	17.9	14.2	0.0	8.2	0.9	**41.2**
Disposals	–16.8	–92.2	–1.1	–3.1	–0.2	**–113.4**
Disposals from change in the scope of consolidation	–/–	–/–	–/–	0.0	–/–	**–/–**
Reclassification	–1.6	–0.2	–0.2	–0.1	0.1	**–2.0**
Impairment and depreciation						
Depreciation		–21.9	–10.8	–8.3	–21.8	**–62.8**
Impairment losses recognised in profit or loss	–0.5	–0.1	–/–	–/–	–/–	**–0.6**
Reversals of an impairment loss recognised in profit or loss	1.6	–/–	–/–	–/–	–/–	**1.6**
Exchange differences	0.5	8.6	0.4	0.8	0.5	**10.8**
Book value as of 31st December	**91.7**	**457.9**	**45.6**	**41.0**	**36.4**	**672.6**
Acquisition cost	92.2	812.1	150.3	105.1	169.6	**1,329.3**
Accumulated depreciation and impairment	–0.5	–354.2	–104.7	–64.1	–133.2	**–656.7**
Balance as of 31st December	**91.7**	**457.9**	**45.6**	**41.0**	**36.4**	**672.6**
of which: Assets held under a finance lease [1]	–/–	134.2	–/–	0.1	–/–	**134.3**

in CHF million

[1] 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 impairments and depreciation are included in the other operating expenses.

8. Intangible Assets

8.1 Intangible Assets 2006	Goodwill	Present value of gains on acquired insurance contracts	Deferred acquisition cost Life	Deferred acquisition cost Nonlife	Other intangible assets	Internally developed intangible assets	Total
Book value as of 1st January	**15.8**	**52.5**	**1,009.0**	**153.9**	**118.1**	**7.9**	**1,357.2**
Additions from change in the scope of consolidation	1.9	–/–	–/–	–/–	–/–	–/–	**1.9**
Additions from change in percentage of interest	–/–	–/–	–/–	–/–	5.7	–/–	**5.7**
Additions	–/–	–/–	–/–	–/–	34.3	0.6	**34.9**
Capitalisation of acquisition costs	–/–	–/–	101.0	308.8	–/–	–/–	**409.8**
Disposals	–/–	–/–	–/–	–/–	–12.0	–/–	**–12.0**
Disposals from change in the scope of consolidation	–/–	–/–	–/–	–/–	–0.2	–/–	**–0.2**
Reclassification	–/–	–/–	–/–	–/–	–/–	–/–	**–/–**
Impairment and depreciation							
Depreciation		–2.8	–109.4	–312.0	–36.9	–2.6	**–463.7**
Write-ups		–/–	–/–	–/–	–/–	–/–	**–/–**
Impairment losses recognised in profit or loss	–/–	–5.0	–/–	–/–	–0.9	–/–	**–5.9**
Reversals of an impairment loss recognised in profit or loss		–/–	–/–	–/–	–/–	–/–	**–/–**
Depreciation as a result of impending losses	–/–	–/–	–/–	–1.0	–/–	–/–	**–1.0**
Change due to unrealised gains and losses on financial instruments (shadow accounting)	–/–	–/–	–3.3	–/–	–/–	–/–	**–3.3**
Accrued interest	–/–	–/–	–/–	–/–	–/–	–/–	**–/–**
Exchange differences	0.0	1.9	27.0	2.9	2.1	0.2	**34.1**
Book value as of 31st December	**17.7**	**46.6**	**1,024.3**	**152.6**	**110.2**	**6.1**	**1,357.5**
Acquisition costs [2]	162.9				324.1	17.6	
Accumulated depreciation and impairment [2]	–145.2				–213.9	–11.5	
Balance as of 31st December [1]	**17.7**	**46.6**	**1,024.3**	**152.6**	**110.2**	**6.1**	**1,357.5**

Intangible assets by segments							
Switzerland	–/–	–/–	168.1	66.8	63.2	–/–	**298.1**
Germany	17.7	46.6	829.0	51.0	33.2	6.0	**983.5**
Benelux	–/–	–/–	15.6	28.2	9.4	0.1	**53.3**
Other countries	–/–	–/–	11.6	6.6	4.4	–/–	**22.6**
Total regions	**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 Group has no intangible assets of indefinite useful life.
[2] Owing to the application of IFRS 3 "Business Combinations", and the related changes in IAS 36 "Impairment of Assets", accumulated depreciation is offset against acquisition costs. Accumulated impairments continue to be presented separately.

8.2 Intangible Assets 2007

	Goodwill	Present value of gains on acquired insurance contracts	Deferred acquisition cost		Other intangible assets	Internally developed intangible assets	Total
			Life	Nonlife			
Book value as of 1st January (restated)	**17.7**	**46.6**	**1,024.3**	**152.6**	**110.2**	**6.1**	**1,357.5**
Additions from change in scope of consolidation	132.1	32.5	–/–	2.1	19.5	–/–	**186.2**
Additions from change in percentage of interest	16.2	–/–	–/–	–/–	–/–	–/–	**16.2**
Additions	–/–	–/–	–/–	–/–	44.7	0.6	**45.3**
Capitalisation of acquisition costs	–/–	–/–	127.1	335.1	–/–	–/–	**462.2**
Disposals	–/–	–/–	–/–	–/–	–3.6	–3.2	**–6.8**
Disposals from change in scope of consolidation	–/–	–/–	–/–	–/–	–/–	–/–	**–/–**
Reclassification	–/–	–/–	–/–	–/–	–/–	–/–	**–/–**
Impairment and depreciation							
Depreciation		–3.5	–89.5	–333.4	–38.2	–1.6	**–466.2**
Write-ups		–/–	–/–	–/–	–/–	–/–	**–/–**
Impairment losses recognised in profit or loss	–36.6	–0.2	–/–	–/–	–0.3	–/–	**–37.1**
Reversals of an impairment loss recognised in profit or loss		–/–	–/–	–/–	–/–	–/–	**–/–**
Depreciation as a result of impending losses	–/–	–/–	–/–	–0.8	–/–	–/–	**–0.8**
Change due to unrealised gains and losses on financial instruments (shadow accounting)	–/–	–/–	14.7	–/–	–/–	–/–	**14.7**
Accrued interest	–/–	–/–	–/–	–/–		–/–	**–/–**
Exchange differences	–0.1	1.8	24.4	2.5	1.8	0.1	**30.5**
Book value as of 31st December	**129.3**	**77.2**	**1,101.0**	**158.1**	**134.1**	**2.0**	**1,601.7**
Acquisition costs [2]	311.1				371.7	12.9	
Accumulated depreciation and impairment [2]	–181.8				–237.6	–10.9	
Balance as of 31st December [1]	**129.3**	**77.2**	**1,101.0**	**158.1**	**134.1**	**2.0**	**1,601.7**

Intangible assets by segments							
Switzerland	–/–	–/–	209.7	69.0	71.0	–/–	**349.7**
Germany	33.4	45.3	843.5	49.7	31.7	1.9	**1,005.5**
Benelux	2.5	–/–	23.9	26.2	10.3	0.1	**63.0**
Other countries	93.4	31.9	23.9	13.2	21.1	–/–	**183.5**
Total regions	**129.3**	**77.2**	**1,101.0**	**158.1**	**134.1**	**2.0**	**1,601.7**

in CHF million

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

The goodwill balance at the end of 2007 is essentially ascribed to the newly acquired Osiguranje Zagreb and the Zeus Vermittlungsgesellschaft mbH, Hamburg and the Deutscher Ring Financial Services GmbH, Hamburg. Impairment tests performed for both of the afore mentioned companies on 31st December have not produced any impairment requirement.

By contrast the impairment test of the goodwill produced an impairment requirement of CHF 36.6 million in total in the newly acquired Croatian Osiguranje Zagreb in 2007. It reflects additions to the technical reserves made following the acquisition according to IFRS standards, value impairments to various receivables positions and revaluations at the Group level as part of the initial consolidation. A discount rate of 10.7% on the long-term financial plans approved by the management, and a growth rate of 5.2% for the final value were assumed for this impairment test. The change of +/– 0.1% points of one of these rates alters the impairment requirement by around +/– 6.5%.

The goodwill arising at the time of acquisition was distributed between the life (CGU life) and nonlife business (CGU nonlife) of Osiguranje Zagreb. An impairment requirement of 9.3 million CHF was allotted to CGU life. The impairment requirement for CGU nonlife comprises CHF 27.3 million. Consequently, the goodwill balance after impairment for CGU life amounted to CHF 20.9 million and CHF 72.5 million for CGU nonlife.

9. Investments in Associates

	2006	**2007**
Balance as of 1st January	174.7	**175.0**
Additions	3.1	**7.1**
Disposals / capital redemption	–56.3	**–10.7**
Reclassification due to change in percentage of interest	–16.7	**9.0**
Realised gains / losses on disposals	43.7	**0.1**
Adjustments	30.3	**–8.3**
Dividend payments	–11.3	**–0.7**
Exchange differences	7.5	**6.1**
Balance as of 31st December	**175.0**	**177.6**

in CHF million

Significant investments in associates 2007

	Assets	Liabilities	Revenue	Profit	Share in %
DePfa Beteiligungs-Holding II GmbH, Dusseldorf	230.1	2.0	5.7	4.6	26.0%
Roland Rechtschutz Versicherungs-AG, Cologne	925.0	726.6	356.7	24.5	25.0%
Other	386.2	282.7	278.0	11.3	

in CHF million

Investments in associates do not include listed companies.

10. Investment Properties

	2006	**2007**
Balance as of 1st January	**5,581.7**	**5,312.6**
Additions	131.0	**75.8**
Additions from change in the scope of consolidation	33.9	**76.0**
Disposals	–424.5	**–160.1**
Disposals from change in the scope of consolidation	–63.1	**–39.7**
Reclassification	11.8	**2.0**
Change in market value	6.9	**–22.9**
Exchange differences	34.9	**25.8**
Balance as of 31st December	**5,312.6**	**5,269.5**
Operating expenses arising from investment property that generated rental income	102.1	**74.0**
Operating expenses arising from investment property that did not generate rental income	1.1	**0.2**

in CHF million

Additions from changes in the scope of consolidation in the previous year are attributable primarily to the buy-out of the proportionally consolidated Immo Trefles NV, Anderlecht. Disposals from changes in the scope of consolidation in the previous year are chiefly attributable to the sale of Basler Immobilien GmbH, Vienna.

The greater part of disposals in the previous year resulted from the sale of Immobilienpark Zuiderpoort in Ghent and various other sales.

The additions in the reporting period result from the acquisitions of two real-estate companies in Belgium and the investment properties from the acquisition of Osiguranie Zagreb.

The disposals are entirely attributable to the sale of investment properties and real-estate companies in Belgium.

11. Financial Assets

	2006	**2007**
Financial assets of an equity nature		
Available for sale	8,222.9	7,787.2
Recognised at market value through profit or loss	37.9	54.0
Financial assets of a debt nature		
Held-to-maturity	7,608.1	6,854.2
Available for sale	16,271.8	16,884.8
Recognised at market value through profit or loss	351.7	488.3
Financial assets for own account and at own risk	**32,492.4**	**32,068.5**
Financial assets for account and at risk of holders of life insurance policyholders		
Recognised at market value through profit or loss	2,933.2	4,358.2
Financial assets according to balance sheet	**35,425.6**	**36,426.7**

in CHF million

Financial assets for own account and own risk

	Held-to-maturity		Available for sale	
	2006	2007	2006	2007
Balance as of 1st January	**8,037.0**	**7,608.1**	**21,948.9**	**24,494.7**
Additions	48,276.7	42,168.6	15,163.0	13,242.6
Additions from change in the scope of consolidation	–/–	5.5	–/–	116.5
Additions from change in percentage of interest	–/–	–/–	–/–	–/–
Reclassifications	–/–	9.0	–/–	–9.0
Disposals	–48,759.9	–42,979.0	–13,006.6	–12,473.1
Disposals from change in the scope of consolidation	0.0	–/–	0.0	–/–
Disposals from change in percentage of interest	–/–	–/–	–/–	–/–
Changes in fair value recognised directly in equity	–/–	–/–	107.7	–798.2
Changes in fair value recognised in profit or loss	–29.7	–27.0	–14.9	4.4
Impairments (net)	–/–	–/–	74.2	–29.7
Exchange calculation	84.0	69.0	222.4	123.8
Balance as of 31st December	**7,608.1**	**6,854.2**	**24,494.7**	**24,672.0**
Financial assets of an equity nature				
Publicly listed			5,289.1	4,892.7
Not publicly listed			2,933.8	2,894.5
Total			**8,222.9**	**7,787.2**
Financial assets of a debt nature				
Publicly listed, fixed interest rate	6,702.3	6,424.1	15,799.2	15,935.6
Publicly listed, variable interest rate	–/–	46.0	195.7	448.2
Not publicly listed, fixed interest rate	905.8	384.1	276.9	492.9
Not publicly listed, variable interest rate	–/–	–/–	–/–	8.1
Total	**7,608.1**	**6,854.2**	**16,271.8**	**16,884.8**

in CHF million

During the reporting period, as well as in the previous year, no impairments of financial assets of a debt nature classified as held-to-maturity were necessary.

		Recognised at market value through profit or loss			**Total**
	Trading portfolio		Designated		
2006	2007	2006	2007	2006	**2007**
0.0	**–/–**	**551.0**	**389.6**	**30,536.9**	**32,492.4**
–/–	9.6	276.7	389.3	63,716.4	**55,810.1**
–/–	14.2	–/–	124.3	–/–	**260.5**
–/–	–/–	–/–	–/–	–/–	**–/–**
–/–	–/–	–/–	–/–	0.0	**0.0**
0.0	–2.7	–474.6	–382.2	–62,241.1	**–55,837.0**
–/–	–/–	–/–	–/–	0.0	**–/–**
–/–	–/–	–/–	–/–	–/–	**–/–**
				107.7	**–798.2**
–/–	–0.2	25.2	–11.3	–19.4	**–34.1**
–/–	–/–	–/–	–/–	74.2	**–29.7**
–/–	0.1	11.3	11.6	317.7	**204.5**
–/–	**21.0**	**389.6**	**521.3**	**32,492.4**	**32,068.5**
–/–	21.0	27.6	22.4	5,316.7	**4,936.1**
–/–	–/–	10.3	10.6	2,944.1	**2,905.1**
–/–	**21.0**	**37.9**	**33.0**	**8,260.8**	**7,841.2**
–/–	–/–	147.2	323.4	22,648.7	**22,683.1**
–/–	–/–	10.7	29.8	206.4	**524.0**
–/–	–/–	136.0	99.6	1,318.7	**976.6**
–/–	–/–	57.8	35.5	57.8	**43.6**
–/–	**–/–**	**351.7**	**488.3**	**24,231.6**	**24,227.3**

Continued	Held-to-maturity		Available for sale	
	2006	2007	2006	2007
Type of financial assets				
Shares			5,179.8	4,433.0
Funds			563.0	887.4
Mixed funds			80.1	79.1
Bond funds			54.4	65.3
Property funds			131.1	176.7
Private equity			583.2	633.1
Hedge funds			1,631.3	1,512.6
Financial assets of an equity nature			**8,222.9**	**7,787.2**
Public corporations	4,221.3	4,194.2	4,811.2	4,557.2
Industrial enterprises	257.2	188.6	946.3	1,078.9
Financial institutions	3,125.6	2,467.4	10,464.1	11,161.7
Other	4.0	4.0	50.2	87.0
Financial assets of a debt nature	**7,608.1**	**6,854.2**	**16,271.8**	**16,884.8**
Total	**7,608.1**	**6,854.2**	**24,494.7**	**24,672.0**

in CHF million

Secured financial assets of a debt nature				
Public corporations	1.1	1.1	596.1	670.8
Industrial enterprises	–/–	–/–	24.9	2.7
Financial institutions	865.1	978.9	4,030.6	4,316.8
Other	–/–	–/–	–/–	5.9
Total	**866.2**	**980.0**	**4,651.6**	**4,996.2**

in CHF million

Hedged financial assets of a debt nature are fixed-income securities, securitised by a mortgage or government bond. These fixed-income securities are issued by companies, which for the most part have a clearly defined and narrowly limited business purpose.

Market value of financial assets classified as held-to-maturity

	Book values		Market values	
	2006	**2007**	2006	**2007**
Public corporations	4,221.3	4,194.2	4,283.3	4,178.3
Industrial enterprises	257.2	188.6	255.8	187.8
Financial institutions	3,125.6	2,467.4	3,123.6	2,454.8
Other	4.0	4.0	3.9	3.9
Total	**7,608.1**	**6,854.2**	**7,666.6**	**6,824.8**

in CHF million

Recognised at market value through profit or loss					**Total**
Trading portfolio		Designated			
2006	2007	2006	2007	2006	**2007**
–/–	1.9	10.3	10.5	5,190.1	**4,445.4**
–/–	5.6	11.6	12.6	574.6	**905.6**
–/–	13.5	7.9	4.9	88.0	**97.5**
–/–	–/–	8.1	5.0	62.5	**70.3**
–/–	–/–	–/–	–/–	131.1	**176.7**
–/–	–/–	–/–	–/–	583.2	**633.1**
–/–	–/–	–/–	–/–	1,631.3	**1,512.6**
–/–	**21.0**	**37.9**	**33.0**	**8,260.8**	**7,841.2**
–/–	–/–	21.0	144.9	9,053.5	**8,896.3**
–/–	–/–	25.6	29.6	1,229.1	**1,297.1**
–/–	–/–	305.1	313.8	13,894.8	**13,942.9**
–/–	–/–	–/–	–/–	54.2	**91.0**
–/–	**–/–**	**351.7**	**488.3**	**24,231.6**	**24,227.3**
–/–	**21.0**	**389.6**	**521.3**	**32,492.4**	**32,068.5**
–/–	–/–	–/–	–/–	597.2	**671.9**
–/–	–/–	–/–	–/–	24.9	**2.7**
–/–	–/–	–/–	–/–	4,895.7	**5,295.7**
–/–	–/–	–/–	–/–	–/–	**5.9**
–/–	**–/–**	**–/–**	**–/–**	**5,517.8**	**5,976.2**

12. Mortgages and Loans

	Gross amount		Impairment		Book value		Market value	
	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**
Mortgages and loans carried at cost								
Mortgages	9,257.1	9,668.9	–109.6	–89.7	9,147.5	9,579.2	9,190.0	9,511.7
Policy loans	369.9	344.0	0.0	0.0	369.9	344.0	369.9	354.5
Registered bonds	6,934.2	7,224.1	–6.3	–5.3	6,927.9	7,218.8	6,945.9	6,978.8
Reverse repurchase agreements	–/–	–/–	–/–	–/–	–/–	–/–	–/–	–/–
Other loans	589.9	617.9	–27.6	–16.3	562.3	601.6	584.0	595.2
Subtotal	**17,151.1**	**17,854.9**	**–143.5**	**–111.3**	**17,007.6**	**17,743.6**	**17,089.8**	**17,440.2**
Mortgages and loans recognised at market value through profit or loss								
Mortgages	794.0	655.6	–/–	–/–	794.0	655.6	794.0	655.6
Subtotal	**794.0**	**655.6**	**–/–**	**–/–**	**794.0**	**655.6**	**794.0**	**655.6**
Mortgages and loans	**17,945.1**	**18,510.5**	**–143.5**	**–111.3**	**17,801.6**	**18,399.2**	**17,883.8**	**18,095.8**

in CHF million

The change in market value of mortgages classified as affecting profit and loss and priced at market value is exclusively derived from the change in the interest curve on which the valuation is based.

Impairments on mortgages and loans	2006	**2007**
Balance on 1st January	–214.8	**–143.5**
Unused provisions reversed through profit or loss	116.2	64.6
Increases and additional provisions recognised in profit or loss	–41.7	–30.7
Disposal from change in the scope of consolidation	–/–	–/–
Exchange calculation	–3.2	–1.7
Balance on 31st December	**–143.5**	**–111.3**

in CHF million

13. Derivative Financial Instruments

	Contract value		Fair value – assets		Fair value – liabilities	
	2006	**2007**	2006	**2007**	2006	**2007**
Interest rate instruments						
Forward transactions	–/–	–/–	–/–	–/–	–/–	–/–
Swaps	1,108.4	985.7	11.8	17.9	1.0	6.4
OTC options	482.9	495.6	15.5	10.1	–/–	–/–
Other	–/–	–/–	–/–	–/–	–/–	–/–
Traded options	–/–	–/–	–/–	–/–	–/–	–/–
Traded futures	–/–	–/–	–/–	–/–	–/–	–/–
Subtotal	**1,591.3**	**1,481.3**	**27.3**	**28.0**	**1.0**	**6.4**
Equity instruments						
Forward transactions	–/–	–/–	–/–	–/–	–/–	–/–
OTC options	38.6	19.6	38.6	11.4	–/–	–/–
Traded options	120.7	254.1	3.2	4.1	–/–	–/–
Traded futures	–/–	–/–	–/–	–/–	–/–	–/–
Subtotal	**159.3**	**273.7**	**41.8**	**15.5**	**–/–**	**–/–**
Foreign currency instruments						
Forward transactions	672.5	2,191.4	5.6	8.4	3.2	25.4
Swaps	9.9	10.2	0.6	1.7	–/–	–/–
OTC options	3,432.1	869.0	0.2	0.6	27.3	3.1
Traded options	–/–	–/–	–/–	–/–	–/–	–/–
Traded futures	621.9	–/–	0.3	–/–	13.1	–/–
Subtotal	**4,736.4**	**3,070.6**	**6.7**	**10.7**	**43.6**	**28.5**
Total	**6,487.0**	**4,825.6**	**75.8**	**54.2**	**44.6**	**34.9**
of which: designated for fair value hedging	1,105.7	975.7	11.8	17.9	0.9	6.4
of which: designated for cash flow hedging	2.7	–/–	–/–	–/–	0.0	–/–
of which: designated for hedging a net investment in a foreign company	631.1	553.6	5.1	6.9	2.7	6.0

in CHF million

The contract or nominal value is used for derivative financial instruments which may involve an exchange of the principal amount on maturity (options, futures and currency swaps) and instruments involving only the nominal lending or borrowing of the principal amount. Contract and nominal value are disclosed for the purpose of measuring the scope of transactions, in which the Baloise Group is involved.

14. Financial Receivables

	Gross amount		Impairments		Book value		Market value	
	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**
Receivables and other assets								
Receivables from financial contracts	271.2	318.3	–/–	–/–	271.2	318.3	272.0	319.2
Other receivables	344.4	369.7	–15.8	–8.3	328.6	361.4	330.4	363.4
Receivables from investments	656.3	689.9	–5.8	–5.1	650.5	684.8	650.6	684.9

in CHF million

Impairments on financial receivables	2006	**2007**
Balance on 1st January	**–25.8**	**–21.6**
Utilisation recognised directly to equity	2.4	1.9
Unused provisions reversed through profit or loss	4.6	7.5
Increases and additional provisions recognised in profit or loss	–2.6	–1.2
Disposal from change in the scope of consolidation	–/–	–/–
Exchange calculation	–0.2	–0.0
Balance on 31st December	**–21.6**	**–13.4**

in CHF million

Receivables from financial contracts also include life insurance policies assigned by the owner (life settlements).

15. Reinsurance Assets

	2006	**2007**
Technical reserves ceded to reinsurers as of 1st January	**438.2**	**362.0**
Change in unearned premium reserves	10.8	–4.7
Benefits paid	–138.8	–116.5
Interest and change in liability	42.6	106.2
Additions / disposals from change in the scope of consolidation	–/–	2.1
Impairments	–/–	–/–
Exchange differences	9.2	1.5
Technical reserves ceded to reinsurers as of 31st December	**362.0**	**350.6**

in CHF million

16. Receivables from Reinsurers

	2006	**2007**
Reinsurance deposits as of 1st January	**17.0**	**3.3**
Additions	1.0	1.4
Disposals	–14.9	–1.0
Additions / disposals from change in the scope of consolidation	–/–	–/–
Impairments	–/–	–/–
Exchange differences	0.2	0.1
Reinsurance deposits as of 31st December	**3.3**	**3.8**
Other reinsurance receivables as of 1st January	**42.0**	**19.9**
Additions	1.2	78.9
Disposals	–23.8	–13.5
Additions / disposals from change in the scope of consolidation	–/–	–/–
Impairments	–/–	–4.0
Exchange differences	0.5	0.2
Other reinsurance receivables as of 31st December	**19.9**	**81.5**
Reinsurance deposits	3.3	3.8
Other reinsurance receivables	19.9	81.5
Receivables from reinsurers as of 31st December	**23.2**	**85.3**

in CHF million

17. Employee Benefits

17.1 Receivables and Liabilities from Employee Benefits

	Receivables from benefits to employees		Liabilities from benefits to employees	
	2006	**2007**	2006	**2007**
Type of benefit				
Short-term employee benefits	7.7	**8.8**	114.1	**126.8**
Post-employment benefits – defined-contribution plans	–/–	**–/–**	–/–	**–/–**
Post-employment benefits – defined-benefit plans	25.0	**37.0**	1,299.6	**1,356.6**
Other long-term employee benefits	–/–	**–/–**	31.8	**28.8**
Termination benefits	–/–	**–/–**	56.7	**56.9**
Total	**32.7**	**45.8**	**1,502.2**	**1,569.1**

in CHF million

17.2 Retirement Benefits

Baloise provides a range of retirement benefits. These vary from country to country as circumstances dictate. Liabilities (partially) funded by a fund are Swiss employer pension plans. Baloise works with a number of different pension plan providers for employees of the insurance company and bank.

Retirement benefits include post-retirement benefits provided by Baloise to retired personnel. In particular, these involve specific benefits available in Switzerland such as preferred rates on mortgages. These qualify as defined benefit pension obligations under IAS 19.

17.2.1 Liabilities from Benefit Plans	2006	**2007**
Present value of liabilities partially financed by a fund	–1,815.1	**–1,855.7**
Replacement value of plan assets	1,305.1	**1,304.4**
Net obligation	**–510.0**	**–551.3**
Present value of liabilities not financed by a fund	–684.4	**–650.8**
Unrecognised technical gains or losses	–6.0	**–49.4**
Unrecognised service cost to be taken into account retrospectively (plan changes)	–/–	**–/–**
Effects from plan curtailments / settlements	–/–	**–/–**
Unrecognised assets	–74.2	**–68.1**
Net liabilities from defined-benefit plans	**–1,274.6**	**–1,319.6**

in CHF million

The pension funds for Basler field and non-field personnel in Switzerland have a group life contract with Basler Lebens-Versicherungs-Gesellschaft, Basel. This contract is not treated as an insurance contract under IFRS, and thus is not included under plan assets. This contract showed a credit balance for the pension fund of CHF 668.9 million as of 31st December 2007 (previous year: CHF 655.6 million).

Investments from the group life contract and other investments carried on the balance sheet of consolidated units serve to cover net liabilities from defined benefit plans.

17.2.2 Present Value of Liabilities Partially Financed by a Fund	2006	**2007**
Balance as of 1st January	**–1,818.1**	**–1,815.1**
Current service cost	–54.6	**–53.0**
Interest expense	–59.0	**–59.0**
Savings deposits and contributions by employees	–23.4	**–30.3**
Actuarial gains / losses from defined-benefit plan liabilities of the reporting period	31.6	**–5.9**
Exchange differences	–/–	**–/–**
Benefits paid	108.4	**114.0**
Service cost to be taken into account retrospectively	–/–	**–6.4**
Additions and disposals from changes in the scope of consolidation	–/–	**–/–**
Effects from plan curtailments	–/–	**–/–**
Effects from plan settlements	–/–	**–/–**
Balance as of 31st December	**–1,815.1**	**–1,855.7**

in CHF million

17.2.3 Present Value of Liabilities not Financed by a Fund	2006	**2007**
Balance as of 1st January	**–658.0**	**–684.4**
Current service cost	–18.1	**–17.1**
Interest expense	–29.1	**–30.5**
Employee contribution	–/–	**–/–**
Actuarial gains / losses from defined-benefit plan liabilities of the reporting period	15.0	**69.9**
Exchange differences	–21.9	**–18.0**
Benefits paid	27.7	**32.7**
Service cost to be taken into account retrospectively	–/–	**–6.6**
Additions and disposals from changes in the scope of consolidation	–/–	**–/–**
Effects from plan curtailments	–/–	**3.2**
Effects from plan settlements	–/–	**–/–**
Balance as of 31st December	**–684.4**	**–650.8**

in CHF million

17.2.4 Fair Value of Plan Assets

	2006	**2007**
Balance as of 1st January	**1,239.0**	**1,305.1**
Expected return on plan assets	43.2	**46.3**
Actuarial gains / losses on plan assets of the reporting period	55.5	**–20.6**
Exchange differences	–/–	**–/–**
Employer contribution	40.8	**40.1**
Employee contribution	40.4	**47.7**
Benefits paid	–108.4	**–114.0**
Cash flow between the Baloise Group and plan assets (excl. benefits paid to employees and employer contribution)	–5.4	**–0.2**
Additions and disposals from changes in the scope of consolidation	–/–	**–/–**
Effects from plan settlements	–/–	**–/–**
Balance as of 31st December	**1,305.1**	**1,304.4**

in CHF million

17.2.5 Net Actuarial Liabilities from Benefit Plans

	2005	2006	**2007**
Present value of partially funded liabilities	–1,818.1	–1,815.1	**–1,855.7**
Fair value of plan assets	1,239.0	1,305.1	**1,304.4**
Present value of unfunded liabilities	–658.0	–684.4	**–650.8**
Net defined-benefit obligations	**–1,237.1**	**–1,194.4**	**–1,202.1**
Experience adjustments arising on plan liabilities	–13.5	–6.0	**19.6**
Experience adjustments arising on plan assets	66.6	55.5	**–20.6**

in CHF million

17.2.6 Expenses for Benefit Plans

	2006	**2007**
Current service cost	72.7	**70.1**
Interest expense	88.1	**89.5**
Expected return on plan assets	–43.2	**–46.3**
Expected return on reimbursement rights	–/–	**–/–**
Repayment of actuarial gains / losses	10.8	**2.6**
Repayment of service cost to be taken into account retrospectively	–/–	**9.8**
Effects from plan curtailments / settlements	–/–	**–3.2**
Effects from amendments and limitations on use	–/–	**–12.0**
Employee contribution	–17.5	**–17.4**
Total expenses for defined-benefit plans	110.9	**93.1**

in CHF million

17.2.7 Estimated Employer Contribution

The employer contribution amount for the following year can only be estimated with a certain degree of accuracy. This is due among other things to the amount being a function of wages / salaries paid. For the reporting period we estimate total employer contributions of approximately CHF 49.8 million.

17.2.8 Actual Returns on Assets	2006	**2007**
Expected return on plan assets	43.2	**46.3**
Gains / losses on plan assets	55.5	**–20.6**
Actual return on plan assets	**98.7**	**25.7**

in CHF million

17.2.9 Allocation of Plan Assets	2006	**2007**
Equities and similar financial assets [1]	804.9	**801.6**
Properties	189.3	**185.6**
Fixed-interest assets	221.4	**224.9**
Other	89.5	**92.3**
Fair value of plan assets	**1,305.1**	**1,304.4**
of which: Bâloise-Holding shares (market value)	80.0	**73.9**
of which: property occupied by the Baloise Group	–/–	**–/–**

in CHF million

[1] The position "equities and similar financial assets" also includes investment funds

17.2.10 Actuarial Assumptions	2006	**2007**
Discount rate	3.6	**3.8**
Expected return on plan assets	3.5	**3.5**
Expected wage and salary increases	2.0	**2.1**
Expected increase in pension benefits	0.4	**0.4**

in percent

Liabilities and expenses in connection with defined benefit plans are calculated based on technical and other assumptions that are determined on a company-by-company and country-by-country basis. The assumed values appearing above represent weighted averages.

The calculation of expected return on plan assets of liabilties not or partially financed by a fund takes the asset allocation and long-term historical market returns into consideration. Details concerning the plan assets are considered in separately. We apply an assumed long-term return of 7 to 8% on shares. The projected return on investment was exceeded in 2006. Expectations were not met in 2007 due to developments on the capital market.

17.3 Other Long-Term Benefits

Benefits for active employees payable 12 months or more from fiscal year end are accounted for separately in accordance with special rules. Accounting is performed similarly as with retirement obligations, except that technical gains and losses are applied.

This line mainly reflects service anniversary bonuses. Present value of liabilities was CHF 28.8 million as of 31st December 2007 (previous year CHF 31.8 million). There were no disposals of plan assets for long-term benefits. Benefits recognised in profit / loss totalled CHF 3.9 million (previous year CHF 8.0 million).

17.4 Share-Based Compensation Plans

The Baloise Group offers employees a range of share-based plans as part of their total compensation package. Employee participation, share subscription plan, Employee Share Ownership Plan, and performance quota are all "cash-settled" share-based compensation plans. Performance Share Units (PSU) constitute an "equity-settled" share-based compensation plan.

In the fiscal year 2007, an amount of CHF 20.3 million was charged against the income statement from the share-based compensation plans listed below (previous year CHF 16.6 million).

17.4.1 Employee Incentive Plan (Formerly Employee Share)

Established in 1989, the Basler Employee Participation Foundation provides employees of different Group companies in Switzerland the opportunity to acquire shares of Bâloise-Holding at discounted prices on an annual basis (typically) in accordance with provisions outlined by the Foundation Board of Trustees. The subscription price is set by the Board of Trustees at the start of each of subscription period and published on the intranet. The price is set at one half of the average share price for the month of August in the year of subscription. Subscribed shares are distributed to employees on 1st September and are subject to a three-year restricted period.

The shares for subscription were acquired by the Foundation in Bâloise-Holding capital increases. The Foundation is able to acquire additional shares as needed for the plan. It will be possible to continue this participation plan throughout the next several years due to the low acquisition price and inventory volume of shares held.

The Foundation is directed by a Board of Trustees, a majority of whom are unconnected with the Corporate Executive Committee. The independent trustees on the board are Peter Schwager (President), Dr. Heinrich Koller (Advocate) and Andreas Burki (Deputy Head of Legal and Tax Affairs).

Employee Incentive Plan	2006	**2007**
Number of subscribed shares	188,901	**178,345**
Restricted until	31.8.2009	**31.8.2010**
Subscription price per share in CHF	49.10	**54.60**
Value of subscribed shares *	9.3	**9.7**
Market value of subscribed shares as of subscription date *	19.5	**19.9**
Entitled employees	3,268	**3,173**
Participating employees	2,146	**2,018**
Subscribed shares per participant (average)	88.0	**88.4**

* in CHF million

17.4.2 Share Subscription Scheme (SSS) (Formerly Direct Share Subscription)

Since January 2003, incentive-eligible employees of all Group companies have been able to purchase shares at discounted prices as part of their incentive package. The plan subscription date is 1st June. The subscription price is set by the Corporate Executive Committee each year and published on the intranet in advance. On 23rd April 2007 the Corporate Executive Committee decided that the average price during the periods 7 – 11th May 2007 would be applied as subscription price. A 10% discount is granted on this average price.

Shares purchased under this plan are subject to a three-year restricted period.

Share Subscription Scheme (SSS)	2006	**2007**
Number of subscribed shares	32,154	**26,628**
Restricted until	31.5.2009	**31.5.2010**
Subscription price per share in CHF	83.90	**114.80**
Value of subscribed shares *	2.7	**3.0**
Market value of subscribed shares as of subscription date *	3.0	**3.4**
Entitled employees (FL 1–5)	491	**521**
Participating employees	42	**77**
SSS portion of incentive	13%	**14%**

* in CHF million

17.4.3 Employee Share Ownership Plan (ESOP)

Since May 2001, executive employees in Switzerland have been eligible to voluntarily elect to receive shares instead of cash compensation as part of their incentive package. Maximum limits apply for functional levels 1 – 3; Corporate Executive Committee members may receive a maximum 50% of incentive compensation in the form of shares acquired through the Employee Share Ownership Plan. The subscription date is 1st June, the same as for the share subscription plan. The subscription price is set by the Corporate Executive Committee each year and published on the intranet in advance. On 23rd April 2007 the Corporate Executive Committee resolved that the average price during the periods 7 – 11th May 2007 would be applied as subscription price.

To enhance employee benefit from participating in the employee share ownership plan, employees are granted a loan at fair value allowing them to subscribe to more shares at fair value less net of the discounted dividend right than otherwise within the framework of the incentive package, over a three-year period. A put option is bought to ensure the ability to repay the loan at the end of the three-year restricted period, the cost of which is offset by writing a corresponding call. Gains from the valuation of call options amounting to CHF 3.9 million were recognised for the fiscal year (previous year: gain of CHF 36.7 million) When the three-year restricted period has elapsed, the employee has unrestricted disposal over the shares once the options are unwound and the loan repaid plus accrued interest.

Employee Share Ownership Plan (ESOP)	2006	**2007**
Number of subscribed shares [1]	259,683	**212,345**
Restricted until	31.5.2009	**31.5.2010**
Subscription price per share [2] in CHF	83.53	**115.55**
Value of subscribed shares [2] *	21.7	**24.5**
Market value of subscribed shares as of subscription date *	24.2	**27.1**
Entitled employees (FL 1–5)	491	**521**
Participating employees	157	**162**
ESOP portion of incentive	22%	**19%**

* in CHF million

[1] Incl. shares financed by loans.
[2] Net of the discounted dividend right over three years.

17.4.4 Performance Quota

The new performance quota introduced in 2007 for employee functional levels 1 – 3 (including the Chairman of the Board of Directors) represents a flexible instrument to be used at the discretion of the Board of Directors Compensation Committee. The instrument affords eligible employees greater participation in the success of the company, increasing their variable compensation component. The performance quota rewards management performance and is determined specifically for each employee by his or her respective supervising manager(s) in view of the total performance quota approved by the Compensation Committee. Individual amounts are determined in April and paid out along with salary in June. A portion of the amount granted must be taken in shares, the rest as a cash distribution (the mandatory percentage is the same as the incentive percentage). The provisions governing the stock purchase plan apply to the portion of the quota received in the form of shares.

Performance quota	2006	**2007**
Participating employees (FL 1 – 3)	–/–	38
Total paid out in CHF million	–/–	2.1
Number of subscribed shares	–/–	8,358
Subscription price per share in CHF	–/–	114.80
Value of subscribed shares in CHF million	–/–	1.0
Market value of subscribed shares as of subscription date in CHF million	–/–	1.1
In cash in CHF million	–/–	1.1

17.4.5 Performance Share Units (PSU)

The Performance Share Units Plan introduced in 2007 represents an instrument for incentivising the long-term success of our enterprise and retaining key employees. Employees on functional levels 1 – 3 (including the Chairman of the Board of Directors) benefit more from long-term increases in enterprise value under this plan while employed with Baloise. The PSU plan thus brings the interests of shareholders and management into greater alignment.

At the start of a vesting period, participating employees are allocated Performance Share Units (PSUs) entitling them to receive a certain number of shares for free at the end of the vesting period. The Compensation Committee determines the total amount each year and the general participant allocation.

The number of shares that can be received at the end of a three-year vesting period depends on the performance of Bâloise-Holding shares relative to a defined peer group. The applicable performance multiplier can range between 0.5 and 1.5. The relevant peer group is comprised of the 35 most prominent European insurance companies in the Dow Jones STOXX Insurance index. One PSU confers the right to receive one share of stock. The number of shares is subject to application of the performance multiplier however, which is 1.0 when Baloise share performance is equal to the median for the peer group. Accordingly, plan participants receive more shares per PSU when Bâloise-Holding shares perform better relative to the peer group. The maximum 1.5 multiplier applies when Bâloise-Holding share performance is in the top quartile for the peer group. The minimum 0.5 multiplier applies when share performance falls within the lowest quartile for the peer group. The performance multiplier is determined by adjustment on a linear basis when Bâloise-Holding share performance falls within the second or third quartile. The performance multiplier is determined on the basis of closing market price on the last trading day of the vesting period concerned, applicable retroactively to the entire period.

The corresponding number of shares is distributed to participants at the end of the vesting period, i.e. on 31.12.2009 for PSUs allocated in 2007. PSUs expire worthless upon termination of employment (excluding cases of retirement, invalidity or death). A three-year restricted period over and above the vesting period additionally applies to 50% of shares allocated; this is in order to further emphasise the long-term focus of the plan.

The PSU plan involves standard three-year periods. A shortened vesting period applies for the first plan cycle starting in 2007 as PSUs were only allocated after the Board of Directors resolution adopted 9th March 2007.

It is at the discretion of the Board of Directors Compensation Committee to determine eligibility criteria within functional levels 1 – 3. The Compensation Committee is likewise authorised to determine the total number of PSUs to be allocated and the allocation date.

Performance Share Units (PSU)	2006	**2007**
Entitled employees (FL 1–3)	–/–	45
Number of allocated PSU	–/–	37,018
Of which: expired without compensation (departures)	–/–	–1,003
Number of active PSU as of 31.12.2007	–/–	36,015
Value of allocated PSU as of issue date in CHF million	–/–	4.2
Expense for the Baloise Group in CHF million	–/–	1.6

The valuation of the PSU on the issue date is based on a Monte Carlo simulation that returns a cash value for the expected payout at the end of the vesting period. The following parameters make up this valuation:

- an interest of 3%,
- the volatilities of all shares in the peer group and their correlations to each other (measured against historical figures over three years),
- expectations on the return on dividend,
- and experience values on the termination behaviour of the eligible group.

18. Deferred Income Taxes

18.1 Development of Deferred Income Tax Liabilities (Net)

	2006	**2007**
Balance as of 1st January	**702.4**	**780.5**
Additions from change in the scope of consolidation	–0.9	**0.0**
Disposals from change in the scope of consolidation	0.0	**–10.1**
Recognised in profit or loss	71.3	**–29.3**
Recognised directly in equity	1.8	**–102.8**
Exchange differences	5.9	**3.6**
Balance as of 31st December	**780.5**	**641.9**
of which: deferred tax asset	25.8	**51.3**
of which: deferred tax liability	806.3	**693.2**

in CHF million

18.2 Deferred Tax Assets and Liabilities

Causes of deferred tax assets	2006	**2007**
Technical reserves	510.4	**434.3**
Insurance liabilities	315.7	**301.6**
Unrealised losses charged to equity	1.5	**25.7**
Unused tax losses	29.9	**30.4**
Other	270.5	**269.0**
Total	**1,128.0**	**1,061.0**

in CHF million

Causes of deferred tax liabilities	2006	**2007**
Deferred acquisition costs	427.3	**364.9**
Technical reserves	502.7	**508.6**
Unrealised gains charged to equity	172.3	**94.2**
Investment properties	266.1	**245.4**
Depreciable / amortisable assets	58.6	**46.1**
Other intangible assets	8.7	**14.7**
Other	472.8	**429.0**
Total	**1,908.5**	**1,702.9**
Total (net)	**780.5**	**641.9**
of which: recognised as deferred tax assets	25.8	**51.3**
of which: recognised as deferred tax liabilities	806.3	**693.2**

in CHF million

Position "Other deferred tax assets" includes deferred tax assets and liabilities on insurance receivables and from investments and assets from reinsurance.
The other deferred tax liabilities include essentially deferred tax assets and liabilities on shares and fixed-income securities.

As of 31st December 2007 the Baloise Group recognised deferred unused tax losses totalling CHF 116.8 million (subject to regulations; prev. yr. CHF 84.9 million). Of this amount, CHF 4.1 million expire within the year, another CHF 28.5 million within two to four years, and CHF 84.2 million within five years or more.

No tax assets were recognised on unused losses in the amount of CHF 319.6 million (previous year: CHF 574.9 million) as of 31st December 2007. Of this amount, CHF 1.6 million expire within one year, and CHF 318.0 million within five years or more.

The Baloise Group now reports deferred tax assets and liabilities on a net basis. Deferred tax assets and liabilities are offsetting given that the applicable prerequisites are fulfilled. Generally this means that tax authority, tax entity and tax type must be identical.

19. Noncurrent Assets Held for Sale and Discontinued Business Segments

No noncurrent assets or discontinued business segments were carried in fiscal years 2006 and 2007.

20. Share Capital

	Number of treasury shares	Number of shares out-standing	Number of shares issued	Share capital (in CHF m)
Balance as of 1st January 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 31st December 2006	**1,849,548**	**53,457,602**	**55,307,150**	**5.5**
Balance as of 1st January 2007	**1,849,548**	**53,457,602**	**55,307,150**	**5.5**
Purchase / sale of treasury shares	3,454,910	–3,454,910	–/–	–/–
Capital increases	–/–	–/–	–/–	–/–
Share buyback and capital reduction	–1,307,150	–/–	–1,307,150	–0.1
Balance as of 31st December 2007	**3,997,308**	**50,002,692**	**54,000,000**	**5.4**

Bâloise-Holding registered shares are fully paid-in, with a face value of CHF 0.10 (previous year CHF 0.10). Natural and juristic persons may hold a maximum 2% of voting rights per the shareholder register. The Baloise Group purchases and sells its treasury shares as part of normal investing activities and in connection with share-based compensation plans for employees.

During the reporting period, 3,283,000 Bâloise-Holding shares valued at CHF 390.9 million were repurchased as part of the share buy-back programme announced 21st March 2006. In total, 4,357,000 shares valued at CHF 504.7 million have been repurchased in connection with this programme.

Baloise Group companies also bought 171,910 treasury shares.

Pursuant to a shareholder resolution at the Bâloise-Holding Annual General Meeting on 27th April 2007, share capital was reduced by CHF 130,715 from CHF 5,530,715 to CHF 5,400,000 effective upon recording in the Commercial Register on 30th July 2007, 1,307,150 repurchased registered shares with a face value of CHF 0.10 having been de-issued. Bâloise-Holding share capital now totals CHF 5.4 million, consisting of the 54 million fully paid-in registered shares with a face value of CHF 0.10.

21. Change in Unrealised Gains and Losses in Equity

	2006	**2007**
Balance as of 1st January	**664.5**	**780.6**
Change in unrealised gains and losses recognised directly in equity on (available-for-sale) financial assets as a result of a change in market value	661.1	–110.8
Impairment losses reclassified to income statement	25.3	84.7
Gains and losses from disposals reclassified to income statement	–583.9	–803.2
Change in unrealised gains and losses from associates	20.0	–8.3
Change in hedging reserves on derivative financial instruments held for cash flow hedging	–0.4	–0.0
Gains reclassified to income statement (net)	–/–	–/–
Change in hedging reserves on derivative financial instruments held for hedging a net investment in a foreign company	85.1	49.3
Gains reclassified to income statement (net)	–10.5	–12.8
Addition resulting from reclassification of held-to-maturity financial assets	–/–	–/–
Settlement reclassified to income statement	–12.4	–14.8
Additions resulting from reclassification of investment property	–/–	–/–
Transfer to retained earnings as a result of disposal	–/–	–/–
Change in shadow accounting (DAC, URR, terminal policyholders' dividends)	–17.0	76.6
Change in policyholders' dividends	–27.4	327.8
Change in deferred income taxes recognised directly in equity	–3.8	101.9
Exchange differences	–20.0	–20.6
Balance as of 31st December	**780.6**	**450.4**

in CHF million

The profits (losses) on hedging reserves for derivative financial instruments designated for hedging a net investment in a foreign company are reported under the item "Realised profits and losses on financial investments".

22. Technical Reserves (Gross)

	2006	**2007**
Unearned premium reserves (gross)	527.0	554.9
Loss reserves (gross)	5,330.2	5,539.3
Provisions for surplus and profit sharing (gross)	54.1	55.3
Technical reserves nonlife	**5,911.3**	**6,149.5**
Actuarial reserves (gross)	35,960.0	37,030.2
Policyholders' dividends credited and provision for future policyholders' dividends (gross)	4,650.5	4,631.3
Technical reserves life	**40,610.5**	**41,661.5**
Technical reserves (gross)	**46,521.8**	**47,811.0**

in CHF million

22.1 Technical Reserves Nonlife

	2006			2007		
	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
Unearned premium reserves	**527.0**	**–6.0**	**521.0**	**554.9**	**–1.4**	**553.5**
Loss reserves	4,770.2			4,951.4		
Reserve for loss adjustment expenses	560.0			587.9		
Loss reserves	**5,330.2**	**–334.5**	**4,995.7**	**5,539.3**	**–320.2**	**5,219.1**
Provision for policyholders' dividends and profit sharing	**54.1**	**0.0**	**54.1**	**55.3**	**0.0**	**55.3**
Total technical reserves nonlife	**5,911.3**	**–340.5**	**5,570.8**	**6,149.5**	**–321.6**	**5,827.9**

in CHF million

22.1.1 Technical Reserves by Maturities

	2006			2007		
	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
Unearned premium reserves						
Up to 1 year	496.7	–6.0	490.7	523.2	–1.5	521.7
More than 1 year	2.0	0.0	2.0	3.5	0.1	3.6
No determinable residual term	28.3	–/–	28.3	28.2	0.0	28.2
Total unearned premium reserves	**527.0**	**–6.0**	**521.0**	**554.9**	**–1.4**	**553.5**
Loss reserves						
Up to 1 year	807.4	–91.7	715.7	744.6	–55.8	688.8
More than 1 year	3,720.0	–116.7	3,603.3	3,913.4	–119.1	3,794.3
No determinable residual term	802.8	–126.1	676.7	881.3	–145.3	736.0
Total loss reserves	**5,330.2**	**–334.5**	**4,995.7**	**5,539.3**	**–320.2**	**5,219.1**

in CHF million

All maturity information represents best estimates. The line item "residual terms" includes in particular aging and pension benefit provisions.

22.1.2 Unearned Premium Reserves

	2006			2007		
	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
Balance as of 1st January	**501.8**	**5.1**	**506.9**	**527.0**	**–6.0**	**521.0**
Premiums offset	3,065.1	–178.5	2,886.6	3,190.6	–177.9	3,012.7
Less: premiums earned during reporting period	–3,055.2	167.7	–2,887.5	–3,202.4	182.7	–3,019.7
Additions / disposals from changes in the scope of consolidation	–/–	–/–	–/–	27.2	0.0	27.2
Exchange differences	15.3	–0.3	15.0	12.5	–0.2	12.3
Balance as of 31st December	**527.0**	**–6.0**	**521.0**	**554.9**	**–1.4**	**553.5**

in CHF million

In addition to unearned premium reserves, this item also includes aging provisions from the health insurance business and capitalised unearned premiums as well as reserves for pending losses potentially necessary in connection with LAT.

22.1.3 Provision for Policyholders' Dividends and Profit Sharing

	2006			2007		
	Gross	Reinsurance assets	Net	Gross	Reinsurance assets	Net
Balance as of 1st January	**48.6**	**0.0**	**48.6**	**54.1**	**0.0**	**54.1**
Less: expenditures in the reporting period	–15.4	–/–	–15.4	–14.3	–/–	–14.3
Releasing or building of reserves recognised in profit or loss	20.9	–/–	20.9	15.4	–/–	15.4
Additions / disposals from changes in the scope of consolidation	–/–	–/–	–/–	–/–	–/–	–/–
Exchange differences	0.0	–/–	0.0	0.1	–/–	0.1
Balance as of 31st December	**54.1**	**0.0**	**54.1**	**55.3**	**0.0**	**55.3**

in CHF million

22.1.4 Loss Reserve Including Loss Adjustment Epenses

	2006	**2007**
Balance as of 1st January (gross)	**5,207.4**	**5,330.2**
Reinsurers' share	–424.0	–334.5
Balance as of 1st January (net)	**4,783.4**	**4,995.7**
Claims incurred (incl. loss adjustment expenses)		
For the reporting period	1,889.1	1,933.2
For previous years	–79.7	–45.8
Total	**1,809.4**	**1,887.4**
Payments for losses and loss adjustment expenses		
For the reporting period	–847.6	–974.6
For previous years	–821.6	–794.2
Total	**–1,669.2**	**–1,768.8**
Other changes		
Additions / disposals from changes in the scope of consolidation	–/–	48.8
Exchange differences	72.1	56.0
Total	**72.1**	**104.8**
Balance as of 31st December (net)	**4,995.7**	**5,219.1**
Reinsurers' share	334.5	320.2
Balance as of 31st December (gross)	**5,330.2**	**5,539.3**

in CHF million

Special attention is given to cases of environmental pollution involving depots, waste, asbestos or any other materials harmful to human beings and / or the environment.

At the end of 2007, total reserves came to CHF 203.0 million (previous year: CHF 226.5 million). This decrease was due to payment of claims, amounts written back and currency effects, these reserves being to a large extent created for liabilities denominated in foreign currencies.

22.2 Technical Reserves – Life

	2006	**2007**
Actuarial reserve from non-unit-linked life insurance contracts [1]	33,054.7	33,871.3
Actuarial reserve from unit-linked life insurance contracts	1,933.3	2,199.5
Reserves for terminal policyholders' dividends	597.0	592.4
Unearned revenue reserve	375.0	367.0
Composition of actuarial reserves life	**35,960.0**	**37,030.2**
Policyholders' dividends credited and provision for future policyholders' dividends	**4,650.5**	**4,631.3**
Total technical reserves – life	**40,610.5**	**41,661.5**

in CHF million

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

22.2.1 Maturity Structure for Technical Reserves

Actuarial reserves for non-unit-linked life insurance contracts	2006	**2007**
Up to 1 year	1,165.3	1,202.4
1 to 5 years	4,017.7	4,081.5
5 to 10 years	4,592.2	4,850.6
More than 10 years	8,665.2	8,643.5
No determinable residual term	7,382.8	7,713.5
Business from Swiss occupational pension plans [2]	7,231.5	7,379.8
Total actuarial reserve from non-unit-linked life insurance contracts	**33,054.7**	**33,871.3**
Actuarial reserve from unit-linked life insurance contracts		
Up to 1 year	22.3	48.8
1 to 5 years	305.6	334.7
5 to 10 years	317.1	339.0
More than 10 years	485.3	484.8
No determinable residual term	803.0	992.2
Total actuarial reserves for unit-linked life insurance contracts	**1,933.3**	**2,199.5**
Policyholders' dividends credited		
Up to 1 year	152.7	162.9
1 to 5 years	554.4	539.1
5 to 10 years	524.4	525.6
More than 10 years	1,050.4	1,040.2
No determinable residual term	371.1	366.8
Total policyholders' dividends credited	**2,653.0**	**2,634.6**
Provisions for future policyholders' dividends		
Up to 1 year	242.0	310.7
No determinable residual term	1,755.5	1,686.0
Total provisions for future policyholders' dividends	**1,997.5**	**1,996.7**

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 data is based on residual term until contract expiration. The line item "residual term unknown" includes in particular deferred and current retirement pensions.

22.2.2 Actuarial Reserves for Non-Unit-Linked Life Insurance Contracts

	2006	**2007**
Balance as of 1st January	**32,188.4**	**33,054.7**
Change in actuarial reserve	428.8	216.5
Additions from the acquisition of policy portfolios or insurance companies	–/–	244.9
Disposals from the sale of policy portfolios or insurance companies	–/–	–/–
Exchange differences	437.5	355.2
Balance as of 31st December	**33,054.7**	**33,871.3**

in CHF million

The actuarial reserve also includes unearned premiums and loss reserves.

The actuarial reserves as of 31st December 2007, for DPF business is CHF 33,769.0 million (previous year CHF 32,957.9 million); for non- DPF business CHF 102.3 million (previous year CHF 96.7 million).

The actuarial reserve as of 31st December 2007, for indirect business (active reinsurance) totals CHF 1.8 million (previous year CHF 0.8 million).

22.2.3 Actuarial Reserves for Unit-Linked Life Insurance Contracts

	2006	**2007**
Balance as of 1st January	**1,640.6**	**1,933.3**
Additions	242.5	319.9
Disposals	–132.7	–112.5
Fees	–0.4	–0.2
Interest and increase of liabilities	117.9	–5.2
Additions from the acquisition of insurance portfolios or companies	–/–	20.0
Disposals from the sale of insurance portfolios or companies	–/–	–/–
Exchange differences	65.4	44.2
Balance as of 31st December	**1,933.3**	**2,199.5**

in CHF million

22.2.4 Reserves for Terminal Policyholders' Dividends

	2006	**2007**
Balance as of 1st January	**568.5**	**597.0**
Adjustment from unrealised gains and losses as of 1st January (shadow accounting)	–51.9	–44.8
Interest and change in liability	54.6	49.6
Terminal policyholders' dividends paid	–40.4	–38.0
Additions from the acquisition of insurance portfolios or companies	–/–	–/–
Disposals from the sale of insurance portfolios or companies	–/–	–/–
Adjustment from unrealised gains and losses as of 31st December (shadow accounting)	53.1	17.6
Exchange differences	13.1	11.0
Balance as of 31st December	**597.0**	**592.4**

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.

22.2.5 Unearned Revenue Reserve

	2006	**2007**
Balance as of 1st January	**303.4**	**375.0**
Reserved during the reporting period	66.1	48.8
Change in balance	–6.6	–67.2
Change due to unrealised gains and losses on investments (shadow accounting)	0.0	0.0
Additions from the acquisition of insurance portfolios or companies	–/–	–/–
Disposals from the sale of insurance portfolios or companies	–/–	–/–
Exchange differences	12.1	10.4
Balance as of 31st December	**375.0**	**367.0**

in CHF million

22.2.6 Policyholders' Dividends Credited and Reserves for Future Policyholders' Dividends

Policyholders' dividends credited	2006	**2007**
Balance as of 1st January	**2,769.9**	**2,653.0**
Dividends credited to policyholders during the reporting period	141.9	195.8
Policyholders' dividends paid	–327.9	–293.4
Additions / disposals from change in the scope of consolidation	–/–	–/–
Exchange differences	69.1	79.2
Balance as of 31st December	**2,653.0**	**2,634.6**
Provision for future policyholders' dividends		
Balance as of 1st January	**1,687.3**	**1,997.5**
Adjustment from unrealised gains and losses as of 1st January	–763.8	–791.2
Additions	390.2	327.8
Withdrawals	–189.4	–255.6
Change in valuation differences between IFRS and national accounting standards recognised in profit or loss	71.8	220.4
Adjustment from unrealised gains and losses as of 31st December (shadow accounting)	791.2	463.4
Additions / disposals from change in the scope of consolidation	–/–	9.5
Exchange differences	10.2	24.9
Balance as of 31st December	**1,997.5**	**1,996.7**
Policyholders' dividends credited and provisions for future policyholders' dividends as of 31st December	**4,650.5**	**4,631.3**

in CHF million

23. Liabilities from Banking Business and Financial Contracts

	Book value		Market value	
	2006	**2007**	2006	**2007**
With discretionary participation features (DPF)				
Financial contracts with discretionary participation features (DPF)	381.0	440.7		
Subtotal	**381.0**	**440.7**		
Measured at amortised cost				
Liabilities to banks	91.8	107.2	91.3	106.5
Repurchase agreements	–/–	–/–	–/–	–/–
Liabilities from time deposits	–/–	2.5	–/–	2.5
Loans	31.5	22.4	33.5	22.3
Mortgages	3.0	–/–	3.0	–/–
Savings and customer deposits	3,482.0	3,512.8	3,448.2	3,478.2
Medium-term bonds	318.2	426.8	315.6	422.6
Mortgage-backed bonds	637.5	653.5	630.4	646.3
Operating bonds	–/–	98.5	–/–	98.5
Liability for future financial lease payments (present value)	154.0	155.3	154.0	155.3
Other financial contracts	112.4	183.8	112.4	183.5
Subtotal	**4,830.4**	**5,162.8**	**4,788.4**	**5,115.7**
Recognised at market value through profit or loss – designated				
Operating bonds	175.5	–/–	175.5	–/–
Other financial contracts	1,357.1	2,475.6	1,357.1	2,475.6
Subtotal	**1,532.6**	**2,475.6**	**1,532.6**	**2,475.6**
Total liabilities from the banking business and financial contracts	**6,744.0**	**8,079.1**		

in CHF million

[1] There are currently no internationally accepted mathematical procedures for financial contracts with discretionary participation features (DPF) to determine market value.

Savings and customer deposits primarily concern savings, business and deposit accounts of Swiss banking customers. Mortgage-backed bonds shown here were all issued by the Mortgage Bond Bank of Swiss Mortgage Institutions without exception.

Other financial contracts – classified as "Recognised at market value through profit or loss" – primarily concern liabilities in connection with investment-type life insurance contracts, which are part of the life insurance business. The change in this liability compared to the previous year is attributable exclusively to asset inflows and outflows and market value changes.

Terms of the outstanding operating bond	
Face value in CHF million	100
Interest rate	3.000%
Effective interest yield	3.245%
Early repayment date	–/–
Repayment	100%
Conversion right	no
Issued	2007
Repayment	12.6.2015
Securities number	SWX 3087044

The operating bond in connection with the banking business with a face value of CHF 175 million was repaid on 12th June 2007. On the same date, bonds were issued with a total face value of CHF 100 million.

24. Reconciliation Between the Gross Investment in Financial Leasing and the Present Value of Minimum Lease Payment

Contractual period	2006	2007
‹1 year	9.1	**9.7**
1–5 years	40.6	**44.0**
›5 years	147.3	**143.6**
Total minimum lease payments	**197.0**	**197.3**
Future borrowing costs	–43.0	**–42.0**
Total liability for future lease payments (present value)	**154.0**	**155.3**

in CHF million

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

25. Financial Liabilities

Finance bonds	2006	2007
Balance as of 1st January	**1,084.1**	**895.4**
Issue price of newly issued bonds	–/–	**297.0**
Embedded derivative	–/–	**–/–**
Additions (subtotal)	**–/–**	**297.0**
Disposals / repayments	**–190.3**	**–/–**
Interest expense	28.2	**28.4**
Nominal interest rate	–26.6	**–26.8**
Interest costs (subtotal)	**1.6**	**1.6**
Balance as of 31st December	**895.4**	**1,194.0**

in CHF million

As of the balance sheet date the market value of financial liabilities amounted to CHF 1,195.5 million (previous year: CHF 903.5 million).

The convertible bonds issued by Baloise Finance (Jersey) Ltd. (1%; 1998 – 2006) were called on 17th February 2006 and thus repaid early. This early repayment had no material impact on earnings.

Terms of outstanding finance bonds	Bâloise-Holding	Bâloise-Holding	Bâloise-Holding	Bâloise-Holding	Bâloise-Holding
Face value in CHF million	300	250	350	150	150
Interest rate	3.250%	3.375%	2.375%	3.250%	3.500%
Effective interest yield	3.450%	3.574%	2.580%	3.466%	3.683%
Early repayment date	–/–	–/–	–/–	–/–	–/–
Repayment	100%	100%	100%	100%	100%
Conversion right	No	No	No	No	No
Issued	1998	2003	2004	2007	2007
Repayment	4/7/08	12/15/09	12/20/10	06/19/12	12/19/14
Securities number	SWX 858851	SWX 1726032	SWX 2011789	SWX 3553932	SWX 3553933

26. Financial Provisions

	Restructuring	Other	**Total**
Balance as of 1st January 2007	**0.7**	**144.6**	**145.3**
Addition from change in the scope of consolidation	–/–	–/–	**–/–**
Disposal from change in the scope of consolidation	–/–	–/–	**–/–**
Increases and additional provisions recognised in profit or loss	0.6	19.2	**19.8**
Unused provisions reversed through profit or loss	–0.1	–37.2	**–37.3**
Utilisation recognised directly to equity	–0.5	–13.2	**–13.7**
Unwinding of discount	–/–	–/–	**–/–**
Exchange differences	0.0	2.5	**2.5**
Balance as of 31st December 2007	**0.7**	**115.9**	**116.6**

in CHF million

Other increases and additional provisions recognised in profit or loss primarily represent estimated liabilities for lease payment guarantees provided in connection with real estate disposals.

Also included in the balance for other financial provisions are amounts for legal counsel fees and process risks.

27. Insurance Liabilities

	2006	**2007**
Liabilities to policyholders	1,008.7	1,080.2
Liabilities to brokers and agents	119.7	138.9
Liabilities to insurance companies	441.1	514.2
Other insurance liabilities	52.2	66.2
Total insurance liabilities	**1,621.7**	**1,799.5**

in CHF million

Notes to the Consolidated Income Statement

28. Premiums Earned and Policy Fees

	2006			2007		
	Nonlife	Life	**Total**	Nonlife	Life	**Total**
Gross premiums written and policy fees	3,065.1	3,651.4	**6,716.5**	3,190.6	3,677.8	**6,868.4**
Change in unearned premium reserves	–9.9	–/–	**–9.9**	11.8	–/–	**11.8**
Premiums earned and policy fees (gross)	3,055.2	3,651.4	**6,706.6**	3,202.4	3,677.8	**6,880.2**
Reinsurance premiums ceded	–178.5	–19.8	**–198.3**	–177.9	–25.2	**–203.1**
Reinsurers' share of change in unearned premium reserves	10.8	–/–	**10.8**	–4.8	–/–	**–4.8**
Total premiums earned and policy fees (net)	**2,887.5**	**3,631.6**	**6,519.1**	**3,019.7**	**3,652.6**	**6,672.3**

in CHF million

29. Investment Income

	2006	**2007**
Investment property	231.1	256.5
Financial assets of an equity nature		
Available for sale	147.5	183.4
Recognised at market value through profit or loss	0.0	–/–
Financial assets of a debt nature		
Held-to-maturity	232.3	235.0
Available for sale	500.8	596.9
Recognised at market value through profit or loss	14.6	17.9
Mortgages and loans		
Carried at cost	658.5	687.1
Recognised at market value through profit or loss	24.8	23.8
Cash and cash equivalents	14.1	32.5
Total [1]	**1,823.7**	**2,033.1**

in CHF million

[1] Excluding income from associates

Revenue from investment properties primarily represents lease income. Income from financial assets of an equity nature primarily represents dividend income; financial assets of a debt nature primarily represent interest income and net income from write-ups and depreciations in accordance with the effective interest method. Revenue from "Mortgages and loans" and "Cash and cash equivalents" primarily represents interest. This revenue also includes revenue from assets held for the account and at the risk of life insurance policyholders.

As of the balance sheet date, interest revenue of CHF 9.3 million was recognised on impaired investments (previous year: CHF 9.6 million).

30. Realised Gains and Losses on Investments

	2006	**2007**
Realised gains and losses on investments for own account and at own risk	582.0	592.7
Realised gains and losses on investments for the account and at the risk of holders of life insurance policies	120.8	5.4
Realised gains and losses on investments as recognised in the income statement	**702.8**	**598.1**

in CHF million

30.1 Realized Gains and Losses on Investments 2006 for Own Account and at Own Risk

	Investment properties	Financial assets of an equity nature	Financial assets of a debt nature	Mortgages and loans [2]	Derivative financial instruments	**Total**
Realised gains on sales and net book profits						
Investment property	107.0					**107.0**
Held-to-maturity [3]			49.2			**49.2**
Available for sale		713.0	102.1			**815.1**
Recognised at market value through profit or loss		34.3	7.5	–/–	59.8	**101.6**
Carried at cost				18.2		**18.2**
Subtotal	**107.0**	**747.3**	**158.8**	**18.2**	**59.8**	**1,091.1**
Realised losses on sales and net book losses						
Investment property	–26.6					**–26.6**
Held-to-maturity [3]			–8.2			**–8.2**
Available for sale		–168.1	–71.5			**–239.6**
Recognised at market value through profit or loss		–2.2	–14.1	–/–	–180.8	**–197.1**
Carried at cost				–95.0		**–95.0**
Subtotal	**–26.6**	**–170.3**	**–93.8**	**–95.0**	**–180.8**	**–566.5**
Impairment losses recognised in profit or loss						
Held-to-maturity			–/–			**–/–**
Available for sale		–25.3	–/–			**–25.3**
Amortised acquisition values				–41.8		**–41.8**
Reversals of impairment losses recognised in profit or loss						
Held-to-maturity			–/–			**–/–**
Available for sale			8.3			**8.3**
Carried at cost				116.2		**116.2**
Subtotal		**–25.3**	**8.3**	**74.4**		**57.4**
Total realised gains and losses on investments [1]	**80.4**	**551.7**	**73.3**	**–2.4**	**–121.0**	**582.0**

in CHF million

[1] Excluding investments in associates.
[2] A gain of CHF 9.4 million from market value hedging was included in the realised disposal and book losses and profits from market value mortgages and loans.
[3] In case of investments of a debt nature held-to-maturity, currency effects are carried under realised book profits / realised book losses.

30.2 Realized Gains and Losses on Investments 2007 for Own Account and at Own Risk

	Investment properties	Financial assets of an equity nature	Financial assets of a debt nature	Mortgages and loans [2]	Derivative financial instruments	Total
Realised gains on sales and net book profits						
Investment property	43.4					**43.4**
Held-to-maturity [3]			38.3			**38.3**
Available for sale		989.8	65.6			**1'055.4**
Recognised at market value through profit or loss		2.4	15.2	–/–	53.5	**71.1**
Carried at cost				9.9		**9.9**
Subtotal	**43.4**	**992.2**	**119.1**	**9.9**	**53.5**	**1,218.1**
Realised losses on sales and net book losses						
Investment property	–65.6					**–65.6**
Held-to-maturity [3]			–6.6			**–6.6**
Available for sale		–119.2	–133.3			**–252.5**
Recognised at market value through profit or loss		–2.0	–16.6	–/–	–193.8	**–212.4**
Carried at cost				–37.3		**–37.3**
Subtotal	**–65.6**	**–121.2**	**–156.5**	**–37.3**	**–193.8**	**–574.4**
Impairment losses recognised in profit or loss						
Held-to-maturity			–/–			**–/–**
Available for sale		–67.0	–17.6			**–84.6**
Carried at cost				–30.7		**–30.7**
Reversals of impairment losses recognised in profit or loss						
Held-to-maturity			–/–			**–/–**
Available for sale			0.2			**0.2**
Carried at cost				64.1		**64.1**
Subtotal		**–67.0**	**–17.4**	**33.4**		**–51.0**
Total realised gains and losses on investments [1]	**–22.2**	**804.0**	**–54.8**	**6.0**	**–140.3**	**592.7**

in CHF million

[1] Excluding investments in associates.
[2] A gain of CHF 5.3 million from fair value hedging was included in the realised disposal and book losses and profits from market value market mortgages and loans.
[3] In case of investments of a debt nature held-to-maturity, currency effects are carried under realised book profits and / or realised book losses.

30.3 Impairment Loss Recognised in Profit or Loss

	2006	**2007**
Impairment loss recognised in profit or loss on financial assets of an equity nature		
Shares	–17.9	–49.4
Share-based funds	–/–	–0.2
Mixed funds	–/–	–0.1
Bond funds	0.0	–/–
Property funds	0.0	–2.7
Private equity	–2.6	–6.9
Hedge funds	–4.8	–7.7
Impairment losses recognised in profit or loss on financial assets of a debt nature		
Public corporations	–/–	–/–
Industrial enterprises	–/–	–/–
Financial institutions	0.0	–17.1
Other	–/–	–0.5
Impairment losses recognised in profit or loss on mortgages and loans		
Mortgages	–22.4	–23.7
Policy loans	–/–	–/–
Promissory notes and registered bonds	–/–	–/–
Reverse repurchase agreements	–/–	–/–
Other loans	–19.4	–7.0
Total	–67.1	**–115.3**

in CHF million

30.4 Currency Income

A loss of CHF 96.3 million was written in the reporting period under net income from transactions with financial instruments denominated in foreign currencies on the consolidated income statement (previous year CHF 69.1 million).

Excluding foreign currency losses from transactions with financial instruments recognised at market value through profit or loss, yields a foreign currency income of CHF 20.2 million (previous year CHF 44.4 million).

The figure includes foreign currency income in the amount of CHF 26.8 million (previous year: CHF 48.0 million) stemming from monetary financial investments classified as available for sale.

A loss from exchange differences (gross) in the amount of CHF 20.6 million not recognised at fair value through profit or loss was charged against equity (previous year: loss of CHF 20.0 million). Net profit of CHF 15.9 million remains after cash flow hedge accounting (previous year: CHF 54.7 million).

31. Income from Services Rendered

	2006	**2007**
Asset management	26.5	**31.8**
Services	184.0	**276.5**
Banking services	53.6	**60.1**
Investment management	22.3	**19.1**
Income from services rendered	**286.4**	**387.5**

in CHF million

32. Other Operating Income

	2006	**2007**
Interest income on insurance and reinsurance receivables	28.1	25.9
Other interest income	7.1	8.7
Gains from the sale of:		
Property, plant and equipment	0.1	3.0
Intangible assets	–/–	–/–
Currency gains	8.7	15.5
Other income	100.3	72.5
Other operating income	**144.3**	**125.6**

in CHF million

33. Classification of Expenses

	2006	**2007**
Personnel expenses (excluding loss adjustment expenses)	764.0	814.6
Marketing and advertising	152.3	174.9
Impairments and depreciation		
On property, plant and equipment	57.1	61.8
On intangible assets	46.4	81.1
IT and other technical equipment	77.7	84.4
Expenses for software development	0.1	0.1
Expenses for rent, upkeep and repairs	48.7	53.6
Currency losses	4.8	15.2
Commissions and distribution expenses	247.7	426.0
Other	612.2	516.2
Total	**2,011.0**	**2,227.9**

in CHF million

Acquisition, operational and administrative expenses for the insurance business, investment expenses and other operating expenses are shown on the income statement.

Included under expenses are fees and commissions for financial assets and liabilities not carried at market value in the amount of CHF 11.7 million (previous year: CHF 9.6 million). Also included are fees and commissions for assets managed for third parties in the amount of CHF 3.2 million (previous year: CHF 2.3 million).

34. Number of Employees

As of the balance sheet date the Baloise Group workforce numbered 7,714 full-time equivalent employees (FTEs) (previous year: 7,459). Personnel expenses totalled CHF 1,097.7 million for the fiscal year (previous year: CHF 1,084.5 million).

35. Expense from Financial Contracts

	2006	**2007**
With discretionary participation features (DPF)		
Financial contracts with discretionary participation features (DPF)	15.2	17.5
Subtotal	**15.2**	**17.5**
Measured at amortised cost		
Interest on loans	0.6	1.7
Interest payable	27.1	31.7
Interest from banking business	46.6	58.7
Interest expense from repurchase agreements	0.0	0.0
Acquisition costs – banking business	5.0	1.9
Interest expense from operating bonds	–/–	1.7
Expenses from financing contracts	4.4	4.0
Subtotal	**83.7**	**99.7**
Recognised at market value through profit or loss – designated		
Interest expense from operating bonds	6.3	3.1
Change in fair value of bonds	–2.0	–0.7
Interest expense on other financial contracts	53.3	42.7
Change in fair value of other financial contracts	–/–	–/–
Subtotal	**57.6**	**45.1**
Total expense from financial contracts	**156.5**	**162.3**
Of which: net income from interest rate hedging instruments		
Interest rate swaps: cash flow hedges, balance carried forward from cash flow hedge reserve	–/–	–/–
Interest rate swaps: fair value hedges	–14.6	–5.6
Total income from interest rate hedging instruments	**–14.6**	**–5.6**

in CHF million

36. Income Taxes

36.1 Current and Deferred Income Taxes

	2006	**2007**
Current income taxes	134.8	221.8
Deferred income taxes	71.3	–29.3
Total	**206.1**	**192.5**

in CHF million

Deferred income taxes include an amount of CHF 26.2 million resulting from a change in the tax rate in Germany during the reporting period.

Included for fiscal year 2006 are expenses of CHF 38.9 million in connection with a change of tax rate primarily concerning the Swiss Life unit.

36.2 Expected and Actual Income Taxes

	2006	**2007**
Profit before tax	913.2	1,006.3
Expected average tax rate in percent	23.6%	22.1%
Expected income taxes	215.2	222.7
Increase / reduction due to:		
Non-taxable income	–42.9	–29.5
Non-deductible expenses	12.1	17.8
Change in the tax rates	38.9	–14.1
Tax items related to other reporting periods	–11.6	–8.1
Other impacts	–5.6	3.7
Actual income taxes	**206.1**	**192.5**

in CHF million

The projected average tax rate for the Baloise Group was 23.56% for 2006 and 22.13% for 2007. These rates represent the weighted average of tax rates in the countries where the Baloise Group operates.

These were calculated this year based on amounts reported by the individual companies after deduction of income from internal participating interests, rather than on consolidated income. The previous year's reporting was adjusted accordingly.

37. Earnings per Share

	2006	**2007**
Profit for the period (attributable to shareholders) in CHF million	699.4	803.3
Average number of shares outstanding	54,086,516	51,887,469
Earnings per share in CHF	**12.93**	**15.48**

Performance share units (PSUs) introduced during the reporting period as a share-based compensation plan (see section 17.4.5) may have a diluting effect on earnings per share. No dilution occurred during the fiscal year however, thus undiluted and diluted earnings per share correspond.

The Baloise Group sells put options to employees as part of the employee share ownership plan outlined under section 17.4.3. These short put positions dilute earnings per share when the share price is below option exercise price. The share price was above the option exercise price both in the reporting period and in the previous year, thus no dilution occurred.

Other Disclosures

38. Acquisition of Companies

		Cumulative acquisitions		Cumulative disposals
	2006	**2007**	2006	**2007**
Investments	33.9	973.0	65.6	44.6
Other assets	1.7	148.4	2.9	0.9
Receivables and assets	–/–	2.1	–/–	–/–
Cash and cash equivalents	0.5	15.2	4.3	2.1
Technical liabilities	–/–	–360.7	–/–	–/–
Other liabilities	–31.4	–811.0	–69.5	–17.7
Minority interests	–0.4	0.2	–/–	–/–
Net assets acquired	4.3	**–32.8**		
Net assets disposed of			3.3	**29.9**
Funds used and / or received for acquisitions and disposals				
Cash and cash equivalents	6.2	115.5	–/–	–/–
Offsetting	–/–	–/–	–/–	–/–
Transfer of assets	–/–	–/–	–/–	–/–
Directly attributable costs	–/–	–/–	–/–	–/–
Equity instruments issued	–/–	–/–	–/–	–/–
Acquisition price	6.2	**115.5**		
Disposal price			20.1	**30.4**
Net assets acquired / disposed of	4.3	–32.8	3.3	29.9
Goodwill / negative goodwill	1.9	**148.3**		
Successful disposal			16.8	**0.5**
Cash and cash equivalents used for acquisition or disposal	6.2	115.5	20.1	30.4
Cash and cash equivalents acquired or disposed of	–0.5	–15.2	–4.3	–2.1
Outflow of cash and cash equivalents	5.7	**100.3**		
Inflow of cash and cash equivalents			15.8	**28.3**

in CHF million

Cumulative acquisitions for 2006 include the acquired companies Partner in Life S.A., Luxembourg, GAP Management AG, Ahrensburg, and the previously proportionately consolidated company Immo Treffles NV, Anderlecht.

Cumulative disposals for 2006 concern the proportionately consolidated companies Immo Merpa NV, Zaventem (Belgium), Pylon AG, Hamburg, and the fully consolidated company Basler Immobilien GmbH, Vienna. Cash flows from disposals of companies totalled CHF 79.2 million. This includes repayment of a Group-internal loan in the amount of CHF 59.1 million.

The acquisition of Winterthur-Europe Vie, Luxembourg, now reorganised as Bâloise-Europe Vie, was completed on 12th March 2007. Priced at CHF 20.9 million, the deal included all capital and voting shares, creating goodwill of CHF 2.6 million. The acquisition of 99.8% of capital and voting shares of Croatian life and nonlife insurer Osiguranje Zagreb was completed on 17th July 2007. Priced at CHF 63.3 million, the deal creating goodwill of CHF 129.5 million. The terms of the deal provide for a potential retroactive price adjustment due to warranty claims by as much as approximately CHF 7.1 million on the downside or CHF 34.2 million on the upside. The acquisition of Osiguranje Zagreb also involved four smaller subsidiaries. Additionally, the formerly proportionately consolidated companies GROCON Zweite Grundstückgesellschaft mbH, Hamburg, and Deutscher Ring Financial Services GmbH, Hamburg, were acquired outright. Priced at CHF 9.2 million, the deal generated goodwill of CHF 16.2 million.

39. Related Party Transactions

As part of its ordinary operating activities, the Baloise Group conducts transactions with associates, members of the Bâloise-Holding Board of Directors and Corporate Executive Committee. Deutscher Ring Krankenversicherung does not fall within Baloise's scope of consolidation as a mutual insurance company, but is associated with Deutscher Ring Leben and Deutscher Ring Sach by virtue of an organisational agreement, and thus constitutes a related party partner company. The amount of the transactions concerned is insignificant both individually and in total for Baloise; all transactions are conducted in line with market conditions.

	Associates		Executive management		Other related companies and individuals		Total	
Related party transactions	2006	2007	2006	2007	2006	2007	2006	2007
Included in the income statement								
Premiums earned and policy fees	–/–	–/–	1.0	1.1	–/–	–/–	1.0	1.1
Investment income	48.4	–2.8	0.0	0.0	–/–	–/–	48.4	–2.8
Other income	0.9	0.8	0.2	0.3	0.1	0.4	1.2	1.5
Expenses	0.0	–0.1	–10.1	–9.0	–/–	–/–	–10.1	–9.1
Impairment losses on bad debts	–/–	–/–	–/–	–/–	–/–	–/–	–/–	–/–
Total income statement	**49.3**	**–2.1**	**–8.9**	**–7.6**	**0.1**	**0.4**	**40.5**	**–9.3**
Included in the balance sheet								
Mortgages and loans	0.7	4.3	10.6	13.5	–/–	–/–	11.3	17.8
Insurance receivables	0.6	–/–	–/–	–/–	–/–	–/–	0.6	0.0
Other receivables	0.0	0.0	–/–	–/–	–/–	–/–	0.0	0.0
Allowances for bad debts	–/–	–/–	–/–	–/–	–/–	–/–	–/–	–/–
Other liabilities	–0.1	0.0	–/–	–/–	–/–	–/–	–0.1	0.0
Total balance sheet	**1.2**	**4.3**	**10.6**	**13.5**	**–/–**	**–/–**	**11.8**	**17.8**
Off-balance-sheet transactions								
Guarantees granted	–/–	–/–	–/–	–/–	–/–	–/–	–/–	–/–

in CHF million

Compensation paid to Board of Directors and Corporate Executive Committee members (executive management) totalled CHF 9.0 million in the reporting period (previous year: CHF 9.8 million). Of this amount, CHF 3.4 million (prev. yr.: CHF 3.0 million) stemmed from share-based compensation plans.

During the reporting period, 16,661 Bâloise-Holding shares (previous year: 13,871 shares) valued at CHF 2.1 million (previous year: CHF 1.3 million) were repurchased from Corporate Executive Committee members for the Employee Share Ownership Plan (section 17.4.3).

40. Board of Directors and Corporate Executive Committee Compensation

Disclosures of compensation, participations as well as loans granted to members of the Board of Directors and Corporate Executive Committee made in the following sections are compliant with 663b and 663c of the Swiss Code of Obligations (OR).

Members of the Board of Directors, not including The Chairman, receive fixed compensation in an amount determined by the Board of Directors Compensation Committee.

Since 2006, 25% of Board of Directors members' annual compensation has been remitted in the form of stock restricted for a three-year period. As with the Management Share Subscription Plan, members of the Board of Directors are also granted a 10% discount on market price.

No compensation was remitted to former members of the Board of Directors in connection with their former role within the company, nor otherwise in amounts not reflective of market conditions.

Total compensation remitted to Board of Directors members was only slightly changed versus the previous year (pro rata entitlement for Lead Director Dr. G. F. Krayer starting from 6th December 2007). During the reporting period, compensation was remitted to the nine nonexecutive members of the Board of Directors as shown below (see section 40.1. below for compensation remitted to the Chairman of the Board of Directors and the Corporate Executive Committee Chairman [starting 6.12.2007]).

Remuneration to the members of the Board of Directors 2007	Base salary	Remuneration for additional functions	Additional remuneration	**Total**	of which: in cash	of which: in shares
Dr. Georg F. Krayer			–/–	**235,833**	178,333	57,500
Vice Chairman Board of Directors	100,000					
and (as of 6.12.2007) Lead Director		55,833				
Chair Compensation Committee		30,000				
Deputy Chair Chairman's Committee and Investment Committee		50,000				
Dr. Christoph J. C. Albrecht			–/–	**130,000**	97,500	32,500
Member of the Board of Directors	100,000					
Deputy Chair Audit Committee		30,000				
Dr. Andreas Burckhardt			–/–	**130,000**	97,500	32,500
Member of the Board of Directors	100,000					
Member Audit Committee		30,000				
Dr. Hansjörg Frei			–/–	**180,000**	135,000	45,000
Member of the Board of Directors	100,000					
Member Chairman's Committee and Investment Committee		50,000				
Member Audit Committee		30,000				
Prof. Dr. Gertrud Höhler			–/–	**130,000**	97,500	32,500
Member of the Board of Directors	100,000					
Member Compensation Committee		30,000				
Dr. Klaus Jenny			–/–	**180,000**	135,000	45,000
Member of the Board of Directors	100,000					
Member Chairman's Committee and Investment Committee		50,000				
Deputy Chair Compensation Committee		30,000				
Werner Kummer			–/–	**150,000**	112,500	37,500
Member of the Board of Directors	100,000					
Chair Audit Committee		50,000				
Dr. Arend Oetker			–/–	**100,000**	75,000	25,000
Member of the Board of Directors	100,000	–/–				
Dr. Eveline Saupper			–/–	**130,000**	97,500	32,500
Member of the Board of Directors	100,000					
Member Compensation Committee		30,000				
Total Board of Directors (without Chairman)	**900,000**	**465,833**	**–/–**	**1,365,833**	**1,025,833**	**340,000**
Total Board of Directors (without Chairman) previous year				**1,360,000**	1,020,000	340,000

in CHF

Explanatory notes to table
Remuneration to former members of the Board and closely related individuals
No remuneration was paid to
a) former members of the Board of Directors, pertaining to previous governing body activities in Baloise, or that is non-standard.
b) individuals or companies with close family ties to members of the Board of Directors and that is non-standard (persons with close family ties: spouse, civil partner, unmarried partner, children).
Cash compensation
Remuneration as per contract (lump-sum compensation).
Shares
25% of the contractually agreed remuneration will be paid in shares which are locked-up for three years. Intrinsic value: fair value minus 10% (as with SSS).
Additional remuneration
No additional remuneration was disbursed.

40.1. Compensation for the Chairman of the Board of Directors and Corporate Executive Committee members

The Board of Directors Compensation Committee determines the type and amount of compensation received by the Board of Directors chairman and Corporate Executive Committee members. This consists of a base salary and an incentive component tied to the obtainment of performance targets. The standard incentive component equals 54% of base salary, potentially increasing to a maximum 70% for outstanding performance. The Compensation Committee may also at its discretion apply an OPM factor (Operational Performance Management) ranging between 0.8 and 1.3 tied to corporate earnings.

Fifty percent of the incentive component must be taken in shares (see sections 17.4.2 Share Subscription Plan and 17.4.3 Employee share ownership plan).

Performance targets for the subsequent year are determined through a multilevel process and approved by the Compensation Committee. The relevant parameters are consolidated earnings, combined ratio and shareholder value (performance of Baloise shares versus STOXX Insurance benchmark).

Individual targets are oriented closely around the objectives for the particular areas of responsibility of the respective Executive Committee members. Targets are set in consultation with the respective supervising managers and likewise subject to approval by the Compensation Committee.

Dr. Frank Schnewlin resigned as Chief Executive Officer effective 6th December 2007. His employment will be ending on 31st January 2009, qualifying him for an early pension in accordance with company rules. The 5,962 performance share units allocated to him in March 2007 thus are not forfeited. Mr. Schnewlin's compensation rights remain unchanged until termination of his employment. For the year 2007 these involve an incentive and performance quota of CHF 2.123 million. Provisions have been created in this amount, which is to be remitted simultaneous with incentive payments and distributions to other employees in 2008. For the years 2008 and 2009 Dr. Schnewlin is entitled to a total of CHF 3.082 million including base salary.

No compensation was remitted to former members of the Corporate Executive Committee in connection with their former role within the company, nor otherwise in amounts not reflective of market conditions.

Total compensation rose compared to the previous year, moving up towards the marketplace median for comparable items. The following factors were involved in this increase:

- Retirement contributions / benefits are now counted as part of total compensation in line with industry regulations effective 1st January 2007.
- Introduction of the IPM process (Individual Performance Management) in 2006 led to a relative increase in variable, incentivised compensation. As a result, for example, a target obtainment percentage of 130% is applied for performance characterised as outstanding (previous maximum 100%).
- Since 2006, additional variability within the incentive component has been possible by applying the OPM factor tied to corporate earnings. In view of Baloise earnings in fiscal year 2006, the Compensation Committee elected to apply the maximum OPM of 1.3.
- The performance quota also came into play as a new incentive element for the first time in 2007.

Variable components within the overall compensation package are determined in the spring of each year as part of the Individual Performance Management process. Data provided in the table below reflects compensation remitted, excluding amounts deferred to a subsequent period. Base salary, pension benefits for the year 2007 and variable compensation elements remitted based on the previous year are thus included.

Remuneration to the Chairman of the Board of Directors and the members of the Corporate Executive Committee in 2007

	Cash remuneration			Shares				Non-cash benefits	Pension benefits		**Total remuneration**
	Basic remuneration (fixed)		Incentive (variable)	Employee Incentive Plan	Share Subscription Scheme	Share Ownership Plan	Prospective entitlements (PSU)		Pension fund	Individual life policies	
	CHF	in % of total remu-neration	CHF	CHF	CHF	CHF	Number of PSU	CHF	CHF	CHF	**CHF**
Dr. Rolf Schäuble, Chairman of the Board of Directors and (as of 6.12.2007) CEO Baloise Group	1,600,000	45%	886,921	3,927	905,004	–/–	6,359	–/–	144,126	36,505	**3,576,483**
Dr. Frank Schnewlin CEO Baloise Group (until 6.12.2007)	1,500,000	46%	771,746	3,927	125,006	663,443	5,962	–/–	128,826	33,170	**3,226,118**
Other Corporate Executive Committee members	1,855,000	42%	598,804	11,781	1,090,390	224,976	7,194	12,500	581,933	35,168	**4,410,552**
Total Corporate Executive Committee	**3,355,000**	**44%**	**1,370,550**	**15,708**	**1,215,396**	**888,419**	**13,156**	**12,500**	**710,759**	**68,338**	**7,636,670**

Total Chairman of the Board of Directors previous year (without pension benefits)	**2,977,797**
Total members of the Corporate Executive Committee previous year (without pension benefits)	**5,475,475**

in CHF

Explanatory notes to table
Other members of the Corporate Executive Committee: includes Dr. Thomas Sieber, who was appointed member of the CEC on 6.12.2007.
Remuneration to former members and persons with close family ties
No non-standard remuneration has been paid to individuals or companies with close family ties to the Chairman of the Board of Directors or the members of Corporate Executive Committee. (persons with close family ties: spouse, civil partner, unmarried partner, children under 18). No non-standard or other remuneration has been paid to former members of the Board of Directors pertaining to previous governing body activities in Baloise.
Basic salary
Basic salary as per contract (gross).
Incentive
Variable, performance related portion of total remuneration paid in cash (gross).
Employee Incentive Plan
Portion of remuneration resulting from subscription for company shares at a preferential rate (2007: CHF 54.60). Computation: Market value minus subscription price = benefit in kind.
Share Subscription Scheme (SSS)
Portion of incentive received directly in shares. Computation: Fair value minus 10% reduction
Employee Share Ownership Plan (ESOP)
Portion of incentives received in shares (exclusive of shares financed by loans).
Prospective entitlements (PSU)
Entitlements that confer a right to acquire shares at a future date, subject to achieving pre-determined performance conditions (cf. section 5.5. Performance Share Units (PSU)). The accrued value of share awards will only be added to the total remuneration at the conversion into actual shares (i.e. at the end of the three-year performance period), only then can a reliable estimate be provided and only then will they actually have been earned.
Non-cash benefits
Basis: All elements of remuneration in compliance with the new Swiss salary certificate. The listed amount is a long service gift to a member of the CEC.
Pension benefits
Employer contributions to the pension fund plus premium payments for single life policies for incentives not insured under the pension fund. Contributions to single life policies will be discontinued in 2008.

40.2. Loans to Board Members

Outstanding balances of loans granted to members of the Board of Directors and Corporate Executive Committee break down as follows:

Credits and loans to members of the Board of Directors and the Corporate Executive Committee

	Mortgages	Loans connected with the Share Ownership Plan	Other loans	**Total**
Dr. Rolf Schäuble, Chairman of the Board of Directors and (as of 6.12.2007) CEO of Baloise Group				
Dr. Georg F. Krayer, Vice-Chairman of the Board of Directors and (as of 6.12.2007) Lead Director				
Dr. Christoph J. C. Albrecht, Member				
Dr. Andreas Burckhardt, Member	650,000			**650,000**
Dr. Hansjörg Frei, Member				
Prof. Dr. Gertrud Höhler, Member				
Dr. Klaus Jenny, Member				
Werner Kummer, Member				
Dr. Arend Oetker, Member				
Dr. Eveline Saupper, Member				
Total Board of Directors	**650,000**	**–/–**	**–/–**	**650,000**
Dr. Frank Schnewlin, CEO of Baloise Group (until 6.12.2007)		7,645,550		**7,645,550**
Other members of the Corporate Executive Committee	1,000,000	4,195,230		**5,195,230**
Total Corporate Executive Committee	**1,000,000**	**11,840,780**	**–/–**	**12,840,780**
Total Board of Directors and Corporate Executive Committee previous year				**10,631,334**

in CHF

Explanatory notes to table
Credits and loans
No non-standard loans and credits have been granted to
a) former members of the Board of Directors and the Corporate Executive Committee.
b) individuals or companies with close family ties to members of the Board of Directors (persons with close family ties: spouse, civil partner, unmarried partner, children).
Mortgages
Employees are granted mortgages at preferential rates: 1% below standard variable interest rate for clients, preferential rate for fixed interest mortgages. The mortgage granted to Dr. A. Burckhardt is charged interest at market conditions since at the time of the conclusion of the contract no employee conditions were granted yet.
Loans connected with the Share Ownership Plan
Loans to fund leveraged share ownership plan (cf. section 5.4. Share Ownership Plan). Interest is charged at prevailing interest rates (2007: 3%) over a term of three years.
Other loans
There are no policy loans.

40.3 Participations and Options

Board of Directors and Corporate Executive Committee members and / or related parties of the aforesaid held registered Bâloise-Holding shares in the amounts shown below (including shares allocated / distributed from share-based incentive plans during the reporting period):

Shares held by members of the Board of Directors 2007	Discretionary shares	Restricted shares	Share ownership total	in % of the share capital issued
Board of Directors excluding Chairman				
Dr. Georg F. Krayer, Vice-Chairman and (as of 6.12.2007) Lead Director	23,500	2,186	25,686	0.048%
Dr. Christoph J. C. Albrecht, Member	8,020	1,670	9,690	0.018%
Dr. Andreas Burckhardt, Member	–/–	1,670	1,670	0.003%
Dr. Hansjörg Frei, Member	1,000	1,928	2,928	0.005%
Prof. Dr. Gertrud Höhler, Member	–/–	1,670	1,670	0.003%
Dr. Klaus Jenny, Member	18,000	1,928	19,928	0.037%
Werner Kummer, Member	–/–	1,774	1,774	0.003%
Dr. Arend Oetker, Member	2,000	1,516	3,516	0.007%
Dr. Eveline Saupper, Member	–/–	1,670	1,670	0.003%
Total Board of Directors (excluding Chairman)	**52,520**	**16,012**	**68,532**	**0.127%**
in % of the share capital issued	0.097%	0.030%	0.127%	
Total Board of Directors (excluding Chairman) previous year			61,570	0.111%

Number

Explanatory notes to table
Shares-holdings
Incl. shares held by individuals or companies with close family ties to members of the Board of Directors (spouse, civil partner, unmarried partner, children under the age of 18).
Discretionary shares
Shares held in personal custody accounts.
Restricted shares
Shares subscribed for through share-based remuneration schemes are subject to a three-year lock-up period. Under section 20 of the articles of incorporation, each member of the Board of Directors must deposit 1,000 shares with the Company for the term of his / her office (qualifying shares).
Options
Members of the Board of Directors do not hold options on Baloise shares.

Shares held by the Chairman of the Board of Directors and members of the Corporate Executive Committee 2007	Discretionary shares	Restricted shares	Share ownership total	in % of the share capital issued	Prospective entitlements (PSU)
Dr. Rolf Schäuble, Chairman of the Board of Directors and (as of 6.12.2007) CEO of Baloise Group	30,566	25,802	56,368	0.104%	6,359
Dr. Frank Schnewlin, CEO of Baloise Group (until 6.12.2007)	100	117,627	117,727	0.218%	5,962
German Egloff, CFO of Baloise	–/–	26,591	26,591	0.049%	2,186
Dr. Martin Strobel, CEO of Basler Switzerland	–/–	7,973	7,973	0.015%	2,623
Martin Wenk, CIO of Baloise	800	28,198	28,998	0.054%	2,385
Dr. Thomas Sieber, Head of Corporate Center (as of 6.12.2007)	–/–	15,745	15,745	0.029%	857
Total Chairman of the Board of Directors and members of the Corporate Executive Committee	**31,466**	**221,936**	**253,402**	**0.469%**	**20,372**
Percentage of share capital issued	0.058%	0.411%	0.469%		
Total Chairman of the Board of Directors and members of the Corporate Executive Committee previous year			268,131	0.485%	–/–

Number

Explanatory notes to table
Share-holdings
Incl. shares held by individuals or companies with close family ties to members of the Board of Directors (spouse, civil partner, unmarried partner, children under the age of 18).
Discretionary shares
Shares held in personal custody accounts
Restricted shares
Incl. shares subscribed for through the Employee Share Ownership Plan (ESOP) and financed by loans. Shares subscribed for through share-based remuneration schemes are subject to a three-year lock-up period. As per section 20 of the Articles of Incorporation, each member of the Board of Directors must deposit 1,000 shares with the Company for the term of his / her office (qualifying shares).
Options
Options held in relation to the Employee Share Ownership Plan are not listed here, as they do not originate from their own option plan but have been written to secure the loan. In addition, each put option has a call option as counterpart.
Prospective entitlements (PSU)
Number of PSUs allocated (allocation as of 9.3.2007).

41. Proportionately Consolidated Companies

Included in the balance sheet and income statement	2006	**2007**
Investments	696.3	727.3
Intangible assets and property, plant and equipment	47.2	42.2
Liabilities	547.4	576.7
Income	253.0	316.7
Expenses	206.6	273.8

in CHF million

42. Contingent Liabilities and Future Liabilities

42.1 Contingent Liabilities

42.1.1 Legal Disputes

The Baloise Group and its subsidiaries are regularly involved in legal disputes, claims and lawsuits which in most cases constituted a normal part of operating activities as an insurance provider. The Corporate Executive Committee is not aware of any new circumstances having arisen since the prior balance sheet date potentially having a material impact on the 2007 consolidated financial statements.

42.1.2 Guarantees and Payment Guarantees for the Benefit of Third Parties

The Baloise Group has provided guarantees and incurred obligations with third parties, associates, partnerships and joint ventures. These include contractual obligations to contribute / pay in capital / equity, funds for covering principal and interest payments due and guarantees provided in the course of operating activities. The Baloise Group is unaware of any default circumstances requiring the exercise of such guarantees.

	2006	**2007**
Guarantees	182.6	48.3
Payment guarantees	349.2	360.2
Total guarantees and payment guarantees for the benefit of third parties	**531.8**	**408.5**
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

Credit standing of payment guarantees and guarantees 2006	AAA	AA	A	BBB	Lower than BBB or no rating	**Total**
Payment guarantees	–/–	–/–	–/–	–/–	182.6	182.6
Guarantees	–/–	7.6	–/–	–/–	341.6	349.2

in CHF million

Credit standing of payment guarantees and guarantees 2007	AAA	AA	A	BBB	Lower than BBB or no rating	**Total**
Payment guarantees	–/–	–/–	–/–	–/–	48.3	48.3
Guarantees	–/–	3.3	–/–	–/–	356.9	360.2

in CHF million

42.1.3 Pledged Assets, Securities Lending Assets and Securities Held

Book values of assets pledged or ceded as securities	2006	**2007**
Financial assets within the framework of repurchase agreements	–/–	–/–
Financial assets within the framework of securities lending	–/–	–/–
Investments	1,318.0	1,249.2
Pledged intangible assets	–/–	–/–
Pledged property, plant and equipment	–/–	–/–
Other	5.4	2.6
Total	**1,323.4**	**1,251.8**

in CHF million

Market value of the securities held	2006	**2007**
Financial assets within the framework of reverse repurchase agreements	–/–	–/–
Financial assets within the framework of securities lending	244.8	3,440.0
Other	–/–	–/–
Total	**244.8**	**3,440.0**
of which: sold or repledged		
– with obligation to return	–/–	–/–
– without obligation to return	–/–	–/–

in CHF million

The Baloise Group engages in securities lending transactions subject to credit risk. To hedge these credit risks, securities that cover the base value of the securities borrowed – so called collateral – are claimed. In order to minimise credit risks, an evaluation of the borrowing party's pledge value is performed regularly. Additional securities are immediately demanded in the event of a shortfall in the reserve value.

The Baloise Group retains control of loaned securities for the duration of the transaction. Income from securities lending is recognised in profit or loss.

42.2 Future Liabilities

42.2.1 Capital Commitments

Commitments for future acquisition of:	2006	2007
Investments	571.1	586.5
Property, plant and equipment	–/–	–/–
Intangible assets	–/–	–/–
Total commitments	**571.1**	**586.5**
of which: in connection with joint ventures	–/–	–/–
of which: own share in the capital commitments of the joint ventures	–/–	–/–

in CHF million

Credit standing of loan commitments 2006	AAA	AA	A	BBB	Lower than BBB or no rating	Total
Capital commitments	–/–	–/–	218.9	21.3	330.9	571.1

in CHF million

Credit standing of loan commitments 2007	AAA	AA	A	BBB	Lower than BBB or no rating	Total
Capital commitments	–/–	–/–	193.1	18.7	374.7	586.5

in CHF million

Commitments for future acquisition of investments also include private equity commitments that are not financed commitments for direct investment in private equity or investment in private equity funds.

43. Operating Leases

43.1 Baloise Group as Lessee

The Baloise Group has entered into non-cancellable lease agreements as lessee for the use of buildings, vehicles and operational facilities. The average outstanding lease term is three to five years.

Future expenses from operating leases	2006	2007
Due within one year	4.2	4.5
Due from one to five years	2.8	3.6
Due after five years	1.0	0.6
Total	**8.0**	**8.7**
Minimum lease payments	5.7	4.9
Contingent lease payments	–/–	–/–
Leasing expenses	**5.7**	**4.9**
Income from subleasing in the fiscal year	–/–	–/–
Future income from subleasing	–/–	–/–

in CHF million

Contingent lease payments result from lease agreements tied to an index.

43.2 Baloise Group as Lessor

The Baloise Group has entered into operating lease agreements as lessor of investment properties to third parties. The average outstanding non-cancellable lease term is four to six years. No other such lease agreements were in place on the balance sheet date.

Future contractually agreed leasing income	**2006**	**2007**
Due within one year	36.7	30.3
Due from one to five years	56.1	50.8
Due after five years	19.6	16.7
Total	**112.4**	**97.8**
Minimum lease payments	46.9	49.4
Contingent lease payments	0.2	0.2
Leasing income	**47.1**	**49.6**

in CHF million

44. Claim Payments Received from Non-Group Insurers

Baloise Group companies received claim payments totalling CHF 0.6 million in fiscal year 2007 (previous year: CHF 0.3 million) from non-Group insurers in connection with insurance contracts held by Baloise Group companies as policyholder. Most of these claims payments were for building damage in Switzerland, where in certain areas buildings are under mandatory coverage by state insurers.

45. After Balance Sheet Date Events

To our knowledge, no events have occurred up to the completion date of these Consolidated Annual Financial Statement dated 18th March 2008, which would have a material impact on the statements overall.

46. Significant Subsidiaries, Joint Ventures and Associates as of 31st December 2007

	Primary activity	Business area [1]	Group share in percent	Direct share in percent	Method of consolidation [2]	Currency	Share capital in million	Total assets in million	Gross premiums/ policy fees in million
Switzerland									
Bâloise-Holding, Basel	Holding	O	Holding	Holding	F	CHF	5.4	1,945.4	–/–
Basler, Versicherungs-Gesellschaft, Basel	Nonlife	NL	100.00	100.00	F	CHF	75.0	6,002.3	1,293.0
Basler Lebens-Versicherungs-Gesellschaft, Basel	Life	L	100.00	100.00	F	CHF	50.0	25,913.1	2,413.3
Baloise Bank SoBa, Solothurn	Banking	B	100.00	100.00	F	CHF	50.0	5,379.8	–/–
Haakon AG, Basel	Other	O	74.75	74.75	F	CHF	0.2	34.2	–/–
Baloise Asset Management Schweiz AG, Basel	Investment management	B	100.00	100.00	F	CHF	1.5	19.3	–/–
Baloise Asset Management International AG, Basel	Investment consulting	B	100.00	100.00	F	CHF	1.5	6.8	–/–
Germany									
Basler Versicherung Beteiligungsgesellschaft mbH, Hamburg	Holding	O	100.00	100.00	F	EUR	20.5	305.4	–/–
Baloise Beteiligungs-Holding GmbH, Bad Homburg	Holding	O	100.00	100.00	F	EUR	0.0	139.9	–/–
Deutscher Ring Lebensversicherungs-Aktiengesellschaft, Hamburg	Life	L	100.00	100.00	F	EUR	22.0	8,248.3	483.5
Deutscher Ring Sachversicherungs-Aktiengesellschaft, Hamburg	Nonlife	NL	100.00	100.00	F	EUR	50.0	419.3	136.4
Deutscher Ring Deutscher PensionsRing AG, Hamburg	Life	L	100.00	100.00	F	EUR	3.0	29.8	13.8
Basler Securitas Versicherungs Aktiengesellschaft, Bad Homburg	Nonlife	NL	100.00	100.00	F	EUR	15.1	997.9	466.4
Deutscher Ring Bausparkasse AG, Hamburg	Banking	B	65.00	65.00	P	EUR	12.8	473.0	–/–
Deutscher Ring Beteiligungsholding GmbH, Hamburg	Holding	O	65.00	65.00	P	EUR	12.8	246.8	–/–
DePfa Beteiligungs-Holding II GmbH, Düsseldorf	Other	O	26.00	26.00	E	EUR	–/–	–/–	–/–
Deutscher Ring Financial Services GmbH, Hamburg	Other	O	100.00	100.00	P	EUR	0.1	6.5	–/–
GROCON Erste Grundstücksgesellschaft mbH, Hamburg	Other	O	100.00	100.00	F	EUR	0.7	3.8	–/–
GROCON Zweite Grundstücksgesellschaft mbH, Hamburg	Other	O	100.00	100.00	P	EUR	1.5	6.5	–/–
OVB Vermögensberatung AG, Cologne	Other	O	32.57	100.00	P	EUR	10.0	45.2	–/–
Roland Rechtsschutz Beteiligungs GmbH, Cologne	Other	O	39.00	60.00	P	EUR	0.1	22.0	–/–
Roland Rechtsschutz Versicherungs AG, Cologne	Other	O	9.76	25.02	E	EUR	–/–	–/–	–/–
Zeus Vermittlungsgesellschaft mbH, Hamburg	Other	O	65.00	100.00	P	EUR	0.5	18.2	–/–

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

	Primary activity	Business area [1]	Group share in percent	Direct share in percent	Method of consolidation [2]	Currency	Share capital in million	Total assets in million	Gross premiums/ policy fees in million
Belgium									
Mercator Verzekeringen NV, Antwerp	Life and Nonlife	L / NL	100.00	100.00	F	EUR	168.0	3,138.2	386.2
Amazon Insurance NV, Antwerp	Nonlife	NL	100.00	100.00	F	EUR	3.7	23.0	19.4
Mercator Re NV, Antwerp	Reinsurance	NL	100.00	100.00	F	EUR	1.2	4.6	0.0
Euromex NV, Antwerp	Nonlife	NL	100.00	100.00	F	EUR	2.5	61.6	22.8
Antwerp Real Estate NV, Antwerp	Other	O	100.00	100.00	F	EUR	1.2	2.9	–/–
Hondius NV, Antwerp	Other	O	100.00	100.00	F	EUR	12.7	1.2	–/–
Merno-Immo NV, Ghent	Other	O	100.00	100.00	F	EUR	17.1	18.5	–/–
Luxembourg									
Bâloise (Luxembourg) Holding S.A., Bertrange (Luxembourg)	Holding	O	100.00	100.00	F	CHF	249.9	978.8	–/–
Bâloise Assurances Luxembourg S.A., Bertrange (Luxembourg)	Nonlife	NL	100.00	100.00	F	EUR	7.5	118.3	32.6
Bâloise Vie Luxembourg S.A., Bertrange (Luxembourg)	Life	L	100.00	100.00	F	EUR	12.5	1,273.5	26.0
Baloise Fund Invest Advico, Bertrange (Luxembourg)	Other	O	100.00	100.00	F	EUR	0.1	8.8	–/–
Austria / Croatia / Serbia									
Basler Versicherungs-Aktiengesellschaft in Österreich, Vienna	Life and Nonlife	L / NL	100.00	100.00	F	EUR	5.1	494.3	85.1
OVB Allfinanzvermittlungs GmbH, Salzburg	Other	O	32.57	100.00	F	EUR	1.0	12.4	–/–
Basler Osiguranje d.d., Zagreb	Nonlife	NL	94.00	94.00	F	HRK	22.5	74.4	23.3
Basler Zivotno Osiguranje d.d., Zagreb	Life	L	94.00	94.00	F	HRK	22.5	129.7	61.1
Osiguranje Zagreb d.d., Zagreb	Life and Nonlife	L / NL	99.78	99.78	F	HRK	45.0	1,896.5	219.7
Nezivotno osiguranje Basler a.d.o., Belgrade	Nonlife	NL	99.99	99.99	F	RSD	245.3	391.2	0.1
Zivotno osiguranje Basler a.d.o., Belgrade	Life	L	99.99	99.99	P	RSD	174.9	247.1	–/–
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	152.3	–/–
Baloise Life (Liechtenstein) AG, Balzers	Life	L	100.00	100.00	F	CHF	5.0	7.5	–/–
Wealth Assurance AG, Vaduz	Life	L	40.00	75.00	F	EUR	3.0	9.2	0.0
Baloise Insurance Company (Bermuda) Ltd. Hamilton / Bermuda	Reinsurance	NL	100.00	100.00	F	CHF	5.0	814.2	–/–
Baloise Alternative Investment Strategies Ltd. Grand Cayman / Cayman Islands	Investment management	NL / L / O	100.00	100.00	F	USD	0.0	1,414.0	–/–
Baloise Finance (Jersey) Ltd. St. Helier / Jersey / Channel Islands	Other	O	100.00	100.00	F	CHF	1.3	231.1	–/–
Baloise Private Equity Ltd., Cayman Islands	Investment management	NL / L / O	100.00	100.00	F	USD	0.0	541.7	–/–
OVB Allfinanz s.v.o. Czech Republic, Prague	Other	O	32.57	100.00	P	CZK	16.5	402.3	–/–
OVB Allfinanz Slovensko, Bratislava	Other	O	32.57	100.00	P	SKK	20.0	570.4	–/–
OVB Polska Allfinanz z.o.o., Warsaw	Other	O	32.57	100.00	P	PLN	1.1	19.8	–/–

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

Group Auditors' Report

to the Bâloise-Holding Annual General Meeting, Basel

In our function as statutory auditors, we have audited the Consolidated Annual Financial Statement for Bâloise-Holding (consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity, and notes on the Consolidated Annual Financial Statement (pages 2 to 95) for the fiscal year ended on 31st December 2007.

The Board of Directors is responsible for the Consolidated Annual Financial Statement, while our duty is to audit and assess them. We confirm that we meet the legal requirements concerning qualification and independence.

We conducted our audit in line with the Swiss Auditing Standards, according to which an audit is to be planned and conducted in such a way that major errors in the Consolidated Annual Financial Statement can be identified with a reasonable degree of certainty. We checked the items and details of the annual financial statements by means of analyses and random surveys. Moreover, we assessed the application of relevant accounting principles, material valuation decisions, and the presentations of the Consolidated Annual Financial Statement as a whole. We believe that our audit forms a sufficiently reliable basis for our opinion.

In our opinion, the Consolidated Annual Financial Statement represents a true and fair view of the actual asset, finance and income situation in compliance with the International Financial Reporting Standards (IFRS) and with Swiss law.

We recommend that the submitted Consolidated Annual Financial Statement be approved.

PricewaterhouseCoopers AG

Prof. Dr. Edgar Fluri

Martin Frei
Chief Auditor

Basel, 18th March 2008

Income Statement Bâloise-Holding

	Notes	2006	**2007**
Income from participating interests		296.4	399.0
Interest and securities income	2	30.4	19.8
Other income	3	2.0	2.8
Total income		**328.8**	**421.6**
Administrative expenses	4	–3.7	–25.9
Interest expense	5	–27.2	–27.5
Depreciation	6	–30.0	–50.5
Other expense	7	–8.7	–3.9
Total expenses		**–69.6**	**–107.8**
Tax expenditure		**–1.8**	**–0.3**
Profit for the period		**257.4**	**313.5**

in CHF million

Balance Sheet Bâloise-Holding

Assets	Notes	31.12.2006	**31.12.2007**
Cash and cash equivalents		165.3	16.3
Treasury shares		113.8	340.1
Receivables from Group companies		60.0	69.9
Receivables from third parties		0.3	1.3
Accruals	10	66.0	49.1
Current assets		**405.4**	**476.7**
Participations	8	1,416.1	1,575.3
Loans to Group companies	9	30.0	30.0
Other financial assets		11.8	0.2
Non-current assets		**1,457.9**	**1,605.5**
Total assets		**1,863.3**	**2,082.2**

in CHF million

Liabilities and equity			
Liabilities to Group companies		34.3	4.9
Liabilities to third parties		13.7	0.2
Bonds	11	900.0	1,200.0
Provisions		9.1	10.7
Accruals		13.7	14.3
Liabilities		**970.8**	**1,230.1**
Share capital		5.5	5.4
Statutory reserves			
General reserves		11.7	11.7
Reserve for treasury shares		119.1	367.7
Other reserves		498.1	153.2
Retained earnings		258.1	314.1
Equity	**12**	**892.5**	**852.1**
Total liabilities and equity		**1,863.3**	**2,082.2**

in CHF million

Notes Bâloise-Holding

1. Accounting Standards

The Baloise annual financial statements are produced in accordance with the regulations of the Swiss Code of Obligations.

Cash and Cash Equivalents

The cash and cash equivalents include cash in banks as well as cash equivalents such as call-, time deposits or money market papers if these have an original maturity of fewer than 90 days.

Treasury Shares

Treasury shares acquired as part of the share buy-back programme are written at the buy-back price or at the lower fair value.

Receivables

Receivables are carried at nominal value net of the impairments necessary.

Accruals

The deferred expenses take into account both expenses paid in advance for the new fiscal year as well as revenue from the current fiscal year which is only received later. Included under the same heading are dividends decided on the balance sheet date by the Annual General Meeting of the subsidiary companies, which are carried in Bâloise-Holding as dividend claims.

Participations

Participations are recognised at acquisition value net the depreciation necessary.

Loans to Group Companies

The valuation of the loans was made at nominal value taking into account the necessary depreciation. Individual impairments were conducted according to the prudence principle for all recognisable risks.

Other Financial Assets

The marketable securities are either recognised at the purchase price or at the market value, with the lower of the two being applied.

Liabilities

The liabilities are recognised at nominal value.

Bonds

The bonds are recognised at nominal value. The emission costs, reduced by the premium, are charged in full to the income statement upon issue of the bond.

Provisions

Provisions are accrued to cover any risks according to the principles of prudent management.

Accruals

Deferred income includes revenue already received regarding the new fiscal year and expenses for the current fiscal year, which will only be paid later.

Notes on Income Statement and Balance Sheet

2. Income from Interest and Securities

	2006	**2007**
Income from treasury shares (previous year: income / earnings from securities)	25.3	6.0
Interest on loans to Group companies	0.1	1.0
Income from other financial assets	0.5	10.9
Other interest receivables	4.5	1.9
Total interest and securities income	**30.4**	**19.8**

in CHF million

3. Other Income

	2006	**2007**
Income from services rendered	2.0	1.9
Other financial income	0.0	0.9
Total other income	**2.0**	**2.8**

in CHF million

4. Administrative Expenses

	2006	**2007**
Personnel expenses	1.4	15.2
Other administrative expenses	2.3	10.7
Total administrative expenses	**3.7**	**25.9**

in CHF million

5. Interest Expenses

	2006	**2007**
Interest from bonds	26.5	26.8
Other interest expenses	0.7	0.7
Total interest expenses	**27.2**	**27.5**

in CHF million

6. Depreciation

	2006	**2007**
Depreciation on participations	30.0	29.6
Depreciation on treasury shares	–/–	20.9
Total depreciation	**30.0**	**50.5**

in CHF million

7. Other Expenses

	2006	**2007**
Expenses incurred for services rendered	1.6	1.4
Other expenses	7.1	2.5
Total other expenses	**8.7**	**3.9**

in CHF million

8. Participations

Company	Holding at 31.12.2006 in %	Holding at 31.12.2007 in %	Currency	Shares / holdings as at 31.12.2007 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
Baloise Life (Liechtenstein) AG, Balzers	–/–	100	CHF	5.0
Basler Versicherung Beteiligungsges. mbH, Hamburg	100	–/–	EUR	–/–
Baloise Beteiligungs-Holding GmbH, Bad Homburg	100	100	EUR	0.0
Bâloise (Luxembourg) Holding S.A., Bertrange (Luxembourg)	100	100	CHF	249.9
Bâloise Delta Holding S.A.R.L., Bertrange (Luxembourg)	–/–	100	EUR	150.0
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	1.3
Osiguranje Zagreb d.d., Zagreb	–/–	100	HRK	44.8
Nezivotno osiguranje Basler a.d.o., Beograd	–/–	100	RSD	245.4
Zivotno osiguranje Basler a.d.o., Beograd	–/–	100	RSD	174.9

The holding is rounded up to the nearest percent. For additional details of participations owned directly by Bâloise-Holding see pages 94 and 95.

9. Loans to Group Companies

	2006	**2007**
Subordinated loan to Baloise Bank SoBa	30.0	30.0

in CHF million

10. Accruals

Due to resolutions of the Annual General Meeting of 14th February 2008 of Baloise Fund Invest Advico, Luxembourg, of 28th February 2008 of Baloise Asset Management Schweiz AG, Basel, and the Baloise Asset Management International AG, Basel, of 29th February 2008 of Haakon AG, Basel, and of 11th March 2008 of Baloise Bank SoBa, Solothurn, the accrued dividend claims (income from participating interests) for the fiscal year 2007 were taken into account as deferred expenses.

11. Bonds

Amount	Interest rate	Issued	Repayment
CHF 300 million	3.250%	1998	7.4.2008
CHF 250 million	3.375%	2003	15.12.2009
CHF 350 million [1]	2.375%	2004	20.12.2010
CHF 150 million	3.250%	2007	19.6.2012
CHF 150 million	3.500%	2007	19.12.2014

[1] raised by CHF 100 million in 2005

12. Changes in Equity

	31.12.2006	**31.12.2007**
Share capital		
As of 1st January	5.5	5.5
Reduction through cancellation of treasury shares as per AGM resolution	–/–	–0.1
Total share capital	**5.5**	**5.4**
Legal reserves		
General reserve		
As of 1st January	11.7	11.7
Allocation	–/–	–/–
Total general reserve	**11.7**	**11.7**
Reserve for treasury shares		
As of 1st January	7.8	119.1
Reduction through cancellation of treasury shares as per AGM resolution	–/–	–143.6
Allocation (carry forward from other reserves)[1]	111.3	392.2
Total reserve for treasury shares	**119.1**	**367.7**
Total legal reserves	**130.8**	**379.4**
Other reserves		
As of 1st January	593.2	498.1
Allocation	16.2	47.3
Withdrawal (carry forward to reserve for treasury shares)	–111.3	–392.2
Total other reserves	**498.1**	**153.2**
Retained earnings		
As of 1st January	138.6	258.1
Dividend distribution	–121.7	–210.2
Additional contributions to unappropriated reserves	–16.2	–47.3
Profit for the period	257.4	313.5
Total retained earnings	**258.1**	**314.1**
Total equity	**892.5**	**852.1**

in CHF million

[1] The members of the Baloise Group purchased a total of 267,331 shares (without share buy-back via the second trading line) at an average price of CHF 127. During the reporting period they sold 260,831 shares at an average price of likewise CHF 127 and as of 31st December 2007 together hold 102,060 shares in Bâloise-Holding. In addition, Bâloise-Holding bought back 3,283,000 shares via a second trading line at an average price of CHF 119. These shares are written under the item "Treasury Shares". The average buying rate including the shares bought back via the second trading line amounts to CHF 120.
At the ordinary Annual General Meeting of Bâloise-Holding on 27th April 2007, it was decided to reduce the share capital by means of a capital reduction to the amount of 1,307,150 registered shares.

13. Significant Shareholders

As of 31st December 2007 one individual shareholder held more than 5% of the outstanding Baloise shares. As of 31st December 2007 this was the Barclays Group with 10.25% of the outstanding shares.

The table below provides information on the current composition of the shareholders as of 31st December 2007.

Shareholders	Total holding on 31.12.2006	Share of voting rights 31.12.2006	Total holding on 31.12.2007	Share of voting rights 31.12.2007
Barclays Group	5.4	‹2.0	10.3	‹2.0
Chase Nominees Group [1]	10.5	2.0	9.2	2.0
HSBC Overseas Nominee UK [1]	2.7	0.0	5.5	0.0
Investors Bank & Trust [1]	3.5	0.0	5.5	0.0
Mellon Bank N. A.[1]	3.2	0.0	4.4	0.0
Nortrust Nominees Ltd.[1]	2.4	0.0	2.8	0.0
UBS Group	2.2	‹2.0	‹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.

14. Contingent Liabilities

The guarantee liabilities on 31st December 2007 were CHF 136.1 million (previous year: CHF 214.9 million).

In addition, a purchase price retention of EUR 5 million was agreed for any guarantee claims with the sellers in the purchase agreement regarding the acquisition of Osiguranje Zagreb. The sum is deposited in escrow at a bank. Furthermore, an earnout was agreed in this purchase agreement with the sellers, the amount of which depends on the increase in the premium growth and in net profits in 2007, 2008 and 2009. However, the back payment is at most EUR 20 million.

Bâloise-Holding is jointly liable for the value added tax due with all companies, which under the leadership of the Basler Versicherungs-Gesellschaft are subject to group taxation.

15. Payments in Accordance with OR (Obligationenrecht) Art. 663b and Art. 663c

Information on payments to the Board of Directors or persons entrusted in whole or in part by the Board of Directors with management are carried in the Baloise Group's Consolidated Annual Financial Statement.

Appropriation of the Retained Earnings Proposed by the Board of Directors

Retained Earnings and Appropriation of Earnings

The retained earnings amount to CHF 313.5 million.

The Board of Directors proposes to the Annual General Meeting the appropriation of the retained earnings in accordance with the table below.

	2006	**2007**
Profit for the period	257.4	313.5
Earnings carried forward	0.7	0.6
Retained earnings	258.1	314.1
Proposals by the Board of Directors		
Appropriation to unallocated reserve	–47.3	–70.4
Dividends	–210.2	–243.0
Retained earnings to be carried forward	0.6	0.7

in CHF million

The distribution of profits complies with the provisions of § 30 of the Articles of Incorporation. There is a distribution per share of CHF 4.50 gross or CHF 2.92 net of the withholding tax.

Auditors' Report

to the Bâloise-Holding Annual General Meeting, Basel

In our function as statutory auditors, we have audited the accounts and the annual financial statements (income statement, balance sheet and notes on the consolidated annual accounts (pages 98 to 104) for Bâloise-Holding for the fiscal year ended on 31st December 2007.

The Board of Directors is responsible for the annual financial statements, while our duty is to audit and assess them. We confirm that we meet the legal requirements concerning qualification and independence.

We conducted our audit in line with the Swiss Auditing Standards, according to which an audit is to be planned and conducted in such a way that major errors in the annual financial statements can be identified with a reasonable degree of certainty. We checked the items and details of the annual financial statements by means of analyses and random surveys. Moreover, we assessed the application of relevant accounting principles, material valuation decisions, and the presentations of the annual financial statements as a whole. We believe that our audit forms a sufficiently reliable basis for our opinion.

In our opinion, the accounts, the annual financial statements, and the proposal for appropriation of retained earnings comply with Swiss laws and with the articles of incorporation.

We recommend the adoption of the annual financial statements.

PricewaterhouseCoopers AG

Prof. Dr. Edgar Fluri

Martin Frei
Chief Auditor

Basel, 18th March 2008

Register

A
Accounting principles **12**, **24**
Accounting standards, Bâloise-Holding **100**
Acquisition of companies **83**
After Balance sheet date events **93**
Annual General Meeting, Bâloise-Holding 105, **106**
Appropriation of Retained Earnings proposed by the Board of Directors **105**
Asset Liability Management 31, 33
Assets, Bâloise-Holding **99**
Assets, consolidated **2**
Associates 4, 6, 44, 46, **94**
Auditors' Report to the Bâloise-Holding Annual General Meeting **106**

B
Balance sheet, Bâloise-Holding **99**
Balance sheet, consolidated **2**
Bonds, Bâloise-Holding **102**
Borrowing costs 4, 7, 44, 46, 74
Business areas, segmental reporting **46**

C
Cash flow statement, consolidated **6**
Changes in equity, consolidated **8**
Combined ratio Annual Report
Contingent liabilities and future liabilities **90**
Contingent liabilities, Bâloise-Holding **104**
Currency income **79**

D
Deferred income taxes 3, 24, **65**, **82**
Derivative financial instruments 2, 3, 8, 9, **17**, 37, **57**

E
Earnings per share **82**
Employee benefits 23, 24, **59**
Employee Share Ownership Plan **63**
Estimation uncertainties **24**
Expenses 4, **80**, 81

F
Financial assets **24**, 37, 42, **52**, 76, 79
Financial liabilities 3, 7, **22**, **74**
Financial provisions 3, **23**, **24**, **75**

G
Geographical regions **44**
Group auditors' report, Bâloise-Holding **96**

I
IFRS, international financial reporting standards **10**, **24**
Income from participating interests, Bâloise-Holding **98**
Income statement, Bâloise-Holding **98**
Income statement, consolidated **4**
Income taxes 3, 4, 23, **24**, 44, 46, **65**, **82**
Insurance liabilities 3, 40, 41, **75**
Insurance receivables 2, 37, 40, 84
Intangible assets 2, 6, **13**, 14, 46, **49**, **50**
Interest rate risk **33**
Investment properties 2, 6, 8, 9, **14**, **51**, 76, 77, 78
Investments 2, 4, 14, 17, 37, 44, 46, 58, **76**, **77**, **78**, 83, 90, 91, 92
Investments in associates 2, 6, 7, 44, **51**, **94**

J
Joint ventures **12**, **94**

L
Liabilities from banking business and financial contracts 3, **22**, 40, 41, **73**
Liabilities, Bâloise-Holding **99**
Liabilities, consolidated **3**
Loans 2, 6, 14, **15**, 16, **24**, **37**, **56**, 79, 84

M
Management of insurance risks and financial risks **24**
Mortgages 2, 6, 15, 24, **37**, **56**, 84

N
Notes, Bâloise-Holding **100**
Notes to the consolidated annual financial statement **10**
Notes to the consolidated income statement 76
Number of employees 81

O
Operating leases **92**, 93
Other operating income 4, **80**

P
Participations Bâloise-Holding **102**
Personnel expenses, Bâloise-Holding 101
Premiums earned and policy fees 4, 44, 46, **76**, 84
Property, plant and equipment 2, 6, **13**, **48**, 90
Proportionately consolidated companies 83, **90**

R
Realised gains and losses on investments 4, 44, **77**, **78**
Receivables from reinsurers 2, **37**, **59**
Regions, segmental reporting **44**
Reinsurance 2, 4, 6, **22**, **27**, 29, 30, 44, 46, **58**
Reinsurance assets 2, **37**, **58**, 68
Related party transactions **84**
Reserves, Bâloise-Holding 99, **100**
Reporting standards **10**
Retained earnings, proposal by the Board of Directors for appropriation of **105**
Risk management **24**

S
Segment reporting 43, **44**, **46**
Services 4, **23**, 44, 46, **79**
Share capital 3, 8, 9, **18**, **66**, 99,103
Significant events after the balance sheet date **93**
Significant shareholders, Bâloise-Holding **104**
Statement of changes in equity, consolidated **8**
Subsidiaries **12**, **94**

T
Technical reserves 3, 4 ,6, 44, 46, **67**, **68**, **70**
Treasury shares 3, 8, 9, **18**, 66
Treasury shares, Bâloise-Holding 99, **100**, 103

U
Unrealised gains and losses 3, 8, **18**, **67**

W
Workforce **81**

Bâloise-Holding
Aeschengraben 21
CH-4002 Basel

www.baloise.com