



*Marine Insurance
& Special Lines*

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86th Annual Report

Board of Directors

Lucien Tissot, President, La Chaux-de-Fonds
Isabelle Durafourg, La Conversion
Dominique Guenat, Le Noirmont
Hans-Peter Laubscher, Täuffelen
Jean-Pierre Mœsch, La Chaux-de-Fonds
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Executive Management

Edouard Fragnière, Chief Executive Officer
Patrick Mattenberger, Chief Financial Officer
Colette Schärer, Executive Assistant
Peter Hofmeester, Deputy Manager, Co-Head of ZBU *Marine*
Reginald Aspinall, Manager, *Special Lines and Guarantees*

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Philippe Gozel, Operations Manager *Marine*, Head Office
Markus Hürlimann, Co-Head of ZBU *Marine*
Michel Micsiz, *Special Lines and Guarantees*, Western Switzerland
Nicole Bourquard, Administrative Manager *Marine*, Head Office
Maria-Bélen Cambeiro, Claims Manager
Catherine Cometa, Accounting Manager
Stefano Fenini, Assistant ZBU *Marine*
Henriette Mischler, Subcontracting Activities Manager
Romain Joray, IT Manager

Regional Offices, *Marine*

Madeleine Hess, Bâle, Regional Representative
Frédéric Morel, Biel-Bienne, Regional Representative
Eric Pachoud, Lausanne, Manager *Marine*, Western Switzerland and Ticino
Rolf Käppeli, Manager *Marine Division*, Lausanne
Robert Steffen, Zurich, Regional Representative

Auditors

PricewaterhouseCoopers SA, Lausanne

The illustrations on pages 3, 5, 7, 9 and 15 of this report

mark a new phase in TSM's development. For the first time, our core marine insurance business is not the sole profit driver. This year, various segments of the special lines arm – including film insurance and event cancellation insurance - represent an increasing part of our services. Sources: Sergey Lavrentev/Fotolia, Jacques Ribieff/Fotolia, Anselme Martin/Fotolia + anonymous on the Internet.



IN BRIEF

- **Another year of growth for TSM. Premiums earned and claims paid both markedly higher than in 2005, but good overall results. *Marine insurance* remained at the forefront, with strong increase in business share. *Special Lines* maintained its momentum, and *Guarantees* was back on board.**
- **Strong earnings performance for the Company as a whole, reflecting a generally buoyant business year for customers, and confirming market recognition of TSM's service quality and reliability.**

GENERAL SITUATION

The economic upturn which emerged in 2005 picked up steam in 2006, fuelling growth both nationally and internationally. TSM, whose core market remains predominantly Swiss even though the nature of its activities is obviously international, tends to experience a time lag between the effects of changing economic conditions on its customers and the impact on its business. We therefore enjoyed robust growth last year, and this should continue despite the weaker trends in the U.S. economy and the consensus forecast of slower growth in Europe and Asia due to this and other factors. Past experience has shown that market developments can and do lead to considerable differences in performance from one financial year to another, so there is no question of gloating over the strong results achieved in a successful year. We are all too aware how dependent these are on unpredictable factors, and how easily the tide can turn.

Nonetheless, we are extremely satisfied with the growth of our *Marine* business, which remains our core sector. Our new Marine Division and the head office both contributed to this performance. The steady expansion of our Special Lines arm and renewed impetus in *Guarantees* were also instrumental in consolidating our strategic options, including our commitment to prudent growth.

As planned, the creation of the *Marine Division* was accompanied by the relocation of our offices from Renens to the centre of Lausanne, to improve accessibility. Our Biel-Bienne branch also moved into new premises which are more appropriate and closer to the businesses we insure. We took advantage of this move to rationalise our operations. Policy issuance has now been decentralised and is taken care of by the branches which provide the initial offers. Furthermore, after years of outsourcing our IT operations, we have completely integrated the development of computing services within our organisation by creating a post of project leader for this vital sector.

TSM's strength lies in its determination to establish close ties with its customers and to achieve optimum efficiency. We are also committed to "business with a human face", and to an in-depth understanding of our portfolios, which is still possible in a small and totally independent company such as ours. This is proof once again that SMEs continue to play an important part in this business sector, and elsewhere. It is just unfortunate that the administrative constraints imposed on them are obviously geared to much larger structures. For a company of our size, they are irksome and costly, particularly as their usefulness is not always apparent.



PREMIUMS

Premiums grew strongly in 2006, rising 38.8% to CHF 34,620,000, compared with CHF 24,945,000 in the previous period. This remarkable increase was due in part to the renewed impetus of our *Guarantees* arm, which accounted for 15% of total volume, but spread over numerous, very limited risks.

Results in our core *Marine* business were also most encouraging, with premiums earned showing a year-on-year rise of 18%, to CHF 21,000,000 (2005: CHF 17,937,000).

With the strong advances in these two sectors, our new *Special Lines* was unable to repeat its impressive performance of 2005, when it contributed 28.5% to total volume. It did however continue its growth path, with premiums earned rising by 18.8% to CHF 8,454,000 (2005: CHF 7,115,000), representing 24% of total volume. It is only natural that growth in this branch should become less spectacular by comparison to that achieved on the low earnings of the first few years. However, this is a reflection of its growing importance as a percentage of total turnover.

Another logical effect of this development is the realignment between premiums booked for own account and reinsured premiums. Reinsurance requirements grew by 25%, from CHF 9,000,000 to CHF 12,000,000 in round figures. However, mainly as a result of the increased share of *Guarantees*, premiums booked for own account rose 48% to CHF 22,126,000 from CHF 14,958,000 in 2005.

Our partnerships with La Mobilière and Vaudoise Assurances continued, to the satisfaction of all parties concerned, and still have good growth potential.

CLAIMS

Claims payments rose by 45.3%, to CHF 9,875,000 (2005: CHF 6,793,000) reflecting the overall increase in the volume of business. Of this amount, CHF 7,802,000 was for TSM's own account, compared with CHF 5,773,000 in 2005, with the remainder covered by re-insurance. The gross claims rate, however, increased only slightly, from 27.1% to 28.5%, reflecting the positive trend in premiums earned, while the net rate (claims paid compared with premiums for own account) even declined again, from 37.7% to 35.5%.

Nothing particularly worthy of mention occurred in this area during the year. The most significant factor in marine insurance was the increased frequency of shipping accidents, which jeopardised cargo. This past year turned out to be particularly costly in respect of joint claims declared following technical problems on board ships. But it was only by misfortune that TSM was more affected by this phenomenon than in other years. Statistically speaking, the expansion of our *Marine* business was also a factor increasing risk.

The largest claim, and one of the most unusual we had to deal with, occurred in March 2006 in the Baltic Sea, off the coast of Estonia. It was the result of a pile-up of convoy ships behind an icebreaker. When the icebreaker experienced engine problems, it radioed the rest of the convoy telling them to stop engines. One of them did not receive the message and hit the rear of the ship in front, causing it to sink with its cargo of aluminium bars, valued at over fourteen million dollars. TSM had insured part of the cargo, and was consequently hit for CHF 2,800,000 - subject to the possible recovery of the sunken cargo.

Other notable claims included the theft of eight pieces from a museum watch collection in Vaud Canton, which cost us CHF 180,000.



The growth in our *Special Lines* arm was also accompanied by an increase in claims, as was to be expected. Although they did not amount to more than a few tens of thousands of francs, some of the most "interesting" claims were those related to the up-and-coming film insurance segment. This covers risks involved in film productions, such as actors out of commission, destruction or theft of original props, etc.

GENERAL EXPENSES

We had anticipated an increase in general expenses in 2006, related to the strengthening of our Lausanne business unit. However, thanks to the strong rise in premiums booked, gross general expenses fell to 31.4% (2005: 33.5%) of the total, while net expenses, taking account of commissions earned, dropped a full 2% to 31% (2005: 33%). It is naturally easier to adapt our working methods to a higher volume of business than the other way round. In any case, we would do well to remember that TSM's priority is not to minimise general expenses but to ensure high quality services at an acceptable return. What is important is the final result.

INVESTMENT INCOME

Financial income rose sharply in 2006. This item contributes substantially to our overall results, considering how difficult it is in our branch to achieve balanced underwriting results. Certainly interest rates remained low, which precluded any spectacular investment performance, particularly since our prudent investment strategy and solvency policy require us to reduce risks. Nonetheless, markets remained buoyant throughout the year, despite a few volatility spikes, which enabled us to achieve satisfactory returns on investments.

Although no major changes were made in our portfolio in 2006, net financial income rose 52% to CHF 1,800,000, compared with CHF 1,200,000 in 2005. An analysis of investments at 31 December 2006 is shown below.

Loan notes and bonds	CHF	24 435 313	(52.10%)
Stocks, shares in investment and hedge funds	CHF	9 359 246	(19.95%)
Mortgages	CHF	1 702 591	(3.63%)
Land and buildings	CHF	1 607 000	(3.43%)
Cash and term deposits	CHF	9 798 943	(20.89%)
TOTAL	CHF	46 903 093	(100.00%)

Our valuation strategy for the balance sheet remained steadfastly conservative. At end-2006, the nominal value of loan notes and debenture bonds stood at CHF 24,200,000 and the market value of stocks and shares in investment and hedge funds was CHF 20,500,000.



RESULTS

Net profit for the year was satisfactory, even if it appears relatively modest on the basis of the figures. It certainly confirms how difficult it is to achieve balanced underwriting results in the present insurance market. We ended the year with a technical loss of CHF 649,479, considerably higher than the loss of CHF 183,552 in 2005. Yet it also demonstrated the pertinence of our strategy and management, which focus on advanced planning and stringent controls. It should be considered in the context of the additional allocation of CHF 4,520,000 to technical provisions, which were strengthened in the light of the new business sectors being developed, where we need to tread carefully. Thanks to strong financial income, net profit after provisions, amortisation, depreciation and taxes reached CHF 903,989, up from CHF 676,082 in 2005. Once again we will be allocating an equitable share of the profit to our policyholders. At the same time, we will strive to consolidate our position by according prime importance to cautious and responsible management.

APPROPRIATION OF AVAILABLE EARNINGS

Including retained earnings carried forward from the previous years, available earnings were as follows:

	2006 CHF	2005 CHF
Profit for the year (before distribution)	903 989	676 082
Retained earnings	41 567	65 485
Net profit	945 556	741 567

At its meeting of 15 March 2007, the Board of Directors recommended the following appropriation of earnings

	2006 CHF	2005 CHF
Policyholders' share of profit	690 000	200 000
Allocation to free reserve	200 000	500 000
Total allocations	890 000	700 000
Retained earnings	55 556	41 567
Net profit	945 556	741 567

Insurance technical reserves stood at CHF 26,970,000 at 31 December 2006, representing 122% of premiums booked for own account. After the proposed appropriation of earnings, shareholders' equity stands at CHF 17,555,556. Aggregate guarantees now amount to CHF 44,500,000.

OPERATING ACCOUNT

(at 31 December 2006)

	2006		2005	
	CHF	CHF	CHF	CHF
Premiums received	34 619 936		24 945 362	
Ceded to reinsurers	-12 493 499		-9 647 728	
Premiums for own account	22 126 436	22 126 436	15 297 635	15 297 635
Claims paid	9 875 037		6 763 988	
Charged to reinsurers	-2 073 131		-990 532	
Claims for own account	7 801 906	-7 801 906	5 773 455	-5 773 455
Brokerage and gross general expenses	10 778 045		8 259 006	
Charged to reinsurers	-324 035		-101 274	
Expenses for own account	10 454 010	-10 454 010	8 157 731	-8 157 731
Additional technical reserves		-4 520 000		-1 550 000
Technical profit/(loss)		-649 479		-183 552
Investment income		1 851 908		1 238 024
Amortisation		-149 440		-148 939
Taxation		-149 000		-229 452
Net profit		903 989		676 082

BALANCE SHEET AT 31 DECEMBER 2006

(before appropriation)

	2006 CHF	2005 CHF
ASSETS		
Cash and cash equivalents	1 287 669	1 413 664
Cash at bank and term deposits	8 511 275	9 136 960
Assets with policyholders	1 668 019	661 673
Assets with insurance and reinsurance companies	59 250	177 265
Loan notes and mortgage bonds	24 435 313	24 384 246
Stocks, shares in investment and hedge funds	9 359 246	6 788 850
Mortgage securities	1 702 591	1 266 224
Land and buildings	1 607 000	1 673 000
Other assets	756 941	761 563
	49 387 303	46 263 445
LIABILITIES		
Commitments to insurance and reinsurance companies	2 655 924	1 266 956
Contingency provisions	7 460 000	7 340 000
Provisions for outstanding claims	13 765 000	11 565 000
Fluctuation reserve	2 200 000	–
Other technical provisions	3 545 000	3 545 000
Other liabilities	1 515 823	5 004 922
Guarantee capital	8 000 000	8 000 000
Legal reserve	4 000 000	4 000 000
Free reserve	5 300 000	4 800 000

NOTES TO THE 2006 AND 2005 FINANCIAL STATEMENTS

	2006 CHF	2005 CHF
Fire insurance value of property, plant and equipment:		
Corporate building (replacement value)	2 400 000	2 400 000
Investment building (basic value + 75% supplement)	320 900	320 900
Furniture, equipment and installations (replacement value)	2 275 000	2 170 000
Restriction on ownership for own commitments:	reminder	reminder

Securities deposited with Crédit Suisse, Neuchâtel, and Banque Piquet & Cie, Yverdon-les-Bains, and mortgages allocated to "tied assets" pursuant to the Law on Indemnity Insurance ("Loi sur l'assurance dommages" LAD) and directives of the Federal Office of Private Insurance ("Office fédéral des assurances privées OFAP")

REPORT OF THE AUDITORS



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Report of the statutory auditors
to the general meeting of Members of
TSM, Marine Insurance Company
La Chaux-de-Fonds

As auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) as well as the management of TSM, Compagnie Marine Insurance Company for the year ended 31 December 2006.

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

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. The audit of the management consists in assessing whether the requirements of the law and the articles of incorporation in relation to management are met; we do not express an opinion on its adequacy. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records, the financial statements and the management of the company, as well as the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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


 Enrico Strozzi


 Josée Mercier

Lausanne, March 22, 2007

Enclosures:

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of the available earnings

ACKNOWLEDGEMENTS

The driving force behind all these words and figures is the men and women who make up TSM. We like to insist on this, year after year, in our Annual Report. Emphasising this human dimension of our profession in a financial document is our way of acknowledging one of our major assets, which transcends the financial results. It is a permanent feature that is reflected in the complexity, the difficulties, the attractiveness, and the richness of our daily activities - which is why we would like to express our very sincere thanks to:

- **our customers**, who of course are our *raison d'être*, for the quality of our business relations. Although they belong to increasingly diversified fields, they all have an essential point in common: they appreciate the privileged type of relationship offered by TSM. Like us, they value close and direct dealings, based on trust, loyalty, personal contact and the systematic search for optimum solutions. Their confidence is one of our greatest motivations. We are fortunate that our size and the nature of our activities enable us to offer this type of service.
- **our Board of Directors** for their insight, and their resolute and unwavering support. Chosen for the complementarity of their skills and professional expertise, they work together as a partnership in the true "TSM spirit", and we greatly value their input. In 2005, Mr. Jörg Wyssbrod vacated his seat on the Board after reaching retirement age. Last year, we welcomed as his replacement Mr. Hans-Peter Laubscher, from Täuffelen. Mr. Laubscher has a solid industrial background, and his experience and competence is very much appreciated on the Board. We hope to be able to count on his contribution to the Company for many years to come.
- **our brokers**, for their staunch confirmation of the value and quality of our services and for recommending us regularly to their customers.
- **all our employees**, for their commitment and positive attitude. They were particularly solicited last year when we relocated our offices to Lausanne and Biel-Bienne, and implemented direct policy issuance in the branches. They deserve very special thanks for the way in which they managed the inevitable vicissitudes inherent in such changes. In this new step towards closer ties with our customers, our staff is not only the guarantee of TSM's quality services but also a reflection of its corporate ethos - a subtle synergy of adaptability, creativity, enthusiasm, realism, and all those other qualities of true professionals. Long may it last!

TSM – Management
Edouard Fragnière





www.tsm.net

Independent cooperative society registered at the Companies Registry of the Canton of Neuchâtel.

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