

2008 ANNUAL REPORT

TSM INSURANCE COMPANY | 2008 ANNUAL REPORT

BOARD OF DIRECTORS

LUCIEN TISSOT | CHAIRMAN | LA CHAUX-DE-FONDS
ISABELLE DURAFOURG | LA CONVERSION
NATHALIE TISSOT | LA CHAUX-DE-FONDS
BLAISE GROSJEAN | GENEVA
DOMINIQUE GUENAT | LE NOIRMONT
HANS-PETER LAUBSCHER | TÄUFFELEN
PAUL-ANDRÉ SANGLARD | PORRENTRUUY

EXECUTIVE MANAGEMENT

EDOUARD FRAGNIÈRE | CHIEF EXECUTIVE OFFICER
PATRICK MATTENBERGER | CHIEF FINANCIAL OFFICER
PHILIPPE GOZEL | DEPUTY MANAGER *MARINE*
REGINALD ASPINALL | DEPUTY MANAGER *SPECIAL LINES AND GUARANTEES*
COLETTE SCHÄRER | EXECUTIVE ASSISTANT

SUPPORT MANAGEMENT

MARKUS HÜRLIMANN | SIGNING OFFICER | HEAD OF ZBU *MARINE*
ROLF KÄPPELI | SIGNING OFFICER | MANAGER *MARINE* | LAUSANNE
MICHEL MICSIZ | SIGNING OFFICER | *SPECIAL LINES AND GUARANTEES* | *WESTERN SWITZERLAND*
NADÈGE AEBISCHER | ACCOUNTING MANAGER
NICOLE BOURQUARD | ADMINISTRATIVE UNDERWRITING MANAGER *MARINE* | HEAD OFFICE
MARIA-BÉLEN CAMBEIRO | CLAIMS MANAGER
STEFANO FENINI | ASSISTANT ZBU *MARINE*
ROMAIN JORAY | IT MANAGER
HENRIETTE MISCHLER | SUBCONTRACTING ACTIVITIES MANAGER

REGIONAL OFFICES, *MARINE*

MADELEINE BOSS | BASLE | REGIONAL REPRESENTATIVE
DIDIER MAGNIN | LA CHAUX-DE-FONDS | REGIONAL REPRESENTATIVE
FRÉDÉRIC MOREL | BIEL-BIENNE | REGIONAL REPRESENTATIVE
ERIC PACHOUD | LAUSANNE | REGIONAL REPRESENTATIVE
ROBERT STEFFEN | ZURICH | REGIONAL REPRESENTATIVE

AUDITORS

PRICEWATERHOUSECOOPERS SA | LAUSANNE

INDEX

GENERAL SITUATION	7
PREMIUMS CLAIMS	9
ACQUISITION AND MANAGEMENT COSTS INVESTMENT INCOME	11
RESULTS	12
OPERATING ACCOUNT	13
BALANCE SHEET AT 31 DECEMBER	14
NOTES TO THE 2008 FINANCIAL STATEMENTS	15
AUDITORS' REPORT	16
A WORD FROM THE MANAGEMENT	17

GENERAL SITUATION

This past year was marked by a severe global economic contraction. The subprime mortgage crisis that began in the US in 2007 spilled over to contaminate the world economy. The banking sector was seriously shaken, precipitating the collapse of the financial markets. In the summer of 2008, certain analysts were still talking about the economy simply pausing for breath. Yet a few weeks later, some were venturing to use the term “meltdown” to describe the events that were shaping the autumn months.

The Swiss economy, although strongly dependent on global buoyancy, remained on track in the first half and held up well against the market turbulence. In the fourth quarter, some export sectors began to feel the pinch, and this trend was amplified by the strength of the franc, particularly against the euro.

The three export sectors, in which our traditional customers operate, started to slow down:

- the **watchmaking** and **machinery** sectors saw a drop in orders, which was more or less pronounced depending on the company and market positioning, and production output ratcheted down;
- the **wholesale** sector lost steam, even though it remained solid and an important pillar of the Swiss economy.

TSM displayed stout resilience amid all these upheavals. It is true that it takes several months before the insurance company feels the knock-on effects of its economic environment. For technical reasons, related to the final breakdown of premiums, any decline in business volumes will only really be felt in 2009.

The watchmaking sector, where the Company has numerous customers, was still buoyant. This helped us to offset the sharp decline in premiums earned in the commodities sector, which resulted from lower business volumes and the steep fall in prices during the second half.

Irrespective of our withdrawal from the private rent guarantee insurance sector, TSM was largely unaffected by the crisis. Profiting from the momentum of an excellent first half, we even registered an increase in premiums earned from our marine and special lines branches.

Our message is therefore one of confidence. Our development strategy has always been underpinned by careful planning and the desire for sustainable growth, and our policy guided by prudence and anticipation. The insurance company is on course and remains focused on its core activities serving corporate customers.

PREMIUMS

As we expected after our withdrawal from the private rent guarantees sector, premiums earned fell sharply, by 13%, to CHF 28,900 million (2007: CHF 33,194 million).

TSM's former partner in rent guarantee insurance enjoyed very strong business growth in 2008. Looking at its volumes, if we would have continued in this sector, rent guarantees would have accounted for almost half of total premiums earned and would have become our primary business sector.

However, our policy, now as in the past, is to remain a corporate insurer. The insurance company therefore continues to provide guarantees for the construction sector, as well as customs sureties. But, as we stated

in the introduction, our withdrawal from general rent guarantees resulted in a 13% drop in premiums.

On the other hand, we are pleased to report good growth in premiums earned in our core activities:

- marine insurance +5%
- special lines +10%.

In this respect, 2009 was a very satisfactory year.

TSM more exposed than its reinsurers

CLAIMS

Claims payments rose by 34.5% during the year, and amounted to CHF 13,280 million. However, after deduction of the share of claims born by the reinsurers, claims for own account improved by 11.1% over last year.

We registered several medium-size claims, that is, claims which only slightly affected our reinsurance protection. That means that TSM had to bear the brunt of loss payments in 2008.

Here is an example of a few cases we had to deal with during the year:

- one leg of the World Ski Cup had to be cancelled (cost to TSM: CHF 680,000);
- a ship transporting 2000 tonnes of steel sank in the Azov Sea (cost to TSM: CHF 250,000);
- precious metals were lost during two air shipments, one destined for Spain and the other for Beirut (cost to TSM: CHF 290,000);
- seven parcels containing watches destined for Mexico were stolen in a hold-up whilst in transit between customs and the customer's address (cost to TSM: CHF 120,000);
- a fire broke out on the eve of the opening of the BEA Exhibition in Bern (cost to TSM: CHF 80,000).

Management costs stable

Expense rate lower

ACQUISITION AND MANAGEMENT COSTS

TSM's withdrawal from private rent guarantee insurance was accompanied by a drop in acquisition costs of 25%, while management costs remained stable. This brought the expense rate down from 40.6% in 2007 to 35.9% in 2008.

Prudent policy pays off, financial losses avoided

INVESTMENT INCOME

The questionable solvency of many banks prompted TSM's Investment Committee to pre-empt any counterparty risk, and to invest its surplus cash in bond funds.

In a context of dramatic declines in the financial markets during the year, TSM was unable to generate a substantial financial profit (CHF 90,000). However, its conservative

investment policy over many years cushioned it from financial losses in 2008.

An analysis of investments at 31 December 2008 is shown below.

Loan notes and security bonds	CHF	22 336 351	46.21 %
Stocks, investment certificates and hedge funds	CHF	10 498 504	21.72 %
Mortgages	CHF	3 274 544	6.77 %
Buildings	CHF	1 541 000	3.19 %
Cash and term deposits	CHF	10 689 621	22.11 %
Total	CHF	48 340 020	100.00 %

Our valuation strategy for the balance sheet remained steadfastly conservative. At end-2008, the market value of loan notes and mortgage bonds was CHF 25 million,

while the market value of stocks, investment certificates and hedge fund shares was CHF 12.4 million.

Technical profit
Net profit lower
Guarantees totalled CHF 47.4 million

RESULTS

Despite a grim December on the claims front, which pushed up the average claims rate for the year, TSM still posted a technical profit of CHF 220,562 (2007: CHF 509,938).

Taking into account the very weak investment income, net profit after amortisation, depreciation and tax was CHF 176,733 (2007: CHF 1,062,994).

APPROPRIATION OF AVAILABLE EARNINGS

Available earnings are as follows:

Net profit for the year	CHF	176 733
Retained earnings	CHF	118 550
Net profit	CHF	295 283

At its meeting of 12 March 2009, the Board of Directors recommended the following appropriation of earnings:

Allocation to free reserve	CHF	0
Retained earnings	CHF	295 283
Net profit	CHF	295 283

Insurance technical reserves stood at CHF 28,590,000 at 31 December 2008, representing over 145% of premiums booked for own account. Before the proposed appropriation

of earnings, equity stood at CHF 18,795,000. Aggregate guarantees now amount to CHF 47,400,000.

OPERATING ACCOUNT

(for the year ended 31 December 2008)

	2008			2007		
	CHF	CHF	CHF	CHF	CHF	CHF
Premiums received - gross	28 900 648			33 194 514		
Variation premiums - gross	- 655 000			940 000		
Earned premiums - gross		28 245 648			34 134 514	
Premium ceded to reinsurers	-9 359 086			-11 492 472		
Change in unearned premiums - net of reinsurance	755 000			2 680 000		
Premium for reinsurance		-8 604 086			-14 172 472	
Premiums for own account			19 641 562			19 962 042
Claims paid - gross	9 307 609			13 280 022		
Variation in claims reserves - gross	2 802 119			511 651		
Loss ratio - gross		12 109 728			13 791 673	
Claims charged to reinsurers	-2 144 049			-3 853 646		
Change in provision for claims - net of reinsurance	-87 119			-1 046 651		
Loss ratio - reinsurers		-2 231 168			-4 900 297	
Loss ratio - own account			-9 878 560			-8 891 376
Brokerage and gross general expenses		10 381 897			13 482 500	
Reinsurers' participation		-839 457			-721 772	
Expenses for own account			-9 542 440			-12 760 727
Change in other technical provisions			-			2 200 000
Technical profit/(loss)			220 562			509 938
Investment income			88 009			1 088 640
Amortisation and depreciation			-81 050			-152 440
Profit before tax			227 521			1 446 138
Taxation			-50 788			-383 146
Net profit			176 733			1 062 994

BALANCE SHEET AT 31 DECEMBER

(before appropriation)

	2008		2007	
	CHF	CHF	CHF	CHF
ACTIF				
Cash and cash equivalents		597 545		219 347
Cash at bank and term deposits		10 092 076		23 032 045
Assets with policyholders		3 230 207		2 029 408
Assets with insurance and reinsurance companies		303 287		131 262
Loan notes and security bonds		22 336 351		9 764 570
Stocks and investment certificates		10 498 504		13 436 660
Mortgage securities		3 274 544		2 538 465
Buildings		1 541 000		1 541 000
Other assets		660 272		633 282
Total assets		52 533 786		53 326 039
LIABILITIES				
Commitments for insurance and reinsurance operations		2 957 487		2 240 964
Provisions for unearned premiums				
- gross	11 565 000		10 910 000	
- reinsurers' part	-2 465 000	9 100 000	-1 710 000	9 200 000
Provisions for outstanding claims				
- gross	19 657 650		16 855 531	
- reinsurers' part	-3 712 650	15 945 000	-3 625 531	13 230 000
Other technical provisions		3 545 000		3 545 000
Other liabilities		2 191 016		6 491 525
Total liabilities		33 738 503		34 707 489
Guarantee capital		8 000 000		8 000 000
Legal reserve		4 000 000		4 000 000
Free reserve		6 500 000		5 500 000
Profit and loss		295 283		1 118 550
Total equity		18 795 283		18 618 550
Total liabilities & equity		52 533 786		53 326 039

NOTES TO THE 2008 FINANCIAL STATEMENTS

	2008 CHF	2007 CHF
FIRE INSURANCE VALUE OF PROPERTY AND EQUIPMENT		
Corporate building <i>(replacement value)</i>	2 400 000	2 400 000
Investment building <i>(basic value + 75% supplement)</i>	404 342	404 342
Furniture, equipment and installations <i>(replacement value)</i>	2 275 000	2 275 000
Restriction on ownership for own commitments	reminder	reminder
Salaries, social insurance and personnel costs included under «Brokerage and gross general expenses» amounted to:	4 547 268	4 546 821

Securities deposited with Crédit Suisse, Neuchâtel, UBS SA, Lausanne, Banque Cantonale Vaudoise, Lausanne and Banque Piguet & Cie, Yverdon-les-Bains, and mortgages are allocated to « tied assets » as required by the (« Swiss Financial Market Supervisory Authority – FINMA »).

” RISK ASSESSMENT ”

The Company conducted an assessment of financial risk. This process established the main risks confronting the

Company and the measures set up to mitigate such risks. It will be reviewed by the Board of Directors at least once a year.

AUDITORS REPORT



PricewaterhouseCoopers SA
Avenue C. F. Ramuz 45
Case postale 1172
1001 Lausanne
Phone +41 58 792 81 00
Fax +41 58 792 81 10
www.pwc.ch

Report of the statutory auditor
to the general meeting of
TSM, Insurance Company
La-Chaux-de-fonds

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of TSM, Insurance Company which comprise the balance sheet, income statement and notes, for the year ended December 31, 2008.

Management's Responsibility

Management is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the cooperative's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended December 31, 2008 comply with Swiss law and the cooperative's articles of incorporation.



Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 906 CO in connection with article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 906 CO in connection with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of Management.

We further confirm that the proposed appropriation of available earnings comply with Swiss law and the cooperative's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Enrico Strozzi
Audit expert
Auditor in charge

Josée Mercier

Lausanne, March 27, 2009

Enclosures:

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

A WORD FROM THE MANAGEMENT

Fortunately, TSM did not suffer financial losses despite the instability and volatility that marked the global economy. Its status as a cooperative company, and the strictly conservative policies it has pursued over the years, protected it from unpleasant surprises. We had taken advantage of the sustained growth in the domestic and global economies since 2003, to build up our reserves. We never lost sight of the fact that periods of clear sailing are generally followed by chill winds and turbulence. Today, we can pat ourselves on the back. This far-sighted financial policy has enabled us to ride out the turmoil and shock waves that buffeted the financial and economic world. That is the role of an insurance company, to act responsibly and to anticipate events.

We would particularly like to thank the Board of Directors, which has always encouraged restraint and a staunchly conservative policy. As a result, TSM is today better positioned than others to shield itself from substantial asset writedowns.

By changing its name last year, TSM Insurance Company wanted to signal its desire to consolidate its reputation as a specialised insurer catering to a broad range of business needs, rather than being known as a purely “marine” insurance company. We have now withdrawn from private rent guarantees to focus on our traditional core business of serving our business customers.

During the year, Jean-Pierre Moesch retired from the Board after having reached the retirement age set by the Articles of Association. We would like to offer him our warmest thanks for his commitment throughout the past fourteen years.

We also wish to thank our customers for our quality relationships, our channel partners for the confidence they have shown in our Company, and all our staff for their unfailing creativity and professionalism.

TSM INSURANCE COMPANY
Edouard Fragnière

HEAD OFFICE

TSM INSURANCE COMPANY	41, rue Jaquet-Droz · P.O. Box CH – 2301 La Chaux-de-Fonds	Phone	+41 (0)32 911 12 12
		Fax	+41 (0)32 911 12 20

REGIONAL OFFICES

TSM INSURANCE COMPANY	Missionsstrasse 52 · P.O. Box CH – 4012 Basle	Phone	+41 (0)61 381 82 83
		Fax	+41 (0)61 381 82 40

TSM INSURANCE COMPANY	6, rue de l'Argent · P.O. Box CH – 2501 Biel-Bienne	Phone	+41 (0)32 322 53 05
		Fax	+41 (0)32 322 36 39

TSM INSURANCE COMPANY	29, rue Beau-Séjour · P.O. Box CH – 1001 Lausanne	Phone	+41 (0)21 321 42 70
		Fax	+41 (0)21 321 42 79

TSM INSURANCE COMPANY	Birmensdorferstrasse 55 · P.O. Box CH – 8036 Zurich	Phone	+41 (0)44 457 20 30
		Fax	+41 (0)44 457 20 35

www.tsm.net