



EINGEGANGEN

25. Mai 2016

***The Toa 21st Century Reinsurance  
Company Ltd  
Chur***

***Report of the statutory auditor  
to the General Meeting  
on the financial statements 2015***



Report of the statutory auditor  
to the General Meeting of  
The Toa 21st Century Reinsurance Company Ltd  
Chur

### **Report of the statutory auditor on the financial statements**

As statutory auditor, we have audited the accompanying financial statements of The Toa 21st Century Reinsurance Company Ltd, which comprise the balance sheet, profit and loss account and notes, for the year ended 31 December 2015.

#### *Board of Directors' responsibility*

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company'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. The Board of Directors 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 31 December 2015 comply with Swiss law and the company'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 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.



In accordance 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 the Board of Directors.

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

PricewaterhouseCoopers AG

Philip Kirkpatrick  
Audit expert  
Auditor in charge

Sandy Göbler  
Audit expert

Zürich, 17 March 2016

Enclosures:

- Financial statements (balance sheet, profit and loss account and notes)
- Proposed appropriation of the available earnings

# **THE TOA 21ST CENTURY REINSURANCE COMPANY LTD**

**Financial Reporting per 31.12.2015**

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# THE TOA 21ST CENTURY REINSURANCE COMPANY LTD

## 1. Balance sheet as of December 31, (in Swiss Francs)

	Notes	2015	2014
<b>Assets</b>			
Investments		345'890'471	334'009'298
Fixed-income securities	1	345'890'471	334'009'298
Cash and cash equivalents	1	43'647'501	40'235'492
Reinsurer's share in technical reserves		2'248'140	1'667'194
Provision for unearned premiums		304'695	528'462
Claims outstanding & IBNR	3	1'943'445	1'138'732
Deferred acquisition costs		5'414'596	12'504'977
Receivables from insurance business	2, 5	19'940'678	21'056'391
Other Receivables		542'340	295'604
Other Assets		2'763'483	2'820'997
Accrued interest income		2'763'483	2'820'997
<b>Total assets</b>		<b>420'447'209</b>	<b>412'589'953</b>
<b>Liabilities</b>			
Technical provisions		68'640'400	84'551'483
Provision for unearned premiums		21'411'808	32'128'374
Claims outstanding & IBNR	3	34'981'438	45'339'082
Equalisation provision		11'538'218	6'822'905
No claims bonus		708'936	261'122
Non-technical provisions		7'461'709	1'950'550
Provisions for taxation		2'858'472	89'680
Provisions for unrealised gains		4'603'237	1'860'870
Liabilities from derivative financial instruments	6	1'511'414	0
Payables from insurance business	4, 5	12'977'369	6'991'804
Other liabilities		298'147	340'200
Other payables		155'128	1'411
Accrued expenses		143'019	338'789
<b>Total liabilities</b>		<b>90'889'039</b>	<b>93'834'037</b>
<b>Shareholders' equity</b>	7		
Share capital		243'000'000	243'000'000
Legal capital reserves		2'000'000	2'000'000
Organisation Fund		2'000'000	2'000'000
Legal retained earnings		29'368'073	29'311'994
Voluntary retained earnings		55'190'097	44'443'922
Result carried forward		44'387'843	44'163'528
Result for the period		10'802'254	280'394
<b>Total shareholders' equity</b>		<b>329'558'170</b>	<b>318'755'916</b>
<b>Total liabilities and shareholders' equity</b>		<b>420'447'209</b>	<b>412'589'953</b>

## THE TOA 21ST CENTURY REINSURANCE COMPANY LTD

### 2. Income statement for the year ended December 31, (in Swiss Francs)

	Notes	2015	2014
Gross premiums written		45'610'106	49'050'056
Outward premiums written		-666'538	-1'345'867
<b>Net premiums written</b>		<b>44'943'568</b>	<b>47'704'189</b>
Gross change in unearned premium		10'716'567	25'051'469
Outward change in unearned premium		-223'766	-106'049
<b>Net premiums earned</b>		<b>55'436'369</b>	<b>72'649'609</b>
<b>Total income from insurance business</b>		<b>55'436'369</b>	<b>72'649'609</b>
Gross claims paid		-34'629'658	-23'013'022
Gross change in technical provisions		5'642'330	-28'790'474
Gross change in claims reserves	8	10'357'644	-31'679'176
Change in the equalization provision		-4'715'314	2'888'702
Outward change in technical provisions		804'712	1'138'732
Outward change in claims reserves	8	804'712	1'138'732
<b>Net claims incurred</b>		<b>-28'182'616</b>	<b>-50'664'764</b>
Acquisition costs		-16'171'807	-25'561'854
Administrative expenses		-619'761	-892'291
<b>Net acquisition cost and administrative expenses</b>		<b>-16'791'568</b>	<b>-26'454'145</b>
Other technical expenses		-476'299	-277'378
<b>Other expenses from insurance business</b>		<b>-476'299</b>	<b>-277'378</b>
<b>Total expenses from insurance business</b>		<b>-45'450'483</b>	<b>-77'396'287</b>
Investment income	9	8'241'223	7'461'288
Investment expenses		-2'096'871	-293'723
Liabilities from derivative financial instruments		-1'511'414	0
Other investment expenses	10	-585'457	-293'723
<b>Net investment result</b>		<b>6'144'352</b>	<b>7'167'565</b>
Exchange gains and losses		272'935	-189'798
Provisions for unrealised gains		-2'742'366	-1'860'870
<b>Other financial expenses</b>		<b>-2'469'431</b>	<b>-2'050'668</b>
<b>Operating result</b>		<b>13'660'807</b>	<b>370'220</b>
<b>Result before taxes</b>		<b>13'660'807</b>	<b>370'220</b>
Direct taxes		-2'858'553	-89'826
<b>Result after taxes</b>		<b>10'802'254</b>	<b>280'394</b>

## THE TOA 21ST CENTURY REINSURANCE COMPANY LTD

### 3. Notes

(in Swiss Francs)

The Toa 21st Century Reinsurance Company Ltd. (hereinafter "TTFC") was incorporated on 23 January 2002 in Chur.

#### General

These financial statements were prepared according to the provisions on commercial accounting of the Swiss Code of Obligations, applicable as of 1 January 2013, as well as according to the provisions of the Swiss Ordinance on the Supervision of Private Insurance Companies, applicable as of 15 December 2015. The previous year's figures have been regrouped according to the new financial reporting law, in order to achieve a consistent representation and breakdown of the figures.

#### Key accounting and valuation principles

The main accounting and valuation principles used, which are not already specified by the Code of Obligations, are described as follows.

#### Foreign currency items and translation for presentation purposes

The currency in which TTFC operates is CHF (functional currency). Transactions in other currencies are converted into the functional currency at the exchange rate on the date the transaction takes place.

Monetary assets and liabilities in other currencies are converted into the functional currency at the exchange rate as of the balance sheet date. Any profits or losses resulting from the exchange are recorded in the income statement.

Non-monetary assets and liabilities are converted to the functional currency at the historical foreign exchange rate at the time of the original transaction. In case the foreign exchange rate as of the balance sheet date is lower than the historical foreign exchange rate, a foreign exchange loss is recorded in the income statement.

#### Fixed-income securities:

Comprise out of bonds and evaluated at linear amortized costs.

#### Technical reserves:

are calculated in line with the TTFC's reserving policy.

#### Deferred commissions

The revised reserving policy of TTFC explicitly states that the deferred commissions will be shown as an asset on the balance sheet. The deferred commissions shown in the balance sheet as at December 31, 2014 und 2015 are related only to non-life business.

#### 1 Investments

	2015	2014
Government Bonds	41'566'535	47'068'668
Corporate Bonds	304'323'936	286'940'630
	<u>345'890'471</u>	<u>334'009'298</u>

	2015	2014
Bond credit rating (Moody's, if available, otherwise S&P)		
Bonds, rating AAA	185'373'047	220'869'255
Bonds, rating AA	97'895'818	88'180'460
Bonds, rating A	50'762'494	20'957'125
Bonds, rating BBB	11'859'112	4'002'458
	<u>345'890'471</u>	<u>334'009'298</u>

#### Cash and cash equivalents

	2015	2014
Cash and cash equivalents held in CHF	10'085'594	13'473'259
Cash and cash equivalents held in JPY	32'822'094	26'262'179
Cash and cash equivalents held in other currencies	739'813	500'054
	<u>43'647'501</u>	<u>40'235'492</u>

#### 2 Receivables from insurance business

	2015	2014
Due from insurance companies	19'940'678	21'056'391

3 Technical provisions	Gross technical reserves		Reinsurers share of Technical reserves		Net technical reserves	
	2015	2014	2015	2014	2015	2014
Outstanding claims reserves	25'046'457	34'496'870	-1'862'801	-402'074	23'183'656	34'094'796
IBNR reserves	9'934'981	10'842'212	-80'644	-736'658	9'854'338	10'105'554
<b>Total</b>	<b>34'981'438</b>	<b>45'339'082</b>	<b>-1'943'445</b>	<b>-1'138'732</b>	<b>33'037'994</b>	<b>44'200'350</b>

4 Payables from insurance business	2015	2014
Due to insurance companies	12'977'369	6'991'804

5 Receivables from and liabilities to related parties	2015	2014
Receivables from insurance business	19'940'678	21'056'391
Payables from insurance business	12'977'369	6'991'804
	<b>6'963'309</b>	<b>14'064'587</b>

#### 6 Liabilities from derivative financial instruments

Provision for unrealised losses FX Forward contract open date 15.12.2015 expiry 31.03.2016	USD -75'000'000 CHF 73'267'500
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#### 7 Statement of changes in Equity

	Share capital	Organisation Fund	Legal retained earnings	Voluntary retained earnings	Shareholders' equity
<b>Balance 01.01.2014</b>	243'000'000	2'000'000	21'815'421	54'060'101	320'875'522
Approp. of prior period result			7'496'573	-7'496'573	0
Dividend payment				-2'400'000	-2'400'000
Result for the period				280'394	280'394
<b>Balance 31.12.2014</b>	<b>243'000'000</b>	<b>2'000'000</b>	<b>29'311'994</b>	<b>44'443'922</b>	<b>318'755'916</b>
<b>Balance 01.01.2015</b>	243'000'000	2'000'000	29'311'994	44'443'922	318'755'916
Approp. of prior period result			56'079	-56'079	0
Dividend payment				0	0
Result for the period				10'802'254	10'802'254
<b>Balance 31.12.2015</b>	<b>243'000'000</b>	<b>2'000'000</b>	<b>29'368'073</b>	<b>55'190'097</b>	<b>329'558'170</b>

#### Information related to items on the income statement

#### 8 Changes in technical provisions

	Gross technical provisions		Reinsurers share of technical provisions		Net technical provisions	
	2015	2014	2015	2014	2015	2014
Change in outstanding claims reserves	9'450'414	-22'592'991	1'460'726	402'074	10'911'140	-22'190'917
Change in IBNR reserves	907'230	-9'086'185	-656'014	736'658	251'216	-8'349'527
<b>Total</b>	<b>10'357'644</b>	<b>-31'679'176</b>	<b>804'712</b>	<b>1'138'732</b>	<b>11'162'356</b>	<b>-30'540'444</b>

#### 9 Investment income

	Earnings		Additions/Appreciation		Realized gains	
	2015	2014	2015	2014	2015	2014
Bonds	6'303'139	6'295'227	-240'033	-48'180	2'177'720	1'213'524
Other investment income	397	717	0	0	0	0
<b>Total Investment income</b>					<b>8'241'223</b>	<b>7'461'288</b>

#### 10 Investment expenses

	Investment related costs		Realized losses	
	2015	2014	2015	2014
Bonds	-421'122	-287'123	-164'335	-6'600
<b>Total Investment expenses</b>			<b>-585'457</b>	<b>-293'723</b>

#### Other information

#### 11 Full-time equivalents

The TTFC has an annual average of zero full-time positions (previous year: zero full-time positions).



## THE TOA 21ST CENTURY REINSURANCE COMPANY LTD

### 4. Proposal of the Board of Directors' for the appropriation of available earnings (in Swiss Francs)

	2015	2014
<b>Movements of retained earnings</b>		
Result brought forward	44'387'843	44'163'528
Profit / Loss for the business period	10'802'254	280'394
<b>Available earnings</b>	<b>55'190'097</b>	<b>44'443'922</b>
Allocation to general legal reserve	-2'160'451	-56'079
Dividend payment	-2'600'000	0
 	<hr/>	<hr/>
<b>Retained earnings to be carried forward</b>	<b>50'429'646</b>	<b>44'387'843</b>

# THE TOA 21ST CENTURY REINSURANCE COMPANY LTD

## 5. Management report

### Organisation

The Toa 21st Century Reinsurance Company Ltd. (TTFC) was established in 2002 in Chur. The company is a wholly owned reinsurance subsidiary of The Toa Reinsurance Co., Ltd (Toa Re), a professional Japanese reinsurance company.

The objective of TTFC is to carry out reinsurance of related risks of the parent in the frequency claim exposure layers immediately in excess of the local deductibles.

The Board of directors consists of:

Members	Mr. Toshiyuki Sugawara (President) Mr. David Ryser Mr. Markus Mende
General Manager	Ms. Izabela Khan
Account Manager	Ms. Victoria Ventura
Controlling & Risk Assessment	Mr. Angelo Giglio
Risk Manager	Mr. Denis Kallaert
Compliance Manager	Mr. Andreas Epper
Captive Management	Aon Insurance Managers (Switzerland) AG
External Auditor	PricewaterhouseCoopers AG, Zürich
Appointed Actuary	Ms. Lauren van Rhyn, AGRC
Share capital	CHF 243 m
Domicile of the company	Quaderstrasse 8 7000 Chur
Average annual number of employees	Zero

### Risk Assessment

TTFC has implemented risk management and internal control systems in accordance with the Swiss Code of Obligations and the Insurance Supervision Law. For identified risks, which arise from the accounting and financial reporting evaluations and procedures, a risk assessment is performed. The internal control system defines the financial reporting relevant control measures, which reduce the risk of misstatement. The Board of Directors monitors the internal control system via the regular board meetings. The internal control system is kept up to date and covers the company's needs.

TTFC agreed on new risk assessment framework during the board meeting of December 2015. The key risks strategic risk, underwriting/reserving, investment, liquidity and concentration, compliance, financial reporting, foreign exchange, were agreed upon and the guidelines were defined into the governance, risk and compliance underwriting and reserving (GRC) manual.

### Contracts

TTFC reinsures the property, personal accident, motor, multiline, renters' insurance, as well as bond and credit insurance of Toa Re.

## **Business development / underwriting activity**

The financial year 2015 was profitable to TTFC. The reinsurance program remained unchanged, however, there were various adjustments in the Estimated Premium Income and in the limits of Liability of the individual lines of business. Compared to the underwriting year 2014, the Estimated Premium Income gross in underwriting year 2015 is 6.4% lower (- CHF 2.9m) and the Estimated Premium Income net 5.3% lower (- CHF 2.3m).

In the underwriting year 2015 claims development has been favorable and the solvency situation remained stable.

## **Extraordinary events**

There have not been any extraordinary events affecting the operational business of TTFC.

In July 2015 the Swiss Financial Market Supervisory Authority (FINMA) has introduced a new ordinance. All insurance and reinsurance undertakings in Switzerland are required to corporate governance in respect of risk management and compliance and adjust the corporate structure. The implementation of the new risk management system and the enhancement of the internal control system allows for an efficient and safe conduct of business and to protect the interests of the company owner. The necessary changes were completed, however further changes to the regulatory environment are constantly monitored and appropriate actions will be initiated as they fall due.

## **Future developments**

Premium levels and the reinsurance participations of TTFC are expected to remain stable and relatively unchanged, unless adverse market developments or significant claims activity is experienced. Any changes to the program will be reviewed against the underwriting and solvency requirements and only be accepted in case of full compliance.

Future efforts are in the near term perspective going to focus upon full alignment to Pillar III, preparing for BCM implementation, ORSA submission and filing the SST submission. That said, any further changes to the regulatory environment will be closely monitored and appropriate actions would be planned.