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

***Zürich***

***Report of the  
statutory auditor to the  
General Meeting***

***on the financial statements  
2017***





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

***Zürich***

## ***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, income statement, cash flow statement and notes, for the year ended 31 December 2017.

### ***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 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 2017 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

Ireen Ranneberg

Audit expert  
Auditor in charge

Zürich, 20 March 2018

Enclosures:

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

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

**Financial Reporting per 31.12.2017**

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# THE TOA 21ST CENTURY REINSURANCE COMPANY LTD

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

	Notes	2017	2016
<b>Assets</b>			
Investments		338,348,605	341,661,881
Fixed-income securities	1	338,348,605	341,661,881
Assets from derivative financial instruments	6	1,182,268	0
Cash and cash equivalents	1	63,799,470	64,210,272
Reinsurer's share in technical reserves		338,776	1,170,277
Provision for unearned premiums		291,994	354,958
Claims outstanding & IBNR	3	46,782	815,319
Deferred acquisition costs		5,872,451	5,445,367
Receivables from insurance business	2, 5	19,518,673	14,221,311
Receivables from outward business	2	729,068	829,835
Other Receivables		268,516	205,009
Other Assets		2,175,166	2,387,713
Accrued interest income		2,175,166	2,387,713
<b>Total assets</b>		<b>432,232,991</b>	<b>430,131,666</b>
<b>Liabilities</b>			
Technical provisions		64,006,719	72,511,574
Provision for unearned premiums		20,705,142	20,774,009
Claims outstanding & IBNR	3	23,333,278	35,394,235
Equalisation provision		19,968,299	16,343,329
No claims bonus		0	0
Non-technical provisions		0	4,398,481
Provisions for taxation		0	4,265,637
Provisions for unrealised gains		0	132,844
Liabilities from derivative financial instruments	6	0	3,587,577
Payables from insurance business	4, 5	7,399,253	6,134,901
Other liabilities		360,330	393,068
Other payables		2,369	1,406
Accrued expenses		357,961	391,662
<b>Total liabilities</b>		<b>71,766,302</b>	<b>87,025,601</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		34,758,103	31,528,524
Voluntary retained earnings		80,708,587	66,577,540
Result carried forward		61,247,961	50,429,646
Result for the period		19,460,625	16,147,895
<b>Total shareholders' equity</b>		<b>360,466,690</b>	<b>343,106,064</b>
<b>Total liabilities and shareholders' equity</b>		<b>432,232,991</b>	<b>430,131,666</b>

## THE TOA 21ST CENTURY REINSURANCE COMPANY LTD

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

	Notes	2017	2016
Gross premiums written		43,914,121	47,810,361
Outward premiums written		-780,730	-958,709
<b>Net premiums written</b>		<b>43,133,391</b>	<b>46,851,652</b>
Gross change in unearned premium		68,867	637,799
Outward change in unearned premium		-62,965	50,263
<b>Net premiums earned</b>		<b>43,139,293</b>	<b>47,539,714</b>
<b>Total income from insurance business</b>		<b>43,139,293</b>	<b>47,539,714</b>
Gross claims paid		-21,878,086	-21,953,954
Outward claims paid		729,068	829,835
Gross change in technical provisions		8,435,988	-5,217,908
Gross change in claims reserves	8	12,060,957	-412,797
Change in the equalization provision		-3,624,969	-4,805,111
Outward change in technical provisions		-768,537	-1,128,125
Outward change in claims reserves	8	-768,537	-1,128,125
<b>Net claims incurred</b>		<b>-13,481,568</b>	<b>-27,470,153</b>
Acquisition costs		-10,101,931	-11,863,264
Administrative expenses		-892,487	-876,603
<b>Net acquisition cost and administrative expenses</b>		<b>-10,994,418</b>	<b>-12,739,867</b>
Other technical expenses		-44,422	-259,216
<b>Other expenses from insurance business</b>		<b>-44,422</b>	<b>-259,216</b>
<b>Total expenses from insurance business</b>		<b>-24,520,408</b>	<b>-40,469,236</b>
Investment income	9	13,962,569	9,218,209
Assets from derivative financial instruments		4,769,845	0
Other investment income		9,192,724	9,218,209
Investment expenses		-8,140,007	-2,853,192
Liabilities from derivative financial instruments		0	-2,076,163
Other investment expenses	10	-8,140,007	-777,029
<b>Net investment result</b>		<b>5,822,562</b>	<b>6,365,018</b>
Exchange gains and losses		-2,890,120	2,507,726
Provisions for unrealised gains		132,844	4,470,393
<b>Other financial expenses</b>		<b>-2,757,276</b>	<b>6,978,119</b>
<b>Operating result</b>		<b>21,684,171</b>	<b>20,413,615</b>
<b>Result before taxes</b>		<b>21,684,171</b>	<b>20,413,615</b>
Direct taxes		-2,223,545	-4,265,720
<b>Result after taxes</b>		<b>19,460,625</b>	<b>16,147,895</b>

### 3. Cash flow

	<b>2016</b>	<b>2017</b>
Profit before income/cap taxes	20,413,532	21,684,084
Depreciation and amortization	84,172	-51,341
Increase (decrease) in outstanding claims	1,540,922	-11,292,420
Increase (decrease) in underwriting reserves and equalisation reserves	3,377,342	3,191,984
Loss (gain) on marketable securities	-5,911,553	-5,195,719
Foreign exchange loss (gain)	-2,394,230	-4,902,689
Decrease (increase) in other assets	5,226,864	-5,165,300
Increase (decrease) in other liabilities	-6,747,547	1,231,613
Provisions for taxation	-4,265,637	-2,223,459
<b>Subtotal</b>	<b>11,323,866</b>	<b>-2,723,248</b>
<b>Interest and dividends received</b>	<b>6,287,323</b>	<b>5,408,266</b>
settled taxes	1,407,165	-4,360,438
<b>Net cash provided by (used in ) operating activities</b>	<b>19,018,354</b>	<b>-1,675,420</b>
<b><u>Cash flows from investing activities</u></b>		
Investment in marketable securities	-92,204,178	-80,414,543
Proceeds from sales or redemption	96,348,596	83,779,161
<b>Net cash provided by (used in) investing activities</b>	<b>4,144,418</b>	<b>3,364,618</b>
<b><u>Cash flows from financing Activities</u></b>		
Increase (decrease)in other debt	0	0
Dividends paid	-2,600,000	-2,100,000
<b>Net cash provided by (used in) financing activities</b>	<b>-2,600,000</b>	<b>-2,100,000</b>
Net increase in cash and cash equivalents	20,562,772	-410,802
Cash and cash equivalents at beginning of period	43,647,501	64,210,272
<b>Cash and cash equivalents at end of period</b>	<b>64,210,272</b>	<b>63,799,470</b>

# THE TOA 21ST CENTURY REINSURANCE COMPANY LTD

## 4. Notes

### (in Swiss Francs)

The Toa 21st Century Reinsurance Company Ltd. (hereinafter "TTFC") was incorporated on 23 January 2002 in Chur and starting 23 January 2017 has its registered office at Vulkanstrasse 106, CH – 8048 Zürich.

#### General

These financial statements were prepared according to the provisions on commercial accounting of the Swiss Code of Obligations (Art.957-963b, applicable as of 1 January 2015), as well as according to the provisions of the Swiss Ordinance on the Supervision of Private Insurance Companies, applicable as of 15 December 2015.

#### 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 lower of amortized cost or market value.

#### 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, 2016 and 2017 are related only to non-life business.

### 1 Investments

	2017	2016
Government Bonds	26,533,829	32,331,821
Corporate Bonds	311,814,776	309,330,060
	<u>338,348,605</u>	<u>341,661,881</u>

Bond credit rating (Moody's, if available, otherwise S&P)	2017	2016
Bonds, rating AAA	140,699,677	157,267,137
Bonds, rating AA	87,642,113	97,512,028
Bonds, rating A	50,523,527	55,097,170
Bonds, rating BBB	40,765,344	16,030,562
Bonds, unrated	18,717,942	15,754,984
	<u>338,348,605</u>	<u>341,661,881</u>

#### Cash and cash equivalents

	2017	2016
Cash and cash equivalents held in CHF	42,416,419	16,600,499
Cash and cash equivalents held in JPY	21,271,282	47,605,914
Cash and cash equivalents held in other currencies	111,770	3,859
	<u>63,799,470</u>	<u>64,210,272</u>

### 2 Receivables from insurance business

	2017	2016
Due from insurance business	19,518,673	14,221,311
Due from outward business	729,068	829,835

### 3 Technical provisions

	Gross technical reserves		Reinsurers share of Technical reserves		Net technical reserves	
	2017	2016	2017	2016	2017	2016
Outstanding claims reserves	16,378,662	25,536,050	-33,957	-776,262	16,344,705	24,759,789
IBNR reserves	6,954,616	9,858,185	-12,825	-39,057	6,941,791	9,819,128
<b>Total</b>	<u>23,333,278</u>	<u>35,394,235</u>	<u>-46,782</u>	<u>-815,319</u>	<u>23,286,496</u>	<u>34,578,916</u>



4 Payables from insurance business

	<b>2017</b>	<b>2016</b>
Due to insurance companies	7,399,253	6,134,901

5 Receivables from and liabilities to related parties

	<b>2017</b>	<b>2016</b>
Receivables from insurance business	19,518,673	14,221,311
Payables from insurance business	7,399,253	6,134,901
	<u>12,119,420</u>	<u>8,086,409</u>

6 Liabilities from derivative financial instruments

Provision for unrealised losses FX Forward contract		P/L
open date 13-12.2017	USD -84'100'000	1,238,505
expiry 14.06.2018	CHF 82'165'700	
open date 18.12.2017	EUR -9'000'000	-56,237
expiry 22.06.2018	CHF 10'453'230	
		<u>1,182,268</u>

7 Statement of changes in Equity

	Share capital	Organisation Fund	Legal retained earnings	Voluntary retained earnings	Shareholders' equity
<b>Balance 01.01.2016</b>	243,000,000	2,000,000	29,368,073	55,190,097	329,558,170
Approp. of prior period result			2,160,451	-2,160,451	0
Dividend payment				-2,600,000	-2,600,000
Result for the period				16,147,895	16,147,895
<b>Balance 31.12.2016</b>	<u>243,000,000</u>	<u>2,000,000</u>	<u>31,528,524</u>	<u>66,577,540</u>	<u>343,106,064</u>
<b>Balance 01.01.2017</b>	243,000,000	2,000,000	31,528,524	66,577,540	343,106,064
Approp. of prior period result			3,229,579	-3,229,579	0
Dividend payment				-2,100,000	-2,100,000
Result for the period				19,460,625	19,460,625
<b>Balance 31.12.2017</b>	<u>243,000,000</u>	<u>2,000,000</u>	<u>34,758,103</u>	<u>80,708,587</u>	<u>360,466,690</u>

Information related to items on the income statement

8 Changes in technical provisions

	Gross technical provisions		Reinsurers share of technical provisions		Net technical provisions	
	2017	2016	2017	2016	2017	2016
Change in outstanding claims reserves	9,157,388	-489,594	-742,305	-1,086,539	8,415,083	-1,576,133
Change in IBNR reserves	2,903,569	76,797	-26,232	-41,587	2,877,337	35,210
Total	<u>12,060,957</u>	<u>-412,797</u>	<u>-768,537</u>	<u>-1,128,125</u>	<u>11,292,420</u>	<u>-1,540,922</u>

9 Investment income

	Earnings		Additions/Appreciation		Realized gains	
	2017	2016	2017	2016	2017	2016
Bonds	5,195,719	5,911,553	785,315	-1,603,718	861,378	2,755,342
Other investment income	422	407	0	0	7,119,735	2,154,627
<b>Total Investment income</b>					<u>13,962,569</u>	<u>9,218,209</u>

**10 Investment expenses**

	Investment related costs		Realized losses	
	2017	2016	2017	2016
Bonds	-370,498	-422,586	-7,769,509	-354,443
<b>Total Investment expenses</b>			<u>2017</u> <u>-8,140,007</u>	<u>2016</u> <u>-777,029</u>

**11 Fees for audit services**

	2017	2016
External Audit Fees	82,664	77,199
Internal Audit Fees	12,312	9,504
<b>Total Fees for audit services</b>	<u>94,976</u>	<u>86,703</u>

**Other information**

**12 Full-time equivalents**

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

## THE TOA 21ST CENTURY REINSURANCE COMPANY LTD

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

	2017	2016
<b>Movements of retained earnings</b>		
Result brought forward	61,247,961	50,429,646
Profit / Loss for the business period	19,460,625	16,147,895
<b>Available earnings</b>	<b>80,708,587</b>	<b>66,577,540</b>
Allocation to general legal reserve	-3,892,125	-3,229,579
Dividend payment	-1,900,000	-2,100,000
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<b>Retained earnings to be carried forward</b>	<b>74,916,462</b>	<b>61,247,961</b>

# THE TOA 21ST CENTURY REINSURANCE COMPANY LTD

## 6. 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
CEO/General Manager*	Mr. Angelo Giglio
CFO/Account Manager*	Mr. Bruno Verduci
Underwriting and Claims Risk Manager*	Mr. Yoshimitsu Mizui Mr. Denis Kallaert
Compliance Manager	Mr. Markus Beck
Captive Management	Aon Insurance Managers (Switzerland) AG
External Auditor	PricewaterhouseCoopers AG, Zürich
Appointed Actuary*	Ms. Ruxandra Farkas, AGRC
Share capital	CHF 243 m
Domicile of the company	Vulkanstrasse 106 8048 Zürich
Average annual number of employees	2 Part-time

\* Note: From 1.1.2018 there have been some changes in key functions and responsibilities:

- Mr. Philippe Regazzoni has been employed by TTFC as CEO from 1.1.2018

- Mr. Michal Suchan has been appointed by TTFC as CFO from 1.1.2018

- Mr. Denis Kallaert has resigned as Risk Manager as of end of February 2018. The position remains vacant with the responsibility for Risk Management to be taken by Mr. Michal Suchan from 1.3.2018

- Ms. Ruxandra Farkas is yet to be approved by FINMA as the Appointed Actuary of TTFC

### 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 2017 was profitable to TTFC. The gross premium written showed a decrease of nearly CHF 4m, and the decrease of Property QS which is about 3m was one of the largest causes. In the underwriting year 2017 claims development has been favorable and the solvency situation remains stable and on a very comfortable level.

## **Extraordinary events**

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

TTFC filed in 2017 the following changes to the Business Plan which have already been approved by FINMA:

- Organisational regulations
- Change of outsourcing of the Underwriting and Claims from AON to Toa Re Group
- Change of the Reserving Policy
- Appointment of CEO and CFO

Additionally the following business plan changes are pending FINMA approval:

- Change of the Responsible Actuary

## **Future developments**

Premium levels and the reinsurance participations of TTFC for the year 2018 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 preparation for the SST and public disclosure reports. That said, any further changes to the regulatory environment will be closely monitored and appropriate actions would be planned.

Furthermore, the strategy of TTFC is currently being reviewed which might have an impact on the long-term future business underwritten by TTFC and hence also on the levels of income and the overall performance.