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***The Toa 21st Century Reinsu-  
rance Ltd***

***Zürich***

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

***on the financial statements  
2018***





# ***Report of the statutory auditor to the General Meeting of The Toa 21st Century Reinsurance 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 Ltd, which comprise the balance sheet, income statement, cash flow statement and notes, for the year ended 31 December 2018.

### ***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 2018 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

Ireen Ranneberg

Audit expert

Zürich, 20 March 2019

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 31.12.2018

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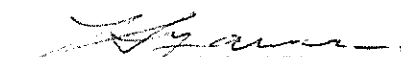
  
Mr. Toshiyuki SUGAWARA

  
Mr. Michal SUCHAN

## THE TOA 21ST CENTURY REINSURANCE COMPANY LTD

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

	Notes	2018	2017
<b>Assets</b>			
Investments	1	297,131,546	338,348,605
Fixed-income securities		297,131,546	338,348,605
Assets from derivative financial instruments	2	45,593	1,182,268
Cash and cash equivalents	3	112,789,227	63,799,470
Fixed assets	4	56,095	0
Reinsurer's share in technical reserves	7	0	338,776
Provision for unearned premiums		0	291,994
Claims outstanding & IBNR		0	46,782
Deferred acquisition costs		5,517,682	5,872,451
Receivables from insurance business	5	19,230,999	19,518,673
Receivables from outward business	5	0	729,068
Other Receivables	6	4,570,704	268,516
Other Assets		1,440,313	2,175,166
Accrued interest income		1,420,353	2,175,166
Prepayments		19,960	0
<b>Total assets</b>		<b><u>440,782,159</u></b>	<b><u>432,232,991</u></b>
<b>Liabilities</b>			
Technical provisions	7	131,546,970	64,006,719
Provision for unearned premiums		19,500,032	20,705,142
Claims outstanding & IBNR		98,674,555	23,333,278
Equalisation provision		12,975,695	19,968,299
Additional unexpired risk reserve (AURR)		396,688	0
Non-technical provisions		113,065	0
Provisions for taxation	8	113,065	0
Payables to insurance business	9	9,167,993	7,399,253
Other liabilities		796,763	360,330
Other payables		332,644	2,369
Accrued expenses		464,119	357,961
<b>Total liabilities</b>		<b><u>141,624,790</u></b>	<b><u>71,766,302</u></b>
<b>Shareholders' equity</b>	10		
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		38,650,228	34,758,103
Voluntary retained earnings		15,507,141	80,708,587
Result carried forward		74,916,462	61,247,961
Result for the period		-59,409,320	19,460,625
<b>Total shareholders' equity</b>		<b><u>299,157,369</u></b>	<b><u>360,466,690</u></b>
<b>Total liabilities and shareholders' equity</b>		<b><u>440,782,159</u></b>	<b><u>432,232,991</u></b>

  
 Mr. Toshiyuki SUGAWARA

  
 Mr. Michal SUCHAN

## THE TOA 21ST CENTURY REINSURANCE COMPANY LTD

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

	Notes	2018	2017
Gross premiums written		37,496,759	43,914,121
Outward premiums written		-3,460	-780,730
Net premiums written		37,493,300	43,133,391
Gross change in unearned premium		1,205,110	68,867
Outward change in unearned premium		-291,994	-62,965
<b>Net premiums earned</b>		<b>38,406,416</b>	<b>43,139,293</b>
<b>Total income from insurance business</b>		<b>38,406,416</b>	<b>43,139,293</b>
Gross claims paid		-16,699,486	-21,878,086
Outward claims paid		34,948	729,068
Gross change in technical provisions	11	-68,745,361	8,435,988
Gross change in claims reserves		-75,341,276	12,060,957
Change in AURR		-396,688	0
Change in the equalization provision		6,992,604	-3,624,969
Outward change in technical provisions	11	-46,782	-768,537
Outward change in claims reserves		-46,782	-768,537
Net claims incurred		-85,456,681	-13,481,568
Acquisition costs		-9,386,044	-10,101,931
Administrative expenses		-1,429,206	-892,487
Personnel expenses	12	-1,183,072	0
Net acquisition cost and administrative expenses		-11,998,323	-10,994,418
<b>Total depreciation</b>		<b>-31,531</b>	<b>0</b>
Other technical expenses		-160,884	-44,422
Other expenses from insurance business		-160,884	-44,422
<b>Total expenses from insurance business</b>		<b>-97,647,418</b>	<b>-24,520,408</b>
Investment income	13	5,847,944	13,962,569
Assets from derivative financial instruments		1,630,941	4,769,845
Other investment income		4,217,003	9,192,724
Investment expenses	14	-5,780,769	-8,140,007
Liabilities from derivative financial instruments		-2,087,447	0
Other investment expenses		-3,693,322	-8,140,007
Net investment result		67,175	5,822,562
Exchange gains and losses		-132,627	-2,890,120
Provisions for unrealised gains		0	132,844
Other financial expenses		-132,627	-2,757,276
<b>Operating result</b>		<b>-59,306,454</b>	<b>21,684,171</b>
<b>Result before taxes</b>		<b>-59,306,454</b>	<b>21,684,171</b>
Direct taxes		-102,866	-2,223,545
<b>Result after taxes</b>		<b>-59,409,320</b>	<b>19,460,626</b>

  
Mr. Toshiyuki SUGAWARA

  
Mr. Michal SUCHAN

## Cash flow

	2017	2018
Profit before income/cap taxes	21,684,084	-59,306,552
Depreciation and amortization	-51,341	-122,887
Increase (decrease) in outstanding claims	-11,292,420	75,388,058
Increase (decrease) in underwriting reserves and equalisation reserves	3,191,984	-7,154,264
Loss (gain) on marketable securities	-5,195,719	-4,129,924
Foreign exchange loss (gain)	-4,902,689	1,136,675
Decrease (increase) in other assets	-5,165,300	-3,361,502
Increase (decrease) in other liabilities	1,231,613	2,205,173
Provisions for taxation	-2,223,459	10,297
<u>Subtotal</u>	-2,723,248	4,665,074
Interest and dividends received	5,408,266	4,884,737
settled taxes	-4,360,438	0
<b>Net cash provided by (used in ) operating activities</b>	<b>-1,675,420</b>	<b>9,549,812</b>
<b><u>Cash flows from investing activities</u></b>		
Investment in marketable securities	-80,414,543	-82,957,780
Proceeds from sales or redemption	83,779,161	124,297,726
<b>Net cash provided by (used in) investing activities</b>	<b>3,364,618</b>	<b>41,339,946</b>
<b><u>Cash flows from financing Activities</u></b>		
Dividends paid	-2,100,000	-1,900,000
<b>Net cash provided by (used in) financing activities</b>	<b>-2,100,000</b>	<b>-1,900,000</b>
Effect of exchange rate change on cash and cash equivalents	0	0
Net increase in cash and cash equivalents	-410,802	48,989,758
Cash and cash equivalents at beginning of period	64,210,272	63,799,470
<b>Cash and cash equivalents at end of period</b>	<b>63,799,470</b>	<b>112,789,227</b>

  
Mr. Toshiyuki SUGAWARA

  
Mr. Michal SUCHAN

THE TOA 21ST CENTURY REINSURANCE COMPANY LTD

4. Notes

(In Swiss Francs)

The Toa 21st Century Reinsurance Company Ltd. (hereinafter "TIFC") was incorporated on 23 January 2002 in Chur and moved to Zurich on 23 January 2017. Since 25 October 2018 the registered office is at Seefeldstrasse 59, CH - 8008 Zurich.

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 TIFC 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

The technical reserves of TIFC are calculated in line with the TIFC's reserving policy.

Deferred commissions

The revised reserving policy of TIFC 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, 2018 and 2017 are related only to non-life business.

1 Investments

	2018	2017
Government Bonds	19,971,274	26,533,629
Corporate Bonds	277,160,271	311,814,776
	<u>297,131,546</u>	<u>338,348,605</u>
Bond credit rating (Moody's, if available, otherwise S&P)		
Bonds, rating AAA	111,412,330	140,699,677
Bonds, rating AA	67,959,479	67,642,113
Bonds, rating A	69,051,906	50,523,527
Bonds, rating BBB	25,767,766	40,765,344
Bonds, unrated	22,920,035	18,717,942
	<u>297,131,546</u>	<u>338,348,605</u>

2 Assets from derivative financial instruments

	Nominal value	Market value at 31.12	
Provision for unrealised gains FX Forward contract			
open date 17.12.2018	EUR -42,100,000	CHF -47,551,313	
expiry 10.07.2019	CHF 47,383,550	CHF 47,596,908	45,593
			<u>45,593</u>

3 Cash and cash equivalents

	2018	2017
Cash and cash equivalents held in CHF	75,751,181	42,416,419
Cash and cash equivalents held in JPY	36,976,913	21,271,282
Cash and cash equivalents held in other currencies	61,133	111,770
	<u>112,789,227</u>	<u>63,799,470</u>

4 Fixed assets

With the activation of TIFC in 2018, the company has its own office and therefore fixed assets. The fixed assets of the company consist of furniture, hardware and software. Furniture is depreciated at a rate of 25% and hardware and software at a rate of 40%. The fixed assets will be depreciated down to a value of zero.

5 Receivables from insurance business

	2018	2017
Due from insurance business	19,230,999	19,516,673
from related parties	19,008,532	19,516,673
from third parties	162,467	0
Due from outward business	0	729,668
from related parties	0	729,668

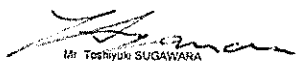
6 Other Receivables

	2018	2017
Federal tax	1,654,151	0
State tax	2,956,826	94,801
Withholding tax	353,775	173,715
Rental deposit	5,950	0
	<u>4,570,704</u>	<u>268,516</u>

There is an overpayment of the 2018 state tax, due to the fact that TIFC is showing a loss, so no income tax will be due, and a prepayment had already been made. The federal tax for 2017 was paid once to the federal tax office and once to the state tax office, leading to an overpayment of these taxes as well.

7 Technical provisions

	Gross technical reserves		Reinsurers share of technical reserves		Net technical reserves	
	2018	2017	2018	2017	2018	2017
Unearned premiums	19,500,032	20,705,142	0	-291,994	19,500,032	20,413,149
Outstanding claims reserves	40,615,689	16,378,562	0	-33,957	40,615,689	16,344,705
IBNR reserves	58,058,066	6,954,616	0	-12,825	58,058,066	6,941,791
Equalization provisions	12,075,695	19,968,299	0	0	12,075,695	19,968,299
ALRR	398,688	0	0	0	398,688	0
Total	<u>131,546,970</u>	<u>64,006,719</u>	<u>0</u>	<u>-338,776</u>	<u>131,546,970</u>	<u>63,697,944</u>

  
Mr. Toshiyuki SUGAWARA

  
Mr. Michal SUCHAN



8 Provisions for taxation		2018	2017
Federal tax		0	0
State tax		102,768	0
VAT		10,297	0
		<u>113,065</u>	<u>0</u>

9 Payables to insurance business		2018	2017
Due to insurance companies		9,167,993	7,399,253
from related parties		9,167,993	7,399,253
from third parties		0	0

10 Statement of changes in Equity		Share capital	Organisation Fund	Legal retained earnings	Voluntary retained earnings	Shareholders' equity
Balance 01.01.2017		243,000,000	2,000,000	31,528,524	60,577,540	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					18,489,625	18,489,625
Balance 31.12.2017		<u>243,000,000</u>	<u>2,000,000</u>	<u>34,758,103</u>	<u>60,768,587</u>	<u>360,466,690</u>
Balance 01.01.2018		243,000,000	2,000,000	34,758,103	60,768,587	360,466,690
Approp. of prior period result				3,892,125	-3,892,125	0
Dividend payment					-1,900,000	-1,900,000
Result for the period					-59,409,320	-59,409,320
Balance 31.12.2018		<u>243,000,000</u>	<u>2,000,000</u>	<u>38,650,228</u>	<u>15,507,141</u>	<u>299,157,369</u>

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

11 Changes in technical provisions	Gross technical provisions		Reinsurers share of technical provisions		Net technical provisions	
	2018	2017	2018	2017	2018	2017
Change in outstanding claims reserves	-24,237,026	9,157,368	-33,957	-742,305	-24,270,983	8,415,063
Change in IBNR reserves	-51,104,250	2,903,589	-12,625	-26,232	-51,117,075	2,877,337
Change in AJRR	-398,688	0	0	0	-398,688	0
Change in the equalization provision	6,992,604	-3,624,569	0	0	6,992,604	-3,624,569
Total	<u>-68,745,360</u>	<u>8,435,988</u>	<u>-46,762</u>	<u>-768,537</u>	<u>-68,792,143</u>	<u>7,667,451</u>

#### 12 Personnel expenses

With the activation of TIFC in 2018, the company has its own employees. Personnel expenses consist of salaries and bonus paid to employees, as well as expenses for social insurances (AHV, UVG, KTG, BVG). Accruals for personnel expenses are included in the balance sheet under "Accrued expenses".

#### 13 Investment income

	Earnings		Additions/Appreciation		Realized gains	
	2018	2017	2018	2017	2018	2017
Bonds	4,128,024	5,105,719	-149,730	785,315	236,326	861,378
Forward contracts	0	0	0	0	1,630,941	7,119,735
Other interest	483	422	0	0	0	0
Total Investment income					<u>5,847,944</u>	<u>13,882,569</u>

The realized gains on the foreign exchange derivative contracts, as well as the reversal of prior year's gain provision, are shown this year under "Assets from derivative financial instruments." The realized gains were shown in prior year under "Other investment income."

#### 14 Investment expenses

	Investment related costs		Realized losses	
	2018	2017	2018	2017
Bonds	-468,301	-370,466	-3,224,961	-7,769,509
Forward contracts	0	0	-2,087,447	0
Total Investment expenses			<u>-5,780,769</u>	<u>-8,140,007</u>

The realized losses on the foreign exchange derivative contracts are shown this year under "Liabilities from derivative financial instruments." The realized losses were shown in prior year under "Other investment expenses."

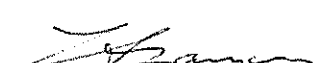
#### 15 Fees for audit services

	2018	2017
External Audit Fees	91,495	82,684
Internal Audit Fees	14,281	12,312
Total Fees for audit services	<u>105,776</u>	<u>94,976</u>

#### Other information

#### 16 Full-time equivalents

The TIFC has an annual average of less than 10 full-time positions (previous year: two part-time positions).


  
Mr. Toshiyuki SUGAWARA

  
Mr. Michal SUCHAN

# THE TOA 21ST CENTURY REINSURANCE COMPANY LTD

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

	2018	2017
<b>Movements of retained earnings</b>		
Result brought forward	74,916,462	61,247,961
Profit / Loss for the business period	-59,409,320	19,460,625
<b>Available earnings</b>	<u>15,507,141</u>	<u>80,708,587</u>
Allocation to general legal reserve	0	-3,892,125
Dividend payment	0	-1,900,000
	<hr/>	<hr/>
<b>Retained earnings to be carried forward</b>	<b>15,507,141</b>	<b>74,916,462</b>

  
Mr. Toshiyuki SUGAWARA

  
Mr. Michal SUCHAN

# 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 profitably carry out reinsurance of related risks of the parent company 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
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The Executive Management team consists of:

CEO	Mr. Philippe Regazzoni
CFO	Mr. Michal Suchan
CUO	Mr. Christian Vogel
Head of Strategy and Reinsurance	Mr. Yoshimitsu Mizui
External Auditor	PricewaterhouseCoopers AG, Zürich
Internal Auditor	Mazars SA, Zurich
Appointed Actuary	Mr. William Southwell
Compliance and Risk Management	Mr. Markus Beck
Share capital	CHF 243m
Domicile of the company	Seefeldstrasse 5a 8008 Zurich
Average annual number of employees	< 10

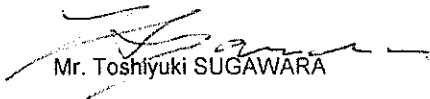
### Risk Assessment

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, as well as multiline insurance of Toa Re. Since 31 August 2018, TTFC is also providing reinsurance to third parties.

  
Mr. Toshiyuki SUGAWARA

  
Mr. Michal SUCHAN

## **Business development / underwriting activity**

TTFC presented a loss for financial year 2018. As a result of the two major Japanese typhoons in 2018, the outstanding claims significantly increased during the year, leading to the loss position at year-end. The net investment result of CHF 67'175 (2017 CHF 5'822'562) is income deriving from the bonds investments reduced by investment expenses. A reduction of bond interest coupled with an increase in loss on bond sales led to the reduction for the year. Other financial expense consisted of foreign exchange loss of CHF 132'626 (2017 CHF 2'890'121). The unrealized foreign exchange summation resulted in a loss for 2018, leading to no provision for unrealized gains in 2018 (2017 CHF 132'844).

In the financial year 2018 the solvency situation remained stable.

## **Extraordinary events**

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

In 2018 TTFC filed numerous Business Plan to FINMA: Forms B, H, J, N and Q.

## **Future developments**

For the financial year 2019, we expect TTFC, besides continuing to write intra-group retrocession (IGR), to develop steady and profitable third-party business. In 2018 TTFC approved a change in strategy and began underwriting third party business actively with focus on EMEA reinsurance business and worldwide specialties (e.g. Engineering). The respective strategy and implementation plan have been approved by Toa Re Group and TTFC Board of Directors in 2018 and TTFC management began implementation activities. This led to TTFC beginning active underwriting of third-party business at the end of 2018 with main focus on the 1/1/2019 renewal. For 2018, only one third-party business was written.

  
Mr. Toshiyuki SUGAWARA

  
Mr. Michal SUCHAN