
The Toa 21st Century Reinsurance Company Ltd

Zurich

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

***on the financial statements
2016***





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

Zurich

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 2016.

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 2016 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

Hannes Banzhaf

Audit expert

Zürich, 21 March 2017

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 31.12.2016

Contents

- 1. Balance sheet as at December 31, 2016 and 2015**
- 2. Income statement**
- 3. Cash Flow**
- 4. Notes**
- 5. Proposal of the Board of Directors' for the appropriation of available earnings**
- 6. Management Report**

THE TOA 21ST CENTURY REINSURANCE COMPANY LTD

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

	Notes	2016	2015
Assets			
Investments		341'661'881	345'890'471
Fixed-income securities	1	341'661'881	345'890'471
Cash and cash equivalents	1	64'210'272	43'647'501
Reinsurer's share in technical reserves		1'170'277	2'248'140
Provision for unearned premiums		354'958	304'695
Claims outstanding & IBNR	3	815'319	1'943'445
Deferred acquisition costs		5'445'367	5'414'596
Receivables from insurance business	2, 5	14'221'311	19'940'678
Receivables from outward business	2	829'835	0
Other Receivables		205'009	542'340
Other Assets		2'387'713	2'763'483
Accrued interest income		2'387'713	2'763'483
Total assets		430'131'666	420'447'209
Liabilities			
Technical provisions		72'511'574	68'640'400
Provision for unearned premiums		20'774'009	21'411'808
Claims outstanding & IBNR	3	35'394'235	34'981'438
Equalisation provision		16'343'329	11'538'218
No claims bonus		0	708'936
Non-technical provisions		4'398'481	7'461'709
Provisions for taxation		4'265'637	2'858'472
Provisions for unrealised gains		132'844	4'603'237
Liabilities from derivative financial instruments	6	3'587'577	1'511'414
Payables from insurance business	4, 5	6'134'901	12'977'369
Other liabilities		393'068	298'147
Other payables		1'406	155'128
Accrued expenses		391'662	143'019
Total liabilities		87'025'601	90'889'039
Shareholders' equity	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		31'528'524	29'368'073
Voluntary retained earnings		66'577'540	55'190'097
Result carried forward		50'429'646	44'387'843
Result for the period		16'147'895	10'802'254
Total shareholders' equity		343'106'064	329'558'170
Total liabilities and shareholders' equity		430'131'666	420'447'209

THE TOA 21ST CENTURY REINSURANCE COMPANY LTD

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

	Notes	2016	2015
Gross premiums written		47'810'361	45'610'106
Outward premiums written		-958'709	-666'538
Net premiums written		46'851'652	44'943'568
Gross change in unearned premium		637'799	10'716'567
Outward change in unearned premium		50'263	-223'766
Net premiums earned		47'539'714	55'436'369
Total income from insurance business		47'539'714	55'436'369
Gross claims paid		-21'953'954	-34'629'658
Outward claims paid		829'835	0
Gross change in technical provisions		-5'217'908	5'642'330
Gross change in claims reserves	8	-412'797	10'357'644
Change in the equalization provision		-4'805'111	-4'715'314
Outward change in technical provisions		-1'128'125	804'712
Outward change in claims reserves	8	-1'128'125	804'712
Net claims incurred		-27'470'153	-28'182'616
Acquisition costs		-11'863'264	-16'171'807
Administrative expenses		-876'603	-619'761
Net acquisition cost and administrative expenses		-12'739'867	-16'791'568
Other technical expenses		-259'216	-476'299
Other expenses from insurance business		-259'216	-476'299
Total expenses from insurance business		-40'469'236	-45'450'483
Investment income	9	9'218'209	8'241'223
Other investment income		9'218'209	8'241'223
Investment expenses		-2'853'192	-2'096'871
Liabilities from derivative financial instruments		-2'076'163	-1'511'414
Other investment expenses	10	-777'029	-585'457
Net investment result		6'365'018	6'144'352
Exchange gains and losses		2'507'726	272'935
Provisions for unrealised gains		4'470'393	-2'742'366
Other financial expenses		6'978'119	-2'469'431
Operating result		20'413'615	13'660'807
Result before taxes		20'413'615	13'660'807
Direct taxes		-4'265'720	-2'858'553
Result after taxes		16'147'895	10'802'254

Cash flow

	2015	2016
Profit before income/cap taxes	13'660'726	20'413'532
Depreciation and amortization	-240'033	84'172
Increase (decrease) in outstanding claims	-11'162'356	1'540'922
Increase (decrease) in underwriting reserves and equalisation reserves	1'760'707	3'377'342
Loss (gain) on marketable securities	-6'303'139	-5'911'553
Foreign exchange loss (gain)	2'720'461	-2'394'230
Decrease (increase) in other assets	868'977	5'226'864
Increase (decrease) in other liabilities	5'943'512	-6'747'547
Provisions for taxation	-2'858'472	-4'265'637
<u>Subtotal</u>	4'390'385	11'323'866
Interest and dividends received	6'360'653	6'287'323
settled taxes	2'768'792	1'407'165
Net cash provided by (used in) operating activities	<u>13'519'830</u>	<u>19'018'354</u>
<u>Cash flows from investing activities</u>		
Investment in marketable securities	-81'110'996	-92'204'178
Proceeds from sales or redemption	71'003'175	96'348'596
Net cash provided by (used in) investing activities	<u>-10'107'821</u>	<u>4'144'418</u>
<u>Cash flows from financing Activities</u>		
Increase (decrease)in other debt	0	0
Dividends paid	0	-2'600'000
Net cash provided by (used in) financing activities	<u>0</u>	<u>-2'600'000</u>
Net increase in cash and cash equivalents	3'412'008	20'562'772
Cash and cash equivalents at beginning of period	40'235'492	43'647'501
Cash and cash equivalents at end of period	<u>43'647'501</u>	<u>64'210'272</u>

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. In 2016 the accounting policy for the valuation of the fixed-income securities changed from group valuation principle to single valuation principle.

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, 2015 and 2016 are related only to non-life business.

1 Investments

	2016	2015
Government Bonds	32'331'821	41'566'535
Corporate Bonds	309'330'060	304'323'936
	341'661'881	345'890'471
Bond credit rating (Moody's, if available, otherwise S&P)		
	2016	2015
Bonds, rating AAA	157'267'137	185'373'047
Bonds, rating AA	97'512'028	97'895'818
Bonds, rating A	55'097'170	50'762'494
Bonds, rating BBB	16'030'562	11'859'112
Bonds, unrated	15'754'984	0
	341'661'881	345'890'471

Cash and cash equivalents

	2016	2015
Cash and cash equivalents held in CHF	16'600'499	10'085'594
Cash and cash equivalents held in JPY	47'605'914	32'822'094
Cash and cash equivalents held in other currencies	3'859	739'813
	64'210'272	43'647'501

2 Receivables from insurance business

	2016	2015
Due from insurance business	14'221'311	19'940'678
Due from outward business	829'835	0

3 Technical provisions

	Gross technical reserves		Reinsurers share of Technical reserves		Net technical reserves	
	2016	2015	2016	2015	2016	2015
Outstanding claims reserves	25'536'050	25'046'457	-776'262	-1'862'801	24'759'789	23'183'656
IBNR reserves	9'858'185	9'934'981	-39'057	-80'644	9'819'128	9'854'338
Total	35'394'235	34'981'438	-815'319	-1'943'445	34'578'916	33'037'994

4 Payables from insurance business		2016	2015
Due to insurance companies		6'134'901	12'977'369

5 Receivables from and liabilities to related parties		2016	2015
Receivables from insurance business		14'221'311	19'940'678
Payables from insurance business		6'134'901	12'977'369
		<u>8'086'409</u>	<u>6'963'309</u>

6 Liabilities from derivative financial instruments			
Provision for unrealised losses FX Forward contract		P/L	
open date 09-12.2016	CHF 68'662'285	-3'593'370	
expiry 31.03.2017	USD -71'500'000		
open date 14.12.2016	EUR -15'000'000	20'534	
expiry 14.06.2017	CHF 16'067'400		
open date 18.11.2016	USD -1'600'000	-14'741	
expiry 22.11.2017	CHF 1'576'128		
		<u>-3'587'577</u>	

7 Statement of changes in Equity					
	Share capital	Organisation Fund	Legal retained earnings	Voluntary retained earnings	Shareholders' equity
Balance 01.01.2015	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
Balance 31.12.2015	<u>243'000'000</u>	<u>2'000'000</u>	<u>29'368'073</u>	<u>55'190'097</u>	<u>329'558'170</u>
Balance 01.01.2016	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
Balance 31.12.2016	<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>

Information related to items on the income statement

8 Changes in technical provisions						
	Gross technical provisions		Reinsurers share of technical provisions		Net technical provisions	
	2016	2015	2016	2015	2016	2015
Change in outstanding claims reserves	-489'594	9'450'414	-1'086'539	1'460'726	-1'576'133	10'911'140
Change in IBNR reserves	76'797	907'230	-41'587	-656'014	35'210	251'216
Total	<u>-412'797</u>	<u>10'357'644</u>	<u>-1'128'125</u>	<u>804'712</u>	<u>-1'540'922</u>	<u>11'162'356</u>

9 Investment income						
	Earnings		Additions/Appreciation		Realized gains	
	2016	2015	2016	2015	2016	2015
Bonds	5'911'553	6'303'139	-1'603'718	-240'033	2'755'342	2'177'720
Other investment income	407	397	0	0	2'154'627	0
Total investment income					<u>9'218'209</u>	<u>8'241'223</u>

10 Investment expenses						
			Investment related costs		Realized losses	
			2016	2015	2016	2015
Bonds			-422'586	-421'122	-354'443	-164'335
Total investment expenses					<u>-777'029</u>	<u>-585'457</u>

11 Fees for audit services			
		2016	2015
External Audit Fees		77'199	87'995
Internal Audit Fees		9'504	8'640
Total Fees for audit services		<u>86'703</u>	<u>96'635</u>

Other information

12 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

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

	2016	2015
Movements of retained earnings		
Result brought forward	50'429'646	44'387'843
Profit / Loss for the business period	16'147'895	10'802'254
Available earnings	66'577'540	55'190'097
Allocation to general legal reserve	-3'229'579	-2'160'451
Dividend payment	-2'100'000	-2'600'000
	<hr/>	<hr/>
Retained earnings to be carried forward	61'247'961	50'429'646

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
General Manager	Mr. Angelo Giglio
Controlling/Account Manager	Ms. Sandra Simion
Risk Manager	Mr. Denis Kallaert
Compliance Manager	Mr. Bruno Verduci
Captive Management	Aon Insurance Managers (Switzerland) AG
External Auditor	PricewaterhouseCoopers AG, Zürich
Appointed Actuary	Mr. Thomas Schlereth, AGRC
Share capital	CHF 243 m
Domicile of the company	Vulkanstrasse 106 8048 Zürich
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 2016 was profitable to TTFC. Even if two lines of business were not renewed in 2016: Motor and Bond & Credit, the gross premium written showed growth compared to 2015 mainly due to the premium from Property QS UWY 2015. Compared to the underwriting year 2015, the Estimated Premium Income gross in underwriting year 2016 is 4.9% lower (CHF 2.0m) and the Estimated Premium Income net 5.5% lower (CHF 2.2m).

In the underwriting year 2016 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.

TTFC filed in 2016 the following changes to the Business Plan which have already been approved by FINMA: Change of domicile from Chur to Zürich (and there for change in statutes), Dividend policy and Underwriting Guidelines.

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 preparation for the public disclosure report and BCM implementation. That said, any further changes to the regulatory environment will be closely monitored and appropriate actions would be planned.