



# White Mountains, our owners

## *White Mountains Insurance Group, Ltd.*

A financial services holding company with primary business interests in property and casualty insurance and reinsurance.

White Mountains' corporate headquarters and its registered office are located in Hamilton, Bermuda, and its principal executive office is located in Hanover, New Hampshire.

White Mountains conducts its principal businesses through:

## *Sirius International Insurance Group Ltd.*

Global reinsurance.

## *OneBeacon*

Specialty insurance. OneBeacon's common shares are listed on the New York Stock Exchange under the symbol "OB". White Mountains owns 75% of OneBeacon.

## *HG Global*

U.S. municipal bond reinsurance.

## *White Mountains Advisors*

Investment management with \$34 billion of assets under management.

White Mountains' common shares are listed on the New York Stock Exchange and the Bermuda Stock Exchange under the symbol "WTM". Market capitalization as of December 31, 2012 was \$3.2 billion. As of December 31, 2012, White Mountains reported total assets of \$12.9 billion, adjusted shareholders' equity<sup>NGM</sup> of \$3.7 billion, and adjusted book value per share<sup>NGM</sup> of \$588.

## *Sirius International Insurance Group Ltd.*

A Bermuda-domiciled holding company whose operating companies offer capacity for property, accident & health, trade credit, aviation, marine and other exposures. Our principal operating companies are:

## *Sirius International Insurance Corporation*

A Swedish-based international reinsurer that focuses mainly on property and other short-tailed lines. Sirius International is the largest reinsurance company in Scandinavia and a leading reinsurer in Europe. Sirius International's home office is in Stockholm, and it has offices in Australia, Bermuda, Copenhagen, Hamburg, Liège, London, Singapore and Zürich.

## *Sirius America Insurance Company*

A U.S.-based, international, (re)insurance company that focuses on the property and accident & health lines in North and Latin America. Sirius America's home office is in New York with branch offices in Miami and Toronto.

## *Sirius Syndicate 1945*

A Lloyd's syndicate that began writing business at July 1, 2011 with initial stamp capacity of £93 million and focus on accident & health, contingency, property and marine.

## *White Mountains Solutions Inc.*

A Connecticut-based professional team specializing in opportunistic structured acquisitions of run-off property and casualty insurance liabilities. The team further enhances transaction returns via effective post-acquisition management of the run-off process.





# Comments from the President and CEO

Last year saw a marked improvement in the business environment for the reinsurance industry. Whereas total losses in 2011 had been the second highest ever, 2012 proved to be relatively benign at a time of slightly harder rates. Sirius International was able to increase its underwriting profits significantly despite some heavy claims from

natural catastrophes in the United States.

This was the first full year since Sirius America became part of the Sirius international Group, making a direct comparison with previous results more complicated. Nonetheless, there is no disguising the fact that we were successful, with a combined ratio of 90% and an underwriting profit of \$89 million.

Although 2012 was better than our long-term average, it should be seen as part of a pattern of profitability. We have now returned positive figures for every one of the last eleven years, even when things have been difficult. In the period since 1997 our combined ratio has been 93%. As I have said before, this stability is one of the factors that make Sirius International a reliable long-term trading partner.

At \$1,197 m, premium income was flat in comparison with last year if one includes Sirius America for the full year, reflecting our selective underwriting and the shortage of profitable opportunities in what continues to be a soft market. The increase in profits was driven by a drop in claims. The only two losses of any size were from storm Sandy (nearly \$100 m) and the drought in Mid-West United States (\$35 million).

As ever, our diversity and spread of risk have made possible our consistently strong performance. Whereas in 2011 a benign loss experience in the western hemisphere kept us profitable at a time of heavy losses elsewhere, this time it was the other way around.

Our new Lloyd's operation Syndicate 1945 completed its first full year in good shape, achieving the primary objective of modest profitable growth. We have now added our London Marine book and some Property business to the portfolio, which already included Accident and Health and Contingency.

The integration of Sirius America into the group has gone to plan. Last year I wrote that a top priority was to ensure that their arrival benefited customers, brokers and shareholders alike, enabling us to provide an enhanced, seamless service. I believe this objective has been achieved.

Sirius America has since added direct Accident and Health to its book, and we see this becoming an important pillar of the business.

We appear to be further away from implementation of Solvency II than we were this time last year, now that the measure has been put back yet again, probably at least to 2016. We continue, though, to be well prepared for the changes when they eventually arrive.

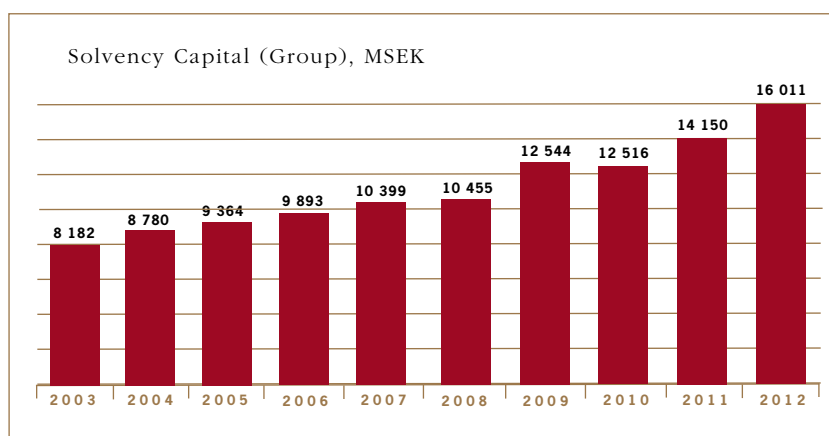
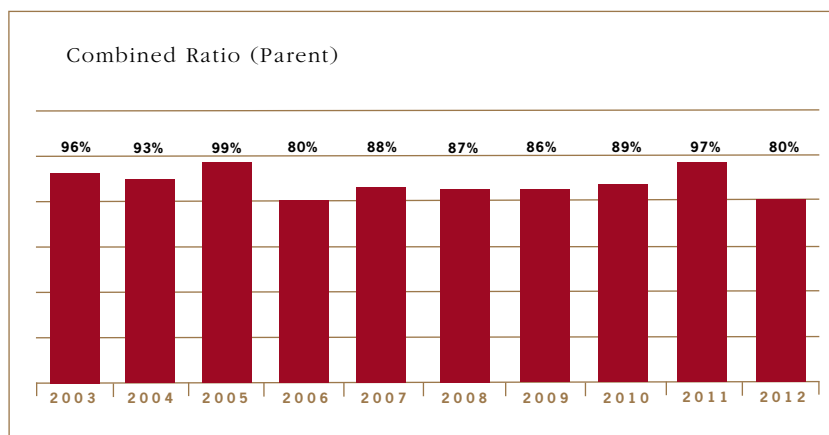
Looking ahead to the rest of 2013, we saw a very small increase in rates overall at the end-of-year renewal after taking into account the usual variations between different classes and geographies. Yet it is very difficult to see the hard market returning in the immediate future. The reinsurance industry continues to attract new entrants, and there is already too much capital chasing too little premium.

Nonetheless, our track record speaks for itself and justifies our confidence that we can meet whatever challenges may lie ahead. As ever, I would like to thank all our staff for their loyalty and professionalism, and our brokers and customers for enabling us to build strong long-term relationships for our mutual benefit.



GÖRAN THORSTENSSON  
PRESIDENT & CEO

At a glance (Parent)	2012	2011
Net premium income	\$595 million	\$583 million
Claims net of reinsurance	\$315 million	\$419 million
Underwriting profit	\$122 million	\$14 million
Combined Ratio	80%	97%
Income before tax	\$183 million	\$68 million



## Board of Directors' Report

The Board of Directors and Managing Director of Sirius International Försäkringsaktiebolag (publ), (Sirius International), Corporate Identity Number 516401-8136, hereby present the Annual Report for 2012.

### General information regarding the company

Sirius International operates within international insurance and reinsurance. Sirius International was established in 1989. However, the operations were initially started within Sirius Insurance in 1945. In 1989, the reinsurance operations were transferred to Sirius International. Sirius International has been the Parent Company in the Group since 1992.

### Development of the Company's operations, income and financial position

After 2011, which was one of the most expensive years for insurance companies, 2012 proved to be favorable for the industry. This is, of course, primarily due to the absence of any major earthquakes, hurricanes, typhoons or floods during the year. Only two major catastrophe events of significance affecting the market and the industry as a whole took place during the year, which also impacted Sirius International. These were the crop losses in a number of states in the American Midwest, which were hit by major droughts during long periods of consistently high temperatures without precipitation, as well as the "Superstorm", Hurricane Sandy, which ripped through, mainly, New York and New Jersey during the final days of October, causing huge material damages. For the Group, it is estimated that claims arising

from these two events will, in total, cost approximately MSEK 800. Further catastrophe events which have taken place are the two earthquakes in Italy, which it is estimated to cost the Group approximately MSEK 50.

The major catastrophe claims from the previous accident years have had a positive development during the year, with a positive run-off result for 2012. The price levels in the insurance portfolio have been satisfactory on the majority of markets and classes of business. The portion of the insurance portfolio renewed at the beginning of 2013 show continued satisfactory pricing.

2012 was the first full year of operation for Syndicate 1945 at Lloyd's. Syndicate 1945 writes primarily Accident & Health insurance. In 2012, The Syndicate has enabled us to write profitable new business that earlier was out of reach as Lloyd's security was required. In 2013 Syndicate 1945 is planned to expand its business portfolio, mainly into assumed Property and Marine reinsurance.

Furthermore, the integration of the subsidiary WM Phoenix acquired in 2011, with insurance business mainly concentrated to the Group company, Sirius America Insurance Company, continued in 2012, focusing on the adoption on systems and on business and administrative processes alignments.

Gross premium income amounted to MSEK 8,081 (5,955) for the Group and MSEK 5,779 (5,347) for the Parent Company. The Group's premium income for own account amounted to MSEK 6,304 (4,363), and MSEK 4,014 (3,768) for the

Parent Company. The increase in premium volume compared with the previous year is due, primarily, to the fact that the Group company, WM Phoenix, contributed with 12 months' earnings in 2012, while in 2011, only earnings from the acquisition date on September 30, 2011 were reported. Discounting these one-off effects, gross premium income increased by approximately 5% compared with the previous year. Increases have been noted, primarily, within the traditionally dominant classes of business assumed Property reinsurance and direct Accident & Health insurance, while the volumes for assumed Credit and Aviation reinsurance have decreased somewhat.

The Group's operating profit from insurance operations amounted to MSEK 1,058 (223) and to MSEK 1,104 (266) for the Parent Company. The combined ratio amounted to 90% (99%) for the Group and 80% (97%) for the Parent Company. The strong insurance operating result is very gratifying and reflects the Company's successful strategy, with a well-diversified insurance portfolio and good spread of risk.

The financial markets in 2012 were characterized by concerns regarding the Greek economy and its effect on the rest of Europe. Ireland, Spain and Portugal's budget deficits also had a big impact on the outlook for the European economy at the beginning of the year. Following the successful introduction of fiscal and structural reforms in these countries, the situation stabilized and the European interest rates went down, leading to a more positive development in the Eurozone during the second part of the year. There have also been considerable concerns regarding the US economy, with elections in November and the impending risk of the fiscal cliff which was averted at the last minute

through the American Taxpayer Relief Act, which subdued the concerns in the market.

The stock markets have been characterized by an upswing during the year, with the exception of the US stock markets, which stagnated somewhat during the final quarter. S&P 500 in the US increased by 13%, and the leading continental European stock markets rose by between 15-29%, especially the German DAX exchange, which increased by 29% compared with December 2011. The Swedish OMX30 increased by 12% during the year. The Japanese Nikkei 225 increased by 23% during 2012 thanks to the new government's introduction of reforms to increase exports and to improve the business climate in the country. The British FTSE 100 increased by 6% which is slightly lower than the rest of Europe.

In terms of the bond portfolio, the US, Swedish, German and British markets are the most important. The interest levels on government securities have experienced a further decrease in 2012, with a slight recovery during the fourth quarter; the US government bonds in particular, have seen a rise in interest rates at the end of the year.

Overall, yield on the bond portfolio was 4.3% adjusted for exchange rate effects. As regards the share portfolio, including investments in Hedge Funds and Private Equity investments, the yield amounted to 7.9%, adjusted for exchange rate effects. The realized and unrealized exchange rate result, net after currency hedging and including translation differences from foreign subsidiaries, amounted to a loss of MSEK 333. The exchange rate loss is mainly due to the strengthening of the SEK against the USD and EUR. During the year, further exchange rate hedging against the USD has been undertaken. The nominal value

of the currency hedges is now MUS\$ 600. The portion of the solvency capital that is exposed to foreign currency is somewhat lower than during the previous year.

The Investment result for the Group, after exchange rate hedging including unrealized gains and losses from the bond portfolio accounted for in Other comprehensive income but before allocation of interest to the insurance operations, shows a profit of MSEK 1,413 (MSEK 542). The Group's direct yield was 2.3% (2.2%) and the total yield was 5.4% (2.2%). The direct and total yields are calculated according to the recommendations of The Swedish Financial Supervisory Authority. The investment portfolio's concentration and composition are largely unchanged compared with the previous year. At year-end, the consolidated investment portfolio had the following composition: Bonds and other interest bearing securities 76%, Shares and participations 15%, Bank funds 8% and Currency related derivatives 1%.

Other events regarding the changes in the Group's structure are described primarily under the section "Ownership structure" below.

#### **Ownership structure**

Sirius International Försäkringsaktiebolag (publ) is a wholly-owned subsidiary of Fund American Holdings AB (Corporate Identity Number 556651-1084), Stockholm, Sweden. Fund American Holdings AB is a wholly-owned subsidiary of Sirius Insurance Holding Sweden AB (Corporate Identity Number 556635-9724), Stockholm, Sweden, which is the ultimate entity in the Swedish Group structure and which is, in turn, owned by White Mountains Insurance Group Ltd, Hamilton, Bermuda.

The previously initiated liquidation of

White Mountains Re Bermuda Ltd., Hamilton, Bermuda, was completed in January 2012. In December 2012, Sirius International received a capital contribution from its parent company Fund American Holdings AB, consisting of the remainder of the outstanding shares in White Sands Holdings (Luxembourg) S.à r.l. with the wholly-owned subsidiary S.I. Holdings (Luxembourg) S.à r.l.

At the end of the year 2012, the Group comprised the Parent Company, Sirius International Försäkringsaktiebolag (publ), with the subsidiaries Sirius Belgium Réassurances S.A. (in liquidation), Liège, Belgium, Sirius Rückversicherungs Service GmbH, Hamburg, Germany, Sirius International Holdings (NL) BV, Amsterdam, Holland, Passage2Health Ltd, London, UK, White Mountains Re Sirius Capital Ltd, London, UK, WM Phoenix (Luxembourg) S.à r.l. and White Sands Holdings (Luxembourg) S.à r.l.

In addition, Sirius International has eight branch offices outside Sweden. These are Sirius International Insurance Corporation (publ) UK branch, London, UK, Sirius International Insurance Corporation (publ) Stockholm Zürich branch, Zürich, Switzerland, Sirius International Insurance Corporation (publ) Asia branch, Singapore, Sirius International Insurance Corporation (publ) Labuan branch, Labuan, Malaysia, Sirius International Insurance Corporation (publ) Belgian branch, Liège, Belgium, Sirius International Danish Branch, filial af Sirius International Försäkringsaktiebolag (publ), Copenhagen, Denmark, Sirius International Insurance Corporation (publ) Bermuda Branch, Hamilton, Bermuda and Sirius International Insurance Corporation (publ) Australian Branch, Australia.

During 2001, Sirius Belgium Réassuran-



ces S.A. (in liquidation), Liège, Belgium commenced voluntary liquidation proceedings, as the company had ceased to conduct operations. The liquidation remains incomplete, as the result of a tax dispute. The outcome of the dispute will not impact the company's financial position.

#### **Significant events during and after the financial year**

In March 2012, Sirius International received a shareholders' contribution of MSEK 245 which was subsequently contributed downstream to its subsidiary Sirius International Holdings (NL) BV.

As part of the continuing restructuring work within the Group, on December 21, 2012, Sirius International received, in the form of a shareholders' contribution, the outstanding shares in White Sands Holdings (Luxembourg) S.à r.l. These shares were valued at fair value. The total value of the transaction amounted to MSEK 714. The valuation of the shares is based on a projection of the entity's discounted future cash flows, whereby the discount rate has been determined based on the Company's Weighted Average Cost of Capital (WACC).

On January 25, 2013, Sirius International, acquired the outstanding shares in S.I. Holdings (Luxembourg) S.à r.l. from White Sands Holdings (Luxembourg) S.à r.l. On the same day Sirius International contributed MSEK 1,955 to S.I. Holdings (Luxembourg) S.à r.l. in exchange for new preference shares in the company.

#### **Information regarding risks and factors of uncertainty**

See Note 1, Accounting Principles, and Note 2, Information on Risks.

#### **Financial instruments and risk management**

See Note 1, Accounting Principles, and Note 2, Information on Risks.

#### **Remuneration and benefits to senior executives**

See Note 30, Average number of employees, salaries and other remuneration.

#### **Insurance contracts with insufficient insurance risk**

The Company retains only a few contracts in which insufficient insurance risk is assessed to exist, and which, thereby, do not qualify as insurance contract. These contracts are classified as investment contracts. For further details, refer to Note 1, Accounting Principles.

#### **Expected future developments**

The underlying profitability in the insurance operations is good, despite increased competition on the market, and the diversified investment portfolio is expected to provide a stable yield. However, the fierce competition requires stringent pricing and underwriting, continued efficiency improvements and sound balancing of risks between the insurance and investment operations, in order to ensure long-term profitability. Sirius International's targets for 2013 are to achieve a combined ratio below 91% and an Underwriting Return On Capital (UROC) of 10%.

# Five-year Summary

<b>GROUP (MSEK)</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009<sup>3)</sup></b>	<b>2008</b>
Net premium income	6,304	4,363	5,608	6,957	5,602
Net premiums earned	6,293	4,584	5,742	6,867	5,822
Other technical income	0	0	0	0	0
Allocated investment return	547	225	214	369	168
Net claims incurred	-3,692	-3,125	-3,428	-4,164	-3,659
Net operating expenses	-2,090	-1,461	-1,690	-1,755	-1,403
Insurance operating result	1,058	223	838	1,317	928
Investment operating result	784	219	235	289	-74
Other expenses	0	0	0	0	-27
Net income for the year	2,831	320	879	1,302	695
Net technical provisions	13,347	14,743	7,221	7,883	7,992
Market value on investment assets <sup>4)</sup>	25,601	26,094	18,480	18,449	16,743
<b>Insurance operating profit, for own account</b>					
Claims ratio	59%	68%	60%	61%	63%
Cost ratio	32%	31%	29%	25%	24%
Combined ratio	90%	99%	89%	86%	87%
<b>Investment result</b>					
Investment yield	2%	2%	3%	2%	3%
Total yield	5%	2%	1%	3%	2%
<b>Solvency capital</b>					
Shareholders' equity	13,828	11,560	9,950	9,945	8,017
Deferred tax on untaxed reserves	2,128	2,547	2,548	2,548	2,420
Deferred tax on reserve for unrealized capital gains	55	43	18	53	18
Other adjustment items	0	0	0	-2	0
Total solvency capital	16,011	14,150	12,516	12,544	10,455
Solvency ratio	254%	324%	223%	180%	187%
Capital base <sup>1)</sup>	15,185	13,644	11,735	12,149	10,013
Required solvency capital	1,621	1,755	958	1,030	956
<b>Group based values<sup>2)</sup></b>					
Capital base	17,698	13,792	16,315	17,544	17,236
Solvency requirement	1,621	1,872	2,255	2,350	2,566

<sup>1)</sup> Include Sirius International with subsidiaries.

<sup>2)</sup> Include WM Caleta (Gibraltar) Ltd. For 2011-2008 the Group-based values include Sirius International Insurance Group Ltd.

<sup>3)</sup> For the comparison year 2009 IFRS has been applied. Solvency capital and required solvency capital have not been converted.

<sup>4)</sup> Includes Investment assets and Cash and bank balances.

<b>PARENT COMPANY (MSEK)</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Net premium income	4,014	3,768	5,608	6,957	5,602
Net premiums earned	4,196	4,037	5,742	6,867	5,822
Allocated investment return	280	225	214	369	168
Net claims incurred	-2,126	-2,708	-3,421	-4,164	-3,659
Net operating expenses	-1,221	-1,239	-1,687	-1,761	-1,408
Insurance operating result	1,104	266	839	1,311	923
Investment operating result	129	175	-128	-139	106
Other expenses	-4	-4	-4	-17	-17
Net income for the year	932	321	522	490	738
Net technical provisions	6,048	6,922	7,233	7,886	7,992
Market value on investment assets <sup>1)</sup>	20,692	19,678	18,155	18,379	16,882
<b>Insurance operating profit, for own account</b>					
Claims ratio	51%	67%	60%	61%	63%
Cost ratio	29%	30%	29%	25%	24%
Combined ratio	80%	97%	89%	86%	87%
<b>Investment Result</b>					
Investment yield	1%	3%	3%	2%	3%
Total yield	2%	3%	0%	3%	2%
<b>Solvency Capital</b>					
Shareholders' equity	5,117	4,335	2,564	2,654	1,295
Untaxed reserves	9,672	9,682	9,687	9,691	9,197
Deferred tax on Reserve for unrealized capital gains	54	43	18	53	18
Total solvency capital	14,843	14,060	12,269	12,398	10,510
Solvency ratio	370%	373%	219%	178%	188%
Capital base	14,265	13,648	11,603	12,021	9,968
Required solvency capital	710	765	958	1,030	956

<sup>1)</sup> Include Investment assets and Cash and bank balances.

**Proposed appropriation of profits**

For 2012, the Parent Company recorded income of MSEK 1,229 (MSEK 437) before appropriations and taxes. Net income for the year amounted to MSEK 932 (MSEK 321). As of December 31, 2012 retained earnings in the Group amounted to MSEK 5,484.

The following profits are at the disposal of the general meeting of shareholders in the Parent Company Sirius International:

	SEK in thousands
- Retained earnings	3,534,512
- Non-Restricted reserves	71,345
- Dividends paid, as resolved by the general meeting of shareholders and extraordinary general meeting of shareholders	-652,442
- Received shareholders' contribution	959,326
- Group contribution	-527,642
- Net income for the year	932,058
- Total	4,317,157

The Board of Directors and the President propose that the amount be appropriated as follows:

- Dividend to the owner	325,000
- To be carried forward	3,992,157
	4,317,157

The Company's financial position does not give rise to any assessment other than that the Company can be expected to fulfill its obligations in both the short-term and in the long-term. It is the opinion of the Board of Directors that the solvency capital of the Company, as it has been reported in the annual report, is adequate in relation to the scope and risks of the operations.

Regarding the Company's and the Group's results and financial position, please refer to the attached income statements and balance sheets, cash flow statements and statements of changes in shareholders' equity, with accompanying notes.

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positive figures  
for every one of the last  
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## Income Statement – Group

January 1 - December 31 (MSEK)	Note	2012	2011
<b>TECHNICAL ACCOUNT FOR INSURANCE OPERATIONS</b>			
<b>Earned premiums, for own account</b>			
Gross premium income	3	8,081	5,955
Ceded reinsurance premiums	3	-1,777	-1,592
Change in the gross provision for unearned premiums		-47	194
Change in the provision for unearned premiums, reinsurers' share		36	27
<b>Total earned premiums, for own account</b>		<b>6,293</b>	<b>4,584</b>
<b>Allocated investment return transferred from the non-technical account</b>		<b>547</b>	<b>225</b>
<b>Claims incurred, for own account</b>			
Claims paid	4		
- Gross amount		-5,261	-4,190
- Reinsurers' share		763	736
Claims paid, for own account		-4,498	-3,454
Change in the provision for claims, for own account			
- Gross amount	4	2,673	-330
- Reinsurers' share		-1,867	659
<b>Total claims incurred, for own account</b>		<b>-3,692</b>	<b>-3,125</b>
<b>Operating costs</b>	5	<b>-2,090</b>	<b>-1,461</b>
<b>Operating profit/loss of technical account</b>		<b>1,058</b>	<b>223</b>
<b>Balance of technical account</b>			
Investment income/expenses	9	1,058	223
- Investment income	6	1,047	764
- Unrealised gains	7	652	-
- Investment expenses and charges	8	-368	-132
- Unrealised losses	7	-	-269
- Share of associated company's profit/loss		-	81
Investment income allocated to the technical account		-547	-225
<b>Total investment income/expenses</b>		<b>784</b>	<b>219</b>
<b>Result before taxes</b>		<b>1,842</b>	<b>442</b>
Taxes	10	987	-123
<b>Net income of the year</b>		<b>2,829</b>	<b>319</b>
Net income attributable to:			
Owner of the parent		2,831	320
Minority interest		-2	-1
<b>Total</b>		<b>2,829</b>	<b>319</b>



## Statement of Comprehensive Income - Group

January 1 - December 31 (MSEK)	Note	2012	2011
<b>Net income for the year</b>		<b>2,829</b>	<b>319</b>
Other comprehensive income			
- Items to be reclassified to income statement:			
- Change in fair value on bonds		184	141
- Currency translation differences		-413	84
- Tax on items to be reclassified to income statement	10	-36	-37
- Items reclassified to income statement:			
- Change in fair value on bonds		-102	-43
- Tax on items reclassified to income statement	10	26	11
<b>Other comprehensive income for the year, net of tax</b>		<b>-341</b>	<b>156</b>
<b>Total comprehensive income for the year</b>		<b>2,488</b>	<b>475</b>
Comprehensive income attributable to:			
Owner of the parent		2,490	476
Minority interest		-2	-1
<b>Total</b>		<b>2,488</b>	<b>475</b>

## Balance Sheet - Group

December 31 (MSEK)	Note	2012	2011
<b>ASSETS</b>			
<b>Intangible assets</b>	11		
Goodwill		291	296
Other intangible assets		124	47
<b>Total intangible assets</b>		<b>415</b>	<b>343</b>
<b>Investment assets</b>			
Land and buildings	12	13	11
Investments in group companies and participating interests			
- Shares and participations in associated companies		-	0
- Interest bearing investments emitted by, and loans to, group companies		966	1,021
Total investments in group companies and participating interests		966	1,021
Other financial investments			
- Shares and participations	14, 18	3,567	3,300
- Bonds and other interest bearing investments	15, 18	18,235	18,819
- Derivative financial instruments	16, 18	326	30
Total other financial investments		22,128	22,149
Deposits with cedents		543	624
<b>Total investment assets</b>		<b>23,650</b>	<b>23,805</b>
<b>Reinsurers' share of technical provisions</b>			
Provisions for unearned premiums	22	524	526
Claims outstanding	23	4,942	7,585
<b>Total reinsurers' share of technical provisions</b>		<b>5,466</b>	<b>8,111</b>
<b>Debtors</b>			
Debtors arising out of direct insurance operations		105	2
Debtors arising out of reinsurance operations		1,993	2,423
Current tax receivables		330	274
Deferred tax receivables	10	2,668	1,233
Other debtors	17	312	189
<b>Total debtors</b>		<b>5,408</b>	<b>4,121</b>
<b>Other assets</b>			
Tangible assets	19	54	47
Cash and bank balances		1,951	2,289
<b>Total other assets</b>		<b>2,005</b>	<b>2,336</b>
<b>Prepayments and accrued income</b>			
Accrued interest		191	203
Deferred acquisition costs	20	439	471
Other prepayments and accrued income		19	21
<b>Total prepayments and accrued income</b>		<b>649</b>	<b>695</b>
<b>TOTAL ASSETS</b>		<b>37,593</b>	<b>39,411</b>

December 31	Note	2012	2011
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Shareholders' equity attributable to the owner of the parent			
- Share capital (8 million shares of nom. value SEK 100)		800	800
- Additional paid in capital		5,318	4,359
- Reserves		-564	-266
- Retained earnings – restricted		7,544	7,135
- Retained earnings – non-restricted, including net income for the year		730	-468
Total shareholders' equity attributable to the owner of the parent		13,828	11,560
Minority interest		2	4
<b>Total shareholders' equity</b>		<b>13,830</b>	<b>11,564</b>
<b>Liabilities</b>			
<b>Technical provisions</b>			
Provisions for unearned premiums	22	2,201	2,300
Claims outstanding	23, 25	16,612	20,554
<b>Total technical provisions</b>		<b>18,813</b>	<b>22,854</b>
<b>Other liabilities</b>			
Employee benefits	26	5	2
Current tax liabilities		14	-
Deferred tax liabilities	10	2,422	2,820
Deposits received from reinsurers		158	201
Creditors arising out of direct insurance operations		48	1
Creditors arising out of reinsurance operations		582	805
Other liabilities	18, 27	1,400	814
Accrued expenses and deferred income	18	321	350
<b>Total other liabilities</b>		<b>4,950</b>	<b>4,993</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>37,593</b>	<b>39,411</b>
Pledged assets and other comparable collaterals for own debts and provisions recorded as insurance liabilities			
	28	8,870	9,751
Other pledged assets and comparable collaterals	28	-	-
Contingent liabilities	28	1,970	1,458
Commitments	28	161	174

## Change in Shareholders' Equity - Group

(MSEK)	Share Capital <sup>4)</sup>	Additional paid in capital	Reserves	Retained earnings – restricted <sup>4)</sup>	Retained earnings – non- restricted	Total	Minority interest	Total Share- holders' equity
<b>Amount January 1, 2012</b>	<b>800</b>	<b>4,359</b>	<b>-266</b>	<b>7,135</b>	<b>-468</b>	<b>11,560</b>	<b>4</b>	<b>11,564</b>
<i>Comprehensive income</i>								
Net profit/loss for the year	-	-	-	-	2,831	<b>2,831</b>	-2	<b>2,829</b>
<i>Other comprehensive income, after tax</i>								
Change of fair value on bonds	-	-	72	-	-	<b>72</b>	-	<b>72</b>
Reclassification within shareholders' equity	-	-	43	409	-452	<b>0</b>	-	<b>0</b>
Currency translation differences	-	-	-413	-	-	<b>-413</b>	0	<b>-413</b>
<b>Total other comprehensive income</b>	-	-	-298	409	-452	<b>-341</b>	0	<b>-341</b>
<b>Total comprehensive income</b>	-	-	-298	409	2,379	<b>2,490</b>	-2	<b>2,488</b>
<i>Transactions with owners</i>								
Capital contribution received <sup>1)</sup>	-	959	-	-	-	<b>959</b>	-	<b>959</b>
Group contribution provided <sup>3)</sup>	-	-	-	-	-528	<b>-528</b>	-	<b>-528</b>
Dividend paid <sup>2)</sup>	-	-	-	-	-653	<b>-653</b>	-	<b>-653</b>
<b>Total transactions with owners</b>	-	959	-	-	-1,181	<b>-222</b>	-	<b>-222</b>
<b>Amount December 31, 2012</b>	<b>800</b>	<b>5,318</b>	<b>-564</b>	<b>7,544</b>	<b>730</b>	<b>13,828</b>	<b>2</b>	<b>13,830</b>
<b>Amount January 1, 2011</b>	<b>800</b>	<b>1,424</b>	<b>-354</b>	<b>7,139</b>	<b>941</b>	<b>9,950</b>	<b>-</b>	<b>9,950</b>
<i>Comprehensive income</i>								
Net profit/loss for the year	-	-	-	-	320	<b>320</b>	-1	<b>319</b>
<i>Other comprehensive income, net after tax</i>								
Change of fair value on bonds	-	-	72	-	-	<b>72</b>	-	<b>72</b>
Reclassification within shareholders' equity	-	-	-1	-4	5	<b>0</b>	-	<b>0</b>
Currency translation differences	-	-	84	-	-	<b>84</b>	0	<b>84</b>
<b>Total other comprehensive income</b>	-	-	155	-4	5	<b>156</b>	0	<b>156</b>
<b>Total comprehensive income</b>	-	-	155	-4	325	<b>476</b>	-1	<b>475</b>
<i>Transactions with owners</i>								
Capital contribution received <sup>5)</sup>	-	2,935	-	-	-	<b>2,935</b>	-	<b>2,935</b>
Group contribution provided <sup>3)</sup>	-	-	-	-	-414	<b>-414</b>	-	<b>-414</b>
Dividend paid <sup>2)</sup>	-	-	-	-	-1,143	<b>-1,143</b>	-	<b>-1,143</b>
Effects from internal restructuring <sup>5)</sup>	-	-	-67	-	-177	<b>-244</b>	-	<b>-244</b>
Transaction with owners of the minority	-	-	-	-	-	-	5	<b>5</b>
<b>Total transactions with owners</b>	-	2,935	-67	-	-1,734	<b>1,134</b>	5	<b>1,139</b>
<b>Amount December 31, 2011</b>	<b>800</b>	<b>4,359</b>	<b>-266</b>	<b>7,135</b>	<b>-468</b>	<b>11,560</b>	<b>4</b>	<b>11,564</b>

<sup>1)</sup> Capital contributions received from Fund American Holdings AB in form of shares in White Sands Holdings (Luxembourg) S.à r.l. and shares in Symetra Financial Corporation.

<sup>2)</sup> Dividend paid to the parent company Fund American Holdings AB. The dividend is equal to 82 SEK (143 SEK) per share.

<sup>3)</sup> Group contribution provided to Fund American Holdings AB and Sirius Insurance Holding Sweden AB.

<sup>4)</sup> Share capital and Retained earnings – restricted represents the restricted shareholders' equity.

<sup>5)</sup> During the fourth quarter 2011 Sirius International received and purchased the remaining shares in WM Phoenix (Luxembourg) S.à r.l. The shares have therefore been reclassified from associated company to a group company and were consolidated at December 31, 2011 for the first time. The MSEK -244 is the effect from this restructuring.

	2012	2011
<b>SHARE CAPITAL</b>		
<b>Number of shares</b>		
Issued per January 1	8,000,000	8,000,000
Issued per December 31	8,000,000	8,000,000

Per December 31, 2012 the share capital comprised 8,000,000 (8,000,000) ordinary shares.  
The shares have a nominal value of 100 (100) SEK

	2012	2011
<b>ADDITIONAL PAID IN CAPITAL</b>		
Opening additional paid in capital	4,359	1,424
Capital contribution	959	2,935
<b>Closing additional paid in capital</b>	<b>5,318</b>	<b>4,359</b>
<b>RESERVES</b>		
<b>Fair value reserve</b>		
Opening fair value reserve	165	67
Change for the year	82	98
<b>Closing fair value reserve</b>	<b>247</b>	<b>165</b>
<b>Tax on fair value reserve</b>		
Opening tax on fair value reserve	-44	-18
Effect from change in tax rate	7	-
Change for the year	-17	-26
<b>Closing tax on fair value reserve</b>	<b>-54</b>	<b>-44</b>
<b>Fair value reserve after tax</b>		
Opening fair value reserve after tax	121	49
Change for the year	72	72
<b>Closing fair value reserve after tax</b>	<b>193</b>	<b>121</b>
<b>Translation difference</b>		
Opening translation difference	-387	-403
Reclassification within shareholders' equity	43	-2
Effects from internal restructuring	-	-67
Change for the year	-413	84
<b>Closing translation difference</b>	<b>-757</b>	<b>-387</b>
<b>RETAINED EARNINGS - RESTRICTED</b>		
Opening retained earnings - restricted	7,135	7,139
Effect from change in tax rate	416	-
Change in excess depreciations	-7	-4
<b>Closing retained earnings – restricted</b>	<b>7,544</b>	<b>7,135</b>
<b>RETAINED EARNINGS – NON-RESTRICTED</b>		
Opening retained earnings – non-restricted	-468	941
Net profit/loss for the year	2,831	320
Effects from internal restructuring	-	-177
Reclassification within shareholders' equity	-36	5
Effect from change in tax rate	-416	-
Dividend paid	-653	-1,143
Group contribution provided 73.7%	-528	-414
<b>Closing retained earnings – non-restricted</b>	<b>730</b>	<b>-468</b>



## Cash flow statement - Group

(MSEK)	Note	2012	2011
<b>OPERATING ACTIVITIES</b>			
Profit/loss before tax		1,842	442
Interest income		514	390
Interest expenses		-3	-43
Dividends received		81	113
Adjustment for non-cash items <sup>1)</sup>		-30	-796
Income tax paid		-39	-65
Cash flow from current operations before changes in assets and liabilities		2,365	41
Change in land and buildings		-	-9
Change in financial investments		609	2,153
Change in other operating receivables		2,772	-770
Change in other operating liabilities		-5,130	1,428
<b>Cash flow from operating activities</b>		<b>616</b>	<b>2,843</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of subsidiary, acquired Cash and cash equivalents		1	76
Net investment of intangible assets		-102	-45
Net investments of tangible assets		-33	-28
<b>Cash flow from investing activities</b>		<b>-134</b>	<b>3</b>
<b>FINANCING ACTIVITIES</b>			
Dividends received		-163	-1,144
Group contributions paid		-557	-495
<b>Cash flow from financing activities</b>		<b>-720</b>	<b>-1,639</b>
<b>Cash flow for the year</b>		<b>-238</b>	<b>1,207</b>
Cash and bank balances at beginning of year		2,289	1,082
Cash flow for the year		-238	1,207
Translation difference on Cash and bank balances		-100	-
<b>Cash and bank balances at end of year <sup>2)</sup></b>		<b>1,951</b>	<b>2,289</b>
<sup>1)</sup> Specification of non-cash items			
Depreciations	11, 12, 19	50	29
Capital gains on foreign exchange	6	-	-126
Capital losses on foreign exchange	8	260	-
Capital gains	6	-453	-135
Capital losses	8	73	20
Unrealized gains	7	-652	-196
Interest income	6	-514	-390
Interest expenses	8	2	43
Dividends received	6	-81	-113
Change in provisions for outstanding claims	23	1,290	-237
Pension provisions		3	-
Effects from internal restructuring		-8	-244
Translation difference		-	84
<b>Total</b>		<b>-30</b>	<b>-796</b>
<sup>2)</sup> The following components are included in cash and cash equivalents:			
Cash and bank balances		483	955
Short term investments, equivalent to cash and cash equivalents		1,468	1,334
<b>Total</b>		<b>1,951</b>	<b>2,289</b>

## Performance Analysis – Group

ANALYSIS OF INSURANCE RESULT (MSEK)	Direct Swedish risks, aviation	Direct Swedish risks - Financial	Direct foreign risks	Assumed reinsurance	Total
<b>Technical result insurance operations</b>					
Premiums earned, for own account	3	1	837	5,452	6,293
Allocated investment return transferred from the non-technical account	-	-	21	526	547
Claims incurred, for own account	-3	0	-499	-3,190	-3,692
Operating costs	-1	-0	-384	-1,705	-2,090
<b>Technical result of insurance operation</b>	<b>-1</b>	<b>1</b>	<b>-25</b>	<b>1,083</b>	<b>1,058</b>
<i>Of which results from prior years, gross amounts <sup>1)</sup></i>	-1	-0	-278	2,259	1,980
<b>Technical provisions</b>					
Unearned premiums and unexpired risks	-1	-0	-468	-1,732	-2,201
Outstanding claims	-1	-0	-385	-15,979	-16,365
Claims adjustment provision	-	-	-13	-234	-247
<b>Technical provisions</b>	<b>-2</b>	<b>-0</b>	<b>-866</b>	<b>-17,945</b>	<b>-18,813</b>
<b>Reinsurers' share of technical provisions</b>					
Unearned premiums and unexpired risks	-	-	237	287	524
Outstanding claims	0	-	105	4,837	4,942
<b>Reinsurers' share of technical provisions</b>	<b>0</b>	<b>-</b>	<b>342</b>	<b>5,124</b>	<b>5,466</b>
<b>Premiums earned, for own account</b>					
Gross premium income	3	1	1,253	6,824	8,081
Ceded reinsurance premium	-0	-	-413	-1,364	-1,777
Change in gross provision for unearned premiums	-	-0	-110	63	-47
Reinsurers' share of change in unearned premiums	-	-	107	-71	36
<b>Premiums earned, for own account</b>	<b>3</b>	<b>1</b>	<b>837</b>	<b>5,452</b>	<b>6,293</b>
<b>Claims incurred, for own account</b>					
Claims paid	-4	-0	-570	-4,511	-5,085
Reinsurers' share	0	-	128	635	763
Claims handling expenses	-	-	-9	-167	-176
Change in provision for outstanding claims	1	-	-72	2,744	2,673
Reinsurers' share	-0	-	24	-1,891	-1,867
<b>Claims incurred, for own account</b>	<b>-3</b>	<b>-0</b>	<b>-499</b>	<b>-3,190</b>	<b>-3,692</b>

<sup>1)</sup> Defined as result from 2011 and earlier.

# Income Statement – Parent Company

January 1 - December 31 (MSEK)	Note	2012	2011
<b>TECHNICAL ACCOUNT FOR INSURANCE OPERATIONS</b>			
<b>Earned premiums, for own account</b>			
Gross premium income	3	5,779	5,347
Ceded reinsurance premiums	3	-1,765	-1,579
Change in the gross provision for unearned premiums		152	249
Change in provision for unearned premiums, reinsurers' share		30	20
<b>Total earned premium, for own account</b>		<b>4,196</b>	<b>4,037</b>
<b>Allocated investment return transferred from the non-technical account</b>		<b>280</b>	<b>225</b>
<b>Claims incurred, for own account</b>			
Claims paid	4		
- Gross amount		-3,258	-3,603
- Reinsurers' share		684	650
Claims paid, for own account		-2,574	-2,953
Change in the provision for claims, for own account			
- Gross amount	4	2,167	-420
- Reinsurers' share		-1,719	665
<b>Total claims incurred, for own account</b>		<b>-2,126</b>	<b>-2,708</b>
<b>Operating costs</b>	5	<b>-1,221</b>	<b>-1,239</b>
<b>Change in equalization provision</b>	24	<b>-25</b>	<b>-49</b>
<b>Operating profit/loss of technical account</b>		<b>1,104</b>	<b>266</b>
<b>NON-TECHNICAL ACCOUNT</b>			
<b>Balance of technical account</b>			
Investment income/expenses	9	1,104	266
- Investment income	6	467	515
- Unrealized gains	7	363	-
- Investment expenses and charges	8	-421	-56
- Unrealized losses	7	-	-59
Investment income allocated to the technical account		-280	-225
<b>Total investment income/expenses</b>		<b>129</b>	<b>175</b>
Goodwill depreciation	11	-4	-4
<b>Result before appropriations and taxes</b>		<b>1,229</b>	<b>437</b>
Change in appropriations		9	5
<b>Result before taxes</b>		<b>1,238</b>	<b>442</b>
Taxes	10	-306	-121
<b>Net income for the year</b>		<b>932</b>	<b>321</b>

## Statement of Comprehensive Income – Parent Company

January 1 - December 31 (MSEK)	Note	2012	2011
<b>Net income for the year</b>		<b>932</b>	<b>321</b>
Other comprehensive income			
- Items to be reclassified to income statement:			
- Change in fair value on bonds		184	141
- Tax on items to be reclassified to income statement	10	-36	-37
- Items reclassified to income statement:			
- Change in fair value on bonds		-102	-43
- Tax on items reclassified to income statement	10	26	11
<b>Other comprehensive income for the year, net of tax</b>		<b>72</b>	<b>72</b>
<b>Total comprehensive income for the year</b>		<b>1,004</b>	<b>393</b>

## Balance Sheet - Parent Company

December 31

(MSEK)

	Note	2012	2011
<b>ASSETS</b>			
<b>Intangible assets</b>	11		
Goodwill		198	203
Other intangible assets		55	45
<b>Total intangible assets</b>		<b>253</b>	<b>248</b>
<b>Investment assets</b>			
Land and buildings	12	13	11
Investments in group companies and associated companies			
- Shares and participations in group companies	13	8,254	7,317
- Shares and participations in associated companies		-	0
Total investments in group companies and associated companies		8,254	7,317
Other financial investments			
- Shares and participations	14, 18	549	667
- Bonds and other interest-bearing securities	15, 18	10,041	9,472
- Derivative financial instruments	16, 18	326	30
Total other financial investments		10,916	10,169
Deposits with cedents		554	770
<b>Total investment assets</b>		<b>19,737</b>	<b>18,267</b>
<b>Reinsurers' share of technical provisions</b>			
Provisions for unearned premiums	22	517	529
Claims outstanding	23	3,985	6,545
<b>Total reinsurers' share of technical provisions</b>		<b>4,502</b>	<b>7,074</b>
<b>Debtors</b>			
Debtors arising out of direct insurance operations		28	2
Debtors arising out of reinsurance operations		1,582	1,880
Current tax receivables		276	125
Deferred tax receivables	10	20	41
Other debtors	17	202	293
<b>Total debtors</b>		<b>2,108</b>	<b>2,341</b>
<b>Other assets</b>			
Tangible assets	19	50	40
Cash and bank balances		955	1,411
<b>Total other assets</b>		<b>1,005</b>	<b>1,451</b>
<b>Prepayments and accrued income</b>			
Accrued interest		124	131
Deferred acquisition costs	20	266	341
Other prepayments and accrued income		19	20
<b>Total prepayments and accrued income</b>		<b>409</b>	<b>492</b>
<b>TOTAL ASSETS</b>		<b>28,015</b>	<b>29,873</b>



December 31	Note	2012	2011
<b>SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital (8 million shares of nom. value SEK 100)		800	800
Other reserves		193	121
Retained earnings		3,192	3,093
Net income for the year		932	321
<b>Total shareholders' equity</b>		<b>5,117</b>	<b>4,335</b>
<b>Untaxed reserves</b>			
	21		
Excess depreciations on intangible assets		25	35
Safety reserve		9,647	9,647
<b>Total untaxed reserves</b>		<b>9,672</b>	<b>9,682</b>
<b>Technical provisions</b>			
Provisions for unearned premiums	22	1,580	1,848
Claims outstanding	23, 25	8,885	12,087
Equalization provision	24	86	61
<b>Total technical provisions</b>		<b>10,550</b>	<b>13,996</b>
<b>Provisions for other risks and expenses</b>			
Pension provisions	26	9	7
Deferred tax liabilities	10	98	6
<b>Total provisions for other risks and expenses</b>		<b>107</b>	<b>13</b>
<b>Deposits received from reinsurers</b>			
		328	173
<b>Creditors</b>			
Creditors arising out of direct insurance operations		1	1
Creditors arising out of reinsurance operations		730	784
Other creditors	18, 27	1,325	690
<b>Total creditors</b>		<b>2,056</b>	<b>1,475</b>
<b>Accrued expenses and deferred income</b>			
Accrued expenses and deferred income	18	185	199
<b>Total accrued expenses and deferred income</b>		<b>185</b>	<b>199</b>
<b>TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES</b>			
		<b>28,015</b>	<b>29,873</b>
Pledged assets and other comparable collaterals for own debts and provisions recorded as insurance liabilities			
	28	7,701	8,623
Other pledged assets and comparable collaterals			
	28	-	-
Contingent liabilities			
	28	1,970	1,458
Commitments			
	28	53	56

## Change in Shareholders' Equity – Parent Company

(MSEK)	Share Capital	Other reserves <sup>4)</sup>	Retained earnings <sup>4)</sup>	Net profit/ loss for the year <sup>4)</sup>	Total Shareholders' equity
<b>Amount January 1, 2012</b>	<b>800</b>	<b>121</b>	<b>3,093</b>	<b>321</b>	<b>4,335</b>
<b>Transfer of net result from previous year</b>	-	-	321	-321	-
<i>Comprehensive income</i>					
Net profit/loss for the year	-	-	-	932	<b>932</b>
<i>Other comprehensive income, net after tax</i>					
Change of fair value on bonds	-	72	-	-	<b>72</b>
<b>Total other comprehensive income</b>	-	72	-	-	<b>72</b>
<b>Total comprehensive income</b>	-	72	-	932	<b>1,004</b>
<i>Transactions with owners</i>					
Capital contribution <sup>1)</sup>	-	-	959	-	<b>959</b>
Group contribution provided <sup>2)</sup>	-	-	-528	-	<b>-528</b>
Dividend paid <sup>3)</sup>	-	-	-653	-	<b>-653</b>
<b>Total transactions with owners</b>	-	-	-222	-	<b>-222</b>
<b>Amount December 31, 2012</b>	<b>800</b>	<b>193</b>	<b>3,192</b>	<b>932</b>	<b>5,117</b>
<b>Amount January 1, 2011</b>	<b>800</b>	<b>49</b>	<b>1,193</b>	<b>522</b>	<b>2,564</b>
Transfer of net result from previous year	-	-	522	-522	-
<i>Comprehensive income</i>					
Net profit/loss for the year	-	-	-	321	<b>321</b>
<i>Other comprehensive income, net after tax</i>					
Change of fair value on bonds	-	72	-	-	<b>72</b>
<b>Total other comprehensive income</b>	-	72	-	-	<b>72</b>
<b>Total comprehensive income</b>	-	72	522	321	<b>393</b>
<i>Transactions with owners</i>					
Capital contribution <sup>5)</sup>	-	-	2,935	-	<b>2,935</b>
Group contribution provided <sup>2)</sup>	-	-	-414	-	<b>-414</b>
Dividend paid <sup>3)</sup>	-	-	-1,144	-	<b>-1,144</b>
<b>Total transactions with owners</b>	-	-	1,377	-	<b>1,377</b>
<b>Amount December 31, 2011</b>	<b>800</b>	<b>121</b>	<b>3,093</b>	<b>321</b>	<b>4,335</b>

<sup>1)</sup> Capital contribution received from Fund American Holdings AB in form of shares in White Sands Holdings (Luxembourg) S.à r.l. and shares in Symetra Financial Corporation.

<sup>2)</sup> Group contribution provided to Fund American Holdings AB and Sirius Insurance Holding Sweden AB.

<sup>3)</sup> Dividend paid to the parent company Fund American Holdings AB. Dividend is equal to SEK 82 (SEK 143) per share.

<sup>4)</sup> The columns Other reserves, Retained earnings and Net profit/loss for the year together represents the non-restricted shareholders' equity for the parent company.

<sup>5)</sup> Capital contribution received from Fund American Holdings AB in form of shares in WM Phoenix (Luxembourg) S.à r.l.

	2012	2011
<b>SHARE CAPITAL</b>		
<b>Number of shares</b>		
Issued per January 1	8,000,000	8,000,000
Issued per December 31	8,000,000	8,000,000

Per December 31, 2012 the share capital comprised 8,000,000 (8,000,000) ordinary shares.  
The shares have a nominal value of 100 (100) SEK.

	2012	2011
<b>OTHER RESERVES</b>		
<b>Fair value reserve</b>		
Opening fair value reserve	165	67
Change for the year	82	98
<b>Closing fair value reserve</b>	<b>247</b>	<b>165</b>
<b>Tax on fair value reserve</b>		
Opening tax on fair value reserve	-44	-18
Effect from change in tax rate	7	-
Change for the year	-17	-26
<b>Closing tax on fair value reserve</b>	<b>-54</b>	<b>44</b>
<b>Fair value reserve after tax</b>		
Opening fair value reserve after tax	121	49
Change for the year	72	72
<b>Closing fair value reserve after tax</b>	<b>193</b>	<b>121</b>
<b>RETAINED EARNINGS</b>		
Opening retained earnings	3,093	1,193
Transfer of net result from previous year	321	522
Capital contribution	959	2,935
Dividend paid	-653	-1,144
Group contribution provided 73.7%	-528	-414
<b>Closing retained earnings</b>	<b>3,192</b>	<b>3,093</b>
<b>NET PROFIT/LOSS FOR THE YEAR</b>		
<b>Net profit/loss for the year</b>	<b>932</b>	<b>321</b>

## Cash flow Statement – Parent Company

(MSEK)	Note	2012	2011
<b>OPERATING ACTIVITIES</b>			
		1,228	442
Profit/loss before tax		265	314
Interest income		-2	-2
Interest expenses		-	1
Dividends received		300	-547
Adjustment for non-cash items <sup>1)</sup>		-167	-63
Income tax paid		1,624	145
Cash flow from current operations before changes in assets and liabilities			
Change in land and buildings		-	-9
Change in financial investments		-254	1,406
Change in other operating receivables		3,023	-855
Change in other operating liabilities		-4,009	1,568
<b>Cash flow from operating activities</b>		<b>384</b>	<b>2,255</b>
<b>FINANCIAL ACTIVITIES</b>			
Acquisition of subsidiary, effect on liquidity		-	-64
Net investment of intangible assets		-37	-39
Net investments of tangible assets		-33	-22
Cash flow from investing activities		-70	-125
<b>INVESTING ACTIVITIES</b>			
Shareholders' contributions paid		-	-92
Capital repayment		-	34
Dividend paid		-163	-1,144
Group contributions paid		-557	-495
<b>Cash flow from financing activities</b>		<b>-720</b>	<b>-1,697</b>
<b>Cash flow for the year</b>		<b>-406</b>	<b>432</b>
Cash and bank balances at beginning of year		1,411	979
Cash flow for the year		-406	432
Translation difference on Cash and bank balances		-50	-
<b>Cash and bank balances at end of year <sup>2)</sup></b>		<b>955</b>	<b>1,411</b>
<sup>1)</sup> Specification of non-cash items:			
Depreciations	11,12,19	73	33
Capital gains on foreign exchange	6	-	-130
Capital losses on foreign exchange	8	262	-
Capital gains	6	-203	-70
Capital losses	8	160	-
Unrealized gains	7	-363	-34
Interest income	6	-265	-314
Interest paid	8	3	2
Dividends received	6	-	-1
Change in provisions for outstanding claims	23	631	-126
Pension provisions		2	-
<b>Total</b>		<b>300</b>	<b>-547</b>
<sup>2)</sup> The following components are included in Cash and cash equivalents:			
Cash and bank balances		238	498
Short term investments, equivalent to cash and cash equivalents		716	913
<b>Total</b>		<b>955</b>	<b>1 411</b>

## Performance analysis - Parent Company

<b>ANALYSIS OF INSURANCE RESULT</b> (MSEK)	Direct Swedish risks - Aviation	Direct foreign risks	Assumed reinsurance	Total
<b>Technical result insurance operations</b>				
Premiums earned, for own account	3	664	3,529	4,196
Allocated investment return transferred from the non-technical account	-	21	259	280
Claims incurred, for own account	-3	-377	-1,746	-2,126
Operating costs	-1	-295	-925	-1,221
Change of equalization provision	-	-	-25	-25
<b>Technical result of insurance operation</b>	<b>-1</b>	<b>13</b>	<b>1,092</b>	<b>1,104</b>
<i>Of which results from prior years, gross amounts <sup>1)</sup></i>	-1	-254	2,148	1,893
<b>Technical provisions</b>				
Unearned premiums and unexpired risks	-1	-393	-1,186	-1,580
Outstanding claims	-1	-326	-8,426	-8,753
Claims adjustment provision	-	-11	-121	-132
Equalization provision	-0	-	-86	-86
<b>Technical provisions</b>	<b>-2</b>	<b>-730</b>	<b>-9,819</b>	<b>-10,551</b>
<b>Reinsurers' share of technical provisions</b>				
Unearned premiums and unexpired risks	0	185	332	517
Outstanding claims	0	99	3,886	3,985
<b>Reinsurers' share of technical provisions</b>	<b>0</b>	<b>284</b>	<b>4,218</b>	<b>4,502</b>
<b>Premiums earned, for own account</b>				
Gross premium income	3	957	4,819	5,779
Ceded reinsurance premium	-0	-349	-1,416	-1,765
Change in gross provision for unearned premiums	0	3	149	152
Reinsurers' share of change in unearned premiums	0	53	-23	30
<b>Premiums earned, for own account</b>	<b>3</b>	<b>664</b>	<b>3,529</b>	<b>4,196</b>
<b>Claims incurred, for own account</b>				
Claims paid	-4	-507	-2,619	-3,130
Reinsurers' share	0	128	556	684
Claims handling expenses	-	-7	-121	-128
Change in provision for outstanding claims	1	-8	2,174	2,167
Reinsurers' share	-0	17	-1,736	-1,719
<b>Claims incurred, for own account</b>	<b>-3</b>	<b>-377</b>	<b>-1,746</b>	<b>-2,126</b>

<sup>1)</sup> Defined as result from 2011 and earlier.



## Note 1 • Accounting Principles

### General information

This annual report was issued per December 31, 2012 and refers to Sirius International Försäkringsaktiebolag (publ), both the Group and the Parent Company, which is an insurance company with its registered offices in Stockholm. The address of the head office is Birger Jarlsgatan 57B, Stockholm and the Corporate Identity Number is 516401-8136. The Group's ultimate owner is White Mountains Insurance Group Ltd, Hamilton, Bermuda. The Group writes property and casualty insurance and reinsurance, see Note 33 Class analysis for further information.

### Compliance with standards and law

The Company's annual report has been prepared in accordance with the Swedish Act on Annual Accounts in Insurance Companies (ÅRFL), as well as the Swedish Financial Supervisory Authority's regulations and general advice on Annual Reports in Insurance Companies (FFFS 2008:26) with the amendments in FFFS 2009:12 and FFFS 2011:28 as well as the Swedish Financial Reporting Board RFR 2.

The Sirius International Group's annual report has been prepared in accordance with the Swedish Act on Annual Accounts in Insurance Companies (ÅRFL), as well as the Swedish Financial Supervisory Authority's regulations and general advice on Annual Reports in Insurance Companies (FFFS 2008:26) with the amendments in FFFS 2009:12 and FFFS 2011:28, the Swedish Financial Reporting Board RFR 1 Supplementary Accounting Rules for Groups, as well as International Financial Reporting Standards (IFRS) and IFRIC interpretations as adopted by the EU.

### Assumptions in the preparation of the Company's financial reports-

The Company's functional currency is the Swedish krona (SEK) and the financial reports are presented in Swedish kronor. Unless otherwise stated, all amounts are rounded to the nearest million. Assets and liabilities are recorded at acquisition cost, with the exception of certain financial assets and liabilities which are valued at fair value. Financial assets and liabilities valued at fair value consist of derivative instruments, financial assets classified as financial assets valued at fair value via the income statement or as available-for-sale financial assets.

### Changes to standards, statements and interpretations

A number of standards, statements and interpretations have been published in connection with the preparation of the Company's annual report per December 31, 2012 but have not yet come into force. In addition, certain standards, statements and interpretations currently in force have been changed, and certain standards, statements and interpretations have come into force during 2012. Below follows a summary and a preliminary assessment of the effect these standards, statements and interpretations may have on the Company's financial reports. Changes other than those given below are not deemed relevant to the Company, alternatively are not expected to affect the Group's financial reports.

### New and amended standards applied by the Group

None of the IFRS or IFRIC interpretations which are mandatory for the first time for the financial year beginning January 1, 2012 have had any significant impact on the Group, or when applicable, on the Parent company.

### New standards, amendments and interpretations of existing standards which have not yet entered into force and which have not been adopted in advanced by the Group

- IAS 19 "Employee Benefits", was amended in June 2011. The amendment implies that the Group will stop applying the "corridor method" and instead recognize all actuarial gains and losses in Other comprehensive income as incurred. Expenses for past employment will be reported immediately. Interest expenses and expected return on plan assets will be replaced by a net interest calculated using the discount rate, based on the net surplus or net deficit in the defined benefit plan. The Group intends to apply the amended

standard for the financial year beginning January 1, 2013 and assesses that it will have an adverse effect on shareholders equity of approximately MSEK 5. The standard has not yet been adopted by the EU.

- IFRS 9 "Financial instruments" addresses the classification, valuation and accounting of financial liabilities and assets. IFRS 9 was published in November 2009 regarding financial assets and in October 2010 regarding financial liabilities and replaces the parts of IAS 39 which are related to the classification and measurement of financial instruments. IFRS 9 stipulates that financial assets are to be classified in two different categories; valued at fair value or valued at amortized cost. The classification is established the first time that the liability or asset is reported in accordance with the standard, on the basis of the company's business model and the characteristic features in the cash flows according to the agreement. In terms of financial liabilities, there are no major changes compared with IAS 39. The largest change addresses changes in liabilities which are valued at fair value. To such liabilities, the following is applied: the portion of the change in fair value which is attributable to the company's own credit risk is to be reported in the statement of Other comprehensive income instead of the income statement, so long as this does not result in an accounting mismatch. The Group intends to apply the new standard no later than the financial year beginning on January 1, 2015 and has not yet assessed the effects. The standard has not yet been adopted by the EU.

- IFRS 10 "Consolidated financial statements" builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group intends to apply IFRS 10 for the financial year beginning on January 1, 2014 and has not yet assessed the full effects on the financial statements.

- IFRS 12 "Disclosures of Interests in Other entities" includes disclosure requirements for subsidiaries, joint arrangements, associated companies and "structured entities" which have not been consolidated. The Group shall evaluate the full impact of IFRS 12 on the consolidated financial statements and intend to apply IFRS 12 on financial years starting on January 1, 2014.

- IFRS 13 "Fair value measurement" aims at more consequent and less complex valuations at fair value by providing an exact definition and a common source in IFRS for valuations at fair value and associated disclosures. The requirements do not extend to the area of application for when the fair value should be applied but provides guidance regarding the manner in which it should be applied in areas where other IFRS already require or allow valuation at fair value. The Group has not yet assessed the full effect of IFRS 13 on the financial statements. The Group intends to apply the new standard in the financial year starting on January 1, 2013.

- IAS 32 "Financial instruments: Presentation" and IFRS 7 "Financial instruments: Disclosures", amendments regarding the offsetting of financial assets and financial liabilities. The amendments provide more detailed clarification of when financial assets and financial liabilities may be offset and introduce new disclosure requirements for offset assets and liabilities. The Group has not yet assessed the full effect of the amendments. The Group intends to apply the disclosure requirements in the financial year starting on January 1, 2013 and the more detailed clarification regarding offsetting no later than the financial year beginning January 1, 2014.

No other of the IFRS or IFRIC interpretations which have not yet entered into force are expected to have any significant impact on the Group, or when applicable, on the Parent company.

### Assessments and estimates in the financial statements

The preparation of financial statements in conformity with International Financial Reporting Standards requires the Company's management to make assessments and estimates, as well as assumptions impacting the

application of the accounting principles and the recorded values of assets, provisions, liabilities, income and expenses. These estimates and assumptions are based on historical experience and a number of other factors considered reasonable in the current situation. The results of these estimates and assumptions are, subsequently, used to assess the recorded values of assets, provisions and liabilities which are not otherwise clearly apparent from other sources. Actual outcome can deviate from these estimates and assessments.

Estimates and assumptions are reviewed on a regular basis. Changes in estimates are recorded in the period in which the change is made if the change only affects that period, or the period in which the change is made as well as future periods, if such change affects both current and future periods.

Significant assessments in the application of the Accounting principles have been made in conjunction with the decision to report financial instruments at fair value, as well as in conjunction with the decision to classify insurance contracts as insurance or investment contracts.

#### **Insurance contracts and financial instruments**

According to IFRS 4, contracts transferring significant insurance risk should be classified as insurance. The Company has made the assessment that insurance risk in excess of five percent should be deemed significant and the contract is thus classified as insurance.

All agreements which legally can be considered insurance contracts have been subject to assessment regarding whether they signify a transfer of significant insurance risk, so that they can also be presented as insurance contracts in the accounts. In the case of certain agreements which are a combination of risk and savings, the Company has been obligated to undertake an assessment of the contracts which can be considered to signify a transfer of significant insurance risk. The amount of the insurance risk has been assessed through a consideration of whether there exists one or more scenarios with commercial implications in which the insurance company would be liable to pay significant further benefits in excess of the amount which would have been paid had the insured event never occurred.

Certain contracts include an option for the contract holder to insure themselves in the future. The Company does not consider such options, in themselves, to constitute a material insurance risk.

#### **Important sources of uncertainty in estimates**

The Company makes assessments and estimates forming the basis for the valuation of certain assets, provisions and liabilities. These assessments and valuations are made on an ongoing basis and are based on previous experience and future expected outcomes.

#### *Technical provisions*

The Company's accounting principles for insurance contracts are described below. The Company's most critical accounting estimate concerns insurance technical provisions. This estimate is based on historical experience and other relevant factors considered as reasonable. Even if the applied methods and employed parameters are assessed as correct, future outcomes may deviate from the expected value.

The process applied for the determination of central assumptions, forming the basis for the valuation of the provisions, is described in Note 2.

#### *Determination of fair value of financial instruments*

The valuation methods described below have been applied in the valuation of financial assets and liabilities for which there is no observable market price. There may be some uncertainty as regards the observed market price for financial instruments with limited liquidity. Such instruments may, therefore, require further assessments, depending on the uncertainty of the market situation. For a sensitivity analysis of interest- and equity risk, see note 2 Information on risks.

Company management has discussed the development, selection and disclosure of significant accounting principles and estimates of the Group and of the Parent Company, as well as discussing the application of these

principles and estimates. The specified accounting principles have been consistently applied to all periods presented in the financial statements, unless stated otherwise below.

#### **Approval**

The annual accounts were approved for publication by the Board of Directors on March 5, 2013. The income statement and balance sheet will be adopted at the General Meeting held in May 2013.

#### **Consolidation principles**

##### *Subsidiaries*

Subsidiaries are companies in which the Parent Company has a controlling influence. The term "controlling influence" refers to the direct or indirect right to formulate a company's financial and operative strategies with the intention of receiving financial benefit. Acquisitions of subsidiaries are reported according to the purchase method, as described in IFRS 3, with the exception of intra-group acquisitions of subsidiaries under common control. The application of the purchase method implies requirements for the identification of the purchaser and the establishment of the acquisition date. The purchase method further implies that the acquisition of subsidiaries is considered to be a transaction through which the Group indirectly acquires the subsidiary's assets and assumes its provisions, liabilities and contingent liabilities. The Group acquisition value is determined through an acquisition analysis of the identifiable acquired assets and the assumed provisions and liabilities, as well as any contingent liabilities concurrent with the acquisition. In the case of business acquisitions in which the acquisition cost exceeds the net value of the acquired assets and assumed provisions and liabilities and contingent liabilities, the difference is recorded as goodwill. When the difference is negative, this is recorded directly in the income statement. The subsidiary's financial reports are included in the consolidated financial statements as of the acquisition date, until such date as the controlling influence is transferred from the Parent Company.

As IFRS 3 is not directly applicable on intra-group business combination under common control, such acquisitions are reported according to the "predecessor accounting method" or at fair value. The "Predecessor accounting method" implies that the acquirer assumes the acquired company's reported book values as presented in the divested entity's accounts. Adjustment of the acquired values is to be carried out in the case that these accounts are not prepared in accordance with IFRS. Furthermore, the method implies that goodwill is not reported; any possible difference between the consideration paid and the acquired values is reported directly against shareholders equity. Intra-group business combinations are valued and accounted for according to IFRS 3. Subsidiaries' financial statements are included in the consolidated accounts from the date of acquisition until the date upon which the controlling influence ceases.

#### **Associated companies**

Associated companies are those companies in which the Group has a significant, but not controlling, influence over the operational and financial administration, usually through the holding of participations between 20% and 50% of the number of votes. From the point in time when the significant influence is acquired, participations in associated companies are recorded in the consolidated accounts according to the equity method. The equity method implies that the value of the shares in the associated company, reported in the Group, corresponds to the Group's share of the associated companies' equity and Group goodwill and any other remaining amount of positive or negative group adjustment in consolidation. The Group's participations in the associate's net profit after taxes and minority interests, adjusted for any amortization, impairment or dissolution of acquired surplus or deficit value, are reported in the consolidated income statement under the item "Share of associated companies' income". Dividends received from associated companies decrease the book value of the investment.

When the Group's share of reported losses in an associated company exceeds the book value of the Group's participations in the company, the value of the participations is reduced to zero. The equity method is applied up to the point in time when the significant influence ceases.

**Transactions eliminated on consolidation**

Receivables and liabilities, income and expenses, and unrealized gains and losses arising on internal transactions between Group companies are eliminated in their entirety when the consolidated financial statements are prepared. Unrealized gains arising from transactions with associated companies and joint ventures are eliminated to the extent corresponding to the Group's participating interest in the company. Unrealized losses are eliminated in the same manner as unrealized gains, but only to the extent there is no write-down requirement.

**Foreign currency***Transactions in foreign currency*

Transactions in foreign currency are translated to the functional currency at the exchange rate prevailing on transaction date. The Parent Company's, including the branch offices, and the Group's, functional currency is the Swedish krona and the closing rate on the balance sheet date has been used in the valuation of assets, provisions and liabilities in foreign currency. Exchange rate fluctuations are recorded net in the income statement on the lines, Investment, income or Investment, expenses.

**Financial statements of foreign operations**

Assets and liabilities in foreign operations, including goodwill and other Group surplus and deficit values, are translated from the functional currency of the foreign operation to the Group's reporting currency, Swedish kronor, at the exchange rate prevailing on the balance sheet date. Income and expenses in foreign operations are translated into Swedish kronor at an average rate that approximates the exchange rates prevailing at the date of the respective transactions. Translation differences arising in the translation of foreign net investments and the associated effects of the hedging of net investments are recorded in other comprehensive income. Upon disposal of a foreign operation, accumulated translation differences attributable to the operation, less any currency hedging, are realized in the Group's income statement.

**Rates for the most important currencies**

	Closing	Average
USD	6.50	6.75
EUR	8.59	8.72
GBP	10.56	10.71

**Insurance contracts**

Insurance contracts are recorded and valued in the income statement and balance sheet in accordance with their financial substance as opposed to their legal form, in the event that these differ. Contracts transferring material insurance risks from the policyholder to the Company and whereby the Company agrees to compensate the policyholder or other beneficiary in the event that a pre-determined insured event occurs are recorded as insurance contracts. Financial instruments are contracts which do not transfer any material insurance risk from the policyholder to the Company. The Company has issued a policy entailing a mandatory test of whether sufficient insurance risk exists in written contracts for classification as insurance contracts. This test builds upon definitions in accordance with IFRS 4. For contracts or groups of contracts classified as insurance contracts, recording and valuation are carried out in accordance with previously applied principles. For contracts or groups of contracts which are not classified as insurance contracts, recording and valuation are conducted according to IAS 39, Financial Instruments or according to IAS 18, Revenue.

**Recording of insurance contracts***Revenue recognition/Premium income*

Gross premiums written relate to insurance contracts inception during the financial year, together with any differences between booked premiums for prior financial years and those premiums previously accrued, and include

estimates of premiums due but not yet receivable or notified, less an allowance for cancellations. The gross premium income also includes the net of entered and withdrawn premium portfolios. Gross premiums written are stated before deduction of brokerage, taxes, duties levied on premiums and other deductions. Premiums are earned on a pro rata temporis basis over the term of the related contract, except for those contracts where the period of risk differs significantly from the contract period, or where the exposure vary during the contract period. In these circumstances, premiums are recognized as earned over the period of risk in proportion to the amount of insurance protection provided. Reinstatement premiums receivable are recognized and fully earned latest when fallen due. Premium revenue corresponds to the portion of premium income that has been earned.

*Acquisition costs*

By acquisition costs are meant such external operating expenses, such as commissions, that directly vary with the acquisition or renewal of insurance contracts. The deferred acquisition costs are amortized in the same way as corresponding premiums are earned.

*Technical provisions*

Technical provisions consist of the Provisions for unearned premiums and unexpired risks, Provisions for outstanding claims, claims handling provision and equalization provision (in the Parent Company).

*Provision for unearned premiums and unexpired risks*

In the balance sheet, this provision consists of amounts corresponding to the Company's liability for claims, administrative expenses and other costs during the remainder of the contract period for policies in force. "Policies in force" refers to insurance policies in accordance with entered agreements irrespective if they wholly or in part relates to later insurance period. In calculating these provisions, an estimate is made of anticipated costs for any claims that may occur during the remaining terms of these insurance policies, as well as administrative expenses for this period. The estimation of costs is based on the Company's own experience and considers both the observed and the forecasted development of relevant costs.

These future costs are tested quarterly against the unexposed portion of the premium for the contracts in force and if the latter exceeds the costs, the unexposed portion of the written premium will form an unearned premium reserve. If the future costs exceed the unexposed portion of the written premium, the deferred acquisition costs are written down, but if that is insufficient, an unexpired risk provision will also be set up. The unexposed premium is also in this case recorded as a provision for unearned premium. The income statement recognizes the change in provision for unearned premium reserve and unexpired risks.

*Provision for outstanding claims*

This balance sheet item comprises of estimated nominal cash flows relating to final costs for settlement of all claims resulting from events occurring before the close of the financial year, with deduction of those amounts that have already been paid, on the basis of receipt of claims payment advices. This amount also includes estimated nominal cash flows regarding future external costs for the settlement of incurred but, as of balance sheet date, outstanding claims, as well as refunds that are due for payment.

The provision for incurred but not reported claims (IBNR) includes costs for incurred but, to date, unknown claims and not yet fully reported claims. This amount is an estimate based on historic experience and outcome of claims.

The income statement recognizes the change in provision for in outstanding claims for the period.

*Claims adjustment provision*

The amount of this provision is based on outstanding claims. The provision is equal to a percentage of reported unpaid claims and a percentage of incurred unreported and not yet fully reported claims. The claims handling reserve for catastrophe insurance is calculated in the same way, but with

the difference that they are calculated on an average of four to five years for those provisions. The period's change in the claims adjustment provision is recorded in the income statement within the items Claims handling expenses and Operating costs.

#### *Deferred acquisition costs for insurance contracts*

Deferred acquisition costs are only recorded for insurance contracts deemed to generate a margin at least covering the acquisition costs. Sirius only records external deferred acquisition costs. Other costs for insurance contracts are recorded as costs when they arise.

#### *Provision adequacy testing*

The Company's applied accounting and valuation principles for the balance sheet items Deferred acquisition costs, Provisions for unearned premiums and Unexpired risks automatically entail testing of whether the provisions are sufficient with regard to expected future cash flows.

#### *Operating costs*

All operating costs are allocated in the income statement according to their functional nature, acquisition, claims adjustment, administration, commission and profit shares in ceded reinsurance, investment expenses and in certain cases, other technical costs. Changes in technical provisions for insurance contracts are recorded in the income statement under each heading. Payments to policyholders, due to insurance contracts or incurred claims, during the financial year, are recorded as claims paid, regardless of when the claim was incurred.

#### *Ceded reinsurance*

As premiums for ceded reinsurance are recorded amounts paid during the financial year and amounts recorded as liabilities to the company that have assumed the reinsurance, in accordance with entered reinsurance agreements. Deductions are made for amounts credited due to portfolio transfers. Adjustments are also made for change in the reinsurer's share of proportional reinsurance contracts. The premiums are periodized so that costs are allocated to the corresponding period of the insurance cover. All items relating to ceded reinsurance are shown on separate lines in the income statement.

The reinsurers' share of technical provisions are recorded as an asset in the balance sheet and corresponds to the reinsurers' liability for technical provisions in accordance with entered agreements. The Company assesses any required impairment for assets referring to reinsurance agreements bi-annually. If the recoverable amount is lower than the carrying amount of the asset, the asset is impaired to the recoverable amount and the impairment is recorded in the income statement.

### **Reporting of investment return**

#### *Investment income allocated to the technical account*

Investment return is transferred from the non-technical account to the technical account on the basis of average technical provisions for the Company's own account, less deductions for net receivables in insurance operations. This capital base is allocated per currency. The transferred investment return is calculated on the basis of an interest rate per currency equivalent to the actual total yield from the investment assets belonging to the insurance operations. The weighted average interest rate for 2012 amounted to 5.43%.

### **Applied interest rates**

%	2012	2011
EUR	10.35%	4.99%
GBP	8.75%	0.61%
SEK	1.65%	3.87%
USD	3.85%	3.75%

### **Investment income**

The item Investment income refers to yield from investment assets and

comprises rental income from land and buildings, dividends from shares and participations, including dividends from shares in Group companies, interest income, net foreign exchange gains, reversed impairments and net capital gains.

### **Investment expenses and charges**

Charges on investment assets are recorded under the item Investment expenses and charges. The item comprises operating costs for land and buildings, asset management costs, interest expense, net foreign exchange losses, depreciations and impairments and net capital losses.

### **Changes in realized and unrealized gains and losses**

For investment assets valued at acquisition value, capital gain comprises the positive difference between sale price and book value. For investment assets valued at fair value, a capital gain is the positive difference between sale price and acquisition value. For interest-bearing securities, acquisition value is the amortized cost value and, for other investment assets, it is the historical acquisition value. At the sale of investment assets, previously unrealized changes in value are recognized as adjustment entries under the item Unrealized profits from investment items or Unrealized losses from investment items, as appropriate. As regards interest-bearing securities classified as available-for-sale financial assets, previously unrealized changes in value are recognized as adjustment entries in Other comprehensive income. Capital gains from assets other than investment assets are recorded as Other income.

Unrealized gains and losses are recorded net per asset class. Changes due to exchange rate fluctuations are recorded as exchange rate gains or exchange rate losses under the item Investment income/expenses.

### **Share of associated company's profit or loss**

Share of associated company's profit or loss represents Sirius' share of the associated company's result, accounted for according to the equity accounting method. Currency translation effects are recorded in Other comprehensive income.

### **Income tax**

Income taxes are accounted according to IAS 12 and consist of current tax and deferred tax. Income taxes are recorded in the income statement, except when the underlying transaction is recorded in Other comprehensive income, whereupon the pertaining tax effect is recorded in Other comprehensive income.

### **Current tax**

Current tax is tax to be paid or received regarding the current year, with application of the tax rates which have been enacted or practically enacted at balance sheet date, which also includes the adjustment of current tax referring to previous periods.

### **Deferred tax**

Deferred tax is calculated according to the balance sheet method on the basis of temporary differences between the book values of assets and liabilities and their tax values. Temporary differences are not considered as regards differences arising at the initial recording of goodwill and the initial recording of assets and liabilities that are not business acquisitions and which did not affect either net profit/loss or taxable profit/loss at the transaction date. Furthermore, temporary differences referring to participations in subsidiaries or associated companies that are not expected to be reversed within the foreseeable future are not considered either. The valuation of deferred tax is based on the extent to which underlying assets and liabilities are expected to be realized or settled. Deferred tax is calculated with the application of the tax rates and regulations that have been enacted or practically enacted as per balance sheet date.

The Group recognizes deferred tax assets on each closing day to

the extent that it is probable that they can be used against future taxable income. This is based on assumptions on future profitability and earnings. If these assumptions change it could imply future reductions in deferred tax assets. Estimating future earnings, historical experience and assumptions of the future development of the underlying asset is considered.

### Intangible assets

#### Goodwill

Goodwill comprises the amount by which the acquisition cost exceeds the fair value of the Group's participation in the acquired subsidiary's or associate's identifiable net assets at the point in time of the acquisition. Goodwill on the acquisition of subsidiaries is recognized as an intangible asset. Goodwill is tested annually for impairment and is recognized at acquisition cost less accumulated impairment losses. Impairment losses of goodwill are not reversed. Profit or loss on the sale of a unit includes the remaining carrying value of goodwill referring to the unit sold. Goodwill is distributed to cash-generating units upon testing of any write-down requirement.

#### Other intangible assets

Other intangible assets which have been acquired separately are reported at acquisition cost. Other intangible assets acquired through a business acquisition are reported at fair value as per the acquisition date. Acquired Other intangible assets are capitalized on the basis of the costs arising at the point in time in which the asset in question was acquired and put into operation. Accounting of an intangible asset is based on its useful life. An intangible asset with a finite useful life is amortized while an intangible asset with an indefinite life is not amortized. Establishing the useful life is based on an analysis of each acquired intangible asset. The amortized amount of an intangible asset is periodized over the useful life.

#### Self-developed software

Costs for maintenance of software are charged at the time at which they arise. Development costs directly attributable to the development and testing of identifiable and unique software products controlled by the Company are reported as intangible assets when the following criteria are fulfilled:

- it is technically possible to prepare the software for use,
- the Company's intention is to complete the software and to put it into use,
- the conditions for the use of the software are in place,
- the manner in which the software can generate probable future economic benefits can be demonstrated,
- adequate technical, financial and other resources for the completion of development and for the use of the software are accessible, and
- expenditure attributable to the software during its development period can be calculated in a reliable manner.

Other development costs, which do not fulfill these criteria, are charged at the time at which they arise. Development costs which have previously been charged are not reported as an asset in the following period. Development costs for software reported as an asset are amortized during their assessed useful life, which does not exceed three years.

#### Licenses

Licenses, acquired or otherwise received, are accounted as an intangible asset in accordance with IAS 36.

### Land and buildings

All properties owned by the Company are operational properties and are valued using the acquisition cost method, in accordance with IAS 16. The Company owns three properties located in Sweden and Belgium. Sirius reports its properties in accordance with the acquisition cost method and the capitalized costs are depreciated over 50 years. No depreciation is carried out on land.

### Financial instruments

Financial instruments recorded in the balance sheet include, on the asset side, shares and participations, loan receivables, bond and other interest-bearing securities as well as derivatives. Where appropriate, derivatives with negative market value are included among liabilities, other liabilities and shareholders' equity.

Acquisitions and disposals of financial assets are recorded on trade date, the date upon which the Company commits to acquire or dispose an asset and thus gains or loses control of the asset.

#### Classification and valuation

Financial instruments are initially recorded at acquisition value corresponding to the fair value of the instrument plus transaction costs, except in the case of instruments belonging to the category Financial assets recorded at fair value via the income statement, which are recorded at fair value exclusive of transaction costs. A financial instrument is classified when it is initially reported, based upon the purpose for which the instrument was acquired. This classification determines the manner in which the financial instrument will be valued after initial recording, as described below.

#### Financial assets valued at fair value via the income statement

This category consists of two sub-groups: financial assets held for trading and other financial assets that the Company had initially designated on initial recognition as an asset to be measured at fair value through the income statement (according to the so-called Fair Value Option). Fair Value Option is used in order to reduce mismatch between valuation and accounting of financial assets. (i.e. accounting mismatch). Financial instruments in this category are continually valued at fair value, with changes in value recorded in the income statement. The first sub-group includes derivatives with a positive fair value. The first sub-group includes derivatives with a positive fair value. The second sub-group consists of financial investments in bonds and other interest-bearing securities along with shares and participations, with the exception of shares in subsidiaries or associated companies.

#### Calculation of fair value

##### Financial instruments listed on an active market

For financial instruments listed on an active market, fair value is determined on the basis of the asset's listed bid rate at balance sheet date, with no added transaction costs (e.g. commission) at the time of acquisition. A financial instrument is considered to be listed in an active market if listed prices are easily accessible on a stock exchange, with a trader, broker, trade association, company supplying current price information or supervisory authority and these prices represent actual and regularly occurring market transactions under business-like conditions. Possible future transaction costs from a disposal are not considered. These instruments are included in the balance sheet items Shares and participations and Bonds and other interest-bearing securities. The predominant proportion of the Company's financial instruments has been assigned a fair value with prices quoted on an active market.

##### Financial instruments not listed on an active market

If the market for a financial instrument is not active, the Company establishes the fair value by means of various valuation techniques. As far as is possible, the valuation methods employed are based on market data, while company-specific information is used to the least degree possible. The Company regularly calibrates valuation methods and tests their validity by comparing the outcome of the valuation methods with prices from observable current market transactions in the same instrument.

The total effect in the Income Statement from financial instruments valued at fair value in the balance sheet by using valuation techniques based on assumptions that are neither supported by the prices from observable current market transactions in the same instruments, nor based on available observable market information, amounted to a loss of MSEK 254, while the recorded value per balance sheet date of December 31, 2012 amounted to MSEK 1,205.

**Loans receivables and Account receivables**

Account receivables are non-derivative financial assets which are not listed on an active market and with fixed or determinable payments. Accounts receivables are reported in the amounts which are expected to be received, that is, after deductions for bad debt provisions. The major posts are Interest bearing investments emitted by, and loans to, group companies and Other debtors.

**Available-for-sale financial assets**

The category available-for-sale financial assets include financial assets not classified in any other category or financial assets that the Company has initially chosen to classify in this category. The holding of bonds and other interest-bearing securities is recorded here. Assets in this category are continuously valued at fair value with changes in value recorded in other comprehensive income, except for changes in value due to impairment or to foreign exchange rate differences on monetary items recorded in the income statement. Furthermore, interest on interest-bearing instruments is recorded in accordance with the effective interest method in the income statement. As regards these instruments, any transaction costs will be included in the acquisition value when initially reported, and will, thereafter, be assessed on an ongoing basis at fair value, to be included in other comprehensive income, until that point in time the instruments in question mature or are disposed. At disposal of the assets, the accumulated profit/loss is recorded in the income statement.

A long-term approach forms the basis for investments in this category, where the yield granted by these instruments at the time of investment is of significance for which investments shall be made.

**Other financial liabilities**

Borrowings and other financial liabilities, for example, accounts payable, are included in this category. These liabilities are valued at fair value including transaction costs and are subsequently accounted at amortized cost.

**Financial guarantees**

Financial guarantee agreements are recorded as insurance contracts in accordance with the accounting principles described in the section Accounting of insurance contracts, above.

**Write-downs of financial instruments****Impairment testing of financial assets**

At each reporting date, the Company assesses whether there exists any objective evidence indicating that a financial asset or group of assets requires impairment as a consequence of one or several events occurring after the asset is reported for the first time and that these loss-making events have an impact on the estimated future cash flows from the asset or group of assets. If there is objective evidence indicating that an impairment requirement may exist, the assets in question are considered to be doubtful. Objective evidence is constituted both of observable conditions which have arisen and which have a negative impact on the possibility of recovering the acquisition cost, and of significant or extended reductions of the fair value of a financial investment classified as an available-for-sale financial asset.

**Reversal of impairment**

An impairment is reversed if an indication exists both that the impairment requirement no longer exists and that a change has taken place in the assumptions forming the basis of the estimation of the impaired amount. The impairment of loans receivable and account receivables, recorded at amortized cost, is reversed if a later increase of the recoverable amount can be objectively related to an event occurring after the impairment has been performed.

The impairment of interest-bearing instruments, classified as available-for-sale financial assets, is reversed via Other comprehensive income if fair value increases and this increase can objectively be related to an event occurring after the write-down was carried out.

**Leased assets**

All lease agreements are classified and recorded in the Group and Parent Company as operational leases.

In operational leasing, the leasing fee is expensed over the duration of the lease, on the basis of the benefit received, which can differ from the amount paid as a leasing fee during the year.

**Tangible assets**

Tangible assets are recorded at acquisition value after deduction for accumulated depreciation and any impairment, with a supplement for any appreciation. In disposal or sale, gains and losses are recorded net in operating cost. Depreciation takes place systematically over the estimated useful lives of the assets. Estimated useful lives for equipment such as cars, furniture and computer equipment amounts to 3 - 10 years.

**Depreciation of tangible and amortization of intangible assets****Impairment testing of, tangible and intangible assets, and participations in subsidiaries and associated companies**

The reported values of the assets are tested on each balance sheet date. If any indication of an impairment requirement exists, the asset's recoverable amount is estimated in accordance with IAS 36.

An impairment loss is recognized when the reported value of an asset or cash-generating unit exceeds its recoverable amount. An impairment loss is recognized in the income statement. The impairment of assets related to a cash-generating unit is primarily allocated to goodwill. The proportional impairment of other assets included in the unit is subsequently performed.

The recoverable amount is the highest of fair value less selling expenses and value in use. In the calculation of value in use, future cash flow is discounted by a discount factor that considers the risk-free interest rate and the risk associated with the specific asset.

**Reversal of impairment**

An impairment is reversed if an indication exists both that the impairment requirement no longer exists and that a change has taken place in the assumptions forming the basis of the estimation of the recoverable amount. However, the impairment of goodwill is never reversed. Reversals are only performed to the degree that the asset's reported value after reversal does not exceed the reported value that should have been reported, with deduction for depreciation or amortization when appropriate, if no impairment had been carried out.

**Dividends**

Dividends are recorded as liabilities after approval of the dividend by the General Meeting of Shareholders.

**Other provisions**

A provision is recognized in the balance sheet when the Company has an existing legal or constructive obligation as a result of past events, when it is likely that an outflow of resources will be required to settle the obligation and when the amount can be estimated reliably. In cases in which the date of payment has a material effect, the amount of the provision is calculated via the discounting of the expected future cash flow to an interest rate before taxes which reflects the relevant market assessments of the effect of the time value of money and, if applicable, the risks associated with the liability.

**Pensions and similar commitments**

The Group companies' pension plans differ. The pension plans are usually financed through payments to insurance companies or managed funds. These payments are determined based on periodic actuarial calculations. The Group has both defined benefit and defined contribution pension plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate legal entity. The Group has no legal or constructive obligations to pay further contributions if this legal entity does not hold sufficient assets to pay all employees the benefits relating to



employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. A characteristic of defined benefit plans is that they indicate a level for the pension benefit an employee receives after retirement, usually based on one or several factors, such as age, duration of employment and salary.

The liability reported in the balance sheet regarding defined benefit pension plans is the current value of the defined benefit obligation at the end of the period, reduced with the fair value of the managed assets, with adjustments for unreported gains and losses, as well as for unreported costs for service during earlier periods. The defined benefit pension plan obligation is calculated annually by independent actuaries applying the so-called projected unit credit method. The current value of the defined benefit obligation is determined through discounting of expected future cash flows, with the application of the interest rate for first-class mortgage bonds issued in the same currency as that in which the remuneration will be paid, with durations comparable with that of the current pension obligation.

Costs referring to service during earlier periods are reported directly in the income statement, unless the changes in the pension plan are conditional on the employee remaining employed during a given period (earning period). In this case, the cost referring to service during earlier periods is distributed on a straight-line basis over the earning period.

For defined contribution pension plans, the Group pays fees to publicly or privately administered pension insurance plans on an obligatory, contractual or voluntary basis. The Group has no further payment obligations when all fees are paid. The fees are reported as personnel costs at the point in time at which they fall due for payment. Prepaid fees are reported as an asset to the extent that cash repayment or reduction of future payments may benefit the Group.

The group has defined benefit plans in Sweden (collective agreement) and Germany which are based on the employees' pension entitlements and length of employment. In Germany all employees are included in the plan. In Sweden only employees born 1971 or earlier are covered by defined benefit plans and, thus, form part of the FTP2. Furthermore, there are two variations of retirement earlier than at the age of 65. Employees born 1955 and earlier have the possibility to retire between the ages of 62 and 65 according to local agreement.

Staff employed before January 1, 2004 have the right to retire from the age of 64. These plans are also defined benefit plans and are reflected in financial statements of both the Group and the Parent Company.

#### **Remuneration upon termination of employment**

Remuneration upon employment of contract is payable when an employee's employment is terminated by the Group before the normal retirement age or when an employee voluntarily accepts the termination of employment in exchange for such remuneration. The Group reports severance payments when it is demonstrably obliged to terminate employees' employment in accordance with a detailed formal plan, without possibility of revocation. In the case that the Company has submitted an offer to encourage voluntary termination of employment, the calculation of severance payment is based on the number of employees which it is estimated will accept this offer.

#### **Contingent liabilities**

A contingent liability is recognized when there is a possible obligation which arises from past events and whose existence is solely confirmed by one or more uncertain future events, or when there is a commitment which is not recorded as a liability or provision due to the fact that it is unlikely that an outflow of resources will be required.

#### **Parent Company's accounting principles**

The Parent Company's annual report, as well as its financial statements in general, has been prepared using the same accounting principles and calculation methods used in the most recent annual report.

#### **Differences between accounting principles in the Group and the Parent Company**

The differences between the accounting principles in the Group and the Parent Company are presented below. The accounting principles stated below for the

Parent Company have been consistently applied for all periods presented in the Parent Company's financial statements, unless stated otherwise.

#### *Goodwill*

Goodwill represents the difference between acquisition cost for business acquisitions and the fair value of acquired assets, assumed liabilities and contingent liabilities. In the Parent Company, goodwill is amortized in accordance with the Swedish Annual Account Act and is reported in the balance sheet on a straight-line basis over the estimated useful life of the asset. The estimated useful life is reviewed annually. The estimated useful life for goodwill, and goodwill arising from the purchase of the net assets of a business, amounts to 20 years. Amortization which deviates from plan is handled as an appropriation and is reported under the heading Difference between reported depreciation/amortization and depreciation/amortization according to plan.

#### *Subsidiaries and associated companies*

The Parent Company records participations in subsidiaries and associates according to the cost method. Only dividends which have been received are recognized as income, provided that such dividends derive from profits earned subsequent to the acquisition. Dividend amounts exceeding this earned profit are considered as repayment of the investment and reduce the carrying value of the participations.

In the Parent company's financial statements transaction costs are capitalized in the balance sheet and are added to the total acquisition amount booked as shares in subsidiaries. In the consolidated accounts transaction costs are expensed according to IFRS 3.

#### *Anticipated dividends*

Anticipated dividends from subsidiaries are recorded in those cases in which the Parent Company has the sole right to make decisions regarding the amount of the dividend and the Parent Company has reached a decision on the dividend's amount before the Parent Company has published its financial statements.

#### *Taxes*

Untaxed reserves are recorded in the Parent Company including deferred income tax liabilities. However, untaxed reserves in the consolidated accounts are allocated between deferred income tax liabilities and shareholders' equity.

#### *Pensions*

The Parent Company applies a different form of reporting of defined benefit pension plans than stipulated in IAS 19. The Parent Company's reporting of defined benefit pension plans follows the Pension Obligations Vesting Act and the regulations of the Swedish Financial Supervisory Authority, as it is stated in RFR 2 that it is not necessary to apply the regulations in IAS 19 regarding defined benefit pension plans in legal entities. Pension costs are reported as Operational expenses in the Parent Company's income statement and a provision referring to individuals with the option of retiring at the ages of 62 and 64 is found on the line Pension provisions in the Parent Company's balance sheet.

#### *Appropriations and untaxed reserves*

Appropriations and untaxed reserves are only recorded in the Parent Company.

Taxation legislation in Sweden gives companies the option of decreasing taxable income for the year by making provisions to untaxed reserves. When applicable, untaxed reserves are set off against fiscal loss deductions or become subject to taxation upon resolution. In accordance with Swedish practice, changes in untaxed reserves are recorded in the income statement. Provisions made to untaxed reserves are recorded in the income statement under the heading Appropriations. The accumulated value of the provisions is recorded in the balance sheet under the heading Untaxed Reserves.

A total of 22% of the untaxed reserves can be considered as a deferred tax liability and 78% as shareholders' equity. The deferred tax liabilities

can be described as an interest-free liability with a non-defined duration. In the group accounts, 22% of the untaxed reserves are allocated to deferred tax liabilities and 78% to shareholders' equity. In an assessment of financial strength, the total value of the untaxed reserves is considered risk capital, as any losses can be covered, to a large extent, by the dissolution of untaxed reserves without taxes becoming payable. The largest item attributable to untaxed reserves refers to the safety reserve. The safety reserve forms a collective security-conditioned reinforcement of the technical provisions. Accessibility is limited to loss coverage and otherwise requires official authorization.

*Equalization provision*

The Parent Company's balance sheet includes an Equalization provision within Technical provisions, and any changes for the period in this provision are reported in the income statement. The amount of the provision is calculated as the equivalent of 150 % of the highest net premium income for Class 14, credit insurance, with equivalent reinsurance, for the five most recent financial years. The provisions for each financial year are equivalent to 75 % of the technical surplus in the credit insurance operations. However, in the consolidated balance sheet, the Equalization provision is allocated into deferred tax liabilities and shareholders' equity.

*Group contributions and shareholders' contributions for legal entities*

The Company reports group contributions and shareholders' contributions in accordance with the Swedish Financial Reporting Board (RFR2).

Shareholders' contributions are recorded directly against shareholders' equity in the receiving entity and in shares and participations in the entity

providing the contribution, to the extent that no impairment is required.

Group contributions are recorded according to their financial significance. This implies that group contributions provided and received for the purpose of minimizing the Group's total taxes are recorded directly against retained earnings, with a deduction for the current tax effects of the contribution.

Group contributions which can be seen as the equivalent of a dividend are reported as a dividend. This implies that group contributions received and their current tax effects are recorded in the income statement. Group contributions provided and their current tax effects are recorded directly against retained earnings. In the receiving entity, group contributions which can be seen as the equivalent of a shareholders' contribution are directly recorded in retained earnings, with consideration for current tax effects. The contributor records the group contribution and its current tax effects as investments in participations in the Group company, to the extent that impairments are not required.

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## Note 2 • Information on risks

### Risk management

The company's Enterprise Risk Management, ERM, is at the heart of Sirius' thinking. Sirius defines ERM as the discipline by which the company identifies, assesses, controls, monitors, and discloses risks from all sources for the purpose of increasing Sirius' short- and long-term value to its stakeholders.

ERM is an ongoing process with the objective of creating a risk management culture that emanates from top management and which permeates throughout the entire organization. Sirius strives to maintain a risk culture where employees are aware of and measure, assess and communicate risk as part of their responsibilities. Management's role includes communicating, implementing, monitoring and nurturing this culture.

The objectives of Sirius' work with ERM are:

- Define Sirius' risk tolerance and develop appropriate operating guidelines consistent with that framework
- Optimize profitability within the established risk tolerance framework
- Provide clear information for strategic management decisions
- Demonstrate strong risk management through a well defined process including identification, quantification, monitoring, and appropriate management response
- Provide stakeholders with transparent risk management information
- Comply with Solvency II and other regulatory requirements

### Risk strategy and the company's risk tolerance

Risk strategy and risk tolerance comprise the foundation of the risk management processes. Sirius' risk strategy and risk tolerance have been established by Sirius' Board of Directors, which aims to secure a balance between risk, return and capital requirements. As part of the planning process, strategic limits are explicitly discussed and specified. The strategic risk tolerance is expressed either in quantitative terms (e.g., an aggregate risk limit for windstorms in Europe) or in qualitative terms (e.g., in relation to operational risk). From these overall risk tolerance statements, operational limits are applied at a detail level throughout the organization in the form of operational risk limits, maximum risk exposure, retrocession limits, foreign exchange exposure limits, maximum equity exposure in the investment portfolio, etc.

As part of the ERM culture, Sirius embraces the following qualitative principles:

- Controlled risk taking and appropriate capitalization
- Insurance transactions are expected to yield positive technical results
- Active use of retrocessional protections as part of business and capital planning
- Reduce risk by proper risk selection and active portfolio diversification
- Strong accumulation control
- Strong and independent risk control functions
- Motivate employees to further develop their risk management capabilities

### Risk governance

The risk management processes within Sirius are supported by a risk management infrastructure consisting of the Board of Directors, an experienced management team, various risk committees, risk control functions, policies and procedures, risk models and reporting routines. This is described in further detail in the risk sections below.

Sirius' Board of Directors is ultimately responsible for the company's risk management strategy, risk tolerances and policies and Sirius' management has the day-to-day responsibility for all ERM activities. To deploy these responsibilities, different risk committees carry out certain pre-defined duties.

The Risk Management Committee has the objective of formalizing the oversight of critical risks, including the following risk management processes:

- Establishment of risk tolerances
- Identification and management of emerging risks
- Quantification and subsequent monitoring of exposures
- Implementation of risk reduction/reward expansion strategies
- Risk reporting

Sirius' functions for risk control and compliance are responsible for the independent monitoring of Sirius' risks. The functions submit quarterly risk control and compliance reports to the CEO, the Management Group and to the Board of Directors. A summary risk and governance report is submitted annually to the Board of Directors. Additionally, ad hoc reporting is done when deemed necessary.

Internal Audit fulfils an important role in the independent evaluation of risk management and control systems. This includes the evaluation of the reliability of reporting, the effectiveness and efficiency of operations, and compliance with laws and regulations. The Internal Audit department reports directly to the Board of Directors.

Sirius' ultimate owner is listed on the New York Stock Exchange and, consequently, is required by the Sarbanes-Oxley Act, Section 404, to express an opinion on the effectiveness of internal control over financial reporting executed during the year. As part of this assessment, a thorough documentation and evaluation of all processes and controls leading up to the annual report have been undertaken. This work has enabled Sirius to demonstrate compliance with the requirements of the Act.

### Insurance risk management

#### Goals, principles and methods

A clear focus on managing insurance risks is vital for Sirius' continued success. These risks are managed mainly by evaluating the degree of gross and net risk (after retrocessional protections) that Sirius is willing to assume.

Sirius divides insurance risk management into two principal areas; underwriting risk and reserve risk.

#### Underwriting risk

Underwriting risk refers to premium and accumulation assessment, which is defined as premium risk and catastrophe risk, respectively. The underwriting risk assessment is performed by underwriters on each individual risk and the Chief Underwriting Officer is ultimately responsible for managing these risks.

The goal for all underwriting is to maximize profitability for each selected risk level. The anticipated profitability of each contract which is entered into shall comprise the basic ground for decision making regarding all underwriting. Other underwriting guiding principles include diversification, strong accumulation controls and an active use of reinsurance in order to adjust risks to acceptable risk tolerance levels.

At Sirius America the ultimate responsibility for managing these risks is assigned by underwriting unit. For property it is the Property Chief Underwriting Officer, and for A&H it is the Global A&H Head in conjunction with the America Underwriting Manager. They are ultimately responsible for managing these risks. Sirius America is governed by similar underwriting guidelines as Sirius International, as appropriate.

The insurance premiums for assumed business are to cover expected losses and expenses as well as provide a reasonable return on deployed capital. The premium risk is therefore associated with any possible level of losses deviating from expected levels. The premium risk is generally managed through the application of pricing models and underwriting procedures, but also through a restructuring of under-performing business, or through declining to accept such business.

If a larger, catastrophic event occurs, simultaneously impacting a large number of cedants, this may result in a single loss that could offset the expected annual profit, or, even consume a portion of the solvency capital. This catastrophic risk is managed with the assistance of underwriting methods and tools which monitor and control the company's total aggregate risks, both gross and net. Catastrophic risk is also managed by the effective use of retrocessional protections.

In order to ensure consistency in the underwriting process, all underwriting within Sirius complies with specific rules and procedures. Detailed underwriting guidelines comprise the framework for all risk acceptances, and these guidelines contain sections regarding, for example, limits, underwriting authorities and restricted business. A Four-Eyes underwriting system, that is, a system in which at least two individuals participate in each decision, is applied for the majority of the business. The underwriting guidelines are reviewed at least annually and

updated when appropriate.

There are several levels of control functions as well as technical systems, which are in place to monitor and control that underwriting policies and procedures are followed. At Sirius International, there is an underwriting control group reporting to the Chief Underwriting Officer. This group focuses in detail on how the business is underwritten and that the underwriters follow issued policies and procedures. Another group controls the underwriting system and ensures it is used correctly and that input data is accurate. Finally, Risk Control, Compliance and Internal Audit also monitor these control groups, carrying out random inspections/tests, in detail ensuring they use sufficient control.

#### Retrocession

Sirius International uses retrocessional reinsurance as a tool to manage net risk and has a centralized unit responsible for the purchasing and administration of its outwards reinsurance. The implementation of reinsurance purchases is based on the strategic direction of the inwards portfolio, overall risk tolerances and the search for an optimal portfolio mix. Catastrophe models and capital modeling tools are used in the analytical and decision making process.

#### Sensitivity to risks attributable to insurance agreements

Within the insurance operations, natural catastrophe exposure (wind, flooding, and earthquakes) constitutes the company's greatest risk. In order to manage this catastrophe risk, and the resulting accumulated risks, the company utilizes a number of different models. Sirius has developed a proprietary tool to price and manage accumulations of global property catastrophe risk. The underlying model assumptions are taken from third party catastrophe models and internally developed loss curves. There is a process in place to evaluate and select a model of choice per territory and peril. Based on the new tool, reports and analyses can be produced on an as required basis demonstrating the various degrees of likelihood of estimated claims. Everything from average claims per year to claims that are only expected to occur once every 10,000 years can be stochastically estimated using these models. Aside from the possibility of modeling single events, multiple occurrences within one calendar year are also modeled.

Sensitivity analyses are undertaken based on a comparison of claims estimated by various models, but also through changes to the assumptions applied by the different models, such as, return periods.

In addition, Sirius utilizes a system linked to the underwriting system. In this system, all business is registered and the company's exposure is measured via a number of predefined catastrophe scenarios.

Sirius also registers and monitors total exposed limits to wind and earthquake losses per country and/or zone.

#### Concentrations and sensitivity analysis

The table below shows a summary of the manner in which Sirius analyzes catastrophe risks, divided by geographical area and return periods. Sirius analyzes catastrophe risks each quarter during the financial year. The figures show the situation at the end of Q4 2012 and 2011.

Through the use of these simulation models, the company can obtain an estimation of catastrophe risk, both prior to and after retrocession.

#### Sensitivity analysis – losses divided by geographical area and return periods for the Group

	2012		2011	
	Once per 100 years	Once per 250 years	Once per 100 years	Once per 250 years
Global – Gross	3,734	4,206	3,667	4,509
Global – Net	3,169	3,641	2,793	3,247
Europe – Gross	3,108	4,019	3,204	4,429
Europe – Net	1,432	1,865	1,348	1,854
US – Gross	3,277	3,725	2,964	3,476
US – Net	3,103	3,590	2,737	3,221

In addition, to manage its aggregate exposure to very large catastrophe events, among other measures Sirius has been monitoring the largest net financial impact ("NFI") that third-party models predict it would suffer in the worst modeled aggregate loss year (i.e., the 10,000-year global annual aggregate probable maximum loss ("PML")). The calculation of the NFI begins with the modeled 10,000-year global annual aggregate PML and takes account of estimated reinstatement premiums, reinsurance recoverables net of estimated uncollectible balances, and tax benefits. This amount is deducted from Sirius' planned legal entity comprehensive net income for the year (before any planned losses for catastrophe events) to arrive at the NFI. The NFI does not include the potential impact of the loss events on Sirius' investment portfolio. In 2012, Sirius started using a new proprietary property underwriting and pricing tool ("GPI"), which consolidates and reports on all its worldwide property exposures. GPI is used to calculate individual and aggregate PMLs by statistical blending of multiple third-party and proprietary models. Sirius monitors multiple indicators of catastrophe tail risk to measure its financial exposure to such scenarios. Sirius focuses on monitoring NFI TVaR, including the 100, 250, 500 and 1,000 year return periods in order to manage the potential impact of remote events on the Sirius financial position.

Within Aviation reinsurance, the company applies another licensed third-party model, ALPS, in which the exposure per airline company can be modeled and monitored. Within the insurance classes Accident & Health, Property and Trade Credit, the company has models which it has developed internally.

#### Reserve risk

The reserving risk, i.e. the risk that insurance technical provisions will be insufficient to settle incurred and future claims, is foremost handled by actuarial methods and a careful continuous review of reported claims.

Provisions are made to obtain a correct balance sheet and match revenues and costs with the period in which they emerged. The amount of the provision shall correspond to the amount that is required to fulfill all expected obligations and reflect the best knowledge available to Sirius. Acknowledged and appropriate methods are used in these estimations.

Sirius supports its decisions on provisions by a combination of several actuarial methods, such as the Chain Ladder method, the Bornhuetter-Ferguson method and the Benktander method. A combination of benchmarks and underwriting judgment is used for the most recent years.

Regarding run-off results and claims development from previous years please refer also to Note 4 Claims incurred and Note 25 Claims Outstanding, where a specification of claims costs and expenses relating to the current year and prior years is made.

The acquisition of Sirius America has entailed an increase of asbestos and environmental claims. These claims are actively managed and have been subject to recurrent in depth analyses, the latest in the third quarter 2010. Reserves for these claims are included at MSEK 1,117 net in the consolidated balance sheet.

#### Historical Loss Reserve Trends

The table below shows historical loss reserve trends. When reading the table it should be noted that amounts in other currencies are converted to the closing exchange rate for 2011. The table below is thus not directly comparable to the income statement. The increases in claims costs shown in the table should be seen in relation to earned exposure. The amounts shown do not include internal claims adjustment expenses. During 2004 two larger operations were acquired. These operations were accounted for in a way that does not make amounts fully available, thus we show the annual development starting with underwriting year 2005. For the Group, the last diagonal includes claims from the new subsidiaries acquired in 2011. This implies that the table only shows the loss development from the date of acquisition, which is the point of time when controlling influence was obtained.

<b>Group</b>	<b>Claims, gross</b>	<b>2004 and</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>
<b>Underwriting year</b>	<b>Underwriting year</b>	<b>prior years</b>									
-----											
Estimated claims:											
at the close of the calendar year			3,128	2,420	3,387	3,430	3,340	2,836	4,060	2,998	
1 year later			3,632	3,044	3,922	4,243	4,847	7,096	5,729		
2 years later			3,531	6,263	3,914	4,244	7,574	7,018			
3 years later			3,506	5,575	3,838	7,344	7,523				
4 years later			3,493	6,717	7,213	7,377					
5 years later			3,488	9,633	7,196						
6 years later			1,024	8,024							
7 years later			1,075								
Current estimate of total claims			15,075	8,024	7,196	7,377	7,523	7,018	5,729	2,998	
Total paid			14,530	4,808	6,817	6,864	6,950	5,643	3,846	640	
<b>Claims outstanding<sup>1)</sup></b>		<b>5,522</b>	<b>545</b>	<b>3,217</b>	<b>380</b>	<b>513</b>	<b>573</b>	<b>1,375</b>	<b>1,883</b>	<b>2,358</b>	<b>16,365</b>
-----											
<b>Claims net of reinsurance</b>	<b>2004 and</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>	
<b>Underwriting year</b>	<b>prior years</b>										
-----											
Estimated claims:											
at the close of the calendar year			2,616	2,145	2,982	3,128	2,873	2,312	3,598	2,627	
1 year later			3,054	2,729	3,468	3,736	3,772	6,372	4,893		
2 years later			2,966	2,783	3,439	3,706	6,323	6,156			
3 years later			2,955	2,764	3,363	6,843	5,972				
4 years later			2,944	2,740	6,628	6,244					
5 years later			2,939	4,847	6,315						
6 years later			7,981	4,629							
7 years later			7,535								
Current estimate of total claims			7,535	4,629	6,315	6,244	5,972	6,156	4,893	2,627	
Total paid			7,135	4,287	5,969	5,800	5,468	4,957	3,300	558	
<b>Claims outstanding<sup>1)</sup></b>		<b>4,527</b>	<b>400</b>	<b>342</b>	<b>346</b>	<b>443</b>	<b>504</b>	<b>1,199</b>	<b>1,593</b>	<b>2,069</b>	<b>11,423</b>
-----											
<b>Parent Company</b>	<b>2004 and</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>	
<b>Claims, gross</b>	<b>prior years</b>										
<b>Underwriting year</b>											
-----											
Estimated claims:											
at the close of the calendar year			3,128	2,420	3,387	3,430	3,340	2,836	2,050	2,022	
1 year later			3,632	3,044	3,922	4,243	4,847	4,368	3,185		
2 years later			3,531	6,263	3,914	4,244	4,636	4,226			
3 years later			3,506	5,575	3,838	4,175	4,554				
4 years later			3,493	6,717	3,819	4,179					
5 years later			3,488	7,466	3,808						
6 years later			3,477	5,874							
7 years later			3,476								
Current estimate of total claims			3,476	5,874	3,808	4,179	4,554	4,226	3,185	2,022	
Total paid			3,418	2,940	3,692	3,855	4,149	3,137	1,637	513	
<b>Claims outstanding<sup>1)</sup></b>		<b>772</b>	<b>59</b>	<b>2,933</b>	<b>115</b>	<b>323</b>	<b>405</b>	<b>1,090</b>	<b>1,547</b>	<b>1,509</b>	<b>8,753</b>
-----											
<b>Claims net of reinsurance</b>	<b>2004 and</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>Total</b>	
<b>Underwriting year</b>	<b>prior years</b>										
-----											
Estimated claims:											
at the close of the calendar year			2,616	2,145	2,982	3,128	2,873	2,312	1,589	1,670	
1 year later			3,054	2,729	3,468	3,736	3,772	3,629	2,461		
2 years later			2,966	2,783	3,439	3,706	3,594	3,481			
3 years later			2,955	2,764	3,363	3,633	3,576				
4 years later			2,944	2,740	3,340	3,643					
5 years later			2,939	2,733	3,330						
6 years later			2,929	2,722							
7 years later			2,928								
Current estimate of total claims			2,928	2,722	3,330	3,643	3,576	3,481	2,461	1,670	
Total paid			2,871	2,663	3,245	3,427	3,283	2,583	1,200	448	
<b>Claims outstanding<sup>1)</sup></b>		<b>677</b>	<b>57</b>	<b>59</b>	<b>85</b>	<b>216</b>	<b>293</b>	<b>898</b>	<b>1,261</b>	<b>1,222</b>	<b>4,768</b>

<sup>1)</sup> For reconciliation against Balance Sheet, see Note 23.

## Financial Risk Management

### Goals, principles and methods

In the company's operation various types of financial risks arise, such as market risks, credit risks and liquidity risks. In order to limit and control the risk taking in the operations, Sirius' Board of Directors, being ultimately responsible for the internal control in the company, has determined guidelines for the financial operations.

The overall investment objective is to achieve consistent positive returns and to maximize long-term after-tax return on invested assets within prudent levels of risk, through a diversified portfolio of high-quality fixed income and equity investments.

Sirius makes an important distinction between Policyholder Funds Investments and Owners' Funds Investments. Policyholder Funds are defined as policyholder liabilities plus statutory minimum capital and surplus, less policyholder assets. Policyholder liabilities are Net Technical Reserves as defined by The Swedish Financial Supervisory Authority (FSA), Finansinspektionen.

As regards Policyholder Funds Investments, at least 95 percent shall be invested in fixed income securities at all times. Furthermore, at least 80 percent of the fixed income portfolio must be creditworthy and liquid; i.e. consisting of securities with high credit ratings (investment grade).

To limit concentration risk, the guidelines also include restrictions on exposures due to size, industry and financial strength rating.

The balance of Sirius' investable assets (Owners' Funds Investments) may utilize a mixture of fixed income, equity and private investments with a focus on maximizing total return and preserving capital internally.

### Market risk

Market risk is the risk that an actual value on current or future cash flows from a financial instrument varies due to changes in market prices and due to changes in their respective volatilities. There are three types of market risk: interest rate risk, currency risk and other price risk, primarily equity risk.

The Currency and Market Risk working group is responsible for the continuous management of market risks. The development of the market risks is reported within the Currency and Market Risk working group on a monthly basis. The working group consists of CFO's and investment officers from

### Investment assets, division by class of asset, percentage split

	Group		Parent Company	
	2012	2011	2012	2011
Bonds and other interest-bearing securities	76.67	77.93	49.90	50.12
Shares in Associated companies	-	-	41.01	38.72
Shares and participations	14.24	12.96	2.73	3.53
- whereof venture capital companies	1.72	2.09	0.52	1.24
Derivatives	1.30	0.12	1.62	0.16
Cash and bank balances	7.79	8.99	4.74	7.47
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

Sirius International and Sirius America. The Currency & Market Risk working group is reporting to the Investment Committee of Sirius.

The company's investment operations during 2012 yielded a return of 2.3 percent (2.0 percent), expressed in SEK. The duration in the portfolio with interest-bearing investments at the end of 2012 was 2.63 years which was higher compared to 2011 (2.15 years). During the year, only minor changes between different asset classes have been made. The table below shows the investment assets divided by class of asset, excluding deposits in companies that are reinsured by Sirius.

Below, the company's exposure and sensitivity to respective market risk is described. The descriptions are made on the basis of the company's reporting of the Traffic Light model to the Swedish FSA as per December 31, 2012 with its sensitivity analyses in the form of stress tests and subsequent capital requirements.

### Interest Rate Risk

The company is exposed to the risk that the market value on its fixed-interest assets decreases as market interest rates increase, or alternatively, that the market value increases as the interest rates decrease. The level of interest rate risk increases with the asset's duration. The tables below illustrate, in absolute figures, the exposure to interest rate risk in accordance with the risk scenarios per the Traffic Light model as per December 31, 2012 and December 31, 2011.

### Investment assets, interest rate risk according to the Traffic Light model risk scenarios / Group

	Exposure (MSEK)		Scenario, stress test		Corresponding basis points		Capital requirements (MSEK)	
	2012	2011	2012	2011	2012	2011	2012	2011
Assets in SEK	2,689	3,540	30%	30%	46	49	35	29
Assets in EUR	1,470	1,406	25%	25%	33	46	19	26
Assets in USD and other currencies	14,076	13,873	30%	30%	53	56	209	234
<b>Total</b>	<b>18,235</b>	<b>18,819</b>	-	-	-	-	<b>263</b>	<b>289</b>

### Investment assets, interest rate risk according to the Traffic Light model risk scenarios / Parent Company

	Exposure (MSEK)		Scenario, stress test		Corresponding basis points		Capital requirements (MSEK)	
	2012	2011	2012	2011	2012	2011	2012	2011
Assets in SEK	2,690	3,540	30%	30%	46	49	35	29
Assets in EUR	1,471	1,409	25%	25%	33	46	19	26
Assets in USD and other currencies	5,885	4,550	30%	30%	53	56	88	82
<b>Total</b>	<b>10,046</b>	<b>9,499</b>	-	-	-	-	<b>142</b>	<b>137</b>

**Equity risk**

The equity risk is the risk that the market value of equities will decrease as a result of factors related to the external economic climate and factors related specifically to the company in question. Equity risks are mainly mitigated by a diversification of the share portfolio. The tables below show the equity risk in accordance with the risk scenarios per the Traffic Light model as per December 31, 2012 and December 31, 2011.

**Investment assets, equity risk according to the Traffic Light model risk scenarios / Group**

	Exposure (MSEK)		Scenario, stress test		Capital requirements (MSEK)	
	2012	2011	2012	2011	2012	2011
Foreign shares and participations	3,567	3,300	35%	35%	1,248	1,155
<b>Total</b>	<b>3,567</b>	<b>3,300</b>	-	-	<b>1,248</b>	<b>1,155</b>

**Investment assets, equity risk according to the Traffic Light model risk scenarios / Parent Company**

	Exposure (MSEK)		Scenario, stress test		Capital requirements (MSEK)	
	2012	2011	2012	2011	2012	2011
Foreign shares and participations	1,820	1,702	35%	35%	637	596
Foreign subsidiaries and associated companies	7,052	6,324	35%	35%	2,468	2,213
<b>Total</b>	<b>8,872</b>	<b>8,026</b>	-	-	<b>3,105</b>	<b>2,809</b>

**Currency risk**

Currency risk arises if assets and liabilities in the same foreign currency vary in amounts.

The Currency and Market Risk working group meets at least monthly in order to monitor currency exposure and limit currency risk. Besides that, it is the responsibility of the working group to review and update the Currency Risk Policy and ensure it is approved by the Investment Committee and the Board of Directors on a yearly basis.

Sirius' total net currency exposure is divided into two categories, exposure related to Policyholders Funds, which is matched with the corresponding assets, and exposure related to Owner's Funds. Sirius' net Po-

licyholders Funds exposure for currency risk is marginal as the company's objective for managing currency risk is to match net insurance liabilities in foreign currency with corresponding assets within very tight time frames. The group's total net exposure for currency risk, i.e. including both Policyholder and Owners Funds, before and after any hedging by derivatives is shown in the table below (the table is only presented for the Group since the exchange rate exposure, at large, is the same for the Parent company and the Group since the subsidiaries are treated on a look through basis where the subsidiaries' valuation and exposure is taken into consideration).

**Exchange rate exposure – Investment assets / Group**

	2012				2011			
	USD	EUR	GBP	Other	USD	EUR	GBP	Other
Shares and participations	3,526	37	-	-	3,244	71	20	-
Bonds and other interest-bearing securities	14,109	1,579	664	526	14,308	1,471	629	61
Other financial investment assets	1,309	86	32	291	1,739	81	58	312
Other assets and liabilities, net	2,304	230	-31	100	2,550	325	23	71
<b>Total assets</b>	<b>21,248</b>	<b>1,932</b>	<b>665</b>	<b>917</b>	<b>21,841</b>	<b>1,948</b>	<b>730</b>	<b>444</b>
Technical provisions, net	-10,401	-1,295	-243	-736	-11,926	-1,400	-189	-437
<b>Total liabilities and provisions</b>	<b>-10,401</b>	<b>-1,295</b>	<b>-243</b>	<b>-736</b>	<b>-11,926</b>	<b>-1,400</b>	<b>-189</b>	<b>-437</b>
Net exposure before financial hedging with derivatives	10,847	637	422	181	9,915	548	541	7
Nominal value currency forwards	-3,945	44	-20	-	-3,432	-	-	-
Net exposure after financial hedging with derivatives	<b>6,902</b>	<b>681</b>	<b>402</b>	<b>181</b>	<b>6,483</b>	<b>548</b>	<b>541</b>	<b>7</b>

In the table below, the effect on the group's shareholders' equity and income statement of two stress tests are shown: An unfavorable foreign exchange rate move of 25 basis points, in the respective foreign currencies towards SEK and an unfavorable change to fx rates by 10 percent in the respective foreign currencies towards SEK.

The analysis below assumes that the changes in exchange rates do not affect other risk parameters, such as interest rate. The sensitivity analysis takes into consideration existing financial hedges with currency related derivatives.

#### Sensitivity analysis per currency

		USD	EUR	GBP	Other	Total
2012	Change 25 basis points	266	20	10	-	296
	Change 10%	690	68	40	18	816
2011	Change 25 basis points	236	15	12	-	263
	Change 10%	648	55	54	1	758

#### Credit risk

Credit risk, or counterparty risk, refers to the risk that the company will not receive agreed payment and/or will make a loss due to the counterparty's inability to fulfill its obligations. A substantial portion of the credit risk to which the company is exposed, arises as a result of established reinsurance agreements.

##### Credit risk in investment assets

The credit risk in investment assets can be split into credit spread risk and counterparty risk.

##### Credit spread risk in investment assets

Credit spread risk results from the sensitivity of the value of fixed interest assets to changes in the level or in the volatility of credits spreads over the risk-free term structure. Assets sensitive to changes in credit spreads may also give rise to others risks, e.g. counterparty default risk, which is not covered below. The tables below show the credit spread risk in accordance with the risk scenarios per the Traffic Light model as per December 31, 2012 and December 31, 2011.

#### Investment assets, credit spread risk according to the Traffic Light model risk scenarios / Group

	Exposure (MSEK)		Average credit spread		Scenario impact		Capital requirements (MSEK)	
	2012	2011	2012	2011	2012	2011	2012	2011
Assets in SEK	791	852	1.04	1.37	-2.5%	-3.4%	20	29
Assets in EUR	1,304	1,262	1.24	2.74	-4.6%	-10.3%	61	130
Assets in USD and other currencies	9,557	9,050	1.13	1.82	-3.2%	-5.5%	304	496
<b>Total</b>	<b>11,652</b>	<b>11,164</b>	<b>1.14</b>	<b>1.93</b>	<b>-3.3%</b>	<b>-5.9%</b>	<b>385</b>	<b>655</b>

#### Investment assets, credit spread risk according to the Traffic Light model risk scenarios / Parent Company

	Exposure (MSEK)		Average credit spread		Scenario impact		Capital requirements (MSEK)	
	2012	2011	2012	2011	2012	2011	2012	2011
Assets in SEK	791	852	1.04	1.37	-2.5%	-3.4%	20	29
Assets in EUR	1,304	1,264	1.24	2.74	-4.6%	-10.3%	61	130
Assets in USD and other currencies	4,284	3,223	1.22	1.77	-3.4%	-5.7%	147	183
<b>Total</b>	<b>6,379</b>	<b>5,339</b>	<b>1.21</b>	<b>2.01</b>	<b>-3.6%</b>	<b>-6.4%</b>	<b>228</b>	<b>342</b>

*Counterparty risk in investment assets*

The company's policy is to allow only investments in securities with high credit quality and therefore the counterparty risk in investment assets is assessed to be relatively limited.

The table below shows the exposure of Sirius' investment assets divided per class of asset.

Exposure Group	Group		Parent Company	
	2012	2011	2012	2011
Bonds & other interest-bearing assets	18,235	19,840	10,041	9,472
- Governments	6,763	9,151	4,004	4,840
- Swedish mortgage institutions	0	156	0	156
- Other Swedish issuers	791	697	791	697
- Other issuers	10,681	9,836	5,246	3,779
Shares in Associated Companies	-	-	8,254	7,317
Shares & participations	3,567	3,300	549	667
Derivatives	326	30	326	30
<b>Total</b>	<b>22,128</b>	<b>23,170</b>	<b>19,170</b>	<b>17,486</b>

The tables below lists the ten largest holdings. The table excludes government bonds and other similar interest-bearing securities but includes corporate bonds, shares and participations in associated companies.

**Group / 2012**

Name of security	Type of security	Market value (MSEK)	% of financial assets
Sirius International Financial Services	Loan note to group company	966	4.4
Symetra Financial Corporation	Share	949	4.3
One Beacon Insurance Group	Share	662	3.0
Prospector Offshore Fund	Share	346	1.6
Sirius International Financial Services	Currency Derivative	326	1.5
Total Capital Canada Ltd	Bond	264	1.2
Ironshore	Share	197	0.9
Rio Tinto Fin USA Ltd	Bond	178	0.8
Volkswagen Fin Serv. NV	Bond	178	0.8
Volkswagen Auto Loan Enh Trust	Bond	177	0.8
<b>Total</b>		<b>4,243</b>	<b>19.3</b>

**Parent Company / 2012**

Name of security	Type of security	Market value (MSEK)	% of financial assets
WM Phoenix (Luxembourg) S.à r.l.	Shares in Subsidiary	6,158	32.1
Sirius International Holdings (NL) BV	Shares in Subsidiary	1,369	7.1
White Sands Holdings (Luxembourg) S.à r.l.	Shares in Subsidiary	714	3.7
Prospector Offshore Fund	Share	346	1.8
Sirius International Financial Services	Currency derivative	326	1.7
Total Capital Canada Ltd	Bond	264	1.4
Volkswagen Fin Serv NV	Bond	178	0.9
BMW Finance NV	Bond	155	0.8
Electrolux AB	Bond	143	0.8
Citigroup Inc	Bond	134	0.7
<b>Total</b>		<b>9,787</b>	<b>51.0</b>

Group / 2011				Parent Company / 2011			
Name of security	Type of security	Market value (MSEK)	% of financial assets	Name of security	Type of security	Market value (MSEK)	% of financial assets
Sirius International	Loan note to			WM Phoenix	Shares in		
Financial Services	Group Company	1,021	4.3	(Luxembourg) S.à r.l.	Subsidiary	6,338	34.7
One Beacon Insurance Group	Share	785	3.3	Sirius International	Shares in		
Symetra Financial Corporation	Share	501	2.1	Holdings (NL) BV	Subsidiary	1,005	5.5
Prospector Offshore Fund	Share	336	1.4	Prospector Offshore Fund	Share	336	1.8
Total Capital Canada Ltd	Bond	263	1.1	Total Capital Canada Ltd	Bond	263	1.4
Ironshore Inc.	Share	188	0.8	Volkswagen Fin Serv NV	Bond	177	1.0
Volkswagen Fin Serv NV	Bond	177	0.7	Swedbank Hypotek AB	Bond	156	0.9
Swedbank Hypotek AB	Bond	156	0.7	BMW Finance NV	Share	156	0.9
BMW Finance NV	Bond	156	0.7	Pentelia Ltd	Share	116	0.6
Shering Plough	Bond	143	0.6	Permanent Master Issuer PLC	Bond	112	0.6
<b>Total</b>		<b>3,726</b>	<b>15.7</b>	Atlas Copco AB	Bond	100	0.6
				<b>Total</b>		<b>8,759</b>	<b>48.0</b>

The tables below show fixed income investments and equity investments per geographical area and credit rating classes. Fixed income investments are also presented per sector (the table is only presented for the Group since the distribution, at large, is the same for the Parent company).

Credit quality on classes of investment assets, %	2012							2011						
	AAA	AA	A	BBB	CCC	Not Rated	Total	AAA	AA	A	BBB	BB	Not Rated	Total
Bonds and other interest-bearing securities	27	28	18	27	-	-	100	25	34	15	20	1	5	100
- Swedish government	100	-	-	-	-	-	100	18	31	51	-	-	-	100
- Swedish mortgage institutions	-	-	-	-	-	-	-	100	-	-	-	-	-	100
- Other Swedish institutions	-	34	48	18	-	-	100	100	-	-	-	-	-	100
- Foreign governments	31	69	-	-	-	-	100	15	84	1	-	-	-	100
- Other foreign issuers	20	9	27	44	-	-	100	12	10	25	41	2	10	100

#### Equity investments, divided by geographical area %

	Group		Parent company	
	2012	2011	2012	2011
Western Europe	2.95	2.60	94.76	92.69
North America	85.04	79.13	0.38	0.12
Other	12.01	18.27	4.86	7.19
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

#### Interest-bearing investments, divided by geographical areas %

	Group		Parent company	
	2012	2011	2012	2011
Western Europe	11.36	10.84	20.64	21.44
North America	71.00	70.36	47.40	39.70
Scandinavia	14.75	17.84	26.78	37.37
Other	2.89	0.96	5.18	1.49
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

#### Interest-bearing investments, divided by sector %

	Group		Parent company	
	2012	2011	2012	2011
Governments	37.09	46.12	39.88	51.10
Swedish mortgage institutions	0	0.79	0	1.65
Other Swedish issuers	4.34	3.51	7.88	7.35
Other foreign issuers	58.57	49.58	52.24	39.90
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>



*Credit risk on receivables with reinsurers*

The credit risk resulting from reinsurance ceded by Sirius can be divided into two separate components; reinsurers' share of technical provisions as recorded on an ongoing basis under assets in the balance sheet, and the potential exposure that would emerge in the event of large claims in the insurance portfolio, for example, in the case of a severe European windstorm. An event like this would trigger major portions of Sirius' purchased reinsurance programme.

Sirius' Security Committee is responsible for managing the risk of reinsurer insolvency. To mitigate this risk, we annually review and periodically monitor our reinsurers' financial condition.

The credit risk reserve for bad debts amounted, as per December 31, 2012, to MSEK 58 for the group, whereof MSEK 38 at Sirius International (2011 MSEK 62 for the Group, MSEK 44 at Sirius International).

**Ageing balances**

Receivables regarding both direct insurance as well as assumed and ceded reinsurance are followed up on a quarterly basis. Outstanding receivables are analyzed on the basis of the length of time that has passed since the due date with the following distribution: Less than 1 month, 1-3 months, 3-6 months, 6-9 months, 9-12 months and over 1 year. These analyses, together with the assessment of the counterparty's credit risk status, comprise the basis for various collection activities and any write-down requirements.

Group		Due for	<1 Month	1-3 Months	4-6 Months	7-9 Months	10-12 Months	>1 Year	Total
2012	Net receivables		556	79	36	8	8	132	819
2011	Net receivables		580	185	60	-6	8	210	1037

Parent Company		Due for	<1 Month	1-3 Months	4-6 Months	7-9 Months	10-12 Months	>1 Year	Total
2012	Net receivables		276	34	11	5	3	62	391
2011	Net receivables		114	58	40	-6	2	235	442

In accordance with Sirius International's policy for write-downs of receivables outstanding for more than 1 year, there is a specific reserve for counterparties which are not classified as IDC companies (Insolvent and Doubtful Companies) which totals MSEK 6 at December 31, 2012.

*Retrocession credit risk*

Reinsurers' share of technical provisions consists of outstanding claims including IBNR reserves, as well as a provision for unearned premiums and remaining risks. The credit rating distribution for this exposure is shown in the table below.

Group Rating – Standard & Poor's equivalent	2012				2011			
	Gross	Collateral	Net	Percentage split	Gross	Collateral	Net	Percentage split
AAA	162	0	162	3	210	0	210	3
AA+	75	0	75	1	0	0	0	0
AA	367	1	366	7	241	2	239	3
AA-	108	0	108	2	45	0	45	1
A+	290	0	290	5	307	0	307	4
A	214	1	213	4	470	4	466	6
A-	316	19	297	6	253	67	187	3
BBB+	101	0	101	2	62	0	62	1
BBB or lower	632	182	450	12	849	96	754	10
Special approval	355	115	240	6	420	119	301	5
Internal reinsurance	2,845	2,845	0	52	5,253	4,831	421	65
<b>Total</b>	<b>5,466</b>	<b>3,164</b>	<b>2,302</b>	<b>100</b>	<b>8,111</b>	<b>5,119</b>	<b>2,992</b>	<b>100</b>

Parent Company Rating – Standard & Poor's equivalent	2012				2011			
	Gross	Collateral	Net Percentage split		Gross	Collateral	Net Percentage split	
AAA	0	0	0	0	118	0	118	2
AA+	75	0	75	2	0	0	0	0
AA	156	0	156	3	173	0	173	2
AA-	108	0	108	2	45	0	45	1
A+	290	0	290	6	307	0	307	4
A	66	0	66	1	109	0	109	2
A-	403	19	384	9	222	66	155	3
BBB+	91	0	91	2	59	0	59	1
BBB or lower	113	10	103	3	369	11	358	5
Special approval	355	115	240	8	420	119	301	6
Internal reinsurance	2,845	2,845	0	63	5,253	4,831	421	74
<b>Total</b>	<b>4,502</b>	<b>2,989</b>	<b>1,514</b>	<b>100</b>	<b>7,074</b>	<b>5,027</b>	<b>2,047</b>	<b>100</b>

The item Internal reinsurance above refers to ceded reinsurance to White Mountains Life Re. This receivable is collateralized with securities pertaining to the underlying liability to the original ceding company.

Except for the credit exposure above, reported as an asset in the balance sheet, significant credit losses can potentially arise from unusually large and frequent events.

The table below describes the assumed liabilities from Retrocessionaires (excluding costs for reinstatements) and the distribution of credit ratings for Sirius' 2012 Retrocession Program. (The table only presents the Parent Company since external reinsurance, at large, not exist in other parts of the group).

Rating / Parent Company Standard & Poor's or equivalent	2012		2011	
	MSEK	Percentage split	MSEK	Percentage split
AA+	0	0	0	0
AA	96	3	374	11
AA-	873	30	489	15
A+	825	28	953	29
A	103	4	152	5
A-	620	21	930	28
BBB+	53	2	127	4
BBB or lower	54	2	0	0
Fully collateralized	29	1	185	6
Special approval	255	9	122	4
<b>Total</b>	<b>2,908</b>	<b>100</b>	<b>3,331</b>	<b>100</b>

**Liquidity risk**

Liquidity risk is the risk that the company will have difficulties fulfilling payment obligations, mainly those related to insurance liabilities. Liquidity risk can also be expressed as the risk of loss or impaired earning potential as a result of the company not being able to fulfill payment obligations in due time. Liquidity risks arise as assets and debts including derivatives instruments have different durations.

The company's strategy for dealing with liquidity risk aims to match expected payments and receipts of payment (so called asset-liability management, ALM). This is accomplished through advanced liquidity analysis of financial assets and insurance liabilities. At the end of 2012 the duration of

interest-bearing investment assets was 2.63 years (2.15 years) and the duration of insurance liabilities was 2.14 years (2.18 years). The liquidity is monitored continuously and stress tests are performed for different scenarios. The company's claims payment capabilities are further strengthened with its high portion of cash and bank deposits of the total investment assets.

The cash flow analysis also provides an illustration of the company's liquidity situation.

The tables below show a more detailed maturity profile for the Group and Parent Company in respect of both financial assets and debts.

**Liquidity profile – financial assets (Contractual inflows) / 2012**

Group	On demand	<3 months	3 months –1 year	1-5 years	>5 years	No duration	Total
Bonds and other interest-bearing securities (discounted amounts)	-	746	762	9,781	6,946	-	18,235
Shares & participations	-	-	-	-	-	3,567	3,567
Cash & bank balances	1,951	-	-	-	-	-	1,951
Receivables, direct insurance	-	-	77	-	-	28	105
Receivables, reinsurance	311	45	1,589	50	1	-4	1,993
Other debtors	-	132	68	69	-	43	312
Prepayments and accrued income	-	-	208	2	-	-	210
<b>Total</b>	<b>2,262</b>	<b>923</b>	<b>2,704</b>	<b>9,902</b>	<b>6,947</b>	<b>3,634</b>	<b>26,373</b>

**Liquidity profile – financial assets (Contractual inflows) / 2011**

Group	On demand	<3 months	3 months –1 year	1-5 years	>5 years	No duration	Total
Bonds and other interest-bearing securities (discounted amounts)	-	291	2,957	6,985	8,585	1,021	19,839
Shares & participations	-	-	-	-	-	3,300	3,300
Cash & bank balances	2,289	-	-	-	-	-	2,289
Receivables, direct insurance	-	-	-	-	-	2	2
Receivables, reinsurance	-	762	1,052	211	-	398	2,423
Other debtors	-	117	2	-	-	70	189
Prepayments and accrued income	-	9	215	-	-	-	224
<b>Total</b>	<b>2,289</b>	<b>1,179</b>	<b>4,226</b>	<b>7,196</b>	<b>8,585</b>	<b>5,791</b>	<b>28,266</b>

## Liquidity profile – financial assets (Contractual inflows) / 2012

Parent Company	On demand	<3 months	3 months –1 year	1-5 years	>5 years	No duration	Total
Bonds and other interest-bearing securities (discounted amounts)	-	36	587	6,734	2,684	-	10,041
Shares & participations in group companies	-	-	-	-	-	8,254	8,254
Shares & participations	-	-	-	-	-	549	549
Cash & bank balances	955	-	-	-	-	-	955
Receivables, direct insurance	-	-	-	-	-	28	28
Receivables, reinsurance	-	-	1,605	-	-	-23	1,582
Other debtors	77	-	56	69	-	-	202
Prepayments and accrued income	-	-	141	2	-	-	143
<b>Total</b>	<b>1 032</b>	<b>36</b>	<b>2,389</b>	<b>6,805</b>	<b>2,684</b>	<b>8,808</b>	<b>21,754</b>

## Liquidity profile – financial assets (Contractual inflows) / 2011

Parent Company	On demand	<3 months	3 months –1 year	1-5 years	>5 years	No duration	Total
Bonds and other interest-bearing securities (discounted amounts)	-	94	2,377	4,088	2,913	-	9,472
Shares & participations in group companies	-	-	-	-	-	7,317	7,317
Shares & participations	-	-	-	-	-	667	667
Cash & bank balances	1,411	-	-	-	-	-	1,411
Receivables, direct insurance	-	-	-	-	-	2	2
Receivables, reinsurance	-	172	1,026	235	-	447	1,880
Other debtors	39	17	206	-	-	31	293
Prepayments and accrued income	-	9	142	-	-	-	151
<b>Total</b>	<b>1,450</b>	<b>292</b>	<b>3,751</b>	<b>4,323</b>	<b>2,913</b>	<b>8,464</b>	<b>21,193</b>

## Liquidity profile – financial debts (Contractual outflows) / 2012

Group	On demand	<3 months	3 months –1 year	1-5 years	>5 years	No duration	Total
Payables, direct insurance	-	-	41	-	-	7	48
Payables, reinsurance	-	-	189	-	-	393	582
Other creditors	-26	-	1 426	-	-	-	1 400
Accrued expenses and deferred income	-	110	101	90	19	1	321
<b>Total</b>	<b>-26</b>	<b>110</b>	<b>1 757</b>	<b>90</b>	<b>19</b>	<b>401</b>	<b>2 351</b>

## Liquidity profile – financial debts (Contractual outflows) / 2011

Group	On demand	<3 months	3 months –1 year	1-5 years	>5 years	No duration	Total
Payables, direct insurance	-	-	-	-	-	1	1
Payables, reinsurance	-	-	437	-	-	368	805
Other creditors	-	57	701	36	-	20	814
Accrued expenses and deferred income	-	132	111	88	19	-	350
<b>Total</b>	<b>-</b>	<b>189</b>	<b>1,249</b>	<b>124</b>	<b>19</b>	<b>389</b>	<b>1,970</b>

**Liquidity profile – financial debts (Contractual outflows) / 2012**

Parent Company	On demand	<3 months	3 months –1 year	1-5 years	>5 years	No duration	Total
Payables, direct insurance	-	-	-	-	-	1	1
Payables, reinsurance	-	-	337	-	-	393	730
Other creditors	-	-	1,325	-	-	-	1,325
Accrued expenses and deferred income	-	104	35	45	-	1	185
<b>Total</b>	-	<b>104</b>	<b>1,697</b>	<b>45</b>	-	<b>395</b>	<b>2,241</b>

**Liquidity profile – financial debts (Contractual outflows) / 2011**

Parent Company	On demand	<3 months	3 months –1 year	1-5 years	>5 years	No duration	Total
Payables, direct insurance	-	-	-	-	-	1	1
Payables, reinsurance	-	-	453	-	-	331	784
Other creditors	-	53	591	23	-	23	690
Accrued expenses and deferred income	-	51	112	36	-	-	199
<b>Total</b>	-	<b>104</b>	<b>1,156</b>	<b>59</b>	-	<b>355</b>	<b>1,674</b>

**Liquidity profile – Technical provisions**

Estimated claim payments, net, excluding ULAE

**Group**

	<3 months	3 months–1 year	1-5 year	>5 year	Total
<b>2012</b>	1,038	3,144	4,658	3,469	<b>12,309</b>
<b>2011</b>	1,172	3,565	5,433	3,715	<b>13,885</b>

**Parent Company**

	<3 months	3 months–1 year	1-5 year	>5 year	Total
<b>2012</b>	552	1,684	2,219	907	<b>5,362</b>
<b>2011</b>	628	1,935	2,599	1,113	<b>6,275</b>

**Operational Risk Management**

Sirius has defined operational risks as “the risk of loss arising from inadequate or failed internal processes, personnel or systems or from external events. Operational risk includes legal risk and excludes risks arising from strategic decisions, as well as reputation risks”.

All employees within Sirius are responsible for the contribution to a well functioning process for operational risk management and shall see themselves as risk managers. The function for Risk Control is responsible for

developing and improving the operational risk methodology and thereby supporting the organization and the process owners with the tools needed to manage these risks.

Operational risks within Sirius are identified through regularly conducted risk control reviews. Operational risks are also identified and managed by defining controls within the processes and through follow up and testing of the effectiveness of the key controls.

Sirius always aims at reducing the operational risks to acceptable levels.

### Compliance Risk Management

Compliance risk is "the risk of legal or regulatory sanctions, material financial loss or loss to reputation that Sirius may suffer as a result of not complying with laws, internal or external regulations and administrative provisions as applicable to Sirius' activities."

The responsibility for Sirius' compliance with internal and external regulation lies with all employees. Compliance risks are identified by all employees on an ad hoc basis and more formally through the risk control and compliance reviews. The Compliance function supports the organization and processes by informing, advising, and monitoring compliance issues throughout the group.

### Solvency II

Sirius is preparing for compliance with the upcoming Solvency II regulation. The company has a project in place with several defined subprojects. The subprojects are covering all three Pillars. The project has a dedicated Project Manager and the company's group CFO is the chairman of the Steering Group and the sponsor of the project.

Solvency II is discussed regularly at Board of Directors (Board) meetings. The group CFO reports to the Board on Solvency II matters, thus ensuring the Board's involvement and oversight over the Solvency II project. The Solvency II manager reports about Solvency II at all Risk Management Committee meetings.

### Solvency and Capital requirements

Sirius has continued to develop its internal Economic Risk Capital (ERC) model. The objectives for the internal ERC model are:

- Stochastically calculate capital needed to be economically solvent over a one year period within specified probability level
- Consolidate quantifiable risks into one model
- Produce a realistic distribution of financial outcomes at various return periods
- Allocate capital to key risks, business units and lines of business
- Produce a streamlined and inclusive view of interdependencies of these risks

The practical applications of the internal ERC model include the following:

- Assess the amount of capital necessary to support the underwriting and investment operations over the course of a one-year period
- Allocate deployed capital in the organization to key underwriting risk areas in order to establish appropriate risk-adjusted pricing targets
- Monitor the risk according to the risk tolerance levels established by the Board of Directors
- Measurement of key risks and their interaction
- Evaluate reinsurance purchases

Furthermore, the company uses the internal ERC model for stress testing and scenario analysis and it compares results from the internal ERC model with the Solvency II Standard Formula SCR. Sirius aims at maintaining a capital base corresponding to not less than an A-rating level as defined by the rating agencies.

Sirius has during 2012 been participating in the Internal Model pre-application review process with the company's regulator, the Swedish FSA, Finansinspektionen. By participating in this pre-application review process, the company will be well prepared before the final application shall be submitted. The ultimate goal is to gain approval to use the company's Internal Economic Risk Capital Model for the calculations of the solvency capital requirements under Solvency II.

As a predecessor to Solvency II, the Swedish FSA has established a local solvency regulation, the Traffic Light system. It takes into account the company's risks in the areas financial risks, insurance risk and operating expense risk. The model results in a total capital net requirement which is compared to solvency capital (the so called "capital buffer") in order to assess the company's capital strength. The model is presented on a solo company basis with holdings in subsidiaries modeled with an equity risk charge of 35%. The table below shows the result in accordance with the Traffic Light model as per December 31, 2012 and 2011.

	Total capital requirement according to the Traffic Light model	
	2012	2011
Total capital net requirement	4,065	4,691
Capital buffer	14,973	14,096
<b>Surplus</b>	<b>10,908</b>	<b>9,405</b>

### Financial Strength Rating

The financial strength of Sirius has been rated by Standard & Poor's, A. M. Best and Moody's.

#### Group and Parent Company

	2012			2011		
	S&P <sup>1)</sup>	A.M. Best <sup>2)</sup>	Moody's <sup>3)</sup>	S&P <sup>1)</sup>	A.M. Best <sup>2)</sup>	Moody's <sup>3)</sup>
Financial Strength Rating	A-	A	A3	A-	A	A3
Outlook	Stable	Stable	Stable	Stable	Stable	Stable

<sup>1)</sup> "A-" is the seventh highest of twenty-one financial strength ratings assigned by Standard & Poor's.

<sup>2)</sup> "A" is the third highest of fifteen financial strength ratings assigned by A.M. Best.

<sup>3)</sup> "A3" is the seventh highest of twenty-one financial strength ratings assigned by Moody's.





**Note 3 • Premium income**

Premium income, geographical allocation	Group		Parent Company	
	2012	2011	2012	2011
Direct insurance, Sweden	4	8	3	8
Direct insurance, other EES	339	213	221	213
Direct insurance, other countries	915	655	736	655
Premiums for assumed reinsurance	6,823	5,079	4,819	4,471
<b>Premium income before ceded reinsurance</b>	<b>8,081</b>	<b>5,955</b>	<b>5,779</b>	<b>5,347</b>
Premium for ceded reinsurance	-1,777	-1,592	-1,765	-1,579
<b>Premium income after ceded reinsurance</b>	<b>6,304</b>	<b>4,363</b>	<b>4,014</b>	<b>3,768</b>

**Note 4 • Claims incurred for own account**

Claims incurred for the year's operations / Group	2012			2011		
	Gross	Ceded	Net	Gross	Ceded	Net
Claims paid	-474	64	-410	-447	73	-374
Loss portfolios	41	0	41	35	0	35
Change in provision for incurred and reported claims	-695	117	-578	-832	194	-638
Change in provision for incurred but not reported claims (IBNR)	-1,729	177	-1,552	-1,211	210	-1,001
Claims handling expenses	-176	0	-176	-170	0	-170
<b>Total claims incurred for the year's operations</b>	<b>-3,033</b>	<b>358</b>	<b>-2,675</b>	<b>-2,625</b>	<b>477</b>	<b>-2,148</b>

Claims incurred for previous years' operations / Group	2012			2011		
	Gross	Ceded	Net	Gross	Ceded	Net
Claims paid	-4,341	699	-3,642	-3,105	667	-2,438
Loss portfolios	-311	0	-311	-503	-4	-507
Change in provision for incurred and reported claims	1,127	-191	936	1,554	-433	1,121
Change in provision for incurred but not reported claims (IBNR)	3,970	-1,970	2,000	159	688	847
<b>Total claims incurred for previous year's operations</b>	<b>445</b>	<b>-1,462</b>	<b>-1,017</b>	<b>-1,895</b>	<b>918</b>	<b>-977</b>
<b>Total claims incurred</b>	<b>-2,588</b>	<b>-1,104</b>	<b>-3,692</b>	<b>-4,520</b>	<b>1,395</b>	<b>-3,125</b>

Total claims paid / Group	2012			2011		
	Gross	Ceded	Net	Gross	Ceded	Net
Claims paid	-4,815	763	-4,052	-3,552	740	-2,812
Loss portfolios	-270	0	-270	-468	-4	-472
Claims handling expenses	-176	0	-176	-170	0	-170
<b>Total claims paid</b>	<b>-5,261</b>	<b>763</b>	<b>-4,498</b>	<b>-4,190</b>	<b>736</b>	<b>-3,454</b>

Change in provision for outstanding claims / Group	2012			2011		
	Gross	Ceded	Net	Gross	Ceded	Net
Change in provision for incurred and reported claims	432	-74	358	722	-239	483
Change in provision for incurred but not reported claims (IBNR)	2,241	-1,793	448	-1,052	898	-154
<b>Total change in provisions for outstanding claims</b>	<b>2,673</b>	<b>-1,867</b>	<b>806</b>	<b>-330</b>	<b>659</b>	<b>329</b>



Claims incurred for the year's operations / Parent Company	2012			2011		
	Gross	Ceded	Net	Gross	Ceded	Net
Claims paid	-362	66	-296	-273	72	-201
Loss portfolios	40	0	40	35	0	35
Change in provision for incurred and reported claims	-549	122	-427	-767	194	-573
Change in provision for incurred but not reported claims (IBNR)	-991	170	-821	-1,074	210	-864
Claims handling expenses	-128	0	-128	-159	0	-159
<b>Total claims for the year's operations</b>	<b>-1,990</b>	<b>358</b>	<b>-1,632</b>	<b>-2,238</b>	<b>476</b>	<b>-1,762</b>
Claims incurred for previous years' operations / Parent Company	2012			2011		
	Gross	Ceded	Net	Gross	Ceded	Net
Claims paid	-2,497	618	-1,879	-2,703	582	-2,121
Loss portfolios	-311	0	-311	-503	-4	-507
Change in provision for incurred and reported claims	679	-131	548	1,355	-400	955
Change in provision for incurred but not reported claims (IBNR)	3,028	-1,880	1,148	66	661	727
<b>Total claims incurred for previous year's operations</b>	<b>899</b>	<b>-1,393</b>	<b>-494</b>	<b>-1,785</b>	<b>839</b>	<b>-946</b>
<b>Total claims incurred</b>	<b>-1,091</b>	<b>-1,035</b>	<b>-2,126</b>	<b>-4,023</b>	<b>1,315</b>	<b>-2,708</b>
Total claims paid / Parent Company	2012			2011		
	Gross	Ceded	Net	Gross	Ceded	Net
Claims paid	-2,859	684	-2,175	-2,976	654	-2,322
Loss portfolios	-271	0	-271	-468	-4	-472
Claims handling expenses	-128	0	-128	-159	0	-159
<b>Total claims paid</b>	<b>-3,258</b>	<b>684</b>	<b>-2,574</b>	<b>-3,603</b>	<b>650</b>	<b>-2,953</b>
Change in provision for outstanding claims / Parent Company	2012			2011		
	Gross	Ceded	Net	Gross	Ceded	Net
Change in provision for incurred and reported claims	130	-9	121	588	-205	383
Change in provision for incurred but not reported claims (IBNR)	2,037	-1,710	327	-1,008	870	-138
<b>Total change in provision for outstanding claims</b>	<b>2,167</b>	<b>-1,719</b>	<b>448</b>	<b>-420</b>	<b>665</b>	<b>245</b>

**Note 5 • Operating costs**

Specification of income statement item operating costs	Group		Parent Company	
	2012	2011	2012	2011
Acquisition costs	-1,615	-1,136	-1,045	-1,015
Change in prepaid acquisition costs (+/-)	-6	-42	-58	-30
Administrative expenses	-871	-573	-518	-509
Provisions and profit shares in ceded reinsurance (-)	402	290	400	315
<b>Total operating costs</b>	<b>-2,090</b>	<b>-1,461</b>	<b>-1,221</b>	<b>-1,239</b>

Other operating costs	Group		Parent Company	
	2012	2011	2012	2011
Operating costs	-2,090	-1,461	-1,221	-1,239
Claims handling expenses included in claims paid	-192	-170	-144	-159
Asset management costs included in Investment expenses	-79	-64	-44	-53
Expenses for land and buildings included in Investment expenses, net	-2	-1	-2	-1
<b>Total other operating costs</b>	<b>-2,363</b>	<b>-1,696</b>	<b>-1,411</b>	<b>-1,452</b>

Total operating costs per type	Group		Parent Company	
	2012	2011	2012	2011
Direct and indirect personnel costs	-691	-469	-432	-414
Premises costs	-68	-48	-44	-41
Depreciation/amortization	-52	-31	-49	-29
Other expenses related to operations	-1,552	-1,148	-886	-968
<b>Total other operating costs</b>	<b>-2,363</b>	<b>-1,696</b>	<b>-1,411</b>	<b>-1,452</b>

**Note 6 • Investment income**

	Group		Parent Company	
	2012	2011	2012	2011
<b>Dividend income from:</b>				
Foreign shares and participations	80	113	-	1
<b>Interest income</b>				
Bonds and other interest-bearing securities	455	360	248	293
<b>Other interest income</b>	<b>59</b>	<b>30</b>	<b>16</b>	<b>21</b>
- of which from financial assets not valued at fair value with changes in value reported in the income statement	-	-	-	-
<b>Capital gains on foreign exchange, net</b>	<b>-</b>	<b>126</b>	<b>-</b>	<b>130</b>
<b>Capital gains and reversed write-downs (net)</b>				
Foreign shares	-	89	-	27
Group and associated companies	199	-	101	-
Interest-bearing securities	254	46	102	43
<b>Total return on capital, income</b>	<b>1,047</b>	<b>764</b>	<b>467</b>	<b>515</b>

Realized gains from associated companies in the Parent company derive from sale of shares in IMG which per December 31, 2011 were written down and valued to MSEK 0. In the group accounts, gains from acquisition of subsidiaries have been realized and accounted in accordance with IFRS 3.

**Note 7 • Unrealised gains and losses on investments**

	Group		Parent Company	
	2012	2011	2012	2011
Foreign shares and participations	334	-117	70	-59
Bonds and other interest-bearing securities	25	-18	-	-
Derivative financial instruments	293	134	293	-
<b>Total unrealized gains on investments</b>	<b>652</b>	<b>-269</b>	<b>363</b>	<b>-59</b>

**Note 8 • Investment expenses and charges**

	Group		Parent Company	
	2012	2011	2012	2011
<b>Operating expenses for land and buildings</b>	<b>-2</b>	<b>-1</b>	<b>-2</b>	<b>-1</b>
<b>Asset management costs</b>	<b>-79</b>	<b>-64</b>	<b>-44</b>	<b>-53</b>
<b>Interest expenses</b>				
Other interest expenses	-3	-43	-3	-2
- of which from financial assets not valued at fair value with changes in value reported in the income statement	-	-37	-	-
<b>Capital losses on foreign exchange, net</b>	<b>-211</b>	<b>-</b>	<b>-212</b>	<b>-</b>
<b>Capital losses</b>				
Foreign shares and participations	-71	-	-138	-
Group and associated companies	-	-	-20	-
Derivative financial instruments	-2	-24	-2	-
<b>Total</b>	<b>-368</b>	<b>-132</b>	<b>-421</b>	<b>-56</b>

**Note 9 • Net profit or net loss per category of financial instrument****Financial assets / Group 2012**

	Financial assets valued at fair value in the income statement	Financial assets held for trading	Available-for- sale financial instruments	Loan receivables and other accounts receivables	Total
Shares and participations	541	-	-	-	541
Derivative financial instruments	-	291	-	-	291
Bonds and other interest-bearing securities	383	-	492	-	875
Deposits with cedants	-	-	-	13	13
Cash and bank balance	-	-	-	13	13
<b>Total</b>	<b>924</b>	<b>291</b>	<b>492</b>	<b>26</b>	<b>1,733</b>

**Financial assets / Parent Company 2012**

	Financial assets valued at fair value in the income statement	Financial assets held for trading	Available-for- sale financial instruments	Loan receivables and other accounts receivables	Total
Shares and participations	13	-	-	-	13
Derivative financial instruments	-	291	-	-	291
Bonds and other interest-bearing securities	-	-	448	-	448
Deposits with cedants	-	-	-	13	13
Cash and bank balance	-	-	-	3	3
<b>Total</b>	<b>13</b>	<b>291</b>	<b>448</b>	<b>16</b>	<b>768</b>

**Financial assets / Group 2011**

	Financial assets identified valued at fair value in the income statement	Financial assets held for trading	Available-for- sale financial instruments	Loan receivables and other accounts receivables	Total
Shares and participations	84	-	-	-	84
Derivative financial instruments	-	-157	-	-	-157
Bonds and other interest-bearing securities	-18	-	488	-	470
Deposits with cedants	-	-	-	17	17
Cash and bank balance	-	-	-	6	6
Other debts	-	-	-	-36	-36
<b>Total</b>	<b>66</b>	<b>-157</b>	<b>488</b>	<b>-13</b>	<b>384</b>

**Financial assets / Parent Company 2011**

	Financial assets identified valued at fair value in the income statement	Financial assets held for trading	Available-for- sale financial instruments	Loan receivables and other accounts receivables	Total
Shares and participations	-32	-	-	-	-32
Derivative financial instruments	-	1	-	-	1
Bonds and other interest-bearing securities	-	-	456	-	456
Deposits with cedants	-	-	-	16	16
Cash and bank balance	-	-	-	5	5
<b>Total</b>	<b>-32</b>	<b>1</b>	<b>456</b>	<b>21</b>	<b>446</b>

The amounts in the table above constitute a specification of the amounts regarding financial instruments which are reported in the income statement as (i) return on capital, income, (ii) unrealized gains, (iii) return on capital, expenses, (iv) unrealized losses, with exception for (a) potential amortization and write-downs, (b) asset management costs and (c) exchange rate gains/losses.

Currency exchange gains amount to 80 (126) for the Group, of which -97 (256) refer to exchange rate losses on financial assets. Exchange rate losses on liabilities and other assets amount to 177 (-130).

## Note 10 • Taxes

### Income tax recognized in income statement

	Group		Parent Company	
	2012	2011	2012	2011
<b>Current tax expense (-)/[tax revenue (+)]</b>				
Current tax expenses	-206	-147	-202	-147
Tax adjustment attributable to previous years	26	41	-2	-
<b>Deferred tax expense (-)/[tax revenue (+)]</b>				
Deferred taxes	1,167	-17	-102	26
<b>Total reported tax</b>	<b>987</b>	<b>-123</b>	<b>-306</b>	<b>-121</b>

### Reconciliation of effective tax

Reconciliation of effective income tax rate for the Group and Parent Company to the Swedish income tax rate:

	Group		Parent Company	
	2012	2011	2012	2011
Tax according to applicable tax rate for the Parent Company	-26.3%	-26.3 %	-26.3%	-26.3 %
Effects of foreign tax rates	-1.2%	-0.2 %	-	-
Effects from change in tax rates	23.0%	-	0.4%	-
Tax effect from non-deductible expenses	-1.4%	-12.9 %	-1.1%	-1.6 %
Tax effect from non-taxable income	7.1%	8.6 %	2.2%	0.5 %
Current tax regarding previous years	-1.6%	9.3 %	-0.2%	0 %
Recognition of tax loss carry-forwards related to previous years	54.0%	-6.3 %	0.3%	0 %
<b>Reported effective tax</b>	<b>53.6%</b>	<b>-27.8 %</b>	<b>-24.7%</b>	<b>-27.4 %</b>

On November 21, 2012 the Swedish Parliament decided to reduce the corporate tax rate from 26.3 percent to 22 percent applicable from January 1, 2013. The new tax rate has affected the calculation of deferred tax assets and liabilities on December 31, 2012.

### Reported deferred tax assets and deferred tax liabilities / Group

	Deferred tax assets		Deferred tax liabilities		Net	
	2012	2011	2012	2011	2012	2011
Personnel-related provisions	39	45	-	-	39	45
Timing difference on recognition of underwriting result	266	361	-	-38	266	323
Other provisions	9	56	-57	-52	-48	4
Surplus value of securities	-	118	-233	-180	-233	-62
Safety reserve and accelerated depreciation	3	-	-2,132	-2,550	-2,129	-2,550
Tax loss carry-forwards	2,351	653	-	-	2,351	653
<b>Deferred tax balances, net</b>	<b>2,668</b>	<b>1,233</b>	<b>-2,422</b>	<b>-2,820</b>	<b>246</b>	<b>-1,587</b>

Deferred tax assets are only recognized to the extent that realization of the related tax benefit through future taxable profits is probable. Significant tax loss carry-forwards are related to countries with long or indefinite periods of utilization, mainly the US and Luxembourg. The most part of the deferred tax assets and liabilities will not be recognized within 12 months.

### Reported deferred tax assets and deferred tax liabilities / Parent Company

	Deferred tax assets		Deferred tax liabilities		Net	
	2012	2011	2012	2011	2012	2011
Personnel-related provisions	12	14	-	-	12	14
Other provisions	8	12	-	-	8	12
Surplus value of securities	-	-	-98	-6	-98	-6
Tax loss carry-forwards	-	15	-	-	-	15
<b>Deferred tax balances, net</b>	<b>20</b>	<b>41</b>	<b>-98</b>	<b>-6</b>	<b>-78</b>	<b>35</b>

### Unreported deferred tax assets

Unreported deferred tax assets for deductible temporary differences and tax loss carry-forwards amount to 1 (1)

Changes in deferred tax	Group		Parent Company	
	2012	2011	2012	2011
Opening balance	-1,587	-2,519	35	35
Acquisition of subsidiaries	656	982	-	-
Recognized in income statement	1,167	-17	-102	26
Recognized in other comprehensive income	-11	-29	-11	-26
Tax loss carry-forwards	21	-4	-	-
<b>Closing balance</b>	<b>246</b>	<b>-1,587</b>	<b>-78</b>	<b>35</b>

Taxes recognized in other comprehensive income mainly refer to available-for-sale financial assets -11 (-26).

## Note 11 • Intangible assets

	Group			Parent Company			Total
	Intangible assets -IT Capitalized expenditure for development work	Acquired intangible assets Goodwill <sup>1)</sup>	Other acquired intangible assets	Intangible assets -IT Capitalized expenditure for development work	Acquired intangible assets Goodwill <sup>1)</sup>	Total	
<i>Accumulated acquisition value</i>							
Opening balance January 1, 2011	93	615	-	708	93	460	553
Acquisitions for the year	38	5	2	46	38	-	38
Closing balance December 31, 2011	131	620	2	754	131	460	591
Opening balance January 1, 2012	131	620	2	754	131	460	591
Acquisitions for the year	37	-	67	104	37	-	37
Write-downs for the year	-	-5	-	-5	-	-	-
Reclassification of goodwill	-	-43	-	-43	-	-	-
Currency reevaluation effects	0	-	-	0	-	-	-
<b>Closing balance December 31, 2012</b>	<b>168</b>	<b>572</b>	<b>69</b>	<b>810</b>	<b>168</b>	<b>460</b>	<b>628</b>
<i>Accumulated amortization</i>							
Opening balance January 1, 2011	-71	-324	-	-395	-71	-252	-323
Depreciation for the year	-15	-	-	-15	-15	-4	-20
Closing balance December 31, 2011	-86	-324	-	-410	-86	-257	-343
Opening balance January 1, 2012	-86	-324	-	-410	-86	-257	-343
Depreciation for the year	-28	-	-	-28	-28	-4	-32
Reclassification of goodwill	-	43	-	43	-	-	-
<b>Closing balance December 31, 2012</b>	<b>-114</b>	<b>-281</b>	<b>-</b>	<b>-395</b>	<b>-114</b>	<b>-261</b>	<b>-375</b>
<b>Carrying amount</b>							
Per January 1, 2011	22	291	-	313	22	207	229
Per December 31, 2011	45	296	2	343	45	203	248
Per January 1, 2012	45	296	2	343	45	203	248
<b>Per December 31, 2012</b>	<b>54</b>	<b>291</b>	<b>69</b>	<b>415</b>	<b>54</b>	<b>199</b>	<b>253</b>
<i>Amortization for the year is included in the following rows of the income statement for 2011:</i>							
Operating costs	-15	-	-	-15	-15	-	-15
Other costs	-	-	-	-	-	-4	-4
<b>Total</b>	<b>-15</b>	<b>-</b>	<b>-</b>	<b>-15</b>	<b>-15</b>	<b>-4</b>	<b>-19</b>
<i>Amortization for the year is included in the following rows of the income statement for 2012:</i>							
Operating costs	-28	-5	-	-33	-28	-	-28
Other costs	-	-	-	-	-	-4	-4
<b>Total</b>	<b>-28</b>	<b>-5</b>	<b>-</b>	<b>-33</b>	<b>-28</b>	<b>-4</b>	<b>-32</b>

<sup>1)</sup> The Group and Parent Company goodwill derive from the acquired operation in Belgium, which is an identifiable cash generating unit. The amounts refer both to acquisition- and asset deal goodwill and are annually tested for impairment. The projected future cash flows have been discounted to present value and are based on a conservative assessment without any growth of the unit's earnings, based on historical and future earning patterns. The discount rate has been determined based on a market rate of return, i.e. WACC. The forecasted profit margin is currently equal to a combined ratio of approximately 95 %.

IT-related intangible assets include acquired licenses and capitalized expenses for development of business-critical systems. Other intangible assets mainly include insurance licenses, for a number of American states, identified at the acquisition of subsidiaries. The licenses have been valued at fair value by an independent advisory firm.

For the group, no depreciation is made on goodwill, the MSEK 324 is accumulated depreciations up to January 1, 2009 when IFRS was adopted. Write-down for the year of MSEK 5 is a write-down of goodwill for the holding in Passage2Health Ltd. For further information regarding depreciation, see Note 1, Accounting principles.

**Note 12 • Land and Buildings****Group and Parent Company**

<i>Acquisition cost</i>	
Opening balance January 1, 2011	18
Disposals	-1
Acquisitions	10
Closing balance December 31, 2011	27
Opening balance January 1, 2012	27
Disposals	-
Acquisitions	3
<b>Closing balance December 31, 2012</b>	<b>30</b>
<i>Depreciation</i>	
Opening balance January 1, 2011	-16
Disposals	1
Depreciation for the year	-1
Closing balance December 31, 2011	-16
Opening balance January 1, 2012	-16
Disposals	-
Depreciation for the year	-1
<b>Closing balance December 31, 2012</b>	<b>-17</b>
<i>Carrying amount</i>	
Per January 1, 2011	2
Per December 31, 2011	11
Per January 1, 2012	11
<b>Per December 31, 2012</b>	<b>13</b>

The Parent Company holds three properties, located in Sweden and Belgium. Sirius International accounts for the properties, including building supplies, according to the acquisition value method and the capitalized expenses are depreciated over 50 and 10 years, respectively. No depreciation is performed on land.

**Note 13 • Shares and participations in group companies**

Name of subsidiary	Registered offices, country	Participating interest, %	
		2012	2011
Passage2Health Ltd.	London, Great Britain	75	75
Sirius Rückversicherungs Service GmbH	Hamburg, Germany	100	100
Sirius Belgium Réassurances S.A.	Liège, Belgium	100	100
Sirius International Holdings (NL) B.V.	Amsterdam, The Netherlands	100	100
White Mountains Re Bermuda Ltd.	Hamilton, Bermuda	-	100
WM Phoenix (Luxembourg) S.à r.l.	Luxembourg	100	100
White Mountains Re Sirius Capital Ltd.	London, Great Britain	100	100
White Sands Holdings (Luxembourg) S.à r.l.	Luxembourg	100	-

**Parent Company**

	2012	2011
<b>Accumulated acquisition cost</b>		
Beginning of year	8,098	1,862
Acquisitions	-	1,185
Liquidations	-185	-
Capital contribution	959	3,028
Repayment of paid-up capital	-2	-35
Reclassification from associated companies	-	2,058
<b>End of year</b>	<b>8,870</b>	<b>8,098</b>
<b>Accumulated write-downs</b>		
Beginning of year	-781	-781
Liquidations	185	-
Write-downs for the year	-20	-
End of year	-616	-781
<b>Carrying amount December 31</b>	<b>8,254</b>	<b>7,317</b>

Write down of shares in subsidiaries is related to the holding of Passage2Health Ltd. which has been written down with MSEK 20 to a book value of SEK 0.

**Subsidiaries' shareholders' equity****2012**

<b>Name of subsidiary</b>	<b>Shareholders' equity</b>	<b>Shares %</b>	<b>Number of shares</b>	<b>Book value</b>	<b>Profit/loss</b>
Passage2Health Ltd.	6	75	Share capital total GBP 6,800 consisting of 6,800 shares with nom. GBP 1 per share	0	-10
Sirius Rückversicherungs Service GmbH	23	100	Share capital total EUR 51,129 consisting of 1 share nom. value EUR 51,129	1	4
Sirius Belgium Réassurances S.A.	11	100	Share capital total EUR 1,245,681 consisting of 700,000 shares without nom. value	13	0
Sirius International Holdings (NL) B.V.	1,306	100	Share capital total EUR 18,000 consisting of 180 shares with nom. EUR 100 per share	1,369	119
White Mountains Re Sirius Capital Ltd.	36	100	Share capital total GBP 1 consisting of 1 share with nom. GBP 1 per share	0	36
WM Phoenix (Luxembourg) S.à r.l.	6,281	100	Share capital total USD 42,266,200 consisting of 1,690,648 shares with nom. USD 25 per share	6,158	347
White Sands Holdings (Luxembourg) S.à r.l.	2	1	Share capital total SEK 145,055 consisting of 145,055 shares with nom. SEK	714	-1
<b>Total</b>	<b>7,665</b>			<b>8,254</b>	<b>495</b>

**2011**

<b>Name of subsidiary</b>	<b>Shareholders' equity</b>	<b>Shares %</b>	<b>Number of shares</b>	<b>Book value</b>	<b>Profit/loss</b>
Passage2Health Ltd.	16	75	Share capital total GBP 6,800 consisting of 6,800 shares with nom. GBP 1 per share	20	-4
Sirius Rückversicherungs Service GmbH	15	100	Share capital total EUR 51,129 consisting of 1 share nom. value EUR 51,129	1	4
Sirius Belgium Réassurances S.A.	11	100	Share capital total EUR 1,245,681 consisting of 700,000 shares without nom. value	13	0
Sirius International Holdings (NL) B.V.	1,005	100	Share capital total EUR 18,000 consisting of 180 shares with nom. EUR 100 per share	1,124	-159
White Mountains Re Bermuda Ltd.	2	100	Share capital total 120,000 USD consists of 120,000 shares nom. USD 1 per share	1	-1
White Mountains Re Sirius Capital Ltd.	1	100	Share capital total GBP 1 consisting of 1 share with nom. GBP 1 per share	0	-1
White Mountains Phoenix (Luxembourg) S.à r.l.	6,338	100	Share capital total USD 42,266,200 consisting of 1,690,648 shares with nom. USD 25 per share	6,158	10
<b>Total</b>	<b>7,388</b>			<b>7,317</b>	<b>-151</b>

**Note 14 • Investments in shares and participations**

	<b>Fair value</b>		<b>Acquisition cost</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Group</b>	3,567	3,300	3,527	3,575
<b>Parent Company</b>	<b>Fair value</b>		<b>Acquisition cost</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Parent Company</b>	549	667	613	783

Further information on financial instruments can be found in Note 18.





**Note 15 • Bonds and other interest-bearing securities**

Group	Fair value		Acquisition cost	
	2012	2011	2012	2011
Swedish government	1,175	2,688	1,148	2,632
Swedish mortgage institutions	0	156	0	152
Other Swedish issuers	791	696	764	675
Foreign governments	5,588	6,463	5,541	6,381
Other foreign issuers	10,681	8,816	10,345	8,640
<b>Total</b>	<b>18,235</b>	<b>18,819</b>	<b>17,798</b>	<b>18,480</b>
<i>Of which listed</i>	18,235	18,731	17,798	18,391
<b>Difference compared to nominal value</b>				
Total excess amount	1,154	1,111	812	753
Total shortfall	24	95	3	75

Parent Company	Fair value		Acquisition cost	
	2012	2011	2012	2011
Swedish government	1,175	2,687	1,148	2,632
Swedish mortgage institutions	0	156	0	152
Other Swedish issuers	791	696	764	675
Foreign governments	2,829	2,128	2,803	2,102
Other foreign issuers	5,246	3,805	5,078	3,746
<b>Total</b>	<b>10,041</b>	<b>9,472</b>	<b>9,793</b>	<b>9,307</b>
<i>Of which listed</i>	10,041	9,472	9,793	9,307
<b>Difference compared to nominal value</b>				
Total excess amount	640	503	398	323
Total shortfall	6	33	1	17

**Note 16 • Derivative financial instruments**

	Group		Parent Company	
	2012	2011	2012	2011
Derivatives with underlying security currency	326	30	326	30
<b>Total</b>	<b>326</b>	<b>30</b>	<b>326</b>	<b>30</b>

Currency derivatives of nominal MUSD 600 against SEK mainly concern contracts with internal counterparties. The company has entered into three internal currency hedging agreements with Sirius International Financial Services LTD, in order to adjust the company's currency exposure against USD in accordance with established limits.

Trough foreign exchange options, the currency futures transactions are settled on the basis of an exchange rate cap and exchange rate floor (average rate 5.02 SEK/USD and 11.73 SEK/USD). The remaining average term is 17 months.

The currency hedge agreements are valued monthly.

Currency hedging with external counterparties occurs to a limited extent for the currencies USD, EUR and GBP.

**Note 17 • Other debtors**

	Group		Parent Company	
	2012	2011	2012	2011
Other debtors, group companies <sup>1)</sup>	127	2	125	244
Other debtors	185	187	77	49
<b>Total</b>	<b>312</b>	<b>189</b>	<b>202</b>	<b>293</b>

<sup>1)</sup> Group companies are defined as companies within the White Mountains-Group.

<sup>2)</sup> The majority of the receivables have a duration less than three months.

**Note 18 • Categories of financial assets and liabilities and their fair values**

Financial assets Group 2012	Loan receivables and accounts receivables	Financial assets valued at fair value via the income statement	Available-for- sale financial assets	Total carrying amount	Fair value	Acquisition value
Shares and participations	-	3,567	-	3,567	3,567	3,527
Derivative financial instruments <sup>1)</sup>	-	326	-	326	326	16
Bonds and other interest-bearing securities	-	8,193	10,041	18,234	18,234	18,162
Accrued income	459	66	124	649	649	649
Other debtors	379	-	-	379	379	379
<b>Total</b>	<b>838</b>	<b>12,152</b>	<b>10,165</b>	<b>23,155</b>	<b>23,155</b>	<b>22,733</b>

Group 2011	Loan receivables and accounts receivables	Financial assets valued at fair value via the income statement	Available-for- sale financial assets	Total carrying amount	Fair value	Acquisition value
Shares and participations	-	3,300	-	3,300	3,300	3,575
Derivative financial instruments <sup>1)</sup>	-	30	-	30	30	12
Bonds and other interest-bearing securities	-	9,347	9,472	18,819	18,819	18,523
Accrued income	494	71	130	695	695	695
Other debtors	189	-	-	189	189	189
<b>Total</b>	<b>683</b>	<b>12,748</b>	<b>9,602</b>	<b>23,033</b>	<b>23,033</b>	<b>22,994</b>

Parent Company 2012	Loan	Financial	Available-for-sale financial assets	Total carrying amount	Fair value	Acquisition value
	receivables and accounts receivables	assets valued at fair value via the income statement				
Shares and participations	-	549	-	549	549	613
Derivative financial instruments <sup>1)</sup>	-	326	-	326	326	16
Bonds and other interest-bearing securities	-	-	10,041	10,041	10,041	10,159
Accrued income	285	-	124	409	409	409
Other debtors	202	-	-	202	202	202
<b>Total</b>	<b>487</b>	<b>875</b>	<b>10,165</b>	<b>11,527</b>	<b>11,527</b>	<b>11,399</b>

Parent Company 2011	Loan	Financial	Available-for-sale financial assets	Total carrying amount	Fair value	Acquisition value
	receivables and accounts receivables	assets valued at fair value via the income statement				
Shares and participations	-	667	-	667	667	783
Derivative financial instruments <sup>1)</sup>	-	30	-	30	30	12
Bonds and other interest-bearing securities	-	-	9,472	9,472	9,472	9,333
Accrued income	362	-	130	492	492	492
Other debtors	293	-	-	293	293	293
<b>Total</b>	<b>655</b>	<b>697</b>	<b>9,602</b>	<b>10,954</b>	<b>10,954</b>	<b>10,913</b>

<sup>1)</sup> Derivatives are classified as Financial instruments held for trading.

#### Financial liabilities

##### Group 2012

	Other financial liabilities	Carrying amount	Fair value
Other liabilities	1,400	1,400	1,400
Accrued expenses	321	321	321
<b>Total</b>	<b>1,721</b>	<b>1,721</b>	<b>1,721</b>

##### Group 2011

	Other financial liabilities	Carrying amount	Fair value
Other liabilities	814	814	814
Accrued expenses	350	350	350
<b>Total</b>	<b>1,164</b>	<b>1,164</b>	<b>1,164</b>

##### Parent Company 2012

	Other financial liabilities	Carrying amount	Fair value
Other liabilities	1,325	1,325	1,325
Accrued expenses	185	185	185
<b>Total</b>	<b>1,510</b>	<b>1,510</b>	<b>1,510</b>

##### Parent Company 2011

	Other financial liabilities	Carrying amount	Fair value
Other liabilities	690	690	690
Accrued expenses	199	199	199
<b>Total</b>	<b>889</b>	<b>889</b>	<b>889</b>

In the tables below, data is provided regarding the determination of fair value for financial instruments valued at fair value in the balance sheet. The determination of fair values is categorized according to the following three levels:

**Level 1:** Based on prices listed on a active market for identical assets or liabilities

**Level 2:** Based on directly (according to price listings) or indirectly (derived from price listings) observable market data for assets or liabilities that are not included in Level 1

**Level 3:** Based on input data that is not observable on the market

Group / 2012	Level 1	Level 2	Level 3	Total
Shares and participations	2,324	363	879	3,566
Derivatives	-	-	326	326
Bonds and other interest-bearing securities	4,220	14,015	-	18,235
<b>Total</b>	<b>6,544</b>	<b>14,378</b>	<b>1,205</b>	<b>22,127</b>

Group / 2011	Level 1	Level 2	Level 3	Total
Shares and participations	1,693	614	993	3,300
Derivatives	-	-	30	30
Bonds and other interest-bearing securities	4,044	14,687	88	18,819
<b>Total</b>	<b>5,737</b>	<b>15,301</b>	<b>1,111</b>	<b>22,149</b>

Parent Company / 2012	Level 1	Level 2	Level 3	Total
Shares and participations	-	360	189	549
Derivatives	-	-	326	326
Bonds and other interest-bearing securities	3,190	6,851	-	10,041
<b>Total</b>	<b>3,190</b>	<b>7,211</b>	<b>515</b>	<b>10,916</b>

Parent Company / 2011	Level 1	Level 2	Level 3	Total
Shares and participations	-	348	319	667
Derivatives	-	-	30	30
Bonds and other interest-bearing securities	3,228	6,244	0	9,472
<b>Total</b>	<b>3,228</b>	<b>6,592</b>	<b>349</b>	<b>10,169</b>

The fair value of financial instruments traded on an active market is based on the listed price on balance sheet date. A market is seen to be active in cases where listed prices from a stock exchange, broker, industry group, pricing service or supervisory authority are easily accessible, and where these prices represent genuine, regularly-occurring market transactions conducted at arm's length. The listed market price applied in determining the fair value of instruments that are to be found in Level 1 is the current buying-rate

Fair values of financial instruments which are not traded on an active market are determined with the aid of valuation techniques. This procedure applies, as far as possible, such market information as is available, while information specific to a company is applied as little as possible. If all significant input data required in determining the fair value of an instrument is observable, the instrument is to be found in Level 2 or 3.

Specific valuation techniques applied in valuing financial instruments include:

- Listed market prices or broker listings for similar instruments.
- Fair value of interest swaps is determined as the current value of estimated future cash flows, based on observable yield curves.
- Fair value for currency forward exchange agreements is determined through the use of exchange rates for forward exchanges on balance sheet date, at which point the resulting value is discounted to current value.
- Other techniques, such as the calculation of discounted cash-flows, are applied in determining fair value for any financial instruments not covered by the above techniques.

All fair values determined with the aid of these valuation techniques are to be found in Level 2.

In the event that one or more significant input data figures are not based on observable market information, the associated instrument is to be classified in Level 3.

The tables below shows a reconciliation of opening and closing balance data for financial instruments valued at fair value in the balance sheet, on the basis on non-observable input data (Level 3).

<b>Group / 2012</b>	<b>Shares and participations</b>	<b>Derivatives</b>	<b>Bonds</b>	<b>Total</b>
Opening balance January 1, 2012	993	30	88	1,111
Total reported profit/loss:				
- reported in profit/loss for the year <sup>1)</sup>	-46	294	6	254
<i>Acquired balances</i>				
Acquisition cost, purchase	53	-	-	53
Proceeds of sale, sales	-82	2	-89	-169
Transfer from Level 3	-	-	-	-
Transfer into Level 3	-	-	-	-
FX difference	-39	-	-5	-44
<b>Closing balance December 31, 2012</b>	<b>879</b>	<b>326</b>	<b>0</b>	<b>1,205</b>
Profit/loss reported in profit/loss for the year for assets included in the closing balance December 31, 2012 <sup>1)</sup>	-46	294	6	254

<b>Parent Company / 2012</b>	<b>Shares and participations</b>	<b>Derivatives</b>	<b>Bonds</b>	<b>Total</b>
Opening balance January 1, 2012	319	30	-	349
Total reported profit/loss:				
- reported in profit/loss for the year <sup>1)</sup>	-118	294	-	176
Acquisition cost, purchase	-	-	-	-
Proceeds of sale, sales	-12	2	-	-10
Transfer from Level 3	-	-	-	-
Transfer into Level 3	-	-	-	-
<b>Closing balance December 31, 2012</b>	<b>189</b>	<b>326</b>	<b>-</b>	<b>515</b>
Profit/loss reported in profit/loss for the year for assets included in the closing balance December 31, 2012 <sup>1)</sup>	-118	294	-	176

Group / 2011	Shares and participations	Derivatives	Bonds	Total
Opening balance January 1, 2011	529	273	-	802
Total reported profit/loss:				
- reported in profit/loss for the year <sup>1)</sup>	-24	-158	-	-182
Acquired balances	985		246	1,231
Acquisition cost, purchase	-	6	-	6
Proceeds of sale, sales	-497	-87	-	-584
Transfer from Level 3	-	-	-245	-245
Transfer into Level 3	3	-	88	91
FX difference	-3	-4	-1	-8
<b>Closing balance December 31, 2011</b>	<b>993</b>	<b>30</b>	<b>88</b>	<b>1,111</b>
Profit/loss reported in profit/loss for the year for assets included in the closing balance December 31, 2011 <sup>1)</sup>	-24	-158	-	-182
<b>Parent Company / 2011</b>				
Parent Company / 2011	Shares and participations	Derivatives	Bonds	Total
Opening balance January 1, 2011	529	24	-	553
Total reported profit/loss:				
- reported in profit/loss for the year <sup>1)</sup>	-33	-	-	-33
Acquisition cost, purchase	-	6	-	6
Proceeds of sale, sales	-180	-	-	-180
Transfer from Level 3	-	-	-	-
Transfer into Level 3	3	-	-	3
<b>Closing balance December 31, 2011</b>	<b>319</b>	<b>30</b>	<b>-</b>	<b>349</b>
Profit/loss reported in profit/loss for the year for assets included in the closing balance December 31, 2011 <sup>1)</sup>	-33	-	-	-33

<sup>1)</sup> Reported in net income of financial transactions in profit/loss for the year.  
Financial instruments classified in Level 3 are to some extent funds valued at NAV-rate.

**Note 19 • Tangible assets**

	Group Equipment	Parent Company Equipment
<i>Acquisition cost</i>		
Opening balance January 1, 2011	86	85
Acquisition	23	23
Acquired balances	59	-
Disposals	-16	-8
Currency reevaluation effect	0	-
Closing balance December 31, 2011	152	100
Opening balance January 1, 2012	152	100
Acquisition	34	32
Disposals	-9	-8
Currency reevaluation effect	-3	-
<b>Closing balance December 31, 2012</b>	<b>174</b>	<b>124</b>
<i>Depreciations</i>		
Opening balance January 1, 2011	-54	-54
Acquired balances	-52	-
Depreciation for the year	-13	-13
Disposals	14	7
Currency reevaluation effect	0	-
Closing balance December 31, 2011	-105	-60
Opening balance January 1, 2012	-105	-60
Depreciation for the year	-25	-21
Disposals	8	7
Currency reevaluation effect	2	-
<b>Closing balance December 31, 2012</b>	<b>-120</b>	<b>-74</b>
<i>Carrying amount</i>		
Per January 1, 2011	32	31
Per December 31, 2011	47	40
Per January 1, 2012	47	40
<b>Per December 31, 2012</b>	<b>54</b>	<b>50</b>

**Note 20 • Deferred acquisition costs**

	Group		Parent Company	
	2012	2011	2012	2011
Opening balance	471	386	341	386
Acquired portfolio	0	118	-	-
Capitalization for the year	351	323	252	296
Depreciation/amortization for the year	-357	-359	-310	-344
Exchange rate gains/losses	-26	3	-17	3
<b>Closing balance</b>	<b>439</b>	<b>471</b>	<b>266</b>	<b>341</b>

**Note 21 • Untaxed reserves**

<b>Parent Company</b>	<b>2012</b>	<b>2011</b>
<i>Accumulated accelerated depreciation, goodwill and equipment</i>		
Opening balance January 1	35	40
Change for the year	-10	-5
Closing balance December 31	25	35
<i>Appropriation to safety reserve</i>		
Opening balance January 1	9,647	9,647
Change for the year	-	-
Closing balance December 31	9,647	9,647
<b>Total</b>	<b>9,672</b>	<b>9,682</b>



**Note 22 • Provisions for unearned premiums and unexpired risks**

Provisions for unearned premiums / Group	2012			2011		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Opening balance	2,182	-439	1,743	1,936	-403	1,533
Acquired portfolio	3	-3	0	395	11	406
Insurance policies signed during period	1,718	-437	1,281	1,479	-289	1,190
Earned premiums for the period	-1,640	379	-1,261	-1,663	254	-1,409
Currency effect	-143	37	-106	35	-12	23
<b>Closing balance</b>	<b>2,120</b>	<b>-463</b>	<b>1,657</b>	<b>2,182</b>	<b>-439</b>	<b>1,743</b>

Provisions for unexpired risks / Group	2012			2011		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Opening balance	118	-87	31	126	-93	33
Previous year's provisions included in profit/loss	-31	22	-9	-10	8	-2
Currency effect	-6	4	-2	2	-2	-
<b>Closing balance</b>	<b>81</b>	<b>-61</b>	<b>20</b>	<b>118</b>	<b>-87</b>	<b>31</b>

Provisions for unearned premiums / Parent Company	2012			2011		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Opening balance	1,730	-442	1,288	1,936	-403	1,533
Insurance policies signed during period	1,456	-441	1,015	1,487	-369	1,118
Earned premiums for the period	-1,577	389	-1,188	-1,726	341	-1,385
Currency effect	-111	38	-73	33	-11	22
<b>Closing balance</b>	<b>1,498</b>	<b>-456</b>	<b>1,042</b>	<b>1,730</b>	<b>-442</b>	<b>1,288</b>

Provisions for unexpired risks / Parent Company	2012			2011		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Opening balance	118	-87	31	126	-93	33
Previous year's provisions included in profit/loss	-31	22	-9	-10	8	-2
Currency effect	-5	4	-1	2	-2	-
<b>Closing balance</b>	<b>82</b>	<b>-61</b>	<b>21</b>	<b>118</b>	<b>-87</b>	<b>31</b>

**Note 23 • Claims reserve**

Group	2012			2011		
	Gross	Reinsurers'	Net	Gross	Reinsurers'	Net
		share			share	
Opening balance, reported claims	7,882	-1,454	6,428	4,831	-1,124	3,707
Opening balance, incurred but not reported claims (IBNR)	12,418	-6,131	6,287	6,251	-4,432	1,819
Opening balance	20,300	-7,585	12,715	11,082	-5,556	5,526
Acquired portfolio	190	-91	99	8,475	-1,049	7,426
Cost for claims incurred - current year	3,003	-359	2,644	2,625	-477	2,148
Cost for claims incurred - prior years	-415	1,463	1,048	1,895	-918	977
Claims handling expense	176	0	176	170	-	170
Paid claims	5,085	-763	4,322	4,020	-736	3,284
Currency effect	-1,452	867	-585	413	-321	92
<b>Closing balance</b>	<b>16,365</b>	<b>-4,942</b>	<b>11,423</b>	<b>20,300</b>	<b>-7,585</b>	<b>12,715</b>
Closing balance, reported claims	7,264	-1,359	5,905	7,882	-1,454	6,428
Closing balance, incurred but not reported claims (IBNR)	9,101	-3,583	5,518	12,418	-6,131	6,287

Parent Company	2012			2011		
	Gross	Reinsurers'	Net	Gross	Reinsurers'	Net
		share			share	
Opening balance, reported claims	4,272	-908	3,364	4,831	-1,124	3,707
Opening balance, incurred but not reported claims (IBNR)	7,673	-5,637	2,036	6,251	-4,432	1,819
Opening balance	11,945	-6,545	5,400	11,082	-5,556	5,526
Cost for claims incurred - current year	1,990	-358	1,632	2,238	-476	1,762
Cost for claims incurred - prior years	-899	1,393	494	1,785	-839	946
Claims handling expense	128	0	128	159	-	159
Paid claims	3,130	-684	2,446	3,444	-650	2,794
Currency effect	-1,025	841	-184	443	-324	119
<b>Closing balance</b>	<b>8,753</b>	<b>-3,985</b>	<b>4,768</b>	<b>11,945</b>	<b>-6,545</b>	<b>5,400</b>
Closing balance, reported claims	3,985	-861	3,124	4,272	-908	3,364
Closing balance, incurred but not reported claims (IBNR)	4,768	-3,124	1,644	7,673	-5,637	2,036

**Note 24 • Equalisation provision**

	Parent Company	
	2012	2011
Opening balance	61	12
Provision for the year	25	49
<b>Closing balance</b>	<b>86</b>	<b>61</b>

**Note 25 • Claims handling provision**

	Group		Parent Company	
	2012	2011	2012	2011
Opening balance	254	129	142	129
Acquired portfolio	16	115	0	-
Release of provision made in prior years	-66	-34	-39	-28
Provision for the year	51	44	31	41
Currency effect	-8	0	-2	0
<b>Closing balance</b>	<b>247</b>	<b>254</b>	<b>132</b>	<b>142</b>

**Note 26 • Employee benefits**

Pension provisions	Group		Parent Company	
	2012	2011	2012	2011
Pension provision – defined benefit plans Sweden	-3	-4	9	7
Pension provision – other defined benefit plans	8	6	-	-
<b>Total</b>	<b>5</b>	<b>2</b>	<b>9</b>	<b>7</b>

**Specification of provisions for employee benefits**

In a defined benefit plan, the employer guarantees that the employee will receive a defined level of benefit upon retirement, based on one or more factors, such as age, length of service and salary. The group calculates its provisions and expenses based on the conditions of the guaranteed pension obligations, as well as on its own assumptions regarding future development.

The provision reported in the balance sheet for defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period, less the fair value of plan assets, adjusted for unrecognized actuarial gains and losses, and unrecognized service costs related to prior periods. Actuarial gains and losses arise if actual outcome deviates from calculated, defined assumptions, or if there is a change in assumptions. The defined pension obligation is calculated annually by independent actuaries, applying the projected unit credit method. The net present value of the obligation is defined by discounting of estimated future cash flows, using the interest rate of high quality mortgage bonds that are emitted in the same currency in which the obligations are to be paid, with durations comparable to the duration of the current pension obligation.

The group applies the corridor method, implying that actuarial net losses are recorded when the opening balance

of actuarial losses exceeds 10% of either the projected benefit obligation or of investment assets. As the actuarial net loss amount does not exceed the corridor amount, there is no surplus to amortize through the income statement during the employees' remaining period of service.

The group has defined benefit plans in Sweden (collective agreement) and Germany which are based on the employees' pension entitlements and length of employment. In Germany all employees are included in the plan. In Sweden only employees born 1971 or earlier are covered by defined benefit plans and, thus, form part of the FTP2. Furthermore, there are two variations of retirement earlier than at the age of 65. Employees born 1955 and earlier have the possibility to retire between the ages of 62 and 65 according to local agreement. Staff employed before 1 January, 2004 have the right to retire from the age of 64. These plans are also defined benefit plans and are reflected in financial statements of both the Group and the Parent Company.

Employees in Sweden born 1972 or later, are covered by a defined contribution plan, FTP1.

Employees outside Sweden and Germany are mainly covered by defined contribution plans in which the employer has a responsibility for the employees' pension.

Amounts in the balance sheet for defined benefit plans / Group	2012	2011
Defined benefit obligations	79	67
Fair value of plan assets	-69	-61
<b>Sub-total</b>	<b>10</b>	<b>6</b>
Net cumulative unrecognized actuarial losses	-5	-4
<b>Provisions for defined benefit plans</b>	<b>5</b>	<b>2</b>

<b>Pension cost recognized in the income statement / Group</b>	<b>2012</b>	<b>2011</b>
Current service cost	7	1
Interest cost	2	2
Expected return on plan assets	-2	-2
Amortization of actuarial net loss	-	-
<b>Pension cost for defined benefit plans</b>	<b>7</b>	<b>1</b>
Paid premiums, defined contribution plans	51	70
<b>Total pension cost<sup>1)</sup></b>	<b>58</b>	<b>71</b>

<sup>1)</sup> The pension cost for the year does not include special salary tax, which is disclosed in note 30 in the table "Remuneration to employees".

<b>Changes in defined benefit obligations / Group</b>	<b>2012</b>	<b>2011</b>
Opening balance pension obligation	67	59
Current service cost	7	1
Interest cost, pension obligation	2	3
Actuarial gains and losses, net	6	3
Release of obligation by payment	-3	-2
Transition	-	3
Exchange differences on foreign plans	0	0
<b>Closing balance pension obligation</b>	<b>79</b>	<b>67</b>

<b>Changes in plan assets / Group</b>	<b>2012</b>	<b>2011</b>
Opening balance plan assets at fair value	61	53
Expected return on plan assets	1	2
Actuarial gains and losses, net	5	-1
Contributions	4	8
Release of obligation by payment	-2	-2
Exchange differences on foreign plans	0	1
<b>Closing balance plan assets at fair value</b>	<b>69</b>	<b>61</b>

The investment assets' fair value, as per December 31, 2012, is lower than the value of the Group's defined benefit pension commitments. This is due to the Group having a non-funded commitment, for the portion of the Group's benefit-based pension plans which facilitate retirement between 62 and 65 years of

age. Actual retirements are settled when the decision regarding retirement is made. In conjunction with such a decision, the total pension premium is paid to the company's pension administrator for the period up to 65 years of age. During the year, three individuals have exercised the opportunity to take early retirement.

<b>Unrecognized actuarial net loss / Group</b>	<b>2012</b>	<b>2011</b>
Opening balance actuarial net losses	4	1
<i>Defined benefit obligations</i>		
The period's experience effect on actuarial net gains (-)/net losses (+) on pension obligations	6	3
Amortization of actuarial net gains/losses	-	-
<i>Plan assets</i>		
The period's experience effect on actuarial net gains (-)/net losses (+) on plan assets	-5	0
Amortization of actuarial net gains/losses	-	-
<b>Closing balance actuarial net losses</b>	<b>5</b>	<b>4</b>

Corridor method / Group	2013	2012	2011
Opening balance actuarial net losses	5	4	1
Corridor amount	7	6	5
Expected remaining service time (years)	14.0	14.7	14.9
Gains/losses subject to amortization	-	-	-

Actuarial assumptions, percentages / Group	2012	2011
Discount rate, January 1	3.7 %	5.0 %
Discount rate, December 31	3.3 %	3.7 %
Expected return on plan assets	3.0 %	3.0 %
Expected salary increases, January 1	2.9 %	2.9 %
Expected salary increases, December 31	3.0 %	2.9 %
Indexation of benefits	1.5 %	1.4 %
Indexation of income base amount, January 1	2.4 %	2.4 %
Indexation of income base amount, December 31	2.5 %	2.4 %
Staff turnover	3.0 %	3.0 %

When calculating the expense for defined benefit obligations, assumptions are made regarding the future development of factors which may influence the size of expected payments. The discount rate is the interest rate applied to discount the value of expected payments. This rate is fixed applying a market rate with a remaining duration equivalent to the pension obligations. The group's applied discount rate, for the Swedish defined obligations, is based on Swedish mortgage bonds.

Assets to secure these pension obligations are invested in a variety of financial instruments by Sirius pension investment manager. The expected return on plan assets mirrors the expected

average yearly return on those financial instruments for the remaining duration.

Expected future annual salary increases is mirrored by composition of effects from collective agreements and salary drift.

Final benefits according to FTP are governed by Swedish base income amount (inkomstbasbeloppet). Consequently, there is a requirement to assess future base income amounts. Annual pension increases also need to be considered, as these have historically always taken place.

Assumptions about the beneficiaries' life expectancy comply with FFFS 2007:31 (DUS06) and are updated annually.

Three-year summary / Group	2012	2011	2010
Defined benefit obligations	-79	-67	-59
Fair value of plan assets	69	61	53
<b>Total</b>	<b>-10</b>	<b>-6</b>	<b>-6</b>
<b>Actuarial gains (-) losses (+) for the year</b>			
Pension obligations	6	3	1
Plan assets	-5	0	-

## Note 27 • Other creditors

	Group		Parent Company	
	2012	2011	2012	2011
Amounts due to group companies <sup>1)</sup>	1,231	595	1,257	609
Other debtors	169	219	68	81
<b>Total<sup>2)</sup></b>	<b>1,400</b>	<b>814</b>	<b>1,325</b>	<b>690</b>

<sup>1)</sup> Group companies are defined as companies within the White Mountains-group.

<sup>2)</sup> The majority of the liabilities have a duration less than one year.

**Note 28 • Contingent liabilities and commitments**

	Group		Parent Company	
	2012	2011	2012	2011
<b>Pledged assets for own liabilities and provisions</b>				
Bonds and other interest-bearing securities	8,675	9,528	7,559	8,453
Cash and bank	195	223	142	170
<b>Assets for which policy holders have preferential rights</b>	<b>8,870</b>	<b>9,751</b>	<b>7,701</b>	<b>8,623</b>

On the basis of the stipulations in Chapter 7, Section 11 of the Insurance Business Act, registered assets amount to MSEK 6,460. In the case of insolvency, the insured has preferential rights to the registered assets. During the course of operations, the Company has the right to register and de-register assets from the register, provided that all insurance commitments are covered by technical provisions in accordance with the Insurance Business Act.

	Group		Parent Company	
	2012	2011	2012	2011
<b>Contingent liabilities and other commitments</b>				
<i>Nominal amount</i>				
Guarantees on behalf of subsidiary	1,970	1,458	1,970	1,458
Future commitments for investments in private equity companies	161	174	53	56
<b>Total</b>	<b>2,131</b>	<b>1,632</b>	<b>2,023</b>	<b>1,514</b>

**Note 29 • Associated parties****Summary of transactions with associated companies within the White Mountains Group****Group / 2012**

	Premium income, net	Indemnification	Purchased sold services	Receivables	Liabilities
White Mountains Life Re Ltd. – ceded reinsurance	-213	-1,582	-	2,845 <sup>1)</sup>	14
Sirius International Holding - administrative services	-	-	-3	-	-
Sirius International Financial Services LLC – financial services	-	-	-	1,292	16
Sirius Insurance Holding Sweden AB – group contributions and short-term receivables	-	-	-	49	533
Fund American Holdings AB – group contributions and dividends	-	-	-	-	680
White Mountains Advisors LLC – financial services	-	-	-41	-	4
White Mountains Capital Inc – administrative services	-	-	3	-	-
White Mountains Insurance Group – administrative services	-	-	2	2	-
Scandinavian Reinsurance Company Ltd. – administrative services	-	-	2	-	-
Sirius International Insurance Group Ltd.–administrative services	-	-	14	-	-
Sirius International Group Ltd. – administrative services	-	-	-	-	25
White Mountains International S.à r.l. – administrative services	-	-	-	-	1
OneBeacon Insurance Group Ltd. – liability insurance and dividends	-	-	40	-	-
Symetra Financial Corporation – dividends	-	-	20	-	-
<b>Total</b>	<b>-213</b>	<b>-1,582</b>	<b>37</b>	<b>4,188</b>	<b>1,273</b>

## Parent Company / 2012

	Premium income, net	Indemni- fication	Purchased sold services	Receivables	Liabilities
Sirius America Insurance Company – assumed reinsurance	185	-318	-	210	-
Sirius America Insurance Company – ceded reinsurance	-4	21	-	-	89
Sirius America Insurance Company – administrative services	0	0	-5	-	-4
White Mountains Life Re Ltd. – ceded reinsurance	-213	-1,582	-	2,845 <sup>1)</sup>	14
Sirius International Holdings Ltd. - administrative services	-	-	-3	-	1
Sirius International Financial Services LLC – financial services	-	-	-	326	16
Sirius Insurance Holding Sweden AB – group contributions and short-term receivables	-	-	-	49	533
Fund American Holdings AB – group contributions and dividends	-	-	-	-	680
White Mountains Advisors LLC – financial services	-	-	-21	-	4
Scandinavian Reinsurance Company Ltd. – administrative services	-	-	2	-	-
Syndicate 1945 – intra group receivables	-	-	-	69	-
White Mountains Re Sirius Capital Ltd. – intra-group receivables	-	-	-	7	-
Sirius Rückversicherungs Service GmbH – intra-group payables	-	-	-24	-	26
Sirius Belgium Réassurances S.A – intra-group payables	-	-	-	-	1
OneBeacon Insurance Group Ltd. - liability insurance	-	-	-1	-	-
<b>Total</b>	<b>-32</b>	<b>-1,879</b>	<b>-52</b>	<b>3,506</b>	<b>1,360</b>

## Group / 2011

	Premium income, net	Indemni- fication	Purchased sold services	Receivables	Liabilities
Sirius America Insurance – assumed reinsurance <sup>2)</sup>	122	21	-	-	-
Sirius America Insurance – ceded reinsurance <sup>2)</sup>	-22	19	-	-	-
Sirius America Insurance – administrative services <sup>2)</sup>	-	-	2	-	-
Esurance – assumed reinsurance	- 42	44	-	-	-
White Mountains Life Re Ltd. – ceded reinsurance	-209	857	-	5,253 <sup>1)</sup>	16
Sirius Global Services – administrative services <sup>2)</sup>	-	-	5	-	-
Sirius International Holdings Ltd. - administrative services	-	-	5	-	1
Sirius International Financial Services LLC – financial services	-	-	-1	1,021	13
Sirius Insurance Holding Sweden AB – group contributions	-	-	-	-	374
Fund American Holdings AB – group contributions	-	-	-	-	190
White Mountains Advisors LLC – financial services	-	-	-25	-	11
White Mountains Capital Inc – administrative services	-	-	-	-	1
Sirius International Insurance Group Ltd –administrative services	-	-	-5	2	-
Sirius International Group Ltd. – administrative services	-	-	-	-	3
White Mountains International S.à r.l. – administrative services	-	-	-	-	1
OneBeacon Insurance Group Ltd. – dividends	-	-	71	-	-
Symetra Financial Corporation – dividends	-	-	12	-	-
<b>Total</b>	<b>-151</b>	<b>941</b>	<b>64</b>	<b>6,276</b>	<b>610</b>

## Parent Company / 2011

	Premium income, net	Indemni- fication	Purchased sold services	Receivables	Liabilities
Sirius America Insurance – assumed reinsurance	147	26	-	499	-
Sirius America Insurance – ceded reinsurance	-25	22	-	1	-
Sirius America Insurance – administrative services	-	-	3	-	-
Esurance – assumed reinsurance	-42	44	-	-	-
White Mountains Life Re Ltd. – ceded reinsurance	-209	857	-	5,253 <sup>1)</sup>	16
Sirius Global Services – administrative services	-	-	7	-	2
Sirius International Holdings Ltd. - administrative services	-	-	5	-	1
Sirius International Financial Services LLC – financial services	-	-	-1	-	13
Sirius Insurance Holding Sweden AB – group contributions	-	-	-	-	374
Fund American Holdings AB – group contributions	-	-	-	-	190
White Mountains Advisors LLC – financial services	-	-	19	-	5
Sirius International Holding NL (BV) – anticipated dividend	-	-	-	205	-
Syndicate 1945 – intra-group receivables	-	-	-	32	-
White Mountains Re Sirius Capital Ltd. – intra-group receivables	-	-	-	7	-
Sirius Rückversicherungs Service GmbH – intra-group payables	-	-	-	-	22
Sirius Belgium Réassurances S.A – intra-group payables	-	-	-	-	1
<b>Total</b>	<b>-129</b>	<b>949</b>	<b>-5</b>	<b>5,997</b>	<b>624</b>

<sup>1)</sup> Refers to reinsurer's share of outstanding claims.

<sup>2)</sup> Refers to reinsurance and services purchased during 9 months 2011. As of October 1, 2011, all companies within the White Mountains Phoenix (Luxembourg) S.à r.l. Group are consolidated and the reinsurance and services are eliminated.

## Note 30 • Average number of employees, salaries and other remuneration

Average number of employees / Group	2012			2011		
	Men	Women	Total	Men	Women	Total
Parent Company	136	143	279	132	140	272
Germany	4	9	13	4	8	12
UK	2	2	4	1	1	2
USA	59	55	114	20	18	38
Canada	4	2	6	1	1	2
<b>Total</b>	<b>205</b>	<b>211</b>	<b>416</b>	<b>158</b>	<b>168</b>	<b>326</b>

Average number of employees / Parent Company	2012			2011		
	Men	Women	Total	Men	Women	Total
Sweden	71	71	142	68	70	138
UK	23	20	43	22	19	41
Belgium	23	24	47	22	23	45
Switzerland	4	5	9	4	5	9
Singapore	4	10	14	5	10	15
Denmark	5	2	7	4	2	6
Bermuda	6	11	17	7	11	18
<b>Total</b>	<b>136</b>	<b>143</b>	<b>279</b>	<b>132</b>	<b>140</b>	<b>272</b>

Senior management / Group and Parent Company	2012			2011		
	Men	Women	Total	Men	Women	Total
Board and CEO	4	-	4	3	1	4
Other senior members of management	2	-	2	3	-	3
<b>Total</b>	<b>6</b>	<b>-</b>	<b>6</b>	<b>6</b>	<b>1</b>	<b>7</b>



Remuneration to employees	Group		Parent Company	
	2012	2011	2012	2011
Salaries including bonuses	520	299	302	248
<i>Of which expenses bonus and other similar remunerations</i>	147	52	87	44
Pension expenses	58	71	49	68
- <i>Defined contribution plans</i>	51	70	47	69
- <i>Defined benefit plans (Note 26)</i>	7	1	2	-1
Social security contributions, special employer's contributions on pensions	78	78	72	76
<b>Total</b>	<b>656</b>	<b>448</b>	<b>423</b>	<b>392</b>

Of which paid remuneration for the year to: CEO	Group		Parent Company	
	2012	2011	2012	2011
Salaries including bonuses	18	12	18	12
<i>Of which paid out bonuses</i>	14	8	14	8
Pension expenses	3	3	3	3
- <i>Defined contribution plans</i>	3	3	3	3
- <i>Defined benefit plans</i>	-	-	-	-
<b>Total</b>	<b>21</b>	<b>15</b>	<b>21</b>	<b>15</b>

Board and other senior members of management	Group		Parent Company	
	2012	2011	2012	2011
Salaries including bonuses	14	11	14	11
<i>Of which expenses bonus and other similar remunerations</i>	9	6	9	6
Pension expenses	2	2	2	2
- <i>Defined contribution plans</i>	2	2	2	2
- <i>Defined benefit plans</i>	-	-	-	-
<b>Total</b>	<b>16</b>	<b>13</b>	<b>16</b>	<b>13</b>

#### Salaries and remuneration

The Board receives remunerations in accordance with the resolutions of the Annual General Meeting. Board fees are not paid to individuals employed in the company. No board fees were paid in 2012 and 2011.

#### Remuneration policy

Sirius International's remuneration policy is available on the Company's homepage, which follows FFFS 2011:2.

### Note 31 • Fees and reimbursements to auditors

PwC	Group		Parent Company	
	2012	2011	2012	2011
Audit assignment	11	7	4	4
Tax counseling	1	1	1	1
Other services	1	-	1	-
<b>Total</b>	<b>13</b>	<b>8</b>	<b>6</b>	<b>5</b>

Audit assignment refers to the examination of the annual report and accounting records, as well as the administration of the Board of Directors and Managing Director, other duties which are the responsibility of the Company's auditors to execute and the provision of advisory services or other assistance resulting from observations made during such an examination or the implementation of such other duties. Other services than those included in the audit agreement are classified as audit services in addition to audit agreement, tax counseling and other services.

**Note 32 • Operational leasing**

Non-cancellable leases	Group		Parent Company	
	2012	2011	2012	2011
Due for payment within one year	45	56	31	31
Due for payment later than one year but within five years	129	146	74	101
Due for payment after five years	51	25	3	5
<b>Total</b>	<b>225</b>	<b>227</b>	<b>108</b>	<b>137</b>

**Note 33 • Class analysis****Profit/loss per insurance class****Group / 2012**

	Personal accident and health	Marine, aviation and transport	Fire and other property damage	Miscellaneous	Total direct insurance	Assumed reinsurance	Total
Premium income, gross	970	88	110	89	1,257	6,824	8,081
Premium earned, gross	885	81	94	87	1,147	6,887	8,034
Incurring claims, gross	-499	-44	-64	-47	-654	-1,934	-2,588
Operating expenses, gross	-377	-37	-42	-43	-499	-2,027	-2,526
Result, ceded reinsurance	-44	4	-	-	-40	-2,369	-2,409
<b>Technical result</b>	<b>-35</b>	<b>4</b>	<b>-12</b>	<b>-3</b>	<b>-46</b>	<b>557</b>	<b>511</b>

**Parent Company / 2012**

	Personal accident and health	Marine, aviation and transport	Fire and other property damage	Miscellaneous	Total direct insurance	Assumed reinsurance	Total
Premium income, gross	723	88	110	39	960	4,819	5,779
Premium earned, gross	736	81	95	51	963	4,968	5,931
Incurring claims, gross	-412	-44	-64	-5	-525	-566	-1,091
Operating expenses, gross	-303	-37	-42	-27	-409	-1,198	-1,607
Result, ceded reinsurance	-42	4	-	-	-38	-2,346	-2,384
Equalization provision	-	-	-	-	-	-25	-25
<b>Technical result</b>	<b>-21</b>	<b>4</b>	<b>-11</b>	<b>19</b>	<b>-9</b>	<b>833</b>	<b>824</b>

**Group / 2012**

	Personal accident and health	Marine, aviation and transport	Fire and other property damage	Credit insurance	Miscellaneous	Total direct insurance	Assumed reinsurance	Total
Premium income, gross	651	75	83	-	91	900	5,055	5,955
Premium earned, gross	599	58	87	-	86	830	5,319	6,149
Incurring claims, gross	-337	-38	-98	-2	-40	-515	-4,005	-4,520
Operating expenses, gross	-272	-29	-40	-	-33	-374	-1,385	-1,759
Result, ceded reinsurance	-5	4	-	-	-	-1	129	128
<b>Technical result</b>	<b>-15</b>	<b>-5</b>	<b>-51</b>	<b>-2</b>	<b>13</b>	<b>-60</b>	<b>58</b>	<b>-2</b>

**Parent Company / 2011**

	Personal accident and health	Marine, aviation and transport	Fire and other property damage	Credit insurance	Miscellaneous	Total direct insurance	Assumed reinsurance	Total
Premium income, gross	635	75	83	-	82	876	4,471	5,347
Premium earned, gross	596	58	87	-	83	824	4,772	5,596
Incurring claims, gross	-335	-38	-97	-3	-39	-512	-3,511	-4,023
Operating expenses, gross	-264	-30	-40	-	-29	-363	-1,173	-1,536
Result, ceded reinsurance	-4	4	-	-	-	-	53	53
Equalization provision	-	-	-	-	-	-	-49	-49
<b>Technical result</b>	<b>-7</b>	<b>-6</b>	<b>-50</b>	<b>-3</b>	<b>15</b>	<b>-51</b>	<b>92</b>	<b>41</b>

Stockholm, March 5, 2013

Allan Waters  
*Chairman of the Board of Directors*

Brian Kensil

Lars Ek

Göran Thorstensson  
*President & CEO*

Our Auditors' Report was submitted on March 7, 2013

Anna Hesselman  
*Authorized Public Accountant*

Morgan Sandström  
*Authorized Public Accountant*

## Audit Report

To the annual meeting of the shareholders of Sirius International Insurance Corporation (publ) corporate identity number 516401-8136

### *Report on the annual accounts and consolidated accounts*

We have audited the annual accounts and consolidated accounts of Sirius International Insurance Corporation (publ) for the year 2012. Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act for Insurance Companies, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts

and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinions*

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies and present fairly, in all material respects, the financial position of the parent company as of December 31, 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act for Insurance Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies and present fairly, in all material respects, the financial position of the group as of December 31, 2012 and of their financial performance and cash flows for the year ended in accordance with International Financial Reporting Standards, as adopted

by the EU, and the Annual Accounts Act for Insurance Companies. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

*Report on other legal and regulatory requirements*

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Sirius International Insurance Corporation (publ) for the year 2012.

*Responsibilities of the Board of Directors and the Managing Director*

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act and the Insurance Business Act.

*Auditor's responsibility*

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act and the Insurance Business Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Insurance Business Act, the Annual Accounts Act for Insurance Companies or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Opinions*

We recommend to the annual meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Stockholm, 7 March, 2013

Anna Hesselman  
Authorized Public Accountant

Morgan Sandström  
Authorized Public Accountant

## DEFINITIONS

### Combined Ratio

Net claims incurred in relation to net premiums earned and operating expenses (both commissions and own expenses) in relation to net premiums earned.

### Net Technical Provisions

Total technical provisions (premium & claims provisions) less reinsurers' share of technical provisions.

### Solvency Capital

Total of shareholders' equity + deferred taxes (or untaxed reserves in the parent company) + excess values of investment assets.

### Solvency Ratio

Solvency capital in relation to net premium income.

This is an unaudited translation of Sirius International Annual Report 2012. The audited Swedish version is the binding version.





## HISTORY

Sirius was founded in 1945 as a captive by the Swedish industrial group Axel Johnson. Initially the company insured only Johnson fleet vessels and reinsured at Lloyd's. Over time, Sirius moved into third party business and during the 1970s a global assumed reinsurance account was developed.

By 1978 Sirius had become one of the largest reinsurance companies in Sweden with premiums of about \$40 million.

In 1985, the Johnson group ran into financial difficulties and reluctantly sold Sirius to the Swedish industrial group ASEA, later to become ABB. Premium volume was now around \$180 million, nearly all written on a proportional basis.

In 1990 Göran Thorstensson became CEO of Sirius. The company added non-proportional business and improved profitability. Sirius gradually emerged as a leading excess of loss reinsurer.

By 2000, Sirius was the only major Nordic reinsurer. Merely 15 years earlier, some 35-40 Nordic companies were writing assumed reinsurance accounts; alas, without sustainable results.

In 2004, history then repeated itself as Sirius' second owner also ran into financial difficulties, enabling White Mountains to acquire Sirius for \$428 million and record a gain of \$111 million.

In 2011 on July 1 the wholly owned Syndicate 1945 started to underwrite. In the autumn Sirius America (former White Mountains Re America) became part of the Sirius Group.

A combination of strong underwriting controls and uniquely experienced management – most of the team has been with the company for more than 20 years – has allowed Sirius to outperform the reinsurance industry over an extended period. Nearly all of Sirius' customers have been business partners for a long time, many for more than 40 years.

The company's philosophy has always been to write for profit only – every company says so but few walk the walk.

Management has no volume targets, avoids legacy problems by maintaining a strong balance sheet, and always sticks to what it knows.

Since the acquisition by White Mountains, Sirius has an average combined ratio of 86% and cumulative underwriting profits in excess of \$600 million. This long-term track record is perhaps unparalleled.



*Art and production:* Studio Ringvall