# Annual report 2016

CONTENTS



Sirius
International

# CMIH, our owners

### CM International Holding Pte. Ltd.

("CMIG International") – CMIG International completed the acquisition of Sirius International Insurance Group, Ltd ("Sirius Group") through its Bermuda holding company, CM Bermuda Limited, on April 18, 2016. CMIG International is a subsidiary of CMIG with a core focus on overseas investments. Registered in December 2014 in Singapore, CMIG International's registered capital is in excess of USD 2.2 billion.

With strong insurance capital support and support from M&A insurance funds, CMIG International focuses on becoming a major global insurance investment group via the form of mergers and organic growth of insurance companies. Through Sirius Group, CMIG International plans to grow its business portfolio consisting of reinsurance, specialty insurance, property insurance, life insurance and internet insurance.

CMIG International is committed to support Sirius' expansion into the Asian market and strengthening its financial assets.

*China Minsheng Investment Group (CMIG) – a leading international private investment group founded in Shanghai on 21 August 2014 by 59 renowned private enterprises.

### Sirius International Insurance Group, Ltd.

("Sirius Group") – A Bermuda-domiciled holding company whose operating companies offer capacity for property, casualty, accident & health, credit and bond, surety, aerospace, marine and other exposures.

Our principal operating companies are:

#### SIRIUS BERMUDA INSURANCE COMPANY, LTD.

("Sirius Bermuda") – A Bermuda based reinsurer currently focused primarily on US treaty business. At January 2018, the territorial scope will expand to also include Canada and Latin America. Sirius Bermuda is a leading reinsurer for property, casualty and accident & health business. As from January 2017, Sirius Bermuda writes the US treaty business formerly written by Sirius America through an advisory agreement with Sirius America Re Managers.

#### 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, Hamburg, Liège, London, Singapore and Zürich.

#### SIRIUS AMERICA INSURANCE COMPANY

("Sirius America") – A U.S.-based international (re)insurance company focused on accident & health, property and surety lines in North and Latin America. Sirius America's head office is located in New York with branch offices in Miami and Toronto. Sirius America is a 100% owned subsidiary of Sirius International.

#### SIRIUS INTERNATIONAL MANAGING AGENCY LIMITED

– A Lloyd's Managing Agency which obtained regulatory approval July 1, 2014 and is a 100% owned subsidiary of Sirius International. The managing agency is responsible for Sirius International's Syndicate 1945 which has been trading at Lloyd's since 2011.

#### SIRIUS GLOBAL SOLUTIONS, INC

Established to serve clients seeking to reduce exposure to historical liabilities and/or exit a line of business.

# Sirius Annual Report for 2016

I am pleased to report another year of achievement for Sirius International – one of continuing service and stability for our clients coupled with exciting prospects for future expansion under our new owners.

The most important milestone in 2016 was reached on April 18th, when we received final regulatory approval for the Sirius Group acquisition by CMIG. We are delighted that we have now become part of the CMIG family, and discussions with our new owners and colleagues about further developing and strengthening the Sirius brand both in Asia and globally have already begun in a constructive and positive manner.

For the Sirius International Group, our combined ratio for the calendar year was 95%. This is up from 2015, but also includes the cost of reinsurance protections purchased on behalf of our previous owners White Mountains in conjunction with the sale of the Sirius Group.

Both Sirius America and our Lloyd's Syndicate 1945 had a few larger losses in their respective portfolios, coming from catastrophe events and larger risk claims. The most significant catastrophe losses were earthquakes in Japan, Taiwan and Ecuador, the wildfires in Canada as well as Hurricane Matthew which hit the US and Caribbean. The year ended with Typhoon Meranti in Asia.

Despite these losses, I am pleased to report that the parent company Sirius International Insurance Corporation produced a very healthy combined ratio of 85% with positive results emanating from almost all our branch offices around the globe.

My previous annual report reflected on a highly competitive 2015/16 renewal season. The main priority in these conditions was to achieve sustainable, profitable underwriting rather than to expand market share, and to further strengthen the existing relationships developed over decades. Today more than 60% of our portfolio is made up of relationships that have been in existence for over 10 years. With our long history and experience, we believe strong market knowledge and a deep understanding of our clients' needs is an important factor in maintaining our position in a challenging market environment.

Overall, our gross premium income was up almost 12% in Swedish Krona. Although the mix of business remained broadly the same, our Accident and Health book has continued the growth pattern we have seen in recent years, while competitive pricing has led to reductions in property catastrophe business. We continue to benefit from the policy of diversifying our risk exposure by both class and geography, supported by a conservative underwriting approach and highly experienced underwriting teams. This policy is one of the main reasons why Sirius has remained consistently profitable over the past 15 years, underpinning our promise of financial stability.

During 2016, Sirius International's Bermuda Branch was transformed into Sirius Bermuda Insurance Company (SBDA). Almost the entire Sirius America and Bermuda Branch business was successfully renewed by SBDA in the referral arrangement we have set up between the US-based advisory company, Sirius America Re Managers and SBDA. A very big thankyou to the teams across our organisation in the US, Bermuda and Sweden for the hard work they have put into bringing this project to fruition and making the transition a successful one.

2016 also saw some very important personnel changes. The transition in our London operations, with Michael Dashfield stepping down at the start of 2017 from his role as CEO of Sirius International Managing Agency Ltd (SIMA) and manager of our London branch, has gone smoothly. Michael Dashfield has taken on the role of Chairman of our Lloyd's Syndicate, while Robert Harman, previously the Active Underwriter, has taken over as branch manager and CEO of SIMA.

The transition in Singapore has gone equally smoothly with our branch manager Song Kng Yap retiring after many years of service to the Sirius Group and Paul Ng, previously Deputy Manager has now taken over.

Both Michael and SK have been with the Group since the 1990's, and I would like to place on record my thanks for the immense contributions they have both made to our development. It is significant that all the replacements have come from internal promotions, reflecting the in depth strength that exists throughout all our offices.

For several years, our annual reports have discussed the progress of Solvency II. I am pleased to confirm that the new regime is now fully embedded in our processes and the way we make decisions about underwriting and capital allocation. It is also worth reflecting that Sirius International operates in a varied and often demanding regulatory environment. Depending on where we underwrite, our supervisory authorities can include the Swedish FSA, the FCA, PRA and Lloyd's in the UK, the Bermuda Monetary Authority and the US regulators, among others. Whilst this level of oversight can be onerous and time-consuming, we nonetheless welcome the secure framework it provides and the protection it gives our clients.

The renewals at January 1, 2017 continued to be demanding with further pressure on rating levels and prices, primarily due to higher ceding company retentions and continuing competition caused by global overcapacity. Overall, there has been a slowing down in the speed of these trends, and we see signs of stabilization in several markets. We continue to explore new business opportunities and lines of business, while strengthening our underwriting teams and maintaining our underwriting discipline. This will continue to be of fundamental importance in the challenging market environment going forward.

In the first few days of 2017, and just before the Chinese New Year, we completed and filed our application with the CIRC to establish our Rep Office in Shanghai. We are also investigating the possibility of joining the Lloyd's China Platform in Shanghai and Beijing, as well as business opportunities and distribution channels for our A & H products in Asia.

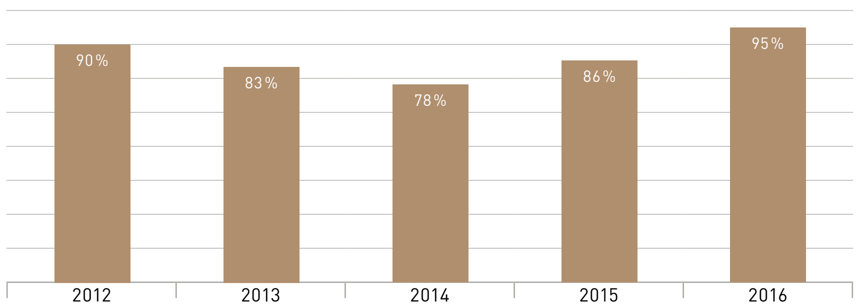
Finally, no annual report would be complete without mentioning both our staff and our clients. I would like to thank the entire staff for their hard work, dedication and enthusiasm, without which we would not achieve the results we see here. Also, our clients and brokers, who are the reason we come to work, I thank them for their continued support and loyalty. We look forward to being of continued service.

Monica Cramér Manhem

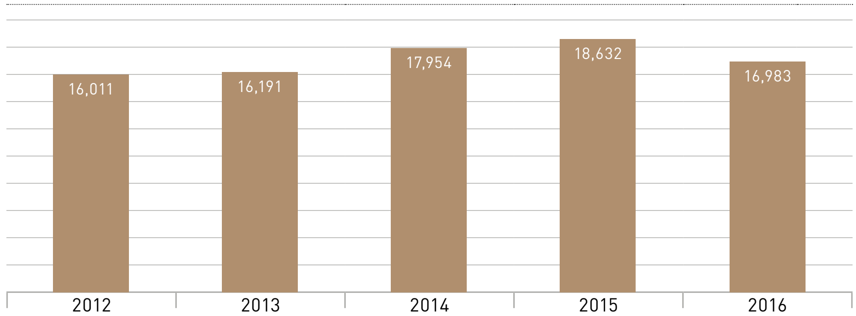
Monica Cramér Manhem
*President & CEO*

| AT A GLANCE | 2016 | 2015 |
|---|---|---|
| Net premium income | $835 million | $845 million |
| Claims net of reinsurance | $496 million | $428 million |
| Underwriting profit | $41 million | $118 million |
| Combined ratio | 95 % | 86 % |
| Result before taxes | $41 million | $233 million |

**COMBINED RATIO**




**SOLVENCY CAPITAL, MSEK**



# Board of Directors' Report

The Board of Directors and the President and Chief Executive Officer of Sirius International Försäkringsaktiebolag (publ), (Sirius International), Corporate Identity Number 516401-8136, hereby present the Annual Report for 2016.

### 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

Globally, the amount of major claims arising from natural disasters increased in 2016 to the highest level in four years. Insurance costs for natural catastrophes during the year are estimated to be 7 % higher than average for the past 16 years, and thus thereby marks an end to the downward trend since the record year in 2011. The major events for the industry include Hurricane Matthew in the United States and the Caribbean, earthquakes in Japan and Ecuador, extensive wildfires in Alberta, Canada, along with major claims from both droughts and floods in the US, Europe and Asia. Sirius International's insurance portfolio has also been affected by the above events, but the extent varies depending on geographical exposure and market shares. In addition, a number of major non-catastrophe claims occurred during the year. The major claims events for Sirius International, for the parent company as well as for the group, are summarized below.

The largest insurance losses for Sirius International during 2016 were Hurricane Matthew, Hurricane Meranti in Southeast Asia, earthquakes in Ecuador and New Zeeland and the wildfires in Canada. These events are estimated to have resulted in claims of approximately MSEK 280 for own account. For the Sirius International- group, additional claims have arisen from Lloyd's syndicate 1945 (the syndicate) and Sirius America Insurance Company (Sirius America). The major additional claims derive primarily from Hurricane Matthew, the Canadian wildfires and the earthquake in Ecuador. In addition to these natural disasters, a major direct insurance claim from the Syndicate occurred coupled with losses from two specific contracts written by Sirius America. For the group these events altogether are estimated to have resulted in claims of approximately MSEK 780.

Overall, the claims reserves from previous years have had a very favorable development during the year and resulted in a positive run-off result for the 2016 financial year. The price levels of the insurance portfolio for the current year have been satisfactory for the majority of markets and insurance classes. The portion of the insurance portfolio, which was renewed at the beginning of 2017, was exposed to a certain amount of price pressure, and some overcapacity with falling prices in certain markets and insurance classes. For the overall portfolio however, the pricing and renewal volume for 2017 is deemed to be satisfactory and in line with expectations.

During 2016, the business operations for the Syndicate 1945 at Lloyd's have continued to develop and are in terms of volume in line with plan. The Syndicate has in terms of results not reached the profitability targets, mainly due to larger claims outcome compared to plan. The US operations, that's primarily conducted in Sirius America Insurance Company reported satisfactory growth in volume. However, due to the less favorable claims outcome mentioned above, the results were below expectations.

Gross premium income amounted to MSEK 10,806 (9,689) for the Group and MSEK 6,795 (5,901) for the Parent Company. The Group's premium income for own account amounted to MSEK 7,146 (7,090), and MSEK 3,927 (3,651) for the Parent Company. For the Group the premium volume was 12 % higher compared to the previous year, and 15 % higher for the Parent Company. The increases in gross premium volume are noted mainly in the lines property reinsurance and direct accident- and health insurance, while other insurance lines show a small decrease. The weakened SEK, primarily against USD has provided a favorable effect on premium volume for the group as well as the parent company expressed in SEK.

The Group's operating profit from insurance operations amounted to MSEK 185 (1,090) and to MSEK 459 (720) for the Parent Company. The combined ratio was 95 % (86 %) for the Group and 85% (82 %) for the Parent Company. The weakened insurance operating result is due to the increased amount of claims and of non-recurring costs associated with the change of ownership, as further described below.

2016 has been a politically turbulent year. The referendum in the United Kingdom on the withdrawal from the European Union (Brexit), the presidential election in the United States, the continuing conflict in Syria and terror attacks in Europe have all contributed to the political turmoil. This political turbulence, however, has not been fully reflected in the financial markets.

The world economy has developed surprisingly strong in view of the political turmoil. On a global basis, GDP grew 3.1 % during 2016. Generally, the world's leading stock markets had a positive development where FTSE 100 index increased by 14. 4 %, Dow Jones increased by 13. 4 % and DAX increased by 6. 9 %. OMX 30 in Sweden increased by 4. 9 %.

In Sweden, the Riksbank has continued its expansive monetary policy, with negative repo rates and purchases of government bonds. During 2016, the inflation rose to 1.6 %, the GDP growth rate was 2.8%, while the unemployment rate remained around 6.5 %. The Swedish economy has continued to develop strongly and the demand remains strong in many of its most important export markets.

The Swedish krona has had a volatile year with large fluctuations to the most important currencies. On an annual basis, SEK has continued to weaken in relation to USD and EUR. During 2016, USD and EUR have strengthened by 7.5% and 4.2% respectively against SEK. GBP has, mainly as a result of Brexit, weakened against SEK by 10.05% during the year.

The markets in the US, Sweden, Germany and the UK are the most important ones for the Group's bond portfolio. In Sweden, the interest rate levels on three year tenor have decreased 21 basis points whereas the interest rate in the five year tenor decreased 42 basis points. In the US, the interest rates have continued to increase. The three year tenor increased 14 basis points whereas the interest rate in the five year tenor increased about 17 basis points. The UK interest rates declined steeply by approximately 80 basis points for three and five-year tenor, while the corresponding interest rates for EURO bonds remained virtually unchanged.

Overall, yield on the bond portfolio was 1.8 % adjusted for exchange rate effects. As regards the equity portfolio, including investments in Hedge Funds and Private Equity investments, the yield amounted to 8.7 %, adjusted for exchange rate effects. The realized and unrealized exchange rate result, including currency hedging and translation differences from foreign subsidiaries amounted to a profit of MSEK 458. Exchange rate hedging against the USD has been undertaken to the same extent as previous year and the total nominal hedged amount remains at MUSD 600. Per year end the portion of the solvency capital that is exposed to foreign currency, after currency hedging, is in line with previous year.

The Investment result for the Group including unrealized gains and losses from the bond portfolio recognized in Other Comprehensive Income, but before allocation of interest to the insurance operations, shows a profit of MSEK 317 (875). The Group's direct yield was 1.7% (2.0 %) and the total yield was –0.8% (3.2%). 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 to the previous year. At year-end, the consolidated investment portfolio, excluding currency related derivatives, had the following composition: Bonds and other interest bearing securities 81%, Shares and participations 8%, Bank funds 11%.

As part of an ongoing group restructuring, the Sirius International Bermuda Branch has ceased to write new reinsurance. The branch employees have been offered employment in Sirius Bermuda Insurance Company Ltd.

During the second quarter SI Holdings made a capital repayment of MSEK 338 to Sirius International after the disposal of the shares in the associated company, Symetra. The shares in Sirius International Holdings (NL) BV were written down by MSEK 92 due to an accumulated deficit in its subsidiary Star Re. The capital was subsequently restored by a capital contribution amounting to MSEK 112 made in December. In the fourth quarter S.I Phoenix executed a capital repayment of MSEK 551, the transaction also resulted in an exchange gain of MSEK 195. Furthermore, Sirius International made a capital contribution of MSEK 1,598 to SI Holdings in December.

The new solvency regime, Solvency 2, was adopted January 1, 2016. The objective is to strengthen the relationship between solvency capital requirements and risks for insurance undertakings. The company has adapted its processes for the calculation of own funds and capital requirement, risk management, corporate governance and reporting. The parent company, Sirius International Försäkringsaktiebolag (publ), is subject to Solvency 2 reporting to the Swedish Financial Supervisory Authority. The Sirius International group is not subject to Solvency 2 group reporting. Instead, this is currently done for the SI Caleta Group, (Gibraltar).

Furthermore, Bermuda Monetary Authority (BMA) has from the 1th July 2016 assumed the role as group supervisor for Sirius International Insurance Group, Ltd, Bermuda. Discussions are ongoing between the two supervisory authorities to ensure that appropriate group supervision at appropriate level of the group are in line with the new EU regulation and also takes into account the Solvency 2 equivalency rules at Bermuda.

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 CM International Holdings PTE Ltd., Singapore and in turn owned by China Minsheng Investment Corp.,Ltd.,China.

At the end of the year 2016, the Group comprised of 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) B.V., Amsterdam, Holland; Sirius International Corporate member Ltd., London, United Kingdom; Sirius International Managing Agency Ltd., London, United Kingdom, SI Phoenix (Luxembourg) S.à r.l., Luxemburg; White Sands Holdings (Luxembourg) S.à r.l., Luxemburg and S.I. Holdings (Luxembourg) S.à r.l., Luxemburg.

In addition, Sirius International has eight branch offices outside Sweden. These are Sirius International Insurance Corporation (publ) UK branch, London, United Kingdom; 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. In Hamburg, Germany, the operations are conducted through the agency, Sirius Rückversicherungs Service GmbH, which provides insurance on behalf of Sirius International.

During 2001, Sirius Belgium Réassurances 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

On April 18, 2016 CM International Holding PTE Ltd., Singapore and, in turn, owned by China Minsheng Investment Corp., Ltd., China completed the acquisition of Sirius International Insurance Group, Ltd. The Group's holdings in the affiliated companies Symetra Financial Corporation and OneBeacon Insurance Group were sold before the transaction closed.

There are no other significant events to disclose in addition to what has been covered in the preceding sections above.

### 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

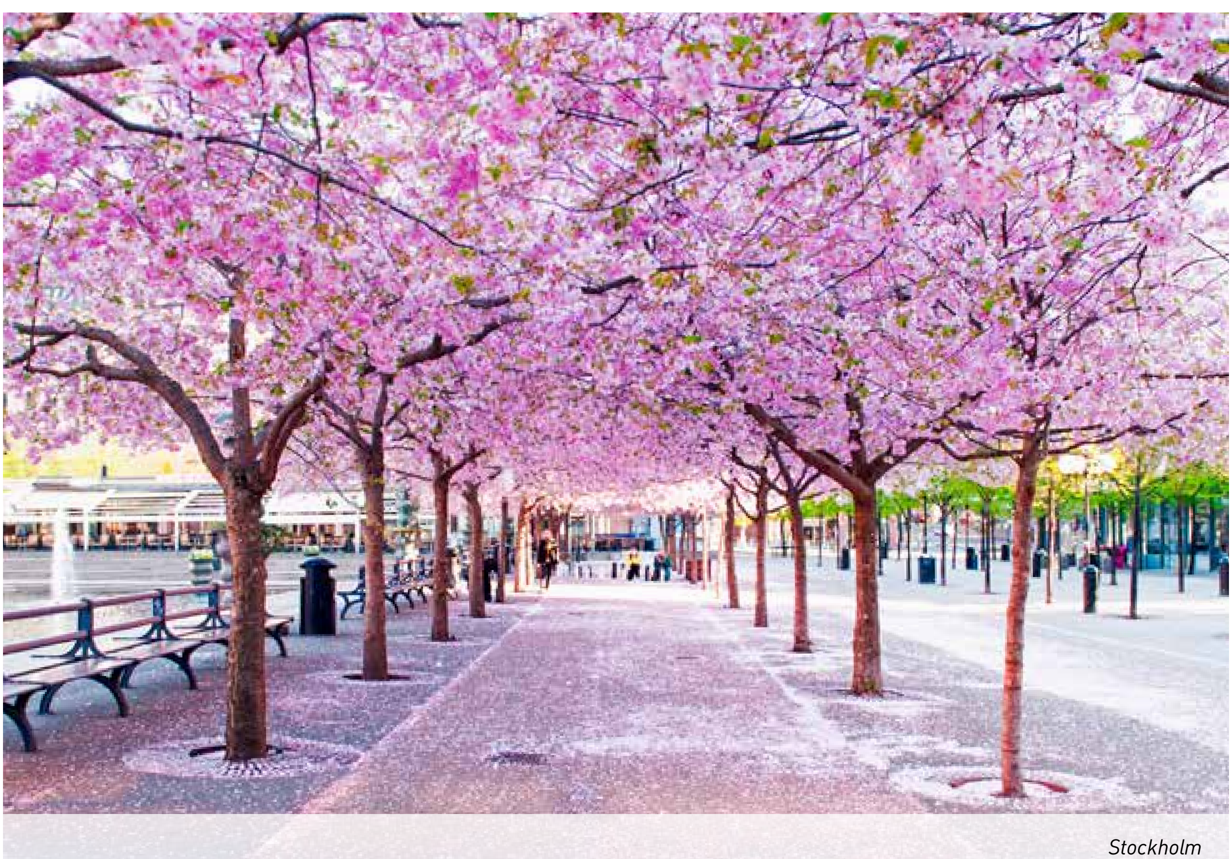
See Note 31, Average number of employees, salaries and other remuneration.

### 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 contracts. 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 2017 are to achieve a combined ratio under 95% and an Underwriting Return on Capital (UROC) of 8%.



*Stockholm*

# Five-year summary

| GROUP (MSEK) | 2016 | 2015 | 2014 | 2013 | 2012[3] |
|---|---|---|---|---|---|
| Net premium income | 7,146 | 7,090 | 5,930 | 5,729 | 6,304 |
| Net premiums earned | 7,165 | 7,106 | 5,952 | 5,675 | 6,293 |
| Allocated investment return | 192 | 143 | 313 | 101 | 547 |
| Net claims incurred | -4,244 | -3,589 | -2,445 | -2,748 | -3,692 |
| Operating costs | -2,566 | -2,525 | -2,218 | -1,977 | -2,002 |
| Other operating costs | -362 | -45 | -53 | -43 | -89 |
| Insurance operating result | 185 | 1,090 | 1,549 | 1,008 | 1,057 |
| Investment operating result | 169 | 863 | 637 | 1,352 | 784 |
| Net income for the year | 421 | 1,541 | 1,688 | 1,956 | 2,830 |
| Net technical provisions | 13,786 | 13,193 | 13,081 | 12,198 | 13,347 |
| Market value on investment assets[4] | 26,411 | 27,769 | 26,824 | 23,906 | 25,601 |
| **Insurance operating profit, for own account** | | | | | |
| Claims ratio | 59% | 51% | 41% | 48% | 59% |
| Cost ratio | 36% | 36% | 37% | 35% | 32% |
| Combined ratio | 95% | 86% | 78% | 83% | 90% |
| **Investment result** | | | | | |
| Investment yield | 2% | 2 % | 2 % | 2 % | 2 % |
| Total yield | 1% | 3 % | 5 % | 4 % | 5 % |
| **Solvency capital** | | | | | |
| Shareholders' equity | 14,633 | 16,277 | 15,651 | 13,879 | 13,828 |
| Deferred tax on untaxed reserves | 2,359 | 2,358 | 2,301 | 2,302 | 2,128 |
| Deferred tax on reserve for unrealized capital gains | -10 | -3 | 2 | 10 | 55 |
| Total solvency capital | 16,983 | 18,632 | 17,954 | 16,191 | 16,011 |
| Solvency ratio | 238% | 263% | 303% | 283% | 254% |
| Capital base [1] | - | 17,516 | 16,863 | 15,006 | 15,185 |
| Required solvency capital | - | 1,911 | 1,787 | 1,687 | 1,621 |
| **Group based values** [2] | | | | | |
| Capital base | - | 18,586 | 17,842 | 15,689 | 17,698 |
| Solvency requirement | - | 1,911 | 1,787 | 1,687 | 1,621 |
| Total Eligible Own Funds [5] | 11,059 | 12,317 | - | - | - |
| *Of which basic own funds* | 10,871 | 12,317 | - | - | - |
| Consolidated Solvency Capital requirement | 8,117 | 8,609 | - | - | - |

[1] Include Sirius International with subsidiaries. According to Solvency 1 requirements.
[2] Include WM Caleta (Gibraltar) Ltd..According to Solvency 1 requirements.
[3] Comparison year 2012 has been converted per January 1, 2012 in order to apply IAS 19 R. Solvency capital and required solvency capital have not been converted.
[4] Includes Investment assets and Cash and bank balances.
[5] According to Solvency 2 requirements.

| **PARENT COMPANY (MSEK)** | **2016** | **2015** | **2014** | **2013** | **2012** |
|---|---|---|---|---|---|
| Net premium income | 3,927 | 3,651 | 3,281 | 3,423 | 4,014 |
| Net premiums earned | 3,603 | 3,711 | 3,358 | 3,485 | 4,196 |
| Allocated investment return | 94 | 51 | 179 | 55 | 280 |
| Net claims incurred | –1,786 | –1,734 | –1,298 | –1,623 | –2,126 |
| Operating costs | –1,305 | –1,305 | –1,208 | –1,086 | –1,220 |
| Other operating costs | –192 | –3 | - | –2 | –1 |
| Insurance operating result | 459 | 720 | 1,028 | 829 | 1,104 |
| Investment operating result | 3,457 | 354 | 575 | 1,329 | 129 |
| Other expenses | 10 | -22 | -28 | -28 | -4 |
| Net income for the year | 3,855 | 717 | 1,386 | 1,266 | 932 |
| Net technical provisions | 5,923 | 5,522 | 5,627 | 5,557 | 6,048 |
| Market value on investment assets [1] | 20,271 | 18,313 | 19,526 | 19,241 | 20,692 |
| **Insurance operating profit, for own account** | | | | | |
| Claims ratio | 48 % | 47 % | 39 % | 47% | 51% |
| Cost ratio | 36 % | 35 % | 36 % | 31% | 29% |
| Combined ratio | 85 % | 82 % | 75 % | 78% | 80% |
| **Investment Result** | | | | | |
| Investment yield | 19% | 3 % | 5 % | 9% | 1% |
| Total yield | 18% | 2 % | 4 % | 6% | 2% |
| **Solvency Capital** | | | | | |
| Shareholders' equity | 4,856 | 3,618 | 4,456 | 4,576 | 5,117 |
| Untaxed reserves | 10,724 | 10,719 | 10,459 | 10,462 | 9,672 |
| Deferred tax on Reserve for unrealized capital gains | - | - | - | 12 | 54 |
| Total solvency capital | 15,580 | 14,337 | 14,914 | 15,050 | 14,843 |
| Solvency ratio | 397 % | 393 % | 455 % | 440 % | 370 % |
| Capital base [2] | - | 13,372 | 14,035 | 14,237 | 14,265 |
| Required solvency capital [2] | - | 947 | 835 | 851 | 710 |
| Total Eligible Own Funds [3] | 17,005 | 18,146 | - | - | - |
| Of which basic own funds | 17,005 | 18,146 | - | - | - |
| Minimum capital requirement (MCR) | 1,808 | 1,793 | - | - | - |
| Solvency capital requirement (SCR) | 7,234 | 7,170 | - | - | - |

[1] Include Investment assets and Cash and bank balances.
[2] According to Solvency 1 requirements.
[3] According to Solvency 2 requirements.

*Hamburg*

## Proposed appropriation of profits

For 2016, the Parent Company recorded income before appropriations and taxes of MSEK 3,912 (MSEK 1,069). Net income for the year amounted to MSEK 3,855 (MSEK 717). As of December 31, 2016 unrestricted retained earnings in the Group amounted to MSEK 5,400.

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

| | |
|---|---|
| (SEK in thousands) | |
| Retained earnings | 2,817,736 |
| Non-Restricted reserves | -14,452 |
| Change in restricted reserves | -67,834 |
| Group contribution provided | -5,162 |
| Dividends paid, as resolved by the general meeting of shareholders and extraordinary general meeting of shareholders | -2,596,700 |
| Net income for the year | 3,854,698 |
| **Total** | **3,988,286** |

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

| | |
|---|---|
| Dividend to the owner | 905,000 |
| To be carried forward | 3,083,286 |
| | **3,988,286** |

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.

# Income Statement – Group

| JANUARY 1 – DECEMBER 31 (MSEK) | Note | 2016 | 2015 |
|---|---|---|---|
| **TECHNICAL ACCOUNT FOR INSURANCE OPERATIONS** | | | |
| **Earned premiums, for own account** | | | |
| Gross premium income | 3 | 10,806 | 9,689 |
| Ceded reinsurance premiums | 3 | –3,660 | –2,599 |
| Change in the gross provision for unearned premiums | | –278 | –82 |
| Change in the provision for unearned premiums, reinsurers' share | | 297 | 98 |
| **Total earned premiums, for own account** | | 7,165 | 7,106 |
| **Allocated investment return transferred from the non-technical account** | | 192 | 143 |
| Claims incurred, for own account | 4 | | |
| Claims paid | | | |
| — Gross amount | | –5,946 | –5,582 |
| — Reinsurers' share | | 1,363 | 1,279 |
| Claims paid, for own account | | –4,583 | –4,303 |
| Change in the provision for claims, for own account | | | |
| — Gross amount | 4 | 129 | 1,016 |
| — Reinsurers' share | | 210 | –302 |
| **Total claims incurred, for own account** | | –4,244 | –3,589 |
| **Operating costs** | 5 | –2,566 | –2,525 |
| **Other Operating costs** | 5 | –362 | –45 |
| OPERATING PROFIT/LOSS OF TECHNICAL ACCOUNT | | **185** | 1,090 |
| **NON-TECHNICAL ACCOUNT** | | | |
| **Balance of technical account** | | 185 | 1,090 |
| Investment income/expenses | 9 | | |
| — Investment income | 6 | 1,795 | 1,647 |
| — Unrealized gains and losses | 7 | –562 | –418 |
| — Investment expenses and charges | 8 | –880 | –215 |
| — Share of result in associated companies | 14 | 8 | –8 |
| Investment income allocated to the technical account | | –192 | –143 |
| **Total investment income/expenses** | | 169 | 863 |
| RESULT BEFORE TAXES | | **354** | 1,952 |
| Taxes | 10 | 67 | –411 |
| NET INCOME FOR THE YEAR | | **421** | 1,541 |

# Statement of Comprehensive Income – Group

| JANUARY 1 – DECEMBER 31 (MSEK) | Note | 2016 | 2015 |
|---|---|---|---|
| **Net income for the year** | | 421 | 1,541 |
| Other comprehensive income | | | |
| Items not to be reclassified to income statement: | | | |
| — Actuarial gains and losses on defined benefit pension plans | 27 | –6 | 3 |
| — Tax on items not to be reclassified to income statement | | 2 | 0 |
| Items to be reclassified to income statement: | | | |
| — Change of fair value on bonds | | 53 | –73 |
| — Currency translation differences | | 575 | 649 |
| — Tax on items to be reclassified to income statement | 10 | –11 | 17 |
| Items reclassified to income statement: | | | |
| — Change of fair value on bonds | | –97 | –58 |
| — Tax on items reclassified to income statement | 10 | 22 | 13 |
| **Other comprehensive income for the year, net of tax** | | 538 | 551 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | **959** | 2,092 |

# Balance Sheet – Group

| DECEMBER 31 (MSEK) | Note | 2016 | 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Intangible assets** | 11 | | |
| Goodwill | | 26 | 26 |
| Other intangible assets | | 113 | 162 |
| **Total intangible assets** | | 139 | 188 |
| **Investment assets** | | | |
| Land and buildings | 12 | 10 | 11 |
| Interest bearing investments emitted by, and loans to, group companies | | 118 | 310 |
| Shares and participations in associated companies | 14 | 145 | 127 |
| Other financial investments | | | |
| — Shares and participations | 15, 19 | 1,918 | 5,387 |
| — Bonds and other interest bearing investments | 16, 19 | 20,581 | 18,428 |
| — Derivative financial instruments | 17, 19 | 53 | - |
| **Total other financial investments** | | 22,552 | 23,815 |
| Deposits with cedents | | 811 | 664 |
| **Total investment assets** | | 23,638 | 24,927 |
| **Reinsurers' share of technical provisions** | | | |
| Provisions for unearned premiums | 23 | 1,322 | 736 |
| Claims outstanding | 24 | 2,777 | 2,381 |
| **Total reinsurers' share of technical provisions** | | 4,099 | 3,117 |
| **Debtors** | | | |
| Debtors arising out of direct insurance operations | | 236 | 168 |
| Debtors arising out of reinsurance operations | | 3,533 | 2,658 |
| Current tax receivables | | 273 | 314 |
| Deferred tax receivables | 10 | 2,181 | 1,964 |
| Other debtors | 18, 19 | 93 | 260 |
| **Total debtors** | | 6,316 | 5,364 |
| **Other assets** | | | |
| Tangible assets | 20 | 94 | 98 |
| Cash and bank balance | | 2,764 | 2,842 |
| **Total other assets** | | 2,858 | 2,940 |
| **Prepayments and accrued income** | 19 | | |
| Accrued interest | | 136 | 134 |
| Deferred acquisition costs | 21 | 645 | 628 |
| Other prepayments and accrued income | | 19 | 29 |
| **Total prepayments and accrued income** | | 800 | 791 |
| TOTAL ASSETS | | **37,850** | 37,327 |

# Balance Sheet – Group, cont.

| DECEMBER 31 (MSEK) | Note | 2016 | 2015 |
|---|---|---|---|
| **SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| — Share capital (8 million shares of nom. value SEK 100) | | 800 | 800 |
| — Additional paid in capital | | 5,480 | 5,479 |
| — Reserves | | 1,943 | 1,402 |
| — Retained earnings – restricted | | 8,433 | 8,361 |
| — Retained earnings – non-restricted, including net income for the year | | -2,023 | 235 |
| **Total shareholders' equity** | | 14,633 | 16,277 |
| Minority interest | | 7 | - |
| **Total shareholders' equity** | | 14,640 | 16,277 |
| **Technical provisions** | | | |
| Provisions for unearned premiums | 23 | 3,601 | 2,879 |
| Claims outstanding | 24, 26 | 14,284 | 13,431 |
| **Total Technical provisions** | | 17,885 | 16,310 |
| **Provisions for other risks and expenses** | | | |
| Employee benefits | 27 | 30 | 27 |
| Current tax liabilities | | 0 | 1 |
| Deferred tax liabilities | 10 | 2,335 | 2,350 |
| Other provisions | | 366 | 383 |
| **Total provisions for other risks and expenses** | | 2,731 | 2,761 |
| **Liabilities** | | | |
| Deposits received from reinsurers | | 727 | 441 |
| Creditors arising out of direct insurance operations | | 135 | 88 |
| Creditors arising out of reinsurance operations | | 1,076 | 490 |
| Derivative financial instruments | 17, 19 | 336 | 734 |
| Other liabilities | 19, 28 | 254 | 154 |
| Accrued expenses and deferred income | 19 | 66 | 72 |
| **Total liabilities** | | 2,594 | 1,979 |
| TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES | | **37,850** | 37,327 |

# Change in Shareholders' Equity – Group

| (MSEK) | Share Capital[1] | Additional paid in capital | Reserves | Retained earnings – restricted[1] | Retained earnings – non-restricted | Total | Minority interest | Total Shareholders equity |
|---|---|---|---|---|---|---|---|---|
| **Amount January 1, 2016** | 800 | 5,479 | 1,402 | 8,361 | 235 | 16,277 | 0 | 16,277 |
| Comprehensive Income | | | | | | | | |
| Net profit/loss for the year | - | - | - | - | 421 | 421 | 7 | 428 |
| Change in untaxed reserves | - | - | - | 4 | –4 | 0 | - | 0 |
| Reclassification within shareholders' equity | - | 1 | - | 68 | –69 | 0 | - | 0 |
| **Other comprehensive income, after tax** | | | | | | | | |
| Change of fair value on bonds | - | - | –34 | - | - | –34 | - | –34 |
| Change defined benefit pension paid | - | - | | - | –5 | –5 | - | –5 |
| Currency translation differences | - | - | 575 | - | - | 575 | - | 575 |
| **Total other comprehensive income** | 0 | 0 | 541 | 0 | –5 | 537 | 0 | 537 |
| **Total comprehensive income** | 0 | 1 | 541 | 72 | 343 | 958 | 7 | 964 |
| **Transactions with owners** | | | | | | | | 0 |
| Shareholder's contribution | - | - | - | - | –5 | –5 | - | –5 |
| Dividend paid[2] | - | - | - | - | –2,597 | –2,597 | - | –2,597 |
| Total transactions with owners | 0 | 0 | 0 | 0 | –2,602 | –2,602 | 0 | –2,602 |
| AMOUNT DECEMBER 31, 2016 | 800 | 5,480 | 1,943 | 8,433 | –2,023 | 14,633 | 7 | 14,640 |
| **Amount January 1, 2015** | 800 | 5,317 | 854 | 8,158 | 522 | 15,651 | 0 | 15,651 |
| **Comprehensive income** | | | | | | | | |
| Net profit/ loss for the year | - | - | - | - | 1,541 | 1,541 | - | 1,541 |
| Change in untaxed reserves | - | - | - | 203 | -203 | 0 | - | 0 |
| Reclassification within shareholders' equity | - | - | - | - | - | 0 | - | 0 |
| **Other comprehensive income, after tax** | | | | | | | | |
| Change of fair value on bonds | - | - | -101 | - | - | -101 | - | -101 |
| Change defined benefit pension paid | - | - | - | - | 3 | 3 | - | 3 |
| Currency translation differences | - | - | 649 | - | - | 649 | - | 649 |
| **Total other comprehensive income** | - | - | 548 | - | 3 | 551 | - | 551 |
| **Total comprehensive income** | - | - | 548 | 203 | 1,341 | 2,092 | - | 2,092 |
| **Transactions with owners** | | | | | | | | |
| Shareholder's contribution | - | 162 | - | - | - | 162 | - | 162 |
| Dividend paid[2] | - | - | - | - | -1,627 | - 1,627 | - | - 1,627 |
| **Total transactions with owners** | - | 162 | - | - | - 1 627 | -1,465 | - | -1,465 |
| AMOUNT DECEMBER 31, 2015 | 800 | 5,479 | 1,402 | 8,361 | 235 | 16,277 | - | 16,277 |

[1] Share capital and Retained earnings – restricted represents the restricted shareholders' equity.

[2] Dividend paid to the parent company Fund American Holdings AB. The dividend is equal to 325 SEK (203 SEK) per share.

# Change in Shareholders' Equity – Group, cont.

| (MSEK) | 2016 | 2015 |
|---|---|---|
| **SHARE CAPITAL** | | |
| **Specified in number of shares** | | |
| Issued per January 1 | 8,000,000 | 8,000,000 |
| Issued per December 31 | 8,000,000 | 8,000,000 |

Per December 31, 2016 the share capital comprised 8,000,000 (8,000,000) ordinary shares.
The shares have a nominal value of 100 (100) SEK.

| | 2016 | 2015 |
|---|---|---|
| **ADDITIONAL PAID IN CAPITAL** | | |
| Opening additional paid in capital | 5,479 | 5,317 |
| Reclassification within shareholders' equity | 1 | 162 |
| CLOSING ADDITIONAL PAID IN CAPITAL | **5,480** | 5,479 |
| **RESERVES** | | |
| **Fair value reserve** | | |
| Opening fair value reserve | 23 | 154 |
| Change for the year | –44 | –131 |
| **Closing fair value reserve** | –21 | 23 |
| **Tax on fair value reserves** | | |
| Opening tax on fair value reserves | –4 | –34 |
| Change for the year | 10 | 30 |
| **Closing tax on fair value reserve** | 6 | –4 |
| **Fair value reserve after tax** | | |
| Opening fair value reserve after tax | 19 | 120 |
| Change for the year | –34 | –101 |
| CLOSING FAIR VALUE RESERVE AFTER TAX | **–15** | 19 |
| **Translation difference** | | |
| Opening translation difference | 1,383 | 734 |
| Change for the year | 575 | 649 |
| CLOSING TRANSLATION DIFFERENCE | **1,958** | 1,383 |
| **RETAINED EARNINGS – RESTRICTED** | | |
| Opening retained earnings - restricted | 8,361 | 8,158 |
| Change for the year | 72 | 203 |
| OPENING RETAINED EARNINGS – RESTRICTED | **8,433** | 8,361 |
| **RETAINED EARNINGS – NON-RESTRICTED** | | |
| Opening retained earnings – non-restricted | 235 | 522 |
| Net profit/loss for the year | 421 | 1,541 |
| Change in safety reserve and other restricted reserves | –4 | –203 |
| Change defined benefit pension plans | –5 | 3 |
| Reclassification within shareholders' equity | –69 | - |
| Dividend paid | –2,602 | –1,627 |
| CLOSING RETAINED EARNINGS – NON-RESTRICTED | **–2,023** | 235 |

# Cash flow Statement – Group

| (MSEK) | Note | 2016 | 2015 |
|---|---|---|---|
| **Operating Activities** | | | |
| Profit/loss before tax | | 354 | 1,952 |
| Interest income | | 418 | 383 |
| Interest expenses | | –1 | –4 |
| Dividends received | | 36 | 177 |
| Adjustment for non—cash items [1] | | 50 | –1,126 |
| Income tax paid | | 24 | –330 |
| **Cash flow from current operations before changes in assets and liabilities** | | 881 | 1,052 |
| **Change in financial investments** | | 764 | –248 |
| Change in other operating receivables | | –1,265 | –110 |
| Change in other operating liabilities | | –574 | –393 |
| **Cash flow from operating activities** | | –194 | 301 |
| **Investing activities** | | | |
| Net investment of intangible assets | | 14 | 20 |
| Net investments of tangible assets | | –25 | –60 |
| **Cash flow from investing activities** | | –11 | –40 |
| **Financing activities** | | | |
| Capital contributions received | | 0 | 0 |
| Dividends paid | | –365 | –709 |
| **Cash flow from financing activities** | | –365 | –709 |
| CASH FLOW FOR THE YEAR | | **–570** | –448 |
| Cash and cash equivalents at beginning of year | | 2,842 | 3,198 |
| Cash flow for the year | | –570 | –448 |
| Translation difference on Cash and cash equivalents | | 501 | 92 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR [2] | | **2,773** | 2,842 |
| *[1] Specification of non-cash items:* | | | |
| Depreciations | 11, 12, 20 | 58 | 47 |
| Capital gains on foreign exchange | 6 | –405 | –719 |
| Capital losses on foreign exchange | 8 | 793 | - |
| Capital gains | 6 | –935 | –477 |
| Capital losses | 8 | - | 108 |
| Unrealized gains | 7 | –456 | –116 |
| Unrealized losses | 7 | 1,018 | 534 |
| Interest income | 6 | –418 | –365 |
| Interest expenses | 8 | 1 | 4 |
| Dividends received | 6 | –36 | –177 |
| Shares of result in associated companies | 14 | –8 | 8 |
| Change in provisions for outstanding claims | 24 | 450 | 24 |
| Pension provisions | | –4 | 3 |
| **Total** | | 50 | –1,126 |
| *[2] The following components are included in cash and cash equivalents:* | | | |
| Cash and bank balances | | 1,055 | 1,055 |
| Short term investments, equivalent to cash and cash equivalents | | 1,718 | 1,787 |
| **Total** | | 2,773 | 2,842 |

# Performance Analysis – Group

| 1 JANUARY – 31 DECEMBER 2016 (MSEK) | Direct Swedish risks — property | Direct Swedish risks — aviation | Direct Swedish risks — MFL | Direct foreign risks | Assumed reinsurance | Total |
|---|---|---|---|---|---|---|
| **ANALYSIS OF INSURANCE RESULT** | | | | | | |
| **Technical result insurance operations** | | | | | | |
| Premiums earned, for own account | 3 | 1 | 1 | 1,443 | 5,717 | 7,165 |
| Allocated investment return transferred from the non-technical account | - | - | - | 19 | 173 | 192 |
| Claims incurred, for own account | –11 | –1 | - | –963 | –3,269 | –4,244 |
| Operating costs | –2 | - | - | –597 | –1,967 | –2,566 |
| TECHNICAL RESULT OF INSURANCE OPERATION [1] | –10 | 0 | 1 | –98 | 654 | 547 |
| *Of which results from prior years, gross amounts [2]* | –12 | –1 | | –418 | –373 | –804 |
| **Technical provisions** | | | | | | |
| Unearned premiums and remaining risks | –2 | - | - | –1,294 | –2,305 | –3,601 |
| Outstanding claims | –4 | –1 | - | –1,188 | –12,790 | –13,983 |
| Claims adjustment provision | - | - | - | –29 | –272 | –301 |
| TECHNICAL PROVISIONS | –6 | –1 | - | –2,511 | –15,367 | –17,885 |
| **Reinsurers' share of technical provisions** | | | | | | |
| Unearned premiums and remaining risks | - | - | - | 686 | 636 | 1,322 |
| Outstanding claims | - | 1 | - | 486 | 2,290 | 2,777 |
| REINSURERS' SHARE OF TECHNICAL PROVISIONS | - | 1 | - | 1,172 | 2,926 | 4,099 |
| **Premiums earned, for own account** | | | | | | |
| Gross premium income | 3 | - | 1 | 3,343 | 7,459 | 10,806 |
| Ceded reinsurance premium | - | - | - | –1,868 | –1,792 | –3,660 |
| Change in gross provision for unearned premiums | - | 1 | - | –144 | –135 | –278 |
| Reinsurers' share of change in unearned premiums | - | - | - | 112 | 185 | 297 |
| PREMIUMS EARNED, FOR OWN ACCOUNT | 3 | 1 | 1 | 1,443 | 5,717 | 7,165 |
| **Claims incurred, for own account** | | | | | | |
| Claims paid | –8 | –2 | - | –1,824 | –3,906 | –5,740 |
| Reinsurers' share | - | - | - | 855 | 508 | 1,363 |
| Claims handling expenses | - | - | - | –43 | –163 | –206 |
| Change in provision for outstanding claims | –3 | 1 | - | –123 | 254 | 129 |
| Reinsurers' share | - | - | - | 172 | 38 | 210 |
| CLAIMS INCURRED, FOR OWN ACCOUNT | –11 | –1 | | –963 | –3,269 | –4,244 |

[1] Exludes other operating costs that are not related to the insurance operations.
[2] Defined as result from underwriting year 2015 and earlier.

# Income Statement – Parent Company

| JANUARY 1 — DECEMBER 31 (MSEK) | Note | 2016 | 2015 |
|---|---|---|---|
| **TECHNICAL ACCOUNT FOR INSURANCE OPERATIONS** | | | |
| **Earned premiums, for own account** | | | |
| Gross premium income | 3 | 6,795 | 5,901 |
| Ceded reinsurance premiums | 3 | −2,868 | −2,250 |
| Change in the gross provision for unearned premiums | | −665 | −16 |
| Change in provision for unearned premiums, reinsurers' share | | 341 | 76 |
| **Total earned premium, for own account** | | 3,603 | 3,711 |
| **Allocated investment return transferred from the non-technical account** | | 94 | 51 |
| **Claims incurred, for own account** | 4 | | |
| Claims paid | | | |
| — Gross amount | | −2,768 | −2,966 |
| — Reinsurers' share | | 846 | 985 |
| **Claims paid, for own account** | | −1,922 | −1,981 |
| **Change in the provision for claims, for own account** | | | |
| — Gross amount | 4 | 83 | 495 |
| — Reinsurers' share | | 53 | −248 |
| **Total claims incurred, for own account** | | −1,786 | −1,734 |
| **Operating costs** | 5 | −1,305 | −1,305 |
| **Other Operating costs** | 5 | −192 | −3 |
| **Change in equalization provision** | 25 | 45 | - |
| OPERATING PROFIT/LOSS OF TECHNICAL ACCOUNT | | **459** | 720 |
| **NON-TECHNICAL ACCOUNT** | | | |
| **Balance of technical account** | | 459 | 720 |
| **Investment income/expenses** | 9 | | |
| — Investment income | 6 | 4,238 | 1,149 |
| — Unrealized gains and losses | 7 | 251 | −573 |
| — Investment expenses and charges | 8 | −938 | −171 |
| Investment income allocated to the technical account | | −94 | −51 |
| **Total investment income/expenses** | | 3,457 | 354 |
| Goodwill depreciation | 11 | −4 | −5 |
| **Result before appropriations and taxes** | | 3,912 | 1,069 |
| **Appropriations** | 22 | | |
| Change in accelerated depreciations | | - | −243 |
| Provision to safety reserve | | −5 | −18 |
| **Result before taxes** | | 3,906 | 808 |
| Taxes | 10 | −51 | −91 |
| NET INCOME FOR THE YEAR | | **3,855** | 717 |

# Statement of Comprehensive Income – Parent Company

| JANUARY 1 — DECEMBER 31 (MSEK) | Note | 2016 | 2015 |
|---|---|---|---|
| **Net income for the year** | | 3,855 | 717 |
| Other comprehensive income | | | |
| Items to be reclassified to income statement: | | | |
| — Change of fair value on bonds | | 69 | –60 |
| — Tax on items to be reclassified to income statement | | –15 | 13 |
| Items reclassified to income statement: | | | |
| — Change of fair value on bonds | | –88 | –55 |
| — Tax on items reclassified to income statement | | 19 | 12 |
| **Other comprehensive income for the year, net of tax** | | –15 | –90 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | **3,840** | 627 |

# Balance Sheet – Parent Company

| DECEMBER 31 (MSEK) | Note | 2016 | 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Intangible assets** | 11 | | |
| Goodwill | | 13 | 17 |
| Other intangible assets | | 68 | 76 |
| **Total intangible assets** | | 81 | 93 |
| **Investment assets** | | | |
| Land and buildings | 12 | 10 | 11 |
| Shares and participations in group companies | 13 | 10,760 | 10,031 |
| Shares and participations in associated companies | | 122 | 122 |
| Other financial investments | | | |
| — Shares and participations | 15, 19 | 152 | 126 |
| — Bonds and other interest-bearing securities | 16, 19 | 6,468 | 6,302 |
| — Derivative financial instruments | 17, 19 | 53 | - |
| Total other financial investments | | 6,673 | 6,428 |
| Deposits with cedents | | 1,286 | 617 |
| **Total investment assets** | | 18,851 | 17,209 |
| **Reinsurers' share of technical provisions** | | | |
| Provisions for unearned premiums | 23 | 1,125 | 702 |
| Claims outstanding | 24 | 1,520 | 1,391 |
| **Total reinsurers' share of technical provisions** | | 2,645 | 2,093 |
| **Debtors** | | | |
| Debtors arising out of direct insurance operations | | 63 | 23 |
| Debtors arising out of reinsurance operations | | 2,175 | 1,772 |
| Current tax receivables | | 274 | 174 |
| Deferred tax receivables | 10 | 47 | 40 |
| Other debtors | 18,19 | 488 | 916 |
| **Total debtors** | | 3,047 | 2,926 |
| **Other assets** | | | |
| Tangible assets | 20 | 75 | 77 |
| Cash and bank balance | | 1,420 | 1,104 |
| **Total other assets** | | 1,495 | 1,181 |
| **Prepayments and accrued income** | 19 | | |
| Accrued interest | | 68 | 68 |
| Deferred acquisition costs | 21 | 431 | 322 |
| Other prepayments and accrued income | | 18 | 28 |
| **Total prepayments and accrued income** | | 517 | 419 |
| TOTAL ASSETS | | **26,636** | 23,921 |

# Balance Sheet – Parent Company, cont.

| DECEMBER 31 (MSEK) | Note | 2016 | 2015 |
|---|---|---|---|
| **SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| Share capital (8 million shares of nom. value SEK 100) | | 800 | 800 |
| Other reserves | | 9 | 24 |
| Retained earnings | | 192 | 2,077 |
| Net income for the year | | 3,855 | 717 |
| **Total shareholders' equity** | | 4,856 | 3,618 |
| **Untaxed reserves** | 22 | | |
| Accumulated accelerated depreciations | | 34 | 29 |
| Safety reserve | | 10,690 | 10,690 |
| **Total untaxed reserves** | | 10,724 | 10,719 |
| **Technical provisions** | | | |
| Provisions for unearned premiums | 23 | 2,602 | 1,802 |
| Claims outstanding | 24, 26 | 5,922 | 5,724 |
| Equalization provision | 25 | 44 | 89 |
| **Total technical provisions** | | 8,568 | 7,615 |
| **Provisions for other risks and expenses** | | | |
| Pension provisions | 27 | 16 | 16 |
| Current tax liabilities | | 170 | - |
| Deferred tax liabilities | 10 | - | - |
| Other provisions | | 233 | 220 |
| **Total provisions for other risks and expenses** | | 419 | 236 |
| Deposits received from reinsurers | | 473 | 301 |
| **Creditors** | | | |
| Creditors arising out of direct insurance operations | | 0 | 7 |
| Creditors arising out of reinsurance operations | | 1,020 | 508 |
| Derivative financial instruments | 17, 19 | 336 | 734 |
| Other creditors | 19, 28 | 179 | 117 |
| **Total creditors** | | 1,535 | 1,366 |
| **Accrued expenses and deferred income** | | | |
| Other accrued expenses and deferred income | 19 | 61 | 66 |
| **Total accrued expenses and deferred income** | | 61 | 66 |
| TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES | | **26,636** | 23,921 |

# Change in Shareholders' Equity – Parent Company

| (MSEK) | Share Capital | Restricted reserves | Other Reserves[1] | Retained earnings[1] | Net profit/loss for the year[1] | Total |
|---|---|---|---|---|---|---|
| **Amount January 1, 2016** | 800 | - | 23 | 2,078 | 717 | 3,618 |
| Transfer of net result from previous year | - | - | - | 717 | –717 | 0 |
| Reclassification within shareholders' equity | - | 68 | - | –68 | - | - |
| **Comprehensive income** | | | | | | |
| Net profit/ loss for the year | - | - | - | - | 3,855 | 3,855 |
| **Other comprehensive income, net after tax** | | | | | | |
| Change of fair value on bonds | - | - | –14 | - | - | –14 |
| **Total other comprehensive income** | - | - | –14 | - | - | –14 |
| **Total comprehensive income** | | - | –14 | - | 3,855 | 3,841 |
| **Transactions with owners** | | | | | | |
| Group contributions provided[3] | - | - | - | –5 | - | –5 |
| Dividend paid[2] | - | - | - | –2,597 | - | –2,597 |
| **Total transactions with owners** | - | - | - | –2,602 | - | –2,602 |
| AMOUNT DECEMBER 31, 2016 | 800 | 68 | 9 | 124 | 3,855 | 4,856 |
| | | | | | | |
| **Amount January 1, 2015** | 800 | - | 113 | 2,157 | 1,386 | 4,456 |
| Transfer of net result from previous year | - | | - | 1,386 | –1,386 | 0 |
| Reclassification within shareholders' equity | - | - | - | - | - | - |
| **Comprehensive income** | | | | | | |
| Net profit/ loss for the year | - | - | - | - | 717 | 717 |
| **Other comprehensive income, net after tax** | | | | | | |
| Change of fair value on bonds | - | - | –90 | - | - | –90 |
| **Total other comprehensive income** | - | - | –90 | - | - | –90 |
| **Total comprehensive income** | - | - | –90 | - | 717 | 627 |
| **Transactions with owners** | | | | | | |
| Shareholder's contribution | - | - | - | 162 | - | 162 |
| Dividend paid[2] | - | - | - | –1,627 | - | –1,627 |
| **Total transactions with owners** | - | | - | –1,465 | - | –1,465 |
| AMOUNT DECEMBER 31, 2015 | 800 | - | 23 | 2,078 | 717 | 3,618 |

[1] The columns Other reserves, Retained earnings and Net profit/loss for the year together represents the non-restricted shareholders' equity for the parent company.
[2] Dividend paid to the parent company Fund American Holdings AB. Dividend is equal to SEK 325 (SEK 203) per share.
[3] Group contributions provided to parent company Fund American Holdings AB

# Change in Shareholders' Equity – Parent Company, cont.

| (MSEK) | 2016 | 2015 |
|---|---|---|
| **SHARE CAPITAL** | | |
| **Specified in number of shares** | | |
| Issued per January 1 | 8,000,000 | 8,000,000 |
| Issued per December 31 | 8,000,000 | 8,000,000 |

Per December 31, 2016 the share capital comprised 8,000,000 (8,000,000) ordinary shares.
The shares have a nominal value of 100 (100) SEK.

| (MSEK) | 2016 | 2015 |
|---|---|---|
| **OTHER RESERVES** | | |
| **Fair value reserve** | | |
| Opening fair value reserve | 29 | 145 |
| Change for the year | -17 | -116 |
| **Closing fair value reserve** | 12 | 29 |
| **Tax on fair value reserves** | | |
| Opening tax on fair value reserves | -6 | -32 |
| Change for the year | 5 | 26 |
| **Closing tax on fair value reserve** | -3 | -6 |
| **Fair value reserve after tax** | | |
| Opening fair value reserve after tax | 23 | 113 |
| Change for the year | -14 | -90 |
| CLOSING FAIR VALUE RESERVE AFTER TAX | **9** | 23 |
| **RETAINED EARNINGS** | | |
| Opening retained earnings | 2,078 | 2,157 |
| Transfer of net result from previous year | 717 | 1,386 |
| Shareholder's contribution | - | 162 |
| Transfer to restricted reserve | -68 | - |
| Group contributions paid | -5 | - |
| Dividend paid | -2,597 | -1,627 |
| CLOSING RETAINED EARNINGS | **124** | 2,078 |
| **RESTRICTED RESERVE** | | |
| Opening restricted reserve | - | - |
| Transfer to restricted reserve | 68 | - |
| CLOSING RESTRICTED RESERVE | 68 | - |
| **NET PROFIT/LOSS FOR THE YEAR** | | |
| NET PROFIT/LOSS FOR THE YEAR | **3,855** | 717 |

# Cash flow Statement – Parent Company

| (MSEK) | Note | 2016 | 2015 |
|---|---|---|---|
| **Operating Activities** | | | |
| Profit/loss before tax | | 3,912 | 1,069 |
| Interest income | | 119 | 170 |
| Interest expenses | | -6 | -4 |
| Dividends received | | 998 | 79 |
| Adjustment for non-cash items 1) | | -3,656 | -345 |
| Income tax paid | | 16 | -248 |
| **Cash flow from current operations before changes in assets and liabilities** | | 1,383 | 721 |
| Change in financial investments | | -1,617 | -17 |
| Change in other operating receivables | | -897 | 314 |
| Change in other operating liabilities | | 1,808 | -688 |
| **Cash flow from operating activities** | | 677 | 330 |
| **Financing activities** | | | |
| Acquisition of subsidiaries liquidity | | - | - |
| Net investment of intangible assets | | -18 | -21 |
| Net investments of tangible assets | | -23 | -56 |
| **Cash flow from investing activities** | | -41 | -77 |
| **Investing activities** | | | |
| Capital repayment | | - | - |
| Shareholder's contribution | | - | - |
| Dividend paid | | -365 | -709 |
| Group contributions paid | | - | - |
| **Cash flow from financing activities** | | -365 | -709 |
| CASH FLOW FOR THE YEAR | | **271** | -456 |
| Cash and cash equivalents at beginning of year | | 1,104 | 1,525 |
| Cash flow for the year | | 271 | -456 |
| Translation difference on Cash and cash equivalents | | 45 | 35 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR[2)] | | **1,420** | 1,104 |
| [1)] *Specification of non-cash items:* | | | |
| Depreciations | 11,12,20 | 58 | 48 |
| Capital gains on foreign exchange | 6 | -247 | -513 |
| Capital losses on foreign exchange | 8 | - | - |
| Capital gains | 8 | - | - |
| Capital losses | 6 | -286 | -62 |
| Unrealized gains | 8 | 891 | 117 |
| Unrealized losses | 7 | -461 | - |
| Interest income | 7 | 210 | 573 |
| Interest paid | 6 | -119 | -148 |
| Dividends received | 8 | 6 | 4 |
| Change in provisions for outstanding claims | 6 | -3,631 | -461 |
| Pension provisions | 24 | -77 | 96 |
| **Total** | | - 3,656 | -345 |
| [2)] *The following components are included in Cash and cash equivalents:* | | | |
| Cash and bank balances | | 585 | 389 |
| Short term investments, equivalent to cash and cash equivalents | | 835 | 715 |
| **Total** | | 1,420 | 1,104 |

# Performance Analysis – Parent Company

| 1 JANUARY - 31 DECEMBER 2016 (MSEK) | Direct Swedish risks — property | Direct Swedish risks — aviation | Direct Swedish risks - MFL | Direct foreign risks | Assumed reinsurance | Total |
|---|---|---|---|---|---|---|
| **ANALYSIS OF INSURANCE RESULT** | | | | | | |
| **Technical result insurance operations** | | | | | | |
| Premiums earned, for own account | 3 | 0 | 1 | 531 | 3,068 | 3,603 |
| Allocated investment return transferred from the non-technical account | - | - | - | 9 | 85 | 94 |
| Claims incurred, for own account | -11 | -1 | - | -223 | -1,551 | -1,786 |
| Operating costs | -1 | - | - | -273 | -1,031 | -1,305 |
| Change in equalization provision | - | - | - | - | 45 | 45 |
| TECHNICAL RESULT OF INSURANCE OPERATION [1] | -9 | -1 | 1 | 44 | 616 | 651 |
| *Of which results from prior years, gross amounts [2]* | -12 | -1 | | -205 | -519 | -736 |
| **Technical provisions** | | | | | | |
| Unearned premiums and remaining risks | -2 | - | - | -696 | -1,904 | -2,602 |
| Outstanding claims | -4 | -1 | - | -258 | -5,518 | -5,781 |
| Claims adjustment provision | - | - | - | -9 | -132 | -141 |
| Equalization provision | - | - | - | - | -44 | -44 |
| TECHNICAL PROVISIONS | -6 | -1 | - | -963 | -7,598 | -8,568 |
| **Reinsurers' share of technical provisions** | | | | | | |
| Unearned premiums and remaining risks | - | - | - | 390 | 735 | 1,125 |
| Outstanding claims | - | 1 | - | 43 | 1,476 | 1,520 |
| REINSURERS' SHARE OF TECHNICAL PROVISIONS | - | 1 | - | 433 | 2,211 | 2,645 |
| **Premiums earned, for own account** | | | | | | |
| Gross premium income | 3 | - | 1 | 1,268 | 5,523 | 6,795 |
| Ceded reinsurance premium | - | - | - | -770 | -2,098 | -2,868 |
| Change in gross provision for unearned premiums | - | - | - | -111 | -554 | -665 |
| Reinsurers' share of change in unearned premiums | - | - | - | 144 | 197 | 341 |
| PREMIUMS EARNED, FOR OWN ACCOUNT | 3 | 0 | 1 | 531 | 3,068 | 3,603 |
| **Claims incurred, for own account** | | | | | | |
| Claims paid | -8 | -2 | - | -525 | -2,113 | -2,648 |
| Reinsurers' share | - | - | - | 260 | 586 | 846 |
| Claims handling expenses | - | - | - | -9 | -111 | -120 |
| Change in provision for outstanding claims | -3 | 1 | - | 53 | 32 | 83 |
| Reinsurers' share | - | | - | -2 | 55 | 53 |
| CLAIMS INCURRED, FOR OWN ACCOUNT | -11 | -1 | - | -223 | -1,551 | -1,786 |

[1] Exludes other operating costs that are not related to the insurance operations.
[2] Defined as result from underwriting year 2015 and earlier.

*Stockholm*

# Note 1 – Accounting principles

## GENERAL INFORMATION

This annual report was issued per December 31, 2016 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 CM International Holdings PTE Ltd.,Singapore and in turn owned by China Minsheng Investment Corp.,Ltd.,China. The Group writes property and casualty insurance and reinsurance, see Note 34 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 guidelines on Annual Reports in Insurance Companies (FFFS 2015:12) with amendments 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 guidelines on Annual Reports in Insurance Companies (FFFS 2015:12) with amendments, 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

The Annual Report per December 31, 2016 has been prepared in accordance with standards, statements and interpretations that have come into force during the year. Furthermore, a number of standards, statements and interpretations have been published but have not yet come into force. Below follows a summary and a preliminary assessment of the effect these standards, statements and interpretations have and may have on the Company's financial reports. Changes other than those given below are not deemed relevant, alternatively are not expected to affect the Group's financial reports.

### New and amended standards applied by the Group

None of the IFRS standards that are mandatory for the first time for the financial year that started January 1st 2016 has had any significant impact on the group's income statement or balance sheet.

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

A number of new standards and interpretations come into effect for financial years beginning after 1 January 2017 and have not been applied in the preparation of these financial statements. These new standards and interpretations are expected to impact the group's financial reports in the following way:

IFRS 9 "Financial Instruments" addresses the classification, measurement and recognition of financial assets and liabilities. The complete version of IFRS 9 was issued in July 2014 and is adopted by EU. It replaces certain parts of IAS 39 that handles classification and valuation of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets; amortized cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through P&L with the irrevocable option at the inception to present changes in fair value in OCI and no recycling is made at disposal of the instrument. There is now a new expected credit losses model that replaces the incurred loss impairment model. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through P&L. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. Insurance companies are permitted to defer the implementation of the standard until IFRS 17, Insurance Contracts, is effective. However, no later than 2021. The group has not yet evaluated in what timeframe the standard will be applied. Evaluation of the effects is an ongoing process and the initial assessment is that the introduction of the new standard will not have any significant effect on valuation nor the income statement.

IFRS 15 Revenue from contracts with customers regulates the reporting of revenues from contracts other than insurance contracts. The principles that IFRS 15 is built upon shall provide users of financial reports more useful information regarding the company's revenues. The increased disclosure requirements implies that information regarding revenue segments, timing of settlement, uncertainty in connection to revenue recognition and cash flow from customers shall be disclosedAccording to IFRS 15 revenue is based on the principle that it is recognised when the customer obtains control over the sold goods or services and have the ability to use and gain the benefits from goods or services. IFRS 15 replaces IAS 18 Revenue, and IAS 11 Construction contracts and the related SIC and IFRIC. IFRS 15 come into effect on January 1, 2018 and is adopted by EU. Early adoption is permitted. At present, the group can not estimate the quantitative impact on the financial statements. The group will make a detailed evaluation in the upcoming year.

IFRS 16 Leases was published in January 2016 and will replace IAS 17 leases and related interpretations. The largest effect from the new rules is that a lessee shall report a lease asset (the right to use an asset) and financial liability in the balance sheet. In the income statement, the linear operating leasing cost is replaced by depreciation cost of the leased asset and an intrest expense for the financial liability.

At present, alessee does not recognize an operational lease asset in the balance sheet . The group's assessment is that this standard will not have any significant impact of the group's financial statements. The standard will come into effect on January 1, 2019 and is not adopted by EU.

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.

## 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 that are 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.

Note 1 – Cont.

### 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 April 25, 2017. The income statement and balance sheet will be adopted at the General Meeting held in May 2017.

## CONSOLIDATION PRINCIPLES

### Subsidiaries

Subsidiaries are companies in which the Parent Company has a controlling influence. The group has controlling influence over a company when it is exposed to or entitled to variable returns from its holdings in the company and the possibility to affect the return through its controlling influence. 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 rates | Average rates |
|---|---|---|
| USD | 9.05 | 8.56 |
| EUR | 9.55 | 9.45 |
| GBP | 11.21 | 11.64 |

## 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*.

**Note 1 – Cont.**

## Accounting of insurance contracts

*Revenue recognition/Premium income*

Gross premiums written relate to insurance contracts incepted 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,

## 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 2016 amounted to 1.63%.

### Applied interest rates

| % | 2016 | 2015 |
|---|---|---|
| EUR | 5.09 % | 1.12 % |
| GBP | 6.08 % | 1.95 % |
| SEK | 0.39 % | 0.78 % |
| USD | 1.15 % | 1.27 % |

### 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

**Note 1 – Cont.**

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 it useful life. An intangible asset with a finite useful life is amortized while an intangible asset with an indefinite is not amortized but is impaired annually. 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 five years.

*Licenses*

Licenses, acquired or otherwise received, are accounted as an intagible asset in accordance with IAS 38.

## 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 looses 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 trough 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.

**Note 1 – Cont.**

*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 for the year, and the values in the December 31, 2016 balance sheet, for financial instruments valued at fair value 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, is disclosed in Note 19.

*Loans receivables and accounts receivables*
Loans receivables and accounts receivables are non-derivative financial assets which are not listed on an active market and with fixed or determinable payments. These assets are measured at amortized cost. Amortized cost is determined by using the effective interest method at time of acquisition. Loans receivables and 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 of observable conditions which have arisen and which have a negative impact on the possibility of recovering the acquisition cost. For investments in equity intruments objective evidence is also constituded by 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.

*Stockholm*

Note 1 – Cont.

## 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

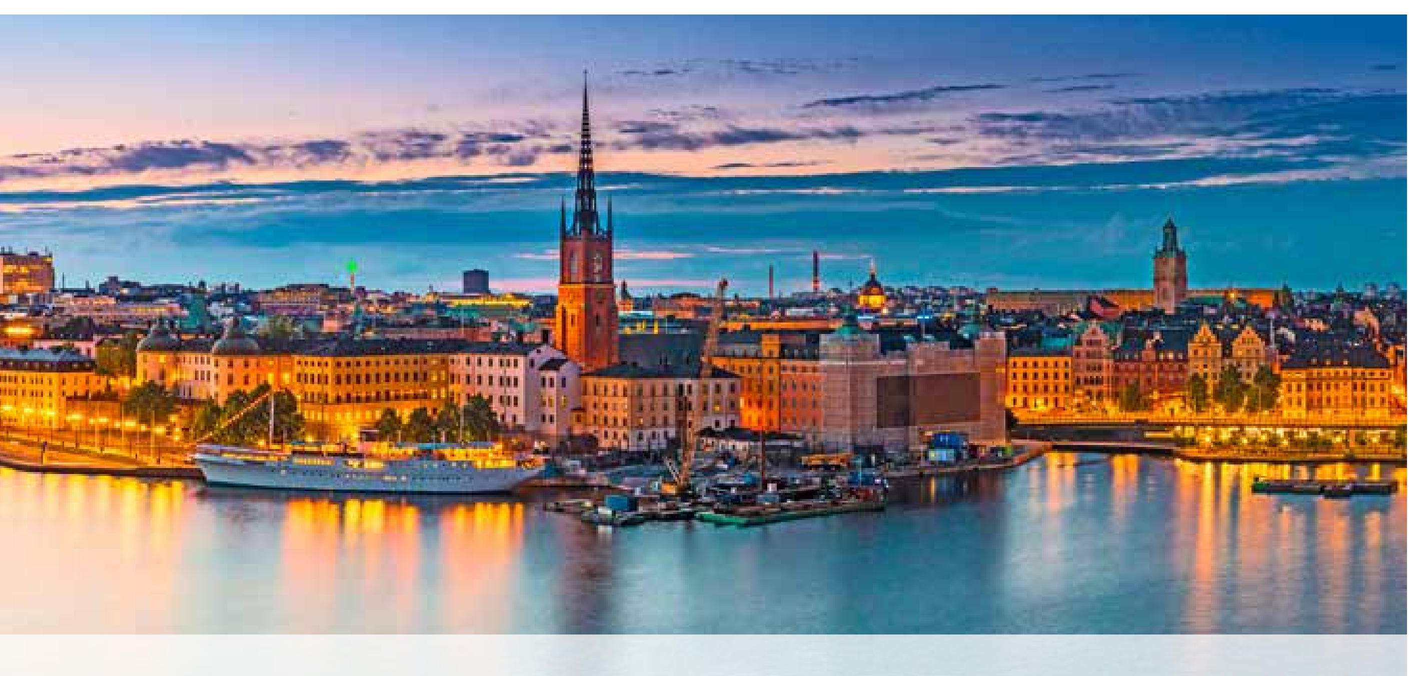
The Group companies' pension plans differ. The pension plans are usually financed through payments to insurance companies or managed funds. These payments are determined based on periodic actuarial calculations. The Group has both defined benefit and defined contribution pension plans. A defined contribution 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 actuarial gains and losses. 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, using interest rates determined by current market interest rates. The market rates take into account the caracteristics of the defined pension obligaton, both in terms of duration and the currency in which the remuneration will be paid

The service cost for current year is recognized in the Income Statement. 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. Actuarial gains and losses on the defined benefit obligation and the fair value on the plan assets are recognized in Other comprehensive income (OCI).

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.



**Note 1 – Cont.**

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.

### 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.

*Self-developed software*

An amount corresponding to what has been capitalized is transfered to restricted reserves. The reserve is subsequently reversed in line with the amortizations, according to ÅRL ch 3.§ 10 a.

*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.

Since the new Insurance Business act came into force, the equalization provision have to be dissolved no later than on December 31, 2019 according to law 2015:700 12 pt.

*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 contributionGroup 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 companies, to the extent that impairments are not required.

# 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 fostering 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 all stakeholders with transparent risk management information
— Comply with current Solvency II standards and with all 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. The aim is 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 or in qualitative terms. From these overall risk tolerance statements, risk limits are applied at a detailed level throughout the organization in the form of 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/moderate risk taking and adequate capitalization
— Reduce risk by proper risk selection and active portfolio diversification
— All insurance transactions are expected to yield positive technical results
— Active use of retrocession as part of business and capital planning
— Positive investment returns through a diversified portfolio of high quality debt and equity investments
— Strong accumulation control
— Strong and independent 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, 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 is a sub-committee to the Board of Directors and has the objective of formalizing the oversight of critical risks, including the following risk management processes:

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

Sirius' functions for risk management and compliance are responsible for the independent monitoring of Sirius' risks. The functions submit quarterly risk reports and compliance reports to the CEO, the Management Group and 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.

## 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 underwriting decision shall comprise the basics of 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, active use of retrocession or through by 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. Catastrophe 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 unit reporting to the Chief Underwriting Officer. This unit focuses in detail on how the business is underwritten and that the underwriters follow issued policies and procedures. Another unit 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. In 2012, Sirius started using a new proprietary prop-

Note 2 – Cont.

erty 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. 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 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

Through the use of the simulation models, discussed in the previous section, the company can obtain an estimate of catastrophe risk, both prior to and after retrocession.

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 2015 and Q4 2016.

**SENSITIVITY ANALYSIS — LOSSES DIVIDED BY GEOGRAPHICAL AREA AND RETURN PERIODS FOR THE GROUP**

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Once per 100 years | Once per 250 years | Once per 100 years | Once per 250 years |
| Global — Gross | 3,975 | 4,917 | 4,688 | 5,423 |
| Global — Net | 2,435 | 2,968 | 2,918 | 3,572 |
| Europe — Gross | 3,431 | 4,604 | 3,209 | 4,187 |
| Europe — Net | 891 | 1,081 | 1,436 | 1,852 |
| US — Gross | 3,105 | 3,940 | 4,255 | 5,156 |
| US — Net | 2,353 | 2,911 | 2,808 | 3,488 |

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 based on the extreme tail of the modeled losses. 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. The calculation of the NFI begins with the modeled TVaR 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.

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 reserve 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 24 Claims Outstanding, where a specification of claims costs and expenses relating to the current year and prior years is made.

The Group has asbestos and environmental claims amounting to MSEK 1,633 (1,598) net in the Group balance sheet. These claims are actively managed and are subject to in depth analyses, the latest during the second half of

2013. A new in depth analysis is scheduled for 2017. The increase during 2016 is caused entirely by changes in foreign exchange rates. In original currency (USD) we have a 5 % reserve decrease.

*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 2016. The table below is thus not directly comparable to the income statement. The changes 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. Generally development of runoff portfolios are included only after they are acquired. 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.

Note 2 – Cont.

## 10-YEAR TABLE

**GROUP – CLAIMS, GROSS**

| UNDERWRITING YEAR | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimated claims:** | | | | | | | | | | | |
| at the close of the calendar year | 4,353 | 4,473 | 4,334 | 3,588 | 5,270 | 3,658 | 3,405 | 2,984 | 2,993 | 3,916 | |
| 1 year later | 5,300 | 5,588 | 6,293 | 9,130 | 6,834 | 4,850 | 4,982 | 5,043 | 5,086 | | |
| 2 years later | 5,279 | 5,575 | 9,686 | 8,987 | 7,055 | 4,667 | 4,839 | 5,229 | | | |
| 3 years later | 5,174 | 9,629 | 9,533 | 8,931 | 6,887 | 4,577 | 4,736 | | | | |
| 4 years later | 9,509 | 9,588 | 9,449 | 8,748 | 6,845 | 4,543 | | | | | |
| 5 years later | 9,466 | 9,571 | 9,377 | 8,702 | 6,825 | | | | | | |
| 6 years later | 9,463 | 9,534 | 9,391 | 8,688 | | | | | | | |
| 7 years later | 9,439 | 9,492 | 9,369 | | | | | | | | |
| 8 years later | 9,423 | 9,480 | | | | | | | | | |
| 9 years later | 9,422 | | | | | | | | | | |
| Current estimate of total claims | 9,422 | 9,480 | 9,369 | 8,688 | 6,825 | 4,543 | 4,736 | 5,229 | 5,086 | 3,916 | |
| Total paid | 9,179 | 9,230 | 9,155 | 8,357 | 6,626 | 4,101 | 4,275 | 4,391 | 2,904 | 854 | |
| **CLAIMS OUTSTANDING[1]** | **242** | **250** | **214** | **331** | **199** | **442** | **460** | **838** | **2,182** | **3,062** | **8,220** |
| **2006 AND PRIOR YEARS** | — | — | — | — | — | — | — | — | — | — | **5,763** |
| **TOTAL** | — | — | — | — | — | — | — | — | — | — | **13 982** |

**GROUP – CLAIMS, NET OF REINSURANCE**

| UNDERWRITING YEAR | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimated claims:** | | | | | | | | | | | |
| at the close of the calendar year | 3,878 | 4,118 | 3,776 | 2,970 | 4,755 | 3,363 | 2,470 | 2,175 | 2,235 | 2,822 | |
| 1 year later | 4,751 | 4,939 | 4,908 | 8,397 | 6,482 | 4,196 | 3,621 | 3,842 | 3,837 | | |
| 2 years later | 4,700 | 4,881 | 8,449 | 8,111 | 6,428 | 3,901 | 3,540 | 4,068 | | | |
| 3 years later | 4,595 | 9,259 | 7,986 | 8,062 | 6,043 | 3,801 | 3,453 | | | | |
| 4 years later | 9,151 | 8,427 | 7,908 | 7,860 | 6,010 | 3,770 | | | | | |
| 5 years later | 8,715 | 8,299 | 7,839 | 7,817 | 5,986 | | | | | | |
| 6 years later | 8,280 | 8,259 | 7,874 | 7,813 | | | | | | | |
| 7 years later | 8,255 | 8,236 | 7,854 | | | | | | | | |
| 8 years later | 8,241 | 8,234 | | | | | | | | | |
| 9 years later | 8,235 | | | | | | | | | | |
| Current estimate of total claims | 8,235 | 8,234 | 7,854 | 7,813 | 5,986 | 3,770 | 3,453 | 4,068 | 3,837 | 2,822 | |
| Total paid | 8,017 | 8,004 | 7,662 | 7,538 | 5,814 | 3,445 | 3,135 | 3,414 | 2,088 | 549 | |
| **CLAIMS OUTSTANDING[1]** | **218** | **230** | **192** | **275** | **172** | **325** | **317** | **654** | **1,749** | **2,273** | **6,406** |
| **2006 AND PRIOR YEARS** | — | — | — | — | — | — | — | — | — | — | **4,800** |
| **TOTAL** | — | — | — | — | — | — | — | — | — | — | **1 205** |

**PARENT COMPANY – CLAIMS , GROSS**

| UNDERWRITING YEAR | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimated claims:** | | | | | | | | | | | |
| at the close of the calendar year | 4,353 | 4,473 | 4,334 | 3,588 | 2,504 | 2,340 | 2,491 | 1,976 | 1,853 | 2,122 | |
| 1 year later | 5,300 | 5,588 | 6,293 | 5,462 | 3,693 | 3,078 | 3,481 | 2,907 | 2,636 | | |
| 2 years later | 5,279 | 5,575 | 5,991 | 5,283 | 3,526 | 2,912 | 3,271 | 2,777 | | | |
| 3 years later | 5,174 | 5,486 | 5,903 | 5,250 | 3,326 | 2,850 | 3,222 | | | | |
| 4 years later | 5,151 | 5,494 | 5,862 | 5,139 | 3,288 | 2,876 | | | | | |
| 5 years later | 5,136 | 5,472 | 5,800 | 5,111 | 3,291 | | | | | | |
| 6 years later | 5,134 | 5,423 | 5,823 | 5,084 | | | | | | | |
| 7 years later | 5,137 | 5,371 | 5,819 | | | | | | | | |
| 8 years later | 5,130 | 5,347 | | | | | | | | | |
| 9 years later | 5,119 | | | | | | | | | | |
| Current estimate of total claims | 5,119 | 5,347 | 5,819 | 5,084 | 3,291 | 2,876 | 3,222 | 2,777 | 2,636 | 2,122 | |
| Total paid | 5,058 | 5,242 | 5,676 | 4,865 | 3,014 | 2,499 | 2,864 | 2,255 | 1,400 | 405 | |
| **CLAIMS OUTSTANDING[1]** | **61** | **105** | **143** | **219** | **277** | **377** | **358** | **522** | **1,237** | **1,717** | **5,016** |
| **2006 AND PRIOR YEARS** | — | — | — | — | — | — | — | — | — | — | **765** |
| **TOTAL** | — | — | — | — | — | — | — | — | — | — | **5,781** |

**PARENT COMPANY – CLAIMS , NET OF REINSURANCE**

| UNDERWRITING YEAR | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Estimated claims:** | | | | | | | | | | | |
| at the close of the calendar year | 3,878 | 4,118 | 3,776 | 2,970 | 1,956 | 1,892 | 1,558 | 1,294 | 1,284 | 1,408 | |
| 1 year later | 4,751 | 4,939 | 4,908 | 4,574 | 2,821 | 2,367 | 2,212 | 1,913 | 1,827 | | |
| 2 years later | 4,700 | 4,881 | 4,646 | 4,384 | 2,677 | 2,191 | 2,081 | 1,800 | | | |
| 3 years later | 4,595 | 4,786 | 4,643 | 4,354 | 2,479 | 2,118 | 2,047 | | | | |
| 4 years later | 4,568 | 4,803 | 4,613 | 4,224 | 2,451 | 2,147 | | | | | |
| 5 years later | 4,554 | 4,789 | 4,554 | 4,199 | 2,451 | | | | | | |
| 6 years later | 4,554 | 4,741 | 4,570 | 4,177 | | | | | | | |
| 7 years later | 4,561 | 4,708 | 4,554 | | | | | | | | |
| 8 years later | 4,555 | 4,692 | | | | | | | | | |
| 9 years later | 4,539 | | | | | | | | | | |
| Current estimate of total claims | 4,539 | 4,692 | 4,554 | 4,177 | 2,451 | 2,147 | 2,047 | 1,800 | 1,827 | 1,408 | |
| Total paid | 4,502 | 4,623 | 4,462 | 4,024 | 2,202 | 1,887 | 1,830 | 1,438 | 911 | 204 | |
| **CLAIMS OUTSTANDING[1]** | **37** | **69** | **92** | **154** | **249** | **261** | **217** | **362** | **916** | **1,204** | **3,560** |
| **2006 AND PRIOR YEARS** | — | — | — | — | — | — | — | — | — | — | **701** |
| **TOTAL** | — | — | — | — | — | — | — | — | — | — | **4,261** |

[1] For reconciliation against Balance Sheet, see Note 24.

Note 2 – Cont.

## 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 90 percent shall be invested in fixed income securities at all times. Furthermore, at least 90 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.

### 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 Investment Committee is responsible for the continuous management of market risks. The development of the market risks is reported within the Investment Committee on a quarterly basis. The Investment Committee is reporting to the Sirius Board of Directors.

The company's investment operations during 2016 yielded a total return of 2.1 percent (3.2 percent in 2015), expressed in SEK. The duration in the port¬folio with interest-bearing investments at the end of 2016 was 3.1 years which was higher compared to 2015 (2.38 years). During the year the group has reduced the portion of shares and participations compared to 2015. The table below shows the investment assets divided by class of asset, excluding deposits in companies that are reinsured by Sirius.

## INVESTMENT ASSETS, DIVISION BY CLASS OF ASSET, PERCENTAGE SPLIT

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Bonds and other interest-bearing securities | 81.99 | 71.08 | 34.70 | 37.18 |
| Shares in associated companies | 0.55 | 0.52 | 58.38 | 59.90 |
| Shares and participations | 7.60 | 20.41 | 0.82 | 0.74 |
| — whereof venture capital companies | 1.41 | 1.34 | 0.72 | 0.64 |
| Derivatives | –1.12 | –2.78 | –1.52 | –4.33 |
| Cash and bank balances | 10.98 | 10.78 | 7.62 | 6.51 |
| TOTAL | **100.00** | 100.00 | **100.00** | 100.00 |

Note 2 – Cont.

Below, the company's exposure and sensitivity to the respective market risks are described.

*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 as per December 31, 2016 and December 31, 2015.

## INVESTMENT ASSETS, INTEREST RATE RISK

| | EXPOSURE (MSEK) | | SCENARIO, STRESS TEST | | CAPITAL REQUIREMENTS (MSEK) | |
|---|---|---|---|---|---|---|
| **GROUP** | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** |
| Assets in SEK | 1,859 | 1,679 | 100 bp | 100 bp | 77 | 33 |
| Assets in EUR | 1,574 | 1,479 | 100 bp | 100 bp | 82 | 75 |
| Assets in USD and other currencies | 17,149 | 14,524 | 100 bp | 100 bp | 472 | 290 |
| **TOTAL** | **20,582** | 17,681 | **-** | - | **631** | 399 |

| | EXPOSURE (MSEK) | | SCENARIO, STRESS TEST | | CAPITAL REQUIREMENTS (MSEK) | |
|---|---|---|---|---|---|---|
| **PARENT COMPANY** | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** |
| Assets in SEK | 1,531 | 1,304 | 100 bp | 100 bp | 64 | 24 |
| Assets in EUR | 1,574 | 1,478 | 100 bp | 100 bp | 82 | 75 |
| Assets in USD and other currencies | 3,363 | 4,519 | 100 bp | 100 bp | 106 | 101 |
| **TOTAL** | **6,468** | 7,301 | **-** | - | **252** | 200 |

*Equity Risk*
The equity risk is the risk that the market value of equity securities 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 equity securities portfolio. The tables below show the equity risk as per December 31, 2016 and December 31, 2015.

## INVESTMENT ASSETS, EQUITY RISK

| | EXPOSURE (MSEK) | | SCENARIO, STRESS TEST | | CAPITAL REQUIREMENTS (MSEK) | |
|---|---|---|---|---|---|---|
| **GROUP** | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** |
| Foreign shares and participations | 1,918 | 5,387 | 35% | 35% | 671 | 1,885 |
| Foreign subsidiaries and associated companies | 145 | 127 | 35% | 35% | 51 | 45 |
| **TOTAL** | **2,063** | 5,514 | **-** | - | **722** | 1,930 |

| | EXPOSURE (MSEK) | | SCENARIO, STRESS TEST | | CAPITAL REQUIREMENTS (MSEK) | |
|---|---|---|---|---|---|---|
| **PARENT COMPANY** | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** |
| Foreign shares and participations | 152 | 2,858 | 35% | 35% | 53 | 1,000 |
| Foreign subsidiaries and associated companies | 10,882 | 8,223 | 35% | 35% | 3,809 | 2,878 |
| **TOTAL** | **11,034** | 11,081 | **-** | - | **3,862** | 3,878 |

Note 2 – Cont.

## CURRENCY RISK

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

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

Sirius' total net currency exposure is divided into two categories, exposure related to Policyholder Funds, which is matched with the corresponding assets, and exposure related to Owners' Funds. Sirius' net Policyholder Funds exposure for currency risk is marginal as the objective for managing currency risk is to match net insurance liabilities in foreign currency with corresponding assets on timely basis. 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

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| **GROUP** | **USD** | **EUR** | **GBP** | **Other** | **USD** | **EUR** | **GBP** | **Other** |
| Shares and participations | 2,450 | 17 | 4 | - | 5,496 | 5 | - | - |
| Bonds and other interest-bearing securities | 13,950 | 1,615 | 1,520 | - | 13,635 | 1,488 | 1,701 | - |
| Other financial investment assets | 3,602 | 125 | 32 | 394 | 2,244 | 145 | 63 | 309 |
| Other assets and liabilities, net | 2,951 | 178 | -39 | 214 | 2,910 | 94 | 4 | 163 |
| **Total assets** | 22,953 | 1,935 | 1,517 | 608 | 24,285 | 1,732 | 1,768 | 472 |
| Technical provisions, net | –11,166 | –1,291 | –244 | –563 | -10,503 | -1,309 | -330 | -518 |
| **Total liabilities and provisions** | –11,166 | –1,291 | –244 | –563 | -10,503 | -1,309 | -330 | -518 |
| Net exposure before financial hedging with derivatives | 11,787 | 644 | 1,273 | 45 | 13,782 | 423 | 1,438 | -46 |
| Nominal value currency forwards | -5,433 | - | - | - | -5,055 | - | - | - |
| NET EXPOSURE AFTER FINANCIAL HEDGING WITH DERIVATIVES | 6,354 | 644 | 1,273 | 45 | 8,727 | 423 | 1,438 | -46 |

In the table below, the effect on the company'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 foreign exchange 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

| | **GROUP** | **USD** | **EUR** | **GBP** | **Other** | **TOTAL** |
|---|---|---|---|---|---|---|
| 2016 | Change 25 basis points | 175 | 17 | 28 | - | **220** |
| 2016 | Change 10 % | 635 | 64 | 127 | 4 | **830** |
| 2015 | Change 25 basis points | 259 | 12 | 29 | - | 300 |
| 2015 | Change 10 % | 873 | 42 | 144 | 5 | 1,064 |

Note 2 – Cont.

## 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 income assets to changes in the level or in the volatility of credits spreads over the risk-free term structure. Sirius invests in fixed income assets with high credit quality. The average credit rating of the fixed income portfolio at the end of 2016 was AA-. Assets sensitive to changes in credit spreads may also give rise to others risks, e.g. counterparty risk.

*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 (MSEK).

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Bonds and other interest-bearing assets | 20,699 | 18,738 | 6,468 | 6,302 |
| — Governments | 3,657 | 1,687 | 1,744 | 421 |
| — Swedish mortgage institutions | 775 | 480 | 618 | 377 |
| — Other Swedish issuers | 560 | - | 480 | - |
| — Other issuers | 15,707 | 16,571 | 3,626 | 5,504 |
| Shares in associated Companies | 145 | 127 | 10,882 | 10,153 |
| Shares and participations | 1,918 | 5,387 | 152 | 126 |
| Derivatives | -283 | -734 | -283 | -734 |
| TOTAL | **22,479** | 23,518 | **17,219** | 15,847 |

**Note 2 – Cont.**

The table 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 2016**

| Name of security | Type of security | Market value (MSEK) | % of financial assets |
|---|---|---|---|
| Doubleline Total Return Bond CL MF | Fund | 1,053 | 4.63 |
| JPMorgan Chase & Co | Bond | 354 | 1.55 |
| Swedbank Hypotek AB | Bond | 243 | 1.07 |
| New Energy Capital Infrastructure Credit Fund L.P | Share | 219 | 0.96 |
| Länsförsäkringar Hypotek AB | Bond | 185 | 0.81 |
| New Energy Capital Infra Offshore | Share | 147 | 0.64 |
| BE Reinsurance Ltd | Shares in Associated Company | 145 | 0.60 |
| Sveriges Säkerställda Obligationer AB | Bond | 126 | 0.55 |
| Avis Budget Rental Car Funding LLC | Bond | 99 | 0.43 |
| Volvo Financial Equipment LLC | Bond | 97 | 0.43 |
| TOTAL | | **2,668** | **11.67** |

**PARENT COMPANY 2016**

| Name of security | Type of security | Market value (MSEK) | % of financial assets |
|---|---|---|---|
| SI Phoenix (Luxembourg) S.à r.l | Shares in Subsidiary | 5,606 | 32.03 |
| S.I. Holdings (Luxembourg) S.à r. | Shares in Subsidiary | 4,833 | 27.61 |
| JPMorgan Chase & Co | Bond | 354 | 2.02 |
| Swedbank Hypotek AB | Bond | 243 | 1.39 |
| Länsförsäkringar Hypotek AB | Bond | 185 | 1.06 |
| Be Reinsurance Ltd | Shares in Associated Company | 145 | 0.83 |
| Sveriges Säkerställda Obligationer AB | Bond | 126 | 0.72 |
| Swedish Cover bond Corp | Bond | 95 | 0.54 |
| MLSSS Ltd | Shares | 94 | 0.54 |
| Länsförsäkringar Hypotek AB | Bond | 81 | 0.46 |
| TOTAL | | **11,762** | **67.20** |

*London*

Note 2 – Cont.

**GROUP 2015**

| Name of security | Type of security | Market value (MSEK) | % of financial assets |
|---|---|---|---|
| Symetra Financial Corporation | Share | 3,012 | 12.08 |
| OneBeacon Insurance Group | Share | 766 | 3.07 |
| SPDR S&P 500 ETF Trust | Share | 378 | 1.52 |
| Swedbank Hypotek AB | Bond | 377 | 1.51 |
| ISHARES Core S&P 500 ETF | Share | 370 | 1.48 |
| JPMorgan Chase & Co | Bond | 327 | 1.31 |
| Nordax Finans AB | Bond | 219 | 0.88 |
| Total Capital Canada Ltd | Bond | 216 | 0.87 |
| Verizon Communications | Bond | 160 | 0.64 |
| Telenor ASA | Bond | 132 | 0.53 |
| TOTAL | | 5,957 | 23.89 |

**PARENT COMPANY 2015**

| Name of security | Type of security | Market value (MSEK) | % of financial assets |
|---|---|---|---|
| SI Phoenix (Luxembourg) S.à r.l | Shares in Subsidiary | 6,158 | 35.78 |
| S.I. Holdings (Luxembourg) S.à r. | Shares in Subsidiary | 3,572 | 20.76 |
| Swedbank Hypotek AB | Bond | 377 | 2.19 |
| Sirius International Holdings (NL) B.V. | Shares in Subsidiary | 269 | 1.56 |
| Total Capital Canada Ltd | Bond | 233 | 1.35 |
| Nordax Finans AB | Bond | 219 | 1.28 |
| Telenor ASA | Bond | 132 | 0.77 |
| BE Reinsurance Ltd | Shares in Associated Company | 128 | 0.74 |
| Scania CV AB | Bond | 96 | 0.56 |
| MLSSS Ltf | Share | 77 | 0.45 |
| TOTAL | | 11,261 | 65.44 |

Note 2 – Cont.

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, %**

| | 2016 | | | | | | | 2015 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| GROUP | AAA | AA | A | BBB | CCC | Not rated | TOTAL | AAA | AA | A | BBB | CCC | Not rated | TOTAL |
| Bonds and other interest-bearing securities | 23 | 29 | 25 | 22 | 0 | 1 | **100** | 22 | 24 | 20 | 34 | - | - | 100 |
| — Swedish government | 100 | 0 | 0 | 0 | 0 | 0 | **100** | 0 | - | - | - | - | - | 0 |
| — Swedish mortgage institutions | 89 | 3 | 8 | 0 | 0 | 0 | **100** | 100 | - | - | - | - | - | 100 |
| — Other Swedish institutions | 94 | 0 | 0 | 0 | 0 | 6 | **100** | 0 | - | - | - | - | - | 0 |
| — Foreign governments | 7 | 65 | 25 | 0 | 0 | 3 | **100** | 27 | 64 | 8 | 1 | - | - | 100 |
| — Other foreign issuers | 20 | 20 | 25 | 32 | 0 | 3 | **100** | 19 | 20 | 22 | 39 | - | - | 100 |

**EQUITY INVESTMENTS, DIVIDED BY GEOGRAPHICAL AREA, %**

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Western Europe | 1.69 | 0.62 | 3.77 | 3.62 |
| North America | 97.68 | 96.85 | 96.03 | 96.15 |
| Other | 0.63 | 2.53 | 0.2 | 0.23 |
| Total | **100** | 100 | **100** | 100 |

**INTEREST-BEARING INVESTMENTS, DIVIDED BY GEOGRAPHICAL AREA, %**

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Western Europe | 14.01 | 23.30 | 44.57 | 57.86 |
| North America | 76.73 | 73.85 | 31.03 | 35.43 |
| Scandinavia | 9.03 | 2.61 | 23.67 | 5.99 |
| Other | 0.23 | 0.25 | 0.73 | 0.72 |
| Total | **100** | 100 | **100** | 100 |

**INTEREST-BEARING INVESTMENTS, DIVIDED BY SECTOR, %**

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Governments | 17.77 | 9.15 | 26.96 | 6.68 |
| Swedish mortgage institutions | 3.76 | 2.61 | 9.56 | 5.99 |
| Other Swedish issuers | 2.72 | 0 | 7.42 | 0 |
| Other foreign issuers | 75.75 | 88.24 | 56.05 | 87.33 |
| Total | **100** | 100 | **100** | 100 |

*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 to the insurance portfolio, which would occur for example, in the case of a severe European windstorm. An event such as this would trigger recoveries from major portions of Sirius' outwards reinsurance program.

Sirius' Security Committee is responsible for managing the risk of reinsurer insolvency. To mitigate this risk, the financial condition of our reinsurers is reviewed bi-annually and periodically monitored.

The credit risk reserve for bad debts amounted, as per December 31, 2016, to MSEK 100 for the Group, whereof MSEK 36 at Sirius International (2015 MSEK 74 for the Group, MSEK 22 at Sirius International).

*Ageing balances*

Receivables related to direct insurance as well as assumed and ceded reinsurance are followed up on a semi-annual 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 comprise the basis for various collection activities, as does the supporting documentation regarding the assessment of the counterparty's credit risk status and any requirements for bad debts provisions.

Note 2 – Cont.

| GROUP | Due for | <1 Month | 1–3 Months | 4–6 Months | 7–9 Months | 10–12 Months | >1 Year | Total |
|---|---|---|---|---|---|---|---|---|
| 2016 | Net receivables | 948 | 141 | 49 | -6 | 1 | 51 | **1,184** |
| 2015 | Net receivables | 731 | 100 | 50 | 8 | 5 | 119 | 1,013 |

| PARENT COMPANY | Due for | <1 Month | 1–3 Months | 4–6 Months | 7–9 Months | 10-12 Months | >1 Year | Total |
|---|---|---|---|---|---|---|---|---|
| 2016 | Net receivables | -25 | 43 | 22 | 0 | 2 | 35 | **77** |
| 2015 | Net receivables | 109 | 24 | 22 | 6 | 1 | 83 | 245 |

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 1 (6) at December 31, 2016.

*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.

**RATING – STANDARD & POOR'S OR EQUIVALENT**

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| GROUP | Gross | Collateral | Net | Percentage split | Gross | Collateral | Net | Percentage split |
| AAA | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| AA+ | 474 | 0 | 474 | 12 | 460 | 0 | 460 | 15 |
| AA | 218 | 7 | 211 | 5 | 269 | 7 | 262 | 9 |
| AA- | 307 | 8 | 299 | 8 | 300 | 2 | 298 | 10 |
| A+ | 643 | 17 | 626 | 15 | 487 | 28 | 460 | 15 |
| A | 227 | 1 | 226 | 6 | 193 | 0 | 193 | 6 |
| A- | 1,100 | 131 | 969 | 27 | 543 | 73 | 469 | 17 |
| BBB+ | 35 | 0 | 35 | 1 | 36 | 0 | 36 | 1 |
| BBB or lower | 398 | 66 | 332 | 10 | 208 | 39 | 169 | 7 |
| Special approval | 697 | 121 | 576 | 16 | 621 | 124 | 497 | 20 |
| TOTAL | **4,099** | **351** | **3,748** | **100** | 3,117 | 273 | 2,844 | 100 |

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| PARENT COMPANY | Gross | Collateral | Net | Percentage split | Gross | Collateral | Net | Percentage split |
| AAA | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| AA+ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| AA | 214 | 6 | 208 | 8 | 244 | 7 | 237 | 12 |
| AA- | 155 | 0 | 155 | 6 | 181 | 0 | 181 | 9 |
| A+ | 315 | 0 | 315 | 12 | 304 | 0 | 304 | 14 |
| A | 170 | 0 | 170 | 6 | 136 | 0 | 136 | 7 |
| A- | 1,005 | 0 | 1,005 | 38 | 504 | 0 | 504 | 24 |
| BBB+ | 33 | 0 | 33 | 1 | 34 | 0 | 34 | 1 |
| BBB or lower | 84 | 10 | 74 | 3 | 79 | 0 | 79 | 4 |
| Special approval | 669 | 121 | 548 | 25 | 611 | 124 | 487 | 29 |
| TOTAL | **2,645** | **137** | **2,508** | **100** | 2,093 | 131 | 1,962 | 100 |

**Note 2 – Cont.**

Significant credit losses can potentially arise from unusually large and infrequent events.

The table below describes the assumed liabilities from Retrocessionaires (excluding costs for reinstatements) and the distribution of credit ratings for Sirius' 2016 Retrocession Program. (The table represents the Parent Company since external reinsurance, at large, does not exist in other parts of the Group).

**STANDARD & POOR'S OR EQUIVALENT**

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| **PARENT COMPANY** | **Gross** | **Collateral** | **Net** | **Percentage split** | **Gross** | **Collateral** | **Net** | **Percentage split** |
| AA+ | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| AA | 105 | 0 | 105 | 3 | 215 | 0 | 215 | 4 |
| AA- | 630 | 0 | 630 | 16 | 1,338 | 0 | 1,338 | 26 |
| A+ | 2,222 | 0 | 2,222 | 56 | 2,066 | 0 | 2,066 | 41 |
| A | 256 | 0 | 256 | 6 | 157 | 0 | 157 | 3 |
| A- | 733 | 0 | 733 | 19 | 915 | 0 | 915 | 18 |
| BBB+ | 81 | 54 | 27 | 1 | 63 | 46 | 17 | 0 |
| BBB or lower | 77 | 98 | (21) | (1) | 63 | 77 | -14 | 0 |
| Special approval | 493 | 495 | (2) | 0 | 1,705 | 1,298 | 407 | 8 |
| TOTAL | **4,597** | **647** | **3,950** | **100** | 6,522 | 1,421 | 5,101 | 100 |

## 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 2016 the duration of interest-bearing investment assets was 3.1 years (2.4 years at the end of 2015) and the duration of insurance liabilities was 4.9 years (5.0 years at the end of 2015). 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.

Note 2 – Cont.

## LIQUIDITY PROFILE — FINANCIAL ASSETS (CONTRACTUAL INFLOWS)

| GROUP 2016 | On demand | <3 months | 3 months—1 year | 1—5 years | >5 years | No duration | Total |
|---|---|---|---|---|---|---|---|
| Bonds and other interest-bearing securities | - | 521 | 2,109 | 10,371 | 7,698 | - | **20,699** |
| Shares & participations in Associated Companies | - | - | - | - | - | 145 | **145** |
| Shares & participations | - | - | - | - | - | 1,918 | **1,918** |
| Cash & bank balances | 2,764 | - | - | - | - | - | **2,764** |
| Receivables, direct insurance | - | 113 | - | 0 | - | 123 | **236** |
| Receivables, reinsurance | - | 912 | 2,533 | 51 | - | 28 | **3,524** |
| Other debtors | - | - | 27 | 45 | - | 21 | **93** |
| Prepayments and accrued income | - | 9 | 145 | 1 | - | - | **155** |
| TOTAL | **2,764** | **1,555** | **4,814** | **10,468** | **7,698** | **2,235** | **29,742** |

| GROUP 2015 | On demand | <3 months | 3 months—1 year | 1—5 years | >5 years | No duration | Total |
|---|---|---|---|---|---|---|---|
| Bonds and other interest-bearing securities | - | 689 | 1,300 | 8,702 | 7,737 | - | 18,428 |
| Shares & participations in Associated Companies | - | - | - | - | - | 127 | 127 |
| Shares & participations | - | - | - | - | - | 5,387 | 5,387 |
| Cash & bank balances | 2,842 | - | - | - | - | - | 2,842 |
| Receivables, direct insurance | - | - | - | - | - | 168 | 168 |
| Receivables, reinsurance | - | 680 | 1,880 | 67 | - | 30 | 2,657 |
| Other debtors | - | - | 168 | 65 | 28 | - | 261 |
| Prepayments and accrued income | - | 9 | 153 | 1 | - | - | 163 |
| TOTAL | 2,842 | 1,378 | 3,501 | 8,835 | 7,765 | 5,713 | 30,034 |

| PARENT COMPANY 2016 | On demand | <3 months | 3 months—1 year | 1—5 years | >5 years | No duration | Total |
|---|---|---|---|---|---|---|---|
| Bonds and other interest-bearing securities | - | 18 | 530 | 3,716 | 2,204 | - | **6,468** |
| Shares & participations in Group companies | - | - | - | - | - | 10,882 | **10,882** |
| Shares & participations | - | - | - | - | - | 152 | **152** |
| Cash & bank balances | 1,420 | - | - | - | - | - | **1,420** |
| Receivables, direct insurance | - | - | - | - | - | 63 | **63** |
| Receivables, reinsurance | - | 18 | 2,094 | 35 | - | 28 | **2,175** |
| Other debtors | - | - | 3 | 41 | - | 444 | **488** |
| Prepayments and accrued income | - | 9 | 76 | 1 | - | - | **86** |
| TOTAL | **1,420** | **45** | **2,703** | **3,793** | **2,204** | **11,569** | **21,734** |

| PARENT COMPANY 2015 | On demand | <3 months | 3 months—1 year | 1—5 years | >5 years | No duration | Total |
|---|---|---|---|---|---|---|---|
| Bonds and other interest-bearing securities | - | 155 | 722 | 2,752 | 2,673 | - | 6,302 |
| Shares & participations in Group companies | - | - | - | - | - | 10,153 | 10,153 |
| Shares & participations | - | - | - | - | - | 126 | 126 |
| Cash & bank balances | 1,104 | - | - | - | - | - | 1,104 |
| Receivables, direct insurance | - | - | - | - | - | 23 | 23 |
| Receivables, reinsurance | - | 107 | 1,598 | 67 | - | - | 1,772 |
| Other debtors | - | - | 9 | 39 | - | 869 | 917 |
| Prepayments and accrued income | - | 9 | 87 | 1 | - | - | 97 |
| TOTAL | 1,104 | 271 | 2,416 | 2,859 | 2,673 | 11,171 | 20,494 |

Note 2 – Cont.

## LIQUIDITY PROFILE — FINANCIAL DEBTS (CONTRACTUAL OUTFLOWS)

| GROUP 2016 | On demand | <3 months | 3 months— 1 year | 1—5 years | >5 years | No duration | TOTAL |
|---|---|---|---|---|---|---|---|
| Payables, direct insurance | - | - | 98 | - | - | 37 | **135** |
| Payables, reinsurance | - | - | 817 | - | - | 258 | **1,076** |
| Other creditors | - | - | 253 | - | - | - | **253** |
| Accrued expenses and deferred income | - | - | 352 | 53 | - | 27 | **432** |
| TOTAL | **-** | **-** | **1,521** | **53** | **-** | **322** | **1,896** |

| GROUP 2015 | On demand | <3 months | 3 months— 1 year | 1—5 years | >5 years | No duration | TOTAL |
|---|---|---|---|---|---|---|---|
| Payables, direct insurance | - | - | 75 | - | - | 13 | 88 |
| Payables, reinsurance | - | - | 437 | - | - | 53 | 490 |
| Other creditors | - | - | 145 | - | 27 | - | 172 |
| Accrued expenses and deferred income | - | - | 293 | 136 | 22 | 3 | 454 |
| TOTAL | - | - | 950 | 136 | 49 | 69 | 1,204 |

| PARENT COMPANY 2016 | On demand | <3 months | 3 months— 1 year | 1—5 years | >5 years | No duration | TOTAL |
|---|---|---|---|---|---|---|---|
| Payables, direct insurance | - | - | - | - | - | 0 | **0** |
| Payables, reinsurance | - | - | 556 | - | - | 258 | **814** |
| Other creditors | - | - | 143 | - | 0 | 36 | **179** |
| Accrued expenses and deferred income | - | - | 243 | 24 | - | 27 | **294** |
| TOTAL | **-** | **-** | **942** | **24** | **0** | **322** | **1,287** |

| PARENT COMPANY 2015 | On demand | <3 months | 3 months— 1 year | 1—5 years | >5 years | No duration | TOTAL |
|---|---|---|---|---|---|---|---|
| Payables, direct insurance | - | - | - | - | - | 7 | 7 |
| Payables, reinsurance | - | - | 455 | - | - | 53 | 508 |
| Other creditors | - | - | 66 | - | 16 | 51 | 133 |
| Accrued expenses and deferred income | - | - | 204 | 78 | - | 3 | 285 |
| TOTAL | - | - | 725 | 78 | 16 | 114 | 933 |

## LIQUIDITY PROFILE — TECHNICAL PROVISIONS

Estimated claim payments, net, excluding ULAE.

| | GROUP | | | | | PARENT COMPANY | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | <3 months | 3 months — 1 year | 1—5 years | >5 years | TOTAL | <3 months | 3 months — 1 year | 1—5 years | >5 years | TOTAL |
| **2016** | 905 | 2,790 | 4,607 | 4,171 | **12,473** | 381 | 1,198 | 1,973 | 1,524 | **5,076** |
| **2015** | 809 | 2,482 | 4,191 | 4,327 | 11,809 | 366 | 1,138 | 1,763 | 1,525 | 4,792 |

Note 2 – Cont.

## 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 excludes risks arising from strategic decisions as well as reputation risks. Operational risk includes legal risks, HR risks, model risks, and Information Security risks (eg, data privacy and system protection)."

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 Risk Management Function is responsible for developing and improving the operational risk management 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 reviews and the reporting of incidents. 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. The business organization is also responsible for managing compliance risks and for reporting of compliance risks to the operationally independent Compliance function. The Compliance function supports the Board and business organization by informing, advising and monitoring compliance issues and risks throughout the Group. Compliance risk assessments are made of both internal and external compliance risks, continuously and on annual basis. Compliance coordinators are appointed in subsidiaries and branches to support the Chief Compliance Officer and to take specific account of any applicable local regulatory requirements.

## SUPERVISION AND SOLVENCY II

Sirius is subject to regulation and supervision by the Swedish Financial Supervisory Authority (the ''SFSA''). As Sweden is a member of the EU, the SFSA supervision of branches is recognized across all locations within the EU (apart from customer conduct that is regulated and supervised locally across the EU). Regulatory requirements are based on the European Solvency II legislation. The SFSA and the Bermuda Monetary Authority perform group supervision over Sirius at EU and global level respectively.

## SOLVENCY AND CAPITAL REQUIREMENTS

As of January 1, 2016 Sirius's regulatory Solvency Capital Requirement (SCR) is based on Solvency II regulation. Sirius uses the Solvency II standard formula to calculate the SCR. The year end 2016 standard formula calculation results in a SCR of SEK 7,234 million and the Minimum Capital Requirement (MCR) amounts to SEK 1,808 million. The basic own funds are comprised of tier 1 paid up capital of SEK 800 million plus a tier 1 reconciliation reserve of SEK 16,205 million, or SEK 17,005 million in total basic own funds. The reconciliation reserve is comprised of the excess of assets over liabilities based on Solvency II valuations, after applicable tax adjustments. The safety reserve, amounting to SEK 10,690 million, is included in the reconciliation reserve. Furthermore, the reconciliation reserve was adjusted for foreseeable dividends of SEK 905 million and it includes net expected profits in future premiums of SEK 143 million. The company has no ancillary own funds, hence the basic own funds equals total available own funds.

As discussed above, all available own funds are classified as tier 1 and thereby constitute eligible own funds to meet the SCR as well as the MCR.The Ratio of Eligible Own funds to the SCR is 2.35 whereas the Ratio of Eligible Own Funds to the MCR is 9.40.

Sirius also uses an internal Economic Risk Capital (ERC) model for a number of key strategic and management decision processes. 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

Sirius manages risk and capital levels to maintain an S&P and AM Best "A" grade or better insurance financial strength profile over the insurance cycle, as this allows Sirius to write targeted reinsurance business.

## FINANCIAL STRENGTH RATING

The financial strength of Sirius has during 2016 been rated by Standard & Poor's and A. M. Best.

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **GROUP AND PARENT COMPANY** | **S&P[1]** | **A.M. Best[2]** | **S&P[1]** | **A.M. Best[2]** |
| Financial Strength Rating | A– | A | A– | A |
| Outlook | Stable | Negative | Stable | Under Review |

[1] "A–" is the seventh highest of twenty-one financial strength ratings assigned by Standard & Poor's.
[2] "A" is the third highest of fifteen financial strength ratings assigned by A.M. Best.

## Note 3 – Premium income

### PREMIUM INCOME, GEOGRAPHICAL ALLOCATION

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Direct insurance, Sweden | 4 | 6 | 4 | 6 |
| Direct insurance, other EES | 327 | 297 | 82 | 77 |
| Direct insurance, other countries | 3,016 | 2,330 | 1,186 | 1,163 |
| Premiums for assumed reinsurance | 7,459 | 7,056 | 5,523 | 4,655 |
| **Premium income before ceded reinsurance** | **10,806** | 9,689 | **6,795** | 5,901 |
| Premium for ceded reinsurance | -3,660 | -2,599 | -2,868 | -2,250 |
| PREMIUM INCOME AFTER CEDED REINSURANCE | **7,146** | 7,090 | **3,927** | 3,651 |

## Note 4 – Claims incurred, for own account

### CLAIMS INCURRED FOR THE YEAR'S OPERATIONS

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **GROUP** | Gross | Ceded | Net | Gross | Ceded | Net |
| Claims paid | -1,037 | 443 | -594 | -450 | 133 | -317 |
| Loss portfolios | 60 | 0 | 60 | 44 | 0 | 44 |
| Change in provision for incurred and reported claims | -1,301 | 413 | -888 | -992 | 254 | -738 |
| Change in provision for incurred but not reported claims (IBNR) | -1,828 | 573 | -1,255 | -1,486 | 335 | -1,151 |
| Claims handling expenses | -206 | 0 | -206 | -238 | 0 | -238 |
| TOTAL CLAIMS INCURRED FOR THE YEAR'S OPERATIONS | **-4 ,312** | **1,429** | **-2 ,883** | -3,122 | 722 | -2, 400 |

### CLAIMS INCURRED FOR PREVIOUS YEAR'S OPERATIONS

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **GROUP** | Gross | Ceded | Net | Gross | Ceded | Net |
| Claims paid | -4,712 | 920 | -3,792 | -4,891 | 1,155 | -3,736 |
| Loss portfolios | -51 | 0 | -51 | -47 | -9 | -56 |
| Change in provision for incurred and reported claims | 857 | -226 | 631 | 1 926 | -549 | 1 377 |
| Change in provision for incurred but not reported claims (IBNR) | 2,401 | -550 | 1,851 | 1,568 | -342 | 1,226 |
| TOTAL CLAIMS INCURRED FOR PREVIOUS YEAR'S OPERATIONS | **-1,505** | **144** | **-1,361** | -1,444 | 255 | -1,189 |
| TOTAL CLAIMS INCURRED | **-5,817** | **1,573** | **-4,244** | -4,566 | 977 | -3,589 |

### TOTAL CLAIMS PAID

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **GROUP** | Gross | Ceded | Net | Gross | Ceded | Net |
| Claims paid | -5,749 | 1,363 | -4,386 | -5,341 | 1,288 | -4,053 |
| Loss portfolios | 9 | 0 | 9 | -3 | -9 | -12 |
| Claims handling expenses | -206 | 0 | -206 | -238 | 0 | -238 |
| TOTAL CLAIMS PAID | **-5,946** | **1,363** | **-4,583** | -5,582 | 1,279 | -4,303 |

Note 4 – Cont.

### CHANGE IN PROVISION FOR OUTSTANDING CLAIMS

| GROUP | 2016 Gross | 2016 Ceded | 2016 Net | 2015 Gross | 2015 Ceded | 2015 Net |
|---|---|---|---|---|---|---|
| Change in provision for ncurred and reported claims | -444 | 187 | -257 | 934 | -295 | 639 |
| Change in provision for incurred but not reported claims (IBNR) | 573 | 23 | 596 | 82 | -7 | 75 |
| TOTAL CHANGE IN PROVISIONS FOR OUTSTANDING CLAIMS | **129** | **210** | **339** | 1,016 | -302 | 714 |

### CLAIMS INCURRED FOR THE YEAR'S OPERATIONS

| PARENT COMPANY | 2016 Gross | 2016 Ceded | 2016 Net | 2015 Gross | 2015 Ceded | 2015 Net |
|---|---|---|---|---|---|---|
| Claims paid | -462 | 198 | -264 | -242 | 96 | -146 |
| Loss portfolios | 60 | 0 | 60 | 45 | 0 | 45 |
| Change in provision for incurred and reported claims | -843 | 286 | -557 | -752 | 223 | -529 |
| Change in provision for incurred but not reported claims (IBNR) | -844 | 219 | -625 | -860 | 231 | -629 |
| Claims handling expenses | -120 | 0 | -120 | -137 | 0 | -137 |
| TOTAL CLAIMS FOR THE YEAR'S OPERATIONS | **-2,209** | **703** | **-1,506** | -1,946 | 550 | -1,396 |

### CLAIMS INCURRED FOR PREVIOUS YEAR'S OPERATIONS

| PARENT COMPANY | 2016 Gross | 2016 Ceded | 2016 Net | 2015 Gross | 2015 Ceded | 2015 Net |
|---|---|---|---|---|---|---|
| Claims paid | -2,194 | 647 | -1,547 | -2,585 | 899 | -1,686 |
| Loss portfolios | -52 | 1 | -51 | -47 | -10 | -57 |
| Change in provision for incurred and reported claims | 654 | -205 | 449 | 1,294 | -459 | 835 |
| Change in provision for incurred but not reported claims (IBNR) | 1,116 | -247 | 869 | 813 | -243 | 570 |
| TOTAL CLAIMS INCURRED FOR PREVIOUS YEAR'S OPERATIONS | **-476** | **196** | **-280** | -525 | 187 | -338 |
| TOTAL CLAIMS INCURRED | **-2,685** | **899** | **-1,786** | -2,471 | 737 | -1,734 |

### TOTAL CLAIMS PAID

| PARENT COMPANY | 2016 Gross | 2016 Ceded | 2016 Net | 2015 Gross | 2015 Ceded | 2015 Net |
|---|---|---|---|---|---|---|
| Claims paid | -2,656 | 845 | -1,811 | -2,827 | 995 | -1,832 |
| Loss portfolios | 8 | 1 | 9 | -2 | -10 | -12 |
| Claims handling expenses | -120 | 0 | -120 | -137 | 0 | -137 |
| TOTAL CLAIMS PAID | **-2,768** | **846** | **-1,922** | -2,966 | 985 | -1,981 |

### CHANGE IN PROVISION FOR OUTSTANDING CLAIMS

| PARENT COMPANY | 2016 Gross | 2016 Ceded | 2016 Net | 2015 Gross | 2015 Ceded | 2015 Net |
|---|---|---|---|---|---|---|
| Change in provision for incurred and reported claims | -189 | 81 | -108 | 542 | -236 | 306 |
| Change in provision for incurred but not reported claims (IBNR) | 272 | -28 | 244 | -47 | -12 | -59 |
| TOTAL CHANGE IN PROVISION FOR OUTSTANDING CLAIMS | **83** | **53** | **136** | 495 | -248 | 247 |

# Note 5 – Operating costs

**SPECIFICATION OF INCOME STATEMENT ITEM OPERATING COSTS**

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Acquisition costs | -2,580 | -2,251 | -1,653 | -1,302 |
| Change in prepaid acquisition costs (+/–) | -26 | 52 | 95 | 30 |
| Administrative expenses | -909 | -932 | -509 | -549 |
| Provisions and profit shares in ceded reinsurance (–) | 949 | 606 | 762 | 516 |
| TOTAL OPERATING COSTS | **- 2,566** | -2,525 | **-1,305** | -1,305 |

**OTHER OPERATING COSTS**

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Operating costs | - 2,566 | -2,525 | -1,305 | -1,305 |
| Claims handling expenses included in claims paid | -206 | -238 | -120 | -137 |
| Asset management costs included in Investment expenses | -84 | -101 | -40 | -48 |
| Expenses for land and buildings included in Investment expenses, net | -1 | -2 | -1 | -2 |
| Other operating costs [1] | -362 | -45 | -192 | -3 |
| TOTAL OTHER OPERATING COSTS | **-3,219** | -2,911 | **-1,658** | -1,495 |

**TOTAL OPERATING COSTS PER TYPE**

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Direct and indirect personnel costs | -1,050 | -787 | -678 | -525 |
| Premises costs | -81 | -71 | -54 | -47 |
| Depreciation/amortization | -59 | -48 | -55 | -45 |
| Other expenses related to operations | -2,029 | -2,005 | -871 | -878 |
| TOTAL OTHER OPERATING COSTS | **-3,219** | -2,911 | **-1,658** | -1,495 |

[1] The increase is attributable to costs associated with the change of ownership.

## Note 6 – Investment income

| | GROUP 2016 | GROUP 2015 | PARENT COMPANY 2016 | PARENT COMPANY 2015 |
|---|---|---|---|---|
| **Dividend income from:** | | | | |
| Foreign shares and participations | 36 | 177 | 3,631 | 461 |
| **Interest income** | | | | |
| Bonds and other interest-bearing securities | 384 | 354 | 101 | 133 |
| Other interest income | 35 | 12 | 18 | 15 |
| — of which from financial assets not valued at fair value with changes in value reported in the income statement | - | - | - | - |
| **Capital gains on foreign exchange, net** | 405 | 627 | 202 | 478 |
| **Capital gains and reversed write-downs (net)** | | | | |
| Foreign shares | 789 | 404 | 3 | 7 |
| Group and associated companies | 34 | - | 195 | - |
| Interest-bearing securities | 112 | 73 | 88 | 55 |
| Derivatives | - | - | - | - |
| TOTAL RETURN ON CAPITAL, INCOME | **1,795** | 1,647 | **4 ,238** | 1,149 |

In the group accounts, gains from acquisition of subsidiareis have been realized and accounted in accordance with IFRS 3.

## Note 7 – Unrealized gains and losses on investments

| | GROUP 2016 | GROUP 2015 | PARENT COMPANY 2016 | PARENT COMPANY 2015 |
|---|---|---|---|---|
| Foreign shares and participations | -765 | 116 | 5 | -8 |
| Bonds and other interest-bearing securities | -68 | -78 | - | - |
| Derivative financial instruments | 456 | -261 | 456 | -261 |
| Gain on Currency | -185 | -195 | -210 | -304 |
| TOTAL UNREALIZED GAINS AND LOSSES ON INVESTMENTS | **-562** | -418 | **251** | -573 |

## Note 8 – Investment expenses and charges

| | GROUP 2016 | GROUP 2015 | PARENT COMPANY 2016 | PARENT COMPANY 2015 |
|---|---|---|---|---|
| **Operating expenses for land and buildings** | -2 | -2 | -1 | -2 |
| **Asset management costs** | -84 | -101 | -40 | -48 |
| **Interest expenses** | | | | |
| Other interest expenses | -1 | -4 | -6 | -4 |
| **Capital losses on foreign exchange, net** | - | - | - | - |
| **Capital losses** | | | | |
| Group and associated companies | - | - | - | - |
| Goodwill impairment | - | -13 | - | -22 |
| Impairment of shares in subsidiaries | - | - | -98 | - |
| Derivative financial instruments | -793 | -95 | -793 | -95 |
| TOTAL | **-880** | -215 | **-938** | -171 |

# Note 9 – Net profit or net loss per category of financial instruments

## FINANCIAL ASSETS

| GROUP 2016 | 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 | 94 | - | - | - | **94** |
| Derivative financial instruments | - | -337 | - | - | **-337** |
| Bonds and other interest-bearing securities | 197 | - | 220 | - | **417** |
| Deposits with cedants | - | - | - | 12 | **12** |
| Cash and bank balance | - | - | - | 13 | **13** |
| TOTAL | **291** | **-337** | **220** | **25** | **199** |

| PARENT COMPANY 2016 | 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 | 3,834 | - | - | - | **3,834** |
| Derivative financial instruments | - | -337 | - | - | **-337** |
| Bonds and other interest-bearing securities | - | - | 182 | - | **182** |
| Deposits with cedants | - | - | - | 7 | **7** |
| Cash and bank balance | - | - | - | 8 | **8** |
| TOTAL | **3,834** | **-337** | **182** | **15** | **3,694** |

| GROUP 2015 | 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 | 684 | - | - | - | 684 |
| Derivative financial instruments | - | -356 | - | - | -356 |
| Bonds and other interest-bearing securities | 115 | - | 127 | - | 242 |
| Deposits with cedants | - | - | - | 8 | 8 |
| Cash and bank balance | - | - | - | -3 | -3 |
| TOTAL | 799 | -356 | 127 | 5 | 575 |

| PARENT COMPANY 2015 | 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 | 438 | - | - | - | 438 |
| Derivative financial instruments | - | -356 | - | - | -356 |
| Bonds and other interest-bearing securities | - | - | 84 | - | 84 |
| Deposits with cedants | - | - | - | 6 | 6 |
| Cash and bank balance | - | - | - | 6 | 6 |
| TOTAL | 438 | -356 | 84 | 12 | 178 |

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/losses amount to 181 (61) for the Group, of which –49 (39) refer to exchange rate gains/losses on financial assets. Exchange rate gains/losses on liabilities and other assets amount to MSEK –132 (22).

# Note 10 – Taxes

### INCOME TAX RECOGNIZED IN INCOME STATEMENT

| | GROUP 2016 | GROUP 2015 | PARENT COMPANY 2016 | PARENT COMPANY 2015 |
|---|---|---|---|---|
| **Current tax expense (–) [/revenue (+)]** | | | | |
| Current tax expenses | -75 | -110 | -54 | -90 |
| Current tax adjustment attributable to previous years | -5 | 17 | -4 | 0 |
| **Deferred tax expense (-) [/revenue (+)]** | | | | |
| Deferred taxes | 147 | -318 | 7 | -1 |
| TOTAL TAX EXPENSE (—)/REVENUE (+) | **67** | -411 | **-51** | -91 |

### RECONCILIATION OF EFFECTIVE TAX

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

| | GROUP 2016 | GROUP 2015 | PARENT COMPANY 2016 | PARENT COMPANY 2015 |
|---|---|---|---|---|
| Tax according to applicable tax rate for the Parent Company | -22% | – 22 % | -22% | – 22 % |
| Effects of foreign tax rates | -4.8% | - 7.9 % | - | - |
| Effects from change in tax rates[1] | -52% | - | - | - |
| Tax effect from non-deductible expenses | -8.8% | – 1.4% | -0.8% | – 1.9 % |
| Tax effect from non-taxable income | 15.3% | 9.3 % | 21.6% | 12.6% |
| Current tax regarding previous years | 1.1% | 0.4 % | -0.1% | - |
| Recognition of tax loss carry-forwards related to previous years and timing differences | 90.1% | 0.6 % | - | - |
| REPORTED EFFECTIVE TAX | **18.9%** | – 21 % | **-1.3%** | -11.3% |

[1] Luxembourg has decided to reduce the corporate income tax rate from 29.22 % to 27.08 % for 2017 and to 26. 01 % for 2018. In calculating deferred taxes, the 2018 tax rate has been applied since most of the tax loss carry-forwards per December 31, 2016 will be utilized after 2017.

### REPORTED DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

| GROUP | DEFERRED TAX ASSETS 2016 | DEFERRED TAX ASSETS 2015 | DEFERRED TAX LIABILITIES 2016 | DEFERRED TAX LIABILITIES 2015 | NET 2016 | NET 2015 |
|---|---|---|---|---|---|---|
| Personnel-related provisions | 71 | 69 | - | - | 71 | 69 |
| Timing difference on recognition of underwriting result | 186 | 207 | - | - | 186 | 207 |
| Other provisions | 112 | 38 | -42 | -62 | 70 | -24 |
| Surplus value of securities | 7 | - | -55 | -226 | -48 | -226 |
| Safety reserve and accelerated depreciation | - | - | -2,367 | -2,365 | -2,367 | -2,365 |
| Tax loss carry-forwards | 1,934 | 1,953 | - | - | 1,934 | 1,953 |
| DEFERRED TAX BALANCES | **2,310** | 2,267 | **-2,464** | -2,653 | **-154** | -386 |
| Netting of deferred assets/liabilities | -129 | -303 | 129 | 303 | - | - |
| DEFERRED TAX BALANCES, NET | **2,181** | 1,964 | **-2,335** | -2,350 | **-154** | -386 |

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.

| PARENT COMPANY | DEFERRED TAX ASSETS 2016 | DEFERRED TAX ASSETS 2015 | DEFERRED TAX LIABILITIES 2016 | DEFERRED TAX LIABILITIES 2015 | NET 2016 | NET 2015 |
|---|---|---|---|---|---|---|
| Personnel-related provisions | 43 | 36 | - | - | 43 | 36 |
| Other provisions | 4 | 4 | - | - | 4 | 4 |
| DEFERRED TAX BALANCES | **47** | 40 | **-** | - | **47** | 40 |

Note 10 – Cont.

### UNRECOGNIZED DEFERRED TAX ASSETS

The Group has unrecognized deferred tax assets related to tax loss carry-forwards 360 (359).

### CHANGES IN DEFERRED TAX

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Opening balance | -386 | -145 | 40 | 41 |
| Recognized in income statement | 147 | -318 | 7 | -1 |
| Recognized in other comprehensive income | 55 | 32 | - | - |
| Tax loss carry-forwards | 30 | 45 | - | - |
| CLOSING BALANCE | **-154** | -386 | **47** | 40 |

Taxes recognized in other comprehensive income partially refer to available-for-sale financial assets 7 (5).

## Note 11 – Intangible assets

| | GROUP | | | | PARENT COMPANY | | |
|---|---|---|---|---|---|---|---|
| | Intangible assets –IT Capitalized expenditure for development work | Acquired intangible assets – Goodwill | Other acquired intangible assets | TOTAL | Intangible assets –IT Capitalized expenditure for development work | Acquired intangible assets – Goodwill | TOTAL |
| *Accumulated acquisition value* | | | | | | | |
| Opening balance January 1, 2015 | 257 | 87 | 120 | 464 | 257 | 87 | 344 |
| Acquisition for the year | 22 | - | - | 22 | 22 | - | 22 |
| Disposal for the year | - | - | -42 | -42 | - | - | - |
| Currency revaluation effects | - | - | 10 | 10 | - | - | - |
| CLOSING BALANCE DECEMBER 31, 2015 | 279 | 87 | 88 | 454 | 279 | 87 | 366 |
| Opening balance January 1, 2016 | 279 | 87 | 88 | **454** | 279 | 87 | **366** |
| Acquisition for the year | 18 | - | - | **18** | 18 | - | **18** |
| Disposal for the year | - | - | -46 | **-46** | - | - | **-** |
| Currency revaluation effect | - | - | 3 | **3** | - | - | **-** |
| CLOSING BALANCE DECEMBER 31, 2016 | **297** | **87** | **45** | **429** | **297** | **87** | **384** |
| *Accumulated amortization and impairment* | | | | | | | |
| Opening balance January 1, 2015 | -177 | -61 | -2 | -240 | -177 | -65 | -242 |
| Depreciation for the year | -26 | - | - | -26 | -26 | -5 | -31 |
| Impairment for the year | - | - | - | - | - | - | - |
| CLOSING BALANCE DECEMBER 31, 2015 | -203 | -61 | -2 | -266 | -203 | -70 | -273 |
| Opening balance January 1, 2016 | -203 | -61 | -2 | **-266** | -203 | -70 | **-273** |
| Depreciation for the year | -26 | - | - | **-26** | -26 | -4 | **-30** |
| Impairment for the year | - | - | 2 | **2** | - | - | **-** |
| CLOSING BALANCE DECEMBER 31, 2016 | **-229** | **-61** | **0** | **-290** | **-229** | **-74** | **-303** |
| **Carrying amount** | | | | | | | |
| Per January 1, 2015 | 80 | 26 | 118 | 224 | 80 | 22 | 102 |
| PER DECEMBER 31, 2015 | 76 | 26 | 86 | 188 | 76 | 17 | 93 |
| Per January 1, 2016 | 76 | 26 | 86 | **188** | 76 | 17 | **93** |
| PER DECEMBER 31, 2016 | **68** | **26** | **45** | **139** | **68** | **13** | **81** |

Note 11 – Cont.

| | GROUP | | | | PARENT COMPANY | | |
|---|---|---|---|---|---|---|---|
| | Intangible assets — IT Capitalized expenditure for development work | Acquired intangible assets – Goodwill | Other acquired intangible assets | Total | Intangible assets –IT Capitalized expenditure for development work | Acquired intangible assets – Goodwill | Total |
| *Amortization and impairmaent for the year is included in the following rows in the income statement for 2015:* | | | | | | | |
| Operating costs | -26 | - | - | -26 | -26 | - | -26 |
| Other costs | - | - | - | - | - | -5 | -5 |
| Investment expenses | | | | | | | |
| TOTAL | -26 | - | - | -26 | -26 | -5 | -31 |
| *Amortization for the year is included in the following rows of the income statement for 2016* | | | | | | | |
| Operating costs | -26 | - | - | -26 | -26 | - | -26 |
| Other costs | - | - | - | - | - | -4 | -4 |
| TOTAL | **-26** | **-** | **-** | **-26** | **-26** | **-4** | **-30** |

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 of the unit's earnings, in the insurance operations, based on historical and future earning patterns. Additional charges for cost of capital have been added representing deployed capital. The discount rate has been determined based on a market rate of return, i.e. WACC.

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 vaule by an independent advisory firm and are deamed to have an indefinite useful life and are tested annually for impairment.

For the Group, no depreciation is made on goodwill. For further information regarding depreciation, see Note 1, Accounting principles.

## Note 12 – Land and buildings

| GROUP AND PARENT COMPANY | |
|---|---|
| *Accumulated acquisition cost* | |
| Opening balance January 1, 2015 | 32 |
| Acquisitions | 0 |
| CLOSING BALANCE DECEMBER 31, 2015 | 32 |
| Opening balance January 1, 2016 | 32 |
| Acquisitions | 1 |
| CLOSING BALANCE DECEMBER 31, 2016 | **33** |
| *Accumulated depreciation* | |
| Opening balance January 1, 2015 | -20 |
| Depreciation for the year | -1 |
| CLOSING BALANCE DECEMBER 31, 2015 | -21 |
| Opening balance January 1, 2016 | -21 |
| Depreciation for the year | -2 |
| CLOSING BALANCE DECEMBER 31, 2016 | **-23** |
| Carrying amount | |
| Per January 1, 2015 | 12 |
| PER DECEMBER 31, 2015 | 11 |
| Per January 1, 2016 | 11 |
| PER DECEMBER 31, 2016 | **10** |

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, % 2016 | 2015 |
|---|---|---|---|
| Passage2Health Ltd. | London, Great Britain | - | 100 |
| Sirius Rückversicherungs Service GmbH | Hamburg, Germany | 100 | 100 |
| Sirius Belgium Réassurances S.A. | Liége, Belgium | 100 | 100 |
| Sirius International Holdings (NL) B.V. | Amsterdam, The Netherlands | 100 | 100 |
| S.I. Holdings (Luxembourg) S.à r.l. | Luxembourg | 100 | 100 |
| Sirius International Managing Agency Ltd. | London, Great Britain | 100 | 100 |
| SI Phoenix (Luxembourg) S.à r.l | Luxembourg | 100 | 100 |
| Sirius International Corporate Member Ltd | London, Great Britain | 100 | 100 |
| White Sands Holdings (Luxembourg) S.à r.l. | Luxembourg | 100 | 100 |

| | PARENT COMPANY 2016 | 2015 |
|---|---|---|
| *Accumulated acquisition cost* | | |
| Beginning of year | 11,348 | 11,585 |
| Capital contributions | 1,710 | - |
| Repayment of paid-up capital | -889 | -237 |
| Companies dissolved | -22 | - |
| **End of year** | 12,147 | 11,348 |
| *Accumulated impairments* | | |
| Beginning of year | -1,317 | -1,317 |
| Impairments | -92 | - |
| Companies dissolved | 22 | - |
| **End of year** | -1,387 | -1,317 |
| CARRYING AMOUNT DECEMBER 31 | **10,760** | 10,031 |

Note 13 – Cont.

**SUBSIDIARIES' SHAREHOLDERS' EQUITY**

| 2016 | Shareholders' equity | Shares, % | Number of shares | Book value | Profit/loss |
|---|---|---|---|---|---|
| **Name of subsidiary** | | | | | |
| Sirius Rückversicherungs Service GmbH | 15 | 100 | Share capital total €51,129 consisting of 1 share with nom. value €51,129 | 0 | 3 |
| Sirius Belgium Réassurances S.A. | 12 | 100 | Share capital total €1,245,681 consisting of 700,000 shares without nom. value | 13 | 0 |
| Sirius International Holdings (NL) B.V. | 362 | 100 | Share capital total €18,000 consisting of 180 shares with nom. value €100 per share | 289 | -47 |
| S.I. Holdings (Luxembourg) S.à r.l. | 5,633 | 100 | Share capital total SEK 105,693,172 consisting of 105,693,172 shares with nom. value SEK1 per share | 4,833 | 391 |
| Sirius International Managing Agency Ltd. | 8 | 100 | Share capital total £1 consisting of 1 share with nom. value £1 per share | 4 | 0 |
| Sirius International Corporate Member Ltd. | 149 | 100 | Share capital total £1 consisting of 1 share with nom. value £1 per share | 0 | -45 |
| SI Phoenix (Luxembourg) S.à r.l. | 5,810 | 100 | Share capital total $42,266,200 consisting of 1,690,648 shares with nom. value $25 per share | 5,606 | 8 |
| White Sands Holdings (Luxembourg) S.à r.l. | 17 | 100 | Share capital total SEK 105,693,172 consisting of 105,693,172 shares with nom. value SEK1 per share | 15 | -0 |
| TOTAL | **12,006** | | | **10,760** | **310** |

| 2015 | Shareholders' equity | Shares, % | Number of shares | Book value | Profit/loss |
|---|---|---|---|---|---|
| **Name of subsidiary** | | | | | |
| Passage2Health Ltd. | -6 | 100 | Share capital total £6,800 consisting of 6,800 shares with nom. value £1 per share | 0 | -0 |
| Sirius Rückversicherungs Service GmbH | 38 | 100 | Share capital total €51,129 consisting of 1 share with nom. value €51,129 | 0 | 5 |
| Sirius Belgium Réassurances S.A. | 12 | 100 | Share capital total €1,245,681 consisting of 700,000 shares without nom. value | 13 | -0 |
| Sirius International Holdings (NL) B.V. | 761 | 100 | Share capital total €18,000 consisting of 180 shares with nom. value €100 per share | 269 | -198 |
| S.I. Holdings (Luxembourg) S.à r.l. | 4,639 | 100 | Share capital total SEK 105,693,172 consisting of 105,693,172 shares with nom. value SEK1 | 3,527 | 909 |
| Sirius International Managing Agency Ltd. | 9 | 100 | Share capital total £1 consisting of 1 share with nom. value £1 per share | 4 | 1 |
| White Mountains Re Sirius Capital Ltd. | 28 | 100 | Share capital total £1 consisting of 1 share with nom. value £1 per share | 0 | -26 |
| WM Phoenix (Luxembourg) S.à r.l. | 8,003 | 100 | Share capital total $42,266,200 consisting of 1,690,648 shares with nom. value $25 per share | 6,158 | 386 |
| White Sands Holdings (Luxembourg) S.à r.l. | 17 | 100 | Share capital total SEK 145,055 consisting of 145,055 shares with nom. value SEK1 | 15 | -0 |
| TOTAL | 13,501 | | | 10,031 | 1,076 |

## Note 14 – Shares and participations in associated companies

| NAME OF ASSOCIATED COMPANIES | REGISTERED OFFICES | NUMBER OF SHARES | PARTICIPATING INTEREST, % | |
|---|---|---|---|---|
| | | | 2016 | 2015 |
| BE Reinsurance Ltd. | Hong Kong | 125,000,000 | 25 | 25 |

[1] Voting share and participating interest are equal.

**CHANGE DURING THE YEAR**

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Beginning of the year | 127 | 122 | 122 | 122 |
| Share of associated companies' result | 8 | -8 | - | - |
| Translation diference on foreign associated companies | 10 | 13 | - | - |
| CARRYING AMOUNT DECEMBER 31 | **145** | 127 | **122** | 122 |

## Note 15 – Investments in shares and participations

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Fair value | 1,918 | 5,387 | 152 | 126 |
| Acquisition cost | 1,981 | 4,543 | 203 | 199 |

For further information regarding financial instruments, see Note 19.

## Note 16 – Bonds and other interest-bearing securities

| | FAIR VALUE | | ACQUISITION COST | |
|---|---|---|---|---|
| **GROUP** | 2016 | 2015 | 2016 | 2015 |
| Swedish government | 524 | 0 | 538 | 0 |
| Swedish mortgage institutions | 775 | 480 | 779 | 457 |
| Other Swedish issuers | 560 | 0 | 561 | 0 |
| Foreign governments | 3,133 | 1,687 | 3,116 | 1,680 |
| Other foreign issuers | 15,589 | 16,261 | 15,497 | 15,884 |
| TOTAL | **20,581** | 18,428 | **20,491** | 18,021 |
| *Of which listed* | 20,581 | 18,428 | 20,491 | 18,021 |
| **Difference compared to nominal value** | | | | |
| Total excess amount | 423 | 492 | 458 | 464 |
| Total shortfall | 62 | 736 | 275 | 639 |

| | FAIR VALUE | | ACQUISITION COST | |
|---|---|---|---|---|
| **PARENT COMPANY** | 2016 | 2015 | 2016 | 2015 |
| Swedish government | 432 | 0 | 444 | 0 |
| Swedish mortgage institutions | 619 | 377 | 622 | 359 |
| Other Swedish issuers | 480 | 0 | 481 | 0 |
| Foreign governments | 1,312 | 421 | 1,280 | 413 |
| Other foreign issuers | 3,625 | 5,504 | 3,448 | 5,228 |
| TOTAL | **6,468** | 6,302 | **6,275** | 6,000 |
| *Of which listed* | 6,468 | | 6,275 | |
| **Difference compared to nominal value** | | | | |
| Total excess amount | 373 | 375 | 384 | 345 |
| Total shortfall | 13 | 707 | 69 | 617 |

## Note 17 – Derivative financial instruments

| | GROUP 2016 | GROUP 2015 | PARENT COMPANY 2016 | PARENT COMPANY 2015 |
|---|---|---|---|---|
| Currency derivatives, Sirius Bermuda Insurance Company Ltd. | -336 | -722 | -336 | -722 |
| Other derivatives, Endurance | 53 | -12 | 53 | -12 |
| TOTAL | **-283** | -734 | **-283** | -734 |

The table above show gross positions with individual counterparties in excess of MSEK 0,5.

Currency derivatives of nominal MUSD 600 against SEK mainly concern contracts with internal counterparties. The company has on February 17 entered into an internal currency hedging agreement with Sirius Bermuda Insurance Company Ltd. The agreement means that Sirius International has sold MUSD 200 on a forward basis to Sirius Bermuda Insurance Company Ltd, with a term of approximately one year at the agreed exchange rate 8.3589. Through foreign exchange options, the currency forward transactions are settled on the basis of an exchange rate cap of 14.177 SEK/USD and an exchange rate floor of 6.0759 SEK/USD.

The company has on February 17 also sold MUSD 200 on a forward basis to Sirius Bermuda Insurance Company Ltd, with term of two years at exchange rate 8.3099. Through foreign exchange options, the currency forward transactions are settled on the basis of an exchange rate cap of 14.177 SEK/USD and an exchange rate floor of 6.0759 SEK/USD.

The company has on February 17 sold MUSD 200 on a forward basis to Sirius Bermuda Insurance Company Ltd, with term of three years at exchange rate 8.2376. Through foreign exchange options, the currency forward transactions are settled on the basis of an exchange rate cap of 14.177 SEK/USD and an exchange rate floor of 6.0759 SEK/USD. Outside these ranges, the company takes no hedging measures.

The currency hedge agreements are valued monthly at fair value via the income statement.

## Note 18 – Other debtors

| | GROUP 2016 | GROUP 2015 | PARENT COMPANY 2016 | PARENT COMPANY 2015 |
|---|---|---|---|---|
| Other debtors, group companies[1] | 21 | - | 444 | 869 |
| Other debtors | 72 | 260 | 44 | 47 |
| TOTAL[2] | **93** | 260 | **488** | 916 |

[1] Group companies are defined as companies within the China Minsheng Group.

[2] The majority of the receivables have a duration less than three months.

## Note 19 – Categories of financial assets and liabilities and their fair value

### FINANCIAL ASSETS

| **GROUP 2016** | 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 |
|---|---|---|---|---|---|---|
| Interest-bearing securities and loans to group companies | 118 | — | — | 118 | 118 | 118 |
| Shares and participations[2] | - | 1,918 | - | 1,918 | 1,918 | 1,996 |
| Derivative financial instruments[1] | - | 53 | | 53 | 53 | - |
| Bonds and other interest-bearing securities | - | 10,700 | 9,881 | 20,581 | 20,581 | 20,491 |
| Cash and bank balances | - | 2,764 | - | 2,764 | 2,764 | 2,764 |
| Accrued income | 19 | 53 | 83 | 155 | 155 | 155 |
| Other debtors | 93 | - | - | 93 | 93 | 93 |
| TOTAL | **230** | **15,488** | **9,964** | **25,682** | **25,682** | **25,617** |

| **GROUP 2015** | 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 |
|---|---|---|---|---|---|---|
| Interest-bearing securities and loans to group companies | 310 | - | - | 310 | 310 | 310 |
| Shares and participations | - | 5,387 | - | 5,387 | 5,387 | 4,543 |
| Derivative financial instruments[1] | - | - | - | - | - | - |
| Bonds and other interest-bearing securities | - | 9,657 | 8,771 | 18,428 | 18,428 | 18,326 |
| Cash and bank balances | - | 2,842 | - | 2,842 | 2,842 | 2,842 |
| Accrued income | 29 | 81 | 53 | 163 | 163 | 163 |
| Other debtors | 260 | - | - | 260 | 260 | 260 |
| TOTAL | 599 | 17,967 | 8,824 | 27,390 | 27,390 | 26,444 |

[1] Derivatives are classified as Financial instruments held for trading.

| **PARENT COMPANY 2016** | 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 | - | 152 | - | 152 | 152 | 202 |
| Derivative financial instruments[1] | - | 53 | - | 53 | 53 | - |
| Bonds and other interest-bearing securities | - | - | 6,468 | 6,468 | 6,468 | 6,276 |
| Cash and bank balances | - | 1,420 | - | 1,420 | 1,420 | 1,420 |
| Accrued income | 18 | - | 68 | 86 | 86 | 86 |
| Other debtors | 488 | - | - | 488 | 488 | 488 |
| TOTAL | **506** | **1,625** | **6,536** | **8,667** | **8,667** | **8,472** |

| **PARENT COMPANY 2015** | 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 | - | 126 | - | 126 | 126 | 199 |
| Derivative financial instruments[1] | - | - | - | - | - | - |
| Bonds and other interest bearing securities | - | - | 6,302 | 6,302 | 6,302 | 6,090 |
| Cash and bank balances | - | 1,104 | - | 1,104 | 1,104 | 1,104 |
| Accrued income | 28 | - | 68 | 96 | 96 | 96 |
| Other debtors | 40 | - | - | 40 | 40 | 40 |
| TOTAL | 68 | 1,230 | 6,370 | 7,668 | 7,668 | 7,529 |

[1] Derivatives are classified as Financial instruments held for trading.
[2] Financial assets valued at fair value, have for shares been categorized through identification while bonds and other interest-bearing securities are classified based on trading.

Note 19 – Cont.

## FINANCIAL LIABILITIES

| GROUP | 2016 Other financial liabilities | 2016 Financial liabilities valued at fair value via the income statement | 2016 Carrying amount | 2016 Fair value | 2015 Other financial liabilities | 2015 Financial liabilities valued at fair value via the income statement | 2015 Carrying amount | 2015 Fair value |
|---|---|---|---|---|---|---|---|---|
| Other liabilities | 254 | - | 254 | 254 | 154 | - | 154 | 154 |
| Accrued expenses | 66 | - | 66 | 66 | 72 | - | 72 | 72 |
| Derivative financial instruments | - | 336 | 336 | 336 | - | 734 | 734 | 734 |
| Total | **320** | **336** | **656** | **656** | 226 | 734 | 960 | 960 |

| PARENT COMPANY | 2016 Other financial liabilities | 2016 Financial liabilities valued at fair value via the income statement | 2016 Carrying amount | 2016 Fair value | 2015 Other financial liabilities | 2015 Financial liabilities valued at fair value via the income statement | 2015 Carrying amount | 2015 Fair value |
|---|---|---|---|---|---|---|---|---|
| Other liabilities | 179 | - | 179 | 179 | 117 | - | 117 | 117 |
| Accrued expenses | 61 | - | 61 | 61 | 66 | - | 66 | 66 |
| Derivative financial instruments | - | 336 | 336 | 336 | - | 734 | 734 | 734 |
| Total | **240** | **336** | **576** | **576** | 183 | 734 | 917 | 917 |

In the tables below, data is provided regarding the determination of fair value for financial assets and liabilities 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 an 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 2016 | Level 1 | Level 2 | Level 3 | TOTAL |
|---|---|---|---|---|
| Shares and participations | 988 | 16 | 914 | **1,918** |
| Derivative financial instruments | - | - | -283 | **-283** |
| Bonds and other interest-bearing securities | 2,933 | 17,648 | - | **20,581** |
| TOTAL | **3,921** | **17,664** | **631** | **22,216** |

| GROUP 2015 | Level 1 | Level 2 | Level 3 | TOTAL |
|---|---|---|---|---|
| Shares and participations | 4,824 | 12 | 551 | 5,387 |
| Derivative financial instruments | - | - | -734 | -734 |
| Bonds and other interest-bearing securities | 2,724 | 15,705 | - | 18,429 |
| TOTAL | 7,548 | 15,717 | -183 | 23,082 |

| PARENT COMPANY 2016 | Level 1 | Level 2 | Level 3 | TOTAL |
|---|---|---|---|---|
| Shares and participations | 5 | 16 | 131 | **152** |
| Derivative financial instruments | - | - | -283 | **-283** |
| Bonds and other interest-bearing securities | 707 | 5,761 | - | **6,468** |
| TOTAL | **712** | **5,777** | **-152** | **6,337** |

| PARENT COMPANY 2015 | Level 1 | Level 2 | Level 3 | TOTAL |
|---|---|---|---|---|
| Shares and participations | 5 | 12 | 109 | 126 |
| Derivative financial instruments | - | - | -734 | -734 |
| Bonds and other interest-bearing securities | 1,568 | 4,734 | - | 6,302 |
| TOTAL | 1,573 | 4,746 | -625 | 5,694 |

The fair value of financial assets and liabilities 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 assets and liabilities 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. Currency derivatives are included in level 3 due to their long duration.

Specific valuation techniques applied in valuing financial assets and liabilities 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 assets or liabilities not covered by the above techniques.

All fair values determined with the aid of these valuation techniques are to be found in Level 2 and 3. 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.

**Note 19 – Cont.**

The tables below shows a reconciliation of opening and closing balance data for financial assets and liabilites valued at fair value in the balance sheet, on the basis on non-observable input data (Level 2 and 3).

| **GROUP 2016** | Shares and participations | Derivatives | Bonds | Total |
|---|---|---|---|---|
| *Level 2* | | | | |
| Opening balance January 1, 2016 | 12 | — | 15,705 | **15,717** |
| Total reported profit/loss: — reported in profit/loss for the year[1] | 4 | — | 536 | **540** |
| Acquisition cost, purchase | - | - | 18,527 | **18,527** |
| Proceeds of sale, sales | - | - | -16,810 | **-16,810** |
| Transfer from Level 2 | - | - | -20 | **-20** |
| Transfer into Level 2 | - | - | 58 | **58** |
| Currency revaluation effect | - | - | -348 | **-348** |
| CLOSING BALANCE DECEMBER 31, 2016 | **16** | **-** | **17,648** | **17,664** |
| Profit/loss reported in profit/loss for the year for assets included in the closing balance December 31, 2016[1] | 4 | - | 536 | 532 |

| **PARENT COMPANY 2016** | Shares and participations | Derivatives | Bonds | Total |
|---|---|---|---|---|
| *Level 2* | | | | |
| Opening balance January 1, 2016 | 12 | - | 4,734 | **4,746** |
| Total reported profit/loss: — reported in profit/loss for the year[1] | 4 | - | -554 | **-550** |
| Acquisition cost, purchase | - | - | 9,232 | **9,232** |
| Proceeds of sale, sales | - | - | -7,667 | **-7,667** |
| Transfer from Level 2 | - | - | -20 | **-20** |
| Transfer into Level 2 | - | - | 36 | **36** |
| CLOSING BALANCE DECEMBER 31, 2016 | **16** | **-** | **5,761** | **5,777** |
| Profit/loss reported in profit/loss for the year for assets included in the closing balance December 31, 2016[1] | 4 | - | -554 | -550 |

| **GROUP 2016** | Shares and participations | Derivatives | Bonds | Total |
|---|---|---|---|---|
| *Level 3* | | | | |
| Opening balance January 1, 2016 | 551 | -734 | - | **-183** |
| Total reported profit/loss: — reported in profit/loss for the year[1] | 19 | -337 | - | **-318** |
| Acquisition cost, purchase | 585 | -5 | - | **580** |
| Proceeds of sale, sales | -252 | 793 | - | **541** |
| Transfer from Level 3 | -19 | - | - | **-19** |
| Transfer into Level 3 | - | - | - | **-** |
| Currency revaluation effect | 30 | - | - | **30** |
| CLOSING BALANCE DECEMBER 31, 2016 | **914** | **-283** | **-** | **631** |
| Profit/loss reported in profit/loss for the year for assets included in the closing balance December 31, 2016[1] | 19 | -337 | - | -318 |

[1] Reported in net income of financial transactions in profit/loss for the year.

Note 19 – Cont.

| **PARENT COMPANY 2016** | Shares and participations | Derivatives | Bonds | Total |
|---|---|---|---|---|
| *Level 3* | | | | |
| Opening balance January 1, 2016 | 109 | -734 | - | **-625** |
| Total reported profit/loss: — reported in profit/loss for the year[1] | 17 | -337 | - | **-320** |
| Acquisition cost, purchase | 20 | -5 | - | **15** |
| Proceeds of sale, sales | -15 | 793 | - | **778** |
| Transfer from Level 3 | - | - | - | **-** |
| Transfer into Level 3 | - | - | - | **-** |
| CLOSING BALANCE DECEMBER 31, 2016 | **131** | **-283** | **-** | **-152** |
| Profit/loss reported in profit/loss for the year for assets included in the closing balance December 31, 2016[1] | 17 | -337 | - | -320 |

| **GROUP 2015** | Shares and participations | Derivatives | Bonds | Total |
|---|---|---|---|---|
| *Level 2* | | | | |
| Opening balance January 1, 2015 | 12 | - | 14,080 | 14,093 |
| Total reported profit/loss: — reported in profit/loss for the year[1] | - | - | -48 | -48 |
| Acquisition cost, purchase | - | - | 13,851 | 13,851 |
| Proceeds of sale, sales | - | - | -13,200 | -13,200 |
| Transfer from Level 2 | - | - | - | - |
| Transfer into Level 2 | - | - | 342 | 342 |
| Currency revaluation effect | - | - | 680 | 679 |
| CLOSING BALANCE DECEMBER 31, 2015 | 12 | - | 15,705 | 15,717 |
| Profit/loss reported in profit/loss for the year for assets included in the closing balance December 31, 2015[1] | - | - | -48 | -48 |

| **PARENT COMPANY 2015** | Shares and participations | Derivatives | Bonds | Total |
|---|---|---|---|---|
| *Level 2* | | | | |
| Opening balance January 1, 2015 | 12 | - | 4,207 | 4,219 |
| Total reported profit/loss: — reported in profit/loss for the year[1] | - | - | 40 | 40 |
| Acquisition cost, purchase | - | - | 6,908 | 6,908 |
| Proceeds of sale, sales | - | - | -6,571 | -6,571 |
| Transfer from Level 2 | - | - | - | - |
| Transfer into Level 2 | - | - | 150 | 150 |
| CLOSING BALANCE DECEMBER 31, 2015 | 12 | - | 4,734 | 4,746 |
| Profit/loss reported in profit/loss for the year for assets included in the closing balance December 31, 2015[1] | - | - | 40 | 40 |

[1] Reported in net income of financial transactions in profit/loss for the year.

**Note 19 – Cont.**

| **GROUP**<br>**2015** | Shares and participations | Derivatives | Bonds | Total |
|---|---|---|---|---|
| *Level 3* | | | | |
| Opening balance January 1, 2015 | 898 | -469 | 3 | 432 |
| Total reported profit/loss:<br>— reported in profit/loss for the year[1] | 25 | -265 | - | -240 |
| Acquisition cost, purchase | 108 | - | 152 | 260 |
| Proceeds of sale, sales | -542 | - | - | -542 |
| Transfer from Level 3 | - | - | -155 | -155 |
| Transfer into Level 3 | - | - | - | - |
| Currency revaluation effect | 62 | - | - | 62 |
| CLOSING BALANCE DECEMBER 31, 2015 | 551 | -734 | - | -183 |
| Profit/loss reported in profit/loss for the year for assets included in the closing balance December 31, 2015[1] | 25 | -265 | - | -240 |

| **PARENT COMPANY**<br>**2015** | Shares and participations | Derivatives | Bonds | Total |
|---|---|---|---|---|
| *Level 3* | | | | |
| Opening balance January 1, 2015 | 99 | -469 | 3 | -367 |
| Total reported profit/loss:<br>— reported in profit/loss for the year[1] | 33 | -265 | - | -232 |
| Acquisition cost, purchase | 25 | - | 146 | 171 |
| Proceeds of sale, sales | -48 | - | - | -48 |
| Transfer from Level 2 | - | - | -149 | -149 |
| Transfer into Level 2 | - | - | - | - |
| CLOSING BALANCE DECEMBER 31, 2015 | 109 | -734 | - | -625 |
| Profit/loss reported in profit/loss for the year for assets included in the closing balance December 31, 2015[1] | 33 | -265 | - | -232 |

[1] 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.

*Zürich*

## Note 20 – Tangible assets

| | Group Equipment | Parent Company Equipment |
|---|---|---|
| *Accumulated acquisition cost* | | |
| Opening balance January 1, 2015 | 199 | 136 |
| Acquisition | 63 | 59 |
| Disposals | -10 | -9 |
| Currency revaluation effect | 5 | - |
| CLOSING BALANCE DECEMBER 31, 2015 | 257 | 186 |
| Opening balance January 1, 2016 | 257 | 186 |
| Acquisition | 27 | 25 |
| Disposals | -75 | -47 |
| Currency revaluation effect | 3 | - |
| CLOSING BALANCE DECEMBER 31, 2016 | **212** | **164** |
| *Accumulated depreciation* | | |
| Opening balance January 1, 2015 | -144 | -99 |
| Depreciation for the year | -21 | -18 |
| Disposals | 9 | 8 |
| Currency revaluation effect | -3 | - |
| CLOSING BALANCE DECEMBER 31, 2015 | -159 | -109 |
| Opening balance January 1, 2016 | -159 | -109 |
| Depreciation for the year | -31 | -26 |
| Disposals | 74 | 46 |
| Currency revaluation effect | -2 | - |
| CLOSING BALANCE DECEMBER 31, 2016 | **-118** | **-89** |
| **Carrying amount** | | |
| Per January 1, 2015 | 55 | 37 |
| PER DECEMBER 31, 2015 | 98 | 77 |
| Per January 1, 2016 | 98 | 77 |
| PER DECEMBER 31, 2016 | **94** | **75** |

## Note 21 – Deferred acquisition costs

| | **GROUP** | | **PARENT COMPANY** | |
|---|---|---|---|---|
| | **2016** | **2015** | **2015** | **2015** |
| Opening balance January 1 | 628 | 544 | 322 | 279 |
| Acquired portfolio | 0 | 0 | 0 | 0 |
| Capitalization for the year | 965 | 570 | 397 | 301 |
| Depreciation/amortization for the year | -991 | -518 | -301 | -271 |
| Currency revaluation effect | 43 | 32 | 13 | 13 |
| CLOSING BALANCE DECEMBER 31 | **645** | 628 | **431** | 322 |

## Note 22 – Untaxed reserves

| PARENT COMPANY | 2016 | 2015 |
|---|---|---|
| *Accumulated depreciation in excess of plan* | | |
| Opening balance January 1 | 29 | 12 |
| Change for the year – goodwill | -4 | -4 |
| Change for the year – tangible assets | 9 | 21 |
| CLOSING BALANCE DECEMBER 31 | **34** | 29 |
| *Appropriation to safety reserve* | | |
| Opening balance January 1 | 10,690 | 10,447 |
| Change for the year | - | 243 |
| CLOSING BALANCE DECEMBER 31 | **10,690** | 10,690 |
| TOTAL | **10,724** | 10,719 |

## Note 23 – Provisions for unearned premiums and unexpired risks

**PROVISIONS FOR UNEARNED PREMIUMS**

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **GROUP** | Gross | Reinsurers' share | Net | Gross | Reinsurers' share | Net |
| Opening balance | 2,795 | -674 | 2,121 | 2,554 | -536 | 2,018 |
| Acquired portfolio | 185 | -185 | 0 | 0 | 0 | 0 |
| Change in provision | 289 | -305 | -16 | 86 | -101 | -15 |
| Currency revaluation effect | 253 | -99 | 154 | 155 | -37 | 118 |
| CLOSING BALANCE | **3,522** | **-1,263** | **2,259** | 2,795 | -674 | 2,121 |

**PROVISIONS FOR UNEXPIRED RISKS**

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **GROUP** | Gross | Reinsurers' share | Net | Gross | Reinsurers' share | Net |
| Opening balance | 84 | -62 | 22 | 81 | -59 | 22 |
| Change in provision | -11 | 8 | -3 | -4 | 3 | -1 |
| Currency revaluation effect | 6 | -5 | 1 | 7 | -6 | 1 |
| CLOSING BALANCE | **79** | **-59** | **20** | 84 | -62 | 22 |

**PROVISIONS FOR UNEARNED PREMIUMS**

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **PARENT COMPANY** | Gross | Reinsurers' share | Net | Gross | Reinsurers' share | Net |
| Opening balance | 1,718 | -640 | 1,078 | 1,610 | -523 | 1,087 |
| Change in provision | 676 | -349 | 327 | 20 | -79 | -59 |
| Currency revaluation effect | 128 | -78 | 50 | 88 | -38 | 50 |
| CLOSING BALANCE | **2,522** | **-1,067** | **1,455** | 1,718 | -640 | 1,078 |

**PROVISIONS FOR UNEXPIRED RISKS**

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **PARENT COMPANY** | Gross | Reinsurers' share | Net | Gross | Reinsurers' share | Net |
| Opening balance | 84 | -62 | 22 | 81 | -59 | 22 |
| Change in provision | -11 | 8 | -3 | -4 | 3 | -1 |
| Currency revaluation effect | 7 | -4 | 3 | 7 | -6 | 1 |
| CLOSING BALANCE | **80** | **-58** | **22** | 84 | -62 | 22 |

## Note 24 – Claims reserve

| GROUP | 2016 Gross | 2016 Reinsurers' share | 2016 Net | 2015 Gross | 2015 Reinsurers' share | 2015 Net |
|---|---|---|---|---|---|---|
| *Opening balance, reported claims* | *7,251* | *-1,540* | *5,711* | *7,795* | *-1,779* | *6,016* |
| *Opening balance, incurred but not reported claims (IBNR)* | *5, 885* | *-841* | *5,044* | *5,568* | *-805* | *4,763* |
| OPENING BALANCE | **13,136** | **-2,381** | **10,755** | 13,364 | -2,584 | 10,779 |
| Acquired portfolio | 0 | 0 | 0 | 0 | 0 | 0 |
| Cost for claims incurred – current year | 4,312 | -1,429 | 2,883 | 3,122 | -722 | 2,400 |
| Cost for claims incurred – prior year | 1,505 | -144 | 1,361 | 1,444 | -255 | 1,189 |
| Claims handling expenses | 206 | 0 | 206 | 238 | 0 | 238 |
| Paid claims | 5,740 | -1,363 | 4,377 | 5,344 | -1,278 | 4,066 |
| Currency revaluation effect | 976 | -186 | 790 | 787 | -98 | 689 |
| CLOSING BALANCE | **13,983** | **-2,777** | **11,206** | 13,136 | -2,381 | 10,755 |
| *Closing balance, reported claims* | *8,191* | *-1,775* | *6,416* | *7,251* | *-1,540* | *5,711* |
| *Closing balance, incurred but not reported claims (IBNR)* | *5,792* | *-1,002* | *4,790* | *5,885* | *-841* | *5,044* |

| PARENT COMPANY | 2016 Gross | 2016 Reinsurers' share | 2016 Net | 2015 Gross | 2015 Reinsurers' share | 2015 Net |
|---|---|---|---|---|---|---|
| *Opening balance, reported claims* | *3,983* | *-1,046* | *2,937* | *4,413* | *-1,269* | *3,144* |
| *Opening balance, incurred but not reported claims (IBNR)* | *1,591* | *-345* | *1,246* | *1,476* | *-341* | *1,135* |
| OPENING BALANCE | **5,574** | **-1,391** | **4,183** | 5,889 | -1,610 | 4,279 |
| Cost for claims incurred – current year | 2,209 | -702 | 1,507 | 1,946 | -550 | 1,396 |
| Cost for claims incurred – prior year | 476 | -197 | 279 | 525 | -187 | 338 |
| Claims handling expenses | 120 | 0 | 120 | 137 | 0 | 137 |
| Paid claims | 2,648 | -846 | 1,802 | 2,829 | -985 | 1,844 |
| Currency revaluation effect | 290 | -77 | 213 | 180 | -29 | 151 |
| CLOSING BALANCE | **5,781** | **-1,520** | **4,261** | 5,574 | -1,391 | 4,183 |
| *Closing balance, reported claims* | *4,375* | *-1,182* | *3,193* | *3,983* | *-1,046* | *2,937* |
| *Closing balance, incurred but not reported claims (IBNR)* | *1,406* | *-338* | *1,068* | *1,591* | *-345* | *1,246* |

## Note 25 – Equalization provision

| GROUP | 2016 | 2015 |
|---|---|---|
| Opening balance January 1 | - | - |
| Provision of the year | - | - |
| CLOSING BALANCE DECEMBER 31 | **-** | - |

| PARENT COMPANY | 2016 | 2015 |
|---|---|---|
| Opening balance January 1 | 89 | 89 |
| Provision of the year | -45 | - |
| CLOSING BALANCE DECEMBER 31 | **44** | 89 |

## Note 26 – Claims handling provision

| | GROUP 2016 | GROUP 2015 | PARENT COMPANY 2016 | PARENT COMPANY 2015 |
|---|---|---|---|---|
| Opening balance January 1 | 295 | 260 | 150 | 150 |
| Acquired portfolio | 8 | 0 | 0 | 0 |
| Release of provision made in prior years | -87 | -38 | -48 | -38 |
| Provision for the year | 76 | 65 | 37 | 39 |
| Currency revaluation effect | 9 | 8 | 2 | -1 |
| CLOSING BALANCE DECEMBER 31 | **301** | 295 | **141** | 150 |

## Note 27 – Employee benefits

### DEFINED BENEFIT PLANS

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Pension obligations covered by plan assets | 135 | 121 | - | - |
| Plan assets at fair value | 105 | 94 | - | - |
| SURPLUS (-) DEFICIT (+) | **-30** | -27 | **-** | - |
| Pension obligations not covered by plan assets | 30 | 27 | 16 | 16 |
| PROVISION FOR DEFINED BENEFIT PENSION PLANS, NET | **30** | 27 | **16** | 16 |

### Group defined benefit plans

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 actuarial gains and losses recognized in Other Comprehensive Income. 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 pension obligation is defined by discounting of estimated future cash flows, using interest rates that are based on the same currency in which the obligations are to be paid and with durations comparable to the duration of the current pension obligation. Other assumptions used to determine the pension obligation and the fair value of the plan assets are disclosed in this note.

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. Paid pension premiums are mainly funded with Skandia Liv for employees in Sweden and with Allianz for employees in Germany. The lion share of the plan assets are funded with Skandia Liv where the assets are invested in Swedish bonds (33%), Swedish and foreign shares (28%), real-estate (11%), non listed shares (10%) and other investment assets (18%).

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.

### PENSION COST RECOGNIZED IN THE INCOME STATEMENT

| GROUP | 2016 | 2015 |
|---|---|---|
| Current service cost | 8 | 9 |
| Interest cost on pension obligation | 3 | 2 |
| Interest income on plan assets | -3 | -2 |
| PENSION COST FOR DEFINED BENEFIT PLANS | **8** | 9 |
| Paid premiums, defined contribution plans | 64 | 68 |
| TOTAL PENSION COST[1] | **72** | 77 |

[1] The pension cost for the year does not include special salary tax, which is disclosed in note 31 in the table "Remuneration to employees".

### CHANGES IN DEFINED BENEFIT OBLIGATIONS

| GROUP | 2016 | 2015 |
|---|---|---|
| Opening balance pension obligation | 121 | 110 |
| Adjustments due to change in discount rates[2] | - | 15 |
| Current service cost | 8 | 9 |
| Interest cost on pension obligation | 3 | 3 |
| Actuarial gains and losses recognized in OCI | 8 | -9 |
| Release of obligation by payment | -5 | -4 |
| Tax | -2 | -2 |
| Currency revaluation effect | 2 | -1 |
| CLOSING BALANCE PENSION OBLIGATION | **135** | 121 |

[2] An adjustment of the discount rate used has been made for the German part of the obligation. The amendment implies that the German statutory intrest rate has been replaced by the interest rate stipulated by IAS 19 for the group's calculation. The change is reported under other comprehensive income.

Note 27 – Cont.

### CHANGES IN PLAN ASSETS

| GROUP | 2016 | 2015 |
|---|---|---|
| Opening balance plan assets at fair value | 94 | 96 |
| Interest income on plan assets | 2 | 2 |
| Contributions | 9 | 8 |
| Actuarial gains and losses recognized in OCI | 2 | 1 |
| Release of obligation by payment | -2 | -13 |
| Currency revaluation effect | 0 | 0 |
| CLOSING BALANCE PLAN ASSETS AT FAIR VALUE | **105** | 94 |

The plan assets' fair value, as per December 31, 2016, is lower than the value of the Group's defined benefit pension commitments. The Group has per December 31, 2016 a net obligation of MSEK 30 (27). This is mainly 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, no employees have exercised the opportunity to take early retirement.

### CHANGES IN ACTUARIAL GAINS/LOSSES RECOGNIZED IN OCI, PRE-TAX

| GROUP | 2016 | 2015 |
|---|---|---|
| Opening balance actuarial gains/losses | 4 | 7 |
| Current year change in actuarial gains (–)/losses (+) on pension obligation | 8 | -2 |
| Current year change in actuarial gains (–)/losses (+) on plan assets | -2 | 0 |
| Currency revaluation effect | 1 | -1 |
| CLOSING BALANCE ACTUARIAL GAINS/LOSSES | **11** | 4 |

### ACTUARIAL ASSUMPTIONS

| GROUP | 2016 | 2015 |
|---|---|---|
| Discount rate | 2.2% | 2.6 % |
| Price inflation | 1.5% | 1.5% |
| Expected salary increases | 2.7% | 2.7% |
| Indexation of benefits | 1.6% | 1.6% |
| Indexation of income base amount | 2.7% | 2.7% |
| 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 discount rate applied for the Swedish defined obligations, is based on high quality Swedish mortgage bonds, issued in the same currency in which the future benefits will be settled and with durations comparable to the current benefit obligation. The German pension obligation is discounted with the discount rate stipulated by IAS 19, taking into account both the underlying currency and the duration of the pension obligation, which is normally equal to the interest rate for high quality corporate bonds. The expected duration of the pension obligations is 16 years (16 years).

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 (DUS14) and are updated annually. When establishing the value of defined benefit obligations, according to IFRS, it is common practice in Sweden to comply with the above mentioned instruction from the Swedish Financial Supervisory Authority.

## Note 28 – Other creditors

| | GROUP 2016 | GROUP 2015 | PARENT COMPANY 2016 | PARENT COMPANY 2015 |
|---|---|---|---|---|
| Amounts due to group companies[1] | 1 | 9 | 36 | 51 |
| Other creditors | 253 | 145 | 143 | 66 |
| TOTAL[2] | **254** | 154 | **179** | 117 |

[1] Group companies are defined as companies within the China Minsheng-group.
[2] The majority of the liabilities have a duration less than one year.

## Note 29 – Contingent liabilities and commitments

**PLEDGED ASSETS FOR OWN LIABILITIES AND PROVISIONS**

| | GROUP 2016 | GROUP 2015 | PARENT COMPANY 2016 | PARENT COMPANY 2015 |
|---|---|---|---|---|
| Bonds and other interest-bearing securities | 8,387 | 8,021 | 5,480 | 5,732 |
| Cash and bank | 752 | 430 | 624 | 353 |
| ASSETS FOR WHICH POLICY HOLDERS HAVE PREFERENTIAL RIGHTS | **9,139** | 8,451 | **6,104** | 6,085 |

On the basis of the stipulations in Chapter 7, Section 11 of the Insurance Business Act, registered assets amount to MSEK 5,642. 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.

**CONTINGENT LIABILITIES AND OTHER COMMITMENTS**

| | GROUP 2016 | GROUP 2015 | PARENT COMPANY 2016 | PARENT COMPANY 2015 |
|---|---|---|---|---|
| *Nominal amount* | | | | |
| Guarantees on behalf of subsidiary | 3,882 | 3,626 | 3,882 | 3,626 |
| Future commitments for investments in private equity companies | 824 | 64 | 7 | - |
| TOTAL | **4,706** | 3,690 | **3,889** | 3,626 |

# Note 30 – Associated parties

### SUMMARY OF TRANSACTIONS WITH ASSOCIATED COMPANIES WITHIN THE WHITE MOUNTAINS GROUP

| GROUP 2016 | Premium income, net | Indemnifications, net | Purchased/ sold services | Receivables | Liabilities |
|---|---|---|---|---|---|
| Sirius Bermuda Insurance Company Ltd- assumed reinsurance | -326 | 205 | - | - | 243 |
| Alstead Reinsurance Ltd – ceded reinsurance | 1 | - | - | - | - |
| Alstead Reinsurance Ltd. – assumed reinsurance | -2 | 1 | - | - | 1 |
| Sirius Bermuda Insurance Company Ltd – financial services | - | - | -779 | 138 | 0 |
| Fund American Holdings AB – group contribution | - | - | - | - | 7 |
| White Schoals Re Ltd. – administrative services | - | - | 4 | 0 | 0 |
| Sirius International Insurance Group, Ltd. – administrative services | - | - | 27 | 3 | 0 |
| OneBeacon Insurance Group Ltd. – liability insurances and dividends | - | - | 13 | - | - |
| White Mountains Advisors LLC – Asset management services | - | - | -10 | - | - |
| Other associated companies – within WTM- group | - | - | 4 | - | - |
| Other associated companies – within CMI- group | - | - | 0 | 5 | 8 |
| TOTAL | **-327** | **206** | **-741** | **146** | **259** |

| PARENT COMPANY 2016 | Premium income, net | Indemnifications, net | Purchased/ sold services | Receivables | Liabilities |
|---|---|---|---|---|---|
| Sirius Bermuda Insurance Company Ltd – assumed reinsurance | -326 | 205 | - | - | 243 |
| Alstead Reinsurance Ltd. – ceded reinsurance | 1 | - | - | - | - |
| Sirius America Insurance Company – ceded reinsurance | 361 | -318 | - | 1,032 | - |
| Sirius America Insurance Company – assumed reinsurance | - | 10 | - | 4 | - |
| Star Re Ltd. – assumed reinsurance | -125 | - | - | - | - |
| Syndicate 1945 – ceded reinsurance | 12 | 1 | - | 4 | - |
| Syndicate 1945 – assumed reinsurance | - | - | - | - | - |
| Sirius America Insurance Company – administrative services | - | - | 48 | 16 | - |
| SI Phoenix (Luxembourg) S.à r.l. – dividends | - | - | 2,030 | - | 4 |
| Fund American Holdings AB – group contribution | - | - | - | - | 7 |
| Sirius International Holding (NL) B.V. – dividends | - | - | 618 | - | - |
| Sirius International Holding (NL) B.V. – writedown shares | - | - | -92 | - | - |
| Sirius Rückversicherungs Service GmbH – intra group payable | - | - | -28 | - | 29 |
| Sirius Rückversicherungs Service GmbH – dividends | - | - | 30 | - | - |
| Sirius Belgium Réassurances S.A. – intra group payable | - | - | 0 | - | 0 |
| Star Re Ltd. – intra group payable | - | - | 1 | - | - |
| S.I. Holdings (Luxembourg) S.à r.l. – dividends /receivable | - | - | 950 | 264 | 0 |
| Passage 2 Health – intra group payable | - | - | -5 | - | - |
| Syndicate 1945 – intra group payable | - | - | 120 | 119 | - |
| Sirius Global Services LLC – administrative services | - | - | -43 | - | 2 |
| Sirius International Holdings Ltd. – administrative services | - | - | -8 | - | - |
| Sirius International Managing agency Ltd. - administrative services | - | - | 1 | 7 | - |
| White Sands Holdings (Luxembourg) S.à r.l. – dividends | - | - | - | 0 | - |
| Sirius International Corporate Member Ltd. – intra group payable | - | - | - | 20 | - |
| White Mountains Advisors LLC - asset management services | - | - | -4 | - | - |
| Sirius Bermuda Insurance Company Ltd – financial services | - | - | -783 | 20 | - |
| White Schoals Re Ltd. – administrative services | - | - | 2 | 0 | - |
| Other associated companies | - | - | 2 | 1 | 1 |
| TOTAL | **-77** | **-102** | **2,838** | **455** | **286** |

Note 30 – Cont.

| GROUP 2015 | Premium income, net | Indemnifications, net | Purchased/ sold services | Receivables | Liabilities |
|---|---|---|---|---|---|
| White Mountains Advisors LLC – financial services | — | — | -41 | - | 8 |
| Sirius Bermuda Insurance Company Ltd – financial services | — | — | -149 | 7 | - |
| Sirius Capital Markets Bermuda Ltd - administrative services | — | — | 0 | - | - |
| White Shoals Re Ltd - administrative services | — | — | 4 | - | - |
| Sirius International Insurance Group Ltd - administrative services | — | — | 28 | 0 | - |
| OneBeacon Insurance Group Ltd - liability insurance and dividends | — | — | 53 | - | - |
| Other associated companies | — | — | 11 | 1 | 9 |
| TOTAL | — | — | -92 | 8 | 17 |

| PARENT COMPANY 2015 | Premium income, net | Indemnifications, net | Purchased/ sold services | Receivables | Liabilities |
|---|---|---|---|---|---|
| Sirius America Insurance Company - assumed reinsurance | 177 | -52 | - | 423 | - |
| Sirius America Insurance Company - ceded reinsurance | 0 | 23 | - | - | - |
| Star Re Ltd. – ceded reinsurance | -118 | - | - | - | - |
| Syndicate 1945 – assumed reinsurance | 16 | 1 | - | 6 | - |
| Syndicate 1945 - ceded reinsurance | -18 | 11 | - | - | 6 |
| Sirius America Insurance Company – administrative services | - | - | 31 | 9 | - |
| WM Phoenix (Luxembourg) S.à r.l. – dividends | - | - | 17 | - | - |
| Sirius International Holding (NL) B.V. - dividends | - | - | 50 | - | - |
| Sirius Rückversicherungs Service GmbH - intra-group payables | - | - | -30 | - | 51 |
| Sirius Belgium Réassurances S.A - intra-group payables | - | - | 0 | - | 1 |
| Star Re Ltd. – financial services | - | - | 1 | - | - |
| S.I. Holdings (Luxembourg) S.à r.l. – dividends/receivables | - | - | 381 | 622 | - |
| Passage2Health Ltd. - intra-group receivables | - | - | 0 | 6 | - |
| Syndicate 1945 - intra group receivables | - | - | 117 | 167 | - |
| Sirius Global Services LLC - administrative services | - | - | -42 | 15 | - |
| Sirius International Holdings Ltd - administrative services | - | - | -4 | 0 | - |
| Sirius International Managing agency Ltd - administrative services | - | - | 2 | 2 | - |
| White Sands Holdings (Luxembourg) S.à r.l. – intra-group payables | - | - | - | 0 | 2 |
| White Mountains Re Sirius Capital Ltd – intra-group receivables | - | - | - | 59 | - |
| White Mountains Advisors LLC - financial services | - | - | -12 | - | - |
| Sirius Bermuda Insurance Company Ltd – financial services | - | - | -149 | 6 | - |
| Sirius Capital Markets Bermuda Ltd. - administrative services | - | - | 0 | - | - |
| White Schoals Re Ltd – administrative services | | | 3 | - | - |
| Other associated companies | - | - | 7 | 0 | 0 |
| TOTAL | 57 | –17 | 372 | 556 | 57 |

# Note 31 – Average number of employees, salaries and other remunerations

## AVERAGE NUMBER OF EMPLOYEES

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **GROUP** | Men | Women | Total | Men | Women | Total |
| Parent Company | 156 | 152 | **308** | 154 | 146 | 300 |
| Germany | 5 | 9 | **14** | 4 | 9 | 13 |
| USA | 60 | 58 | **118** | 59 | 58 | 117 |
| Canada | 6 | 2 | **8** | 5 | 2 | 7 |
| TOTAL | **227** | **221** | **448** | 222 | 215 | 437 |

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **PARENT COMPANY** | Men | Women | Total | Men | Women | Total |
| Sweden | 74 | 73 | **147** | 75 | 70 | 145 |
| UK | 37 | 28 | **65** | 36 | 26 | 62 |
| Belgium | 26 | 23 | **49** | 25 | 23 | 48 |
| Switzerland | 5 | 5 | **10** | 4 | 5 | 9 |
| Singapore | 5 | 13 | **18** | 5 | 12 | 17 |
| Bermuda | 9 | 10 | **19** | 9 | 10 | 19 |
| TOTAL | **156** | **152** | **308** | 154 | 146 | 300 |

## SENIOR MANAGEMENT

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| **GROUP AND PARENT COMPANY** | Men | Women | Total | Men | Women | Total |
| Board and CEO | 4 | 1 | **5** | 5 | 1 | 6 |
| Other senior members of management | 1 | - | **1** | 1 | - | 1 |
| TOTAL | **5** | **1** | **6** | 6 | 1 | 7 |

## REMUNERATIONS TO EMPLOYEES

| | GROUP | | PARENT COMPANY | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Salaries including bonuses | 832 | 592 | 493 | 369 |
| *Of which expenses bonus and other similar remunerations* | 386 | 161 | 230 | 98 |
| Pension expenses | 67 | 74 | 60 | 60 |
| *— Defined contribution plans* | *64* | *68* | *60* | *58* |
| *— Defined benefit plans (Note 27)* | *7* | *8* | *0* | *2* |
| Social security contributions, special employer's contributions on pensions | 123 | 95 | 112 | 87 |
| TOTAL | **1.022** | 761 | **669** | 516 |

Note 31 – Cont.

**OF WHICH PAID REMUNERATIONS FOR THE YEAR TO:**

| | GROUP 2016 | GROUP 2015 | PARENT COMPANY 2016 | PARENT COMPANY 2015 |
|---|---|---|---|---|
| **CEO** | | | | |
| Salaries including bonuses | 27 | 7 | 27 | 7 |
| *Of which paid out bonuses* | *23* | *4* | *23* | *4* |
| Pension expenses | 1 | 1 | 1 | 1 |
| *— Defined contribution plans* | *1* | *1* | *1* | *1* |
| *— Defined benefit plans* | - | - | - | - |
| TOTAL | **28** | 8 | **28** | 8 |
| **Former CEO** | | | | |
| Salaries including bonuses | 33 | 28 | 33 | 28 |
| *Of which paid out bonuses* | *33* | *28* | *33* | *28* |
| Pension expenses | - | - | - | - |
| *— Defined contribution plans* | - | - | - | - |
| *— Defined benefit plans* | - | - | - | - |
| TOTAL | **33** | 28 | **33** | 28 |
| **Board and other senior members of management** | | | | |
| Salaries including bonuses | 36 | 20 | 36 | 20 |
| *Of which expenses bonus and other similar remunerations* | *30* | *14* | *30* | *14* |
| Pension expenses | 3 | 3 | 3 | 3 |
| *— Defined contribution plans* | *3* | *3* | *3* | *3* |
| *— Defined benefit plans* | - | - | - | - |
| TOTAL | **39** | 23 | **39** | 23 |

### 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 2015 and 2016.

### Remuneration policy

Sirius International's remuneration policy is available on the Company's home-page, which follows FFFS 2015:12.

## Note 32 – Fees and reimbursements to auditors

| PwC | GROUP 2016 | GROUP 2015 | PARENT COMPANY 2016 | PARENT COMPANY 2015 |
|---|---|---|---|---|
| Audit assignment | 15 | 14 | 5 | 5 |
| Tax counseling | 1 | 0 | 0 | 0 |
| Other services | 0 | 1 | 0 | 1 |
| TOTAL | **16** | 15 | **5** | 6 |

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 33 – Operational leasing

**NON-CANCELLABLE LEASES**

| | GROUP 2016 | GROUP 2015 | PARENT COMPANY 2016 | PARENT COMPANY 2015 |
|---|---|---|---|---|
| Due for payment within one year | 53 | 50 | 31 | 30 |
| Due for payment later than one year but within five years | 148 | 183 | 82 | 116 |
| Due for payment after five years | 55 | 80 | 34 | 49 |
| TOTAL | **256** | 313 | **147** | 195 |

# Note 34 – Class analysis

### PROFIT/LOSS PER INSURANCE CLASS

| GROUP 2016 | Personal accident and health | Marine, aviation and transport | Fire and other property damage | Miscellaneous | Total direct insurance | Assumed reinsurance | Total |
|---|---|---|---|---|---|---|---|
| Premium income, gross | 2,598 | 31 | 470 | 248 | 3,347 | 7,459 | **10,806** |
| Premium earned, gross | 2,484 | 32 | 457 | 231 | 3,204 | 7,324 | **10,528** |
| Incurred claims, gross | -1,503 | 3 | -299 | -203 | -2,002 | -3,815 | **-5,817** |
| Operating expenses, gross | -832 | -10 | -130 | -109 | -1,081 | -2,279 | **-3,360** |
| Result, ceded reinsurance | -129 | -13 | -98 | -7 | -247 | -749 | **-996** |
| TECHNICAL RESULT | **20** | **12** | **-70** | **-88** | **-126** | **481** | **355** |

| PARENT COMPANY 2016 | Personal accident and health | Marine, aviation and transport | Fire and other property damage | Miscellaneous | Total direct insurance | Assumed reinsurance | Total |
|---|---|---|---|---|---|---|---|
| Premium income, gross | 1,188 | 30 | 37 | 17 | 1,272 | 5,523 | **6,795** |
| Premium earned, gross | 1,086 | 32 | 28 | 15 | 1,161 | 4,969 | **6,130** |
| Incurred claims, gross | -474 | 3 | -17 | -5 | -493 | -2,192 | **-2,685** |
| Operating expenses, gross | -489 | -10 | -28 | -14 | -541 | -1,405 | **-1,946** |
| Result, ceded reinsurance | -80 | -13 | -8 | -2 | -103 | -884 | **-987** |
| Equalization provision | | | | | | 45 | **45** |
| TECHNICAL RESULT | **43** | **12** | **-25** | **-6** | **24** | **533** | **557** |

| GROUP 2015 | Personal accident and health | Marine, aviation and transport | Fire and other property damage | Miscellaneous | Total direct insurance | Assumed reinsurance | Total |
|---|---|---|---|---|---|---|---|
| Premium income, gross | 2,218 | 54 | 140 | 221 | 2,633 | 7,056 | 9,689 |
| Premium earned, gross | 2,117 | 74 | 149 | 182 | 2,522 | 7,085 | 9,607 |
| Incurred claims, gross | -1,152 | -41 | -72 | -168 | -1,433 | -3,133 | -4,566 |
| Operating expenses, gross | -770 | -19 | -76 | -73 | -938 | -2,176 | -3,114 |
| Result, ceded reinsurance | -168 | -3 | -22 | -13 | -206 | -729 | -935 |
| TECHNICAL RESULT | 27 | 11 | -21 | -72 | -55 | 1,047 | 992 |

| PARENT COMPANY 2015 | Personal accident and health | Marine, aviation and transport | Fire and other property damage | Miscellaneous | Total direct insurance | Assumed reinsurance | Total |
|---|---|---|---|---|---|---|---|
| Premium income, gross | 1,142 | 54 | 30 | 20 | 1,246 | 4,655 | 5,901 |
| Premium earned, gross | 1,043 | 74 | 34 | 42 | 1,193 | 4,692 | 5,885 |
| Incurred claims, gross | -398 | -41 | -24 | -19 | -482 | -1,989 | -2,471 |
| Operating expenses, gross | -484 | -19 | -29 | -17 | -549 | -1,259 | -1,808 |
| Result, ceded reinsurance | -93 | -4 | -9 | -9 | -115 | -819 | -934 |
| Equalization provision | - | - | - | - | - | - | - |
| TECHNICAL RESULT | 68 | 10 | -28 | -3 | 47 | 625 | 672 |

## Note 35 – Appropriation of profits

**PROPOSED APPROPRIATION OF PROFITS**

For 2016, the Parent Company recorded income before appropriations and taxes of MSEK 3,912 (MSEK 1,069). Net income for the year amounted to MSEK 3,855 (MSEK 717). As of December 31, 2016 unrestricted retained earnings in the Group amounted to MSEK 5,400.

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

| (SEK IN THOUSANDS) | |
|---|---|
| Retained earnings | 2,817,736 |
| Non-Restricted reserves | -14,452 |
| Change in restricted reserves | -67,834 |
| Group contribution provided | -5,162 |
| Dividends paid, as resolved by the general meeting of shareholders and extraordinary general meeting of shareholders | -2,596,700 |
| Net income for the year | 3,854,698 |
| TOTAL | **3,988,286** |

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

| | |
|---|---|
| Dividend to the owner | 905,000 |
| To be carried forward | 3,083,286 |
| | **3,988,286** |

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.

STOCKHOLM, APRIL 25, 2017

ALLAN WATERS
*Chairman of the Board of Directors*

JEFFREY DAVIS

JAN ONSELIUS

LARS EK

MONICA CRAMÉR MANHEM
*President & CEO*

Our Auditors' Report was submitted on April 25, 2017

MORGAN SANDSTRÖM
*Authorised Public Accountant*

*For translation purposes only*

# Audit report

**To the general meeting of the shareholders of Sirius International Insurance Corporation (publ), corporate identity number 516401-8136.**

## Report on the annual accounts and consolidated accounts

### OPINIONS

We have audited the annual accounts and consolidated accounts of Sirius International Insurance Corporation (publ) for the year 2016.

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 parent company as of 31 December 2016 and its financial performance and cash flow 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 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), 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 general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

### BASIS FOR OPINIONS

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

### RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Insurance Companies and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they 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.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

### AUDITOR'S RESPONSIBILITY

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

## Report on other legal and regulatory requirements

### OPINIONS

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Sirius International Insurance Corporation (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general 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.

### BASIS FOR OPINIONS

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

## 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. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

## AUDITOR'S RESPONSIBILITY

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Insurance Business Act, the Annual Accounts Act for Insurance Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor's report.

Stockholm, April 25, 2017

PricewaterhouseCoopers AB

MORGAN SANDSTRÖM
*Authorised Public Accountant*

# Definitions

### Combined ratio
Net claims incurred in relations to net premiums earned and operating expenses (both commissions and own expenses) in relation to net premiums earned. Other operating costs are excluded when calculating combined ratio as they stem from non-insurance operations.

### 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 2016. The audited Swedish version is the binding version.

*Singapore*

# 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 the President & CEO of Sirius International. 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.

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

**IN 2014** Monica Cramér Manhem became the President & CEO of Sirius International. Sirius launched its own Lloyd's managing agency.

**ON APRIL 18, 2016** Sirius International Insurance Group, Ltd. was bought by CM International Holding Pte. Ltd.

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.

During the ownership of White Mountains, Sirius has had an average combined ratio of 85 % and close to $1 billion in underwriting profits. This long-term track record is perhaps unparalleled.

*Liège*

Art and production: INEKO AB 2017.
Photo: Dan Coleman (p. 2), FotoVoyager (p. 27), Shutterstock (p. 7, 10, 32, 42, 67, 84), Teradat Santivivut (p. 82).

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