SIRIUS INTERNATIONAL INSURANCE CORPORATION (publ)

ANNUAL REPORT 2018

Contents

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 2018.

General information regarding the company

Sirius International providesinternational insurance and reinsurance. Sirius International was established in 1989. However, 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 of the Group since 1992.

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

Globally, the number of major catastrophes arising from natural disasters decreased in 2018 compared to the record-setting tally set in 2017, both expressed in terms of global economic losses and in terms of global insured losses for the industry. The 2018 natural catastrophe losses were in line with the average for the period since year 2000, in terms of economic losses. However, approximately 40 % higher than the average in terms of insured losses. The major events for the industry include hurricanes Michael and Florence in the United States, Typhoon Jebi in Japan, extensive wildfire outbreaks in the state of California, USA, along with major claims from both droughts and floods in 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 net market shares. The major claims events for Sirius International are summarized below.

The largest insurance losses for Sirius International during 2018 emanate from typhoons Jebi and Trami in Japan, flooding in the Kerala region in India and typhoon Mangkhut that brought widespread damage in Hong Kong and southern China. These events combined are estimated to have resulted in claims of approximately MSEK 990.

The claims reserves from previous accident years had a favorable development during the year and resulted in a positive run-off result for the 2018 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 2019, has noted an increased volume with stable risk adjusted price levels. The Japanese portfolio is mainly renewed as of April 1.For the overall portfolio, the pricing and renewal volume for 2019 is deemed to be satisfactory and in line with expectations.

Gross premium income amounted to MSEK 9,376 (8,357). The premium income for own account amounted to MSEK 5,301 (4,524). The premium volume was 12 % higher than the previous year. The increase in gross premium income is noted mainly in the lines assumed property reinsurance, while other insurance lines only show a smaller variation compared to the previous year.

The operating loss from insurance operations amounted to MSEK -5 (-16). The combined ratio was 101 % (100%). The deterioration in insurance operating result is due to the above mentioned catastrophe claims from Japan. The company's globally diversified insurance portfolio has a dampening effect on the result despite significant losses from one region, like Japan.

The economic situation in Sweden was weakened during 2018. The economic growth slowed down, and Swedish exportsalso declined. The negative repo rate that has prevailed since February 2015 may see an end following the Riksbank's interest rate increase of + 0.25 % in December, however, no drastic increases of the repo rate is expected during 2019. GDP is expected to have increased by 2.3 % during 2018, while the unemployment rate decreased to approximately 6.3 %.

During 2018 United states economy was the main driver for the global growth. Tax reductions and government spending fueled the strong US economy, which is expected to have grown by approximately 2.9 %.

In the euro area the economic activity suffers from a dampening. Areas include risk of trade war, uncertainty regarding Britain's exit from the EU, problems in the German automotive industry, political unrest in France and a populist government in Italy. GDP growth for 2018 is estimated at 1.8 %.

On a global basis, GDP is expected to have grown by 3.6 % during 2018.

The Swedish krona had a volatile year with large fluctuations to the most important currencies. On an annual basis, USD has strengthened 9.0 %, GBP has strengthened by 2.7 % and EUR has strengthened by 4.0 % respectively against SEK.

Generally, the world's leading stock markets had a negative development. OMX 30 in Sweden decreased by 7.7 %, Dow Jones decreased by 5.6 %, FTSE 100 decreased by 12.5 % and DAX decreased by 18.3 %.

The markets in the US, Sweden, Germany and the UK are the most important ones for the bond portfolio. In Sweden, the interest rate levels on three year tenor have increased 11 basis points whereas the interest rate in the five year tenor have decreased by 31 basis points. In the US, the interest rates have continued to increase, 52 basis points for the three-year tenor and 30 basis points for five years. The UK interest rates increased 26 and 18 basis points respectively for the three year and five year tenors. The corresponding interest rates for EURO bonds remained virtually unchanged.

Overall, yield on the bond portfolio was 1.6 % adjusted for exchange rate effects. As regards the equity portfolio, including investments in hedge funds and private equity investments, the yield amounted to -7.3 %, adjusted for exchange rate effects. The realized and unrealized currency exchange rate result, including currency hedging and amounted to a loss of MSEK 215. 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 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 114 (133). The direct yield was 1.2 % (0.9 %) and the total yield was 4.2 % (1.3 %). 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 31.3 %, Shares and participations including subsidiaries 60.8 % and Bank funds 7.9%.

During the third quarter the subsidiary Sirius International Advisory Zürich GmbH was established. This company writes direct insurance within the line marine, aviation and transport on behalf of Sirius International.

As a part of the ongoing restructuring within the Sirius International group Sirius International Holdings (NL) BV was liquidated during the fourth quarter.

The operations in the representative office in Shanghai, Sweden Sirius International Insurance Corporation Shanghai Representative Office have developed according to plan.

Sirius International Försäkringsaktiebolag (publ), is subject to Solvency 2 reporting to the Swedish Financial Supervisory Authority. Sirius International is the reporting entity for Solvency II group reporting on behalf of Sirius International UK Holdings Ltd- group (SIUK Group) based in the United Kingdom. Furthermore, the Bermuda Monetary Authority (BMA) has assumed the role as group supervisor for Sirius International Insurance Group, Ltd, Bermuda (SIIG). Discussions are ongoing in a supervisory college to ensure that appropriate group supervision at appropriate levels within SIIG are in line with the EU regulation and also takes into account the Solvency 2 equivalency rules at Bermuda.

The own funds items for each entity within the group primarily consist of basic own funds items which have been deemed to be fully eligible to meet the Solvency capital requirement for each company within the SIUK Group. In the solvency 2 rules impacting the SIUK Group, the safety reserve from one entity within the group cannot be made fully available for other group companies (13 kap.6-7 §§ Swedish Financial Supervisory Authority's regulations and general guidelines on Insurance Business (FFFS 2015:8)). This leads to a quantitative limitation of the transferability and eligibility of the safety reserve for SIUK- Group.

For the parent company the ratio of total eligible own funds to the solvency capital requirement is 2.08 (2.04), and the ratio of total eligible own funds to the minimum capital requirement is 8.32 (8.09). After deduction of non-available own funds items within the SIUK Group, the ratio of total eligible own funds to the solvency capital requirement is 1.24 (1.11). For SBDA Group, the expected ratio of total eligible own funds to the solvency capital requirement is 2.52 (2.42), according to calculations made under the equivalence rules for 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 Sirius International Insurance Group, Ltd, Bermuda, with China Minsheng Investment Corp.,Ltd.,China, as majority owner.

At the end of the year 2018, Sirius International Försäkringsaktiebolag (publ), owned the subsidiaries Sirius Belgium Réassurances S.A. (in liquidation), Liège, Belgium; Sirius Rückversicherungs Service GmbH, Hamburg, Germany; Sirius International Advisory Zürich GmbH, Zürich, Schweiz; Sirius International Corporate member Ltd., London, United Kingdom; Sirius International Managing Agency Ltd., London, United Kingdom; Sirius Re Holdings Inc., Delaware, USA; SI Cumberland (Gibraltar) Limited, Gibraltar; 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 and one representative office 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; Sirius International Insurance Corporation (publ) Australian Branch, Australia and Sweden Sirius International Insurance Corporation Shanghai Representative Office, Shanghai, China. 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 November 6, SIIG common shares were listed on Nasdaq Global Select Market to be publicly traded. This action diversified the ownership structure of SIIG.

During the year, Sirius International has continued its work with the project to identify and manage the consequences Brexit may have for the company, regardless if there will be a withdrawal agreement or a so called hard Brexit. Since the company has branch operations in United Kingdom, Brexit will have a direct impact on the possibility to continue the operation in branch form. Consequently, during the year Sirius International has applied with the Prudential Regulation Authority (“PRA”), to convert its UK Branch to a so called third country branch.

There are no other significant events to disclose.

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 one contract in which insufficient insurance risk is assessed to exist, and which, thereby, does not qualify as an insurance contract. This contract is classified as an investment contract. 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 2019 are to achieve a net combined ratio of 92% and a return on adjusted equity of 8%.

Sustainability report

A sustainability report has been made and the information is available on Sirius International's webpage. www.siriusgroup.com

Five-year summary

	2018	2017	2016	2015	2014
Net premium income	5,301	4,524	3,927	3,651	3,281
Net premiums earned	5,053	4,351	3,603	3,711	3,358
Allocated investment return	68	63	94	51	179
Net claims incurred	-3,371	-3,007	-1,786	-1,734	-1,298
Operating costs	-1,755	-1,375	-1,305	-1,305	-1,208
Other operating costs	-17	-63	-192	-3	-
Insurance operating result	-5	-15	459	720	1,028
Investment operating result	168	138	3,457	354	575
Other expenses	4	4	10	-22	-28
Net income for the year	110	122	3,855	717	1,386
Net technical provisions	7,705	6,938	5,923	5,522	5,627
Market value on investment assets [1)]	18,491	17,916	20,271	18,313	19,526
Insurance operating profit, for own account					
Claims ratio	66 %	69 %	48 %	47 %	39 %
Cost ratio	35 %	31 %	36 %	35 %	36 %
Combined ratio	101 %	100 %	85 %	82 %	75 %
Investment Result					
Investment yield	1%	1 %	19 %	3 %	5 %
Total yield	4%	1 %	18 %	2 %	4 %
Solvency Capital					
Shareholders' equity	4,165	4,063	4,856	3,618	4,456
Untaxed reserves	10,708	10,716	10,724	10,719	10,459
Total solvency capital	14,873	14,780	15, 580	14,337	14,914
Solvency ratio	281 %	327 %	397 %	393 %	455 %
Capital base	-	-	-	13,372	14,035
Required solvency capital[2)]	-	-	-	947	835
Total Eligible Own Funds[3)]	15,145	13,410	17,005	18,146	-
Of which basic own funds	*15,145*	13,410	17,005	18,146	-
Minimum capital requirement (MCR)	1,821	1,646	1,808	1,793	-
Solvency capital requirement (SCR)	7,282	6,584	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

Proposed appropriation of profits

For 2018, the Company recorded income of MSEK 159 (MSEK 118) before appropriations and taxes. Net income for the year amounted to MSEK 110 (MSEK 122). As of December 31, 2018 retained earnings amounted to MSEK 3,338 (3,213).

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

(in SEK)

-	Retained earnings	3,213,067,203
-	Non-Restricted reserves	-8,369,803
-	Transfer from restricted reserves	23,588,706
-	Net income for the year	109,970,691
-	Total	3,338,256,797

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

-	To be carried forward	3,338,256,797
		3,338,256,797

Regarding the Company's result 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

January 1 – December 31

MSEK

Technical Account for Insurance Operations

	Not	2018	2017
Earned premiums, for own account			
Gross premium income	*3*	9,376	8,357
Ceded reinsurance premiums	*3*	-4,075	-3,833
Change in the gross provision for unearned premiums		-212	-417
Change in provision for unearned premiums, reinsurers' share		-36	244
Total earned premium, for own account		**5,053**	**4,351**
Allocated investment return transferred from the non-technical account		**68**	**63**
Claims incurred, for own account	*4*		
Claims paid			
Gross amount		-4,929	-3,204
Reinsurers' share		1,592	1,304
Claims paid, for own account		-3,337	-1,900
Change in the provision for claims, for own account			
Gross amount	*4*	-712	-1,783
Reinsurers' share		679	676
Total claims incurred, for own account		**-3,370**	**-3,007**
Operating costs	*5*	**-1,755**	**-1,375**
Other Operating costs	*5*	**-17**	**-63**
Change in equalization provision	*25*	**16**	**15**
Operating profit/loss of technical account		**-5**	**-16**

Income Statement – continued

January 1 – December 31

MSEK

Non-technical account

	Note	2018	2017
Balance of technical account		**-5**	**-16**
Investment income/expenses	*9*		
Investment income	*6*	1,057	285
Unrealized gains and losses	*7*	-696	377
Investment expenses and charges	*8*	-125	-461
Investment income allocated to the technical account		-68	-63
Total investment income/expenses		**168**	**138**
Goodwill depreciation	*11*	-4	-4
Result before appropriations and taxes		**159**	**118**
Appropriations	*21*		
Change in accelerated depreciations		-	-
Provision to safety reserve		8	8
Result before taxes		**167**	**126**
Taxes	*10*	-57	-4
Net income for the year		**110**	**122**

Statement of Comprehensive Income

January 1 – December 31

MSEK

	2018	2017
Net income for the year	**110**	**122**
Other comprehensive income		
Items to be reclassified to income statement:		
Change of fair value on bonds	-77	7
Tax on items to be reclassified to income statement	-	-2
Items reclassified to income statement:		
Change of fair value on bonds	69	-20
Tax on items reclassified to income statement	0	5
Other comprehensive income for the year, net of tax	**-8**	**-10**
Total comprehensive income for the year	**102**	**112**

Balance Sheet

December 31

MSEK

ASSETS	*Note*	**2018**	**2017**
Intangible assets	*11*		
Goodwill		4	9
Other intangible assets		27	50
Total intangible assets		**31**	**59**
Investment assets			
Land and buildings	*12*	8	9
Shares and participations in group companies	*13*	10,466	10,617
Shares and participations in associated companies		122	122
Interest-bearing securities issued by, and loans to, Group companies.		616	527
Other financial investments			
Shares and participations	15, 19	1,025	1,153
Bonds and other interest-bearing securities	*16, 19*	5,354	4,114
Derivative financial instruments	*17, 19*	2	222
Total other financial investments		6,381	5,489
Deposits with cedents		898	1,150
Total investment assets		**18,491**	**17,914**
Reinsurers' share of technical provisions			
Provisions for unearned premiums	*23*	1,362	1,236
Claims outstanding	*24*	2,997	2,151
Total reinsurers' share of technical provisions		**4,359**	**3,387**
Debtors			
Debtors arising out of direct insurance operations		161	86
Debtors arising out of reinsurance operations		3,880	3,599
Current tax receivables		378	349
Deferred tax receivables	*10*	128	34
Other debtors	*18,19*	1,144	944
Total debtors		**5,691**	**5,012**
Other assets			
Tangible assets	*20*	46	58
Cash and bank balance		1,511	1,386
Total other assets		**1,557**	**1,444**
Prepayments and accrued income	*19*		
Accrued interest		41	46
Deferred acquisition costs	*21*	614	403
Other prepayments and accrued income		6	11
Total prepayments and accrued income		**661**	**460**
TOTAL ASSETS		**30,789**	**28,278**

MSEK

SHAREHOLDERS’ EQUITY, PROVISIONS AND LIABILITIES	*Note*	2018	2017
Shareholders’ equity			
Share capital (8 million shares of nom. value SEK 100)		800	800
Other reserves		-9	-1
Retained earnings		3,264	3,142
Net income for the year		110	122
Total shareholders’ equity		**4,165**	**4,063**
Untaxed reserves	*22*		
Accumulated accelerated depreciations		17	26
Safety reserve		10,690	10,690
Total untaxed reserves		**10,707**	**10,716**
Technical provisions			
Provisions for unearned premiums	*23*	3,356	2,787
Claims outstanding	*24, 26*	8,695	7,510
Equalization provision	*25*	13	29
Total technical provisions		**12,064**	**10,326**
Provisions for other risks and expenses			
Pension provisions	*27*	12	14
Current tax liabilities		123	150
Deferred tax liabilities		0	-
Other provisions		198	55
Total provisions for other risks and expenses		**333**	**218**
Deposits received from reinsurers		**624**	**403**
Creditors			
Creditors arising out of direct insurance operations		1	1
Creditors arising out of reinsurance operations		1,849	1,566
Derivative financial instruments	*17, 19*	314	-
Other creditors	*19, 28*	651	906
Total creditors		**2,815**	**2,473**
Accrued expenses and deferred income			
Other accrued expenses and deferred income	*19*	81	77
Total accrued expenses and deferred income		**81**	**77**
TOTAL SHAREHOLDERS’ EQUITY, PROVISIONS AND LIABILITIES		**30,789**	**28,278**

Change in Shareholders' Equity

MSEK

	Share-Capital	Restricted reserves	Other reserves[1]	Retained earnings[1]	Net profit/ loss for the year [1]	Total
Amount January 1, 2018	**800**	**50**	**-1**	**3,092**	**122**	**4,063**
Transfer of net result from previous year	-			122	-122	**-**
Reclassification within shareholders' equity	-	-23	-	23	-	**-**
Comprehensive income						
Net profit/ loss for the year	-	-	-	-	110	**110**
Other comprehensive income, net after tax						
Change of fair value on bonds	-	-	-8	-	-	**-8**
Total other comprehensive income	-	-	-8	-	-	**-8**
Total comprehensive income	-	-	-8	-	110	**102**
Transactions with owners						
Dividend paid [2]	-	-	-	-	-	**-**
Total transactions with owners	-	-	-	-	-	**-**
Amount December 31, 2018	**800**	**27**	**-9**	**3,237**	**110**	**4,165**
Amount January 1, 2017	**800**	**68**	**9**	**124**	**3,855**	**4,856**
Transfer of net result from previous year	-	-	-	3,855	-3,855	**0**
Reclassification within shareholders' equity	-	-18	-	18	-	**0**
Comprehensive income						
Net profit/ loss for the year	-	-	-	-	122	**122**
Other comprehensive income, net after tax						
Change of fair value on bonds	-	-	-10	-	-	**-10**
Total other comprehensive income	-	-	-10	-	-	**-10**
Total comprehensive income	-	-	-10	-	122	**112**
Transactions with owners						
Dividend paid [2]	-	-	-	-905	-	**-905**
Total transactions with owners	-	-	-	-905	-	**-905**
Amount December 31, 2017	**800**	**50**	**-1**	**3,092**	**122**	**4,063**

[1] The columns Other reserves, Retained earnings and Net profit/loss for the year together represents the non-restricted shareholders' equity.
[2] Dividend paid to the parent company Fund American Holdings AB. Dividend is equal to SEK 113 per share for 2017.

Share capital

Specified in number of shares	2018	2017
Issued per January 1	8,000,000	8,000,000
Issued per December 31	8,000,000	8,000,000

Per December 31, 2018 the share capital comprised 8,000,000 (8,000,000) ordinary shares.

The shares have a nominal value of 100 (100) SEK.

Other reserves

Fair value reserve		
Opening fair value reserve	-1	12
Change for the year	-8	-13
Closing fair value reserve	**-9**	**-1**
Tax on fair value reserves		
Opening tax on fair value reserves	0	-3
Change for the year	0	3
Closing tax on fair value reserve	**0**	**-3**
Fair value reserve after tax		
Opening fair value reserve after tax	-1	9
Change for the year	-8	-10
Closing fair value reserve after tax	**-9**	**-1**

Retained earnings

Opening retained earnings	3,092	124
Transfer of net result from previous year	122	3,855
Transfer to restricted reserve	23	18
Group contributions paid	-	-
Dividend paid	-	-905
Closing retained earnings	**3,237**	**3,092**

Restricted reserve

Opening restricted reserve	**50**	**68**
Transfer to restricted reserve	-23	-18
Closing restricted reserve	**27**	**50**

Net profit/loss for the year

Net profit/loss for the year	**110**	**122**

Cash flow Statement

MSEK

Operating Activities	*Note*	2018	2017
Profit/loss before tax		159	118
Interest income		156	130
Interest expenses		-6	-5
Dividends received		667	123
Adjustment for non-cash items [1)]		-575	-1,119
Income tax paid		-74	-84
Cash flow from current operations before changes in assets and liabilities		**327**	**-837**
Change in financial investments		-776	533
Change in other operating receivables		-1,529	-2,255
Change in other operating liabilities		2,347	2,848
Cash flow from operating activities		**369**	**289**
Financing activities			
Net investment of intangible assets		-	-11
Net investments of tangible assets		-12	-9
Cash flow from investing activities		**-12**	**-20**
Investing activities			
Dividend paid		-181	-167
Cash flow from financing activities		**-181**	**-167**
Cash flow for the year		**176**	**102**
Cash and cash equivalents at beginning of year		1,386	1,420
Cash flow for the year		176	102
Translation difference on Cash and cash equivalents		-51	-136
Cash and cash equivalents at end of year [2)]		**1,511**	**1,386**
[1)] *Specification of non-cash items;:*			
Depreciations	*11,12,20*	53	60
Capital gains on foreign exchange	*6*	-134	-
Capital losses on foreign exchange	*8*	-	170
Capital gains	*6*	-100	-32
Capital losses	*8*	69	272
Unrealized gains	*7*	-143	-627
Unrealized losses	*7*	840	250
Interest income	*6*	-156	-130
Interest paid	*8*	6	
Dividends received	*6*	-667	-123
Change in provisions for outstanding claims	*24*	-340	-957
Pension provisions		-3	-2
Total		**-575**	**-1,119**
[2)] *The following components are included in Cash and cash equivalents:*			
Cash and bank balances		704	633
Short term investments, equivalent to cash and cash equivalents		807	753
Total		**1,511**	**1,386**

Performance Analysis

January 1- December 31 2018

MSEK

Analysis of Insurance Result

Technical result insurance operations	Direct Swedish risks - Property	Direct Swedish risks - aviation	Direct Swedish risks – accident & Health	Direct foreign risks	Assumed reinsurance	Total
Premiums earned, for own account	3	1	0	913	4,136	5,053
Allocated investment return transferred from the non-technical account				6	62	68
Claims incurred, for own account	-1	0	0	-421	-2,948	-3,370
Operating costs	-2	0	0	-495	-1,258	-1,755
Change in equalization provision					16	16
Technical result of insurance operation[1]	**0**	**1**	**0**	**3**	**8**	**12**
Of which results from prior years, gross amounts[2]	*-1*	*0*		*-328*	*-1,859*	*-2,188*
Technical provisions						
Unearned premiums and remaining risks	-1	0	0	-761	-2,594	-3,356
Outstanding claims	0	-1	0	-283	-8,272	-8,556
Claims adjustment provision	0	0	0	-9	-130	-139
Equalization provision					-13	-13
Technical provisions	**-1**	**-1**	**0**	**-1,053**	**-11,009**	**-12,064**
Reinsurers' share of technical provisions						
Unearned premiums and remaining risks				251	1,111	1,362
Outstanding claims				109	2,888	2,997
Reinsurers' share of technical provisions	**0**	**0**	**0**	**360**	**3,999**	**4,359**
Premiums earned, for own account						
Gross premium income	2	1	0	1,391	7,982	9,376
Ceded reinsurance premium	0	0	0	-167	-3,908	-4,075
Change in gross provision for unearned premiums	1	0	0	-59	-154	-212
Reinsurers' share of change in unearned premiums	0	0		-252	216	-36
Premiums earned, for own account	**3**	**1**	**0**	**913**	**4,136**	**5,053**
Claims incurred, for own account						
Claims paid	-18	0	0	-600	-4,171	-4,789
Reinsurers' share	0	0	0	246	1,346	1,592
Claims handling expenses	0	0	0	-18	-122	-140
Change in provision for outstanding claims	17	0	0	34	-763	-712
Reinsurers' share	0	0	0	-83	762	679
Claims incurred, for own account	**-1**	**0**	**0**	**-421**	**-2,948**	**-3,370**

1) Excludes other operating costs that are not related to the insurance operations.
2) Defined as result from underwriting year 2017 and earlier.

Note 1 Accounting principles

General information

This annual report was issued per December 31, 2018 and refers to Sirius International Försäkringsaktiebolag (publ), which is an insurance company with its registered office 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. The company is included by the consolidated financial statements created by the Parent Company Sirius International Insurance Group Ltd with its registered office in Hamilton, Bermuda, registration number 39821.

Compliance with standards and law

The 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.

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, 2018 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 Company's financial reports.

Sirius International applies IFRS 15 Revenue from contracts with customers as from January 1, 2018. The standard is replacing IAS 18 and other standards regarding revenue recognition. According to IFRS 15, revenue recognition is conducted in a five step model which in short states that the company shall account for revenues as contractual performance obligations are being fulfilled.

IFRS 16 Leases will replace IAS 17 Leases and related interpretations. The standard will come into effect on January 1, 2019 and is adopted by EU. According to RFR 2, companies can in legal person choose not to account according to IFRS 16. Sirius International as legal person has chosen not to apply IFRS 16.

IASB has on May 18, 2017 published a new standard concerning insurance contracts. IFRS 17 will be applied to accounting of insurance contracts, reinsurance contracts and investing contracts with refunds. The standard will replace IFRS 4, which was an interim standard focusing on disclosures. IFRS 17 takes an effect January 1, 2022 but has yet to be adopted by EU. Sirius International is engaged in an ongoing project to assess the effects of IFRS 17. RFR and the Swedish Financial Supervisory Authority has not published their recommendation of the standard.

IFRS 9 Financial Instruments addresses the classification, measurement and recognition of financial assets and liabilities. The standard is adopted by EU and it replaces certain parts of IAS 39 that handles classification and valuation of financial instruments. By amendments to IFRS 4 temporarily exceptions from IFRS 9 during the period 2018-2021 has been permitted. IASB decided during the fall of 2018 to extend this possibility to January 1, 2022. It is of Sirius International's intention to exploit this opportunity.

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.

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.

Premium estimates

Accrued premiums are accounted in the income statement based on assumptions and estimates of expected premiums and earnings patterns.

Deferred taxes

The Company accounts for deferred tax receivables at each closing date to the extent that they are likely to be utilized against future taxable surpluses in coming periods. This is based on estimates of future profitability and return. If these estimates change it may result in deferred tax receivables being reduced in the coming periods. When future returns are estimated historical experience is considered as well as assessment of future development of the underlying asset base.

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 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 May 13, 2019. The income statement and balance sheet will be adopted at the General Meeting held in May 2019.

Consolidation principles

Subsidiaries

Shares in subsidiaries and associated companies are reported according to the acquisition 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. Transaction costs are capitalized and is added to the acquisition (shares in subsidiaries).

Associated companies

Associated companies are those companies in which the Company 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.

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 Company's, including the branch offices, 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.

Rates for the most important currencies

	Closing rates	Average rates
USD	8.94	8.70
EUR	10.24	10.26
GBP	11.39	11.59

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 IFRS 15, *Revenue*.

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.

Equalization provisions

The 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.

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.

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
Sirius only records external deferred acquisition costs. Other costs for insurance contracts are recorded as costs when they arise.

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

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

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

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

Reporting of investment return

Investment income allocated to the technical account

Investment return is transferred from the non-technical account to the technical account on the basis of average technical provisions for the Company's own account, less deductions for net receivables in insurance operations. This capital base is allocated per currency. The transferred investment return is calculated on the basis of an interest rate per currency equivalent to the actual total yield from the investment assets belonging to the insurance operations. The weighted average interest rate for 2018 amounted to 1.13%.

Applied interest rates

%	2018	2017
EUR	-0.2 %	1.45 %
GBP	- %	0.84 %
SEK	1.05 %	0.62 %
USD	2.03 %	1.98 %

Investment income

The item Investment income refers to yield from investment assets and comprises rental income from land and buildings, dividends from shares and participations, including dividends from shares in Group companies, interest income, net foreign exchange gains, reversed impairments and net capital gains.

Investment expenses and charges

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

Changes in realized and unrealized gains and losses

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

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

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. 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.

Appropriations and untaxed reserves

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.

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.

Intangible assets

Goodwill

Goodwill comprises the amount by which the acquisition cost exceeds the fair value of the Company's participation in the acquired subsidiary's or associate's identifiable net assets at the point in time of the acquisition. Goodwill is written off in accordance with ÅRL and is reported linearly in the income statement over the asset's estimated useful life. The time span of the useful life is reviewed annually. The calculated useful life for goodwill and asset deal goodwill amount to 20 years. Depreciation which deviates from plan is regarded as an appropriation and is recorded under the heading excess depreciation on intangible assets.

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.

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.

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 second sub-group consists of financial investments in bonds and other interest-bearing securities along with shares and participations, with the exception of shares in subsidiaries or associated companies.

Calculation of fair value

Financial instruments listed on an active market

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

Financial instruments not listed on an active market

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

The total effect in the Income Statement for the year, and the values at closing day, 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

<u>Impairment testing of financial assets</u>

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.

<u>Reversal of impairment</u>

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

Tangible assets

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

Depreciation of tangible and amortization of intangible assets

<u>Impairment testing of, tangible and intangible assets, and participations in subsidiaries and associated companies</u>

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.

Anticipated dividends
Anticipated dividends from subsidiaries are reported in cases where the parent company alone has the right to decide the size of the dividend. Where the parent company has decided on the size of the dividend before the parent company has published its financial reports.

Group contributions and shareholder’s contribution
The company records group contributions and shareholder contributions in accordance with the swedish financial reporting board (RFR 2).

Shareholder contributions are transferred directly to shareholders equity for the recipient and capitalized into shares and participations for the donor, to the extent that impairment is not required.

Group contributions are reported according to financial significance. This means that group contributions have been provided and received in order to minimize the Group’s total tax are recorded directly against retained earnings after deduction of its current tax effect.

Group contributions that are equal to dividend are reported as a dividend. This means that the group contribution received and its current tax effect are recorded in the income statement. Group contributions paid and their current tax effect are recorded directly against retained earnings. Group contributions that are equal to to shareholder contributions are for the receipient reported directly aginst retained earnings with adjustment for current tax effect. The donor reports the group contribution and its current tax effect as an investment in participations in group companies, to the extent that impairment is not required.

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 Company’s 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

Company 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 Company 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.

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 in Sweden. 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 a liability is reported in the balance sheet.

For defined contribution pension plans, the Company pays fees to publicly or privately administered pension insurance plans on an obligatory, contractual or voluntary basis. The Company 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 Company.

The 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 income statement.

Remuneration upon termination of employment

Remuneration upon employment of contract is payable when an employee's employment is terminated by the Company before the normal retirement age or when an employee voluntarily accepts the termination of employment in exchange for such remuneration. The Company 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.

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 has the objective of overseeing and advising risk management processes including:

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

Sirius' functions for risk management and compliance are responsible for the independent monitoring of Sirius' risks. The functions submit quarterly risk reports and compliance reports 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 mainly managed by an evaluation of the degree of gross and net risk (after retrocessional protections) that Sirius is willing to assume. Sirius divides insurance risk 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 (CUO) 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 be the basics of all underwriting. Other underwriting guiding principles include diversification, strong accumulation control and an active use of retrocession in order to adjust risks to acceptable risk tolerance levels.

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 the possibility that losses deviate 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, and active use of retrocession.

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 with retrocessional protections.

In order to ensure consistency in the underwriting process, all underwriting within Sirius complies with specific rules and procedures. Detailed underwriting guidelines constitutes the framework for all risk acceptances, and these guidelines contain sections regarding i.e. limits, underwriting authorities and restricted business. A Four-Eyes underwriting system, i.e. 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 in place to monitor and control that underwriting policies and procedures are followed. At Sirius International an underwriting control unit reports to the CUO. 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 systems and ensures that they are used correctly and that input data is accurate. Finally, Risk Management, Compliance and Internal Audit monitor these control groups, carrying out random inspections/tests, in detail ensuring that sufficient controls are implemented and performed.

Retrocession

Sirius International uses retrocession as a tool to manage net risk and has a centralized unit responsible for the purchase and administration of its outwards reinsurance. The reinsurance purchases are 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, flood 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 property underwriting and pricing tool ("GPI"), which consolidates and reports on all its worldwide property exposures. GPI is used to calculate individual and aggregate PMLs with a starting point in stochastic models but incorporating actuarial analysis of loss history as well as underwriting expertise. 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 losses. Everything from average losses per year to losses that are only expected to occur once every 10,000 years can be stochastically estimated using these models. In addition to estimating losses from single events, aggregate losses across one year, or other time periods can also be estimated.

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

As a complement, Sirius utilizes a system ("AggTool") linked to the underwriting system. In this system the company's exposure is measured by tracking limits by territory and class of business

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 period. Sirius analyzes catastrophe risks each quarter during the financial year. The figures show the situation at the end of Q4 2018 and Q4 2017.

Sensitivity analysis – losses divided by geographical area and return periods (MSEK)

	2018		2017	
	Once per 100 years	**Once per 250 years**	**Once per 100 years**	**Once per 250 years**
Global – Gross	4,348	5,623	3,376	4,146
Global – Net	2,247	2,628	2,104	2,512
Europe – Gross	4,099	5,623	3,144	4,049
Europe – Net	1,479	1,981	1,001	1,265
US – Gross	2,841	3,335	2,442	2,928
US – Net	1,956	2,399	2,059	2,480

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") from the extreme tail of the potential losses, as estimated in our pricing platform based on models and actuarial methods. Sirius monitors multiple indicators of catastrophe tail risk to measure its financial exposure to such scenarios. Sirius focuses on monitoring NFI TVaR at different return periods in order to manage the potential impact of remote events on Sirius' financial position. The calculation of the NFI begins with estimated catastrophe TVaR PML and takes estimated reinstatement premiums, reinsurance recoverable net of estimated uncollectible balances, and tax benefits into account. 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.

For Aviation, Sirius applies another licensed third-party model (“ALPS”) in which the exposure per airline company can be modeled and monitored. Within the insurance classes A&H, 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 company has asbestos and environmental claims amounting to MSEK 3 (4) net in the balance sheet. These claims are actively managed and are subject to in depth analyses, the latest during the second half of 2018. The reserve decrease during 2018 stems from the alignment of the reserves to the result of the review.

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 2018. 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 is 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.

10-year table [MSEK]

Claims, gross **underwriting year**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimated claims:											
at the close of the calendar year	4,348	3,624	2,546	2,356	2,572	2,007	1,895	2,161	3,483	3,783	
1 year later	6,283	5,500	3,749	3,093	3,568	2,929	2,671	3,954	5,465		
2 years later	5,984	5,315	3,577	2,925	3,355	2,795	2,678	4,102			
3 years later	5,895	5,282	3,379	2,864	3,304	2,824	2,679				
4 years later	5,853	5,172	3,342	2,889	3,296	2,783					
5 years later	5,792	5,144	3,344	2,877	3,289						
6 years later	5,816	5,117	3,317	2,856							
7 years later	5,812	5,080	3,294								
8 years later	5,833	5,076									
9 years later	5,825										
Current estimate of total claims	5,825	5,076	3,294	2,856	3,289	2,783	2,679	4,102	5,465	3,783	
Total paid	5,724	4,943	3,213	2,685	3,101	2,560	2,420	3,498	3,036	– 63	
Claims outstanding[1)]	**100**	**133**	**81**	**171**	**188**	**222**	**259**	**605**	**2,429**	**3,846**	**8,034**
2008 and prior years	-	-	-	-	-	-	-	-	-	-	**522**
Total	-	-	-	-	-	-	-	-	-	-	**8,556**

Claims net of reinsurance (MSEK) **underwriting year**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**Total**
Estimated claims:											
at the close of the calendar year	3,767	2,977	1,974	1,899	1,590	1,298	1,305	1,435	1,634	2,290	
1 year later	4,878	4,579	2,845	2,373	2,244	1,905	1,843	2,935	2,728		
2 years later	4,621	4,383	2,698	2,196	2,112	1,792	1,872	3,117			
3 years later	4,617	4,353	2,502	2,123	2,078	1,815	1,873				
4 years later	4,587	4,225	2,475	2,152	2,078	1,789					
5 years later	4,528	4,200	2,474	2,123	2,070						
6 years later	4,546	4,178	2,455	2,112							
7 years later	4,530	4,156	2,439								
8 years later	4,548	4,156									
9 years later	4,541										
Current estimate of total claims	4,541	4,156	2,439	2,112	2,070	1,789	1,873	3,117	2,728	2,290	
Total paid	4,475	4,048	2,368	1,997	1,981	1,646	1,678	2,626	1,306	– 125	
Claims outstanding[1)]	**66**	**108**	**71**	**115**	**89**	**143**	**195**	**492**	**1,421**	**2,414**	**5,115**
2008 and prior years	-	-	-	-	-	-	-	-	-	-	**444**
Total	-	-	-	-	-	-	-	-	-	-	**5,559**

1) For reconciliation against Balance Sheet, see Note 24.

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, an amount no less than 100% of Policyholder Liabilities shall be invested in Fixed Income Securities. Furthermore, 90% of which shall be rated no less than 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 2018 yielded a total return of 2.9 percent (2.9 percent in 2017), expressed in SEK. The duration in the portfolio with interest-bearing investments at the end of 2018 was 1.9 years which was lower compared to 2017 (2.3 years). During the year, the portion of shares and participations has decreased compared to 2017. 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

	2018	2017
Bonds and other interest-bearing securities	31.78	11.07
Shares in associated companies	56.38	70.74
Shares and participations	5.46	7.60
- whereof venture capital companies	-	*0.91*
Derivatives	-1.66	1.47
Cash and bank balances	8.04	9.12
Total	**100.00**	**100.00**

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, 2018 and December 31, 2017

Investment assets, interest rate risk

	Exposure (MSEK)		Scenario, stress test		Capital requirements (MSEK)	
	2018	2017	2018	2017	2018	2017
Assets in SEK	988	1,406	100 bp	100 bp	23	62
Assets in EUR	386	771	100 bp	100 bp	10	27
Assets in USD and other currencies	3,980	1,937	100 bp	100 bp	65	37
Total	**5,354**	**4,114**	**-**	**-**	**98**	**126**

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, 2018 and December 31, 2017.

Investment assets, equity risk

	Exposure (MSEK)		Scenario, stress test		Capital requirements (MSEK)	
	2018	2017	2018	2017	2018	2017
Foreign shares and participations	1,025	1,153	35%	35%	359	403
Foreign subsidiaries and associated companies	10,588	10,739	35%	35%	3,705	3,759
Total	**11,613**	**11,892**	**-**	**-**	**4,064**	**4,162**

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

The Investment Committee meets at least quarterly in order to monitor currency exposure and limit currency risk. The Finance Department monitor the currency exposure on an ongoing basis. In addition, the Currency Risk Policy is reviewed and 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 company'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.

Exchange rate exposure – Investment assets

	2018				2017			
	USD	EUR	GBP	Other	USD	EUR	GBP	Other
Shares and participations	5,898	498	-	-	2,857	220	4	36
Bonds and other interest-bearing securities	3,636	418	-	157	9,354	1,276	180	36
Other financial investment assets	1,010	291	16	162	2,294	60	110	334
Other assets and liabilities, net	1,525	721	391	350	6,803	678	-45	213
Total assets	**12,069**	**1,928**	**407**	**669**	**21,308**	**2,234**	**249**	**619**
Technical provisions, net	-3,723	-1,819	-150	-1,245	-10,218	-1,823	-315	-501
Total liabilities and provisions	**-3,723**	**-1,819**	**-150**	**-1,245**	**-10,218**	**-1,823**	**-315**	**-501**
Net exposure before financial hedging with derivatives	8,346	109	257	-576	11,090	412	-66	119
Nominal value currency forwards	-5,364	-	-	-	-4,923	-	-	-
Net exposure after financial hedging with derivatives	**2,982**	**109**	**257**	**-576**	**6,167**	**412**	**-66**	**119**

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 (MSEK)

		USD	EUR	GBP	Other	Total
2018	Change 25 basis points	83	3	6	-	**92**
	Change 10%	298	11	26	-58	**277**
2017	Change 25 basis points	188	10	-1	-	**197**
	Change 10%	617	41	-7	12	**663**

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.

<u>Credit risk in investment assets</u>

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 2018 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).

	2018	2017
Bonds and other interest-bearing assets	5,970	4,641
- Governments	*1,027*	*1,173*
- Swedish mortgage institutions	*970*	*890*
- Other Swedish issuers	*36*	*102*
- Other issuers	*3,936*	*2,475*
Shares in associated Companies	10,589	10,739
Shares and participations	1,025	1,153
Derivatives	-312	223
Total	**17,272**	**16,756**

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.

		2018	
Name of security	**Type of security**	**Market value (MSEK)**	**% of financial assets**
S.I. Holdings (Luxembourg) S.à r.l	Shares in Subsidiary	5,994	29.7%
Sirius Re Holdings Inc	Shares in Subsidiary	5,233	25.9%
Sirius International Corporate Member Ltd.	Shares in subsidiary	782	3.9%
International Medical Group, Inc.	Note	616	3.0%
JPMorgan Chase & Co	Bond	372	1.8%
JPM	Bond	273	1.4%
Stadshypotek AB	Bond	257	1.3%
Goldman Sachs	Bond	210	1.0%
Nordea Hypotek AB	Bond	205	1.0%
Sveriges Säkerställda Obligationer AB	Bond	198	1.0%
		14,140	**70.0%**

		2017	
Name of security	**Type of security**	**Market value (MSEK)**	**% of financial assets**
Sirius Re Holdings Inc	Shares in Subsidiary	5,602	33.43%
S.I. Holdings (Luxembourg) S.à r.l	Shares in Subsidiary	4,833	28.84%
International Medical Group, Inc.	Note	527	3.15%
JPMorgan Chase & Co	Bond	362	2.16%
Sveriges Säkerställda Obligationer AB	Bond	256	1.53%
Sirius International Holdings (NL) BV	Shares in Subsidiary	150	0.89%
Be Reinsurance Ltd	Shares in Associated Company	142	0.84%
Länsförsäkringar Hypotek AB	Bond	115	0.69%
Stadshypotek AB	Bond	110	0.66%
MLSSS Ltd	Shares	89	0.53%
		12,186	**72.72%**

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.

	2018							2017						
Credit quality on classes of investment assets,%	**AAA**	**AA**	**A**	**BBB**	**B**	**Not Rated**	**Total**	**AAA**	**AA**	**A**	**BBB**	**CCC**	**Not Rated**	**Total**
Bonds and other interest-bearing securities	**51**	**12**	**23**	**12**	**1**	**1**	**100**	**50**	**9**	**23**	**16**	**0**	**2**	**100**
- Swedish government	-	-	-	-	-	-	-	*100*	*0*	*0*	*0*	*0*	***0***	***100***
- Swedish mortgage institutions	*100*	*0*	*0*	*0*	*0*	***0***	***100***	*100*	*0*	*0*	*0*	*0*	***0***	***100***
- Other Swedish institutions	*49*	*51*	*0*	*0*	*0*	***0***	***100***	*7*	*26*	*22*	*25*	*0*	***20***	***100***
- Foreign governments	*88*	*12*	*0*	*0*	*0*	***0***	***100***	*87*	*13*	*0*	*0*	*0*	***0***	***100***
- Other foreign issuers	*24*	*16*	*37*	*20*	*1*	*2*	***100***	*39*	*9*	*29*	*20*	*0*	*3*	***100***

Equity investments, divided by geographical area %

	2018	**2017**
Western Europe	55.08	63.95
North America	24.87	21.67
Other	20.05	14.38
Total	**100**	**100**

Interest-bearing investments, divided by geographical area %

	2018	**2017**
Western Europe	4.77	8.86
North America	71.83	53.66
Scandinavia	18.79	34.54
Other	4.61	2.95
Total	**100**	**100**

Interest-bearing investments, divided by sector %

	2018	**2017**
Governments	19.19	28.52
Swedish mortgage institutions	18.12	21.63
Other Swedish issuers	0.68	2.49
Other foreign issuers	62.02	47.36
Total	**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 twice a year and periodically.

The credit risk reserve for bad debts was MSEK 34 at December 31, 2018 (2017 MSEK 31).

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.

	Due for	<1 Month	1-3 Months	4-6 Months	7-9 Months	10-12 Months	>1 Year	Total
2018	Net receivables	451	97	6	15	0	36	**605**
2017	Net receivables	585	61	-40	6	7	38	**657**

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 2 (2) at December 31, 2018 (2017).

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.

	2018				**2017**			
Rating – Standard & Poor's or equivalent	**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	174	5	169	4	196	5	191	6
AA-	114	0	113	3	152	0	152	5
A+	232	1	231	5	258	4	254	7
A	248	3	244	6	150	3	147	4
A-	3,276	7	3,269	75	2,333	8	2,325	69
BBB+	0	0	0	0	1	1	0	0
BBB or lower	163	125	38	4	167	144	23	5
Special approval	153	100	53	4	130	125	5	4
Total	**4,359**	**242**	**4,117**	**100**	**3,387**	**290**	**3,097**	**100**

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' 2018 Retrocession Program.

	2018				**2017**			
Standard & Poor's or equivalent	**Gross**	**Collateral**	**Net**	**Percentage split**	**Gross**	**Collateral**	**Net**	**Percentage split**
AA+	0	0	0	0	0	0	0	0
AA	72	0	72	2	57	0	57	2
AA-	460	0	460	14	484	0	484	14
A+	1,876	0	1,876	59	2,093	0	2,093	61
A	385	0	385	12	206	0	206	6
A-	1,512[1)]	1,170	342[1)]	11	1,363[1)]	718	645[1)]	19
BBB+	81	24	57	2	84	62	22	1
BBB or lower	110	61	49	2	74	91	(16)	0
Special approval	274	343	(69)	-2	288	378	(90)	(3)
Total	**4,770**	**1,598**	**3,172**	**100**	**4,649**	**1,249**	**3,400**	**100**

[1)] Additional to above table a Quota Share reinsurance treaty exist with Sirius Bermuda Insurance Company Ltd, for details see note 30, Associated parties.

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 2018 the duration of interest-bearing investment assets was 1,9 years (2.3 years at the end of 2017) and the duration of insurance liabilities was 2.6 years (3.0 years at the end of 2017). 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 in respect of both financial assets and debts.

Liquidity profile - financial assets (Contractual inflows)

2018	On demand	<3 months	3 months – 1 year	1-5 years	>5 years	No duration	Total
Bonds and other interest-bearing securities		175	1,097	3,302	780		**5,354**
Shares & participations in Group companies						10,588	**10,588**
Shares & participations						1,025	**1,025**
Cash & bank balances		1,511					**1,511**
Receivables, direct insurance		146	6	10			**161**
Receivables, reinsurance		413	3,439	27			**3,880**
Other debtors			5	44		1,069	**1,118**
Prepayments and accrued income		7	9	1			**18**
Total		**2,252**	**4,556**	**3,384**	**780**	**12,682**	**23,655**

2017	On demand	<3 months	3 months – 1 year	1-5 years	>5 years	No duration	Total
Bonds and other interest-bearing securities	-	167	143	3,143	661	-	**4,114**
Shares & participations in Group companies	-	-	-	-	-	10,739	**10,739**
Shares & participations	-	-	-	-	-	1,153	**1,153**
Cash & bank balances	1,386	-	-	-	-	-	**1,386**
Receivables, direct insurance	-	-	-	-	-	86	**86**
Receivables, reinsurance	-	551	3,015	32	-	-	**3,598**
Other debtors	-	-	4	76	-	864	**944**
Prepayments and accrued income	-	9	47	1	-	-	**57**
Total	**1,386**	**727**	**3,209**	**3,252**	**661**	**12,842**	**22,077**

Liquidity profile - financial debts (Contractual outflows)

	2018 On demand	<3 months	3 months–1 year	1-5 year	>5 years	No duration	Total
Payables, direct insurance						1	**1**
Payables, reinsurance			1,777			72	**1,849**
Other creditors			25			625	**651**
Accrued expenses and deferred income			124	13		10	**146**
Total			**1,927**	**13**		**709**	**2,648**

	2017 On demand	<3 months	3 months–1 year	1-5 year	>5 years	No duration	Total
Payables, direct insurance	-	-	-	-	-	1	**1**
Payables, reinsurance	-	-	1,215	-	-	351	**1,566**
Other creditors	-	-	126	-	-	780	**906**
Accrued expenses and deferred income	-	-	108	16	-	8	**132**
Total	**-**	**-**	**1,450**	**16**	**-**	**1,140**	**2,606**

Liquidity profile – Technical provisions

Estimated claim payments, net, excluding ULAE

	<3 months	3 months–1 year	1-5 year	>5 year	Total
2018	689	1,845	3,352	775	**6,661**
2017	628	1,639	2,822	1,126	**6,215**

Operational Risk Management

Sirius has defined operational risks as “The risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. Operational risk includes legal risks, HR risks, model risks, and Information Security risks (e.g. data privacy and system protection). Operational risk excludes risks arising from strategic decisions. While reputational risk is commonly considered to be a potential outcome of operational failure, Sirius treats reputational risk as a separate risk class in its risk register”."

Operational risk is actively managed throughout Sirius, its branches and subsidiaries. The ownership of operational risks lies with all employees. The work is conducted through a self-assessment process where all employees within Sirius are responsible for the risk identification and shall contribute to a well-functioning process for operational risk management. The organization reports on a continuous basis identified operational risks to the operationally independent Risk Management Function. 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.

Sirius always aims at reducing the operational risks to acceptable levels. The company’s tolerance for operational risk is Low.

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 of Directors and the business organization by informing, advising and monitoring compliance issues and risks throughout the company. 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 Regulations

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 Sirius 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.

In 2018, Sirius specifically focused on the General Data Protection Regulation (GDPR) and on the Insurance Distribution Directive (IDD) which entered into force on May 25th and October 1st respectively. The UK potential exit from the European Union (Brexit) was also closely monitored to assess consequences for the group.

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. Details about capitalization is found in the Board of Directors’ report.

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 a Standard & Poor’s (S&P) and A.M. 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 2018 been rated by Standard & Poor’s and A. M. Best.

	2018		**2017**	
	S&P[1)]	**A.M. Best[2)]**	**S&P[1)]**	**A.M. Best[2)]**
Financial Strength Rating	A-	A	A-	A
Outlook	Stable	Stable	Stable	Negative

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

	2018	2017
Direct insurance, Sweden	3	9
Direct insurance, other EES	86	89
Direct insurance, other countries	1,305	1,256
Premiums for assumed reinsurance	7,982	7,003
Premium income before ceded reinsurance	**9,376**	**8,357**
Premium for ceded reinsurance	-4,075	- 3,833
Premium income after ceded reinsurance	**5,301**	**4,524**

Note 4 Claims incurred, for own account

Claims incurred for the year's operations

	2018			2017		
	Gross	**Ceded**	**Net**	**Gross**	**Ceded**	**Net**
Claims paid	-372	64	-308	-575	395	-180
Loss portfolios	431	0	431	377	0	377
Change in provision for incurred and reported claims	-1,987	826	-1,161	-1,515	722	-793
Change in provision for incurred but not reported claims (IBNR)	-1,867	614	-1,253	-1,571	608	-963
Claims handling expenses	-140	0	-140	-118	0	-118
Total claims for the year's operations	**-3,935**	**1,504**	**-2,431**	**-3,402**	**1,725**	**-1,677**

Claims incurred for previous year's operations

	2018			2017		
	Gross	**Ceded**	**Net**	**Gross**	**Ceded**	**Net**
Claims paid	-3,573	1,528	-2,045	-2,802	761	-2,040
Loss portfolios	-1,275	0	-1,275	-87	148	61
Change in provision for incurred and reported claims	1,400	-363	1,037	838	-383	455
Change in provision for incurred but not reported claims (IBNR)	1,742	-398	1,344	466	-271	195
Total claims incurred for previous year's operations	**-1,706**	**767**	**-939**	**-1,584**	**255**	**-1,329**
Total claims incurred	**-5,641**	**2,271**	**-3,370**	**-3,793**	**958**	**-2,835**

Total claims paid

	2018			2017		
	Gross	**Ceded**	**Net**	**Gross**	**Ceded**	**Net**
Claims paid	-3,945	1,592	-2,353	-3,376	1,156	-2,220
Loss portfolios	-844	0	-844	290	148	438
Claims handling expenses	-140	0	-140	-118	0	-118
Total claims paid	**-4,929**	**1,592**	**-3,337**	**-3,204**	**1,304**	**-1,900**

Change in provision for outstanding claims

	2018			2017		
	Gross	**Ceded**	**Net**	**Gross**	**Ceded**	**Net**
Change in provision for incurred and reported claims	-587	463	-124	-677	339	-338
Change in provision for incurred but not reported claims (IBNR)	-125	216	91	-1,106	337	-769
Total change in provision for outstanding claims	**-712**	**679**	**-33**	**-1,783**	**676**	**-1,107**

Note 5 Operating costs

Specification of income statement item operating costs

	2018	2017
Acquisition costs	-2,523	-2,150
Change in prepaid acquisition costs (+/–)	159	2
Administrative expenses	-483	-388
Provisions and profit shares in ceded reinsurance (–)	1,092	1,161
Total operating costs	**-1,755**	**-1,375**

Other operating costs

	2018	2017
Operating costs	-1,755	- 1,375
Claims handling expenses included in claims paid	-140	-118
Asset management costs included in Investment expenses	-47	-40
Expenses for land and buildings included in Investment expenses, net	-3	-2
Other operating costs	-17	-63
Total other operating costs	**-1,962**	**- 1,598**

Total operating costs per type

	2018	2017
Direct and indirect personnel costs	-453	-420
Premises costs	-52	-41
Depreciation/amortization	-51	-58
Other expenses related to operations	-1,406	-1,079
Total other operating costs	**-1,962**	**-1,598**

Note 6 Investment income

	2018	2017
Dividend income from:		
Foreign shares and participations	667	123
Interest income		
Bonds and other interest-bearing securities	70	67
Other interest income	86	63
- 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	134	-
Capital gains and reversed write-downs (net)		-
Foreign shares	17	11
Group and associated companies	19	1
Interest-bearing securities	**35**	**20**
Derivatives	29	-
Total return on capital, income	**1,057**	**285**

Note 7 Unrealized gains and losses on investments

	2018	2017
Foreign shares and participations	-310	117
Bonds and other interest-bearing securities	-	-
Derivative financial instruments	-529	510
Gain on Currency	143	-250
Total unrealized gains and losses on investments	**-696**	**377**

Note 8 Investment expenses and charges

	2018	2017
Operating expenses for land and buildings	**-3**	**-2**
Asset management costs	**-47**	**-40**
Interest expenses		
Other interest expenses	-6	-4
Capital losses on foreign exchange, net	**-**	**-143**
Capital losses		
Foreign shares and participations	-	-
Sales and liquidation of Group and associated companies	-	-
Other intrest-bearing assets	-69	-
Impairment of shares in subsidiaries	-	-
Derivative financial instruments	-	-133
Impairment of investment assets	-	-139
Total	**-125**	**-461**

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

Financial assets

2018	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	393				**393**
Derivative financial instruments		-500			**-500**
Bonds and other interest-bearing securities			114		**114**
Deposits with cedants				31	**31**
Cash and bank balance				14	**14**
Total	**393**	**-500**	**114**	**45**	**52**

2017	Financial assets identified valued at fair value in the income statement	Financial assets held for trading	Available-for-sale financial instruments	Loan receivables and other accounts receivables	Total
Shares and participations	252				**252**
Derivative financial instruments		377			**377**
Bonds and other interest-bearing securities			133		**133**
Deposits with cedants				14	**14**
Cash and bank balance				20	**20**
Total	**252**	**377**	**133**	**34**	**796**

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 -378 (-309), of which 164 (-460) refer to exchange rate gains/losses on financial assets. Exchange rate gains/losses on liabilities and other assets amount to -542 (151).

Note 10 Taxes

Income tax recognized in income statement

	2018	2017
Current tax expense (-)[/revenue (+)]		
Current tax expenses	-6	-17
Current tax adjustment attributable to previous years	-13	26
Deferred tax expense (-)[/revenue (+)]		
Deferred taxes	94	-13
Additional tax safety reserve [1)]	-132	
Total tax expense (-)/revenue (+)	**-57**	**-4**

1) Refers to temporary standard income on safety reserves.

Reconciliation of effective tax

Reconciliation of effective income tax rate compared to the Swedish income tax rate:

	2018	2017
Tax according to applicable tax rate for the Parent Company	-22.0 %	-22.0%
Effects of foreign tax rates		-
Effects from change in tax rates [1)]	-84.2 %	-
Tax effect from non-deductible expenses	-6.1 %	-27.5%
Tax effect from non-taxable income	86.2 %	22.8%
Current tax regarding previous years	-7.3 %	19.6%
Recognition of tax loss carry-forwards related to previous years and timing differences	-0.8 %	3.9%
Reported effective tax	**-34.2 %**	**-3.2%**

1) Whereof -79.0% refers to estimated additional tax on temporary standard income on safety reserves.

Reported deferred tax assets and deferred tax liabilities

	Deferred tax assets		Deferred tax liabilities		Net	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Personnel-related provisions	28	31	-	-	28	31
Other provisions	100	3	-		100	3
Deferred tax balances	**128**	**34**	**-**	**-**	**128**	**34**

Changes in deferred tax

	2018	2017
Opening balance	34	47
Recognized in income statement	-38	-13
Recognized in other comprehensive income	-	-
Closing balance	**-4**	**34**

Taxes recognized in other comprehensive income partially refer to available-for-sale financial assets 0 (2).

Note 11 Intangible assets

	2018			2017		
	Intangible assets –IT Capitalized expenditure for development work	**Acquired intangible assets - Goodwill**	**Total**	**Intangible assets –IT Capitalized expenditure for development work**	**Acquired intangible assets Goodwill**	**Total**
Accumulated acquisition value						
Opening balance January 1	306	87	393	297	87	384
Acquisition for the year	0	0	0	11	-	11
Disposal for the year	-	-	-	-2	-	-2
Currency revaluation effect	-	-	-	-	-	-
Closing balance December 31	**306**	**87**	**394**	**306**	**87**	**393**
Accumulated amortization and impairment						
Opening balance January 1	-256	-78	-334	-229	-74	-303
Depreciation for the year	-24	-4	-28	-29	-4	-33
Impairment for the year	-	-	-	2	-	2
Currency revaluation effect	-	-	-	-	-	-
Closing balance December 31	**-280**	**-83**	**-363**	**-256**	**-78**	**-334**
Carrying amount						
Per January 1	50	9	59	68	13	81
Per December 31	**27**	**4**	**31**	**50**	**9**	**59**

Operating expenses	-24	-	-24	-29	-	-29
Other expenses	-	-4	-4	-	-4	-4
Total	**-24**	**-4**	**-28**	**-29**	**-4**	**-33**

The company's goodwill derive from the acquired operation in Belgium, which is an identifiable cash generating unit. The amount refers 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.

Note 12 Land and buildings

	2018	2017
Accumulated acquisition cost		
Opening balance January 1	34	33
Acquisitions	0	1
Closing balance December 31	**34**	**34**
Accumulated depreciation		
Opening balance January 1	-25	-23
Depreciation for the year	-1	-2
Closing balance December 31	**-26**	**-25**
Carrying amount		
Per January 1	9	10
Per December 31	**8**	**9**

The 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%**	
		2018	**2017**
Sirius Rückversicherungs Service GmbH	Hamburg, Germany	100	100
Sirius Belgium Réassurances S.A.	Liège, Belgium	100	100
Sirius International Holdings (NL) B.V.	Amsterdam, The Netherland	-	100
S.I. Holdings (Luxembourg) S.à r.l.	Luxembourg	100	100
Sirius International Managing Agency Ltd.	London, Great Britain	100	100
Sirius Re Holdings Inc	Dealware, USA	100	100
Sirius Insurance Advisory Zürich GmbH	Zürich, Schweiz	100	-
Sirius International Corporate Member Ltd	London, Great Britain	100	100
White Sands Holdings (Luxembourg) S.à r.l.	Luxembourg	100	100

Accumulated acquisition cost	**2018**	**2017**
Beginning of year	12,143	12,147
Capital contributions	-	-
Repayment of paid-up capital	-151	-4
Companies dissolved	-231	-
End of year	**11,761**	**12,143**
Accumulated impairments		
Beginning of year	-1,526	-1,387
Impairments	-	-139
Companies dissolved	231	-
End of year	**-1,295**	**-1,526**
Carrying amount December 31	**10,466**	**10,617**

Subsidiaries' shareholders' equity

2018

Name of subsidiary	Shareholders' equity	Shares%	Number of shares	Book value	Profit/loss
Sirius Rückversicherungs Service GmbH	17	100	Share capital total €51,129 consisting of 1 share with nom. value €51,129	0	12
Sirius Belgium Réassurances S.A.	13	100	Share capital total €1,245,681 consisting of 700,000 shares without nom. value	13	-0
Sirius Insurance Advisory Zürich GmbH	0	100	Share capital total CHF 0 consisting of 0 shares without nom. value	0	0
S.I. Holdings (Luxembourg) S.à r.l.	4,507	100	Share capital total SEK 105,693,172 consisting of 105,693,172 shares with nom. value SEK 1 per share	4,833	118
Sirius International Managing Agency Ltd.	9	100	Share capital total £1 consisting of 1 share with nom. value £1 per share	4	-0
Sirius International Corporate Member Ltd.	-361	100	Share capital total £1 consisting of 1 share with nom. value £1 per share	0	-84
Sirius Re Holdings Inc	5,436	100	500 outstanding shares without nom. value	5,601	-399
White Sands Holdings (Luxembourg) S.à r.l.	-0	100	Share capital total SEK 145,055 consisting of 145,055 shares with nom. value SEK1 per share	15	-0
Total	**9,621**			**10,466**	**-353**

2017

Name of subsidiary	Shareholders' equity	Shares %	Number of shares	Book value	Profit/loss
Sirius Rückversicherungs Service GmbH	24	100	Share capital total €51,129 consisting of 1 share with nom. value €51,129	0	10
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.	150	100	Share capital total €18,000 consisting of 180 shares with nom. value €100 per share	150	-69
S.I. Holdings (Luxembourg) S.à r.l.	4,405	100	Share capital total SEK 105,693,172 consisting of 105,693,172 shares with nom. value SEK 1 per share	4,833	-197
Sirius International Managing Agency Ltd.	9	100	Share capital total £1 consisting of 1 share with nom. value £1 per share	4	1
Sirius International Corporate Member Ltd.	-295	100	Share capital total £1 consisting of 1 share with nom. value £1 per share	0	-191
Sirius Re Holdings Inc	5,057	100	500 outstanding shares without nom. value	5,602	-377
White Sands Holdings (Luxembourg) S.à r.l.	-0	100	Share capital total SEK 145,055 consisting of 145,055 shares with nom. value SEK1 per share	15	-0
Total	**9,362**			**10,617**	**-823**

Note 14 Shares and participations in associated companies

Name of associated companies	Registered offices	Number of shares	Participating interest % [1)] 2018	2017
BE Reinsurance Ltd	Hong Kong	125,000,000	25	25

[1)] Voting share and participating interest are equal.

Change during the year

	2018	2017
Beginning of the year	122	122
Carrying amount December 31	**122**	**122**

Note 15 Investments in shares and participations

Fair value		Acquisition cost	
2018	2017	2018	2017
1,025	1,153	1,234	1,113

For further information regarding financial instruments, see Note 19.

Note 16 Bonds and other interest-bearing securities

	Fair value		Amortized cost	
	2018	2017	2018	2017
Swedish government	-	423	-	427
Swedish mortgage institutions	970	890	968	891
Other Swedish issuers	36	103	36	102
Foreign governments	1,027	750	992	752
Other foreign issuers	3,321	1,948	3,255	1,927
Total	**5,354**	**4,114**	**5,251**	**4,099**
Of which listed	*5,354*	*4,114*	*5,251*	*4,099*
Difference compared to nominal value				
Total excess amount	67	139	56	120
Total shortfall	52	9	56	11

Note 17 Derivative financial instruments

	2018	2017
Currency derivatives, Sirius Bermuda Insurance Company Ltd.	-314	211
Other derivatives, Emergent Capital Inc.	-	6
Endurance Speciality Insurance Ltd.	2	5
Total	**-312**	**222**

Currency derivatives of nominal MUSD 600 against SEK mainly concern contracts with internal counterparties. The company has on February 17 2016 entered into an internal currency hedging agreement with Sirius Bermuda Insurance Corporation Ltd. The agreement means that Sirius International has sold MUSD 200 on a forward basis to SBDA, with a term of approximately three years at the agreed 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. The company has on March 1 2017 sold MUSD 200 on a forward basis to SBDA, with a term of approximately three years at the exchange rate 8.5515. Through foreign exchange options, the currency forward transactions are settled on the basis of an exchange rate cap of 15.0828 SEK/USD and an exchange rate floor of 6.4641 SEK/USD. The company has on March 1 2018 sold MUSD 200 on a forward basis to SBDA, with a term of approximately three years at the exchange rate 7.6538. Through foreign exchange rate options, the currency forward transactions are settled on the basis of an exchange rate cap of 13.748 SEK/USD and an exchange rate floor of 5.892 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

	2018	2017
Other debtors, group companies [1]	1,068	864
Other debtors	76	80
Total [2]	**1,144**	**944**

[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

	2018					
	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	616			616	616	616
Shares and participations	-	1,025		1,025	1,025	1,153
Derivative financial instruments [1]	-					
Bonds and other interest-bearing securities	-		5,355	5,355	5,355	5,262
Cash and bank balances	-	1,511		1,511	1,511	1,511
Accrued income	6		40	46	46	46
Other debtors	1,144			1,144	1,144	1,144
Total	**1,766**	**2,536**	**5,395**	**9,697**	**9,697**	**9,731**

	2017					
	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	527	-	-	527	527	527
Shares and participations	-	1,153	-	1,153	1,153	1,113
Derivative financial instruments [1]	-	222	-	222	222	-
Bonds and other interest bearing securities	-	-	4,114	4,114	4,114	4,099
Cash and bank balances	-	1,386	-	1,386	1,386	1,386
Accrued income	11	-	46	57	57	57
Other debtors	944	-	-	944	944	944
Total	**1,482**	**2,761**	**4,160**	**8,403**	**8,403**	**8,141**

[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 intrest-bearing securities are classified based on trading.

Financial liabilities

	2018				2017			
	Other financial liabilities	Financial liabilities valued at fair value via the income statement	Carrying amount	Fair value	Other financial liabilities	Financial liabilities valued at fair value via the income statement	Carrying amount	Fair value
Other liabilities	651	-	651	651	906	-	906	906
Accrued expenses	81	-	81	81	77	-	77	77
Derivative financial instruments	314	-	314	314	-	-	-	-
Total	1,046	-	1,046	1,046	983	-	983	983

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

	2018			
	Level 1	Level 2	Level 3	Total
Shares and participations	847	7	171	1 025
Derivative financial instruments			-312	-312
Bonds and other interest-bearing securities	946	4,409		5,355
Total	**1,793**	**4,415**	**-140**	**6,068**

	2017			
	Level 1	Level 2	Level 3	Total
Shares and participations	1,001	15	137	1,153
Derivative financial instruments	-	-	223	223
Bonds and other interest-bearing securities	1,173	2,941	-	4,114
Total	**2,174**	**2,956**	**360**	**5,490**

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.

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).

	2018			
Level 2	**Shares and participations**	**Derivatives**	**Bonds**	**Total**
Opening balance January 1, 2018	15	-	2,941	2,956
Total reported profit/loss:		-		
- reported in profit/loss for the year [1)]	-	-	67	67
Acquisition cost, purchase		-	3,046	3,046
Proceeds of sale, sales	-8	-	-1,925	-1,933
Transfer from Level 2		-	-	-
Transfer into Level 2		-	281	281
Closing balance December 31, 2018	**7**	**-**	**4 410**	**4 417**
Profit/loss reported in profit/loss for the year for assets included in the closing balance December 31, 2018 [1)]	-	-	67	67

	2018			
Level 3	**Shares and participations**	**Derivatives**	**Bonds**	**Total**
Opening balance January 1, 2018	137	223	-	360
Total reported profit/loss:				
- reported in profit/loss for the year [1)]	20	-500	-	-480
Acquisition cost, purchase	18	-	-	18
Proceeds of sale, sales	-4	-35	-	-39
Transfer from Level 3	-	-	-	-
Transfer into Level 3	-	-	-	-
Closing balance December 31, 2018	**171**	**-312**	**-**	**-141**
Profit/loss reported in profit/loss for the year for assets included in the closing balance December 31, 2018 [1)]	20	-500	-	-480

	2017			
Level 2	**Shares and participations**	**Derivatives**	**Bonds**	**Total**
Opening balance January 1, 2017	16	-	5,761	5,777
Total reported profit/loss:				
- reported in profit/loss for the year [1)]	-1	-	-163	-164
Acquisition cost, purchase	-	-	2,189	2,189
Proceeds of sale, sales	-	-	-4,367	-4,367
Transfer from Level 2	-	-	-479	-479
Transfer into Level 2	-	-	-	-
Closing balance December 31, 2017	**15**	**-**	**2,941**	**2,956**
Profit/loss reported in profit/loss for the year for assets included in the closing balance December 31, 2017 [1)]	-1	-	-163	-

Level 3	2017			
	Shares and participations	Derivatives	Bonds	Total
Opening balance January 1, 2017	131	-283	-	-152
Total reported profit/loss:				
- reported in profit/loss for the year [1]	-	377	-	377
Acquisition cost, purchase	19	-6	-	13
Proceeds of sale, sales	-14	135	-	121
Transfer from Level 3	1	-	-	1
Transfer into Level 3	-	-	-	-
Closing balance December 31, 2017	**137**	**223**	**-**	**360**
Profit/loss reported in profit/loss for the year for assets included in the closing balance December 31, 2017 [1]	-	377	-	377

[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.

Note 20 Tangible assets

	2018	2017
Accumulated acquisition cost		
Opening balance January 1	166	164
Acquisition	15	12
Disposals	-5	-10
Closing balance December 31	**176**	**166**
Accumulated depreciation		
Opening balance January 1	-108	-89
Depreciation for the year	-26	-27
Disposals	4	8
Closing balance December 31	**-129**	**-108**
Carrying amount		
Per January 1	58	75
Per December 31	**46**	**58**

Note 21 Deferred acquisition costs

	2018	2017
Opening balance January 1	403	431
Capitalization for the year	598	327
Depreciation/amortization for the year	-439	-325
Currency revaluation effect	52	-30
Closing balance December 31	**614**	**403**

Note 22 Untaxed reserves

	2018	2017
Accumulated depreciation in excess of plan		
Opening balance January 1	26	34
Change for the year - goodwill	-4	-4
Change for the year – tangible assets	-4	-4
Closing balance December 31	**18**	**26**
Appropriation to safety reserve		
Opening balance January 1	10,690	10,690
Closing balance December 31	**10,690**	**10,690**
Total	**10,708**	**10,716**

Note 23 Provisions for unearned premiums and unexpired risks

Provisions for unearned premiums

	2018			2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Opening balance	2,716	-1,185	1,531	2,522	-1,067	1,455
Change in provision	222	30	252	418	-245	173
Currency revaluation effect	351	-156	195	-224	127	-97
Closing balance	**3,289**	**-1,311**	**1,978**	**2,716**	**-1,185**	**1,531**

Provisions for unexpired risks

	2018			2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
Opening balance	71	-51	20	80	-58	22
Change in provision	-10	6	-4	-1	1	0
Currency revaluation effect	6	-6	0	-8	6	-2
Closing balance	**67**	**-51**	**16**	**71**	**-51**	**20**

Note 24 Claims reserve

Provisions for unsettled claims

	2018			2017		
	Gross	Reinsurers' share	Net	Gross	Reinsurers ' share	Net
Opening balance, reported claims	*4,904*	*-1,492*	*3,412*	*4,375*	*-1,181*	*3,194*
Opening balance, incurred but not reported claims (IBNR)	*2,466*	*-659*	*1,807*	*1,406*	*-339*	*1,067*
Opening balance	7,370	-2,151	5,219	5,781	-1,520	4,261
Cost for claims incurred – current year	3,935	-1,504	2,431	3,402	-1,725	1,677
Cost for claims incurred – prior year	1,706	-767	939	1,585	-255	1,330
Claims handling expenses	140	0	140	118	0	118
Paid claims	4,789	-1,592	3,197	3,086	-1,304	1,782
Currency revaluation effect	474	-167	307	-194	45	-149
Closing balance	**8,556**	**-2,997**	**5,559**	**7,370**	**-2,151**	**5,219**
Closing balance, reported claims	*5,776*	*-2,055*	*3,721*	*4,904*	*-1,492*	*3,412*
Closing balance, incurred but not reported claims (IBNR)	*2,780*	*-942*	*1,838*	*2,466*	*-659*	*1,807*

Note 25 Equalization provision

	2018	2017
Opening balance January 1	29	44
Provision of the year	-16	-15
Closing balance December 31	**13**	**29**

Note 26 Claims handling provision

	2018	2017
Opening balance January 1	139	141
Release of provision made in prior years	-52	-49
Provision for the year	48	45
Currency revaluation effect	4	2
Closing balance December 31	**139**	**139**

Note 27 Employee benefits

Defined benefit plans

	2018	2017
Pension obligations not covered by plan assets	12	14
Provision for defined benefit pension plans, net	**12**	**14**

The liability in the table above applies to two variations of retirement earlier than at the age of 65 for Swedish employees. 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 defined benefit plans and are reflected in the balance sheet. Actual retirements are regulated when decision about retirement is made. In connection with decision, total retirement premium for the period up to 65 years of age are paid to the Company's pension funds. During the year 1 (2) employee utilized the possibility of early retirement.

Furthermore, the 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. The pension costs are recorded as operating expenses in the income statement. Employees in Sweden born 1972 or later, are covered by a defined contribution plan, FTP1. Employees in other countries are mainly covered by defined contribution plans in which the employer has a responsibility for the employees' pension.

The Company has defined benefit plans in Sweden (collective agreement) which are based on the employees' pension entitlements and length of employment. 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 where the assets are invested in Swedish bonds (38%), Swedish and foreign shares (22%), real-estate (11%), non listed shares (10%) and other investment assets (19%).

Note 28 Other creditors

	2018	2017
Amounts due to group companies [1]	625	780
Other debtors	25	126
Total [2]	**651**	**906**

[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

	2018	2017
Bonds and other interest-bearing securities	6,363	5,246
Cash and bank	1,511	1,386
Assets for which policy holders have preferential rights	**7,874**	**6,632**

On the basis of the stipulations in Chapter 7, Section 11 of the Insurance Business Act, registered assets amount to MSEK 7,874. 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

Nominal amount	2018	2017
Guarantees on behalf of subsidiary	4,111	3,799
Future commitments for investments in private equity companies	-	2
Total	**4,111**	**3,801**

Note 30 Associated parties

Associated companies within the China Minsheng group

2018

	Premium income, net	Indemnifications, net	Purchased/ sold services	Receivables	Payables
Sirius Bermuda Insurance Company Ltd – ceded reinsurance	1,054	-1,179	-	186	-
Sirius Bermuda Insurance Company Ltd – assumed reinsurance	-1,332	1,316		-	136
Sirius America Insurance Company – ceded reinsurance	64	-62	-	3	-
Sirius America – assumed reinsurance	0	-7	-	1	-
Syndicate 1945 – ceded reinsurance	16	22	-	0	0
Fund American Holdings AB – dividend	-	-	-	-	564
Sirius International Holding (NL) B.V. – writedown shares	-	-	18	-	-
Sirius Rückversicherungs Service GmbH – intra group payable	-	-	-18	-	32
Sirius International Insurance Group Ltd – administrative services	-	-	9	5	-
S.I. Holdings (Luxembourg) S.à r.l. – dividends/receivable	-	-	597	603	-
Sirius International Advisory Zürich LLC	-	-	0	-	-
International Medical Group – financial services	-	-	7	-	-
Syndicate 1945 – intra group receivable	-	-	100	411	-
Sirius Global Services LLC – administrative services	-	-	28	7	-
Sirius International UK Holdings Ltd	-	-	1	1	-
Sirius International Holdings Ltd. – administrative services	-	-	-3	0	-
Sirius International Managing Agency Ltd. - administrative services	-	-	0	5	-
BE reinsurance Ltd. - dividend	-	-	8	-	-
Sirius Capital Markets Inc – administrative services	-	-	-12	-	10
Sirius International Corporate Member Ltd. – intra group receivable	-	-	-	-	29
Sirius Investment Advisors LLC – asset management services	-	-	-3	-	3
Sirius Bermuda Insurance Company Ltd – financial services	-	-	59	659	-
Other associated companies	-	-	-	1	0
Total	**-198**	**90**	**791**	**1,882**	**774**

2017

	Premium income, net	Indemnifications	Purchased/ sold services	Receivables	Payables
Sirius Bermuda Insurance Company Ltd – ceded reinsurance	525	-669	-	144	-
Sirius Bermuda Insurance Company Ltd – assumed reinsurance	-1,075	1,201	-	-	311
Sirius America Insurance Company – ceded reinsurance	743	-950		587	-
Star Re Ltd. – assumed reinsurance	-109	-	-	-	-
Syndicate 1945 – ceded reinsurance	7	-21	-	-	2
Fund American Holdings AB – dividend	-	-	-905	-	745
Sirius International Holding (NL) B.V. – writedown shares	-	-	-139	-	-
Sirius Rückversicherungs Service GmbH – intra group payable			-30	-	35
Sirius International Insurance Group Ltd – administrative services	-	-	-4	-	-
S.I. Holdings (Luxembourg) S.à r.l. – dividends/receivable	-	-	110	114	-
International Medical Group – financial services	-	-	25	532	-
Syndicate 1945 – intra group receivable	-	-	107	223	-
Sirius Global Services LLC – administrative services	-	-	19	5	2
Sirius International Holdings Ltd. – administrative services	-	-	-9	-	-
Sirius International Managing Agency Ltd. – administrative services	-	-	2	12	-
Sirius Capital Markets Inc – administrative services	-	-	-4	-	5
Sirius International Corporate Member Ltd. – intra group receivable	-	-	-	524	-
Sirius Investment Advisors LLC – asset management services	-	-	-2	-	1
Sirius Bermuda Insurance Company Ltd – financial services	-	-	-135	22	-
Other associated companies			0	0	1
Total	**91**	**-439**	**-965**	**2,163**	**1,102**

Note 31 Average number of employees, salaries and other remunerations

Average number of employees

	2018			2017		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Sweden	70	80	150	73	75	148
UK	40	31	71	37	30	67
Belgium	26	22	48	26	23	49
Switzerland	5	6	11	6	5	11
Shanghai	2	0	2	1	-	1
Singapore	6	14	20	5	14	19
Total	**149**	**153**	**302**	**148**	**147**	**295**

Senior management

	2018			2017		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Board and CEO	4	1	5	4	1	5
Other senior members of management	1	-	1	1	-	1
Total	**5**	**1**	**6**	**5**	**1**	**6**

Remunerations to employees

	2018	2017
Salaries including bonuses	304	280
Of which expensed bonus and other similar remunerations	*34*	*36*
Pension expenses	61	55
- *Defined contribution plans*	*62*	*55*
- *Defined benefit plans (Note 27)*	*-1*	*0*
Social security contributions, special employer's contributions on pensions	75	75
Total	**443**	**410**

Of which paid remunerations for the year to:

	CEO		Former CEO	
	2018	**2017**	**2018**	**2017**
Salaries including bonuses	7	28	-	22
Of which paid out bonuses	*3*	*24*	-	*22*
Pension expenses	1	1	-	-
- *Defined contribution plans*	*1*	*1*	-	-
- *Defined benefit plans*	-	-	-	-
Total	**8**	**29**	**-**	**22**

Board and other senior members of management	**2018**	**2017**
Salaries including bonuses	7	33
Of which paid out bonuses	*2*	*26*
Pension expenses	3	3
- *Defined contribution plans*	*3*	*3*
- *Defined benefit plans*	-	-
Total	**10**	**36**

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 2017 and 2018. With the dismissal of the CEO, six months of severance pay *after term of notice* was provided.

Remuneration policy

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

Note 32 Fees and reimbursements to auditors

	PwC		Ernst & Young	
	2018	**2017**	**2018**	**2017**
Audit assignment	8	5	5	-
Other audit services	0	1	0	-
Tax counseling[1)]	-	0	0	-
Other services[1)]	0	1	-	-
Total	**9**	**7**	**5**	**-**

[1)] PwC Sweden have invoiced MSEK - (0) for tax counseling and MSEK 0 (1) for other services to Swedish companies. Ernst & Young have invoiced MSEK 0 (-) for tax counseling and MSEK 0 (1) for other services to Swedish companies.

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

	2018	2017
Due for payment within one year	39	35
Due for payment later than one year but within five years	106	65
Due for payment after five years	12	24
Total	**158**	**125**

1) The cost of the period amounts to MSEK 38(35).

Note 34 Class analysis

Profit/loss per insurance class

Non-Life Insurance

	2018						
	Personal accident and health	Marine, aviation and transport	Fire and other property damage	Miscellaneous	Total direct insurance	Assumed reinsurance	Total
Premium income, gross	1,255	18	17	104	1,394	7,982	9,376
Premium earned, gross	1,252	31	22	31	1,336	7,828	9,164
Incurred claims, gross	-509	-34	-22	-20	-585	-5,056	-5,641
Operating expenses, gross	-640	-11	-23	-12	-686	-2,172	-2,858
Result, ceded reinsurance	-43	-6	-18	0	-67	-670	-737
Equalization provision						16	16
Technical result[1)]	**60**	**-20**	**-41**	**-1**	**-2**	**-54**	**-56**

	2017						
	Personal accident and health	Marine, aviation and transport	Fire and other property damage	Miscellaneous	Total direct insurance	Assumed reinsurance	Total
Premium income, gross	1,254	27	48	25	1,354	7,003	8,357
Premium earned, gross	1,225	36	53	26	1,340	6,600	7,940
Incurred claims, gross	-563	-21	-111	-9	-704	-4,283	-4,987
Operating expenses, gross	-593	-10	-25	-15	-643	-1,787	-2,430
Result, ceded reinsurance	-53	-2	35	-4	-24	-530	-554
Equalization provision						15	15
Technical result[1)]	**16**	**3**	**-48**	**-2**	**-31**	**15**	**-16**

[1)] Excluds operating expenses that are not related to the non-life insurance business.

Note 35 Appropriation of profits

Proposed appropriation of profits

For 2018, the Company recorded income of MSEK 159 (MSEK 118) before appropriations and taxes. Net income for the year amounted to MSEK 110 (MSEK 122). As of December 31, 2018 retained earnings amounted to MSEK 3,338 (3,213).

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

(in SEK)

- Retained earnings	3,213,067,203
- Non-Restricted reserves	-8,369,803
- Transfer from restricted reserves	23,588,706
- Net income for the year	109,970,691
- Total	3,338,256,797

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

- To be carried forward	3,338,256,797
	3,338,256,797

Regarding the Company’s result 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, May 13, 2019

Kernan Oberting
Chairman of the
Board of Directors

Jeffrey Davis	Jan Onselius	Lars Ek	Monica Cramér Manhem President & CEO

Our Auditors' Report was submitted on May 13, 2019

Ernst & Young AB

Daniel Eriksson
Authorised Public Accountant
Auditor in Charge

Auditor's report

To the general meeting of the shareholders of Sirius International Försäkringsaktiebolag (publ), corporate identity number 516401-8136

Report on the annual accounts

Opinions

We have audited the annual accounts of Sirius International Försäkringsaktiebolag (publ) for the year 2018.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Insurance Companies. The Managements Report is prepared in accordance with the Annual Accounts Act.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company.

Our opinions in this report on the annual accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

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 in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

Other matters

The audit of the annual accounts for 2017 was performed by another auditor who submitted an auditor's report dated 20 April 2018, with unmodified opinions in the Report on the annual accounts and consolidated accounts.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Valuation of provision for unsettled claims

Information on provisions for unsettled claims are found in note 1 Accounting Principles, note 2 Information on risks, and in note 24 Claims reserve.

Description	*How this matter has been considered in the audit*
As of 31 December 2018, provision for unsettled claims amounted to MSEK 8,556, which constitutes 54% of the company's total liabilities. Provision for unsettled claims should cover the expected future payments related to all claims incurred, including claims not yet reported, referred to as IBNR provision. The provision for unsettled claims is calculated using statistical methods or through individual assessments of individual claims. The provision future commitments is calculated with actuarial methods. Due to the size of provision for unsettled claims in relation to the company's total liabilities, and the fact that the valuation requires management make assumptions and estimates, valuation of unsettled claims have been assessed as a key audit matter in our audit.	We have in or audit evaluated the company's control environment related to the claims reserve process reservation for incurred but not reported damages process. We have further assessed the reasonableness in methods and assumptions used and performed independent analysis of provision for unsettled claims. We have utilized our internal actuarial specialists to assist us in the audit procedures performed over provision for unsettled claims. We have also examined the disclosures made in the financial statements regarding provision for unsettled claims.

Accounting of premium estimates

Information on accounting for premium estimates and premium income are found in note 1 Accounting Principles, note 2 Information on risks, and in note 3 Premium income.

Description	*How this matter has been considered in the audit*
The Company's premiums for assumed reinsurance amounted to MSEK 7,982 in 2018, of which a significant portion is affected by assumptions and estimates of future premium volumes. Since premiums for assumed reinsurance constitutes a significant portion of the Company's premium income, and the fact that the valuation requires management to make assumptions and estimates, accounting of premium estimates has been assessed as a key audit matter in our audit.	We have in or audit evaluated the company's control environment related to the accounting of premium estimates. We have further assessed the reasonableness in methods and assumptions used and performed independent analysis of the estimations made by the Company. We have also examined the disclosures made in the financial statements regarding the accounting of premium estimates.

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 that they give a fair presentation in accordance with the Annual Accounts Act for Insurance Companies. 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 that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company'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 intends 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 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Director of Sirius International Försäkringsaktiebolag (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated (loss be dealt with) 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 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 type of operations, size and risks place on the size of the parent company'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 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.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

Ernst & Young AB, Jakobsbergsgatan 24, was appointed auditor of Sirius International Försäkringsaktiebolag (publ) by the general meeting of the shareholders on the 26 April 2018 and has been the company's auditor since the 26 April 2018.

Stockholm 13 May 2019

Ernst & Young AB

Daniel Eriksson
Authorized Public Accountant