



Sirius International Insurance Group

Financial Condition Report

As of December 31, 2017

SIRIUS GROUP OVERVIEW

Sirius International Insurance Group, Ltd. (“SIIG”), (“Sirius Group”) or (the “Company”) is a subsidiary of CM International Holding Pte Ltd. (“CMIG International”) through its Bermuda holding company, CM Bermuda Limited (“CMB”). CMIG international is a Singapore based investment holding company owned by China Minsheng Investment Group Corp. Ltd (“CMIG”) and other third-party corporate investors, none of which owns more than 10% of CMIG International. SIIG is an exempted Bermuda limited liability company whose wholly-owned subsidiaries provide insurance and reinsurance on a worldwide basis. The Sirius Group provides insurance and reinsurance products for property, accident and health, aviation and space, trade credit, marine, agriculture and certain other exposures on a worldwide basis through its four principal operating companies: Sirius Bermuda Insurance Company Ltd. (“Sirius Bermuda”), Sirius International Insurance Corporation (“Sirius International”), Sirius America Insurance Company (“Sirius America”) and Lloyd’s Syndicate 1945 (“Syndicate 1945”). Sirius Group also specializes in the acquisition and management of runoff insurance and reinsurance companies both in the United States and internationally through Sirius Global Solutions Holding Company (“Sirius Global Solutions”). Sirius Group through ArmadaGlobal (“Armada”) and International Medical Group (“IMG”), which were acquired in 2017, provide supplemental healthcare and medical travel insurance products as well as administration services. Appendix A contains the corporate structure of the Sirius Group and the principal operating companies.

Sirius Bermuda is an insurance and reinsurance company domiciled in Bermuda with its home office in Hamilton, Bermuda.

Sirius International is an insurance and reinsurance company domiciled in Sweden with its home office in Stockholm, Sweden and branch offices in London, U.K.; Zurich, Switzerland; Singapore; Labuan, Malaysia; Sydney, Australia; Liege, Belgium; Hamburg, Germany; and Hamilton, Bermuda.

Sirius America is an insurance and reinsurance company domiciled in the state of New York with offices in New York, New York; Norwalk, Connecticut; Miami, Florida; and Toronto, Ontario.

Syndicate 1945 is a Lloyd’s of London syndicate that Sirius Group sponsors and manages. Syndicate 1945 writes a diverse mix of business, including, accident and health, property, contingency (which principally covers the occurrence or non-occurrence of insured events, such as event cancellation or prize redemption), bloodstock (which principally covers the value of an animal if it dies as a result of accident, disease or illness), terrorism, marine energy and cargo lines.

Sirius Global Solutions is a Connecticut-based division of Sirius Group specializing in the acquisition and management of runoff liabilities for insurance and reinsurance companies, both in the United States and internationally. Sirius Group can derive value from these acquisitions not only from the discounted purchase price, but also from the investment income on insurance float, the potential settlement of claims below the carried level of reserves and the harvesting of other embedded assets, including the value of shell companies and licenses. Since its formation in 2000, Sirius Global Solutions has executed 13 transactions involving 18 companies, which have resulted in approximately \$185 million of cumulative after-tax income through December 31, 2017.

Armada is a Maryland-based division of Sirius Group that specializes in insurance services and healthcare technology that creates specialty employee benefit products and serves to strengthen healthcare coverage and access.

IMG, an Indiana-based division of Sirius Group, is a leading provider of global travel medical insurance products and assistance services through International Medical Group, Inc. and its subsidiaries.

The Sirius Group has been subject to group supervision by the Bermuda Monetary Authority (“BMA”) since 2016. Sirius Bermuda, the top operating company within the Sirius Group, is classified as the designated insurer of the Group.

In addition to Sirius Bermuda (a Bermuda class 4 insurer), SIIG has one other Bermuda-based (re)insurance subsidiary: Alstead Reinsurance Ltd. (“Alstead Re”) which is a Class 3A insurer. See appendices B & C for information specific to the two Bermuda (re)insurance subsidiaries. Effective December 29, 2017, SIIG’s two other Bermuda-based (re)insurance subsidiaries, White Shoals Re Ltd. (“White Shoals”) and Star Re Ltd. (“Star Re”) (formerly Class 3A insurers) were merged into Sirius Bermuda. Also on December 29, 2017, International Medical Insurance Company Ltd. (“IMIC”) a former subsidiary of IMG merged into Sirius Bermuda.

1. BUSINESS AND PERFORMANCE OF THE SIRIUS GROUP

a. Name of Insurance Group Parent Company

Sirius International Insurance Group, Ltd.

b. Supervisor

Group Supervisor
Bermuda Monetary Authority
BMA House
43 Victoria Street, Hamilton
Bermuda

c. Approved Auditors

Statutory Reporting
PricewaterhouseCoopers
Washington House, 4th Floor
16 Church Street, Hamilton
Bermuda

GAAP Reporting
PricewaterhouseCoopers LLP
101 Seaport Boulevard
Boston, Massachusetts
U.S.A.

d. Ownership Details

On 18 April 2016, CMIG International, through its Bermuda holding company CMB, Sirius International Insurance Group, Ltd. and its subsidiaries from White Mountains Insurance Group, Ltd.

CMIG International is a Singapore incorporated company that is owned approximately 82% by CMIG and approximately 18% by third-party corporate shareholders, none of which owns more than 10% of CMIG International.

CMIG is a Chinese incorporated company that is approximately 81% owned by 64 corporate shareholders and approximately 19% owned by Horgos Guoxin Baotai Venture Capital Co. Ltd. (“HGB”), a Chinese incorporated company. HGB operates as a vehicle for existing CMIG corporate shareholders to monetize the appreciation in CMIG’s value as new shareholders

invest in CMIG over time. None of the individual corporate shareholders own in the aggregate more than 10% in CMIG or HGB, directly or indirectly, on a fully-diluted basis.

On September 14, 2017, SIIG entered into a definitive agreement to purchase 4.9% of The Phoenix Holdings, Ltd. ("The Phoenix") from Delek Group Ltd. ("Delek Group"). SIIG had an exclusivity period expiring November 23, 2017 to conduct due diligence, during which time SIIG exercised the option to purchase all of Delek Group's remaining shares in The Phoenix (approximately 47.4%). At December 31, 2017 SIIG was awaiting regulatory approval from the Israeli Commissioner of Insurance, the Israel Securities Authority, the Tel Aviv Stock Exchange, and the Israel Antitrust Commissioner in connection with the proposed change in control of The Phoenix.

e. Insurance Business Written by Major Business Class and by Geographical Region

The following tables show the Sirius Group's consolidated gross written premiums by major class and consolidated gross written premiums by geographical regions for the years ended December 31, 2017 and 2016.

Gross Premiums Written by Major Class

<i>Business class</i> <i>(\$ in millions)</i>	2017	2016
Property	\$ 660	\$ 597
Accident & Health	495	435
Agriculture	72	37
Aviation & Space	66	62
Marine	56	58
Trade credit	40	32
Contingency	18	19
Casualty and other	32	29
Total	\$ 1,439	\$ 1,269

Gross Premiums Written by Geographical Region

<i>Geographic region</i> <i>(\$ in millions)</i>	2017	2016
United States	\$765	\$678
Europe	332	326
Canada, the Caribbean, Bermuda and Latin America	119	97
Asia and Other	223	168
Total	\$1,439	\$1,269

f. Performance of Investments & Material Income & Expenses for the Reporting Period

Performance of Investments for the Reporting Period

Ensuring policyholder security for the policyholders of Sirius Group companies is fundamental to all group endeavors. Sirius Group's investment mission is to maximize long-term total returns (after-tax) without assuming risk in an amount which might jeopardize the viability of the group's insurance franchise.

Notably, many of Sirius Group's investment portfolios are constrained by regulatory requirements, liquidity needs or other unique considerations. Such requirements must always be met.

1. Primary Objective: support Policyholder Liabilities (existing and future) and maintain compliance with regulatory and other requirements.
2. Secondary Objective: maximize long-term total returns on an after-tax basis.

An underlying principal of the Sirius Group is to manage all of our risks on an enterprise wide basis. Further, as a conceptual framework to simplify and facilitate investment deployment, these guidelines provide that the Sirius Group ensure that high quality assets support the Policyholder Liabilities of its group companies. Investments in excess of this amount, Owners' Funds, may be invested across asset classes to maximize long-term total returns (after tax) based on the owners' capital and liquidity requirements and risk appetite.

2017 return overview

(\$ in millions)	Consolidated	Return	Return
Fixed maturity investments	\$2,180	\$45	3.0%
Short-term investments	625	17	0.8%
Equity securities	299	38	9.2%
Other long-term investments	270	13	4.7%
Total	\$3,374	\$113	

2016 return overview

(\$ in millions)	Consolidated	Return	Return
Fixed maturity investments	\$2,891	\$90	0.5%
Short-term investments	538	1	0.2%
Equity securities	123	22	10.2%
Other long-term investments	125	5	4.0%
Total	\$3,677	\$118	

Material Income & Expenses for the Reporting Period

Sirius Group's main revenue source is premiums. Consolidated gross premiums written for the year were higher versus the same period last year. Growth in the Property, Accident & Health and Agriculture were the main drivers of the increase.

Sirius Group's major expenses arise from loss and loss adjustment expenses. Globally, the amount of major claims arising from natural disasters increased significantly in 2017 to the highest level in five years. Major events for the industry in 2017 include Hurricanes Harvey, Irma and Maria in the United States and the Caribbean, earthquakes in Mexico and extensive wildfires California. The Group's insurance portfolio has also been affected by the above events, but the extent varies depending on geographical exposure and market shares. Summary of expenses by type is as follows:

Expense Type (\$ in millions)	2017	2016
Loss and loss adjustment expenses	\$ 811	\$ 519
Acquisition costs	197	210
Other underwriting expenses	106	107
General and administrative expenses	92	85
Other underwriting expenses	38	35
Total	\$1,244	\$ 956

g. Any other material information

No other material information to report.

2. GOVERNANCE STRUCTURE – SIRIUS GROUP

As a consequence of the BMA group requirements, a group governance structure was established at the SIIG Group level in 2016. Four group key functions (Actuarial, Compliance, Internal Audit and Risk Management) have been established at SIIG level in order to set up common processes and procedures as applicable, taking different regulatory frameworks into account. In addition, managers have been appointed with a SIIG Group responsibility for coordination of underwriting, tax, legal and IT issues.

a. Board and Senior Executive

i. Board and Senior Executive Structure, role, responsibilities and segregation of responsibilities.

The Board of Sirius Group is comprised of Mr. Allan Waters (as Chairman), Mr. Kernan (Kip) Oberting, Ms. Monica Cramér Manhem, Mr. Laurence Liao, Mr. Robert L. Friedman and Mr. Meyer (Sandy) Frucher. Messrs. Waters, Mr. Oberting and Ms. Cramér Manhem also serve as executive officers and/or directors of Sirius Group. Mr. Liao, who is CEO of CMIG International, serves as a representative of CMIG International on the Board of Sirius Group. Messrs. Friedman and Frucher are non-management (independent) directors. Mr. Friedman is a private investor, and was previously Chief Investment Officer of Savannah-Baltimore Capital and Franklin Templeton Mutual Series Funds. Mr. Frucher is Vice Chairman of NASDAQ, Inc., and was formerly Chairman and Chief Executive Officer of the Philadelphia Stock Exchange.

Committees of the Board

Audit & Risk Committee

The primary purposes of the Audit & Risk Committee are to: (1) assist with Board oversight of: the integrity of Sirius Group's financial statements; the qualifications and independence of the independent auditors; the performance of the internal audit function and the independent auditors; and Sirius Group's compliance with legal and regulatory requirements; (2) provide an avenue of communication among the independent auditors, management, the internal auditors and the Board; (3) approve certain related or affiliated person transactions and review disclosures thereof and (4) prepare any audit committee reports required by regulatory bodies. In addition, with respect to risk management, the Committee discusses with management Sirius Group's policies with respect to risk assessment and risk management, including Sirius Group's major financial risk exposures and the steps management has taken to monitor and control those exposures.

The Audit & Risk Committee is currently comprised of Messrs. Oberting (as Chairman), Liao, Friedman and Frucher.

Compensation Committee

The primary purposes of the Compensation Committee are to: (1) review and make recommendations on director compensation; (2) discharge the Board's responsibilities relating to the compensation of executives; (3) oversee the administration of Sirius Group's compensation plans (and, to the extent the Compensation Committee deems appropriate, the plans of Sirius Group's major subsidiaries), in particular the incentive compensation and equity-based plans and (4) prepare the annual reports on executive compensation to the extent required by the rules and regulations of regulatory bodies, as applicable.

The Compensation Committee is currently comprised of Messrs. Waters (as Chairman), Liao and Frucher, and Ms. Cramér Manhem.

Finance Committee

The primary purposes of the Finance Committee are to: (1) formulate Sirius Group's investment policy and investment guidelines; (2) review the performance and asset allocation of Sirius Group's investment portfolio and asset allocation on a regular basis and (3) monitor the capital, debt, and corporate structure of Sirius Group and, in coordination with the Audit & Risk Committee, review the adequacy of risk management.

The Finance Committee is currently comprised of Messrs. Oberting (as Chairman), Waters, Liao, Friedman and Frucher.

ii. Remuneration Policy

The Sirius Group's corporate policy provides for a fixed base salary along with an annual performance based bonus which varies in accordance with both the Company's and the individual's performance. Additionally, Senior Executives receive long term incentives (share based and non-share based) to align with the

Sirius Group's goal of sustained success. This includes awards of restricted shares and phantom shares and performance units. Such amounts are approved by the Board's Compensation Committee. Non-Executive Board members receive a flat fee in accordance with established policies approved by the Board. The various Human Resources Departments throughout the Sirius Group, while working with external independent consultants, conduct periodic industry reviews to ensure compensation is appropriate.

iii. Pension or Early Retirement Schemes for Members, Board and Senior Employees

Sirius Group operates several retirement plans in accordance with the local regulations and practices. These plans cover substantially all Sirius Group employees and provide benefits to employees in event of death, disability or retirement.

Non-U.S.

Employees of Sirius International can participate in retirement plans through their branch office. The plans vary due to different government regulations as well as different standards and practices in each country. In Sweden, where a defined benefit pension plan is mandated by the government, Sirius International's employees participate in collective agreements funded by Sirius International. These collective agreements are managed by third party trustees who calculate the pension obligation, invoice Sirius International for additional funding, and invest the funds. Employees in Germany are covered by defined benefit pension plans sponsored by Sirius International called Sirius Rückversicherungs Service GmbH Pension Plan. Employees in the United Kingdom and Belgium are eligible to participate in defined contribution plans. In the United Kingdom, Sirius International contributes 12% of the employee's salary. Contributed funds are invested into an annuity of the employee's choosing. In Belgium, Sirius International contributes 6.5%-8.5% of the employees' salary. Employees in Switzerland are eligible to participate in the industry-sponsored Swisscanto pension plan ("Swisscanto plan"). The Swisscanto plan is a combination of a defined contribution and a defined benefit plan. For the Swisscanto plan, Sirius International incurs 60%-70% of the total premium charges and the employees incur the remaining 30%-40%.

Sirius Bermuda sponsors defined contribution plans for Bermuda employees which cover substantially all of those employees. Under these plans, Sirius Bermuda is required to contribute 10% of each participant's salary into an individual account maintained by an independent pension administrator. Employees become vested in the Sirius Bermuda contributions after two years of service.

U.S.

Within the U.S., Sirius Group sponsors several defined contribution plans for employees that provide for pre-tax salary reduction contributions by employees.

Sirius International Holding Company, Inc. ("SIHC") sponsors a defined contribution plan (the "SIHC 401(k) Plan") which offers participants the ability to invest their balances in several different investment options. The SIHC 401(k) Plan provides qualifying employees with matching contributions of 100% up to the first 2% and 50% of the next 4% of salary (subject to U.S. federal limitations on allowable

contributions in a given year). Additionally, all participants in the SIHC 401(k) Plan can earn a variable contribution of up to 7% of their salary, subject to the applicable IRS annual covered compensation limits (\$0.3 million for 2017) and contingent upon Sirius Group's performance.

The 401(k) Plan provides qualifying employees with matching contributions of 100% up to the first 2% and 50% of the next 4% of salary (subject to U.S. federal limits on allowable contributions in a given year). Additionally, all participants in the 401(k) Plan can earn a variable contribution of up to 7% of their salary, subject to the applicable IRS annual covered compensation limits (\$265,000 for 2016) and contingent upon Sirius Group's performance.

IMG sponsors a 401(k) retirement savings plan (the "IMG 401(k) Plan"). The IMG 401(k) Plan participants may elect to have a percentage of their salaries contributed to the IMG 401(k) Plan on a pre-tax basis subject to annual limits prescribed under the Internal Revenue code. IMG makes safe harbor matching contributions to the IMG 401(k) Plan equal to 100% of participants' deferrals up to 1% of eligible compensation and 50% of participants' deferrals between 1% and 6% of eligible compensation. IMG may also elect to make discretionary contributions to the IMG 401(k) Plan which are allocated based on compensation.

Armada maintains a qualified 401(k) plan (the "Armada 401(k) Plan"). Under provisions of the Armada 401(k) Plan, Armada may make discretionary, matching contributions.

iv. Shareholder Controllers, Persons Who Exercise Significant Influence, The Board or Senior Executive Material Transactions

At December 31, 2017, the Company is an indirect wholly-owned subsidiary of CMIG International, a Singapore holding company, through its Bermuda holding company through CMB, an exempted Bermuda limited liability company. On April 27, 2016, the Company split its common shares by a multiple of 10,000 resulting in 120,000,000 common shares and changed par value of the common shares from \$1.00 per share to \$0.01 per share. On November 16, 2016, the Company approved to increase its authorized share capital from \$1.2 million to \$6.0 million by the creation of an additional 480,000,000 common shares with a par value of \$0.01 per share. The increase was effective as of December 12, 2016.

The Company paid common dividends of \$27.0 million in cash and investments to its former parent White Mountains on April 18, 2016.

Under the Sale and Purchase Agreement ("SPA"), bonus arrangements for certain employees of Sirius Group were granted. Certain of these bonus arrangements were paid to bonus recipients around the sale date as compensation for services performed before the sale date ("transaction bonuses".) In addition, certain employees will receive additional bonus payments under the bonus arrangements after the twelfth month and twentieth month anniversary of the sale date ("retention bonuses."). Under the SPA, White Mountains agreed to pay the Company shortly after the sale date an amount equal to the transaction bonuses

plus the employer-paid portion of employment or similar taxes less tax benefits attributable to the payment. In addition, White Mountains also agreed to pay the Company for the retention bonuses under the same terms as the transaction bonuses shortly after Sirius Group paid those amounts to the employees. During 2016, Sirius Group recorded \$36.9 million in general and administrative expenses in connection with the transaction bonuses. The Company was paid \$30.5 million from White Mountains for the transaction bonuses after employment costs and taxes, which was recorded as paid-in capital. During 2016, Sirius Group recorded \$17.6 million in general and administrative expenses in connection with the retention bonuses. The Company recorded \$14.5 million after employment costs and taxes in paid-in capital for future payments due from White Mountains for the retention bonuses.

b. Fitness and Proprietary Requirements

i. **Fit and proper Process in assessing the board and Senior Executive**

In connection with the acquisition of Sirius Group in April 2016, CMB appointed Mr. Allan Water (as Chairman), Mr. Kernan (Kip) Oberting and Ms. Monica Cramér Manhem, who were existing senior executives overseeing Sirius Group, and Mr. Laurence Liao, as a board representative of CMIG International, as initial members of the Board of Directors of Sirius Group. In August 2016, Mr. Robert L. Friedman and Mr. Meyer (Sandy) Frucher were added as independent (non-executive) members of the Board of directors of Sirius Group. Each of the members of the Board of Directors of Sirius Group were determined to be fit and proper based on the individual's expertise and work experience as well as professional judgement and recommendations from third party sources.

ii. **Senior Executive Professional Qualifications, Skills and Expertise**

All of the directors and executive officers of Sirius Group are elected by the Board for a term of one year or until their successors have been elected and have duly qualified. Information with respect to the principal occupation and relevant business experience of the executive directors and officers is as follows:

Mr. Allan Waters was appointed President and Chief Executive Officer of Sirius Group in March 2007, and also serves as a director (Chairman) of Sirius Group. Mr. Waters served as a director of White Mountains from 2003 to 2004 and was re-elected as a director in November 2005. From 1998 to 2007, Mr. Waters was the founder and Managing Member of Mulherrin Capital Advisors, LLC. Mr. Waters formerly served as Senior Vice President and Chief Financial Officer of White Mountains from 1993 to 1998, and originally joined White Mountains in 1985.

Mr. Kernan (Kip) Oberting was appointed Executive Vice President and Chief Financial Officer of Sirius Group in April 2016, and also serves as a director of Sirius Group. Prior to that, Mr. Oberting served as a Managing Director of White Mountains Capital, Inc. from July 2012 until April 2016 and as the President of Sirius Capital Markets from January 2015 until April 2016. From 2008 to 2012, Mr. Oberting was the founder and Managing Member of Oakum Bay Capital (f/k/a KVO Capital Management). From 2004 to 2008, Mr. Oberting served as Executive Vice President and Chief Financial Officer of Montpelier Re Holdings, Ltd. Mr. Oberting

previously worked for White Mountains entities from 1995 to 2004 in various capacities. Prior to White Mountains, Mr. Oberting was a trader at CS First Boston (Japan) from 1993 to 1995.

Ms. Monica Cramér Manhem has been the Chief Executive Officer and President of Sirius International since March 2014, and also serves as a director of Sirius Group. Prior to March 2014, Ms. Cramér Manhem served as Senior Vice President and Business Unit Manager of Sirius International from January 2004 until March 2014. Ms Cramér Manhem served in various positions at Sirius International prior to 2004, having joined the company in 1985.

Mr. Jeffrey Davis has served as Executive Vice President, Chief Actuary of Sirius Group since October 2008. Mr. Davis previously served also as Senior Vice President and Chief Actuary at White Mountains from October 2008 until April 2016. In April 2016, Mr. Davis assumed the additional responsibilities as Chief Risk Officer for Sirius Group. Prior to joining Sirius Group, Mr. Davis served as Head of Central Reserving for Munich Re from 2005 until September 2008, and previously in various capacities at Munich Re America since 1999. Mr. Davis previously served as an actuary for Nationwide Insurance from 1991 until 1999. Mr. Davis is a Fellow of the Casualty Actuarial Society and a Chartered Financial Analyst charterholder.

Mr. Gene Boxer was appointed Executive Vice President, Group General Counsel, of Sirius Group in August 2016. Mr. Boxer previously served as the Global General Counsel of Cushman & Wakefield, a commercial real estate services firm, from 2011 through 2015. Prior to that, Mr. Boxer served as a senior member of the Restructuring Group and Legal Mergers & Acquisitions Group of American International Group, Inc. from 2006 through 2011. Mr. Boxer was in private practice at Milbank, Tweed, Hadley & McCloy LLP from 1999 through 2006.

Mr. Warren Trace serves as President and Chief Executive Officer of Sirius Bermuda, and as Vice President of Sirius Group. Mr. Trace was appointed Executive Vice President and Branch Manager of Sirius International Insurance Corporation – Bermuda Branch in October 2009. Mr. Trace has been a part of the White Mountains group serving in various executive positions since June 1983, when he joined Folksamérica Reinsurance Company (now Sirius America).

c. Risk Management and Solvency Self-Assessment

i. Risk Management Process & Procedures to identify, Measure, Manage and Report on Risk Exposures

The Risk Management Committee (“RMC”), a management committee formed by and at the direction of the Audit & Risk Committee of the SIIG Board of Directors (“Board”), has been established to oversee the risks and economic capital management framework of Sirius Group. Specifically, it ensures that SIIG maintains an accurate and up-to-date system of risk management and monitoring of the risks facing the Sirius Group and the efficacy of controls used to mitigate them. The RMC’s responsibilities are as follows:

- The RMC’s role is to identify and monitor new and emerging risks and opportunities. It is responsible for escalating to the Board those risks that are

- outside the agreed risk appetite or have been subject to material changes in a period.
- Providing oversight and advice to the Board in relation to current and potential future risk exposures of SIIG and subsidiaries and future risk strategy, including determination of risk appetite, tolerances and limits.
- Assisting on such other matters as may be referred to it by the Board.
- Promoting a risk awareness culture within SIIG and its subsidiaries.
- Reporting to the Board, identifying any matters within its remit in respect of which it considers that action or improvements is needed and making recommendations as to the steps to be taken.

The Board approved Statement of Risk Tolerance (SoRT) sets SIIG's overall approach and attitude towards risk, based on current market conditions and strategic opportunities to deploy capital. It provides the framework for risk guidelines and risk limits governing the day-to-day business operations. The SoRT aims at ensuring that SIIG controls its risk taking to acceptable tolerance levels when implementing strategies to yield shareholder return. For risk quantification, SIIG utilizes various internal aggregate exposure systems, and regulatory and rating agency capital models.

The Risk Management function, headed by the Chief Risk Officer ("CRO"), is responsible for assisting the Board and the RMC in the effective operation of the risk management system (built upon the three lines of control concept detailed in the Internal Control System section below). The function assists with identification, measurement, monitoring, management and reporting of SIIG risk exposure and analysis of the development of the risk profile.

ii. Risk Management and Solvency Self-Assessment Systems Implementation

SIIG's risk management framework is implemented and integrated into its operations through the systems, processes and procedures, and controls developed by management. The RMC along with Internal Audit review the controls in place to ensure they are effective and provide recommendations to the Board regularly. The RMC meet formally at least quarterly and otherwise as required.

SIIG employs an internal economic required capital model ("the ERC model") to aggregate the quantification of all material risks. The ERC model is a stochastic model, which simulates 100,000 trials of possible outcomes of the Groups financial outcomes over the course of a one year period. All major quantifiable risks are estimated and included. The Tail-Value-at-Risk 99.5%, which represents the average shortfall from the expected results of the worst 500 trials, is used as a basis to assess how much capital is required to ensure economic solvency over a one year period to a high confidence level. The modeled output is then increased by a factor of 35% to account for items that cannot be modeled reasonably. The result is an estimate of the total internal economic required capital needed to support the operations over a one year period.

The results of the ERC model are used to establish risk tolerances for underwriting risk, investment risk and operating risk. The risk tolerances are reviewed by the

Board of Directors, who has sole authority to establish the risk tolerance framework for the Group. The results of the ERC model are reviewed quarterly to ensure compliance with the established risk tolerances and to measure the adequacy of economic capital. The ERC model is also employed in the annual strategic planning process.

iii. [Relationship between Solvency Self-Assessment, Solvency Needs & Capital and Risk Management](#)

The main purpose of the Group's solvency Self-Assessment is to ensure that the Sirius Group engages in a process of assessing all the risks inherent in its business and determines its corresponding capital needs. The purpose is to ensure that the capital is, and will remain, sufficient to cover the risks which the group will be exposed to in line with its current business and existing business plan.

iv. [Solvency Self-Assessment Approval Process](#)

The objective of the Group Solvency Self-Assessment ("GSSA") is to assess the overall short-term and long-term solvency needs of the Sirius Group. The Risk Management function manages the GSSA report. The assumptions and the conclusions in the GSSA report are challenged and reviewed in multiple steps; by the CRO, by the Risk Management Committee and ultimately by the Board. The Board reviewed GSSA report is submitted to Bermuda Monetary Authority.

d. [Internal Controls](#)

i. [Internal control System](#)

Internal control is a process within the Sirius Group defined to provide reasonable assurance regarding the achievement of objectives when it comes to effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations. The Board is ultimately responsible for the internal control system, which consists of three lines of control structure and various internal control procedures. The three lines of control ensure that roles and responsibilities are clearly defined and separated:

The 1st line of control consists of the management, the business units and branches, the accounting and control functions as well as the support and administrative functions. This is where the risks are identified and managed and where the major responsibility for internal control and compliance lies. A clear control structure has been established including regular reviews of underwriting, claims, financial and insurance accounting.

The 2nd line of control consists of the Risk Management, Compliance and Actuarial functions performing operationally independent risk and compliance monitoring. These functions report directly to the CEO or other senior executives of Sirius Group, with direct access to the Board or designated committees of the Board. They are entitled to have access to all information, records and meetings relevant to carrying out their duties and controls. The Actuarial function is established to monitor and coordinate the calculation of technical provisions.

The 3rd line of control is the Internal Audit function which performs fully independent reviews of all areas, including the Risk Management, Compliance, Actuarial and Management functions. Independence is secured by a straight reporting line to the Audit & Risk Committee and Board of Sirius Group.

ii. Compliance Function

The Compliance function is overseen by the Group General Counsel, who is the senior executive of Sirius Group designated as the Chief Compliance Officer ("CCO"), who is responsible for assisting the Audit & Risk Committee of the Board in assuring that a proper written framework is in place as required by laws and regulations and adapted to the business conditions. The CCO supports the Audit & Risk Committee Board and business in identifying, measuring, monitoring and managing regulatory compliance risks that may occur. The CCO reports on the regulatory compliance status to the Audit & Risk Committee of the Board, CEO and management. Compliance coordinators are appointed in the subsidiaries and branches to support the CCO and to take specific account of applicable local requirements. The Compliance function's work is governed by a Compliance Policy, which has been adopted by the Audit & Risk Committee of the Board and CEO, respectively.

e. Internal Audit

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes.

The Board has the ultimate responsibility for Internal Audit. The Board has appointed the Audit & Risk Committee to assist the Board. The Internal Audit function is established by the Audit & Risk Committee, and the Internal Audit function's responsibilities are defined by the Audit & Risk Committee as part of its oversight role. The Audit & Risk Committee and Internal Audit function are governed through the Audit & Risk Committee rules of procedures and the Internal Audit policy, both adopted by the Board.

Independence

Objectivity is essential for effective operation of the Internal Audit function. The Internal Audit function shall: have direct, unencumbered access to the Audit & Risk Committee; be independent from and free of undue management, other functions, including key functions influence; and not perform any operational functions. Further, the Audit Director and his/her staff are authorized to have full, free, and unrestricted access to all Sirius Group functions, activities, operations, records, data, files, computer programs, property and personnel as well as its outside legal counsel, external auditors and any other external consultant working for the Company.

Appraisal and termination of the Internal Audit function

In the interest of Internal Audit's independence, the performance and salary review is conducted by the Chairman of the Audit & Risk Committee of the Board of Sirius Group.

Internal Audit Roles and Responsibilities

The Internal Audit responsibilities include to effectively lead audit initiatives and projects that add value by assessing the adequacy and effectiveness of SIIG's internal control

systems, other element of system of governance, as well as monitoring the business and relevant ongoing projects and developments. Further, the responsibilities include ensuring that relevant risks to SIIG's financial and operating objectives are being effectively monitored and addressed by management.

Subject to guidelines from the Audit & Risk Committee, the Internal Audit function is responsible for the planning, execution and reporting of audits. For this purpose, the Internal Audit function shall:

- annually prepare an Audit Plan based on its risk assessment and get the audit plan adopted by the Audit & Risk Committee, as well, discuss the operations and effectiveness of the Internal Audit function including budget and resource requirements and the impact of resource limitations, if any;
- document Internal Audit activities, keep a record of its work in order to allow for an assessment of the effectiveness of the work and for retracing the audits undertaken and the findings they produced;
- provide management recommendations on policy and procedures to improve the internal control environment and the effectiveness and efficiency of operations and organizational structures;
- coordinate audit activities, to the extent possible, with the independent public accountants to enhance audit efficiencies;
- although the Internal Audit function shall have an independent status in the Sirius Group, it shall interact with and complement other control functions to promote overall control within the business;
- provide a full audit report in writing to the Business Management and Audit & Risk Committee, in connection to each audit to ensure that everyone is updated on a frequent basis, stating key audit findings and related recommendations. If necessary, escalate critical matters to the Board;
- communicate significant deficiencies, material weaknesses or solvency concerns to the Audit & Risk Committee.

Where appropriate, Internal Audit provides consultancy activities, i.e. Risk & Control Advisory, in its capacity as an independent control and risk expert.

f. Actuarial Function

General

The activities of the actuarial departments throughout the Sirius Group are split between those involved in performing analyses regarding premium calculation, profitability, and sufficiency of the company's reserve provisions, and the Actuarial Function that provides independent oversight and validation. The Sirius Group Chief Actuary has overall responsibility for these functions. The reserve provisions (often referred to as technical provisions) are calculated by reserving specialists using mathematical methods. The Actuarial Function is responsible for independent reviews of the work of the reserving specialists, and performs quarterly controls of the reserves/technical provision calculation.

The Actuarial Function's control contains an independent assessment of the reserving needs, but also a check that the calculation is performed consistent with applicable laws and regulations. The control will thus cover not just the results, but also the information used in the calculation together with assumptions, approximations, and used methods. In

addition, the Actuarial Function explains the results, and material changes in the reporting period, compares these changes to the predicted development, and shares its view on the uncertainties embedded in the calculation.

Independence of the Actuarial Function

The calculation of the reserve provisions is carried out by the actuarial reserving team. The Actuarial Function is not involved in any of the steps, but carries out an independent review of the results, at least once a year.

The Actuarial Function employs the services of an external independent actuary to perform these regulatory Group Actuary requirements to ensure independence from the operations.

g. Outsourcing

Various operating subsidiaries of the Sirius Group have adopted Outsourcing Policies to ensure that the development and implementation of any outsourcing activity is carried out in a rigorous and transparent way that maintains the interests of the company and its subsidiaries and sound internal control. The policies aim at governing the way the Sirius Group enters into outsourcing agreements and how these shall be monitored. The objective is to maintain the same internal control over the outsourced operations as if the operations were still performed in-house. The Sirius Group has a conservative approach to outsourcing of critical or important functions or activities and only outsources operations after a careful and objective analysis. All potential outsourcing is assessed to assure that important or critical outsourcing complies with the Outsourcing Policy and that relevant contracts are notified to the supervisory authority. The assessments are documented in an Outsourcing register.

Some subsidiaries of the Sirius Group have outsourced parts of the IT operations to an external data center. Investment management is outsourced to three external providers (of which two are based in the US) who operate under the oversight of the Investment Committee. The Sirius Group has an external provider of a system for accounting and analysis of investments, also based in the US.

Various companies in the Sirius Group either provide or receive services, resources or other support (the “services”) pursuant to intercompany service agreements. For example, under these service agreements, Sirius Global Services provides certain bookkeeping, accounting, financial reporting, actuarial support, risk management, legal and IT services to various affiliated companies. Sirius America Insurance Company provides certain catastrophe modelling, human resources support, network support and facilities usage. Certain claims management is also outsourced among affiliates.

h. Other Material Information

No other material information to report.

3. RISK PROFILE

a. Material Risks the Group is Exposed to During the Reporting Period

The SIIG Group's main risk categories are underwriting, market, credit, operational and liquidity risk.

- Underwriting Risk - Underwriting risk is the risk of loss, resulting from fluctuations in the frequency and severity of insured events, including uncertain or inadequate pricing assumptions and extreme or exceptional events (natural catastrophe risk). Natural catastrophe risks (losses caused by natural perils or terrorism) constitute SIIG's largest underwriting risks. SIIG's natural catastrophe exposure is monitored quarterly using third-party and internal catastrophe models. SIIG's exposure to accumulation of risks apart from natural catastrophes is mainly evident in three areas:
 1. *Aviation*. SIIG writes a portfolio of aviation reinsurance covering both hull and liability. Seven different deterministic scenarios are monitored to ensure that aggregated risk is controlled.
 2. *Terrorism*. Beyond the aviation exposure listed above, SIIG is also exposed to other losses emanating from terrorist attacks. A review of deterministic terrorist scenarios is completed annually.
 3. *Pandemic*. SIIG's accident and health portfolio is exposed to losses from global pandemics. As such, an annual analysis is completed to measure potential impact of such a catastrophic event.

SIIG also has reserves for unpaid losses and loss adjustment expenses ("loss reserves" or "reserves") across various legal entities across the globe. The loss reserves are evaluated quarterly by internal actuarial staff. Annual assessments are also conducted by the Company's auditors. In addition, the Company submits to a periodic review by an independent actuarial firm.

- Market Risk - This risk is primarily driven by the economic environment and its impact on the invested assets of the Company. Monitoring and reporting of the investment portfolio to the SIIG Board is conducted on a quarterly basis. All market risks are monitored on an ongoing basis by the Finance Committee of the Board and the RMC.
- Credit Risk - Credit risk is the risk of loss or of adverse change in the financial situation, resulting from fluctuations in the credit standing of counterparties, issuers of securities, and other debtors. Material sources of credit risk stem from business ceded to reinsurers and from investment assets. Other minor sources of credit risk arise from amounts that are due (receivables) related to direct insurance, assumed and ceded reinsurance and from intermediaries.

Reinsurance/retrocession, a tool used to actively mitigate insurance risk, brings credit risk exposures, which are carefully managed. Managing the risk of reinsurer insolvency for the SIIG Group is centralized and done by SINT's Security Committee. To mitigate this risk, the financial condition of the SIIG Group's reinsurers is reviewed semi-annually, and periodically monitored. The Security Committee uses an internal rating scale that assigns an internal counterparty rating to each insurance/reinsurance

company, based on internal credit analysis. External information, such as rating agencies, is used as input.

SIIG places its investments in securities with high credit quality. SIIG's investment policy stipulates that 90% of policyholder liabilities shall be rated no less than investment grade. It also stipulates limits for concentration to single issuers. The investment managers monitor limits and exposure on a day-to-day basis.

- Operational Risk – Operational risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events. It is inherent in all business operations. As part of SIIG's enterprise risk management ("ERM"), operational risks are identified, measured and assessed by the organization through a self-assessment process. Possible operational risks in the daily operations are identified and summarized into a risk register. The organization also rates the identified risks on an impact likelihood scale. The risk register is reviewed and reported the RMC and senior management on a quarterly basis.
- Liquidity Risk - Liquidity risk is the risk that cash may not be available to pay the obligations of the company when they are due. Bank accounts and investment accounts are reviewed regularly to ensure that there are sufficient funds in cash and invested in easily accessible investments should there be any need for unexpected payments to cover large claims.

b. Risk Mitigation in the Organization

The SIIG board has established the RMC to oversee the risk and economic capital management framework of SIIG with particular focus on the operations of SIIG. As part of its mandate, the RMC recommends appropriate risk tolerances on an annual basis. The SIIG board of Directors has the sole authority to establish the annual SoRT considering input from the RMC. The SoRT sets the overall approach towards risk taking and risk constraints based on the concept of risk and return. It provides the basis for risk guidelines and risk limits governing the day-to-day business operations.

c. Material Risk Concentrations

The Sirius Group has policies governing risk concentrations in relation to counterparties, credit quality, sectors and geographical locations.

As discussed above, reinsurance/retrocessional credit exposure and credit risk is actively mitigated through a rating analysis performed by SINT's Security Committee. The committee primarily uses information from Standard & Poor's ("S&P") and A.M. Best, but also from other internal or external information sources from the market in order to determine a counterparty rating for each insurer. This counterparty rating does not necessarily mirror the external rating established by the rating agencies. Based on the insurer rating determined by the committee, a rating limit system is then used to set limits for single insurers and single programs. For example, an insurer with the highest rating would have an overall limit set at \$150m with a per program limit of \$50m. The lowest rated insurer would have an overall limit of \$20m and a per program limit of \$7m.

The absolute investment limitations provided below are applicable at all times. Further applicable investment limitations are expressed in the IRMS, reviewed and, as necessary, revised, by the Finance Committee no less frequently than annually. The IRMS takes into account near term current risk based capital needs of SIIG as articulated in SIIG's SoRT (approved by the SIIG Board of Directors no less than annually) and additional considerations the Finance Committee deems appropriate based on the investment environment.

- 1) For each insurance company, an amount no less than 100% of Policyholder Liabilities shall be invested in Fixed Income Securities, 90% of which shall be rated no less than Investment Grade, subject to the further diversification limitations described below.

Investable Assets supporting Policyholder Liabilities shall be diversified in order to minimize the risk of large losses and ensure policyholder security. The degree to which an investment is credited to offset Policyholder Liabilities is subject to the following limitations:

- i. The Nominal Exposure to a Single Issuer of Fixed Income Securities shall not exceed 4% of Investable Assets at the time of purchase or 5% of Investable Assets at any time, provided that this limitation will not apply to:
 - a. Securities issued or guaranteed by the Governments of the United States, Sweden, Germany, France, Singapore, the United Kingdom, as well as any sovereign nation with a Rating of AA+/Aa1 or better,
 - b. For investments held indirectly via commingled/pooled investment vehicles (such as mutual funds, partnerships, and UCIT's) exposure shall be monitored on a "look-through" basis, based on the underlying holdings of the fund as of the most recently published report from the advisor.
 - c. Investments in affiliated companies of SIIG, or
 - d. Approved Investments
 - ii. The total investment in Fixed Income Securities in any single Industry shall not exceed 20% of total Fixed Income Securities.
 - iii. Fixed Income Securities whose rating is supported by the "wrap" or insurance of a single bond insurer or financial guarantor in excess of 5% of Investable Assets shall be assessed under these Investment Guidelines based on the underlying credit excluding the benefit of insurance.
 - iv. The investment in illiquid investment securities, as defined by designation as Level 3 Assets under FASB 157 where a security's price can only be calculated using estimates or risk-adjusted value ranges, shall offset no more than 15% of Policyholder Liabilities.
- 2) Owners' Funds may be invested across asset classes to maximize long-term total returns (after tax) provided such investments remain in compliance with the IRMS. In addition each insurance company and SIIG, on a consolidated basis, shall ensure that:
 - i. The Nominal Exposure to any Single Issuer, shall not exceed 6% of Investable Assets at the time of purchase or 8% of Investable Assets at any time, provided that this limitation will not apply to:
 - a. Securities issued or guaranteed by the Governments of the United States, Sweden, Germany, France, Singapore, the United Kingdom, as well as any sovereign nation with a Rating of AA+/Aa1 or better,

- b. For investments in held indirectly via commingled/pooled investment (such as mutual funds, partnerships, and UCIT's) exposure shall be monitored on a "look-through" basis, based on the underlying holdings of the fund as of the most recently published report from the advisor
 - c. Investments in affiliated companies of SIIG, or
 - d. Approved Investments
 - ii. The Nominal Exposure to securities of any single Industry shall not exceed 30% of Investable Assets.
 - iii. No less than quarterly, Management shall perform a financial review of any and all investments in Structured Assets where the exposure to a single issue or Single Issuer is in excess of 1.5% of Investable Assets of SIIG consolidated.
 - iv. To the extent that an investment or investments exceed a threshold under this Section I, items 2.a and 2.b above, it shall not be deemed an investment breach if the aggregate amount of such exceedance is less than Leeway Capacity.
- 3) The use of leverage and the short sale of securities for investment purposes is prohibited without prior written approval by the Finance Committee.
- 4) The Investable Assets of each subsidiary shall be managed in compliance with relevant regulatory requirements, which in certain circumstances may be different from and / or more stringent than the guidelines and limits outlined herein.
- 5) In certain circumstances, subsidiaries may be required to establish trusts or collateral accounts for the benefit of certain policyholders and / or other counterparties such as banks. In these cases, the Investable Assets within the trust or collateral account will be governed first by the relevant agreement(s) and second by the guidelines contained herein.
Sirius Group shall maintain a listing of in-force regulatory, trust, collateral and related regimes imposed on Sirius Group companies.

d. Investments in Assets in Accordance with the Prudent Person Principles of the Code of Conduct

The Investment Policy establishes Sirius Group's investment mission, investment guidelines and governance framework. This policy is established by the Finance Committee of the SIIG Board of Directors and is ratified by the boards of Directors of each of SIIG's subsidiaries.

Ensuring policyholder security for the policyholders of Sirius Group companies is fundamental to all group endeavors. For each insurance company in the Group, an amount no less than 100% of the policyholder liabilities shall be invested in Fixed Income Securities, 90% of which shall be rated no less than Investment Grade, subject to further diversification limitations.

These guidelines are reviewed on an annual or ad hoc basis if any significant deviations have occurred that affect the financial markets.

e. **Stress Testing and Sensitivity Analysis to Assess Material Risks**

The RMC monitors the risk profile of the Sirius Group's operations. The RMC reports quarterly to the board of Directors regarding current investment, underwriting, financial and operations risk profile of SIIG.

Expected returns from total operations, investments, and underwriting are compared to three measures of downside risk, measured as potential loss in shareholder's Equity ("SHE") over a one-year horizon. The potential loss in SHE is measured after-tax and net of retrocessional protections; it is modeled using SIIG's internal ERC model.

- Value-at-Risk (VaR) 90% reflects the risk tolerance for a **moderate** loss in SHE. In simple terms, the VaR 90% can be interpreted as "For the expected return, SIIG is willing to accept a modeled ten percent chance of having an annual loss in SHE of \$X, which would eliminate annual earnings, and moderately reduce capital."
- VaR 98% reflects the risk tolerance for a **major** loss in SHE. The VaR 98% can be interpreted as "For the expected return, SIIG is willing to accept a modeled two percent chance of having an annual loss in SHE of \$Y, which would significantly reduce capital, but not impair it, but could possibly impact its financial strength rating without further capital actions."
- VaR 99.5% reflects the risk tolerance for a **stress** loss in SHE. The VaR 99.5% can be interpreted as "For the expected return, SIIG is willing to accept a modeled half percent chance of having an annual loss in SHE of \$Z, which could significantly impair SIIG's capital position and probably would impact its financial strength rating without further capital actions." In the modeled stress events, SIIG should still have a reasonable amount of excess capital to continue operations and take advantage of probable hardening market conditions.

The RMC monitors compliance with these quantitative tolerances. The VaR constraints are calculated each quarter and reported to the Board. The RMC also notifies the key management of any material changes in the VaR metrics and as the SHE fluctuates. The RMC evaluates adherence to the SoRT using deterministic (event) scenario analyses, in addition to stochastic output emanating from SIIG's internal ERC model.

4. SOLVENCY VALUATION

a. **Valuation Bases, Assumptions and Methods to Derive the Value of Each Asset Class**

The Company has used the valuation principles outlined by Bermuda Monetary Authority's "Guidance Notes for Commercial Insurers and Insurance Groups' Statutory Reporting Regime" for the reporting period's statutory filing. The economic valuation principles outlined in this document are to measure assets and liabilities on a fair value basis (which is the value that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date). The fair value principles used for the assets are as follows:

- Cash and Cash Equivalents - Cash includes amounts on hand and demand deposits with banks and other financial institutions. The Company uses quoted market prices as inputs to estimate fair value.
- Fixed Maturity Investments – are valued using quoted market prices in active markets for similar assets where available as inputs to estimate fair value. For fixed maturity investments that are not actively traded and for which similar assets are also not actively traded, the Company uses pricing services to prepare inputs to assist the Company with Mark to model valuations.
- Equities and Other Investments – Consists of common equities, preferred equities, hedge & private equity funds and investments in limited partnerships. Quoted market prices for similar securities in active markets are used as inputs to estimate fair value. For investments that are not actively traded and for which similar assets are also not actively traded, the Company uses pricing services to prepare inputs to assist the Company with Mark to model valuations. For Preferred stocks, the fair value is determined from an evaluated pricing model that calculates the appropriate spread over a comparable security for each issue. For other long term investments such as hedge & private equity funds and investments in limited partnerships, Sirius Group employs a number of procedures to assess the reasonableness of the fair value measurements, including obtaining and reviewing the audited financial statements and periodically discussing each fund's pricing with the fund manager.
- Accounts Receivable, Premiums Receivable and Funds Held by Ceding Reinsurers– are recorded at fair value. Balances due in more than one year have been discounted at the relevant risk free rate.
- Derivative Instruments - The fair value of the Sirius Group's derivative instruments are based upon quoted market prices, where available. Where quoted market prices are not available, management uses available market data and internal pricing models based upon consistent statistical methodologies to estimate the fair value.

b. Valuation Bases, Assumptions and Methods to Derive the Value of Technical Provisions

The insurance technical provisions are valued based on a probability-weighted average of future cash flows, discounted using a relevant adjusted risk-free interest rate term structure. The adjusted risk-free interest rate term structures are prescribed by the Bermuda Monetary Authority for each reporting period.

The loss and premium data underlying the calculation of insurance reserves as reported in the audited GAAP financial statements for the Sirius Group is the same as that used to calculate the technical provisions with additional data representing Bound But Not Incepted premiums. The Sirius Group's carried aggregate technical provisions have been developed separately from loss reserves, premium provisions (including Bound But Not Incepted business) and risk margin. The premium provision is based on loss and loss expense ratio assumptions used in the Sirius Group's underwriting process. Bound But Not Incepted business is developed on a contract-by-contract basis, either from contracts within the underwriting system as of year-end or from contracts not yet in the underwriting system but recognized as bound through discussions with the underwriting team.

As of December 31, 2017 and 2016, the total Net Technical Provisions amounted to \$1,586 million and \$1,247 million, respectively, comprising of the following (\$ in millions):

	2017	2016
• Best Estimate Net Loss and Loss Expense Provision	\$1,427	\$1,173
• Best Estimate Net Premium Provision	\$ 22	\$ (53)
• Risk Margin	\$ 137	\$ 127

c. Description of Recoverables from Reinsurance Contracts

Recoverables from reinsurance contracts are based on principles similar to the gross best estimate and include any reinstatement premiums required to be paid to the reinsurer, and any expenses in relation to the management and administration of the reinsurance claim.

d. Valuation Bases, Assumptions and Methods to Derive the Value of Other Liabilities

Similar to the valuation principles for assets, the Company's liabilities follow the principles outlined by Bermuda Monetary Authority's "Guidance Notes for Commercial Insurers and Insurance Groups' Statutory Reporting Regime" which values liabilities on a fair value basis. All other liabilities (with the exception of Loans and notes payable) are valued on a GAAP basis. Loans and notes payable are discounted using discount rates provided by the Bermuda Monetary Authority as at December 31, 2017.

e. Any Other Material information

No additional material information to report.

5. CAPITAL MANAGEMENT

a. Eligible Capital

i. Capital Management Policy and process for Capital Needs, How Capital is Managed and Material changes during the Reporting period

The primary capital management objectives of the Sirius Group are to ensure that the capital is, and will be, sufficient to cover the risks which the group will be exposed to in line with its current business and existing business plan and to meet regulatory and rating agency capital requirements at all times. The Group recognizes the impact on shareholder returns of the level of equity capital employed and seeks to maintain a prudent balance. It strives for an appropriate capital structure that efficiently allocates risk to capital.

On September 14, 2017, SIIG entered into a definitive agreement to purchase 4.9% of The Phoenix Holdings, Ltd. ("The Phoenix") from Delek Group Ltd. ("Delek Group"). SIIG had an exclusivity period expiring November 23, 2017 to conduct due diligence, during which time SIIG exercised the option to purchase all of Delek Group's remaining shares in The Phoenix (approximately 47.4%). At December 31, 2017 SIIG was awaiting regulatory approval from the Israeli Commissioner of Insurance, the Israel Securities Authority, the Tel Aviv Stock Exchange, and the Israel Antitrust Commissioner in connection with the proposed change in control of The Phoenix. The incremental increase in risk due to the acquisition of the remaining shares of The Phoenix has not been included in this risk assessment since the approval is still pending.

- ii. [Eligible Capital Categorized by Tiers in Accordance With the Eligible Capital Rules](#)
As of December 31, 2017 and 2016, SIIG's Eligible Capital was categorized as follows (\$ in millions):

	2017	2016
Tier 1 Capital	\$789	\$1,524
Tier 2 Capital	\$527	\$551
Tier 3 Capital	-	-
Total	\$1,316	\$2,075

The majority of capital is Tier 1, the highest capital consisting of capital stock, contributed surplus and statutory surplus. The company has a reasonable amount of Tier 2 Capital (consisting of the SEK callable subordinated notes and the difference between encumbered assets for policyholder obligations and policyholder obligations deducted from Tier 1 capital). SIIG had no Tier 3 capital at December 31, 2017.

- iii. [Eligible Capital Categorized by Tiers in Accordance With the Eligible Capital Rules used to Meet ECR and MSM Requirements of the Insurance Act](#)
As of December 31, 2017 and 2016, the Company's Eligible Capital for its Minimum Margin of Solvency ("MSM") and Enhanced Capital Requirement ("ECR") was categorized as follows (\$ in millions):

<u>2017</u>	<u>Minimum Solvency Margin</u>	<u>Enhanced Capital Requirement</u>
Tier 1 Capital	\$789	\$ 789
Tier 2 Capital	197	527
Tier 3 Capital	-	-
Total	\$986	\$1,316

<u>2016</u>	<u>Minimum Solvency Margin</u>	<u>Enhanced Capital Requirement</u>
Tier 1 Capital	\$1,524	\$ 1,524
Tier 2 Capital	381	551
Tier 3 Capital	-	-
Total	\$1,906	\$2,075

- iv. [Confirmation of Eligible Capital That is Subject to Transitional Arrangements](#)
Not applicable
- v. [Identification of Any Factors Affecting Encumbrances on the Availability and Transferability of Capital to Meet ECR](#)
Assets were held in trusts required to be maintained in relation to various reinsurance agreements. Also, Sirius Group's reinsurance operations are required to

maintain deposits with certain insurance regulatory agencies in order to maintain their insurance licenses.

vi. Identification of Ancillary Capital Instruments Approved by the Authority

On September 22, 2017, Sirius Group issued floating rate callable subordinated notes denominated in Swedish Kroner ("SEK") in the amount of SEK 2,750 million (or \$346 million on date of issuance). The BMA have approved these subordinated notes as Other Fixed Capital and have also deemed that the subordinated notes satisfy the eligibility criteria for tier 2 Ancillary Capital.

vii. Identification of Differences in Shareholder's Equity as Stated in the Financial Statements Versus the Available Capital and Surplus

Other than the impact of employing statutory-based technical provision valuation techniques, the treatment of the SEK callable subordinated notes as Other Fixed Capital and the treatment of Goodwill (as a result of the purchase of IMG and Armada) as non-admitted assets, there are no other significant differences between GAAP shareholder's equity and available statutory capital and surplus.

b. Regulatory Capital Requirements

i. ECR and MSM Requirements at the End of the Reporting Period

As of December 31, 2017 and 2016, SIIG's regulatory capital requirements were assessed as follows (\$ in millions):

<u>Requirement</u>	<u>2017</u>	<u>2016</u>
Minimum Margin of Solvency	\$814	\$853
Enhanced Capital Requirement	\$905	\$853

ii. Identification of Any Non-Compliance with the MSM and the ECR

SIIG was compliant with the MSM and ECR requirement at the end of the reporting period.

iii. A Description of the Amount and Circumstances Surrounding the Non-Compliance, the Remedial Measures and Their Effectiveness

Not Applicable

iv. Where Non-compliance is not Resolved, a Description of the Amount of the Non-Compliance

Not Applicable

C. Approved Internal Capital Model

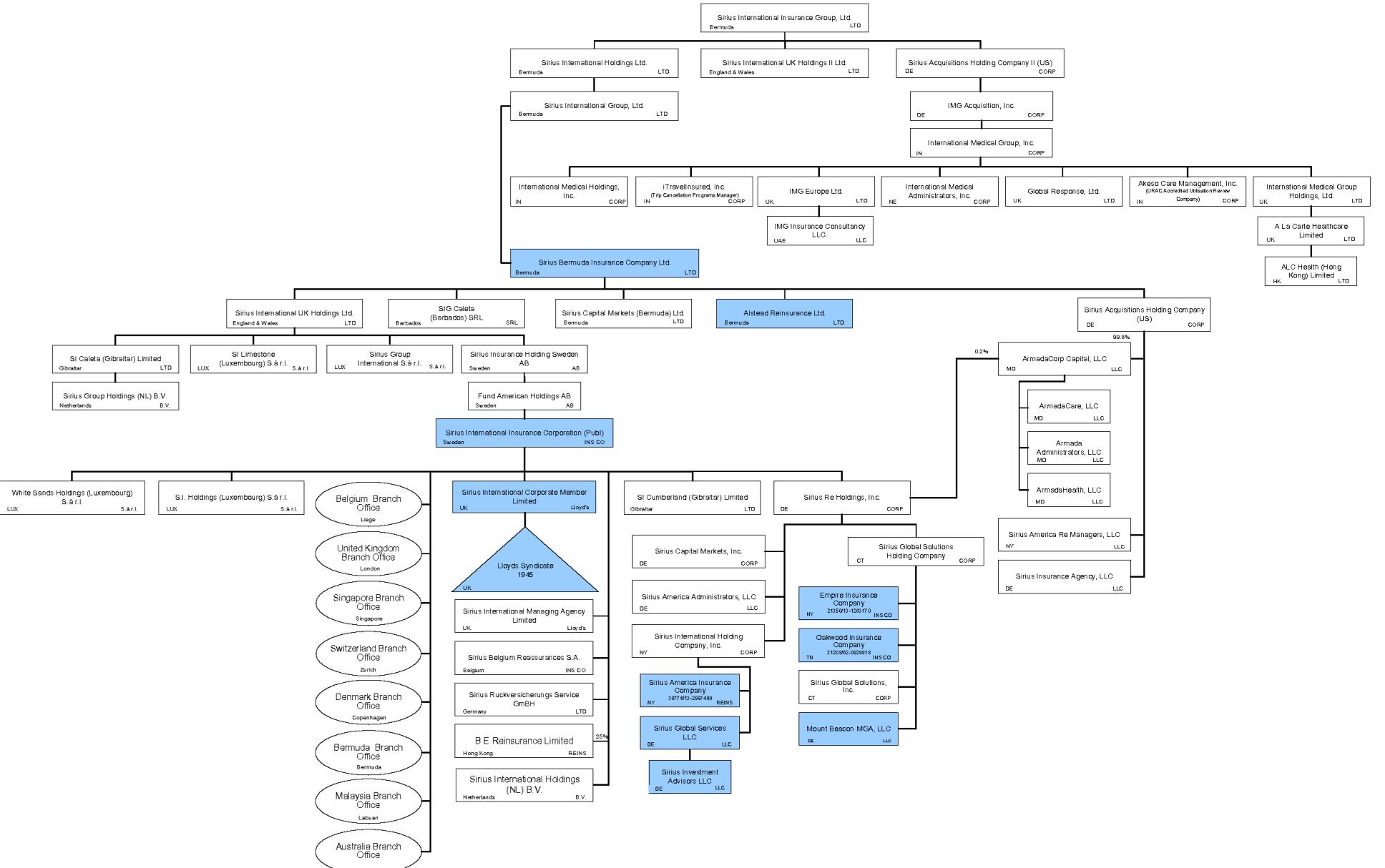
Not Applicable

6. SUBSEQUENT EVENTS

No additional subsequent events to report.

APPENDIX A: GROUP LEGAL STRUCTURE

**SIRIUS GROUP
ORGANIZATION CHART AT 3/31/18**



REINS = Reinsurance Company
INS CO = Insurance Company
CORP = U.S. Corporation
LTD = Non-U.S. Company
LLC = Limited Liability Company
AB = Limited Liability Company
S.à r.l. = Société à responsabilité limité
B.V. = Limited Liability Company
Lloyd's = Lloyd's Corporate Member
AG = Limited Liability Company
SAC = Sociedad Anonima Cerrada
SRL = Society with Restricted Liability
= indirect interest

100% owned (shares and voting rights)
unless otherwise noted

- 1 = Company No. 310000000125935
2 = Company No. 291437634R
3 = Company No. 50418

In connection with the acquisition of IMG by SIG, SIG issued \$100m of Preference Shares to IMG Acquisition Holdings, LLC [ABRY Partners] and may issue up to \$50m of Preference Shares to ABRY Partners based on a three-year contingent earnout consideration mechanism. On a fully converted basis, (i) ABRY Partners currently owns approximately 3.8% of SIG, and (ii) assuming full payment of the contingent earnout consideration, ABRY Partners would own approximately 5.6% of SIG

APPENDIX B: SIRIUS BERMUDA

SIRIUS BERMUDA OVERVIEW

Sirius Bermuda, a direct wholly owned subsidiary of Sirius International Group, Ltd, is a Bermuda based (re)insurance company that was converted from an intermediate Bermuda holding company on September 22, 2014. Sirius Bermuda, along with its subsidiaries, Sirius International, Sirius America and Syndicate 1945, provides insurance and reinsurance on a worldwide basis. Sirius Bermuda received its Class 4 license from the BMA and commenced underwriting on July 1, 2016.

1. BUSINESS AND PERFORMANCE OF SIRIUS BERMUDA

a. Name of Insurer

Sirius Bermuda Insurance Company Ltd. (Designated Class 4 insurer)

b. Supervisors

Insurance and Group Supervisor

Bermuda Monetary Authority
BMA House
43 Victoria Street, Hamilton
Bermuda

c. Approved Auditors

Statutory Reporting

PricewaterhouseCoopers
Washington House, 4th Floor
16 Church Street, Hamilton
Bermuda

GAAP Reporting

PricewaterhouseCoopers LLP
101 Seaport Boulevard
Boston, Massachusetts
U.S.A.

d. Ownership Details

Sirius Bermuda is a wholly owned subsidiary of Sirius International Group, Ltd. and its ultimate controlling company is CMIG International. Appendix A contains the corporate structure of the Sirius Group and the principal operating companies.

e. Insurance Business Written by Business Major Class and by Geographical Region

As Sirius Bermuda is the top insurance company in the Sirius Group, the consolidated gross premiums written by major class and geographical region are the same as indicated for the Sirius Group. On a stand-alone basis, Sirius Bermuda's gross written premiums by major class and geographical regions for the years ended December 31, 2017 and 2016 are as follows:

Gross Premiums Written by Major Class

<i>Business class</i> (\$ in millions)	2017	2016
Property	\$ 187	\$ -
Casualty	38	-
Agriculture	33	-
Accident & Health	29	-
Marine	6	-
Total Core Lines	293	-
Intercompany Premiums	227	97
Total	\$ 520	\$ 97

Gross Premiums Written by Geographical Region

<i>Geographic region</i> (\$ in millions)	2017	2016
United States	\$ 293	\$ -
Europe	-	-
Canada, the Caribbean, Bermuda and Latin America	-	-
Asia and Other	227	97
Total	\$ 520	\$ 97

For 2017 and 2016 on a stand-alone basis, all of Sirius Bermuda's gross premiums in the Asia and Other region were assumed via a quota share arrangement with Sirius International, an affiliated entity.

f. Performance of Investments & Material Income & Expenses for the Reporting Period
Performance of Investments for the Reporting Period

<i>2017 return overview</i>				
(\$ in millions)	Consolidated	Return	Return	
Fixed maturity investments	\$ 2,165	\$48	3.3%	
Short-term investments	588	17	0.9%	
Equity securities	299	25	5.8%	
Other long-term investments	452	24	5.3%	
Total	\$ 3,504	\$114		

2016 return overview

(\$ in millions)	Consolidated	Return	Return
Fixed maturity investments	\$ 2,886	\$90	0.4%
Short-term investments	499	1	0.2%
Equity securities	118	21	10.0%
Other long-term investments	125	5	4.0%
Total	\$ 3,628	\$117	

2017 return overview

(\$ in millions)	Stand-alone*	Return	Return
Fixed maturity investments	\$ 573	\$ 16	2.6%
Short-term investments	233	1	0.9%
Equity securities	73	2	3.1%
Other long-term investments	59	6	9.8%
Total	\$ 938	\$ 25	

*Sirius Bermuda's stand-alone amount includes \$114.7m of investments as a result of the mergers with White Shoals, Star Re and IMIC.

2016 return overview

(\$ in millions)	Stand-alone	Return	Return
Fixed maturity investments	\$ 726	\$ 3	1.8%
Short-term investments	107	-	0.2%
Equity securities	-	7	8.7%
Other long-term investments	26	1	2.0%
Total	\$ 859	\$ 11	

Material Income & Expenses for the Reporting Period

Sirius Bermuda's main revenue source is premiums. Sirius Bermuda's major expenses arise from loss and loss adjustment expenses. On a consolidated basis, as Sirius Bermuda is the top operating company of the Group, the loss and loss adjustment expenses, acquisition costs and other underwriting expenses are fairly consistent with the Sirius Group's expenses. On a stand-alone basis, the 2017 hurricanes (Harvey, Irma & Maria), earthquakes in Mexico and the California wildfires contributed \$92m of the total \$234m to the loss and loss adjustment expenses.

2017 Expense Type (\$ in millions)	Consolidated	Stand-alone
Loss and loss adjustment expenses	\$ 792	\$ 234
Acquisition costs	223	73
Other underwriting expenses	106	21
Other underwriting expenses	47	10
Total	\$1,168	\$ 338

2016 Expense Type (\$ in millions)	Consolidated	Stand-alone
Loss and loss adjustment expenses	\$ 519	\$ 23
Acquisition costs	210	15
Other underwriting expenses	107	2
Other underwriting expenses	49	2
Total	\$885	\$ 42

g. Any other material information

No other material information to report.

2. GOVERNANCE STRUCTURE - SIRIUS BERMUDA

a. Board and Senior Executive

- i. The Sirius Bermuda Board, comprised of Ms. Monica Cramér Manhem (as Chairman), Mr. Allan Waters, Mr. Warren Trace and Mr. Jan Onselius, has ultimate responsibility for the operations of the business and the compliance with the laws and regulations. The Sirius Bermuda Board adopts all policies, the SORT and other matters required by the regulator at least annually as established by the SIIG Board. The governance structure of the Sirius Group is described in the Group section above.

Sirius Bermuda Senior Executives comprise of Warren Trace as President & Chief Executive Officer, Sheila E. Nicoll as Chief Operating Officer, Jeffrey Davis as Chief Actuary & Chief Risk Officer, AnnCharlotte Lindgren as Executive Vice President and Angelo Whaley as Chief Financial Officer.

ii. Board and Senior Executive Professional Qualifications, Skills and expertise

All of the directors and executive officers of Sirius Bermuda are elected by the Sirius Bermuda Board for a term of one year or until their successors have been elected and have duly qualified. Information with respect to the principal occupation and relevant business experience of the Board and Senior Executives is as follows:

Board

Mr. Jan Onselius has served as Executive Vice President of Sirius International since 2006 and Chief Underwriting Officer of Sirius International since 2002 and also serves as a director of Sirius Bermuda. Mr. Onselius has been a part of the Sirius Group since 1982.

For the qualifications, skills and expertise of Allan Waters, Monica Cramér Manhem and Warren Trace please refer to the Sirius Group's Governance structure section above.

Senior Executives

Ms. AnnCharlotte Lindgren serves as Executive Vice President of Sirius Bermuda. Prior to her appointment in September 2016, Ms. Lindgren served as Senior Vice President of Sirius International Insurance Corporation – Bermuda Branch from 2006 to 2016. Ms. Lindgren has been a part of the Sirius Group since October 1984.

Ms. Sheila E. Nicoll currently serves as Chief Operations Officer of Sirius Bermuda, a position she has held since September 2016. Ms. Nicoll joined Sirius in September 2008 as Senior Vice President of Sirius International insurance Corporation – Bermuda Branch. Ms. Nicoll is a Fellow of The Chartered Insurance Institute.

Mr. Angelo Whaley joined the Sirius Group in June 2016 as Senior Vice President, Controller of Sirius International Insurance Corporation – Bermuda Branch until September 2016 when Sirius Bermuda was launched. Mr. Whaley currently serves as Chief Financial Officer of Sirius Bermuda. From 2007 to 2016, Mr. Whaley held senior finance positions at Montpelier Reinsurance Ltd. Mr. Whaley successfully passed the Uniform Final Examination for chartered Accountancy Designation in 1998.

For the qualifications, skills and expertise of Warren Trace and Jeffrey Davis please refer to the Sirius Group's Governance structure section above

3. RISK PROFILE

Refer to the SIIG Group Risk Profile above.

4. SOLVENCY VALUATION

As Sirius Bermuda is the top insurance company in the Sirius Group, the solvency valuation information is the same as indicated for the Sirius Group. As such, please refer to the Sirius Group's Solvency Valuation section above for further details.

a. Any Other Material Information

No additional material information to report.

5. CAPITAL MANAGEMENT

a. Eligible Capital

- i. Capital Management Policy and process for Capital Needs, How Capital is Managed and Material changes during the Reporting period

Please refer to Sirius Group Capital Management section above for details.

- ii. Eligible Capital Categorized by Tiers in Accordance With the Eligible Capital Rules

As of December 31, 2017 and 2016, Sirius Bermuda's Eligible Capital was categorized as follows (\$ in millions):

	2017	2016
Tier 1 Capital	\$1,717	\$2,117
Tier 2 Capital	273	551
Tier 3 Capital	-	-
Total	\$1,990	\$2,668

The majority of capital is Tier 1, the highest capital consisting of capital stock, contributed surplus and statutory surplus. Sirius Bermuda has a reasonable amount of Tier 2 Capital (consisting of the difference between encumbered assets for policyholder obligations and policyholder obligations deducted from Tier 1 capital). Sirius Bermuda had no Tier 3 capital as at December 31, 2017 and 2016.

- iii. Eligible Capital Categorized by Tiers in Accordance With the Eligible Capital Rules used to Meet ECR and MSM Requirements of the Insurance Act

As of December 31, 2017 and 2016, the Sirius Bermuda's Eligible Capital for its Minimum Margin of Solvency ("MSM") and Enhanced Capital Requirement ("ECR") was categorized as follows (expressed in millions of US dollars):

	2017	<u>Minimum Solvency Margin</u>	<u>Enhanced Capital Requirement</u>
Tier 1 Capital		\$1,717	\$1,717
Tier 2 Capital		273	273
Tier 3 Capital		-	-
Total		\$1,990	\$1,990

	2016	<u>Minimum Solvency Margin</u>	<u>Enhanced Capital Requirement</u>
Tier 1 Capital		\$2,117	\$2,117
Tier 2 Capital		529	551
Tier 3 Capital		-	-
Total		\$2,646	\$2,668

- iv. Confirmation of Eligible Capital That is Subject to Transitional Arrangements
Not applicable
- v. Identification of Any Factors Affecting Encumbrances on the Availability and Transferability of Capital to Meet ECR
Assets were held in trusts required to be maintained in relation to various reinsurance agreements. Also, Sirius Group's reinsurance operations are required to maintain deposits with certain insurance regulatory agencies in order to maintain their insurance licenses.
- vi. Identification of Ancillary Capital Instruments Approved by the Authority
Not Applicable
- vii. Identification of Differences in Shareholder's Equity as Stated in the Financial Statements Versus the Available Capital and surplus
Other than the impact of employing statutory-based technical provision valuation techniques and the treatment of Goodwill (as a result of the purchase of Armada) as non-admitted assets, there are no other significant differences between GAAP shareholder's equity and available statutory capital and surplus.

b. Regulatory Capital Requirements

- i. ECR and MSM Requirements at the End of the Reporting Period

At the end of the reporting period, Sirius Bermuda's regulatory capital requirements were assessed as follows (\$ in millions):

<u>Requirement</u>	<u>2017</u>	<u>2016</u>
Minimum Margin of Solvency	\$225	\$212
Enhanced Capital Requirement	\$902	\$848

- ii. Identification of Any Non-Compliance with the MSM and the ECR

Sirius Bermuda was compliant with the MSM and ECR requirement at the end of the reporting period.

- iii. A Description of the Amount and Circumstances Surrounding the Non-Compliance, the Remedial Measures and Their Effectiveness

Not Applicable

- iv. Where Non-compliance is not Resolved, a Description of the Amount of the Non-Compliance

Not Applicable

c. Approved Internal Capital Model

Not Applicable

6. SUBSEQUENT EVENTS

No additional subsequent events to report.

APPENDIX C: ALSTEAD RE

ALSTEAD RE OVERVIEW

Alstead Re, a registered segregated accounts company and a direct wholly owned subsidiary of Sirius Bermuda, was incorporated in Bermuda on June 28, 2013. Alstead Re received its Class 3A license from the BMA and commenced underwriting on October 1, 2015. Alstead Re assumes accident and health reinsurance business on a quota share basis from Sirius America and Lloyd's Syndicate 1945, both related entities.

1. BUSINESS AND PERFORMANCE OF ALSTEAD RE

a. Name of Insurer

Alstead Reinsurance Ltd. (Class 3A insurer)

b. Supervisors

Insurance and Group Supervisor

Bermuda Monetary Authority
BMA house
43 Victoria Street, Hamilton
Bermuda

c. Approved Auditors

Statutory & GAAP Reporting

PricewaterhouseCoopers
Washington House, 4th Floor
16 Church Street, Hamilton
Bermuda

d. Ownership Details

Alstead Re is a wholly owned subsidiary of Sirius Bermuda and its ultimate controlling company is CMIG International. Appendix A contains the corporate structure of the Sirius Group and the principal operating companies.

e. Insurance Business Written

Alstead Re writes accident and health reinsurance on a quota share basis from Sirius America and Lloyds Syndicate 1945. Both of these entities are affiliated with Alstead Re and are owned ultimately by CMIG International. Gross premiums assumed during 2017 and 2016 were \$16m and \$3m, respectively.

f. Performance of Investments & Material Income & Expenses for the Reporting Period

Performance of Investments for the Reporting Period

There are no investments held by Alstead Re.

Material Income & Expenses for the Reporting Period

Alstead Re's main revenue source is premium income. Alstead Re's major expenses arise from loss and loss adjustment expenses.

<i>Expense Type</i> (\$ in millions)	2017	2016
Loss and loss adjustment expenses	\$ 8	\$ 2
Acquisition costs	4	1
Other underwriting/G&A expenses	-	-
Total	\$12	\$ 3

g. Any other material information

No other material information to report.

2. GOVERNANCE STRUCTURE – ALSTEAD RE

a. Board and Senior Executive

- i. The Alstead Re Board, comprised of Mr. Warren Trace, Ms. Sheila E. Nicoll and Mr. Stuart Liddell, has ultimate responsibility for the operations of the business and the compliance with the laws and regulations. The Alstead Re Board adopts all policies and other matters required by the regulator at least annually as established by the SIIG Board. The governance structure of the Sirius Group is described in the Group section above.

Board member Sheila E. Nicoll is also the President of Alstead Re.

ii. Board and Senior Executive Professional Qualifications, Skills and expertise

All of the directors and executive officers of Alstead Re are elected by the Alstead Re Board for a term of one year or until their successors have been elected and have duly qualified. Information with respect to the principal occupation and relevant business experience of the Board and Senior Executives is as follows:

Board

Mr. Stuart Liddell has served as Global Head of Accident & Health (“A&H”) for the Sirius Group since 2010. Mr. Liddell has been a part of the Sirius Group since 2002 initially as an A&H Underwriter at Sirius International before being promoted to his current position in 2010. Prior to joining Sirius International, Mr. Liddell served as Head of A&H at Lloyds Syndicate 861 from 1998 to 2002, Deputy Active Underwriter for Lloyds Syndicate 718 from 1997 to 1998 and Underwriter for Lloyds Syndicate 718 from 1991 to 1997.

For qualifications, skills and expertise of Warren Trace and Sheila E. Nicoll, please refer to Sirius Group and Sirius Bermuda Governance structure sections above.

Senior Executive

For qualifications, skills and expertise of Sheila E. Nicoll please refer to the Sirius Group and Sirius Bermuda Governance structure sections above.

3. RISK PROFILE

Refer to the SIIG Group Risk Profile above.

4. SOLVENCY VALUATION

a. Valuation Bases, Assumptions and Methods to Derive the Value of Each Asset Class

Alstead Re has used the valuation principles outlined by Bermuda Monetary Authority's "Guidance Notes for Commercial Insurers and Insurance Groups' Statutory Reporting Regime" for the reporting period's statutory filing. The economic valuation principles outlined in this document are to measure assets and liabilities on a fair value basis (which is the value that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between open market participants at the measurement date). The fair value principles used for the assets are as follows:

- Cash and Cash Equivalents - Cash includes amounts on hand and demand deposits with banks and other financial institutions. The Company uses quoted market prices as inputs to estimate fair value.
- Accounts Receivable, Premiums Receivable and Funds Held by Ceding Reinsurers- are recorded at fair value. Balances due in more than one year have been discounted at the relevant risk free rate.

For 2016 only, Alstead Re was granted permission by the BMA to file a modified Class 3A Capital & Solvency Return, called the Class 3A BSCR Collateralized Model (the "Collateralized Model"). For companies given permission to file a Collateralized Model, the preparation of an economic balance sheet and related schedules is not required. As such, valuation basis, assumptions and methods to derive the value of technical provisions and other items were not considered applicable for Alstead Re in 2016.

b. Valuation Bases, Assumptions and Methods to Derive the Value of Technical Provisions

The insurance technical provisions are valued based on a probability-weighted average of future cash flows, discounted using a relevant adjusted risk-free interest rate term structure. The adjusted risk-free interest rate term structures are prescribed by the Bermuda Monetary Authority for each reporting period.

The loss and premium data underlying the calculation of insurance reserves as reported in the audited GAAP financial statements for the Sirius Group is the same as that used to calculate the technical provisions with additional data representing Bound But Not Incepted premiums. The Sirius Group's carried aggregate technical provisions have been developed separately from loss reserves, premium provisions (including Bound But Not Incepted business) and risk margin. The premium provision is based on loss and loss expense ratio assumptions used in the Sirius Group's underwriting process. Bound But Not Incepted business is developed on a contract-by-contract basis, either from contracts within the underwriting system as of year-end or from contracts not yet in the underwriting system but recognized as bound through discussions with the underwriting team.

As of December 31, 2017, the total Net Technical Provisions amounted to \$4million comprising of the following (\$ in millions):

• Best Estimate Net Loss and Loss Expense Provision	\$ 4
• Best Estimate Net Premium Provision	\$ -
• Risk Margin	\$ -

c. Description of Recoverables from Reinsurance Contracts

Not Applicable

d. Valuation Bases, Assumptions and Methods to Derive the Value of Other Liabilities

Similar to the valuation principles for assets, the Company's liabilities follow the principles outlined by Bermuda Monetary Authority's "Guidance Notes for Commercial Insurers and Insurance Groups' Statutory Reporting Regime" which values liabilities on a fair value basis. All other liabilities (with the exception of Loans and notes payable) are valued on a GAAP basis. Loans and notes payable are discounted using discount rates provided by the Bermuda Monetary Authority as at December 31, 2017.

e. Any Other Material information

No additional material information to report.

5. CAPITAL MANAGEMENT

a. Eligible Capital

i. Capital Management Policy and process for Capital Needs, How Capital is Managed and Material changes during the Reporting period

Please refer to Sirius Group Capital Management section above for details.

ii. Eligible Capital Categorized by Tiers in Accordance With the Eligible Capital Rules

At the end of the reporting period, Alstead Re's Eligible Capital was categorized as follows (\$ in millions):

Tier 1 Capital	\$8
Tier 2 Capital	-
Tier 3 Capital	-
Total	\$8

All of the capital is Tier 1, the highest capital consisting of capital stock, contributed surplus and statutory surplus. Alstead Re had no Tier 2 or Tier 3 capital at December 31, 2017.

iii. [Eligible Capital Categorized by Tiers in Accordance With the Eligible Capital Rules used to Meet ECR and MSM Requirements of the Insurance Act](#)

At the end of the reporting period, the Company's Eligible Capital for its Minimum Margin of Solvency ("MSM") and Enhanced Capital Requirement ("ECR") was categorized as follows (\$ in millions):

	<u>Minimum Solvency Margin</u>	<u>Enhanced Capital Requirement</u>
Tier 1 Capital	\$8	\$8
Tier 2 Capital	-	-
Tier 3 Capital	-	-
Total	\$8	\$8

iv. [Confirmation of Eligible Capital That is Subject to Transitional Arrangements](#)

Not Applicable

v. [Identification of Any Factors Affecting Encumbrances on the Availability and Transferability of Capital to Meet ECR](#)

Not Applicable

vi. [Identification of Ancillary Capital Instruments Approved by the Authority](#)

Not Applicable

viii. [Identification of Differences in Shareholder's Equity as Stated in the Financial Statements Versus the Available Capital and Surplus](#)

Other than the impact of employing statutory-based technical provision valuation techniques, there are no other significant differences between GAAP shareholder's equity and available statutory capital and surplus.

b. [Regulatory Capital Requirements](#)

i. [ECR and MSM Requirements at the End of the Reporting Period](#)

As of December 31, 2017 and 2016, Alstead Re's regulatory capital requirements were assessed as follows (\$ in millions):

<u>Requirement</u>	<u>2017</u>	<u>2016</u>
Minimum Margin of Solvency	\$3	\$1
Enhanced Capital Requirement	\$3	N/A

ii. [Identification of Any Non-Compliance with the MSM and the ECR](#)

Alstead Re was compliant with the MSM and ECR requirement at the end of the reporting period.

iii. [A Description of the Amount and Circumstances Surrounding the Non-Compliance, the Remedial Measures and Their Effectiveness](#)

Not Applicable

iv. Where Non-compliance is not Resolved, a Description of the Amount of the Non-Compliance
Not Applicable

c. Approved Internal Capital Model
Not Applicable

6. SUBSEQUENT EVENTS

No additional subsequent events to report.