

Sirius International Group, Ltd.

Consolidated Financial Statements
For the years ended
December 31, 2016, 2015, and 2014

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Report of Independent Auditors

To the Board of Directors of Sirius International Group, Ltd.

We have audited the accompanying consolidated financial statements of Sirius International Group, Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income, of shareholders' equity and of cash flows for each of the three years in the period ended December 31, 2016.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sirius International Group, Ltd. and its subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP".

Boston Massachusetts
April 7, 2017

Sirius International Group, Ltd.
Consolidated Balance Sheets

Millions, except share and per share amounts	December 31,	
	2016	2015
Assets		
Fixed maturity investments, at fair value	\$ 2,886.7	\$ 2,359.0
Short-term investments, at amortized cost (which approximates fair value)	504.6	323.2
Common equity securities, at fair value	118.0	730.1
Other long-term investments	124.8	78.2
Total investments	<u>3,634.1</u>	<u>3,490.5</u>
Cash	137.1	141.5
Reinsurance recoverable on unpaid losses	291.5	283.1
Reinsurance recoverable on paid losses	17.1	10.2
Insurance and reinsurance premiums receivable	394.6	323.6
Funds held by ceding companies	100.0	90.6
Investments in unconsolidated affiliates	-	151.9
Deferred acquisition costs	84.7	74.6
Deferred tax asset	279.1	275.7
Ceded unearned insurance and reinsurance premiums	101.1	87.7
Accrued investment income	19.0	16.8
Accounts receivable on unsettled investment sales	-	29.0
Other assets	50.2	70.3
Total assets	<u>\$ 5,108.5</u>	<u>\$ 5,045.5</u>
Liabilities		
Loss and loss adjustment expense reserves	\$ 1,620.1	\$ 1,644.4
Unearned insurance and reinsurance premiums	398.0	342.2
Debt	396.2	403.0
Deferred tax liability	239.7	263.6
Funds held under reinsurance treaties	63.4	52.9
Ceded reinsurance payable	99.6	67.1
Accounts payable on unsettled investment purchases	7.6	-
Other liabilities	74.8	89.6
Total liabilities	<u>2,899.4</u>	<u>2,862.8</u>
Shareholders' equity		
Common shares at \$1.00 par value per share - authorized 12,000 shares; issued and outstanding, 12,000 shares	0.1	0.1
Preference shares at \$0.01 par value per share - 250,000 shares	-	-
Additional paid-in surplus - common shares	1,134.0	1,091.8
Additional paid-in surplus - preference shares	250.0	250.0
Retained earnings	1,035.3	986.2
Accumulated other comprehensive income (loss), after-tax:		
Net unrealized foreign currency translation losses	(211.6)	(144.3)
Other, net	-	(1.2)
Total shareholders' equity	<u>2,207.8</u>	<u>2,182.6</u>
Non-controlling interests	<u>1.3</u>	<u>0.1</u>
Total equity	<u>2,209.1</u>	<u>2,182.7</u>
Total liabilities and shareholders' equity	<u>\$ 5,108.5</u>	<u>\$ 5,045.5</u>

See Notes to Consolidated Financial Statements including **Note 16** for Commitments and Contingencies.

Sirius International Group, Ltd.
Consolidated Statements of Operations and Comprehensive Income

Millions	Year Ended December 31,		
	2016	2015	2014
Revenues			
Gross written insurance and reinsurance premiums	\$ 1,269.0	\$ 1,160.5	\$ 1,136.6
Net written insurance and reinsurance premiums	\$ 938.1	\$ 847.6	\$ 882.5
Earned insurance and reinsurance premiums	\$ 890.1	\$ 847.0	\$ 873.9
Net investment income	56.4	39.8	41.1
Net realized investment gains	288.1	138.4	65.0
Net unrealized investment (losses) gains	(238.2)	102.6	144.2
Net foreign exchange losses	(10.9)	(18.2)	(56.6)
Other revenue	9.0	(2.4)	(5.8)
Total revenues	994.5	1,107.2	1,061.8
Expenses			
Loss and loss adjustment expenses	519.3	422.7	345.3
Insurance and reinsurance acquisition expenses	210.3	189.8	193.6
Other underwriting expenses	107.3	107.9	129.7
General and administrative expenses	48.1	10.5	13.5
Accretion of fair value adjustment to loss and loss adjustment expense reserves	0.5	0.7	0.7
Interest expense on debt	34.6	26.6	26.3
Total expenses	920.1	758.2	709.1
Pre-tax income	74.4	349.0	352.7
Income tax benefit (expense)	7.4	(47.1)	(71.7)
Income before equity in earnings of unconsolidated affiliates	81.8	301.9	281.0
Equity in earnings of unconsolidated affiliates, net of tax	6.6	23.9	42.9
Income before income attributable to non-controlling interests	88.4	325.8	323.9
Income attributable to non-controlling interests	(0.5)	-	-
Net income before dividends on preference shares	87.9	325.8	323.9
Dividends on preference shares	(18.8)	(18.8)	(18.8)
Net income attributable to Sirius Group's common shareholders	69.1	307.0	305.1
Other comprehensive income, net of tax			
Change in equity in net unrealized (losses) gains from investments in unconsolidated affiliates, net of tax	-	(29.8)	66.1
Change in foreign currency translation, net of tax	(67.3)	(65.4)	(167.9)
Net change in other, net of tax	1.2	0.2	(1.5)
Comprehensive income attributable to Sirius Group's common shareholders	\$ 3.0	\$ 212.0	\$ 201.8

See Notes to Consolidated Financial Statements.

Sirius International Group, Ltd.
Consolidated Statements of Shareholders' Equity

Sirius Group's Shareholders' Equity							
Millions	Common shares and paid-in surplus	Preference shares and paid-in surplus	Retained earnings	AOI, after-tax	Total	Non- Controlling Interests	Total Equity
Balances at December 31, 2013	\$ 1,091.2	\$ 250.0	\$ 487.7	\$ 52.8	\$ 1,881.7	-	\$ 1,881.7
Net income before dividends on preference shares	-	-	323.9	-	323.9	-	323.9
Net change in unrealized investment gain (losses)							
from investments in unconsolidated affiliates	-	-	-	66.1	66.1	-	66.1
Net change in foreign currency translation	-	-	-	(167.9)	(167.9)	-	(167.9)
Net change in interest rate swap	-	-	-	0.3	0.3	-	0.3
Dividends declared on preference shares	-	-	(18.8)	-	(18.8)	-	(18.8)
Net change in other	-	-	-	(1.8)	(1.8)	-	(1.8)
Comprehensive income (loss)	-	-	305.1	(103.3)	201.8	-	201.8
Dividends declared on common shares	-	-	(65.4)	-	(65.4)	-	(65.4)
Other, net	0.5	-	-	-	0.5	-	0.5
Balances at December 31, 2014	1,091.7	250.0	727.4	(50.5)	2,018.6	-	2,018.6
Net income before dividends on preference shares	-	-	325.8	-	325.8	-	325.8
Net change in unrealized investment gain (losses)							
from investments in unconsolidated affiliates	-	-	-	(29.8)	(29.8)	-	(29.8)
Net change in foreign currency translation	-	-	-	(65.4)	(65.4)	-	(65.4)
Net change in interest rate swap	-	-	-	0.3	0.3	-	0.3
Dividends declared on preference shares	-	-	(18.8)	-	(18.8)	-	(18.8)
Net change in other	-	-	-	(0.1)	(0.1)	-	(0.1)
Comprehensive income (loss)	-	-	307.0	(95.0)	212.0	-	212.0
Dividends declared on common shares	-	-	(48.0)	-	(48.0)	-	(48.0)
Other, net	0.2	-	(0.2)	-	-	0.1	0.1
Balances at December 31, 2015	1,091.9	250.0	986.2	(145.5)	2,182.6	0.1	2,182.7
Net income before dividends on preference shares	-	-	87.9	-	87.9	0.5	88.4
Net change in unrealized investment gain (losses)							
from investments in unconsolidated affiliates	-	-	-	-	-	-	-
Net change in foreign currency translation	-	-	-	(67.3)	(67.3)	-	(67.3)
Net change in interest rate swap	-	-	-	-	-	-	-
Dividends declared on preference shares	-	-	(18.8)	-	(18.8)	-	(18.8)
Net change in other	-	-	-	1.2	1.2	-	1.2
Comprehensive income (loss)	-	-	69.1	(66.1)	3.0	0.5	3.5
Dividends declared on common shares	-	-	(20.0)	-	(20.0)	-	(20.0)
Capital contribution from parent	20.0	-	-	-	20.0	-	20.0
Contribution from sale of OneBeacon	22.1	-	-	-	22.1	-	22.1
Other, net	0.1	-	-	-	0.1	0.7	0.8
Balances at December 31, 2016	\$ 1,134.1	\$ 250.0	\$ 1,035.3	\$ (211.6)	\$ 2,207.8	\$ 1.3	\$ 2,209.1

See Notes to Consolidated Financial Statements.

Sirius International Group, Ltd.
Consolidated Statements of Cash Flows

Millions	Year Ended December 31,		
	2016	2015	2014
Cash flows from operations:			
Net income	\$ 87.9	\$ 325.8	\$ 323.9
(Credits) charges to reconcile net income to net cash provided from (used for) operations:			
Net realized and unrealized investment gains	(49.9)	(241.0)	(209.2)
Net gain on sale of consolidated affiliates	-	(1.0)	(1.0)
Amortization and depreciation	18.4	27.2	31.5
Excess of fair value of acquired net assets over cost (See Note 2)	(4.3)	-	-
Undistributed equity in earnings of unconsolidated affiliates, after-tax	(6.6)	(23.9)	(42.9)
Other operating items:			
Net change in loss and LAE reserves	18.1	(100.7)	(92.5)
Net change in reinsurance recoverable on paid and unpaid losses	(23.6)	24.6	(9.8)
Net change in funds held by ceding companies	(15.1)	(4.8)	(0.2)
Net change in unearned insurance and reinsurance premiums	60.8	27.4	62.0
Net change in ceded reinsurance premiums payable	11.5	8.4	34.6
Net change in ceded unearned insurance and reinsurance premiums	(1.9)	(18.9)	(17.5)
Net change in insurance and reinsurance premiums receivable	(95.4)	(39.2)	(79.2)
Net change in deferred acquisition costs	(14.2)	(8.6)	(10.8)
Net change in funds held under reinsurance treaties	13.0	(0.9)	4.7
Net change in current and deferred income taxes, net	(12.0)	12.0	72.0
Net change in other assets and liabilities, net	10.0	37.7	107.6
Net cash (used for) provided from operations	(3.3)	24.1	173.2
Cash flows from investing activities:			
Net change in short-term investments	(198.2)	135.0	(209.9)
Sales of fixed maturities and convertible fixed maturity investments	2,438.4	2,159.0	2,803.6
Maturities, calls and paydowns of fixed maturity and convertible fixed maturity investments	141.8	178.3	176.8
Sales of common equity securities	848.4	312.6	51.1
Distributions and redemptions of other long-term investments	27.9	13.2	38.4
Sales of consolidated subsidiaries and unconsolidated affiliates, net of cash sold	173.5	14.3	12.6
Contributions to other long-term investments	(73.5)	(10.7)	(22.3)
Purchases of common equity securities	(224.7)	(266.1)	(39.1)
Purchases of fixed maturities and convertible fixed maturity investments	(3,186.0)	(2,434.1)	(2,825.7)
Purchases of consolidated and unconsolidated affiliates, net of cash acquired	27.5	-	(9.1)
Net change in unsettled investment purchases and sales	38.4	(12.2)	(17.3)
Other, net	4.4	(9.2)	(7.6)
Net cash provided from (used for) investing activities	17.9	80.1	(48.5)
Cash flows from financing activities:			
Capital contribution from parent	20.0	-	-
Contribution from sale of OneBeacon	22.1	-	-
Issuance of debt, net of issuance costs	392.4	-	-
Repayment of debt	(405.6)	-	-
Collateral provided by interest rate cap counterparties	(0.5)	(2.4)	(6.5)
Cash dividends paid on common shares	(20.0)	(48.0)	(65.4)
Cash dividends paid on preference shares	(18.8)	(18.8)	(18.8)
Other, net	0.8	-	-
Net cash used for financing activities	(9.6)	(69.2)	(90.7)
Effect of exchange rate changes on cash	(9.4)	(4.5)	(14.3)
Net (decrease) increase in cash during year	(4.4)	30.5	19.7
Cash balance at beginning of year	141.5	111.0	91.3
Cash balance at end of year	\$ 137.1	\$ 141.5	\$ 111.0

See Notes to Consolidated Financial Statements.

NOTE 1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements at December 31, 2016, have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) and include the accounts of Sirius International Group, Ltd. (the “Company” or “SIG”) and its subsidiaries (collectively with the Company, “Sirius Group”) and other entities required to be consolidated under GAAP. The Company is a direct wholly owned subsidiary of Sirius International Holdings, Ltd. (“S.I. Holdings, Ltd.”) and an indirect wholly owned subsidiary of Sirius International Insurance Group, Ltd. (“Sirius Ltd.”), each a Bermuda company. All the issued and outstanding capital stock of Sirius Ltd. was purchased on April 18, 2016 by CM International Holding Pte. Ltd (“CMIG International”), a Singapore Holding Company, through its Bermuda holding company CM Bermuda Ltd. (“CM Bermuda”), from White Mountains Insurance Group, Ltd. (“White Mountains”). Sirius Group has not elected to apply pushdown accounting after being acquired by CMIG International. The Company is an exempted Bermuda limited liability company whose wholly-owned subsidiaries provide insurance and reinsurance on a worldwide basis. 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 subsidiaries, 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 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 or subsidiaries in London, United Kingdom; 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, 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. Syndicate 1945 wrote premiums of \$166.7 million, \$123.4 million, and \$108.9 million during 2016, 2015, and 2014, respectively. Lloyd’s approved stamp capacity for Syndicate 1945 in 2017 is £108.4 million, or approximately \$134.3 million (based on the December 31, 2016 GBP to USD exchange rate).

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, 2016.

All significant intercompany transactions have been eliminated in consolidation. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts in the prior period financial statements have been reclassified to conform to the current presentation.

Sirius International Group, Ltd.
Notes to Consolidated Financial Statements

Marketing and Distribution

Sirius Group obtains most of its reinsurance submissions from reinsurance intermediaries that represent the ceding company. During the years ended December 31, 2016, 2015, and 2014, Sirius Group received a large portion of its gross reinsurance premiums written from three major, third-party reinsurance intermediaries as detailed in the following table:

Gross written premium by intermediary	Year Ended December 31,		
	2016	2015	2014
AON Re/Benfield	22%	24	26
Guy Carpenter	18	18	19
Willis Re	8	9	10
Total	48%	51%	55%

During 2016, Sirius Group obtained \$176.5 million, or 14%, of its gross written premiums through International Medical Group, Inc. (“IMG”), which is the largest agent writing medical business on Sirius Group’s behalf. During 2015 and 2014, Sirius Group received 15% and 11% of its gross written premiums through IMG, respectively.

Geographic Concentration

The following table shows Sirius Group’s net written premiums by geographic region based on the location of the ceding company for the years ended December 31, 2016, 2015, and 2014:

Geographic region Millions	Year Ended December 31,		
	2016	2015	2014
United States	\$ 463.0	\$ 397.5	\$ 402.6
Europe	258.9	241.9	277.7
Canada, the Caribbean, Bermuda and Latin America	88.3	101.2	99.8
Asia and Other	127.9	107.0	102.4
Total	\$ 938.1	\$ 847.6	\$ 882.5

Sirius Group conducts a significant portion of its business outside of the United States. As a result, a significant portion of Sirius Group’s assets, liabilities, revenues and expenses are denominated in currencies other than the U.S. dollar and are therefore subject to foreign currency risk. Sirius Group’s foreign currency risk cannot be eliminated entirely and significant changes in foreign exchange rates may adversely affect Sirius Group’s results of operations and financial condition.

Sirius Group’s foreign operations are subject to legal, political, and operational risks that may be greater than those present in the United States. As a result, certain of Sirius Group’s operations at these foreign locations could be temporarily or permanently disrupted.

Significant Accounting Policies

Investment Securities

As of December 31, 2016, Sirius Group’s invested assets consisted of securities and other investments held for general investment purposes. Sirius Group’s portfolio of fixed maturity investments and common equity securities held for general investment purposes are classified as trading and are reported at fair value as of the balance sheet date. Changes in unrealized gains and losses are reported pre-tax in revenues. Realized investment gains and losses are accounted for using the specific identification method and are reported pre-tax in revenues. Premiums and discounts on all fixed maturity investments are amortized and accreted to income over the anticipated life of the investment.

Sirius International Group, Ltd.

Notes to Consolidated Financial Statements

Sirius Group's invested assets that are measured at fair value include fixed maturity investments, common and preferred equity securities, convertible fixed maturity and preferred investments, and other long-term investments, such as interests in hedge funds and private equities. In determining its estimates of fair value, Sirius Group uses a variety of valuation approaches and inputs. Whenever possible, Sirius Group estimates fair value using valuation methods that maximize the use of quoted prices and other observable inputs.

As of both December 31, 2016 and 2015, approximately 96% and 98% of the investment portfolio recorded at fair value was priced based upon quoted market prices or other observable inputs. Investments valued using Level 1 inputs include fixed maturities, primarily investments in U.S. Treasuries, common equities and short-term investments, which include U.S. Treasury Bills. Investments valued using Level 2 inputs comprise fixed maturities including corporate debt, state and other governmental debt, convertible fixed maturity and preferred investments, and mortgage and asset-backed securities. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Level 3 fair value estimates based upon unobservable inputs include Sirius Group's investments in certain debt securities, including asset-backed securities, and equity securities where quoted market prices are unavailable or are not considered reasonable. Sirius Group determines when transfers between levels have occurred as of the beginning of the period. Sirius Group uses brokers and outside pricing services to assist in determining fair values. For investments in active markets, Sirius Group uses the quoted market prices provided by outside pricing services to determine fair value. The outside pricing services used by Sirius Group have indicated that if no observable inputs are available for a security, they will not provide a price. In those circumstances, Sirius Group estimates the fair value using industry standard pricing models and observable inputs such as benchmark interest rates, market comparables, broker quotes, issuer spreads, bids, offers, credit rating prepayment speeds and other relevant inputs. Sirius Group performs procedures to validate the market prices obtained from the outside pricing sources. Such procedures, which cover substantially all of its fixed maturity investments include, but are not limited to, evaluation of model pricing methodologies and a review of the pricing services' quality control processes and procedures on at least an annual basis, comparison of market prices to prices obtained from a different independent pricing vendors on at least a semi-annual basis, monthly analytical reviews of certain prices, and a review of assumptions utilized by the pricing service for selected measurements on an ad hoc basis throughout the year. Sirius Group also performs back-testing of selected sales activity to determine whether there are any significant differences between the market price used to value the security prior to sale and the actual sale price on an ad hoc basis throughout the year. Prices provided by the pricing services that vary by more than 5% and \$1.0 million from the expected price based on these procedures are considered outliers. Prices that have not changed from period to period and prices that have trended unusually compared to market conditions are also considered outliers.

In circumstances where the results of Sirius Group's review process do not appear to support the market price provided by the pricing services, Sirius Group challenges the price. During the past year Sirius Group did not issue any challenges with the pricing service. If Sirius Group cannot gain satisfactory evidence to support the challenged price, it relies upon its own pricing methodologies to estimate the fair value of the security in question. The fair values of such securities are considered to be Level 3 measurements.

Sirius Group's investments in debt securities, including asset-backed securities, are generally valued using matrix and other pricing models. Key inputs include benchmark yields, benchmark securities, reported trades, issuer spreads, bids, offers, credit ratings and prepayment speeds. Income on mortgage-backed and asset-backed securities is recognized using an effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from anticipated prepayments, the estimated economic life is recalculated and the remaining unamortized premium or discount is amortized prospectively over the remaining economic life.

Short-term investments consist of money market funds, certificates of deposit and other securities which, at the time of purchase, mature or become available for use within one year. Short-term investments are carried at amortized cost, which approximated fair value as of December 31, 2016 and 2015.

Sirius International Group, Ltd.

Notes to Consolidated Financial Statements

Other Long-term Investments

Other long-term investments consist primarily of hedge funds, private equity funds, other investments in limited partnerships and other private equity securities. Sirius Group has taken the fair value option for most of its investments in hedge funds, private equity funds, other limited partnership investments, and other private equity securities. For the investments for which Sirius Group has taken the fair value option, changes in fair value are reported in revenues on a pre-tax basis. For those other long-term investments for which Sirius Group has not made the fair value election, Sirius Group accounts for its interests under the equity method.

Derivative Financial Instruments

Sirius Group holds derivative financial instruments for both risk management and investment purposes. Sirius Group recognizes all derivatives as either assets or liabilities, measured at fair value, in the consolidated balance sheets. Changes in the fair value of derivative instruments are recognized in current period pre-tax income.

Interest Rate Cap

Sirius Group entered into an interest rate swap with two financial institutions where the Company paid an upfront premium and in return, will receive a series of quarterly payments based on 3-month LIBOR at time of payment. The Interest Rate Cap does not qualify for hedge accounting. It is recorded in other assets at fair value. Changes in fair value are recognized as unrealized gains or losses and are presented within other revenue. Collateral held is recorded within short-term investments with an equal amount recognized as a liability to return collateral. (See **Note 8.**)

Foreign Currency Swaps

In April 2015, Sirius Group executed two foreign currency swaps, each with a notional amount of \$50.0 million, maturing in March, 2017. Under the first swap, Sirius Group pays Swedish krona and receives U.S. dollars. Under the second swap, Sirius Group pays Euros and receives U.S. dollars. The swaps, which were executed as part of Sirius Group's management of overall foreign currency exposure at Sirius Group, have not been designated or accounted for under hedge accounting. (See **Note 8.**)

Weather Derivatives

Sirius Group assumes liabilities related to weather and weather contingent risk management products. All of the products are in the form of derivative financial instruments. Sirius Group enters into weather and weather contingent derivative contracts with the objective of generating profits in normal climatic conditions. Accordingly, Sirius Group's weather and weather contingent derivatives are not designed to meet the criteria for hedge accounting under GAAP. The majority of Sirius Group's business consists of receiving a payment or premium at the contract inception in exchange for bearing the risk of variations in a quantifiable weather index. Sirius Group initially recognizes the premium paid or received as an asset or liability, respectively, and recognizes any subsequent changes in fair value, as they occur, in other revenue within the income statement. The fair value for Sirius Group's derivative financial contracts 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. (See **Note 8.**)

Cash

Cash includes amounts on hand and demand deposits with banks and other financial institutions. Amounts presented in the statement of cash flows are shown net of balances acquired and sold in the purchase or sale of the Company's consolidated subsidiaries and exclude changes in amounts of restricted cash. (See **Note 11.**)

Insurance and Reinsurance Operations

Sirius Group accounts for insurance and reinsurance policies that it writes in accordance with ASC 944. Premiums written are recognized as revenues and are earned ratably over the term of the related policy or reinsurance treaty. Unearned premiums represent the portion of premiums written that are applicable to future insurance or reinsurance coverage provided by policies or treaties in force. Sirius Group charges fees on certain of its insurance policies.

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Deferred acquisition costs represent commissions, premium taxes, brokerage expenses, and other costs which are directly attributable to and vary with the production of business. These costs are deferred and amortized, to the extent they relate to successful contract acquisitions, over the applicable premium recognition period as insurance and reinsurance acquisition expenses. Amortization of deferred acquisition costs are presented within insurance and reinsurance acquisition expenses. Deferred acquisition costs are limited to the amount expected to be recovered from future earned premiums and anticipated investment income. This limitation is referred to as a premium deficiency. A premium deficiency is recognized if the sum of expected loss and loss adjustment expenses (“LAE”), expected dividends to policyholders, unamortized acquisition costs, and maintenance costs exceeds related unearned premiums and anticipated investment income. A premium deficiency is recognized by charging any unamortized acquisition costs to expense to the extent required in order to eliminate the deficiency. If the premium deficiency exceeds unamortized acquisition costs then a liability is accrued for the excess deficiency.

Losses and LAE are charged against income as incurred. Unpaid insurance losses and LAE are based on estimates (generally determined by claims adjusters, legal counsel and actuarial staff) of the ultimate costs of settling claims, including the effects of inflation and other societal and economic factors. Unpaid reinsurance losses and LAE are based primarily on reports received from ceding companies and actuarial projections. Unpaid loss and LAE reserves represent management’s best estimate of ultimate losses and LAE, net of estimated salvage and subrogation recoveries, if applicable. Such estimates are regularly reviewed and updated and any resulting adjustments are reflected in current operations. The process of estimating loss and LAE involves a considerable degree of judgment by management and the ultimate amount of expense to be incurred could be considerably greater than or less than the amounts currently reflected in the financial statements.

Sirius Group enters into ceded reinsurance contracts from time to time to protect its businesses from losses due to concentration of risk, to manage their operating leverage ratios and to limit losses arising from catastrophic events. Such reinsurance contracts are executed through excess of loss treaties and catastrophe contracts under which the reinsurer indemnifies for a specified part or all of certain types of losses over stipulated amounts arising from any one occurrence or event. Sirius Group has also entered into quota share treaties with reinsurers under which all risks meeting prescribed criteria are covered on a pro-rata basis. The amount of each risk ceded by Sirius Group is subject to maximum limits which vary by line of business and type of coverage.

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. The collectability of reinsurance recoverables is subject to the solvency of the reinsurers. Sirius Group is selective in regard to its reinsurers, principally placing reinsurance with those reinsurers with a strong financial condition, industry ratings, and underwriting ability. Management monitors the financial condition and ratings of its reinsurers on an ongoing basis.

Reinsurance premiums, commissions, expense reimbursements, and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies are reported as a reduction of premiums written. Expense allowances received in connection with reinsurance ceded have been accounted for as a reduction of the related policy acquisition costs and are deferred and amortized accordingly. Funds held by ceding companies represent amounts due to Sirius Group in connection with certain assumed reinsurance agreements in which the ceding company retains a portion of the premium to provide security against future loss payments. The funds held by ceding companies are generally invested by the ceding company and a contractually agreed interest amount is credited to Sirius Group and recognized as investment income. Funds held under insurance and reinsurance contracts represent contractual payments due to Sirius Group that have been retained to secure such obligations. Such amounts are recorded as liabilities in the consolidated financial statements.

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Accruals for contingent commission liabilities are established for reinsurance contracts that provide for the stated commission percentage to increase or decrease based on the loss experience of the contract. Changes in the estimated liability for such arrangements are recorded as contingent commissions. Accruals for contingent commission liabilities are determined through the review of the contracts that have these adjustable features and are estimated based on expected loss and LAE.

Insurance-related Assessments

Under existing guaranty fund laws in the United States, insurers licensed to do business in those states can be assessed for certain obligations of insolvent insurance companies to policyholders and claimants. Sirius Group records guaranty fund assessments when it is probable that an assessment will be made and the amount can be reasonably estimated.

Deferred Software Costs

Sirius Group capitalizes costs related to computer software developed for internal use during the application development stage of software development projects. These costs generally consist of certain external, payroll and payroll-related costs. Sirius Group begins amortization of these costs once the project is completed and ready for its intended use. Amortization is on a straight-line basis and over a useful life of three to five years. As of December 31, 2016 and 2015, Sirius Group had unamortized deferred software costs of \$8.1 million and \$9.7 million.

Commission and Other Revenue Recognition

Sirius Group recognizes agent commissions and other revenues when it has fulfilled all of its obligations necessary to earn the revenue and when it can both reliably estimate the amount of revenue, net of any amounts expected to be uncollectible, and any amounts associated with expected cancellations.

Federal and Foreign Income Taxes

Some of Sirius Group's subsidiaries file consolidated tax returns in the United States. Income earned or losses generated by companies outside the United States are generally subject to an overall effective tax rate lower than that imposed by the United States.

Deferred tax assets and liabilities are recorded when a difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes exists, and for other temporary differences. The deferred tax asset or liability is recorded based on tax rates expected to be in effect when the difference reverses. The deferred tax asset is recognized when it is more likely than not that it will be realized.

Foreign Currency Exchange

The U.S. dollar is the functional currency for Sirius Group's businesses except for Sirius International, Syndicate 1945, and the Canadian reinsurance operations of Sirius America. Sirius Group also invests in securities denominated in foreign currencies. Assets and liabilities recorded in these foreign currencies are translated into U.S. dollars at exchange rates in effect at the balance sheet date, and revenues and expenses are converted using the average exchange rates for the period. Net foreign exchange gains and losses arising from the translation of functional currencies are generally reported in shareholders' equity, in accumulated other comprehensive income or loss.

Assets and liabilities relating to foreign operations are translated into the functional currency using current exchange rates; revenues and expenses are translated into the functional currency using the weighted average exchange rate for the period. The resulting exchange gains and losses are reported as a component of net income in the period in which they arise. As of December 31, 2016 and 2015, Sirius Group had unrealized foreign currency translation losses of \$211.6 million and \$144.3 million recorded in accumulated other comprehensive income on its consolidated balance sheet.

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The following rates of exchange for the U.S. dollar have been used for the most significant operations:

Currency	Opening	Closing	Opening	Closing
	Rate 2016	Rate 2016	Rate 2015	Rate 2015
Swedish kronor	8.4247	9.0549	7.7737	8.4247
British pound	0.6757	0.8074	0.6426	0.6757
Euro	0.9189	0.9479	0.8245	0.9189
Canadian dollar	1.3859	1.3432	1.1591	1.3859

A summary of the impact of foreign currency translation on Sirius Group's consolidated financial results for the years ended December 31, 2016, 2015, and 2014 follows:

Millions	Year Ended December 31,		
	2016	2015	2014
Net realized investment gains - foreign currency ⁽¹⁾	\$ 49.9	\$ 70.6	\$ 25.5
Net unrealized investment (losses) gains - foreign currency ⁽²⁾	(7.5)	(15.4)	125.0
Net realized and unrealized investment gains - foreign currency	42.4	55.2	150.5
Other revenue - foreign currency translation (losses) gains	(17.5)	(18.1)	(56.6)
Other revenue - currency swaps	6.6	(0.1)	-
Income tax expense	2.4	(0.2)	(4.0)
Total foreign currency translation gains (losses) recognized through net income, after tax	33.9	36.8	89.9
Change in foreign currency translation on investments recognized through other comprehensive income, after tax	(83.1)	(110.7)	(274.3)
Change in foreign currency translation on non-investment net liabilities recognized through other comprehensive income, after tax	15.8	45.3	106.4
Total foreign currency translation (losses) gains recognized through other comprehensive income, after tax	(67.3)	(65.4)	(167.9)
Total foreign currency (losses) gains recognized through comprehensive income, after tax	\$ (33.4)	\$ (28.6)	\$ (78.0)

⁽¹⁾ Component of net realized investment gains on the income statement.

⁽²⁾ Component of net unrealized investment (losses) gains on the income statement.

Intangible Assets

Intangible assets consist solely of insurance licenses with indefinite lives. Intangible assets with indefinite lives are not amortized, but rather are evaluated for impairment on at least an annual basis. Sirius Group did not recognize any impairment losses for intangible assets for any years ended December 31, 2016, 2015, and 2014. The carrying value of intangible assets as of December 31, 2016 and 2015, was \$5.0 million and \$10.2 million, respectively.

Non-controlling Interest

Non-controlling interests consist of the ownership interests of non-controlling shareholders in consolidated subsidiaries, and are presented separately on the balance sheet. The portion of comprehensive income attributable to non-controlling interests is presented net of related income taxes in the statement of operations and comprehensive income.

Variable Interest Entities

Sirius Group consolidates a variable interest entity ("VIE") when it has both the power to direct the activities of the VIE that most significantly impact its economic performance and either the obligation to absorb losses or the right to receive returns from the VIE that could potentially be significant to the VIE.

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Preference Shares

On May 24, 2007, the Company issued \$250.0 million in non-cumulative perpetual preference shares with a \$1,000 per share liquidation preference (the “SIG Preference Shares”), and received \$245.7 million of proceeds, net of \$4.3 million of issuance costs and commissions. These shares were issued in an offering that was exempt from the registration requirements of the Securities Act of 1933. Holders of the SIG Preference Shares receive dividends semi-annually on a non-cumulative basis, when and if declared by the Company, on June 30 and December 31 of each year. The holders of the SIG Preference Shares have the right to elect two directors to the Company’s board in the event of non-payment of dividends for six quarterly dividend periods. The right ceases upon the payment of dividends for four quarterly periods or the redemption of the SIG Preference Shares. In addition, the Company may not declare or pay dividends on its common shares (other than stock dividends and dividends paid for purposes of any employee benefit plans of the Company and its subsidiaries) unless it is current on its most recent dividend period. The dividend rate is fixed at an annual rate of 7.506% until June 30, 2017. After June 30, 2017, the dividend rate will be paid at a floating annual rate, equal to the greater of 3-month LIBOR plus 320 basis points or 7.506%. The SIG Preference Shares are redeemable solely at the discretion of the Company on or after June 30, 2017 at their liquidation preference of \$1,000 per share, plus any declared but unpaid dividends.

In July 2013, SIG executed a 5-year forward LIBOR cap (the “Interest Rate Cap”) for the period from June 2017 to June 2022 to protect against a significant increase in interest rates during that 5-year period. The Interest Rate Cap economically fixes the annual dividend rate on the SIG Preference Shares from June 2017 to June 2022 at 8.30%. The Interest Rate Cap is recorded in other assets at fair value. Changes in fair value are recorded in other revenue.

Prior to June 30, 2017, the Company may elect to redeem the SIG Preference Shares at an amount equal to the greater of 1) the aggregate liquidation preference of the shares to be redeemed and 2) the sum of the present values of the aggregate liquidation preference of the shares to be redeemed and the remaining scheduled dividend payments on the shares to be redeemed (excluding June 30, 2017), discounted to the redemption date on a semi-annual basis at a rate equal to the rate on a comparable treasury issue plus 45 basis points.

In the event of liquidation of the Company, the holders of the SIG Preference Shares would have preference over the common shareholders and would receive a distribution equal to the liquidation preference per share, subject to availability of funds.

Recently Adopted Changes in Accounting Principles

Business Combinations – Measurement Period Adjustments

Effective January 1, 2016, Sirius Group adopted ASU 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments*, which requires adjustments to provisional amounts recorded in connection with a business combination that are identified during the measurement period to be recorded in the reporting period in which the adjustment amounts are determined, rather than as retroactive adjustments to prior periods. Sirius Group has not recognized any adjustments to estimated purchase accounting amounts for the year ended December 31, 2016 and accordingly, there was no effect to Sirius Group’s financial statements upon adoption.

Fair Value Measurements

On January 1, 2016, Sirius Group adopted ASU 2015-07, *Fair Value Measurement - Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)* (ASC 820), which eliminates the requirement to disclose the fair value hierarchy level for investments for which fair value is measured at net asset value using the practical expedient in ASC 820. Sirius Group measures the fair value of its investments in hedge funds and private equity funds using this practical expedient. Upon adoption, these fair value measurements are no longer classified within the fair value hierarchy. Prior year amounts have been modified to conform to the current year’s disclosures.

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Amendments to Consolidation Analysis

On January 1, 2016, Sirius Group adopted ASU 2015-02, *Amendments to the Consolidation Analysis* (ASC 810) which amends the guidance for determining whether an entity is a variable interest entity (“VIE”). ASU 2015-02 eliminates the separate consolidation guidance for limited partnerships and, with it, the presumption that a general partner should consolidate a limited partnership. In addition, ASU 2015-02 changes the guidance for determining if fee arrangements qualify as variable interests and the effect fee arrangements have on the determination of the primary beneficiary. Adoption of ASU 2015-02 did not affect the consolidation analysis for any of Sirius Group’s investments.

Share-Based Compensation Awards

On January 1, 2016, Sirius Group adopted ASU 2014-12, *Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* (ASC 718). The new guidance requires that a performance target that affects vesting and that can be achieved after the requisite service period be treated as a performance condition. Compensation cost is to be recognized in the period when it becomes probable the performance target will be achieved in an amount equal to the compensation cost attributable to the periods for which service has been rendered. Adoption did not have an effect on Sirius Group’s financial position, results of operations, cash flows, presentation or disclosures.

Debt Issuance Costs

On January 1, 2016, Sirius Group adopted ASU 2015-03, *Imputation of Interest* (ASC 835), which requires debt issuance costs to be presented as a deduction from the carrying amount of the related debt, consistent with the treatment required for debt discounts. The new guidance requires amortization of debt issuance costs to be classified within interest expense and also requires disclosure to the debt’s effective interest rate. Sirius Group has applied the guidance retrospectively and as a result has reclassified \$0.5 million of unamortized debt issuance costs from other assets to debt as of December 31, 2015, reflecting these amounts as a reduction from the related debt, and has modified its disclosures to include the required effective interest rate on its debt.

Pushdown Accounting

ASU 2014-17, *Pushdown Accounting*, became effective upon its issuance on November 18, 2014. The new guidance, gives an acquired non-public company the option to apply pushdown accounting in its separate company financial statements in the period in which it is acquired in a change of control transaction. Once pushdown accounting has been applied, the election is irreversible. Acquired entities that chose not to apply pushdown accounting at the time of acquisition may apply pushdown accounting in a subsequent period as a change in accounting principle under ASC 250, *Accounting Changes and Error Corrections*. Sirius Group has not had any acquisitions for which it has elected to apply pushdown accounting since ASU 2014-17 became effective. In addition, Sirius Group has not elected to apply pushdown accounting after being acquired by CMIG International.

Recent Accounting Pronouncements

Statement of Cash Flows

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash* (ASC 230). The new guidance adds and clarifies the classification and presentation of restricted cash in the statement of cash flows. The standard also requires a description of the nature of the changes in restricted cash and cash equivalents during the periods presented. The updated guidance in ASU 2016-18 is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted. Sirius Group is evaluating the expected impact of this new guidance.

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In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* (ASC 230). This standard provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows, including among others, debt prepayment and extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and distributions received from equity method investees. The standard also clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use of the underlying cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017, including interim periods. Sirius Group is currently assessing the impact of adoption this guidance will have on future financial statements and disclosures.

Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (ASC 326), which establishes new guidance for the recognition of credit losses for financial assets measured at amortized cost. The new ASU, which applies to financial assets that have the contractual right to receive cash, including reinsurance receivables, requires reporting entities to estimate the credit losses expected over the life of a credit exposure using historical information, current information and reasonable and supportable forecasts that affect the collectability of the financial asset. ASU 2016-13 is effective for annual periods beginning after January 1, 2020, including interim periods. Sirius Group is evaluating the expected impact of this new guidance.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASC 842). The new guidance requires lessees to recognize lease assets and liabilities on the balance sheet for both operating and financing leases, with the exception of leases with an original term of 12 months or less. Under existing guidance recognition of lease assets and liabilities is not required for operating leases. The lease assets and liabilities to be recognized are both measured initially based on the present value of the lease payments. The new guidance is effective for Sirius Group for years beginning after December 15, 2018, including interim periods therein. Sirius Group is evaluating the expected impact of this new guidance and available adoption methods.

Financial Instruments - Recognition and Measurement

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASC 825-10). The new guidance requires all equity securities with readily determinable fair values to be measured at fair value with changes therein recognized through current period earnings. In addition, the new ASU requires a qualitative assessment for equity investments without readily determinable fair values to identify impairment, and for impaired equity security investments to be measured at fair value. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Sirius Group has taken the fair value election for its portfolio of equity security investments and, accordingly, does not expect the adoption of ASU 2016-01 to have a significant impact on its financial statements.

Short-Duration Contracts

In May 2015, the FASB issued ASU 2015-09, *Disclosures about Short Duration Contracts* (ASC 944), which requires expanded footnote disclosures about loss and loss adjustment expense (“LAE”) reserves. Under the new guidance, some disclosures currently presented outside of Sirius Group’s financial statements, such as loss development tables and a reconciliation of loss development data to the loss and LAE reserves reflected on the balance sheet, will become part of the financial statement footnotes. In addition, the loss development tables required to be presented under the new ASU must be presented on a disaggregated basis by accident year rather than by reporting year as currently presented. Some of the expanded disclosures are new requirements, such as the disclosure of reserves for losses incurred but not reported (“IBNR”) plus expected development on reported claims, which must be presented by accident year on a disaggregated basis. The new guidance also requires new disclosures about claim frequency data together with descriptions of the approach used to measure that data. Qualitative descriptions of methodologies and assumptions used to develop IBNR estimates must be presented together with the amounts of IBNR to which they relate, along with a discussion of any significant changes in methodology and assumptions and the related effect upon the loss reserves. The new guidance will be effective for annual periods beginning after December 15, 2016 and interim periods within annual periods beginning after December 15, 2017 with retrospective restatement of prior periods required. Sirius Group will modify its financial statement footnote disclosures to conform to the requirements of ASU 2015-09 upon adoption, including revisions to prior year’s disclosures.

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Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASC 606), which modifies the guidance for revenue recognition. The scope of the new ASU excludes insurance contracts but is applicable to certain fee arrangements as well as commissions and other non-insurance revenues. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers* (ASC 606), which delayed the effective date of ASU 2014-09 to annual and interim reporting periods beginning after December 15, 2017. Sirius Group is in the process of evaluating the new guidance and has not yet determined the potential effect of adoption on its financial position, results of operations, or cash flows, but does not expect the impact of the adoption of ASU 2015-14 to have a significant impact on its financial statements

NOTE 2. Significant Transactions

Sirius Group completed the following transactions:

- On May 17, 2016, Sirius Global Solutions and Florida Specialty Insurance Company partnered to form Florida Specialty Acquisition LLC (“Florida Specialty”). Sirius Global Solutions provided \$15.8 million to acquire 100% of Florida Specialty’s common shares. Florida Specialty acquired Mount Beacon Holdings, LLC and its subsidiaries including Mount Beacon Insurance Company (“Mount Beacon”).
- On April 18, 2016, Sirius Group sold its investment in OneBeacon Insurance Group, Ltd. (“OneBeacon”) at fair value to White Mountains for proceeds of \$178.3 million in connection with the sale of Sirius Group to CMIG International and recorded \$22.1 million of additional paid-in capital for the excess of fair value over the equity method carrying value of OneBeacon. (See **Note 12.**)
- On April 18, 2016, Sirius Global Solutions sold Ashmere Insurance Company to White Mountains for proceeds of \$18.5 million in connection of the sale of Sirius Group from White Mountains.
- On February 1, 2016, Sirius Group sold its investment in Symetra Financial Corporation (“Symetra”) for proceeds of \$559.8 million, or \$32.00 per share. (See **Note 12.**)
- On September 24, 2015, Sirius Global Solutions completed the sale of Woodridge to Sojourner Holding Co., which resulted in a gain of \$1.0 million recorded in other revenue.
- On December 23, 2014, Sirius Group acquired 100% of Olympus Re for \$11.5 million. Olympus Re was a Bermuda-domiciled insurance and reinsurance company that assumed property and marine business mainly from Sirius Group from 2001 to 2007 and has been in runoff since then. At acquisition, Sirius Group recognized total assets acquired of \$24.6 million and total liabilities assumed of \$13.1 million at their estimated fair values.
- On October 31, 2014, Sirius Global Solutions completed a loss portfolio transfer (“LPT”) from the U.S. insurance subsidiary of a major international financial services company. Loss reserves and cash consideration of approximately \$37 million were assumed by White Shoals Re.
- On January 2, 2014, Sirius Global Solutions completed the shell sale of Citation Insurance Company to CopperPoint Mutual Insurance Company, which resulted in a gain of \$0.7 million recorded in other revenue.

NOTE 3. Reserves for Unpaid Losses and Loss Adjustment Expenses

Sirius Group establishes loss and LAE reserves that are estimates of future amounts needed to pay claims and related expenses for events that have already occurred. Sirius Group also obtains reinsurance whereby another reinsurer contractually agrees to indemnify Sirius Group for all or a portion of the reinsurance risks underwritten by Sirius Group. Such arrangements, where one reinsurer provides reinsurance to another reinsurer, are usually referred to as “retrocessional reinsurance” arrangements. Sirius Group establishes estimates of amounts recoverable from retrocessional reinsurance in a manner consistent with the loss and LAE liability associated with reinsurance contracts offered to its customers (the “ceding companies”), net of an allowance for uncollectible amounts. Net reinsurance loss reserves represent loss and LAE reserves reduced by retrocessional reinsurance recoverable on unpaid losses.

In addition to those risk factors which give rise to inherent uncertainties in establishing insurance loss and LAE reserves, the inherent uncertainties of estimating such reserves are even greater for the reinsurer, due primarily to: (1) the claim-tail for reinsurers and insurers working through managing general underwriters (“MGUs”) being further extended because claims are first reported to either the original primary insurance company or the MGU and then through one or more intermediaries or reinsurers, (2) the diversity of loss development patterns among different types of reinsurance treaties, facultative contracts or direct insurance contracts, (3) the necessary reliance on the ceding companies, intermediaries and MGUs for information regarding reported claims and (4) the differing reserving practices among ceding companies and MGUs.

As with insurance reserves, the process of estimating reinsurance reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain. Based on the above, such uncertainty may be larger relative to the reserves for a company that principally writes reinsurance compared to an insurance company, and certainty may take a longer time to emerge.

Upon notification of a loss from an insured (typically a ceding company), Sirius Group establishes case reserves, including LAE reserves, based upon Sirius Group’s share of the amount of reserves established by the insured and Sirius Group’s independent evaluation of the loss. In cases where available information indicates that reserves established by a ceding company are inadequate, Sirius Group establishes case reserves or incurred but not reported (“IBNR”) in excess of its share of the reserves established by the ceding company. Also, in certain instances, Sirius Group may decide not to establish case reserves or IBNR, when the information available indicates that reserves established by ceding companies are not adequately supported. In addition, specific claim information reported by insureds or obtained through claim audits can alert management to emerging trends such as changing legal interpretations of coverage and liability, claims from unexpected sources or classes of business, and significant changes in the frequency or severity of individual claims where customary. Generally, ceding company audits are not customary outside the United States. This information is often used to supplement estimates of IBNR.

Although loss and LAE reserves are initially determined based on underwriting and pricing analyses, Sirius Group regularly reviews the adequacy of its recorded reserves by using a variety of generally accepted actuarial methods, including historical incurred and paid loss development methods. If actual loss activity differs substantially from expectations, an adjustment to recorded reserves may be warranted. As time passes, loss reserve estimates for a given year will rely more on actual loss activity and historical patterns than on initial assumptions based on pricing indications.

The actuarial methods are used to calculate a point estimate of loss and LAE reserves for each company within Sirius Group. These point estimates are then aggregated to produce an actuarial point estimate for Sirius Group. Once a point estimate is established, Sirius Group’s actuaries estimate loss reserve ranges to measure the sensitivity of the actuarial assumptions used to set the point estimates. These ranges are calculated from historical variations in loss ratios, payment and reporting patterns by class and type of business. Management then establishes an estimate for the carried loss and LAE reserves shown in the financial statement. The management selection is within the range of loss reserve estimates provided by SBDA’s actuaries and typically above the actuarial point estimate.

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Loss and Loss Adjustment Expense Reserve Summary

The following table summarizes the loss and LAE reserve activities of Sirius Group for the years ended December 31, 2016, 2015, and 2014:

Millions	Year ended December 31,		
	2016	2015	2014
Gross beginning balance	\$ 1,644.4	\$ 1,809.8	\$ 2,025.0
Less beginning reinsurance recoverable on unpaid losses	(283.1)	(322.2)	(347.9)
Net loss and LAE reserve balance	1,361.3	1,487.6	1,677.1
Loss and LAE reserves acquired ⁽¹⁾	9.8	-	45.4
Losses and LAE incurred relating to:			
Current year losses	583.0	473.9	443.3
Prior years losses	(63.7)	(51.2)	(98.0)
Total net incurred losses and LAE	519.3	422.7	345.3
Accretion of fair value adjustment to net loss and LAE reserves	0.5	0.7	0.7
Foreign currency translation adjustment to net loss and LAE reserves	(14.0)	(27.2)	(36.0)
Loss and LAE paid relating to:			
Current year losses	207.6	162.4	142.7
Prior years losses	340.7	360.1	402.2
Total loss and LAE payments	548.3	522.5	544.9
Net ending balance	1,328.6	1,361.3	1,487.6
Plus ending reinsurance recoverable on unpaid losses	291.5	283.1	322.2
Gross ending balance	\$ 1,620.1	\$ 1,644.4	\$ 1,809.8

⁽¹⁾ Loss and LAE reserves acquired in 2016 relate to Sirius Global Solutions' purchase of Mount Beacon. Loss and LAE reserves acquired in 2014 relate to Sirius Group's purchase of Olympus Re and loss portfolio transfer from a major international financial services company.

Loss and LAE development—2016

During the year ended December 31, 2016, Sirius Group had net favorable loss reserve development of \$63.7 million. The major reductions in loss reserve estimates were recognized in the property (\$25.1 million), aviation and space (\$11.5 million), accident and health (\$7.8 million) and marine (\$7.2 million) lines. The decrease in property was driven primarily by reductions in the ultimate loss estimates for natural catastrophes that occurred between 2010 and 2015 due to less than expected claims activity. In addition, \$5.4 million was due to IBNR reduction, as a write-off of an uncollectible premium balance due from a Venezuela insurer was recognized as a commission expense.

Loss and LAE development—2015

During the year ended December 31, 2015, Sirius Group had net favorable loss reserve development of \$51.2 million. The major reductions in loss reserve estimates were recognized in the property (\$25.6 million), and casualty and other runoff lines (\$13.7 million). The decrease in property was driven primarily by reductions in the ultimate loss estimates for natural catastrophes that occurred between 2010 and 2014 due to less than expected claims activity.

Loss and LAE development – 2014

During the year ended December 31, 2014, Sirius Group had net favorable loss reserve development of \$98.0 million. The major reductions in loss reserve estimates were recognized in property (\$54.5 million), aviation and space (\$12.6 million), accident and health (\$13.1 million) lines and casualty (\$12.7 million) lines, which included a \$9.6 million increase in asbestos and environmental loss reserves. For the property loss estimates decrease, \$24.0 million represented reduction of loss reserves previously held above the actuarial central estimate. This amount represented an IBNR provision established between 2010-2012 in response to the large catastrophe events, including the 2010 earthquake in Chile, the 2010/2011 earthquakes in New Zealand, the 2011 earthquake in Japan, and hurricane Sandy in 2012, and the inherent uncertainty associated with deriving initial loss estimates.

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Fair value adjustment to loss and LAE reserves

In connection with purchase accounting for acquisitions, Sirius Group is required to adjust loss and LAE reserves and the related reinsurance recoverables to fair value on their respective acquired balance sheets. The net reduction to loss and LAE reserves is being recognized through an income statement charge ratably with and over the period the claims are settled. Sirius Group recognized \$0.5 million, \$0.7 million, and \$0.7 million of such charges, recorded as loss and LAE during 2016, 2015, and 2014. As of December 31, 2016, the pre-tax un-accreted adjustment was \$2.9 million.

Asbestos and Environmental Loss and Loss Adjustment Expense Reserve Activity

Sirius Group's reserves include provisions made for claims that assert damages from asbestos and environmental ("A&E") related exposures primarily at Sirius America. Asbestos claims relate primarily to injuries asserted by those who came in contact with asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related clean-up cost obligations, particularly as mandated by U.S. federal and state environmental protection agencies. In addition to the factors described above regarding the reserving process, Sirius Group estimates its A&E reserves based upon, among other factors, facts surrounding reported cases and exposures to claims, such as policy limits and deductibles, current law, past and projected claim activity and past settlement values for similar claims, as well as analysis of industry studies and events, such as recent settlements and asbestos-related bankruptcies. The cost of administering A&E claims, which is an important factor in estimating loss reserves, tends to be higher than in the case of non-A&E claims due to the higher legal costs typically associated with A&E claims.

Sirius Group's A&E exposure is primarily from reinsurance contracts written between 1974 through 1985 by acquired companies, mainly MONY Reinsurance Company, which was acquired in 1991 and Christiania General Insurance Company, which was acquired in 1996. The exposures are mostly higher layer excess of loss treaty and facultative coverages with relatively low limits exposed for each claim. In 2014, Sirius Group increased its net A&E exposure through the LPT from the U.S. insurance subsidiary of a major international financial services company. The acquisition added \$22.9 million in net asbestos reserves and \$2.1 million in net environmental reserves in 2014.

The acquisition of companies having modest portfolios of A&E exposure has been typical of several prior Sirius Global Solutions transactions and is likely to be an element of at least some future acquisitions. However, the acquisition of new A&E liabilities is undertaken only after careful due diligence and utilizing conservative reserving assumptions in relation to industry benchmarks. In the case of the portfolios acquired during 2014, the exposures arise almost entirely from old assumed reinsurance contracts having small limits of liability.

Sirius Group recorded an increase of \$13.6 million, a decrease of \$0.5 million and an increase of \$8.0 million of asbestos-related incurred losses and LAE on its asbestos reserves in 2016, 2015, and 2014. The 2016 and 2014 incurred losses were primarily the result of management's monitoring of a variety of metrics including actual paid and reported claims activity as compared to the most recent in-depth analysis performed in 2012, net paid and reported survival ratios, peer comparisons, and industry benchmarks.

Sirius Group recorded \$0.4 million, \$3.0 million and \$1.6 million of environmental losses in 2016, 2015, and 2014 on its already existing reserves.

Sirius Group's net reserves for A&E losses were \$180.3 million and \$189.7 million as of December 31, 2016 and 2015, respectively. Sirius Group's A&E three-year net paid survival ratio was approximately 8.3 years and 8.9 years as of December 31, 2016 and 2015.

Sirius Group's reserves for A&E losses as of December 31, 2016 represent management's best estimate of its ultimate liability based on information currently available. However, as case law expands, and medical and clean-up costs increase and industry settlement practices change, Sirius Group may be subject to asbestos and environmental losses beyond currently estimated amounts. Sirius Group cannot reasonably estimate at the present time loss reserve additions arising from any such future adverse developments and cannot be sure that allocated loss reserves will be sufficient to cover additional liability arising from any such adverse developments.

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The following table summarizes reported A&E loss and LAE reserve activities (gross and net of reinsurance) for the years ended December 31, 2016, 2015, and 2014, respectively:

Millions	2016		2015		2014	
	Gross	Net	Gross	Net	Gross	Net
Asbestos:						
Beginning balance	\$ 193.5	\$ 172.9	\$ 215.8	\$ 192.8	\$ 207.4	\$ 178.7
Losses and LAE acquired	-	-	-	-	22.9	22.9
Incurred losses and LAE	15.3	13.6	(0.3)	(0.5)	7.4	8.0
Paid losses and LAE	(21.8)	(20.1)	(22.0)	(19.4)	(21.9)	(16.8)
Ending balance	<u>187.0</u>	<u>166.4</u>	<u>193.5</u>	<u>172.9</u>	<u>215.8</u>	<u>192.8</u>
Environmental:						
Beginning balance	21.5	16.8	22.7	17.4	20.4	15.2
Losses and LAE acquired	-	-	-	-	2.1	2.1
Incurred losses and LAE	0.4	0.4	3.0	3.0	1.6	1.6
Paid losses and LAE	(3.4)	(3.3)	(4.2)	(3.6)	(1.4)	(1.5)
Ending balance	<u>18.5</u>	<u>13.9</u>	<u>21.5</u>	<u>16.8</u>	<u>22.7</u>	<u>17.4</u>
Total asbestos and environmental:						
Beginning balance	215.0	189.7	238.5	210.2	227.8	193.9
Losses and LAE acquired	-	-	-	-	25.0	25.0
Incurred losses and LAE	15.7	14.0	2.7	2.5	9.0	9.6
Paid losses and LAE	(25.2)	(23.4)	(26.2)	(23.0)	(23.3)	(18.3)
Ending balance	<u>\$ 205.5</u>	<u>\$ 180.3</u>	<u>\$ 215.0</u>	<u>\$ 189.7</u>	<u>\$ 238.5</u>	<u>\$ 210.2</u>

NOTE 4. Third Party Reinsurance

In the normal course of business, Sirius Group's subsidiaries seek to limit losses that may arise from catastrophes or other events by reinsuring with third-party reinsurers. Sirius Group remains liable for risks reinsured in the event that the reinsurer does not honor its obligations under reinsurance contracts. The effects of reinsurance on Sirius Group's subsidiaries' written and earned premiums and on losses and LAE were as follows:

Millions	Year ended December 31,		
	2016	2015	2014
Written premiums:			
Direct	\$ 368.5	\$ 293.7	\$ 208.7
Assumed	900.5	866.8	927.9
Gross written premiums	<u>1,269.0</u>	<u>1,160.5</u>	<u>1,136.6</u>
Ceded	(330.9)	(312.9)	(254.1)
Net written premiums	<u>\$ 938.1</u>	<u>\$ 847.6</u>	<u>\$ 882.5</u>
Earned premiums:			
Direct	\$ 351.6	\$ 277.8	\$ 200.2
Assumed	877.7	868.3	925.4
Gross earned premiums	<u>1,229.3</u>	<u>1,146.1</u>	<u>1,125.6</u>
Ceded	(339.2)	(299.1)	(251.7)
Net earned premiums	<u>\$ 890.1</u>	<u>\$ 847.0</u>	<u>\$ 873.9</u>
Losses and LAE:			
Direct	\$ 216.9	\$ 151.3	\$ 117.8
Assumed	463.8	391.9	378.1
Gross losses and LAE	<u>680.7</u>	<u>543.2</u>	<u>495.9</u>
Ceded	(161.4)	(120.5)	(150.6)
Net losses and LAE	<u>\$ 519.3</u>	<u>\$ 422.7</u>	<u>\$ 345.3</u>

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Sirius Group's reinsurance protection primarily consists of pro-rata and excess of loss protections to cover A&H, aviation, trade credit, energy & marine and property exposures. Attachment points and coverage limits vary by region around the world. Sirius Group's core proportional property reinsurance programs provide protection for parts of the non-proportional treaty accounts written in Europe, the Americas, Asia, the Middle East, and Australia. These reinsurance protections are designed to increase underwriting capacity where appropriate, and to reduce exposure both to large catastrophe losses and to a frequency of smaller loss events.

Sirius Group purchases excess of loss reinsurance protection for its facultative and direct property portfolios. The protection has been renewed at January 1, 2017 for business written in Stockholm and Hamburg, providing \$32.5 million of protection in excess of \$2.5 million. For the business written in the London branch and Syndicate 1945, an excess of loss reinsurance protection of \$13.0 million in excess of two attachment points, one at \$2.0 million and one at \$4.0 million on a per risk basis is in place through March 31, 2017. For the London branch and Syndicate 1945 business, Sirius Group also has \$2.5 million of protection in excess of retention of \$7.5 million for the catastrophe exposed business, which is placed for 12 months at June 30, 2016. In excess of this, 85% of a \$10.0 million protection for property catastrophe losses was purchased at January 1, 2017. In addition, at January 1, 2017, 85% of a \$15.0 million worldwide protection for catastrophe losses is in place for the property and energy & marine business combined.

Sirius Group has in place excess of loss retrocessional coverage for its non-U.S. earthquake-related exposures. This cover was renewed for one year at April 1, 2016, now also including cover for Japanese exposures, providing \$40.0 million of reinsurance protection in excess of Sirius Group's retention of \$35.0 million and a further \$35.0 million of coverage in excess of \$75.0 million.

Sirius Group periodically purchases industry loss warranty ("ILW") contracts to augment its overall retrocessional program. Except for the ILW contracts, as described below purchased in conjunction with the CMIG sale, the following ILW contracts are currently in force:

Scope	Limit	Trigger	Expiration Date
European wind & flood	\$5 million	\$5 billion	March 31, 2017
European wind & flood	\$5 million	\$7.5 billion	March 31, 2017
European wind & flood	\$7.5 million	\$7.5 billion	April 30, 2017
European all natural perils	\$15 million	\$15 billion	May 31, 2017
			(second event aggregate excess cover)
European wind & earthquake	\$7.5 million	\$5 - \$7.5 billion	December 31, 2017
United States all natural peril	\$5 million	\$40 billion	April 20, 2017
United States all natural peril	\$2 million	\$40 billion	April 27, 2017
United States all natural peril	\$3 million	\$20 billion	June 30, 2017
United States, European, Japan wind & earthquake	\$24 million	\$5 - \$10 billion	December 31, 2017
			(multiple layer covers)

Sirius Group's aviation reinsurance program is intended to reduce exposure to a frequency of small losses, a single large loss, or a combination of both. For the proportional and facultative aviation portfolios, reinsurance protection purchase has been geared to cover losses from events that cause a market loss in excess of \$150.0 million up to a full policy limit of \$2.0 billion. This program is in place through October 2017. For the non-proportional aviation portfolio, reinsurance protection includes a 15% quota share treaty. In addition, the non-proportional portfolio is protected by ILWs totaling limits of \$25.5 million. The ILWs attach at industry loss levels between \$400.0 million and \$1.0 billion.

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For the marine yacht portfolio written by Syndicate 1945, reinsurance coverage is in place for \$19.8 million in excess of a retention of \$0.3 million. Also, an energy & marine excess of loss coverage for Syndicate 1945 is in place for \$13.5 million in excess of retention of \$1.5 million protecting both risk and catastrophe losses. For 2017, reinsurance coverage was placed for \$6.5 million in excess of \$1.0 million for the cargo account written in Syndicate 1945. Furthermore, from January 1, 2016, a new marine whole account protection has been placed for \$7.5 million in excess of \$7.5 million covering marine, energy, cargo, and terrorism written by Syndicate 1945. On top of the aforementioned whole account protection, an additional whole account coverage was placed in 2016 for \$7.5 million in excess of all underlying protections covering property, marine & energy, cargo, and terrorism and this has now been renewed with an increased limit of \$15.0 million at January 1, 2017.

For the accident and health account, Sirius Group has excess of loss protection covering personal accident and life of €10.0 million or approximately \$10.6 million (based on the December 31, 2016 EUR to USD exchange rate) of protection in excess of a €5.0 million or approximately \$5.3 million (based on the December 31, 2016 EUR to USD exchange rate) retention for the Stockholm, Hamburg, Liege and Singapore branches. Only 50% of this protection was placed at January 1, 2016 and the same level applies at January 1, 2017. In addition, Sirius America's direct insurance portfolio includes quota share reinsurance of various percentages.

For 2016, Sirius Group ceded a 60% quota share cession in respect of a specific trade credit acceptance. As of January 1, 2017, the quota share cession has been reduced to 16.6%.

For 2016, Sirius Group also ceded 30% of the direct contingency account written in the London branch and Syndicate 1945 on a proportional basis. The treaty was renewed at January 1, 2017 as well as the 20% variable quota share treaty cession for risks exceeding \$10.0 million.

Almost all of Sirius Group's excess of loss reinsurance protections, excluding ILWs which tend to only cover one loss event, includes provisions that reinstate coverage at a cost of 100% or more of the original reinsurance premium.

In connection with the CMIG International acquisition, White Mountains required Sirius Group to purchase ILWs, referred to as the WTM Covers, to mitigate the potential impact of major natural catastrophe events on Sirius Group's balance sheet pending the close of the sale to CMIG International. The cost and potential economic benefit provided by the WTM Covers inure to White Mountains. All but one of these contracts expired in May or June 2016; the other was a United States second event cover for an industry loss at \$15 billion with a limit of \$5 million expired on July 15, 2016. Under the Stock Purchase Agreement ("SPA") between CMIG International and White Mountains, shortly after the sale of the Company, White Mountains paid Sirius Ltd. \$16.5 million on an after-tax basis, which the Company recorded as paid-in capital.

The following table summarizes the WTM Covers purchased in connection with the CMIG International acquisition:

Scope	Limit	Industry Loss Trigger
United States first event	\$75.0 million	\$40.0 billion
United States first event	\$22.5 million	\$50.0 billion
United States second event	\$45.0 million	\$15.0 billion
Japan first event	\$25.0 million	\$12.5 billion

As of December 31, 2016, Sirius Group had \$17.1 million of reinsurance recoverables on paid losses and \$291.5 million of reinsurance recoverables on unpaid losses that will become recoverable if claims are paid in accordance with current reserve estimates. Because retrocessional reinsurance contracts do not relieve Sirius Group of its obligation to its insureds, the collectability of balances due from Sirius Group's reinsurers is critical to its financial strength. Sirius Group monitors the financial strength and ratings of retrocessionaires on an ongoing basis.

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The following table provides a listing of Sirius Group's gross and net recoverable amounts by the reinsurer's Standard & Poor's Financial Services LLC ("Standard & Poor's") rating and the percentage of total recoverables at December 31, 2016:

Rating ⁽¹⁾	Gross	Collateral	Net	% of Net Total
AA	\$ 97.4	\$ 1.1	\$ 96.3	40%
A	139.7	20.3	119.4	49%
BBB+	3.5	3.2	0.3	0%
BBB or lower	7.3	5.4	1.9	1%
Not rated	60.7	37.1	23.6	10%
Total	\$ 308.6	\$ 67.1	\$ 241.5	100%

⁽¹⁾ Standard & Poor's ratings as detailed above are: "AA" (Very strong), "A" (Strong), and "BBB+" and "BBB" (Adequate).

NOTE 5. Investment Securities

Net Investment Income

Sirius Group's net investment income is comprised primarily of interest income associated with Sirius Group's fixed maturity investments, dividend income from its equity investments, and interest income from its short-term investments.

Pre-tax net investment income for 2016, 2015, and 2014 consisted of the following:

Millions	Year Ended December 31,		
	2016	2015	2014
Investment income:			
Fixed maturity investments	\$ 57.9	\$ 45.0	\$ 47.5
Short-term investments	0.9	2.2	1.4
Common equity securities	4.1	5.9	4.0
Convertible fixed maturity investments	-	0.1	0.8
Other long-term investments	4.9	(0.3)	1.0
Interest on funds held under reinsurance treaties	(0.5)	(0.5)	(0.1)
Total investment income	67.3	52.4	54.6
Investment expenses	(10.9)	(12.6)	(13.5)
Net investment income, pre-tax	\$ 56.4	\$ 39.8	\$ 41.1

Net Realized and Unrealized Investment Gains (Losses)

Net realized and unrealized investment gains (losses) for 2016, 2015, and 2014 consisted of the following:

Millions	Year Ended December 31,		
	2016	2015	2014
Net realized investment gains, pre-tax	\$ 288.1	\$ 138.4	\$ 65.0
Net unrealized investment (losses) gains, pre-tax	(238.2)	102.6	144.2
Net realized and unrealized investment gains, pre-tax	49.9	241.0	209.2
Income taxes attributable to realized and unrealized investment gains	(12.7)	(49.1)	(52.5)
Net realized and unrealized investment gains, after-tax	\$ 37.2	\$ 191.9	\$ 156.7

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Net realized investment gains

Net realized investment gains for 2016, 2015, and 2014 consisted of the following:

Millions	Year Ended December 31, 2016		
	Net realized gains (losses)	Net foreign currency gains (losses)	Total net realized gains reflected in earnings
Fixed maturity investments	\$ 12.8	\$ 44.6	\$ 57.4
Common equity securities	227.1	4.6	231.7
Convertible fixed maturity investments	-	-	-
Other long-term investments	(1.7)	0.7	(1.0)
Net realized investment gains (losses), pre-tax	238.2	49.9	288.1
Income taxes attributable to realized investment gains (losses)	(48.1)	(12.9)	(61.0)
Net realized investment gains (losses), after-tax	\$ 190.1	\$ 37.0	\$ 227.1

Millions	Year Ended December 31, 2015		
	Net realized gains (losses)	Net foreign currency gains (losses)	Total net realized gains reflected in earnings
Fixed maturity investments	\$ 14.6	\$ 60.0	\$ 74.6
Common equity securities	51.2	9.6	60.8
Convertible fixed maturity investments	0.5	-	0.5
Other long-term investments	1.5	1.0	2.5
Net realized investment gains (losses), pre-tax	67.8	70.6	138.4
Income taxes attributable to realized investment gains (losses)	(19.9)	(16.9)	(36.8)
Net realized investment gains (losses), after-tax	\$ 47.9	\$ 53.7	\$ 101.6

Millions	Year Ended December 31, 2014		
	Net realized gains (losses)	Net foreign currency gains (losses)	Total net realized gains reflected in earnings
Fixed maturity investments	\$ 18.3	\$ 21.4	\$ 39.7
Common equity securities	9.6	1.4	11.0
Convertible fixed maturity investments	-	-	-
Other long-term investments	11.6	2.7	14.3
Net realized investment gains (losses), pre-tax	39.5	25.5	65.0
Income taxes attributable to realized investment gains (losses)	(11.2)	(8.1)	(19.3)
Net realized investment gains (losses), after-tax	\$ 28.3	\$ 17.4	\$ 45.7

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Net unrealized investment (losses) gains

The following table summarizes the net unrealized investment (losses) gains and changes in the carrying value of investments measured at fair value:

Millions	Year Ended December 31, 2016		
	Net unrealized gains (losses)	Net foreign currency gains (losses)	Total net unrealized gains (losses) reflected in earnings
Fixed maturity investments	\$ (14.5)	\$ (10.6)	\$ (25.1)
Common equity securities	(215.1)	0.5	(214.6)
Convertible fixed maturity investments	-	-	-
Other long-term investments	(1.1)	2.6	1.5
Net unrealized investment gains (losses), pre-tax	(230.7)	(7.5)	(238.2)
Income taxes attributable to unrealized investment gains (losses)	46.7	1.6	48.3
Net unrealized investment gains (losses), after-tax	\$ (184.0)	\$ (5.9)	\$ (189.9)

Millions	Year Ended December 31, 2015		
	Net unrealized gains (losses)	Net foreign currency gains (losses)	Total net unrealized gains (losses) reflected in earnings
Fixed maturity investments	\$ (33.0)	\$ (13.0)	\$ (46.0)
Common equity securities	167.6	(4.7)	162.9
Convertible fixed maturity investments	-	-	-
Other long-term investments	(16.6)	2.3	(14.3)
Net unrealized investment gains (losses), pre-tax	118.0	(15.4)	102.6
Income taxes attributable to unrealized investment gains (losses)	(16.3)	4.0	(12.3)
Net unrealized investment gains (losses), after-tax	\$ 101.7	\$ (11.4)	\$ 90.3

Millions	Year Ended December 31, 2014		
	Net unrealized gains (losses)	Net foreign currency gains (losses)	Total net unrealized gains (losses) reflected in earnings
Fixed maturity investments	\$ 18.0	\$ 112.5	\$ 130.5
Common equity securities	7.3	7.1	14.4
Convertible fixed maturity investments	-	-	-
Other long-term investments	(6.1)	5.4	(0.7)
Net unrealized investment gains (losses), pre-tax	19.2	125.0	144.2
Income taxes attributable to unrealized investment gains (losses)	(4.7)	(28.5)	(33.2)
Net unrealized investment gains (losses), after-tax	\$ 14.5	\$ 96.5	\$ 111.0

Sirius Group recognized gross realized investment gains of \$310.4 million, \$154.3 million, and \$75.3 million and gross realized investment losses of \$22.4 million, \$15.8 million, and \$10.3 million on sales of investment securities during 2016, 2015, and 2014.

As of December 31, 2016 Sirius Group reported \$7.6 million in accounts payable on unsettled investment purchases. No amount was reported for December 31, 2015.

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As of December 31, 2015 Sirius Group reported \$29.0 million in accounts receivable on unsettled investment sales. No amount was reported for December 31, 2016.

The following table summarizes the amount of total gains (losses) included in earnings attributable to unrealized investment gains (losses) for Level 3 investments for the years ended December 31, 2016, 2015, and 2014:

Millions	Year Ended December 31,		
	2016	2015	2014
Fixed maturity investments	\$ (0.1)	\$ -	\$ (0.6)
Common equity securities	-	6.6	4.9
Other long-term investments	2.8	(0.4)	(1.0)
Total unrealized investment gains, pre-tax - Level 3 investments	\$ 2.7	\$ 6.2	\$ 3.3

The components of Sirius Group's net realized and unrealized investment gains (losses), after-tax, as recorded on the statements of operations and comprehensive income were as follows:

Millions	Year Ended December 31,		
	2016	2015	2014
Change in equity in net unrealized (losses) gains from investments in unconsolidated affiliates, pre-tax	\$ -	\$ (35.4)	\$ 72.0
Income tax benefit (expense)	-	2.9	(5.8)
Change in equity in net unrealized (losses) gains from investments in unconsolidated affiliates, after-tax	-	(32.5)	66.2
Change in net unrealized foreign currency (losses) on investments through accumulated other comprehensive income, after-tax	(83.1)	(110.7)	(274.3)
Total investments (losses) through accumulated other comprehensive income, after-tax	(83.1)	(143.2)	(208.1)
Net realized and unrealized investment gains, after-tax	37.2	191.9	156.7
Total investment (losses) gains recorded during the period, after-tax	\$ (45.9)	\$ 48.7	\$ (51.4)

Investment Holdings

The cost or amortized cost, gross unrealized investment gains (losses), net foreign currency gains (losses), and carrying values of Sirius Group's fixed maturity investments as of December 31, 2016 and 2015, were as follows:

Millions	December 31, 2016				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
Fixed maturity investments:					
Debt securities issued by corporations	\$ 1,462.1	\$ 8.7	\$ (12.9)	\$ 20.1	\$ 1,478.0
Mortgage-backed and asset-backed securities	1,159.5	1.6	(13.9)	13.8	1,161.0
Foreign government, agency and provincial obligations	148.7	0.3	(1.7)	(0.8)	146.5
U.S. Government and agency obligations	84.8	-	(0.6)	5.2	89.4
Preferred stocks	10.2	0.3	-	0.3	10.8
Municipal obligations	1.0	-	-	-	1.0
Total fixed maturity investments	\$ 2,866.3	\$ 10.9	\$ (29.1)	\$ 38.6	\$ 2,886.7

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Millions	December 31, 2015				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
Fixed maturity investments:					
Debt securities issued by corporations	\$ 1,155.3	\$ 11.7	\$ (8.7)	\$ 41.0	\$ 1,199.3
Mortgage-backed and asset-backed securities	969.0	3.8	(4.1)	15.9	984.6
U.S. Government and agency obligations	125.0	-	(0.1)	0.1	125.0
Foreign government, agency and provincial obligations	44.5	0.1	(0.1)	-	44.5
Preferred stocks	4.2	0.2	-	0.2	4.6
Municipal obligations	1.0	-	-	-	1.0
Total fixed maturity investments	\$ 2,299.0	\$ 15.8	\$ (13.0)	\$ 57.2	\$ 2,359.0

The weighted average duration of Sirius Group's fixed income portfolio as of December 31, 2016 was approximately 3.0 years, including short-term investments, and approximately 3.4 years excluding short-term investments.

The cost or amortized cost and carrying value of Sirius Group's fixed maturity investments and convertible fixed maturity investments as of December 31, 2016 is presented below by contractual maturity. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

Millions	December 31, 2016	
	Cost or amortized cost	Carrying value
Due in one year or less	\$ 116.3	\$ 122.5
Due after one year through five years	1,155.0	1,171.2
Due after five years through ten years	398.4	394.8
Due after ten years	26.9	26.4
Mortgage-backed and asset-backed securities	1,159.5	1,161.0
Preferred stocks	10.2	10.8
Total	\$ 2,866.3	\$ 2,886.7

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses, and carrying values of Sirius Group's common equity securities and other long-term investments as of December 31, 2016 and 2015, were as follows:

Millions	December 31, 2016				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
Common equity securities	\$ 120.6	\$ 0.1	\$ (2.7)	\$ -	\$ 118.0
Other long-term investments	\$ 115.8	\$ 4.2	\$ (2.1)	\$ 6.9	\$ 124.8

Millions	December 31, 2015				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses	Net foreign currency gains (losses)	Carrying value
Common equity securities	\$ 515.7	\$ 218.5	\$ (5.9)	\$ 1.8	\$ 730.1
Other long-term investments	\$ 72.3	\$ 8.9	\$ (7.7)	\$ 4.7	\$ 78.2

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Proceeds from the sales and maturities of investments, excluding short-term investments, totaled \$3,456.5 million, \$2,663.1 million, and \$3,031.5 million for the years ended December 31, 2016, 2015, and 2014.

Investments Held on Deposit or as Collateral

As of December 31, 2016 and 2015 investments of \$406.0 million and \$396.1 million, respectively, were held in trusts required to be maintained in relation to various reinsurance agreements. Sirius Group's consolidated reinsurance operations are required to maintain deposits with certain insurance regulatory agencies in order to maintain their insurance licenses. The fair value of such deposits which are included within total investments totaled \$413.0 million and \$371.0 million as of December 31, 2016 and 2015.

As of December 31, 2016, Sirius Group held \$1.4 million of collateral in the form short-term investments associated with interest rate cap agreements. (See **Note 8**.)

Fair value measurements as of December 31, 2016

Fair value measurements are categorized into a hierarchy that distinguishes between inputs based on market data from independent sources ("observable inputs") and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable ("unobservable inputs"). Quoted prices in active markets for identical assets or liabilities have the highest priority ("Level 1"), followed by observable inputs other than quoted prices, including prices for similar but not identical assets or liabilities ("Level 2") and unobservable inputs, including the reporting entity's estimates of the assumptions that market participants would use, having the lowest priority ("Level 3").

Sirius Group used quoted market prices or other observable inputs to determine fair value for 96% of its investment portfolio. Investments valued using Level 1 inputs include fixed maturity investments, primarily investments in U.S. Treasuries, common equity securities and short-term investments, which include U.S. Treasury Bills. Investments valued using Level 2 inputs are primarily comprised of fixed maturity investments, which have been disaggregated into classes, including debt securities issued by corporations, municipal obligations, mortgage and asset-backed securities, foreign government obligations and preferred stocks. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Investments valued using Level 2 inputs also include certain ETFs that track U.S. stock indices such as the S&P 500 but are traded on foreign exchanges and that management values using the fund's published NAV to account for the difference in market close times. Level 3 fair value estimates based upon unobservable inputs include Sirius Group's investments in certain debt securities, including asset-backed securities, and equity securities where quoted market prices are unavailable or are not considered reasonable. Sirius Group determines when transfers between levels have occurred as of the beginning of the period.

Sirius Group uses brokers and outside pricing services to assist in determining fair values. For investments in active markets, Sirius Group uses the quoted market prices provided by outside pricing services to determine fair value. The outside pricing services Sirius Group uses have indicated that they will only provide prices where observable inputs are available. In circumstances where quoted market prices are unavailable or are not considered reasonable, Sirius Group estimates the fair value using industry standard pricing models and observable inputs such as benchmark yields, reported trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers, prepayment speeds, reference data including research publications, and other relevant inputs. Given that many fixed maturity investments do not trade on a daily basis, the outside pricing services evaluate a wide range of fixed maturity investments by regularly drawing parallels from recent trades and quotes of comparable securities with similar features. The characteristics used to identify comparable fixed maturity investments vary by asset type and take into account market convention.

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Sirius Group's process to assess the reasonableness of the market prices obtained from the outside pricing sources covers substantially all of its fixed maturity investments and includes, but is not limited to, evaluation of model pricing methodologies, review of the pricing services' quality control processes and procedures on at least an annual basis, comparison of market prices to prices obtained from different independent pricing vendors on at least a semi-annual basis, monthly analytical reviews of certain prices and review of assumptions utilized by the pricing service for selected measurements on an ad hoc basis throughout the year. Sirius Group also performs back-testing of selected sales activity to determine whether there are any significant differences between the market price used to value the security prior to sale and the actual sale price on an ad-hoc basis throughout the year. Prices provided by the pricing services that vary by more than 5% and \$1.0 million from the expected price based on these procedures are considered outliers. Also considered outliers are prices that haven't changed from period to period and prices that have trended unusually compared to market conditions. In circumstances where the results of Sirius Group's review process does not appear to support the market price provided by the pricing services, Sirius Group challenges the price. If Sirius Group cannot gain satisfactory evidence to support the challenged price, it relies upon its own pricing methodologies to estimate the fair value of the security in question.

The valuation process above is generally applicable to all of Sirius Group's fixed maturity investments. The techniques and inputs specific to asset classes within Sirius Group's fixed maturity investments for Level 2 securities that use observable inputs are as follow:

Debt securities issued by corporations: The fair value of debt securities issued by corporations is determined from an evaluated pricing model that uses information from market sources and integrates relative credit information, observed market movements, and sector news. Key inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including sector, coupon, credit quality ratings, duration, credit enhancements, early redemption features, and market research publications.

Mortgage and asset-backed securities: The fair value of mortgage and asset-backed securities is determined from an evaluated pricing model that uses information from market sources and leveraging similar securities. Key inputs include benchmark yields, reported trades, underlying tranche cash flow data, collateral performance, plus new issue data, as well as broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including issuer, vintage, loan type, collateral attributes, prepayment speeds, default rates, recovery rates, cash flow stress testing, credit quality ratings, and market research publications.

Municipal obligations: The fair value of municipal obligations is determined from an evaluated pricing model that uses information from market makers, brokers-dealers, buy-side firms, and analysts along with general market information. Key inputs include benchmark yields, reported trades, issuer financial statements, material event notices and new issue data, as well as broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including type, coupon, credit quality ratings, duration, credit enhancements, geographic location, and market research publications.

Foreign government obligations: The fair value of foreign government obligations is determined from an evaluated pricing model that uses feeds from data sources in each respective country, including active market makers and inter-dealer brokers. Key inputs include benchmark yields, reported trades, broker-dealer quotes, two-sided markets, benchmark securities, bids, offers, local exchange prices, foreign exchange rates and reference data including coupon, credit quality ratings, duration, and market research publications.

Preferred stocks: The fair value of preferred stocks is determined from an evaluated pricing model that calculates the appropriate spread over a comparable security for each issue. Key inputs include exchange prices (underlying and common stock of same issuer), benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including sector, coupon, credit quality ratings, duration, credit enhancements, early redemption features, and market research publications.

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Level 3 valuations are generated from techniques that use assumptions not observable in the market. These unobservable assumptions reflect Sirius Group's assumptions that market participants would use in valuing the investment. Generally, certain securities may start out as Level 3 when they are originally issued but as observable inputs become available in the market, they may be reclassified to Level 2.

Sirius Group employs a number of procedures to assess the reasonableness of the fair value measurements for its other long-term investments, including obtaining and reviewing the audited annual financial statements of hedge funds and private equity funds and periodically discussing each fund's pricing with the fund manager. However, since the fund managers do not provide sufficient information to evaluate the pricing inputs and methods for each underlying investment, the inputs are considered to be unobservable. Accordingly, the fair values of Sirius Group's investments in hedge funds and private equity funds have been classified as Level 3 measurements. The fair value of Sirius Group's investments in hedge funds and private equity funds has been determined using net asset value.

Fair Value Measurements by Level

The following tables summarize Sirius Group's fair value measurements for investments as of December 31, 2016 and 2015 by level. The major security types were based on the legal form of the securities. Sirius Group has disaggregated its fixed maturity investments based on the issuing entity type, which impacts credit quality, with debt securities issued by U.S. government entities carrying minimal credit risk, while the credit and other risks associated with other issuers, such as corporations, foreign governments, municipalities or entities issuing asset-backed securities vary depending on the nature of the issuing entity type. Sirius Group further disaggregates debt securities issued by corporations and equity securities by industry sector because investors often reference commonly used benchmarks and their subsectors to monitor risk and performance. Accordingly, Sirius Group has further disaggregated these asset classes into subclasses based on the similar sectors and industry classifications it uses to evaluate investment risk and performance against commonly used benchmarks, such as the Barclays Intermediate Aggregate and S&P 500 indices.

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Millions	December 31, 2016			
	Fair value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Fixed maturities:				
U.S. Government and agency obligations	\$ 89.4	\$ 86.2	\$ 3.2	\$ -
Debt securities issued by corporations:				
Consumer	340.0	-	340.0	-
Financials	557.8	-	557.8	-
Industrial	145.9	-	145.9	-
Communications	116.5	-	116.5	-
Energy	168.9	-	168.9	-
Health Care	-	-	-	-
Utilities	57.8	-	57.8	-
Materials	22.8	-	22.8	-
Technology	68.3	-	68.3	-
Total debt securities issued by corporations:	1,478.0	-	1,478.0	-
Mortgage-backed and asset-backed securities	1,161.0	-	1,142.6	18.4
Foreign government, agency and provincial obligations	146.5	18.1	128.4	-
Preferred stocks	10.8	-	1.8	9.0
Municipal obligations	1.0	-	1.0	-
Total fixed maturity investments	2,886.7	104.3	2,755.0	27.4
Short-term investments	504.6	465.3	39.3	-
Common equity securities:				
Financials	0.5	0.5	-	-
Exchange Traded Funds	117.5	117.5	-	-
Total common equity securities	118.0	118.0	-	-
Convertible fixed maturity investments	-	-	-	-
Other long-term investments	39.4	-	-	39.4
Total investments	\$ 3,548.7	\$ 687.6	\$ 2,794.3	\$ 66.8

(1) Excludes carrying value of \$85.4 associated with hedge funds and private equity funds which fair value is measured at net asset value using the practical expedient.

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Millions	December 31, 2015			
	Fair value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Fixed maturities:				
U.S. Government and agency obligations	\$ 125.0	\$ 125.0	\$ -	\$ -
Debt securities issued by corporations:				
Consumer	314.2	-	314.2	-
Financials	202.4	-	202.4	-
Industrial	131.9	-	131.9	-
Communications	163.4	-	163.4	-
Energy	124.6	-	124.6	-
Health Care	117.1	-	117.1	-
Utilities	82.1	-	82.1	-
Materials	40.9	-	40.9	-
Technology	22.7	-	22.7	-
Total debt securities issued by corporations:	1,199.3	-	1,199.3	-
Mortgage-backed and asset-backed securities	984.6	-	984.6	-
Foreign government, agency and provincial obligations	44.5	16.2	28.3	-
Preferred stocks	4.6	-	1.6	3.0
Municipal obligations	1.0	-	1.0	-
Total fixed maturity investments	2,359.0	141.2	2,214.8	3.0
Short-term investments	323.2	321.3	1.9	-
Common equity securities:				
Financials	557.6	557.6	-	-
Exchange Traded Funds	172.5	172.5	-	-
Total common equity securities	730.1	730.1	-	-
Convertible fixed maturity investments	-	-	-	-
Other long-term investments ^{(1) (2)}	28.6	-	-	28.6
Total investments	\$ 3,440.9	\$ 1,192.6	\$ 2,216.7	\$ 31.6

⁽¹⁾ Excludes carrying value of \$3.8 associated with other long-term investment limited partnerships accounted for using the equity method.

⁽²⁾ Excludes carrying value of \$45.8 associated with hedge funds and private equity funds which fair value is measured at net asset value using the practical expedient.

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Debt Securities Issued by Corporations

The following table summarizes the ratings and fair value of the corporate debt securities held in Sirius Group's investment portfolio as of December 31, 2016 and 2015:

Millions	Fair Value at December 31,	
	2016	2015
AA	\$ 370.4	\$ 124.0
A	478.1	362.3
BBB	620.2	704.1
Other	9.3	8.9
Debt securities issued by corporations ⁽¹⁾	\$ 1,478.0	\$ 1,199.3

⁽¹⁾ Credit ratings are assigned based on the following hierarchy: 1) Standard & Poor's and 2) Moody's Investor Service ("Moody's").

Mortgage-backed, Asset-backed Securities

Sirius Group purchases commercial mortgage-backed securities ("CMBS") and residential mortgage-backed securities ("RMBS") with the goal of maximizing risk adjusted returns in the context of a diversified portfolio. Sirius Group considers sub-prime mortgage-backed securities as those that have underlying loan pools that exhibit weak credit characteristics, or those that are issued from dedicated sub-prime shelves or dedicated second-lien shelf registrations (i.e., Sirius Group considers investments backed primarily by second-liens to be sub-prime risks regardless of credit scores or other metrics).

Sirius Group categorizes mortgage-backed securities as "non-prime" (also called "Alt A" or "A-") if they are backed by collateral that has overall credit quality between prime and sub-prime based on Sirius Group's review of the characteristics of their underlying mortgage loan pools, such as credit scores and financial ratios. Sirius Group's non-agency residential mortgage-backed portfolio is generally moderate-term and structurally senior. Sirius Group does not own any collateralized loan obligations. Sirius Group does not own any collateralized debt obligations, with the exception of \$16.8 million of non-agency residential mortgage resecuritization tranches, each a senior tranche in its own right and each collateralized by a single earlier vintage Super Senior or Senior non-agency residential mortgage backed security.

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Millions	December 31, 2016			December 31, 2015		
	Fair Value	Level 2	Level 3	Fair Value	Level 2	Level 3
Mortgage-backed securities:						
Agency:						
GNMA	\$ 77.3	\$ 77.3	\$ -	\$ 68.4	\$ 68.4	\$ -
FNMA	282.1	282.1	-	2.5	2.5	-
FHLMC	88.2	88.2	-	11.7	11.7	-
Total Agency ⁽¹⁾	447.6	447.6	-	82.6	82.6	-
Non-agency:						
Residential	82.0	82.0	-	113.8	113.8	-
Commercial	163.4	157.0	6.4	183.5	183.5	-
Total Non-agency	245.4	239.0	6.4	297.3	297.3	-
Total mortgage-backed securities	693.0	686.6	6.4	379.9	379.9	-
Asset-backed securities:						
Credit card receivables	99.1	99.1	-	205.3	205.3	-
Vehicle receivables	260.6	260.6	-	235.6	235.6	-
Other	108.3	96.3	12.0	163.8	163.8	-
Total asset-backed securities	468.0	456.0	12.0	604.7	604.7	-
Total mortgage and asset-backed securities	\$ 1,161.0	\$ 1,142.6	\$ 18.4	\$ 984.6	\$ 984.6	\$ -

⁽¹⁾ Represents publicly traded mortgage-backed securities which carry the full faith and credit guaranty of the U.S. government (i.e., GNMA) or are guaranteed by a government sponsored entity (i.e., FNMA, FHLMC).

Non-agency Mortgage-backed Securities

The security issuance years of Sirius Group's investments in non-agency RMBS and non-agency CMBS securities as of December 31, 2016 are as follows:

Millions	Fair Value	Security Issuance Year												
		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Non-agency RMBS	\$ 82.0	\$ 13.0	\$ 11.7	\$ 3.0	\$ -	\$ 5.3	\$ -	\$ 11.3	\$ 1.5	\$ 4.3	\$ 6.1	\$ 25.8	\$ -	\$ -
Non-agency CMBS	\$ 163.4	-	-	-	6.6	-	-	3.5	-	30.6	22.7	66.8	23.1	10.1
Total	\$ 245.4	\$ 13.0	\$ 11.7	\$ 3.0	\$ 6.6	\$ 5.3	\$ -	\$ 14.8	\$ 1.5	\$ 34.9	\$ 28.8	\$ 92.6	\$ 23.1	\$ 10.1

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Non-agency Residential Mortgage-backed Securities

The classification of the underlying collateral quality and the tranche levels of SBDA non-agency RMBS securities are as follows as of December 31, 2016:

Millions	Fair Value	Super Senior ⁽¹⁾	Senior ⁽²⁾	Subordinate ⁽³⁾
Prime	\$ 82.0	\$ 50.4	\$ 23.4	\$ 8.2
Total	\$ 82.0	\$ 50.4	\$ 23.4	\$ 8.2

⁽¹⁾ At issuance, Super Senior, or in the case of resecuritization, the underlying securities, were rated "AAA" by Standard & Poor's, "Aaa" by Moody's or "AAA" by Fitch Ratings ("Fitch") and were senior to other "AAA" or "Aaa" bonds. There were no Super Senior tranche levels that are classified as Non-prime or Sub-prime at December 31, 2016.

⁽²⁾ At issuance, Senior, or in the case of resecuritization, the underlying securities, were rated "AAA" by Standard & Poor's "Aaa" by Moody's or "AAA" by Fitch and were senior to non-"AAA" or non-"Aaa" bonds. There were no Senior tranche levels classified as Non-prime or Sub-prime at December 31, 2016.

⁽³⁾ At issuance, Subordinate were not rated "AAA" by Standard & Poor's, "Aaa" by Moody's or "AAA" by Fitch and were junior to "AAA" or "Aaa" bonds. There were no Subordinate tranche levels classified as Non-prime or Sub-prime at December 31, 2016.

Non-agency Commercial Mortgage-backed Securities

Sirius Group's non-agency CMBS portfolio is generally short-term and structurally subordinate, with more than 30 points of subordination on average for both fixed rate CMBS and floating rate CMBS as of December 31, 2016. In general, subordination represents the percentage principal loss on the underlying collateral that would be absorbed by other securities lower in the capital structure before the more senior security incurs a loss. As of December 31, 2016, on average less than 1% of the underlying loans were reported as non-performing for all non-agency CMBS held by Sirius Group.

The amount of fixed and floating rate securities and their tranche levels of Sirius Group's non-agency CMBS securities are as follows as of December 31, 2016:

Millions	Fair Value	Super Senior ⁽¹⁾	Senior ⁽²⁾	Subordinate ⁽³⁾
Fixed rate CMBS	\$ 111.8	\$ 44.5	\$ 51.1	\$ 16.2
Floating rate CMBS	28.2	-	-	28.2
Interest Only CMBS	23.4	-	23.4	-
Total	\$ 163.4	\$ 44.5	\$ 74.5	\$ 44.4

⁽¹⁾ At issuance, Super Senior, or in the case of resecuritization, the underlying securities, were rated "AAA" by Standard & Poor's, "Aaa" by Moody's or "AAA" by Fitch and were senior to other "AAA" or "Aaa" bonds.

⁽²⁾ At issuance, Senior, or in the case of resecuritization, the underlying securities, were rated "AAA" by Standard & Poor's "Aaa" by Moody's or "AAA" by Fitch and were senior to non-"AAA" or non-"Aaa" bonds.

⁽³⁾ At issuance, Subordinate were not rated "AAA" by Standard & Poor's, "Aaa" by Moody's or "AAA" by Fitch and were

Other Long-term Investments

Other long-term investments consist of the following as of December 31, 2016 and 2015:

Millions	Fair Value at	
	December 31, 2016	December 31, 2015
Hedge funds and private equity funds ⁽¹⁾	\$ 85.4	\$ 45.8
Limited liability companies and private equity securities ⁽¹⁾	39.4	28.6
Partnership investments accounted for under the equity method	-	3.8
Total other-long term investments	\$ 124.8	\$ 78.2

⁽¹⁾ See Fair Value Measurements by Level table.

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Hedge Funds and Private Equity Funds

Sirius Group holds investments in hedge funds and private equity funds, which are included in other long-term investments. The fair value of these investments has been estimated using the net asset value of the funds. As of December 31, 2016, Sirius Group held investments in 6 hedge funds and 25 private equity funds. The largest investment in a single fund was \$24.2 million as of December 31, 2016 and \$7.0 million as of December 31, 2015.

The following table summarizes investments in hedge funds and private equity interests by investment objective and sector as of December 31, 2016 and 2015:

Millions	December 31, 2016		December 31, 2015	
	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
Hedge funds				
Long/short credit & distressed	\$ -	\$ -	\$ 7.2	\$ -
Other	3.7	-	3.9	-
Total hedge funds	3.7	-	11.1	-
Private equity funds				
Energy infrastructure & services	50.7	60.0	15.8	4.8
Multi-sector	8.9	1.5	9.9	1.9
Healthcare	19.4	24.4	3.8	0.4
Private equity secondaries	1.8	1.1	2.2	1.0
Real estate	0.3	-	0.4	0.1
International multi-sector, Europe	-	-	0.2	-
Venture capital	0.2	-	0.2	-
Manufacturing/Industrial	0.4	19.6	2.2	-
Total private equity funds	81.7	106.6	34.7	8.2
Total hedge and private equity funds included in other long-term investments	\$ 85.4	\$ 106.6	\$ 45.8	\$ 8.2

Redemption of investments in certain hedge funds is subject to restrictions including lock-up periods where no redemptions or withdrawals are allowed, restrictions on redemption frequency, and advance notice periods for redemptions. Amounts requested for redemptions remain subject to market fluctuations until the redemption effective date, which generally falls at the end of the defined redemption period.

The following summarizes the December 31, 2016 fair value of hedge funds subject to restrictions on redemption frequency and advance notice period requirements for investments in active hedge funds:

Millions	Notice Period				Total
	30-59 days notice	60-89 days notice	90-119 days notice	120+ days notice	
Monthly	\$ -	\$ -	\$ -	\$ -	\$ -
Quarterly	1.0	-	-	-	1.0
Semi-annual	-	1.3	-	-	1.3
Annual	-	-	1.3	0.1	1.4
Total	\$ 1.0	\$ 1.3	\$ 1.3	\$ 0.1	\$ 3.7

Certain of the hedge fund and private equity fund investments in which Sirius Group is invested are no longer active and are in the process of disposing of their underlying investments. Distributions from such funds are remitted to investors as the fund's underlying investments are liquidated. As of December 31, 2016, no distributions were outstanding from these investments.

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Sirius Group also submits redemption requests for certain of its investments in active hedge funds. As of December 31, 2016, there were no redemptions outstanding that would be subject to market fluctuations. Redemptions are recorded as receivables when the investment is no longer subject to market fluctuations.

Investments in private equity funds are generally subject to a “lock-up” period during which investors may not request a redemption. Distributions prior to the expected termination date of the fund may be limited to dividends or proceeds arising from the liquidation of the fund’s underlying investments. In addition, certain private equity funds provide an option to extend the lock-up period at either the sole discretion of the fund manager or upon agreement between the fund and the investors.

As of December 31, 2016, investments in private equity funds were subject to lock-up periods as follows:

<u>Millions</u>	<u>1 – 3 years</u>	<u>3 – 5 years</u>	<u>5 – 10 years</u>	<u>Total</u>
Private Equity Funds - expected lock up period remaining	\$ 6.5	\$ 7.4	\$ 67.8	\$ 81.7

Rollforward of Fair Value Measurements by Level

Sirius Group uses quoted market prices where available as the inputs to estimate fair value for its investments in active markets. Such measurements are considered to be either Level 1 or Level 2 measurements, depending on whether the quoted market price inputs are for identical securities (Level 1) or similar securities (Level 2). Level 3 measurements for fixed maturity investments, common equity securities, and other long-term investments as of December 31, 2016 and 2015 consist of securities for which the estimated fair value has not been determined based upon quoted market price inputs for identical or similar securities.

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The following tables summarize the changes in Sirius Group's fair value measurements by level for the years ended December 31, 2016 and 2015:

Millions	Level 3 Investments					Hedge Funds and Private Equity Funds measured at NAV	Total
	Level 1 Investments	Level 2 Investments	Fixed Maturities	Common equity securities	Other long-term investments		
Balance at January 1, 2016	\$ 871.3	\$ 2,214.8	\$ 3.0	\$ -	\$ 28.6	\$ 45.8	\$ 3,163.5 ^{(1) (2)}
Total realized and unrealized gains	22.3	18.2	(0.1)	-	2.7	1.5	44.6
Foreign currency losses through OCI	(14.6)	(65.2)	-	-	(0.8)	(2.3)	(82.9)
Accretion	(0.6)	(21.1)	-	-	-	-	(21.7)
Purchases	793.3	2,623.1	26.7	-	10.6	62.7	3,516.4
Sales	(1,449.4)	(2,017.0)	-	-	(1.7)	(22.3)	(3,490.4)
Transfers in	-	2.2	-	-	-	-	2.2
Transfers out	-	-	(2.2)	-	-	-	(2.2)
Balance at December 31, 2016	\$ 222.3	\$ 2,755.0	\$ 27.4	\$ -	\$ 39.4	\$ 85.4	\$ 3,129.5 ⁽²⁾

⁽¹⁾ Excludes carrying value of \$3.8 associated with other long-term investment limited partnerships accounted for using the equity method.

⁽²⁾ Excludes carrying value of \$323.2 and \$504.6 at January 1, 2016 and December 31, 2016 classified as short-term investments.

Millions	Level 3 Investments					Hedge Funds and Private Equity Funds measured at NAV	Total
	Level 1 Investments	Level 2 Investments	Fixed Maturities	Common equity securities	Other long-term investments		
Balance at January 1, 2015	\$ 275.6	\$ 2,256.4	\$ 0.4	\$ 36.1	\$ 24.4	\$ 81.9	\$ 2,674.8 ^{(1) (2)}
Total realized and unrealized gains	145.0	15.9	-	6.6	(0.5)	(10.7)	156.3
Foreign currency losses through OCI	(3.9)	(90.1)	(0.4)	-	0.3	(3.0)	(97.1)
Accretion	(0.3)	(21.9)	-	-	-	-	(22.2)
Purchases	1,117.3	1,962.7	43.7	-	4.9	5.5	3,134.1
Sales	(662.4)	(1,948.9)	-	(42.7)	(0.5)	(27.9)	(2,682.4)
Transfers in	-	40.7	-	-	-	-	40.7
Transfers out	-	-	(40.7)	-	-	-	(40.7)
Balance at December 31, 2015	\$ 871.3	\$ 2,214.8	\$ 3.0	\$ -	\$ 28.6	\$ 45.8	\$ 3,163.5 ^{(2) (3)}

⁽¹⁾ Excludes carrying value of \$5.2 associated with other long-term investment limited partnerships accounted for using the equity method.

⁽²⁾ Excludes carrying value of \$486.0 and \$323.2 at January 1, 2015 and December 31, 2015 classified as short-term investments.

⁽³⁾ Excludes carrying value of \$3.8 associated with other long-term investment limited partnerships accounted for using the equity method.

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Fair Value Measurements – transfers between levels

During 2016, one fixed maturity security classified as Level 3 measurements in the prior period was reclassified as a Level 2 measurement because quoted market prices for similar securities that were considered reliable and could be validated against an alternative source were available as of December 31, 2016. These measurements comprise “Transfers out” of Level 3 and “Transfers in” to Level 2 of \$2.2 million for the period ended December 31, 2016

During 2015, six fixed maturity securities classified as Level 3 measurements in the prior period were reclassified as Level 2 measurements because quoted market prices for similar securities that were considered reliable and could be validated against an alternative source were available as of December 31, 2015. These measurements comprise “Transfers out” of Level 3 and “Transfers in” to Level 2 of \$40.7 million for the period ended December 31, 2015.

Significant Unobservable Inputs

The following summarizes significant unobservable inputs used in estimating the fair value of investment securities classified within Level 3 other than hedge funds and private equities as of December 31, 2016 and December 31, 2015. The fair value of investments in hedge funds and private equity funds, which are classified within Level 3, are estimated using the net asset value of the funds.

(\$ in Millions)		December 31, 2016			
Description	Rating ⁽¹⁾	Valuation Technique(s)	Fair Value	Unobservable Input	
Private equity securities ⁽²⁾	NR	Multiple of GAAP book value	\$ 16.1	Book value multiple	1.0X
Private equity securities ⁽²⁾	NR	Multiple of GAAP book value	\$ 10.5	Book value multiple	1.0X
Common stock warrant ⁽²⁾	NR	Average fair value	\$ 0.5	Discount rate range	14-17%
Preferred stock ⁽²⁾	NR	Average fair value	\$ 3.0	Average share price	86.3
Preferred stock ⁽²⁾	NR	Average fair value	\$ 6.0	Average share price	0.6
Private debt instrument ⁽²⁾	NR	Share price of recent transaction	\$ 9.0	Purchase price	\$9.0
Private debt instrument ⁽²⁾	NR	Share price of recent transaction	\$ 3.3	Purchase price less pay down	\$3.3
Asset-backed securities ⁽³⁾	AAA	Broker pricing	\$ 18.4	Purchase price	\$18.4

⁽¹⁾ Credit ratings are assigned based on the following hierarchy: 1) Standard & Poor's and 2) Moody's.

⁽²⁾ As of December 31, 2016 each asset type consists of one security.

⁽³⁾ As of December 31, 2016 each asset type consists of two securities.

(\$ in Millions)		December 31, 2015			
Description	Rating ⁽¹⁾	Valuation Technique(s)	Fair Value	Unobservable Input	
Private equity securities ⁽²⁾	NR	Multiple of GAAP book value	\$ 15.1	Book value multiple	1.0X
Private equity securities ⁽²⁾	NR	Multiple of GAAP book value	\$ 9.1	Book value multiple	1.0X
Common stock warrant ⁽²⁾	NR	Average fair value	\$ 0.5	Discount rate range	14-17%
Preferred stock ⁽²⁾	NR	Average share price	\$ 3.0	Average share price	86.3
Private debt instrument ⁽²⁾	NR	Share price of recent transaction	\$ 3.9	Purchase price less pay down	\$3.9

⁽¹⁾ Credit ratings are assigned based on the following hierarchy: 1) Standard & Poor's and 2) Moody's.

⁽²⁾ As of December 31, 2015 each asset type consists of one security.

Sirius International Group, Ltd.
Notes to Consolidated Financial Statements

NOTE 6. Debt and Standby Letters of Credit Facilities

Sirius Group's debt outstanding as of December 31, 2016 and 2015 consisted of the following:

Millions	December 31, 2016	Effective Rate ⁽¹⁾	December 31, 2015	Effective Rate ⁽¹⁾
SIG 2016 Senior Notes, at face value	\$ 400.0	4.7%	\$ -	
Unamortized original issue discount	(3.1)		-	
Unamortized original issuance costs	(4.4)		-	
SIG 2016 Senior Notes, carrying value	392.5		-	
Old Lyme Note	3.7	3.6%	3.7	3.4%
SIG 2007 Senior Notes, at face value	-		400.0	6.5%
Unamortized original issue discount	-		(0.2)	
Unamortized original issuance costs	-		(0.5)	
SIG 2007 Senior Notes, carrying value	-		399.3	
Total debt	\$ 396.2		\$ 403.0	

⁽¹⁾ Effective rate considers the effect of the debt issuance costs.

A schedule of contractual repayments of Sirius Group's debt as of December 31, 2016 follows:

Millions	December 31, 2016
Due in one year or less	\$ 3.7
Due in one to three years	-
Due in three to five years	-
Due after five years	400.0
Total	\$ 403.7

2016 SIG Senior Notes

In November 2016, SIG issued \$400.0 million face value of senior unsecured notes ("2016 SIG Senior Notes") at an issue price of 99.209% for net proceeds of \$392.4 million after taking into effect both deferrable and non-deferrable issuance costs. The SIG Senior Notes were issued in an offering that was exempt from the registration requirements of the Securities Act of 1933. The 2016 SIG Senior Notes bear an annual interest rate of 4.600%, payable semi-annually in arrears on May 1, and November 1, until maturity in November 2026.

SIG incurred \$4.4 million in expenses related to the issuance of the 2016 SIG Senior Notes (including \$3.4 million in underwriting fees), which have been deferred and are being recognized into interest expense over the life of the 2016 SIG Senior Notes.

Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, the 2016 SIG Senior Notes yield an effective rate of approximately 4.7% per annum. Sirius Group recorded \$3.2 million of interest expense, inclusive of amortization of issuance costs on the 2016 SIG Senior Notes for the year ended December 31, 2016.

2007 SIG Senior Notes

During 2016, using the funds received from the issuance of the 2016 SIG Senior Notes, SIG retired the \$400.0 million face value of senior unsecured notes that were issued in 2007 ("2007 SIG Senior Notes"). The repurchase of the 2007 SIG Senior Notes resulted in a \$5.7 million loss recorded in interest expense, which includes the write-off of the remaining \$0.1 million in unamortized deferred costs and original issue discount at the time of repurchase.

Sirius International Group, Ltd.

Notes to Consolidated Financial Statements

In anticipation of the issuance of the 2007 SIG Senior Notes, SIG entered into an interest rate lock agreement to hedge its interest rate exposure from the date of the agreement until the pricing of the SIG Senior Notes. The agreement was terminated on March 15, 2007 with a loss of \$2.4 million, which was recorded in other comprehensive income. The loss was reclassified from accumulated other comprehensive income over the life of the 2007 SIG Senior Notes using the interest method and is included in interest expense until it was retired in 2016. When the 2007 SIG Senior Notes were retired, the remaining \$0.1 million loss remaining in accumulated other comprehensive income was reclassified to interest expense.

Prior to repurchase, taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, including the interest rate lock agreement, the 2007 SIG Senior Notes yielded an effective rate of approximately 6.5% per annum. Sirius Group recorded \$31.2 million, \$26.3 million, and \$26.3 million of interest expense, inclusive of loss on repurchase, amortization of issuance costs and the interest rate lock agreement, on the 2007 SIG Senior Notes for each of the years ended December 31, 2016, 2015, and 2014.

Old Lyme Note

On December 30, 2011 Sirius Group acquired the runoff loss reserve portfolio of Old Lyme. As part of the acquisition, Sirius Group entered into a five-year \$2.1 million purchase note with a maturity date of December 30, 2016. The principal amount of the purchase note is subject to upward adjustments for favorable loss reserve development (up to 50% of \$6.0 million) and downward adjustments for any adverse loss reserve development. From inception, Sirius Group has had favorable loss reserve development of \$3.2 million on the Old Lyme loss reserve position that has resulted in an increase of \$1.6 million on the Old Lyme Note. Payment of the note is expected in early 2017.

Stand By Letter of Credit Facilities

On November 25, 2014, Sirius International entered into two stand by letter of credit facility agreements totaling \$200 million to provide capital support for its Lloyds Syndicate 1945. One letter of credit is a \$125 million facility from Nordea Bank Finland plc (the "Nordea facility"), \$100 million of which is issued on an unsecured basis. The second letter of credit is a \$75 million facility with Lloyds Bank plc (the "Lloyds Bank facility"), \$25 million of which is issued on an unsecured basis. As of December 31, 2016, both letter of credit facilities remained issued and outstanding.

The unsecured portions of the Nordea facility and the Lloyds Bank facility are subject to various affirmative, negative, and financial covenants that Sirius Group considers to be customary for such borrowings, including certain minimum net worth and maximum debt to capitalization standards.

Sirius International, Sirius America, and Sirius Bermuda have other secured letter of credit and trust arrangements with various financial institutions to support its insurance operations. As of December 31, 2016 and 2015, Sirius International's secured letter of credit and trust arrangements were collateralized by pledged assets and assets in trust of SEK 1.8 billion and SEK 1.6 billion, or \$203.0 million and \$188.4 million (based on the December 31, 2016 and 2015 SEK to USD exchange rate). As of December 31, 2016 and 2015, Sirius America's trust arrangements were collateralized by pledged assets and assets in trust of \$18.8 million and \$20.9 million. As of December 31 2016 and 2015, Sirius Bermuda did not have any trust arrangements that were collateralized by assets and assets in trust.

Debt and Standby Letter of Credit Facility Covenants

As of December 31, 2016, Sirius Group was in compliance with all of the covenants under the 2016 SIG Senior Notes, the Nordea facility and the Lloyd's Bank facility.

Interest

Total interest expense which includes the loss on repurchase of the 2007 SIG Senior Notes, incurred by Sirius Group for its indebtedness was \$34.6 million, \$26.6 million, and \$26.3 million in 2016, 2015, and 2014. Total interest paid, which includes the loss on repurchase of the 2007 SIG Senior Notes, by Sirius Group for its indebtedness was \$31.6 million, \$25.5 million, and \$25.5 million in 2016, 2015, and 2014, respectively.

Sirius International Group, Ltd.
Notes to Consolidated Financial Statements

NOTE 7. Income Taxes

The Company and its Bermuda domiciled subsidiaries are not subject to Bermuda income tax under current Bermuda law. In the event there is a change in the current law such that taxes are imposed, the Company and its Bermuda domiciled subsidiaries would be exempt from such tax until March 31, 2035, pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966. The Company has subsidiaries and branches that operate in various other jurisdictions around the world that are subject to tax in the jurisdictions in which they operate. The jurisdictions in which the Company's subsidiaries and branches are subject to tax are Australia, Belgium, Canada, Germany, Gibraltar, Luxembourg, Malaysia, the Netherlands, Singapore, Sweden, Switzerland, the United Kingdom and the United States.

The total income tax benefit (expense) for the years ended December 31, 2016, 2015, and 2014 consisted of the following:

Millions	Year Ended December 31,		
	2016	2015	2014
Current tax (expense):			
U.S. Federal	\$ 2.1	\$ (0.1)	\$ (1.9)
State	(1.6)	(1.5)	(2.8)
Non-U.S.	(11.4)	(9.6)	(43.6)
Total current tax (expense)	(10.9)	(11.2)	(48.3)
Deferred tax (expense) benefit:			
U.S. Federal	16.0	(21.4)	(12.5)
State	-	-	-
Non-U.S.	2.3	(14.5)	(10.9)
Total deferred tax benefit (expense)	18.3	(35.9)	(23.4)
Total income tax benefit (expense)	\$ 7.4	\$ (47.1)	\$ (71.7)

Effective Rate Reconciliation

A reconciliation of taxes calculated using the 22% Swedish statutory rate (the rate at which the majority of Sirius Group's worldwide operations are taxed) to the income tax (expense) benefit on pre-tax income follows:

Millions	Year Ended December 31,		
	2016	2015	2014
Tax (expense) at the statutory rate	\$ (16.4)	\$ (76.8)	\$ (77.6)
Differences in taxes resulting from:			
Change in valuation allowance including benefit from intercompany debt restructuring	55.0	11.3	17.8
Tax rate change enacted in Luxembourg	(30.6)	-	-
Foreign tax credits	6.9	6.5	30.2
Tax reserve adjustments	(6.0)	(5.7)	(7.3)
Withholding taxes	(1.4)	(1.9)	(3.2)
Non-Sweden Earnings	0.2	20.6	(31.1)
Other, net	(0.3)	(1.1)	(0.5)
Total income tax benefit (expense) on pre-tax earnings	\$ 7.4	\$ (47.1)	\$ (71.7)

The non-Sweden component of pre-tax income was \$103.9 million, \$333.4 million, and \$271.2 million for the years ended December 31, 2016, 2015, and 2014.

Sirius International Group, Ltd.

Notes to Consolidated Financial Statements

Effective January 1, 2017, Luxembourg decreased its corporate tax rate for 2017 and 2018 from 29.2% to 27.1% and 26.0%, respectively. This resulted in a reduction in the net deferred tax assets in the Luxembourg subsidiaries as of December 31, 2016 in the amount of \$30.6 million. This reduction was offset by an increase in Luxembourg tax assets in the amount of \$55.0 million primarily attributable to a restructuring of legacy intercompany financing.

The Swedish Tax Authority (“STA”) has denied the deduction of interest paid on intra-group debt instruments issued by two of our Swedish subsidiaries for tax years 2012 through 2015. Such subsidiaries are currently in the process of appealing the STA’s decision because uncertainty still exists with respect to the interpretation of the legislation. Our reserve for uncertain tax positions has taken into account these developments. If our appeal were ultimately unsuccessful, we would be required to write down some or all of the Swedish deferred tax assets related to intra-group debt instruments.

Tax Payments and Receipts

Net income tax payments to national, state and local governments totaled \$8.3 million, \$31.7 million, and \$8.8 million for the years ended December 31, 2016, 2015, and 2014.

Deferred Tax Inventory

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes. An outline of the significant components of Sirius Group’s deferred tax assets and liabilities follows:

Millions	Year Ended December 31,	
	2016	2015
Deferred income tax assets related to:		
Non-U.S. net operating loss carry forwards	\$ 270.8	\$ 345.1
U.S. federal net operating loss and capital carry forwards	40.0	41.6
Loss reserve discount	22.0	27.8
Tax credit carry forwards	15.2	14.4
Additional DTA as result of intercompany debt restructuring	7.4	-
Incentive compensation and benefit accruals	6.3	6.5
Net unrealized investment losses	3.4	-
Allowance for doubtful accounts	2.3	2.1
Unearned Premiums	2.0	5.6
Foreign currency translations on investments and other assets	2.0	2.1
Deferred interest	0.3	0.3
Other items	2.6	1.9
Total gross deferred income tax assets	374.3	447.4
Valuation allowance	(58.1)	(112.5)
Total adjusted deferred tax asset	316.2	334.9
Deferred income tax liabilities related to:		
Safety reserve (See Note 11)	259.7	279.2
Investment basis differences	8.7	9.8
Purchase accounting	3.5	4.9
Deferred acquisition costs	3.4	8.8
Net unrealized investment gains	-	17.5
Other items	1.5	2.6
Total deferred income tax liabilities	276.8	322.8
Net deferred tax asset	\$ 39.4	\$ 12.1

Sirius Group’s deferred tax assets are net of U.S. federal and non-U.S. valuation allowances and, to the extent they relate to non-U.S. jurisdictions, they are shown at year-end exchange rates.

Sirius International Group, Ltd. Notes to Consolidated Financial Statements

Of the \$39.4 million net deferred tax asset as of December 31, 2016, \$85.5 million relates to net deferred tax asset in the U.S. subsidiaries, \$188.1 million relates to net deferred tax assets in Luxembourg subsidiaries, \$2.7 million relates to net deferred tax assets in United Kingdom and \$236.9 million relates to net deferred tax liabilities in Sweden subsidiaries.

Net Operating Loss and Capital Loss Carryforwards

Net operating loss and capital loss carryforwards as of December 31, 2016, the expiration dates and the deferred tax assets thereon are as follows:

Millions	December 31, 2016					
	United States	Luxembourg	Sweden	Netherlands	UK	Total
2017-2021	\$ -	\$ -	\$ -	\$ 0.7	\$ -	\$ 0.7
2022-2034	117.1	-	-	0.4	-	117.5
No expiration date	-	967.9	177.8	-	12.0	1,157.7
Total	117.1	967.9	177.8	1.1	12.0	1,275.9
Gross Deferred Tax Asset	40.0	251.8	16.3	0.3	2.4	310.8
Valuation Allowance	-	(57.7)	-	(0.3)	-	(58.0)
Net Deferred Tax Asset	\$ 40.0	\$ 194.1	\$ 16.3	\$ -	\$ 2.4	\$ 252.8

Sirius Group expects to utilize net operating loss carryforwards in Luxembourg of \$763.0 million but does not expect to utilize the remainder as they belong to companies that are not expected to have sufficient income in the future. Included in the U.S. net operating loss carryforwards are losses of \$114.3 million subject to an annual limitation on utilization under Internal Revenue Code Section 382. Of these loss carryforwards, \$14.0 million will begin to expire in 2022 and \$100.3 million will begin to expire in 2030. Sirius Group expects to utilize all of the U.S. net operating loss carryforwards.

As of December 31, 2016, there are U.S. foreign tax credits carryforwards available of \$12.2 million, of which \$0.1 million expires between 2017 and 2021, and the remaining, which we expect to use, will begin to expire in 2022. As discussed above, a deferred tax valuation allowance of \$0.1 million is established against the credits which expire in 2017. As of December 31, 2016, there are alternative minimum tax credit carryforwards of \$0.1 million which do not expire.

Valuation Allowance

Sirius Group records a valuation allowance against deferred tax assets if it becomes more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in income tax expense in the period of change. In determining whether or not a valuation allowance, or change therein, is warranted, Sirius Group considers factors such as prior earnings history, expected future earnings, carryback and carryforward periods and strategies that if executed would result in the realization of a deferred tax asset. It is possible that certain planning strategies or projected earnings in certain subsidiaries may not be feasible to utilize the entire deferred tax asset, which could result in material changes to Sirius Group's deferred tax assets and tax expense.

Of the \$58.1 million valuation allowance as of December 31, 2016, \$57.7 million relates to deferred tax assets on net operating losses in Luxembourg subsidiaries (discussed under "Net Operating Loss and Capital Loss Carryforwards"), \$0.1 million relates to other U.S. federal deferred tax benefits, and \$0.3 million relates to net operating losses in Netherlands subsidiaries. Of the \$112.5 million valuation allowance as of December 31, 2015, \$112.2 million relates to deferred tax assets on net operating losses and unrealized gains and losses in Luxembourg subsidiaries (discussed under "Net Operating Loss and Capital Loss Carryforwards"), \$0.1 million relates to other U.S. federal deferred tax benefits, and \$0.2 million relates to net operating losses in Netherlands subsidiaries.

Sirius International Group, Ltd.
Notes to Consolidated Financial Statements

Luxembourg

During 2016, 2015, and 2014 Sirius Group recorded net tax benefits of \$17.3 million, \$11.3 million and \$14.1 million from the net release of valuation allowances against deferred tax assets in Luxembourg subsidiaries. These companies had built up substantial deferred tax assets due to net operating loss carryforwards. During the fourth quarter of 2016, we completed a restructuring of a legacy intercompany financing transaction involving certain U.S. and Luxembourg subsidiaries. As a result of the restructuring, we recorded a benefit in the amount of \$13.3 million from the net release of the valuation allowance against our Luxembourg deferred tax assets.

United States

Sirius Re Holdings, Inc. (“SReHi”) has \$0.1 million of a valuation allowance on foreign tax credits, which will expire in 2017. SReHi has an additional \$12.1 million of foreign tax credits that will expire between the years 2018 and 2025, which are expected to be fully utilized.

Uncertain Tax Positions

Recognition of the benefit of a given tax position is based upon whether a company determines that it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. In evaluating the more likely than not recognition threshold, Sirius Group must presume that the tax position will be subject to examination by a taxing authority with full knowledge of all relevant information. If the recognition threshold is met, then the tax position is measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Millions	Permanent Differences ⁽¹⁾	Temporary Differences ⁽²⁾	Interest and Penalties ⁽³⁾	Total
Balance at January 1, 2014	\$ 9.8	\$ 5.9	\$ 0.6	\$ 16.3
Changes in prior year tax positions	0.3	(0.0)	(0.2)	0.1
Tax positions taken during the current year	5.6	0.8	-	6.4
Lapse in statute of limitations	(0.1)	-	-	(0.1)
Settlements with tax authorities	(0.6)	-	(0.3)	(0.9)
Balance at December 31, 2014	15.0	6.7	0.1	21.8
Changes in prior year tax positions	-	-	-	-
Tax positions taken during the current year	5.0	(0.1)	-	4.9
Lapse in statute of limitations	(0.2)	-	(0.1)	(0.3)
Settlements with tax authorities	-	-	-	-
Balance at December 31, 2015	19.8	6.6	(0.0)	26.4
Changes in prior year tax positions	-	-	-	-
Tax positions taken during the current year	4.4	(2.5)	0.2	2.1
Lapse in statute of limitations	-	-	-	-
Settlements with tax authorities	-	-	-	-
Balance at December 31, 2016	\$ 24.2	\$ 4.1	\$ 0.2	\$ 28.5

⁽¹⁾ Represents the amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate.

⁽²⁾ Represents the amount of unrecognized tax benefits that, if recognized would create a temporary difference between the reported amount of an item in the Company's Balance Sheet and its tax basis.

⁽³⁾ Net of tax benefit.

Sirius International Group, Ltd. Notes to Consolidated Financial Statements

If Sirius Group determines in the future that its reserves for unrecognized tax benefits on permanent differences and interest and penalties are not needed, the reversal of \$24.2 million of such reserves as of December 31, 2016 would be recorded as an income tax benefit and would impact the effective tax rate. If Sirius Group determines in the future that its reserves for unrecognized tax benefits on temporary differences are not needed, the reversal of \$4.1 million of such reserves as of December 31, 2016 would not impact the effective tax rate due to deferred tax accounting but would accelerate the payment of cash to the taxing authority. The vast majority of Sirius Group's reserves for unrecognized tax benefits on temporary differences relate to deductions for loss reserves where the timing of the deductions is uncertain. The company does not believe that there will be any significant change to the amount of gross unrecognized tax benefits in the next twelve months.

Sirius Group classifies all interest and penalties on unrecognized tax benefits as part of income tax expense. During the years ended December 31, 2016, 2015, and 2014 Sirius Group recognized \$0.2 million, \$(0.1) million, and \$(0.5) million in interest income (expense), respectively, net of any tax benefit. The balance of accrued interest as of December 31, 2016 and 2015 is \$0.2 million, and \$0.0 million, net of any tax benefit.

Tax Examinations

With few exceptions, Sirius Group is no longer subject to U.S. federal, state or non-U.S. income tax examinations by tax authorities for years before 2012. In accordance with the sale of Sirius Group to CMIG, White Mountains generally will indemnify us for our additional tax liability for any pre-closing period in excess of our accounting for uncertain tax positions.

NOTE 8. Derivatives

Interest Rate Cap

In May 2007, the Company issued the SIG Preference Shares, with an initial fixed annual dividend rate of 7.506%. In June 2017, the fixed rate will move to a floating rate equal to the greater of (i) 7.506% or (ii) 3-month LIBOR plus 320 bps. In July 2013, the Company executed an interest rate cap for the period from June 2017 to June 2022 to protect against a significant increase in interest rates during that 5-year period (the "Interest Rate Cap"). The Interest Rate Cap economically fixes the annual dividend rate on the SIG Preference Shares from June 2017 to June 2022 at 8.30%. The cost of the Interest Rate Cap was an upfront premium of 395 bps of the \$250.0 million notional value, or approximately \$9.9 million for the full notional amount.

The Interest Rate Cap does not qualify for hedge accounting. It is recorded in other assets at fair value. Changes in fair value are recognized as unrealized gains or losses and are presented within other revenues. Collateral held is recorded within short-term investments with an equal amount recognized as a liability to return collateral. The fair value of the interest rate cap has been estimated using a single broker quote and accordingly, has been classified as a Level 3 measurement as of December 31, 2016.

The following table summarizes the change in the fair value of the Interest Rate Cap for the year ended December 31, 2016 and 2015:

Millions	December 31,	
	2016	2015
Beginning of Period Fair Value	\$ 1.9	\$ 4.1
Net realized and unrealized losses	(0.2)	(2.2)
End of Period Fair Value	\$ 1.7	\$ 1.9

Sirius International Group, Ltd.

Notes to Consolidated Financial Statements

Sirius Group does not provide any collateral to the interest rate counterparties. Under the terms of the Interest Rate Cap, Sirius Group holds collateral in respect of future amounts due. Sirius Group's liability to return that collateral is based on the amounts provided by the counterparties and investment earnings thereon. The following table summarizes the Interest Rate Cap collateral balances held by Sirius Group and ratings by counterparty:

Millions	December 31, 2016	
	Collateral Balances Held	S & P Rating ⁽¹⁾
Barclays Bank Plc	\$ 1.2	A-
Nordea Bank Findland Plc	0.5	AA-
Total	\$ 1.7	

(1) Standard & Poor's ratings as detailed above are: "AA-" (Very Strong, which is the fourth highest of twenty-three creditworthiness ratings) and "A-" (Strong, which is the seventh highest of twenty-three creditworthiness ratings).

Foreign Currency Swaps

On April 28, 2015, Sirius Group executed two foreign currency swaps, each with a notional amount of \$50.0 million, maturing on March 20, 2017. Under the first swap, Sirius Group pays Swedish krona and receives U.S. dollars. Under the second swap, Sirius Group pays Euros and receives U.S. dollars. The swaps, which were executed as part of Sirius Group's management of overall foreign currency exposure at Sirius Group, have not been designated or accounted for under hedge accounting. There was no cost to the foreign currency swaps, and no upfront premium. As of December 31, 2016 and 2015, the fair value of the swaps was \$5.2 million and \$(0.5) million, respectively and were recorded within other assets. Changes in fair value are recognized as realized and unrealized gains or losses and are presented within other revenues. The net realized and unrealized gains (losses) recognized in other revenues for the years ended December 31, 2016 and 2015 were \$6.6 million and \$(0.1) million, respectively. Sirius Group does not provide or hold any collateral associated with the swaps. The fair value of the foreign currency swaps has been estimated using a single broker quote and accordingly, has been classified as a Level 3 measurement as of December 31, 2016.

Weather Derivatives

For the year ended December 31, 2016 and 2015, Sirius Group recognized \$5.2 million and \$1.9 million of net gains on its weather and weather contingent derivatives portfolio. The fair values of the assumed contracts are subject to change in the near-term and reflect management's best estimate based on various factors including, but not limited to, observed and forecasted weather conditions, changes in interest or foreign currency exchange rates and other market factors. Estimating the fair value of derivative instruments that do not have quoted market prices requires management's judgment in determining amounts that could reasonably be expected to be received from or paid to a third party to settle the contracts. Such amounts could be materially different from the amounts that might be realized in an actual transaction to settle the contract with a third party. Because of the significance of the unobservable inputs used to estimate the fair value of Sirius Group's weather risk contracts, the fair value measurements of the contracts are deemed to be Level 3 measurements in the fair value hierarchy.

Forward Contracts

During 2015, Sirius Group exited its foreign currency forward contracts positions and as of December 31, 2015, did not hold any notional value of foreign currency forward contracts. All of Sirius Group's forward contracts were traded over-the-counter ("OTC"). The fair value of the contracts has been estimated using OTC quotes for similar instruments and accordingly, the measurements have been classified as Level 2 measurements. The net realized and unrealized derivative (losses) recognized in net realized and unrealized investment gains for the years ended December 31, 2015 and 2014 were \$(0.3) million and \$0.3 million, respectively.

NOTE 9. Employee Benefit Plans and Compensation Plans

Employee Benefit Plans

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 6.6%-8.5% of the employees's 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% of the total premium charges and the employees incur the remaining 40%. As of December 31, 2016 and 2015, the projected benefit obligation of Sirius International's various benefit plans was \$15.0 million and \$14.4 million, and the funded status was \$(3.3) million and \$(3.2) million. Sirius International recognized expenses related to these various plans of \$7.3 million, \$7.0 million, and \$9.9 million in 2016, 2015, and 2014.

Sirius International sponsors defined contribution plans for Bermuda Branch employees which cover substantially all of those employees. Under these plans, Sirius International 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 International contributions after two years of service. Sirius International recognized expenses on Bermuda Branch employees of \$0.5 million, \$0.5 million, and \$0.4 million in 2016, 2015, and 2014.

U.S.:

Sirius International Holding Company, Inc. ("SIHC") sponsors a defined contribution plan (the "401(k) Plan") which offers participants the ability to invest their balances in several different investment options. The option to invest in common shares of White Mountains was discontinued as of September 30, 2016. As of December 31, 2016 the 401(k) Plan did not own any common shares of White Mountains. As of December 31, 2015, the 401(k) Plan owned less than 1% of White Mountains common shares.

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). Total expense for matching contributions to the plan was \$0.7 million, \$0.5 million, and \$0.7 million in 2016, 2015, and 2014. 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. Total expense for variable contributions to the 401(k) Plan was \$0.4 million, \$0.5 million, and \$0.5 million in 2016, 2015, and 2014.

Certain members of senior management participated in the SIHC Deferred Compensation Plan. At the direction of the participants, the trust proceeds were invested in various investment options. During 2016, the trust was discontinued and as of December 31, 2016, no amount was held in a Rabbi Trust for the benefit of the participants in this plan. At December 31, 2015, there was \$6.0 million in a Rabbi Trust for the benefit of the participants in this plan. The Rabbi Trust assets were invested in various investment options at the direction of the participants. The deferred compensation liability is recorded at fair value under ASC 825, *Financial Instruments* ("ASC 825") within other liabilities and the corresponding investments held in the Rabbi Trust were recorded at fair value under ASC 825 within other assets on the consolidated balance sheets. In the event of insolvency, the assets of the Rabbi Trust would have been liquidated to satisfy the obligations of SIHC.

Sirius International Group, Ltd.

Notes to Consolidated Financial Statements

Long-Term Incentive Compensation Plans

Sirius Group grants share-based and non-share based incentive awards to certain key employees of Sirius Group and its subsidiaries. This includes awards of restricted shares and phantom shares and performance units. Awards earned are subject to the attainment of pre-specified performance goals at the end of a three-year period or as otherwise determined. Phantom shares and performance units earned are typically paid in cash. For the years ended December 31, 2016, 2015, and 2014, Sirius Group expensed \$6.2 million, \$9.2 million, and \$16.1 million, respectively, for share-based and non-share based incentive awards. Accrued incentive compensation for these plans was \$12.4 million and \$18.6 million at December 31, 2016 and 2015.

Transaction and Retention Bonuses

Under the 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 Sirius Ltd. 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 Sirius Ltd. 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 \$23.8 million in general and administrative expenses in connection with the transaction bonuses. Sirius Ltd. 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 \$11.8 million in general and administrative expenses in connection with the retention bonuses. Sirius Ltd. recorded \$14.5 million after employment costs and taxes in paid-in capital for future payments due from White Mountains for the retention bonuses.

NOTE 10. Common Shareholder’s Equity and Non-controlling Interest

Common Shareholder

At December 31, 2016, Sirius Group is an indirect wholly-owned subsidiary of Sirius Ltd. through S.I. Holdings, Ltd., both exempted Bermuda limited liability companies. At December 31, 2016, Sirius Ltd., is a wholly-owned subsidiary of CMIG International through CM Bermuda.

Paid-in Capital

On December 20, 2016 Sirius Ltd. through S.I. Holdings, Ltd. made a contribution of \$20.0 million to Sirius Group which was reflected as paid-in capital.

On April 18, 2016, Sirius Group sold its investment in OneBeacon to White Mountains at fair value in connection with the sale of Sirius Group to CMIG International and recorded \$22.1 million of paid-in capital for the excess of fair value over the equity method carrying value of OneBeacon.

Dividends

During 2016, the Company paid common dividends of \$20.0 million in cash and investments to Sirius Ltd. Sirius Ltd., in turn paid dividends of \$27.0 million to its former parent White Mountains on April 18, 2016. During 2015, the Company paid common dividends of \$48.0 million in cash and investments, to Sirius Ltd. Sirius Ltd. did not pay any dividends to White Mountains during 2015. During 2014, the Company paid common dividends of \$65.4 million in cash and investments, to Sirius Ltd. Sirius Ltd., in turn paid dividends of \$50.0 million to White Mountains in 2014.

Non-controlling interests

Non-controlling interests consist of the ownership interests of non-controlling shareholders in consolidated entities and are presented separately on the balance sheet. At December 31, 2016 and December 31, 2015 Sirius Group’s balance sheet included \$1.3 million and \$0.1 million, respectively, in non-controlling interests.

NOTE 11. Statutory Capital and Surplus

Sirius Group's insurance and reinsurance operations are subject to regulation and supervision in each of the jurisdictions where they are domiciled and licensed to conduct business. Generally, regulatory authorities have broad supervisory and administrative powers over such matters as licenses, standards of solvency, premium rates, policy forms, investments, security deposits, methods of accounting, form and content of financial statements, reserves for unpaid loss and LAE, reinsurance, minimum capital and surplus requirements, dividends and other distributions to shareholders, periodic examinations, and annual and other report filings. In general, such regulation is for the protection of policyholders rather than shareholders.

The NAIC uses risk-based capital ("RBC") standards for U.S. property and casualty insurers as a means of monitoring certain aspects affecting the overall financial condition of insurance companies. As of December 31, 2016, Sirius Group's U.S. insurance and reinsurance operating subsidiaries exceeded their respective RBC requirements.

The Insurance Act 1978 of Bermuda and related regulations, as amended ("Insurance Act"), regulates the insurance business of Bermuda-domiciled insurers and reinsurers. Under the Insurance Act, insurers and reinsurers are required to maintain minimum statutory capital and surplus at a level equal to the greater of a minimum solvency margin ("MSM") and the Enhanced Capital Requirement ("ECR") which is established by reference to either a Bermuda Solvency Capital Requirement ("BSCR") model or an approved internal capital model. The BSCR model is a risk-based capital model that provides a method for determining an insurer's minimum required capital taking into account the risk characteristics of different aspects of the company's business. Generally, the Bermuda Monetary Authority ("BMA") has broad supervisory and administrative powers over such matters as licenses, standards of solvency, investments, methods of accounting, form and content of financial statements, minimum capital and surplus requirements, and annual and other report filings.

Non-U.S.:

SBDA has four Bermuda based insurance subsidiaries: Sirius Bermuda, a Class 4 insurer, White Shoals Re, Alstead Reinsurance Ltd. ("Alstead Re") and Star Re Ltd. ("Star Re"), which are all Class 3A insurers. Each of these Bermuda insurance subsidiaries are registered under the Insurance Act and are subject to regulation and supervision of the BMA. The BSCR for the relevant insurers for the year ended December 31, 2016 has not been filed with the BMA as of April 7, 2017, the date on which the Consolidated Financial Statements were issued. As a result, the required statutory capital and surplus as at December 31, 2016, of \$0.2 billion is based on the MSM of all relevant insurers. Actual statutory capital and surplus of the Bermuda based insurance subsidiaries as at December 31, 2016 was \$2.6 billion. In addition, the Bermuda based insurance subsidiaries are required to maintain a minimum liquidity ratio. As of December 31, 2016, all liquidity ratio requirements were met.

Sirius International is subject to regulation and supervision in Sweden by the Financial Supervisory Authority ("FSA"). Sirius International's total regulatory capital as of December 31, 2016 was \$1.9 billion. In accordance with FSA regulations, Sirius International holds restricted equity of \$1.3 billion as a component of Swedish regulatory capital. This restricted equity cannot be paid as dividends.

The financial services industry in the United Kingdom is dual-regulated by the Financial Conduct Authority and the Prudential Regulation Authority (collectively, the "UK Regulators"). The U.K. Regulators regulate insurers, insurance intermediaries and Lloyd's. The UK Regulators and Lloyd's have common objectives in ensuring that the Lloyd's market is appropriately regulated. Lloyd's is required to implement certain rules prescribed by the UK Regulators by the powers it has under the Lloyd's Act of 1982 ("Lloyd's Act") relating to the operation of the Lloyd's market. In addition, each year the UK Regulators require Lloyd's to satisfy an annual solvency test that measures whether Lloyd's has sufficient assets in the aggregate to meet all the outstanding liabilities of its members.

Sirius International Group, Ltd.

Notes to Consolidated Financial Statements

Lloyd's permits its corporate and individual members ("Members") to underwrite insurance risks through Lloyd's syndicates. Members of Lloyd's may participate in a syndicate for one or more underwriting years by providing capital to support the syndicate's underwriting. All syndicates are managed by Lloyd's approved managing agents. Managing agents receive fees and profit commissions in respect of the underwriting and administrative services they provide to the syndicates. Lloyd's prescribes, in respect of its managing agents and Members, certain minimum standards relating to their management and control, solvency and various other requirements.

Sirius Group participates in the Lloyd's market through the 100% ownership of Sirius International Corporate Member Ltd. which was formerly known as White Mountains Re Sirius Capital Ltd., a Lloyd's corporate member, which in turn provides underwriting capacity to Syndicate 1945. Syndicate 1945 commenced underwriting on July 1, 2011. Effective July 1, 2014, Sirius Group established its own Lloyd's managing agent, Sirius International Managing Agency, which manages Syndicate 1945. Lloyd's approved net capacity for 2016 is £108.4 million, or approximately \$134.3 million (based on the December 31, 2016 GBP to USD exchange rate). Stamp capacity is a measure of the amount of net premium (premiums written less acquisition costs) that a syndicate is authorized by Lloyd's to write.

U.S.:

Sirius America and the insurance subsidiaries of Sirius Global Solutions are subject to regulation and supervision by the National Association of Insurance Commissioners ("NAIC") and the department of insurance in the state of domicile. The NAIC uses risk-based-capital standards for U.S. property and casualty insurers as a means of monitoring certain aspects affecting the overall financial condition of insurance companies.

Sirius America's policyholders' surplus, as reported to regulatory authorities as of December 31, 2016 and 2015, was \$544.3 million and \$517.6 million. Sirius America's statutory net income for the years ended December 31, 2016, 2015, and 2014 was \$82.7 million, \$74.7 million, and \$56.1 million. The principal differences between Sirius America's statutory amounts and the amounts reported in accordance with GAAP include deferred acquisition costs, deferred taxes, gains recognized under retroactive reinsurance contracts and market value adjustments for debt securities. The minimum policyholders' surplus necessary to satisfy Sirius America's regulatory requirements was \$92.1 million as of December 31, 2016, which equals the authorized control level of the NAIC risk-based capital based on Sirius America's policyholders' surplus.

Oakwood Insurance Company ("Oakwood") policyholders' surplus, as reported to regulatory authorities as of December 31, 2016 and 2015 was \$28.0 million and \$30.3 million. Oakwood's statutory net (loss) income for the years ended December 31, 2016, 2015, and 2014 was \$(0.9) million, \$0.7 million and \$(1.1) million. The minimum policyholders' surplus necessary to satisfy Oakwood's regulatory requirements was \$6.7 million as of December 31, 2016, which equals the authorized control level of the NAIC risk-based capital based on Oakwood's policyholders' surplus.

Empire Insurance Company ("Empire") policyholders' surplus, as reported to regulatory authorities as of December 31, 2016 and 2015 was \$10.7 million and \$10.6 million. Empire's statutory net income for the years ended December 31, 2016, 2015, and 2014 was \$0.0 million, \$0.1 million and \$0.6 million. The minimum policyholders' surplus necessary to satisfy Empire's regulatory requirements was \$8.8 million as of December 31, 2016, and the NAIC risk-based capital authorized control level was \$1.0 million.

Mount Beacon's policyholders' surplus, as reported to regulatory authorities as of December 31, 2016 and 2015 was \$13.6 million and \$25.6 million. Mount Beacon's statutory net (loss) for the years ended December 31, 2016, 2015, and 2014 was \$(11.1) million, \$0.0 million and \$(0.2) million. The minimum policyholders' surplus necessary to satisfy Mount Beacon's regulatory requirements was \$15.0 million as of December 31, 2016, and the NAIC risk-based capital authorized control level was \$1.5 million. On February 22, 2017 a consent order was approved by the Florida Office of Insurance Regulation for an Accelerated Plan of Run-Off that both protects Mount Beacon's policyholders and facilitates the furtherance of the run-off of Mount Beacon's book of business and the transfer of Mount Beacon's policies to Florida Specialty Insurance Company. In conjunction with the Accelerated Plan of Run-Off, Mount Beacon has entered into a Capital Support Agreement with its parent, Sirius Global Solutions under which Sirius Global Solutions commits to providing the necessary capital to maintain Company policyholder surplus of at least \$10.0 million until such time as Mount Beacon has been merged into Oakwood.

Sirius International Group, Ltd. Notes to Consolidated Financial Statements

Dividend Capacity

Sirius Bermuda, has the ability to declare or pay dividends or make capital distributions during any 12-month period without the prior approval of Bermuda regulatory authorities on the condition that any such declaration or payment of dividends or capital distributions does not cause a breach of any of its regulatory solvency and liquidity requirements. During 2017, Sirius Bermuda has the ability to pay dividends or make capital distributions without the prior approval of regulatory authorities, subject to meeting all appropriate liquidity and solvency requirements, of \$648.0 million, which is equal to 25% of its December 31, 2016 regulatory capital available for distribution. The amount of dividends available to be paid by Sirius Bermuda in any given year is also subject to cash flow and earnings generated by Sirius Bermuda's business, as well as to dividends received from its subsidiaries, including Sirius International. During 2016, Sirius Bermuda paid \$40.0 million of dividends to its immediate parent.

Sirius International has the ability to pay dividends up to Sirius Bermuda subject to the availability of unrestricted equity, calculated in accordance with the Swedish Act on Annual Accounts in Insurance Companies and the FSA. Unrestricted equity is calculated on a consolidated group account basis and on a parent account basis. Differences between the two include but are not limited to accounting for goodwill, subsidiaries (with parent accounts stated at original foreign exchange rates), taxes and pensions. Sirius International's ability to pay dividends is limited to the "lower of" unrestricted equity as calculated within the group and parent accounts. As of December 31, 2016, Sirius International had \$440.2 million (based on the December 31, 2016 SEK to USD exchange rate) of unrestricted equity on a parent account basis (the lower of the two approaches) available to pay dividends in 2017. The amount of dividends available to be paid by Sirius International in any given year is also subject to cash flow and earnings generated by Sirius International's business, as well as to dividends received from its subsidiaries. Earnings generated by Sirius International's business that are allocated to the Safety Reserve are not available to pay dividends (see "*Safety Reserve*" on the next page). During 2016, Sirius International paid \$297.0 million of dividends to its immediate parent.

Under normal course of business, Sirius America has the ability to pay dividends up to its immediate parent during any twelve-month period without the prior approval of regulatory authorities in an amount set by formula based on the lesser of net investment income, as defined by statute, or 10% of statutory surplus, in both cases as most recently reported to regulatory authorities, subject to the availability of earned surplus and subject to dividends paid in prior periods. Based upon an agreement with its regulators during 2016, Sirius America shall commit to refrain from taking steps to pay any dividends for a period of two years from the date of the sale of Sirius Ltd. from White Mountains to CMIG International. As of December 31, 2016, Sirius America had \$544.3 million of statutory surplus and \$143.7 million of earned surplus. During 2016, Sirius America did not pay any dividends to its immediate parents.

During 2016, Sirius Group paid \$20.0 million in dividends to its immediate parent. Sirius Ltd. paid \$27.0 million in dividends to its former parent White Mountains on April 18, 2016. As of December 31, 2016, Sirius Group had \$4.5 million of net unrestricted cash, short-term investments, and fixed maturity investments outside of its regulated and unregulated insurance and reinsurance operating subsidiaries.

Capital Maintenance

There is a capital maintenance agreement between Sirius International and Sirius America which obligates Sirius International to make contributions to Sirius America's surplus in order for Sirius America to maintain surplus equal to at least 125% of the company action level risk based capital as defined in the NAIC Property/Casualty Risk-Based Capital Report. The agreement provides for a maximum contribution to Sirius America of \$200.0 million. During 2016, Sirius International has not made any contributions to the surplus of Sirius America. During 2016, Sirius International provided Sirius America with accident year stop loss reinsurance, which protected Sirius America's accident year loss and allocated loss adjustment expense ratio in excess of 70%, with a limit of \$90.0 million. This stop loss contract has been renewed for all of 2017 with the attachment point in excess of 83% and a limit of \$27.0 million. In addition, at November 1, 2016, Sirius America and Sirius International entered into a quota share agreement where Sirius America ceded Sirius International 75% of its reinsurance business on an accident year basis. This quota share agreement is in force through October 31, 2017. During 2016, Sirius America ceded \$33.4 million of premiums earned to Sirius International under this quota share agreement.

Sirius International Group, Ltd.

Notes to Consolidated Financial Statements

Safety Reserve

Subject to certain limitations under Swedish law, Sirius International is permitted to transfer pre-tax income amounts into an untaxed reserve referred to as a safety reserve. As of December 31, 2016, Sirius International's safety reserve amounted to SEK 10.7 billion, or \$1.2 billion (based on the December 31, 2016 SEK to USD exchange rate). Under GAAP, an amount equal to the safety reserve, net of a related deferred tax liability established at the Swedish tax rate of 22%, is classified as shareholder's equity. Generally, this deferred tax liability is only required to be paid by Sirius International if it fails to maintain prescribed levels of premium writings and loss reserves in future years. As a result of the indefinite deferral of these taxes, Swedish regulatory authorities apply no taxes to the safety reserve when calculating solvency capital under Swedish insurance regulations. Accordingly, under local statutory requirements, an amount equal to the deferred tax liability on Sirius International's safety reserve (\$259.7 million as of December 31, 2016) is included in solvency capital. Access to the safety reserve is restricted to coverage of insurance and reinsurance losses. Access for any other purpose requires the approval of Swedish regulatory authorities. Similar to the approach taken by Swedish regulatory authorities, most major rating agencies generally include the \$1.2 billion balance of the safety reserve, without any provision for deferred taxes, in Sirius International's regulatory capital when assessing Sirius International's financial strength. Subject to certain limitations under Swedish law, Sirius International is permitted to transfer certain portions of its pre-tax income to its Swedish parent companies to minimize taxes (referred to as a group contribution). During 2016, Sirius International did not transfer any of its 2015 pre-tax income via group contributions to its Swedish parent companies.

NOTE 12. Investments in Unconsolidated Affiliates

Sirius Group's investments in unconsolidated affiliates represent investments in other companies in which Sirius Group has a significant voting and economic interest but does not control the entity.

Symetra

As of February 1, 2016 and December 31, 2015, Sirius Group owned 17,492,800 common shares of Symetra, a 15.1% common share ownership. On February 1, 2016, Symetra closed its merger agreement with Sumitomo Life Insurance Company ("Sumitomo Life") and Sirius Group received proceeds of \$559.8 million, or \$32.00 per common share.

In August 2015, Symetra announced it had entered into a merger agreement with Sumitomo Life pursuant to which Sumitomo Life would acquire all of the outstanding shares of Symetra. Following the announcement and Symetra shareholders' November 5, 2015 meeting to approve the transaction, White Mountains, relinquished its representation on Symetra's board of directors. As a result, Sirius Group changed its accounting for Symetra common shares from the equity method to fair value. During the fourth quarter of 2015, Sirius Group recognized \$218.5 million (\$200.8 million after tax) of unrealized investment gains through net income, representing the difference between the carrying value of Symetra common shares under the equity method at the date of change and fair value at December 31, 2015. During the first quarter of 2016, Sirius Group recognized an additional \$4.0 million of unrealized investment gains through net income.

Sirius International Group, Ltd.

Notes to Consolidated Financial Statements

As of December 31, 2011, Sirius Group concluded that its investment in Symetra common shares was other-than-temporarily impaired and wrote down the GAAP book value of the investment to its estimated fair value of \$261.0 million, or \$15 per share. This impairment resulted in a basis difference between the GAAP carrying value of Sirius Group's investment in Symetra common shares and the amount derived by multiplying the percentage of Sirius Group's common share ownership by Symetra's total GAAP equity. As of November 5, 2015, the pre-tax unamortized basis difference was \$136.0 million, of which \$26.0 million is attributable to equity in earnings of unconsolidated affiliates and \$110.0 million is attributable to equity in net unrealized gains of unconsolidated affiliates. As of December 31, 2014, the pre-tax unamortized basis difference was \$143.2 million, of which \$26.8 million is attributable to equity in earnings of unconsolidated affiliates and \$116.4 million is attributable to equity in net unrealized gains of unconsolidated affiliates. The pre-tax basis differences were amortized over a 30-year period, based on estimated future cash flows associated with Symetra's underlying assets and liabilities to which the basis differences were attributed. Sirius Group continued to record its equity in Symetra's earnings and net unrealized gains (losses) under the equity method through November 5, 2015. In addition, Sirius Group recognized the amortization of the basis differences through equity in earnings of unconsolidated affiliates and equity in net unrealized gains (losses) from investments in unconsolidated affiliates consistent with the original attribution of the basis differences between equity in earnings and equity in net unrealized gains (losses). For the period ended November 5, 2015, Sirius Group recognized after-tax amortization of \$0.5 million through equity in earnings of unconsolidated affiliates and \$6.0 million through equity in net unrealized gains from investments in unconsolidated affiliates. For the period ended December 31, 2014, Sirius Group recognized after-tax amortization of \$2.8 million through equity in earnings of unconsolidated affiliates and \$11.5 million through equity in net unrealized gains from investments in unconsolidated affiliates. For the period ended December 31, 2013, Sirius Group recognized after-tax amortization of \$2.7 million through equity in earnings of unconsolidated affiliates and \$10.7 million through equity in net unrealized gains from investments in unconsolidated affiliates.

The following table summarizes amounts recorded by Sirius Group under the equity method relating to its investment in Symetra through November 5, 2015:

Millions	Total
Equity method carrying value of investment in Symetra as of December 31, 2014 ⁽¹⁾	\$ 361.8
Equity in earnings of Symetra ⁽²⁾⁽³⁾⁽⁴⁾	20.1
Equity in net unrealized gains from Symetra's fixed maturity portfolio ⁽⁵⁾⁽⁶⁾	(35.4)
Distribution from Prospector Offshore Fund ⁽⁷⁾	2.2
Dividends received	(14.5)
Equity method carrying value of investment in Symetra as of November 5, 2015 ⁽¹⁾⁽⁸⁾	\$ 334.2

⁽¹⁾ Includes Sirius Groups' equity in net unrealized gains (losses) from Symetra's fixed income portfolio of \$3.0 and \$32.4 as of November 5, 2015 and December 31, 2014, which excludes tax (expense) benefit of \$0.2 and \$(2.7)

⁽²⁾ Equity in earnings for the period ended November 5, 2015 excludes tax expense of \$1.6

⁽³⁾ Equity in earnings for the period ended November 5, 2015 includes \$0.6 increases relating to the pre-tax amortization of the Symetra common share basis difference

⁽⁴⁾ Equity in earnings for the period ended November 5, 2015 includes \$(0.1) loss from the dilutive effect of Symetra's yearly dividend and the issuance of restricted shares by Symetra

⁽⁵⁾ Net unrealized gains for the period ended November 5, 2015 includes \$6.6 increases relating to the pre-tax amortization of the Symetra common share basis difference

⁽⁶⁾ Equity in net unrealized gains (losses) from Symetra's fixed maturity portfolio excludes tax benefit of \$2.9 for the period ended November 5, 2015.

⁽⁷⁾ During 2015, pursuant to the redemption of Sirius Group's investments in the Prospector Funds, 92,800 common shares of Symetra were distributed to Sirius Group.

⁽⁸⁾ The aggregate value of Sirius Group's investment in common shares of Symetra was \$554.0 based upon the quoted market

Sirius International Group, Ltd.
Notes to Consolidated Financial Statements

The following table summarizes financial information for Symetra as of September 30, 2015:

Millions	September 30, 2015
Symetra balance sheet data:	
Total investments	\$ 32,409.2
Separate account assets	885.9
Total assets	34,962.8
Policyholder liabilities	29,492.0
Long-term debt	697.5
Separate account liabilities	885.9
Total liabilities	31,836.7
Common Shareholders' equity	3,126.1

The following table summarizes financial information for Symetra for the nine months ended September 30, 2015 and the year ended December 31, 2014:

Millions	Nine months ended September 30, 2015	Year ended December 31, 2014
Symetra income statement data:		
Net premiums earned	\$ 539.3	\$ 629.1
Net investment income	994.3	1,320.5
Total revenues	1,605.9	212.4
Policy benefits	1,143.7	1,399.7
Total expenses	1,543.6	1,882.5
Net income	89.6	254.4
Comprehensive (loss) income	(234.1)	397.0

OneBeacon

On April 18, 2016, Sirius Group sold its investment in OneBeacon at fair value to White Mountains for proceeds of \$178.3 million in connection with the sale of Sirius Group to CMIG International and recorded \$22.1 million of additional paid-in capital for the excess of fair value over the equity method carrying value of OneBeacon. Prior to the sale, Sirius Group accounted for its investment in OneBeacon using the equity method.

During the period ended April 18, 2016 and the year ended December 31, 2015, Sirius Group received cash dividends from OneBeacon of \$3.0 million and \$12.1 million, respectively, which were accounted as a reduction of Sirius Group's investment in OneBeacon in accordance with equity method accounting.

Sirius International Group, Ltd.
Notes to Consolidated Financial Statements

The following table summarizes amounts recorded by Sirius Group under the equity method relating to its investment in OneBeacon through April 18, 2016:

Millions	Total	
Equity method carrying value of investment in OneBeacon as of December 31, 2015	\$	151.9
Equity in earnings of OneBeacon		6.6
Dividends received		(3.0)
Other, net		0.7
Proceeds received for the sale of OneBeacon		(178.3)
Excess of fair value received over equity method carrying value of OneBeacon		22.1
Equity method carrying value of investment in OneBeacon as of April 18, 2016	\$	-

The following table summarizes financial information for OneBeacon as of March 31, 2016 and December 31, 2015:

Millions	March 31,		December 31,	
	2016		2015	
OneBeacon balance sheet data:				
Total investments	\$	2,562.1	\$	2,591.4
Total assets		3,529.0		3,602.6
Policyholder liabilities		2,236.3		2,325.2
Long-term debt		272.9		272.9
Total liabilities		2,509.2		2,598.1
Total non-controlling interests		3.2		3.6
Total common shareholders' equity		1,016.6		1,000.9

The following table summarizes financial information for OneBeacon for period ended March 31, 2016 and the years ended December 31, 2015 and 2014:

Millions	Three-months ended		
	March 31,	Year Ended December 31,	
	2016	2015	2014
OneBeacon income statement data:			
Net premiums earned	\$ 278.6	\$ 1,176.2	\$ 1,177.1
Net investment income	14.4	45.9	43.4
Total revenues	310.5	1,186.4	1,266.7
Loss and loss adjustment expenses	158.8	700.7	815.1
Total expenses	272.3	1,161.1	1,224.4
Net income attributable to OneBeacon common shareholders	46.4	36.8	32.9
Comprehensive income attributable to OneBeacon common shareholders	46.4	36.8	20.9

Sirius International Group, Ltd.
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NOTE 13. Variable Interest Entities

Alstead Re

During 2016, Sirius Group determined that Alstead Re is a variable interest entity for which Sirius Group is the primary beneficiary and is required to consolidate Alstead Re. Prior to 2015, Alstead Re was not considered to be a variable interest entity. As of December 31 2016, Sirius Group consolidated total assets of \$2.5 million and total liabilities of \$0.8 million of Alstead Re. In addition, as of December 31, 2016, Sirius Group recorded non-controlling interest of \$0.5 million in Alstead Re.

NOTE 14. Fair Value of Financial Instruments

Sirius Group accounts for its financial instruments at fair value with the exception of the 2016 SIG Senior Notes, which are recorded as debt liabilities at face value less unamortized original issue discount.

The following summarizes the fair value and carrying value of financial instruments that are not accounted for at fair value:

Millions	December 31, 2016		December 31, 2015	
	Fair Value	Carrying Value	Fair Value	Carrying Value
2016 SIG Senior Notes	\$ 382.4	\$ 392.5	\$ -	\$ -
Old Lyme Note	\$ 3.7	\$ 3.7	\$ 3.7	\$ 3.7
2007 SIG Senior Notes	\$ -	\$ -	\$ 410.0	\$ 399.3

The fair value estimate for the 2016 SIG Senior Notes has been determined by internal pricing and is considered a Level 3 measurement. The fair value estimate of the Old Lyme Note has been determined by internal pricing, based on the expected amount due to the sellers of Old Lyme, and is considered a Level 3 measurement. The fair value estimate for the 2007 SIG Senior Notes has been determined based off indicative broker quotes and is considered a Level 3 measurement.

NOTE 15. Transactions with Related Persons

White Mountains Advisors

White Mountains Advisors (“WMA”), an indirect wholly-owned subsidiary of Sirius Group’s former parent White Mountains, provided investment advisory and management services to Sirius Group and its subsidiaries under an Investment Advisory Services Agreement. During 2016, Sirius Group terminated this agreement. Sirius Group incurred \$3.1 million, \$5.5 million, and \$6.3 million of investment fees during 2016, 2015, and 2014, respectively for services provided directly by WMA or through its sub-advisors. As of December 31, 2016, Sirius Group did not owe any amount to WMA under this agreement. At December 31, 2015, Sirius Group owed \$1.2 million to WMA under this agreement.

WMA also provided investment advisory and management services to Symetra and OneBeacon. During 2015 and 2014, WMA earned \$8.0 million and \$18.4 million in fees from Symetra. During 2015 and 2014, WMA earned \$3.9 million and \$3.8 million in fees from OneBeacon.

Sirius International Group, Ltd.
Notes to Consolidated Financial Statements

NOTE 16. Commitments and Contingencies

Sirius Group leases certain office space under non-cancellable operating leases that expire on various dates. The future annual minimum rental payments required under non-cancellable leases for office space are as follows:

<u>Millions</u>	<u>Future Payments</u>
2017	\$ 6.2
2018	6.0
2019	5.3
2020	2.9
2021 and after	8.6
Total	<u>\$ 29.0</u>

Total rental expense for the years ended December 31, 2016, 2015, and 2014 was \$6.2 million, \$6.4 million, and \$7.6 million, respectively. Sirius Group also has various other lease obligations, which are not material in the aggregate.

Sirius International is a shareholder in LUC Holdings (“LUC”), a real estate company that leases and sub-leases rental properties in London. Shareholders of LUC are joint and several guarantors of the obligations of LUC. Estimated future fundings of LUC by Sirius International are as follows:

<u>Millions</u>	<u>December 31,</u> <u>2016</u>
Due in one year or less	\$ 0.6
Due in two to three years	-
Due in four to five years	-
Due after five years	-
Total	<u>\$ 0.6</u>

Legal Proceedings

Sirius Group and the insurance and reinsurance industry in general, are routinely subject to claims related litigation and arbitration in the normal course of business, as well as litigation and arbitration that do not arise from, or are directly related to, claims activity. Our estimates of the costs of settling matters routinely encountered in claims activity are reflected in the reserves for unpaid loss and LAE. (See **Note 3**).

Sirius Group considers the requirements of ASC 450, *Contingencies* (“ASC 450”), when evaluating its exposure to non-claims related litigation and arbitration. ASC 450 requires that accruals be established for litigation and arbitration if it is probable that a loss has been incurred and it can be reasonably estimated. ASC 450 also requires that litigation and arbitration be disclosed if it is probable that a loss has been incurred or it there is a reasonable possibility that a loss may have been incurred.

Although the ultimate outcome of claims and non-claims related litigation and arbitration, and the amount or range of potential loss at any particular time, is often inherently uncertain, management does not believe that the ultimate outcome of such claims and non-claims related litigation and arbitration will have a material adverse effect on Sirius Group’s financial condition, results of operations or cash flows.

Sirius International Group, Ltd.

Notes to Consolidated Financial Statements

The following summarizes one, ongoing non-claims related litigation:

Tribune Company

In June 2011, Deutsche Bank Trust Company Americas, Law Debenture Company of New York and Wilmington Trust Company (collectively referred to as “*Plaintiffs*”), in their capacity as trustees for certain senior notes issued by the Tribune Company (“*Tribune*”), filed lawsuits in various jurisdictions (the “*Noteholder Actions*”) against numerous defendants including Sirius Group in their capacity as former shareholders of Tribune seeking recovery of the proceeds from the sale of common stock of Tribune in connection with Tribune’s leveraged buyout in 2007 (the “*LBO*”). Tribune filed for bankruptcy in 2008 in the Delaware bankruptcy court (the “*Bankruptcy Court*”). The Bankruptcy Court granted Plaintiffs permission to commence these LBO-related actions, and in 2011, the Judicial Panel on Multidistrict Litigation granted a motion to consolidate the actions for pretrial matters and transferred all such proceedings to the United States District Court for the Southern District of New York. Plaintiffs seek recovery of the proceeds received by the former Tribune shareholders on a theory of constructive fraudulent transfer asserting that Tribune purchased or repurchased its common shares without receiving fair consideration at a time when it was, or as a result of the purchases of shares, was rendered, insolvent. Certain subsidiaries of Sirius Group received approximately \$6.1 million for Tribune common stock tendered in connection with the LBO.

The Court granted an omnibus motion to dismiss the Noteholder Actions in September 2013 and Plaintiffs’ appealed. On March 29, 2016, a three judge panel of the U.S. Second Circuit Court of Appeals affirmed the dismissal of the Noteholder Action. The Plaintiffs filed a petition for reconsideration or a rehearing en banc of the Second Circuit’s decision affirming the dismissal of the state law fraudulent conveyance cases. By order dated July 22, 2016, the Second Circuit denied the petition in full. On September 9, 2016, Plaintiffs filed a petition for a writ of certiorari, seeking U.S. Supreme Court review. The granting of a writ of certiorari requires the affirmative vote of four U.S. Supreme Court justices. In the meantime, the Second Circuit’s decision remains in effect.

In addition, Sirius Group in their capacity as former shareholders of Tribune, along with thousands of former Tribune shareholders, have been named as defendants in an adversary proceeding brought by the Official Committee of Unsecured Creditors of the Tribune Company (the “*Committee*”), on behalf of the Tribune Company, which seeks to avoid the repurchase of shares by Tribune in the LBO on a theory of intentional fraudulent transfer (the “*Committee Action*”). Tribune emerged from bankruptcy in 2012, and a litigation trustee replaced the Committee as plaintiff in the Committee Action. This matter was consolidated for pretrial matters with the Noteholder Actions in the United States District Court for the Southern District of New York and was stayed pending the motion to dismiss in the Noteholder Action. An omnibus motion to dismiss the shareholder defendants in the Committee Action was filed in May 2014. In January, 2017 the Court dismissed the intentional fraudulent transfer claim. The plaintiff is expected to appeal this decision. No amount has been accrued in connection with this matter as of December 31, 2016 and December 31, 2015, as the amount of loss, if any, cannot be reasonably estimated.

NOTE 17. Subsequent Events

Subsequent Events (ASC 855) established general standards for accounting and disclosures of events occurring subsequent to the balance sheet date but prior to issuance of financial statements. The Company has evaluated subsequent events through April 7, 2017, the date on which the Consolidated Financial Statements were issued.

Armada

On April 3, 2017, Sirius Group purchased 100% of ArmadaCorp Capital, LLC (“*Armada*”), a market leading provider of supplemental healthcare insurance products and administrative services in the United States, from Armada Enterprises LLC (“*Seller*”). The transaction was implemented by 1) the purchase of 50% of Armada by Sirius Group for \$123.7 million, subject to a post-closing purchase price adjustment based on the target net book value of Armada as of March 31, 2017, and 2) the redemption by Armada of the remaining 50% held by Seller for a redemption price based on a three year contingent earn-out mechanism that could result in an additional payment to Seller of up to \$125 million.