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Research Update:

Sirius International Group Outlook Revised To Stable On Plans To Retain Its Strategy Post Acquisition; Ratings Affirmed

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Overview

- We expect Sirius will likely maintain a strong business risk profile and an extremely strong capital adequacy based on our capital model over at least the next two years.
- We are revising to stable the outlook on our long-term ratings on Sirius, reflecting its stand-alone credit profile.
- The stable outlook reflects our view that, following the acquisition by China Minsheng Investment Corp., Sirius will maintain its current approach to capital adequacy, prudent investment management, and underwriting strategy.

Rating Action

On Sept. 30, 2015, Standard & Poor's Ratings Services revised to stable from negative its outlook on Bermuda-based Sirius International Group Ltd. (Sirius or the company) and its core operating subsidiaries--Sirius America Insurance Co. and Sirius International Insurance Corp. At the same time, we affirmed all ratings.

Rationale

The outlook revision reflects our expectation that Sirius will preserve its strong business risk profile and strong financial risk profile over at least the next two years. We understand from Sirius and its purchaser China Minsheng Investment Corp. (CMI) that Sirius plans to retain its strategy and management team. Therefore, we do not expect material depletion of its capital position, or a significant change to its investment or underwriting strategy. The company anticipates an expansion of its business in Asia; we do not expect this to cause the quality of its underwriting portfolio to deteriorate.

Sirius had already indicated an appetite for a higher exposure to equity investments, which will lead to higher capital requirements. We forecast that Sirius will maintain sufficient capital buffers to absorb these additional capital requirements and sustain extremely strong capital adequacy. Sirius intends to build on CMI's network and client relationships to expand its business in China and greater Asia. That said, we understand that this expansion will be measured, and done on an "arm's length" basis, with a focus on profitability. This should ensure that Sirius preserves its track record of strong underwriting earnings.

Established in 2014, CMI is a China-based private investment company that has interests in energy, aviation, and real estate, in addition to insurance. It had total assets of US\$13.2 billion and total shareholders' equity of US\$7.3 billion, as of June 30, 2015. We view CMI as an investment holding company based on its medium- to long-term goal of increasing shareholder value by buying and selling assets and realizing capital gains from assets across multiple industries, its nonoperating holding structure, and the lack of planned material capital repatriation to CMI. In our view, CMI will not depend on dividends and assets from Sirius to pursue its investment strategy, which is a key distinction from companies that pursue a more-integrated conglomerate model. We expect that Sirius will have an independent management team, autonomous financing, and stand-alone operations from CMI. We consider Sirius' new parent CMI to be an investment holding company; therefore, we do not consider its creditworthiness in our rating on Sirius and we are likely to continue to base our rating on Sirius on its stand-alone credit characteristics.

Outlook

The stable outlook reflects our view that, following the acquisition by CMI, Sirius' capital adequacy, control over investment decisions, and underwriting strategy will be preserved. We expect that the new parent will maintain Sirius' extremely strong capital adequacy and allow Sirius autonomy in managing its business and maintaining its own underwriting and investment risk tolerances.

We could lower the ratings on Sirius if:

- We observe a change in CMI's policy or Sirius' management behavior, which would lead us to question its investment holding company status; particularly if we saw evidence of CMI driving Sirius' investment decisions, for example, using Sirius' assets to make its own investments.
- Capital deteriorated significantly and fell below the 'A' range. This downside scenario is unlikely, but it could be the result of a significantly higher-risk investment strategy causing Sirius' risk position to deteriorate and increasing its capital adequacy requirements; a significant acquisition that reduces total adjusted capital (TAC); unforeseen catastrophe losses outside the group's risk tolerances; or rapid growth in riskier markets.
- Sirius undermines its business risk profile by a significant strategic shift in its business mix to lines or regions in which it does not already have expertise and relationships, leading to deterioration in the quality of Sirius' underwriting portfolio or dilution of its strong competitive position.

We could consider raising the rating over the next two years if Sirius were to demonstrate improved strategic risk management through greater and more robust controls over its investment portfolio and investment risk appetite, although it may take longer to engrain this into the business and to establish a track

record under CMI's ownership.

Ratings Score Snapshot

Holding Company Rating	BBB/Stable
Financial Strength Rating	A-/Stable
SACP	a-
Anchor	a-
Business Risk Profile	Strong
IICRA	Intermediate Risk
Competitive Position	Strong
Financial Risk Profile	Strong
Capital & Earnings	Extremely Strong
Risk Position	High Risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate with Strong Risk Controls
Management & Governance	Satisfactory
Holistic Analysis	0
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria And Research

Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

- Rating Methodology For European Investment Holding And Operating Holding Companies, May 28, 2004

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Sirius International Group Ltd.		
Counterparty Credit Rating	BBB/Stable/--	BBB/Negative/--
Senior Unsecured	BBB	BBB
Preference Stock	BB+	BB+
Sirius America Insurance Co.		
Sirius International Insurance Corp.		
Counterparty Credit Rating	A-/Stable/--	A-/Negative/--
Financial Strength Rating	A-/Stable/--	A-/Negative/--

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