

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Financial Condition Report

December 31, 2017

Purpose:

To assist with Bermuda being a jurisdiction committed to the principles of transparency to policyholders, beneficiaries and counterparties, the BMA requires SIGCo Ltd. as a Class 3A insurer to submit a Financial Condition Report.

The report is split into 6 sections:

1. **Business and Performance**
 2. **Governance Structure**
 3. **Risk Profile**
 4. **Solvency Valuation**
 5. **Capital Management**
 6. **Subsequent Event**
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1. Business and Performance

Item	Description	Detail
a	Name of the insurer.	The Shipowners Insurance & Guaranty Company Ltd.
b	Name and contact details of the insurance supervisor and group supervisor.	Mark Haydon Ascot House, 28 Queen Street, PO Box HM3398 Hamilton Bermuda Tel: +441 298 0600 Ext 618 E-mail: mhaydon@sigcogroup.com
c	Name and contact details of the approved auditor.	KPMG Audit Limited Crown House 4 Par-la-Ville Road Hamilton Bermuda
d	A description of the ownership details including proportion of ownership interest.	The Company is a wholly owned subsidiary of SIGCo Private Trustee Company Ltd. in its capacity as Trustee of SIGCo Bermuda Trust. The registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. 120,000 Class C common shares (issued and fully paid) are held by SIGCo Private Trustee Company Ltd., whose beneficiaries are the shipowner clients of the Company.
e	Where the insurer is part of a group, a group structure chart showing where the insurer fits within the group structure.	N/A
f	Insurance business written by business segment and by geographical region during the reporting period.	Full analysis is provided in the BMA BSCR return - Schedule of Geographic Diversification of Premiums Written.
g	Performance of investments, by asset class and details on material income and expenses incurred during the reporting period.	Full analysis is provided in annual financial statements prepared under IFRS.
h	Any other material information.	None to disclose.

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2. Governance Structure

Item	Description	Detail
a i	Board and Senior Executive: A description of the structure of the board and senior executive, the roles, responsibilities and segregation of these responsibilities.	<p>Directors Francis Vallat (Chairman) John Liu (Deputy Chairman) Graham Everard Richard Black Herbjorn Hansson Magne Morken Christopher Bastis Luke Readman Peter Spendlove Constantinos Caroussis</p> <p>Officers Neil Clemens Mark Haydon Susan Trott Catharine Lymbery Andre Dill</p> <p>President (Executive officer) Vice President and Controller (Principal officer) Bermuda Legal Advisor Secretary Assistant Secretary</p>
a ii	Board and Senior Executive: A description of remuneration policy and practices and performance based criteria governing the board, senior executive and employees.	Remuneration Committee reviews and approves the remuneration packages of senior management on behalf of the Board, and reviews Directors' remuneration and makes recommendations to the Shareholder for approval.
a iii	Board and Senior Executive: A description of the supplementary pension or early retirement schemes for members, the board and senior executive.	N/A
a iv	Board and Senior Executive: Any material transactions with shareholder controllers, persons who exercise significant influence, the board or senior executive.	N/A
b i	Fitness and Propriety Requirements: a description of the fit and proper process in assessing the Board and senior executive.	SIGCo provides guaranties to the USCG on behalf of its clients. These clients are ship-owners who are required to register their vessels with the US Coast Guard whenever they enter the USA. Members of the Board are carefully selected to represent the interests of the SIGCo clients throughout the world. Their main business interests cover different global regions so that particular geographical shipowner issues will be brought to the attention of the Board. In addition, two of the major Clubs in the International Group of P&I Clubs provide Board Members to ensure that insurance expertise is available. The

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2. Governance Structure

Item	Description	Detail
b ii	Fitness and Propriety Requirements: a description of the professional qualifications, skills, and expertise of the Board and senior executives to carry out their functions.	<p>The main executive officers are the President and Vice President. Both have dual qualifications – ACA and ACII – and it is felt that this provides the necessary expertise to cover all aspects of the business of SIGCo. Board members are fully cognizant of potential conflicts of interest and these are fully documented in the Board minutes each time that a director refrains from voting on an issue where a conflict is identified.</p> <p>Directors Francis Vallat - Senior positions in the shipping industry John Liu - Senior positions in the shipping industry Graham Everard - Senior positions in the shipping insurance industry Richard Black - Senior positions in the Bermuda insurance industry (involved in start-up of SIGCo) Herbjorn Hansson - Senior positions in the shipping industry Magne Morken - Senior positions in the shipping industry Christopher Bastis - Senior positions in the shipping industry Luke Readman - Senior positions in the shipping insurance industry Peter Spendlove - Senior positions in the shipping insurance industry Constantinos Caroussis - Senior positions in the shipping industry</p>
c i	Risk Management and Solvency Self-Assessment; a description of the risk management process and procedures to effectively identify, measure, manage and report on risk exposures.	The Board review and approve the annual CISSA assessment prepared by management before being submitted to the BMA as part of the annual BSCR returns.
c ii	Risk Management and Solvency Self-Assessment: A description of how the risk management and solvency self-assessment systems are implemented and integrated into the insurer's operations; including strategic planning and organisational and decision making process.	Strategic planning includes consideration of new business opportunities as well as the continuing development of the existing guaranty business. No new business will be considered that could place SIGCo's "required" capital at risk.
c iii	Risk Management and Solvency Self-Assessment: A description of the relationship between the solvency self-assessment, solvency needs, and capital and risk management systems.	The Board review and approve the annual CISSA assessment prepared by management before being submitted to the BMA as part of the annual BSCR returns.
c iv	Risk Management and Solvency Self-Assessment: A description of the solvency self-assessment approval process including the level of oversight and independent verification by the Board and senior executives.	Annual forecasts are subjected to sensitivity analyses with regard to premium volume, claims amounts and investment income to assess the potential impacts on capital. These are reviewed by the Board before being submitted to the BMA as part of the annual BSCR returns.

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2. Governance Structure

Item	Description	Detail
d i	Internal Controls: A description of the internal control system.	Procedures are in place to ensure efficient and effective operation of SIGCo's activities. Specifically to ensure a) financial reports are accurate and reviewed periodically, b) operations are effective and efficient, and c) activities comply with applicable laws and regulations.
d ii	Internal Controls: A description of how the compliance function is executed.	Due to SIGCo's small size, senior officers and the Audit Committee are involved in the compliance function.
e	Internal Audit: A description of how the internal audit function is implemented and how it maintains its independence and objectivity when conducting its functions.	Audit Committee and External Auditors. A formal internal audit function is not appropriate for SIGCo. Due to SIGCo's small size, senior officers are fully involved in the internal audit function.
f	Actuarial Function: A description of how the actuarial function is implemented.	Limited to the approved loss reserve specialist.
g i	Outsourcing: a description of the outsourcing policy and information on any key or important functions that have been outsourced.	Insurance Managers – SIGCo Management (Bermuda) Limited monitored by the Board. Investment Managers – monitored by the Investment Committee. External Auditors – monitored by the Audit Committee. IT Consultants – monitored by the President and the Vice President through a weekly meeting with the IT providers detailing work accomplished and items in progress/requested.
g ii	Outsourcing: a description of material intra-group outsourcing.	Insurance Managers – SIGCo Management (Bermuda) Limited monitored by the Board.
h	Any other material information.	None to disclose.

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3. Risk Profile

Item	Description	Detail
a	<p>Material risks that the insurer is exposed to, including how these risks are measured and any material changes that have occurred during the reporting period.</p>	<p><u>Investment, Liquidity and Concentration Risk</u> SIGCo employs a “prudent person” approach to investment cognizant that funds must be easily accessible in the event that there is a claim and that the funds collected are held for the benefit of “shipowner clients” and should not be subject to excessive investment risk.</p> <p>The majority of SIGCo liquid funds are held in money market funds which by their nature are low risk. To mitigate any risk still further, the majority of available funds are fairly evenly spread over four funds, all of which are “AAA” rated by S&P. The Board has reviewed and approved this policy.</p> <p>The remaining SIGCo funds are held by the investment manager, subject to an agreement that details the investments that can be made. This agreement is reviewed twice yearly by the investment committee, which reports to the full Board.</p> <p>Concentration risk is low given the Board’s appetite to only invest in high rated money market funds.</p> <p><u>Market Risk</u> Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes currency risk, interest rate risk and equity risk.</p> <ul style="list-style-type: none"> • Currency risk – all transactions are carried out in US\$, no risk. • Interest rate risk – the Company actively manages its interest rate exposure with the objective of enhancing net investment income within established risk tolerances and Board approved investment policies. • Equity risk – is the exposure to changes in the value of the equity security as a result of market conditions. Equities are managed within established risk tolerances and Board approved investment policies. <p><u>Credit Risk</u> Credit risk is the risk of financial loss resulting from the failure of debtors to make payments of interest and/or principal when due. Due to the nature of SIGCo’s business, the credit risk is minimal. Guaranty business is high volume, low premium, with no individual transaction forming a major part of the overall</p>

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3. Risk Profile

		<p>premium volume.</p> <p><u>Systems and Operations Risk (Operational Risk)</u> The systems and operations risk is largely addressed at Board level by the Business Risk Assessment report that is produced at each meeting.</p> <p><u>Group Risk</u> This is largely not applicable to SIGCo. There is a sister company in the Isle of Man but this represents a “back up” option in the event that SIGCo is unable to continue to write business out of Bermuda. At present its only transaction is the reinsurance of part of the SIGCo retention on the guaranty program.</p> <p><u>Strategic Risk</u> At present SIGCo has a single business line that it has been writing for 20 years. The SIGCo share of the market is large enough that the aim is consolidation rather than an active attempt to further grow the business. As such, detailed strategic risk planning is minimal but all existing business is defended against opportunistic pricing from rivals.</p> <p><u>Reputational Risk</u> The SIGCo reputation rests on superior service. It is official policy to respond to all enquiries within 48 hours (99% of the time within 24 hours) and this policy is adhered to. All correspondence into the office is reviewed by the Vice President and potential concerns or complaints are speedily dealt with.</p> <p><u>Legal / Litigation Risk</u> The Vice President is responsible for ensuring that local regulations are met in conjunction with the Audit Committee and the local lawyer on the Board of Directors. For international issues relating to SIGCo business, a US lawyer with expertise in OPA90 (usually relating to claims) reports to the Board of Directors as appropriate.</p>
b	How risks are mitigated including the methods used and the process to monitor the effectiveness of these methods.	<p>Annual projections analyze this risk and evaluate the premium decline that could potentially threaten SIGCo capital.</p> <p>See 3a) for risk mitigation.</p>

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3. Risk Profile

c	Material risk concentrations.	The majority of SIGCo cash and cash equivalents are held in money market funds which by their nature are low risk. To mitigate any risk still further the majority of available funds are fairly evenly spread over four funds, all of which are "AAA" rated by S&P. The main operating bank account is held with Citibank, which is rated as "A+" by S&P.
d	How assets are invested in accordance with the prudent person principle as stated in Paragraph 5.1.2 of the Code.	<p>SIGCo employs a "prudent person" approach to investment cognizant that funds must be easily accessible in the event that there is a claim and that the funds collected are held for the benefit of "shipowner clients" and should not be subject to excessive investment risk.</p> <p>Funds managed by the investment manager are subject to an agreement that details the investments that can be made. This agreement is reviewed twice yearly by the investment committee, which reports to the full Board. In addition, the investment managers present a report to the Board twice each year at the September and March Board Meetings.</p>
e	The stress testing and sensitivity analysis to assess material risks, including the methods and assumptions used, and the outcomes.	Annual 5 year projections are subjected to sensitivity analyses with regard to premium volume, claims amounts and investment income to assess the potential impacts on capital. These are reviewed by the Board and included in the annual BMA BSCR returns.
f	Any other material information.	None to disclose

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4. Solvency Valuation

Item	Description	Detail
a	The valuation bases, assumptions and methods used to derive the value of each asset class.	<p>Cash and cash equivalents comprise cash at banks and short term money market funds.</p> <p>Investments in bonds and equities are based on quoted market prices.</p> <p>Derivative investments are valued based on quoted market values and recognized as either assets or liabilities in the statement of financial position.</p>
b	The valuation bases, assumptions and methods used to derive the value of technical provisions and the amount of the best estimate. The amount of the risk margin as well as the level of uncertainty to determine the value of the technical provisions should be included.	<p>To estimate technical provisions. SIGCo has opted to use a BMA simplified model to ascertain the technical provision required.</p> <p>Claims – technical provision relates to the best estimate for loss reserves. SIGCo has opted to use the BMA model “Loss ReservesCurr1” to calculate the provision.</p> <p>Premium – technical provision relates to the unearned portion and the risk margin related to the unearned portion of the reserves. SIGCo has opted to use the BMA model “PremProvMethod2 provided.</p> <p>Risk Margin – the technical provision has been calculated using the BMA model based on the output from Claims and Premiums technical provision.</p>
c	A description of recoverables from reinsurance contracts, including Special Purpose Insurers and other risk transfer mechanisms.	None to disclose.
d	The valuation bases, assumptions and methods used to derive the value of other liabilities.	N/A
e	The stress testing and sensitivity analysis to assess material risks, including the methods and assumptions used, and the outcomes.	Annual 5 year projections forecasts are subjected to sensitivity analyses with regard to premium volume, claims amounts and investment income to assess the potential impacts on capital.
f	Any other material information.	None to disclose.

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5. Capital Management

Item	Description	Detail
a i	Eligible Capital: A description of the capital management policy and process to determine capital needs for business planning, how capital is managed and any material changes during the reporting period.	<p>The majority of SIGCo liquid funds are held in money market funds which by their nature are low risk. To mitigate any risk still further, the majority of available funds are fairly evenly spread over four funds, all of which are “AAA” S&P rated. The Board has reviewed and approved this policy.</p> <p>The remaining balance of SIGCo capital is held by an investment manager, subject to an agreement that details the investments that can be made. Funds managed by the investment manager are subject to an agreement that details the investments that can be made. This agreement is reviewed twice yearly by the investment committee, which reports to the full Board.</p>
a ii	Eligible Capital: A description of the eligible capital categorised by tiers in accordance with the Eligible Capital Rules.	<p>All eligible capital is classified as Tier 1 – Basic Capital.</p> <p>SIGCo does not hold capital in Tier 2 (eg. LoC, Unpaid callable shares) or Tier 3 (e.g. Short-term subordinated debt).</p>
a iii	Eligible Capital: A description of the eligible capital categorised by tiers, in accordance with the Eligible Capital Rules used to meet the Enhanced Capital Requirement (ECR) and the Minimum Margin of Solvency defined in accordance with section (1) (1) of the Act.	<p>Capital is categorised by tiers in accordance with the Eligible Capital Rules. Enhanced Capital Requirement (ECR) and the Minimum Margin of Solvency has been met and included in the BMA BSCR returns.</p>
a iv	Eligible Capital: Confirmation that eligible capital is subject to transitional arrangements as required under the Eligible Capital Rules.	<p>SIGCo meets all requirements.</p>
a v	Eligible Capital: Identification of any factors affecting encumbrances affecting the availability and transferability of capital to meet the ECR.	<p>None to disclose.</p>
a vi	Eligible Capital: Identification of ancillary capital instruments that have been approved by the Authority.	<p>None to disclose.</p>
a vii	Eligible Capital: Identification of differences in shareholder’s equity as stated in the financial statements versus available statutory capital and surplus.	<p>A reconciliation is provided in the statutory financial return note to the accounts.</p>
b i	Regulatory Capital Requirements: Identification of the amount of the ECR and Minimum Margin of Solvency at the end of the reporting period.	<p>ECR and Minimum Margin of Solvency as at December 31, 2017 is set out in detail in the BSCR return and was met.</p>

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5. Capital Management

Item	Description	Detail
b ii	Regulatory Capital Requirements: Identification of any non-compliance with the Minimum Margin of Solvency and the ECR.	None to disclose.
b iii	Regulatory Capital Requirements: A description of the amount and circumstances surrounding the non-compliance, the remedial measures taken and their effectiveness.	None to disclose.
b iv	Regulatory Capital Requirements: Where the non-compliance has not been resolved, a description of the amount of the non-compliance at the end of the reporting period.	None to disclose.
c i	Approved Internal Capital Model used to derive the ECR: A description of the purpose and scope of the business and risk areas where the internal model is used.	None to disclose.
c ii	Approved Internal Capital Model used to derive the ECR: Where a partial internal model is used, a description of how it is integrated with the BSCR Model.	None to disclose.
c iii	Approved Internal Capital Model used to derive the ECR: A description of methods used in the internal model to calculate the ECR.	None to disclose.
c iv	Approved Internal Capital Model used to derive the ECR: A description of aggregation methodologies and diversification effects.	None to disclose.
c v	Approved Internal Capital Model used to derive the ECR: A description of the main differences in the methods and assumptions used for the risk areas in the internal model versus the BSCR Model.	None to disclose.
c vi	Approved Internal Capital Model used to derive the ECR: A description of the nature and suitability of the data used in the internal model.	None to disclose.
c vii	Approved Internal Capital Model used to derive the ECR: Any other material information.	None to disclose.

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6. Significant Events

Item	Description	Detail
a	A description of the significant event.	None to disclose.
b	Approximate date(s) or proposed timing of the significant event.	None to disclose.
c	Confirmation of how the significant event has impacted or will impact, any information provided in the most recent financial condition report filed with the Authority.	None to disclose.
d	Any other material information.	None to disclose.

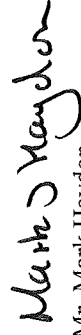
Declaration

We, the undersigned Directors of The Shipowners Insurance and Guaranty Company Ltd. ("the Company"), declare that to the best of our knowledge and belief, this financial condition report represents the financial condition of the Company in all material respects as at December 31, 2017.



Mr. Neil Clemens
President

Date MARCH 15, 2018



Mr. Mark Haydon
Principal Representative

Date MARCH 15, 2018