

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Financial Condition Report

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1. **BUSINESS AND PERFORMANCE**

a. Name of Insurer

The Shipowners Insurance & Guaranty Company Ltd.

b. Supervisors

Insurance Supervisor 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

Mark Haydon
Ascot House, 28 Queen Street,
PO Box HM3398
Hamilton
Bermuda

Tel: +441 298 0600 Ext 618
E-mail: mhaydon@sigcogroup.com

c. Approved Auditor

KPMG Audit Limited
Crown House
4 Par-la Ville Road
Hamilton
Bermuda

d. Ownership Details

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. Group Structure

Appendix 1 provides details of the Company in the Group Structure.

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f. Insurance Business Written by Business Segment and by Geographical Region

Full analysis is provided in the BMA BSCR return – Schedule of Geographic Diversification of Premiums Written.

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

a. Performance of Investments for the Reporting Period

Full analysis is provided in annual financial statements prepared under IFRS.

b. Material Income & Expenses for the Reporting Period

Full analysis is provided in annual financial statements prepared under IFRS.

h. Any Other Material Information

None to disclose.

2. GOVERNANCE STRUCTURE

The Company's governance structure is established to:

- Ensure the enterprise risk management is maintained at high standards;
- Ensure the business is operating in an efficient and effective manner; and
- Align control procedures for units within the organization based on the risks they carry.

a. Board and Senior Executive

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

The Board of Director's (the Board) role is to exercise oversight in relation to the organization. Executive decisions and risk oversight is delegated to the Audit and Risk Committee which meets annually. Committee reports are presented to the Board.

Board Sub-Committees include Audit and Risk, Emergency Planning, Investment, Nominations, Reinsurance Advisory and Remuneration.

ii. Remuneration Policy

The 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.

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

The Company only has a pension scheme the Senior Employees.

iv. Shareholder Controllers, Persons who Exercise Significant Influence, the Board or Senior Executive Material Transactions

None to disclose.

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b. Fitness and Proprietary Requirements

i. 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 shipowners 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, one of the major Clubs in the International Group of P&I Clubs provide Board Members to ensure that insurance expertise is available.

The main executive officers are the President and Senior 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.

ii. Board and Senior Executives Professional Qualifications, Skills and Expertise

Constantinos Caroussis: Non-Executive Chairman – Director of Chios Navigation Company Ltd. and former Chairman of the UK P&I Club.

Christopher Bastis: Non-Executive Deputy Chairman – President and CEO, SeaGroup, Inc.

Richard Black: Non-Executive – CFO and Director, Karsen Management (Bermuda) Ltd. Former Director of Stockton Reinsurance Ltd in which capacity he was instrumental in the formation of SIGCo.

Sabrina Chao: Non-Executive – Managing Director and Chairman of Wah Kwong Shipping Holdings Ltd.

Edouard Louis-Dreyfus: Non-Executive – President of Louis Dreyfus Armateurs.

Graham Everard: Non-Executive – Former Managing Director of Lingard Ltd, as Manager for Gard P&I (Bermuda) Ltd., currently Special Advisor Gard (UK) Ltd.

Herbjorn Hansson: Non-Executive – Chairman, President, CEO and Founder of Nordic American Tankers Ltd.

Magne Morken: Non-Executive – Former CEO of Hansa Tankers Management AS and former Managing Director of Solvang ASA, currently a Director of Norwegian Bank, Sparebanken Vest.

Luke Readman: Non-Executive – Former Chairman of Thomas Miller P&I Ltd.

Peter Spendlove: Non-Executive – Former Managing Director of the West of England P&I Club and former Chairman of the International Group of P&I Clubs.

Neil Clemens: Executive Officer (President) – ACA ACII – 20+ years in the shipping industry.

Mark Haydon: Principal Officer (Senior Vice President and Controller) – ACA ACII – 20+ years in the shipping industry.

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Sophia Greaves: Bermuda Legal Advisor LLB (Hons) – Admitted to the Bermuda Bar 2007. In legal practice spanning a number of specializations with emphasis on (re)insurance transactions.

Conyers Corporate Services (Bermuda): Corporate Company Secretary

c. Risk Management and Solvency Self-Assessment

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

The Company's risk management programme is aligned with the insurance group's risk management framework that follows a four step approach to risk exposures:

- Identify Risk – identify significant risks that could materially affect the financial position or objectives of the organization and include these risks in the Company's risk register.
- Measure – from the Company's assumed exposure, quantify and measure the risks in the Company's risk register. Each exposure is assessed based on the organization's risk categories and provides the impact the exposure has to the organization (i.e. solvency, liquidity requirements, etc.).
- Manage – assess the response to the exposure based on acceptance, mitigation, transferability or avoidance and take into account the Company's risk appetite statement, risk tolerance levels and limits. If the exposure is to occur in the future, ensure there are controls in place to manage the exposure before it occurs or have an effective plan in place if the exposure becomes significant.
- Report – ensure that the Company's Risk Management and Executive Committees are informed of all material risk exposures and that these are tracked against the Company's risk guidelines and reviewed by the Board.

ii. Risk Management and Solvency Self-Assessment Systems Implementation

The Company's risk management framework is implemented and integrated into its operations through the systems, processes and procedures, and controls developed by management.

The Solvency Self-Assessment is reviewed on an annual basis to ensure that the Company's capital adequacy and liquidity resources are sufficient based on the risks to the Company that arise from its operations.

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.

iii. Relationship Between Solvency Self-Assessment, Solvency Needs & Capital, and Risk Management

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.

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iv. Solvency Self-Assessment Approval Process

The Company's Solvency Self-Assessment Report is prepared by the management and reviewed by the Audit and Risk Committee. After review, the assessment is provided to the Board for approval with emphasis upon the Company's internal capital modelling, significant changes during the quarter, current and emerging risk exposures, and how the exposures are mitigated in the risk management framework.

Regular 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.

d. Internal Controls

i. 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.

ii. Compliance Function

Due to SIGCo's small size, senior officers and the Audit and Risk Committee are involved in the compliance function.

e. Internal Audit

The Company has an Audit and Risk 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

The Company's actuarial function is limited to the approved Loss Reserve Specialist.

g. Outsourcing

i. Outsourcing Policy and Key Functions that have been Outsourced

Key Function	Monitored By
Insurance Manager	Board
Investment Manager	Investment Committee
External Auditors	Audit and Risk Committee
IT Consultants	President and Senior Vice President by a weekly meeting with the IT providers detailing work accomplished and items in progress/requested.

ii. Material Intra-Group Outsourcing

The Company's insurance manager is SIGCo Management (Bermuda) Limited, and as stated in the table above, is monitored by the Board.

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h. Other Material Information

No other material information to report.

3. RISK PROFILE

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

The Company's main risk categories are investment, liquidity and concentration, market, credit, operational, group, strategic, reputational and legal/litigation, as detailed below:

i. Investment, Liquidity and Concentration Risk

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.

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.

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. Concentration risk is low given the Board's appetite to only invest in high rated money market funds.

ii. Market Risk

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.

- 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.

iii. Credit Risk

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 premium volume.

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iv. Systems and Operations Risk (Operational Risk)

The systems and operations risk is largely addressed at Board level by the Business Risk Assessment report that is produced at each meeting.

v. Group Risk

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.

vi. Strategic Risk

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.

vii. Reputational Risk

The SIGCo reputation rests on superior service. It is official policy to respond to all enquiries within 48 hours (however it is expected that enquiries are responded to within 24 hours) and this policy is adhered to. All correspondence into the office is reviewed by the Senior Vice President and potential concerns or complaints are speedily dealt with.

viii. Legal/Litigation Risk

The Senior Vice President is responsible for ensuring that local regulations are met in conjunction with the Audit and Risk 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.

b. Risk Mitigation in the Organization

The Company analyses risk in the organization through annual projections to evaluate the premium decline that could potentially threaten SIGCo’s capital. See 3a) above for specific risk mitigation.

c. Material Risk Concentrations

The majority of the Company’s 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.

Company has a policy that prohibits exposure exceeding 10% of its statutory capital and surplus to any single counterparty (not including affiliates) without Board approval.

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d. Investment in Assets in Accordance With the Prudent Person Principles of the Code of Conduct

The Company 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.

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.

e. Stress Testing and Sensitivity Analysis to Assess Material Risks

The Company performs annual stress tests on a 5 year projections to determine the adequacy of capital/liquidity to ensure regulatory requirements can be met. The tests performed are with regard to premium volume, claims amounts, and investment income and are reviewed by the Board and included in the annual BMA BSCR returns.

4. SOLVENCY VALUATION

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

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

- Cash and Cash Equivalents – includes cash at banks and short term money market funds.
- Investments in Bonds and Equities – are valued using the quoted market prices.
- Accounts Receivable and Premium Receivable – are recorded at a fair value.
- Derivative instruments – are valued at quoted market prices and recognized as either assets or liabilities in the Statement of Financial Position.

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

To estimate technical provisions, the Company has opted to use a BMA simplified model to ascertain the technical provision required, detailed below:

i. Claims

The Company has opted to use the BMA model “Loss ReservesCurr1” to calculate the provision. The technical provision relates to the best estimate for loss reserves.

ii. Premium

The Company has opted to use the BMA model “PremProvMethod2” to calculate the provision. The technical provision relates to the unearned portion and the risk margin related to the unearned portion of the reserves.

iii. Risk Margin

The Company has opted to use the BMA model based on the output from the Claims and Premium technical provisions.

At December 31, 2022, the total Technical Provisions amounted to US\$2.7 million comprising the following:

Best Estimate Net Loss and Loss Expense Provision	US\$Nil
Best Estimate Net Premium Provision	US\$2.4 million
Risk Margin	US\$0.3 million

c. Description of Recoverables from Reinsurance Contracts

No recoverable from Reinsurance contracts to report.

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

Not applicable.

e. Any Other Material Information

No additional material information to report.

5. CAPITAL MANAGEMENT

a. Eligible Capital

i. Capital Management Policy and Process for Capital Needs, How Capital is Managed and Material Changes During the Reporting Period

The 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.

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

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be made. This agreement is reviewed twice yearly by the investment committee, which reports to the full Board.

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

At the end of the reporting period, all of the Company's Eligible Capital was categorized as Tier - Basic Capital. SIGCo does not hold capital in Tier 2 (e.g. LoC, Unpaid callable shares) or Tier 3 (e.g. Short-term subordinated debt).

ii. Eligible Capital Categorized by Tiers in Accordance to the Eligible Capital Rules Used to Meet ECR and MSM Requirements of the Insurance Act

Capital is categorized 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.

iii. Confirmation of Eligible Capital That is Subject to Transitional Arrangements

The Company meets all requirements.

iv. Identification of Any Factors Affecting Encumbrances on the Availability and Transferability of Capital to Meet the ECR

None to disclose.

v. Identification of Ancillary Capital Instruments Approved by the Authority

None to disclose.

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

A reconciliation is provided in the Statutory Financial Return note to the Financial Statements.

b. Regulatory Capital Requirements

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

At the end of the reporting period, the Company's regulatory capital ECR and MSM requirements were met and are set out in the BSCR return.

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

None to disclose.

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

None to disclose.

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

None to disclose.

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c. Approved Internal Capital Model

i. Description of the Purpose and Scope of the Business and Risk Areas Where the Internal Model is Used

None to disclose.

ii. Where a Partial Internal Model is Used, Description of the Integration with the BSCR Model

None to disclose.

iii. Description of Methods Used in the Internal Model to Calculate the ECR

None to disclose.

iv. Description of Aggregation Methodologies and Diversification Effects

None to disclose.

v. 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.

vi. Description of the Nature & Suitability of the Data Used in the Internal Model

None to disclose.

vii. Any Other Material Information

None to disclose.

6. SUBSEQUENT EVENTS

None to disclose.

Declaration

We, the representatives 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, 2022.

Neil Clemens

Mr. Neil Clemens
President

Date March 15, 2023

Mark Haydon

Mr. Mark Haydon
Principal Representative

Date March 15, 2023

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