THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Consolidated Financial Statements
(With Independent Auditor's Report Thereon)

December 31, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Board of Directors of The Shipowners Insurance and Guaranty Company Ltd.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of The Shipowners Insurance and Guaranty Company Ltd. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2020, the consolidated statements of comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
March 18, 2021

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Consolidated Statement of Financial Position

Year Ended December 31, 2020
(Expressed in United States Dollars)

		2020		2019
Assets				
Cash and cash equivalents (Note 12)	$	23,599,090	$	29,080,892
Financial assets at fair value through profit or loss (Notes 4 and 12)		62,116,354		52,112,930
Insurance balances receivable		583,111		645,924
Deferred reinsurance premium (Note 17)		1,666,404		1,536,158
Deferred acquisition costs (Note 17)		785,106		739,439
Deferred continuity credits (Note 17)		3,583,794		3,306,277
Accrued interest		276,876		262,585
Prepayments		100,785		84,742
Reinsurance recoverable (Note 6)		13,823,518		14,106,153
Right-of-use assets (Note 11)		197,328		355,190
Total assets	$	106,732,366	$	102,230,290
Liabilities				
Unearned premiums (Note 17)	$	8,314,531	$	7,761,573
Outstanding losses and loss expenses (Note 6)		13,823,518		14,197,774
Reinsurance balances payable		4,631,767		4,837,917
Insurance balances payable		81,500		77,500
Premiums received in advance		1,160,921		798,995
Accounts payable and accrued expenses		155,333		327,311
Dividend Payable		35,000		–
Lease liabilities (Note 11)		206,095		363,134
Total liabilities		28,408,665		28,364,204
Shareholder's equity				
Common shares (Note 7)		120,000		120,000
Retained earnings		78,203,701		73,746,086
Total equity attributable to the equity holder of the Company		78,323,701		73,866,086
Total liabilities and shareholder's equity	$	106,732,366	$	102,230,290

See accompanying notes to financial statements

Approved for issuance on behalf of the Board of Directors of The Shipowners Insurance and Guaranty Company Ltd. on March 18, 2021 by:

________________ Director   ________________ Director

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Consolidated Statement of Comprehensive Income

Year Ended December 31, 2020
(Expressed in United States Dollars)

	2020	2019
Underwriting income		
Premiums written	$ 31,595,597	$ 30,201,421
Change in unearned premiums	(552,958)	(270,624)
Premiums earned	31,042,639	29,930,797
Reinsurance premiums ceded (Notes 5 and 17)	(8,910,901)	(10,801,562)
Change in deferred reinsurance premium	130,245	51,895
Earned premiums ceded	(8,780,656)	(10,749,667)
Net premiums earned	22,261,983	19,181,130
Continuity credits	(13,295,632)	(12,821,425)
Total underwriting income	8,966,351	6,359,705
Underwriting expenses		
Loss and loss expenses incurred (Note 6)	–	(14,106,153)
Reinsurance recoverable on claim (Note 6)	–	14,106,153
Brokers commissions	(3,120,156)	(3,093,795)
Other underwriting expenses (Note 8)	(683,285)	(670,324)
Total underwriting expenses	(3,803,441)	(3,764,119)
Net underwriting income	5,162,910	2,595,586
Other income		
ICB revenue	1,843,750	1,765,250
ICB agent fees	(1,049,027)	(1,004,918)
ICB broker commissions	(158,575)	(151,895)
Total other income	636,148	608,437
Investment income		
Interest and dividend income	1,281,014	1,726,891
Unrealized net gains on investments	278,518	1,914,452
Realized net gains on investments	2,298,543	861,874
Investment management fees	(235,434)	(223,064)
Net investment income (Note 4)	3,622,641	4,280,153
Other expenses		
General and administrative expenses (Note 15)	(4,771,222)	(4,976,972)
Depreciation (Note 11 and 15)	(157,862)	(157,862)
Total other expenses	(4,929,084)	(5,134,834)
Net income and comprehensive income for the year (all attributable to the owner of the Company)	$ 4,492,615	$ 2,349,342

See accompanying notes to financial statements

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Consolidated Statement of Changes in Shareholder's Equity

Year Ended December 31, 2020
(Expressed in United States Dollars)

	Common shares	Retained earnings	Total equity attributable to the equity holder of the Company
Balance at December 31, 2018	$ 120,000	$ 71,421,744	$ 71,541,744
Net income for the year	–	2,349,342	2,349,342
Dividends declared	–	(25,000)	(25,000)
Balance at December 31, 2019	$ 120,000	$ 73,746,086	$ 73,866,086
Net income for the year	–	4,492,615	4,492,615
Dividends declared	–	(35,000)	(35,000)
Balance at December 31, 2020	$ 120,000	$ 78,203,701	$ 78,323,701

See accompanying notes to the financial statements

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Consolidated Statement of Cash Flows

Year Ended December 31, 2020
(Expressed in United States Dollars)

	2020	2019
Cash flows from operating activities		
Net income	$ 4,492,615	$ 2,349,342
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of right-of-use asset	157,862	157,862
Unrealized net gains on investments	(278,518)	(1,914,452)
Realized net gains on sale of investments	(2,298,543)	(861,874)
Changes in non-cash working capital		
Insurance balances receivable	62,813	117,849
Deferred reinsurance premium	(130,246)	(51,894)
Deferred acquisition costs	(45,667)	(31,426)
Deferred continuity credits	(277,517)	(127,958)
Accrued interest	(14,291)	5,368
Prepayments	(16,043)	4,813
Unearned premiums	552,958	270,624
Reinsurance recoverable	282,635	(14,106,153)
Outstanding losses and loss expenses	(374,256)	13,813,830
Reinsurance balances payable	(206,150)	2,562,629
Insurance balances payable	4,000	(5,000)
Premiums received in advance	361,926	(141,117)
Accounts payable and accrued expenses	(171,978)	161,009
Cash flows provided by operating activities	2,101,600	2,203,452
Cash flows from investing activities		
Purchase of financial assets at fair value through profit or loss	(70,893,098)	(32,136,833)
Proceeds on sale of financial assets at fair value through profit or loss	63,466,735	39,758,499
Cash flows (used in)/provided by investing activities	(7,426,363)	7,621,666
Cash flows from financing activities		
Dividends paid	–	(25,000)
Principal payment of lease payments	(157,039)	(149,918)
Cash flows used in financing activities	(157,039)	(174,918)
Net (decrease)/increase in cash and cash equivalents	(5,481,802)	9,650,200
Cash and cash equivalents, beginning of year	29,080,892	19,430,692
Cash and cash equivalents, end of year	$ 23,599,090	$ 29,080,892

See accompanying notes to financial statements

1. General

The Shipowners Insurance and Guaranty Company Ltd., ("SIGCo" or the "Company"), was incorporated under the laws of Bermuda on October 9, 1996 and is licensed as a Class 3A insurer under the Bermuda Insurance Act 1978 and related regulations. 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.

With effect from January 1, 2016 the Company entered into an insurance management agreement with SIGCo Management (Bermuda) Ltd., a wholly-owned subsidiary of the Company (collectively, the "Group").

The Company provides financial guaranties to the United States Coast Guard to enable its shipping clients to be issued with a Certificate of Financial Responsibility ("COFR") under the Oil Pollution Act of 1990 ("OPA 90") including the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"). The guaranty provided is for the maximum limits of liability per vessel as determined by OPA 90 and CERCLA. As part of its risk selection criteria, the Company requires its clients to have coverage of protection and indemnity risks of $500 million.

The Company retains $1 million per incident per vessel and is reinsured above this retention to the maximum guaranty limit issued (currently $614 million per vessel). The Company is also retaining a 35% share of the layer $60 million excess of $20 million (2019: 35% share of the layer $60 million excess of $20 million).

The Company also arranges for the provision of an International Carrier Bond ("ICB") for its shipping clients. The Company has negotiated terms with two approved U.S. Sureties, Westchester Fire Insurance Company and American Contractors Indemnity Company, (the "Sureties"), in return for the Company giving an indemnity to the Sureties for any claims that arise on the bonds. In turn, the Company has an indemnity from the clients which subrogates any payments made by the Company. The Company's fee for the provision of an ICB is inclusive of the Surety Bond Premium and a fee to cover its administration costs. Each bond has a limit prescribed by the U.S. Customs and Border Protection service, usually $100,000. The bond covers fines, taxes and dues involved on presentation of a cargo or crew manifest on entry of a ship into the U.S. Some or all of these fines, taxes and dues may be covered within the client's protection and indemnity coverage that is a pre-condition for the provision of a COFR guaranty and an ICB.

2. Basis of preparation

(a) Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements were authorized for issue by the Board of Directors on March 18, 2021.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis, except for financial assets at fair value through profit or loss, which are stated at fair value.

(c) Functional and presentation currency

The consolidated financial statements are presented in U.S. Dollars, the Company's functional currency.

2. Basis of preparation (continued)

(d) Principles of consolidation

Subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the financial and operating policies, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date on which control ceases. All inter-company transactions, balances and unrealized surpluses and deficits on transactions between Group companies have been eliminated.

(e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, and the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

3. Summary of significant accounting policies

(a) Premiums earned, ceded, continuity credits and deferred acquisition costs

Premiums for tankers are generally included in income based upon the number of voyages taken into U.S. waters. Such premiums are earned upon the inception of each voyage. Premiums for other vessels are included in income on a daily pro rata basis over the terms of the underlying policies. Unearned premiums represent the portion of premiums written that relate to the unexpired term of the policies in force.

All guaranties issued prior to the year end but relating to policy periods incepting in 2020 are excluded except where premium has been received. These amounts are shown on the balance sheet as premiums received in advance.

Reinsurance premiums are deferred and amortized in a manner consistent with the underlying insurance policies and in accordance with the reinsurance agreements.

The continuity credit program is a mechanism to return profits to long term shipowner clients. The applicable continuity credits are calculated as a percentage of premiums written on guaranties for vessels entered in qualifying fleets. Continuity credits are calculated based upon longevity of membership in SIGCo and premiums contributed and are expensed in line with the premiums earned to which they relate.

Acquisition costs, consisting primarily of broker commissions, are deferred and amortized over the same period in which the related premiums are earned. Deferred acquisition costs are limited to their estimated realizable value based on the related unearned premiums.

3. Summary of significant accounting policies (continued)

(b) Other Income

Other Income consists of ICB revenue that is recognized at an amount that reflects the consideration to which the Company is entitled to in exchange for transferring services to the customer. The Company's obligations of the contract are performed prior to the inception of the contract and therefore revenue is recognized at the inception of each ICB. For each contract with a customer, the Company identifies the contract with a customer; the performance obligations in the contract; determines the transaction price; and recognises income when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the services promised.

(c) Outstanding losses and loss expenses

Losses and loss expenses are recorded when advised by the insureds. Outstanding losses comprise estimates of the amount of reported losses and loss expenses plus a provision for losses incurred but not reported based on industry loss experience and management estimates. All provisions are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. Given the coverage provided management does not expect claims for past events to be reported in the future. Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and short term highly liquid investments with an original maturity of ninety days or less. The assets are readily convertible into known amounts of cash and are subject to inconsequential changes in value.

(e) Investments

The Group has assessed the objective of the business model to which the portfolio of financial assets are held and determined that financial assets are managed and performance is evaluated on a fair value basis and held for trading. These financial assets are thereby measured at fair value through profit and loss as the financial assets are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The Group therefore recognizes financial assets at fair value through profit or loss with subsequent measurement at fair value with any change in the fair value reported in investment income in the consolidated statement of comprehensive income

Investments in bonds and equities are based on latest available quoted market prices.

Derivative investments are valued based on quoted market values and recognized as either assets or liabilities in the statement of financial position. All changes in the fair value of derivatives are reported in net income.

Trade date accounting is used to account for the purchase and sale of investments traded on a public market. Settlement date accounting is used for the purchase and sale of investments not traded on a public market. Transaction costs are recognized immediately in net income. Investment income is earned as it is accrued.

(f) Related parties

Related parties include the parent, related companies, that is, fellow subsidiaries, directors and key management personnel who have the authority and responsibility for planning, directing and controlling the activities of the Company.

3. Summary of significant accounting policies (continued)

(g) Impairment

Financial assets (including receivables)

A financial asset measured at amortized cost is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

The Group measures loss allowances at an amount equal to 12-month Expected Credit Losses ("ECLs") for all investments and cash and cash equivalents that are determined to have a low credit risk at the reporting date and for which credit risk has not increased significantly since initial recognition.

Loss allowances for accounts and other receivables are always measured at an amount equal to lifetime ECLs.

To measure the expected credit losses, financial assets and receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 24 months before December 31, 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information affecting the ability of the customers to settle the receivables.

Financial assets and receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and a failure to make contractual payments for a period of greater than 180 days past due. Impairment losses on financial assets and receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The company considers an investment to have a low credit risk when the credit risk is equivalent to investment grade. The Company mitigates exposure through investing in assets with a credit rating of A- or higher as rated by Standard and Poor's (or equivalent credit rating agency).

The loss allowances for financial assets and receivables are based on assumptions about risk of default and expected loss rates. The group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the group's past history and existing market conditions, as well as forward-looking estimates at the end of each reporting period.

(h) New accounting standards, amendments and interpretations adopted by the Company and the Group

While a number of new or amended IFRS and IFRIC standards have recently been issued, there are no standards issued that have had a material impact on the Company.

(i) New accounting standards and interpretations effective after January 1, 2020 and have not yet been adopted by the Company and the Group

IFRS 17, Insurance Contracts, issued in May 2017, specifies the financial reporting for insurance contracts by an insurer. The new standard is currently expected to be effective for annual periods beginning on or after January 1, 2023 and will include a number of significant changes regarding the measurement and disclosure of insurance contracts both in terms of liability measurement and profit recognition. The Company will continue to assess the impact the new standard will have on its results and the presentation and disclosure thereof.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Company or the Group.

(Expressed in United States Dollars)

4. Financial assets at fair value through profit or loss

(a) Financial assets at fair value through profit or loss, by class & type

	2020	2019
U.S. treasury securities	$ 34,959,873	$ 17,928,754
Corporate bonds	19,886,727	27,034,179
Equities	7,221,839	7,111,497
Derivatives	47,915	38,500
	$ 62,116,354	$ 52,112,930

At the balance sheet date, the coupon on the US treasury securities held ranged between 0.125% and 2.875% per annum with maturity dates between 2021 and 2028. The coupon on the corporate bonds held ranged between 0.35% and 4.125% with a credit rating of at least A- as rated by Standard and Poor's (or equivalent credit rating agency).

The equities represent an interest in exchange traded securities.

The derivatives represent put options held in relation to the exchange traded securities to hedge against a decrease in value.

(b) Fair value of financial assets

The Company measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to fair values derived from unobservable inputs (Level 3). The three levels of the fair value hierarchy are described below:

Level 1 – Quoted prices for identical instruments in active markets.

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3 – Model derived valuations in which one or more significant inputs or significant value drivers are unobservable.

The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The Company determined that securities classified as Level 1 would include U.S. government and exchange traded securities and derivative financial instruments that have quoted prices on a recognized exchange. Level 2 would include corporate debt securities. The fair value of these assets is based on the prices obtained by both the investment manager and custodian who obtain market data from numerous independent pricing sources.

(Expressed in United States Dollars)

4. Financial assets at fair value through profit or loss (continued)

(b) Fair value of financial assets (continued)

A review of the fair value hierarchy classifications is conducted on an ongoing basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets and liabilities.

2020	Level 1	Level 2	Level 3	Totals
US Treasury Securities	$ 34,959,873	$ –	$ –	$ 34,959,873
Corporate Bonds	–	19,886,727	–	19,886,727
Equities	7,221,839	–	–	7,221,839
Derivatives	47,915	–	–	47,915
	$ 42,229,627	$ 19,886,727	$ –	$ 62,116,354

$20,862,685 is held in money market funds presented within Cash and cash equivalents and is classified as Level 1 and not shown in the above table.

2019	Level 1	Level 2	Level 3	Totals
US Treasury Securities	$ 17,928,754	$ –	$ –	$ 17,928,754
Corporate Bonds	–	27,034,179	–	27,034,179
Equities	7,111,497	–	–	7,111,497
Derivatives	38,500	–	–	38,500
	$ 25,078,751	$ 27,034,179	$ –	$ 52,122,930

$25,195,807 is held in money market funds presented within Cash and cash equivalents and is classified as Level 1 and not shown in the above table.

There were no reclassifications of financial assets between Level 1, Level 2 and Level 3 during the years ended December 31, 2020 or December 31, 2019.

(c) Investment income by class & type

	2020	2019
Interest on cash and cash equivalents	$ 117,190	$ 514,891
Interest from U.S. treasury securities	607,726	337,078
Interest from corporate bonds	473,374	782,588
Dividends on equities	82,724	92,334
Unrealized gains on U.S. treasury securities	164,444	111,426
Unrealized gains on corporate bonds	170,608	602,647
Unrealized (losses)/gains/ on equities	(51,207)	1,225,259
Unrealized (losses) on derivatives	(5,327)	(24,880)
Realized gains on U.S. treasury securities	608,528	388,568
Realized gains on corporate bonds	221,716	133,044
Realized gains on sales of equities	1,508,083	491,690
Realized (losses) on expiration of derivatives	(39,784)	(151,428)
Investment management fees	(235,434)	(223,064)
	$ 3,622,641	$ 4,280,153

5. Reinsurance

Reinsurance contracts do not relieve the Company from its primary obligations as guarantor. Failure of reinsurers to honor their obligations could result in losses to the Company. The Company evaluates the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. Reinsurers must be approved by the United States Coast Guard. Under a "swing premium" clause the premium for the reinsurance contract $600 million excess $14 million has been calculated at 90% of the agreed adjustable rate. In the event of a claim the premium will be recalculated at 105% of the agreed adjustable rate. From 2016, there is an additional no claims bonus that is received by the Company from the reinsurer and repaid to them in the event of a claim.

The Company has co-insurance with SIGCo (IoM) Limited, a company based in the Isle of Man related through common ownership, who accepts the first $7 million of each and every loss with respect to the Company's 35.0% share of the restructured sub-layer of $60 million excess of $20 million which forms part of the main excess reinsurance layer of $600 million excess $14 million.

With effect from January 1, 2018 the Company receives a 2.5% commission rebate on the reinsurance premiums ceded. The commission rebate totaled $225,960 for the year ended December 31, 2020 (2019: $221,592) and is netted off against the reinsurance premiums ceded amount in the statement of comprehensive income.

Reinsurance is purchased mainly through various Lloyd's syndicates, which are rated A (Excellent) by AM Best and A+ (Strong) by Standard and Poor's. The reinsurance receivable shown in the statement of financial position is due from Lloyd's Syndicates.

6. Outstanding losses and loss expenses

The establishment of the provision for outstanding losses and loss adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim payment patterns, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns, depending on the business assumed.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's management and independent loss adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tailed claims, such as general liability claims.

Consequently, the establishment of the provision for outstanding losses and loss expenses relies on the judgment and opinion of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

Management continually refines its reserve estimates in a regular ongoing process that includes review of key assumptions, historical loss experience, juridical trend, legislation changes and specific industry practices. In establishing reserves, the Company takes into account estimated legal defense and indemnity costs, claim complexity and the potential severity of individual claims. Informed judgment is applied throughout the process.

At December 31, 2020, the Company held a net loss reserve of $Nil (2019: $91,621), relating to a claim and legal costs concerning an incident in 2006 with a SIGCo guaranteed vessel.

(Expressed in United States Dollars)

6. Outstanding losses and loss expenses (continued)

Management increased the gross loss reserve in 2019 by $14,106,153 based on information and developments throughout the year relating to the claim, which is fully recoverable from reinsurers. There has been no material development in 2020 for management to reduce or increase the gross loss reserve established in 2019. The gross loss and loss expense provision as at December 31, 2020 is $13,823,518 (2019: $14,197,774).

During the financial year the company paid legal costs relating to the claim of $374,256 (2019: $292,323) with no expenses incurred in the financial year due to a loss reserve established in 2017 of $1,000,000, which has been exhausted in 2020 and all costs are now fully recoverable from reinsurers.

The loss reserve held by the Company represents management's best estimate of claim and defense costs regarding this incident. The Company will continue to re-evaluate reserve requirements as the case develops. Any adjustments which may be material will be recorded in the period in which they are determined.

The Company has not incurred any other material losses during the previous ten-year period that would require disclosure of their loss development.

Reconciliation of loss and loss expense provision	2020	2019
Gross loss and loss expense provisions at beginning of year	$ 14,197,774	$ 383,944
Less: Reinsurance recoverable at beginning of year	(14,106,153)	–
Net loss and loss expense provisions at beginning of year	91,621	383,944
Net losses incurred and net loss expenses incurred related to:		
Current year	–	–
Prior years	–	–
Total net incurred losses and loss expenses	–	–
Net losses and loss expenses paid or payable related to:		
Current year	–	–
Prior years	(91,621)	(292,323)
Total losses and loss expenses paid or payable	(91,621)	(292,323)
Net loss and loss expense provisions at end of year	–	91,621
Add: Reinsurance recoverable at end of year	13,823,518	14,106,153
Gross loss and loss expense provisions at end of year	$ 13,823,518	$ 14,197,774

7. Share capital

	2020	2019
Authorized:		
120,000 (2019: 120,000) Class C common shares, $1 par value (voting)	$ 120,000	$ 120,000
Issued and fully paid:		
120,000 (2019: 120,000) Class C common shares, $1 par value (voting)	$ 120,000	$ 120,000

The common shares of the Company are held by a trust, SIGCo Trust, whose beneficiaries are the shipowner clients of the Company.

8. Other underwriting expenses

Other underwriting expenses relate to costs of $683,285 (2019: $670,324) in respect of applications made to the U.S. Coast Guard for COFRs on behalf of the Company's clients.

9. Financial instruments

Financial risk management objectives and policies

The Company has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business. The Company manages these risks using extensive risk management policies and practices.

The risks that arise from transacting financial instruments include credit risk, market risk and liquidity risk. These risks may be caused by factors specific to an individual instrument or factors affecting all instruments traded in the market.

Risk management objectives and policies as they relate to the specific financial risks are as follows:

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.

The Company is exposed to credit risk principally through its cash and cash equivalents, financial assets and insurance balances receivable. Concentrations of credit risk arise from exposures to a single debtor or groups of debtors that have similar credit risk characteristics, such as debtors in the same geographic regions or in similar industries. The Company's maximum credit risk exposure is the carrying value of the assets net of any allowances for doubtful debts.

Details of concentrations of cash and cash equivalents are disclosed in Note 12. Credit risk relating to financial assets at fair value through profit or loss is managed through monitoring of the issuer, industry and geographical diversification within the investment portfolio and are disclosed in Note 4(a). The Company mitigates credit risk on its insurance balances receivable through detailed credit and underwriting policies and on-going monitoring of outstanding receivables.

The reinsurance recoverable balance is due from Lloyd's Underwriting Syndicates, which are all A+ rated insurers with Standard and Poor's. The Company has assessed the possibility insurers will default is remote and that the balance is fully recoverable.

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 other price risks such as equity risk.

(a) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. At the balance sheet date, the Company did not have a material currency exposure related to financial instruments.

9. Financial instruments (continued)

(b) Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates.

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. The Company is exposed to interest rate price risk on monetary assets that have a fixed interest rate. During periods of rising interest rates, the market value of the existing fixed interest securities will generally decrease and realized gains on fixed income securities will likely be reduced. The reverse is true during periods of declining interest rates.

At the balance sheet date management estimates that a 50-basis point increase in interest rates, with all other variables held constant, would decrease the fair value of U.S. Treasury Securities and the corporate bond portfolio and net income by approximately $1,300,000 (2019: $540,000). A 50-basis point decrease in interest rates would have a corresponding increase in net income.

(c) Equity risk

Equity risk is the exposure to changes in the value of the equity security as a result of market conditions. Equity risk comprises general equity risk which refers to fluctuations in value of the security due to changes in general economic or stock market conditions and specific equity risk which refers to equity price volatility that is determined by entity specific characteristics.

These risks affect the carrying value of these securities and the level and timing of recognition of gains and losses on securities held, causing changes in realized and unrealized gains and losses.

The Company is exposed to equity risk on its equity security. At the balance sheet date, management estimates that a 10% increase in equity prices, with all other variables held constant would increase net income by approximately $720,000 (2019: $710,000). A 10% decrease in equity prices would have a corresponding decrease in net income. The Company manages the impact of a significant decrease in equity prices through the use of derivatives as disclosed in Note 4(a).

Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet cash outflow commitments as they fall due. Liquidity risk arises from general business activities and in the course of managing the assets and liabilities. There is a risk of loss to the extent that the sale of a security prior to maturity is required to provide liquidity to satisfy claims and other cash outflows. The liquidity requirements of the Company's business have been met primarily by funds generated by operations, asset maturities and income and other returns received on securities. The Company generally maintains a conservative liquidity position that exceeds anticipated obligations. The Company has policies to limit and monitor its exposure to individual issuers and to ensure that assets and liabilities are broadly matched in terms of their duration. Management believes the Company has sufficient funds to meet its liabilities and to satisfy regulatory capital requirements as at December 31, 2020 due to the cash and cash equivalents held by the Company exceeding the total liabilities recognized on the statement of financial position.

9. Financial instruments (continued)

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year. As outlined in Notes 1 and 5 to the financial statements, the Company uses reinsurance to manage its insurance risk.

Fair value

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and cash equivalents: Represents cash deposits held at financial institutions and short term highly liquid investments of sufficient credit quality that are readily convertible to known amounts of cash and have original maturities of 90 days or less. The carrying amounts reported in the Statement of Financial Position for these instruments approximate their fair values due to their relative short-term nature.

Financial assets at fair value through profit or loss: Are managed and evaluated based upon their fair value performance and held for trading and thereby measured at fair value through profit or loss. The fair value of these investments is disclosed in Note 4.

Other assets and liabilities: The fair value of insurance balances receivable, accrued interest, reinsurance balances payable, insurance balances payable, premiums received in advance and accounts payable and accrued expenses approximates their carrying value due to their relative short-term nature.

The estimates of fair values presented herein are subjective in nature and are not necessarily indicative of the amounts that the Company would actually realize in a current market exchange. However, any differences would not be expected to be material. Certain items such as deferred reinsurance premiums, deferred acquisition costs, deferred continuity credits, outstanding losses and loss expenses, reinsurance recoverable, prepayments, unearned premiums and leases are excluded from fair value disclosure. Thus, the total fair value amounts cannot be aggregated to determine the underlying economic value of the Company.

10. Capital management

The Company's capital base is structured to exceed regulatory and internal capital targets while maintaining an effective capital structure. The Board of Directors is responsible for devising the Company's capital plan with management responsible for the implementation of the plan. The policy is designed to ensure that adequate capital is maintained to provide the flexibility necessary to take advantage of growth opportunities, to support the risks associated with the business and to provide returns to shareholders. The policy is also designed to provide an appropriate level of risk management over capital adequacy risk, which is defined as the risk that capital is not or will not be sufficient to withstand adverse economic conditions, to maintain financial strength or to allow the Company to take advantage of opportunities for expansion.

The Company is required by the Bermuda Monetary Authority to maintain certain minimum levels of capital and surplus. At the balance sheet date, the Company has met these requirements (see Note 13).

The Company's capital base consists of common shares and retained earnings.

(Expressed in United States Dollars)

11. Commitments

The Company entered into a contact to lease office space until March 31, 2022. The lease was agreed effective April 1, 2017 with a rent of $174,288 per annum increasing annually in line with the Bermuda Retail Price Index unless waived by the landlord.

Under IFRS 16 the Company recognized a right-of-use asset and a lease liability at January 1, 2019. The right-of-use asset was measured at the amount equal to the lease liability.

Set out below are the carrying amounts of right-of-use asset recognized and the movements for the period.

		2020		2019
Balance at January 1	$	355,190	$	–
Additions to right-of-use assets	$	–	$	513,052
Depreciation	$	(157,862)	$	(157,862)
Balance at December 31	$	197,328	$	355,190

The balance as at December 31 between current and non-current asset is detailed below.

		2020		2019
Current asset	$	157,862	$	157,862
Non-current asset	$	39,466	$	197,328

Set out below are the carrying amounts of lease liabilities.

		2020		2019
Balance at January 1	$	363,134	$	–
Additions to lease liabilities	$	–	$	513,052
Interest	$	17,249	$	24,370
Payment of lease liabilities	$	(174,288)	$	(174,288)
Balance at December 31	$	206,095	$	363,134

The balance as at December 31 between current and non-current liability is detailed below.

		2020		2019
Current liability	$	164,499	$	157,039
Non-current liability	$	41,596	$	206,095

The right-of-use asset is depreciated on a straight-line basis to the end of the lease term with $157,862 charged in the 12-month reporting period (2019: $157,862). The right-of-use asset may be reduced by impairment losses during the term of the lease or re-measured by changes in the lease liability.

The lease liability is measured at the present value of the lease payments at January 1, 2020, discounted using the Company's rate of borrowing of 4.75% (2019: 4.75%). Interest has been charged during the reporting period of $17,249 (2019: $24,370).

The total cost of the lease during the reporting period is $175,111 (2019: $182,232).

The Company assessed the Group does not hold any other leases.

(Expressed in United States Dollars)

12. Concentration of credit risk

The Group's cash and cash equivalents of $23,599,090 (2019: $29,080,892) is held with six financial institutions in the Bermuda, Isle of Man, United Kingdom and Ireland.

	2020	2020 S&P rating	2019	2019 S&P rating
Butterfield Bank	238,791	BBB+	400,602	BBB+
Blackrock Liquidity Fund	13,388,292	AAA	3,613,513	AAA
CILF Western Asset US Liquidity	3,726,310	AAA	3,612,737	AAA
Citibank	2,350,366	A+	1,573,756	A+
Goldman Sachs Liquidity Fund	3,748,084	AAA	17,945,273	AAA
TMI Portfolio Liquidity Funds	147,247	AAA	1,935,011	AAA
	$ 23,599,090		$ 29,080,892	

Credit risk relating to financial assets at fair value through profit or loss is managed through monitoring of the issuer, industry and geographical diversification within the investment portfolio. Credit ratings are disclosed in Note 4(a).

13. Statutory requirements

The Company must at all times maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of the Insurance Act, 1978 of Bermuda.

Each year the Company is required to file with the Bermuda Monetary Authority a capital and solvency return within four months of its relevant financial year end (unless specifically extended).

The prescribed form of capital and solvency return comprises the insurer's Bermuda Solvency Capital Requirement ("BSCR") model, a schedule of fixed income investments by rating category, a schedule of net loss and loss expense provision by line of business, a schedule of premiums written by line of business, a schedule of risk management and a schedule of fixed income securities.

As a Class 3A insurer, the Company is required to maintain available statutory capital and surplus in an amount that is equal to or exceeds the target capital levels based on enhanced capital requirements ("ECR") calculated using the BSCR model. The BSCR model is a risk-based capital model introduced by the Authority that measurers risk and determines ECR and a target capital level (defined as 120% of the ECR) based on the Company's statutory financial statements. In circumstances where the Authority concludes that the Company's risk profile deviates significantly from the assumptions underlying the ECR or the Company's assessment of its management policies and practices, it may issue an order requiring that the Company adjust its ECR.

During the year ended and as of December 31, 2020, the Company met the target capital level required under the BSCR.

The Insurance Act mandates certain actions and filings with the Authority if the Company fails to meet and maintain its ECR or solvency margin, including the filing of a written report detailing the circumstances giving rise to the failure and the manner and time within which the insurer intends to rectify the failure. The Company is prohibited from declaring or paying a dividend if its statutory capital and surplus is less than its ECR, or if it is in breach of its solvency margin or minimum liquidity ratio, or if the declaration or payment of such dividend would cause such breach.

(Expressed in United States Dollars)

13. Statutory requirements (continued)

The Company is required by its license to maintain unconsolidated capital and surplus greater than a minimum statutory amount determined as the greater of a percentage of outstanding losses (net of reinsurance recoverable) or a given fraction of net written premiums. At December 31, 2020 the Company met this requirement. Actual unconsolidated statutory capital and surplus is $78,130,283 (2019: $73,699,233).

The Company is also required to maintain a minimum liquidity ratio whereby the value of its unconsolidated relevant assets is not less than 75% of the amount of its unconsolidated relevant liabilities. At December 31, 2020, the Company was required to maintain unconsolidated relevant assets of approximately $9,468,943 (2019: $9,073,659). At that date unconsolidated relevant assets were $86,336,640 (2019: $81,701,729) and the minimum liquidity ratio was therefore met.

14. Pension scheme

The Group provides pension benefits to certain employees as required by the Bermuda National Pension Scheme Act, 1998 through a defined contribution plan borne by SIGCo Management (Bermuda) Ltd., a subsidiary of the Company; and recharged through expenses to the Group as part of the management recharge.

The pension expenses totaled $153,110 for the year ended December 31, 2020 (2019: $182,392). There are no amounts owing by the Group to the pension plan at December 31, 2020.

15. Related party transactions

The Company has ceded reinsurance premiums of $1,200,000 (2019: $1,200,000) to SIGCo (IoM) Limited, a company based in the Isle of Man related through common ownership.

Compensation to key management employees deemed to be related parties was as follows:

	2020	2019
Short term employee benefits	$ 1,741,906	$ 1,683,037
Defined contribution pension and medical insurance expenses	165,851	160,934
	$ 1,907,757	$ 1,843,971

During 2012 SIGCo Management (Bermuda) Ltd., a wholly-owned subsidiary of the Company was incorporated. The Company paid up $50,000 for the issued share capital of the subsidiary in 2015. The subsidiary commenced operations effective January 1, 2016.

The Company paid SIGCo Management (Bermuda) Ltd. management fees of $4,843,317 for the year ended December 31, 2020 (2019: $5,048,264) and are included in the statement of comprehensive income under other expenses.

SIGCo Management (Bermuda) Ltd. paid management fees to SIGCo Management (IoM) Limited. of $592,979 for the year ended December 31, 2020 (2019: $582,286) and are included in the consolidated statement of comprehensive income under general and administrative expenses.

(Expressed in United States Dollars)

16. Taxation

Under current Bermuda law, the Company is not obligated to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act 1966 which exempts the Company from any such taxes until March 31, 2035.

17. Insurance assets and liabilities

(a) Insurance assets

(i) Deferred reinsurance premium	2020	2019
Balance at January 1	$ 1,536,158	$ 1,484,264
Reinsurance premiums ceded	8,910,901	10,801,562
Premiums ceded	(8,780,655)	(10,749,668)
Balance at December 31	$ 1,666,404	$ 1,536,158

(ii) Deferred acquisition costs	2020	2019
Balance at January 1	$ 739,439	$ 708,013
Acquisition costs expensed	3,165,823	3,125,221
Broker commissions incurred in the year	(3,120,156)	(3,093,795)
Balance at December 31	$ 785,106	$ 739,439

(iii) Deferred continuity credits	2020	2019
Balance at January 1	$ 3,306,277	$ 3,178,319
Continuity credits expensed	13,573,149	12,949,383
Continuity credits expensed in the year	(13,295,632)	(12,821,425)
Balance at December 31	$ 3,583,794	$ 3,306,277

(b) Insurance liabilities

(i) Unearned premiums	2020	2019
Balance at January 1	$ 7,761,573	$ 7,490,949
Premiums written	31,595,597	30,201,421
Premiums earned	(31,042,639)	(29,930,797)
Balance at December 31	$ 8,314,531	$ 7,761,573