

**THE SHIPOWNERS INSURANCE AND
GUARANTY COMPANY LTD.**

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

December 31, 2023



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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of The Shipowners Insurance and Guaranty Company Ltd. ("the Company") and its subsidiary (collectively "the Group"), which comprise the consolidated statement of financial position as at December 31, 2023, 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, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102").

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 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. 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 FRS 102, 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.

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 13, 2024

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Consolidated Statement of Financial Position

Year Ended December 31, 2023

(Expressed in United States Dollars)

	<u>2023</u>	<u>2022</u>
Current Assets		
Cash and cash equivalents (Note 12)	\$ 19,102,992	\$ 14,235,388
Investments (Notes 4 and 12)	77,103,559	74,773,010
Insurance balances receivable	850,254	800,521
Deferred reinsurance premium (Note 17)	1,862,615	1,847,203
Deferred acquisition costs (Note 17)	631,347	627,256
Deferred continuity credits (Note 17)	1,516,521	1,479,847
Accrued interest	425,477	285,648
Prepayments	151,800	97,943
Reinsurance recoverable (Note 6)	15,591,610	12,163,100
Right-of-use assets (Note 11)	<u>—</u>	<u>663,227</u>
 Total current assets	 \$ 117,236,175	 \$ 106,973,143
Current Liabilities		
Unearned premiums (Note 17)	\$ 6,755,097	\$ 6,760,004
Outstanding losses and loss expenses (Note 6)	15,591,610	12,163,100
Reinsurance balances payable	4,751,082	4,284,241
Insurance balances payable	93,500	96,500
Premiums received in advance	1,071,234	1,050,156
Accounts payable and accrued expenses	177,042	154,258
Dividend Payable	25,000	—
Lease liabilities (Note 11)	<u>—</u>	<u>676,860</u>
 Total current liabilities	 28,464,565	 25,185,119
Shareholder's equity		
Common shares (Note 7)	120,000	120,000
Retained earnings	<u>88,651,610</u>	<u>81,668,024</u>
 Total equity attributable to the equity holder of the Company	 88,771,610	 81,788,024
 Total liabilities and shareholder's equity	 \$ 117,236,175	 \$ 106,973,143

The notes on pages 7 to 21 form an integral part of these Financial Statements.

Approved for issuance on behalf of the Board of Directors of The Shipowners Insurance and Guaranty Company Ltd. on March 13, 2024, by:

Richard Black

Director



Director

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Consolidated Statement of Comprehensive Income/(Loss)

Year Ended December 31, 2023
(Expressed in United States Dollars)

	<u>2023</u>	<u>2022</u>
Underwriting income		
Premiums written	\$ 27,628,992	\$ 26,857,191
Change in unearned premiums	<u>4,907</u>	<u>(108,594)</u>
Premiums earned	<u>27,633,899</u>	<u>26,748,597</u>
Reinsurance premiums ceded (Notes 5 and 17)	(10,920,884)	(10,329,125)
Change in deferred reinsurance premium	<u>15,412</u>	<u>40,089</u>
Earned premiums ceded	<u>(10,905,472)</u>	<u>(10,289,036)</u>
Net premiums earned	16,728,427	16,459,561
Continuity credits	<u>(6,231,824)</u>	<u>(5,848,384)</u>
Total underwriting income	<u>10,496,603</u>	<u>10,611,177</u>
Underwriting expenses		
Broker's commissions	(2,805,111)	(2,735,595)
Other underwriting expenses (Note 8)	<u>(727,806)</u>	<u>(730,489)</u>
Total underwriting expenses	<u>(3,532,917)</u>	<u>(3,466,084)</u>
Net underwriting income	<u>6,963,686</u>	<u>7,145,093</u>
Other income		
ICB revenue	2,164,350	2,094,150
ICB broker commissions	(173,104)	(171,584)
ICB agent fees	<u>(1,233,570)</u>	<u>(1,193,345)</u>
Total other income	<u>757,676</u>	<u>729,221</u>
Investment income		
Interest and dividend income	2,240,335	1,127,646
Change in unrealized net loss on investments	2,891,283	(3,636,378)
Realized net gains on investments	280,608	144,364
Investment management fees	<u>(235,267)</u>	<u>(211,254)</u>
Net investment income/(loss) (Note 4)	<u>5,176,959</u>	<u>(2,575,622)</u>
Other expenses		
General and administrative expenses (Note 11 and 15)	<u>(5,764,735)</u>	<u>(5,416,598)</u>
Total other expenses	<u>(5,764,735)</u>	<u>(5,416,598)</u>
Net income/(loss) and comprehensive income/(loss) for the year (all attributable to the owner of the Company)	<u>\$ 7,133,586</u>	<u>\$ (117,906)</u>

The notes on pages 7 to 21 form an integral part of these Financial Statements.

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Consolidated Statement of Changes in Shareholder's Equity

Year Ended December 31, 2023
(Expressed in United States Dollars)

	<u>Common shares</u>	<u>Retained earnings</u>	Total equity attributable to the equity holder of <u>the Group</u>
Balance at December 31, 2021	\$ 120,000	\$ 81,885,930	\$ 82,005,930
Net (loss) for the year	–	(117,906)	(117,906)
Dividends declared	<u>–</u>	<u>(100,000)</u>	<u>(100,000)</u>
Balance at December 31, 2022	\$ 120,000	\$ 81,668,024	\$ 81,788,024
Net income for the year	–	7,133,586	7,133,586
Dividends declared	<u>–</u>	<u>(150,000)</u>	<u>(150,000)</u>
Balance at December 31, 2023	<u>\$ 120,000</u>	<u>\$ 88,651,610</u>	<u>\$ 88,771,610</u>

The notes on pages 7 to 21 form an integral part of these Financial Statements.

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Consolidated Statement of Cash Flows

Year Ended December 31, 2023

(Expressed in United States Dollars)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Net income/(loss)	\$ 7,133,586	\$ (117,906)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of right-of-use asset	–	156,506
Unrealized net (gain)/loss on investments	(2,891,283)	3,636,378
Realized net gain on sale of investments	(280,608)	(144,364)
Changes in non-cash working capital		
Insurance balances receivable	(49,733)	(159,004)
Deferred reinsurance premium	(15,412)	(40,089)
Deferred acquisition costs	(4,091)	470
Deferred continuity credits	(36,674)	(77,869)
Accrued interest	(139,829)	(139,722)
Prepayments	(53,857)	9,054
Unearned premiums	(4,907)	108,595
Reinsurance recoverable	(3,428,510)	1,140,372
Outstanding losses and loss expenses	3,428,510	(1,140,372)
Reinsurance balances payable	466,841	(671,466)
Insurance balances payable	(3,000)	3,500
Premiums received in advance	21,078	(116,438)
Accounts payable and accrued expenses	<u>22,784</u>	<u>9,971</u>
Cash flows from operating activities	<u>4,164,895</u>	<u>2,457,616</u>
Cash flows from investing activities		
Purchase of investments	(30,173,326)	(45,537,422)
Proceeds on sale of investments	<u>31,014,668</u>	<u>41,859,974</u>
Cash flows used in investing activities	<u>841,342</u>	<u>(3,677,448)</u>
Cash flows from financing activities		
Dividends paid	(125,000)	(100,000)
Principal payment of lease payments	<u>(13,633)</u>	<u>(145,003)</u>
Cash flows from financing activities	<u>(138,633)</u>	<u>(245,003)</u>
Net increase/(decrease) in cash and cash equivalents	<u>4,867,604</u>	<u>(1,464,835)</u>
Cash and cash equivalents, beginning of year	<u>14,235,388</u>	<u>15,700,223</u>
Cash and cash equivalents, end of year	<u>\$ 19,102,992</u>	<u>\$ 14,235,388</u>

The notes on pages 7 to 21 form an integral part of these Financial Statements.

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2023
(Expressed in United States Dollars)

1. General Information

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 a maximum guaranty limit of \$700 million per vessel. The Company also retains a 40% share of the layer \$60 million excess of \$20 million (2022: 40% 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, typically \$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 Financial Statements are prepared in accordance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (“FRS 102”), Financial Reporting Standard 103, “Insurance Contracts” (“FRS 103”) and the Bermuda Companies Act 1981.

This is the first year that the Company has presented its results under FRS 102. The last financial statements prepared under International Financial Reporting Standards (“IFRS”) were for the year ended December 31, 2022. The date of transition to FRS 102 was January 1, 2023. There were no changes in accounting policies between IFRS as previously reported and FRS 102 which impacted the Company’s profit for the financial year ended December 31, 2022, or the Company’s total Shareholder’s equity as at January 1, 2022, or December 31, 2022. As permitted on the first time of adoption of FRS 103, the Company has continued to apply the same approach for recognition and measurement for its insurance contracts as was used in the IFRS financial statements for the year to 31 December 2022.

The Consolidated Financial Statements were authorized for issue by the Board of Directors on March 13, 2024.

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2023
(Expressed in United States Dollars)

2. Basis of preparation (continued)

(b) Basis of measurement

The Consolidated Financial Statements are prepared on a going concern basis, under the historical cost basis, except for investments, which are stated at fair value.

(c) Functional and presentation currency

The Consolidated Financial Statements are presented in U.S. Dollars, the Group's functional currency.

(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 intercompany 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 FRS 102 and FRS 103 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 underwriting 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 yearend but relating to policy periods incepting in 2024 are excluded except where premium has been received. These amounts are shown on the Statement of Financial Position 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 SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2023
(Expressed in United States Dollars)

3. Summary of significant accounting policies (continued)

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

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.

(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 recognizes 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 money market funds 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 investments are held and determined that investments are managed and performance is evaluated on a fair value basis and held for trading. These investments are thereby measured at fair value through profit and loss as the investments 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 investments 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.

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2023
(Expressed in United States Dollars)

3. Summary of significant accounting policies (continued)

(e) Investments (continued)

Derivative investments are valued based on quoted market values and recognized as either assets or liabilities in the Consolidated 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 Group.

(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, 2023, 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 BBB 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 history and existing market conditions, as well as forward-looking estimates at the end of each reporting period.

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2023
(Expressed in United States Dollars)

4. Investments

(a) *Investments, by class & type*

	<u>2023</u>	<u>2022</u>
U.S. treasury securities	\$ 49,377,784	\$ 49,290,795
Corporate bonds	20,624,893	18,374,949
Equities	7,048,382	6,969,266
Derivatives	<u>52,500</u>	<u>138,000</u>
	<u>\$ 77,103,559</u>	<u>\$ 74,773,010</u>

At the statement of financial position date, the coupon on the U.S. treasury securities held ranged between 0.63% and 6.39% per annum (2022: 0.13% and 2.88%) with maturity dates between 2024 and 2031 (2022: 2023 and 2031). The coupon on the corporate bonds held ranged between 0.58% and 6.40% per annum (2022: 0.35% and 5.17%) with maturity dates between 2024 and 2030 (2022: 2023 and 2027), and a credit rating of at least BBB as rated by Standard and Poor's (or equivalent credit rating agency).

The equities represent an interest in the SPDR S&P 500 ETF Trust, Invesco QQQ Trust Series 1 and Vanguard S&P 500 USD, all 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 hierarchy*

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. treasury 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.

There were no reclassifications of financial assets between Level 1, Level 2 and Level 3 during the years ended December 31, 2023, or December 31, 2022.

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2023
(Expressed in United States Dollars)

4. Investments (continued)

(b) *Fair value hierarchy (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.

<u>2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Totals</u>
U.S. treasury securities	\$ 49,377,784	\$ –	\$ –	\$ 49,377,784
Corporate bonds	–	20,624,893	–	20,624,893
Equities	7,048,382	–	–	7,048,382
Derivatives	<u>52,500</u>	<u>–</u>	<u>–</u>	<u>52,500</u>
	\$ 56,478,666	\$ 20,624,893	\$ –	\$ 77,103,559

\$15,239,030 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 (2022: \$12,470,554).

<u>2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Totals</u>
U.S. treasury securities	\$ 49,290,795	\$ –	\$ –	\$ 49,290,795
Corporate bonds	–	18,374,949	–	18,374,949
Equities	6,969,266	–	–	6,969,266
Derivatives	<u>138,000</u>	<u>–</u>	<u>–</u>	<u>138,000</u>
	\$ 56,398,061	\$ 18,374,949	\$ –	\$ 74,773,010

(c) *Investment income/(loss) by class & type*

	<u>2023</u>	<u>2022</u>
Interest on cash and cash equivalents	\$ 543,633	\$ 189,714
Interest from U.S. treasury securities	761,634	433,053
Interest from corporate bonds	866,596	441,119
Dividends on equities	68,472	63,760
Unrealized gain/(loss) on U.S. treasury securities	1,280,219	(964,851)
Unrealized gain/(loss) on corporate bonds	171,369	(461,042)
Unrealized gain/(loss) on equities	1,440,138	(2,258,818)
Unrealized (loss)/gain on derivatives	(444)	48,333
Realized (loss)gains on U.S. treasury securities	75,638	(354,105)
Realized (loss) on corporate bonds	(21,606)	(168,152)
Realized gain on sales of equities	438,420	783,517
Realized (loss) on expiration of derivatives	(211,843)	(116,896)
Investment management fees	<u>(235,267)</u>	<u>(211,254)</u>
	\$ 5,176,959	\$ (2,575,622)

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 \$586 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 \$8 million of each and every loss with respect to the Company’s 40.0% share of the restructured sub-layer of \$60 million excess of \$20 million which forms part of the main excess reinsurance layer of \$586 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 \$284,113 for the year ended December 31, 2023, (2022: \$263,230) 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 AA- (Very Strong) by AM Best and AA- (Very Strong) by Standard and Poor’s. The reinsurance recoverable 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.

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2023
(Expressed in United States Dollars)

6. Outstanding losses and loss expenses (continued)

As at December 31, 2023, the Company held a net loss reserve of \$Nil (2022: \$Nil), due to the net loss reserve being exhausted in prior years.

As at December 31, 2023, the gross loss and loss expense provision is \$15,591,611 (2022: \$12,163,100). In 2023, Management increased the prior year loss reserve by \$4,500,000 to reflect the current claims position which represents management's best estimate of claim and defense costs. During the financial year, the company paid claim expenses of \$1,071,489 (2022: \$1,140,372) with no net expenses incurred in the financial year as all costs are fully recoverable from reinsurers. The loss reserve will continue to be re-evaluated and any adjustments that may be material will be recorded in the period in which they are determined.

7. Share capital

	<u>2023</u>	<u>2022</u>
Authorized:		
120,000 (2022: 120,000) Class C common shares, \$1 par value (voting)	\$ 120,000	\$ 120,000
	=====	=====
Issued and fully paid:		
120,000 (2022: 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 Private Trustee Company Ltd., whose beneficiaries are the shipowner clients of the Company.

8. Other underwriting expenses

Other underwriting expenses relate to costs of \$727,806 (2022: \$730,489) in respect of applications made to the U.S. Coast Guard for COFRs on behalf of the Company's clients.

9. Nature and extent of risks arising from financial instruments

Financial risk management objectives and policies

The Group has a comprehensive risk management framework to monitor, evaluate and manage the risks assumed in conducting its business. The Group 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:

(a) *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 Group is exposed to credit risk principally through its cash and cash equivalents, financial assets, insurance balances receivable and reinsurance recoverable. 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 Group'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 investments is managed through monitoring of the issuer, industry and geographical diversification within the investment portfolio and are disclosed in Note 4(a). The Group 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 AA- rated insurers with Standard and Poor's. The Group has assessed the possibility insurers will default is remote and that the balance is fully recoverable.

(b) *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.

(c) *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 Group did not have a material currency exposure related to financial instruments.

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2023
(Expressed in United States Dollars)

9. Nature and extent of risks arising from financial instruments (continued)

(d) Interest rate risk

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

The Group actively manages its interest rate exposure with the objective of enhancing net investment income within established risk tolerances and Board approved investment policies. The Group 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 statement of financial position 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 \$880,000 (2022: \$620,000). A 50-basis point decrease in interest rates would have a corresponding increase in net income.

(e) Equity price risk

Equity price 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 Group is exposed to equity price risk on its equity securities. At the statement of financial position date, management estimates that a 10% increase in equity prices, with all other variables held constant would increase net income by approximately \$700,000 (2022: \$700,000). A 10% decrease in equity prices would have a corresponding decrease in net income. The Group manages the impact of a significant decrease in equity prices through the use of derivatives as disclosed in Note 4(a).

(f) 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 Group's business have been met primarily by funds generated by operations, asset maturities and income and other returns received on securities. The Group generally maintains a conservative liquidity position that exceeds anticipated obligations. The Group 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 Group has sufficient funds to meet its liabilities and to satisfy regulatory capital requirements as at December 31, 2023, due to the cash and cash equivalents held by the Group exceeding the cash and total liabilities recognized on the statement of financial position.

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2023
(Expressed in United States Dollars)

9. Nature and extent of risks arising from financial instruments (continued)

(g) 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.

Investments: 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: Insurance balances receivable, accrued interest, reinsurance balances payable, insurance balances payable, premiums received in advance and accounts payable and accrued expenses are classified as financial assets and liabilities measured at amortized cost. The fair value of these financial assets and liabilities 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 Group.

10. Capital management

The Group'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 Group'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 Group to take advantage of opportunities for expansion.

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

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

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2023
(Expressed in United States Dollars)

11. Commitments

The Company leases office space under an operating lease, which expires on March 31, 2027. The lease was agreed effective April 1, 2022, with a rent of \$174,288 per annum.

For the year ended December 31, 2023, the Company has applied Section 20 to the treatment of the lease, which is classified as an operating lease and is not recognized in the Consolidated Statement of Financial Position. Payments made under operating leases are recognized in the Consolidated Statement of Comprehensive Income on a straight-line basis over the term of the lease. Total rent expense for the year was \$174,288 and has been included under general and administration expenses.

For the year ended December 31, 2022, the lease was treated as a right-to-use asset under IFRS 16, recognized in the Consolidated Statement of Financial Position.

Following the transition to FRS 102, adjustments to the Consolidated Statement of Financial Position have been made in the year ended December 31, 2023, as set out below:

<u>Right-of-Use Asset</u>	
Balance at January 1	\$ 663,227
Reductions in right-of-use assets	\$ (663,227)
Balance at December 31	\$ –

<u>Right-of-Use Liability</u>	
Balance at January 1	\$ 676,860
Reductions in right-of-use liabilities	\$ (676,860)
Balance at December 31	\$ –

The residual lease interest of US\$13,633 following the transition to FRS 102 has been included under general and administration expenses for the year ended December 31, 2023.

12. Concentration of credit risk

The Group's cash and cash equivalents of \$19,102,992 (2022: \$14,235,388) is held with six financial institutions in Bermuda, United Kingdom, United States and Ireland.

	<u>2023</u>	<u>2023</u> <u>S&P rating</u>	<u>2022</u>	<u>2022</u> <u>S&P rating</u>
Butterfield Bank	\$ 177,333	BBB+	\$ 218,069	BBB+
Blackrock Liquidity Fund	6,050,427	AAA	4,368,668	AAA
CILF Western Asset US Liquidity	2,902,358	AAA	3,089,947	AAA
Citibank	3,649,567	A+	1,491,082	A+
Goldman Sachs Liquidity Fund	6,286,245	AAA	5,011,938	AAA
TMI Portfolio Liquidity Funds	<u>37,062</u>	AA-	<u>55,684</u>	AAA
	\$ 19,102,992		\$ 14,235,388	

Credit risk relating to investments is managed through monitoring of the issuer, industry, and geographical diversification within the investment portfolio. Credit ratings are disclosed in Note 4(a).

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2023
(Expressed in United States Dollars)

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 measures 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, 2023, 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.

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. As at December 31, 2023, the Company met this requirement. Actual unconsolidated statutory capital and surplus is \$88,603,496 (2022: \$81,627,132).

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. As at December 31, 2023, the Company was required to maintain unconsolidated relevant assets of approximately \$8,174,491 (2022: \$7,804,852). At that date unconsolidated relevant assets were \$97,304,949 (2022: \$89,876,498) 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 \$166,694 for the year ended December 31, 2023, (2022: \$159,311). There are no amounts owing by the Group to the pension plan at December 31, 2023.

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2023
(Expressed in United States Dollars)

15. Related party transactions

The Company has ceded reinsurance premiums of \$1,300,000 (2022: \$1,300,000) 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:

	<u>2023</u>	<u>2022</u>
Short term employee benefits	\$ 1,700,622	\$ 1,735,746
Defined contribution pension and medical insurance expenses	<u>200,033</u>	<u>174,482</u>
	<u>\$ 1,900,655</u>	<u>\$ 1,910,228</u>

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 \$5,675,340 for the year ended December 31, 2023, (2022: \$5,312,869), are included in the statement of comprehensive income under other expenses and are eliminated on consolidation.

SIGCo Management (Bermuda) Ltd. paid management fees to SIGCo Management (IoM) Limited. of \$600,021 for the year ended December 31, 2023, (2022: \$560,330) and are included in the consolidated statement of comprehensive income under general and administrative expenses.

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>(i) Deferred reinsurance premium</i>	<u>2023</u>	<u>2022</u>
Balance at January 1	\$ 1,847,203	\$ 1,807,114
Reinsurance premiums ceded	10,920,884	10,329,125
Premiums ceded	<u>(10,905,472)</u>	<u>(10,289,036)</u>
Balance at December 31	<u>\$ 1,862,615</u>	<u>\$ 1,847,203</u>

THE SHIPOWNERS INSURANCE AND GUARANTY COMPANY LTD.

Notes to the Consolidated Financial Statements

Year Ended December 31, 2023
(Expressed in United States Dollars)

<i>(ii) Deferred acquisition costs</i>	<u>2023</u>	<u>2022</u>
Balance at January 1	\$ 627,256	\$ 627,726
Acquisition costs expensed	2,809,202	2,735,125
Broker commissions incurred in the year	<u>(2,805,111)</u>	<u>(2,735,595)</u>
Balance at December 31	<u>\$ 631,347</u>	<u>\$ 627,256</u>
<i>(iii) Deferred continuity credits</i>	<u>2023</u>	<u>2022</u>
Balance at January 1	\$ 1,479,847	\$ 1,401,978
Continuity credits expensed	6,268,498	5,926,253
Continuity credits expensed in the year	<u>(6,231,824)</u>	<u>(5,848,384)</u>
Balance at December 31	<u>\$ 1,516,521</u>	<u>\$ 1,479,847</u>
<i>(b) Insurance liabilities</i>		
<i>(i) Unearned premiums</i>	<u>2023</u>	<u>2022</u>
Balance at January 1	\$ 6,760,004	\$ 6,651,409
Premiums written	27,628,992	26,857,192
Premiums earned	<u>(27,633,899)</u>	<u>(26,748,597)</u>
Balance at December 31	<u>\$ 6,755,097</u>	<u>\$ 6,760,004</u>

18. Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102. The last financial statements prepared under IFRS were for the year ended December 31, 2022. The date of transition to FRS 102 was January 1, 2023. There were no differences to the recognition and measurement of balances and transactions, thus net income and Shareholder's equity were unaffected by the transition to FRS 102.

19. Events after the end of the reporting period

Subsequent events have been evaluated through March 13, 2024, which is the date these financial statements were available to be issued, and concluded that there are no items requiring disclosure.