

SUMMIT INSURANCE COMPANY LIMITED

Financial Statements
31 December 2010

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Summit Insurance Company Limited

We have audited the accompanying financial statements of Summit Insurance Company Limited, which comprise the balance sheet as of 31 December 2010, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



Auditors' Responsibility (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Summit Insurance Company Limited as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in cursive script that reads "Price Waterhouse Coopers".

Chartered Accountants

**Nassau, Bahamas
7 June 2011**

Summit Insurance Company Limited
(Incorporated under the laws of the Commonwealth of The Bahamas)

Balance Sheet
As of 31 December 2010
(Expressed in Bahamian dollars)

	Note	2010 \$	2009 \$
ASSETS			
Cash in hand and at banks	3	489,746	3,317,477
Term deposits	3	20,269,539	17,625,825
Due from reinsurers		2,348	19,444
Due from agents		6,643,794	7,487,703
Deferred commission expense		3,289,260	3,258,507
Prepayments and other assets	4	593,712	137,573
Investments in securities:	5		
Available-for-sale		3,590,097	4,419,460
Loans and receivables		1,984,891	812,061
Investment property	6	196,419	201,268
Property, plant and equipment	7	336,976	264,923
Total assets		<u>37,396,782</u>	<u>37,544,241</u>
LIABILITIES			
<i>General insurance funds:</i>			
Unearned premium reserve		7,319,225	7,891,828
Deferred commission income		2,982,317	3,096,558
Outstanding claims reserve	8	4,167,929	4,325,781
		14,469,471	15,314,167
<i>Other liabilities:</i>			
Due to reinsurers		2,417,137	2,880,926
Accounts payable and accrued expenses		378,329	414,245
Total liabilities		<u>17,264,937</u>	<u>18,609,338</u>

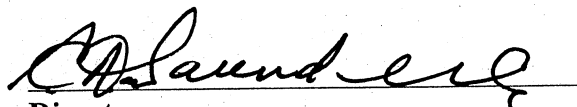
The accompanying notes are an integral part of these financial statements.

Summit Insurance Company Limited
(Incorporated under the laws of the Commonwealth of The Bahamas)

Balance Sheet
As of 31 December 2010
(Continued)
(Expressed in Bahamian dollars)

	Note	2010 \$	2009 \$
EQUITY			
Share capital	9	5,000,000	5,000,000
Treasury shares	9	(910,000)	(910,000)
General reserve	10	1,000,000	1,000,000
Fair value reserve		(412,164)	575,099
Retained earnings		<u>15,454,009</u>	<u>13,269,804</u>
Total equity		<u>20,131,845</u>	<u>18,934,903</u>
Total liabilities and equity		<u>37,396,782</u>	<u>37,544,241</u>

APPROVED BY THE BOARD OF DIRECTORS AND SIGNED ON ITS BEHALF BY:


Director


Director

30 May 2011
Date

The accompanying notes are an integral part of these financial statements.

Summit Insurance Company Limited

Statement of Income

For the Year Ended 31 December 2010

(Expressed in Bahamian dollars)

	Note	2010 \$	2009 \$
INCOME			
Gross premiums written		39,079,052	39,946,914
Premium tax		(466,481)	(488,398)
Premiums ceded to reinsurers		<u>(23,529,695)</u>	<u>(23,687,859)</u>
Net premiums written		15,082,876	15,770,657
Change in unearned premium reserve		572,603	1,994,093
Portfolio transfer	11	<u>(14,949)</u>	<u>(276,107)</u>
Net premiums earned		<u>15,640,530</u>	<u>17,488,643</u>
DIRECT EXPENSES			
Net claims incurred	8	4,795,490	3,686,635
Net commissions incurred	12	512,032	1,807,765
Catastrophe and excess of loss reinsurance		<u>6,128,211</u>	<u>6,817,572</u>
Total direct expenses		<u>11,435,733</u>	<u>12,311,972</u>
Underwriting gain		<u>4,204,797</u>	<u>5,176,671</u>
OTHER INCOME			
Interest income		1,075,449	1,089,203
Dividend income		150,344	164,185
Foreign exchange gains and other income		<u>180,597</u>	<u>184,233</u>
Total other income		<u>1,406,390</u>	<u>1,437,621</u>
OPERATING EXPENSES			
Personnel costs	13	874,296	779,059
Depreciation	6, 7	230,830	203,789
General and administrative		<u>606,856</u>	<u>635,387</u>
Total operating expenses		<u>1,711,982</u>	<u>1,618,235</u>
Net income		<u>3,899,205</u>	<u>4,996,057</u>

The accompanying notes are an integral part of these financial statements.

Summit Insurance Company Limited

Statement of Comprehensive Income For the Year Ended 31 December 2010 (Expressed in Bahamian dollars)

	Note	2010 \$	2009 \$
Net income		3,899,205	4,996,057
Other comprehensive income			
Net change in unrealized appreciation/depreciation on investments in securities	5	<u>(987,263)</u>	<u>(544,908)</u>
Total comprehensive income		<u>2,911,942</u>	<u>4,451,149</u>

The accompanying notes are an integral part of these financial statements.

Summit Insurance Company Limited

Statement of Changes in Equity For the Year Ended 31 December 2010 (Expressed in Bahamian dollars)

	Share Capital \$	Treasury Shares \$	General Reserve \$	Fair Value Reserve \$	Retained Earnings \$	Total \$
Balance as of 1 January 2009	<u>5,000,000</u>	<u>(910,000)</u>	<u>1,000,000</u>	<u>1,120,007</u>	<u>9,743,747</u>	<u>15,953,754</u>
Comprehensive income						
Net income	-	-	-	-	4,996,057	4,996,057
<i>Other comprehensive income</i>						
Net change in unrealized appreciation/depreciation on investments in securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(544,908)</u>	<u>-</u>	<u>(544,908)</u>
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>(544,908)</u>	<u>4,996,057</u>	<u>4,451,149</u>
Transactions with owners						
Dividends	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,470,000)</u>	<u>(1,470,000)</u>
Total transactions with owners	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,470,000)</u>	<u>(1,470,000)</u>
Balance as of 31 December 2009	<u>5,000,000</u>	<u>(910,000)</u>	<u>1,000,000</u>	<u>575,099</u>	<u>13,269,804</u>	<u>18,934,903</u>
Balance as of 1 January 2010	<u>5,000,000</u>	<u>(910,000)</u>	<u>1,000,000</u>	<u>575,099</u>	<u>13,269,804</u>	<u>18,934,903</u>
Comprehensive income						
Net income	-	-	-	-	3,899,205	3,899,205
<i>Other comprehensive income</i>						
Net change in unrealized appreciation/depreciation on investments in securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(987,263)</u>	<u>-</u>	<u>(987,263)</u>
Total comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>(987,263)</u>	<u>3,899,205</u>	<u>2,911,942</u>
Transactions with owners						
Dividends	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,715,000)</u>	<u>(1,715,000)</u>
Total transactions with owners	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,715,000)</u>	<u>(1,715,000)</u>
Balance as of 31 December 2010	<u>5,000,000</u>	<u>(910,000)</u>	<u>1,000,000</u>	<u>(412,164)</u>	<u>15,454,009</u>	<u>20,131,845</u>

Dividend per share (Note 9): \$0.35 (2009: \$0.30)

The accompanying notes are an integral part of these financial statements.

Summit Insurance Company Limited

Statement of Cash Flows For the Year Ended 31 December 2010 (Expressed in Bahamian dollars)

	2010 \$	2009 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	3,899,205	4,996,057
Adjustments for:		
Interest income	(1,075,449)	(1,089,203)
Dividend income	(150,344)	(164,185)
Gain on sale of property, plant and equipment	(2,500)	(140)
Depreciation	230,830	203,789
(Increase)/Decrease in operating assets		
Due from reinsurers	17,096	1,245,700
Due from agents	843,909	(230,846)
Deferred commission expense	(30,753)	223,103
Prepayments and other assets	(449,861)	8,273
Increase/(Decrease) in operating liabilities		
Unearned premium reserve	(572,603)	(1,994,093)
Deferred commission income	(114,241)	720,738
Outstanding claims reserve	(157,852)	(1,285,294)
Due to reinsurers	(463,789)	461,084
Accounts payable and accrued expenses	(35,916)	27,427
Net cash from operating activities	<u>1,937,732</u>	<u>3,122,410</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,066,562	1,101,152
Dividends received	144,066	150,320
Net increase in term deposits	1,489,025	(312,617)
Purchase of investments in securities	(1,372,900)	(110,200)
Redemption of investments in securities	65,000	20,000
Purchase of property, plant and equipment	(298,034)	(21,430)
Proceeds from sale of property, plant and equipment	2,500	140
Net cash from investing activities	<u>1,096,219</u>	<u>827,365</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(1,715,000)	(1,470,000)
Net cash used in financing activities	<u>(1,715,000)</u>	<u>(1,470,000)</u>
Net increase in cash and cash equivalents	1,318,951	2,479,775
Cash and cash equivalents as of the beginning of the year	5,809,345	3,329,570
Cash and cash equivalents as of the end of the year (Note 3)	<u>7,128,296</u>	<u>5,809,345</u>

The accompanying notes are an integral part of these financial statements.

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2010

1. General Information

Summit Insurance Company Limited (the Company) is incorporated under the Companies Act, 1992 of the Commonwealth of The Bahamas (The Bahamas) and is licensed to operate as a property and casualty insurance company in The Bahamas under the Insurance Act, 2005.

The Company's registered office is situated at Sassoon House, Shirley Street and Victoria Avenue, Nassau, Bahamas.

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Notes 2(d), 2(e), 2(h) and 2(i).

Amendments and interpretations to published standards that became effective for fiscal periods beginning on or after 1 July 2009 were not relevant to the Company's operations and accordingly did not impact the Company's accounting policies or financial statements.

The application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Company's accounting policies or financial statements in the period of initial application.

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2010

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(b) Foreign currency translation

The financial statements are presented in Bahamian dollars, which is the Company's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from translation of monetary assets and liabilities at year end exchange rates are recognized in the statement of income.

(c) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand and at banks and term deposits with original contractual maturities of three months or less.

(d) Financial assets

The Company classifies its financial assets into the following categories: available-for-sale (investments in equity securities) and loans and receivables (due from reinsurers and agents; and investments in debt securities and certain preference shares). Management determines the classification of its financial assets at the time of purchase and re-evaluates this at each reporting date.

Available-for-sale securities are financial assets intended to be held for an indefinite period of time, which may be sold in response to the needs for liquidity or changes in market conditions (interest rates, exchange rates or equity prices). Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Regular-way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase or sell the assets. Financial assets are initially recognized at fair value plus transaction costs. Financial assets are derecognized when the rights to receive cash flows from them have expired or when they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

Available-for-sale securities are subsequently carried at fair value based on quoted prices for investments traded in active markets or valuation techniques, including recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants for investments not traded in active markets. Changes in the fair value of available-for-sale securities are recognized in other comprehensive income.

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2010

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(d) Financial assets (continued)

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of income.

Loans and receivables are carried at amortized cost using the effective interest method, less any provision for impairment.

(e) Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. By comparison, the amount of loss on available-for-sale securities is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of interest for a similar financial asset.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of income. When a financial asset is uncollectible, it is written off against the related allowance account. If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statement of income. Recoveries of accounts previously written off are recognized directly in the statement of income.

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2010

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(f) Investment property

Property held for long-term rental yields and capital appreciation is classified as investment property. Investment property comprises residential property, and is carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method to allocate cost over the estimated useful life of 50 years.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the statement of income.

(g) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation, except land which is not depreciated. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate costs (net of residual values) over the following estimated useful lives:

Computer software	3 - 5 years
Leasehold improvements	Lesser of lease term and 20 years
Furniture and equipment	3 years
Motor vehicles	3 years

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2010

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(g) Property, plant and equipment (continued)

Gains and losses on disposals are determined by comparing proceeds with the carrying amounts and are recognized in the statement of income.

(h) General insurance funds

General insurance funds comprise unearned premium reserve, deferred commission expense and income, and outstanding claims reserve. Unearned premium reserve represents the portion of the net premiums written that relate to periods of insurance coverage subsequent to the balance sheet date.

Deferred commission expense represents commissions paid to agents for securing new and renewing existing business, which relate to policies providing insurance coverage subsequent to the balance sheet date. Deferred commission income represents commissions received from insurers and reinsurers based on premiums ceded that relate to periods of insurance coverage subsequent to the balance sheet date.

Outstanding claims reserve comprises liabilities for unpaid claims that are estimated using the input of assessments for individual cases reported to the Company; and statistical analyses for claims incurred but not reported, and the estimate of the expected ultimate cost of more complex claims that may be affected by external factors. The Company does not discount its liabilities for outstanding claims.

(i) Income and expense recognition

Net premiums written (premiums written less premiums ceded) are recognized as income over the periods covered by the related policies. Commission expense incurred on gross premiums written and commission income received on premiums ceded are recognized in the same manner as net premiums written.

The Company's net share of claims and loss adjustment expenses are recognized as incurred based on the estimated liability for compensation owed to policyholders or third parties damaged by policyholders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date regardless of whether or not they have been reported.

Interest income and expense for all interest-bearing financial instruments are recognized using the effective interest method. Profit and loyalty commission income and expense, and dividend income are recognized when the Company's right to receive, or obligation to make, payment has been established. Other income and expenses are recognized using the accrual basis of accounting.

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2010

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(j) Premium tax

Premium tax is incurred at a rate of 3% of gross premiums written in The Bahamas, less the proportion that is recoverable from reinsurers for premiums ceded.

Under the current laws of The Bahamas, the country of domicile of the Company, there are no income, capital gains or other corporate taxes imposed. The Company's operations do not subject it to taxation in any other jurisdiction.

(k) Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the statement of income on a straight-line basis over the period of the lease.

(l) Employee benefits

The Company has a defined contribution pension plan, combined with that of a related party, for its eligible employees, whereby the employees and the Company make fixed contributions to the privately administered pension plan. The Company has no further payment obligations if the plan does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods.

The Company's contributions to the defined contribution pension plan are charged to the statement of income in the year to which they relate.

(m) Corresponding figures

Where necessary, corresponding figures are adjusted to conform with changes in presentation adopted in the current year.

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2010 (Continued)

3. Cash and Cash Equivalents

	2010 \$	2009 \$
Cash in hand and at banks	489,746	3,317,477
Term deposits	<u>20,269,539</u>	<u>17,625,825</u>
	20,759,285	20,943,302
Less:		
Term deposits with original contractual maturities greater than three months	(13,312,358)	(14,801,383)
Accrued interest	<u>(318,631)</u>	<u>(332,574)</u>
Cash and cash equivalents	<u>7,128,296</u>	<u>5,809,345</u>

As of 31 December 2010, interest rates on term deposits range from 3.25% to 7.00% (2009: 4.50% to 7.00%) per annum.

4. Prepayments and Other Assets

	2010 \$	2009 \$
Prepayments	35,104	65,837
Dividends receivable	49,574	43,296
Other receivables	<u>509,034</u>	<u>28,440</u>
	<u>593,712</u>	<u>137,573</u>

5. Investments in Securities

Available-for-sale

The Company ranks its investments in securities based on the hierarchy of valuation techniques required by IFRS, which is determined based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Company's market assumptions. These two types of inputs lead to the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on exchanges.

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2010 (Continued)

5. Investments in Securities (Continued)

Available-for-sale (continued)

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity securities and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

	2010 \$	2009 \$
<i>Level 1</i>		
Equity securities	<u>3,325,545</u>	<u>3,609,641</u>
<i>Level 2</i>		
Equity securities	<u>100,000</u>	<u>-</u>
<i>Level 3</i>		
Equity securities	-	732,019
Investment fund shares	<u>164,552</u>	<u>77,800</u>
	<u>164,552</u>	<u>809,819</u>
Total available-for-sale investments	<u>3,590,097</u>	<u>4,419,460</u>

As of 31 December 2010, the cost of financial assets available-for-sale totaled \$4,002,261 (2009: \$3,844,361), of which \$1,135,700 (2009: \$1,077,800) represented Level 3 securities. During the year, movements in available-for-sale securities comprise:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Balance as of 1 January 2010	3,609,641	-	809,819	4,419,460
Purchases	-	100,000	57,900	157,900
Sales	-	-	-	-
Net realized gain/(loss)	-	-	-	-
Net change in unrealized gains/losses	<u>(284,096)</u>	<u>-</u>	<u>(703,167)</u>	<u>(987,263)</u>
Balance as of 31 December 2010	<u>3,325,545</u>	<u>100,000</u>	<u>164,552</u>	<u>3,590,097</u>

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2010 (Continued)

5. Investments in Securities (Continued)

Available-for-sale (continued)

	Level 1 \$	Level 3 \$	Total \$
Balance as of 1 January 2009	3,786,137	1,068,031	4,854,168
Purchases	100,000	10,200	110,200
Sales	-	-	-
Net realized gain/(loss)	-	-	-
Net change in unrealized gains/losses	(276,496)	(268,412)	(544,908)
Balance as of 31 December 2009	<u>3,609,641</u>	<u>809,819</u>	<u>4,419,460</u>

Loans and receivables

	Interest Rate	Maturity	2010 \$	2009 \$
Bonds				
Bahamas Government registered stocks	Prime + 0.250%	14/06/2011		
	to Prime + 0.875%	to 26/07/2037	1,191,900	176,900
Bridge Authority bonds	Prime + 1.500%	24/03/2029	11,600	11,600
Clifton Heritage Authority bonds	Prime + 0.500%	20/05/2025		
	to Prime + 0.750%	to 20/05/2035	232,300	232,300
Consolidated Water (Bahamas) Limited				
- Series 'A' bonds	7.500%	20/06/2015	170,000	200,000
Bank of The Bahamas Limited bonds	7.250%	31/12/2022	202,000	2,000
Preference shares				
Freeport Oil Holdings Company Ltd.				
Class A	8.000%	11/08/2016	-	15,000
Caribbean Crossings Limited Series A	8.000%	30/06/2010	-	20,000
Caribbean Crossings Limited Series B	7.000%	30/06/2016	50,000	50,000
Cable Bahamas Limited Series 5	7.000%		100,000	100,000
			1,957,800	807,800
Accrued interest			27,091	4,261
Total			<u>1,984,891</u>	<u>812,061</u>

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2010 (Continued)

6. Investment Property

The Company owns property located on Abaco Island that is classified as investment property. Movement in investment property is summarized as follows:

	2010 \$	2009 \$
Net book value as of beginning of year	201,268	206,117
Depreciation expense	(4,849)	(4,849)
Net book value as of end of year	196,419	201,268
Cost	242,450	242,450
Accumulated depreciation	(46,031)	(41,182)
Net book value	196,419	201,268

The last independent appraisal was performed during the year ended 31 December 2007 and the fair value of investment property at that time was \$300,000. Included in other income is \$7,000 (2009: \$1,639) in rental income earned on the investment property.

7. Property, Plant and Equipment

	Building \$	Computer Software \$	Leasehold Improvements \$	Furniture & Equipment \$	Motor Vehicles \$	Total \$
Year ended 31 December 2010						
Opening net book value	-	203,963	-	60,960	-	264,923
Additions	130,000	97,191	-	37,448	33,395	298,034
Disposals						
Cost	-	-	-	-	(8,435)	(8,435)
Accumulated depreciation	-	-	-	-	8,435	8,435
Depreciation	-	(203,964)	-	(13,219)	(8,798)	(225,981)
Closing net book value	130,000	97,190	-	85,189	24,597	336,976
As of 31 December 2010						
Cost	130,000	651,009	58,856	205,115	68,395	1,113,375
Accumulated depreciation	-	(553,819)	(58,856)	(119,926)	(43,798)	(776,399)
Net book value	130,000	97,190	-	85,189	24,597	336,976

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2010 (Continued)

7. Property, Plant and Equipment (Continued)

	Building \$	Computer Software \$	Leasehold Improvements \$	Furniture & Equipment \$	Motor Vehicles \$	Total \$
Year ended 31 December 2009						
Opening net book value	-	388,569	3,991	49,170	703	442,433
Additions	-	-	-	21,430	-	21,430
Disposals	-	-	(3,063)	(89,590)	-	(92,653)
Cost	-	-	3,063	89,590	-	92,653
Accumulated depreciation						
Depreciation	-	(184,606)	(3,991)	(9,640)	(703)	(198,940)
Closing net book value	-	203,963	-	60,960	-	264,923
As of 31 December 2009						
Cost	-	553,818	58,856	167,667	43,435	823,776
Accumulated depreciation	-	(349,855)	(58,856)	(106,707)	(43,435)	(558,853)
Net book value	-	203,963	-	60,960	-	264,923

During the year, the Company entered an agreement to acquire land and a building and has paid \$130,000 as a down payment until closing procedures are completed; the amount has been reflected in property, plant and equipment.

8. Outstanding Claims Reserve and Net Claims Incurred

	2010 \$	2009 \$
<i>Outstanding claims reserve</i>		
Gross outstanding claims	5,584,156	5,357,594
Amounts recoverable from reinsurers	(1,807,017)	(1,431,282)
Provision for reported claims	3,777,139	3,926,312
Provision for incurred but not reported claims	390,790	399,469
	4,167,929	4,325,781
<i>Net claims incurred</i>		
Gross claims incurred	7,139,698	3,835,934
Amounts recoverable from reinsurers	(2,344,208)	(149,299)
	4,795,490	3,686,635

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2010 (Continued)

8. Outstanding Claims Reserve and Net Claims Incurred (Continued)

Insurance claims – Gross

Movements in gross outstanding claims, based on the year to which claims relate, can be analyzed as follows:

Accident year	2006 \$	2007 \$	2008 \$	2009 \$	2010 \$	Total \$
Estimate of ultimate claims cost:						
At end of accident year	3,917,892	6,110,905	5,161,318	2,893,344	4,882,619	22,966,078
One year later	7,083,392	8,709,927	6,853,149	5,497,198	-	
Two years later	7,138,965	8,589,385	7,006,426	-	-	
Three years later	7,469,617	8,543,877	-	-	-	
Four years later	7,255,973	-	-	-	-	
Current estimate of cumulative claim	7,255,973	8,543,877	7,006,426	5,497,198	4,882,619	33,186,093
Cumulative payments to date	(7,155,173)	(8,130,377)	(5,944,526)	(4,864,092)	(2,295,569)	(28,389,737)
Liability included in gross claims	100,800	413,500	1,061,900	633,106	2,587,050	4,796,356
Liability in respect of prior years						787,800
Total gross claims						5,584,156

Insurance claims – Net

Accident year	2006 \$	2007 \$	2008 \$	2009 \$	2010 \$	Total \$
Liability included in net claims	100,800	410,000	870,711	482,836	1,361,715	3,226,062
Liability in respect of prior years						551,077
Provision for claims incurred but not reported						390,790
Total net claims						4,167,929

9. Share Capital

	Number of Issued Shares	Share Capital \$	Treasury Shares \$	Total \$
Balance as of 31 December 2010	4,650,000	5,000,000	(910,000)	4,090,000
Balance as of 31 December 2009	4,650,000	5,000,000	(910,000)	4,090,000

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2010

(Continued)

9. Share Capital (Continued)

The Company has authorized share capital of \$10,000,000, comprised of 10,000,000 ordinary shares with a par value of \$1.00 each. The Company originally issued 5,000,000 ordinary shares with a par value of \$1.00 each. In prior years, the Company acquired 350,000 of its ordinary shares directly from a shareholder for \$910,000, and it has the right to reissue these shares at a later date; accordingly, these shares are classified as treasury shares. Treasury shares are not in issue and are therefore deducted from the total number of issued shares.

Included in issued share capital are 1,000,000 ordinary shares designated as founder shares that entitle the holder to the right as regards to dividends and retained earnings as though he were the holder of 1.25 ordinary shares for each founder share.

10. General Reserve

The general reserve is established for unforeseeable risks and future losses. Distributions from the general reserve can only be made following the approval of the Board of Directors.

11. Portfolio Transfer

During the year, the Company decreased the percentage of risk retained on its motor and liability portfolio resulting in the Company distributing the unearned premiums and outstanding claims reserves to reinsurers, along with the funds corresponding to those liabilities. The Company continued the same percentage of risk retained on its property portfolio.

During 2009, the Company decreased the percentage of risk retained on its property portfolio resulting in the Company distributing the unearned premiums and outstanding claims reserves to reinsurers, along with the funds corresponding to those liabilities.

12. Net Commissions Incurred

	2010 \$	2009 \$
Amounts paid to agents	7,163,333	7,240,468
Amounts received from insurers and reinsurers	(6,506,307)	(6,376,544)
	657,026	863,924
Movement in deferred commission expense	(30,753)	223,103
Movement in deferred commission income	(114,241)	720,738
	<u>512,032</u>	<u>1,807,765</u>

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2010

(Continued)

13. Personnel Costs

Included in personnel costs is pension expense totaling \$37,388 (2009: \$33,872).

14. Related Party Balances and Transactions

Related parties comprise significant shareholders and the directors, and entities they control or over which they exercise significant influence; and key management personnel. Of the premiums written during the year, 97% (2009: 96%) were generated by an insurance agency whose principal is a director of the Company and owns 25% of the Company's shares in issue. The financial statements include the following balances and transactions with related parties:

	2010 \$	2009 \$
Balance Sheet		
Due from agents	6,487,378	7,145,242
Prepayments and other assets – cash advance to agent	500,000	-
Accounts payable and accrued expenses – directors' fees	5,000	5,000
Statement of Income		
Gross premiums written	1,392,167	1,000,000
Commission paid to agents, including profit commissions	7,115,854	7,181,755
General and administrative expense – directors' fees	20,000	15,000
General and administrative expense – consultant fees	74,660	62,307

During the year, compensation expense for key management personnel totaled \$560,617 (2009: \$451,444), which included \$17,314 (2009: \$16,185) in pension benefits.

15. Commitments and Contingent Liabilities

Commitments

The Company leases office and storage space under an operating lease. The operating lease expires in August 2012, and has an option to renew for a further five years. The future minimal rental payments required under operating leases are as follows:

	2010 \$	2009 \$
Not later than one year	56,049	54,714
Later than one year but not later than five years	37,366	93,415

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2010

(Continued)

15. Commitments and Contingent Liabilities (Continued)

Contingent Liabilities

The Company is involved in litigation matters arising in the normal course of business and it is not expected that the resolution of such litigation will have a material effect on the financial position of the Company.

16. Insurance and Financial Risk Management

The Company engages in transactions that expose it to insurance, credit, liquidity, interest rate and price risks in the normal course of business. The Company's financial performance is affected by its capacity to understand and effectively manage these risks. The Company's challenge is not only to measure and monitor these risks but also to manage them as profit opportunities.

(a) Insurance risk

Insurance risk is the risk under insurance contracts that the insured event occurs and the amount of the resulting claim is uncertain. In the normal course of business, the Company seeks to limit its exposure to losses that may arise from any single occurrence through the use of reinsurance arrangements. Reinsurance is primarily placed using a combination of proportional, facultative and excess of loss treaties. Obtaining reinsurance does not, however, relieve the Company of its primary obligations to the policyholders; therefore the Company is exposed to the risk that the reinsurers may be unable to fulfill their obligations under the contracts.

The Company seeks to mitigate this risk by placing its reinsurance coverage with multinational reinsurers and Lloyd's syndicates.

(b) Credit risk

Credit risk arises from the potential failure of a counterparty to perform according to the terms of the contract. The Company's exposure to credit risk includes the majority of its financial assets. To mitigate this risk, the Company places cash and term deposits with financial institutions in good standing with the Central Bank of The Bahamas; monitors the payment history of its agents before continuing to do business with them; places reinsurance coverage as noted in (a) above with reputable entities; and invests in debt securities of financially sound companies.

As of 31 December 2010, amounts due from reinsurers and agents are current.

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2010 (Continued)

16. Insurance and Financial Risk Management (Continued)

(c) Liquidity risk

Liquidity risk is the risk that the Company may not have the necessary financial resources to honor all of its financial commitments including claims. All 'other liabilities' are due on demand and claims principally have short-term cash outflows. The remaining general insurance liabilities could result in cash outflows within one year.

The Company manages its liquidity risk by maintaining an appropriate level of liquid assets, which mature or could be sold immediately to meet cash requirements for normal operating purposes.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments may fluctuate significantly as a result of changes in market interest rates. The Company mitigates fair value interest rate risk by investing in interest-bearing assets with interest rates that periodically reset to market rates, or investing in financial instruments that have short terms to maturity. Cash flow interest rate risk is not hedged and considered a profit opportunity.

(e) Price risk

Price risk is the risk that the fair value and/or amounts realized on sale of financial instruments may fluctuate significantly as a result of changes in market prices. The available-for-sale securities expose the Company to price risk. The Company invests in private equity securities of companies demonstrating profit potential generally accompanying underlying assets with fair values in excess of the entity's equity. Investments are also made in exchange traded securities of companies that the Company's directors, with the advice of investment managers, consider to have income and/or capital gains potential.

17. Capital Management

The Company's objectives when managing capital are:

- To comply with the capital requirements imposed by the Insurance Commission of The Bahamas and other regulators of the insurance markets in which the Company operates;
- To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To provide adequate returns to shareholders by pricing insurance contracts commensurate with the level of risk.

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2010

(Continued)

17. Capital Management (Continued)

The Insurance Commission of The Bahamas specifies the minimum amount and type of capital that must be held and solvency ratio that must be maintained, based on the laws and regulations governing The Bahamas' insurance industry.

The minimum capital requirement applicable to the Company as of 31 December 2010 is \$2,000,000 (2009: \$2,000,000). The Company has complied with all of the externally imposed capital requirements to which it is subject.

18. Fair Value of Financial Instruments

Financial instruments utilized by the Company include recorded financial assets and liabilities in the balance sheet. These financial instruments are carried at fair value, are relatively short-term in nature or have interest rates that periodically reset to market interest rates, and accordingly, the estimated fair values are not significantly different from the carrying value as reported in the balance sheet.

19. Subsequent Events

On 4 April 2011, the Board of Directors declared a dividend of \$0.30 per share.