

SUMMIT INSURANCE COMPANY LIMITED

**Consolidated Financial Statements
31 December 2013**



INDEPENDENT AUDITORS' REPORT

To the Shareholders of Summit Insurance Company Limited

We have audited the accompanying consolidated financial statements of Summit Insurance Company Limited and its subsidiary, which comprise the consolidated balance sheet as of 31 December 2013, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

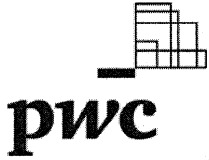
Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Summit Insurance Company Limited and its subsidiary as of 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

**Chartered Accountants
Nassau, Bahamas**

15 May 2014

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

Consolidated Balance Sheet
As of 31 December 2013
(Expressed in Bahamian dollars)

	Note	2013 \$	2012 \$
ASSETS			
Cash on hand and at banks	3	6,383,824	770,455
Term deposits	3	14,264,561	13,931,862
Due from reinsurers		77,456	1,494,987
Due from agents		6,795,673	8,977,592
Prepayments and other assets	4	93,433	85,470
Unearned premiums reserve – reinsurance		9,588,822	10,449,273
Deferred commissions expense		2,898,107	3,048,464
Outstanding claims recoverable from reinsurers	8	1,662,295	2,997,676
Investments in securities:	5		
Available-for-sale		4,572,931	3,739,233
Loans and receivables		2,382,394	2,364,513
Investment property	6	1,490,000	186,721
Property, plant and equipment	7	2,013,104	2,393,695
Total assets		<u>52,222,600</u>	<u>50,439,941</u>
LIABILITIES			
<i>General insurance funds</i>			
Unearned premiums reserve		17,045,862	18,209,292
Deferred commissions income		2,189,032	2,221,586
Outstanding claims reserve	8	6,735,000	8,587,481
		25,969,894	29,018,359
<i>Other liabilities</i>			
Due to reinsurers		3,001,073	731,205
Accounts payable and accrued expenses		951,604	341,268
Total liabilities		<u>29,922,571</u>	<u>30,090,832</u>

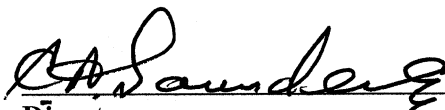
The accompanying notes are an integral part of these consolidated financial statements.

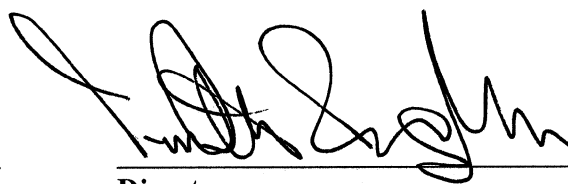
Summit Insurance Company Limited
(Incorporated under the laws of the Commonwealth of The Bahamas)

Consolidated Balance Sheet
As of 31 December 2013
(Continued)
(Expressed in Bahamian dollars)

	Note	2013 \$	2012 \$
EQUITY			
Share capital	9	4,090,000	4,090,000
General reserve	10	1,000,000	1,000,000
Other reserves	11	1,037,042	622,712
Retained earnings		<u>16,172,987</u>	<u>14,636,397</u>
Total equity		<u>22,300,029</u>	<u>20,349,109</u>
Total liabilities and equity		<u>52,222,600</u>	<u>50,439,941</u>

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


 Director


 Director

12 May 2014
 Date

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

Summit Insurance Company Limited

Consolidated Statement of Income For the Year Ended 31 December 2013 (Expressed in Bahamian dollars)

	Note	2013 \$	2012 \$
REVENUE			
Premiums written		35,876,252	36,693,688
Premium tax		(1,076,287)	(1,100,811)
Premiums ceded to reinsurers		<u>(19,925,704)</u>	<u>(20,079,032)</u>
Net premiums written		14,874,261	15,513,845
Change in unearned premium reserve		<u>302,979</u>	<u>1,051,124</u>
Net premiums earned		<u>15,177,240</u>	<u>16,564,969</u>
DIRECT EXPENSES			
Net claims incurred	8	4,711,293	6,976,094
Net commissions incurred	12	1,278,719	845,491
Catastrophe and excess of loss reinsurance		<u>5,847,743</u>	<u>6,434,615</u>
Total direct expenses		<u>11,837,755</u>	<u>14,256,200</u>
Underwriting gain		<u>3,339,485</u>	<u>2,308,769</u>
OTHER INCOME			
Interest income		677,719	834,664
Dividend income		204,162	186,029
Net realized gain on investments in securities	5	-	5,976
Net fair value gain on investment property	6	48,279	-
Foreign exchange gains and other income		<u>107,582</u>	<u>143,938</u>
Total other income		<u>1,037,742</u>	<u>1,170,607</u>
OPERATING EXPENSES			
Personnel costs	13	1,016,848	978,655
General and administrative		920,654	687,449
Depreciation and amortization	6, 7	<u>290,635</u>	<u>132,505</u>
Total operating expenses		<u>2,228,137</u>	<u>1,798,609</u>
Net income		<u><u>2,149,090</u></u>	<u><u>1,680,767</u></u>

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

Summit Insurance Company Limited

Consolidated Statement of Comprehensive Income For the Year Ended 31 December 2013 (Expressed in Bahamian dollars)

	Note	2013 \$	2012 \$
Net income		2,149,090	1,680,767
OTHER COMPREHENSIVE INCOME			
<i>Items that may subsequently be reclassified to net income</i>			
Net change in unrealized appreciation/depreciation of investments in securities	5	183,698	15,078
<i>Items not reclassified to net income</i>			
Property, plant and equipment revaluation	7	<u>230,632</u>	<u>-</u>
Total comprehensive income		<u>2,563,420</u>	<u>1,695,845</u>

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

Summit Insurance Company Limited

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2013 (Expressed in Bahamian dollars)

	Share Capital \$	General Reserve \$	Other Reserves \$	Retained Earnings \$	Total \$
As of 1 January 2012	<u>4,090,000</u>	<u>1,000,000</u>	<u>607,634</u>	<u>13,200,630</u>	<u>18,898,264</u>
Comprehensive income					
Net income	-	-	-	1,680,767	1,680,767
<i>Other comprehensive income</i>					
Net change in unrealized appreciation/depreciation of investments in securities	<u>-</u>	<u>-</u>	<u>15,078</u>	<u>-</u>	<u>15,078</u>
Total comprehensive income	<u>-</u>	<u>-</u>	<u>15,078</u>	<u>1,680,767</u>	<u>1,695,845</u>
Transactions with owners					
Dividends	<u>-</u>	<u>-</u>	<u>-</u>	<u>(245,000)</u>	<u>(245,000)</u>
Total transactions with owners	<u>-</u>	<u>-</u>	<u>-</u>	<u>(245,000)</u>	<u>(245,000)</u>
As of 31 December 2012	<u>4,090,000</u>	<u>1,000,000</u>	<u>622,712</u>	<u>14,636,397</u>	<u>20,349,109</u>
As of 1 January 2013	<u>4,090,000</u>	<u>1,000,000</u>	<u>622,712</u>	<u>14,636,397</u>	<u>20,349,109</u>
Comprehensive income					
Net income	-	-	-	2,149,090	2,149,090
<i>Other comprehensive income</i>					
Net change in unrealized appreciation/depreciation of investments in securities	-	-	183,698	-	183,698
Property, plant and equipment revaluation	<u>-</u>	<u>-</u>	<u>230,632</u>	<u>-</u>	<u>230,632</u>
Total comprehensive income	<u>-</u>	<u>-</u>	<u>414,330</u>	<u>2,149,090</u>	<u>2,563,420</u>
Transactions with owners					
Dividends	<u>-</u>	<u>-</u>	<u>-</u>	<u>(612,500)</u>	<u>(612,500)</u>
Total transactions with owners	<u>-</u>	<u>-</u>	<u>-</u>	<u>(612,500)</u>	<u>(612,500)</u>
As of 31 December 2013	<u>4,090,000</u>	<u>1,000,000</u>	<u>1,037,042</u>	<u>16,172,987</u>	<u>22,300,029</u>

Dividends per share (Note 9): \$0.13 (2012: \$0.05)

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

Summit Insurance Company Limited

Consolidated Statement of Cash Flows For the Year Ended 31 December 2013 (Expressed in Bahamian dollars)

	2013 \$	2012 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	2,149,090	1,680,767
Adjustments for:		
Interest income	(677,719)	(834,664)
Dividend income	(204,162)	(186,029)
Net realized gain on investments in securities	-	(5,976)
Net fair value gain on investment property	(48,279)	-
Gain on sale of property, plant and equipment	(15,635)	(4,500)
Depreciation and amortization	290,635	132,505
(Increase)/Decrease in operating assets		
Due from reinsurers	1,417,531	(878,915)
Due from agents	2,181,919	(259,468)
Prepayments and other assets	(7,963)	216,096
Unearned premiums reserve – reinsurance	860,451	2,705,367
Deferred commissions expense	150,357	601,746
Outstanding claims reserve recoverable from reinsurers	1,335,381	67,550
Increase/(Decrease) in operating liabilities		
Unearned premiums reserve	(1,163,430)	(3,756,491)
Deferred commissions income	(32,554)	(485,242)
Outstanding claims reserve	(1,852,481)	1,001,791
Due to reinsurers	2,269,868	(3,927,404)
Accounts payable and accrued expenses	610,336	(87,019)
Net cash from/(used in) operating activities	<u>7,263,345</u>	<u>(4,019,886)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	598,128	820,864
Dividends received	204,162	227,036
Net (increase)/decrease in term deposits	(264,632)	1,399,144
Purchase of investments in securities	(815,500)	(361,200)
Proceeds from sale/maturity of investments in securities	159,143	256,578
Purchase of property, plant and equipment	(934,412)	(899,406)
Proceeds from sale of property, plant and equipment	15,635	4,500
Net cash from/(used in) investing activities	<u>(1,037,476)</u>	<u>1,447,516</u>

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

Summit Insurance Company Limited

Consolidated Statement of Cash Flows For the Year Ended 31 December 2013 (Continued) (Expressed in Bahamian dollars)

	2013 \$	2012 \$
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	<u>(612,500)</u>	<u>(245,000)</u>
Net cash used in financing activities	<u>(612,500)</u>	<u>(245,000)</u>
Net increase/(decrease) in cash and cash equivalents	5,613,369	(2,817,370)
Cash and cash equivalents as of the beginning of the year	<u>770,455</u>	<u>3,587,825</u>
Cash and cash equivalents as of the end of the year (Note 3)	<u>6,383,824</u>	<u>770,455</u>

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

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013

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 is sole beneficiary of a trust established to comply with regulations promulgated by the Insurance Commission of The Bahamas (Note 3). The Company consolidates the trust for financial reporting purposes.

The Company's registered office is 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 consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated 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 accordance with IFRS requires management to exercise judgement in the process of applying the Company's accounting policies. It also requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. 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 consolidated financial statements, are disclosed in Notes 2(e), 2(f), 2(g), 2(h), 2(i) and 2(k).

New and amended standards adopted by the Company

During the current year, the Company adopted IFRS 13 *Fair Value Measurement* (IFRS 13) and the amendment to IAS 1 *Financial Statement Presentation* (IAS 1) that became effective for its financial year beginning on 1 January 2013.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

New and amended standards adopted by the Company (continued)

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. Where IFRS 13 requires additional disclosures to be made in the consolidated financial statements, these have been included.

The amendment to IAS 1 requires the Company to group items presented in 'other comprehensive income' on the basis of whether they are potentially reclassifiable to net income subsequently (reclassification adjustments). The consolidated statement of comprehensive income presents the information in the format required by the amendment to IAS 1.

The remaining standards and amendments and interpretations to published standards that became effective for the Company's financial year beginning on 1 January 2013 were either not relevant or not significant to the Company's operations and accordingly did not have a material impact on the Company's accounting policies or consolidated financial statements.

New standards, amendments and interpretations not yet adopted by the Company

With the exception of IFRS 9 *Financial Instruments* (IFRS 9), 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 consolidated financial statements in the financial period of initial application.

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities, and replaces the parts of IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) that relate to the classification and measurement of financial instruments. IFRS 9 will require financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the Company's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

New standards, amendments and interpretations not yet adopted by the Company (continued)

For financial liabilities, the standard retains the majority of the IAS 39 requirements, with the main change being that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to the Company's own credit risk is recorded in other comprehensive income rather than net income, unless this creates an accounting mismatch. The Company has not yet assessed the full impact of adopting IFRS 9, and the final mandatory effective date has not yet been determined.

(b) Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealized gains on transactions between group entities are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Company.

(c) Foreign currency translation

The consolidated 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 consolidated statement of income.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

2. Summary of Significant Accounting Policies (Continued)

(d) Cash and cash equivalents

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

(e) Financial assets

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company intends to sell in the short term.

Available-for-sale securities are financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in market conditions (interest rates, exchange rates or equity prices).

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 asset. 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.

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

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 analyses and other valuation techniques commonly used by market participants for investments not traded in active markets.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

2. Summary of Significant Accounting Policies (Continued)

(e) Financial assets (continued)

Gains and losses arising from changes in the fair value of available-for-sale securities are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in other comprehensive income are included in the consolidated statement of income as net realized gain or loss on investments in securities.

(f) Impairment of financial assets

The Company evaluates 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 consolidated statement of income. 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 consolidated statement of income. When a financial asset is uncollectible, it is written off against the related allowance account. Recoveries of accounts previously written off are recognized directly in the consolidated statement of income.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

2. Summary of Significant Accounting Policies (Continued)

(g) Property, plant and equipment

Property, plant and equipment, other than land and buildings, are carried at historical cost less accumulated depreciation and amortization. Historical cost includes expenditure that is directly attributable to the acquisition of an item. Land and buildings, which comprise the Company's offices, are carried at fair value based upon periodic independent appraisals that are commissioned at intervals generally not exceeding three years, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

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 consolidated statement of income during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are recognized in other comprehensive income and shown as part of 'other reserves' in equity. Decreases that offset previous increases of the same asset are recognized in other comprehensive income against other reserves directly in equity; all other decreases are recognized in the consolidated statement of income. Each year the difference between depreciation based on the revalued carrying amount of the asset recognized in the consolidated statement of income and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

Land and artwork are not depreciated. Depreciation and amortization on all other assets is calculated using the straight-line method to allocate the assets' costs to their residual values over their estimated useful lives, as follows:

Buildings	50 years
Computer software	3 – 5 years
Leasehold improvements	Lesser of lease term and 20 years
Furniture and equipment	3 years
Motor vehicles	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

2. Summary of Significant Accounting Policies (Continued)

(g) Property, plant and equipment (continued)

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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognized in the consolidated statement of income. When revalued assets are sold, amounts included in other reserves are transferred directly to retained earnings.

The accounting policy for land and buildings was changed during the current financial year, as the Company considers the fair value of such assets to be more relevant information. In previous financial years, land and buildings were carried at historical cost less accumulated depreciation for buildings. This change in accounting policy has been applied prospectively, as retrospective application is considered impracticable; see Note 7 for the impact of the change in accounting policy.

(h) Investment property

Property held for long-term rental yields and/or capital appreciation, that is not occupied by the Company, is classified as investment property. Investment property comprises residential and commercial land and buildings.

Investment property is measured initially at its cost, including related transaction costs. Subsequently, investment property is carried at fair value. Fair value is based on valuation methods using discounted cash flow analyses and comparable sales. These valuations are periodically reviewed by an independent appraiser, who holds recognized and relevant professional qualifications and has recent experience in the category of the investment property being valued, at intervals generally not exceeding three years. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements

31 December 2013

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(h) Investment property (continued)

Subsequent expenditure is capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance costs are charged to the consolidated statement of income during the financial period in which they are incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognized.

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the fair value of the property.

Changes in fair values are recognized in the consolidated statement of income. Investment property is derecognized either when it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

The accounting policy for investment property was changed during the current financial year, as the Company considers the fair value of such assets to be more relevant information. In previous financial years, investment property was carried at historical cost less accumulated depreciation for buildings. This change in accounting policy has been applied prospectively, as retrospective application is considered impracticable; see Note 6 for the impact of the change in accounting policy.

(i) General insurance funds

Insurance contracts are those that transfer significant insurance risk, which is defined as the risk of having to pay benefits on the occurrence of a specified uncertain future event (the insured event) that significantly exceed the benefits that would be paid if the insured event did not occur. The insurance contracts issued by the Company principally comprise property and casualty insurance contracts. Property and casualty insurance contracts, which typically are one year renewable insurance contracts, compensate policyholders for damage to or loss of property; and/or compensate third parties for damage by policyholders as a result of legitimate activities.

General insurance funds comprise unearned premiums reserve and unearned premiums reserve – reinsurance; deferred commissions income and deferred commissions expense; and outstanding claims reserve and outstanding claims recoverable from reinsurers.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

2. Summary of Significant Accounting Policies (Continued)

(i) General insurance funds (continued)

Unearned premiums

Unearned premiums reserve and unearned premiums reserve – reinsurance represent the portion of premiums written and premiums ceded to reinsurers, respectively, which relate to periods of insurance coverage subsequent to the balance sheet date.

Deferred commissions

Deferred commissions income represents the portion of commissions earned on premiums ceded, which relate to periods of insurance coverage subsequent to the balance sheet date. Deferred commissions expense represents the portion of commissions incurred on premiums written, which relate to periods of insurance coverage subsequent to the balance sheet date.

Outstanding claims

The 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.

Outstanding claims recoverable from reinsurers represent the portion of unpaid claims to be recovered from reinsurers based on reinsurance contracts applicable to the claims.

The Company performs at each balance sheet date a liability adequacy test to ensure the sufficiency of insurance contract liabilities, using current estimates of the related expected future cash flows. If the test indicates that the carrying value of insurance contract liabilities is inadequate, the liabilities are adjusted to correct the deficiency.

(j) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

2. Summary of Significant Accounting Policies (Continued)

(j) Share capital (continued)

Where the Company acquires its own equity shares (treasury shares), the consideration paid including any directly attributable incremental costs is deducted from equity until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received net of any directly attributable incremental costs is included in equity. No gain or loss is recognized in the consolidated statements of income or comprehensive income on treasury share transactions.

(k) Income and expense recognition

Net premiums written (premiums written less premiums ceded) are recognized as revenue over the periods covered by the related policies. Commissions expense incurred on premiums written and commissions income earned 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 that 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 on the accrual basis.

(l) Taxation

Premium tax is incurred at a rate of 3.00% of premiums written in The Bahamas. The proportion for premiums ceded is recovered from reinsurers.

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.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

2. Summary of Significant Accounting Policies (Continued)

(m) Leases

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

Where the Company is lessor, lease income is recognized in the consolidated statement of income on a straight-line basis over the period of the lease.

(n) Employee benefits

The Company has a defined contribution pension plan, combined with that of a related party, for its eligible employees, whereby the Company makes fixed contributions to a 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 consolidated statement of income in the financial period to which they relate.

(o) Corresponding figures

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

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

3. Cash and Cash Equivalents

	2013 \$	2012 \$
Cash on hand and at banks	6,383,824	770,455
Term deposits	<u>14,264,561</u>	<u>13,931,862</u>
	20,648,385	14,702,317
Less:		
Term deposits with original contractual maturities greater than three months	(12,918,234)	(12,653,602)
Restricted term deposit	(1,000,000)	(1,000,000)
Accrued interest	<u>(346,327)</u>	<u>(278,260)</u>
	<u>6,383,824</u>	<u>770,455</u>

The restricted term deposit represents funds placed by the Company in a trust that cannot be distributed without the permission of the Insurance Commission of The Bahamas.

Interest rates on term deposits range from 2.50% to 4.25% (2012: 2.75% to 5.25%) per annum.

4. Prepayments and Other Assets

	2013 \$	2012 \$
Prepayments	47,760	62,726
Other receivables	<u>45,673</u>	<u>22,744</u>
	<u>93,433</u>	<u>85,470</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.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

5. Investments in Securities (Continued)

Available-for-sale (continued)

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.

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 hierarchy requires the use of observable market data when available. The Company considers relevant and observable market prices in its valuations where possible.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset.

The determination of what constitutes ‘observable’ requires significant judgement by the Company. The Company considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from the exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis. These instruments are included in Level 1.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

5. Investments in Securities (Continued)

Available-for-sale (continued)

Financial instruments classified within Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments include unlisted securities that have significant unobservable components, including investment funds and equity securities.

	2013 \$	2012 \$
<i>Level 1</i>		
Equity securities	<u>2,421,248</u>	<u>2,255,624</u>
<i>Level 2</i>		
Equity securities	1,600,000	1,300,000
Debt securities	<u>100,000</u>	<u>-</u>
	<u>1,700,000</u>	<u>1,300,000</u>
<i>Level 3</i>		
Debt securities	250,000	50,000
Mutual fund shares	<u>201,683</u>	<u>133,609</u>
	<u>451,683</u>	<u>183,609</u>
Total available-for-sale investments	<u>4,572,931</u>	<u>3,739,233</u>

As of 31 December 2013, the cost of financial assets available-for-sale totaled \$3,766,521 (2012: \$3,116,521), of which \$400,000 (2012: \$150,000) represented Level 3 securities.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

5. Investments in Securities (Continued)

Available-for-sale (continued)

Movements in available-for-sale securities comprise:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Balance as of 1 January 2013	2,255,624	1,300,000	183,609	3,739,233
Purchases		400,000	250,000	650,000
Sales	-	-	-	-
Net realized gain/(loss)	-	-	-	-
Net change in unrealized appreciation/depreciation	165,624	-	18,074	183,698
Balance as of 31 December 2013	<u>2,421,248</u>	<u>1,700,000</u>	<u>451,683</u>	<u>4,572,931</u>
Balance as of 1 January 2012	2,251,318	1,300,000	230,839	3,782,157
Purchases	-	-	22,600	22,600
Sales	-	-	(86,578)	(86,578)
Net realized gain/(loss)	-	-	5,976	5,976
Net change in unrealized appreciation/depreciation	4,306	-	10,772	15,078
Balance as of 31 December 2012	<u>2,255,624</u>	<u>1,300,000</u>	<u>183,609</u>	<u>3,739,233</u>

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

5. Investments in Securities (Continued)

Loans and receivables

	Interest Rate	Maturity	2013 \$	2012 \$
The Government of The Bahamas Bahamas Government registered stocks	Prime + 0.02% to 0.72%	21/07/2014 to 26/07/2037	1,719,300	1,553,800
Clifton Heritage Authority bonds	Prime + 0.50% to + 0.75%	20/05/2025 to 20/05/2035	232,300	232,300
Bridge Authority bonds	Prime + 1.63%	24/03/2029	11,600	11,600
Bank of The Bahamas Limited bonds	Prime + 1.75%	31/12/2022	-	202,000
Cable Bahamas Limited Series 4 preference shares	8.00%	2019	100,000	100,000
Cable Bahamas Limited Series 5 preference shares	7.00%	2015	100,000	100,000
The College of the Bahamas redeemable term notes	7.00%	30/06/2026	92,857	100,000
Due from broker (re: Public Hospitals Authority)	Prime + 1.25%	30/09/2033	50,000	-
			2,306,057	2,299,700
Accrued interest			76,337	64,813
Total			2,382,394	2,364,513

6. Investment Property

The Company owns property located on Abaco, Bahamas and Sears Hill, New Providence, Bahamas that are classified as investment property. The latest independent appraisals were performed during the years ended 31 December 2011 and 2013, respectively.

The fair value hierarchy for non-financial assets is similar to the hierarchy for financial assets disclosed in Note 5. Investment property is classified as Level 3 as inputs are generally unobservable. The valuation techniques used were discounted cash flow analyses and comparable sales, based on knowledge of transactions involving similar properties in the vicinity.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

6. Investment Property (Continued)

	2013	2012
	\$	\$
Year ended 31 December		
Opening net book value	186,721	191,570
Additions	-	-
Net fair value gain	48,279	-
Transfers	1,255,000	-
Depreciation	-	(4,849)
Closing net book value	<u>1,490,000</u>	<u>186,721</u>
As of 31 December		
Cost	1,490,000	242,450
Accumulated depreciation	-	(55,729)
Net book value	<u>1,490,000</u>	<u>186,721</u>

The following table illustrates the impact of changes in estimates and assumptions in determination of fair values of investment property.

Estimate/Assumption	Change	Impact on fair value
Rental revenue	+5.00%/-5.00%	\$65,000/(\$64,000)
Vacancy rates	+5.00%/-5.00%	(\$66,000)/\$68,000
Discount rate	+1.00%/-1.00%	(\$92,000)/\$116,000

During 2013, the Company changed its accounting policy for measurement of investment property [Note 2(h)], which resulted in a net fair value gain on investment property of \$48,279. Additionally, certain land and buildings owned by the Company, that were under construction in the prior years, were classified as investment property and transferred from property, plant and equipment; see Note 7. The respective land and buildings were revalued as of the date of transfer with the revaluation gain of \$206,043 recognized in other comprehensive income and other reserves; the reserve will be transferred to retained earnings following the disposal of the respective land and buildings.

Included in other income is \$202 (2012: \$2,780) in rental income earned on the investment property.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

7. Property, Plant and Equipment

	Land & Buildings \$	Computer Software \$	Leasehold Improvements \$	Furniture & Equipment \$	Motor Vehicles \$	Total \$
Year ended 31 December 2013						
Opening net book value	2,118,030	162,835	-	63,945	48,885	2,393,695
Additions	101,338	637,988	-	195,086	-	934,412
Revaluation	230,632	-	-	-	-	230,632
Transfers	(1,255,000)	-	-	-	-	(1,255,000)
Disposals						
Cost	-	-	(58,856)	(3,135)	(24,995)	(86,986)
Accumulated depreciation/ amortization	-	-	58,856	3,135	24,995	86,986
Depreciation/Amortization	-	(222,119)	-	(45,233)	(23,283)	(290,635)
Closing net book value	<u>1,195,000</u>	<u>578,704</u>	<u>-</u>	<u>213,798</u>	<u>25,602</u>	<u>2,013,104</u>
As of 31 December 2013						
Cost	1,195,000	916,597	-	384,054	69,850	2,565,501
Accumulated depreciation/ amortization	-	(337,893)	-	(170,256)	(44,248)	(552,397)
Net book value	<u>1,195,000</u>	<u>578,704</u>	<u>-</u>	<u>213,798</u>	<u>25,602</u>	<u>2,013,104</u>
Year ended 31 December 2012						
Opening net book value	1,406,540	90,366	-	73,638	51,401	1,621,945
Additions	711,490	155,845	-	6,521	25,550	899,406
Disposals						
Cost	-	-	-	(26,093)	(8,400)	(34,493)
Accumulated depreciation/ amortization	-	-	-	26,093	8,400	34,493
Depreciation /Amortization	-	(83,376)	-	(16,214)	(28,066)	(127,656)
Closing net book value	<u>2,118,030</u>	<u>162,835</u>	<u>-</u>	<u>63,945</u>	<u>48,885</u>	<u>2,393,695</u>
As of 31 December 2012						
Cost	2,118,030	278,609	58,856	192,103	94,845	2,742,443
Accumulated depreciation/ amortization	-	(115,774)	(58,856)	(128,158)	(45,960)	(348,748)
Net book value	<u>2,118,030</u>	<u>162,835</u>	<u>-</u>	<u>63,945</u>	<u>48,885</u>	<u>2,393,695</u>

Land and buildings comprise a commercial building complex on Sears Hill, New Providence, Bahamas. During the year, the portion of the commercial building complex that is not occupied by the Company and held for long-term rental yields and/or capital appreciation was transferred to investment property (Note 6). The portion of the commercial building complex occupied by the Company continues to be recognized in property, plant and equipment. As of the date of transfer, the respective properties were revalued with the revaluation gain of \$206,043 recognized in other comprehensive income and other reserves; the reserve will be transferred to retained earnings following the disposal of the respective land and buildings.

The fair value hierarchy for non-financial assets is similar to the hierarchy for financial assets disclosed in Note 5. Land and buildings are classified as Level 3 as inputs are generally unobservable.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

7. Property, Plant and Equipment (Continued)

The following table illustrates the impact of changes in estimates and assumptions in determination of fair values of land and buildings.

Estimate/Assumption	Change	Impact on fair value
Rental revenue	+5.00%/-5.00%	\$60,000/(\$60,000)
Vacancy rates	+5.00%/-5.00%	(\$63,000)/\$64,000
Discount rate	+1.00%/-1.00%	(\$85,000)/\$103,000

During 2013, the Company changed its accounting policy for measurement of property, plant and equipment [Note 2(g)], which resulted in a revaluation gain of \$24,589.

Land and buildings were revalued by independent appraisers as of 31 December 2013. If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2013 \$	2012 \$
Cost – Land	320,000	985,000
Cost – Building	850,411	1,133,030
Accumulated depreciation – Building	-	-
	<u>1,170,411</u>	<u>2,118,030</u>

8. Outstanding Claims Reserve and Net Claims Incurred

	2013 \$	2012 \$
<i>Outstanding claims reserve</i>		
Gross outstanding claims	6,735,000	8,587,481
Amounts recoverable from reinsurers	<u>(1,662,295)</u>	<u>(2,997,676)</u>
	<u>5,072,705</u>	<u>5,589,805</u>
<i>Net claims incurred</i>		
Gross claims incurred	7,570,219	11,222,684
Amounts recoverable from reinsurers	<u>(2,858,926)</u>	<u>(4,246,590)</u>
	<u>4,711,293</u>	<u>6,976,094</u>

	2009	2010	2011	2012	2013	Total
	\$	\$	\$	\$	\$	\$
Liability included in net claims	<u>570,864</u>	<u>665,397</u>	<u>518,287</u>	<u>771,544</u>	<u>1,811,313</u>	4,337,405
Liability in respect of prior years						208,056
Provision for claims incurred but not reported						<u>527,244</u>
Total liability included in consolidated balance sheet						<u>5,072,705</u>

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

9. Share Capital

	Number of Issued Shares	Share Capital \$	Treasury Shares \$	Total \$
Balance as of 31 December 2013	<u>4,650,000</u>	<u>5,000,000</u>	<u>(910,000)</u>	<u>4,090,000</u>
Balance as of 31 December 2012	<u>4,650,000</u>	<u>5,000,000</u>	<u>(910,000)</u>	<u>4,090,000</u>

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. Other Reserves

	Fair Value Reserve \$	Revaluation Reserve \$	Total \$
Balance as of 1 January 2013	622,712	-	622,712
Net change in unrealized appreciation/ depreciation of investment securities	183,698	-	183,698
Property, plant and equipment Revaluation	<u>-</u>	<u>230,632</u>	<u>230,632</u>
Balance as of 31 December 2013	<u>806,410</u>	<u>230,632</u>	<u>1,037,042</u>

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

11. Other Reserves (Continued)

	Fair Value Reserve \$	Revaluation Reserve \$	Total \$
Balance as of 1 January 2012	607,634	-	607,634
Net change in unrealized appreciation/ depreciation of investment securities	15,078	-	15,078
Balance as of 31 December 2012	622,712	-	622,712

12. Net Commissions Incurred

	2013 \$	2012 \$
Amounts paid to agents	6,278,289	6,426,676
Amounts received from insurers and reinsurers	(5,117,373)	(5,697,689)
	1,160,916	728,987
Movement in deferred commissions expense	150,357	601,746
Movement in deferred commissions income	(32,554)	(485,242)
	1,278,719	845,491

13. Employee Benefits

The pension costs recognized in personnel costs in the consolidated statement of income total \$32,451 (2012: \$32,964). The Company's contributions to the pension plan vest 50% with the employee upon completion of 5 years of employment, incrementally vesting annually, with full vesting upon completion of 10 years of employment.

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, 94% (2012: 97%) were generated by an insurance agency whose principal is a director of the Company and owns 25% of the Company's shares in issue.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements

31 December 2013

(Continued)

14. Related Party Balances and Transactions (Continued)

The consolidated financial statements include the following balances and transactions with related parties, not otherwise disclosed:

	2013	2012
	\$	\$
Consolidated Balance Sheet		
Due from agents	6,740,807	8,939,949
Consolidated Statement of Income		
Premiums written	1,487,106	1,432,169
Commission paid to agents, including profit commissions	6,260,370	6,388,597
General and administrative expense – directors' fees	20,000	20,000
General and administrative expense – consultant fees	160,922	122,342

During the year, personnel costs for key management personnel totaled \$648,513 (2012: \$619,652), which included \$23,075 (2012: \$26,466) in pension benefits.

15. Contingent Liabilities

Contingent liabilities

The Company is a party to several legal actions involving claims. Management believes that the resolution of these matters will not have a material impact on the Company's consolidated financial statements and adequate provision has been made in the outstanding claims reserve.

16. Risk Management

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

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

16. Risk Management (Continued)

(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. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

The frequency and severity of claims can be affected by several factors with the single most significant event being a catastrophic event. The Company has outsourced its claims department to a related party insurance agency and has an internal claims technical officer who works closely with the insurance agency to actively manage and pursue early settlement of claims to reduce the Company's exposure to unpredictable developments. The Company also uses external loss adjusters, as necessary. In respect of serious bodily injury claims and complex claim disputes, the Company will appoint legal counsel to act on its behalf, where necessary, to ensure settlements and avoid claims development. However, the severity of claims can be affected by an increasing level of awards of the courts and inflation.

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. The Company has reinsurance coverage in place to limit the impact of claims in any one year.

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 fulfil their obligations under the contracts. The Company seeks to mitigate this risk by placing its reinsurance coverage with large multi-national insurers and as of 31 December 2013, the Company's principal reinsurers have a minimum A.M. Best Financial Strength Rating of A- (Excellent) or equivalent rating with alternate rating agencies. The Company does not anticipate any issues with the collection of amounts due from reinsurers as they become due, and is not aware of any disputes with reinsurers, overdue amounts or any specific credit issues.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements 31 December 2013 (Continued)

16. Risk Management (Continued)

(a) Insurance risk (continued)

Property insurance risks

Property insurance contracts provide compensation for loss or damage to property and business interruption insurance contracts provide compensation for loss of profits following damage to the insured property. Such insurance contracts cover property, motor and marine risks, and are underwritten by reference to the commercial replacement value of the property and contents insured.

For property insurance contracts, climatic changes are giving rise to more frequent severe extreme weather events (for example, hurricanes, tropical storms and storm surges) and resulting damages. The Company has: the right to re-price each individual risk on renewal; the ability to impose or increase deductibles; and payment limits to cap the amount payable on occurrence of the insured event. The costs of repairing or rebuilding properties, the cost of providing replacement or indemnity for damaged or stolen contents, and time taken to restart business operations are the key factors that influence the level of claims under these policies. The most likely cause of major loss under property insurance contracts arises from a hurricane event or other serious weather related event. Single events, such as fires and collisions, may also generate significant claims.

As property claims generally have short settlement periods, these claims can be estimated with greater reliability.

Casualty insurance risks

Casualty insurance contracts provide compensation for personal injury from motor claims, public liability, employers' liability, workmen's compensation and personal liability coverage.

The Company manages these risks through conservative underwriting and reinsurance strategies and the adoption of proactive claims management. Underwriting policies and procedures enforce appropriate risk selection criteria, and include the right not to renew individual insurance contracts and the right to reject the payment of a fraudulent claim. The frequency and severity of claims can be affected by several factors, including inflation, the level of awards of the courts and length of time to settle the claims.

Summit Insurance Company Limited**Notes to the Consolidated Financial Statements****31 December 2013****(Continued)****16. Risk Management (Continued)****(a) Insurance risk (continued)***Casualty insurance risks (continued)*

Claims on casualty insurance contracts are payable on a claims-occurrence basis. The Company is liable for all insured events that occur during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a longer period of time. Given the uncertainty in establishing reserves for such claims, it is possible that the final cost of a claim will vary significantly from the initial reserve. In calculating the estimated cost of outstanding claims, the Company uses various industry standard loss estimation techniques and the experience of the Company in settling similar claims.

(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 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; and invests in debt securities of financially sound companies.

As of 31 December 2013, amounts due from reinsurers and agents are current.

(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 (principally cash at banks and term deposits), which mature or could be sold immediately to meet cash requirements for normal operating purposes.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements

31 December 2013

(Continued)

16. Risk Management (Continued)

(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 Directors of the Company, 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, which consists of total equity on the consolidated balance sheet, 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.

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.

The minimum capital requirement applicable to the Company is \$2,000,000. The Company has complied with all of the externally imposed capital requirements to which it is subject.

Summit Insurance Company Limited**Notes to the Consolidated Financial Statements**
31 December 2013
(Continued)**18. Fair Value of Financial Instruments**

Financial instruments utilized by the Company are limited to the recorded financial assets and liabilities in the consolidated 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 consolidated balance sheet.