# SUMMIT INSURANCE COMPANY LIMITED

**Consolidated Financial Statements**
**31 December 2012**

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# 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 2012, 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 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

**Chartered Accountants**
**Nassau, Bahamas**

**7 May 2013**

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

**Consolidated Balance Sheet**
**As of 31 December 2012**
**(Expressed in Bahamian dollars)**

| | Note | 2012<br>$ | 2011<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| Cash on hand and at banks | 3 | 770,455 | 2,369,391 |
| Term deposits | 3 | 13,931,862 | 16,576,266 |
| Due from reinsurers | | 1,494,987 | 616,072 |
| Due from agents | | 8,977,592 | 8,718,124 |
| Prepayments and other assets | 4 | 85,470 | 342,573 |
| Unearned premiums reserve – reinsurance | | 10,449,273 | 13,154,640 |
| Deferred commissions expense | | 3,048,464 | 3,650,210 |
| Outstanding claims recoverable from reinsurers | 8 | 2,997,676 | 3,065,226 |
| Investments in securities | 5 | | |
| Available-for-sale | | 3,739,233 | 3,782,157 |
| Loans and receivables | | 2,364,513 | 2,155,287 |
| Investment property | 6 | 186,721 | 191,570 |
| Property, plant and equipment | 7 | 2,393,695 | 1,621,945 |
| **Total assets** | | **50,439,941** | **56,243,461** |
| **LIABILITIES** | | | |
| *General insurance funds* | | | |
| Unearned premiums reserve | | 18,209,292 | 21,965,783 |
| Deferred commissions income | | 2,221,586 | 2,706,828 |
| Outstanding claims reserve | 8 | 8,587,481 | 7,585,690 |
| | | 29,018,359 | 32,258,301 |
| *Other liabilities* | | | |
| Due to reinsurers | | 731,205 | 4,658,609 |
| Accounts payable and accrued expenses | | 341,268 | 428,287 |
| **Total liabilities** | | **30,090,832** | **37,345,197** |

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

**Consolidated Balance Sheet**
**As of 31 December 2012**
**(Continued)**
**(Expressed in Bahamian dollars)**

| | Note | 2012 $ | 2011 $ |
|---|---|---|---|
| **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 | | 622,712 | 607,634 |
| Retained earnings | | 14,636,397 | 13,200,630 |
| **Total equity** | | **20,349,109** | **18,898,264** |
| **Total liabilities and equity** | | **50,439,941** | **56,243,461** |

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

**Director** **Director**

29 April 2013
**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 2012**
**(Expressed in Bahamian dollars)**

| | Note | 2012 $ | 2011 $ |
|---|---|---|---|
| **REVENUE** | | | |
| Premiums written | | 36,693,688 | 42,384,526 |
| Premium tax | | (1,100,811) | (1,271,535) |
| Premiums ceded to reinsurers | | (20,079,032) | (24,342,128) |
| Net premiums written | | 15,513,845 | 16,770,863 |
| Change in unearned premium reserve | | 1,051,124 | (1,491,918) |
| Portfolio transfer | 11 | - | (13,533) |
| **Net premiums earned** | | 16,564,969 | 15,265,412 |
| **DIRECT EXPENSES** | | | |
| Net claims incurred | 8 | 6,976,094 | 7,211,372 |
| Net commissions incurred | 12 | 845,491 | 677,470 |
| Catastrophe and excess of loss reinsurance | | 6,434,615 | 6,296,183 |
| **Total direct expenses** | | 14,256,200 | 14,185,025 |
| **Underwriting gain** | | **2,308,769** | **1,080,387** |
| **OTHER INCOME** | | | |
| Interest income | | 834,664 | 1,046,653 |
| Dividend income | | 186,029 | 146,585 |
| Net realized loss on investments in securities | 5 | 5,976 | - |
| Foreign exchange gains and other income | | 143,938 | 187,935 |
| **Total other income** | | **1,170,607** | **1,381,173** |
| **OPERATING EXPENSES** | | | |
| Personnel costs | 13 | 978,655 | 1,074,431 |
| General and administrative | | 687,449 | 629,410 |
| Depreciation and amortization | 6, 7 | 132,505 | 72,854 |
| **Total operating expenses** | | **1,798,609** | **1,776,695** |
| **Net income** | | **1,680,767** | **684,865** |

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 2012**
**(Expressed in Bahamian dollars)**

| | Note | 2012 $ | 2011 $ |
|---|---|---|---|
| Net income | | 1,680,767 | 684,865 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Net change in unrealized appreciation/depreciation of investments in securities | 5 | 15,078 | 19,798 |
| **Total comprehensive income** | | **1,695,845** | **704,663** |

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 2012
## (Expressed in Bahamian dollars)

| | Share Capital $ | Treasury Shares $ | General Reserve $ | Fair Value Reserve $ | Retained Earnings $ | Total $ |
|---|---|---|---|---|---|---|
| As of 1 January 2011 | 5,000,000 | (910,000) | 1,000,000 | 587,836 | 13,985,765 | 19,663,601 |
| **Comprehensive income** | | | | | | |
| Net income | - | - | - | - | 684,865 | 684,865 |
| *Other comprehensive income* | | | | | | |
| Net change in unrealized appreciation/depreciation of investments in securities | - | - | - | 19,798 | - | 19,798 |
| Total comprehensive income | - | - | - | 19,798 | 684,865 | 704,663 |
| **Transactions with owners** | | | | | | |
| Dividends | - | - | - | - | (1,470,000) | (1,470,000) |
| Total transactions with owners | - | - | - | - | (1,470,000) | (1,470,000) |
| **As of 31 December 2011** | **5,000,000** | **(910,000)** | **1,000,000** | **607,634** | **13,200,630** | **18,898,264** |
| As of 1 January 2012 | 5,000,000 | (910,000) | 1,000,000 | 607,634 | 13,200,630 | 18,898,264 |
| **Comprehensive income** | | | | | | |
| Net income | - | - | - | - | 1,680,767 | 1,680,767 |
| *Other comprehensive income* | | | | | | |
| Net change in unrealized appreciation/depreciation of investments in securities | - | - | - | 15,078 | - | 15,078 |
| Total comprehensive income | - | - | - | 15,078 | 1,680,767 | 1,695,845 |
| **Transactions with owners** | | | | | | |
| Dividends | - | - | - | - | (245,000) | (245,000) |
| Total transactions with owners | - | - | - | - | (245,000) | (245,000) |
| **As of 31 December 2012** | **5,000,000** | **(910,000)** | **1,000,000** | **622,712** | **14,636,397** | **20,349,109** |

Dividends per share (Note 9): $0.05 (2011: $0.30)

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 2012**
**(Expressed in Bahamian dollars)**

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | 1,680,767 | 684,865 |
| | | |
| Adjustments for: | | |
| Interest income | (834,664) | (1,046,653) |
| Dividend income | (186,029) | (146,585) |
| Net realized loss on investments in securities | (5,976) | - |
| Gain on sale of property, plant and equipment | (4,500) | (8,200) |
| Depreciation | 132,505 | 72,854 |
| | | |
| **(Increase)/Decrease in operating assets** | | |
| Due from reinsurers | (878,915) | (613,724) |
| Due from agents | (259,468) | (2,074,330) |
| Prepayments and other assets | 216,096 | 242,572 |
| Unearned premiums reserve – reinsurance | 2,705,367 | (1,410,376) |
| Deferred commissions expense | 601,746 | (360,950) |
| Outstanding claims reserve recoverable from reinsurers | 67,550 | (1,258,209) |
| | | |
| **Increase/(Decrease) in operating liabilities** | | |
| Unearned premiums reserve | (3,756,491) | 2,902,294 |
| Deferred commissions income | (485,242) | (275,489) |
| Outstanding claims reserve | 1,001,791 | 1,610,744 |
| Due to reinsurers | (3,927,404) | 1,773,228 |
| Accounts payable and accrued expenses | (87,019) | 49,958 |
| | | |
| **Net cash from/(used in) operating activities** | **(4,019,886)** | **141,999** |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest received | 820,864 | 1,063,102 |
| Dividends received | 227,036 | 155,152 |
| Net (increase)/decrease in term deposits | 1,399,144 | (1,740,388) |
| Purchase of investments in securities | (361,200) | (427,662) |
| Proceeds from sale/maturity of investments in securities | 256,578 | 82,100 |
| Purchase of property, plant and equipment | (899,406) | (1,352,974) |
| Proceeds from sale of property, plant and equipment | 4,500 | 8,200 |
| | | |
| **Net cash from/(used in) investing activities** | **1,447,516** | **(2,212,470)** |

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 2012**
**(Continued)**
**(Expressed in Bahamian dollars)**

| | 2012 $ | 2011 $ |
|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Dividends paid | (245,000) | (1,470,000) |
| **Net cash used in financing activities** | **(245,000)** | **(1,470,000)** |
| **Net decrease in cash and cash equivalents** | **(2,817,370)** | **(3,540,471)** |
| Cash and cash equivalents as of the beginning of the year | 3,587,825 | 7,128,296 |
| **Cash and cash equivalents as of the end of the year (Note 3)** | **770,455** | **3,587,825** |

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

# Summit Insurance Company Limited

## Notes to the Consolidated Financial Statements
## 31 December 2012

### 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 its 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(d), 2(e), 2(h) and 2(j).

Amendments and interpretations to published standards that became effective for the Company's financial year beginning on 1 January 2012 were not relevant to the Company's operations and accordingly did not impact the Company's accounting policies or consolidated financial statements.

# Summit Insurance Company Limited

**Notes to the Consolidated Financial Statements**
**31 December 2012**
**(Continued)**

## 2. Summary of Significant Accounting Policies (Continued)

### (a) Basis of preparation (continued)

With the exception of IFRS 9 *Financial Instruments*, 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 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* 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. The Company has not yet assessed the full impact of adopting IFRS 9, but intends to adopt IFRS 9 no later than the financial year beginning on 1 January 2015.

### (b) 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.

### (c) Cash and cash equivalents

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

### (d) Financial assets

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

# Summit Insurance Company Limited

**Notes to the Consolidated Financial Statements**
**31 December 2012**
**(Continued)**

## 2. Summary of Significant Accounting Policies (Continued)

### (d) Financial assets (continued)

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.

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.

### (e) 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.

# Summit Insurance Company Limited

**Notes to the Consolidated Financial Statements**
**31 December 2012**
**(Continued)**

## 2. Summary of Significant Accounting Policies (Continued)

### (e) Impairment of financial assets (continued)

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.

### (f) Property, plant and equipment

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

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.

Depreciation 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 |

# Summit Insurance Company Limited

## Notes to the Consolidated Financial Statements
## 31 December 2012
## (Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (f) Property, plant and equipment (continued)

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. 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 amounts and are recognized in the consolidated statement of income.

#### (g) Investment property

Property held for long-term rental yields and capital appreciation that is not occupied by the Company is classified as investment property. Investment property comprises residential property and is accounted for using the accounting policies applicable to property, plant and equipment.

#### (h) 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 exceeds 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.

*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.

# Summit Insurance Company Limited

**Notes to the Consolidated Financial Statements**
**31 December 2012**
**(Continued)**

## 2. Summary of Significant Accounting Policies (Continued)

### (h) General insurance funds (continued)

*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.

### (i) 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.

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.

# Summit Insurance Company Limited

## Notes to the Consolidated Financial Statements
## 31 December 2012
## (Continued)

### 2. Summary of Significant Accounting Policies (Continued)

#### (j) 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.

#### (k) 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.

#### (l) 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 consolidated statement of income on a straight-line basis over the period of the lease.

# Summit Insurance Company Limited

**Notes to the Consolidated Financial Statements**
**31 December 2012**
**(Continued)**

## 2. Summary of Significant Accounting Policies (Continued)

### (m) 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.

### (n) Corresponding figures

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

## 3. Cash and Cash Equivalents

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Cash on hand and at banks | 770,455 | 2,369,391 |
| Term deposits | 13,931,862 | 16,576,266 |
| | 14,702,317 | 18,945,657 |
| Less: | | |
| Term deposits with original contractual maturities greater than three months | (12,653,602) | (14,052,746) |
| Restricted term deposit | (1,000,000) | (1,000,000) |
| Accrued interest | (278,260) | (305,086) |
| | **770,455** | **3,587,825** |

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 2.75% to 5.25% (2011: 3.00% to 6.25%) per annum.

# Summit Insurance Company Limited

**Notes to the Consolidated Financial Statements**
**31 December 2012**
**(Continued)**

## 4. Prepayments and Other Assets

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Dividends receivable | - | 41,007 |
| Prepayments | 62,726 | 39,288 |
| Other receivables | 22,744 | 262,278 |
| | **85,470** | **342,573** |

## 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.

*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.

# Summit Insurance Company Limited

**Notes to the Consolidated Financial Statements**
**31 December 2012**
**(Continued)**

## 5. Investments in Securities (Continued)

*Available-for-sale (continued)*

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.

Investments 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.

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| *Level 1* | | |
| Equity securities | 2,255,624 | 2,251,318 |
| *Level 2* | | |
| Equity securities | 1,350,000 | 1,350,000 |
| *Level 3* | | |
| Mutual fund shares | 133,609 | 180,839 |
| **Total available-for-sale investments** | **3,739,233** | **3,782,157** |

As of 31 December 2012, the cost of financial assets available-for-sale totaled $3,116,521 (2011: $3,174,523), of which $100,000 (2011: $158,002) represented Level 3 securities.

# Summit Insurance Company Limited

**Notes to the Consolidated Financial Statements**
**31 December 2012**
**(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 2012 | 2,251,318 | 1,350,000 | 180,839 | 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** | **2,255,624** | **1,350,000** | **133,609** | **3,739,233** |
| | | | | |
| Balance as of 1 January 2011 | 2,125,545 | 1,200,000 | 164,552 | 3,490,097 |
| Purchases | 99,960 | 150,000 | 22,302 | 272,262 |
| Sales | - | - | - | - |
| Net realized gain/(loss) | - | - | - | - |
| Net change in unrealized appreciation/depreciation | 25,813 | - | (6,015) | 19,798 |
| **Balance as of 31 December 2011** | **2,251,318** | **1,350,000** | **180,839** | **3,782,157** |

# Summit Insurance Company Limited

## Notes to the Consolidated Financial Statements
## 31 December 2012
## (Continued)

### 5. Investments in Securities (Continued)

*Loans and receivables*

| | Interest Rate | Maturity | 2012<br>$ | 2011<br>$ |
|---|---|---|---|---|
| The Government of The Bahamas | | | | |
| Bahamas Government registered stocks | Prime + 0.02% | 21/07/2014 | | |
| | to 0.72% | to 26/07/2037 | 1,553,800 | 1,215,200 |
| Clifton Heritage Authority bonds | Prime + 0.50% | 20/05/2025 | | |
| | to + 0.75% | 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 | 202,000 |
| Consolidated Water (Bahamas) Limited Series A bonds | Prime + 2.50% | 20/06/2015 | - | 170,000 |
| 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 | 100,000 | 100,000 |
| | | | 2,299,700 | 2,131,100 |
| Accrued interest | | | 64,813 | 24,187 |
| **Total** | | | **2,364,513** | **2,155,287** |

### 6. Investment Property

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

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Net book value as of beginning of year | 191,570 | 196,419 |
| Depreciation | (4,849) | (4,849) |
| **Net book value as of end of year** | **186,721** | **191,570** |
| Cost | 242,450 | 242,450 |
| Accumulated depreciation | (55,729) | (50,880) |
| **Net book value** | **186,721** | **191,570** |

# Summit Insurance Company Limited

## Notes to the Consolidated Financial Statements
## 31 December 2012
## (Continued)

## 6. Investment Property (Continued)

The last independent appraisal was performed during the year ended 31 December 2011 and the fair value of investment property at that time was $235,000. Included in other income is $2,780 (2011: $2,923) in rental income earned on the investment property.

## 7. Property, Plant and Equipment

| | Land & Buildings $ | Computer Software $ | Leasehold Improvements $ | Furniture & Equipment $ | Motor Vehicles $ | Total $ |
|---|---|---|---|---|---|---|
| **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** | **2,118,030** | **162,835** | **-** | **63,945** | **48,885** | **2,393,695** |
| **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** | **2,118,030** | **162,835** | **-** | **63,945** | **48,885** | **2,393,695** |
| **Year ended 31 December 2011** | | | | | | |
| Opening net book value | 130,000 | 97,190 | - | 85,189 | 24,597 | 336,976 |
| Additions | 1,276,540 | 25,574 | - | 6,560 | 44,300 | 1,352,974 |
| Disposals | | | | | | |
| Cost | - | (553,819) | - | - | (35,000) | (588,819) |
| Accumulated depreciation/ amortization | - | 553,819 | - | - | 35,000 | 588,819 |
| Depreciation /Amortization | - | (32,398) | - | (18,111) | (17,496) | (68,005) |
| **Closing net book value** | **1,406,540** | **90,366** | **-** | **73,638** | **51,401** | **1,621,945** |
| **As of 31 December 2011** | | | | | | |
| Cost | 1,406,540 | 122,764 | 58,856 | 211,675 | 77,695 | 1,877,530 |
| Accumulated depreciation/ amortization | - | (32,398) | (58,856) | (138,037) | (26,294) | (255,585) |
| **Net book value** | **1,406,540** | **90,366** | **-** | **73,638** | **51,401** | **1,621,945** |

Land and buildings comprise a commercial building complex on Sears Hill, New Providence, Bahamas, a portion of which the Company expects to occupy. The remainder of the complex is to be leased out.

# Summit Insurance Company Limited

## Notes to the Consolidated Financial Statements
## 31 December 2012
## (Continued)

## 8. Outstanding Claims Reserve and Net Claims Incurred

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| *Outstanding claims reserve* | | |
| Gross outstanding claims | 8,587,481 | 7,585,690 |
| Amounts recoverable from reinsurers | (2,997,676) | (3,065,226) |
| **Net claims reserve** | **5,589,805** | **4,520,464** |
| *Net claims incurred* | | |
| Gross claims incurred | 11,222,684 | 15,625,908 |
| Amounts recoverable from reinsurers | (4,246,590) | (8,414,536) |
| | **6,976,094** | **7,211,372** |

*Insurance claims – Gross*

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

| | 2008<br>$ | 2009<br>$ | 2010<br>$ | 2011<br>$ | 2012<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|
| **Estimate of ultimate claims cost:** | | | | | | |
| At end of accident year | 5,161,318 | 2,893,344 | 4,882,619 | 15,213,790 | 12,220,245 | 40,371,316 |
| One year later | 6,853,149 | 5,497,198 | 5,325,004 | 15,062,717 | - | - |
| Two years later | 7,006,426 | 5,668,273 | 5,029,978 | - | - | - |
| Three years later | 6,843,503 | 5,461,530 | - | - | - | - |
| Four years later | 7,082,504 | - | - | - | - | - |
| Current estimate of cumulative claim | 7,082,504 | 5,461,530 | 5,029,978 | 15,062,717 | 12,220,245 | 44,856,974 |
| Cumulative payments to date | (6,569,469) | (5,135,368) | (4,087,464) | (13,737,256) | (7,331,265) | (36,860,822) |
| **Liability included in gross claims** | **513,035** | **326,162** | **942,514** | **1,325,461** | **4,888,980** | **7,996,152** |
| Liability in respect of prior years | | | | | | 234,737 |
| Provision for claims incurred but not reported | | | | | | 356,592 |
| **Liability included in gross outstanding claims** | | | | | | **8,587,481** |

# Summit Insurance Company Limited

## Notes to the Consolidated Financial Statements
## 31 December 2012
## (Continued)

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

*Insurance claims – Net*

| | 2008<br>$ | 2009<br>$ | 2010<br>$ | 2011<br>$ | 2012<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|
| **Liability included in net claims** | 472,602 | 326,162 | 873,503 | 854,101 | 2,584,950 | 5,111,318 |
| Liability in respect of prior years | | | | | | 220,002 |
| Provision for claims incurred but not reported | | | | | | 258,485 |
| **Total liability included in consolidated balance sheet** | | | | | | 5,589,805 |

### 9. Share Capital

| | Number of Issued Shares | Share Capital<br>$ | Treasury Shares<br>$ | Total<br>$ |
|---|---|---|---|---|
| Balance as of 31 December 2012 | 4,650,000 | 5,000,000 | (910,000) | 4,090,000 |
| Balance as of 31 December 2011 | 4,650,000 | 5,000,000 | (910,000) | 4,090,000 |

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.

# Summit Insurance Company Limited

**Notes to the Consolidated Financial Statements**
**31 December 2012**
**(Continued)**

## 11. Portfolio Transfer

During 2011, the Company increased the percentage of risk retained on its motor and liability portfolio resulting in the Company receiving the unearned premiums and outstanding claims reserve, along with any funds corresponding to those liabilities.

## 12. Net Commissions Incurred

| | **2012** | **2011** |
|---|---|---|
| | **$** | **$** |
| Amounts paid to agents | 6,426,676 | 6,993,978 |
| Amounts received from insurers and reinsurers | (5,697,689) | (5,680,069) |
| | 728,987 | 1,313,909 |
| Movement in deferred commissions expense | 601,746 | (360,950) |
| Movement in deferred commissions income | (485,242) | (275,489) |
| | **845,491** | **677,470** |

## 13. Employee Benefits

The pension costs recognized in personnel costs in the consolidated statement of income total $32,964 (2011: $36,054). 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, 97% (2011: 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. The consolidated financial statements include the following balances and transactions with related parties, not otherwise disclosed:

| | **2012** | **2011** |
|---|---|---|
| | **$** | **$** |
| **Consolidated Balance Sheet** | | |
| Due from agents | 8,939,949 | 8,641,705 |
| Prepayments and other assets – cash advance to agent | - | 250,000 |

## Summit Insurance Company Limited

**Notes to the Consolidated Financial Statements**
**31 December 2012**
**(Continued)**

### 14. Related Party Balances and Transactions (Continued)

| | 2012<br>$ | 2011<br>$ |
|---|---:|---:|
| **Consolidated Statement of Income** | | |
| Premiums written | 1,432,169 | 1,427,155 |
| Commission paid to agents, including profit commissions | 6,388,597 | 6,979,714 |
| General and administrative expense – directors' fees | 20,000 | 20,000 |
| General and administrative expense – consultant fees | 122,342 | 109,833 |

During the year, personnel costs for key management personnel totaled $619,652 (2011: $523,159), which included $26,466 (2011: $21,308) in pension benefits.

### 15. Commitments and Contingent Liabilities

*Commitments*

The Company leases office and storage space under an operating lease. The operating lease expired in August 2012. The Company continues to lease the premises on a month to month basis. Monthly rental payments under this arrangement total $4,560 plus agreed service charges.

As of 31 December 2012, outstanding capital commitments contracted for the construction of the Company's commercial complex total $38,926.

*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 capacity 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 2012**
**(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 it claims department to a related party insurance agency. The Company 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 2012, 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 2012**
**(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 2012**
**(Continued)**

## 17. 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 2012, 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 2012**
**(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 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, 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 as of 31 December 2012 is $2,000,000 (2011: $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 2012**
**(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.

## 19. Subsequent Events

Subsequent to the year end, the Board of Directors approved dividends of $612,500 ($0.13 per share). Further, the Company entered into an agreement for the use of a related party insurance system, for a period not less than 5 years, at a cost of $545,208.