

SUMMIT INSURANCE COMPANY LIMITED

Financial Statements
31 December 2009

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Summit Insurance Company Limited

We have audited the accompanying financial statements of Summit Insurance Company Limited (the Company), which comprise the balance sheet as of 31 December 2009, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Auditors' Responsibility (continued)

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants

Nassau, Bahamas

8 June 2010

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

Balance Sheet

As of 31 December 2009

(Amounts expressed in Bahamian dollars)

	Note	2009 \$	2008 \$
ASSETS			
Cash in hand and at banks	3	3,317,477	980,204
Term deposits with banks	3	17,625,825	17,173,805
Due from reinsurers		19,444	1,265,144
Due from agents	14	7,487,703	7,256,857
Deferred commission expense		3,258,507	3,481,610
Prepayments and other assets	4	141,834	136,242
Investments in securities:	5		
Available-for-sale		4,419,460	4,854,168
Loans and receivables		807,800	836,650
Investment property	6	201,268	206,117
Plant and equipment	7	264,923	442,433
Total assets		37,544,241	36,633,230
LIABILITIES			
<i>General insurance funds:</i>			
Unearned premium reserve		7,891,828	9,885,921
Unearned commission income		3,096,558	2,375,820
Outstanding claims reserve	8	4,325,781	5,611,075
		15,314,167	17,872,816
<i>Other liabilities:</i>			
Due to reinsurers		2,880,926	2,419,842
Accounts payable and accrued expenses		414,245	386,818
Total liabilities		18,609,338	20,679,476

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

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

Balance Sheet

As of 31 December 2009

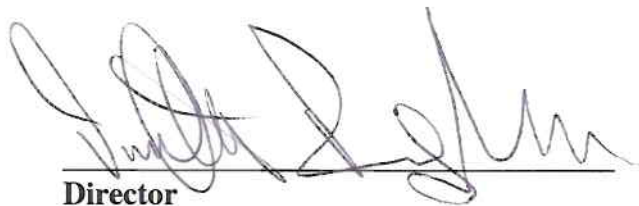
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(Amounts expressed in Bahamian dollars)

	Note	2009 \$	2008 \$
EQUITY			
Share capital:			
Authorized: 10,000,000 shares of \$1 each			
Issued and fully paid: 5,000,000 shares of \$1 each		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		575,099	1,120,007
Retained earnings		<u>13,269,804</u>	<u>9,743,747</u>
Total equity		<u>18,934,903</u>	<u>15,953,754</u>
Total liabilities and equity		<u>37,544,241</u>	<u>36,633,230</u>

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


Director


Director

7th June 2010
Date

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

Summit Insurance Company Limited

Income Statement

For the Year Ended 31 December 2009

(Amounts expressed in Bahamian dollars)

	Note	2009 \$	2008 \$
INCOME			
Gross premiums written	14	39,946,914	42,063,535
Premium tax (net)		(488,398)	(613,312)
Premiums ceded to reinsurers		<u>(23,687,859)</u>	<u>(21,619,806)</u>
Net premiums written		15,770,657	19,830,417
Decrease in unearned premium reserve		1,994,093	222,441
Portfolio transfer	11	<u>(276,107)</u>	<u>(212,379)</u>
Net premiums earned		<u>17,488,643</u>	<u>19,840,479</u>
DIRECT EXPENSES			
Net claims incurred	8	3,686,635	5,721,037
Net commissions incurred	12, 14	1,807,765	2,948,796
Catastrophe and excess of loss reinsurance		<u>6,817,572</u>	<u>7,627,854</u>
Total direct expenses		<u>12,311,972</u>	<u>16,297,687</u>
Underwriting gain		<u>5,176,671</u>	<u>3,542,792</u>
OTHER INCOME			
Interest income		1,089,203	999,102
Dividend income		164,185	160,507
Foreign exchange gains and other income		184,093	232,527
Gain on sale of plant and equipment		<u>140</u>	<u>-</u>
Total other income		<u>1,437,621</u>	<u>1,392,136</u>
OPERATING EXPENSES			
Personnel expenses	13, 14	779,059	761,669
Depreciation	6, 7	203,789	201,005
General and administrative expenses		<u>635,387</u>	<u>532,179</u>
Total operating expenses		<u>1,618,235</u>	<u>1,494,853</u>
Net income		<u>4,996,057</u>	<u>3,440,075</u>

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

Summit Insurance Company Limited

Statement of Comprehensive Income For the Year Ended 31 December 2009 (Amounts expressed in Bahamian dollars)

	2009 \$	2008 \$
Net income	4,996,057	3,440,075
Other comprehensive income		
Change in unrealized appreciation on available-for-sale securities	<u>(544,908)</u>	<u>(330,063)</u>
Total comprehensive income	<u>4,451,149</u>	<u>3,110,012</u>

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

Summit Insurance Company Limited

Statement of Changes in Equity For the Year Ended 31 December 2009 (Amounts expressed in Bahamian dollars)

	Share Capital \$	Treasury Shares \$	General Reserve \$	Fair Value Reserve \$	Retained Earnings \$	Total Equity \$
Balance as of 1 January 2008	5,000,000	-	1,000,000	1,450,070	7,143,672	14,593,742
Comprehensive income						
Net income	-	-	-	-	3,440,075	3,440,075
Other comprehensive income						
Net change in unrealized gain on available-for-sale securities (Note 5)	-	-	-	(330,063)	-	(330,063)
Total comprehensive income	-	-	-	(330,063)	3,440,075	3,110,012
Transactions with owners						
Dividends	-	-	-	-	(840,000)	(840,000)
Acquisition of Treasury Shares (Note 9)	-	(910,000)	-	-	-	(910,000)
Total transactions with owners	-	(910,000)	-	-	(840,000)	(1,750,000)
Balance as of 31 December 2008	<u>5,000,000</u>	<u>(910,000)</u>	<u>1,000,000</u>	<u>1,120,007</u>	<u>9,743,747</u>	<u>15,953,754</u>
Balance as of 1 January 2009	5,000,000	(910,000)	1,000,000	1,120,007	9,743,747	15,953,754
Comprehensive income						
Net income	-	-	-	-	4,996,057	4,996,057
Other comprehensive income						
Net change in unrealized gain on available-for-sale securities (Note 5)	-	-	-	(544,908)	-	(544,908)
Total comprehensive income	-	-	-	(544,908)	4,996,057	4,451,149
Transactions with owners						
Dividend	-	-	-	-	(1,470,000)	(1,470,000)
Total transactions with owners	-	-	-	-	(1,470,000)	(1,470,000)
Balance as of 31 December 2009	<u>5,000,000</u>	<u>(910,000)</u>	<u>1,000,000</u>	<u>575,099</u>	<u>13,269,804</u>	<u>18,934,903</u>

Dividend per share: \$0.29 (2008: \$0.16)

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

Summit Insurance Company Limited

Statement of Cash Flows

For the Year Ended 31 December 2009

(Amounts expressed in Bahamian dollars)

	2009 \$	2008 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	4,996,057	3,440,075
Adjustments for:		
Interest income	(1,089,203)	(999,102)
Dividend income	(164,185)	(160,507)
Depreciation	203,789	201,005
Gain on sale of plant and equipment	(140)	-
	<u>3,946,318</u>	<u>2,481,471</u>
(Increase)/Decrease in operating assets:		
Due from reinsurers	1,245,700	916,687
Due from agents	(230,846)	106,937
Deferred commission expense	223,103	(195,235)
Prepayments and other assets	8,273	(20,328)
Increase/(Decrease) in operating liabilities:		
Unearned premium reserve	(1,994,093)	(222,441)
Unearned commission income	720,738	516,547
Outstanding claims reserve	(1,285,294)	(1,292,173)
Due to reinsurers	461,084	(150,432)
Accounts payable and accrued expenses	<u>27,427</u>	<u>(19,413)</u>
Net cash from operating activities	<u>3,122,410</u>	<u>2,121,620</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	1,101,152	872,878
Dividends received	150,320	172,214
Increase in term deposits with maturities greater than three months	(312,617)	(2,819,597)
Purchase of investments in securities	(110,200)	(61,800)
Redemption of investments in securities	20,000	270,000
Purchase of plant and equipment	(21,430)	(170,290)
Proceeds from sale of plant & equipment	<u>140</u>	<u>-</u>
Net cash from/(used in) investing activities	<u>827,365</u>	<u>(1,736,595)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(1,470,000)	(840,000)
Acquisition of Treasury shares	<u>-</u>	<u>(910,000)</u>
Net cash used in financing activities	<u>(1,470,000)</u>	<u>(1,750,000)</u>
Net increase/(decrease) in cash and cash equivalents	<u>2,479,775</u>	<u>(1,364,975)</u>
Cash and cash equivalents as of the beginning of the year	<u>3,329,570</u>	<u>4,694,545</u>
Cash and cash equivalents as of the end of the year (Note 3)	<u>5,809,345</u>	<u>3,329,570</u>

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

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2009

1. General Information

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

The Company's registered office is situated at the offices of Messrs. Graham, Thompson & Co., Sassoon House, Shirley Street & Victoria Avenue, Nassau, The Bahamas.

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

The Company's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

In the current year, the Company adopted IAS 1 (Revised) *Presentation of Financial Statements* and the amendment to IFRS 7 *Financial Instruments: Disclosures* which became effective for fiscal periods beginning on or after 1 January 2009. IAS 1 (Revised) requires non-owner changes in equity to be presented separately from owner changes in equity, resulting in a statement of comprehensive income. The amendment to IFRS 7 requires enhanced disclosures about fair value measurements and liquidity risk. Corresponding information has been re-presented to conform with new disclosure requirements.

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

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

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2009

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Notes 2(d), 2(e) and 2(h).

(b) Foreign currency translation

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

(c) Cash and cash equivalents

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

(d) Financial assets

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

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

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2009

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(d) Financial assets (continued)

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

Available-for-sale securities are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value. 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 equity are included in the income statement as net realized gain or loss on available-for-sale securities.

Interest on available-for-sale securities is calculated using the effective interest method and is recognized in the income statement. Dividends on available-for-sale equity securities are recognized in the income statement when the Company's right to receive payments is established.

(e) Impairment of financial assets

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

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. 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 income statement. 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.

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2009

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(f) Investment property

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

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

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

(g) Plant and equipment

Plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

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

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2009

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(g) Plant and equipment (continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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

(h) General insurance funds

General insurance funds comprise deferred commission expense, unearned premium reserve, unearned commission income and outstanding claims reserve.

Deferred commission expense consists of commissions paid to the Company's agents related to the production of new and renewal business. These costs are deferred and amortized over the terms of the policies to which they relate.

Unearned premium reserve represents the proportion of the net premiums written that relate to periods of insurance coverage subsequent to the balance sheet date and are recognized over the terms of the policies.

Unearned commission income consists of commissions received from insurers and reinsurers based on premiums written and premiums ceded to reinsurers, respectively. This income is deferred and amortized over the term of the policies to which they relate.

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

(i) Income and expense recognition

Premiums are recognized as income over the periods covered by the related policies after allowing for premiums ceded. Commission expense incurred on gross premiums written and commission income received on premiums written and ceded are recognized in the same manner as premiums.

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2009

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(i) Income and expense recognition (continued)

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

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

Other income and expenses are recognized on the accrual basis.

(j) Premium tax

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

(k) Leases

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

(l) Employee benefits

The Company's employees are members of the Insurance Management (Bahamas) Limited and Summit Insurance Company Limited Pension Plan, a privately administered defined contribution pension plan covering all eligible employees. The plan requires participants to contribute 5% of their basic salary and the Company contributes an equal amount. The Company has no further payment obligations once the contributions have been paid.

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

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2009

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(m) Corresponding figures

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

3. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	2009 \$	2008 \$
Cash in hand and at banks	3,317,477	980,204
Term deposits with banks	17,625,825	17,173,805
	<u>20,943,302</u>	<u>18,154,009</u>
Less:		
Term deposits with original contractual maturities greater than three months	(14,801,383)	(14,488,766)
Accrued interest	(332,574)	(335,673)
	<u>(15,133,957)</u>	<u>(14,824,439)</u>
Cash and cash equivalents	<u>5,809,345</u>	<u>3,329,570</u>

As of 31 December 2009, interest rates on term deposits range from 4.50% to 7.00% (2008: 4.63% to 7.00%) per annum.

4. Prepayments and Other Assets

	2009 \$	2008 \$
Prepayments	65,837	43,363
Dividends receivable	47,557	33,692
Other receivables	28,440	59,187
	<u>141,834</u>	<u>136,242</u>

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2009

(Continued)

5. Investments in Securities

Available-for-Sale

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

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

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

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

	2009 \$	2008 \$
<i>Level 1</i>		
Equity securities	<u>3,609,641</u>	<u>3,786,137</u>
<i>Level 3</i>		
Equity securities	732,019	1,000,000
Investment fund shares	<u>77,800</u>	<u>68,031</u>
	<u>809,819</u>	<u>1,068,031</u>
Total available-for-sale investments	<u>4,419,460</u>	<u>4,854,168</u>

As of 31 December 2009, the cost of financial assets available-for-sale totalled \$3,844,361 (2008: \$3,734,161), of which \$809,819 (2008: \$1,068,031) represented Level 3 securities.

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2009

(Continued)

5. Investments in Securities (Continued)

Available-for-Sale (continued)

During the year, movements in available-for-sale securities comprise:

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

Loans and Receivables

Included in amortized cost of loans and receivables is accrued interest totaling \$Nil (2008: \$8,850), with such investments comprising:

	Interest Rate	Maturity	2009 \$	2008 \$
Debt securities:				
Bahamas Government registered stocks	Prime + 0.250%	14/06/2011		
	to Prime + 0.875%	to 22/09/2024	176,900	176,900
Bridge Authority - bonds	Prime + 1.500%	24/03/2029	11,600	11,600
Clifton Heritage Authority - bonds	Prime + 0.500%			
	to Prime + 0.750%	20/05/2025	232,300	232,300
Consolidated Water (Bahamas) Limited				
- Series 'A' bonds	7.500%	07/01/2015	200,000	203,750
Bank of The Bahamas Limited - bonds	7.250%	07/01/2022	2,000	2,000
Preference shares:				
Freeport Oil Holdings Co. Ltd. - Class A	8.000%	11/08/2016	15,000	15,000
Caribbean Crossings Ltd. - Series A	8.000%	30/06/2010	20,000	41,600
Caribbean Crossings Ltd. - Series B	7.000%	30/06/2016	50,000	50,000
Cable Bahamas Limited	7.500%	30/06/2010	100,000	103,500
			807,800	836,650

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2009

(Continued)

6. Investment Property

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

	2009 \$	2008 \$
Net book value as of beginning of year	206,117	210,966
Depreciation expense	<u>(4,849)</u>	<u>(4,849)</u>
Net book value as of end of year	<u>201,268</u>	<u>206,117</u>
Cost	242,450	242,450
Accumulated depreciation	<u>(41,182)</u>	<u>(36,333)</u>
Net book value	<u>201,268</u>	<u>206,117</u>

During the year, the Company did not have an independent appraisal performed of the investment property. The last independent appraisal was performed during the year ended 31 December 2007 and the fair value of investment property at that time was \$300,000.

7. Plant and Equipment

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

Summit Insurance Company Limited

Notes to the Financial Statements

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(Continued)

7. Plant and Equipment (Continued)

	Computer Software \$	Leasehold Improvements \$	Furniture & Equipment \$	Motor Vehicles \$	Total \$
Year ended 31 December 2008					
Opening net book value	404,128	8,981	43,523	11,667	468,299
Additions	149,690	-	12,165	8,435	170,290
Disposals	-	-	-	-	-
Depreciation charge	(165,249)	(4,990)	(6,518)	(19,399)	(196,156)
Closing net book value	388,569	3,991	49,170	703	442,433
As of 31 December 2008					
Cost	553,818	61,919	235,827	43,435	894,999
Accumulated depreciation	(165,249)	(57,928)	(186,657)	(42,732)	(452,566)
Net book value	388,569	3,991	49,170	703	442,433

8. Outstanding Claims Reserve and Net Claims Incurred

	2009 \$	2008 \$
<i>Outstanding claims reserve</i>		
Gross outstanding claims	5,357,594	7,302,989
Amounts recoverable from reinsurers	(1,431,282)	(2,112,549)
	<u>3,926,312</u>	<u>5,190,440</u>
Provision for reported claims	3,926,312	5,190,440
Provision for incurred but not reported claims	399,469	420,635
	<u>4,325,781</u>	<u>5,611,075</u>
<i>Net claims incurred</i>		
Gross claims incurred	3,835,934	7,843,014
Amounts recoverable from reinsurers	(149,299)	(2,121,977)
	<u>3,686,635</u>	<u>5,721,037</u>

Summit Insurance Company Limited

Notes to the Financial Statements

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(Continued)

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

Insurance claims - Gross

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

Accident year	2005 \$	2006 \$	2007 \$	2008 \$	2009 \$	Total \$
Estimate of ultimate claims cost:						
At end of accident year	13,658,706	3,917,892	6,110,905	5,161,318	2,893,344	31,742,165
One year later	17,810,096	7,083,392	8,709,927	6,853,149	-	
Two years later	17,212,772	7,138,965	8,589,385	-	-	
Three years later	17,230,716	7,469,617	-	-	-	
Four years later	16,405,503	-	-	-	-	
Current estimate of cumulative claim	16,405,503	7,469,617	8,589,385	6,853,149	2,893,344	42,210,998
Cumulative payments to date	(16,243,303)	(6,790,491)	(7,703,847)	(5,135,932)	(2,043,206)	(37,916,779)
Liability included in gross claims	162,200	679,126	885,538	1,717,217	850,138	4,294,219
Liability in respect of prior years						1,063,375
Total gross claims						5,357,594

9. Share Capital and Treasury Shares

Included in issued and fully paid share capital is 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. During 2008, the Company acquired 350,000 of its own shares directly from a shareholder for \$910,000. The Company has the right to reissue these shares at a later date and, accordingly, have classified them as treasury shares.

10. General Reserve

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

11. Portfolio Transfer

During the year, the Company decreased the percentage of risk retained on its property portfolio resulting in the Company distributing the unearned premiums and outstanding claims reserves to reinsurers, along with the funds corresponding to those liabilities. During 2008, the Company also decreased the percentage of risk retained on its property portfolio.

Summit Insurance Company Limited

Notes to the Financial Statements

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(Continued)

12. Net Commissions Incurred

This amount comprises commissions payable to agents of \$7,240,468 (2008: \$7,477,811) less commission earned from insurers and reinsurers of \$5,655,805 (2008: \$4,333,780) and a decrease in deferred commission expense of \$223,102 (2008: an increase of \$195,235).

13. Employee Benefits

Included in personnel expenses is pension expense totaling \$33,872 (2008: \$33,797).

14. Related Party Balances and Transactions

Related parties comprise the directors and entities they control or over which they exercise significant influence, and key management personnel. Of the premiums written during the year, 96% (2008: 97%) were generated by an insurance agency whose principal is a director of the Company and owns 23% of the Company's outstanding shares. As of 31 December 2009, amounts due from the insurance agency amounted to \$7,145,242 (2008: \$7,207,925) and the Company paid commissions of \$7,441,268 to the insurance agency for the year then ended (2008: \$7,466,826). Included in premiums written is \$1,000,000 (2008: \$1,000,299) received from entities controlled by a director of the Company.

During the year, compensation expense for key management personnel totaled \$399,019 (2008: \$353,526).

15. Commitments and Contingent Liabilities

Commitments

The future minimal rental payments required under operating leases are as follows:

	2009	2008
	\$	\$
Not later than one year	54,714	35,587

Contingent Liabilities

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

Summit Insurance Company Limited

Notes to the Financial Statements

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(Continued)

16. Insurance and Financial 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. The Company's challenge is not only to measure and monitor these risks but also to manage them as profit opportunities.

(a) Insurance risk

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

(b) Credit risk

Credit risk arises from the potential failure of a counterparty to perform according to the terms of the contract and cause loss to the Company. The Company has exposure to credit risk in the majority of its financial assets. To mitigate this risk, the Company places cash and term deposits with well known high quality financial institutions; monitors the payment history of its agents before continuing to do business with them; places reinsurance coverage as noted in (a) above with reputable entities; and invests in debt securities of financially sound entities.

As of 31 December 2009, amounts due from reinsurers and agents are current.

The Company also has concentration of credit risk in term deposits and due from agents. As of 31 December 2009, term deposits are placed with four banks and 96.5% (2008: 93.4%) of term deposits are placed with three banks. Also, 95.4% (2008: 99.4%) of due from agents is due from the Company's principal agent, a related party.

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2009

(Continued)

16. Insurance and Financial Risk Management (Continued)

(c) Liquidity risk

The objective of liquidity management is to ensure the availability of sufficient funds to honour all of the Company's 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 approximate level of equity that is invested in liquid assets, which mature or could be sold immediately to meet cash requirements for normal operating purposes.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments may fluctuate significantly as a result of changes in market interest rates. The Company mitigates fair value interest rate risk by investing in interest-bearing assets with floating interest rates, or investing for short time periods. Cash flow interest rate risk is not hedged and considered a profit opportunity because the liabilities do not attract interest expense.

(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 investments 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 an investment manager, consider to have income and/or capital gains potential.

17. Capital Management

The Company's objectives when managing capital are:

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

Summit Insurance Company Limited

Notes to the Financial Statements

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(Continued)

17. Capital Management (Continued)

The Office of the Registrar of Insurance Companies specifies the minimum amount and type of capital that must be held and solvency ratio that must be maintained, based on the applicable laws and regulations governing the Bahamas' insurance industry. The minimum capital requirement applicable to the Company as of 31 December 2009 is \$2,277,066 (2008: \$3,383,404). The Company has complied with all of the externally imposed capital requirements to which it is subject.

18. Fair Value of Financial Instruments

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