SUMMIT INSURANCE COMPANY LIMITED

Consolidated Financial Statements
31 December 2017

Independent auditors' report

To the Shareholders of Summit Insurance Company Limited

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated balance sheet of Summit Insurance Company Limited and its trust (together 'the Company') as at 31 December 2017, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors’ responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors’ report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Matter

This report, including the opinion, has been prepared for and only for the Company in accordance with the terms of our engagement letter and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers

Chartered Accountants
Nassau, Bahamas

30 April 2018

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

Consolidated Balance Sheet
As of 31 December 2017
(Expressed in Bahamian dollars)

	Note	2017 $	2016 $
ASSETS			
Cash on hand and at banks	3	10,306,676	10,688,307
Term deposits	3	9,599,898	10,719,426
Due from reinsurers		339,288	3,593,150
Due from agents		6,838,727	11,265,976
Prepayments and other assets	4	1,209,836	1,284,136
Unearned premiums reserve – reinsurance	8	9,422,851	8,528,596
Deferred commissions expense	8	3,037,796	2,481,672
Outstanding claims recoverable from reinsurers	8	20,025,357	21,918,090
Investments in securities:	5		
Available-for-sale		6,524,968	6,191,854
Loans and receivables		4,020,910	3,747,643
Investment property	6	1,005,000	1,005,000
Property, plant and equipment	7	1,459,411	1,209,763
Total assets		**73,790,718**	**82,633,613**
LIABILITIES			
General insurance liabilities			
Unearned premiums reserve	8	14,118,289	13,556,636
Deferred commissions income	8	2,385,635	2,018,778
Outstanding claims reserve	8	24,121,096	28,490,944
		40,625,020	44,066,358
Other liabilities			
Due to reinsurers		2,810,099	11,375,061
Accounts payable and accrued expenses		2,835,536	1,957,001
Total liabilities		**46,270,655**	**57,398,420**

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

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

Consolidated Balance Sheet
As of 31 December 2017
(Continued)
(Expressed in Bahamian dollars)

	Note	2017 $	2016 $
EQUITY			
Share capital	9	4,090,000	4,090,000
General reserve	10	1,000,000	1,000,000
Other reserves	11	2,281,132	1,925,333
Retained earnings		20,148,931	18,219,860
Total equity		**27,520,063**	**25,235,193**
Total liabilities and equity		**73,790,718**	**82,633,613**

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

Colin E. Jones

Director

Director

26 April 2018

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 2017
(Expressed in Bahamian dollars)

	Note	2017 $	2016 $
REVENUE			
Premiums written		29,912,457	29,002,837
Premium tax		(897,374)	(870,085)
Premiums ceded to reinsurers		(19,648,890)	(17,743,656)
Net premiums written		9,366,193	10,389,096
Change in unearned premium reserve		332,602	724,927
Net premiums earned		9,698,795	11,114,023
DIRECT EXPENSES			
Net claims incurred	8	2,133,323	4,586,782
Net commissions incurred	12	794,119	1,172,767
Catastrophe and excess of loss reinsurance		2,717,467	3,252,844
Total direct expenses		5,644,909	9,012,393
Underwriting gain		**4,053,886**	**2,101,630**
OTHER INCOME			
Interest income		376,632	509,025
Dividend income		261,650	264,513
Rental income		64,269	51,565
Foreign exchange gains and other income		215,501	266,949
Total other income		**918,052**	**1,092,052**
OPERATING EXPENSES			
Personnel costs	13	1,084,232	1,107,391
General and administrative		1,046,859	935,287
Depreciation and amortization	7	176,776	176,709
Total operating expenses		**2,307,867**	**2,219,387**
Net income		**2,664,071**	**974,295**

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 2017
(Expressed in Bahamian dollars)

	Note	2017 $	2016 $
Net income		2,664,071	974,295
OTHER COMPREHENSIVE INCOME			
Items that may subsequently be reclassified to net income			
Net change in unrealized appreciation/depreciation of investments in securities	5	355,799	201,721
Total comprehensive income		**3,019,870**	**1,176,016**

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 2017
(Expressed in Bahamian dollars)

	Share Capital $	General Reserve $	Other Reserves $	Retained Earnings $	Total $
As of 1 January 2016	4,090,000	1,000,000	1,723,612	18,470,565	25,284,177
Comprehensive income					
Net income	-	-	-	974,295	974,295
Other comprehensive income					
Net change in unrealized appreciation/depreciation of investments in securities	-	-	201,721	-	201,721
Total comprehensive income	-	-	201,721	974,295	1,176,016
Transactions with owners					
Dividends	-	-	-	(1,225,000)	(1,225,000)
Total transactions with owners	-	-	-	(1,225,000)	(1,225,000)
As of 31 December 2016	**4,090,000**	**1,000,000**	**1,925,333**	**18,219,860**	**25,235,193**
As of 1 January 2017	4,090,000	1,000,000	1,925,333	18,219,860	25,235,193
Comprehensive income					
Net income	-	-	-	2,664,071	2,664,071
Other comprehensive income					
Net change in unrealized appreciation/depreciation of investments in securities	-	-	355,799	-	355,799
Total comprehensive income	-	-	355,799	2,664,071	3,019,870
Transactions with owners					
Dividends	-	-	-	(735,000)	(735,000)
Total transactions with owners	-	-	-	(735,000)	(735,000)
As of 31 December 2017	**4,090,000**	**1,000,000**	**2,281,132**	**20,148,931**	**27,520,063**

Dividends per share (Note 9): $0.16 (2016: $0.26)

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 2017
(Expressed in Bahamian dollars)

	2017 $	2016 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	2,664,071	974,295
Adjustments for:		
Interest income	(376,632)	(509,025)
Dividend income	(261,650)	(264,513)
Gain on sales of property, plant and equipment	(21,825)	-
Depreciation and amortization	176,776	176,709
(Increase)/Decrease in operating assets		
Due from reinsurers	3,253,862	(3,542,753)
Due from agents	4,427,249	(6,461,189)
Prepayments and other assets	74,299	(620,069)
Unearned premiums reserve – reinsurance	(894,255)	727,597
Deferred commissions expense	(556,124)	224,699
Outstanding claims reserve recoverable from reinsurers	1,892,733	(20,272,958)
Increase/(Decrease) in operating liabilities		
Unearned premiums reserve	561,653	(1,452,524)
Deferred commissions income	366,857	(170,487)
Outstanding claims reserve	(4,369,848)	21,737,702
Due to reinsurers	(8,564,962)	9,991,145
Accounts payable and accrued expenses	878,535	959,854
Net cash (used in)/from operating activities	**(749,261)**	**1,498,483**
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	550,072	567,986
Dividends received	261,650	264,513
Net decrease in term deposits	924,448	(335,049)
Purchases of investments in securities	(586,247)	(503,121)
Proceeds from sales/maturities of investments in securities	357,306	406,692
Purchases of property, plant and equipment	(426,424)	(64,302)
Proceeds from sales of property, plant and equipment	21,825	-
Net cash from investing activities	**1,102,630**	**336,719**

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 2017
(Continued)
(Expressed in Bahamian dollars)

	2017 $	2016 $
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(735,000)	(1,225,000)
Net cash used in financing activities	**(735,000)**	**(1,225,000)**
Net (decrease)/increase in cash and cash equivalents	**(381,631)**	**610,202**
Cash and cash equivalents as of the beginning of the year	10,688,307	10,078,105
Cash and cash equivalents as of the end of the year (Note 3)	**10,306,676**	**10,688,307**

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

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Expressed in Bahamian dollars)

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) (together the 'Company'). The Company consolidates the trust for financial reporting purposes.

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

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention, except as disclosed in the accounting policies below. The preparation of financial statements in accordance with IFRS requires management to exercise judgement in the process of applying the Company's accounting policies. It also requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Notes 2(e), 2(f), 2(h) and 2(i).

New standards, amendments and interpretations adopted by the Company

Standards and amendments and interpretations to published standards that became effective for the Company's financial year beginning on 1 January 2017 were either not relevant or not significant to the Company's operations and accordingly did not have a material impact on the Company's accounting policies or consolidated financial statements.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

With the exception of IFRS 4 *Insurance contracts* (IFRS 4), IFRS 9 *Financial Instruments* (IFRS 9), IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) and IFRS 17 *Insurance contracts* (IFRS 17) the application of new standards and amendments and interpretations to existing standards that have been published but are not yet effective are not expected to have a material impact on the Company's accounting policies or consolidated financial statements in the financial period of initial application.

IFRS 4 *Insurance contracts* (IFRS 4) addresses the classification, recognition, measurement and disclosures of insurance contracts. The amendments addresses concerns arising from the implementation of IFRS 9 before implementing the replacement standard that the board is developing for IFRS 4. It introduces two approaches: an overlay approach and deferral approach. An entity choosing to apply the overlay approach retrospectively to qualifying financial assets does so when it first applies IFRS 9. An entity choosing to apply the deferral approach does so for annual periods beginning on or after 1 January 2018. The Company is still assessing the full impact of adopting this amendment, which is effective for financial periods beginning on or after 1 January 2018 together with IFRS 9.

IFRS 9 *Financial Instruments* (IFRS 9) addresses the classification, measurement and recognition of financial assets and financial liabilities, and replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement* (IAS 39) that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through profit or loss and fair value through other comprehensive income. The determination is made at initial recognition, and the basis of classification depends on the Company's business model for managing its financial assets and the contractual cash flow characteristics of the financial asset. In addition, IFRS 9 will require the impairment of financial assets to be calculated using an expected credit loss model that replaces the incurred loss impairment model required by IAS 39. For financial liabilities, there are no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for financial liabilities designated at fair value through profit or loss. The Company is still assessing the full impact of adopting IFRS 9, which is effective for financial periods beginning on or after 1 January 2018.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with its customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual periods beginning on or after 1 January 2018, and replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts* and related interpretations. The Company is still assessing the full impact of adopting IFRS 15.

IFRS 16 *Leases* (IFRS 16) sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 *Leases* (IAS 17) and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Company has not yet assessed the full impact of adopting IFRS 16, which is effective for annual periods on or after January 1, 2019.

IFRS 17 *Insurance contracts* (IFRS 17) was issued in May 2017. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

2. Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

Under IFRS 17, the 'general model' requires entities to measure an insurance contract, at initial recognition, at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

Aside from this general model, the standard provides, as a simplification, the 'premium allocation approach'. This simplified approach is applicable for certain types of contract, including those with a coverage period of one year or less.

For insurance contracts with direct participation features, the 'variable fee approach' applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

The new standard is applicable for annual periods beginning on or after 1 January 2021. Early application is permitted for entities that apply IFRS 9, 'Financial instruments', and IFRS 15, 'Revenue from contracts with customers', at or before the date of initial application of IFRS 17. The standard can be applied retrospectively in accordance with IAS 8, but it also contains a 'modified retrospective approach' and a 'fair value approach' for transition, depending on the availability of data. The Company has not yet assessed the full impact of adopting IFRS 17.

(b) Consolidation

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

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

2. Summary of Significant Accounting Policies (Continued)

(b) Consolidation (continued)

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

(c) Foreign currency translation

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

(d) Cash and cash equivalents

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

(e) Financial assets

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded 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).

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

2. Summary of Significant Accounting Policies (Continued)

(e) 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 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.

(f) Impairment of financial assets

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

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

2. Summary of Significant Accounting Policies (Continued)

(f) 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.

(g) Property, plant and equipment

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

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

Increases in the carrying amount arising on revaluation of land and buildings are recognized in other comprehensive income and shown as part of 'other reserves' in equity.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

2. Summary of Significant Accounting Policies (Continued)

(g) Property, plant and equipment (continued)

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

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

Buildings	50 years
Computer software	3 – 5 years
Furniture and equipment	3 years
Motor vehicles	3 years

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

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

(h) Investment property

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

Investment property is measured initially at its cost, including related transaction costs. Subsequently, investment property is carried at fair value. Fair value is based on valuation methods using discounted cash flow analyses and comparable sales.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

2. Summary of Significant Accounting Policies (Continued)

(h) Investment property (continued)

These valuations are periodically reviewed by an independent appraiser, who holds recognized and relevant professional qualifications and has recent experience in the category of the investment property being valued, at intervals generally not exceeding three years. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

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

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

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

(i) General insurance funds

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

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

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

2. Summary of Significant Accounting Policies (Continued)

(i) General insurance funds (continued)

Unearned premiums

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

Deferred commissions

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

Outstanding claims

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

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

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

(j) Share capital

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

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.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

2. Summary of Significant Accounting Policies (Continued)

(j) Share capital (continued)

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.

Dividends are recognized in equity in the financial period in which they are approved by the Company's Directors. Dividends declared after the balance sheet date but before the consolidated financial statements are issued, are dealt with in a subsequent events note.

(k) Income and expense recognition

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

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

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

(l) Taxation

Premium tax is incurred at a rate of 3.00% of premiums written in The Bahamas, and effective 1 July 2015, value added tax is levied on premiums written in The Bahamas. The proportion for premiums ceded is recovered from reinsurers.

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

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

2. Summary of Significant Accounting Policies (Continued)

(m) Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Assets leased out by the Company under operating leases are included in investment property in the consolidated balance sheet. Rental income is recognized in the consolidated statement of income on a straight-line basis over the term of the lease.

(n) Employee benefits

The Company has a defined contribution pension plan, combined with that of a related party, for its eligible employees, whereby the Company makes fixed contributions to a privately administered pension plan. The Company has no legal or constructive obligations to pay further contributions 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 and employees make contributions based on eligible earnings, and the Company's contributions to the defined contribution pension plan are recognized in the consolidated statement of income in the financial period to which they relate.

(o) Corresponding figures

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

3. Cash and Cash Equivalents

	2017 **$**	**2016** **$**
Cash on hand and at banks	10,306,676	10,688,307
Term deposits	9,599,898	10,719,426
	19,906,574	21,407,733
Less:		
Term deposits with original contractual maturities greater than three months	(9,397,073)	(9,321,521)
Restricted term deposit	-	(1,000,000)
Accrued interest	(202,825)	(397,905)
	10,306,676	**10,688,307**

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

3. Cash and Cash Equivalents (Continued)

The restricted term deposit held in the prior year represented funds placed by the Company in a trust that cannot be distributed without the permission of the Insurance Commission of The Bahamas. During 2017 these funds were used to purchase $1,000,000 Bahamas Government Stock which is currently being held in a restricted trust.

Interest rates on term deposits range from 0.55% to 4.75% (2016: 1.00% to 5.25%) per annum.

4. Prepayments and Other Assets

	2017 $	2016 $
Prepayments	38,447	38,904
Other receivables	1,171,389	1,245,232
	1,209,836	**1,284,136**

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.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

5. Investments in Securities (Continued)

Available-for-sale (continued)

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

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

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

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

Financial instruments classified within Level 3 have significant unobservable inputs, as they trade infrequently. Level 3 instruments include unlisted securities that have significant unobservable components, including investment entities and equity securities. The valuation techniques used for Level 3 investments in securities include net asset values based on audited financial statements and interim financial statements, latest trade information and discounted cash flow analyses.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

5. Investments in Securities (Continued)

Available-for-sale (continued)

	2017 $	2016 $
Leve1 1		
Equity securities	1,904,723	1,360,516
Level 2		
Equity securities	3,992,246	4,220,732
Debt securities	100,000	100,000
	4,092,246	4,320,732
Level 3		
Debt securities	291,590	300,000
Investment entities	236,409	210,606
	527,999	510,606
Total available-for-sale investments	**6,524,968**	**6,191,854**

As of 31 December 2017, the cost of financial assets available-for-sale totalled $4,247,112 (2016: $4,266,522), of which $441,590 (2016: $450,000) represented Level 3 securities.

Movements in available-for-sale securities comprise:

	Level 1 $	Level 2 $	Level 3 $	Total $
Balance as of 1 January 2017	1,360,516	4,320,732	510,606	6,191,854
Purchases	-	75,000	-	75,000
Sales	-	(86,000)	(8,410)	(94,410)
Net change in unrealized appreciation/depreciation	544,207	(217,486)	25,803	352,524
Balance as of 31 December 2017	**1,904,723**	**4,092,246**	**527,999**	**6,524,968**

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2016
(Continued)
(Expressed in Bahamian dollars)

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 2016	988,203	4,251,945	549,985	5,790,133
Purchases	-	250,000	-	250,000
Sales	-	-	(50,000)	(50,000)
Transfers	27,649	(27,649)	-	-
Net change in unrealized appreciation/depreciation	344,664	(153,564)	10,621	201,721
Balance as of 31 December 2016	**1,360,516**	**4,320,732**	**510,606**	**6,191,854**

As at 31 December 2016 the equity securities transferred out of Level 2 and into Level 1 related to positions whose trading volume data were not sufficient to justify an active market.

Loans and receivables

	Interest Rate	Maturity	2017 $	2016 $
The Government of The Bahamas Bahamas Government registered stocks	Prime + 0.02% to 0.72%; 4.25% to 4.84%	15/12/2019 to 26/07/2037	3,106,843	2,851,800
Bahamas Government treasury note	2.50%	10/03/2018	259,479	253,121
Clifton Heritage Authority bonds	Prime + 0.50% to + 0.75%	20/05/2025 to 20/05/2035	232,300	232,300
Bridge Authority bonds	Prime + 1.63%	24/03/2029	11,600	11,600
Cable Bahamas Limited Series 6 preference shares	5.75%	15/05/2024	200,000	200,000
Public Hospitals Authority Series A redeemable term notes	Prime + 1.25%	30/09/2033	42,104	44,736

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

5. Investments in Securities (Continued)

Loans and receivables (continued)

	Interest Rate	Maturity	2017 $	2016 $
The College of The Bahamas redeemable term notes	7.00%	30/06/2026	64,286	71,428
			3,916,612	3,664,985
Accrued interest			104,298	82,658
Total loans and receivables			**4,020,910**	**3,747,643**

As of 31 December 2017, loans and receivables includes $1,000,000 of Bahamas Government Stock that is held in a restricted trust and cannot be distributed without the permission of the Insurance Commission of The Bahamas.

6. Investment Property

The Company owns property located in Abaco, Bahamas and Sears Hill, New Providence, Bahamas that are classified as investment property. The latest independent appraisals were performed during the year ended 31 December 2015.

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

	2017 $	2016 $
Year ended 31 December		
Opening net book value	1,005,000	1,005,000
Additions	-	-
Net fair value gain/(loss)	-	-
Closing net book value	**1,005,000**	**1,005,000**

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

6. Investment Property (Continued)

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

Estimate/Assumption	Change	Impact on fair value
Rental revenue	+5.00%/-5.00%	$30,000/($27,000)
Vacancy rates	+5.00%/-5.00%	($28,000)/$28,000
Discount rate	+1.00%/-1.00%	($76,000)/$60,000

Included in rental income is $64,269 (2016: $51,566) earned on the investment property.

7. Property, Plant and Equipment

	Land & Buildings $	Computer Software $	Furniture & Equipment $	Motor Vehicles $	Total $
Year ended 31 December 2017					
Opening net book value	989,294	112,800	60,232	47,437	1,209,763
Additions	305,000	-	71,266	50,158	426,424
Disposals					
Cost	-	-	(4,952)	(69,850)	(74,802)
Accumulated depreciation/ amortization	-	-	4,952	69,850	74,802
Depreciation/Amortization	(16,179)	(111,031)	(19,821)	(29,745)	(176,776)
Closing net book value	**1,278,115**	**1,769**	**111,677**	**67,850**	**1,459,411**
As of 31 December 2017					
Cost	1,339,992	924,736	463,431	97,595	2,825,754
Accumulated depreciation/ amortization	(61,877)	(922,967)	(351,754)	(29,745)	(1,366,343)
Net book value	**1,278,115**	**1,769**	**111,677**	**67,850**	**1,459,411**

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

7. Property, Plant and Equipment (Continued)

	Land & Buildings $	Computer Software $	Furniture & Equipment $	Motor Vehicles $	Total $
Year ended 31 December 2016					
Opening net book value	1,000,000	230,064	92,106	-	1,322,170
Additions	3,819	5,160	7,886	47,437	64,302
Disposals					
Cost	-	-	(11,011)	-	(11,011)
Accumulated depreciation/ amortization	-	-	11,011	-	11,011
Depreciation/Amortization	(14,525)	(122,424)	(39,760)	-	(176,709)
Closing net book value	**989,294**	**112,800**	**60,232**	**47,437**	**1,209,763**
As of 31 December 2016					
Cost	1,034,992	924,736	386,105	117,287	2,463,120
Accumulated depreciation/ amortization	(45,698)	(811,936)	(325,873)	(69,850)	(1,253,357)
Net book value	**989,294**	**112,800**	**60,232**	**47,437**	**1,209,763**

Land and buildings comprise a commercial building complex on Sears Hill, New Providence, Bahamas. In prior years, the portion of the commercial building complex that is not occupied by the Company and held for long-term rental yields and/or capital appreciation was transferred to investment property (Note 6). The portion of the commercial building complex occupied by the Company continues to be recognized in property, plant and equipment.

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

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

Estimate/Assumption	**Change**	**Impact on fair value**
Rental revenue	+5.00%/-5.00%	$46,000/($46,000)
Vacancy rates	+5.00%/-5.00%	($48,000)/$48,000
Discount rate	+1.00%/-1.00%	($102,000)/$130,000

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

7. Property, Plant and Equipment (Continued)

Land and buildings were revalued by independent appraisers as of 31 December 2015. If land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2017 $	2016 $
Cost – Land	320,000	320,000
Cost – Building	1,019,992	714,992
Accumulated depreciation – Building	(61,877)	(45,698)
	1,278,115	**989,294**

8. Insurance Liabilities, Reinsurance Assets and Net Claims Incurred

General insurance liabilities comprises:

	2017 $	2016 $
General insurance liabilities (Gross)		
Outstanding claims reserve	24,121,096	28,490,944
Unearned premiums reserve	14,118,289	13,556,636
Deferred commissions income	2,385,635	2,018,778
	40,625,020	44,066,358
Reinsurance assets		
Outstanding claims recoverable from reinsurers	20,025,357	21,918,090
Unearned premiums reserve – reinsurance	9,422,851	8,528,596
Deferred commissions expense	3,037,796	2,481,672
	32,486,004	32,928,358
General insurance liabilities (Net)		
Outstanding claims reserve	4,095,739	6,572,854
Unearned premiums reserve	4,695,438	5,028,040
Deferred commissions income/(expense)	(652,161)	(462,894)
General insurance funds	**8,139,016**	**11,138,000**

Net claims incurred comprise:

	2017 $	2016 $
Gross claims incurred	20,971,192	21,499,907
Amounts recoverable from reinsurers	(18,837,869)	(16,913,125)
	2,133,323	**4,586,782**

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

8. Insurance Liabilities, Reinsurance Assets and Net Claims Incurred (Continued)

Insurance claims – Gross

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

	2013 $	2014 $	2015 $	2016 $	2017 $	Total $
Estimate of ultimate claims cost:						
At end of accident year	8,559,144	10,862,492	7,366,785	43,249,747	4,838,732	74,876,900
One year later	9,568,106	11,696,352	7,720,974	59,137,892	-	-
Two years later	9,116,803	11,843,475	7,363,192	-	-	-
Three years later	8,822,801	11,400,826	-	-	-	-
Four years later	8,846,718	-	-	-	-	-
Current estimate of cumulative claim	8,846,718	11,400,826	7,363,192	59,137,892	4,838,732	91,587,360
Cumulative payments to date	(8,383,853)	(10,909,375)	(7,123,640)	(38,776,690)	(3,378,917)	(68,572,475)
Liability included in gross claims	**462,865**	**491,451**	**239,552**	**20,361,202**	**1,459,815**	**23,014,885**
Liability in respect of prior years						898,705
Provision for claims incurred but not reported						207,506
Total liability included in gross outstanding claims						**24,121,096**

Insurance claims – Net

	2013 $	2014 $	2015 $	2016 $	2017 $	Total $
Estimate of ultimate claims cost:						
At end of accident year	5,135,984	4,521,235	3,924,194	6,028,281	2,853,656	22,463,350
One year later	5,747,962	4,848,933	3,855,006	5,499,644	-	-
Two years later	5,377,007	4,804,651	3,776,622	-	-	-
Three years later	5,139,983	4,515,782	-	-	-	-
Four years later	5,174,944	-	-	-	-	-
Current estimate of cumulative claim	5,174,944	4,515,782	3,776,622	5,499,644	2,853,656	21,820,648
Cumulative payments to date	(4,769,937)	(4,085,763)	(3,572,767)	(4,338,378)	(1,922,915)	(18,689,760)
Liability included in net claims	**405,007**	**430,019**	**203,855**	**1,161,266**	**930,741**	**3,130,888**
Liability in respect of prior years						818,916
Provision for claims incurred but not reported						145,935
Total liability included in consolidated balance sheet						**4,095,739**

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

8. Insurance Liabilities, Reinsurance Assets and Net Claims Incurred (Continued)

Insurance claims – Gross (continued)

Movements in insurance liabilities and reinsurance assets

(a) Outstanding claims reserve

	2017			2016		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
Notified claims	27,664,608	21,352,004	6,312,604	6,489,426	1,499,468	4,989,958
Incurred but not reported	826,336	566,086	260,250	263,816	145,664	118,152
Total at beginning of year	28,490,944	21,918,090	6,572,854	6,753,242	1,645,132	5,108,110
Cash paid for claims settled in year	(23,356,397)	(18,837,869)	(4,518,528)	(20,035,963)	(16,913,125)	(3,121,838)
Increase in liabilities						
– Arising from current-year claims	4,219,900	2,447,472	1,772,428	23,635,800	19,947,120	3,688,680
– Arising from prior-year claims	14,766,649	14,497,664	268,985	18,136,865	17,238,963	897,902
Total at end of year	24,121,096	20,025,357	4,095,739	28,490,944	21,918,090	6,572,854
Notified claims	23,913,590	19,963,786	3,949,804	27,664,608	21,352,004	6,312,604
Incurred but not reported	207,506	61,571	145,935	826,336	566,086	260,250
At end of year	**24,121,096**	**20,025,357**	**4,095,739**	**28,490,944**	**21,918,090**	**6,572,854**

(b) Unearned premiums reserve

	2017			2016		
	Gross $	Reinsurance $	Net $	Gross $	Reinsurance $	Net $
At beginning of year	13,556,636	8,528,596	5,028,040	15,009,160	9,256,193	5,752,967
Increase in the period	14,026,244	9,338,045	4,688,199	13,166,494	8,240,258	4,926,236
Release in the period	(13,464,591)	(8,443,790)	(5,020,801)	(14,619,018)	(8,967,855)	(5,651,163)
At end of year	**14,118,289**	**9,422,851**	**4,695,438**	**13,556,636**	**8,528,596**	**5,028,040**

(c) Deferred commissions income/expense

	2017			2016		
	Deferred commissions income $	Deferred commissions expense $	Net $	Deferred commissions income $	Deferred commissions expense $	Net $
At beginning of year	2,018,778	2,481,672	(462,894)	2,189,265	2,706,371	(517,106)
Increase in the period	2,301,538	3,029,383	(727,845)	1,849,224	2,423,567	(574,343)
Release in the period	(1,934,681)	(2,473,259)	538,578	(2,019,711)	(2,648,266)	628,555
At end of year	**2,385,635**	**3,037,796**	**(652,161)**	**2,018,778**	**2,481,672**	**(462,894)**

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

9. Share Capital

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.

	Number of Issued Shares	Share Capital $	Treasury Shares $	Total $
Balance as of 31 December 2017	4,650,000	5,000,000	(910,000)	**4,090,000**
Balance as of 31 December 2016	4,650,000	5,000,000	(910,000)	**4,090,000**

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

10. General Reserve

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

11. Other Reserves

	Fair Value Reserve $	Revaluation Reserve $	Total $
Balance as of 1 January 2017	1,925,333	-	1,925,333
Net change in unrealized appreciation/depreciation of investment securities	355,799	-	355,799
Balance as of 31 December 2017	**2,281,132**	**-**	**2,281,132**

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2016
(Continued)
(Expressed in Bahamian dollars)

11. Other Reserves (Continued)

	Fair Value Reserve $	Revaluation Reserve $	Total $
Balance as of 1 January 2016	1,723,612	-	1,723,612
Net change in unrealized appreciation/ depreciation of investment securities	201,721	-	201,721
Balance as of 31 December 2016	**1,925,333**	**-**	**1,925,333**

12. Net Commissions Incurred

	2017 $	2016 $
Amounts paid to agents	6,823,441	5,379,499
Amounts received from insurers and reinsurers	(5,840,055)	(4,260,944)
	983,386	1,118,555
Movement in deferred commissions expense	(556,124)	224,699
Movement in deferred commissions income	366,857	(170,487)
	794,119	**1,172,767**

13. Employee Benefits

The pension costs recognized in personnel costs in the consolidated statement of income total $39,611 (2016: $38,769). 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.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

14. Related Party Balances and Transactions

Related parties comprise significant shareholders, directors and key management personnel, and entities these parties control or over which they exercise significant influence. Of the premiums written during the year, 96% (2016: 95%) 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:

	2017 $	2016 $
Consolidated Balance Sheet		
Due from agents	6,806,561	11,265,976
Accounts payable and accrued expenses (Due to agents)	2,003,717	939,749
Consolidated Statement of Income		
Premiums written for related parties	1,566,135	1,208,942
Premiums written by agent	28,803,077	27,585,729
Commission paid to agents, including profit commissions	6,823,441	5,376,638
General and administrative expense – directors' fees	30,000	30,000
General and administrative expense – consultant fees	141,839	141,150

During the year, personnel costs for key management personnel totaled $500,320 (2016: $517,638), which included $23,201 (2016: $22,372) in pension benefits.

15. Commitments and Contingent Liabilities

Contingent liabilities

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

16. Risk Management

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

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

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

In the normal course of business, the Company seeks to limit its exposure to losses that may arise from any single occurrence through the use of reinsurance arrangements. Reinsurance is primarily placed using a combination of proportional, facultative and excess of loss treaties. The Company has reinsurance coverage in place to limit the impact of claims in any one year, with such coverage designed to limit the impact of claims related to any single event and/or catastrophe to approximately 8% of total equity.

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 2017, 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 2017
(Continued)
(Expressed in Bahamian dollars)

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 2017
(Continued)
(Expressed in Bahamian dollars)

16. Risk Management (Continued)

(a) Insurance risk (continued)

Casualty insurance risks (continued)

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

(b) Credit risk

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

As of 31 December 2017, 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 are payable on the occurrence of the claims, which principally results in 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. Except for certain investments in securities (Note 5), investment property and property, plant and equipment, all other assets could result in cash inflows within one year.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

16. Risk Management (Continued)

(d) Interest rate risk

Interest rate risk is the risk that the fair values or cash flows of financial instruments may fluctuate significantly as a result of changes in market interest rates. The Company's exposure to fair value interest rate risk is considered minimal as its interest-bearing financial instruments for the most part have short terms to maturity or interest rates that periodically reset to market rates. The resulting cash flow interest rate risk is not considered significant, accordingly, the risk is not hedged and considered a profit opportunity.

(e) Price risk

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

For the year ended 31 December 2017, the All Share Index of the Bahamas International Securities Exchange experienced a return of 3.02%. The carrying amount of the Company's available-for-sale investments in securities would increase/(decrease) by $652,500/($652,500), if these investments in securities experienced returns of +10% and -10%, respectively.

(f) Currency risk

Currency risk is the risk that the fair values and/or amounts realized on settlement of financial instruments, and settlements of foreign currency transactions, will fluctuate due to changes in foreign currency rates. Currency risk arises when future commercial transactions and recognized monetary assets and liabilities are denominated in currencies other than the Company's functional currency. The Company is not subject to significant currency risk as its foreign currency transactions and monetary assets and liabilities are denominated in currencies with foreign exchange rates currently fixed against the Company's functional currency.

Summit Insurance Company Limited

Notes to the Consolidated Financial Statements
31 December 2017
(Continued)
(Expressed in Bahamian dollars)

17. Capital Management

The Company's objectives when managing capital, which consists of total equity on the consolidated balance sheet, are:

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

The Insurance Commission of The Bahamas specifies the minimum amount and type of capital that must be held and solvency ratio that must be maintained.

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

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.

For financial assets, other than those recognized at fair value, the fair value hierarchy is principally Level 2.