

SUMMIT INSURANCE COMPANY LIMITED

Financial Statements
31 December 2005

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Summit Insurance Company Limited

We have audited the accompanying balance sheet of Summit Insurance Company Limited (the Company) as of 31 December 2005, and the related statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers
Chartered Accountants
20 June 2006

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

Balance Sheet
As of 31 December 2005
(Amounts expressed in Bahamian dollars)

	2005	2004
	\$	\$
ASSETS		
Cash in hand and at bank	12,544,621	11,683,584
Term deposits	3,926,331	4,306,576
Due from broker	70,000	-
Due from reinsurers	946,763	1,001,405
Due from agents (Note 14)	6,535,258	4,907,521
Cash advances to agent (Note 14)	136,668	6,128,897
Deferred commission cost	3,024,438	2,861,456
Other receivables and prepayments (Note 4)	86,692	55,686
Investments in securities		
- Available-for-sale (Note 5)	1,710,174	1,369,396
- Loans and receivables (Note 5)	1,213,013	528,981
Investment property (Note 6)	220,664	225,513
Property, plant and equipment (Note 7)	<u>264,427</u>	<u>396,544</u>
TOTAL ASSETS	<u>30,679,049</u>	<u>33,465,559</u>
LIABILITIES AND EQUITY		
LIABILITIES		
General insurance funds:		
Unearned premium reserve	8,394,524	7,419,599
Outstanding claims (Note 8)	<u>6,110,283</u>	<u>6,295,253</u>
	14,504,807	13,714,852
Other liabilities:		
Due to reinsurers	3,690,317	2,609,432
Cash advances from reinsurers	-	6,313,745
Unearned commission income	1,804,002	1,660,358
Accounts payable and accruals	<u>290,081</u>	<u>295,669</u>
	<u>20,289,207</u>	<u>24,594,056</u>

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

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

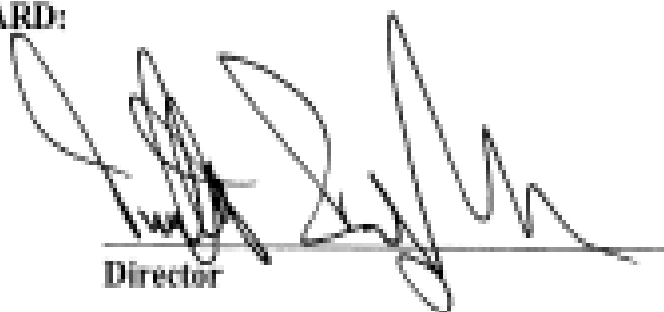
Balance Sheet (Continued)
As of 31 December 2005
(Amounts expressed in Bahamian dollars)

	2005	2004
	\$	\$
EQUITY		
Share capital:		
Authorized: 10,000,000 shares of \$1 each issued and fully paid: 5,000,000 shares	5,000,000	5,000,000
General reserve (Note 9)	1,000,000	1,000,000
Other reserves	196,127	(127,166)
Retained earnings	<u>4,193,715</u>	<u>2,998,669</u>
	<u>10,389,842</u>	<u>8,871,503</u>
TOTAL LIABILITIES AND EQUITY	<u>30,679,049</u>	<u>33,465,559</u>

APPROVED ON BEHALF OF THE BOARD:



Director



Director

20 June 2006

Date

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

Summit Insurance Company Limited

Statement of Income

For the Year Ended 31 December 2005

(Amounts expressed in Bahamian dollars)

	2005	2004
	\$	\$
INCOME		
Premiums written (Note 14)	34,376,711	29,179,285
Premium tax	(512,059)	(453,459)
Premiums ceded to reinsurers	<u>(17,247,568)</u>	<u>(14,063,972)</u>
Net premiums written	16,617,084	14,661,854
(Increase)/Decrease in unearned premium income	(974,925)	1,305,843
Portfolio transfer (Note 11)	<u>141,380</u>	<u>(742,291)</u>
Net premiums earned	<u>15,783,539</u>	<u>15,225,406</u>
EXPENSES		
Net claims incurred	6,527,351	7,234,412
Net commissions incurred (Note 12)	2,359,885	2,205,479
Catastrophe and excess of loss reinsurance	<u>5,563,865</u>	<u>3,822,842</u>
	<u>14,451,101</u>	<u>13,262,733</u>
Underwriting gains	1,332,438	1,962,673
OPERATING INCOME AND EXPENSES		
Interest income	404,351	636,066
Dividend income	86,713	61,894
Gain on sale of property, plant and equipment	197,501	-
Other income (Note 19)	<u>443,151</u>	<u>(72,759)</u>
	2,464,154	2,587,874
Personnel expenses	(635,858)	(666,273)
Depreciation	(18,518)	(23,064)
General and administrative expenses	<u>(352,232)</u>	<u>(369,983)</u>
NET INCOME	<u>1,457,546</u>	<u>1,528,554</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 2005 (Amounts expressed in Bahamian dollars)

	Share Capital \$	General Reserves \$	Other Reserves \$	Retained Earnings \$	Total \$
Balance as of 1 January 2004	5,000,000	1,000,000	-	1,982,146	7,982,146
Adoption of IAS 39, revised (Note 19)	-	-	(313,548)	313,548	-
Change in estimate (Note 19)	-	-	-	171,921	171,921
Balance as of 1 January 2004, restated	5,000,000	1,000,000	(313,548)	2,467,615	8,154,067
Fair value gains on available- for-sale investments (Note 5)	-	-	186,382	-	186,382
Net income	-	-	-	1,528,554	1,528,554
Dividends (Note 10)	-	-	-	(997,500)	(997,500)
Balance as of 31 December 2004	5,000,000	1,000,000	(127,166)	2,998,669	8,871,503
Balance as of 1 January 2005	5,000,000	1,000,000	(127,166)	2,998,669	8,871,503
Fair value gains on available- for-sale investments (Note 5)	-	-	323,293	-	323,293
Net income	-	-	-	1,457,546	1,457,546
Dividends (Note 10)	-	-	-	(262,500)	(262,500)
Balance as of 31 December 2005	5,000,000	1,000,000	196,127	4,193,715	10,389,842

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 2005 (Amounts expressed in Bahamian dollars)

	2005 \$	2004 \$
Cash flows from operating activities		
Net income for the year	1,457,546	1,528,554
Adjustments for:		
Depreciation	18,518	23,064
Interest income	(404,351)	(636,066)
Dividend income	(86,713)	(61,894)
Gain on sale of property, plant and equipment	<u>(197,501)</u>	<u>-</u>
	787,499	853,658
(Increase) / Decrease in operating assets:		
Term deposits	(1,027,970)	485,405
Due from broker	(70,000)	-
Due from reinsurers	54,642	(804,642)
Due from agents	(1,627,737)	588,385
Cash advances to agent	5,992,229	(6,128,897)
Deferred commission costs	(162,982)	(108,202)
Other receivables and prepayments	(27,066)	(26,580)
Increase / (Decrease) in operating liabilities:		
Unearned premium reserve	974,925	(1,305,843)
Outstanding claims	(184,970)	547,326
Due to reinsurers	1,080,885	929,890
Cash advances from reinsurers	(6,313,745)	6,313,745
Unearned commission income	143,644	(48,432)
Accounts payable and accruals	<u>(5,588)</u>	<u>36,562</u>
Net cash from / (used in) operating activities	<u>(386,234)</u>	<u>(1,332,375)</u>
Cash flows from investing activities		
Interest received	404,400	727,416
Dividends received	82,773	61,061
Purchase investments	(699,779)	-
Purchase of property, plant and equipment	(159,604)	(61,095)
Proceeds from sale of property, plant and equipment	<u>475,553</u>	<u>-</u>
Net cash from investing activities	<u>103,343</u>	<u>727,382</u>
Cash flows from financing activities		
Dividends paid	<u>(262,500)</u>	<u>(997,500)</u>
Net cash used in financing activities	<u>(262,500)</u>	<u>(997,500)</u>
Net increase / (decrease) in cash and cash equivalents	(545,391)	1,062,257
Cash and cash equivalents as of the beginning of the year	<u>14,194,982</u>	<u>13,132,725</u>
Cash and cash equivalents as of the end of the year	<u>13,649,591</u>	<u>14,194,982</u>

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

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2005

1. Incorporation and Activity

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 under the Insurance Act, 1969.

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

The average number of persons employed by the Company during the year was 7 (2004: 7).

2. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The Company's financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below, and in accordance with International Financial Reporting Standards (IFRS). The preparation of financial statements in conformity with IFRS 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(b) Foreign currency translation

The financial statements are presented in Bahamian dollar, 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 time of the transactions. Foreign exchange gains and losses resulting from settlement of such transactions and from translation of monetary assets and liabilities at exchange rates prevailing as of the reporting date are recognized in the statement of income.

(c) Cash and cash equivalents

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

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2005

2. Summary of Significant Accounting Policies (Continued)

(d) Investments

The Company has classified its investments into the following categories: available-for-sale and loans and receivables. Management determines the appropriate classification of its investments at the time of purchase. Investments intended to be held for an indefinite period of time, which may be sold in response to the needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale investments. Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables.

All purchases and sales of investments are recognized on the trade date, which is the date that the Company commits to purchase or sell the assets. Investments are initially recognized at cost, which includes transactions costs. Available-for-sale investments are subsequently carried at fair value, and loans and receivables are carried at amortized cost using the effective yield method. Fair values for quoted investments are based on current bid prices for listed securities or valuation techniques, including recent arm's length transactions and discounted cash flow analysis, for unlisted securities.

Changes in fair value of investments classified as available-for-sale are recognized in equity in "other reserves". When such investments are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of income.

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

(e) Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortized cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset. Impairment losses are recognized in the statement of income.

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2005

2. Summary of Significant Accounting Policies (Continued)

(f) Investment property

The Company classifies its property held for long-term rental yields and capital appreciation as investment property. Investment property comprises residential property, and is carried at cost less accumulated depreciation. Investment property is being depreciated on a straight-line basis over 50 years.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of income. Repairs and maintenance costs are charged to the statement of income when the expenditure is incurred.

(g) Property, plant and equipment

Land is stated at cost. All other property, plant and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

Computer software	3 - 5 years
Leasehold improvements	Lesser of lease and 20 years
Furniture and equipment	3 years
Motor vehicles	3 years
Land	No depreciation is charged on land

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the statement of income. Repairs and maintenance costs are charged to the statement of income when the expenditure is incurred.

(h) General insurance funds

Deferred commission costs consist of commissions paid to our agent primarily related to the production of new and renewal business. These costs are deferred and amortized over the term of the policies to which they relate.

Unearned premiums represent the proportion of the net premiums written which relate to periods of insurance coverage subsequent to the balance sheet date.

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2005

2. Summary of Significant Accounting Policies (Continued)

(h) General insurance funds (Continued)

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 comprise the Company's net share of the estimated cost of all claims incurred but not settled at the balance sheet date whether reported or not. Provision for claims incurred but not reported is estimated by the Company's directors at approximately 1% of the premiums written for the period.

Profit and loyalty commission income and expenses are recognized when the Company's right to receive, or obligation to make, payment has been established.

(i) Revenue and expense recognition

Revenues and expenses of the Company are recognized on the accrual basis, except as disclosed in other accounting policies.

(j) Premium tax

Premium tax is incurred at a rate of 3% (2004: 3%) of premiums written in the Commonwealth of The Bahamas, less that element which is recoverable from reinsurers.

(k) Leases

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

(l) Employee benefits

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

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2005

2. Summary of Significant Accounting Policies (Continued)

(l) Employee benefits (continued)

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

3. Cash and Cash Equivalents

Cash and cash equivalents are comprised of:

	2005	2004
	\$	\$
Cash in hand and at banks	12,544,621	11,683,584
Term deposits	<u>3,926,331</u>	<u>4,306,576</u>
	16,470,952	15,990,160
Term deposits with original contractual maturities of more than 90 days	(2,769,255)	(1,741,285)
Accrued interest included in term deposits	<u>(52,106)</u>	<u>(53,893)</u>
	<u>13,649,591</u>	<u>14,194,982</u>

4. Other Receivables and Prepayments

Other receivables and prepayments comprise:

	2005	2004
	\$	\$
Dividend receivable	15,300	11,360
Other receivables	40,081	4,686
Prepayments	<u>31,311</u>	<u>39,640</u>
	<u>86,692</u>	<u>55,686</u>

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2005

5. Investments

Available-for-Sale

Available-for-sale investments principally comprise marketable equity securities, which are listed on The Bahamas International Securities Exchange and are stated at fair value. Movement during the year were as follows:

	2005 \$	2004 \$
As of beginning of year	1,369,396	1,183,014
Additions	17,485	-
Changes in net unrealized gains/losses	<u>323,293</u>	<u>186,382</u>
As of end of year	<u>1,710,174</u>	<u>1,369,396</u>

As of 31 December 2005, the cost of available-for-sale investments was \$1,514,047 (2004: \$1,496,562).

Loans and Receivables

Loans and receivables are carried at amortized cost and comprise:

	Interest Rate	Due Date	2005 \$	2004 \$
Fixed income securities:				
Bahamas Government Registered stock	Prime + 0.875%	14/06/2011	32,100	32,106
Bahamas Government Registered stock	Prime + 0.375%	14/06/2011	21,900	21,900
Bridge authority bonds	Prime + 1.500%	24/03/2029	11,600	11,600
Clifton Heritage Authority	Prime + 0.500%	20/05/2025	65,300	-
Clifton Heritage Authority	Prime + 0.625%	20/05/2025	131,800	-
Clifton Heritage Authority	Prime + 0.750%	20/05/2025	35,200	-
Waterfields Company Limited Series 'A' Bonds	7.500%	07/01/2015	200,000	-
Preference shares:				
Colina Holdings (Bah) Ltd. - Class "A"	Prime + 2.250%	perpetual	253,238	-
Commonwealth Bank Ltd. - Class "D"	9.000%	perpetual	254,375	255,625
Caribbean Crossings Ltd.	8.000%	perpetual	104,000	104,000
Cable Bahamas	7.500%	30/06/2010	<u>103,500</u>	<u>103,750</u>
			<u>1,213,013</u>	<u>528,981</u>

Included in amortized costs are amounts totaling \$15,113 (2004: \$13,375) representing accrued interest.

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2005

6. Investment Property

The Company owns a condominium located on Abaco Island which is classified as investment property. Movement in investment property can be summarized as follows:

	2005 \$	2004 \$
Net book value as of beginning of year	225,513	230,362
Depreciation expense	<u>(4,849)</u>	<u>(4,849)</u>
Net book value as of end of year	<u>220,664</u>	<u>225,513</u>
Cost	242,450	242,450
Accumulated depreciation	<u>(21,786)</u>	<u>(16,937)</u>
Net book value	<u>220,664</u>	<u>225,513</u>

7. Property, Plant and Equipment

	Land \$	Computer Software \$	Leasehold Improvements \$	Furniture & Equipment \$	Motor Vehicle \$	Total \$
Year ended 31 December 2004						
Opening net book value	278,052	10,500	31,455	33,657	-	353,664
Additions	-	61,095	-	-	-	61,095
Depreciation charge	-	-	(8,577)	(9,638)	-	(18,215)
Closing net book value	<u>278,052</u>	<u>71,595</u>	<u>22,878</u>	<u>24,019</u>	<u>-</u>	<u>396,544</u>
As of 31 December 2004						
Cost	278,052	71,595	46,951	202,497	-	599,095
Accumulated depreciation	-	-	(24,073)	(178,478)	-	(202,551)
Net book value	<u>278,052</u>	<u>71,595</u>	<u>22,878</u>	<u>24,019</u>	<u>-</u>	<u>396,544</u>
Year ended 31 December 2005						
Opening net book value	278,052	71,595	22,878	24,019	-	396,544
Additions	-	112,836	11,768	-	35,000	159,604
Disposals	(278,052)	-	-	-	-	(278,052)
Depreciation charge	-	-	(8,577)	(5,092)	-	(13,669)
Closing net book value	<u>-</u>	<u>184,431</u>	<u>26,069</u>	<u>18,927</u>	<u>35,000</u>	<u>264,427</u>
As of 31 December 2005						
Cost	-	184,431	58,719	202,497	35,000	480,647
Accumulated depreciation	-	-	(32,650)	(183,570)	-	(216,220)
Net book value	<u>-</u>	<u>184,431</u>	<u>26,069</u>	<u>18,927</u>	<u>35,000</u>	<u>264,427</u>

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2005

8. Outstanding Claims and Net Claims Incurred

Outstanding claims comprise:

	2005	2004
	\$	\$
Gross outstanding claims	15,691,263	24,859,468
Claims recoverable from reinsurers	<u>(9,922,896)</u>	<u>(18,856,008)</u>
Provision for reported claims	5,768,367	6,003,460
Provision for incurred but not reported claims	<u>341,916</u>	<u>291,793</u>
	<u>6,110,283</u>	<u>6,295,253</u>

Net claims incurred comprise:

Gross claims incurred	19,642,193	84,776,918
Claims recoverable from insurers	<u>(13,114,842)</u>	<u>(77,542,507)</u>
	<u>6,527,351</u>	<u>7,234,411</u>

9. General Reserve

The Company makes an appropriation to a general reserve for unforeseeable risks and future losses. General reserves can only be distributed following the approval of the Board of Directors.

10. Dividends

During 2005, the Board of Directors declared dividends of \$262,500 (2004: \$997,500) representing \$0.05 (2004: \$0.20) per share.

11. Portfolio Transfer

During 2005, the Company increased its percentage retention on its property portfolio resulting in the Company receiving the unearned premiums and outstanding claims reserves from reinsurers, along with the funds corresponding to those liabilities.

12. Net Commissions Incurred

This amount comprises \$5,835,979 (2004: \$5,565,183) expense to agents less \$3,476,094 (2004: \$3,359,704) income from reinsurers.

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2005

13. Employee Benefits

The amounts recognized as pension expense totaled \$26,221 (2004: \$26,891) and is included in personnel expenses in the statement of income.

14. Related Party Transactions

Related parties include directors, key management personnel and those entities which have the ability to control or exercise significant influence over the Company in making financial or operational decisions, and entities that are controlled, jointly controlled or significantly influenced by them. Of the premiums written during the year, 99% (2004: 99%) were generated by a related agent whose principal holds 23% of the Company's shares. Amounts due from the related agent as of 31 December 2005 amounted to \$6,334,215 (2004: \$4,875,458). In addition, the Company advanced \$136,668 (2004: \$6,128,897) to the related agent for outstanding claims as a result of damages caused by hurricanes.

The aggregate salaries and other compensation of key management personnel was \$353,486 (2004: \$383,569).

15. 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.

16. Commitments

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

	2005	2004
	\$	\$
Not later than one year	53,380	40,899
Later than one year and less than 5 years	35,587	73,033

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2005

17. Risk Management

The Company engages in transactions that expose it to insurance risk, credit risk, liquidity risk and interest-rate 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 rise from any single occurrence. 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 fulfil their obligations under the contracts. The Company seeks to mitigate this risk by placing its reinsurance coverage with reputable companies and syndicates.

(b) Credit risk

Credit risk arises from the failure of a counterparty to perform according to the terms of the contract. The Company's exposure to credit risk includes the majority of assets. To mitigate this risk, the Company places cash 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; and invests in debt securities of financially sound companies.

(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. The Company maintains a level of liquidity assets, which mature or could be sold immediately to meet cash requirements for normal operating purposes.

(d) Interest-rate risk

Interest-rate risk for the Company is comprised of the risk that the value of financial assets may fluctuate significantly as a result of changes in market interest rates. The Company mitigates this risk by investing in interest-bearing assets with floating interest rates, or investing for short time periods.

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2005

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 or are relatively short-term in nature and accordingly, the estimated fair values are not significantly different from the carrying value as reported in the balance sheet.

19 Change in Estimate, Other Income and Adoption of IAS 39, Revised

During 2005, the Company revised its estimates of amounts to be applied to the components of unearned premium to determine deferred commission costs and unearned commission income. Prior to 2005, the Company reduced unearned premiums by an estimate 10% representing the net of deferred commission costs and deferred commission income. Beginning in 2005, deferred commission costs and unearned commission income are calculated using the applicable commission rates applied against gross unearned premiums and ceded unearned premiums, respectively. The Company has calculated the impact of applying this change in estimate retrospectively and has restated the corresponding figures, which resulted in an increase in retained earnings of \$171,921 as of 1 January 2004 and an increase in net income of \$287,218 for the year ended 31 December 2004.

During 2005, the Company recognized in other income amounts totaling \$324,263 from the settlement of US dollar transactions with reinsurers during the current and prior years. It is impractical to determine the impact on prior years and therefore the total amounts was recognized in the current year.

International Accounting Standards 39 was amended with effect 1 January 2005, to require changes in fair value of available-for-sale investments to be recognized in equity. The Company restated retained earnings as of 1 January 2004 to transfer the accumulated fair value adjustments recognized in retained earnings to other reserves, in accordance with the revised IAS 39, amounting to total net losses of \$313,548. Further, amounts reported in the statement of income for the year end 31 December 2004 were restated to transfer net unrealized gains previously recognized in net income totaling \$186,382 to other reserves.

20. Corresponding Figures

Certain corresponding figures in the balance sheet; statement of income, changes in equity and cash flows; and notes to the financial statements have been reclassified to conform with the financial statement presentation adopted in the current year and to reflect changes noted in Note 19.