

SUMMIT INSURANCE COMPANY LIMITED

**Financial Statements
31 December 2004**

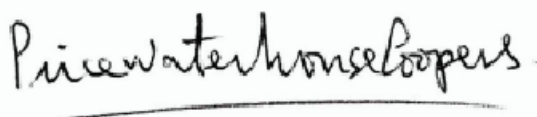
INDEPENDENT AUDITORS' REPORT

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 2004, and the related statements of income, changes in shareholders' 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 Summit Insurance Company Limited as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants
29 April 2005

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

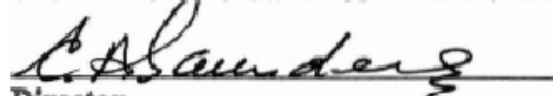
Balance Sheet


As of 31 December 2004

(Amounts expressed in Bahamian dollars)

	2004	2003
	\$	\$
		(Note 20)
ASSETS		
Cash and cash equivalents (Note 3)	11,683,584	13,132,725
Term deposits (Note 3)	4,252,683	2,226,690
Due from reinsurers	1,001,405	196,763
Due from agents (Note 15)	4,907,521	5,495,906
Claims advances to agent (Note 15)	6,128,897	-
Other receivables and prepayments (Note 4)	<u>122,954</u>	<u>186,891</u>
	28,097,044	21,238,975
Available-for-sale investments (Note 5)	1,369,396	1,183,014
Originated loan investments (Note 6)	515,606	515,606
Investment property (Note 7)	225,513	230,362
Property, plant and equipment, net (Note 8)	<u>396,544</u>	<u>353,664</u>
	<u>30,604,103</u>	<u>23,521,621</u>
LIABILITIES		
General insurance funds:		
Unearned premiums	6,677,639	7,852,898
Outstanding claims (Note 9)	<u>6,295,253</u>	<u>5,747,927</u>
	12,972,892	13,600,825
Other liabilities:		
Due to reinsurers	2,609,432	1,679,542
Claims advances from reinsurers	6,313,745	-
Other payables and accruals	<u>295,670</u>	<u>259,108</u>
	<u>22,191,739</u>	<u>15,539,475</u>
SHAREHOLDERS' 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 10)	1,000,000	1,000,000
Retained earnings	<u>2,412,364</u>	<u>1,982,146</u>
	<u>8,412,364</u>	<u>7,982,146</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>30,604,103</u>	<u>23,521,621</u>

SIGNED ON BEHALF OF THE BOARD:


Director


Director

29 April 2005

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 2004

(Amounts expressed in Bahamian dollars)

	2004 \$	2003 \$ (Note 20)
Premiums written (Note 15)	29,179,285	29,364,467
Less: Premiums ceded to reinsurers	<u>(14,063,972)</u>	<u>(12,007,380)</u>
Net premiums written	15,115,313	17,357,087
Decrease / (increase) in unearned premiums reserve	1,175,258	(59,057)
Portfolio transfer (Note 12)	<u>(742,291)</u>	<u>-</u>
NET PREMIUMS EARNED	<u>15,548,280</u>	<u>17,298,030</u>
Claims incurred, less recoveries from reinsurers	(7,234,412)	(6,298,683)
Net commissions (Note 13)	(2,362,112)	(2,076,855)
Cost of catastrophe/excess of loss reinsurance	(3,822,842)	(4,852,837)
Premium tax	<u>(453,459)</u>	<u>(384,567)</u>
	<u>(13,872,825)</u>	<u>(13,612,942)</u>
UNDERWRITING SURPLUS	1,675,455	3,685,088
Interest income	605,816	546,714
Dividend income	92,144	103,537
Net change in unrealized appreciation/ (depreciation) on available-for-sale investments	186,382	(79,795)
Other income	<u>17,466</u>	<u>45,000</u>
	<u>2,577,263</u>	<u>4,300,544</u>
Employees' costs	(666,273)	(583,710)
Depreciation	(23,064)	(40,978)
General and administrative expenses	<u>(460,208)</u>	<u>(406,939)</u>
	<u>(1,149,545)</u>	<u>(1,031,627)</u>
NET INCOME FOR THE YEAR	<u>1,427,718</u>	<u>3,268,917</u>

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

Summit Insurance Company Limited

Statement of Changes in Shareholders' Equity For the Year Ended 31 December 2004 (Amounts expressed in Bahamian dollars)

	<u>Share Capital</u>	<u>General Reserve</u>	<u>Retained Earnings</u>	<u>Total</u>
	\$	\$	\$ (Note 20)	\$
Balance as of 1 January 2003	5,000,000	-	(286,771)	4,713,229
General reserve (Note 10)	-	1,000,000	(1,000,000)	-
Net income for the year	<u>-</u>	<u>-</u>	<u>3,268,917</u>	<u>3,268,917</u>
Balance as of 31 December 2003	<u>5,000,000</u>	<u>1,000,000</u>	<u>1,982,146</u>	<u>7,982,146</u>
Balance as of 1 January 2004	5,000,000	1,000,000	1,982,146	7,982,146
Dividends paid (Note 11)	-	-	(997,500)	(997,500)
Net income for the year	<u>-</u>	<u>-</u>	<u>1,427,718</u>	<u>1,427,718</u>
Balance as of 31 December 2004	<u>5,000,000</u>	<u>1,000,000</u>	<u>2,412,364</u>	<u>8,412,364</u>

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 2004

(Amounts expressed in Bahamian dollars)

	2004 \$	2003 \$
Cash flows from operating activities:		
Net income for the year	1,427,718	3,268,917
Adjustments for:		
Depreciation	23,064	40,978
Interest income	(605,816)	(546,714)
Dividend income	(92,144)	(103,537)
Net change in unrealized (appreciation)/ depreciation on available-for-sale investments	(186,382)	79,795
Unearned premiums	<u>(1,175,259)</u>	<u>59,057</u>
Operating (loss)/ income before working capital changes	(608,819)	2,798,496
(Increase) / decrease in operating assets:		
Term deposits	(2,025,993)	(106,033)
Due from reinsurers	(804,642)	2,960,717
Due from agents	588,385	(420,011)
Claims advances to agent	(6,128,897)	-
Other receivables and prepayments	(26,580)	19,416
Increase / (decrease) in operating liabilities:		
Outstanding claims	547,326	(173,321)
Due to reinsurers	929,890	(890,432)
Claims advances from reinsurers	6,313,745	-
Other payables and accruals	<u>36,562</u>	<u>51,923</u>
Net cash (used in) / from operating activities	<u>(1,179,023)</u>	<u>4,240,755</u>
Cash flows from investing activities:		
Interest received	697,166	501,451
Purchase of available-for-sale investments	-	(73,200)
Purchase of fixed assets	<u>(61,095)</u>	<u>(32,485)</u>
Net cash from investing activities	<u>636,071</u>	<u>395,766</u>
Cash flows from financing activities		
Dividends received	91,311	79,635
Dividends paid	<u>(997,500)</u>	<u>-</u>
Net cash (used in) / from financing activities	<u>(906,189)</u>	<u>79,635</u>
Net (decrease) / increase in cash and cash equivalents	(1,449,141)	4,716,156
Cash and cash equivalents at the beginning of the year	<u>13,132,725</u>	<u>8,416,569</u>
Cash and cash equivalents at end of the year	<u>11,683,584</u>	<u>13,132,725</u>

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

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2004

1. Incorporation and Activity

Summit Insurance Company Limited (the Company) was incorporated on 1 December 1994 and commenced operations on that date. The Company is licensed under the Insurance Act of 1969 of the Commonwealth of The Bahamas to operate as an other than life insurer.

The registered office of the Company is located at the offices of 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 (2003: 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 for available-for-sale investments which are stated at fair value 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 the 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

The currency of the Commonwealth of The Bahamas is the Bahamian dollar. Monetary assets and liabilities denominated in currencies other than the Bahamian dollar are translated at the closing rate of exchange prevailing at the end of the reporting period. Income and expenditure items dominated in currencies other than the Bahamian dollar are translated at a rate of exchange approximating the actual rate prevailing on the date of the transaction. Such foreign exchange differences are included in statement of income.

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2004

2. Summary of Significant Accounting Policies (Continued)

(c) Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks and term deposits with original contractual maturities of three months or less.

(d) Valuation of investments

The Company classified its investments into the following categories: available-for-sale and originated loans. 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. Available-for-sale investments are initially recognized at cost (which includes transaction costs) and are subsequently carried at fair value. Fair value is determined as follows: (i) for investments listed on a national securities exchange, at the closing bid price and (ii) for investments that are not listed on a national securities exchange, at representative bid quotations. Originated loans are investments created by the Company by providing money directly to a debtor and are measured at amortized cost.

(e) Investment property

The Company classified its property held for long-term rental yields and capital appreciation as investment property. Investment property comprise of residential property, which is treated as long-term investments and is carried at cost less accumulated depreciation. Investment property will be 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 operating profit. Repairs and maintenance costs are charged to the statement of income when the expenditure is incurred.

Summit Insurance Company Limited

Notes to the Financial Statements
31 December 2004

2. Summary of Significant Accounting Policies (Continued)

(f) Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation, including leasehold improvements. Depreciation is calculated on a straight-line basis over their estimated useful lives as follows:

Motor vehicles	3 years
Furniture and equipment	3 years
Computer software	3 - 5 years
Leasehold improvements	Lesser of lease and 20 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 operating profit. Repairs and maintenance costs are charged to the statement of income when the expenditure is incurred.

(g) General insurance funds

Unearned premiums represent the proportion of the net premiums written which relate to periods of insurance subsequent to the balance sheet date after a deduction of 10% representing commission expense.

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 gross written premiums for the period.

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2004

2. Summary of Significant Accounting Policies (Continued)

(h) Investment income, revenue and expense recognition

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. Realized gains or losses and unrealized appreciation or depreciation arising from changes in the fair value of available-for-sale investments are recognized in the statement of income in the period in which they arise.

Premiums are recognized as revenue over the periods covered by the related policies after allowing for premiums ceded. Commissions are recorded as earned when the policies are sold. No adjustment is made for commissions relating to unexpired portion of long-term premiums.

All other revenues and expenses of the Company are recognized on the accrual basis.

(i) Premium tax

Effective 1 October 2003, premium tax was incurred at a rate of 3% of gross premiums written less that element which is recoverable from reinsurers.

(j) Accounting for operating lease

The Company leases office space under an operating lease agreement. Payments made under operating leases are charged to the statement of income in the period to which the payment relates.

3. Cash and Cash Equivalents

Cash and cash equivalents are comprised of:

	2004	2003
	\$	\$
Cash in hand and at banks	11,683,584	1,066,669
Term deposits	<u>4,252,683</u>	<u>14,292,746</u>
	15,936,267	15,359,415
Less: Term deposits 90 days and over	<u>(4,252,683)</u>	<u>(2,226,690)</u>
	<u>11,683,584</u>	<u>13,132,725</u>

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2004

4. Other Receivables and Prepayments

Other receivables and prepayments comprise:

	2004	2003
	\$	\$
Interest receivable	53,893	145,243
Dividend receivable	24,735	23,902
Other receivables	4,686	400
Prepayments	<u>39,640</u>	<u>17,346</u>
	<u>122,954</u>	<u>186,891</u>

5. Available-for-Sale Investments

	2004	2003
	\$	\$
		(Note 20)
At beginning of year	1,183,014	1,189,609
Additions	-	73,200
Net change in unrealised appreciation/ (depreciation) on available-for-sale investments	<u>186,382</u>	<u>(79,795)</u>
At end of year	<u>1,369,396</u>	<u>1,183,014</u>

6. Originated Loan Investments

Originated loan investments comprise:

	<u>Interest Rate</u>	<u>Due Date</u>	2004	2003
			\$	\$
Fixed income securities:				
Bahamas Government Treasury stock	Prime + 0.875%	14/06/2011	32,100	32,100
Bahamas Government Treasury stock	Prime + 0.375%	14/06/2011	21,906	21,906
Bridge authority bonds	Prime + 1.500%	24/03/2029	11,600	11,600
Preference shares:				
Commonwealth Bank Ltd - Class "D"	9.000%	perpetual	250,000	250,000
Caribbean Crossings Ltd.	8.000%	perpetual	100,000	100,000
Cable Bahamas	7.500%	30/06/2005	<u>100,000</u>	<u>100,000</u>
			<u>515,606</u>	<u>515,606</u>

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2004

7. Investment Property

On 6 July 2001, the Company acquired a condominium located on Abaco Island which is classified as investment property. Movement in investment property can be summarized as follows:

	2004	2003
	\$	\$
Cost at beginning of year	230,362	242,450
Depreciation expense	<u>(4,849)</u>	<u>(12,088)</u>
Net book value at end of year	<u>225,513</u>	<u>230,362</u>

8. Property, Plant and Equipment

	Land	Leasehold Improvements	Furniture and Equipment	Computer Software	Total
	\$	\$	\$	\$	\$
Year ended 31 December 2003					
Opening net book amount	278,052	40,034	31,983	-	350,069
Additions	-	-	21,985	10,500	32,485
Depreciation charge	<u>-</u>	<u>(8,579)</u>	<u>(20,311)</u>	<u>-</u>	<u>(28,890)</u>
Closing net book amount	<u>278,052</u>	<u>31,455</u>	<u>33,657</u>	<u>10,500</u>	<u>353,664</u>
As of 31 December 2003					
Cost or valuation (Note 20)	278,052	46,951	202,497	10,500	538,000
Accumulated depreciation (Note 20)	<u>-</u>	<u>(15,496)</u>	<u>(168,840)</u>	<u>-</u>	<u>(184,336)</u>
Net book amount	<u>278,052</u>	<u>31,455</u>	<u>33,657</u>	<u>10,500</u>	<u>353,664</u>
Year ended 31 December 2004					
Opening net book amount	278,052	31,455	33,657	10,500	353,664
Additions	-	-	-	61,095	61,095
Depreciation charge	<u>-</u>	<u>(8,577)</u>	<u>(9,638)</u>	<u>-</u>	<u>(18,215)</u>
Closing net book amount	<u>278,052</u>	<u>22,878</u>	<u>24,019</u>	<u>71,595</u>	<u>396,544</u>
As of 31 December 2004					
Cost or valuation	278,052	46,951	202,497	71,595	599,095
Accumulated depreciation	<u>-</u>	<u>(24,073)</u>	<u>(178,478)</u>	<u>-</u>	<u>(202,551)</u>
Net book amount	<u>278,052</u>	<u>22,878</u>	<u>24,019</u>	<u>71,595</u>	<u>396,544</u>

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2004

9. Outstanding Claims

	2004	2003
	\$	\$
Gross claims reserve	24,859,468	6,713,792
Claims reserve recoverable from reinsurers	<u>(18,856,008)</u>	<u>(1,259,510)</u>
Provision for reported claims	6,003,460	5,454,282
Provision for incurred but not reported claims	<u>291,793</u>	<u>293,645</u>
	<u>6,295,253</u>	<u>5,747,927</u>

10. General Reserve

On 24 March 2004, the Board of Directors approved an appropriation of \$1,000,000 to a general reserve account for unforeseeable risks and future losses. General reserves can only be distributed following the approval of the Board of Directors.

11. Dividends

On 24 March 2004, the Board of Directors declared a dividend of \$997,500 in respect of earnings for the year ended 31 December 2003. Dividends were paid to the shareholders on record as of 19 May 2004. Subsequent to 31 December 2004, the Board of Directors proposed a dividend of \$262,500 in respect of earnings for the year ended 31 December 2004.

12. Portfolio Transfer

As of 1 January 2004, the Company reduced its percentage retention on its property portfolio resulting in the Company transferring the unearned premiums and outstanding claims reserves to reinsurers, along with the funds corresponding to those liabilities.

13. Net Commissions

This amount comprises \$5,673,384 (2003: \$5,383,659) paid to agents less \$3,311,272 (2003: \$3,306,804) received from reinsurers.

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2004

14. Retirement Benefits

The Company's employees are members of the Insurance Management (Bahamas) Limited and Summit Insurance Company Limited Pension Plan, a defined contributory plan covering all eligible employees. The Plan was established on 1 January 1990 and is administered by Colina Financial Advisors. The Plan requires employees to contribute 5% of their basic salary and the employer contributes an equivalent amount. The amount recognized as an expense for the year ended 31 December 2004 is \$26,891 (2003: \$26,525) and is included in general and administrative expenses in the statement of income.

15. Related Party Transactions

Related parties include those entities and directors 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% (2003: 95%) were generated by a related agent whose principal holds 23% of the Company's shares. Amounts due from the related agent at 31 December 2004 amounted to \$4,875,458 (2003: \$5,196,390) and is included in due from agents in the balance sheet. In addition, the Company advanced \$6,128,897 to the related agent for outstanding claims as a result of damages caused by Hurricanes Frances and Jeanne in September 2004.

16. 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.

17. Commitments

The Company entered into a lease agreement with Out Island Traders Limited for a period of 5 years commencing on 1 September 2002. The future minimal rental commitments under this lease are as follows:

	2004	2003
	\$	\$
Not later than one year	39,438	39,438
Later than one year and less than 5 years	73,033	113,932

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.

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2004

19. Financial Instruments – Financial Risk Management

The Company engages in transactions that may expose it to credit risk, interest rate risk and liquidity 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.

Credit risk

Credit risk arises from the failure of counterparty to perform according to the terms of the contract. From this perspective, the Company's credit risk exposure is primarily concentrated as follows:

- (i) Deposits placed with other financial institutions. The Company's deposits are placed with well-known high quality financial institutions.
- (ii) Reinsurance arrangements with reinsurers. In the normal course of business, the Company seeks to limit the amount of loss on any one policy by reinsuring certain levels of risk in various areas of exposure with other insurers. 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. The Company is exposed to the risk that the reinsurers may be unable to fulfill their obligations under the contracts. The Company seeks to mitigate this risk by placing its reinsurance coverage with reputable companies and syndicates.

Interest rate risk

Interest re-pricing dates occurring on the maturity of term deposit balances exposes the Company to interest rate risk as market interest rate changes may occur at times outside of the scheduled maturity dates of term deposit balances. The Company manages this risk by maintaining term deposits which mature on a short-term basis.

Liquidity risk

Liquidity risk is the possibility that the Company might not have the necessary cash to meet its contractual obligations. The Company manages its liquidity by attempting to match liabilities with assets of similar maturity periods.

Summit Insurance Company Limited

Notes to the Financial Statements 31 December 2004

20. Corresponding Figures

The corresponding figures for available-for-sale investments and originated loan investments on the balance sheet, depreciation and general and administrative expenses on the statement of income, retained earnings on the statement of changes in shareholders' equity and fixed asset cost and accumulated depreciation in Note 8, have been reclassified to conform with the current year's presentation.