

SUMMIT INSURANCE COMPANY LIMITED

Financial Statements
31 December 2006

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Summit Insurance Company Limited

We have audited the accompanying financial statements of Summit Insurance Company Limited (the Company), which comprise the balance sheet as of 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

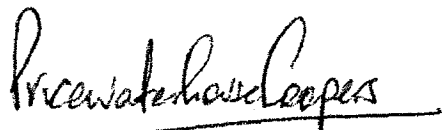
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

Auditors' Responsibility (continued)

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Chartered Accountants

**Nassau, Bahamas
22 June 2007**

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

Balance Sheet

As of 31 December 2006

(Amounts expressed in Bahamian dollars)

	Note	2006 \$	2005 \$
ASSETS			
Cash in hand and at banks	3	2,118,661	12,544,621
Term deposits	3	15,338,068	3,926,331
Due from broker		-	70,000
Due from reinsurers		1,826,615	946,763
Due from agent	13	6,770,247	6,535,258
Advances to agent	13	-	136,668
Deferred commission expense		3,166,806	3,024,438
Prepayments and other assets	4	85,933	94,305
Investments in securities:			
Available-for-sale	5	4,168,913	2,210,174
Loans and receivables	5	1,120,293	705,400
Investment property	6	215,815	220,664
Property, plant and equipment	7	356,302	264,427
Total assets		<u>35,167,653</u>	<u>30,679,049</u>
LIABILITIES AND EQUITY			
LIABILITIES			
<i>General insurance funds:</i>			
Unearned premium reserve		11,250,434	8,394,524
Unearned commission income		1,394,776	1,804,002
Outstanding claims reserve	8	5,864,649	6,110,283
		18,509,859	16,308,809
<i>Other liabilities:</i>			
Due to reinsurers		3,400,546	3,690,317
Accounts payable and accruals		343,540	290,081
Total liabilities		<u>22,253,945</u>	<u>20,289,207</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


As of 31 December 2006

(Continued)


(Amounts expressed in Bahamian dollars)

	Note	2006 \$	2005 \$
EQUITY			
Share capital:			
Authorized: 10,000,000 shares of \$1 each			
Issued and fully paid: 5,000,000 shares of \$1 each			
General reserve	9	5,000,000	5,000,000
Fair value reserve		1,000,000	1,000,000
Retained earnings		497,451	196,127
		<u>6,416,257</u>	<u>4,193,715</u>
Total equity		<u>12,913,708</u>	<u>10,389,842</u>
Total liabilities and equity		<u>35,167,653</u>	<u>30,679,049</u>

SIGNED AS APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:



Director



Director

22 June 2007

Date

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

Summit Insurance Company Limited

Income Statement

For the Year Ended 31 December 2006

(Amounts expressed in Bahamian dollars)

	Notes	2006 \$	2005 \$
INCOME			
Premiums written	13	37,238,699	34,376,711
Premium tax		(674,601)	(512,059)
Premiums ceded to reinsurers		<u>(14,732,138)</u>	<u>(17,247,568)</u>
Net premiums written		21,831,960	16,617,084
Increase in unearned premium reserve		(2,855,910)	(974,925)
Portfolio transfer	10	<u>1,458,509</u>	<u>141,380</u>
Net premiums earned		<u>20,434,559</u>	<u>15,783,539</u>
EXPENSES			
Net claims incurred	8	5,389,939	6,527,351
Net commissions incurred	11	2,866,589	2,359,885
Catastrophe and excess of loss reinsurance		<u>9,515,192</u>	<u>5,563,865</u>
		<u>17,771,720</u>	<u>14,451,101</u>
Underwriting gain		<u>2,662,839</u>	<u>1,332,438</u>
OTHER INCOME			
Interest income		610,019	381,113
Dividend income		143,077	109,951
Net realized gain on investments in securities		4,415	-
Gain on sale of property, plant and equipment		-	197,501
Net foreign exchange gain and other income		<u>286,447</u>	<u>443,151</u>
Total other income		<u>1,043,958</u>	<u>1,131,716</u>
OTHER OPERATING EXPENSES			
Personnel expenses	12, 13	634,631	635,858
Depreciation	6, 7	32,845	18,518
General and administrative expenses		<u>449,279</u>	<u>352,232</u>
Total other operating expenses		<u>1,116,755</u>	<u>1,006,608</u>
Net income		<u>2,590,042</u>	<u>1,457,546</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 2006 (Amounts expressed in Bahamian dollars)

	Share Capital \$	General Reserve \$	Fair Value Reserve \$	Retained Earnings \$	Total \$
Balance as of 1 January 2005	5,000,000	1,000,000	(127,166)	2,998,669	8,871,503
Net change in unrealized gains/losses on available-for- sale investments (Note 5)	-	-	323,293	-	323,293
Net income	-	-	-	1,457,546	1,457,546
Dividend	-	-	-	(262,500)	(262,500)
Balance as of 31 December 2005	<u>5,000,000</u>	<u>1,000,000</u>	<u>196,127</u>	<u>4,193,715</u>	<u>10,389,842</u>
Balance as of 1 January 2006	5,000,000	1,000,000	196,127	4,193,715	10,389,842
Net change in unrealized gains/losses on available-for- sale investments (Note 5)	-	-	305,739	-	305,739
Transfer of realized gains/losses to operating income	-	-	(4,415)	-	(4,415)
Net income	-	-	-	2,590,042	2,590,042
Dividend	-	-	-	(367,500)	(367,500)
Balance as of 31 December 2006	<u>5,000,000</u>	<u>1,000,000</u>	<u>497,451</u>	<u>6,416,257</u>	<u>12,913,708</u>

Dividend per share: \$0.07 (2005: \$0.05)

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

Summit Insurance Company Limited

Cash Flow Statement

For the Year Ended 31 December 2006

(Amounts expressed in Bahamian dollars)

	2006	2005
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	2,590,042	1,457,546
Adjustments for:		
Interest income	(610,019)	(381,113)
Dividend income	(143,077)	(109,951)
Net realized gain on investments in securities	(4,415)	-
Gain on sale of property, plant and equipment	-	(197,501)
Depreciation	32,845	18,518
	<u>1,865,376</u>	<u>787,499</u>
(Increase)/Decrease in operating assets:		
Due from broker	70,000	(70,000)
Due from reinsurers	(879,852)	54,642
Due from agent	(234,989)	(1,627,737)
Advances to agent	136,668	5,992,229
Deferred commission expense	(142,368)	(162,982)
Prepayments and other assets	28,416	(27,066)
Increase/(Decrease) in operating liabilities:		
Unearned premium reserve	2,855,910	974,925
Unearned commission income	(409,226)	143,644
Outstanding claims reserve	(245,634)	(184,970)
Due to reinsurers	(289,771)	1,080,885
Accounts payable and accruals	53,459	(5,588)
Advances from reinsurers	-	<u>(6,313,745)</u>
Net cash from operating activities	<u>2,807,989</u>	<u>641,736</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	441,781	383,150
Dividends received	123,033	104,023
Increase in term deposits	(10,349,962)	(1,027,970)
Purchase of investments in securities	(2,103,400)	(699,779)
Proceeds from sale of investments in securities	37,000	-
Purchase of property, plant and equipment	(119,871)	(159,604)
Proceeds from sale of property, plant and equipment	-	<u>475,553</u>
Net cash used in investing activities	<u>(11,971,419)</u>	<u>(924,627)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(367,500)	(262,500)
Net cash used in financing activities	<u>(367,500)</u>	<u>(262,500)</u>
Net decrease in cash and cash equivalents	(9,530,930)	(545,391)
Cash and cash equivalents as of the beginning of the year	<u>13,649,591</u>	<u>14,194,982</u>
Cash and cash equivalents as of the end of the year (Note 3)	<u>4,118,661</u>	<u>13,649,591</u>

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

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2006

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 in The Bahamas under the Insurance Act, 1969.

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

During the year, the Company employed an average of 7 (2005: 7) persons.

2. Summary of Significant Accounting Policies

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

(a) Basis of preparation

The Company's financial statements are prepared under the historical cost convention, except as disclosed in the accounting policies below, and in accordance with International Financial Reporting Standards (IFRS). The application of amendments to published accounting standards and interpretations that became effective 1 January 2006 did not result in substantial changes to the Company's accounting policies. With the exception of the amendments to IAS 1 *Presentation of Financial Statements* regarding capital disclosures, that become effective 1 January 2007, the application of new standards and interpretations issued but not yet effective will not have a material impact on the Company's financial statements in the period of initial application.

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

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2006

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(c) Cash and cash equivalents

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

(d) Investments in securities

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

Securities 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.

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

Available-for-sale investments are subsequently carried at fair value, based on quoted prices for quoted investments or valuation techniques, including recent arm's length transactions and discounted cash flow analysis, for unquoted securities. Changes in fair value of available-for-sale investments are recognized in equity in "fair value reserve". Realized gains and losses arising from sales and other than temporary impairment of these investments previously recognized in equity are recognized in the income statement.

Loans and receivables are subsequently carried at amortized cost using the effective interest method, less any provision for impairment.

(e) Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2006

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(e) Impairment of financial assets (continued)

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

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. By comparison, the amount of loss on available-for-sale investments 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.

(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. Depreciation is calculated using the straight-line method to allocate cost over an estimated useful life of 50 years.

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

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

(g) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical costs include expenditures that are directly attributable to the acquisition of the items.

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2006

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(g) Property, plant and equipment (continued)

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

Depreciation is calculated using the straight-line method to allocate their costs to residual values over their estimated useful lives, as follows:

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

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

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

(h) General insurance funds

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

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

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

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

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2006

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(h) General insurance funds (continued)

Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Company and statistical analyses for claims incurred but not reported, and to estimate the expected ultimate cost of more complex claims that may be affected by external factors (such as court cases). The Company does not discount its liabilities for unpaid claims other than for disability claims.

(i) Revenue and expense recognition

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

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

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

Other income and expenses are recognized on the accrual basis.

(j) Premium tax

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

(k) Leases

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

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2006

(Continued)

2. Summary of Significant Accounting Policies (Continued)

(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.

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

(m) Corresponding figures

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

3. Cash and Cash Equivalents

Cash and cash equivalents comprise:

	2006	2005
	\$	\$
Cash in hand and at banks	2,118,661	12,544,621
Term deposits	15,338,068	3,926,331
	<u>17,456,729</u>	<u>16,470,952</u>
Term deposits with original contractual maturities of more than three months	(13,119,217)	(2,769,255)
Accrued interest included in term deposits	(218,851)	(52,106)
	<u>4,118,661</u>	<u>13,649,591</u>

As of 31 December 2006, interest rates on term deposits range from 4.75% to 6.25% (2005: 3.00% to 8.00%).

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2006

(Continued)

4. Prepayments and Other Assets

Prepayments and other assets comprise:

	2006	2005
	\$	\$
Prepayments	20,042	31,311
Dividends receivable	42,957	22,913
Other receivables	22,934	40,081
	<u>85,933</u>	<u>94,305</u>

5. Investments in Securities

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.

Movements during the year were as follows:

	2006	2005
	\$	\$
As of beginning of year	2,210,174	1,619,396
Additions	1,670,000	267,485
Disposals	(17,000)	-
Net realized gain on investments	4,415	-
Net change in unrealized gains/losses	301,324	323,293
As of end of year	<u>4,168,913</u>	<u>2,210,174</u>

As of 31 December 2006, the cost of available-for-sale investments was \$3,671,462 (2005: \$2,014,047).

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2006

(Continued)

5. Investments in Securities (continued)

Loans and Receivables

Loans and receivables comprise:

	Interest Rate	Maturity	2006	2005
			\$	\$
Fixed income securities:				
Bahamas Government Registered Stock	Prime + 0.250%	14/06/2011		
	to Prime + 0.875%	to 22/09/2024	172,400	54,000
Bridge Authority Bonds	Prime + 1.500%	24/03/2029	11,600	11,600
Clifton Heritage Authority Bonds	Prime + 0.500%			
	to Prime + 0.750%	20/05/2025	232,300	232,300
Consolidated Water (Bahamas) Limited Series 'A' Bonds	7.500%	07/01/2015	200,000	200,000
FirstCaribbean International Bank Limited Redeemable Medium Term Notes	Prime + 0.750%	30/11/2011	250,000	-
Freeport Oil Holdings Company Limited Bonds	8.000%	11/08/2016	15,543	-
Preference shares:				
Caribbean Crossing Ltd. – Series A	8.000%	30/06/2010	83,200	104,000
Caribbean Crossing Ltd. – Series B	7.000%	30/06/2016	51,750	-
Cable Bahamas Limited	7.500%	30/06/2010	103,500	103,500
			<u>1,120,293</u>	<u>705,400</u>

Included in amortized cost are amounts totaling \$8,993 (2005: \$7,500) representing accrued interest.

6. Investment Property

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

	2006	2005
	\$	\$
Net book value as of beginning of year	220,664	225,513
Depreciation expense	(4,849)	(4,849)
Net book value as of end of year	<u>215,815</u>	<u>220,664</u>
Cost	242,450	242,450
Accumulated depreciation	(26,635)	(21,786)
Net book value	<u>215,815</u>	<u>220,664</u>

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2006

(Continued)

6. Investment Property (continued)

As of 31 December 2006, the fair value of investment property is \$300,000, based on an independent appraisal.

7. Property, Plant and Equipment

	Computer Software \$	Leasehold Improvements \$	Furniture & Equipment \$	Motor Vehicles \$	Total \$
Year ended 31 December 2006					
Opening net book value	184,431	26,069	18,927	35,000	264,427
Additions	91,065	3,200	25,606	-	119,871
Disposals	-	-	-	-	-
Depreciation charge	-	(11,571)	(4,758)	(11,667)	(27,996)
Closing net book value	275,496	17,698	39,775	23,333	356,302
As of 31 December 2006					
Cost	275,496	61,919	228,103	35,000	600,518
Accumulated depreciation	-	(44,221)	(188,328)	(11,667)	(244,216)
Net book value	275,496	17,698	39,775	23,333	356,302
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	184,431	26,069	18,927	35,000	264,427

8. Outstanding Claims Reserve and Net Claims Incurred

Outstanding claims

	2006 \$	2005 \$
Gross outstanding claims	9,513,121	15,691,263
Claims recoverable from reinsurers	(4,019,008)	(9,922,896)
Provision for reported claims	5,494,113	5,768,367
Provision for incurred but not reported claims	370,536	341,916
	5,864,649	6,110,283
Net claims incurred		
Gross claims incurred	7,352,870	19,642,193
Claims recoverable from reinsurers	(1,962,931)	(13,114,842)
	5,389,939	6,527,351

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2006

(Continued)

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

Gross outstanding claims

An analysis of the change in estimate of gross outstanding claims in each of the last five years is as follows:

Accident year	2002	2003	2004	2005	2006	Total
	\$	\$	\$	\$	\$	\$
Estimate of ultimate claims cost:						
At end of accident year	4,792,715	3,766,115	56,458,326	13,658,706	3,917,892	82,593,754
- One year later	8,095,782	32,079,951	63,173,229	17,810,096	-	-
- Two years later	8,067,893	32,234,531	63,094,886	-	-	-
- Three years later	7,864,231	31,890,508	-	-	-	-
- Four years later	7,797,698	-	-	-	-	-
Current estimate of cumulative claim	7,797,698	31,890,508	63,094,886	17,810,096	3,917,892	124,511,080
Cumulative payments to date	<u>(7,622,098)</u>	<u>(29,957,079)</u>	<u>(60,690,488)</u>	<u>(15,990,232)</u>	<u>(1,913,711)</u>	<u>(116,173,608)</u>
Liability recognized in balance sheet	<u>175,600</u>	<u>1,933,429</u>	<u>2,404,398</u>	<u>1,819,864</u>	<u>2,004,181</u>	8,337,472
Liability in respect of prior years						<u>1,175,649</u>
Total liability included in balance sheet						<u>9,513,121</u>

9. General Reserve

The Company makes appropriations to a general reserve for unforeseeable risks and future losses. Distributions from the general reserve can only be made with the approval of the Board of Directors.

10. Portfolio Transfer

During 2005 and 2006, the Company increased the percentage of risk retained 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.

11. Net Commissions Incurred

This amount comprises commission expense of \$6,156,490 (2005: \$5,835,979) incurred to agents less commission income of \$3,289,901 (2005: \$3,476,094) earned from reinsurers.

12. Employee Benefits

Included in personnel expenses is pension expense of \$29,332 (2005: \$26,221).

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Notes to the Financial Statements 31 December 2006 (Continued)

13. Related Party Balances and Transactions

Related parties include significant shareholders, the directors and key management personnel of the Company and those entities that they have the ability to control or exercise significant influence in making financial or operational decisions. Of the premiums written during the year, 99% (2005: 99%) were generated by a related party whose principal owns 23% of the Company's outstanding shares. This related party also earned 99% (2005: 99%) of the commission expense incurred by the Company, see Note 11. Amounts due from the related party as of 31 December 2006, amounted to \$6,770,247 (2005: \$6,535,258). As of 31 December 2005, the Company had advanced \$136,668 to the related party for outstanding claims as a result of damages caused by hurricanes.

During the year, compensation expense for key management personnel totaled \$344,684 (2005: \$353,486).

14. Commitments and Contingent Liabilities

Commitments

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

	2006	2005
	\$	\$
Not later than one year	35,587	53,380
Later than one year and less than 5 years	-	35,587

Contingent Liabilities

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

15. Insurance and Financial 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.

Summit Insurance Company Limited

Notes to the Financial Statements

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(Continued)

15. Insurance and Financial 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. In the normal course of business, the Company seeks to limit its exposure to losses that may rise from any single occurrence through reinsurance. 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 policyholders, therefore the Company is exposed to the risk that the reinsurers may be unable to fulfill their obligations under the contracts. The Company seeks to mitigate this risk by placing its reinsurance coverage with reputable companies and Lloyd's of London syndicates.

(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 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

This is the risk that the Company may not have the necessary funds to meet its financial commitments, including claims, when they become due. To mitigate this risk, the Company ensures that sufficient assets have short term maturities or could be sold immediately to meet cash requirements for normal operating purposes.

(d) Interest-rate risk

Fair value interest-rate risk for the Company is comprised of the risk that the value of financial instruments 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.

Cash flow interest-rate risk is the risk that cash flows of a financial instrument may fluctuate significantly as a result of changes in market interest rates. The majority of the Company's financial assets are exposed to such risks and it considers this risk to have a minimal impact on its earnings.

Summit Insurance Company Limited

Notes to the Financial Statements

31 December 2006

(Continued)

16. 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.