



CAYMAN ISLANDS
CINICO
NATIONAL INSURANCE COMPANY

2011/2012 ANNUAL REPORT



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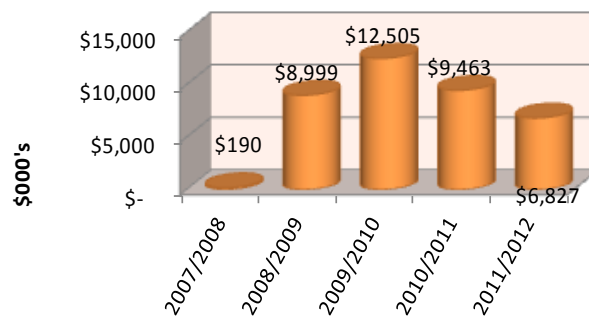
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FIVE-YEAR FIANCIAL AND OPERATIONAL HIGHLIGHTS

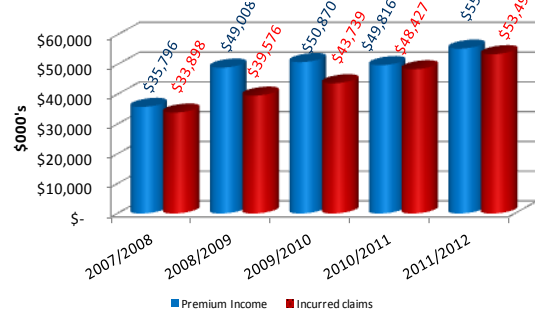
Net Income/(Loss)



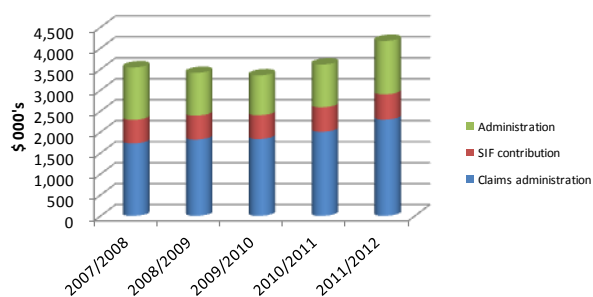
Shareholder's Equity



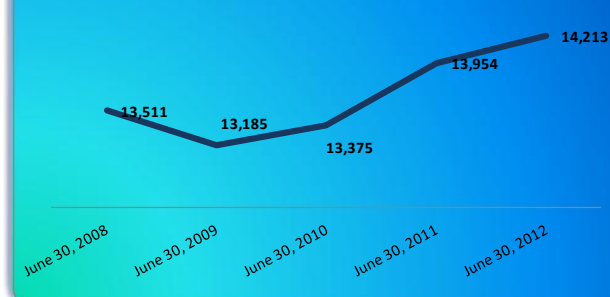
Premium Income versus Claims Incurred



Total Expenses



Membership





MISSION STATEMENT

CINICO's mission is to provide affordable health care coverage on the most cost effective basis possible, to ensure the wellness of residents of the Cayman Islands.



LETTER FROM THE CHAIRMAN

Dear Shareholder,

During 2011-2012 CINICO continued to face the challenge of working with the Government in meeting its financial goals in cost reductions while still operating as a viable and sustainable company. As a result of government's continuing need to cut costs, CINICO provided \$3.7 million in Government premium discounts in 2011/12. CINICO did this in spite of the fact that these actions would lead to a reduction in our capital base, and lead to a loss of \$2.6 million in 2011/12.

Combined with the 2010/11 concessions the premium discount to government has amounted to \$6.6 million over the past two financial years. Had it not been for these concessions (including the provision for a \$0.5 million Government claim liability in 2010/11), CINICO would have earned a profit of \$0.9 million in 2011/12 and \$0.3 million in 2010/11. This would have been the fourth straight profitable year for CINICO had government not requested the premium reduction it did.

In addition, by pre-paying for government monies owed for indigent care overseas and not charging interest on the monies back owed by government, CINICO has in effect provided an interest-free loan to government since 2008/9 and cumulating to \$12.1 million dollars as at June 30, 2012 (see Table 3 Ageing of Balances Outstanding). This has realized a substantial savings to government in interest payments that would have been owed to any other entity making such a loan. Government has agreed to repay \$3.1 million of that \$12.1 million owed, over the next three years and has completed a supplementary budget in September 2013 for approximately \$8.0 million of the remaining amount.

While we recognize our role in assisting Government to meet its financial targets, CINICO is no longer in a cash or equity position to make any further concessions as this would jeopardize our good standing with the Cayman Islands Monetary Authority in addition to posing liquidity problems for the Company which could impact our access to the re-insurance market and jeopardize discounts on overseas claim payments. In addition, CINICO can no longer administer the overseas care for government of the indigent population under the current model where CINICO fronts government the money and then awaits repayment.

In relation to our operations, CINICO has undergone some important changes in 2011/12 that will better position the Company in fulfilling its objectives in the years to come.

- The CEO, with the approval of the Board of Directors, has made changes in the organizational structure of the Company that have and will lead to further improvements in operational performance and substantial cost savings;

- In August 2011 CINICO selected MMSI (a subsidiary of the Mayo Clinic) to provide overseas case management services. CINICO has leveraged the expertise and quality service of MMSI to better serve our insureds and bring about cost savings;
- In collaboration with our sister company, the Cayman Islands Health Services Authority, we have implemented the “Electronic Verification Adjudication System” (EVAS) which is now in operation with “Care Pay” cards from CINICO;
- Held the first Joint CINICO/HSA Board Meeting with the Board of Directors of the Cayman Islands Health Services Authority, and initiated a protocol for future joint board meetings to insure better cooperation between the two companies and two boards’ of directors;
- The Board and Management have begun the preparation for development of a Strategic Plan which will be developed during the next financial year and implemented once approved by our primary shareholder; and
- Additional changes are highlighted in the section entitled “2011/12 Operational Highlights” within this annual report.

I would like to thank our Board of Directors for their diligence and hard work throughout the past year. As a Board, we are committed to ensuring that CINICO is sustainable and viable as an insurance company in the years to come by ensuring its capital position and by creating value for our shareholder and the members we serve. This past year we have solidified our strategic partnership with MMSI and began using their expertise to make a real difference in the health of our members and reduce overseas costs. In addition, with the full implementation of the EVAS, development of local and overseas provider networks, and implementation of local case management these are indeed exciting times in the history of CINICO.

Finally, on behalf of the Board of Directors, I would like to extend our warmest congratulations to management and the staff of CINICO for their tireless efforts throughout the year to keep CINICO operating in spite of the extreme financial hardships imposed by government’s premium reduction and failure to repay monies owed for indigent care.

Scott Cummings
Chairman of the Board

LETTER FROM THE CEO

Dear Shareholder,

The entire 2011-2012 financial period can definitely be deemed a year of transformation. During this period management acted swiftly to mitigate our various exposures to significant runaway cost, deployed strategies to enhance our current operations and procure the services and resources to enable CINICO to meet its challenges and achieve outstanding outcomes.

We undertook the completion of the overseas case management RFP issued in December 2010 regarding the provision of care management services and overseas network access. Firstly we recognized that under the current provision of these services, our current provider possessed a potential moral hazard. As such, we mitigated this risk by separating the provision of case management services and network access services in the RFP. We then contracted MMSI for case management services and retained CMN as our overseas network access provider. We also renegotiated the existing CMN contract which reduced our overall operating expenditure and eliminated the potential moral hazard.

In addition, CINICO embarked on a joint project with its sister government company, the Cayman Islands Health Services Authority (CIHSA), in that of the “Electronic Verification Adjudication System”, also known as EVAS/CarePay System. This project was by far the single largest undertaking by CINICO in its history of operations. The expected benefits would be immediate eligibility verification, as well as automated adjudication of all claims produced by the CIHSA. EVAS/CarePay would also reduce the CIHSA’s exposure to unpaid bills for uncovered or uninsured patients.

In May 2012, CINICO was the primary subject of a performance audit report issued by the Auditor General of the Cayman Islands (Management of Overseas Medical Services). Having inherited the helm of CINICO, I recognized that there were two significant factors that could be deemed the impetus of the exposures outlined in this report.

Firstly, the small staff size significantly restricted our capacity to monitor every aspect of a typical overseas referral. In addition, our present resources possess limited specialization, and as a result we had little to no capacity to make real-time, informed decisions in-house, on a typical care management strategy whereby we could mitigate a significant amount of cost, as expected by an organization of this nature. As our current structure stands, these decisions are exclusively being made by third parties contracted by CINICO. We Management, however, recognize that dedicated specialized CINICO personnel will be the key to truly containing and managing our overseas medical costs.

In response to this report, CINICO committed to the creation and implementation of a five-year strategic plan beginning in 2013, which would cohesively address the exposures and other organizational deficiencies identified in this report.

In anticipation of the strategic plan, CINICO Management undertook the task to assess the perspectives of CINICO as an organization by our largest clients, the Civil Servants and Pensioner group and our covered SAGC members. Tower Marketing was contracted to perform a consumer marketing survey to assess their perspectives on customer service, our current product lines and our future plans for expanded services and products, as well as their palatability on contributing directly to the cost of premium for their current health plan.

CINICO Management also participated in national cost savings initiatives whereby proposals were made to the Cayman Islands Government to restructure current policies aimed at a better orchestrated effort as it relates to indigent overseas referrals, enhance and increase current CIHSA services, develop in-house case management, coordination of benefits and subrogation of rights policies.

The future for CINICO is bright in nature as the organization refocuses its energies in a collaborative manner for both staff and its stakeholders.

Sincerely,

Lonny Tibbetts
President/CEO
CINICO

ABOUT CINICO

Nature and Scope of Activities

The Cayman Islands National Insurance Company Ltd. ("CINICO") was incorporated by the Government of the Cayman Islands on December 18, 2003 and granted a Class "A" Insurance Licence on February 1, 2004. CINICO is a wholly-owned subsidiary of the Government of the Cayman Islands.

The purpose of CINICO is to control spiraling healthcare costs incurred by the Shareholder; empower medical professionals over healthcare financing decisions; help people who reside in the Cayman Islands gain access to affordable, quality healthcare; and maintain reinsurance for catastrophic events.

CINICO's principal activity is the provision of health insurance for Government insureds including civil servants, pensioners, other Government entities, Seamen & Veterans and their dependents ("Government Insured"), as well as residents of the Cayman Islands who have low income, impaired health status, or who are elderly ("Privately Insured"). CINICO employees are also insured by the Company. The Company also provides Administrative Services Only ("ASO") for indigents, advance patients and overseas Seamen & Veterans benefits. The following group categories would be referenced in the financial highlights and analysis:

- Group 30100 - Civil servants, pensioners and Statutory Authorities and Government Companies (SAGCs);
- Group 30101 - Seamen & Veterans and their dependents;
- Group 30102 - ASO for indigents;
- Group 30103 - Advance patients;
- Group 30104 – Affordable (Low Income), Challenger (Impaired Health), and Silver (Elderly). These categories are also referred as Standard Health Insurance Contracts ("SHIC").

In accomplishing its goals and objectives, the Company contracts with various Third Party Administrators ("TPAs") and vendors. Simplifi ESO (formerly CBCA) provides claims administration services for local claims. The Company has also contracted with Advance Integration Systems Ltd (AIS) to develop the "Electronic Verification Adjudication System" ("EVAS"). The contract also involves the Cayman Islands Health Services Authority ("CISHA"). On February 5, 2012 and May 5, 2012 EVAS began processing dental and medical claims respectively. Eventually the services of Simplifi ESO will become redundant, either through the processing of other claims by EVAS, and/or requiring that the overseas network provider pay overseas claims. The overseas case management services are being provided through MMSI (effective April 1, 2012) resulting from a successful open tender. Also, on April 1, 2012, the Company contracted with Care

Management Network Inc. ("CMN") to provide overseas network access services. Prior to this date, the overseas case management and overseas network access services were provided exclusively through CMN. The overseas network access contract provides CINICO's insureds with access to a large network of facilities throughout the United States and other countries at discounted costs.

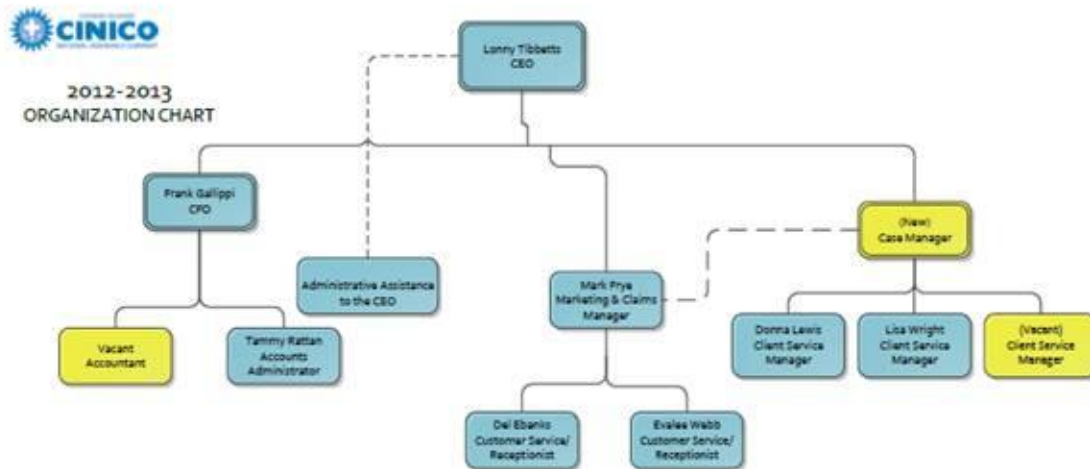
The Company maintains reinsurance coverage with Presidio Excess Insurance Services, Inc. ("Presidio"), an underwriting agent of the Lloyds of London, which provides specific excess loss reinsurance coverage on a per coverage person basis. The reinsurance coverage covers specific losses in the range from US\$700,000 to US\$5,000,000 for overseas claims on the Group 30100 plan.

The Company's insurance policies are structured such that the primary network provider is the Cayman Islands Health Services Authority ("CIHSA"). If a member of CINICO is in need of medical care (or dental care for those plans that offer dental coverage) the member must go to CIHSA for treatment. If the medical practitioner (or dental practitioner) has determined that services are unavailable at CIHSA, then approval for treatment by the CINICO complimentary network is sought by the attending practitioner. Medical treatment is approved by the Chief Medical Officer and dental treatment is approved by the Chief Dental Officer. The CINICO complementary network includes other Cayman Islands medical/dental providers, as well as medical providers in over 130 countries around the world which are accessed through CINICO's overseas care management consultant. CIHSA earns a very large share of the Company's claim dollar. For the year ending June 30, 2012, CIHSA's paid claims (insured segment only) accounted for 61% of the Company's overall paid claims. When adding the claims paid for Indigents and overseas Seafarer and Veterans (the risk is borne by Government for these two segments), CIHSA's paid claims accounts for 55% of the Company's overall claims paid. This means that compared with the insurance segment, a greater portion of the indigent services are rendered outside of the CIHSA.

CINICO provides the Cayman Islands Government with a management infrastructure (since the Company has its own Board of Directors and committees of the Board), management team and service providers all experienced in managing the risks related to health insurance plans. As a separate entity writing insurance business, the Company is regulated by the Cayman Islands Monetary Authority ("CIMA"), audited by internal Government auditors and external auditors. Accordingly, each of these bodies will be evaluating the performance of the Company and its products.

As a Class "A" Insurance Company, CINICO is required by CIMA to maintain a minimum net worth of \$3,000,000. As at June 30, 2012, the Company's capital position was \$6.9 million and fully compliant with CIMA's minimum requirement.

Organization chart



Business partners

The Company used the following service providers during the year ended June 30, 2012:

Simplifi ESO (formerly CBCA) – Based in the United States, Simplifi provides claims administration, eligibility, and other services. Simplifi has been providing services to the Company since 2004.

Advanced Integrated Systems Ltd. (AIS)

Based in Jamaica, AIS was chosen by CIHSA and CINICO in December 2010 to implement a real-time electronic verification adjudication system (“EVAS”). EVAS is being used to adjudicate CIHSA claims. See section entitled “2011/12 Operational Highlights” on page 20 for further details.

MMSI – Based in the United States, MMSI (a division of the Mayo Clinic) provides case management, utilization review, and other medical management services for CINICO members who are referred overseas (not including Jamaica). MMSI was chosen as the Company’s case manager in conclusion to an open tender process first initiated in the later part of 2010. MMSI has been contracted effective April 1, 2012.

Canadian Medical Network (CMN) – Based in Canada, CMN provided overseas case management, utilization review, other medical management services, and overseas network access for CINICO members who were referred overseas (not included Jamaica). CMN has been providing these services from August 2005 to March 2012. Effective April 1, 2012 CMN provides the Company solely with overseas network access.

Caribbean Health Network (CHN) – Based in Jamaica, CHN provides the Company with case management, utilization review, network access and claims scrubbing services for CINICO

members who are referred to the Jamaica network. CHN has been providing these services since 2011.

Willis Re Inc. – Based in the United States, Willis Re Inc., is the Company’s broker in procuring and maintaining reinsurance coverage. They have been providing services to the Company since July 2005.

Presidio – Based in the United States, Presidio provides the Company with underwriting reinsurance management and coverage on behalf of the Zurich American Insurance Company. CINICO first acquired reinsurance coverage with Presidio in July 2005. For details on the Company’s 2011/12 reinsurance program, see the section entitled “Reinsurance Premium” on page 42. Presidio also provides the Company with value-added services such as: access to specialty provider networks (transplant, cancer, neonate, etc.), large claim review, hospital bill audits, medical management support program, etc.

Oliver Wyman Actuarial Consulting – Based in the United States, Oliver Wyman Actuarial Consulting has been providing actuarial services to the Company since January 2008.

Turner and Roulstone – Based in the Cayman Islands, Turner and Roulstone has been providing the Company with legal services since the Company’s inception.

PriceWaterhouseCoopers (PwC) – Based in the Cayman Islands, PwC has been the Company’s external auditor since the Company’s inception.

RONCO – Based in the Cayman Islands, RONCO has been providing the Company with computer network, maintenance and disaster recovery services since October 2011. Disaster recovery services are provided in conjunction with TeleCayman.

See the section entitled “Subsequent Events” on page 56 for business partners contracted from June 30, 2012 to the date of this report (October 7, 2013).

Strategic Goals and Objectives

In the Company's 2011/12 Ownership Agreement the following key strategic goals and objectives (from an ownership perspective) were:

- To provide health insurance to civil servants, pensioners, seamen, veterans and their dependants, and individuals qualifying as elderly (Silver plan), health impaired (Challenger plan) or low income (Affordable plan) residents.
- To administer on behalf of the Ministry of Health, Environment, Youth, Sports and Culture ("Ministry of HEYS&C"), the provision of health benefits to indigents.
- To administer on behalf of the Ministry of HEYS&C, the provision of overseas health benefits to Seaman & Veterans and their dependents.
- To administer on behalf of the Ministry of Finance, Tourism & Development the provision of health benefits to advance patients.
- To advise the Ministry of HEYS&C, supported by empirical evidence, of recommendations to improvements in the delivery of health care to the population of the Cayman Islands.
- To undertake development of a claim administration system in collaboration with the Cayman Islands Health Services Authority.
- Expand the local claim adjudication expertise within the Company. This includes case management expertise.
- To review and change if necessary the overseas referral process.
- To finalize and execute the usage of CINICO's own provider network.
- To secure appropriate reinsurance coverage, to minimize company risk and improve claim loss predictability.

During the fiscal year ending June 30 2012, the Company has been compliant in all respects with the achievement of the above goals and objectives, with the exception of:

Expanding local claim adjudication expertise within the Company (including case management expertise):

The expansion of local claim adjudication expertise is dependant on the implementation of the EVAS which was delayed and finally implemented in May 2012. With the EVAS implementation now completed, the Company can now focus on developing its in-house claim expertise and as a first step will be restructuring the customer administration function in 2012/13 including hiring a new staff member.

The hiring of a local case manager was also delayed in 2011/12. Now that the Company's new case management company (MMSI) is now on board, a local case manager would be added. As at the date of this report, the case manager post was filled. The post holder would be working along with MMSI, CIHSA and local providers with an aim to lower local claim costs and improve the overseas referral process.

Overseas referral process:

Minor improvements have been made to the overseas referral process in 2011/12. The overseas referral form has been changed, the process whereby a commercial flight is required has been

revamped allowing for improved controls and in addition, MMSI and CIHSA meet frequently to make improvements to the process. Significant improvements foreseen in the upcoming year would be to automate the process, and allow direct doctor (referring doctor) to doctor (overseas doctor) communications.

CINICO's own provider network:

The Company plans to complete this initiative by the first calendar quarter of 2013 with the conclusion of its overseas open tender process.

The section entitled "2011/12 Operational Highlights" details other strategic and operating initiatives that occurred during the year.

Risk Management

Per the 2011/12 Ownership Agreement with the Shareholder, the following key risks have been identified:

Key risks	Change in risk status from previous year	Actions taken in 2011/12 to manage risk	Financial value of risk
Claim losses higher than what can be supported by revenues	Shareholder provided premium discount. (see "2011/12 OPERATIONAL HIGHLIGHTS", "Capital Levels")	Care Management company engaged to manage and control overseas cases. CINICO negotiated contract with a hospital providing cardiovascular services at exceptional rates. Reinsurance arrangement in place to limit the Company's risk to large claims. Weekly review of open overseas referrals by claims manager & CMO and monthly by Risk/Appeals Committee. Large claim reviews and forensic audits by Reinsurer (Presidio).	Not quantifiable.
Incomplete or missing claims from our major provider, The Cayman Islands Health Services Authority	Implementation of EVAS, allowing for real-time claim adjudication.	Working with the Cayman Islands Health Services Authority to improve claim submission controls.	Not quantifiable.
Risk that our reinsurance company will be unable to pay its liabilities		Reinsurance reviewed every year. As part of the review creditworthiness is looked at. Our current reinsurer has an AM Best rating of A.	Approximately \$500k based on average historical amounts.
Development of EVAS system Not implemented as scheduled. Incorrect eligibility. Incorrect claim payments	n.a.	Parallel testing with current claims admin system, was to take place, however Simplifi underwent its own system conversion which prevented parallel testing. Simplifi is testing claims after adjudicated. Issues brought to the attention of all concerned stakeholders. Maintain existing TPA until any/all issues resolved.	Loss of capital investment approx \$700k

The Company has prepared a “Risk Management Framework” (RMF) as required by CIMA’s rule 9. The RMF requires Board of Directors’ sign-off, in addition to a periodic third party independent review.

The RMF will document structures, processes and resources within the Company that identify, assess, mitigate and monitor all internal and external sources of risk such as:

- | | |
|--|--|
| ▪ Credit risk | ▪ Concentration risk |
| ▪ Insurance underwriting and reinsurance | ▪ Compliance risk |
| ▪ Investment risk | ▪ Operational risk (including outsourcing and business continuity) |
| ▪ Market risk (including liquidity risk) | ▪ Other risks |
| ▪ Strategic and tactical risk | |

During the course of the 2012/13 fiscal year, the Company would be developing a strategic plan, and as a bi-product of the strategic plan, would formally document risks and risk mitigation techniques. The Board would finalize the RMF at the conclusion of the strategic planning process.

Business Environment and Outlook

Management and the Board of Directors are keeping abreast of the general healthcare and Insurance climate in the Cayman Islands and abroad. Several changes will affect the Company in the coming year(s):

- Proposed changes to the insurance law would impose a risk-based approach in determining a company’s statutory capital, instead of the current \$3.0 million minimum required for all Class A insurers.
- The anticipated revision to the Health Insurance Law has been passed in November 2012. Among the changes, benefits for the Standard Health Insurance Contracts (SHIC) would be increased to allow for greater outpatient and inpatient care coverage. These benefits would have to be priced and programmed in the claims adjudication system. Internal policies and procedures would need to be amended, in addition to any external documentation to policyholders.
- The on-island development of Health City Cayman Islands would certainly decrease the number of overseas referrals. The new hospital is expecting to accept its first patients in late 2013 with a 140-bed capacity. Services to be provided are cardiac surgery, cardiology & orthopedics. Over the next ten years, the hospital would expand to a 2,000-bed facility and is expected to provide a broader array of services including neurology, oncology and other cutting edge tertiary care services.
- The review and possible increases to CIHSA’s charge master, and the country’s standard health fees, would have an impact of increased healthcare costs and thus would affect premium rates.
- Health Reform in the United States could impact access to US providers and increase claim costs, as US providers will look at international clients to make up any shortfall in subsidized local costs.

BOARD OF DIRECTORS AND COMMITTEES

BOARD OF DIRECTORS

Directors are chosen by the shareholder. All Director appointments are subject to the approval of the Cayman Islands Monetary Authority, since the Company is licenced under the Insurance Law. In order to obtain approval a Director must provide appropriate due diligence documentation which may include the completion of a personnel questionnaire form, three letters of reference, police clearance certificate or affidavit, and notarized photographic identification.

Membership of the Board of Directors

It is the intention of the Company to have a Board of Directors with representation from the following areas:

- | | |
|--|---|
| A. Chief Officer of the Ministry of HEYS&C | E. Legal background |
| B. Insurance background | F. Medical background |
| C. Actuarial background | G. Representative from the Seaman & Veterans groups |
| D. Accounting/financial background | H. General |

The membership of the Board of Directors comprises of the following individuals and backgrounds.

Board of Directors' Backgrounds

	Chief Officer	Insurance	Actuarial	Accounting/ Financial	Legal	Medical	Seaman & Veterans rep	General
Scott Cummings ⁽¹⁾					✓			
Seamus Tivnan ⁽²⁾		✓		✓				
Jennifer Ahearn	✓							
Carl Brown		✓						
Armando Ebanks				✓				
Darlee Ebanks								✓
Godfrey McLean							✓	
Dr. Ruthlyn Pomares						✓		

(1) Chairman

(2) Deputy Chairman and Chairman of Finance/Audit Committee

The Board of Directors is currently lacking a director with an actuarial background.

Meetings

The Board is responsible for the strategic direction and overall management of the Company, and may delegate any of their powers to committees consisting of any one or more of directors as

they think fit. The Board of Directors held eleven meetings during the 2011/12 financial year. During the year, the following matters were dealt with at the meetings:

- Approved the 2010/11 Annual Report and Audited Financial Statements and received the ISA 260 report from the auditors.
- Reviewed committee reports.
- Letter of guarantee from the Ministry of Health regarding outstanding 2008/9 balances.
- Approved 2012/13 budget, ownership agreements and purchase agreements.
- Received management updates on strategic and operational matters.
- Approved cost saving initiatives that led to reductions in 2012/13 premium rates.
- Reviewed the Auditor General report on the management of overseas medical services, and developed a plan implement the recommendations in the report.
- Approved the selection of the case management company (MMSI), and received updates on implementation.
- Approved quarterly financial statements and reviewed monthly financial highlights.
- Approved December 31, 2012 Half Year Report.
- Approval of the 2012/13 Reinsurance contract.
- Approved the RFP for Overseas Network Management and Cost Containment Administration Services.
- Approved Government's request for discounts on Civil Servant, Pensioner, and Seafarer and Veterans 2011/12 premiums.
- Approval of the Capital and Liquidity preservation policy.
- Received a presentation from representatives of ASUIA on a potential business alliance.
- Approved corporate membership at the National Gallery and the National Museum.

The CINICO and CIHSA Boards also undertook to conduct joint quarterly meetings to discuss matters of interest and strategic issues affecting both companies.

EXECUTIVE COMMITTEE

The Executive Committee is comprised of the Company's Chair, the Chief Officer of the Ministry of HEYS&C, and the Company's CEO. The Committee meets in emergency situations where it is not possible to arrange a Board meeting. The Committee has all of the powers of the Board; however, any decisions of the Committee must be ratified at the next Board meeting.

During the fiscal year ending June 30, 2012, there were no Executive Committee meetings.

FINANCE/AUDIT COMMITTEE

Responsibilities

- Advise the Board on all policies for investment of the Company's assets and to ensure that there is compliance with the approved policies.
- Ensure that financial information is being fairly and accurately reported to the Board and, is in compliance with International Financial Reporting Standards (IFRS).

- Review and recommend to the Board, premium rates and actuarial analysis.
- Review annual financial statements audited by the independent auditors.
- Review monthly financial statements prepared by CFO.
- Review annual proposed budgets prepared by the CFO.
- Review monthly budgets status reports prepared by the CFO.
- Review any management letter points from the independent auditors and implement any recommendations deemed appropriate.

Membership of the Finance/Audit Committee

Seamus Tivnan , Chairman
Deputy Chairman of the Company's Board of Directors

Lonny Tibbetts
CEO, CINICO

Frank Gallippi
CFO, CINICO

Carrol Cooper
CFO, the Ministry of HEYS&C

Meetings

The Finance/Audit Committee held three meetings during the 2011/12 financial year; however financial statements are distributed and reviewed monthly via a round-robin review.

The Committee dealt with the following matters during the financial year ending June 30, 2012:

- | | |
|--|--|
| ▪ Reviewed the 2010/11 Annual Report and Audited Financial Statements. | ▪ Reviewed the draft capital and liquidity preservation plan. |
| ▪ Reviewed the 2010/11 Annual CIMA return. | ▪ Reviewed a draft of CINICO's Risk Management Framework. |
| ▪ Reviewed the 2010/11 Ownership & Purchase Agreements. | ▪ Established and recommended to the Board, the 2012/13 premium rates for Civil servants, pensioners, Seafarer & Veterans. |
| ▪ Reviewed the 2010/11 Management Representation letter and report from the Auditor. | ▪ Reviewed the December 31, 2011 Half Year Report. |
| ▪ Reviewed the 2012/13 Budget with a recommendation to the Board. | |

RISK & APPEALS COMMITTEE

Responsibilities

- Make recommendations to the Board on the suitability of new insured applicants.
- Continual review of all underwritten risks for conformity to any established guidelines.
- Recommend to the Board new eligibility guidelines as needed.

- Recommend new categories of risks to be underwritten by the Company.
- Review the loss control reports from the third party administrator for each insured group.
- Review performance of the third party claims and case management administrator.
- Work closely with those insureds with substantial losses and offer assistance through loss control procedures so an insured can reduce future costs.
- Prepare reports for the presentation to the Executive Committee or the Board of Directors on the overall status of the Company from a loss control standpoint, including detailed reports where necessary.
- Periodically review the large losses.
- Periodically review the insured's satisfaction with the loss control and claims management services provided to the Company.
- Recommend the implementation of the preventative procedures and wellness programs.
- Review appeals from providers or individual claimants.

Membership of the Risk & Appeals Committee

Lonny Tibbetts, Chairman
CEO, CINICO

Dr. Ruthlyn Pomares
Director, CINICO

Dr. Gerald Smith
Chief Medical Officer, The Ministry of HEYS&C, CIHSA

Dr. John Vlitos
Chief Dental Officer, CIHSA

Meetings

The Risk & Appeals Committee held six meetings during the 2011/12 financial year. The following matters were dealt with at these meetings:

- | | |
|---|--|
| <ul style="list-style-type: none"> ▪ Finalized and recommended to the Board, the RFP document for claims administration and case management. ▪ Recommended to the Board the selection of the winning bidder for case management services. | <ul style="list-style-type: none"> ▪ Reviewed claim and eligibility appeals. ▪ Developed and documented policies for Home Healthcare benefits. ▪ Received a presentation for Brac II testing. |
|---|--|

Other responsibilities of the Risk & Appeals Committee were informally dealt with at the Management level, in addition to some being handled directly at the Board level. The responsibilities of the Risk and Appeals Committee would be reviewed as part of the strategic planning process.

DIRECTOR AND COMMITTEE FEES

The table below illustrates the Director and Committee fees paid for the year ended June 30, 2012. Fees are only paid to non-government Directors.

	Fees per Director per meeting	Total Fees Paid
Board of Directors ⁽¹⁾	\$315	\$22,680
Finance/Audit Committee	150	450
Risk & Appeals Committee	150	900
Total		\$24,030

- (1) In 2010/11 the Board voted to decrease their fees by 10% (from \$350 to \$315), which continues to be in effect for the 2011/12 year. The decrease needs to be ratified at the beginning of each year.

2011/12 OPERATIONAL HIGHLIGHTS

2011/12 has been a busy year for the Board, Management and CINICO staff. It has been characterized as a year of change as the Company has implemented the EVAS and transitioned to a new overseas case management company. The operational highlights of 2011/12 are as follows:

Staffing

CINICO currently serves over 14,000 members with a full-time complement of 9 staff (low by industry standards). The Board has recognized that the current level of staff is inadequate in delivering proper customer service. Furthermore, with the completion of the EVAS, CINICO would be more “hands-on” in claims processing, and its dependence on a third party administrator would gradually diminish. As such, the Board has approved a full-time complement of 12 staff. This would include the addition of a qualified local case manager that would be instrumental in managing medical claim costs. See organization chart on page 10 for full details of posts.

Electronic Verification Adjudication System (“EVAS”)

In December 2010, CINICO, along with the CIHSA, signed an agreement with Advance Integrated Systems Ltd. (“AIS”), to implement a real-time electronic verification adjudication system (“EVAS”). The implementation is being co-sponsored by the CIHSA. CIHSA and CINICO are equally sharing the costs. CINICO’s total capitalized costs as at June 30, 2012 are \$0.6 million.

The EVAS would change how eligibility verification and claims adjudication are performed. CINICO’s insured members would be given a swipe card (“CAREPAY” card), which would be presented at the CIHSA at the time of service. The swipe card would enable instant verification of eligibility, benefits, provide “real-time”

adjudication of the claims, and determine any patient out-of-pocket expenses if applicable. This would streamline the whole process at both the CIHSA and CINICO and significantly reduce CIHSA’s bad debts.

Throughout 2011/12, AIS, CIHSA, and CINICO management had weekly steering committee meetings. The implementation of the EVAS also involved CINICO’s TPA and CIHSA’s Cerner system, as data exchanges and interfaces had to be created between the EVAS and the various IT systems.

CAREPAY cards were distributed to all CINICO members along with communications and advertising advising members of the changes. The distribution process of the cards, has also allowed CINICO to verify the eligibility data. As CINICO does not control the eligibility data, it has communicated any discrepancies to the appropriate stakeholders for corrective action.

As a result of the efforts of all those involved in the project, CINICO is pleased to announce that in February 2012 the EVAS was implemented for dental claims. The medical portion of the EVAS was operational since May 2012. As with any large system implementation project, there have been roadblocks and issues. Most of these have been overcome, however CINICO is particularly concerned with the adjudication on the SHIC policies as it was discovered that some claims were incorrectly paid. In 2012/13, CINICO would be “retro” testing all the adjudication results and make the necessary adjustments with AIS. The original

plan was to parallel test the adjudication results using Simplifi. However, this wasn't possible at the time of the EVAS implementation as Simplifi underwent its own system conversion and was not operational for over two months. The steering committee is currently working on the pharmacy segment of the EVAS, and expects this to be operational by 2013. CINICO continues to examine and alter its internal work flow as a result of the implementation of medical and dental claim adjudication.

The initial implementation phase of the EVAS was focused on CIHSA claims. Subsequently, the EVAS would be examined to determine if feasible to roll out to other providers. The full integration of the EVAS would ultimately make reliance on CINICO's TPA redundant, creating additional opportunities within CINICO, and providing small cost savings and greater control.

Third Party Administrator ("TPA") contract with Simplifi

As part of a 2010/11 RFP, CINICO executed a TPA contract with Simplifi (formerly known as CBCA).

The agreement is for two years, and has levels of redundancy clauses and fee reductions to offset increases of fees incurred by the EVAS initiative as it becomes fully operational.

As mentioned in the preceding section, the implementation of EVAS was to be done through the use of parallel testing via Simplifi. In February 2012, Simplifi advised CINICO it would be undergoing a system conversion, and be "off-line" for a period of two weeks. The Simplifi conversion did not go as planned and as a result the Simplifi was "off-line" for over two months. Once Simplifi became operational, they were dealing with an overwhelming amount of back-log and

program errors. It took them until July 2012 to restore operations to pre-conversion levels.

As CINICO puts a lot of reliance on Simplifi, the period in which Simplifi underwent its conversion up until they were operating to pre-conversion levels, put an enormous strain on CINICO's resources. Many non-CIHSA provider claim payments were delayed forcing CINICO to field a lot of customer complaints, and in some cases forcing CINICO to manually issue advance checks to providers and members. And when Simplifi began operating post system conversion, there continued to be errors with printing cheques, causing further strain on CINICO's resource and its providers' patience. In addition, reports received by CINICO were not available which trickled into delays in CINICO's own monthly and year-end reporting.

CINICO is reviewing remedies it has in its contract with Simplifi.

Overseas Case Management RFP Tender

Culminating from a RFP issued in December 2010, CINICO selected MMSI Inc., an affiliate of the MAYO clinic, to provide overseas case management services. The selection was approved by the Board in June 2011 and Central Tenders Committee (CTC) in September 2011. A contract has been signed with the MMSI in March 2012. MMSI has assumed all functions and responsibilities for overseas case management services on April 1, 2012.

MMSI is only contracted to provide CINICO with overseas case management services, not including access to overseas networks, as was the relationship with the prior case management company (CMN). It was CINICO's intention to separate these two services for control and accountability purposes. As such, CINICO has issued a RFP

for overseas network services subsequent to the end of the 2011/12 financial year. In the interim, CMN has been contracted to provide overseas access at a flat per member per month rate.

Capital levels

Management and the Board of Directors continue to deal with liquidity, solvency and potential future breaches in the minimum required capital levels as a result of aged receivables from government requiring supplementary appropriations, and requests from the shareholder to offer premium rate discounts.

Requests for premium rate reductions were made by the Shareholder for the 2010/11 and 2011/12 fiscal years. The discounts have totaled \$6.6 million for the combined two years. In return CINICO was to receive indemnification coverage for the Directors, and a letter of guarantee for the settlement of the 2008/9 outstanding balances, which have been both received to-date. The letter of guarantee provided that the 2008/9 \$4.1 million outstanding balance would be settled in four equal annual installments of approximately \$1.0 million. The first installment was received in the 2011/12 year.

Despite the letter of guarantee for 2008/9 balances, CINICO continues to face capital and liquidity issues, as receivables from the 2009/10, 2010/11 and 2011/12 will not be paid without a supplementary appropriation. As shown in Table 3 on page 32, CINICO has recorded \$8.2 million of outstanding balances from government requiring supplementary appropriation (after considering the letter of guarantee for 2008/9 balances and subsequent payments made after June 30, 2012). See section "Subsequent Events" on page 56, for an update on the supplementary appropriation.

In the first calendar quarter of 2012, CINICO implemented a "Capital and Liquidity Preservation" policy which would act as an early warning indicator and provide management and the Board with predefined courses of action signaled by various declining levels of capital and liquidity.

Auditor General Report: Management of Medical Overseas Services

In May 2012, the Auditor General ("AG") released its report on the Management of Medical Overseas Services during the period 2009 to 2011.

The full AG report can be found on the AG's website www.auditorgeneral.gov.ky. Highlights were as follows:

- No review or retender of the case management company for five years.
- A second case management company was engaged to deliver case management services without approval of the Board.
- Limited evidence of effective oversight by CINICO management on the original case management company, and no evidence of any oversight on the second case management company.
- A number of cases administered internally lacked documentation.
- Governance issues – lack of a strategic plan, director appointments for terms of one year which expire at the same time.

CINICO agrees in principle with the AG report; however pointed out in their response to the AG report, that the CEO post was vacant during the period being audited. Furthermore, many of the recommendations/observations cited in the AG report (i.e. tendering case manager, strategic plan), had been on CINICO's agenda for quite some time. However, the departure of the CEO in 2008 had delayed the development and implementation of

them. With the hiring of a new CEO, the completion of the overseas case management tender, and the commencement of a strategic planning process, CINICO is on track to overcoming the deficiencies cited in the audit report. In its June 2012 Board meeting, a way forward was discussed in dealing with the AG recommendations. CINICO's management and the board have already implemented changes to address some of the recommendations/findings, and are diligently working on addressing the remaining issues raised

The detailed Management response to the AG issues is included at the end of AG report which can be found on the AG website.

Standard Health Insurance ("SHIC") Plan

As reported in the 2010/11 Annual report, CINICO has marginally increased the SHIC premium rates, renamed the plans and increased the air ambulance benefit from \$4,000 to \$15,000 effective August 1, 2011. The plans have been rebranded as follows: Low Income is now the Affordable plan; Health Impaired is now the Challenger plan; and Elderly is now the Silver plan. SHIC premium rates have not increased since July 2007, despite increases in overseas utilization and CIHSA's rates in 2009. However, due to continued increases in utilization and underwriting losses, it was necessary to increase the premium rates. The rates have increased by 7% (Affordable), and 13% (Challenger and Silver) respectively, over the prior year rates. Despite these increases, the plans are very competitively priced as evidenced by very successful enrollment during our open enrollment periods in July and January of each year.

Civil Servant Summary Plan Document ("SPD")

The SPD is a document that outlines the terms, conditions, and benefit levels of the Civil Servant Health Plan (also including retired Civil Servants). The SPD has been in existence since the inception of CINICO and provides the basis of the benefit inclusions/exclusions used to pay claims. During the past several years, little success has been made in finalizing and formalizing the SPD with the various stakeholders. In November 2011, CINICO invited representatives of the Portfolio of the Civil Service (POCS), and the Cayman Islands Civil Service Association (CICSA), to discuss and finalize the SPD. As a result, CINICO is pleased to report that for the first time since the inception of CINICO, the SPD has been finalized by all stakeholders. A significant milestone in this agreement is the introduction of a CINICO overseas network (see next section) and a 10% coinsurance for members insisting on using providers outside of the CINICO network. This would give CINICO the ability to control spiraling health care costs by including in their network providers known for quality and cost effectiveness. The 10% co-insurance would be enforced once CINICO defines its core overseas network.

CINICO Overseas Network

Currently, CINICO has had network access to thousands of overseas providers and physicians through CMN. Throughout 2011/12 CINICO has worked diligently on an overseas network RFP. The tender process commenced on October 2012 and the final decision on the winning bidder to award the contract to United Healthcare ("UHC") was made in May 2013. Implementation would commence in the last quarter of 2013, after the contracting phase. CINICO would then work with UHC to refine and define its core

overseas network. Approximately ten to fifteen quality and cost effective providers would be chosen as “centres of excellence” in various specialties, based on various industry criteria. Defining a core network would enable CINICO to negotiate better rates and ensure it receives quality care. To date CINICO has contracts with two top notch providers (St Luke’s and Cleveland Clinic).

During the year CINICO has solidified its Jamaican network, and has also used the services of a case manager who represents CINICO’s interest in Jamaica. This service has been valuable, as the case manager, who is a qualified physician, has realized significant savings for CINICO.

National Roads Authority

Effective December 1, 2011, the National Roads Authority (NRA), have enlisted their employees and their dependants to the Civil Servant Plan – a total of 90 employees and 134 dependants. NRA was formerly with CINICO up to December 31, 2008, and sought private insurance coverage up to its return to CINICO. They returned back to CINICO citing escalating premium rates in the private sector. It is CINICO’s hope to attract additional statutory authorities and government entities in the future.

Healthcare Cost Review Committee

In September 2011, Company representatives, along with other government stakeholders in healthcare, were invited to attend multiple sessions soliciting discussions, analysis and recommendations on the way forward in reducing healthcare costs. At the conclusion, the Committee made several recommendations, which were presented to Cabinet. CINICO has been closely involved in the implementation of several initiatives.

Strategic Planning

During the year, the Management and the Board set the foundation of CINICO’s strategic planning process. A separate committee would be established in 2012/13 consisting of Board members and management. The process would be facilitated and led by an outside consultant. The Strategic Plan was subsequently finalized in May 2013 and can be found on CINICO’s website (www.cinico.ky)

Internal Audit of the Eligibility Process

CINICO manages various health insurance plans based on eligibility data provided to it from outside stakeholders, i.e. with the exception of the SHIC, plans CINICO does not determine who is eligible nor control the accuracy of the eligibility data. A majority of the eligible members are under the Civil Service Plan, where the eligibility rules and data integrity is controlled by central government. Other stakeholders are the Public Service Pension Board, and the Health Insurance Commission.

Eligibility is the cornerstone of every insurance operation as it determines who is eligible for receiving benefits and also drives a lot of the costs from outside vendors who are compensated based on a fixed amount per active member.

For several years CINICO has asked the Internal Audit department for an audit of the eligibility process due to concerns with data accuracy and the issue of receiving timely updates. Issues on data integrity have been confirmed during the recent CARE Pay card distribution process where CINICO required all members to validate their data. During this exercise CINICO found many differences with the source data provided by government. Up until 2011/12, Internal Audit was not able to undertake the review

due to other scheduled audits. However, during the year CINICO met with Internal Audit officials who have begun their audit. The audit was not yet finalized at the date of this report (October 2013).

Consumer Marketing Survey

In an attempt to improve its image, ensure quality service is provided, and know where it currently stands with its insured members, CINICO, through Tower Marketing, has conducted a marketing survey on its largest group (civil servant, pensioner, and employees of government companies and statutory authorities). The survey was conducted from May 2012 to July 2012, initially through a focus group, followed up by an online survey and one-on-one interviews in some cases. The survey also measured customers' appetites in having CINICO offer other products and services such as: life insurance, property, auto, wellness programs, telephone triage, etc.

The results of the survey were completed in August 2012 and were very encouraging. Highlights of the responses were as follows:

- Approximately 10% of respondents were dissatisfied with CINICO.
- There is a sense that CINICO has improved and continues to improve.
- There were differences in how various members contacted CINICO.
- CINICO makes members feel confident about their health insurance and is seen as offering good value to the civil service.
- Members are most critical of overall CINICO management and process.
- The brand character of CINICO is most commonly described as *the Caregiver*.
- There is interest in additional paid services (example: 75% were very or somewhat interested to hear more about life insurance).

- There is interest in additional free services (example: 48% would definitely use Wellness and Lifestyle Management. 68% would definitely use Online Member Access.).

The report offers some excellent feedback to be incorporated in CINICO's strategic plan. The complete report is posted on CINICO's website (www.cinico.ky).

Quarterly Breakfast meetings with CIHSA

Starting in September 2011, the CEOs and Chairs of CINICO and CIHSA, have begun quarterly breakfast meetings to discuss and share initiatives of each Company.

Savings Initiatives

Management and the Board of Directors are cognizant of government's budget constraints, and as such are always pursuing avenues to reduce costs. In 2011/12, CINICO has identified and realized over \$1.0 million in quantifiable administration expense savings. These have been achieved from the following initiatives: renegotiation of the Simplifi contract, requesting reduction in reinsurance brokerage fees, new model for overseas case management fees, forensic review of large US\$ claims, not filling a vacant position.

CINICO has also identified and provided the Government other savings in the 2012/13 budget which require policy decisions. The initiatives would realize estimated savings in claim expenditure of \$7.9 million, including overseas ASO (indigents & Seafarer and Veterans). The initiatives used to achieve these savings are listed below:

Cost saving initiatives	\$ millions
St. Lukes Heart Health System	\$1.2
Defined Indigent Network	3.5
Indigent Discount Rates at CIHSA and other local providers	1.4
Enhanced level of Neonatal/Infancy care at CIHSA	0.6
CINICO local Case Manager	0.6
"SPD" – 10% coinsurance for out of network	0.3
Coordination of Benefits and Subrogation	0.3
Total	\$7.9

The Government has accepted these initiatives and as such CINICO has reduced the 2012/13 civil servant, pensioner, and Seafarer and Veterans premium rates. Management and the Board will be working diligently in 2012/13 to implement the Government approved initiatives, and at the same time continue to identify additional opportunities.

The allocation of the savings initiatives between insurance plans and ASO plans are as follows:

Allocation of savings: ASO versus Insurance	
Insurance	\$1.9
Overseas ASO (Indigent and Seafarers & Veterans)	6.0
Total	\$7.9

Other

In future CINICO has plans to offer a post retirement health insurance plan. Preliminary research has indicated a gap in the market for such a plan. An individual highest medical expenditure occurs during the later years. Individuals with no health insurance coverage during these years would pose a significant risk to the government's future budgets. A post retirement health plan would mitigate these risks by

encouraging individuals to contribute to their future health-care insurance plan during their working years.

During the year CINICO has also developed and priced various alternative civil servant plans. Initiatives such as these and others would be examined as part of the strategic plan.

Moving forward

With the acquisition of the EVAS, the integration of the new overseas case manager MMSI, and the selection of an overseas network in 2012/13, Management will begin the exercise of integrating these strategic initiatives into the operations of the Company. This would include the implementation of any other strategic initiatives once the strategic plan is completed. The Company is also looking at improving internal administration functions and improving efficiencies through the use of technology.

The Company would continue to be actively involved in lowering healthcare costs. This would be achieved by: forging new relationships with local care providers with the aim of lowering costs and lowering the need for overseas referrals; implementing local case management, and in partnership with CIHSA, deliver improved patient care both locally and for returning overseas patients; integration of a new overseas network specifically designed to maximize discounts based on past utilization and diagnoses trends; the development of a post retirement health plan which would limit future governments burden of having to fully fund healthcare costs for retired individuals from certain sectors; working closely with our overseas case management TPA in scrutinizing claims, and ensuring that overseas medical care continues to be pre-authorized and delivered in accordance with industry standards (i.e. Milliman guidelines); and obtain appropriate levels of reinsurance coverage to cap the Company's insurance risk.

In the coming year(s) it is both Management's and the Board's desire to expand our insured member base. This will be done by attracting other statutory authorities and government companies into the current Civil Servant plan, in addition to developing other products such as creditor life insurance and post retirement medical assurance plans.

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2011/12 FINANCIAL HIGHLIGHTS

Unless otherwise stated, all figures are reported in Cayman Islands currency. The 2011/12 budget reflects the budget approved by the Board and sent to Government, which may not be reflective of the budget reported by government.

The financial highlights for the years ended June 30, 2012, June 30, 2011 and the year-ended June 30, 2012 budget are illustrated in Table 1.

Table 1
Financial Highlights

For financial year ending June 30			
	Current year	Current year budget	Prior Year
<i>Balance sheet</i>			
Cash and cash equivalents	\$ 3,479,363	\$ 5,584,097	\$ 8,835,451
Premiums receivable	2,987,782	1,765,099	2,747,005
ASO claims and fees receivable	9,901,582	5,000,000	7,867,157
Other receivables and other assets	1,753,583	1,000,000	3,398,353
Provision for claims incurred	10,063,862	7,223,963	11,753,117
Shareholder's equity	6,826,693	5,294,776	9,462,583
<i>Statement of comprehensive income</i>			
Net income/(loss)	\$ (2,635,890)	\$ (3,360,666)	\$ (3,042,574)
Premium income (Gross)	55,386,781	56,008,665	49,815,545
Claims incurred	53,498,518	54,396,123	48,426,933
Administration expenses and fees	4,012,159	4,354,807	4,144,284

Cash and cash equivalents

Cash and cash equivalents is comprised of cash at the bank and fixed deposits (cash on hand). For the year ending June 30, 2012, the cash on hand decreased to \$3.5 million from \$8.8 million in the prior year, and is \$2.1 million lower than the projected budget amount. The decrease in cash on hand is due to lower cash flow from operational activities resulting from discounted premium, higher claims paid, and larger receivable balances.

The cash position is dangerously low as it represents less than one month of working capital (prior year: two months). Efforts are being made to collect receivable amounts due from Government requiring supplemental appropriation. As illustrated in Table 3, \$12.1 million, is tied up in these receivables.

Premiums receivable

Premiums receivable increased slightly from \$2.7 million in the prior year to \$3.0 million as at June 30, 2012. Table 2 illustrates the aging of the premium receivables, and further illustrates that a majority of the balance, \$2.0 million, requires supplementary appropriation. A further discussion on these outstanding balances is deferred to the section entitled "Outstanding amounts requiring supplementary appropriation" on page 32.

Table 2

Aging of premiums receivable												
Current year				1 year ago (2010/11)		2 years ago(2009/10)		3 years ago(2008/9)		Total		
0-45 days		46 days to 1 year										
Amounts requiring supplementary budget appropriation												
CIN 1 - Seafarers and Veterans	\$	637,847	\$	-	\$	614,848	\$	499,830	\$	-	\$	1,752,525
CIN 2- Civil Servant Pensioners		-		122,053		167,414		-		-		289,467
Subtotal	\$	637,847	\$	122,053	\$	782,262	\$	499,830	\$	-	\$	2,041,992
Others												
Ministries and Portfolios	\$	-	\$	706,048	\$	213,754	\$	-	\$	-	\$	919,802
Private insureds		25,988		-		-		-		-		25,988
Subtotal	\$	25,988	\$	706,048	\$	213,754	\$	-	\$	-	\$	945,790
Total	\$	663,835	\$	828,101	\$	996,016	\$	499,830	\$	-	\$	2,987,782

Compared with budget, the current year premium receivable is \$1.2 million higher, as the budget assumes timely collection of all receivables.

ASO claims and fees receivables

The Company administers health benefits for Indigents (not including medical services provided at the CIHSA) and overseas health benefits for the Seamen & Veterans plan (Group 30101) on behalf of the government (Ministry of HEYS&C). The funding for these services is provided through the Government budget as appropriated under the NGS 55 output (Tertiary Care at Various Overseas Institutions).

For the year ending June 30, 2012, ASO claims and fees receivable has increased by \$2.0 million to \$9.9 million. The majority of the outstanding balance relates to receivables from the 2008/9 and 2011/12 fiscal years of \$3.1 million and \$5.8 million respectively. The aging of the remaining balances is illustrated in Table 3. With the exception of the outstanding 2008/9 balance of \$3.1 million, the receipt of payment of these balances is contingent on a supplementary budget that needs to be executed by government. This is further discussed in the next section entitled "outstanding amounts requiring supplementary appropriation". An update of the supplementary appropriation subsequent to June 30, 2012 is provided in the section entitled "Subsequent Events" on page 56. In regards to the 2008/9 outstanding amount, in March 2012, the government issued the Company with a letter of guarantee to settle the \$3.1 million balance in equal installments of \$1,033,489 over the next three financial years commencing in 2012/13.

Compared to the budget, the ASO claims and fees receivable as at June 30, 2012 is \$4.9 million greater. The budget assumed that the outstanding amount from 2008/9 through 2010/11 would have been fully settled by the end of the year June 30, 2012 and that there would have been small balances outstanding from the 2011/12 year.

Outstanding amounts requiring supplementary appropriation

As at June 30, 2012, the Company is owed \$12.1 million from government for Cabinet outputs CIN 1, CIN 2 and NGS 55. Out of the total balance of \$12.1 million outstanding, \$3.1 million (2008/9 balance) has been guaranteed to be paid over three years, and \$0.8 million (2011/12) has been paid subsequent to June 30, 2012, such that the remaining balance is \$8.2 million. Table 3 provides an ageing of these outputs.

Table 3

Ageing of balances outstanding						
Year outstanding	2008/9	2009/10	2010/11	2011/12	Total	
Cabinet output						
CIN 1 - S&V local care	\$ -	\$ 499,830	\$ 614,848	\$ 637,847	\$ 1,752,525	
CIN 2 - Pensioner plan	-	-	167,414	122,053	289,467	
NGS 55	3,100,466	6,145	1,133,312	5,816,276	10,056,199	
Subtotal	\$ 3,100,466	\$ 505,975	\$ 1,915,574	\$ 6,576,176	\$ 12,098,191	
Remaining three years						
(Government letter of commitment)	\$ (3,100,466)	\$ -	\$ -	\$ -	\$ (3,100,466)	
Payments made subsequent to June 30, 2012	-	-	-	(829,275)	\$ (829,275)	
Amounts outstanding	\$ -	\$ 505,975	\$ 1,915,574	\$ 5,746,901	\$ 8,168,450	

The amounts listed in Table 3, would only be paid by government after a supplementary budget is undertaken. An update of the supplementary budget is provided in the section entitled "Subsequent Events" on page 56. Management and the board have also undertaken steps to ensure that there would be no additional balances outstanding from 2012/13 requiring a supplementary budget in relationship to the output NGS 55.

Other receivables and other assets

As at June 30, 2012, other receivables and other assets decreased to \$1.8 million from \$3.4 million during the prior year. The decrease is solely attributed to the collection of the 2010/11 claim receivables (reinsured claims) stemming from the Company Reinsurance treaty with Presidio.

Provision for claims incurred

Provision for claims incurred has decreased from \$11.8 million at June 30, 2011 to \$10.1 million at June 30, 2012. The \$1.7 million decrease is largely driven by the payment of several large claims provided for in the prior year. As at June 30, 2012 there was one large case with case reserves totaling \$0.3 million, compared with the prior year's ten cases, with case reserves totaling \$3.5 million. The average overseas unsettled balance per case as at June 30, 2012 was \$7,000 and approximately \$18,000 as at June 30, 2011.

The provision for claims incurred, also known as IBNR claims (Incurred But Not Reported), is determined using accepted actuarial techniques and current claim information available at the time. By its very nature, IBNRs include an element of uncertainty as assumptions must be used based on

historical data, which may or may not be realized in the future. Such assumptions include: the severity of losses, claims utilization factors, claim payment patterns, provider discounts, the outcome of patients' medical condition, length of inpatient stays, etc. As assumptions are used, the ultimate ("hindsight") reserve liability may be in excess of or less than the original estimates. The hindsight reserve liability would only be known with the passage of time, which is usually no greater than one year.

During the course of the year ending June 30, 2012, the outstanding claims from the previous year (2010/11) were fully settled. The hindsight information has shown that the assumptions used in the provision for claims incurred as at June 30, 2011 were conservative, such that the ultimate claim payments were \$1.6 million lower than originally estimated – favorable development. As such, the change in provision for claims incurred for the year ending June 30, 2012, includes a \$1.6 million favorable release of provision from the prior year. The provision for 2010/11 reinsurance recoveries has also increased by \$0.1 million, for a net 2010/11 favorable development of \$1.7 million, which is recorded in the year ending June 30, 2012. In comparison, the change in provision for claims incurred for the year ending June 30, 2011, included a \$3.0 million favorable release of provision from the 2009/10 year, which was offset by a \$0.3 million release in reinsurance recoveries, for a net 2009/10 favorable development of \$2.7 million.

The \$1.6 million favorable development of 2010/11 experience is broken down as follows – overseas component of \$1.0 million, and a local component of \$0.6 million. The overseas favorable development relates to better than expected case outcomes, as well as conservative reserving assumptions used in the prior year.

The provision for claims incurred as at June 30, 2012 represents approximately two months of claims (four months for overseas claims and one month for local claims). Last year's provision represented two-and-a-half months of claims (six months for overseas, and one month for local claims). Overseas claims would naturally have a longer settlement time due to the complexity of the cases referred.

The budgeted provision for claims incurred was \$7.2 million or \$2.8 million below the actual amount as at June 30, 2012. The difference is essentially due to the fact that the budget assumed full adoption of local real-time claim adjudication through EVAS, thus requiring little or no provision for claims incurred. However EVAS was only fully implemented in May 2012 and all claims incurred prior to this date have yet to be fully submitted and thus accrued in the provision for claims incurred.

Shareholder's equity

As a Class "A" Insurance Company, CINICO is required to maintain a minimum of \$3.0 million in shareholder's equity (capital).

Shareholder's equity decreased to \$6.8 million as at June 30, 2012, from \$9.5 million as at June 30, 2011. The decrease is solely as a result of the Company's year ended June 30, 2012 net loss of \$2.6 million, which is analyzed in the next section.

Table 4 illustrates the components of the shareholder's equity which comprises of an initial capital injection of \$3.0 million, subsequent equity injections of \$20.4 million (from 2005 to 2009) and accumulated losses since inception of \$16.6 million. Up to the year ending June 30, 2008, the accumulated losses were driven by premium rate deficiencies as a result of untimely and improperly coded claims from CIHSA and an increase in overseas claims utilization in the 2007/8 financial year.

The net income of \$5.8 million and \$3.5 million for years ending June 30, 2009 and June 30, 2010 (not shown in table), respectively, was due to good claim experience, timely data, and the correction of the premium rate deficiencies of the past.

Table 4
Movement and Breakdown of Shareholder's Equity

	Share capital & premium	Additional paid-in capital	Accumulated deficit	Total Shareholder's Equity
Balance at June 30, 2010	\$ 3,000,000	\$ 20,435,840	\$ (10,930,683)	\$ 12,505,157
Issuance of shares	-	-	-	-
Net income/(loss) for period	-	-	(3,042,574)	(3,042,574)
Additional paid-in-capital received	-	-	-	-
Balance at June 30, 2011	\$ 3,000,000	\$ 20,435,840	\$ (13,973,257)	\$ 9,462,583
Issuance of shares	-	-	-	-
Net income/(loss) for period	-	-	(2,635,890)	(2,635,890)
Additional paid-in-capital received	-	-	-	-
Balance at June 30, 2012	\$ 3,000,000	\$ 20,435,840	\$ (16,609,147)	\$ 6,826,693

It is important that the Company maintain a capital level well in excess of CIMA's minimum \$3.0 million requirement. A safe capital level for the Company would be in the range from \$10 million to \$15 million. This level of capital would provide two to four months of working capital. Insurance can be very unpredictable, and this unpredictability can lead to adverse claim deviations such that if the Company only maintained the required minimum level of capital, it would risk going below the minimum level in a "bad" claim year and thus would require an immediate equity injection from the Shareholder to rectify its non-compliant position. As the Company's only shareholder, the Government can't always be relied on to provide equity injections in light of their current budget constraints. In addition, the supplementary budget process can be quite lengthy, as shown by our current experience. Thus prudent risk management would require a "buffer" in the Company's capital to "weather" bad years, and provide enough time to change strategies to avoid liquidity issues.

The Company's capital position is not only negatively affected by adverse claim deviations; it can be affected by shareholder priorities and objectives which can be at odds with prudent insurance management. The following are a list of shareholder actions which have strained or will strain the Company's capital position.

- As discussed in the section entitled "Outstanding amounts requiring supplementary appropriation", \$8.2 million of the Company's working capital as at June 30, 2012, is tied up in balances requiring supplementary appropriations, of which \$2.4 million pertains to amounts outstanding greater than one year.
- At the request of the shareholder, the Board of Directors agreed to discount 2010/11 civil servant premium by ten percent, amounting to a strain on capital of \$2.9 million. The Board agreed to this request subject to obtaining indemnification coverage, and a commitment from government in settling the 2008/9 outstanding amounts requiring supplementary appropriation.
- A request for premium discounts was further made and granted on 2011/12 civil servant, pensioners and Seafarers and Veterans premium. This has put a \$3.7 million strain on capital. In return, the shareholder agreed to provide a letter of guarantee for the 2008/9 outstanding balances of \$4.1 million, and pay the balance over a period of four equal annual installments.

In making its decisions, the Board of Directors has weighed carefully their duty to the Company and obligations to the shareholder, and has first and foremost ensured that as a result of the decisions, the Company would remain solvent and above CIMA's minimum capital requirement of \$3.0 million.

Net Income/(loss)

For the year ending June 30, 2012, the Company recorded a net loss of \$2.6 million compared with a net loss of \$3.0 million for the prior year. The underlying cause of the both years loss positions relate to Government premium rate discounts which amounted to \$3.7 million, and \$2.9 million, for the years ended June 30, 2012 and June 30, 2011, respectively.

In developing premium rates, assumptions have to be made on expense levels, claim cost levels, reinsurance, etc. Table 5 illustrates the sources of the loss (or variance to the budget) compared with the premium pricing level assumptions for 2011/12. Table 6 provides same for the year ending June 30, 2011.

Table 5
Sources of Net Loss for year ending June 30, 2012 (\$ millions)

Source of Net loss	Amount	Explanation
Premium deficiency	(\$3.8)	Discount to Government - Civil Servants \$1.9 million, . Pensioners \$100k, S&V \$1.7 million. Reinsurance \$100k
Unfavorable overseas claims	(\$1.0)	Repricing fees (offset in admin exp) and ceded claims.
Unfavorable local claims	(\$0.4)	Higher utilization in Pensioner line, offset by favorable experience in Civ and S&V.
2010/11 reserve release	\$1.7	Net of reinsurance. Local \$0.6 million, overseas \$1.1 million.
Expenses and other	\$0.9	admin expenses, TPA administration fees, and release in advance claim provision.
Net loss	(\$2.6)	

Table 6
Sources of Net Loss for year ending June 30, 2011 (\$ millions)

Source of Net loss	Amount	Explanation
Premium deficiency	(\$3.3)	10% discount to Government - \$2.9 million, SHIC premium \$400k
Unfavorable overseas claims	(\$1.2)	Higher number of large claims and utilization, offset by favorable reinsurance recovery
Unfavorable local claims	(\$1.3)	Higher utilization (mostly Seamen and veteran and Pensioners) offset by favorable SHIC utilization.
Advance patient provision	(\$0.5)	provision for 2 government advance patients
2009/10 reserve release	\$2.7	Net of reinsurance. Local \$0.2 million, overseas \$2.5 million
Expenses and other	\$0.6	admin expenses and TPA administration fees
Net loss	(\$3.0)	

The 2011/12 net loss position is solely driven by a \$3.8 million premium rate deficiency resulting from discounted civil servants, pensioners and seafarer and veterans which premium (discussed in the section entitled "Shareholder's equity" on page 33). The loss is further caused by unfavorable claims experience of \$1.4 million, offset by favorable expenses of \$0.9 million and a \$1.7 million favorable 2010/11 reserve release. These items are further analyzed in subsequent sections.

The net loss of \$3.0 million for the year ending June 30, 2011, is mainly driven by premium rate discounts amounting to \$2.9 million, unfavorable claims experience of \$2.5 million, and provision for government advance claims of \$0.5 million. This is offset by a \$2.7 million release in 2009/10 reserves and favorable expenses of \$0.6 million.

The actual net loss of \$2.6 million is \$0.8 million better than the budget net loss of \$3.4 million. This is as result of the favorable expenses and the 2010/11 reserve releases. The 2011/12 budget included the negative impact of the premium discounts.

Underwriting income/(loss) by business category

Underwriting income is calculated by subtracting from premium any expenses directly attributable to a business category such as: claims, claims administration fees and segregated fund fees. No allocation is made for "overhead-type" expenditure. Table 7 illustrates the reported underwriting income/(loss) by business category for the current year, prior year and current year budget.

As discussed in the section entitled "Provision for claims incurred", the provision for claims incurred or IBNR's are calculated using various assumptions which may or may not come to fruition. Thus, it is not uncommon for the ultimate claim development in a particular year to vary from the original actuarial estimate. The ultimate ("hindsight") claims experience is only known once all claims are submitted by medical providers and settled. This is usually no longer than one year. With hindsight, the 2010/11 experience has developed favorably by \$1.7 million – i.e. the hindsight claim experience is \$1.7 million

better than originally estimated. The 2010/11 favorable experience is recorded in the 2011/12 results as a decrease in the claims incurred of the current year. Similarly, the 2009/10 experience has developed favorably by \$2.7 million, which is recorded in the 2010/11 results as a decrease in the claims incurred.

In order to provide meaningful year-over-year comparisons of the underwriting results, Table 7 adjusts the “reported” underwriting income for any hindsight claim development not pertaining to that year. This gives a “true” picture of how the business lines performed in the year, without the “noise” of reserve releases. Thus, to the true 2011/12 policy year underwriting income is calculated by reversing the favorable adjustment (\$1.7 million) pertaining to the 2010/11 year, such that the adjusted underwriting loss for 2011/12 is \$4.2 million from the reported \$2.6 million. Similarly the 2010/11 reported results are adjusted to: include the favorable 2010/11 “hindsight” development (\$1.7 million) reported in 2011/12, and reverse the 2009/10 favorable claims development (\$2.7 million) which pertains to the 2009/10 year. This yields a hindsight underwriting loss of \$4.1 million for the 2010/11 financial year compared with the reported loss of \$3.1 million.

Table 7
“Hindsight” underwriting income/(loss) by business category

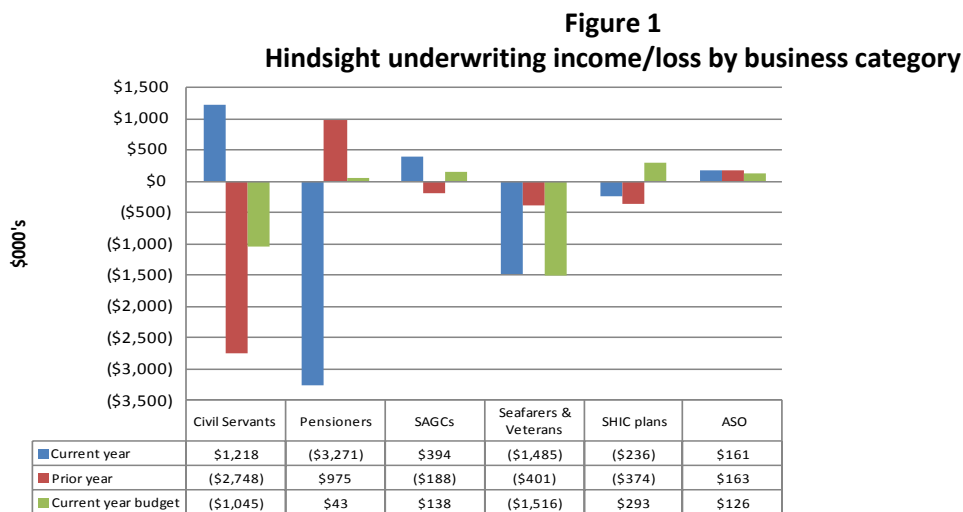
Business Category	For financial year ending June 30						
	Current year			Prior year			2011/12 Budget
	Reported	10/11 Reserve release	Adjusted	Reported	hindsight reserve adjustments (9/10, 10/11)	Prior year Hindsight	
Civil servants	\$ 1,732,785	\$ (514,864)	\$ 1,217,921	\$ (1,625,368)	\$ (1,122,843)	\$ (2,748,211)	\$ (1,045,039)
Pensioners	(2,416,241)	(854,657)	(3,270,898)	1,045,153	(69,989)	975,164	42,828
SAGCs	437,075	(42,807)	394,268	(144,248)	(43,388)	(187,636)	138,086
Seamen and veterans	(1,302,693)	(182,389)	(1,485,082)	(575,496)	174,813	(400,683)	(1,516,094)
SHIC plans	(167,777)	(67,770)	(235,547)	(378,291)	3,979	(374,312)	292,540
Administrative services only(1)	161,243	-	161,243	163,040	-	163,040	125,984
Total Underwriting income/(loss)	\$ (1,555,608)	\$ (1,662,487)	\$ (3,218,095)	\$ (1,515,210)	\$ (1,057,428)	\$ (2,572,638)	\$ (1,961,695)
Administrative expenses	1,272,465	-	1,272,465	1,017,256	-	1,017,256	1,429,971
Other expenses/(recovery)	(160,103)	-	(160,103)	534,836	-	534,836	-
Investment and other income	(32,080)	-	(32,080)	(24,728)	-	(24,728)	(31,000)
Net income/(loss)	\$ (2,635,890)	\$ (1,662,487)	\$ (4,298,377)	\$ (3,042,574)	\$ (1,057,428)	\$ (4,100,002)	\$ (3,360,666)
Discounted premium	3,731,500	-	3,731,500	2,842,707	-	2,842,707	3,722,303
Other expenses/(provision for government advance patients)	(160,103)	-	(160,103)	534,836	-	534,836	-
Net income/(loss) without discount and government provision	\$ 935,507	\$ (1,662,487)	\$ (726,980)	\$ 334,969	(1,057,428)	\$ (722,459)	\$ 361,637

(1) Category includes Group 30102 – Indigents, and Group 30103 – Advance Patients.

Also per Table 7, on a hindsight basis the net underwriting loss for the year ended June 30, 2012 is \$3.2 million, compared to a net underwriting loss of \$2.6 million in the prior year. The deterioration in the hindsight underwriting performance is due to worsening claims experience over 2010/11, particularly in the pension and Seaman & veteran business lines.

Compared with the budgeted underwriting loss of \$2.0 million, the 2011/12 actual adjusted underwriting loss of \$3.2 million is \$1.2 million higher. This is mainly due to unfavorable claims experience compared with budget, particularly within the pension and Seaman & veteran business lines. The 2011/12 budgeted net loss of \$3.3 million included the impact of the premium discounts of \$3.7 million such that if no discounts were offered, the budgeted net income would have been \$0.4 million.

Figure 1, illustrates the hindsight underwriting income/loss in graphical format.



For the year ending June 30, 2012, the Civil Servant plan (within Group 30100) has an adjusted net underwriting income of \$1.2 million, versus an underwriting loss of \$2.7 million and \$1.0 million for the prior year and budget respectively. The underwriting income is strictly driven by favorable claims experience (mostly overseas), and was earned despite granting premium discounts of \$1.9 million to the Government. The prior year's underwriting loss of \$2.7 million, was driven by government premium discounts of \$2.9 million. The budgeted underwriting loss of 2011/12 is due to assumed premium discounts.

Claim experience is analyzed in the section entitled "Claims Losses" on page 42.

The Pension segment has incurred an adjusted net underwriting loss of \$3.3 million for the year ended June 30, 2012, compared with an underwriting income of \$1.0 million in the prior year, and a budgeted break even position. The year-to-date loss was driven by large claim losses (especially overseas). In addition, \$0.2 million of the year-to-date loss was caused by government premium rate discounts. Conversely, the claims experience of the prior year was favorable, thus leading to an underwriting income.

The performance of the Seamen and Veterans plan (group 30101 – local benefits only), has deteriorated drastically from the prior year as is evidenced by the adjusted net underwriting loss of \$1.5 million compared with the adjusted net underwriting income of \$0.4 million from the prior year. The lackluster performance is a result of government premium rate discounts amounting to \$1.7 million, offset by small favorable claims experience of \$0.1 million. Had premium been paid at actuarial calculated rates, the business segment would have been roughly in a break-even position. The 2011/12 budget loss of \$1.5 million is strictly due to the government premium discounts.

Compared with the prior year, the performance of the Standard Health Insurance Contract ("SHIC") plans has improved by \$0.2 million; however this business line has continued to make a loss for the year ending June 30, 2012 (\$0.2 million). The improvement in performance from the prior year is due to increases in premium rates in August 2011. It was necessary to increase premium rates, as premium rates have not been adjusted for several years despite increases in healthcare costs (namely

the CIHSA charge master) and utilization. The budget assumed an underwriting income of \$0.3 million due to aggressive premium rate increases.

Loss Ratios

Loss ratios are a measure of the premium's effectiveness in covering claim expenses. A majority of premium income is used to pay for claims with any excess applied to cover administrative costs and provide a return. The loss ratio is calculated by dividing the claims incurred by the premium income. A loss ratio in excess of 100% means that the premium is not sufficient to cover the claim costs. The significance of Loss ratios greater than the high eighties is that the premium rate is not able to cover administration costs.

Figures 2 and 3 illustrate loss ratios by business segment for the years ending June 30, 2011, June 30, 2012 and the 2011/12 budget. The loss ratios are on a net of reinsurance basis, meaning that reinsurance premium has been subtracted from premiums and reinsurance claim recoveries has been subtracted from claims. In addition the 2010/11 loss ratios are on a hindsight basis meaning that they have been adjusted for any prior year and post year reserve adjustments (see Table 7).

Figure 2 reveals that the 2010/11 loss ratios of all business segments were above 100%, with the exception of the Pensioner business segment. The loss ratio in the Civil Servant business segment of 102% was due to the 10% premium rate discount totaling \$2.9 million. Had premiums not been discounted, the loss ratio would have been 92%. Figure 3 also reveals that the Seafarer and Veterans claim costs slightly outpaced premium which led to a loss ratio of 101%. This is despite a 16% premium rate increase effective July 1, 2010. The loss ratio in SHIC was 102%.

Figure 2
2010/11 Premium, Claims, Loss Ratios

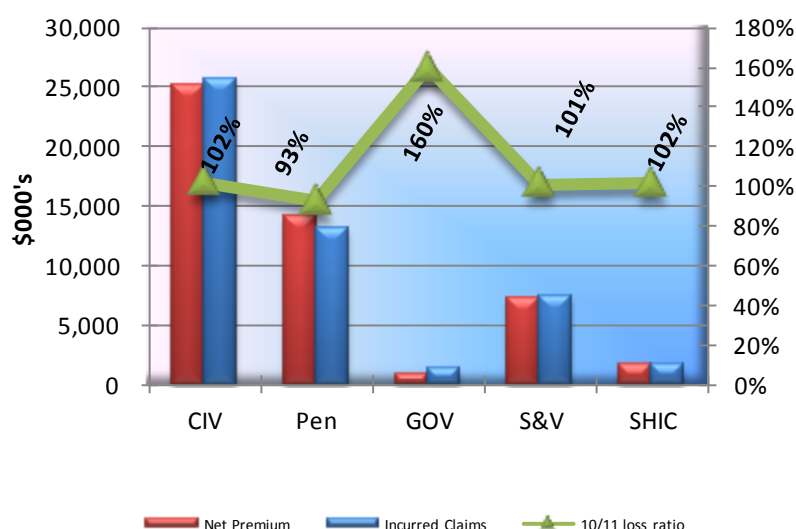
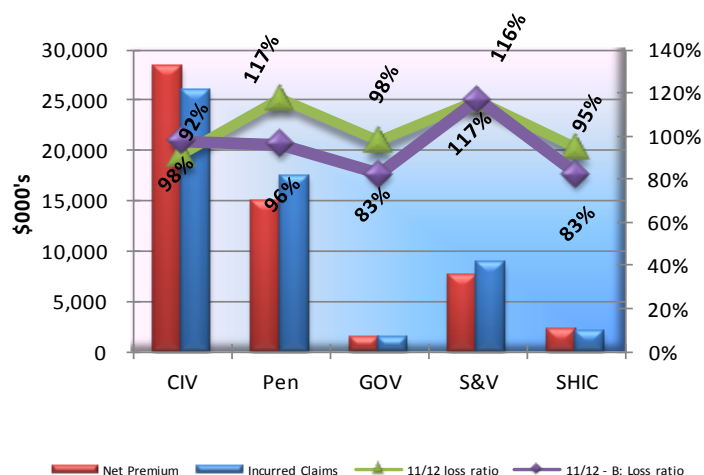


Figure 3
2011/12 Premium, Claims, Loss Ratios



As depicted in Figure 3, the 2011/12 Pension and S&V loss ratios were above 100% as claims incurred outpaced the premium earned. However the high loss ratios are due in part to premium rate discounts provided to these segments - \$0.2 million to Pension, and \$1.7 million to S&V. Had premium been paid at the true value, the Pension loss ratio would have been 116% instead of 117%, and the S&V loss ratio would have been 95% instead of 116%. The budgeted loss ratios also factored in the lower premium resulting from the discount.

The Civ, Gov & SHIC segments incurred loss ratios of 92%, 98% and 95% respectively. These are still relatively high, however the 2011/12 CIV premium was discounted by \$1.9 million such that the loss ratio would have been 86% without this discount. The budgeted loss ratio's included the impact of the premium discount. The budgeted loss ratios variances are mostly due to differences in claim experience.

With the exception of the Civ and the Gov segments, the underlying cause of the high loss ratios in all segments is due to the fact that claims have outpaced premium income. Premium rates are set well in advance of the start of the year based on historical claim trends and are not altered during the year. Alternatively, claim experience could develop much differently from the assumptions made for premium rate setting thus resulting in a loss if actual experience develops unfavorably. Both premium and claims are further analyzed in the next sections entitled "Premium Income" and "Claim Losses (page 40 and 42).

Premium income

Premium income is driven by the number of lives covered and the premium rates charged. Table 8 illustrates the average number of covered lives throughout the comparative periods.

Table 8
Average number of covered lives insured

	Current year	Budget	Prior year	% change to budget	% change to prior year
Civil Servants	7,709	7,987	8,016	-3%	-4%
Pensioners	1,876	1,841	1,807	2%	4%
SAGCs	373	261	249	43%	50%
Seamen and Veterans	1,338	1,320	1,325	1%	1%
SHIC plans	1,356	1,148	1,162	18%	17%
Total	12,652	12,557	12,559	1%	1%

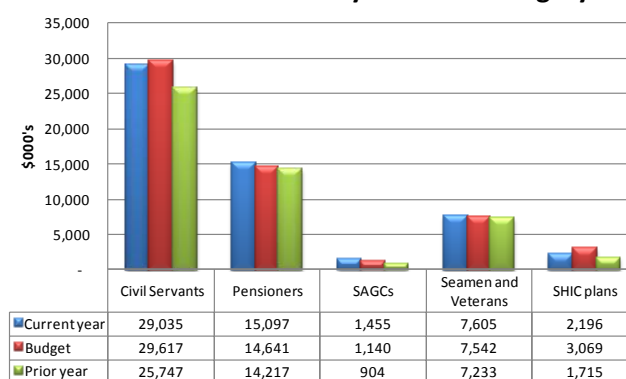
As illustrated in Table 1 on page 30, overall gross premium income increased to \$55.4 million for the year ended June 30, 2012 from \$49.8 million in the prior year, representing an increase of \$5.6 million. A majority of the increase is rooted in the Civil Servant plan. The overall increase in premium income is mainly due to increases in premium rates in all business segments, followed by increases in membership (with the exception of the Civil Servant plan which actually showed a four percent decrease in average membership from the prior year). This is offset by the government premium discounts which were \$3.7 million for the year ended June 30, 2012 and \$2.8 million for the year ended June 30, 2011.

Compared with the budget premium income (Gross) of \$56 million, the current year premium income falls short by \$0.6 million. The decrease to budget is stemming from the SHIC business segment. The 2011/12 budget assumed the introduction of the Health Insurance Law mandating higher benefits in the SHIC plans, and hence higher premium rates. The introduction of increased SHIC benefits has been delayed.

Figure 4 illustrates the gross premium income by business segment for the current year, budget, and prior year. Approximately 82% of the current year gross premium income is attributed to Group 30100 (Civil Servants, Pensioners and Government Entities). For the year ended June 30, 2012, the Civil Servants' gross premium income increased by \$3.3 million to \$29.0 million from the prior year gross premium income of \$25.7 million. The increase is essentially due to premium rate increases effective July 1, 2011, lower premium discounts offered in 2011/12 versus 2010/11 (To note, both year ending June 30, 2012, and June 30, 2011 included government premium discounts of \$1.9 million and \$2.8 million respectively), offset by lower premium resulting from lower membership (4% decrease in membership from the prior year). Compared with the budget of \$29.6 million, the current year gross premium income falls short by \$0.6 million as a result of lower membership (illustrated in Table 8). Note the budget also assumed a government premium discount amounting to \$1.9 million.

The Pensioner segment earned gross premium income of \$15.1 million which was \$0.5 million and \$0.9 million higher than the budget and the prior year respectively. The increase over the budget is due to actual covered lives being 2% greater than budget (Table 8). The increase over the prior year is due to a 4% increase in covered lives (Table 8), offset by lower premium income of \$0.2 million resulting from 2011/12 premium discounts.

Figure 4
Gross Premium Income by Business Category



Premium income from Government entities has increased by 61% (\$0.6 million) to \$1.5 million from the prior year. Compared to budget, current premium income from Government entities is \$0.3 million higher. The increase is due to an increase of covered lives (see Table 8) resulting from the enrollment of employees and dependants of the National Roads Authority, which added over 200 lives.

Premium income from the Seafarers and Veterans plan has increased to \$7.6 million from the budget of \$7.5 million and the prior year premium income of \$7.2 million. The increase compared to the budget is due to a 1% increase in covered lives. The increase compared with last year is due to higher covered lives in addition to a premium rate increase of 4% in 2011/12.

For the year ended June 30, 2012, premium income from the SHIC plans was \$2.2 million, compared with the budget of \$3.1 million and the prior year premium income of \$1.7 million. The decrease over budget is due to the fact that the budget assumed the introduction of the new SHIC plan (higher benefits) with the introduction of the revised health insurance law. The health insurance law has not been updated in 2011/12 as planned. Compared with the prior year, the increase in premium income is due to a 17% increase in membership due to successful open enrolment campaigns, in addition to increases in premium rates. As mentioned earlier, SHIC premium rates have not been increased since August 2011, and were necessitated due to higher CIHSA charge-master rates and utilization.

Reinsurance premium

The Company uses reinsurance coverage as part of its risk management strategy and has maintained adequate coverage on Group 30100's overseas claims for seven years. The reinsurance premium rate during the 2011/12 was \$11.78 per member per month ("PMPM"), representing an 86% increase over the prior year's rate of \$6.32 PMPM. The increase was a result of large reinsurance claims over the 2009/10 and 2010/11 year amounting to over \$3.5 million.

The Company's reinsurance coverage is as follows:

- Reinsurer's liability not to exceed an amount equal to US\$5,000,000 less the Company's retention of US\$ 700,000 (US\$ 609,756 in the prior year) relating to any one covered person per the agreement term.
- Company retention of US\$ 700,000 (US\$ 609,756 in the prior year) per covered person.
- Reinsurer aggregate loss limit – US\$10.5 million.
- Profit commission sharing component of 45% (35% in the prior year). The profit commission sharing component entitles the Company to a partial refund of premium subject to certain conditions being met, most important of which is good claims experience. As a result of the provision, and given that there has been good claims experience in the 2011/12 treaty year, the Company has accrued a refund of premium totaling \$347k.

Overall, reinsurance premium increased to \$1.0 million for the year ended June 30, 2012 from \$0.8 million in the previous year, and a budget of \$0.9 million. The increase over the prior year is attributed to higher premium rates.

Claims Losses

Claims Incurred

Table 9 illustrates incurred claim losses by group and location (local versus overseas) for the years ending June 30, 2011, June 30, 2012 and the 2011/12 budget. The figures reported are net of reinsurance recoveries and repricing fees. Additionally, the incurred claims are presented on a

“hindsight basis”. For example, for the year ended June 30, 2011, the original reported claims were \$50.9 million which included claims incurred and paid during the period, in addition to an estimate for claims incurred but not reported (claim provision). In hindsight, and one year later, the 2010/11 claim reserve showed an unexpected favorable development of \$1.7 million (net of reinsurance), so that the final 2010/11 claims incurred are \$49.2 million compared with the reported figure of \$50.9 million. For the year ended June 30, 2012, claims incurred increased by \$6.4 million to \$55.7 million from “hindsight” claims incurred of \$49.3 million the year before. (The 2010/11 favorable reserve development of \$1.7 million, is explained in the section “provision for claims incurred” on page 32).

As discussed in the “provision for claims incurred” section, the ultimate (“hindsight”) claims incurred amount would be only be known once all claims have been submitted by medical providers and settled, which is likely to take no longer than one year. As such, the 2011/12 total claims incurred estimate is made up of claims incurred in 2011/12 which were paid in the same year, plus an estimate for any claims outstanding. The estimate for claims outstanding, also known as IBNRs (Incurred But Not Reported) is based on actuarial methods and assumptions (see section entitled “provision for claims incurred” on page 32). Table 9, illustrates that as at June 30, 2012, \$9.7 million or 17% of the total 2011/12 claims incurred amount of \$55.7 million is made up of IBNR’s.

Table 9: Incurred Claim Losses (000’s)

	2010/11			2011/12			Inc/(dec)	2011/12	Inc/(dec)
	Reported	Hindsight adjustment*	Final	Incurred in 11/12 & paid in 11/12	IBNR	Reported		Budget	
Local									
Group 30100	24,829	(409)	24,420	26,056	3,035	29,091	4,671	28,678	413
Group 30101	7,506	(182)	7,324	7,988	882	8,870	1,546	8,821	49
Group 30104	1,054	13	1,067	1,309	68	1,377	310	1,755	(378)
	33,389	(578)	32,811	35,353	3,985	39,338	6,527	39,254	84
Overseas									
Group 30100	16,795	(1,003)	15,792	10,344	5,361	15,705	(87)	14,409	1,296
Group 30101	-	-	-	-	-	-	-	-	-
Group 30104	761	(81)	680	372	310	682	2	772	(90)
	17,556	(1,084)	16,472	10,716	5,671	16,387	(85)	15,181	1,206
Total									
Group 30100	41,624	(1,412)	40,212	36,400	8,396	44,796	4,584	43,087	1,709
Group 30101	7,506	(182)	7,324	7,988	882	8,870	1,546	8,821	49
Group 30104	1,815	(68)	1,747	1,681	378	2,059	312	2,527	(468)
	50,945	(1,662)	49,283	46,069	9,656	55,725	6,442	54,435	1,290
* net of reinsurance adjustment of \$120k									
Prior year adjustment in reserves*	(2,720)					(1,662)			
ALAE reserve	202					(565)		(39)	
Claim losses per f/s	<u>48,427</u>					<u>53,498</u>		<u>54,396</u>	

Legend:

Group 30100 - Civil servants, pensioners and various SAGCs

Group 30101 - Seamen & veterans and their dependents

Group 30104 - SHIC plans (Affordable, Challenger, and Silver)

As mentioned in the previous paragraph, and illustrated in Table 9, incurred claim losses increased by \$6.4 million to \$55.7 million from the prior year’s hindsight figure. The majority of the increase (\$4.6 million) is attributed to Group 30100, which increased by 11% from the previous year. Group 30101 and Group 30104 also showed increases of \$1.5 million and \$0.3 million, respectively.

In analyzing the increase between overseas and local claims, the local claims account for the full increase; overseas claims have actually retracted by \$85k from the prior year. This is due to intensified case management efforts, utilizing local providers (particularly for imaging and cardiovascular services) to the fullest extent, and a decrease in the number of large cases over the previous year.

Despite reductions in overseas claims from the prior year, overseas claims continue to demand a large share of the total claims expenditure, approximately 29% for the year ending June 30, 2012 and 33% for the prior year. The fundamental causes of the relatively large share are due to the low level of on-island specialists, and an increasing amount of large-dollar-value complicated cases being referred overseas and which can be sporadic year after year (Premature babies which could easily cost in excess of US\$ 1.0 million). There is also evidence that suggests that little follow-up is done upon a patient's return from an overseas medical appointment, thus leading to multiple overseas visits. Other factors driving overseas costs are: improvements in technology, new and costlier procedures, and medical inflation in the United States. However, the fact that the overseas claims were lower than the prior year, and the overseas share of total claim dollar retracted from 33% to 29% shows that there were successes in curbing overseas costs.

Factors driving increasing overall claim costs (local and overseas) are new and costly pharmaceutical drugs; educated membership; physician practice patterns leading to more tests and prescribing more drugs; higher number of covered lives; general health of the population; and over-utilization, as a result of a plan design which is not cost prohibitive to the members and is free.

As discussed in the operational highlights, during the course of the 2011/12 year, the Company has selected a new overseas case management company (MMSI) who was charged with reducing claims and improving the quality of care being delivered – which would lead to reduced costs with a reduction in re-admissions. Over the next year, the Company would be hiring a local case manager to choose a new overseas network provider with the aim of lowering claim cost while provided quality care.

Compared with budget, the overall claims incurred for the year ending June 30, 2012, were \$1.3 million higher. The majority of the increase occurred within Group 30100's overseas claim costs. The budget anticipated a lower trend factor than was actually realized resulting from the hiring of a new overseas claims Management Company and refining the overseas network access. The new overseas case management company took over during the last quarter of the fiscal year, and the overseas network access is currently out on tender.

Reinsured Claims

As mentioned earlier, the Company maintains reinsurance coverage on overseas claims for Group 30100, relating to any one covered person exceeding US\$700,000 in claims up to US\$5,000,000, per the agreement term.

For the year ended June 30, 2012, one case has exceeded the reinsurance retention limit compared with four cases from the prior year. The reinsurance expense recovery for the year ended June 30, 2012 is \$0.3 million and consists of: \$0.2 million representing the estimated recovery for the one case which exceeded the reinsurance policy's retention limit; plus a \$0.1 million "hindsight" adjustment in the reinsurance recoverable from the prior year.

The reinsurance expense recovery for the year ended June 30, 2011 was \$2.0 million and consisted of: the recovery of claims on four cases which exceeded the retention limit and estimated to be \$2.3 million; offset by a \$0.3 million “hindsight” adjustment in the reinsurance recoverable from the year ending June 30, 2010.

As at June 30, 2012, \$1.3 million remains collectable from the Company’s reinsurance provider, representing reinsurance claims from the 2011/12 and 2010/11 treaty years, and the expected profit commission recovery of \$0.3 million (see “reinsurance premium” section on page 42). As at June 30, 2011, \$3.3 million in reinsurance recoveries remained collectable. During the course of 2011/12, the Company received \$2.7 million in payments from the reinsurer.

The combined reinsurance premium paid for the year ended June 30, 2011 and June 30, 2012 amounted to \$1.8 million (net of the \$0.3 million profit commission recovery). The Company will be recovering \$2.3 million, for a net experience gain on its reinsurance program of \$0.5 million over these two years.

Per Member Per Month Incurred Claim Costs

Per member per month (“PMPM”) incurred claim costs show the average monthly incurred claims per insured member (enrollee or dependant). It is a better way to analyze overall claims costs and trends, as the analysis is not influenced by changes in membership since it is on a per member basis. Figures 5 through 8 illustrate the PMPM monthly average incurred claim costs for the years ending June 30, 2008, 2009, 2010, 2011, 2012 and the 2012 budget for the various Company-insured plans. The graphs provide a further breakdown of these costs between local and overseas. The PMPM claim costs do not include reinsurance or repricing fees (which only affect the overseas component). Also of note, the CIHSA fees increased effective March 1, 2008 and again January 1, 2009.

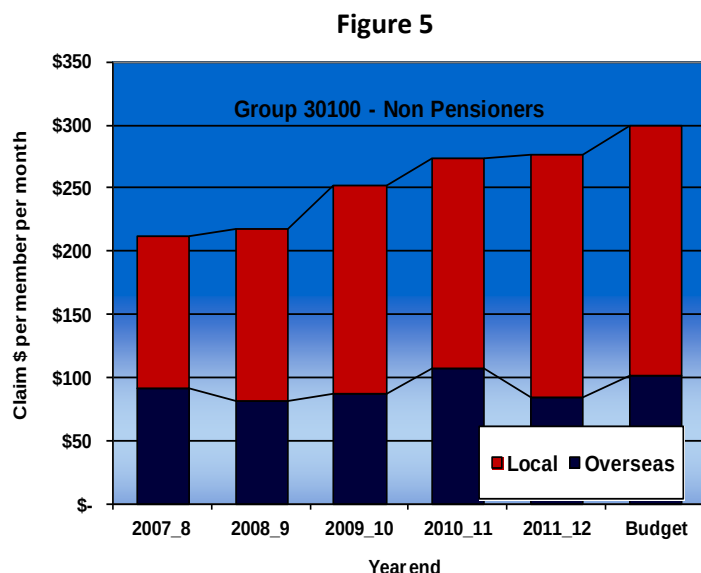


Figure 5 illustrates that the overseas PMPM costs for the Non Pensioners category within Group 30100 decreased by 21% over the prior year. However, this is offset by a 15% increase in the local PMPM costs, such that overall PMPM costs (local plus overseas) increased marginally by 1% over the prior year. The decrease in the overseas PMPM is due to a lower number of large cases, improved case management and increased local utilization of diagnostic and cardiovascular services which were previously referred overseas. Local costs have

increased due to higher utilization. For the year ending June 30, 2012, the local share of the total PMPM claim costs jumped to 70% from 61% in the prior year. This climb is reflective of the increased use of local services previously referred overseas. The overall PMPM cost for the current year of

\$277 PMPM was 92% of budget, representing a \$23 PMPM favorable variance.

Figure 6 shows the PMPM costs for the Pensioners category within Group 30100. The June 30, 2012 claim PMPM costs were \$768 compared to \$631 and \$635 for the prior year and budget respectively. The increase is due to a dramatic rise in utilization both locally and overseas. As the average age in this segment increases, we would expect year over year increased in cost and utilization.

Figure 6

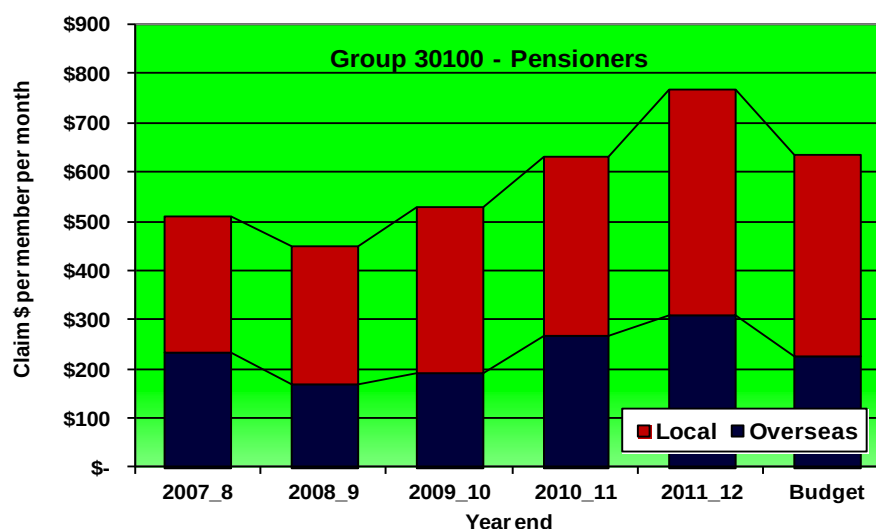


Figure 7 shows that the PMPM cost for the Seamen & Veterans group (30101) has increased by 18% from the prior year to \$551. The increase is due to higher utilization. As with the Pension segment, and considering that eligibility to this block of business is limited and waning, the PMPM would increase year after year as the population ages.

Figure 7

Compared with the budget PMPM of \$557, there was a favorable variance of \$6. The 29% increase in PMPM from 2008/9 to 2009/10 was due to increases in CIHSA's rates, which affected all groups. The affects of the rate increases are more pronounced in groups with smaller membership.

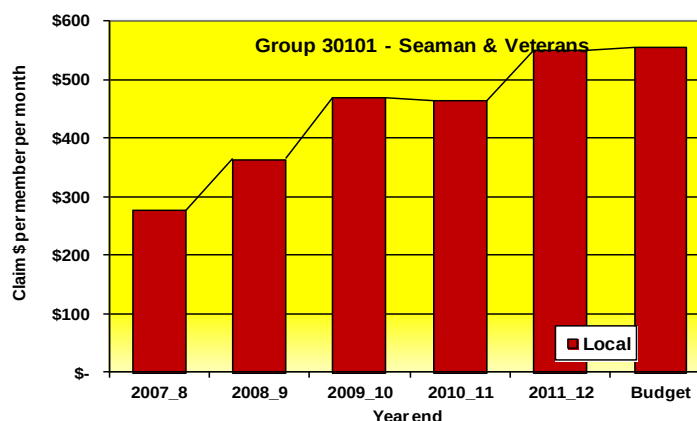
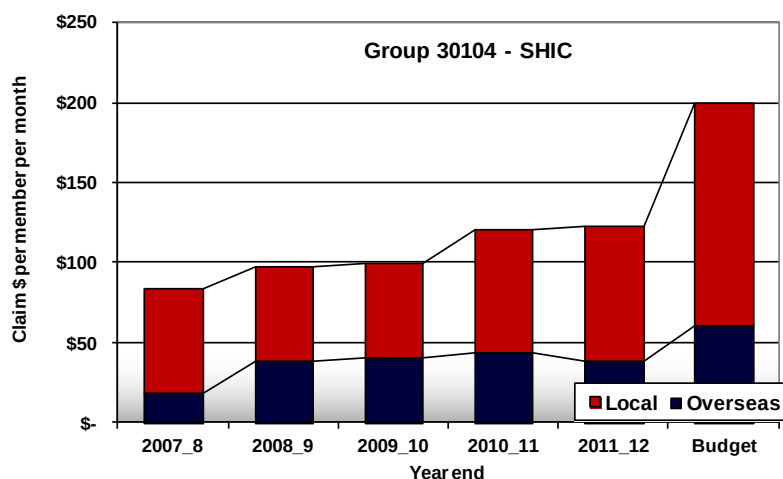


Figure 8 illustrates that the SHIC plan (Group 30104) PMPM incurred a moderate increase of 1% from the prior year (\$121 to \$123). However there are sharp contrasts between the overseas PMPM which receded by 13% over the prior year, and the local PMPM which exhibited a 10% increase over the prior year. The decrease overseas is explained by a lower number of larger claims, in addition to certain services being performed on island when traditionally they were performed overseas. At

\$200, the budget PMPM costs was \$76 higher than the actual PMPM costs for the year ending June 30, 2012, as the budget assumed that the long awaited increase in SHIC plan benefits would have taken place in the 2011/12 year. No benefit changes were made in 2011/12 and as such the actual PMPM costs were significantly below the budget.

Figure 8



Provision (release of provision) for contingencies

For the year ending June 30, 2011 the Company recorded a \$0.5 million provision for patients deemed uninsured/underinsured (“advance patients”) relating to two lawsuits filed against the Company by two separate overseas healthcare providers for unpaid medical bills from the 2007/8 fiscal year. At that time in 2007/8, the Company was acting as an intermediary, on behalf of the Government, by facilitating emergency overseas healthcare services for advance patients. The medical bills were not paid as these were not CINICO’s liabilities/risks and Government did not provide the Company with funding due to budgetary constraints.

In the 2011/12 fiscal year, one of the two claims has been settled for \$154,617, or 49% of the original 2010/11 provision of \$314,720. The difference between the original provision and the settlement (\$160,103) is recorded under the line item, “Provision (release of provision) for contingencies”, in the income statement.

In regards to the second claim, while in the process of receiving additional information during the settlement phase, the Company discovered that the claim was actually an insurable risk (i.e. pertained to Group 30100 and was not an advance patient, as originally assumed). Furthermore, it was a 2007/8 reinsured claim and the Company’s reinsurance provider denied payment of several medical bills as the services were deemed “experimental” and not covered under the plan. The Company, along with its reinsurance provider, is in the process of settling these claims for a lower amount.

Further disclosure is provided in Note 20 of the Financial Statements contained in the Appendix.

Expenses

Table 10 illustrates overall expenses split as follows: 1) Expenses directly attributed to a business segment such as claims administration and other expenses, 2) contributions to the segregated insurance fund, and 3) Administrative expenses.

Table 10
Expenses by category

	Current Year		Full Year 2011/12 Budget	Prior Year
Contribution to segregated fund	\$	604,445	\$	589,054
Claims administration expenses		2,295,342		2,335,782
Administration expenses		1,272,465		1,429,971
	\$	4,172,252	\$	4,354,807
			\$	3,609,448

For the year ended June 30, 2012, total expenses amounted to \$4.2 million. The majority of expenses (70%) are incurred on items attributed to a business segment (i.e. SIF contribution and Claims administration costs). The current year total expenses represent a \$0.2 million decrease compared with budget, and an increase of \$0.6 million over the prior year. The favorable performance to budget is mainly due to lower administration expenses. And the increase in expenditure from last year is a combination of higher claims administration expenses and administration expenses further analyzed below..

Contributions to segregated fund

Contributions to the segregated insurance fund are mandated under Section 5(1) of the Health Insurance Regulations, and are determined by the number of insurance policies in force - \$5 monthly charge for a single covered policy, and \$10 monthly charge for a single covered policy with dependants. For the year ended June 30, 2012, contributions to the segregated insurance fund increased by \$19k to \$604k from the prior year, and were also higher than the budgeted amount of \$589k. The increase over last year and budget is essentially due to a higher number of policies in-force.

Claims administration expenses

Claims administration expenses are for services rendered by third party administrators (TPAs) – Simplifi, AIS, MMSI, and CMN. See the section entitled “Business Partners” on page 10 for a description of the services received from these companies. With the exception of fees paid to AIS, which are based on a percentage of claims paid to CIHSA, a majority of the fees paid to the TPAs are based on a “per enrollee per month” (PEPM) or “per member per month” (PMPM) basis.

During the year, the Company restructured the manner in which fees were assessed for case management and network access services. Prior to April 1, 2012, case management and network access fees were calculated on a percentage of savings basis and provided by one TPA. The percentage of savings fee (known as repricing fees) also included overseas claims administration services and was classified along with claims expenses. From April 1, 2012 onwards, the Company is now using two separate TPA’s to provide case management (including claims administration) and

overseas network access services. Furthermore, the fees are assessed on a PMPM basis, rather than a percentage of savings basis, which increases with higher overseas volume. The restructuring has eliminated the conflict of interest in having one entity provide both services, and is also estimated to realize an annual savings of over \$800k (repricing fees and claims administration expenses). Finally, the Company feels that overseas claim costs would be better controlled, as there would be no incentive for the TPA to increase their revenues, since their revenues are fixed, and not dependant on claim costs.

As discussed in the operational highlights, the Company has also changed the way it adjudicates CIHSA claims. CIHSA claims are now being adjudicated electronically via the EVAS provided by AIS (Dental claims – effective February 5, 2012; Medical claims – effective May 2, 2012).

For the year ending June 30, 2012, claims administration costs were \$2.3 million compared with a budget of same, and a prior year cost of \$2.0 million. The increase to the prior year is due to a higher number of members insured. In addition, as explained in the second paragraph of this section, from April 1, 2012, case management fees are now included in the claims administration expenses.

Administration expenses

Administration costs are those incurred locally in the operation of the Company's office which includes salary & benefits, rent, depreciation, audit fees, etc.

For the year ended June 30, 2012, administration expenses amounted to \$1.3 million, or \$157k below the budget of \$1.4 million. A majority of the favorable variance to budget is due to lower staffing costs as the budget assumed new posts, which weren't filled during the year. Last year's administration expenses amounted to \$1.0 million, or \$255k million below the current year. The increase in expenses from the prior year is mainly due to higher salary (CEO hired in Dec 2010, thus 2011/12 had a full year expense versus seven months for the year prior) and higher depreciation, promotional materials, IT and temp costs resulting from the implementation of EVAS.

As a percentage of premiums, total expenditure (Expense ratio) is 7.53% and 7.25% for the year ending June 30, 2012 and June 30, 2011, respectively. Including claim re-pricing fees, expense ratio is approximately 9.9%. The industry average for similarly sized companies in the USA is approximately 15%.

SUMMARY OF OWNERSHIP PERFORMANCE TARGETS

The ownership performance targets (as specified in schedule 5 in the Public Management and Finance Law 2010) for CINICO for the 2011/12 financial year are as follows. (NOTE: The 11/12 budget figures reflect the budget approved by the Board and sent to the government, which may not be reflective of the budget reported by the government).

Financial Performance

Financial Performance Measure	2011/12 Actual \$	2011/12 Budget \$	Annual Variance \$
Revenue from Cabinet	22,639,738	22,112,340	527,398
Revenue from ministries, portfolios, statutory authorities and government companies	30,966,588	31,026,373	(59,785)
Revenue from other persons or organisations	1,268,461	2,251,551	(983,090)
Surplus/deficit from outputs	-	-	-
Other expenses	57,510,677	58,750,930	1,240,253
Net Surplus/Deficit	(2,635,890)	(3,360,666)	721,776
Total Assets	18,802,903	13,938,977	4,863,926
Total Liabilities	11,976,210	8,644,201	(3,332,009)
Net Worth	6,826,693	5,294,776	1,531,917
Cash flows from operating activities	(5,116,085)	(2,752,839)	(2,363,246)
Cash flows from investing activities	(240,003)	(3,000)	(237,003)
Cash flows from financing activities	-	-	-
Change in cash balances	(5,356,088)	(2,755,839)	(2,600,249)

Financial Performance Ratio	2011/12 Actual	2011/12 Budget	Annual Variance
Current Assets: Current Liabilities	131%	154%	-23%
Total Assets: Total Liabilities	157%	161%	-4%

Explanation of Variances

- Revenue from Cabinet is \$0.5 million higher than budget due to a higher number of insured members covered.
- Revenue from "other persons or organizations " is \$.1.0 million below budget as the budget assumed that the new mandated SHIC plan would be introduced in 2011/12, however the plan has not been enacted as of yet.
- Other expenses are \$1.2 million below budget due to: Lower than expected claim costs (\$0.9 million); a \$0.2 million release in provision for litigated claims; and \$0.1 million favourable administration costs.
- Actual Net Surplus/Deficit is \$0.7 million better than budget due to; \$1.2 million favourable other expenses (see note 3), offset by lower revenues (see note 1 and 2).

Explanation of Variances (continued)

5. Total Assets are \$4.9 million higher than budget essentially due to unpaid NGS 55 Ministry of Health balances (see section "Outstanding amounts requiring supplementary appropriation" on page 32. Total Liabilities are higher than budget by \$3.3 million due to higher actuarial liabilities.
6. Net worth is \$1.5 million higher than budget due to higher 2011/12 net income, and higher 11/12 opening position than forecasted in budget.

Maintenance of Capability

Human Capital Measures	2011/12 Actual	2011/12 Budget	Annual Variance
Total full time equivalent staff	9	10	(1)
Staff turnover (%)	12.5%	0%	(12.5)%
Average length of service (Number)			
Senior management	4.3	4.3	-
Professional staff	4.3	4.3	-
Administrative staff	5.5	5.3	(0.2)
Significant changes to personnel management system	none	none	N.A.

Physical Capital Measures	2011/12 Actual \$	2011/12 Budget \$	Annual Variance \$
Value of total assets	18,802,903	13,938,977	4,863,926
Asset replacements: total assets	1%	1%	0%
Book value of depreciated assets: initial cost of those assets	69.2%	64%	5.2%
Depreciation: Cash flow on asset purchases	18%	5,206%	(5188)%
Changes to asset management policies	NONE	NONE	N/A.

Major Capital Expenditure Projects	2011/12 Actual \$	2011/12 Budget \$	Annual Variance \$
Furniture, PCs, implementation of electronic adjudication system	240,003	3,000	(237,003)

Explanation of Variances

1. Number of full time equivalent staff is lower than budget as the budget assumed a post for a case manager not yet hired.
2. Major capital expenditure projects higher than budget due to a timing variance. The Budget assumed that the capital expenditure for the EVAS would be made by June 30, 2011, when some payments were made in 2011/12.

Transaction	2011/12 Actual \$	2011/12 Budget \$	Annual Variance \$
Equity Investments into <i>CINICO</i>	-	-	-
Capital Withdrawals from <i>CINICO</i>	-	-	-
Dividend or Profit Distributions to be made by <i>CINICO</i> .	-	-	-
Government Loans to be made to <i>CINICO</i> .	-	-	-
Government Guarantees to be issued in relation to <i>CINICO</i> .	-	-	-
Remuneration Payments made to Senior Management	274,209	269,336	(4,873)

	2011/12 Actual	2011/12 Budget	Annual Variance
Number of Senior Management	2	2	0

STATEMENT OF OUTPUTS DELIVERED TO CABINET

The Company delivers two outputs to Cabinet; (1) CIN 1, the provision of health insurance for Seaman and Veterans and their dependants (local benefits only), and (2) CIN 2, the provision of health insurance for Civil Servant Pensioners and their dependants. The following is a summary of the performance of those outputs for the year ending June 30, 2012.

CIN 1	Health Insurance for Seaman & Veteran			
Description				
Payment of insurance premiums for Seaman & Veteran and their dependents for insurance coverage by CINICO.				
Measures		2011/12 Actual	2011/12 Budget	Annual Variance
Quantity				
Total (average) number of persons insured - premiums fully paid by Cabinet		1,308	1,293	(15)
Total number of persons insured – premiums partially paid by Cabinet (Veterans)		20	21	1
Quality				
All eligible Seamen, Veterans and their dependents are insured who met the definition under the Health Insurance Law		98-100%	98-100%	0
Timeliness				
Insurance cards issued within 15 days of notification of eligibility		98-100%	98-100%	0
Location				
Grand Cayman, Cayman Brac and Little Cayman		n/a	n/a	
Cost (of producing the output)				
\$581 per person insured per month discounted to \$476.20 per person insured per month (premiums fully paid by Cabinet) \$362.20 per person insured per month (Veteran premiums partially paid by Cabinet)				
Price (paid by Cabinet for the output)		\$7,542,685	\$7,471,839	(70,846)

Explanation of Variances

Output is over budget as the number of members covered was higher than what was budgeted.

CIN 2	Health Insurance for Civil Servant Pensioners			
Description				
Provision of Health Insurance for Civil Servant Pensioners and their dependants				
Measures		2011/12 Actual	2011/12 Budget	Annual Variance
Quantity				
Total number of insured persons (Insured = Enrollees + dependants).		1,794-1,1940	1,796-1,886	2-(54)
Total number of enrollees		1,011-1,082	1,005-1,055	(6)-(27)
Quality				
• All eligible pensioners and their dependents are insured who are deemed to be eligible by the Public Service Pension Board.		98-100%	98-100%	0
Timeliness				
• Insurance cards issued within 15 days of notification of eligibility		98-100%	98-100%	0
Location				
• Grand Cayman, Cayman Brac and Little Cayman		n/a	n/a	
Price				
Monthly Premium rate multiplied by coverage enrollee type Monthly Premium rates: Single-\$762 discounted to \$754, Couple-\$1,523 discounted to \$1,507, Single & children - \$1,142 discount to \$1,130, Family - \$1,904 discounted to \$1,884..		15,097,053	14,640,501	(456,552)

Explanation of Variances

Premium (cost to Cabinet) is higher than budget as the number of insured persons was also higher than budget, thus driving increasing the costs.

NGS 55 Tertiary Care at Various Overseas Institutions

The Company also provides services to the Ministry of HEYS&C in the delivery of the NGS 55 output (provision of tertiary health care for indigents, seamen and veterans who are referred for treatment overseas). The scope of services provided by the Company are: eligibility verification, administration of overseas referral, case management, provider discounts, claim payments and statistical data.

The Company administers this program on an “Administrative Services Only” (ASO) basis, meaning that the Company performs the services, and subsequently seeks reimbursement for claims paid and administration expenses incurred, thus taking on no insurance risk. Note, not all of the output is administered by the Company, as the Ministry of HEYS&C also administers a portion of the output and controls the total amount of funds.

The following table illustrates the claim payments made including the administration fees for the 2010/11, and 2011/12 financial year. The table illustrates that the total payments increased by 32.2% over the prior financial year, while the average covered lives increased by 2.3%. Out of the total, the Indigent paid claims alone have increased by 55.4% over the prior year. This is primarily due to a few large overseas cases. In addition, indigent paid claims also include claims for individuals who had a medical need (normally a catastrophic event) and either had no insurance or insufficient insurance. The inclusion of these types of claims has been increasing over the prior year thus driving up claim paid.

	Financial Year		
	2010/2011	2011/2012	% increase
Payments			
Indigent claim payments	\$ 8,509,113	\$ 13,223,451	55.4%
Seamen & Veterans claim payments	3,916,834	3,419,718	(12.7)%
Fees: Administration, re-pricing, case management fees & network access	1,596,919	1,898,452	18.9%
Total	\$ 14,022,866	\$ 18,541,621	32.2%
Average covered lives			
S&V	1,325	1,338	1%
Indigents	1,174	1,218	3.7%
Total	2,499	2,556	2.3%

As mentioned in the sections entitled “ASO claims and fees receivable” on page 31, and “Outstanding amounts requiring supplementary appropriation” on page 32, as at June 30, 2012, the Company is carrying a receivable from the Ministry of HEYS&C of \$10.1 million for the financial years 2008/9, 2009/10, 2010/11 and 2011/12. Approximately \$0.3 million of this balance was paid subsequent to June 30, 2012, \$3.1 million was guaranteed to be paid in three equal annual installments commencing with the 2012/13 fiscal year and the remaining \$6.7 million (2009/10, 2010/11 and 2011/12) requires a supplementary appropriation.

SUBSEQUENT EVENTS:

Business partners

Subsequent to June 30, 2012 and up to the date of this report (October 7, 2013), CINICO completed a RFP for Overseas Network Management and Cost Containment Administration Services. The following companies were awarded the contract(s) on May 2013 subject to the successful completion of the contracting phase.

Automated Benefit Services, Inc. (ABS) – ABS is an unrelated third party administrator based in the United States to providing claims administration. In addition to the claims administration, ABS also provides CINICO access to a vast array of data analytics and medical case management software systems (VeraRisk, MeDecision etc.) as well as Eligibility management via their in-house system (Luminex) and on-line member/provider portal via Health X. The services of ABS replace those previously provided by Simplifi ESO.

United HealthCare (UHC) - Effective January 1st, 2014, CINICO contracted with UHC for Network access to US based physicians, facilities and medical vendors. With the exception of Air Ambulance coordination, the services of UHC replace those previously provided by EAS. Air Ambulance coordination is being performed inhouse.

Outstanding amounts requiring supplementary appropriation

As reported on Table 3 on page 32, as at June 30, 2012, the Company was owed \$8.2 million from government on Cabinet outputs CIN 1, CIN 2 and NGS 55 requiring a supplementary appropriation. On September 5, 2013, the government undertook a supplementary appropriation on all the balances outstanding with the exception of an un-appropriated amount of \$499,830.

For other subsequent events see Note 23 of the Financial Statements.

Appendix

Audited Financial Statements

For the year ending 30 June 2012

Financial Statements of

Cayman Islands National Insurance Company Ltd.

June 30, 2012

Cayman Islands National Insurance Company Ltd.

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STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements have been prepared by the Cayman Islands National Insurance Company Ltd. in accordance with the provisions of the *Public Management and Finance Law (2012 Revision)*.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law (2012 Revision)*.

As Chief Executive Officer and Chief Financial Officer, we are responsible for establishing; and have established and maintain a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Cayman Islands National Insurance Company Ltd.

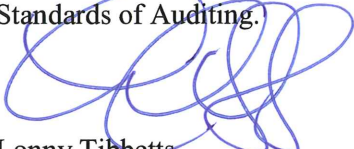
As Chief Executive Officer and the Chief Financial Officer we are responsible for the preparation of the Cayman Islands National Insurance Company Ltd. financial statements and for the judgements made in them.

The financial statements fairly present the statement of financial position, statements of comprehensive income, statements of cash flows and statement of changes in shareholder's equity for the financial year ended 30 June 2012.

To the best of our knowledge we represent that these financial statements:

- (a) are completely and reliably reflect the financial transactions of Cayman Islands National Insurance Company Ltd. for the year ended 30 June 2012;
- (b) fairly reflect the financial position as at 30 June 2012 and performance for the year ended 30 June 2012;
- (c) comply with International Public Sector Accounting Standards and International Financial Reporting Standards under the responsibility of the International Public Sector Accounting Standards Board and the International Accounting Standards Board respectively.

The Office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General and its agent has been provided access to all the information necessary to conduct an audit in accordance with International Standards of Auditing.


Lonny Tibbetts
Chief Executive Officer
Cayman Islands National Insurance Company


Mr. Frank Gallipi
CFO
Cayman Islands National Insurance Company

October 7, 2013

October 7, 2013

AUDITOR GENERAL'S REPORT

To the Board of Directors of the Cayman Islands National Insurance Company Ltd.

In accordance with the provisions of section 61(a)(i) of the *Public Management and Finance Law, (2012 Revision)*, I have audited the accompanying financial statements of the Cayman Islands National Insurance Company Ltd. (the "Company"), which comprise the statement of financial position as at June 30, 2012, and the statements of comprehensive income, cash flows, and changes in shareholder's equity for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 2 to 23.

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 and for such internal control as management determines as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My 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 about 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 auditor's judgment, 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 auditor considers 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.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion. In rendering my opinion on the financial statements of the Company, I have relied on the work carried out on my behalf by a public accounting firm who performed their work in accordance with International Standards on Auditing.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Cayman Islands National Insurance Company Ltd. as at June 30, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Alastair Swarbrick, MA (Hons), CPFA
Auditor General

October 7, 2013
Cayman Islands

Cayman Islands National Insurance Company Ltd.

Statement of Financial Position

As at June 30, 2012

Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
<u>Assets</u>			
<i>Current</i>			
Cash and cash equivalents	4	\$ 3,479,363	\$ 8,835,451
Premiums receivable	5	2,987,782	2,179,153
Advance claims, ASO claims and fees receivable	5.1	7,834,604	5,334,542
Other receivables and other assets	6	1,367,256	3,398,353
Fixed assets	7	680,593	484,316
<i>Long-term</i>			
Premiums receivable	5	-	567,852
Advance claims, ASO claims and fees receivable	5.1	2,066,978	2,532,615
Other receivables and other assets	6	386,327	-
Total assets		18,802,903	23,332,282
<u>Liabilities</u>			
Accounts payable	8	10,439	7,820
Premiums received in advance		90,013	231,010
Accruals and other liabilities	9, 20	711,418	824,978
Claims payable		1,100,478	1,052,774
Provision for claims incurred	11	10,063,862	11,753,117
Total liabilities		11,976,210	13,869,699
<u>Shareholder's equity</u>			
Share capital	12	1	1
Share premium	12	2,999,999	2,999,999
Additional paid-in-capital	13	20,435,840	20,435,840
Accumulated deficit		(16,609,147)	(13,973,257)
Total shareholder's equity	21	6,826,693	9,462,583
Total liabilities and shareholder's equity		\$ 18,802,903	\$ 23,332,282

Vice Chairman

CFO

Date

Date

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

Cayman Islands National Insurance Company Ltd.

Statements of Comprehensive Income For the year from July 1 to June 30 Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Income			
Premium income	14, 17	\$ 55,386,781	\$ 49,815,545
Reinsurance premium	14	(1,021,290)	(756,583)
ASO Fees	15, 17	477,216	444,953
Total underwriting income		54,842,707	49,503,915
Investment income and other income	18	32,080	24,728
Total income		54,874,787	49,528,643
Expenses			
Claims paid	10	55,468,454	47,598,510
Reinsured claims	11	(280,681)	(2,054,278)
Movement in provision for claims incurred	11	(1,689,255)	2,882,701
Contributions to segregated insurance fund	16, 17	604,455	584,915
Claims administration and other expenses		2,295,342	2,007,276
Total underwriting expenses		56,398,315	51,019,124
Administrative expenses and other expenses	17	1,272,465	1,017,257
Provision (release of provision) for contingencies	20	(160,103)	534,836
Total expenses		57,510,677	52,571,217
Net loss for the year		(2,635,890)	(3,042,574)
Total comprehensive loss for the year		\$ (2,635,890)	\$ (3,042,574)

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

Cayman Islands National Insurance Company Ltd.

Statements of Cash Flows

For the year from July 1 to June 30

Amounts stated in Cayman Islands dollars

	<u>NOTE</u>	<u>June 30, 2012</u>	<u>June 30, 2011</u>
Cash flows from operating activities			
Net loss for period		\$ (2,635,890)	\$ (3,042,574)
Adjustments for non-cash items			
Depreciation	7	43,726	21,493
Premiums receivable		(240,777)	(1,317,775)
Advance claims, ASO claims and fees receivable		(2,034,425)	(1,099,436)
Other receivables and other assets		1,644,770	(2,025,865)
Accounts payable		2,619	(6,637)
Premiums received in advance		(140,997)	149,756
Accruals and other liabilities		(113,560)	558,236
Claims payable		47,704	(550,005)
Provision for claims incurred		(1,689,255)	2,882,701
Net cash flows from operating activities		(5,116,085)	(4,430,106)
Cash flows from investing activities			
Purchase of fixed assets	7	(240,003)	(479,031)
Net cash flows from investing activities		(240,003)	(479,031)
Cash flows from financing activities			
Receipt of additional paid-in-capital	13	-	-
Net cash flows from financing activities		-	-
Net cash outflow for the period		(5,356,088)	(4,909,137)
Cash and cash equivalents at beginning of the year		8,835,451	13,744,588
Cash and cash equivalents at end of the year		\$ 3,479,363	\$ 8,835,451

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

Cayman Islands National Insurance Company Ltd.

Statement of Changes in Shareholder's Equity

Amounts stated in Cayman Islands dollars

	Share capital	Share premium	Additional paid-in-capital	Accumulated deficit	Total Shareholder's Equity
Year ended June 30, 2011					
Balance, beginning of year	<u>\$ 1</u>	<u>\$ 2,999,999</u>	<u>\$ 20,435,840</u>	<u>\$(10,930,683)</u>	<u>\$ 12,505,157</u>
Comprehensive income:					
Net loss for the year	-	-	-	(3,042,574)	(3,042,574)
Total comprehensive income:	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,042,574)</u>	<u>(3,042,574)</u>
Balance, end of year	<u>\$ 1</u>	<u>\$ 2,999,999</u>	<u>\$ 20,435,840</u>	<u>\$(13,973,257)</u>	<u>\$ 9,462,583</u>
Year ended June 30, 2012					
Comprehensive income:					
Net loss for the year	-	-	-	(2,635,890)	(2,635,890)
Total comprehensive income:	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,635,890)</u>	<u>(2,635,890)</u>
Balance, end of period	<u>\$ 1</u>	<u>\$ 2,999,999</u>	<u>\$ 20,435,840</u>	<u>\$(16,609,147)</u>	<u>\$ 6,826,693</u>

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

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2012

Amounts stated in Cayman Islands dollars

1 Company information

Cayman Islands National Insurance Company Ltd. ("CINICO" or the "Company") was formed on December 18, 2003 under the Cayman Islands Companies Law and was granted a Class A Insurance Licence under the Insurance Law (2003 Revision) on February 1, 2004. The Company was established and is wholly owned by the Government of the Cayman Islands and the principal activity is the provision of health insurance for Government insureds including civil servants, pensioners, other Government entities, seamen & veterans and their dependents ("Government Insureds"), as well as residents of the Cayman Islands who have low income, impaired health status, or who are elderly ("Private Insureds"). CINICO employees are also insured by the Company. The Company also provides Administrative Services Only ("ASO") for indigents and advance patients. ASO is also provided for Seafarer and Veteran overseas benefits which came into effect July 1, 2007.

The Company has contracted with a Third Party Administrator ("TPA"), Simplifi (previously CBCA Administrators Inc.), to provide claims administration services for local claims. The Company, in conjunction with the Cayman Islands Health Services Authority, has contracted with Advance Integration Systems Ltd., to develop the "Electronic Verification Adjudication System" ("EVAS"). On February 5, 2012 and May 2, 2012 EVAS began processing dental and medical claims respectively. Eventually all claims will be processed on the EVAS platform making the services of Simplifi redundant. The Company has also contracted with Care Management Network Inc. ("CMN") to provide claims administration and case management services for insureds requiring overseas medical treatment. CINICO's contract with CMN provides its insureds with access to a large network of facilities throughout the United States and other countries at discounted costs. This agreement came into effect on August 1, 2005.

Effective April 1, 2012, the Company has contracted with MMSI to provide overseas case management services, and with Care Management Network Inc. ("CMN") to provide the Company's insureds with overseas network access. Prior to this date, CMN provided both overseas case management and network access services since August 1, 2005. In addition, effective July 1, 2005, CINICO has contracted with Presidio, an underwriting agent of Lloyds of London, to provide specific excess loss reinsurance coverage on a per covered person basis.

The Company's registered office is at Cayman Centre, George Town, Grand Cayman. At June 30, 2012, the Company employed 9 staff (9 staff at June 30, 2011).

2 Accounting policies

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying the Company's policies.

Critical accounting estimates and judgements

The development of estimates and the exercise of judgment in applying accounting policies may have a material impact on the Company's reported assets, liabilities, revenues and expenses. The item which may have the most effect on the Company's financial statements is set out below.

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. See also Note 3.1.

The provision for claims incurred is necessarily based on estimates due to the fact that the ultimate disposition of claims incurred prior to the statement of financial position date, whether reported or not, is subject to the outcome of events that have not yet occurred. Any estimate of future events includes estimation uncertainty, and, consequently, the amounts recorded in respect of unpaid losses may change significantly in the short term. Management engage independent actuaries to assist them in making such estimates, based on the Company's own loss history and relevant industry data.

The principal accounting policies applied are set out below. These have been consistently applied to all years presented, unless otherwise stated.

Insurance and reinsurance contracts - classification

Insurance and reinsurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2012

Amounts stated in Cayman Islands dollars

2 Accounting policies (continued)

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on policies issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

The benefits to which the Company is entitled under its reinsurance contracts held are recognized as reinsurance assets. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Insurance/reinsurance assets and liabilities

The Company assesses its insurance/reinsurance assets for impairment on a regular basis, and if there is objective evidence that the insurance/reinsurance asset is impaired, the Company reduces the carrying amount of these assets to their recoverable amounts. The impairment loss is recognised in the statements of comprehensive income. Insurance/reinsurance liabilities are recognised when incurred/due.

Claims

Claims paid and outstanding claims are recorded based on claims reported to the Company by its third party administrator and case manager and includes amounts for all losses reported but not settled and loss adjustment expenses as well as reserves for losses which have been incurred but not yet reported at the statement of financial position date. The Company records its estimated liability gross of any amounts recoverable under its own reinsurance. Recoverable amounts, under the reinsurance contract, if any, are estimated and reported separately as assets. The reinsured portion, if any, of reserves for losses is estimated in a manner consistent with the estimation of reserves for losses on the reinsured policies.

Cash and cash equivalents

Cash and cash equivalents is comprised of cash and interest bearing deposits with maturities of three months or less at date of acquisition.

Premiums

Premiums are accounted for on a pro-rata basis over the periods covered by the insurance policy. Premiums for privately insured persons are payable monthly in advance on the first day of the month. Premiums for Government insured persons are payable monthly. Premiums received in advance are deferred and included in Premiums received in advance in the statement of financial position. Reinsurance premiums ceded are similarly recognized on a pro-rata basis based on the contractual premium rate and number of insureds covered under the reinsurance policy.

It is the Company's policy to lapse any policies where the premiums are unpaid for forty five days after the due date.

Leases

Leases in which 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 statements of comprehensive income on a straight-line basis over of the period of the lease.

Disclosures about fair value of financial instruments

With the exception of balances in respect of insurance contracts and the 2008/09 receivable balance due from the government in the amount of \$3,100,467, the carrying amounts of all financial instruments approximate their fair values due to their short-term maturities.

Although the 2008/09 receivable is expected to be collected over a period of three years, management has not discounted the amount to its present value as the difference would not have a material impact to the financial statements.

Fixed assets & depreciation

Fixed assets are carried at cost less depreciation and impairment. Depreciation is calculated on a straight-line basis over their expected useful lives of these assets. The following depreciation rates have been estimated by management to approximate the expected useful life of each class of assets:

Office Equipment	5 years
Electronic Verification System (EVAS)	5 years
Computer and Telecommunications Equipment	3 years
Leasehold Improvements	over the term of the lease

See also Note 7.

The assets' useful lives are reviewed at each statement of financial position date and adjusted where appropriate.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2012

Amounts stated in Cayman Islands dollars

2 Accounting policies (continued)

Income taxes

There is presently no taxation imposed on the Company by the Government of the Cayman Islands. As a result, no tax liability or expense has been recorded in the accompanying financial statements.

Administrative Services Only Fees

Administrative Services Only Fees ("ASO") are recognized as earned on a pro-rata basis over the period for which the services are provided.

Investment income and other income

Investment income and other income are accrued as earned.

Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in Cayman Islands dollars, which is the Company's presentation and functional currency.

Revenue and expense transactions denominated in currencies other than the Cayman Islands dollar have been translated using exchange rates ruling at the dates of those transactions. Assets and liabilities denominated in currencies other than the Cayman Islands dollar have been translated using year-end foreign exchange rates. Gains or losses on translation of foreign currency transactions are included in general and administrative expenses.

Liability adequacy test

At each statement of financial position date, a liability adequacy test is performed to ensure the adequacy of the loss reserves. In performing this test, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities are used. Any deficiency over the remaining term of insurance contracts is recognized immediately by establishing a provision for losses arising from liability adequacy tests.

2.1 Changes in IFRS

A) New and amended standards adopted and/or early adopted and relevant to the Company:

The following amendments to published standards are mandatory for the Company's accounting period beginning on or after July 1, 2011:

The amendment to IAS 24 'Related party disclosures' clarifies the definitions of a related party. The new definition clarifies in which circumstances persons and key management personnel affect related party relationships of an entity. The amendment also introduces an exemption from the general related-party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

IFRS 7 (amendment) 'Financial instruments: Disclosures'. This amendment was part of the IASB's annual improvement project published in May 2010. The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. While the adoption of this amendment did impact certain of the Company's financial statement disclosures, it did not have an impact on the Company's financial position or performance.

There are no other standards, interpretations or amendments to existing standards that are effective that would be expected to have a significant impact on the Company.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2012

Amounts stated in Cayman Islands dollars

2 Accounting policies (continued)

2.1 Changes in IFRS (continued)

B) New standards, amendments and interpretations issued but not effective for the financial year beginning July 1, 2011 and not early adopted:

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after July 1, 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' ("OCI") on the basis of whether they are potentially reclassifiable to profit or loss subsequently ("reclassification adjustments"). The amendments do not address which items are presented in OCI. IFRS 9, 'Financial instruments', effective for annual periods beginning on or after January 1, 2015, specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. The standard is not expected to have a significant impact on the Company's financial position or performance.

IFRS 10, 'Consolidated financial statements', effective for annual periods beginning on or after January 1, 2013, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The new standard is not expected to have any impact on the Company's financial position or performance.

IFRS 12, 'Disclosures of interests in other entities', effective for annual periods beginning on or after January 1, 2013, includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The new standard is not expected to have any impact on the Company's financial position or performance.

IFRS 13, 'Fair value measurement', effective for annual periods beginning on or after January 1, 2013. The standard improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. If an asset or a liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within the bid-ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread. The new standard is not expected to have any impact on the Company's financial position or performance.

The IAS 32, 'Financial instruments: Presentation' amendments clarify some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position. In connection therewith, IFRS 7, 'Financial instruments: Disclosures' amendments were also issued. These new IFRS 7 disclosures are intended to facilitate comparison between IFRS and US GAAP preparers. The converged offsetting disclosures in IFRS 7 are to be retrospectively applied, with an effective date of annual periods beginning on or after January 1, 2013. The IAS 32 changes are retrospectively applied, with an effective date of annual periods beginning on or after January 1, 2014. Master netting agreements where the legal right of offset is only enforceable on the occurrence of some future event, such as default of the counterparty, continue not to meet the offsetting requirements. The disclosures focus on quantitative information about recognized financial instruments that are offset in the statement of financial position, as well as those recognized financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The new amendments are not expected to have any impact on the Company's financial position or performance.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2012

Amounts stated in Cayman Islands dollars

3 Management of insurance and financial risk

3.1 Insurance risk

The risk under insurance contracts is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. The very nature of an insurance contract involves randomness and therefore unpredictability. The principal risk that the Company faces is that the actual claim payments exceed the amount of insurance provisions. This could occur for various reasons; for example, the severity and/or frequency of claims may be higher than anticipated, or unit claim costs could be higher than estimated. Any significant delays in the reporting of claims information from service providers will also lead to increased uncertainty. Claim losses are random and the actual number and amount of claims will vary from year to year from the level established using statistical and actuarial techniques.

The Company uses several techniques to mitigate risk surrounding potential high claim losses. For its largest group (Group 30100 - Civil, Servants, Pensioners and Government Entities), reinsurance has been purchased that covers overseas claim losses which exceed US\$700,000, up to US\$5,000,000 in respect of any one covered person during the policy year, with an aggregate cap of US\$10,500,000 per year. The Company's Standard Health Insurance Contracts ("SHIC" plans) use a combination of pre-existing condition exclusions, and annual limits to mitigate risk. The Company also employs the services of Care Management Network Inc. ("CMN") to control overseas claim costs. CMN provides case management services with the goal of managing a patient's care path in an economical fashion at each step of the way (effective April 1, 2012, MMSI has been retained to provide case management services). CMN also has pre-negotiated contracts with many overseas providers which would allow the Company to realize significant savings. Furthermore, during the current fiscal year on a monthly basis, the Risk and Appeals Committee met to discuss large claims and any disputed claims.

3.2 Financial risk

Financial risk can be broken down into credit risk, market risk (comprising of: interest rate risk, foreign currency risk and other price risk) and liquidity risk. The Company is exposed to financial risks through its financial assets, financial liabilities, and reinsurance assets; no financial risk is associated with its insurance liabilities. With the exception of the \$3.1 million (\$4.13 million, year ended June 30, 2011) due from government in connection with ASO claims and fees receivable, which have been agreed to be settled over a three year period, the Company's assets and liabilities are generally short term in nature (less than one year), financial risks are minimal.

Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- cash at bank;
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from ASO contracts.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2012

Amounts stated in Cayman Islands dollars

3.2 Financial risk (continued)

All of the Company's cash and cash equivalents are held with reputable financial institutions in the Cayman Islands (85%; 74%: 2011) and Canada (15%; 26%: 2011). As described in Note 3.1, reinsurance is used to manage insurance risk. However, this does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment of the claim. As part of the reinsurance renewal, the Company reviews the creditworthiness of the reinsurer prior to finalization of any contract, and has chosen a reinsurer with and AM Best rating of A (Excellent).

The following assets of the Company are exposed to credit risk:

	June 30, 2012	June 30, 2011
Cash and cash equivalents	\$ 3,479,363	\$ 8,835,451
Reinsurance claims recoveries	1,324,971	3,330,979
Advance claims, ASO claims and fees receivable	9,901,582	7,867,157
Premiums receivable	2,987,782	2,747,005
Other assets	25,200	3,241
Total financial assets	<u>\$ 17,718,898</u>	<u>\$ 22,783,833</u>
Non-financial assets	<u>\$ 1,084,005</u>	<u>\$ 548,449</u>
Total assets per the statement of financial position	<u>\$ 18,802,903</u>	<u>\$ 23,332,282</u>

Balances past due but not impaired and those that are impaired are analysed in the tables below:

	Neither past due nor impaired	Past due but not impaired	Impaired	Provision for bad debt	Total
As at June 30, 2012:					
Cash and cash equivalents	\$ 3,479,363	\$ -	\$ -	\$ -	\$ 3,479,363
Reinsurers share of insurance liabilities	638,729	686,242	-	-	1,324,971
Advance claims, ASO claims and fees receivable	-	9,901,582	154,617	(154,617)	9,901,582
Premiums receivable	-	2,987,782	6,585	(6,585)	2,987,782
Other assets	25,200	-	-	-	25,200
Total assets exposed to credit risks	<u>\$ 4,143,292</u>	<u>\$13,575,606</u>	<u>\$ 161,202</u>	<u>\$ (161,202)</u>	<u>\$ 17,718,898</u>

	Neither past due nor impaired	Past due but not impaired	Impaired	Provision for bad debt	Total
As at June 30, 2011:					
Cash and cash equivalents	\$ 8,835,451	\$ -	\$ -	\$ -	\$ 8,835,451
Reinsurers share of insurance liabilities	1,212,262	2,118,717	-	-	3,330,979
ASO claims receivable and fees receivable	-	7,867,157	534,836	(534,836)	7,867,157
Premiums receivable	-	2,747,005	6,749	(6,749)	2,747,005
Other assets	3,241	-	-	-	3,241
Total assets exposed to credit risks	<u>\$10,050,954</u>	<u>\$12,732,879</u>	<u>\$ 541,585</u>	<u>\$ (541,585)</u>	<u>\$ 22,783,833</u>

The ageing analysis of financial assets that are past due but not impaired is as follows:

	Up to 45 days	45 to 90 days	> 90	Total
As at June 30, 2012:				
Advance claims, ASO claims and fees receivable	\$ 3,489,046	\$ 2,327,230	\$ 4,085,305	\$ 9,901,581
Premiums receivable	661,080	630,151	1,696,552	2,987,783
Reinsurance claims due	676,882	-	9,360	686,242
	<u>\$ 4,827,008</u>	<u>\$ 2,957,381</u>	<u>\$ 5,791,217</u>	<u>\$ 13,575,606</u>

	Up to 45 days	45 to 90 days	> 90	Total
As at June 30, 2011:				
Advance claims, ASO claims and fees receivable	\$ 2,185,593	\$ 845,204	\$ 4,836,360	\$ 7,867,157
Premiums receivable	1,187,856	-	1,559,149	2,747,005
Reinsurance claims due	1,447,390	671,327	-	2,118,717
	<u>\$ 4,820,839</u>	<u>\$ 1,516,531</u>	<u>\$ 6,395,509</u>	<u>\$ 12,732,879</u>

See Note 20 for disclosure of the provision for bad debt on advance claims.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2012

Amounts stated in Cayman Islands dollars

3.2 Financial risk (continued)

A majority of the amount greater than 90 days is receivable from the Company's shareholder and relates to the 2008/9 financial year. Management does not consider this amount as impaired because as the shareholder has provided the Company with a written letter of guarantee to settle the amounts with annual payments over a period of four years commencing with the 2011/12 fiscal year. See Note 3.3 for scheduled payments.

Cash and cash equivalents above are analysed in the table below using Standard and Poors (S&P) rating (or an equivalent rating when not available from S&P). The concentration of credit risk is substantially unchanged compared to the prior year.

	June 30, 2012	June 30, 2011
AAA	\$ -	\$ -
AA	3,192,967	7,904,945
A	125,033	309,859
BBB	-	-
Below BBB or not rated	161,363	620,647
Total cash and cash equivalents bearing credit risk	<u>\$ 3,479,363</u>	<u>\$ 8,835,451</u>

The majority of the amounts due from insurance contract holders are due from the Cayman Islands Government which has a Moody rating of Aa3.

Interest rate risk

None of the Company's insurance products expose it to interest rate risk.

Foreign currency risk

The Company receives revenue in Cayman Islands Dollars (CI\$), and pays claims in both Cayman Islands and United States dollars (US\$). Since the exchange between CI\$ and US\$ is fixed, the Company is not exposed to foreign currency risk.

3.3 Management of financial risks

The following tables indicate the contractual timing of cash flows arising from assets and liabilities included in the Company's financial statements as of June 30, 2012 and June 30, 2011.

	Contractual cash flows (undiscounted)						
	Carrying amount - \$	No stated maturity	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>5 yrs
June 30, 2012							
Financial Assets							
Cash and cash equivalents	\$ 3,479,363	\$ -	\$ 3,479,363	\$ -	\$ -	\$ -	\$ -
Advance claims, ASO claims and fees receivable	9,901,582	-	7,834,604	1,033,489	1,033,489	-	-
Premiums receivable	2,987,782	-	2,987,782	-	-	-	-
Other assets	25,200	-	25,200	-	-	-	-
Total	\$ 16,393,927	\$ -	\$ 14,326,949	\$ 1,033,489	\$ 1,033,489	\$ -	\$ -
Short term insurance liabilities							
Insurance contracts	\$ 11,164,340	\$ -	\$ 11,164,340	\$ -	\$ -	\$ -	\$ -
Less reinsurance recoveries	(1,324,971)	-	(938,644)	(386,327)	-	-	-
Other financial liabilities	721,857	-	721,857	-	-	-	-
Total	\$ 10,561,226	\$ -	\$ 10,947,553	\$ (386,327)	\$ -	\$ -	\$ -
Difference in contractual flows	\$ 5,832,701	\$ -	\$ 3,379,396	\$ 1,419,816	\$ 1,033,489	\$ -	\$ -

Cayman Islands National Insurance Company Ltd.

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3.3 Management of financial risks (continued)

Included in Advance Claims, ASO claims and fees receivable is \$6,538,842 and Premiums receivable of \$1,474,991 that are classified as due in 0-1 years. These amounts are contractually due within the stated period, but at the date these Financial Statements were issued, have not been settled. Although contractually due, with the exception of an amount outstanding of \$499,830, the amounts have recently been appropriated for payment in a supplementary budget appropriations bill which took place on September 5, 2013. Management believe the unappropriated amount of \$499,830 will be received in full and, accordingly, have not recorded any provisions against this amount.

	Contractual cash flows (undiscounted)						
	Carrying amount - \$	No stated maturity	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>5 yrs
June 30, 2011							
Financial Assets							
Cash and cash equivalents	\$ 8,835,451	\$ -	\$ 8,835,451	\$ -	\$ -	\$ -	\$ -
Advance claims, ASO claims and fees receivable	7,867,157	-	5,334,542	844,205	844,205	844,205	-
Premiums receivable	2,747,005	-	2,179,153	189,284	189,284	189,284	-
Other assets	3,241	-	3,241	-	-	-	-
Total	\$ 19,452,854	\$ -	\$ 16,352,387	\$ 1,033,489	\$ 1,033,489	\$ 1,033,489	\$ -
Short term insurance liabilities							
Insurance contracts	\$ 12,805,891	\$ -	\$ 12,805,891	\$ -	\$ -	\$ -	\$ -
Less reinsurance recoveries	(3,330,979)	-	(3,330,979)	-	-	-	-
Other financial liabilities	832,798	534,836	297,962	-	-	-	-
Total	\$ 10,307,710	\$ 534,836	\$ 9,772,874	\$ -	\$ -	\$ -	\$ -
Difference in contractual flows	\$ 9,145,144	\$ (534,836)	\$ 6,579,513	\$ 1,033,489	\$ 1,033,489	\$ 1,033,489	\$ -

3.4 Sensitivity analysis - insurance contracts

The following factors are likely to affect the sensitivity of the Company's reserves:

- changes to the loss ratios for the underlying business
- changes to the reporting pattern of losses
- changes to the severity of losses

Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted, contractually non-interest bearing, and are payable less than one year from the date of the claim.

Short-term insurance liabilities are estimated using standard actuarial claims projection techniques. These methods extrapolated the claims development for each underwriting year based on the observed development of earlier years, adjusted for any current trends or developments. In most cases, no explicit assumptions are made as projections are based on assumptions implicit in the historic claims reporting patterns on which the projections are based. As such, the sensitivity of short term insurance liabilities is based on the financial impact of changes to the claims reporting patterns.

The sensitivity analyses below are based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur, as changes in some of the assumptions may be correlated.

Sensitivity factor	Description of sensitivity factor applied
Interest rate and investment return	The impact of an absolute change in market interest rates by approximately .05%
Expenses (1)	The impact of an increase in underwriting expenses by 5%
Loss ratios (2)	The impact of an increase in loss ratio's (before reinsurance recoveries) by 5%

1 - Related to the contributions to segregated insurance fund, claims administration and other expenses

2 - Related to the absolute percentage change in the claims paid and movement in the provision for claims incurred

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3.4 Sensitivity analysis - insurance contracts (continued)

	Interest rates		Expenses		Loss ratios	
	+0.05%	-0.05%	+5%	-5%	+5%	-5%
Sensitivities as at June 30, 2012						
Impact on Net income						
for the year	661	(661)	(144,990)	144,990	(2,769,339)	2,769,339
Impact on Shareholder's equity	661	(661)	(144,990)	144,990	(2,769,339)	2,769,339

	Interest rates		Expenses		Loss ratios	
	+0.05%	-0.05%	+5%	-5%	+5%	-5%
Sensitivities as at June 30, 2011						
Impact on Net income						
for the year	2,569	(2,569)	(129,610)	129,610	(2,490,777)	2,490,777
Impact on Shareholder's equity	2,569	(2,569)	(129,610)	129,610	(2,490,777)	2,490,777

4 Cash and cash equivalents

	June 30, 2012	June 30, 2011
Fixed Deposits	\$ -	\$ 5,644,295
Cash at Bank	3,465,379	3,186,545
Deposit in transit	13,984	4,611
	<u>\$ 3,479,363</u>	<u>\$ 8,835,451</u>

At June 30, 2012, the Company held no fixed deposits. At June 30, 2011 three fixed deposits were held with interest earned averaging .125% per annum and maturities within 30 days.

5 Premiums receivable

	June 30, 2012	June 30, 2011
<i>Current</i>		
Premiums receivable from related parties, gross	\$ 2,961,793	\$ 2,165,247
Premiums receivable from unrelated entities, gross	32,574	20,655
Less: provisions for bad debts	(6,585)	(6,749)
	<u>\$ 2,987,782</u>	<u>\$ 2,179,153</u>

During the period ended June 30, 2012, bad debts of \$54,480 (June 30, 2011 - \$21,432) have been written off, of which \$6,749 had been provided for in 2010/11 (2009/10 - \$1,400). It is management's opinion that a provision for bad debts of \$6,585 (June 30, 2011 - \$6,749) is required at June 30, 2012. All bad debts written off are from unrelated individuals. Once a bad debt is written off coverage to the unrelated individual is terminated.

	June 30, 2012	June 30, 2011
<i>Long-term</i>		
Premiums receivable from related parties, gross	\$ -	\$ 567,852
	<u>\$ -</u>	<u>\$ 567,852</u>

For the year ended June 30, 2011, government provided a \$4.1 million guarantee of payment over a period of four years, in connection with 2008/9 ASO claims and fees receivable and Premiums receivable. On March 28th, 2012 the Ministry of Health made the first installment payment of \$1,033,490 in connection with the guarantee. The 2008/9 Premium receivable was fully settled in the amount of \$757,136, the remaining portion of \$276,354 was used to reduce the 2008/9 ASO claims and fees receivable balance.

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5.1 Advance claims, ASO claims and fees receivable

	June 30, 2012	June 30, 2011
<i>Current</i>		
Advance claims	\$ 154,617	\$ 534,836
ASO claims and fees receivable	7,834,604	5,334,542
Less: provisions for bad debts (advance claims)	(154,617)	(534,836)
	<u>\$ 7,834,604</u>	<u>\$ 5,334,542</u>

The movement in provision for bad debts on advance claims is as follows:

Provision at beginning of year	\$ 534,836	\$ -
Provision reclassified as insured risk	(220,116)	
Change in provision	<u>(160,103)</u>	<u>534,836</u>
Net change in provision	<u>(380,219)</u>	<u>534,836</u>
Provision at end of year	<u>\$ 154,617</u>	<u>\$ 534,836</u>

Long-term

ASO claims and fees receivable	\$ 2,066,978	\$ 2,532,615
	<u>\$ 2,066,978</u>	<u>\$ 2,532,615</u>

See Note 5.

6 Other receivables and other assets

Components of other receivables and other assets are as follows:

	June 30, 2012	June 30, 2011
<i>Current</i>		
Reinsurance claims recoveries	\$ 938,644	\$ 3,330,979
Claims administration and other expenses	25,200	2,817
Advance to employees	1,000	-
Investment income	-	424
Prepaid expenses, deposits, and other receivables		
Amounts advanced for Indigent claims	240,957	11,299
Amount on deposit with Cayman Airways	94,200	-
Licence fees	25,000	25,000
Work permit fees	16,656	16,388
Recovery of software costs/actuarial services	17,041	-
Prepaid rent & stamp duty on lease	1,449	2,508
Marketing costs	2,520	7,358
Insurance expense	2,067	-
Miscellaneous	2,522	1,580
	<u>\$ 1,367,256</u>	<u>\$ 3,398,353</u>
<i>Long-term</i>		
Reinsurance claims recoveries	\$ 386,327	\$ -
	<u>\$ 386,327</u>	<u>\$ -</u>

See Note 17 for disclosure on related party balances.

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7 Fixed assets

	System Development Costs	Office Equipment	Computer & Telecoms Equipment	Leasehold Improvements	Total
Cost at July 1, 2010	\$ -	\$ 25,360	\$ 158,806	\$ 79,840	\$ 264,006
Additions	440,156	8,177	30,698	-	479,031
Disposals	-	-	-	-	-
Cost at June 30, 2011	440,156	33,537	189,504	79,840	743,037
Accumulated depreciation at July 1, 2010	-	21,582	135,806	79,840	237,228
Depreciation for period	-	2,568	18,925	-	21,493
Disposals	-	-	-	-	-
Accumulated depreciation at June 30, 2011	-	24,150	154,731	79,840	258,721
Carrying value at June 30, 2011	\$ 440,156	\$ 9,387	\$ 34,773	\$ -	\$ 484,316
Cost at July 1, 2011	\$ 440,156	\$ 33,537	\$ 189,504	\$ 79,840	\$ 743,037
Additions	128,585	36,622	61,173	13,623	240,003
Disposals	-	-	-	-	-
Cost at June 30, 2012	568,741	70,159	250,677	93,463	983,040
Accumulated depreciation at July 1, 2011	-	24,150	154,731	79,840	258,721
Depreciation for period	18,958	6,811	15,524	2,433	43,726
Disposals	-	-	-	-	-
Accumulated depreciation at June 30, 2012	18,958	30,961	170,255	82,273	302,447
Carrying value at June 30, 2012	\$ 549,783	\$ 39,198	\$ 80,422	\$ 11,190	\$ 680,593

On December 21, 2010, the Company, along with the Cayman Islands Health Services Authority ("CIHSA"), signed an agreement with Health Adjudication Systems Ltd ("HAS"), to implement a real-time electronic verification and adjudication system ("EVAS"). The implementation of the EVAS has being co-sponsored by the CIHSA. The total cost of the contract is US\$1.372 million. CIHSA and the Company have jointly (i.e. 50/50) shared in these costs (i.e. the Company's share of the estimated ultimate cost is US\$ 686,000). The electronic adjudication of dental claims has commenced on February 5, 2012 and the electronic adjudication of medical claims has commenced on May 2, 2012. As such, the capitalized portion of the Company's share of costs, \$568,741, is being amortized over five years commencing May 2012.

8 Accounts payable

	June 30, 2012	June 30, 2011
Payable to unrelated entities	\$ 10,307	\$ 7,820
Payable to related parties	132	-
	<u>\$ 10,439</u>	<u>\$ 7,820</u>

Included in accounts payable in respect of unrelated entities are amounts relating to administrative expenses of \$10,307 (June 30, 2011 - \$7,820). Account payable in respect of related entities are amounts due for pension contributions amounting to \$132 (June 30, 2011 - \$0) .

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9 Accruals and other liabilities

Components of accruals and other liabilities are as follows:

	June 30, 2012	June 30, 2011
Reinsurance premium due	\$ 123,374	\$ 65,599
Audit fees - Auditor General	11,410	8,000
Audit fees	34,776	33,256
Consultancy fees	29,892	20,045
Insurance expense	3,466	4,152
Simplifi/CMN/MMSI/AIS/Clin Assist expenses	87,981	23,545
Computer service charges	1,622	2,176
Maintenance/utilities & telecommunications	3,257	3,490
Marketing costs	19,013	3,621
Stale dated cheques	102,982	74,610
Advance claims (Note 20)	232,383	534,836
Other accruals	61,262	51,648
	<u>\$ 711,418</u>	<u>\$ 824,978</u>

See Note 17 for disclosure on related party balances. See Note 20 for disclosure on Advance claims.

10 Claims paid

	June 30, 2012	June 30, 2011
Gross US\$ claims prior to discount (denominated in CI\$)	\$ 25,136,621	\$ 23,102,319
Net claim savings		
Amount of claim discount per case management vendors	(9,322,356)	(9,271,486)
Fees for obtaining discount	1,293,471	1,384,482
	<u>(8,028,885)</u>	<u>(7,887,004)</u>
Net US\$ claims (denominated in CI\$)	17,107,736	15,215,315
CI\$ claims	38,360,718	32,383,195
	<u>\$ 55,468,454</u>	<u>\$ 47,598,510</u>
Less repricing fees	(1,293,471)	(1,384,482)
Claims paid (not including repricing fees)	<u>\$ 54,174,983</u>	<u>\$ 46,214,028</u>

The contract with Care Management Network Inc. (CMN) guarantees the Company a discount of 30% on United States dollar claims administered by CMN. CMN charges the Company a fee approximately of 16% of the savings for overseas cases opened prior to April 1, 2012 (subsequent to March 31, 2012, overseas network access was being charged on a fixed per member per month basis and recorded as part of claims administration costs). The repricing fees are classified as part of claims paid. During the period ended June 30, 2012, the Company realized net claim savings (per case management vendors) of \$8,028,885 (June 30, 2011 - \$7,887,004) and repricing fees were charged at 14% effectively (June 30, 2011 - 15%).

11 Provision for claims incurred

Management has estimated a provision for claims which have been incurred but not yet reported ("IBNR"). While management has estimated IBNR based on all information it has available to it at the time, the ultimate liability may be in excess of, or less than, the amounts provided. Management uses acceptable reserving methods to estimate provisions for claims incurred but not reported; these are periodically reviewed by an independent actuary.

A health claim is payable when an event has occurred that gives rise to a claim payment within the benefits of an insured member's policy while inforce. The lag between the occurrence of a claim and the final payment is normally short term in nature as providers are required by the Health Insurance Law to submit any claims within 180 days of date of service. Thus, any reserve estimates are normally settled within a year.

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Company's estimate of total claims outstanding for each year before reinsurance, has changed at successive year ends. The bottom half of the table reconciles the cumulative claims to the amount appearing on the statement of financial position.

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11 Provision for claims incurred (continued)

Reporting year	2004/5	2005/6	2006/7	2007/8	2008/9
<u>Estimate of ultimate claims costs:</u>					
At end of period	21,214,700	23,423,289	32,864,983	35,819,622	40,046,000
One year later	21,214,700	22,827,358	30,779,928	34,402,472	37,507,064
Two years later	20,964,647	22,727,663	30,879,375	34,448,122	37,462,191
Three years to eight years later	20,963,907	22,727,663	30,871,999	34,448,671	37,462,191
Current estimate of cumulative claims	20,963,907	22,727,663	30,871,999	34,448,671	37,462,191
Cumulative payments to date	20,963,907	22,727,663	30,871,999	34,448,671	37,462,191
Gross liability recognized in the statement of financial position	-	-	-	-	-
Allocated loss expenses ("ALE") reserve	-	-	-	-	-
Net liability recognized in the statement of financial position	\$ -	\$ -	\$ -	\$ -	\$ -

Reporting year	2009/10	2010/11	2011/12	Total
<u>Estimate of ultimate claims costs:</u>				
At end of year	46,045,975	51,917,304	54,592,395	
One year later	43,109,341	50,357,115	n.a.	
Two years later	43,137,108	n.a.	n.a.	
Three years to eight years later	n.a.			
Current estimate of cumulative claims	43,137,108	50,357,115	54,592,395	
Cumulative payments to date	43,137,074	50,195,953	44,937,155	
Gross liability recognized in the statement of financial position	34	161,162	9,655,240	9,816,436
Allocated loss expenses ("ALE") reserve	1	4,062	243,363	247,426
Net liability recognized in the statement of financial position	\$ 35	\$ 165,224	\$ 9,898,603	\$ 10,063,862

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11 Provision for claims incurred (continued)

The table below shows the movements in the provisions for claims incurred during the current year to date and the prior financial year.

	Period ended June 30, 2012			Year ended June 30, 2011		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Balance at beginning of year	\$11,753,117	\$ (3,330,979)	\$ 8,422,138	\$ 8,870,416	\$ (1,302,094)	\$ 7,568,322
Incurred related to:						
Current year	54,592,395	(160,216)	54,432,179	51,917,304	(2,357,120)	49,560,184
Prior year	(1,542,022)	(120,465)	(1,662,487)	(3,022,758)	302,842	(2,719,916)
	53,050,373	(280,681)	52,769,692	48,894,546	(2,054,278)	46,840,268
Paid related to:						
Current year	44,937,155	-	44,937,155	40,979,752	-	40,979,752
Prior year	9,237,828	(2,673,016)	6,564,812	5,234,276	(25,393)	5,208,883
	54,174,983	(2,673,016)	51,501,967	46,214,028	(25,393)	46,188,635
ALE Reserve movement	(564,645)	-	(564,645)	202,183	-	202,183
Balance at end of year	\$10,063,862	\$ (938,644)	\$ 9,125,218	\$ 11,753,117	\$ (3,330,979)	\$ 8,422,138
Change in provision from claims incurred	\$ (1,689,255)			\$ 2,882,701		

For the period ended June 30, 2012 there was a hindsight reserve release of \$1,542,022 for the prior year and an additional strengthening of reinsurance provision of \$120,465 (\$3,022,758 reserve release and \$302,842 reinsurance release for the year ended June 30, 2011). As stated in the beginning of Note 11, IBNR's are estimated with all known information at the time. In hindsight, the June 30, 2011 reserve was conservative as the actual medical outcomes on several large inpatient cases turned out better than initially anticipated.

12 Share capital

Authorized:	June 30, 2012	June 30, 2011
1,000,000 unclassified shares of CI\$1.00 each	\$ 1,000,000	\$ 1,000,000
Issued and fully paid:		
1 share	\$ 1	\$ 1

The unclassified shares hold all voting rights in the Company. During the year ended June 30, 2004, one share was issued to the Cayman Islands Government at a premium of CI\$2,999,999.

13 Additional paid-in-capital

	June 30, 2012	June 30, 2011
Additional paid in capital received	\$ 20,435,840	\$ 20,435,840
	<u>\$ 20,435,840</u>	<u>\$ 20,435,840</u>

Additional paid-in-capital represents additional capital contributions of the Shareholder not made in connection with the issuance of shares. These capital contributions have the same rights and characteristics as share premium and, accordingly, they can be returned/distributed to the Shareholder solely at the discretion of the Board of Directors.

It is the policy of the Company to operate in a manner designed to maintain capitalization at a minimum of \$3 million.

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14 Premium Income

Premium income earned by insured type is as follows;

	For the Year Ended June 30, 2012			
	Group 30100	Group 30101	Group 30104	Total
Premium Income	\$45,586,425	\$ 7,604,805	\$ 2,195,551	\$ 55,386,781
Reinsurance Premium	(1,021,290)	-	-	(1,021,290)
Net Premium	\$44,565,135	\$ 7,604,805	\$ 2,195,551	\$ 54,365,491

	For the Year Ended June 30, 2011			
	Group 30100	Group 30101	Group 30104	Total
Premium Income	\$40,868,370	\$ 7,232,646	\$ 1,714,529	\$ 49,815,545
Reinsurance Premium	(756,583)	-	-	(756,583)
Net Premium	\$40,111,787	\$ 7,232,646	\$ 1,714,529	\$ 49,058,962

Group 30100 includes insurance coverage for civil servants, pensioners and employees of Government entities. Group 30101 includes coverage for seamen & veterans, and Group 30104 includes coverage for residents who have low income, impaired health status, or who are elderly. With the exception of Group 30104, all plans are to a related party.

Reinsurance premium is calculated at \$11.78 (2010/11 - \$6.32) per person per month. Under the terms of the reinsurance treaty, the Company is entitled to a profit commission equal to forty-five of the net profit calculated as; seventy-percent of reinsurance premium paid by the Company less the reinsurer's liability (i.e. reinsurance claims made for the current treaty year). Based on the current premium paid and the expected reinsurer's liability, the Company estimates the profit commission to be \$386,327 and has offset this in the reinsured premium. The profit commission would be paid fifteen months after the reinsurance treaty (September 2013).

15 Administrative Services Only Fees

The Company accrues income as earned from the Segregated Insurance Fund and from the Treasury Department in respect of Indigents and Advance Patients respectively for third party administrator fees.

16 Contributions to segregated insurance fund

Under Section 5(1) of the Health Insurance Regulations (2005 Revision), each domestic health insurer is required to pay to a Segregated Insurance Fund \$5.00 per month per single insured and \$10.00 per month per couple or family insured. For the period ended June 30, 2012 the Company accrued contributions totaling \$604,455 (year ended June 30, 2011 - \$584,915).

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17 Related party transactions

Related parties comprise of the Cayman Islands Government and its various ministries/portfolios, statutory authorities, and government companies to whom the Company provides health insurance coverage to. In addition, the Company makes claim payments to other Government entities, namely the Health Services Authority, and Cayman Airways. Related party balance and transactions from the balance sheets, and statements of comprehensive income are represented below.

	June 30, 2012	June 30, 2011
Assets		
<u>Current</u>		
Premiums receivable	\$ 2,961,793	\$ 2,165,247
Advance claims, ASO claims receivable and fees receivable, net of bad debt	7,834,604	5,334,542
Other receivables and other assets	155,214	44,188
<u>Long-term</u>		
Premiums receivable	-	567,852
Advance claims, ASO claims receivable and fees receivable	2,066,978	2,532,615
	<u>\$ 13,018,589</u>	<u>\$ 10,644,444</u>
Liabilities		
Accruals and other liabilities	\$ 57,763	55,349
Claims payable	854,589	711,923
	<u>\$ 912,352</u>	<u>\$ 767,272</u>
Income		
Premium income	\$ 53,129,110	\$ 48,035,838
ASO Fees	477,216	444,953
	<u>\$ 53,606,326</u>	<u>\$ 48,480,791</u>
Expenses		
Claims paid	\$ 33,594,532	\$ 28,766,397
Contributions to segregated insurance fund	604,455	584,915
Administrative expenses	145,615	145,274
	<u>\$ 34,344,602</u>	<u>\$ 29,496,586</u>

Key employee and director remuneration/compensation are included within administrative expenses as reported in the statement of income and accumulated deficit, and broken down as:

	June 30, 2012	June 30, 2011
Short-term employee benefits	\$ 268,209	\$ 262,673
Post-employment benefits	6,000	6,694
Director fees	24,030	29,870
	<u>\$ 298,239</u>	<u>\$ 299,237</u>

18 Investment income & other income

Investment income represents interest earned from the cash and fixed deposits held at various banks. Other income includes income collected for replacement insurance cards, and reinstatement of policies. The Company has received interest on fixed deposits of \$1,132 (year ended June 30, 2011 - \$5,637) and other income of \$30,948 (year ended June 30, 2011 - \$19,091).

19 Pension costs

The Company participates in a defined contribution pension scheme administered by the Cayman Islands Chamber of Commerce. In addition, two employees are continuing to contribute to the defined contribution pension scheme administered by the Public Service Pension Board. Pension expense for the period ended June 30, 2012 is \$20,880 (year ended June 30, 2011 - \$28,222).

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Amounts stated in Cayman Islands dollars

20 Commitments and Contingencies

The Cayman Islands Government provides medical cost assistance to patients deemed uninsured/underinsured patients ("Advance patients"). CINICO was the guarantor to medical providers for these services up to August 2008, whereby the Company would assist by obtaining overseas care during emergency situations, on behalf of the Government of the Cayman Islands. The services were facilitated through letters of guarantees for payment. Subsequently, the Government would then facilitate payment of the medical services. In February 2011 and May 2011, the Company was served with two separate summonses in the state of Florida. One of these summons is related to Advance patients, to which the Government is liable, and the other is related to an insured risk of the Company. For the year ended June 30, 2011, the Company set a provision totalling \$534,836 inclusive of estimated interest, legal fees and air ambulance costs. On April 25, 2012 one of the summons (Advance patient) was settled for lower than originally provided for (\$15,276 of outstanding legal fees remained in the provision). As a result, the provision was reduced by \$160,103 and booked to the Provision (release of provision for contingencies). The movement of the provision is as follows:

	June 30, 2012	June 30, 2011
Provision at beginning of year	\$ 534,836	\$ -
Change in provision	(160,103)	534,836
Gross provision	374,733	534,836
Paid amounts	(142,350)	-
Provision at end of year	\$ 232,383	\$ 534,836

The breakdown of the gross provision between "advance claim" and the Company insured risk is as follows:

Gross provision breakdown

Amount incurred by Government (advance claim)	\$ 154,617	\$ 314,720
Insured risk	\$ 220,116	220,116
	\$ 374,733	\$ 534,836

While management believes that advance claim provision should ultimately be paid by the Cayman Island's Government, the Company assumed the liability as it is technically liable through the issuance of the guarantees. The Company has also recorded a corresponding receivable from Government equal to the "Advance claim" gross provision of \$154,617, however, in the absence of any formal written commitment from the Government to reimburse the Company, a provision for bad debt has been recorded. Management intends to seek recovery from the Government in due course.

21 Net worth for regulatory purposes

The Cayman Islands Monetary Authority ("CIMA") requires the Company to maintain a minimum net worth of \$3,000,000. Management considers the Company's net worth for regulatory purposes to be comprised as follows:

	June 30, 2012	June 30, 2011
Share capital	\$ 1	\$ 1
Share premium	2,999,999	2,999,999
Additional paid-in-capital	20,435,840	20,435,840
Accumulated deficit	(16,609,147)	(13,973,257)
	\$ 6,826,693	\$ 9,462,583

At June 30, 2012, the Company's net worth was \$6,826,693 and fully compliant with CIMA minimum capital requirement.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2012

Amounts stated in Cayman Islands dollars

23 Subsequent events

Management have performed a subsequent events review from July 1, 2012 to October 7, 2013, being the date that the financial statement were available to be issued. With the exception of the items listed in the following paragraphs, management concluded there were no additional material subsequent events which required additional disclosure in these financial statements.

In May 2013 the Company completed its final selection of bidders from a RFP (request for proposal) for Overseas Network Management and Cost Containment Administration Services. As a result, Automated Benefit Solutions ("ABS") was chosen to provide the Company with Third Party Administration ("TPA") services, and United Healthcare ("UHC") was chosen to provide the Company with overseas network access. The Company is currently under contract negotiations and is expecting to fully transition to ABS and UHC commencing the fourth calendar quarter of 2013. ABS and UHC would be replacing the Company's current providers, Simplifi ESO and CMN subject to successful contract negotiations with ABS and UHC.

On July 19, 2013 Simplifi Health Benefit Management, LLC ("Simplifi ESO") filed a lawsuit against the Company in the state of Ohio. In the lawsuit, Simplifi ESO alleges that the Company never gave appropriate notice for the termination of the TPA services provided by Simplifi ESO ("Plaintiff"). The Plaintiff is claiming the following damages; July 2013 fees of US\$153,455.13; an award for damages to be proven at trial and not determinable at this date; attorney's fees and costs; and prejudgment and post-judgment interest. Counsel to the Company has informed Simplifi ESO in writing that the notice of termination was effective under the laws of the State of Ohio, which governed the agreement with Simplifi ESO. Management and the Board intend to vigorously defend Simplifi ESO's claims.