

Financial Statements of

Cayman Islands National Insurance Company Ltd.

June 30, 2014

Cayman Islands National Insurance Company Ltd.

Index

Auditor General's Report	2
Statement of Responsibility for Financial Statements	3
Statements of Financial Position	4
Statements of Comprehensive Income	5
Statements of Cash Flows	6
Statement of Changes in Shareholder's Equity	7
Notes to the financial statements	8-25

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, (2013 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, 2014, 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 4 to 25.

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 my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I 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 I 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, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Garnet Harrison, CPA, CA
Acting Auditor General

October 7, 2016
Cayman Islands



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 (2013 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 (2013 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 statements of financial position, statements of comprehensive income, statements of cash flows and statements of changes in shareholder's equity for the financial year ended 30 June 2014.

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 2014;
- (b) fairly reflect the financial position as at 30 June 2014 and performance for the year ended 30 June 2014;
- (c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

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

Date: OCTOBER 7, 2016

Mr. Frank Gallipi
Chief Financial Officer
Cayman Islands National Insurance Company

Date: OCTOBER 7, 2016

Cayman Islands National Insurance Company Ltd.

Statements of Financial Position

As at June 30, 2014

Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
<u>Assets</u>			
<i>Current</i>			
Cash and cash equivalents	4	16,273,671	10,177,719
Funds held in escrow	4.1	1,119,245	-
Premiums receivable	5	8,059,023	3,946,679
Advance claims, ASO claims and fees receivable	5.1	3,536,941	10,034,339
Other receivables and other assets	6	1,877,190	2,367,846
<i>Long-term</i>			
Fixed assets	7	681,991	534,385
Advance claims, ASO claims and fees receivable	5.1	-	1,033,489
Total assets		31,548,061	28,094,457
<u>Liabilities</u>			
Accounts payable	8	113,868	3,198
Premiums received in advance		170,877	197,831
Accruals and other liabilities	9	1,134,645	458,713
Claims payable		2,894,288	6,870,175
Provision for claims incurred	11	9,611,739	10,195,374
Total liabilities		13,925,417	17,725,291
<u>Shareholder's equity</u>			
Share capital	12	1	1
Share premium	12	2,999,999	2,999,999
Additional paid-in-capital	13	23,093,251	20,435,840
Accumulated deficit		(8,470,607)	(13,066,674)
Total shareholder's equity	22	17,622,644	10,369,166
Total liabilities and shareholder's equity		31,548,061	28,094,457

JENNISON NUNEZ

Chairman of the Board of Directors

October 7, 2016

Date

FRANK GALLIPPI

CFO

October 7, 2016

Date

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

Cayman Islands National Insurance Company Ltd.

Statements of Comprehensive Income
For the period from July 1, 2013 to June 30, 2014
Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Income			
Premium income	14	64,639,478	64,634,199
Reinsurance premium	14	(1,646,081)	(1,574,812)
ASO Fees	15	539,388	485,760
Total underwriting income		63,532,785	63,545,147
Investment income and other income	19	63,033	54,689
Total income		63,595,818	63,599,836
Expenses			
Claims paid	10	52,348,829	54,947,045
Reinsured claims	11	57,845	(1,259,870)
Movement in provision for claims incurred	11	(583,635)	131,512
Contributions to segregated insurance fund	16, 18	1,236,430	886,850
Claims administration and other expenses		3,450,639	3,792,145
Total underwriting expenses		56,510,108	58,497,682
Administrative expenses and other expenses	17, 18	2,489,643	1,592,194
Release of provision for contingencies and government debt	21	-	(32,513)
Total expenses		58,999,751	60,057,363
Net income for the year		4,596,067	3,542,473
Total comprehensive income for the year		4,596,067	3,542,473

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

Cayman Islands National Insurance Company Ltd.

Statements of Cash Flows

For the period from July 1, 2013 to June 30, 2014

Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Cash flows from operating activities			
Net income/(loss) for period		4,596,067	3,542,473
Adjustments for non-cash items			
Depreciation	7	201,385	161,449
Funds held in escrow		(1,119,245)	-
Premiums receivable		(4,112,344)	(958,897)
Advance claims, ASO claims and fees receivable		7,530,887	(1,166,246)
Other receivables and other assets		490,656	(614,263)
Accounts payable		110,670	(7,241)
Premiums received in advance		(26,954)	107,818
Accruals and other liabilities		675,932	(252,705)
Claims payable		(3,975,887)	5,769,697
Provision for claims incurred		(583,635)	131,512
Net cash flows from operating activities		3,787,532	6,713,597
Cash flows from investing activities			
Purchase of fixed assets	7	(348,991)	(15,241)
Net cash flows from investing activities		(348,991)	(15,241)
Cash flows from financing activities			
Receipt of additional paid-in-capital	13	2,657,411	-
Net cash flows from financing activities		2,657,411	-
Net cash inflow for the year		6,095,952	6,698,356
Cash and cash equivalents at beginning of the year		10,177,719	3,479,363
Cash and cash equivalents at end of the year		16,273,671	10,177,719

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

Cayman Islands National Insurance Company Ltd.

Statements of Changes in Shareholder's Equity
For the period from July 1, 2013 to June 30, 2014
Amounts stated in Cayman Islands dollars

	Share capital (Note 12)	Share premium (Note 12)	Additional paid-in- capital (Note 13)	Accumulated deficit	Total Shareholder's Equity
Balance at June 30, 2012	1	2,999,999	20,435,840	(16,609,147)	6,826,693
Comprehensive income:					
Net income for the year	-	-	-	3,542,473	3,542,473
Total comprehensive income:	-	-	-	3,542,473	3,542,473
Balance at June 30, 2013	1	2,999,999	20,435,840	(13,066,674)	10,369,166
Comprehensive income:					
Net income for the year	-	-	-	4,596,067	4,596,067
Total comprehensive income:	-	-	-	4,596,067	4,596,067
Transactions with owners:					
Additional paid-in-capital received	-	-	2,657,411	-	2,657,411
Total transactions with owners:	-	-	2,657,411	-	2,657,411
Balance at June 30, 2014	1	2,999,999	23,093,251	(8,470,607)	17,622,644

Cayman Islands National Insurance Company Ltd.
Notes to the financial statements
June 30, 2014
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 Cayman Islands Government ("CIG") and the principal activity is the provision of health insurance for Government insureds including civil servants, pensioners, other CIG Statutory Authorities and Companies (including CINICO employees and dependents), seamen & veterans and their dependents ("Government Insureds"). The Company also serves residents of the Cayman Islands ("Private Insureds") by providing benefits under the "Standard Health Insurance Contract" (SHIC) as defined by the Health Insurance Law of the Cayman Islands. In addition, 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"), Automated Benefit Services ("ABS"), to provide claims administration services and United Healthcare to provide network access to USA facilities and physicians. 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. Effective April 1, 2012, the Company contracted with MMSI to provide overseas case management services. In addition, since July 1, 2005, CINICO has contracted with Partner Re (formerly known as Presidio), 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, 2014, the Company employed 16 permanent staff and 4 temporary staff (2013: 9 permanent staff and 3 temporary staff).

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 judgment in applying the Company's policies.

Critical accounting estimates and judgments

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, 2014
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 recognized in the statements of comprehensive income. Insurance/reinsurance liabilities are recognized when incurred/due.

Claims

Claims paid and outstanding claims are recorded based on claims reported to the Company by its third party administrator, case manager and an independent actuary, 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 thirty days after the due date (2013: Forty-five days).

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 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 \$1,033,489 (2013: \$2,066,978), 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 remaining period of one year, 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
System Development Costs	3 - 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, 2014
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 administrative expenses and other 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.

Comparative figures

Certain comparatives have been reclassified to conform to the current year's presentation.

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, 2013:

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, 2018, 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. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognized. The standard is not expected to have a significant impact on the Company's financial position or performance.

IFRS 15, Revenue from Contracts with Customers, is effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces IAS 18 Revenue and includes extensive new disclosure requirements. The standard is not expected to have a significant impact on the Company's financial position or performance.

Amendment to IAS 36, Impairment of assets, is effective for annual periods beginning on or after January 1, 2014 with early adoption permitted. The standard clarifies the requirement of disclosures about the recoverable amount of impaired assets. IAS 36 clarifies that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. The amendment is not expected to have a significant impact on the Company's financial position or performance.

2 Accounting policies (continued)

2.1 Changes in IFRS (continued)

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

Improvements to IFRS 2010 - 2012 cycle contains amendments to certain standards and interpretations and are effective for accounting periods beginning on or after July 1, 2014. The main amendment applicable to the company is as follows:

IAS 24, Related Party Disclosures, is amended to clarify that if the entity obtains key management personnel services from another entity (the 'management entity'), the entity is not required to apply the requirements in IAS 24.17 to the compensation paid or payable by the management entity to the management entity's employees or directors. IAS 24 has been amended to clarify that amounts incurred for the provision of key management personnel services that are provided by a separate management entity must be disclosed.

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 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 IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

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 MMSI (a division of the Mayo Clinic), MMSI along with United Healthcare provide case management services with the goal of managing a patient's care path in an economical fashion at each step of the way. The Company also utilises CMN and United Healthcare for the provision of overseas network access. These entities have pre-negotiated contracts with many overseas providers which 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.

Cayman Islands National Insurance Company Ltd.
Notes to the financial statements
June 30, 2014
Amounts stated in Cayman Islands dollars

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 \$1.1 million (2013: \$2.1 million,) due from government in connection with ASO claims and fees receivable, which have been agreed to be settled over the next year, the Company's assets and liabilities are generally short term in nature (less than one year), as such 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; and
- amounts due from ASO contracts.

All of the Company's cash and cash equivalents are held with reputable financial institutions in the Cayman Islands (2014: 79%; 2013: 88%), Canada (2014: 15%; 2013: 12%) and the United States (2014: 6%; 2013: 0%). 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 an AM Best rating of A (Excellent).

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

June 30, 2014 June 30, 2013

Cash and cash equivalents	16,273,671	10,177,719
Funds held in escrow	1,119,245	-
Premiums receivable	8,059,023	3,946,679
Advance claims, ASO claims and fees receivable	3,536,941	11,067,828
Reinsurance claims recoveries	1,241,177	1,844,675
Other assets	46,617	21,000
Total financial assets	30,276,674	27,057,901
Non-financial assets	1,271,387	1,036,556
Total assets per the statement of financial position	31,548,061	28,094,457

Cayman Islands National Insurance Company Ltd.
Notes to the financial statements
June 30, 2014
Amounts stated in Cayman Islands dollars

3.2 Financial risk (continued)

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, 2014:					
Cash and cash equivalents	16,273,671	-	-	-	16,273,671
Funds held in escrow	1,119,245	-	-	-	1,119,245
Premiums receivable	-	8,059,023	15,803	(15,803)	8,059,023
Advance claims, ASO claims and fees receivable	-	3,536,941	267,830	(267,830)	3,536,941
Reinsurers share of insurance liabilities	1,241,177	-	-	-	1,241,177
Other assets	46,617	-	-	-	46,617
Total assets exposed to credit risks	18,680,710	11,595,964	283,633	(283,633)	30,276,674
As at June 30, 2013:					
Cash and cash equivalents	10,177,719	-	-	-	10,177,719
Premiums receivable	-	3,946,679	6,996	(6,996)	3,946,679
ASO claims receivable and fees receivable	-	11,067,828	267,830	(267,830)	11,067,828
Reinsurers share of insurance liabilities	1,610,613	234,062	-	-	1,844,675
Other assets	21,000	-	-	-	21,000
Total assets exposed to credit risks	11,809,332	15,248,569	274,826	(274,826)	27,057,901

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

	Up to 30 days	30 to 60 days	> 60	Total
As at June 30, 2014:				
Advance claims, ASO claims and fees receivable	2,011,604	4,713	1,520,624	3,536,941
Premiums receivable	4,506,428	2,570,468	982,127	8,059,023
	6,518,032	2,575,181	2,502,751	11,595,964
As at June 30, 2013:				
Advance claims, ASO claims and fees receivable	2,507,494	119,467	8,440,867	11,067,828
Premiums receivable	2,165,202	87,851	1,693,626	3,946,679
Reinsurance claims recoveries	163,977	-	70,085	234,062
	4,836,673	207,318	10,204,578	15,248,569

See Note 21 for disclosure of the provision for bad debt on advance claims.

Majority of the amount greater than 60 days is receivable from the Company's shareholder and relates to the 2008/9, 2010/11 and 2012/13 financial years. Management does not consider these amounts as impaired; the shareholder has provided the Company with a written letter of guarantee to settle the 2008/9 amounts with annual payments over a period of four years commencing in the 2011/12 fiscal year (see Note 3.3 for scheduled payments). The remaining balances have been settled as at the date of issuing the financial statements.

Cash and cash equivalents and funds held in escrow 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, 2014	June 30, 2013
AAA	-	-
AA	15,729,849	9,513,809
A	1,119,245	176,507
BBB	111,556	-
Below BBB or not rated	432,266	487,403
Total cash and cash equivalents and funds held in escrow bearing credit risk	17,392,916	10,177,719

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

Cayman Islands National Insurance Company Ltd.
Notes to the financial statements
June 30, 2014
Amounts stated in Cayman Islands dollars

3.2 Financial risk (continued)

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

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial and insurance liabilities. The Company is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk may arise from a number of potential areas, such as a duration mismatch between assets and liabilities and unexpectedly high levels of claims, in conjunction with uncollected receivables. The nature of the Company's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risks, have not changed significantly from the prior year.

At June 30, 2014, the Company had cash and cash equivalents of \$16,273,671 (2013: \$10,177,719). These amounts are highly liquid and are a significant component of the Company's overall liquidity and capital resources. Liquidity forecasts are produced on a regular basis to ensure the liquidity is maintained.

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, 2014 and June 30, 2013.

	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, 2014							
Financial Assets							
Cash and cash equivalents	16,273,671	-	16,273,671	-	-	-	-
Funds held in escrow	1,119,245		1,119,245				
Advance claims, ASO claims and fees receivable	3,536,941	-	3,536,941	-	-	-	-
Premiums receivable	8,059,023	-	8,059,023	-	-	-	-
Other assets	46,617	-	46,617	-	-	-	-
Total	29,035,497	-	29,035,497	-	-	-	-
Short term insurance liabilities							
Insurance contracts	12,506,027	-	12,506,027	-	-	-	-
Less reinsurance recoveries	(1,241,177)	-	(1,241,177)	-	-	-	-
Other financial liabilities	1,248,513	-	1,248,513	-	-	-	-
Total	12,513,363	-	12,513,363	-	-	-	-
Difference in contractual cashflows	16,522,134	-	16,522,134	-	-	-	-

Cayman Islands National Insurance Company Ltd.
Notes to the financial statements
June 30, 2014
Amounts stated in Cayman Islands dollars

3.3 Management of financial risks (continued)

June 30, 2013	Contractual cash flows (undiscounted)						
	Carrying amount	No stated maturity	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>5 yrs
Financial Assets							
Cash and cash equivalents	10,177,719	-	10,177,719	-	-	-	-
Advance claims, ASO claims and fees receivable	11,067,828	-	10,034,339	1,033,489	-	-	-
Premiums receivable	3,946,679	-	3,946,679	-	-	-	-
Other assets	21,000	-	21,000	-	-	-	-
Total	25,213,226	-	24,179,737	1,033,489	-	-	-
Short term insurance liabilities							
Insurance contracts	17,065,549	-	17,065,549	0	-	-	-
Less reinsurance recoveries	(1,844,675)	-	(1,844,675)	0	-	-	-
Other financial liabilities	461,911	-	461,911	-	-	-	-
Total	15,682,785	-	15,682,785	-	-	-	-
Difference in contractual cashflows	9,530,441	-	8,496,952	1,033,489	-	-	-

Included in Advance Claims, ASO claims and fees receivable is \$744,484 that is classified as due in 0-1 years. This amount is contractually due within the stated period, and at the date of issuing the Financial Statements being issued, the amount has been settled. Management therefore does not consider this amount to be impaired as the government has settled the balance prior to the date of this report.

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	

Cayman Islands National Insurance Company Ltd.
Notes to the financial statements
June 30, 2014
Amounts stated in Cayman Islands dollars

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, 2014						
Impact on Net income						
for the year	-	-	(234,353)	234,353	(3,231,974)	3,231,974
Impact on Shareholder's equity	-	-	(234,353)	234,353	(3,231,974)	3,231,974

	Interest rates		Expenses		Loss ratios	
	+0.05%	-0.05%	+5%	-5%	+5%	-5%
Sensitivities as at June 30, 2013						
Impact on Net income						
for the year	-	-	(233,950)	233,950	(3,231,710)	3,231,710
Impact on Shareholder's equity	-	-	(233,950)	233,950	(3,231,710)	3,231,710

4	Cash and cash equivalents	June 30, 2014	June 30, 2013
	Cash at Bank	16,010,766	9,940,849
	Deposit in transit	262,905	236,870
		<u>16,273,671</u>	<u>10,177,719</u>

4.1 Funds held in escrow

The Company uses the services of United Healthcare (UHC) to provide network access to U.S.A. facilities and physicians at discounted rates. As part of the agreement, the Company is required to maintain an appropriate level of funds in a client billing account maintained by UHC for the payment of claims.

5	Premiums receivable	June 30, 2014	June 30, 2013
	<i>Current</i>		
	Premiums receivable from related parties, gross	8,018,083	3,922,058
	Premiums receivable from unrelated entities, gross	56,743	31,617
	Less: provisions for bad debts	(15,803)	(6,996)
		<u>8,059,023</u>	<u>3,946,679</u>

During the period ended June 30, 2014, bad debts of \$132,927 (2013: \$75,170) were written off, of which \$6,996 was provided for in 2012/13. It is management's opinion that a provision for bad debts of \$15,803 (2013: \$6,996) is required at June 30, 2014. All bad debts written off are from unrelated individuals. Once a bad debt is written off coverage to the unrelated individual is terminated.

Cayman Islands National Insurance Company Ltd.
Notes to the financial statements
June 30, 2014
Amounts stated in Cayman Islands dollars

5.1 Advance claims, ASO claims and fees receivable

	June 30, 2014	June 30, 2013
<i>Current</i>		
ASO claims and fees receivable	3,650,153	10,147,552
Advance claims	154,617	154,617
Less: provisions for bad debts (advance claims & fees)	(267,830)	(267,830)
	<u>3,536,940</u>	<u>10,034,339</u>
<i>Long-term</i>		
ASO claims and fees receivable	-	1,033,489
	<u>-</u>	<u>1,033,489</u>

The provision for bad debts as at June 30, 2014 of \$267,830 (2013: \$267,830) represents estimated uncollectable ASO fees of \$113,213 (2013: \$113,213) and uncollectable advance claims of \$154,617 (2013: \$154,617) owed by the Cayman Islands Government.

6 Other receivables and other assets

Components of other receivables and other assets are as follows:

	June 30, 2014	June 30, 2013
<i>Current</i>		
Reinsurance claims recoveries	1,241,177	1,844,675
Amounts prepaid for Indigent claims	210,768	275,538
Amount on deposit with Cayman Airways and HSA	170,000	170,000
Unallocated claims expense	97,700	-
Claims administration and other expenses	46,617	21,000
Licence fees	37,500	37,500
Tenth year anniversary sponsorship income	35,700	-
Miscellaneous	16,355	12,194
Advance to employees	9,771	-
Work permit fees	7,052	4,650
Prepaid rent & stamp duty on lease	2,484	1,449
Marketing costs	-	840
Insurance expense	2,066	-
	<u>1,877,190</u>	<u>2,367,846</u>

For the year ended June 30, 2014, the reinsurance claims recoveries consisted of reinsurance claims receivable of \$1,241,177 (2013: \$1,462,999) and a profit commission recovery of \$0 (2013: \$381,676).

See Note 18 for disclosure on related party balances.

Cayman Islands National Insurance Company Ltd.
Notes to the financial statements
June 30, 2014
Amounts stated in Cayman Islands dollars

7 Fixed assets

	System Development Costs	Office Equipment	Computer & Telecoms Equipment	Leasehold Improvements	Total
Cost at July 1, 2012	568,741	70,159	250,677	93,463	983,040
Additions	8,262	327	6,652	-	15,241
Disposals	-	-	-	-	-
Cost at June 30, 2013	<u>577,003</u>	<u>70,486</u>	<u>257,329</u>	<u>93,463</u>	<u>998,281</u>
Accumulated depreciation at July 1, 2012	18,958	30,961	170,255	82,273	302,447
Depreciation for period	113,748	9,365	32,497	5,839	161,449
Disposals	-	-	-	-	-
Accumulated depreciation at June 30, 2013	<u>132,706</u>	<u>40,326</u>	<u>202,752</u>	<u>88,112</u>	<u>463,896</u>
Carrying value at June 30, 2013	<u>444,297</u>	<u>30,160</u>	<u>54,577</u>	<u>5,351</u>	<u>534,385</u>
Cost at July 1, 2013	577,003	70,486	257,329	93,463	998,281
Additions	122,705	36,945	5,703	183,638	348,991
Disposals	-	-	-	-	-
Cost at June 30, 2014	<u>699,708</u>	<u>107,431</u>	<u>263,032</u>	<u>277,101</u>	<u>1,347,272</u>
Accumulated depreciation at July 1, 2013	132,706	40,326	202,752	88,112	463,896
Depreciation for period	123,101	12,440	29,586	36,258	201,385
Disposals	-	-	-	-	-
Accumulated depreciation at June 30, 2014	<u>255,807</u>	<u>52,766</u>	<u>232,338</u>	<u>124,370</u>	<u>665,281</u>
Carrying value at June 30, 2014	<u>443,901</u>	<u>54,665</u>	<u>30,694</u>	<u>152,731</u>	<u>681,991</u>

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"). HAS operates as Advanced Integrated Systems (Cayman) Ltd ("AIS") in the Cayman Islands. The implementation of the EVAS has been co-sponsored by the CIHSA. The total cost of the contract is US\$1.372 million capital and non-capital costs. CIHSA and the Company have jointly (i.e. 50/50) shared in these costs (i.e. the Company's share of the capitalized cost are US\$ 677,000). The electronic adjudication of dental claims has commenced on February 5, 2012 and the electronic adjudication of medical claims 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. Due to contract disputes between HAS and CINICO/CIHSA, on December 5, 2014 HAS turned off access to the system. At the date of this report the EVAS system remains inaccessible. As such for the reporting period ended June 30, 2015 the Company has fully depreciated the remaining June 30, 2014 net book value of \$322,287. See note 24 Subsequent Events for further details.

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 selected to provide the Company with Third Party Administration ("TPA") services, in addition United Healthcare ("UHC") was selected to provide the Company with overseas network access. The transition costs to these service providers are capitalized and amortization has commenced as of December 2013. Additionally, the Company has capitalized costs for its wellness program and new website with amortization of these costs to commence once the initiatives are fully implemented.

8 Accounts payable

	June 30, 2014	June 30, 2013
Payable to unrelated entities	110,465	2,550
Payable to related parties	3,403	648
	<u>113,868</u>	<u>3,198</u>

Included in accounts payable in respect of unrelated entities are amounts relating to administrative expenses of \$110,465 (2013: \$2,550). Accounts payable in respect of related entities are \$3,403 (2013: \$648) relating to the risk management unit, postal and GIS services.

Cayman Islands National Insurance Company Ltd.
Notes to the financial statements
June 30, 2014
Amounts stated in Cayman Islands dollars

9 Accruals and other liabilities

Components of accruals and other liabilities are as follows:

June 30, 2014 June 30, 2013

Simplifi/CMN/MMSI/AIS/ Clin Assist Expenses/Other	517,681	41,856
Audit fees	168,125	96,060
Reinsurance premium due	139,165	131,750
Stale dated cheques	102,982	102,982
Tenth year anniversary expenses	67,068	-
Consultancy fees	41,491	17,640
Other accruals	45,427	36,966
Audit Fees - Auditor General	15,940	13,990
Rent	11,366	-
Maintenance/Utilities & Telecommunications	10,952	2,348
Computer Service charges	6,950	4,170
Insurance expense	3,466	4,145
Marketing costs	2,184	6,806
Stamp duty	1,848	-
	<u>1,134,645</u>	<u>458,713</u>

See note 18 for disclosure on related party balances. See Note 21 for disclosure on Provision for claims under litigation.

10 Claims paid

June 30, 2014 June 30, 2013

Net US\$ claims (denominated in C\$)	10,707,671	13,106,877
C\$ claims	41,641,158	41,840,168
	<u>52,348,829</u>	<u>54,947,045</u>
Less: Repricing fees	(178,127)	(47,068)
Claims paid (excluding repricing fees)	<u>52,170,702</u>	<u>54,899,977</u>

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 in force. 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.

Cayman Islands National Insurance Company Ltd.
Notes to the financial statements
June 30, 2014
Amounts stated in Cayman Islands dollars

11 Provision for claims incurred (continued)

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.

Reporting year	2004/5	2005/6	2006/7	2007/8	2008/9	2009/10
<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	46,045,975
One year later	21,214,700	22,827,358	30,779,928	34,402,472	37,507,064	43,109,341
Two years later	20,964,647	22,727,663	30,879,375	34,448,122	37,462,191	43,137,108
Three years to nine years later	20,963,907	22,727,663	30,871,999	34,448,671	37,462,191	43,137,074
Current estimate of cumulative claims	20,963,907	22,727,663	30,871,999	34,448,671	37,462,191	43,136,957
Cumulative payments to date	20,963,907	22,727,663	30,871,999	34,448,671	37,462,191	43,136,957
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	2010/11	2011/12	2012/13	2013/14	Total	
<u>Estimate of ultimate claims costs:</u>						
At end of period	51,917,304	54,592,395	57,117,961	54,378,735		
One year later	50,357,115	52,377,981	54,624,444	-		
Two years later	50,404,281	51,705,351	-	-		
Three years later	50,371,842	-	-	-		
Current estimate of cumulative claims	50,371,842	51,705,351	54,624,444	54,378,475		
Cumulative payments to date	50,373,429	52,077,486	53,916,768	45,969,464		
Gross liability recognized in the statement of financial position	(1,587)	(372,135)	707,676	8,409,011	8,742,965	
Allocated loss expenses ("ALE") reserve	(207)	(28,675)	70,736	826,920	868,774	
Net liability recognized in the statement of financial position	(1,794)	(400,810)	778,412	9,235,931	9,611,739	

Cayman Islands National Insurance Company Ltd.
Notes to the financial statements
June 30, 2014
Amounts stated in Cayman Islands dollars

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.

	Year ended June 30, 2014			Year ended June 30, 2013		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Balance at beginning of year	10,195,374	(1,462,999)	8,732,375	10,063,862	(938,644)	9,125,218
Incurring related to:						
Current year	54,378,735	-	54,378,472	57,117,961	(1,224,854)	55,893,107
Prior year	(3,363,230)	57,845	(3,305,122)	(2,135,998)	(35,016)	(2,171,014)
	51,015,505	57,845	51,073,350	54,981,963	(1,259,870)	53,722,093
Paid: related to:						
Current year	45,969,464	-	45,969,464	47,631,288	-	47,631,288
Prior year	6,201,238	(163,977)	6,037,261	7,268,689	(735,515)	6,533,174
	52,170,702	(163,977)	52,006,725	54,899,977	(735,515)	54,164,462
ALE Reserve movement	571,562	-	571,562	49,526	-	49,526
Balance at end of period	9,611,739	(1,241,177)	8,370,562	10,195,374	(1,462,999)	8,732,375
Change in provision from claims incurred	(583,635)			131,512		

For the year ended June 30, 2014 there was a hindsight reserve release of \$3,362,967 (2013: \$2,135,998) and a reinsurance provision release of \$57,845 for the prior year (2013: \$35,016). Per Note 11, the IBNR is estimated with all known information at the time.

12 Share capital

	June 30, 2014	June 30, 2013
Authorized:		
1,000,000 unclassified shares of C\$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 C\$2,999,999.

13 Additional paid-in-capital

	June 30, 2014	June 30, 2013
Additional paid in capital received	23,093,251	20,435,840
	23,093,251	20,435,840

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. For the year ended June 30, 2014, CINICO received \$2,657,411 in additional paid-in capital from the shareholder (2013: \$0).

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

Cayman Islands National Insurance Company Ltd.
Notes to the financial statements
June 30, 2014
Amounts stated in Cayman Islands dollars

14 Premium income

Premium income earned by insured type is as follows:

For the Year Ended June 30, 2014			
	Group 30100	Group 30101	30104/31304
	Group		
			Total
Premium Income	53,305,696	8,326,687	3,007,095
Reinsurance Premium	(1,646,081)	-	-
Net Premium	51,659,615	8,326,687	3,007,095
			62,993,397

For the Year Ended June 30, 2013			
	Group 30100	Group 30101	Group 30104
	Group		
			Total
Premium Income	53,270,046	8,743,194	2,620,959
Reinsurance Premium	(1,574,812)	-	-
Net Premium	51,695,234	8,743,194	2,620,959
			63,059,387

Group 30100 includes insurance coverage for civil servants, pensioners and employees of Government entities. Group 30101 includes coverage for seamen & veterans, and groups 30104/31304 include coverage for third party residents under the Standard Health Insurance Plan. With the exception of Group 30104/31304, all plans are to a related party.

Reinsurance premium is calculated at \$13.57 (2013: \$12.92) per person per month. Under the terms of the reinsurance treaty, the Company is entitled to a profit commission equal to forty-five percent 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). There is no expected recovery of profit commission for the 2013/14 year.

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 (2013 Revision), each domestic health insurer is required to pay to a Segregated Insurance Fund \$10.00 per month per single insured and \$20.00 per month per couple or family insured. Prior to February 1, 2013, the rate per month per a single insured contract was \$5.00, and the rate per month per couple or family insured was \$10.00. For the period ended June 30, 2014, the Company accrued contributions totaling \$1,236,430 (2013: \$886,850).

17 Administrative expenses and other expenses

Components of administrative expenses and other expenses are as follows:

	June 30, 2014	June 30, 2013
Salaries	1,108,857	682,119
Other/miscellaneous	275,762	137,562
Professional fees	271,998	222,209
Employee benefits	196,023	104,593
Depreciation	201,385	161,449
10 year anniversary	100,222	-
Rent	85,645	71,124
Licence fees	75,000	62,500
Maintenance	65,279	40,805
Utilities	56,777	42,281
Office supplies	32,332	17,655
Marketing	20,363	49,897
	2,489,643	1,592,194

The Company has rented premises on a month-to-month basis and therefore there are no future commitments in regards to lease payments.

Cayman Islands National Insurance Company Ltd.
Notes to the financial statements
June 30, 2014
Amounts stated in Cayman Islands dollars

18 Related party transactions

Related parties comprise the Cayman Islands Government and its various ministries/portfolios, statutory authorities, and government companies to whom the Company provides health insurance coverage. In addition, the Company makes claim payments to other Government entities, namely the Health Services Authority, and Cayman Airways. Payments are also made to Hope Academy which is a related party by way of key management personnel. Related party balances and transactions from the balance sheets, and statements of comprehensive income are represented below.

	June 30, 2014	June 30, 2013
Assets		
<i>Current</i>		
Premiums receivable	8,018,083	3,922,058
Advance claims, ASO claims receivable and fees receivable, net of bad debt	3,536,941	10,034,339
Other receivables and other assets	223,766	219,310
<i>Long-term</i>		
Advance claims, ASO claims receivable and fees receivable	-	1,033,489
	<u>11,778,790</u>	<u>15,209,196</u>
Liabilities		
Accounts payable	3,403	648
Premiums received in advance	1,842	85,940
Accruals and other liabilities	44,173	39,355
Claims payable	2,577,100	6,870,044
	<u>2,626,518</u>	<u>6,995,987</u>
Income		
Premium income	61,681,633	61,950,540
ASO Fees	539,388	485,760
	<u>62,221,021</u>	<u>62,436,300</u>
Expenses		
Claims paid to Government entities	33,736,158	34,598,055
Claims paid to Hope Academy	36,819	21,090
Contributions to segregated insurance fund	1,236,430	886,850
Administrative expenses	258,300	192,452
Provision for government debt	-	113,213
	<u>35,267,707</u>	<u>35,811,660</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, 2014	June 30, 2013
Short-term employee benefits	289,846	272,718
Post-employment benefits	12,800	7,700
Director fees	22,130	28,230
	<u>324,776</u>	<u>308,648</u>

There were no outstanding loans provided to key employees as at June 30, 2014 or as at June 30, 2013.

19 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, confirmation of insurance letters, reinstatement of policies, and sponsorship income from several of the Company's vendors for its tenth year anniversary activities.

Cayman Islands National Insurance Company Ltd.
Notes to the financial statements
June 30, 2014
Amounts stated in Cayman Islands dollars

20 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, 2014 is \$63,614 (2013: \$29,281).

21 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 totaling \$534,836 inclusive of estimated interest, legal fees and air ambulance costs. On April 25, 2012 one of the claims (Advance patient) was settled for lower than originally provided for. In January 2013, the other litigated amount was settled for a lower amount than originally provided for. As a result of these settlements, the provision remained unchanged for the year ended June 30, 2014 (2013: \$145,726 reduction in provision). The movement of the provision is as follows:

	June 30, 2014	June 30, 2013
Gross provision at beginning of year	229,007	374,733
Change in provision	-	(145,726)
Gross provision	229,007	229,007
Net provision at beginning of the year	-	232,383
Increase/(decrease) in current year provision	-	(145,726)
Paid amounts	-	(86,657)
Provision at end of year	-	-

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	154,617
Insured risk	74,390	74,390
	229,007	229,007

While management believes that advance claim provision should ultimately be paid by the Cayman Islands 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.

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 did not provide appropriate notice as per the terms of the contract, for the termination of the TPA services provided by Simplifi ESO ("Plaintiff"). The Administrative Services Agreement ("ASA") between the Company and Simplifi ESO provided for an automatic one year renewal of the contract unless either party gave written notice of non-renewal at least 120 days prior to the termination date. The ASA further stated that any notices shall be delivered in person, by certified mail, by commercial overnight courier, or by facsimile. The Company provided timely e-mailed notification of non-renewal within the required notice period specified in the contract. The Plaintiff is seeking damages for the period July 1, 2013 to June 30, 2014 in the amount of US\$1,291,596 plus attorney's fees, which it claims are the lost profits and "reliance damages" for that period. 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. On August 2, 2016, the Court issued an Opinion and Order denying CINICO's motion for summary judgment holding that there was a factual question requiring a trial on whether Simplifi had actual knowledge of CINICO's intention not to renew the Administrative Services Agreement. The Court also directed the parties to engage in good faith negotiations to settle the dispute. As such CINICO counsel proposed to Simplifi's counsel that the litigation be resolved by both parties dismissing their claims against each other, with neither party making a payment to the other. Neither party has been able to agree on an amicable settlement. A judge has therefore set a trial date for December 12, 2016. Management does not believe they are liable to make any payments associated with this claim as at June 30, 2014.

Cayman Islands National Insurance Company Ltd.
Notes to the financial statements
June 30, 2014
Amounts stated in Cayman Islands dollars

22 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, 2014	June 30, 2013
Share capital	1	1
Share premium	2,999,999	2,999,999
Additional paid-in-capital	23,093,251	20,435,840
Accumulated deficit	(8,470,607)	(13,066,674)
	<u>17,622,644</u>	<u>10,369,166</u>

At June 30, 2014, the Company's net worth was \$17,622,644 and fully compliant with CIMA minimum capital requirement.

23 Regulatory compliance

During the year ended June 30, 2014, CIMA performed an on-site inspection. Subsequent to year end, CIMA issued a report on their findings. The following areas of non-compliance with the Insurance Law, 2010, were noted: Inadequate credit and liquidity management; breach of annual reporting requirements; lack of document procedures for claims and complaints handling; incomplete maintenance of records and appointment of directors without approval of the Authority. As at the date of the financial statements were available to be issued, management believes the Company has rectified all issues with the exception of the lack of Board approved documented procedures for claims handling and procedures for maintenance of records. CIMA has not taken any enforcement action against the Company.

24 Subsequent events

Management have performed a subsequent events review from July 1, 2014 to October 7, 2016. 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.

As disclosed in Note 7, due to a contract dispute with AIS, the June 30, 2014 net book value (\$322,287) of the EVAS was required to be fully amortized as at November 2014. Leading up to the contract dispute, on November 2014 the Company, in conjunction with CIHSA provided a 1 year notice to terminate the use of the system as of December 2015, in accordance with the contract provision. On December 2, 2014 AIS advised through their attorney that the Company and CIHSA were in breach of the contract terms and subsequently terminated access to the system as of December 5, 2014. CIHSA, CINICO and their attorney are in disagreement with AIS's alleged breach and consider AIS in breach of the contract by the fact that less than 3 days notice were given prior to AIS terminating access to the system and discontinuing services. AIS was contractually obligated to provide access to the system and continue to provide the services. As such, CIHSA and CINICO plan to seek out damages. Management does not believe that there is any liability associated with this claim as at June 30, 2014.

On November 5, 2014 and November 10, 2014, two South Florida hospitals filed separate lawsuits in the U.S. Federal Court, against the Company for unpaid medical bills for its members in the amount totalling US\$1.4 million. On November 27, 2014, the Company settled the lawsuits for US\$ 1,131,747. Both lawsuits were dismissed. Management does not believe that there is any liability associated with these claims at June 30, 2014.

On January 23, 2015, a South Florida hospital (the "Plaintiff"), operating various hospitals in the region, filed a lawsuit in the U.S. District Court for the Southern District of Florida, against the Company. The Plaintiff is alleging that the Company underpaid various medical bills as it was not entitled to discounts pursuant to the preferred provider organization ("PPO") contract with CMN. During the period in which medical services were rendered, the Company had a contract in place with CMN which granted the Company access to various PPO networks at discounted rates. The Plaintiff alleges that the discounts taken were not valid due to the Company's failure to pay the outstanding bills on a timely basis. The Company plans to defend its position. Subsequent to the filing of the lawsuit, the Plaintiff has made representation that the total amount it seeks is approximately US\$800,000, relating to dates of service incurred subsequent to the June 30, 2013 financial year. The Company has conducted its own analysis which has revealed that due to the improper recording of historical payments by the Plaintiff as well as overpayments made by the Company which were not refunded by the Plaintiff, the outstanding amounts are significantly less than the amount the Plaintiff is stating, and thus is not material. On July 22, 2015 a settlement was reached for US\$97,000 and the lawsuit has been dismissed.

In August 2016, the Company terminated an agreement with one of its vendors. Following this termination, the Company received a written response from the vendor alleging that the Company was in breach of contract due to insufficient notice being provided for the termination. Further, the vendor stated that it would seek to recover amounts they have deemed to be owed under the terms of their agreement with the Company. As at the date of the financial statements, management assessed the merits of this potential claim and does not believe that the Company has a material exposure.