

Financial Statements of

Cayman Islands National Insurance Company Ltd.

June 30, 2015

Cayman Islands National Insurance Company Ltd.

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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, 2015, and the statements of comprehensive loss, 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 3 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

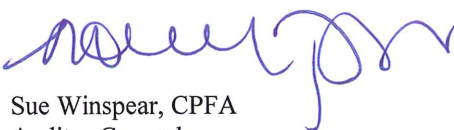
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Sue Winspear, CPFA
Auditor General

December 8, 2017
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 statement of financial position, statement of comprehensive loss, statement of cash flows and statement of changes in shareholder's equity for the financial year ended 30 June 2015.

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 2015;
- (b) fairly reflect the financial position as at 30 June 2015 and performance for the year ended 30 June 2015;
- (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:

DEC/8TH/2017

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

Date:

8/12/2017

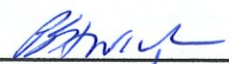
Cayman Islands National Insurance Company Ltd.

Statement of Financial Position

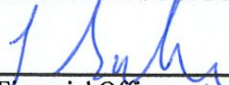
As at June 30, 2015

Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<u>Assets</u>			
<i>Current</i>			
Cash and cash equivalents	4	\$ 24,949,737	\$ 16,273,671
Funds held in escrow	4.1	1,305,207	1,119,245
Premiums receivable	5	3,995,748	8,059,023
Advance claims, ASO claims and fees receivable, net	5.1	3,478,501	3,536,941
Other receivables and other assets	6	2,221,120	1,877,190
<i>Long-term</i>			
Fixed assets	7	334,370	681,991
Total assets		36,284,683	31,548,061
<u>Liabilities</u>			
Accounts payable	8	10,326	113,868
Premiums received in advance		209,910	170,877
Accruals and other liabilities	9	834,151	1,134,645
Claims payable		451,908	2,894,288
Provision for claims incurred	11	18,610,569	9,611,739
Total liabilities		20,116,864	13,925,417
<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	23,093,251
Accumulated deficit		(9,925,432)	(8,470,607)
Total shareholder's equity	22	16,167,819	17,622,644
Total liabilities and shareholder's equity		\$ 36,284,683	\$ 31,548,061


Chairman of the Board of Directors

8/12/17
Date


Chief Financial Officer

Dec 8, 2017
Date

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

Cayman Islands National Insurance Company Ltd.

Statement of Comprehensive Loss

For the period from July 1, 2014 to June 30, 2015

Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Income			
Premium income	14, 18	\$ 66,715,848	\$ 64,639,478
Reinsurance premium	14	(1,421,832)	(1,646,081)
ASO Fees	15, 18	553,392	539,388
Total underwriting income		65,847,408	63,532,785
Investment income and other income	19	47,868	63,033
Total income		65,895,276	63,595,818
Expenses			
Claims paid	10	52,936,776	52,348,829
Reinsured claims	11	(750,644)	57,845
Movement in provision for claims incurred	11	8,998,830	(583,635)
Contributions to segregated insurance fund	16, 18	242,960	1,236,430
Claims administration and other expenses		2,353,481	3,450,639
Total underwriting expenses		63,781,403	56,510,108
Administrative expenses and other expenses	17	3,316,698	2,489,643
Provision litigation settlement	21	252,000	-
Total expenses		67,350,101	58,999,751
Net (loss) income for the period		(1,454,825)	4,596,067
Total comprehensive (loss) income for the period		\$ (1,454,825)	\$ 4,596,067

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

Cayman Islands National Insurance Company Ltd.

Statement of Cash Flows

For the period from July 1, 2014 to June 30, 2015

Amounts stated in Cayman Islands dollars

	<u>NOTE</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Cash flows from operating activities			
Net (loss) income for period		\$ (1,454,825)	\$ 4,596,067
Adjustments for non-cash items			
Depreciation	7	468,974	201,385
Funds held in escrow		(185,962)	(1,119,245)
Premiums receivable		4,063,275	(4,112,344)
Advance claims, ASO claims and fees receivable		58,440	7,530,887
Other receivables and other assets		(343,930)	490,656
Accounts payable		(103,542)	110,670
Premiums received in advance		39,033	(26,954)
Accruals and other liabilities		(300,494)	675,932
Claims payable		(2,442,380)	(3,975,887)
Provision for claims incurred		8,998,830	(583,635)
Net cash flows from operating activities		8,797,419	3,787,532
Cash flows from investing activities			
Purchase of fixed assets	7	(121,353)	(348,991)
Net cash flows from investing activities		(121,353)	(348,991)
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		8,676,066	6,095,952
Cash and cash equivalents at beginning of the year		16,273,671	10,177,719
Cash and cash equivalents at end of the year		\$ 24,949,737	\$ 16,273,671

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 (Note 12)	Share premium (Note 12)	Additional paid-in-capital (Note 13)	Accumulated deficit	Total Shareholder's Equity
Balance at June 30, 2013	\$ 1	\$ 2,999,999	\$ 20,435,840	\$ (13,066,674)	\$ 10,369,166
Year ended June 30, 2014					
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
Comprehensive income:					
Net loss for the year	-	-	-	(1,454,825)	(1,454,825)
Total comprehensive loss:	-	-	-	(1,454,825)	(1,454,825)
Balance at June 30, 2015	\$ 1	\$ 2,999,999	\$ 23,093,251	\$ (9,925,432)	\$ 16,167,819

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2015

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. Subsequent to year-end on June 1, 2017, the Company stopped using the services of ABS. Effective April 1, 2012, the Company contracted with MMSI to provide overseas case management services. Subsequent to year end on August 1, 2016, the Company stopped using the services of MMSI. In addition, effective July 1, 2014, CINICO has contracted with Munich Re, to provide specific excess loss reinsurance coverage on a per covered person basis. Prior to July 1, 2014, excess loss reinsurance coverage was provided by Partner Re (formerly known as Presidio).

The Company's registered office is at Cayman Centre, George Town, Grand Cayman. At June 30, 2015, the Company employed 21 permanent staff and 2 temporary staff (16 permanent staff and 4 temporary staff at June 30, 2014).

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. 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. 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.

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 statement of comprehensive loss. Insurance/reinsurance liabilities are recognised when incurred/due.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2015

Amounts stated in Cayman Islands dollars

2 Accounting policies (continued)

Claims and provision for claims incurred

Claims paid are recorded based on claims reported to the Company and adjudicated by its third party administrator. The provision for claims incurred is an estimate determined by an independent actuary using standard actuarial claims projection techniques 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 (2014: thirty 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 statement of comprehensive loss 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 \$0 (2014: \$1,033,489), the carrying amounts of all financial instruments approximate their fair values due to their short-term maturities.

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.

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.

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.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2015

Amounts stated in Cayman Islands dollars

2 Accounting policies (continued)

Investment income and other income

Investment income and other income are accrued as earned.

Premium deficiency reserves

Annually, a liability adequacy test is performed by management 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. No premium deficiency reserves were required for the year ended June 30, 2015 or 2014.

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, 2014:

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.

The amendments to IAS 32 clarify when an entity has a legally enforceable right to off-set as well as clarify, when a settlement mechanism provides for net settlement, or gross settlement that is equivalent to net settlement. The adoption of the amendment did not have any impact on the financial position or performance of the Company.

IFRS 13, Fair Value Measurement is amended to clarify that issuing of the standard and consequential amendments to IAS 39, and IFRS 9, did not intend to prevent entities from measuring short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial.

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.

B) New standards, amendments and interpretations issued but not effective for the financial year beginning July 1, 2014 and not early adopted:

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after July 1, 2014, 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:

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. 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 periods beginning on or after January 1, 2018. The new standard applies to contracts with customers, however it does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other IFRS takes precedence. The standard is not expected to have a significant impact on the Company's financial position or performance.

Amendments to IAS 16, Clarification of Acceptable Methods of Depreciation and Amortisation, are effective for accounting periods beginning on or after January 1, 2016. The amendment to IAS 16, Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used. This is because such methods reflect factors other than the consumption of economic benefits embodied in the assets. The standard is not expected to have a significant 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 Company.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2015

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 MMSI (a division of the Mayo Clinic). MMSI provides case management services with the goal of managing a patient's care path in an economical fashion at each step of the way. Subsequent to year-end, in August 2016, the Company stopped using the services of MMSI and provided the services internally in accordance with its strategic plan. The Company used CMN (up to December 31, 2014) and United Healthcare for the provision of overseas network access. These entities have 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. 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;
- amounts due from ASO contracts.

All of the Company's cash and cash equivalents are held with reputable financial institutions in the Cayman Islands (2014/15: 94%; 2013/14: 79%), Canada (2014/15: 6%; 2013/14: 15%) and the United States (2014/15: 0%; 2013/14: 6%). 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, 2015	June 30, 2014
Cash and cash equivalents	\$ 24,949,737	\$ 16,273,671
Funds held in escrow	1,305,207	1,119,245
Premiums receivable	3,995,748	8,059,023
Advance claims, ASO claims and fees receivable	3,478,501	3,536,941
Reinsurance claims recoveries	750,644	1,241,177
Other assets	1,202,606	46,617
Total financial assets	\$ 35,682,443	\$ 30,276,674
Non-financial assets	\$ 602,240	\$ 1,271,387
Total assets per the statement of financial position	\$ 36,284,683	\$ 31,548,061

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2015

Amounts stated in Cayman Islands dollars

3 Management of insurance and financial risk (continued)

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, 2015:					
Cash and cash equivalents	\$ 24,949,737	\$ -	\$ -	\$ -	24,949,737
Funds held in escrow	1,305,207	-	-	-	1,305,207
Premiums receivable	-	3,995,748	13,000	(13,000)	3,995,748
Advance claims, ASO claims and fees receivable	-	3,478,501	267,830	(267,830)	3,478,501
Reinsurance claims recoveries	750,644	-	-	-	750,644
Other assets	1,202,606	-	-	-	1,202,606
Total assets exposed to credit risks	\$ 28,208,194	\$ 7,474,249	\$ 280,830	\$ (280,830)	\$ 35,682,443

	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
Reinsurance claims recoveries	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

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, 2015:				
Advance claims, ASO claims and fees receivable	\$ 2,707,675	\$ 26,342	\$ 744,484	\$ 3,478,501
Premiums receivable	2,828,555	209,317	957,876	3,995,748
Reinsurance claims recoveries	-	-	-	-
	\$ 5,536,230	\$ 235,659	\$ 1,702,360	\$ 7,474,249

	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
Reinsurance claims recoveries	-	-	-	-
	\$ 6,518,032	\$ 2,575,181	\$ 2,502,751	\$ 11,595,964

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

Cash and cash equivalents (including 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, 2015	June 30, 2014
AAA	\$ -	\$ -
AA	24,783,757	15,729,849
A	1,305,207	1,119,245
BBB	69,241	111,556
Below BBB or not rated	96,739	432,266
Total cash and cash equivalents bearing credit risk	\$ 26,254,944	\$ 17,392,916

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

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2015

Amounts stated in Cayman Islands dollars

3 Management of insurance and financial risk (continued)

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 (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.

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, 2015, the Company had cash and cash equivalents of \$24,949,737 (2014: \$16,273,671). 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, 2015 and June 30, 2014.

	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, 2015								
Financial Assets								
Cash and cash equivalents	\$ 24,949,737	\$ -	\$ 24,949,737	\$ -	\$ -	\$ -	\$ -	
Funds held in escrow	1,305,207		1,305,207					
Advance claims, ASO claims and fees receivable	3,478,501	-	3,478,501	-	-	-	-	
Premiums receivable	3,995,748	-	3,995,748	-	-	-	-	
Reinsurance claims recoveries	750,644	-	750,644	-	-	-	-	
Other assets	1,202,606	-	1,202,606	-	-	-	-	
Total	\$ 35,682,443	\$ -	\$ 35,682,443	\$ -	\$ -	\$ -	\$ -	
Short term insurance liabilities								
Insurance contracts	\$ 19,062,477	\$ -	\$ 19,062,477	-	-	-	-	
Other financial liabilities	844,477	-	844,477	-	-	-	-	
Total	\$ 19,906,954	\$ -	\$ 19,906,954	\$ -	\$ -	\$ -	\$ -	
Difference in contractual cashflows	\$ 15,775,489	\$ -	\$ 15,775,489	\$ -	\$ -	\$ -	\$ -	

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

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3 Management of insurance and financial risk (continued)

3.3 Management of financial risks (continued)

June 30, 2014	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	\$ 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	-	-	-	-
Reinsurance claims recoveries	1,241,177	-	1,241,177	-	-	-	-
Other assets	46,617	-	46,617	-	-	-	-
Total	\$ 30,276,674	\$ -	\$ 30,276,674	\$ -	\$ -	\$ -	\$ -
Short term insurance liabilities							
Insurance contracts	\$ 12,506,027	\$ -	\$ 12,506,027	\$ -	\$ -	\$ -	\$ -
Other financial liabilities	1,248,513	-	1,248,513	-	-	-	-
Total	\$ 13,754,540	\$ -	\$ 13,754,540	\$ -	\$ -	\$ -	\$ -
Difference in contractual cashflows	\$ 16,522,134	\$ -	\$ 16,522,134	\$ -	\$ -	\$ -	\$ -

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 ratios (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.

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3 Management of insurance and financial risk (continued)

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, 2015						
Impact on Net income						
for the year	-	-	(129,822)	129,822	(3,335,792)	3,335,792
Impact on Shareholder's equity	-	-	(129,822)	129,822	(3,335,792)	3,335,792

	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
	-	-	(234,353)	234,353	(3,231,974)	3,231,974

4 Cash and cash equivalents

	June 30, 2015	June 30, 2014
Fixed deposits	\$ 2,000,000	\$ -
Cash at bank	22,943,284	16,010,766
Deposit in transit	6,453	262,905
	<u>\$ 24,949,737</u>	<u>\$ 16,273,671</u>

4.1 Funds held in escrow

United Healthcare (UHC) provides the Company with network access to USA facilities and physicians at discounted rates. As part of the agreement with UHC 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, 2015	June 30, 2014
Current		
Premiums receivable from related parties, gross	\$ 3,975,139	\$ 8,018,083
Premiums receivable from unrelated entities, gross	33,609	56,743
Less: provisions for bad debts	(13,000)	(15,803)
	<u>\$ 3,995,748</u>	<u>\$ 8,059,023</u>

During the year ended June 30, 2015, bad debts of \$126,254 (June 30, 2014 - \$132,927) have been written off, of which \$15,803 had been provided for in 2013/14 (2012/13 - \$6,996). It is management's opinion that a provision for bad debts of \$13,000 (June 30, 2014 - \$15,803) is required at June 30, 2015. 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, 2015

Amounts stated in Cayman Islands dollars

5.1 Advance claims, ASO claims and fees receivable

	June 30, 2015	June 30, 2014
<i>Current</i>		
ASO claims and fees receivable	\$ 3,591,714	\$ 3,650,153
Advance claims	154,617	154,617
Less: provisions for bad debts (advance claims & fees)	(267,830)	(267,830)
	<u>\$ 3,478,501</u>	<u>\$ 3,536,940</u>

The provision for bad debts as at June 30, 2015 of \$267,830 (2014: \$267,830) represents estimated uncollectable ASO fees of \$113,213 (2014: \$113,213) and uncollectable advance claims of \$154,617 (2014: \$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, 2015	June 30, 2014
<i>Current</i>		
Reinsurance claims recoveries	\$ 750,644	\$ 1,241,177
Receivable from CIHSA	688,109	-
Amount on deposit with Cayman Airways	411,118	170,000
Amounts prepaid for indigent claims	148,230	210,768
Claims administration and other expenses	103,379	46,617
Unallocated claims expense	56,116	97,700
Licence fees	37,500	37,500
Work permit fees	12,000	7,052
Miscellaneous	10,407	16,355
Prepaid rent & stamp duty on lease	2,484	2,484
Marketing costs	1,133	-
Tenth year anniversary sponsorship income	-	35,700
Advance to employees	-	9,771
Insurance expense	-	2,066
	<u>\$ 2,221,120</u>	<u>\$ 1,877,190</u>

See Note 18 for disclosure on related party balances.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2015

Amounts stated in Cayman Islands dollars

7 Fixed assets

	System Development Costs	Office Equipment	Computer & Telecoms Equipment	Leasehold Improvements	Total
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	699,708	107,431	263,032	277,101	1,347,272
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	255,807	52,766	232,338	124,370	665,281
Carrying value at June 30, 2014	\$ 443,901	\$ 54,665	\$ 30,694	\$ 152,731	\$ 681,991
Cost at July 1, 2014	\$ 699,708	\$ 107,431	\$ 263,032	\$ 277,101	\$ 1,347,272
Additions	62,705	11,475	46,763	410	121,353
Disposals	-	-	-	-	-
Cost at June 30, 2015	762,413	118,906	309,795	277,511	1,468,625
Accumulated depreciation at July 1, 2014	255,807	52,766	232,338	124,370	665,281
Depreciation for period	365,188	17,257	24,491	62,038	468,974
Disposals	-	-	-	-	-
Accumulated depreciation at June 30, 2015	620,995	70,023	256,829	186,408	1,134,255
Carrying value at June 30, 2015	\$ 141,418	\$ 48,883	\$ 52,966	\$ 91,103	\$ 334,370

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 transition costs to these service providers of \$2,856 (2014: \$114,966) are capitalised and amortization has commenced as of December 2013. Additionally, the Company capitalized costs of \$Nil (2014: \$69,722) for its wellness program with amortization of these costs commencing upon the full implementation of the initiative in December 2014.

8 Accounts payable

	June 30, 2015	June 30, 2014
Payable to unrelated entities	\$ 10,326	\$ 110,465
Payable to related parties	-	3,403
	\$ 10,326	\$ 113,868

Included in accounts payable in respect of unrelated entities are amounts relating to administrative expenses of \$10,326 (June 30, 2014 - \$110,465). Account payable in respect of related entities as at June 30, 2015 is \$0 (June 30, 2014: \$3,403 for postal, GIS and Risk Management Unit services).

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2015

Amounts stated in Cayman Islands dollars

9 Accruals and other liabilities

Components of accruals and other liabilities are as follows:

	June 30, 2015	June 30, 2014
Provision for Simplifi lawsuit settlement (Note 21)	\$ 252,000	\$ -
Audit fees	193,000	168,125
Reinsurance premium due	121,384	139,165
Stale dated cheques	102,982	102,982
ABS/CMN/MMSI/AIS Expenses	51,380	517,681
Other accruals	42,603	45,427
Consultancy fees	25,200	41,491
Audit Fees - Auditor General	21,850	15,940
Computer Service charges	9,498	6,950
Maintenance/Utilities & Telecommunications	6,294	10,952
Insurance expense	4,166	3,466
Marketing costs	2,450	2,184
Stamp duty	1,344	1,848
Tenth year anniversary expenses	-	67,068
Rent	-	11,366
	<u>\$ 834,151</u>	<u>\$ 1,134,645</u>

See note 18 for disclosure on related party balances. See note 21 for Simplifi lawsuit disclosure.

10 Claims paid

	June 30, 2015	June 30, 2014
Net US\$ claims (denominated in CI\$)	15,737,062	10,707,671
CI\$ claims	37,199,714	41,641,158
Total Claims	<u>\$ 52,936,776</u>	<u>\$ 52,348,829</u>
Less repricing fees	<u>(1,444,938)</u>	<u>(178,127)</u>
Claims paid (not including repricing fees)	<u>\$ 51,491,838</u>	<u>\$ 52,170,702</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 Cayman Islands Health Insurance Law to submit any claims within 180 days of date of service (USA providers are required to submit claims within one year of the date of service). Thus, any reserve estimates are normally settled within a year, with the exception noted in the following paragraph.

Subsequent to year-end (March 2017), the Cayman Islands Health Services Authority ("CIHSA") advised the Company that it failed to submit claims amounting to \$1,673,768 that related to the June 30, 2015 fiscal year and not submitted within the 180 day requirement. An exception to the 180 day requirement was granted by the Company and the Ministry of Finance. As such claims relating to dates of service from July 1, 2014 to June 30, 2015 were processed and settled in June 2017. This information was utilized by the Company in estimating the provision for claims incurred as at June 30, 2015.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

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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 ten years later	20,963,907	22,727,663	30,871,999	34,448,671	37,462,191	43,136,834
Current estimate of cumulative claims	20,963,907	22,727,663	30,871,999	34,448,671	37,462,191	43,136,834
Cumulative payments to date	20,963,907	22,727,663	30,871,999	34,448,671	37,462,191	43,136,834
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	2014/15	Total
<u>Estimate of ultimate claims costs:</u>						
At end of period	51,917,304	54,592,395	57,117,961	54,378,735	60,330,760	
One year later	50,357,115	52,377,981	54,624,444	54,230,143	n.a.	
Two years later	50,404,281	51,705,351	54,607,849	n.a.	n.a.	
Three years to four years later	50,371,842	51,705,906	n.a.	n.a.	n.a.	
Current estimate of cumulative claims	50,371,842	51,705,906	54,607,849	54,230,143	60,330,760	
Cumulative payments to date	50,371,842	51,705,906	54,050,433	53,849,498	43,641,140	
Gross liability recognized in the statement of financial position	-	-	557,416	380,645	16,689,620	17,627,681
Allocated loss expenses ("ALE") reserve	-	-	16,689	16,245	949,954	982,888
Net liability recognized in the statement of financial position	\$ -	\$ -	\$ 574,105	\$ 396,890	\$ 17,639,574	\$ 18,610,569

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

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11 Provision for claims incurred (continued)

	Period ended June 30, 2015			Year ended June 30, 2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Balance at beginning of year	\$ 9,611,739	\$ (1,241,177)	\$ 8,370,562	\$ 10,195,374	\$ (1,462,999)	\$ 8,732,375
Incurred related to:						
Current year	60,330,760	(750,644)	59,580,116	54,378,735	-	54,378,735
Prior year	45,535	-	45,535	(3,363,230)	57,845	(3,305,385)
	60,376,295	(750,644)	59,625,651	51,015,505	57,845	51,073,350
Paid related to:						
Current year	43,641,140	-	43,641,140	45,969,464	-	45,969,464
Prior year	7,850,698	(1,241,177)	6,609,521	6,201,238	(163,977)	6,037,261
	51,491,838	(1,241,177)	50,250,661	52,170,702	(163,977)	52,006,725
ALE Reserve movement	114,373	-	114,373	571,562	-	571,562
Balance at end of period	\$ 18,610,569	\$ (750,644)	\$ 17,859,925	\$ 9,611,739	\$ (1,241,177)	\$ 8,370,562
Change in provision from claims incurred	\$ 8,998,830			\$ (583,635)		

For the year ended June 30, 2015 there was a hindsight reserve strengthening of \$45,535 (June 30, 2014 reserve release of \$3,363,230). As stated in the beginning of Note 11, IBNR is estimated with all known information at the time.

12 Share capital

Authorized:	June 30, 2015	June 30, 2014
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, 2015	June 30, 2014
Additional paid in capital received	\$ 23,093,251	\$ 23,093,251
	\$ 23,093,251	\$ 23,093,251

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 period ended June 30, 2015 the company received \$0 in additional paid-in capital from the shareholder (June 30, 2014: \$2,657,411).

Cayman Islands National Insurance Company Ltd.

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14 Premium income

Premium income earned by insured type is as follows;

	For the Period Ended June 30, 2015			
	Group			Total
	Group 30100	Group 30101	30104/31304	
Premium Income	\$ 54,551,704	\$ 8,061,585	\$ 4,102,559	\$ 66,715,848
Reinsurance Premium	(1,421,832)	-	-	(1,421,832)
Net Premium	\$ 53,129,872	\$ 8,061,585	\$ 4,102,559	\$ 65,294,016

	For the Year Ended June 30, 2014			
	Group			Total
	Group 30100	Group 30101	30104/31304	
Premium Income	\$ 53,305,696	\$ 8,326,687	\$ 3,007,095	\$ 64,639,478
Reinsurance Premium	(1,646,081)	-	-	(1,646,081)
Net Premium	\$ 51,659,615	\$ 8,326,687	\$ 3,007,095	\$ 62,993,397

Group 30100 includes insurance coverage for civil servants, pensioners and employees of Government entities. Group 30101 includes coverage for seamen & veterans, and Group 30104/31304 includes 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 \$11.64 (2013/14 - \$13.57) per person per month.

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. For the period ended June 30, 2015 the Company accrued contributions totaling \$242,960 (year ended June 30, 2014 - \$1,236,430). The decrease is due to amendments to the Health Insurance Regulations (2013 Revision) which resulted in contributions no longer being required for government insurance plans.

17 Administrative expenses and other expenses

Components of administrative expenses and other expenses are as follows:

	June 30, 2015	June 30, 2014
Salaries	\$ 1,500,111	\$ 1,108,857
Depreciation	468,974	201,385
Professional fees	391,848	271,998
Employee benefits	255,297	196,023
Other/miscellaneous	251,055	275,762
Rent	115,054	85,645
Maintenance	106,050	65,279
Utilities	82,720	56,777
Licence fees	75,000	75,000
Office supplies	36,140	32,332
Marketing	34,449	20,363
10 year anniversary	-	100,222
	\$ 3,316,698	\$ 2,489,643

Cayman Islands National Insurance Company Ltd.

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18 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 CIHSA, 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 statements of financial position and comprehensive loss are represented below.

	June 30, 2015	June 30, 2014
Assets		
<u>Current</u>		
Premiums receivable	\$ 3,975,139	\$ 8,018,083
Advance claims, ASO claims receivable and fees receivable, net of bad debt	3,478,501	3,536,941
Other receivables and other assets	1,148,977	223,766
	<u>\$ 8,602,617</u>	<u>\$ 11,778,790</u>
Liabilities		
Accounts payable	\$ -	\$ 3,403
Premiums received in advance	43,349	1,842
Accruals and other liabilities	52,827	44,173
Claims payable	-	2,577,100
	<u>\$ 96,176</u>	<u>\$ 2,626,518</u>
Income		
Premium income	\$ 62,307,422	\$ 61,681,633
ASO Fees	553,392	539,388
	<u>\$ 62,860,814</u>	<u>\$ 62,221,021</u>
Expenses		
Claims paid	\$ 28,744,697	\$ 33,736,158
Claims paid to Hope Academy	110,885	36,819
Contributions to segregated insurance fund	242,960	1,236,430
Administrative expenses	319,394	258,300
	<u>\$ 29,417,936</u>	<u>\$ 35,267,707</u>

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

	June 30, 2015	June 30, 2014
Short-term employee benefits	\$ 354,191	\$ 289,846
Post-employment benefits	16,533	12,800
Director fees	31,172	22,130
	<u>\$ 401,896</u>	<u>\$ 324,776</u>

On July 4, 2017, a 2014/15 Claims Reconciliation Agreement (the "Agreement") was reached between the Company and the CIHSA in order to reconcile the claims data from both parties, identify sources of differences and agree to a claims figure for the current financial year. The Agreement arose due to limitations with claims reporting data between the two entities and the absence of Advance Integration Systems Ltd. for the reasons described in Note 21. As a result of the Agreement, the Company and the CIHSA were able to identify variances in their records and agree upon the total amount of claims paid and claims submitted with dates of service relating to the current financial year. It was also agreed that no further liability exists for the Company for claims with dates of service prior to June 30, 2015, other than that already considered in the provision for claims incurred of \$1,673,768 described in Note 11.

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, and reinstatement of policies.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2015

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, 2015 is \$84,957 (year ended June 30, 2014 - \$63,614).

21 Commitments and Contingencies

	June 30, 2015	June 30, 2014
Provision at beginning of year:	\$ 229,007	\$ 229,007
Increase in current year provision	22,993	-
Provision at end of year	<u>\$ 252,000</u>	<u>\$ 229,007</u>

The breakdown of the provision is as follows:

Simplifi Health Benefit Management, LLC	\$ 252,000	\$ -
Advance patients	-	154,617
Insured risk	-	74,390
	<u>\$ 252,000</u>	<u>\$ 229,007</u>

The provision for the year ended June 30, 2014 related to two summonses filed by separate medical providers in the state of Florida in February 2011 and May 2011. One of these summons related to an unpaid insurance claim and guarantee made by the Company to a medical provider for a patient deemed uninsured/underinsured ("Advance patients") on behalf of the Cayman Islands Government and the other was related to an insured risk of the Company. Subsequently, both the claims were settled with the medical providers and the Company recovered \$154,617 from the Cayman Islands Government for the portion due on the Advance patients claim.

The provision for the year ended June 30, 2015 relates to a lawsuit filed against the Company by Simplifi Health Benefit Management, LLC ("Simplifi"). In the lawsuit, Simplifi 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. The Administrative Services Agreement ("ASA") between the Company and Simplifi 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 notification of non-renewal within the required notice period specified in the contract. The Plaintiff sought damages for the period July 1, 2013 to June 30, 2014 in the amount of \$1,084,941 plus attorney's fees, which it claims are the lost profits and "reliance damages" for that period. Counsel to the Company has informed Simplifi in writing that the notice of termination was effective under the laws of the State of Ohio, which governed the agreement with Simplifi. On August 2, 2016, the Court issued an Opinion and Order denying the Company's motion for summary judgment holding that there was a factual question requiring a trial on whether Simplifi had actual knowledge of the Company's intention not to renew the ASA. The Court also directed the parties to engage in good faith negotiations to settle the dispute. A provision has been recorded for the expected cost of settlement as at June 30, 2015. Subsequent to year-end, the Company settled the lawsuit for \$252,000 to avoid future increase in legal costs which would have been eminent had the case gone to trial.

The Company, in conjunction with the CIHSA, had contracted with Advance Integration Systems Ltd. ("AIS"), to develop the "Electronic Verification Adjudication System" ("EVAS"). On February 2, 2012 and May 5, 2012 EVAS began processing dental and medical claims, respectively. Due to a contract dispute with AIS, the Company was advised on December 2, 2014 through AIS's attorney that the Company and CIHSA were in breach of the contract terms and subsequently AIS terminated access to the system as of December 5, 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. The Company fully amortized the remaining net book value (\$322,287) of the EVAS as at November 2014. The Company is in disagreement with AIS's alleged breach and consider AIS in breach of the contract by the fact that less than 3 days notice was 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. Management does not believe that there is any liability associated with this claim as at June 30, 2015.

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22 Net worth for regulatory purposes

	June 30, 2015	June 30, 2014
Share capital	\$ 1	\$ 1
Share premium	2,999,999	2,999,999
Additional paid-in-capital	23,093,251	23,093,251
Accumulated deficit	(9,925,432)	(8,470,607)
	<u>\$ 16,167,819</u>	<u>\$ 17,622,644</u>

As a Class A insurance company, the Company is required to maintain capital levels in accordance with the Insurance (Capital and solvency)(Class A Insurers) Regulations, 2012 which is a risk based approach in assessing the adequacy of the required capital. The Company has performed the calculations under Schedule 1 to Schedule 3 of the regulation, and for regulatory purposes complies with the Minimum Capital Requirements ("MCR") and Prescribed Capital Requirements ("PCR"), as listed below:

	June 30, 2015	June 30, 2014
Available capital	\$ 14,829,200	\$ 16,666,738
Minimum Capital Requirements		
MCR	\$ 10,355,083	\$ 8,819,302
PCR	\$ 12,943,854	\$ 11,024,127

Subsequent to year-end and as a result of the CIHSA late claims (see note 11) the Company identified that additional capital was required to maintain ongoing compliance with the MCR and PCR amounts. On May 17, 2017, the Cabinet of the Cayman Islands authorised the Ministry of Finance and Economic Development to provide an equity injection of \$7,100,000. The Company received the additional capital in June 2017 and at the date of issuance of these financial statements is in compliance with the MCR and PCR.

23 Subsequent events

Management have performed a subsequent events review from July 1, 2015 to December 8, 2017, being the date that the financial statements 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.

On January 23, 2015 one 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 with CMN that granted the Company access to various PPO networks at discounted rates). Subsequent to the filing of the lawsuit, the Plaintiff has made representation that the total amount it seeks is approximately \$656,000, 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 and due to 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 is outstanding, and thus not material. On July 22, 2015 a settlement was reached for \$97,000 and the lawsuit was dropped

In accordance with the Company's strategic plan, subsequent to year-end the Company cancelled services received from two of its third party administrators as follows: On August 2016, MMSI's services were no longer contracted as the Company developed its own Medical Case Management Unit. On June 1, 2017, the Company no longer contracted services from ABS and performed the claims adjudication and insurance administration services in-house through the use of a leased insurance administration system from Hi-Tech.