

Financial Statements of

Cayman Islands National Insurance Company Ltd.

June 30, 2016

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, 2016, 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 7 to 24.

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 is 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, 2016, 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

April 25, 2019
Cayman Islands



Good Health Should Be Insured.

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 General Manager 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 General Manager 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 2016.

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 2016;
- (b) fairly reflect the financial position as at 30 June 2016 and performance for the year ended 30 June 2016;
- (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.

Dana Brandon
General Manager
Cayman Islands National Insurance Company

Frank Gallipi
Chief Financial Officer
Cayman Islands National Insurance Company

Date: April 25, 2019

Date: APRIL 25, 2019

Cayman Islands National Insurance Company Ltd.

Statement of Financial Position

As at June 30, 2016

Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
<u>Assets</u>			
<i>Current</i>			
Cash and cash equivalents	4	\$ 27,006,921	\$ 24,949,737
Funds held in escrow	4.1	701,968	1,305,207
Premiums receivable	5	2,204,967	3,995,748
Advance claims, ASO claims and fees receivable	5.1	5,681,011	3,478,501
Other receivables and other assets	6	971,677	2,221,120
<i>Long-term</i>			
Fixed assets	7	357,640	334,370
Total assets		36,924,184	36,284,683
<u>Liabilities</u>			
Accounts payable	8	469,632	10,326
Premiums received in advance		194,141	209,910
Accruals and other liabilities	9	1,080,397	834,151
Claims payable		1,755,262	451,908
Provision for claims incurred	11	21,751,608	18,610,569
Total liabilities		25,251,040	20,116,864
<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		(14,420,107)	(9,925,432)
Total shareholder's equity	22	11,673,144	16,167,819
Total liabilities and shareholder's equity		\$ 36,924,184	\$ 36,284,683

PATRICIA ESTWICK

APRIL 25, 2019

Chairman of the Board of Directors

Date

FRANK GALLIPPI

APRIL 25, 2019

Chief Financial Officer

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, 2015 to June 30, 2016

Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Income			
Premium income	14, 18	\$ 67,321,317	\$ 66,715,848
Reinsurance premium	14	(1,446,293)	(1,421,832)
ASO Fees	15, 18	571,797	553,392
Total underwriting income		66,446,821	65,847,408
Investment income and other income	19	52,384	47,868
Total income		66,499,205	65,895,276
Expenses			
Claims paid	10	62,715,824	52,936,776
Reinsured claims	11	(153,571)	(750,644)
Movement in provision for claims incurred	11	3,141,039	8,998,830
Contributions to segregated insurance fund	16, 18	267,160	242,960
Claims administration and other expenses		2,298,898	2,353,481
Total underwriting expenses		68,269,350	63,781,403
Administrative expenses and other expenses	17	2,992,360	3,316,698
Provision (release of provision) for contingencies and government debt	5.1	(267,830)	252,000
Total expenses		70,993,880	67,350,101
Net loss for the year		(4,494,675)	(1,454,825)
Total comprehensive loss for the year		\$ (4,494,675)	\$ (1,454,825)

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, 2015 to June 30, 2016

Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Cash flows from operating activities			
Net loss for the year		\$ (4,494,675)	\$ (1,454,825)
Adjustments for non-cash items			
Depreciation	7	176,170	468,974
Funds held in escrow		603,239	(185,962)
Premiums receivable		1,790,781	4,063,275
Advance claims, ASO claims and fees receivable		(2,202,510)	58,440
Other receivables and other assets		1,249,443	(343,930)
Accounts payable		459,306	(103,542)
Premiums received in advance		(15,769)	39,033
Accruals and other liabilities		246,246	(300,494)
Claims payable		1,303,354	(2,442,380)
Provision for claims incurred		3,141,039	8,998,830
Net cash flows from operating activities		2,256,624	8,797,419
Cash flows from investing activities			
Purchase of fixed assets	7	(199,440)	(121,353)
Net cash flows from investing activities		(199,440)	(121,353)
Net cash inflow for the year		2,057,184	8,676,066
Cash and cash equivalents at beginning of the year		24,949,737	16,273,671
Cash and cash equivalents at end of the year		\$ 27,006,921	\$ 24,949,737

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, 2014	<u>\$ 1</u>	<u>\$ 2,999,999</u>	<u>\$ 23,093,251</u>	<u>\$ (8,470,607)</u>	<u>\$ 17,622,644</u>
Year ended June 30, 2015					
Comprehensive income:					
Net loss for the year	-	-	-	(1,454,825)	(1,454,825)
Total comprehensive loss:	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,454,825)</u>	<u>(1,454,825)</u>
Balance at June 30, 2015	<u>\$ 1</u>	<u>\$ 2,999,999</u>	<u>\$ 23,093,251</u>	<u>\$ (9,925,432)</u>	<u>\$ 16,167,819</u>
Year ended June 30, 2016					
Comprehensive income:					
Net loss for the year	-	-	-	(4,494,675)	(4,494,675)
Total comprehensive loss:	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,494,675)</u>	<u>(4,494,675)</u>
Balance at June 30, 2016	<u>\$ 1</u>	<u>\$ 2,999,999</u>	<u>\$ 23,093,251</u>	<u>(14,420,107)</u>	<u>11,673,144</u>

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2016

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 dependants), 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.

Effective June 1, 2017 the Company leased an insurance administration system through Hi-Tech and performs in-house claims administration services. Previous to June 1, 2017 the Company has contracted with a Third Party Administrator ("TPA"), Automated Benefit Services ("ABS"), to provide claims administration services. The Company also has a contract with United Healthcare to provide network access to USA facilities and physicians. 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. 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, 2016, the Company employed 23 permanent staff and 3 temporary staff (21 permanent staff and 2 temporary staff at June 30, 2015).

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 using historical claims data and conducting an actuarial analysis of various reinsurance retention limits, to determine the optimum reinsurance retention limit. Under its reinsurance contract, the Company is entitled to any claims in excess of the reinsurance limit which is held or 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.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2016

Amounts stated in Cayman Islands dollars

2 Accounting policies (continued)

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.

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 45 days (2015: 30 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 of the period of the lease.

Disclosures about fair value of financial instruments

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.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2016

Amounts stated in Cayman Islands dollars

2 Accounting policies (continued)

Foreign currency translation

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

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

Investment income and other income

Investment income and other income are accrued as earned.

Premium deficiency reserves

Annually, 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. No premium deficiency reserves were required for the year ended June 30, 2016 or 2015.

2.1 Changes in IFRS

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

There were no new standards, interpretations or amendments to existing standards that are effective that would be expected to have a significant impact on the Company for the financial year beginning July 1, 2015.

B) New standards, amendments and interpretations issued but not effective for the financial year beginning July 1, 2015 and not early adopted:

A number of new standards and amendments to standards and interpretations are issued but not effective for the financial year beginning July 1, 2015, 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 with IFRS 4 Insurance Contracts, 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 9 provides two options for entities that issue insurance contracts being the overlay approach or the deferral approach. The overlay approach provides the option to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements. The deferral approach is an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following January 1, 2018. The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied. The standard is not expected to have a significant impact on the Company's financial position or performance.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2016

Amounts stated in Cayman Islands dollars

2.1 Changes in IFRS (continued)

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.

IFRS 17, Insurance Contracts, is effective for annual periods beginning on or after January 2021 with an early adoption being permitted. IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. Management is currently assessing the impact that this amendment will have on its financial statements.

Amendments to IAS 16, Clarification of Acceptable Methods of Depreciation and Amortisation, is 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.

IFRS 16, Leases, was issued in January 2016 and is effective for annual periods on or after January 1, 2019. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the Statement of Comprehensive Loss. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating or finance leases, and to account for those two types of leases differently. Management is currently assessing the impact that this amendment will have on its financial statements.

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.

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. In August of 2016 the Company implemented its own department to provide case management service to patients. Prior to that the Company employed the services of MMSI (a division of the Mayo Clinic). The Company uses United Healthcare for the provision of overseas network access. Prior to December 2014 this service was provided by CMN. 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.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2016

Amounts stated in Cayman Islands dollars

3 Management of insurance and financial risk (continued)

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 (2015/16: 99%; 2014/15: 94%) and Canada (2015/16: 1%; 2014/15: 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, 2016	June 30, 2015
Cash and cash equivalents	\$ 27,006,921	\$ 24,949,737
Funds held in escrow	701,968	1,305,207
Premiums receivable	2,204,967	3,995,748
Advance claims, ASO claims and fees receivable	5,681,011	3,478,501
Reinsurance claims recoveries	645,538	750,644
Other assets	326,139	1,470,476
Total financial assets	<u>\$ 36,566,544</u>	<u>\$ 35,950,313</u>
Non-financial assets	<u>\$ 357,640</u>	<u>\$ 334,370</u>
Total assets per the statement of financial position	<u>\$ 36,924,184</u>	<u>\$ 36,284,683</u>

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2016

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, 2016:					
Cash and cash equivalents	\$ 27,006,921	\$ -	\$ -	\$ -	27,006,921
Funds held in escrow	701,968	-	-	-	701,968
Premiums receivable	-	2,204,967	504,737	(504,737)	2,204,967
Advance claims, ASO claims and fees receivable	-	5,681,011	-	-	5,681,011
Reinsurers share of insurance liabilities	645,538	-	-	-	645,538
Other assets	326,139	-	-	-	326,139
Total assets exposed to credit risks	\$ 28,680,566	\$ 7,885,978	\$ 504,737	\$ (504,737)	\$ 36,566,544

	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
Reinsurers share of insurance liabilities	750,644	-	-	-	750,644
Other assets	1,470,476	-	-	-	1,470,476
Total assets exposed to credit risks	\$ 28,476,064	\$ 7,474,249	\$ 280,830	\$ (280,830)	\$ 35,950,313

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, 2016:				
Advance claims, ASO claims and fees receivable	\$ 5,128,600	\$ 552,411	\$ -	\$ 5,681,011
Premiums receivable	1,266,754	135,811	802,402	2,204,967
	\$ 6,395,354	\$ 688,222	\$ 802,402	\$ 7,885,978
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
	\$ 5,536,230	\$ 235,659	\$ 1,702,360	\$ 7,474,249

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, 2016	June 30, 2015
AA	\$ 25,004,711	\$ 24,783,757
A	701,968	1,305,207
BBB	590,917	69,241
Below BBB or not rated	1,411,293	96,739
Total cash and cash equivalents bearing credit risk	\$ 27,708,889	\$ 26,254,944

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

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3.2 Financial risk (continued)

Interest rate risk

None of the Company's insurance products exposes 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, 2016, the Company had cash and cash equivalents of \$27,006,921 (2015: \$24,949,737). 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, 2016 and June 30, 2015.

	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, 2016							
Financial Assets							
Cash and cash equivalents	\$ 27,006,921	\$ -	\$ 27,006,921	\$ -	\$ -	\$ -	\$ -
Funds held in escrow	701,968	-	701,968	-	-	-	-
Advance claims, ASO claims and fees receivable	5,681,011	-	5,681,011	-	-	-	-
Premiums receivable	2,204,967	-	2,204,967	-	-	-	-
Reinsurance claims recoveries	645,538	-	645,538	-	-	-	-
Other assets	326,139	-	326,139	-	-	-	-
Total	\$ 36,566,544	\$ -	\$ 36,566,544	\$ -	\$ -	\$ -	\$ -
Short term insurance liabilities							
Insurance contracts	\$ 23,506,870	\$ -	\$ 23,506,870	-	-	-	-
Other financial liabilities	1,550,029	-	1,550,029	-	-	-	-
Total	\$ 25,056,899	\$ -	\$ 25,056,899	\$ -	\$ -	\$ -	\$ -
Difference in contractual flows	\$ 11,509,645	\$ -	\$ 11,509,645	\$ -	\$ -	\$ -	\$ -

Cayman Islands National Insurance Company Ltd.

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3.3 Management of financial risks (continued)

June 30, 2015	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	\$ 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	1,470,476	-	1,470,476	-	-	-	-
Total	\$ 35,950,313	\$ -	\$ 35,950,313	\$ -	\$ -	\$ -	\$ -
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	\$ 16,043,359	\$ -	\$ 16,043,359	\$ -	\$ -	\$ -	\$ -

3.4 Sensitivity analysis - insurance contracts

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

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

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

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

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

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

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

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

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3.4 Sensitivity analysis - insurance contracts (continued)

	Interest rates		Expenses		Loss ratios	
	+0.05%	-0.05%	+5%	-5%	+5%	-5%
Sensitivities as at June 30, 2016						
Impact on net income						
for the year	-	-	(128,303)	128,303	(3,292,843)	3,292,843
Impact on Shareholder's equity	-	-	(128,303)	128,303	(3,292,843)	3,292,843

	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
	-	-	(129,822)	129,822	(3,335,792)	3,335,792

4 Cash and cash equivalents

	June 30, 2016	June 30, 2015
Fixed Deposits	\$ 2,002,495	\$ 2,000,000
Cash at Bank	24,999,828	22,943,284
Deposit in transit	4,598	6,453
	<u>\$ 27,006,921</u>	<u>\$ 24,949,737</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, 2016	June 30, 2015
<i>Current</i>		
Premiums receivable from related parties, gross	\$ 2,663,983	\$ 3,975,139
Premiums receivable from unrelated entities, gross	45,721	33,609
Less: provisions for bad debts	(504,737)	(13,000)
	<u>\$ 2,204,967</u>	<u>\$ 3,995,748</u>

During the year ended June 30, 2016, bad debts of \$135,456 (June 30, 2015 - \$126,254) have been written off, of which \$13,000 had been provided for in 2014/15 (2013/14 - \$15,803). It is management's opinion that a provision for bad debts of \$504,737: \$494,913 for the Ministry of Education and \$9,824 for unrelated individuals (June 30, 2015 - \$13,000) is required at June 30, 2016. All bad debts written off are from unrelated individuals. Once a bad debt is written off coverage to the unrelated individual is terminated.

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5.1 Advance claims, ASO claims and fees receivable

	June 30, 2016	June 30, 2015
<i>Current</i>		
ASO claims and fees receivable	\$ 5,681,011	\$ 3,591,714
Advance claims	-	154,617
Less: provisions for bad debts (advance claims & fees)	-	(267,830)
	<u>\$ 5,681,011</u>	<u>\$ 3,478,501</u>

The provision for bad debts as at June 30, 2015 of \$267,830 represented estimated uncollectable ASO fees of \$113,213 and uncollectable advance claims of \$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, 2016	June 30, 2015
<i>Current</i>		
Reinsurance claims recoveries	\$ 645,538	\$ 750,644
Amount on deposit with Cayman Airways	84,000	411,118
Amounts prepaid for indigent claims	54,352	148,230
Unallocated claims expense	42,958	56,116
Licence fees	37,500	37,500
Claims administration and other expenses	35,067	103,379
Miscellaneous	34,585	10,407
Prepaid software licences	10,846	-
Work permit fees	8,175	12,000
Insurance expense	6,643	-
Stamp duty on lease	4,146	-
Marketing costs	3,430	1,133
Prepaid rent	2,484	2,484
Advance to employees	1,953	-
Receivable from CIHSA	-	688,109
	<u>\$ 971,677</u>	<u>\$ 2,221,120</u>

See Note 18 for disclosure on related party balances.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

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7 Fixed assets

	System Development Costs	Office Equipment	Computer & Telecoms Equipment	Leasehold Improvements	Total
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
Cost at July 1, 2015	\$ 762,413	\$ 118,906	\$ 309,795	\$ 277,511	\$ 1,468,625
Additions	48,500	13,901	91,431	45,608	199,440
Disposals	-	-	-	-	-
Cost at June 30, 2016	810,913	132,807	401,226	323,119	1,668,065
Accumulated depreciation at July 1, 2015	620,995	70,023	256,829	186,408	1,134,255
Depreciation for period	64,557	18,485	27,345	65,783	176,170
Disposals	-	-	-	-	-
Accumulated depreciation at June 30, 2016	685,552	88,508	284,174	252,191	1,310,425
Carrying value at June 30, 2016	\$ 125,361	\$ 44,299	\$ 117,052	\$ 70,928	\$ 357,640

8 Accounts payable

	June 30, 2016	June 30, 2015
Payable to unrelated entities	\$ 469,532	\$ 10,326
Payable to related parties	100	-
	<u>\$ 469,632</u>	<u>\$ 10,326</u>

Included in accounts payable in respect of unrelated entities are amounts relating to administrative expenses of \$468,967 and pension withholdings of \$568 (June 30, 2015 - \$10,326 administrative expenses). Accounts payable in respect of related entities as at June 30, 2016 is \$100 in pension withholdings (June 30, 2015: \$0).

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

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9 Accruals and other liabilities

Components of accruals and other liabilities are as follows:

	June 30, 2016	June 30, 2015
Simplifi lawsuit settlement (Note 21)	\$ 252,000	\$ 252,000
Stale dated cheques	439,048	102,982
Audit fees	176,000	193,000
Other accruals	80,289	42,603
Actuarial fees	45,553	25,200
ABS/MMSI/AIS Expenses	39,712	51,380
Audit fees - Auditor General	24,080	21,850
Computer service charges	12,278	9,498
Maintenance/Utilities & Telecommunications	7,498	6,294
Rent	1,700	-
Marketing costs	1,300	2,450
Stamp duty	720	1,344
Water	219	-
Reinsurance premium due	-	121,384
Insurance expense	-	4,166
	<u>\$ 1,080,397</u>	<u>\$ 834,151</u>

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

10 Claims paid

	June 30, 2016	June 30, 2015
Net US\$ claims (denominated in C\$)	16,799,524	15,737,062
C\$ claims	45,916,300	37,199,714
Total Claims	<u>\$ 62,715,824</u>	<u>\$ 52,936,776</u>
Less repricing fees	(1,165,659)	(1,444,938)
Claims paid (not including repricing fees)	<u>\$ 61,550,165</u>	<u>\$ 51,491,838</u>

11 Provision for claims incurred

Through the use of an independent actuary, 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. Provisions for claims incurred but not reported are estimated using acceptable reserving methods, all calculations performed by the independent actuary are peer reviewed by the actuarial firm.

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, the Cayman Islands Health Services Authority ("CIHSA") advised the Company that it failed to submit claims amounting to \$2,391,119 (2015: \$1,673,768) that related to the June 30, 2016 fiscal year and not submitted within the 180 day requirement. An exception to the 180 day rule was granted by the Company and the Ministry of Finance. As such claims relating to dates of service from July 1, 2015 to June 30, 2016 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, 2016.

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

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11 Provision for claims incurred (continued)

Reporting year	2005/6	2006/7	2007/8	2008/9	2009/10	2010/11
<u>Estimate of ultimate claims costs:</u>						
At end of period	23,423,289	32,864,983	35,819,622	40,046,000	46,045,975	51,917,304
One year later	22,827,358	30,779,928	34,402,472	37,507,064	43,109,341	50,357,115
Two years later	22,727,663	30,879,375	34,448,122	37,462,191	43,137,108	50,404,281
Three years to ten years later	22,727,663	30,871,999	34,448,671	37,462,191	43,136,834	50,371,842
Current estimate of cumulative claims	22,727,663	30,871,999	34,448,671	37,462,191	43,136,834	50,371,842
Cumulative payments to date	22,727,663	30,871,999	34,448,671	37,462,191	43,136,834	50,371,842
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	2011/12	2012/13	2013/14	2014/15	2015/16	Total
<u>Estimate of ultimate claims costs:</u>						
At end of period	54,592,395	57,117,961	54,378,735	60,330,760	64,721,391	
One year later	52,377,981	54,624,444	54,230,143	60,330,760	n.a.	
Two years later	51,705,351	54,607,849	54,230,143	n.a.	n.a.	
Three years to ten years later	51,705,906	54,607,849	n.a.	n.a.	n.a.	
Current estimate of cumulative claims	51,705,906	54,607,849	54,230,143	60,330,760	64,721,391	
Cumulative payments to date	51,705,906	54,607,849	54,249,212	58,234,614	45,999,561	
Gross liability recognized in the statement of financial position	-	-	(19,069)	2,096,146	18,721,830	20,798,907
Allocated loss expenses ("ALE") reserve	-	-	(4,228)	68,383	888,546	952,701
Net liability recognized in the statement of financial position	\$ -	\$ -	\$ (23,297)	\$ 2,164,529	\$ 19,610,376	\$ 21,751,608

Cayman Islands National Insurance Company Ltd.

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11 Provision for claims incurred (continued)

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

	Year ended June 30, 2016			Year ended June 30, 2015		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Balance at beginning of year	\$ 18,610,569	\$ (750,644)	\$ 17,859,925	\$ 9,611,739	\$ (1,241,177)	\$ 8,370,562
Incurred related to:						
Current year	64,721,391	(148,500)	64,572,891	60,330,760	(750,644)	59,580,116
Prior year	-	(5,071)	(5,071)	45,535	-	45,535
	64,721,391	(153,571)	64,567,820	60,376,295	(750,644)	59,625,651
Paid: related to:						
Current year	45,999,561	-	45,999,561	43,641,140	-	43,641,140
Prior year	15,550,604	(258,677)	15,291,927	7,850,698	(1,241,177)	6,609,521
	61,550,165	(258,677)	61,291,488	51,491,838	(1,241,177)	50,250,661
ALE Reserve movement	(30,187)	-	(30,187)	114,373	-	114,373
Balance at end of year	\$ 21,751,608	\$ (645,538)	\$ 21,106,070	\$ 18,610,569	\$ (750,644)	\$ 17,859,925
Change in provision from claims incurred	\$ 3,141,039			\$ 8,998,830		

For the year ended June 30, 2016 there was a hindsight reserve increase of \$0 (June 30, 2015 - \$45,535). As stated in the beginning of Note 11, IBNR is estimated with all known information at the time.

12 Share capital

Authorized:	June 30, 2016	June 30, 2015
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, 2016	June 30, 2015
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.

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14 Premium income

Premium income earned by insured type is as follows;

For the Year Ended June 30, 2016				
	Group 30100	Group 30101	Group 30104/31304	Total
Premium Income	\$ 55,513,406	\$ 7,418,014	\$ 4,389,897	\$ 67,321,317
Reinsurance Premium	(1,446,293)	-	-	(1,446,293)
Net Premium	\$ 54,067,113	\$ 7,418,014	\$ 4,389,897	\$ 65,875,024

For the Year Ended June 30, 2015				
	Group 30100	Group 30101	Group 30104	Total
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

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 (2014/15 - \$11.64) 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 year ended June 30, 2016 the Company accrued contributions totaling \$267,160 (year ended June 30, 2015 - \$242,960).

17 Administrative expenses and other expenses

Components of administrative expenses and other expenses are as follows:

	June 30, 2016	June 30, 2015
Salaries	\$ 1,577,190	\$ 1,500,111
Employee benefits	298,706	255,297
Professional fees	267,800	391,848
Other/miscellaneous	241,199	251,055
Depreciation	176,170	468,974
Rent	121,462	115,054
Maintenance	100,769	106,050
Utilities	78,436	82,720
Marketing	33,241	34,449
Office supplies	22,387	36,140
Licence fees	75,000	75,000
\$ 2,992,360	\$ 3,316,698	

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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, 2016	June 30, 2015
Assets		
<u>Current</u>		
Premiums receivable	\$ 2,508,773	\$ 3,975,139
Advance claims, ASO claims receivable and fees receivable, net of bad debt	5,681,011	3,478,501
Other receivables and other assets	140,714	1,148,977
	<u>\$ 8,330,498</u>	<u>\$ 8,602,617</u>
Liabilities		
Accounts payable	\$ 100	\$ -
Premiums received in advance	40,344	43,349
Accruals and other liabilities	38,266	52,827
Claims payable	1,589,140	-
	<u>\$ 1,667,850</u>	<u>\$ 96,176</u>
Income		
Premium income	\$ 63,216,202	\$ 62,307,422
ASO Fees	571,797	553,392
	<u>\$ 63,787,999</u>	<u>\$ 62,860,814</u>
Expenses		
Claims paid	\$ 35,108,080	\$ 28,744,697
Claims paid to Hope Academy	140,555	110,885
Contributions to segregated insurance fund	267,160	242,960
Claims administration & administrative expenses	337,995	319,394
	<u>\$ 35,853,790</u>	<u>\$ 29,417,936</u>
Key employee and director remuneration/compensation are included within administrative expenses as reported in the statement of comprehensive loss are broken down as:		
	June 30, 2016	June 30, 2015
Short-term employee benefits	\$ 406,700	\$ 354,191
Post-employment benefits	16,195	16,533
Director fees	27,400	31,172
	<u>\$ 450,295</u>	<u>\$ 401,896</u>

On July 26, 2017, a 2015/16 Claims Reconciliation Agreement (the "Agreement") (June 30, 2015 - on July 4, 2017, a 2014/15 Claims Reconciliation 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 claim figure for the current financial year. The Agreement arose due to limitations with claims reporting data between the two entities. 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, 2016, other than that already considered in the provision for claims incurred of \$2,391,119 (June 30, 2015 - \$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.

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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 year ended June 30, 2016 is \$100,485 (year ended June 30, 2015 - \$84,957).

21 Commitments and Contingencies

	June 30, 2016	June 30, 2015
Provision at beginning of the year	252,000	-
Change in provision	-	252,000
Provision at end of year	<u>\$ 252,000</u>	<u>\$ 252,000</u>

The provision relates to a lawsuit filed against the Company by Simplifi Health Benefit Management, LLC ("Simplifi"). In the lawsuit, Simplifi alleged 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 was recorded for the expected cost of settlement. Subsequent to yearend, 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.

22 Net worth for regulatory purposes

	June 30, 2016	June 30, 2015
Share capital	\$ 1	\$ 1
Share premium	2,999,999	2,999,999
Additional paid-in-capital	23,093,251	23,093,251
Accumulated deficit	(14,420,107)	(9,925,432)
	<u>\$ 11,673,144</u>	<u>\$ 16,167,819</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, 2016	June 30, 2015
Available capital	\$ 11,684,746	\$ 14,829,200
Minimum Capital Requirements		
MCR	\$ 11,295,952	\$ 10,355,083
PCR	\$ 14,119,940	\$ 12,943,854

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. In July 2018, the Company received further additional capital of \$4,530,000.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2016

Amounts stated in Cayman Islands dollars

23 Subsequent events

Management have performed a subsequent events review from July 1, 2016 to April 25, 2019, 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.

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: in 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.