

Annual Report

June 30, 2006

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MISSION STATEMENT

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



CEO STATEMENT

Introduction

I am in the unique position of having been involved in the development of CINICO in the early part of 2004. With my return to CINICO in early 2006, I had the opportunity to see the Company from an entirely new perspective and gauge the present stage of development. It was immediately obvious that the management and staff had made great strides in implementing robust internal processes and that the policyholder base had grown significantly. However, it was also equally obvious that the situation regarding Cayman Islands Health Services Authority claims needed a comprehensive solution if CINICO were to achieve its ultimate vision. Unfortunately, these changes need time and whilst great improvements have been implemented in 2006, these changes have come too late to reflect on the operating positions of either entity.

As you will see in the following pages, CINICO required a capital injection for the 2005/2006 financial year. Contrary to intuitive belief, this does not represent accumulated losses, but rather timing difficulties between the calculation of the premium base and the representation of claims from the Health Services Authority, as a result of deficiencies in the hospital charge master. It is a prime objective of CINICO to work with the HSA to address these issues. One other area of concern is the ever escalating costs of treating the elderly population. The area of geriatric care is very costly and the systemic diseases affecting the elderly population will affect the costs of this segment of the population indefinitely. CINICO is here to assist all parts of the Cayman population and I believe that if we can focus our resources more efficiently into preventative care, this downward spiral will be mitigated.

Despite the problems with the claim process, other positive changes kept CINICO focused on its strategic objectives and 2006/2007 will reap the benefits of this. In 2006, we renegotiated our reinsurance coverage which, not only provided significantly increased coverage, but at a drastically reduced cost. Furthermore, our overseas and administrative costs continue their downward trend.

Therefore, the good news is very positive indeed. The board and management share a great vision for the policyholders of CINICO. A vision to which everyone should be proud and I will share below. We have an intensely strong board and management and the future for CINICO is limitless.

Strategic Objectives

Arising from the Mercer Report in 2002, let us not forget the reasons why the Government created CINICO which were to serve some 12,000 members of the population. The Government, through the Ministry of Health, started to explore the establishment of a self-funded program to administer the health care benefits for all these groups:

- a. The low-income individuals that could not afford current insurance premiums.
- b. People with impaired health status that were being denied coverage by the existing system.

- c. People who being over the age of 60, did not have open access to health care.
- d. Providing benefits to public beneficiaries.
- e. To administer the provision of health benefits to indigents.
- f. To administer the provision of health benefits to advance patients.

The Government decided that the national health plan must have an overall strategic objective which aligned itself with the strategic objectives of the health care sector as a whole (including the Ministry of Health and the Hospital). The Government decided that the objective of a delivery system are to provide affordable health care coverage on the most cost effective basis possible from a stable source of primary insurance operated in accordance with sound business and actuarial principles without expectation of profit in excess of capitalization requirements which may increase due to growth and other reasons.

It is these objectives to which we aspire. We will build on our good reputation in the community to deliver the Government's vision for medical care in the Cayman Islands as a high performing agency delivering national health and other programs. We will also ensure that Health Care is positioned to support development and implementation of Government policy as required.

Vision

With due respect to the hard work of the Board of Directors, management and staff, I do not think CINICO has fulfilled expectations to the maximum extent. Management intend to move it toward an ultimate vision by the end of 2007. There are a number of areas where improvement and efficiencies can be made but not necessarily from just a financial standpoint. We are somewhat over-dependent on overseas medical and administrative providers and the quality of the data that is flowing between these entities. As we know, this is not necessarily a healthy situation. For every 40 cents (in the dollar) of overseas medical care savings that CINICO achieves, 15 cents is absorbed by the overseas care manager.

It is the intention of CINICO management to make the transition away from these dependencies and begin the design and construction of its own eligibility and claim administration systems. Further, we should not limit ourselves to the need for third-parties to negotiate discounts at overseas facilities and the location of those facilities. Further, our vision should be simple for the public and Government alike. We must more than simply capture data, we must interpret that data and guide other parts of the health care sector in terms of providing empirical evidence of trends for proper disease management. This way we can focus on prevention instead of the more costly reactive treatment.

We need to be a compassionate medical benefit organization that provides optimum service for the most viable cost structure. We will develop our own systems to do this and generate data that will allow Health Services as a whole, to implement their vision. Further, we will develop our own network providers that offer the best care necessary for all involved in health services including the physicians and the public at large. This vision and role will be all the easier with mutual cooperation of all parties involved in the delivery of health care in the Cayman Islands.

We will also be developing a second window of opportunity for the elderly, health impaired and low income to enroll with CINICO in 2007. We intend to implement a second enrolment window in July of each year to complement our January enrolment period.

Appreciation

Time flies when you are having fun, or at least so busy that you lose track of it. I work with a splendid group of colleagues, each one an expert at what they do. As a team, they share, demonstrate commitment, and show support. They are leaders in their assignments and CINICO succeeds on the merits of their talent and their capacity to work together.

Frank Gallippi is an excellent CFO and a key architect in our resolution of the H.S.A. claim process. A special recognition this year to Ms. Carole Appleyard, her outstanding professional efforts in helping the elderly and health impaired through difficult family times. Neither of these individuals could perform their duties without the great efforts of Tammy Rattan, Lisa Wright, Mark Frye or Delphenia Ebanks, who always greets our customers with a smile.

I wish to thank our Board. They provide management with support that is well reasoned, clear and enthusiastic. The responsibility and the time required to chair our committees deserve special note, my thanks to Mr. Carlyle McLaughlin for running the Audit and Finance Committee, staying ahead of the ever changing requirements of International Financial Reporting Standards. It is a privilege to work with such a consummate professional of limitless energy, compassion and wisdom, who is willing to share it with all of us. My profound thanks must go to all the people of CINICO, staff and management; we are winning on the strength of their devotion, hard work and resourcefulness. It is a great team that embraces the challenges we face every day and prevails.

Gordon Rowell
Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

Background

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

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

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

- ☐ Group 30100 - Civil servants, pensioners and other Government entities;
- ☐ Group 30101 - Seamen & veterans and their dependents;
- ☐ Group 30102 - ASO for indigents;
- ☐ Group 30103 - Advance patients;
- ☐ Group 30104 - SHIC plans (Low Income, Impaired Health, Elderly).

The Company has contracted with a Third Party Administrator ("TPA"), CBCA Administrators Inc., to provide claims administration services for local claims. Effective August 1, 2005, the Company has contracted with Care Management Network Inc. (CMN) to provide claims administration and case management services for insureds requiring overseas medical treatment. CINICO's contract with CMN provides its insureds with access to a large network of facilities throughout the United States and other countries at discounted costs.

In addition, effective July 1, 2005 CINICO has contracted with Presidio, an underwriting agent of Lloyds of London, to provide specific excess loss reinsurance coverage on a per covered person basis. The reinsurance covers specific losses in the range \$500,000 to \$1,000,000; up to an annual overall aggregate of \$4,000,000.

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

Subsequent event to the 2004/5 fiscal year

The Company depends on timely claim submissions to properly quantify its claim costs within a specific fiscal year and accurately set premium rates. In December 2005 (six months after its fiscal year end), the Company's primary health care provider, the Cayman Islands Health Services Authority (CIHSA), maintained that there were a considerable amount of 2004/5 claims that had yet to be submitted to the Company due to CIHSA's limited charge master. Many of these claims had service dates well beyond 180 days. The industry practice is to deny claims greater than 180 days however the Company waived this requirement as CIHSA was a related entity and the Company wanted to record the claim data. The additional claims were settled through the normal claim adjudication process ending in March 2006, allowing the Company to properly quantify its 2004/5 claim losses. The final result was that the Company was required to increase its initial actuarial liability estimate by \$3.0 million. As a result of the additional claims, the year ending June 30, 2005 financial statements have been recently finalized.

The additional 2004/5 claims had significant impacts on the Company's financial position.

- At June 30, 2005 the Company's equity was \$0.018 million, and in breach of CIMA's \$3 million minimum capital requirement.
- The 2005/6 financial results were also effected in that the discovery of the additional claims occurred well after the 2005/6 premium rates were set and implied a higher level of claim losses than what was anticipated in the premium rates. Thus 2005/6 premium income was not sufficient to cover claim losses thereby leading to further depletion in equity.
- At June 30, 2006 the Company's equity was negative \$3.9 million, and in breach of CIMA's minimum capital requirement.
- On July 11, 2006 the Company received \$3.0 million in additional paid up capital to remedy the 2004/5 breach in equity, however the Company continues to remain in breach of the equity requirement by \$3.9 million
- Many of the financial statement line items were effected, e.g., cash, actuarial liabilities, equity, etc.

Ever since the inception of the CINICO, the Company has been challenged with obtaining accurate and timely claim billings from CIHSA. The lack of accurate and timely claims has led to incorrect loss assumptions used in the premium rate setting model which resulted in charged premium rates below what they should have been. This has resulted in a gap in funding resulting in the need for equity injections to bridge this gap.

The CIHSA is constrained in providing accurate and complete claim submissions by limitations imposed from its current charge master (services it may charge for under the law). CIHSA's charge master limits it in collecting revenues for approximately 2,000 services out of a potential 8,000 services. Currently a review of the charge master is being conducted with the objective of obtaining Government approval to update it. The Company is committed to work with CIHSA to ensure timely and accurate claim billing.

Furthermore CIHSA has committed to update its systems which should avoid much of the problems.

Moving forward the Company is committed to ensuring that it charges the proper premium rates to avoid the need for future equity injections. The following strategies would be used to accomplish this;

- ☐ constantly working with CIHSA to ensure claims are provided in a timely fashion;
- ☐ working with CIHSA in updating its billing systems and ensuring that the proper claim codes are used;
- ☐ improving its loss estimation models;
- ☐ improving its reinsurance coverage (accomplished July 1, 2006);
- ☐ constantly assessing its network agreements;
- ☐ and continue to work at keeping claim costs at manageable levels.

Action Plan

The Company has established the following plan to remediate the regulatory net worth deficiency:

- ☐ Premium has been increased in the 2006/7 fiscal year to be in line with historical claim costs.
- ☐ The Company would request a cash equity injection at the first announced 2006/7 Supplementary budget; however at this time it is not known when this would be.
- ☐ In the absences of a 2006/7 Supplementary budget, the Company would request an equity injection for the 2007/8 budget year.
- ☐ In addition to the above, the Company would also pursue a \$5.0 million letter of credit bridge the gap.

Financial highlights

Table 1 shows the financial highlights for the year ended June 30, 2006 compared with the year ended June 30, 2005.

Table 1
Financial highlights

	For financial year ending		
	June 30, 2006	June 30 2005	June 30, 2004(1)
Cash on hand	771,253	5,847,724	3,193,461
Reserve liabilities	5,427,461	7,376,540	67,930
Equity	(3,883,214)	18,569	3,064,142
Net Income/(loss)	(3,901,783)	(7,501,001)	(416,270)

(1) From December 18, 2003 (Incorporation date) to June 30 2004

Cash on hand and liquidity

For the year ending June 30, 2006, cash on hand decreased to \$0.8 million from \$5.8 million in the prior year. The \$5.0 million deterioration in cash is largely a factor of settling the 2004/5 claims mentioned in the previous section. In addition the 2005/6 premium collected from the Civil Servant, Pensioners and Government Entities policy was not sufficient to pay out claims.

Despite the 86% decrease in cash from the previous year, the Company's liquidity position remains strong and it is fully capable of paying claims. On July 11, 2006 the Company received \$3.0 million in additional paid up capital from the Cayman Islands Government, as well, the Company has increased its premium rates for its largest group - the Civil Servants, Pensioners and Government entity plan.

Reserve liabilities

Reserve liabilities have decreased from \$7.4 million for the year ended June 30, 2005 to \$5.4 million for the year ending June 30, 2006. The June 30, 2005 reserve liability was affected by the discovery of additional 2004/5 claims quantified after the fiscal year. Reserve liabilities as at June 30, 2006 were lower than the previous year, as most of the claim submission problems that riddled the previous year were corrected.

Reserve liabilities for the year ended June 30, 2004 are significantly lower than the subsequent two years as during the 2003/4 fiscal year the Company only provided insurance for SHIC plans whereas the remaining plans - Civil Servants, Pensioners, Government Entities, Seafarers & Vets – became effective 1 July 2004.

Equity

The Company's equity position decreased from \$0.02 million at June 30, 2005 to negative \$3.9 million at June 30, 2006. As a class A Insurance Company, CINICO is required to maintain a minimum of \$3.0 million in capital. Due to the ongoing problems, namely, the lack of timely claim submissions and improper pricing, the Company was in breach of this requirement in both years ending June 30, 2005 and June 30, 2006. Table 2 provides a breakdown and movement of the Company's Equity position from 30 June 2004.

Table 2
Movement and Breakdown of Shareholders Equity

	Share premium & Capital	Additional paid-in- capital	Accumulated deficit	Total Shareholder's Equity
Balance at June 30, 2004	3,000,000	480,412	(416,270)	3,064,142
Issuance of shares				0
Net income/(loss) for period			(7,501,001)	(7,501,001)
Additional paid-in-capital received		4,455,428		4,455,428
Balance at June 30, 2005	3,000,000	4,935,840	(7,917,271)	18,569
Issuance of shares				0
Net income/(loss) for period			(3,901,783)	(3,901,783)
Additional paid-in-capital received				0
Balance at June 30, 2006	3,000,000	4,935,840	(11,819,054)	(3,883,214)

Table 2 shows that the shareholder has contributed additional paid in capital of \$0.5 million, and \$4.4 million in the fiscal years ending June 30, 2004, and June 30, 2005 respectively. Subsequent to the 2005/6 fiscal year end, the Company received a further \$3.0 million of additional paid in capital to rectify the breach in capital requirement for 2004/5. The Company is further requesting an addition \$3.9 million in additional capital to rectify the 2005/6 breach in capital requirement.

Table 2 also shows the Company's accumulated deficit has increased from \$7.9 million at June 30, 2005 to \$11.8 million at June 30, 2006. The deficits were caused by the fact that the initial premium charged for the Civil Servants, Pensioners, Government entities and Seaman and Veteran plans was not sufficient to pay for claims and expenses. This was rectified with an equity injection \$4.4 million in the later part of the 2004/5. In addition premium was increased in the 2005/6 fiscal year, but not at a sufficient level; as discussed in the "2004/5 Additional Claims" section, thereby leading to a further deterioration of shareholder's equity.

Net Income/ (loss)

The Company recorded a net loss of \$0.4 million in its first six months of operations (December 2003 to 30 June 2004) as at the time it did not have enough critical mass to absorb the setup costs and on going expenses. In the next financial years ending June 30, 2005 and June 30, 2006 the net loss amounted to \$7.5 million and \$3.9 million respectively. As mentioned previously, the net loss is driven by incorrect premium rates resulting from problems in obtaining timely and accurate loss data when developing premium rates.

Underwriting income/ (loss) by business category

Underwriting income is calculated by subtracting from premium any expenses directly attributable to a business category such as; claims, claims administration fees and

segregated fund fees. Table 3 and figure 1 illustrate the underwriting income/ (loss) by business category.

Table 3
Underwriting income/ (loss) by business category

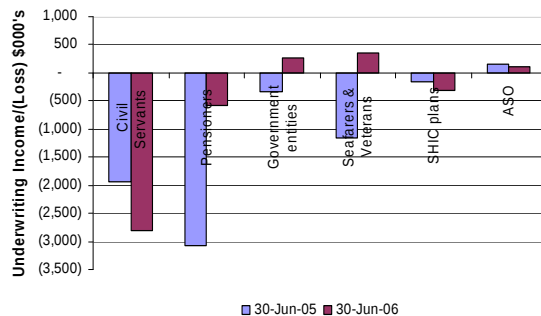
Business Category	For financial year ending		
	June 30, 2006	June 30 2005	June 30, 2004(1)
Civil Servants	(2,805,045)	(1,951,289)	n.a.
Pensioners	(575,743)	(3,068,344)	n.a.
Government entities	269,918	(327,183)	n.a.
Seafarers and Veterans	344,946	(1,157,354)	n.a.
SHIC plans	(310,186)	(162,777)	(533,713)
Administrative services only(2)	102,657	155,382	516,605
Total Underwriting income/(loss)	(2,973,453)	(6,511,565)	(17,108)
Administrative expenses	1,020,775	1,032,561	400,549
Investment income	92,445	43,125	1,387
Net income/(loss)	(3,901,783)	(7,501,001)	(416,270)

(1) From December 18, 2003 (Incorporation date) to June 30 2004

(2) For the financial year ending 30 June 2004 this category included Group 30100, 30101 30102 & 30103. In subsequent years the category includes Group 30102 and 30103.

For the financial years ending June 30, 2004, June 30, 2005 and June 30, 2006 underwriting losses were \$0.02 million, \$6.5 million and \$3.0 million respectively.

Figure 1
Underwriting income/loss by business category

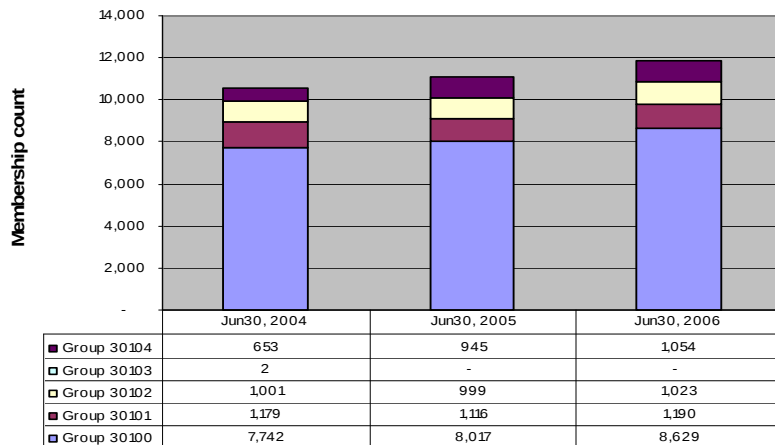


The majority of the underwriting losses in the 2004/5 and 2005/6 financial years can be attributed to Group 30100 which comprises of Civil Servants, Pensioners and Government Entities. The driving factor in the underwriting losses is insufficient premium income to cover claims incurred.

Enrollment Statistical Data

The total membership (enrollees and dependants) has increased by 5% from June 30, 2004 to 11,077 as at June 30 2005, and increased an additional 7% to 11,896 as at June 30, 2006. The largest percentage increase for the year ending June 30, 2006 occurred in Group 30104; 11.5% increase. This was followed by a 7.6% and 6.6% increase in membership for Group 30100 and 30101 respectively. Membership count for Group 30102 remained relatively flat. Group 30100 accounts for approximately 72% of the total membership. Figure 2 below illustrates the membership count by group for the years ending June 30, 2004, June 30, 2005 and June 30, 2006.

Figure 2
Membership Count by Group

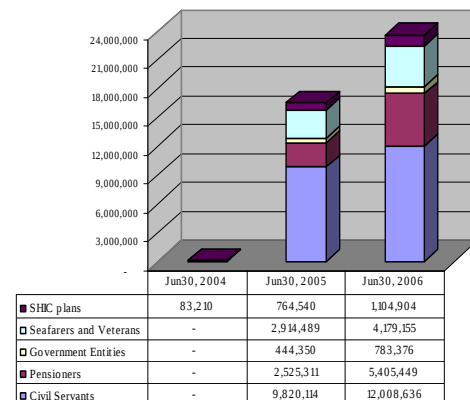


Premium Income

Figure 3 illustrates the gross premium income by business segment. Approximately 77% of gross premium income is attributed to Group 30100.

Gross premium income increased from \$0.08 million at June 30, 2004 to \$16.5 million at June 30, 2005. The increase is because the first year of operations only included premium for the “privately” insured plans, whereas effective 1 July 2004, both the government insurance plan & the Seafarer and Veterans insurance plan were administered by CINICO. For the year ending June 30, 2006, gross premium income increased 43% to \$23.5 million. This primarily relates to premium rate increases and to a lesser extent the membership growth illustrated in Figure 2.

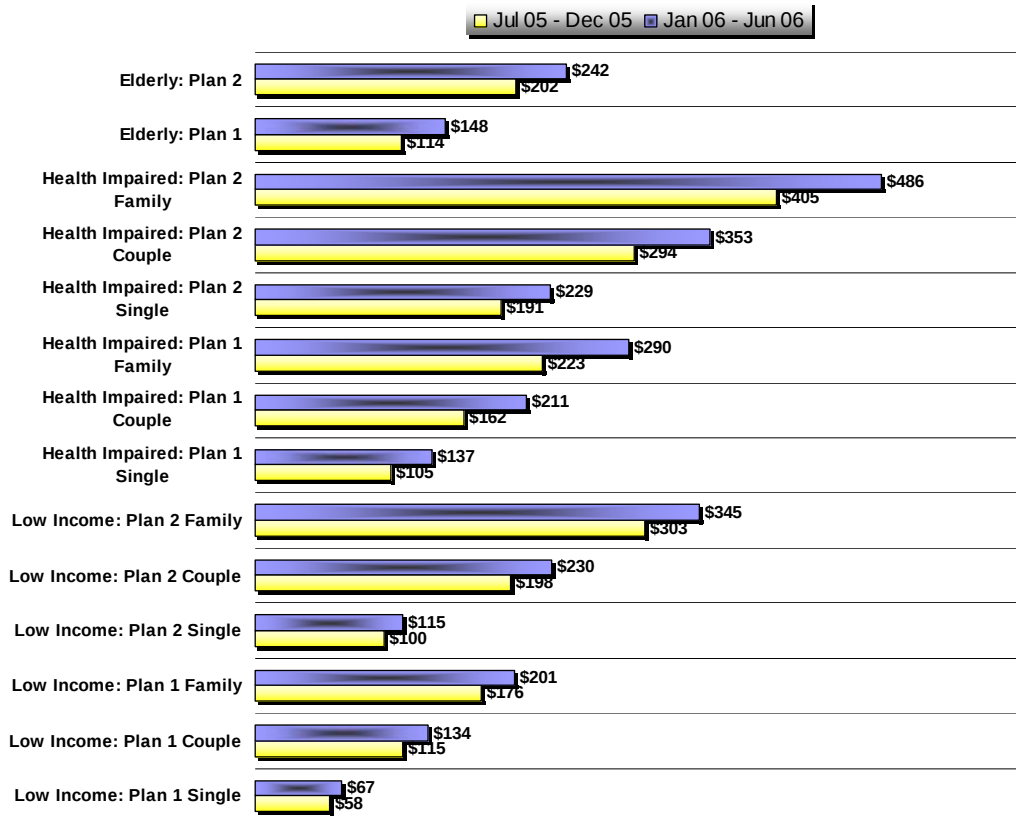
Figure 3
Gross Premium Income by Business Category



Premium rates for Group 30100 were increased by approximately 48% effective July 1, 2005. Even with the increase, premium was not sufficient to cover claim losses as the 2005/6 premium rates were established with claim loss data available at the time which didn't include the additional 2004/5 claims (see section on 2004/5 Additional claims). Effective July 1, 2006 Group 30100's premium increased an additional 26%; this increase adjusts premium to be in line with historical claim loss levels. Premium rates for Group 30104 were increased effective 1 January 2006 for the first time since the plan's introduction in February 2004. Figure 4 on the following page illustrates SHIC premium by category and type.

With the planned improvement to the CIHSA billing system and improved controls over billing and collections, future premium rate increases would only reflect medical inflation.

Figure 4
SHIC Premium Rates

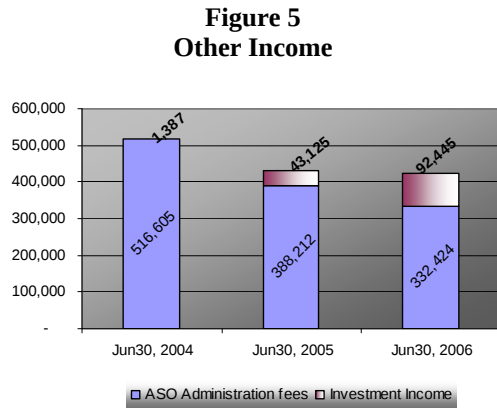


Reinsurance

Effective July 1, 2005 the Company obtained reinsurance coverage for specific excess losses between \$500,000 and \$1,000,000 for Group 30100. The reinsurance premium for this coverage was \$1.2 million for the year ending June 30, 2006.

Other Income

Figure 5 illustrates the type of other income, ASO fees and investment income, for the three years ending June 30, 2004, June 30, 2005 and June 30, 2006.



The decline in ASO fees from the year ended June 30, 2004 to the year ended June 30, 2006 is related to the fact that for the year ended June 30, 2004, Group 30100 and Group 30101 were administered as ASO, whereas effective July 1, 2004, these groups were administered as insurance plans.

Interest income has increased over the trend period due to slightly higher interest rates and an increase in the amount invested.

Claims incurred and loss ratios

Claims Incurred

Claims incurred have increased from \$.07 million for the year ending June 30, 2004, to \$21.4 million and \$23.6 million for the year ending June 30, 2005 and June 30, 2006 respectively. As explained in the premium section the increase in incurred claims from the year ending June 30, 2004 is related to the inclusion of insurance coverage for Group 30100 and Group 30101.

Table 4 illustrates incurred claim losses by group and type (local versus overseas) for the years ending June 30, 2005 and June 30, 2006.

Table 4: Incurred Claim Losses (000's)				
Local	2005/6 -	2004/5-		
	Actual	Actual	Inc/(dec)	
	Group 30100	12,392	10,328	2,064
	Group 30101	3,696	3,135	561
	Group 30104	677	501	176
	16,765	13,964	2,801	
Overseas	2005/6 -	2004/5-		
	Actual	Actual	Inc/(dec)	
	Group 30100	6,549	6,522	27
	Group 30101		724	(724)
	Group 30104	440	196	244
	6,989	7,442	(453)	
Total	2005/6 -	2004/5-		
	Actual	Actual	Inc/(dec)	
	Group 30100	18,941	16,850	2,092
	Group 30101	3,696	3,859	(163)
	Group 30104	1,117	697	419
	23,754	21,406	2,348	
ALAE reserve		174		
Claim losses per f/s		23,929		

Incurred losses for the year ending June 30, 2006 increased by \$2.3 million (11%) to \$23.7 million from last year. The majority of this increase is attributed to Group 30100's local incurred losses. The total local incurred losses are greater than the previous year due to higher utilization and a higher member count which increased by 7%. Overseas incurred claims decreased by \$0.5 million to \$7.0 million (net of repricing fees). The decrease is mainly attributed to Group 30101, as no overseas benefits were offered in 2005/6. Although membership count and utilization increased in 2005/6, overall costs remained in check as 2005/6 discounts averaged 34% (net of repricing fees) versus 20% attained in the previous year.

The following pie charts shown in Figure 6, illustrate the breakdown of claims incurred between local claims and overseas.

Figure 6
Local versus Overseas Incurred Claims



For the year ending June 30, 2005 local claims represented 65% of overall incurred claim losses. The local claim percentage of total claims has increased to 71% for the year ending June 30, 2006.

Loss ratios

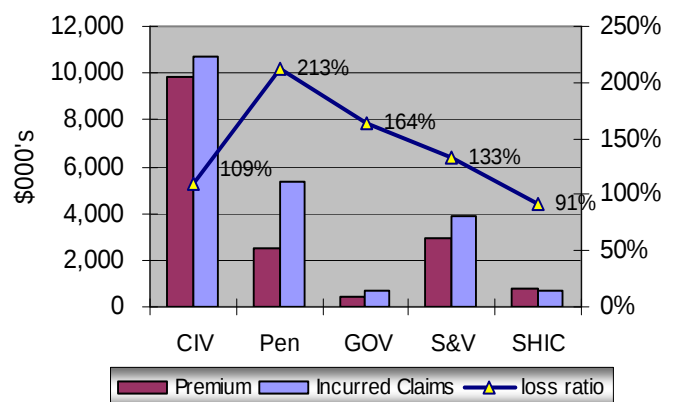
Loss ratios are a measure of the premium's effectiveness in covering claim expenses. A majority of premium income is used to pay for claims with any excess applied to cover administrative costs and profit. The loss ratio is calculated by dividing the claims incurred by the premium income. A loss ratio in excess of 100% means that the premium is not sufficient to cover the claim costs; this certainly would lead to losses thus depleting the company's equity.

Figures 7 and 8 illustrate loss ratios by business segment for the year ending June 30, 2005, and the year ending June 30, 2006.

Figure 7 illustrates premium, claims and loss ratios by business segment for the year ending June 30, 2005. In all of the business segments, with the exception of the SHIC plans, loss ratios were over 100% signaling that premium was not sufficient to pay for claims, thus leading to overall losses.

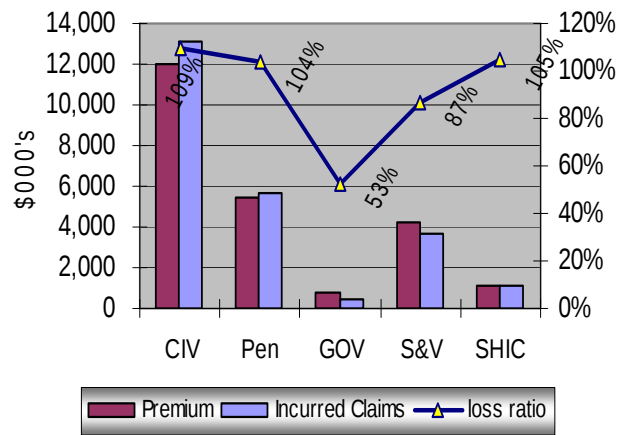
Figure 8, illustrates premium, claims and loss ratios by business segment for the year ending June 30, 2006. Due to premium rate increases that came into effect during the fiscal year, the loss ratios have declined from the previous year. However, loss ratios remained over 100% for Group 30100 (CIV, Pen & GOV) and Group 30104, again signaling that the premium rates have

Figure 7
2004/5 Premium, Claims, Loss Ratios



been underestimated. As mentioned in earlier sections, due to deadlines related to the budget, the 2005/6 premium rates were determined with incomplete claim loss data due to timing issues related to CIHSA claim submissions. For the 2006/7 fiscal year, premium has been adjusted to historical losses.

Figure 8
2005/6 Premium, Claims, Loss Ratios

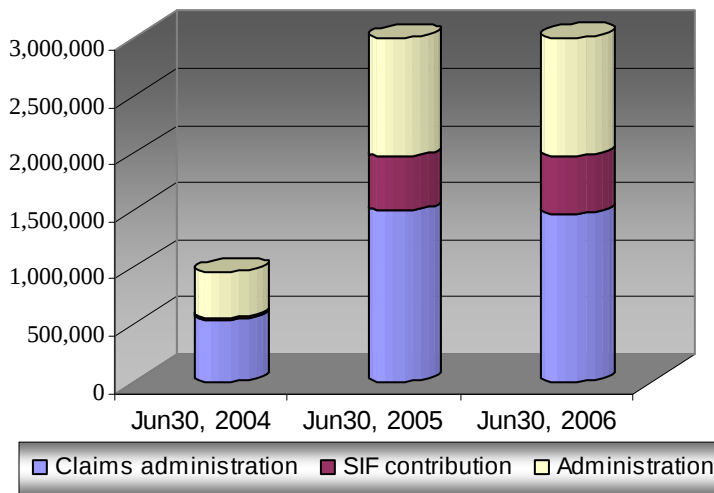


Expenses

Expenses can be divided into two categories; 1) expenses directly attributed to a business segment, such as claims administration fees and contributions to segregated insurance fund, and; 2) administrative expenses. For both the year ended June 30, 2005 and June 30, 2006, expenses attributed to a business segment composed of sixty six percent (66%) of overall expenditures.

Overall expenditure increased from \$0.9 million in the first year of operations (December 2003 to June 2004) to \$3.0 million in each year end June 30, 2005, and June 30, 2006. Figure 9 illustrates overall expenses by category.

Figure 9
Expenses by category



SUMMARY OF OWNERSHIP PERFORMANCE TARGETS

The ownership performance targets (as specified in schedule 5 to the Public Management and Finance Law 2001) for CINICO for the 2005/06 financial year are as follows.

Financial Performance

Financial Performance Measure	2005_6 Actual \$	2005/06 Target \$
Revenue from Cabinet	9,540,390	9,431,200
Revenue from ministries, portfolios, statutory authorities and government companies	13,118,468	12,861,060
Revenue from other persons or organisations	366,156	75,110
Surplus/deficit from outputs		
Other expenses	(26,926,797)	(22,320,450)
Net Surplus/Deficit	(3,901,783)	46,920
Total Assets	4,180,423	9,191,846
Total Liabilities	(8,063,637)	(6,099,541)
Net Worth	(3,883,214)	3,092,305
Cash flows from operating activities	(5,070,203)	676,305
Cash flows from investing activities	(6,268)	(52,584)
Cash flows from financing activities	0	0
Change in cash balances	(5,076,471)	673,721

Financial Performance Ratio	2005/06 Actual %	2005/06 Target %
Current Assets: Current Liabilities	51%	149%
Total Assets: Total Liabilities	52%	151%

Maintenance of Capability

Human Capital Measures	2005/06 Actual	2005/06 Target
Total full time equivalent staff	7	7
Staff turnover (%)	29%	0%
Average length of service (Number)		
Senior management	1.3	2.0
Professional staff	1.3	2.0
Administrative staff	1.8	2.5
Significant changes to personnel management system	CEO	None

Physical Capital Measures	2005/06 Actual	2005/06 Target
Value of total assets	43,621	85,000
Asset replacements: total assets	14.3%	58.8%
Book value of depreciated assets: initial cost of those assets	32%	44%
Depreciation: Cash flow on asset purchases	702%	100%
Changes to asset management policies	None	None

Major Capital Expenditure Projects	2005/06 Actual \$
None	0

Risk Management

Key risks	Change in status from previous year	Actions to manage risk	Financial value of risk
Claim losses higher than what can be supported by revenues	None	Care Management company (CMN) engaged to manage and control overseas claim costs. Reinsurance arrangement in place to limit the Company's risk to large claims.	Not quantifiable.
Incomplete or missing claims from our major provider, The Cayman Islands Health Services Authority.	None	Working with the Cayman Islands Health Services Authority to improve claim submission controls.	Not quantifiable.

Board of Directors

Sharon Roulstone (Chairperson)
Partner
Turner & Roulstone

John Douglas
Cayman Islands Seafarers Association

Pastor Al Ebanks
Pastor
Agape Family Worship Centre

Lemuel Hurlston
Partner
Watford Insurance Brokers Limited

Carlyle McLaughlin
Retired Partner
Ernst & Young

Diane Montoya
Deputy Chief Officer
Ministry of Health & Human Services

Dr. Ruthlyn Pomares
General Practice Physician
Health Services Authority

Bruce Vander Els
Vice President/Chief Actuary
La Cruz Azul de Puerto Rico, Inc.

Management

Gordon Rowell/Ron Sulisz (up to Jan06)
President/Chief Executive Officer
CINICO

Frank Gallippi
Chief Financial Officer
CINICO

Carole Appleyard
General Manager
CINICO

Committees of the Board

Audit/Finance Committee

Frank Gallippi
Carlyle McLaughlin *
Daniel Rattan
Gordon Rowell

Eligibility/Risk Control Committee

Carole Appleyard
Lemuel Hurlston *
Diane Montoya *
Haroon Pandohie
Dr. Gerald Smith
Christian Suckoo
Gordon Rowell/Ron Sulisz (up to Jan06)

Executive Committee

Sharon Roulstone *
Diane Montoya
Gordon Rowell/Ron Sulisz (up to Jan 06)

** denotes Committee Chairperson*

Appendix

Audited Financial Statements

As at 30 June 2006



**Cayman Islands National
Insurance Company Ltd**

Financial Statements

For the Year Ended 30 June 2006

*Cayman Islands Audit Office
3rd Floor Anderson Square
Phone: (345) 244-3211
Fax: (345) 945-7738
E-mail: auditorgeneral@gov.ky*

Cayman Islands National Insurance Company Ltd.

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Balance sheets	2
Statements of income and accumulated deficit	3
Statements of cash flows	4
Statements of changes in shareholder's equity	5
Notes to financial statements	6-15



Cayman Islands

Cayman Islands National Insurance Company Ltd.

CERTIFICATE OF THE AUDITOR GENERAL

**To the Board of Directors of the Cayman Islands National Insurance Company Ltd.
and the Financial Secretary of the Cayman Islands**

I have audited the accompanying balance sheet of the Cayman Islands National Insurance Company Ltd. (the Company) as of 30 June 2006, and the related statements of income and accumulated deficit, of changes in shareholder's equity and of cash flows for the year then ended in accordance with the provisions of section 52(3) of the *Public Management and Finance Law, (2005 Revision)*.

Respective Responsibilities of Management and the Auditor General

These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on the financial statements based on my audit.

Basis of Opinion

My examination was made in accordance with International Standards on Auditing which require that I plan and perform my audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at 30 June 2006, and the results of its operations and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Without qualifying my opinion, I draw attention to the fact that, as discussed in Note 22, as at 30 June 2006 and the date of our report, the Company was in breach of its minimum net worth requirement for regulatory purposes. The Company is dependent upon the financial support of the Government of the Cayman Islands to enable it to meet its regulatory minimum net worth requirements and to continue as a going concern.

In rendering my certificate 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.

Don Duguay

Dan Duguay, MBA, CGA
Auditor General

15 December 2006
Cayman Islands

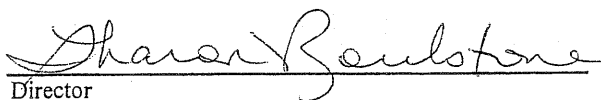
Cayman Islands National Insurance Company Ltd.

Balance Sheets

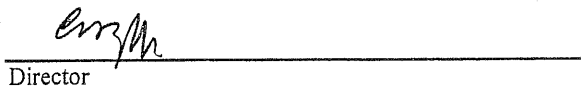
As at June 30, 2006

Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
<u>Assets</u>			
Cash at bank	3	771,253	5,847,724
Premiums receivable	4	2,010,451	318,908
Prepays and other assets	5	1,355,098	1,356,553
Fixed assets	6	43,621	82,416
Total assets		4,180,423	7,605,601
<u>Liabilities</u>			
Accounts payable	7	36,636	2,700
Premiums received in advance		62,228	34,560
Accruals and other liabilities	8	2,518,377	173,232
Claims Payable		18,935	0
Provision for claims incurred	10,11	5,427,461	7,376,540
Total liabilities		8,063,637	7,587,032
<u>Shareholder's equity</u>			
Share capital	12	1	1
Share premium	12	2,999,999	2,999,999
Additional paid-in-capital	13	4,935,840	4,935,840
Accumulated deficit		(11,819,054)	(7,917,271)
Total shareholder's equity	22	(3,883,214)	18,569
Total liabilities and shareholder's equity		4,180,423	7,605,601


Director

12-12-06
Date


Director

Dec 12, 2006
Date

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

Cayman Islands National Insurance Company Ltd.

Statements of Income and Accumulated Deficit
For the year from July 1, 2005 to June 30, 2006
Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Income			
Premium income	14	23,481,520	16,468,804
Reinsurance premium	14	(881,375)	
ASO Fees	15	332,424	388,212
Total underwriting income		22,932,569	16,857,016
Investment income	18	92,445	43,125
Total income		23,025,014	16,900,141
Expenses			
Claims paid	9	25,877,592	14,096,922
Movement in provision for claims incurred	11	(1,949,079)	7,308,610
Contributions to segregated insurance fund	16, 17	506,065	472,055
Claims administration and other expenses		1,471,444	1,490,994
Total underwriting expenses		25,906,022	23,368,581
Administrative expenses	17	1,020,775	1,032,561
Total expenses		26,926,797	24,401,142
Net loss for the year		(3,901,783)	(7,501,001)
Accumulated deficit at beginning of year		(7,917,271)	(416,270)
Accumulated deficit at end of year		(11,819,054)	(7,917,271)

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

Cayman Islands National Insurance Company Ltd.

Statements of Cash Flows

For the year from July 1, 2005 to June 30, 2006

Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Cash flows from operating activities			
Net loss for year		(3,901,783)	(7,501,001)
Adjustments for non-cash items			
Depreciation	6	43,993	41,146
Premiums receivable		(1,691,543)	728,088
Prepays and other assets		1,455	(1,189,160)
Accounts payable		33,936	(156,915)
Premiums received in advance		27,668	10,184
Accruals and other liabilities		2,345,145	(985,738)
Claims payable		18,935	(17,930)
Loss on disposal of assets		1,070	-
Provision for claims incurred		(1,949,079)	7,326,540
Net cash flows from operating activities		(5,070,203)	(1,744,786)
Cash flows from investing activities			
Purchase of fixed assets	6	(6,268)	(56,379)
Net cash flows from investing activities		(6,268)	(56,379)
Cash flows from financing activities			
Receipt of additional paid-in-capital		-	4,455,428
Net cash flows from investing activities		-	4,455,428
Net cash (outflow)/inflow for year		(5,076,471)	2,654,263
Cash and cash equivalents at beginning of year		5,847,724	3,193,461
Cash and cash equivalents at end of year	3	771,253	5,847,724

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

Cayman Islands National Insurance Company Ltd.

Statement of Changes in Shareholder's Equity
For the year from July 1, 2005 to June 30, 2006
Amounts stated in Cayman Islands dollars

	Share capital	Share premium	Additional paid-in-capital	Accumulated deficit	Total Shareholder's Equity
Balance at June 30, 2004	1	2,999,999	480,412	(416,270)	3,064,142
Net loss for year	-	-	-	7,501,001	(7,501,001)
Additional paid-in-capital received	-	-	4,455,428	-	4,455,428
Balance at June 30, 2005	1	2,999,999	4,935,840	(7,917,271)	18,569
Net loss for year	-	-	-	3,901,783	3,901,783
Balance at June 30, 2006	1	2,999,999	4,935,840	(11,819,054)	(3,883,214)

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

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2006

Amounts stated in Cayman Islands dollars

1 Company information

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

The Company has contracted with a Third Party Administrator ("TPA"), CBCA Administrators Inc., to provide claims administration services for local claims. The Company has also contracted with Care Management Network Inc. (CMN) to provide claims administration and case management services for insureds requiring overseas medical treatment. CINICO's contract with CMN provides its insureds with access to a large network of facilities throughout the United States and other countries at discounted costs. This agreement came into effect on August 1, 2005. In addition, effective July 1, 2005 CINICO has contracted with Presidio, an underwriting agent of Lloyds of London, to provide specific excess loss reinsurance coverage on a per covered person basis.

The Company's registered office is at Elizabethan Square, Phase III, 1st Floor, George Town, Grand Cayman. At June 30, 2006, the Company employed 7 people (7 people at June 30, 2005).

2 Accounting policies

These financial statements are prepared on the historical cost basis and in accordance with United States Generally Accepted Accounting Principles. It is also stated that these financial statements are prepared in compliance with International Financial Reporting Standards ("IFRS") promulgated by the International Accounting Standards Board ("IASB"). The Company adopted IFRS 4 (issued 2004) "Insurance Contracts" effective July 1, 2005. The adoption of IFRS 4 did not result in substantial changes to the Company's accounting policies. IFRS 4 has affected the disclosures with respect to insurance contracts issued. The significant accounting policies are as follows:

Use of estimates

The preparation of financial statements in conformity with United States Generally Accepted Accounting Principles and IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

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

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

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2006

Amounts stated in Cayman Islands dollars

2 Accounting policies (continued)

Insurance and reinsurance contracts - classification (continued)

The Company assesses its reinsurance assets for impairment on a regular basis, and if there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount. The impairment loss is recognized in the income statement.

Claims

Claims paid and outstanding claims are recorded based on claims reported to the Company by its third party administrator and case manager and includes amounts for all losses and loss adjustment expenses reported but not settled. The Company records its estimated liability gross of any amounts recoverable under its own reinsurance. Recoverable amounts, if any, under the reinsurance contract are estimated and reported separately as assets. The reinsurance 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 at bank

Cash at bank is comprised of cash and interest bearing deposits with original maturities of three months or less.

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 in advance on the last day of the month prior to that being insured. As a result, at the end of any given month, no amounts for unearned premiums are required to be recognized. Premiums paid in advance are deferred and included in Premiums received in advance in the balance sheet. Reinsurance premiums ceded are similarly recognized on a pro-rata basis based on the contractual provisional premium rate and number of insureds covered under the reinsurance policy. The final adjusted reinsurance premium is calculated twelve months after the end of the agreement term. Subject to the contractual minimum and maximum accumulated premiums, the final adjusted premium is equal to the reinsurer's liability divided by .70.

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

Disclosures about fair value of financial instruments

With the exception of balances in respect of insurance contracts, the carrying amounts of all financial instruments approximate their fair values due to their short-term maturities.

Depreciation

Fixed assets are depreciated on a straight line basis over their expected useful lives. The following depreciation rates have been estimated by management to approximate the expected useful life of each class of assets:

Office Equipment	5 years
Computer and Telecommunications Equipment	3 years
Leasehold Improvements	over the term of the lease

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.

Foreign currency

Foreign currency assets and liabilities are converted to Cayman Islands dollars at the rate of exchange prevailing at the balance sheet date. Transactions in foreign currencies are converted into Cayman Islands dollars at the rate of exchange prevailing at the date of the transaction. Foreign exchange differences are included in the statement of income in the period to which they relate.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2006

Amounts stated in Cayman Islands dollars

3 Cash at bank

	June 30, 2006	June 30, 2005
Fixed Deposits	-	2,016,416
Cash at Bank	545,152	3,826,315
Deposit in transit	226,101	4,993
	<u>771,253</u>	<u>5,847,724</u>

The Company held no fixed deposits at June 30, 2006. At June 30, 2005, CINICO held two fixed deposits with Royal Bank of Canada, with interest earned averaging 2.25% per annum and maturities within 30 days.

4 Premiums receivable

	June 30, 2006	June 30, 2005
Premiums receivable from related parties	2,005,734	305,727
Premiums receivable from unrelated entities	15,427	33,036
Less: provisions for bad debts	(10,710)	(19,855)
	<u>2,010,451</u>	<u>318,908</u>

For the year ended June 30, 2006, bad debts of \$62,007 (June 2005 - \$68,653) have been written off, of which \$19,855 had been provisioned in 2004/5. It is management's opinion that a provision for bad debts of \$10,710 (June 2005 - \$19,855) is required at June 30, 2006. All bad debts written off are from unrelated individuals. Once a bad debt is written off coverage to the unrelated individual is terminated.

5 Prepaids and other assets

	June 30, 2006	June 30, 2005
In respect of unrelated entities	409,002	4,091
In respect of related parties	946,096	1,352,462
	<u>1,355,098</u>	<u>1,356,553</u>

Included in prepaids in respect of unrelated entities are amounts relating to reinsurance premium recovery of \$278,195 (2005 - \$0), prepaid indigent claims of \$109,605 (2005 - \$0), TPA fees of \$4,917 (2005- 0) and other administrative expenses of \$16,285 (2005 - \$4,091).

Included in prepaids in respect of related parties are amounts relating to an advance to the Cayman Islands Health Services Authority of \$0 (June 2005 - \$544,289), ASO fees of \$84,699 (June 2005 - \$388,212), Segregated Fund receivable (ASO) of \$666,249 (June 2005 - \$235,739), plus other receivables and prepaids from/to Government and administrative expenses of \$195,148 (June 2005 -\$184,222).

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2006

Amounts stated in Cayman Islands dollars

6 Fixed assets

	Office Equipment	Computer & Telecoms Equipment	Leasehold Improvements	Total
Cost at July 1, 2004	12,366	59,346	5,700	77,412
Additions	4,489	44,274	7,616	56,379
Cost at June 30, 2005	16,855	103,620	13,316	133,791
Accumulated depreciation at July 1, 2004	807	8,234	1,188	10,229
Depreciation for period	3,227	32,053	5,866	41,146
Accumulated depreciation at June 30, 2005	4,034	40,287	7,054	51,375
Carrying value at June 30, 2005	12,821	63,333	6,262	82,416
Cost at July 1, 2005	16,855	103,620	13,316	133,791
Additions	877	5,391	-	6,268
Disposals	-	(1,835)	-	(1,835)
Cost at June 30, 2006	17,732	107,176	13,316	138,224
Accumulated depreciation at July 1, 2005	4,034	40,287	7,053	51,374
Depreciation for period	3,411	34,319	6,263	43,993
Disposals	-	(764)	-	(764)
Accumulated depreciation at June 30, 2006	7,445	73,842	13,316	94,603
Carrying value at June 30, 2006	10,287	33,334	-	43,621

7 Accounts payable

	June 30, 2006	June 30, 2005
Payable to unrelated entities	36,636	2,700

Included in accounts payable in respect of unrelated entities are amounts relating to administrative expenses of \$36,686 (June 2005 - \$2,700).

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2006

Amounts stated in Cayman Islands dollars

8 Accruals and other liabilities

	June 30, 2006	June 30, 2005
In respect of related parties	2,301,520	106,543
In respect of unrelated entities	216,857	66,689
	<u>2,518,377</u>	<u>173,232</u>

Included in accruals and other liabilities in respect of related parties are amounts relating to insurance premiums of \$1,999,676 (June 2005 - \$61,063) recorded as a receivable which relate to future underwriting periods, Cayman Islands Health Services Authority claims payable of \$286,938 (June 2005 - \$0), segregated fund insurance contributions due of \$0 (June 2005 - \$40,650), and administrative expenses of \$14,906 (June 2005 - \$4,830).

Included in accruals and other liabilities in respect of unrelated entities are reinsurance premiums due of \$102,321 (June 2005 - \$0), and administration expenses and other accruals of \$114,536 (June 2005 - \$66,689).

9 Claims paid

	June 30, 2006	June 30, 2005
Net US\$ claims (denominated in KYD\$)	6,823,240	6,354,647
KYD\$ claims	19,054,352	7,742,275
	<u>25,877,592</u>	<u>14,096,922</u>
Less repricing fees	(453,461)	
Claims paid (net of repricing fees)	<u>25,424,131</u>	<u>14,096,922</u>

10 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. See also note 11.

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 90% of overseas claim losses which exceed US\$609,756 per individual per policy year up to US\$1,219,512 per individual per policy year and subject to a US\$ 4 million annual aggregate. A lifetime maximum benefit of C\$1,000,000 per insured is also in effect for this plan. The Company's Standard Health Insurance Contracts ("SHIC" plans) use a combination of pre-existing conditions, and annual limits to mitigate risk. The Company also employs the services of Care Management Network Inc. ("CMN") to control overseas claim costs. CMN provides case management services with the goal of managing a patient's care path in an economical fashion at each step of the way. CMN also has pre negotiated contracts with many overseas providers which would allow the Company to realize significant savings. Furthermore on a monthly basis the Eligibility/Risk Committee meets to discuss large claims and any disputed claims.

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.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2006

Amounts stated in Cayman Islands dollars

11 Provision for claims incurred (continued)

A health claim is payable when an event has occurred that gives rise to a claim payment within the benefits of an insured member's policy while inforce. The lag between the occurrence of a claim and the final payment is normally short term in nature as providers are required by the Health Insurance Law to submit any claims within 180 days of date of service. Thus any reserve estimates are normally settled within a year, however this was not the case with the Company's primary health provider, the Cayman Islands Health Authority (CIHSA), for the 2004/05 financial year.

In December 2005, the Company's primary health care provider, the Cayman Islands Health Services Authority (CIHSA) maintained that there were a considerable amount of 2004/5 claims that had yet to be submitted to the Company due to ongoing computer and system problems it experienced. Many of these claims had service dates well beyond 180 days. The industry practice is to deny claims greater than 180 days however the Company waived this requirement as CIHSA was experiencing an extraordinary circumstance (computer problems) and is a related government entity. The final settlement for these additional 2004/5 claims was made in March 2006.

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 has changed at successive year ends. The bottom half of the table reconciles the cumulative claims to the amount appearing on the balance sheet.

Reporting year	2003/4	2004/5	2005/6	Total
<u>Estimate of ultimate claims costs:</u>				
At end of reporting year	67,930	21,214,700	23,423,288	
One year later	52,075	21,214,700	n.a.	
Two years later	58,220	n.a.	n.a.	
Current estimate of cumulative claims	58,220	21,214,700	23,423,288	
Cumulative payments to date	58,220	21,193,839	18,275,139	
Gross liability recognized in the balance sheet	-	20,861	5,148,149	5,169,010
Allocated loss expense ("ALE") reserve	-	1,043	257,407	258,451
Net liability recognized in the balance sheet	-	21,904	5,405,556	5,427,461

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2006

Amounts stated in Cayman Islands dollars

11 Provision for claims incurred (continued)

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

	June 30, 2006	June 30, 2005
Balance at beginning of year.	7,376,540	67,930
Incurred related to:		
Current period	23,423,288	21,421,387
Prior year	-	(15,855)
	<u>23,423,288</u>	<u>21,405,532</u>
Paid related to:		
Current period	18,275,139	14,044,847
Prior year	7,148,992	52,075
	<u>25,424,131</u>	<u>14,096,922</u>
ALE Reserve movement	51,764	-
Balance at end of year	<u>5,427,461</u>	<u>7,376,540</u>

12 Share capital

	June 30, 2006	June 30, 2005
Authorized:		
1,000,000 unclassified shares of CI\$1.00 each	1,000,000	1,000,000
Issued and fully paid:		
1 share	<u>1</u>	<u>1</u>

The unclassified shares hold all voting rights in the Company. During the period 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, 2006	June 30, 2005
Additional paid in capital	4,935,840	4,935,840
	<u>4,935,840</u>	<u>4,935,840</u>

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

It is the policy of the Company to operate in a manner designed to maintain capitalization at a minimum of \$3 million. Additional paid-in-capital of \$4,455,428 (2004 - \$480,412) was received in fiscal 2005 in lieu of an increase in premium to various Government entities. In addition on July 11, 2006, the Company received CI\$3,000,000 in additional paid-in capital from government to rectify its 2004/5 breach in statutory net worth (see Note 22).

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2006

Amounts stated in Cayman Islands dollars

14 Premium Income

Premium income earned by insured type is as follows;

	Year to date June 30, 2006			
	Group 30100	Group 30101	Group 30104	Total
Premium Income	18,197,461	4,179,155	1,104,904	23,481,520
Reinsurance Premium	(881,375)	-	-	(881,375)
Net Premium	17,316,086	4,179,155	1,104,904	22,600,145

	Year to date June 30, 2005			
	Group 30100	Group 30101	Group 30104	Total
Premium Income	12,789,775	2,914,489	764,540	16,468,804
Reinsurance Premium	-	-	-	-
Net Premium	12,789,775	2,914,489	764,540	16,468,804

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

Reinsured premium is based on a provisional rate of C\$11.45 per person.

15 Administrative Services Only Fees

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

16 Contributions to segregated insurance fund

Under Section 5(1) of the Health Insurance Regulations (2005 Revision), each domestic health insurer is required to pay to a Segregated Insurance Fund \$5.00 per month per single insured and \$10.00 per month per couple or family insured. For the year ended June 30, 2006, the Company accrued contributions totaling \$506,065 (year ended June 30, 2005 - \$472,055).

17 Related party transactions

Where not otherwise disclosed in these financial statements, the following are related party transactions which the Company has entered into during the period ended June 30, 2006.

	June 30, 2006	June 30, 2006
	Year to date	Year to date
Administrative expenses	83,429	84,213
Contributions to segregated insurance fund	506,065	472,055
	589,494	556,268

For the year ended June 30, 2006, key management compensation is \$339,333 (year ended June 30, 2005 \$336,864).

Cayman Islands National Insurance Company Ltd.

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June 30, 2006

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18 Investment income

Investment income represents interest earned from the Cash and Fixed Deposits held at various banks. The Company has received interest on fixed deposits and cash balances of \$92,445 (June 2005 - \$43,125).

19 Pension costs

The Company participates in a defined contribution pension scheme administered by the Cayman Islands Chamber of Commerce. In addition, two employees were entitled to continue contributing to the National Pension Plan. For the year ended June 30, 2006, pension expense is \$18,580 (Year ended June 30, 2005 - \$17,827).

20 Commitments and Contingencies

The Company has entered into two operating leases, as follows:

	Amounts due within 1 year	Total lease commitments
Lease - premises	15,232	15,232
Lease - photocopier	3,600	3,600
	<u>18,832</u>	<u>18,832</u>

On 13 January 2006 the Company was served with a Writ of Summons by a previous employee for wrongful dismissal. The Writ of Summons seeks damages of \$74,250 plus costs. The Company's legal counsel filed an application that the case be dismissed on the grounds that the Plaintiffs' claim has no prospect of success. On May 24th, 2006, this request was rejected by the Grand Court with a recommendation to proceed to trial. This case is being vigorously defended. Management and its legal counsel feel that it is unlikely that CINICO would lose the trial as there are public policy issues involved and as such, an adverse decision would have an impact on the current immigration policy.

21 Certain risks and uncertainties

Credit risk:

The Company's cash balances are placed mainly with one financial institution based in the Cayman Islands. Premium receivable is primarily due from the Cayman Islands Government. Prepaids and other assets are primarily due from the Cayman Islands Government and the Cayman Islands Health Services Authority (for June 30, 2005 only). The Company is subject to credit risk to the extent that these entities may be unable to fulfill their obligations to repay amounts owed. Management is satisfied that these entities do not present a significant credit risk to the Company.

Reinsurance

The Company seeks to reduce the losses that arise under its issued policies by reinsuring certain levels of risk with a third party reinsurer. Reinsurance ceded contracts do not discharge the Company's liability as the primary insurer. The Company remains liable for the portion insured to the extent that the insurer does not meet its obligations to the Company. To mitigate this risk, the Company has chosen a Reinsurer with an AM Best rating of A (stable) at June 30, 2006, in addition to evaluating the financial condition of the Reinsurer on a regular basis.

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22 Net worth for regulatory purposes

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

	June 30, 2006	June 30, 2005
Share capital	1	1
Share premium	2,999,999	2,999,999
Additional paid-in-capital	4,935,840	4,935,840
Accumulated deficit	(11,819,054)	(7,917,271)
	<u>(3,883,214)</u>	<u>18,569</u>

At June 30, 2006 the Company was in breach of its minimum net worth requirement for regulatory purposes. Net worth is below the statutory requirement for two reasons: (1) As described in Note 11 the Company has processed and settled additional 2004/5 claims from the primary network provider (the Cayman Islands Health Services Authority); and (2) The discovery of additional 2004/5 claims which imply higher claim levels for 2005/6 were not anticipated in the 2005/06 premium rate, thus premium is insufficient to cover all claim expenses leading to a deficit in the 2005/6 financial year. The accumulation of the above has led to a negative net worth of \$3,883,214 as at June 30, 2006. On July 11, 2006, the Company has received from its shareholder additional paid-in-capital of C\$ 3,000,000.

In the Company's Ownership Agreement it states that "in the Cayman Islands National Insurance Company Ltd. business plan is a commitment that the Company will maintain capitalization at \$3 million. The Cayman Islands Government guarantees this commitment."

The Company has established the following plan, which has been communicated to CIMA, to remediate the regulatory net worth deficiency:

- Premium has been increased in the 2006/7 fiscal year to be in line with historical claim costs.
- The Company would request a cash equity injection at the first announced 2006/7 Supplementary budget; however at this time it is not known when this would be.
- In the absence of a 2006/7 Supplementary budget, the Company would request an equity injection for the 2007/8 budget year.
- In addition to the above actions, the Company would also pursue a \$5.0 million letter of credit to supplement the additional equity injection required resulting from 2005/6 losses.

The Company has already met with representatives of the Cayman Islands government to communicate its equity position and needs.

23 Comparatives

Certain comparative amounts have been restated to conform to the current year presentation.