



Annual Report

30 June 2005

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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.



The Purpose of CINICO

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;

Maintain reinsurance for catastrophic events.



6 September 2005

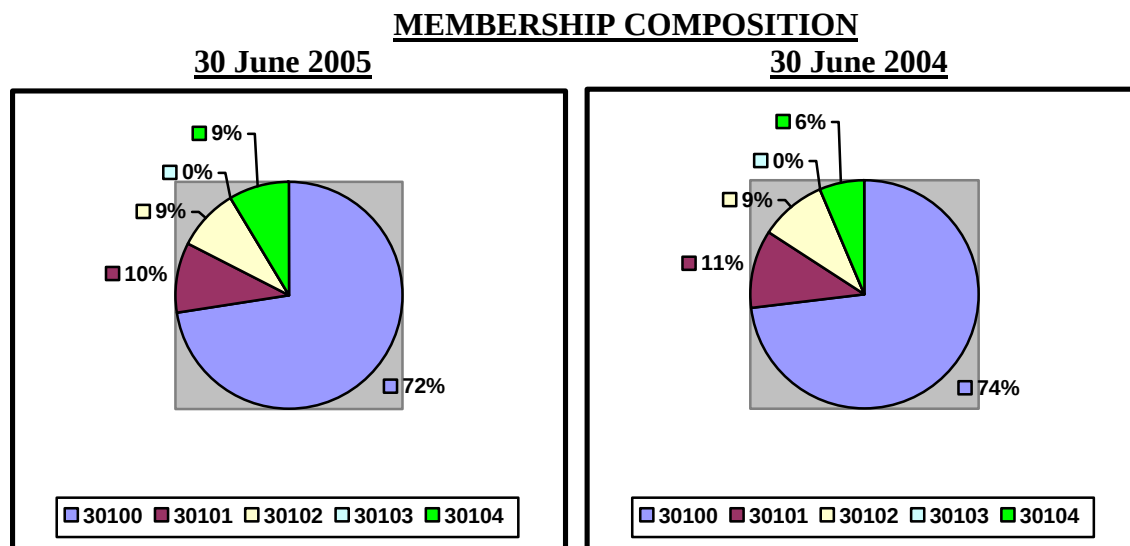
To our Shareholder:

Overview

As of 30 June 2005 it is eighteen months since the Cayman Islands National Insurance Company Ltd (“CINICO”) was granted a Class A licence under the Insurance Law (2003 Revision). The general nature of CINICO’s activities during the first complete fiscal year was both the administration of health benefits and the provision of health insurance benefits to five member groups:

1. Group 30100 - Civil Servants, Pensioners and Government Entities
2. Group 30101 – Seaman, Veterans and Others
3. Group 30102 - Social Programs
4. Group 30103 – Advance Patients
5. Group 30104 - Elderly, Health Impaired, Low Income and CINICO Employees

As of 30 June 2005 total membership was 11,077 (2004 – 10,577), an increase of 5% over 2004. The most significant change was an increase in the membership of group 30104 which increased 43%. The following chart illustrates the comparative composition for the two years:



Of the total 11,077 (2004 - 10,577) members that existed as of 30 June 2005, 53% (2004 - 52%) are female and 47% (2004 - 48%) are male. The average age of the population was 42 (2004 - 42) for females and 40 (2004 - 41) for males. The average age of the five CINICO groups individually was as follows (Note there were no members in the 30103 group at the fiscal period end dates.):

AVERAGE AGE

Fiscal Period End	Group 30100	Group 30101	Group 30102	Group 30104
2005	34	69	62	47
2004	34	68	63	47

Total Income

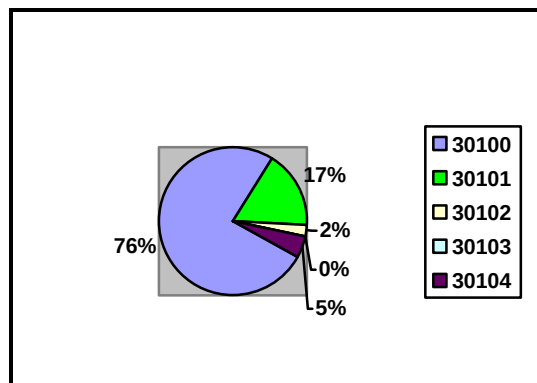
For the period 1 July 2004 to 30 June 2005 CINICO's scope of activities for groups 30100, 30101 and 30104 was the provision of health insurance. The total premium income for these programs was approximately \$16.5 million (2004 - \$83,000) which is significantly different from the prior period. The reason for the significant difference is that during the prior period only the group 30104 program provided health insurance from the period 1 April 2004 to 30 June 2004.

For the period 1 July 2004 to 30 June 2005 the scope of activities for groups 30102 and 30103 was administration services only ("ASO"). ASO means that CINICO only adjudicated the health benefit claims on behalf of these programs, and the Cayman Islands Government was responsible to pay for all costs associated with the administration and payment of these claims. The total ASO fees income was approximately \$388,000 (2004 - \$517,000). The reason for the decrease in the ASO fee income is that during the period 1 February 2004 to 30 June 2004 groups 30100, 30101, 30102 and 30103 were all ASO programs.

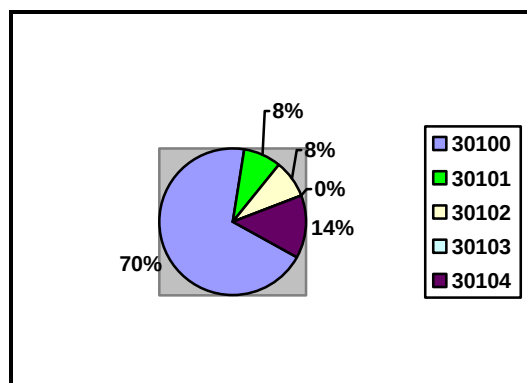
The total underwriting income of approximately \$16.9 million (2004 - \$600,000) was split amongst the five groups as follows:

TOTAL UNDERWRITING INCOME ALLOCATION

30 June 2005



30 June 2004



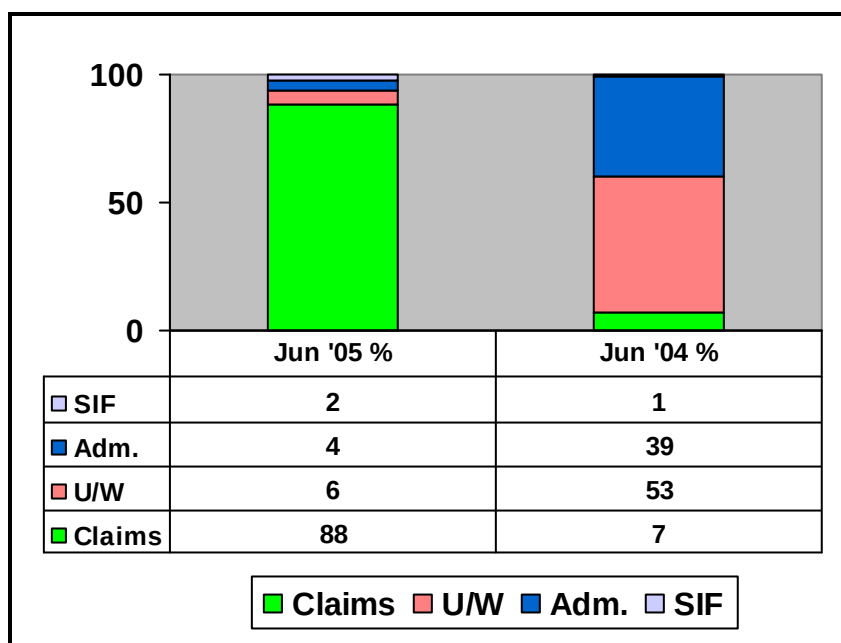
There has been minimal investment income earned to date.

Early in the 2004/05 fiscal period, it was apparent that the premium income for group 30100 and 30101 was insufficient. The Company attempted to obtain a premium rate increase, however this was not acceptable to the shareholder/insured, hence the shareholder agreed to an additional paid-in capital amount of \$4,455,428, as per the Amended Ownership Agreement, to subsidize the insufficient premium for these two groups.

Total Expenses

The total expense for the period 1 July 2004 to 30 June 2005 was approximately \$24.4 million (2004 - \$1 million). The expenses are split between claims costs (“Claims”), contributions to the segregated insurance fund (“SIF”), underwriting expenses (“U/W”) and administrative expenses (“Adm”) as follows:

TOTAL EXPENSE ALLOCATION



The total claims cost of \$21.4 million (2004 - \$68,000) is for groups 30100, 30101 and 30104 only; and represents claims paid of \$14.1 million (2004 - \$18,000) and a provision for claims incurred of \$7.3 million (\$50,000). The significant increase over the prior period is due to the fact that only group 30104 existed as an insurance program in the prior year for the period 1 April 2004 to 30 June 2004. It is estimated that 55% of the total claims cost of CINICO is for its primary network provider, the Cayman Islands Health Services Authority.

In addition to the total claims costs recorded for the CINICO health insurance programs, there is an estimated claims cost for the incurred period of 1 July 2004 to 30 June 2005 for the ASO groups 30102 and 30103 of approximately \$4.6 million and \$900,000 respectively. This represents claims paid of \$2.1 million and a provision for claims incurred of \$3.4 million. It is estimated that 54% of the group 30102 total claims cost will be paid to the Cayman Islands Health Services Authority. All of the group 30103 claims are paid to complementary overseas network providers.

As a reminder, the CINICO policy is structured such that the primary network provider is the Cayman Islands Health Services Authority. If a member of CINICO is in need of medical care (or dental care for those plans that offer dental coverage) the member must go to the Cayman Islands Health Services Authority for treatment. If the medical practitioner (or dental practitioner) has determined that services are unavailable at the Cayman Islands Health Services Authority, then approval for treatment by the CINICO complimentary network is sought by the attending practitioner, not the CINICO member. Medical treatment is approved by the Chief Medical Officer and dental treatment is approved by the Chief Dental Officer. The CINICO complementary network includes other Cayman Islands medical/dental providers, as well as medical providers in over 130 countries around the world which are accessed through CINICO's overseas care management consultant.

The only exception to the rule that a member must go to the Cayman Islands Health Services for medical treatment is if an emergency occurs while a member is overseas. In the case of an overseas medical emergency, the admission must be certified within 48 hours by calling the telephone number provided on the member's CINICO identification card.

2004/05 Strategic Goals and Objectives

The following is a brief description of CINICO's achievement of its strategic goals and objectives for the period 1 July 2004 to 30 June 2005:

The National Health Insurance System ("NHIS") software program implemented 1 February 2004 continues to be refined based upon the needs of the users. Meetings are held with all users to discuss recent issues and plan for future management information needs. Users of the system include the Cayman Islands Government Computer Services department, Portfolio of Civil Service, Public Service Pensions Board, Family and Children Services, the Cayman Islands Health Services Authority and CINICO.

The NHIS is now capable of recording co-ordination of benefits information to ensure that CINICO is properly recorded as the secondary payer where applicable, however more information needs to be collected from CINICO members to populate the database.

Care management procedures were revamped during the year in order to effectively utilize the knowledge of the General Manager of CINICO. During the year a request for proposal process was completed for care management consulting services which resulted in the recommendation and approval by the Directors of a new care management consultant effective 1 August 2005. Procedures established with the new care management consultant provide for detailed oversight by the General Manager of all overseas treatment of CINICO members, which will result in enhanced financial management of the overseas claims. The oversight will enable the General Manager to search for alternative financing of overseas care if it is available.

During the fiscal year CINICO developed significant business relationships with particular medical providers in Jamaica. Prior to establishing the business relationships CINICO sent a qualified team to inspect the facilities to ensure quality of care. In addition, with the change in care management consultants, CINICO has expanded its complimentary provider network to approximately 130 countries.

The Company has streamlined its financial process to improve upon the timeliness of payment to health care providers, especially in the ASO programs.

The Company sought reinsurance from a highly rated AM Best reinsurance company. Proposal information was collated and submitted to many reinsurance companies. Based upon the review of the quotations received, a reinsurance agreement was approved effective 1 July 2005 for excess of loss reinsurance.

CINICO has achieved a great deal during the fiscal year 2004/05, and with the implementation of the reinsurance agreement is now in compliance with the established purposes of the Company. This does not mean that management and the directors of CINICO are content. Management will continue to strive to improve service to members; and to control the financial cost of healthcare for its Shareholder.

2005/06 Strategic Goals and Objectives

For the fiscal period 1 July 2005 to 30 June 2006 the following are the strategic goals and objectives:

Contain the increase in claims costs to approximately 7% for the underwriting year 2005/06. This is an aggressive goal since 40% to 45% of claims cost is estimated to be with complimentary network providers whereby medical inflation can run in the double digits.

Although only 14% of the total costs are non-claims, CINICO will analyze operations to determine if additional efficiencies are possible.

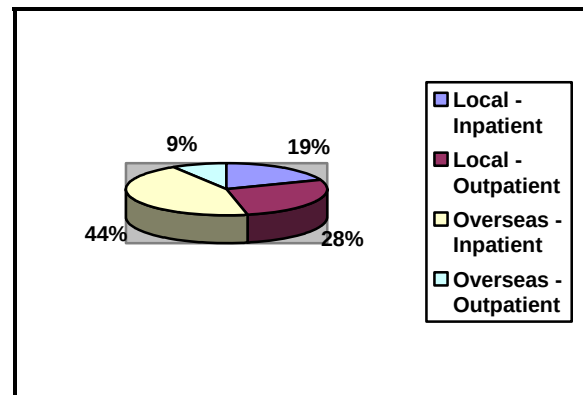
Continue to enhance the complimentary network providers.

Continue to evaluate the level of reinsurance to determine the most cost effective risk transfer mechanisms for the Shareholder.

Utilization Summary

For the period from 1 February 2004 to 30 June 2005 the percentage of paid claims locally versus overseas on an inpatient versus outpatient basis for all CINICO members is illustrated in the following chart:

INPATIENT & OUTPATIENT UTILIZATION



The payments to overseas providers are inflated relative to the payments to local providers due to the lower than anticipated payments made to the primary provider. The overseas inpatient utilization however is still a significant dollar amount. The overseas inpatient utilization represented 129 admissions with an average length of stay of 40 days. The total charges were 23% for room and board, 64% for ancillary and 13% for physicians. The largest medical diagnosis was circulatory with 31 admissions which comprised 30% of the total overseas inpatient payments. The second largest diagnosis was newborns with 2 admissions which comprised 12% of the total overseas inpatient payments.

Conclusion

As stated a year ago, and now being reiterated, CINICO is dedicated to providing value added services to its shareholder to help control the spiraling cost of health care benefits provided to various residents of the Cayman Islands, and to help the people who reside in the Cayman Islands gain access to affordable, quality healthcare. We thank you for your continued confidence in our abilities.

Ron Sulisz
President/Chief Executive Officer

Subsequent Events

Subsequent to 30 June 2005, three significant events inception based on decisions made during the fiscal year 30 June 2005.

1. On 1 July 2005 the negotiated excess of loss reinsurance contract inception.
2. On 1 August 2005 CMN Inc. commenced service as the overseas care management consultant for the Company. In order to effectuate this change, CINICO undertook to redistribute identification cards to all members. Notification was provided to members through newspaper advertisements, radio advertisements, internet, communication to local providers, communication to frequently used overseas providers and presentations to Civil Servants.
3. On 15 August 2005 CINICO commenced their monthly visit to Cayman Brac in order to provide face-to-face customer service to the many CINICO members who reside in Cayman Brac, therefore are unable to visit our office in George Town.



Pictured our left Carole Appleyard the General Manager of CINICO and Commissioner Ryan during the inaugural CINICO monthly visit to the Cayman Brac on 15 August 2005.

In addition to the above, in December 2005, the Company's primary health care provider, the Cayman Islands Health Services Authority (CHISA) 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 was experienced. The company underwent a process to settle these

claims which resulted in an additional \$3.0 million of recorded losses subsequent to the initial calculation of 2004/5 actuarial reserves. As a result the Company was in breach of its minimum net worth requirement for regulatory purposes, which requires capitalization of \$3.0 million; the Company had only \$18,569. To rectify the deficiency, in the 2006/7 budget, the government made a commitment to pay \$3.0 million in additional paid-in capital which was received on July 11, 2006.

The discovery of the additional 2004/5 claims implies that there would also be a capital deficiency for the 2005/6 fiscal year as premium for that year was set in 2004 and did not factor in the additional claims. Thus, for year ending June 30, 2006 the Company recorded a loss of \$3.9 million resulting in a negative net worth of the same. The Company has developed a plan to rectify the regulatory net worth deficiency which involves seeking an equity injection in the next 2006/7 Supplementary budget or 2007/8 Budget. In addition the Company would be pursuing a \$5.0 million letter of credit which would alleviate potential future timing issues, relating to the budget process, in obtaining a cash equity injection resulting from potential future losses compromising the required net worth amount of \$3,000,0000.

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

Ron Sulisz
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
Ron Sulisz

Eligibility/Risk Control Committee

Carole Appleyard
Lemuel Hurlston *
Diane Montoya *
Haroon Pandohie
Dr. Gerald Smith
Christian Suckoo
Ron Sulisz

Executive Committee

Sharon Roulstone *
Diane Montoya
Ron Sulisz

** denotes Committee Chairperson*

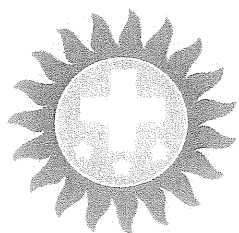
Appendix

Audited Financial Statements

As at 30 June 2005

ANNUAL REPORT

30 JUNE 2005



CAYMAN ISLANDS

CINICO

NATIONAL INSURANCE COMPANY



Appendix

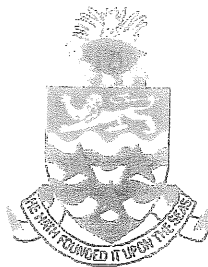
Audited Financial Statements

As at 30 June 2005



Financial Statements of
**Cayman Islands National Insurance
Company Ltd.**

June 30, 2005 and June 30, 2004



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 2005, 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 2005, 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 20, as at 30 June 2005 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.

Dan Duguay, MBA, CGA
Auditor General

11 October 2006
Cayman Islands

Cayman Islands National Insurance Company Ltd.

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Cayman Islands National Insurance Company Ltd.

Balance Sheets

As at June 30, 2005 and June 30, 2004

Amounts stated in Cayman Islands dollars

	Note	June 30, 2005	June 30, 2004
Assets			
Cash at bank	3	5,847,724	3,193,461
Premiums receivable	4	318,908	1,046,996
Prepays and other assets	5	1,356,553	167,393
Fixed assets	6	82,416	67,183
Total assets		7,605,601	4,475,033
Liabilities			
Accounts payable	7	2,700	159,615
Premiums received in advance		34,560	24,376
Accruals and other liabilities	8	173,232	1,158,970
Provision for claims incurred	9	7,376,540	67,930
Total liabilities		7,587,032	1,410,891
Shareholder's equity			
Share capital	10	1	1
Share premium	10	2,999,999	2,999,999
Additional paid-in-capital	11,21	4,935,840	480,412
Accumulated deficit		(7,917,271)	(416,270)
Total shareholder's equity		18,569	3,064,142
Total liabilities and shareholder's equity		7,605,601	4,475,033

Sharon Roulstone
Director

September 12, 2006
Date

Carlyle McLaughlin
Director

September 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 period from July 1, 2004 to June 30, 2005 and December 18, 2003 (date of incorporation) to June 30, 2004

Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Income			
Premium income	12	16,468,804	83,210
ASO Fees	13	388,212	516,605
Total underwriting income		16,857,016	599,815
Investment income	16	43,125	1,387
Total income		16,900,141	601,202
Expenses			
Claims paid	9,21	14,096,922	0
Movement in provision for claims incurred	9	7,308,610	67,930
Contributions to segregated insurance fund	14, 15	472,055	5,165
Claims administration and other expenses		1,490,994	543,828
Total underwriting expenses		23,368,581	616,923
Administrative expenses	15	1,032,561	400,549
Total expenses		24,401,142	1,017,472
Net loss for the period		(7,501,001)	(416,270)
Accumulated deficit at beginning of period		(416,270)	0
Accumulated deficit at end of period		(7,917,271)	(416,270)

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

Cayman Islands National Insurance Company Ltd.

Statements of Cash Flows

For the period from July 1, 2004 to June 30, 2005 and December 18, 2003 (date of incorporation) to June 30, 2004

Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Cash flows from operating activities			
Net loss for period		(7,501,001)	(416,270)
Adjustments for non-cash items			
Depreciation		41,146	10,229
Premiums receivable		728,088	(1,046,996)
Prepays and other assets		(1,189,160)	(167,393)
Accounts payable		(156,915)	159,615
Premiums received in advance		10,184	24,376
Accruals and other liabilities		(985,738)	1,158,970
Provision for claims incurred		7,308,610	67,930
Net cash flows from operating activities		(1,744,786)	(209,539)
Cash flows from investing activities			
Purchase of fixed assets		(56,379)	(77,412)
Net cash flows from investing activities		(56,379)	(77,412)
Cash flows from financing activities			
Issue of share capital		0	3,000,000
Receipt of additional paid-in-capital		4,455,428	480,412
Net cash flows from investing activities		4,455,428	3,480,412
Net cash inflow for period		2,654,263	3,193,461
Cash and cash equivalents at beginning of period		3,193,461	0
Cash and cash equivalents at end of period		5,847,724	3,193,461

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

Cayman Islands National Insurance Company Ltd.

Statements of Changes in Shareholder's Equity

For the period from July 1, 2004 to June 30, 2005 and December 18, 2003 (date of incorporation) to June 30, 2004

Amounts stated in Cayman Islands dollars

	Share capital	Share premium	Additional paid-in-capital	Accumulated deficit	Total Shareholder's Equity
Balance at December 18, 2003	0	0	0	0	0
Issuance of shares	1	2,999,999	0	0	3,000,000
Net loss for period	0	0	0	(416,270)	(416,270)
Additional paid-in-capital received	0	0	480,412	0	480,412
Balance at June 30, 2004	1	2,999,999	480,412	(416,270)	3,064,142
Balance at June 30, 2004	1	2,999,999	480,412	(416,270)	3,064,142
Issuance of shares	0	0	0	0	0
Net loss for period	0	0	0	(7,501,001)	(7,501,001)
Additional paid-in-capital received	0	0	4,455,428	0	4,455,428
Balance at June 30, 2005	1	2,999,999	4,935,840	(7,917,271)	18,569

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

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2005 and June 30, 2004

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 Insured"), as well as residents of the Cayman Islands who have low income, impaired health status, or who are elderly ("Privately Insured"). The Company also provides Administrative Services Only (ASO) for indigents and advance patients (2004 Administrative Services Only were provided to the civil servants, pensioners, other Government entities and seamen & veterans members and their dependants).

The Company has contracted with a Third Party Administrator ("TPA"), CBCA Administrators Inc., to provide all claims administration services. CINICO's contract with CBCA provides its insureds with access to a large network of facilities throughout the United States at discounted costs, as well as care management services. Effective August 1, 2005 the contract with CBCA was amended to eliminate their network access and care management services. A contract for the eliminated services became effective August 1, 2005 with Care Management Network Inc.

The Company's registered office is at Elizabethan Square, Phase III, 1st Floor, George Town, Grand Cayman. At June 30, 2005, the Company employed 7 people (5 people at June 30, 2004).

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 promulgated by the International Accounting Standards Board. The significant accounting policies are as follows:

Use of estimates

The preparation of financial statements in conformity with United States Generally Accepted Accounting Changes 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.

Claims

Claims paid and outstanding claims are recorded based on claims reported to the Company by its third party administrator and include amounts for all losses reported but not settled. Management uses acceptable reserving methods to estimate provisions for claims incurred but not reported which are reviewed by an independent actuary.

Cash at bank

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

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2005 and June 30, 2004

Amounts stated in Cayman Islands dollars

2 Accounting policies (continued)

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 recognised. Premiums paid in advance are deferred and included in Premiums received in advance in the balance sheet.

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, which are specifically excluded under Statement of Financial Accounting Standards No. 107, 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 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.

3 Cash at bank

	June 30, 2005	June 30, 2004
Fixed Deposits	2,016,416	3,000,000
Cash at Bank	3,826,315	186,090
Deposit in transit	4,993	7,371
	<u>5,847,724</u>	<u>3,193,461</u>

At June 30, 2005, CINICO held two Fixed Deposits with Royal Bank of Canada, earning interest of 2.25% (2004 - 0.625%) per annum with maturities within 30 days.

4 Premiums receivable

	June 30, 2005	June 30, 2004
Premiums receivable from related parties	305,727	1,042,804
Premiums receivable from unrelated entities	33,036	4,192
Less: provisions for bad debts	(19,855)	-
	<u>318,908</u>	<u>1,046,996</u>

Bad debts of \$68,653 (2004 - \$0) have been written off, and it is management's opinion that a provision for bad debts of \$19,855 (2004 - \$0) is required at June 30, 2005. All bad debts written off are from unrelated entities. Once a bad debt is written off coverage to the unrelated entity is terminated.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2005 and June 30, 2004

Amounts stated in Cayman Islands dollars

5 Prepaids and other assets

	June 30, 2005	June 30, 2004
In respect of unrelated entities	4,091	129,897
In respect of related parties	1,352,462	37,496
	<u>1,356,553</u>	<u>167,393</u>

Included in prepaids in respect of unrelated entities are amounts relating to TPA fees of \$0 (2004- 113,843) and other administrative expenses of \$4,091 (2004 - \$16,054).

Included in prepaids in respect of related parties are amounts relating to an advance to the Cayman Islands Health Services Authority of \$544,289 (2004 - \$0), ASO fees of \$388,212 (2004 - \$0), Segregated Fund receivable of \$235,739 (2004 - \$0), plus other receivables from Government and administrative expenses of \$184,222 (2004 - 37,496). The advance to the Cayman Islands Health Services Authority is interest free and will be repaid as claims are submitted by the Cayman Islands Health Services Authority to the Company.

6 Fixed assets

	Office Equipment	Computer & Telecoms Equipment	Leasehold Improvements	Total
Cost at December 18, 2003	0	0	0	0
Additions	12,366	59,346	5,700	77,412
Disposals	0	0	0	0
Cost at June 30, 2004	<u>12,366</u>	<u>59,346</u>	<u>5,700</u>	<u>77,412</u>
Accumulated depreciation at December 18, 2003	0	0	0	0
Depreciation for period	807	8,234	1,188	10,229
Accumulated depreciation at June 30, 2004	<u>807</u>	<u>8,234</u>	<u>1,188</u>	<u>10,229</u>
Carrying value at June 30, 2004	<u>11,559</u>	<u>51,112</u>	<u>4,512</u>	<u>67,183</u>
Cost at July 1, 2004	12,366	59,346	5,700	77,412
Additions	4,489	44,274	7,616	56,379
Disposals	0	0	0	0
Cost at June 30, 2005	<u>16,855</u>	<u>103,620</u>	<u>13,316</u>	<u>133,791</u>
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	<u>4,034</u>	<u>40,287</u>	<u>7,054</u>	<u>51,375</u>
Carrying value at June 30, 2005	<u>12,821</u>	<u>63,333</u>	<u>6,262</u>	<u>82,416</u>

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2005 and June 30, 2004

Amounts stated in Cayman Islands dollars

7 Accounts payable

	June 30, 2005	June 30, 2004
Payable to unrelated entities	2,700	136,179
Payable to related parties	0	23,436
	<u>2,700</u>	<u>159,615</u>

Included in accounts payable in respect of unrelated entities are amounts relating to accrued TPA fees of \$0 (2004 - \$135,653) and administrative expenses of \$2,700 (2004 - \$526).

8 Accruals and other liabilities

	June 30, 2005	June 30, 2004
In respect of related parties	102,043	1,046,275
In respect of unrelated entities	71,189	112,695
	<u>173,232</u>	<u>1,158,970</u>

Included in accruals and other liabilities in respect of related parties are amounts relating to insurance premiums due of \$61,063 (2004 - \$1,042,804), segregated fund insurance contributions due of \$40,650 (2004 - \$0), and administrative expenses of \$330 (2004 - \$3,471).

9 Provision for claims incurred

Movement in provision for claims incurred:

	June 30, 2005	June 30, 2004
Balance at beginning of period	67,930	0
Included related to:		
Current period	21,421,387	67,930
Prior period	(15,855)	0
	<u>21,405,532</u>	<u>67,930</u>
Paid related to:		
Current period	14,044,847	0
Prior period	52,075	0
	<u>14,096,922</u>	<u>0</u>
Balance at end of period	<u>7,376,540</u>	<u>67,930</u>

Included in the provision for claims incurred is a large claim estimated at \$301,533 that will be paid in the subsequent year.

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10 Share capital

	June 30, 2005	June 30, 2004
Authorised:		
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.

11 Additional paid-in-capital

	June 30, 2005	June 30, 2004
Additional paid in capital received	4,935,840	480,412
	<u>4,935,840</u>	<u>480,412</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 capitalisation at a minimum of \$3 million. Additional paid in capital of \$4,455,428 (2004 - \$480,412) was received in lieu of an increase in premium to various Government entities. (See also Note 20).

12 Premium Income

Premium income earned by insured type is as follows:

	June 30, 2005	June 30, 2004
Civil Servants - related	9,820,114	0
Pensioners - related	2,525,311	0
Government entities - related	444,350	0
Seaman & Veterans - related	2,914,489	0
SHIC Groups - unrelated	764,540	83,210
	<u>16,468,804</u>	<u>83,210</u>

13 Administrative Services Only Fees

The Company accrued 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. For the fiscal year ended June 30 2004, the administrative services only fees were earned from the following segments; Civil Servants, Pensioners, Government entities, Seaman & Veterans, Indigents and Advance Patients.

14 Contributions to segregated insurance fund

Under Section 5(1) of the Health Insurance regulations (2002 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. The Company accrued contributions totaling \$472,055 (2004 - \$5,165)

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2005 and June 30, 2004

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15 Related party transactions

Related party transactions represent transactions with other Cayman Islands Government entities. Where not otherwise disclosed in these financial statements, the following are related party transactions which the Company has entered into:

	June 30, 2005	June 30, 2004
Administrative expenses	84,213	42,138
Contributions to segregated insurance fund	472,055	5,165
	<u>556,268</u>	<u>47,303</u>

16 Investment income

Investment income represents interest earned from the Cash and Fixed Deposits held at various banks.

17 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. The pension expense for the year was \$17,897 (2003: \$5,278).

18 Commitments

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

	Amounts due within 1 year	Amounts due after more than 1 year	Total lease commitments
Lease - premises	11,968	-	11,968
Lease - photocopier	5,400	3,150	8,550
	<u>17,368</u>	<u>3,150</u>	<u>20,518</u>

19 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. 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.

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20 Net worth for regulatory purposes

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

	June 30, 2005	June 30, 2004
Share capital	1	1
Share premium	2,999,999	2,999,999
Additional paid-in-capital	4,935,840	480,412
Accumulated deficit	(7,917,271)	(416,270)
	<u>18,569</u>	<u>3,064,142</u>

At June 30, 2005 the Company was in breach of its minimum net worth requirement for regulatory purposes. In order to rectify this deficiency, in the 2006/7 budget, the government made a commitment to pay CI\$3.0 million in additional paid-in-capital which was received on July 11, 2006.

In addition, the 2005/6 loss incurred claim estimates have been updated to correspond with the revised 2004/5 claim incurred data (see Note 21). This has resulted in monthly 2005/6 losses as the premium rates were set using lower than actual loss data. For the year ending June 30, 2006 the Company realized a loss of \$3.902 million, thus resulting in a negative net worth position of the same. 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 government to communicate its equity position and needs.

Government has informally indicated its continued support of the Company in the foreseeable future by its commitment to provide the necessary funding to allow the Company to meet its regulatory net worth requirement of \$3,000,000; however, such commitment is subject to the due process of Cabinet approval.

21 Subsequent events

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. CIHSA initially estimated these to be approximately \$3.2 million, which also included claims previously submitted and denied for various reasons. 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 is experiencing an extraordinary circumstance (computer problems) and is a related government entity.

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An action plan was developed to settle the 2004/5 additional claims by the end of March 2006. CIHSA was required to submit these claims in the proper format via the regular electronic claim process by February 28, 2006 (actual date March 16, 2006). The claims were adjudicated using the regular adjudication criteria. Any claims submitted past the due date were denied. The Company also took this opportunity to align its original June 2004/5 incurred claims with actual payments made up to nine months after year end. The end result of these processes results in additional 2004/5 claim payment/reserves of \$3.012 million. This represents the required additional reserve adjustment from its original estimates. Although CINICO adjudicated and paid CIHSA claims past the standard 180 day practice, the conclusion of the settlement plan in March 2006 represents a definite resolution to CIHSA 2004/5 claims.

22 Comparatives

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