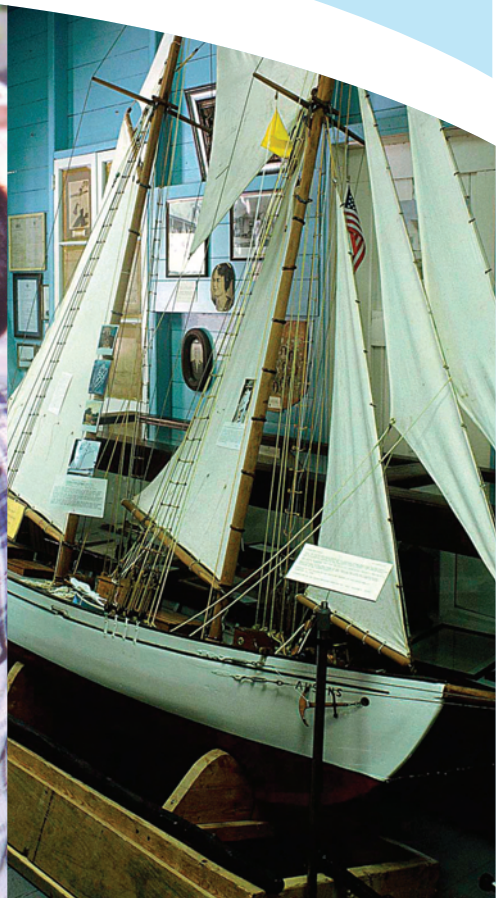
Annual Report 2008-2009

CAYMAN ISLANDS
CINICO
NATIONAL INSURANCE COMPANY



Annual Report

June 30, 2009

Table of Contents

MISSION STATMENT

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.

MANAGEMENT STATEMENT

Dear Shareholder,

The fiscal year ending June 30, 2009 has marked a time of considerable improvement in CINICO's financial position. Following CINICO's poor performance of the past, which was riddled by high overseas claims and insufficient premium, CINICO's performance has shown a turn around.

For one thing, as you will see in the analysis in this report, for the first time in its history, CINICO has earned profit ($5.8 million). The profit was mainly driven by favorable overseas claim experience. In 2008/9, the premium for Civil Servant and Pensioners plans has been increased to be in line with the historically risks undertaken and the growth in health care costs. However, during the past year, CINICO was able to curtail the historical growth in overseas losses, enabling the Company to earn a profit. CINICO was also able to control administrative costs below prior year levels and its budget. However, the combined savings realized on overseas claims and expenses were offset by higher local losses as a result from increases in the Cayman Islands Hospital's chargemaster rates which came into effect on January 1, 2009.

Secondly, CINICO is now fully compliant with the minimum equity requirement of $3.0 million imposed by the Cayman Islands Monetary Authority ("CIMA"). In fact, as at June 30, 2009, CINICO maintains a very healthy equity position of $9.0 million, this is $6.0 million above the requirement. This was possible due to its 2008/9 profit and a $3.0 million equity injection received in July 2008. A strong equity base is essential and would allow CINICO to "ride-out" any years with high claim losses, while still being financially stable.

In terms of staffing, CINICO has been without a CEO since August 2008. Both the CFO and the General Manager have been filling in this capacity. Although the vacant CEO post translates into expense savings, in the long run it is at the detriment of CINICO to be lacking an additional designated position to fully focus and drive the Company's long-term strategy. In addition to the vacant CEO post, a key accounting post was vacant for four months throughout the year. In November 2008, and August 2009 respectively, Mr. Bill Rewalt and Mr. Tom Clark, both directors of the Board, have passed away. Both Mr. Rewalt and Mr. Clark had numerous years of insurance experience which have benefited the Company immensely. The staff and Board would like to thank them for their valued contributions – they will be missed.

As mentioned previously, on January 1, 2009, the Cayman Islands Health Services Authority ("CIHSA") implemented their new chargemaster; their previous chargemaster

dated back to 2004. Although the new chargemaster will go a significant way in eliminating problems in the claims submission process, we haven't realized a significant decrease in the denial percentage due to a majority of claims being denied as a result of coding issues. Management is working with the hospital in reducing the denial rate. The hospital has committed to implementing a "scrubber", which would review all claims for basic coding edits, prior to being submitted to CINICO. This should drastically reduce the denial rate and make the claim submission and adjudication process more efficient for both organizations.

Despite the staffing constraints, other positive changes kept CINICO focused on its strategic objectives. In July 2008, CINICO renegotiated a twenty-five percent reduction in its 2008/9 reinsurance premium rates while keeping coverage at the same level as the year before. In addition, CINICO's administration costs continue to be low. As measured by the expense to premium ratio, CINICO's administration expenses as a percentage of premiums are ten percent. This means that for every dollar in premium, ten cents is spent on administrative expenses. The average ratio for a similarly sized company in the United States is fifteen percent.

CINICO's strategic business plan encompasses local repatriation of presently outsourced claims adjudication/reimbursement service provision and the expansion of in-house expertise in the areas of claims management and case management through the pursuit of the lease or purchase of a claims adjudication system in addition to the transition of CINICO case management from present commercially outsourced position. We are able to accomplish this by the development/establishment of CINICO's own exclusive provider networks locally and overseas which are secured and ready to implement once approved by the Board of Directors. The effects on costs to the Company and the Cayman Islands Government will be overall reduction in overseas care referrals due to medical staffing shortages at the CIHSA. This can be achieved with the telemedicine approach and peer review network and the peer-to-peer CINICO direct referral system in lieu of commercial third party "pay to play" access fees, monthly maintenance fees and percentage of savings fees. Additionally, the CINICO proprietary network is built upon all inclusive case rates structure which effect best financial outcomes and deliver ease of claims adjudication and reimbursement administration functions. These efforts would continue to improve our relationship with our reinsurer and lower our premium rates into the future. CINICO looks forward to commencing rollout of various components of this plan in the 2009/10 fiscal year.

On the local Cayman Islands provider network, we proudly report that during the previous six months we have been working on the development of an on-line eligibility and claims access portal for our local provider network/membership to be able to log into 24/7 and 365 days a year in order to better serve our membership and local provider network around the clock in matters of checking their eligibility for healthcare benefits and checking on reimbursement claims due to them. CINICO tested this enhanced service on the local vision providers whose feedback was 100% improvement and satisfaction in the provision of this enhanced service. Health-X is now ready to roll out to our 13,000 membership after a successful test period.

It is CINICO Senior Management's intent to continue to progress with strategic objectives and goals which enhance Company operations and cost effective delivery of all aspects of benchmark of excellence proven leadership in controlling spiraling healthcare costs and in continual provision of enhanced service delivery of the overall healthcare member healthcare plans on behalf of, and in partnership with, the Company shareholder, our most valued membership and provider networks.

Carole Appleyard
General Manager

Frank Gallippi
Chief Financial Officer

MANAGEMENT DISCUSSION AND ANALYSIS

Unless otherwise stated, all figures are reported in Cayman Islands currency.

Nature and Scope of Activities

The Cayman Islands National Insurance Company Ltd. ("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, advance patients and, effective July 1, 2007 ASO coverage for the Seamen & Veterans overseas benefits. 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 - Low Income, Impaired Health, Elderly, also referred as Standard Health Insurance Contracts ("SHIC").

The Company has contracted with a Third Party Administrator ("TPA"), CBCA Administrators Inc., to provide claims administration services for local claims. On August 1, 2005, the Company 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.

The Company maintains reinsurance coverage with Presidio Excess Insurance Services, Inc. ("Presidio"), an underwriting agent of the Lloyds of London, which provides specific excess loss reinsurance coverage on a per coverage person basis. The reinsurance coverage remains the same as last year and covers specific losses in the range from US$609,756 to US$5,000,000 for overseas claims on the Group 30100 plan.

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 Cayman Islands Monetary Authority ("CIMA"), audited by internal Government auditors and external auditors. Accordingly, each of these bodies will be evaluating the performance of the Company and its products.

Strategic Goals and Objectives

In the Company's 2008/9 Ownership Agreement the following key strategic goals and objectives (from an ownership perspective) were:

- To provide health insurance to civil servants, pensioners, seamen & veterans (local coverage) and individuals qualifying as elderly, health impaired or low income residents.
- To administer on behalf of the Ministry of Health and Human Services the provision of health benefits to indigents.
- To administer on behalf of the Ministry of Health and Human Services the provision of health benefits to seaman and veterans.
- To administer on behalf of the Portfolio of Finance & Economics the provision of health benefits to advance patients.
- To advise the Ministry of Health and Human Services, supported by empirical evidence, of recommendations to improvements in the delivery of health care to the population of the Cayman Islands.
- To undertake development of a claim administration system as an alternative to the outsourcing of this function.
- To undertake the development of CINICO's own provider network.

During the fiscal year ending June 30, 2009, the Company has been compliant in all respects with the achievement of the above goals and objectives, with the exception of the development of a claim administration system and the implementation of its own provider network. Since August 2008, the Company was been without a CEO. The absence of the CEO has been detrimental to the achievement of these two strategic goals. Despite this, in 2008/9 the Company has met with various health care providers for the purpose of setting up its own network, however to date, contracts have yet to be signed. In so far as the "insourcing" of the claims function, to date, a cost benefit analysis has been conducted. The analysis confirms that the Company would save money in the long run.

The development or leasing/purchasing of a claim administration system and the development of CINICO's own provider network would be further considered in the Company's 2009/10 and 2010/11 strategic plan.

Cayman Islands Health Services Authority

Since the inception of CINICO, the Company has been challenged with obtaining accurate and timely claim billings from its primary provider, the Cayman Islands Health Services Authority ("CIHSA"). The billing issues were in part caused by the out-of-date chargemaster which was being used to submit claims and limited CIHSA in collecting revenues for approximately 2,000 services out of a potential 8,000 services. The challenges with timely and accurate claims had an effect on premium rate-setting and reserving.

Over the last three years, CIHSA has made significant improvements in submitting claims on a timely basis. Effective April 1, 2008, CIHSA took the responsibility in continuing to ensure that their claims were submitted within 180 days, as well as reworking and resubmitting denials caused by coding errors. Prior to then, and due to the out of date chargemaster, CIHSA and the Company had an agreement whereby the denials would be settled "outside" of the adjudication system. This allowed CIHSA the time to concentrate on identifying causes for the coding issues and update their chargemaster. This was intended to be a temporary process until CIHSA implemented its new chargemaster and implemented a "claims scrubber" which would review claims for accuracy prior to being submitted for adjudication.

On March 1, 2008, CIHSA had increased their rates by ten percent on selected services. Furthermore, on January 1, 2009, CIHSA has implemented a new charge master. For the first three months of the 2009 calendar year, there has been a high level of denials as CINICO has been applying the same adjudication standards it uses on its other health providers. The high number of denials resulted from various coded items submitted within the claim, which were not on the new chargemaster. Industry practice is to deny the full claim when at least one line item is incorrect. Prior to the end of the fiscal year, these denials have been reprocessed through the adjudication system on a line item basis, and payment released when appropriate. To date, CIHSA has not implemented a claims scrubber; however, staff on both sides continues to ensure there are no further claim coding issues.

Premium rate-setting

Profitability depends on setting the right premium rates for the risk insured, and the ability to react in a timely fashion to changes in trends. Premium rate-setting depends on accurate and timely information on historical losses and predicting future trends in claim costs and provider billings.

Historically, the Company's challenges in setting the correct premium rates have been; a) the lengthy government budget process, and b) the lack of accurate and timely claims information. It appears that the issue with timely and accurate claims information is no longer an issue; however the lengthy budget process will continue to provide challenges. Currently, there is an 18-month delay from the time current claim trends can be priced in

the premium rates. For budget purposes, the Government (our largest policyholder) requires that premium for the fiscal year commencing July 1, be set in the fall preceding the next budget year. However, due to the nature of insurance claims, medical providers have up to six months to submit claims. Thus, complete and up-to-date claim experience data for proper premium rate-setting may not be available until some time after year end and after the premium rate budget has been set for the following year. As the Company is prohibited from changing its premium rates mid-year, it is only until the next fiscal year that the Company is able to price for trends occurring some 18 months ago. To offset the risk of underestimating its claim experience during the rate setting process, the Company has followed a recommendation by its actuary Oliver Wyman, and has included a very small risk factor in its premium rates. This has been adopted for the 2008/9 premium rates.

Unlike previous years, the 2008/9 Civil Servant and Pensioner premium rate was sufficient to cover the risk insured during the year, and hence the Company did not have to rely on an equity injection to maintain its minimum capital requirement.

Capital Position

As a Class "A" Insurance Company, CINICO is required by CIMA, to maintain a minimum net worth of $3,000,000. During the fiscal year ended June 30, 2009, the Company has made significant strides in rectifying its previous breach in capital, and with a capital position of $9.0 million, is fully compliant with CIMA's minimum requirement. This was made possible due to a $3.0 million equity injection received in July 2008, and the Company's net profit of $5.8 million for the year ended June 30, 2009.

It is important to note that CIMA's requirement of $3,000,000 is just a minimum. It is essential that the Company maintains capital in excess of this amount, which would enable it to "ride" out tough times during years of high claim experience, while remaining financially stable.

Financial highlights

Table 1 shows the financial highlights for the years ended June 30, 2009, June 30, 2008, June 30, 2007, June 30, 2006 and June 30, 2005.

Table 1
Financial highlights

	For financial year ending				
	June 30, 2009	**June 30, 2008**	**June 30, 2007**	**June 30, 2006**	**June 30 2005**
Cash on hand	8,864,034	8,579,567	3,098,322	771,253	5,847,724
Reserve liabilities	11,092,190	8,115,255	9,933,274	5,427,461	7,376,540
Equity	8,999,218	190,112	(6,150,333)	(3,883,214)	18,569
Claims incurred	39,576,003	33,897,702	33,091,207	23,928,513	21,405,532
Net Income/(loss)	5,809,106	(2,159,555)	(6,267,119)	(3,901,783)	(7,501,001)

Cash on hand and liquidity

For the year ending June 30, 2009, cash on hand increased to $8.9 million from $8.6 million in the prior year. Despite the seemingly strong cash position, the Company has recorded a provision for claim liabilities (Reserve liabilities) of $11.1 million, which are short term in nature and would be paid off within one year.

Reserve liabilities

Reserve liabilities have increased from $8.1 million at June 30, 2008 to $11.1 million at June 30, 2009. The increase of $3.0 million is largely due to a higher number of unsettled large overseas cases, in addition to a slow down in the local claims processing due to the reprocessing of the numerous denials in the early part of 2009 (see section entitled "Cayman Islands Health Services Authority").

The June 30, 2009 reserve liability represents approximately three months of claims (five months for overseas claims and two months for local claims). Approximately $3.0 million (27%) of the $11.1 million reserve is represented by sixteen large unsettled overseas cases (greater than US$100,000). At June 30, 2008, overseas unsettled cases greater than US$100,000, represented $1.1 million (14%) of the total $8.1 million reserve. The average per case, overseas unsettled balance as of June 30, 2009 was $13,000 and approximately $10,000 as at June 30, 2008.

The $1.8 million decrease in reserve liabilities from June 30, 2007 to June 30, 2008 is largely due to a prior year (year ending June 30, 2007) reserve release amounting to $2.1 million. The reserve liabilities as at June 30, 2009 is net of a prior year reserve release of $1.3 million. The estimate of reserve liabilities, also known as IBNR claims (Incurred But Not Reported) is made using accepted actuarial techniques and current claim information available at the time. By its very nature, IBNRs include an element of uncertainty as assumptions must be used based on historical data, which may or may not be repeated in the future. Such assumptions include: the severity of losses, claims utilization factors, claim payment patterns, provider discounts, the outcome of patients' medical condition which are overseas, etc. As assumptions are used, the ultimate ("hindsight") reserve liability may be in excess of or less than the original estimates.

Equity

The Company's equity position improved from $0.2 million as at June 30, 2008 to $9.0 million as at June 30, 2009. As mentioned in the "Capital Position" section, the increase is due to a $3.0 million equity injection received in July 2008, and a net profit of $5.8 million for the year ended June 30, 2009.

As a Class "A" Insurance Company, CINICO is required to maintain a minimum of $3.0 million in capital. For the years ending June 30, 2005, June 30, 2006, June 30, 2007 and

June 30, 2008 the Company failed to meet the minimum requirement due to the historical ongoing problems, namely, the lack of timely claim submissions and improper pricing. In the years ending June 30, 2007 and June 30, 2008, the Company's equity position was further compromised with large dollar-value overseas claims and high overseas utilization (see claims incurred section pages 17 – 22 and loss ratio section on page 30, for a complete analysis of claims), as well as improvement in CIHSA's billing process whereby CIHSA is now ensuring that all services provided are being billed. The issues surrounding timely claims submissions and improper pricing seem to be resolved, however the Company is still subject to adverse claim deviations which can compromise equity levels below CIMA's minimum, and thus it is essential to keep the equity position well above the minimum set by CIMA.

Table 2 provides a breakdown and movement of the Company's equity position from June 30, 2004 to June 30, 2009. The movement of equity is driven by historical losses and equity injections.

Table 2
Movement and Breakdown of Shareholders Equity

	Share capital & premium	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	-	-	-	-
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	-	-	-	-
Net income/(loss) for period	-	-	(3,901,783)	(3,901,783)
Additional paid-in capital received	-	-	-	-
Balance at June 30, 2006	3,000,000	4,935,840	(11,819,054)	(3,883,214)
Issuance of shares	-	-	-	-
Net income/(loss) for period	-	-	(6,267,119)	(6,267,119)
Additional paid-in capital received	-	4,000,000	-	4,000,000
Balance at June 30, 2007	3,000,000	8,935,840	(18,086,173)	(6,150,333)
Issuance of shares		-	-	-
Net income/(loss) for period		-	(2,159,555)	(2,159,555)
Additional paid-in capital received		8,500,000	-	8,500,000
Balance at June 30, 2008	3,000,000	17,435,840	(20,245,728)	190,112
Issuance of shares	-	-	-	-
Net income/(loss) for period	-	-	5,809,106	5,809,106
Additional paid-in-capital received	-	3,000,000	-	3,000,000
Balance at June 30, 2009	3,000,000	20,435,840	(14,436,622)	8,999,218

Table 2 shows that the Shareholder has contributed additional paid-in capital of $20.4 million since the inception of the Company. This capital was required as the Company's accumulated deficits from 2004 to the year ended June 30, 2008, created liquidity problems and forced the Company into non-compliance with the $3.0 million minimum capital requirement.

The historical accumulated deficit increased from $11.8 million at June 30, 2006 to $18.1 million at June 30, 2007 and to $20.2 million at June 30, 2008. The accumulated deficit decreased to $14.4 million at June 30, 2009. The deficits up to June 30, 2006 were caused by the fact that the initial premium rates charged for the Civil Servants, Pensioners, Government entities and Seamen and Veteran plans, were not sufficient to pay for claims and expenses. The initial premium rates were understated due to untimely information used when setting the premium rates (see section on premium rate-setting, page 7). The deficit levels at June 30, 2007 and June 30, 2008, are essentially due to higher claims losses incurred during those respective years. A detailed analysis of the claim losses is included from page 17 to 30. In the year ending June 30, 2009, the accumulated deficit improved by $5.8 million, as a result of adequate premium levels and favorable overseas claim experience offset by unfavorable local claim experience.

Net Income/ (loss)

For the year ending June 30, 2009, the Company recorded a net income of $5.8 million. The main drivers of the profitable position are due to adequate premium levels for the insured risk undertaken, and favorable overseas claim experience, offset by unfavorable local claim experience. Table 3 illustrates the sources of profitability compared with the premium pricing level assumptions.

Table 3
Net Income Sources ($ millions)

Source of Net income	Amount	Explanation
Favorable overseas claims	$4.4	lower average claims costs
2008/9 additional risk premium & reinsurance	$1.8	Civil Service and Pensioner premium includes a risk factor for adverse claims.
Expenses and other	$0.7	Various line item savings to budget
Unfavorable local claims	($1.1)	higher utilization and chargemaster
Net income	**$5.8**	

For the financial years ending June 30, 2005, June 30, 2006 and June 30, 2007, the Company recorded a net loss of $7.5 million, $3.9 million and $6.3 million respectively. As mentioned previously, the net loss was driven by incorrect premium rates resulting from problems in obtaining timely and accurate loss data during the premium rate calculation stage.

For the year ending June 30, 2008, the reported net loss was $2.2 million and was essentially driven by overseas claim losses. A detailed analysis of the claim losses is included in section entitled claims incurred and loss ratios beginning on page 17.

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. No allocation is made for "overhead-type" expenditure. Table 4 and Figure 1 illustrate the reported underwriting income/(loss) by business category for the years ended June 30, 2009, 2008, 2007, 2006 and 2005, respectively.

Table 4
Underwriting income/(loss) by business category

	For financial year ending				
Business Category	**June 30, 2009**	**June 30, 2008**	**June 30, 2007**	**June 30, 2006**	**June 30 2005**
Civil servants	5,115,346	(1,156,747)	(1,661,008)	(2,805,045)	(1,951,289)
Pensioners	2,744,903	(542,002)	(3,373,003)	(575,743)	(3,068,344)
Government entities	(22,030)	(390,966)	(231,950)	269,918	(327,183)
Seamen and veterans	(895,060)	762,385	(171,195)	344,946	(1,157,354)
SHIC plans	(391,117)	217,701	94,596	(310,186)	(162,777)
Administrative services only(1)	191,761	127,337	118,472	102,657	155,382
Total Underwriting income/(loss)	6,743,803	(982,292)	(5,224,088)	(2,973,453)	(6,511,565)
Administrative expenses	1,018,357	1,251,029	1,145,591	1,020,775	1,032,561
Investment income	83,660	73,766	102,560	92,445	43,125
Net income/(loss)	**5,809,106**	**(2,159,555)**	**(6,267,119)**	**(3,901,783)**	**(7,501,001)**

(1) Category includes Group 30102 – Indigents, and Group 30103 – Advance Patients.

For the financial years ending June 2005, June 30, 2006, June 30, 2007, and June 30, 2008, the reported underwriting losses were $6.5 million, $3.0 million, $5.2 million, and $1.0 million respectively. For the year ending June 30, 2009 the Company realized an underwriting income of $6.7 million.

Adjusting for the favorable reserve developments reported in 2008/9 and 2007/8 of $1.3 million and $2.1 million respectively (see Reserve liabilities section on page 9, and Table 6 on page 18), the "hindsight" underwriting loss for the year ending June 30, 2008, and June 30, 2007 would be $1.8 million and $3.1 million respectively. For the year ending June 30, 2009, the true underwriting income would be restated from $6.7 million to $5.4 million, as the $1.3 million reserve release recorded in 2008/9 pertained to the previous year.

Up until the year ending June 30, 2008, the majority of the historical underwriting losses were attributed to Group 30100 which comprises of Civil Servants, Pensioners and Government Entities. The driving factor in these underwriting losses was higher claims utilization and costs which has been outpacing the premium income increases. However, the year ending June 30, 2009 shows a different picture. As a result of an increase in the 2008/9 premium rates, the Company has realized an underwriting income.

Figure 1
Underwriting income/loss by business category

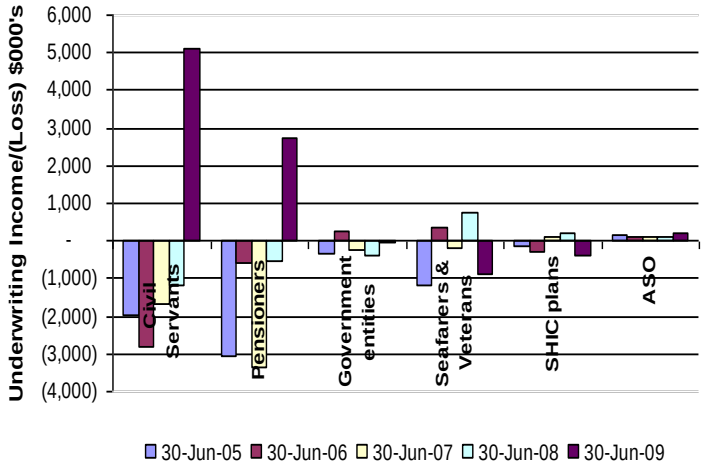


Figure 1, illustrates the historical underwriting income/(loss) by segment. For the year ending June 30, 2009, Group 30100 (Civil Servants, Pensioners, and Government entities) shows a combined underwriting income of $7.8 million, as compared to historical underwriting losses. The underwriting income was made possible due to premium increases in 2008/9 and the favorable overseas claim experience. The Seamen and Veterans plan (group 30101 – local benefits only), has deteriorated from a gain of $0.8 million from the previous year, to a loss of $0.9 million for the year ended June 30, 2009. The negative performance is due to higher local claims as a result of higher utilization and higher CIHSA rates (see section entitled "Cayman Islands Health Services Authority" on page 7).

Throughout the comparative period 2005 to 2009, the Standard Health Insurance Contract ("SHIC") plans have been breaking even, with the exception of the year ending June 30, 2009. Contrary to the Group 30100 plan (Civil Servants, Pensioners and Government entities), which contains no cost sharing, the SHIC plan is more of a traditional insurance plan in that includes coinsurance, deductibles and the requirement for individuals to pay premium. These factors greatly influence utilization and keep costs of down. However, for the year ending June 30, 2009, the SHIC plans have incurred an underwriting loss of $0.4 million due to a few large overseas cases, and higher local unit costs as a result of the increases in CIHSA's rates. Although CIHSA's rates have increased, the SHIC premium rates have remained at the same levels since March 1, 2007. In the next fiscal year, a pricing study will be conducted on the "SHIC" plans to determine appropriate premium levels.

The underwriting income for the ASO plans (local & overseas administration of Indigent benefits, plus overseas administration of Seamen and Veterans benefits) has been consistent since the inception of the Company.

Enrollment Statistical Data

Since the inception of CINICO in 2004 and up to June 30, 2008, membership (enrollees and dependants) has been on an upward trend. Membership has increased by; 5% from June 30, 2004 to 11,077 as at June 30 2005; 7% to 11,896 as at June 30, 2006; another 7% to 12,730 as at June 30, 2007; and a further 6% to 13,511 members as at June 30, 2008. Historically, the largest percentage increase has occurred in the Civil Servant and Pensioner plans.

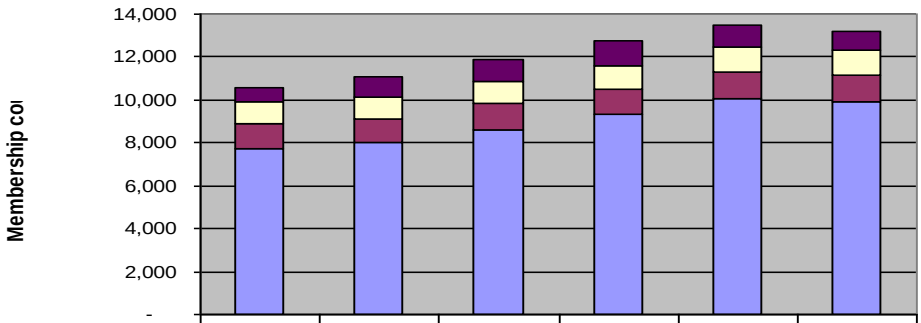
For the year ending June 30, 2009, overall membership has decreased by 2% to 13,185. The largest percentage decrease occurred in the SHIC plans (Group 30104), which declined by 15% from the prior year. The decline in membership was largely driven by terminations of policies for non-payment of premium in the Low Income category. Membership in the Civil Servant plan experienced a 3% decline due to a hiring freeze which came into effect in the fall of 2008. The Seaman and Veterans plan membership retracted slightly by 0.3% for the year ending June 30, 2009.

Membership in the in the Pension category of Group 30100 continues to increase with a growth of 4% for the year ending June 30, 2009. Increases in the Pension category are driven by former Civil Servants reaching the retirement age. It is expected that Pensioner membership will continue to grow at higher rates in future years. Due to the age demographics of this group, increases in membership, and improvements in medical technology which can be costly, it is expected that the funding for the health care benefits will increase exponentially year after year.

As at June 30, 2009, the members covered in the Indigent plan was 1,197 and experienced a modest growth of 1% compared with 5% from the prior year. With the continued economic downturn, growth in this plan could reach double digits in future years.

Figure 2 below illustrates the membership count by group for the years ending June 30, 2004, June 30, 2005, June 30, 2006, June 30, 2007, June 30, 2008 and June 30, 2009. Group 30100 accounts for approximately 75% of the total membership as at June 30, 2009.

Figure 2
Membership Count by Group



	Jun30, 2004	Jun30, 2005	Jun30, 2006	Jun30, 2007	Jun30, 2008	Jun30, 2009
Group 30104	653	945	1,054	1,104	1,021	868
Group 30103	2	-	-			
Group 30102	1,001	999	1,023	1,124	1,179	1,197
Group 30101	1,179	1,116	1,190	1,185	1,225	1,221
Group 30100	7,742	8,017	8,629	9,317	10,086	9,899

The demographics haven't changed much since the prior year. Overall females represent 54% of covered members and males represent 46%. The highest portion of female membership is in Group 30102 at 65%. The average age of members is 41.2 years; females 42.2 years and males 40.0 years. Table 5 shows further demographics by group.

Table 5
Average age and Female/Male Ratio

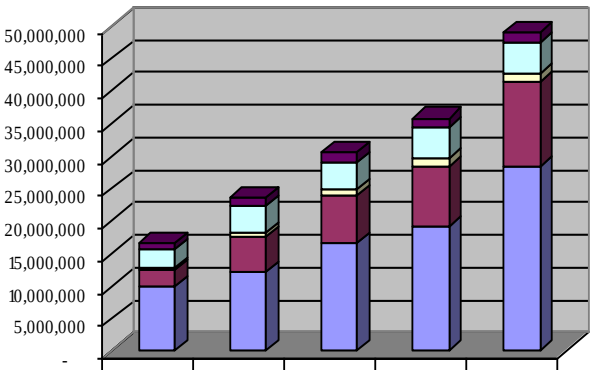
ENROLLMENT STATISTICS				
GROUP		**Female**	**Male**	**Total**
30100 - Non Pension	Count	52%	48%	8,189
	Average age	30.6	30.4	30.5
30100 - Pension	Count	56%	44%	1,710
	Average age	54.5	53.8	54.2
30101 - S&V	Count	50%	50%	1,221
	Average age	67.7	72.3	70.0
30102 - Indigents	Count	65%	35%	1,196
	Average age	64.9	50.9	60.0
30104 - Elderly	Count	56%	44%	257
	Average age	72.1	70.3	71.3
30104 - Impaired	Count	57%	43%	159
	Average age	42.2	39.6	41.0
30104 - Low Income	Count	65%	35%	452
	Average age	42.6	39.7	41.6
Total Count		54%	46%	13,184
Total Average age		42.2	40.0	41.2

Premium Income

Figure 3 illustrates the gross premium income by business segment. Approximately 87% of gross premium income is attributed to Group 30100 (Civil Servants & Pensioners).

Gross premium income increased from $16.5 million at June 30, 2005 to $23.5 million at June 30, 2006, to $30.5 million at June 30, 2007 to $35.8 million at June 30, 2008.
For the year ending June 30, 2009, gross premium income increased 37% to $49.0 million. The increase in gross premium for all years is primarily driven by premium rate increases and to a lesser extent the membership growth illustrated in Figure 2. Group 30100 Civil Servant premium rate increased by 8% and 44% effective July 1, 2007 and July 1, 2008 respectively. These increases were made in line with the insurance risk undertaken by the Company.

Figure 3
Gross Premium Income by Business Category



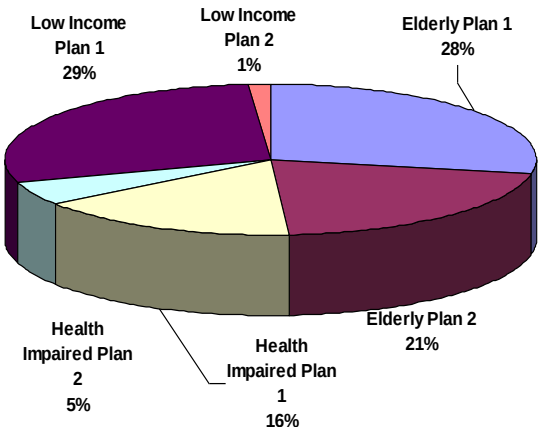
	Jun30, 2005	Jun30, 2006	30-Jun-07	30-Jun-08	30-Jun-09
SHIC plans	764,540	1,104,904	1,395,309	1,526,550	1,466,200
Seamen and Veterans	2,914,489	4,179,155	4,152,433	4,725,875	4,795,541
Government Entities	444,350	783,376	1,034,749	1,146,002	1,376,906
Pensioners	2,525,311	5,405,449	7,320,721	9,278,826	12,981,186
Civil Servants	9,820,114	12,008,636	16,566,896	19,118,473	28,387,864

Seamen & Veterans premium income increased marginally to $4.8 million for the year ended June 30, 2009 from $4.7 million in the prior year. The SHIC plan premium income remained virtually flat from the previous year, at $1.5 million.

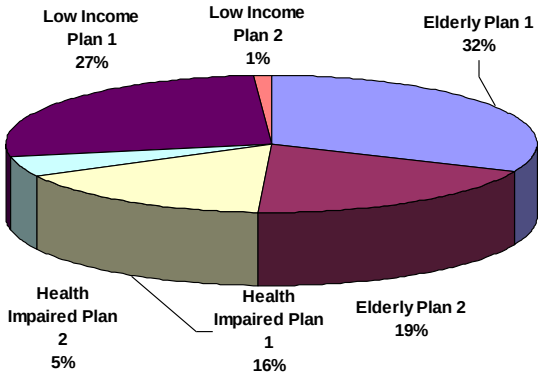
Figure 4 illustrates the SHIC premium income by coverage type, i.e. Elderly, Health Impaired and Low Income. The Low income coverage has decreased its overall share of premium income from the previous year. This is due to continued declines in membership resulting from terminated policies. It is important that the Company attract more members in the Low income category, as the average age and insurance risk is much lower than the members in the Impaired and Elderly category. However, the drawbacks are continued terminations due to non-payment of premium. The Company would be analyzing the possibility of adding a new product under the SHIC groups.

Figure 4
SHIC Premium Income by Coverage Type

June 30, 2008



June 30, 2009



Reinsurance

The Company has maintained its reinsurance coverage on Group 30100 overseas claims for four years. For the fiscal year commencing July 1, 2008, the Company was able to negotiate a lower premium rate for the same level of coverage as in the previous year. The premium rate has decreased to $6.32 per member per month ("PMPM"), from $8.43 PMPM, during the prior year. Coverage benefits were as follows:

- Reinsurer's liability not to exceed an amount equal to US$5,000,000 less the Company's retention of US$ 609,756 relating to any one covered person per the agreement term.
- Company retention of US$ 609,756 per covered person.
- No Reinsurer aggregate loss limit.
- Profit commission sharing component of 35% (25% for the year ending June 30, 2008).

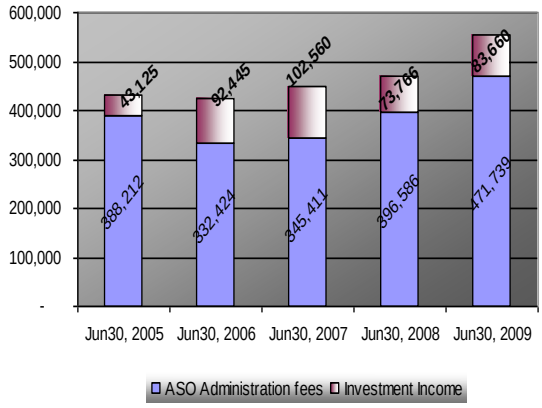
Overall, reinsurance premium decreased to $766,565 for the year ended June 30, 2009 from $986,098 in the previous year. The 22% decrease is attributed to the lower premium rate.

For the year ended June 30, 2009, there were two claims which exceeded the reinsurance policy's retention limit. Based on current estimates of the Company expects a reinsurance recovery of $442,694 on these claims. Last year, there were three cases exceeding the retention limit, with a reinsurance recovery estimate of $794,776.

Other Income

The Company earns two types of other income, ASO fees and investment income. Figure 5 illustrates the composition of other income for the years ending June 30, 2005, June 30, 2006, June 30, 2007, June 30, 2008 and June 30, 2009.

Figure 5
Other Income



ASO fees increased to $471,739 for the year ended June 30, 2009, from $396,586 of the prior year. The increase is attributed an increase in the per member per month rate ("PMPM") which increased from $28 to $33. The PMPM rate increase was necessary as the Company's Third Party Administrator, CBCA, also increased their rates. The variations in ASO fees in prior periods are strictly related to changes in membership of the Indigent group.

For the year ended June 30, 2009, investment income increased to $83,660 from $73,766 a year earlier. The increase is attributed to a higher invested base offset by lower interest rates.

Claims Losses

Claims Incurred

Table 6 illustrates incurred claim losses by group and type (local versus overseas) for the years ending June 30, 2008 and June 30, 2009. The incurred claims are presented on a "hindsight basis". For example, for the year ended June 30, 2008, the original reported claims were $36.2 million which included claims incurred and paid during the period, in addition to an estimate for claims incurred but not reported (claim provision). In hindsight, and one year later, the 2007/8 claim reserve showed an unexpected favorable development of $1.3 million, so that the final 2007/8 claims incurred are $34.9 million compared with the reported figure of $36.2 million. Therefore, on a comparative basis, claims for the year ended June 30, 2009 increased by $5.8 million from "hindsight" claims incurred of $34.9 million the year before. (For an explanation of the 2007/8 favorable reserve development of $1.3 million, refer to the "reserve liability" section on page 9).

Table 6: Incurred Claim Losses (000's)

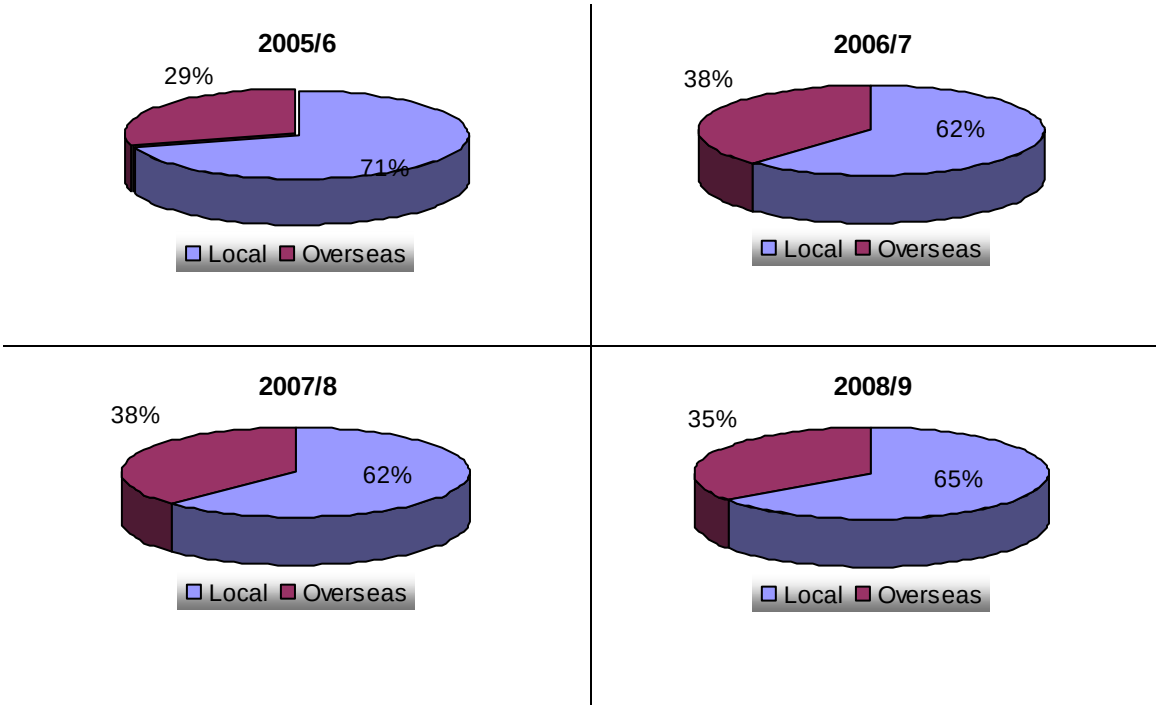
	2007/8			2008/9	Inc/(dec)
	Reported	Hindsight adjustment	Final	Reported	
Local					
Group 30100	17,638	(719)	16,919	20,020	3,101
Group 30101	4,169	(171)	3,998	5,597	1,599
Group 30104	796	19	815	796	(19)
	22,603	**(871)**	**21,732**	**26,413**	**4,681**
Overseas					
Group 30100	13,281	(464)	12,817	13,544	727
Group 30101	-	-	-	-	-
Group 30104	290	36	326	714	388
	13,571	**(428)**	**13,143**	**14,258**	**1,115**
Total					
Group 30100	30,919	(1,183)	29,736	33,564	3,828
Group 30101	4,169	(171)	3,998	5,597	1,599
Group 30104	1,086	55	1,141	1,510	369
	36,174	**(1,299)**	**34,875**	**40,671**	**5,796**
Prior year adjustment in reserves	(2,085)			(1,299)	
ALAE reserve	(190)			204	
Claim losses per f/s	33,898			39,576	

Legend:
Group 30100 - Civil servants, pensioners and other Government entities
Group 30101 - Seamen & veterans and their dependents
Group 30104 - SHIC plans (Low Income, Impaired Health)

The pie charts shown in Figure 6, illustrate the breakdown of claims incurred between local and overseas claims for the years ending June 30, 2006, 2007, 2008 and 2009.

Commencing with the year ending June 30, 2006, the local claims paid as a percent of the overall claims paid has declined from 71% to 62% for the year ending June 30, 2008. The decrease in local claims has been driven by an increase in overseas referrals resulting from a low level of on-island specialists at CIHSA, and an increasing amount of large-dollar-value complicated cases being referred overseas. An example of a complicated case is a premature baby. Many years ago, an infant born at 20 weeks was not able to survive, but with improved technology the chances of survival have greatly improved. However, the improved technology leads to greater costs in some cases – a premature infant would incur costs of about US$10,000 to $15,000 per day and the total case costs could easily be in excess of US$ 1.0 million. Other factors driving higher overseas costs are: medical inflation in the United States; new and costly pharmaceutical drugs; educated membership; physician practice patterns leading to more tests and prescribing more drugs; general health of the population; and over-utilization, as a result of a plan design which is not cost prohibitive to the members and is free.

Figure 6
Local versus Overseas Incurred Claims



For the year ending June 30, 2009, the local claims share has increased by 3% to 65%. Although the overseas claims continued to climb ($1.1 million over 2007/8 as illustrated in Table 6) and the fundamental causes for this growth remain the same, the local claims costs have grown by a greater amount as shown in Table 6 ($4.7 million over 2007/8). The local claims have grown largely as a result of increases in the CIHSA rates.

As illustrated in Table 6, incurred claim losses for the year ending June 30, 2009, increased by $5.8 million (17%) to $40.7 million from last year. The majority of this increase ($4.7 million) is attributed to Group 30100 and Group 30101 local incurred losses which increased by 18% and 40%, respectively, from the previous year. As stated earlier, the local losses have increased as a result of higher utilization and CIHSA rates.

Table 6 also shows that total overseas incurred claims increased from $13.1 million to $14.3 million (net of repricing fees and estimated reinsurance recovery) for the year ending June 30, 2009. In dollar terms, much of the increase was attributed to Group 30100, however, on a percentage basis, Group 30104 incurred losses have increased by 119% from the year before stemming from two large cases in excess of US$100,000. A further analysis of the types of overall overseas referrals is provided in Table 7 on page 22 and Table 8 on page 23.

Per Member Per Month Incurred Claims Costs

Per member per month ("PMPM") incurred claim costs show the average monthly incurred claims per insured member (enrollees and dependants). It is a better way to analyze overall

claims costs and trends, as the analysis is not influenced by changes in membership since it is on a per unit basis. Figures 7 through 10 illustrate the PMPM monthly average incurred claim costs for the years ending June 30, 2005, 2006, 2007, 2008 and 2009, for Groups 30100 – Non Pensioners (i.e. active Civil Servants), Group 30100 – Pensioners (retired Civil Servants), 30101 – Seamen and Veterans, and 30104 – SHIC plans. The graphs provide a further breakdown of these costs between local and overseas.

Figure 7

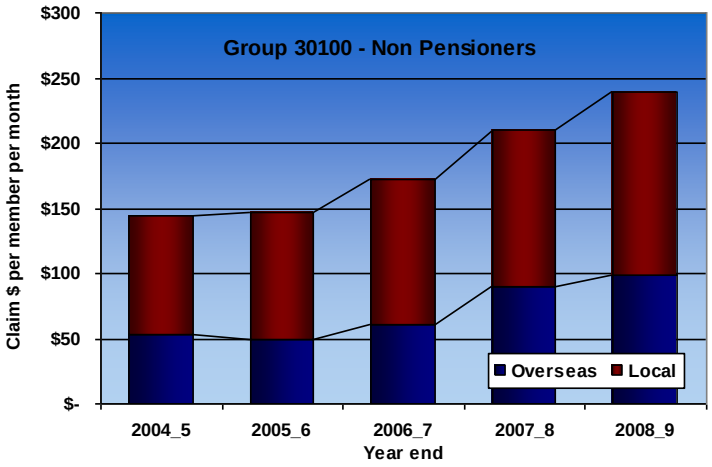


Figure 7 illustrates that the PMPM costs for the Non Pensioners category within Group 30100 continues to climb year after year. PMPM costs have increased from $144 during 2004/5 to $240 for the year ending June 30, 2009, representing an increase of 67% in four years. A large portion of the increase has occurred in the overseas costs. The drivers of the overseas claims were discussed in the previous section on page 18. The largest one-year increase occurred in the 2007/8 overseas costs. Local costs have also seen a steady rise, with the largest one-year increase in 2008/9 due to the higher CIHSA rates.

Figure 8 shows the PMPM costs for the Pensioners category within Group 30100. The overall PMPM costs for 2004/5 and 2005/6 were fairly stable at $370 and $354 respectfully. However, in the following year, there was a 42% increase in costs such that the monthly average PMPM costs rose to $502 as a result of higher overseas referrals and higher average costs per case. The drivers of the increased costs are the same as discussed in Figure 7.

Figure 8

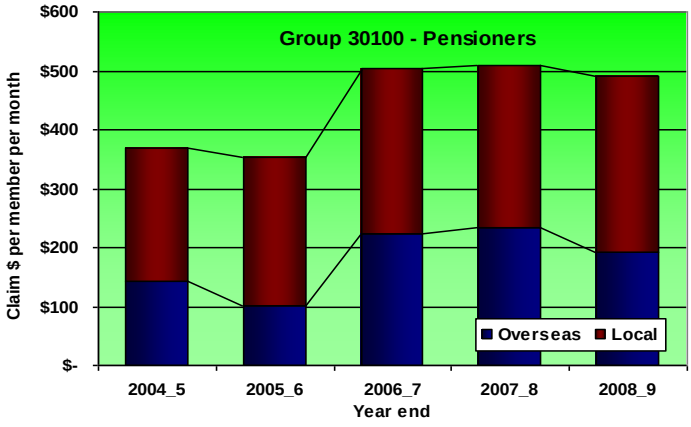


Figure 9 shows that the PMPM costs for the Seamen & Veterans group (30101), has been fairly steady between $236 and $266 for the years 2004/5 through 2007/8. However, due to the

increase in CIHSA's rates, and to a lesser extent, higher utilization, the monthly average PMPM costs climbed by 35% to $376 for the 2008/9 year.

The PMPM costs for the SHIC plans (Group 30104) as shown in Figure 10, have been volatile since 2004/5. This is due to the relatively small size of the group. However, as noted with the other Groups, overseas claims have been trending upwards with the exception of the 2007/8 year. In 2008/9 there was a 200% increase in the overseas PMPM costs which has been driven by a handful of large cases driving the average PMPM costs higher. This group was also affected by the higher CIHSA rates in 2008/9.

Figure 9

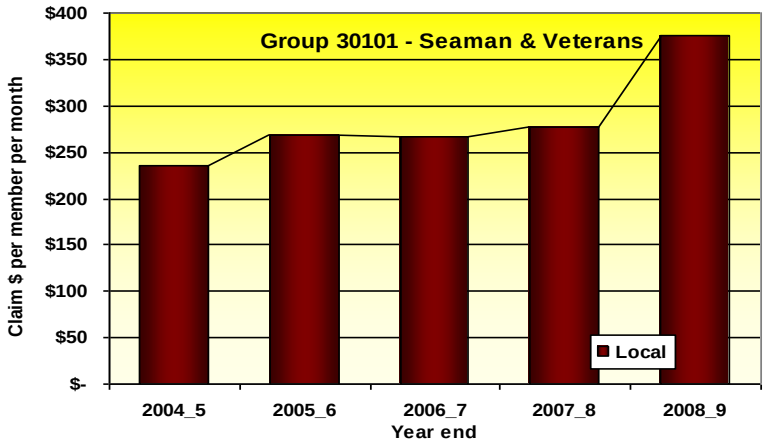
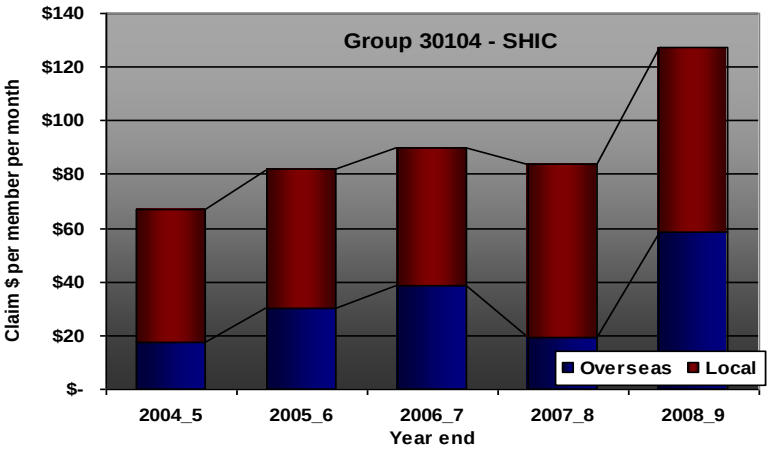


Figure 10



Overseas Claims

Table 7 (Overseas Referral Statistics) provides comparisons on the Company's insured groups' (Group 30100 and 30104) overseas claims by year. The driving factor behind the increase in overseas incurred claims, as shown in Table 6 and Figures 7, 8 and 10, is the 23 % increase in overseas referrals over the prior year. The number of referrals has increased despite the 1.8% decrease in membership in Group 30100 as shown in Figure 2 on page 14 (the Civil servants category experienced a 3% decrease, offset by a 4% increase in the Pension category). The number of overseas referrals has kept climbing over the last several years due to the low levels of in-house specialists at CIHSA, and other factors as discussed on page 18. For the year ending June 30, 2009, the average cost per referred case decreased to US$19,000 from US$24,000 the year before.

Table 7 also shows that the number of large cases (greater than US$200,000) in 2008/9 has declined by 10%, and the dollar amount attributed to these cases declined by 16%, which is an indication that the average cost of these large cases has decreased. Out of the nine large cases

for the 2008/9 year, two related to neonate (premature baby) totaling US$1.5 million, compared with last year's two neonate cases totaling US$2.1 million.

Table 7
Overseas Referral Statistics
(Dollar amounts stated in $USD)

	2007/8	2008/9	% increase/(decrease)
Overall cases referred	610	753	23%
# of cases > US$ 200k	10	9	-10%
$ amount of cases> US$200K	4,745,309	3,969,143	-16%
Neonates cases (part of cases >US$200K)	8	10	25%
$ amount - neonates	2,244,772	1,626,583	-28%

Top 5 Largest diagnosis

2007/8			2008/9		
Diagnosis	***# of cases***	***$***	***Diagnosis***	***# of cases***	***$***
1. Cardiovascular	117	2,664,552	1. Carcinoma/Oncol	71	3,002,162
2. Neonate	8	2,244,772	2. Cardiovascular	127	2,224,731
3. Carcinoma/Oncology	77	2,045,839	3. Musculoskeletol	149	2,208,277
4. Neurologic	89	1,671,274	4. Neonate	10	1,626,583
5. Renal	26	1,354,452	5. Neurologic	113	1,336,627
	317	***9,980,889***		***470***	***10,398,380***

Table 7 also reveals the top 5 overseas diagnosis referrals, on a number of cases basis, and a US dollar basis. The expenditure on carcinoma related diagnoses increased from $2.0 million in the prior year to $3.0 million for the year ending June 30, 2009, despite a decrease in the number of cases. Cardiovascular-related expenditure continues to be a high cost year after year as the number of cases referred went up from 117 to 127, while the costs declined from US$ 2.7 million to US$ 2.2 million indicating a decrease in the average cost per case.

Table 8 breaks down the number of overseas case referrals by diagnosis type, for each year ending June 30, 2006, 2007, 2008 and 2009. Overseas referrals increased by 37% and 23% for the year ending June 30, 2008 and June 30, 2009 respectively. The overall growth of referrals from the year ended June 30, 2006 to June 30, 2009 was 117%. The largest statistically-significant growth in referrals occurred in the diagnoses of neurologic, cardiovascular and carcinoma/oncology (neoplasm), which experienced increases of 163%, 115% and 78% respectively over the number of referrals from the year 2005/6. These three diagnosis groups represent 41% of the overall 2008/9 referrals on a case basis. Increasing the number of local specialists and the amount of capital resources in these three fields would certainly assist in lowering overall claim costs.

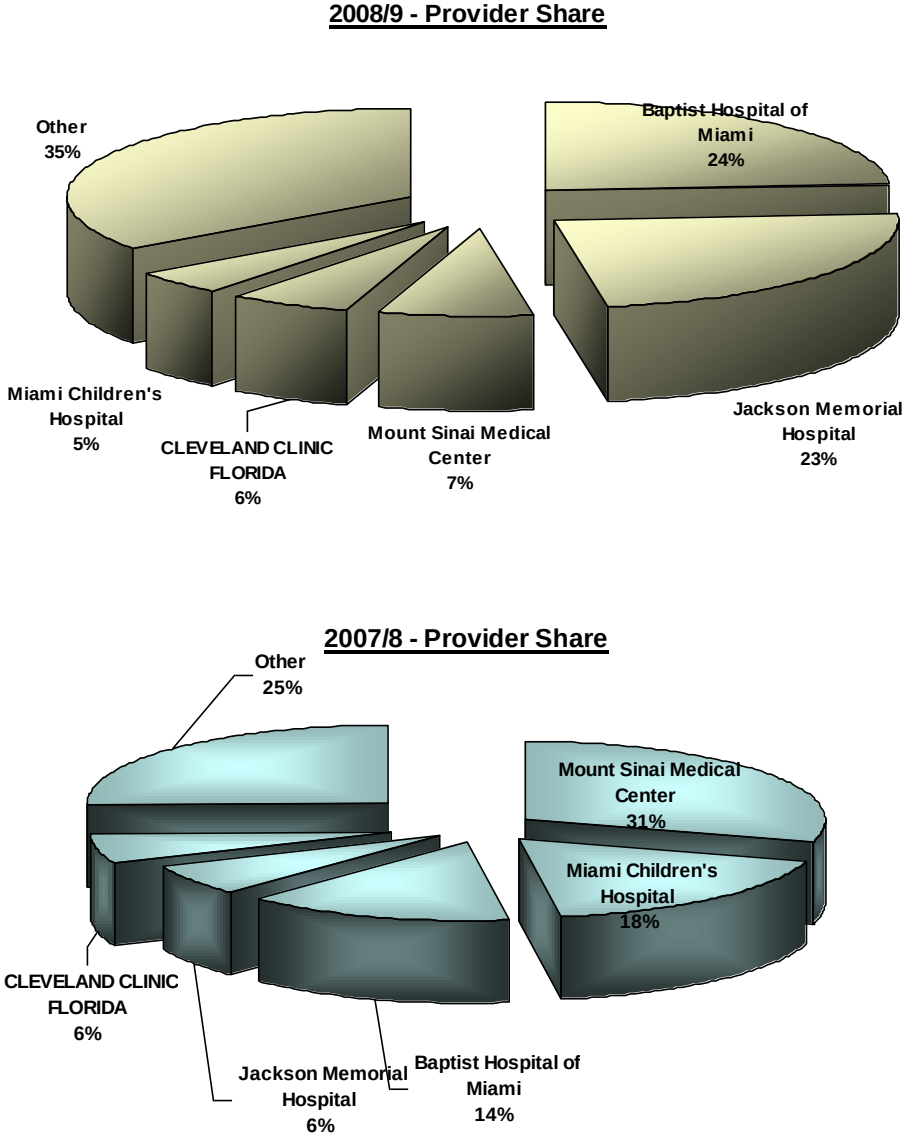
Table 8
Number of Overseas Referrals by Diagnosis

Diagnosis	2005/6	2006/7	% increase over previous year	2007/8	% increase over previous year	2008/9	% increase over previous year
Bariatric						10	
Carcinoma/Oncology	40	49	23%	77	57%	71	-8%
Cardiovascular	59	86	46%	117	36%	127	9%
Conn Tissue/Auto Immune		3		20	567%	18	-10%
Dental						1	
Ear, nose and throat	8	3	-63%	4	33%	5	25%
Endocrine	14	10	-29%	27	170%	35	30%
Eye	14	34	143%	45	32%	47	4%
Gastrointestinal	19	25	32%	44	76%	60	36%
General Physical	2	7	250%	4	-43%		-100%
Hematology/Infectious Disease	4	6	50%	12	100%	10	-17%
Integumentary/Dermatology	3	4	33%	4	0%	7	75%
Liver				3		1	-67%
Musculoskeletal	95	90	-5%	88	-2%	149	69%
Neonate	1	5	400%	8	60%	10	25%
Neurologic	43	66	53%	89	35%	113	27%
Other	15	1	-93%		-100%	17	
Psychosocial/psychiatric/mental		4		3	-25%	1	-67%
Pulmonary	10	7	-30%	16	129%	17	6%
Renal		19		26	37%	33	27%
Reproductive	8	9	13%	14	56%	10	-29%
Transplant	3	9	200%	1	-89%	8	700%
Urinary	9	7	-22%	8	14%	3	-63%
	347	**444**	**28%**	**610**	**37%**	**753**	**23%**

Figure 11 illustrates the relative incurred claim dollars by the top five overseas providers for the years ending June 30, 2009 and June 30, 2008. During the year 2008/9, Baptist Hospital accounted for the highest share of the overseas claims dollar at 24%; Jackson Memorial Hospital was a close second, and earned 23% of the overseas expenditure. The largest part in the Baptist Hospital's claims are for carcinoma and cardiovascular diagnoses, however the provider also leads the way in referrals for other diagnoses. Jackson Memorial's claims mainly consisted of referrals for neonate and neurologic diagnoses.

For the year ending June 30, 2008, Mount Sinai Medical Center received most of the overseas claim expenditure, with a majority of the cases for cardiovascular and neurologic. On a case basis, Mount Sinai received approximately 15% of the referrals while Baptist Hospital received 25%. Both Baptist Hospital and Mount Sinai Medical Center provide discounts in the range of 40%. The selection of the provider is determined by the referring physician, and to some extent CMN and the patient. The patient history with the provider is also considered when the referral is made.

Figure 11
Top 5 overseas providers' % share of claims dollar



Reinsurance

As mentioned earlier, the Company maintains reinsurance coverage on overseas claims for Group 30100, relating to any one covered person exceeding US$609,756 in claims, per the agreement term.

For the year ended June 30, 2009, there were two claims which exceeded the reinsurance policy's retention limit. Based on current estimates, the Company expects a reinsurance recovery of $320,898 on these claims. The change in estimate from the prior year amounted to an additional $121,796 in recoveries, so that the overall reinsurance recovery recorded was $442,694 for the year ending June 30, 2009.

For the year ending June 30, 2008, there were three cases which have breached our reinsurance trigger point. The total recovered amounts for those cases amounted to $1.2 million.

Further claim analysis

Figures 12 through 16 provide two-year comparisons of paid claims by age bands.

Figure 12: Total Insured and ASO.
Figure 13: Group 30100 (Insured – Civil Servants, Pensioners, Government companies).
Figure 14: Group 30101 (Insured & ASO – Seamen and Veterans).
Figure 15: Group 30102 (ASO – Indigent).
Figure 16: Group 30104 (Insured – SHIC plans, Elderly, Impaired, Low income).

Claims Paid by Age Group

Figure 12 displays both the insured paid claims (Group 30100, 30101 local, and Group 30104) and the ASO paid claims (Indigent and Group 30101 overseas) by age band. For the year ended June 30, 2009, paid claims for members in the 50 + age group represented approximately $34.0 million or 59% of the total claims paid while this age group only represented 37% of members covered. For the same period, newborn members (00-00) represent only 1% of the insured population yet accounted for 6% of the paid claims. This is largely due to the high costs of neonate cases. FY08 shows the same patterns as FY09.

Figure 12

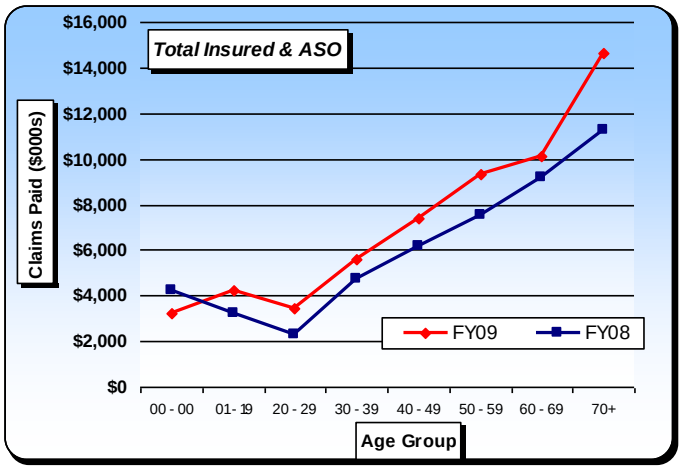


Figure 13 illustrates the distribution of paid claims for Group 30100 (Civil Servants, Pensioners and Government entities). With the exception of claims paid in the 00-00 age band (newborns), the pattern in both years is essentially the same. As with the pattern shown in Figure 12, the 50+ age band consists of 25% of membership yet accounts for 47% of the claims.

Figure 13

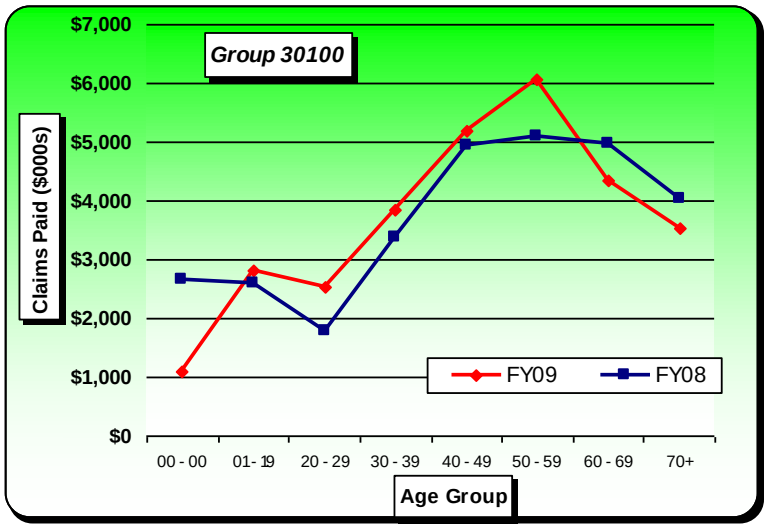


Figure 14 illustrates the distribution of paid claims for the Seamen and Veterans group. Claims paid in FY09 are greater than the previous year due to higher local utilization and the increase in CIHSA's rates. The claims paid distribution ratios by age band are the same in both years, i.e., the higher the age the higher amount of claims paid.

Figure 14

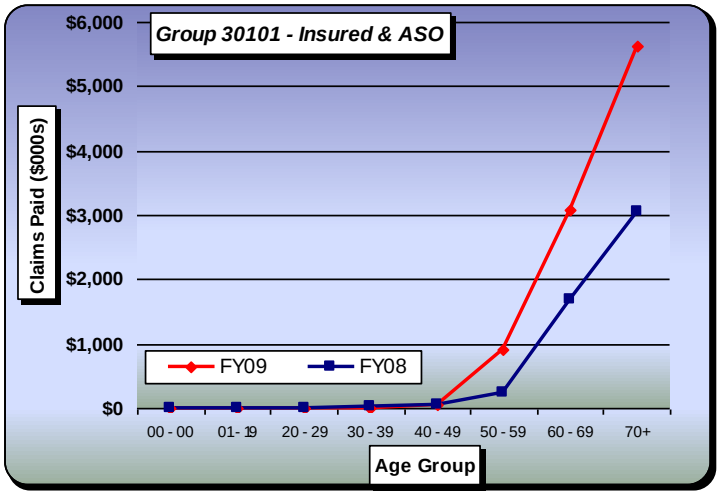


Figure 15

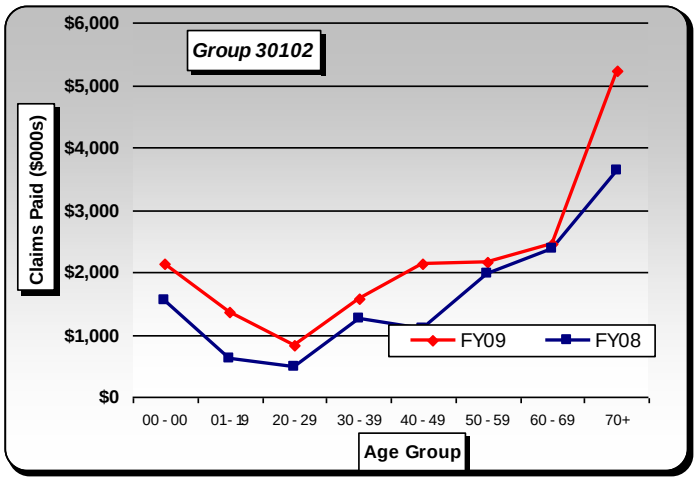
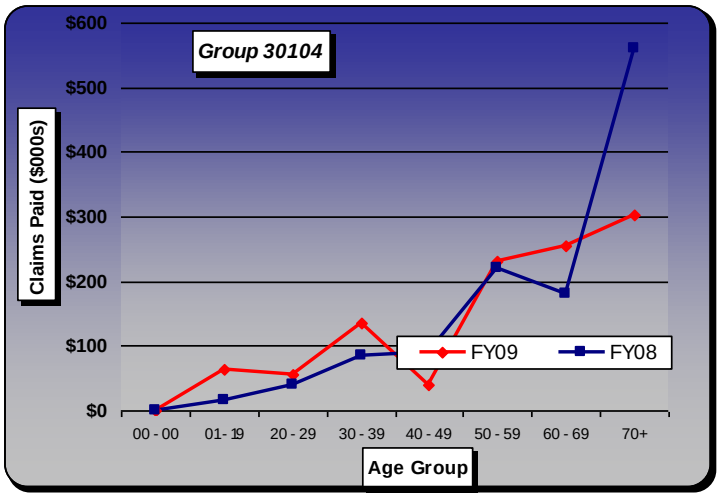


Figure 15 illustrates the distribution of claims paid for the Indigent group. In FY09 there was approximately $2.0 million in paid claims in the 00-00 age band, and another $1.5 million in paid claims for FY08. These are related to two large newborn cases. The remaining distribution essentially shows a linear trend, i.e. the higher the age, the larger the claims incurred.

Figure 16 illustrates the distribution of claims paid for the SHIC plans which consist of the low income, health impaired, and elderly sub groups. Although the average age of this group is collectively 50 years of age, and the members under 50 years represent 50% of the total membership, a majority of claims paid are in the 50+ age band, representing 73% of the total claims.

Figure 16



Figures 17 through 19 provide the historical overseas claim cost development for all Groups (both insured and ASO) as follows:

Figure 17: Quarterly claim development comparison of groups (US$)
Figure 18: Top 5 diagnoses – quarterly (US$)
Figure 19: Historical Group claim costs by diagnosis (US$)

Observations of the statistics reported in figures 17 to 19:

- Figure 17 - Quarterly claim development comparison of groups. Quarter-to-quarter comparisons could vary drastically as the membership is fairly small, and a few large claims could distort averages and trends.
    - With the exception of Group 30101 and 30104, all groups' overseas expenditure is trending higher. The drivers of the higher overseas costs were discussed on page 18.
    - Group 30100 - The "blip" in the first calendar quarter of 2007 and the fourth calendar quarter of 2008 was caused by two large neonate cases in each of those quarters. The increase in incurred claims in Q1 2009 is due to a larger than normal amount of referrals (more than double than an average month) for March 2009.
    - Group 30102 – The "blip" in the third calendar quarter of 2008 was caused by one very large neonate case.
    - Group 30104 - Due to coverage limits, overseas expenditure for the SHIC plans is limited. This explains the monthly volatility, however, commencing in Q3 2008 there are higher than average overseas incurred claims. This is due to a few large referrals within the plan limitations.
- Figure 18 – The top 5 diagnosis (in no particular order) are Neoplasm, Cardiac & Pulmonary, Musculoskeletal, Neonate and Stroke & Neurologic. Neonate has proven to be the most volatile. Neonate costs incurred for Q3 2007 was off the scale of the graph, at just over US$ 5.0 million. The remaining 4 diagnosis have been gradually trending upwards since Q3 2005.
- Figure 19 - With the exception of group 30104, all groups share the same characteristics as far as the major diagnoses are concerned.

Figure 17
Overseas Quarterly Claim Development Comparison of Groups (US$)

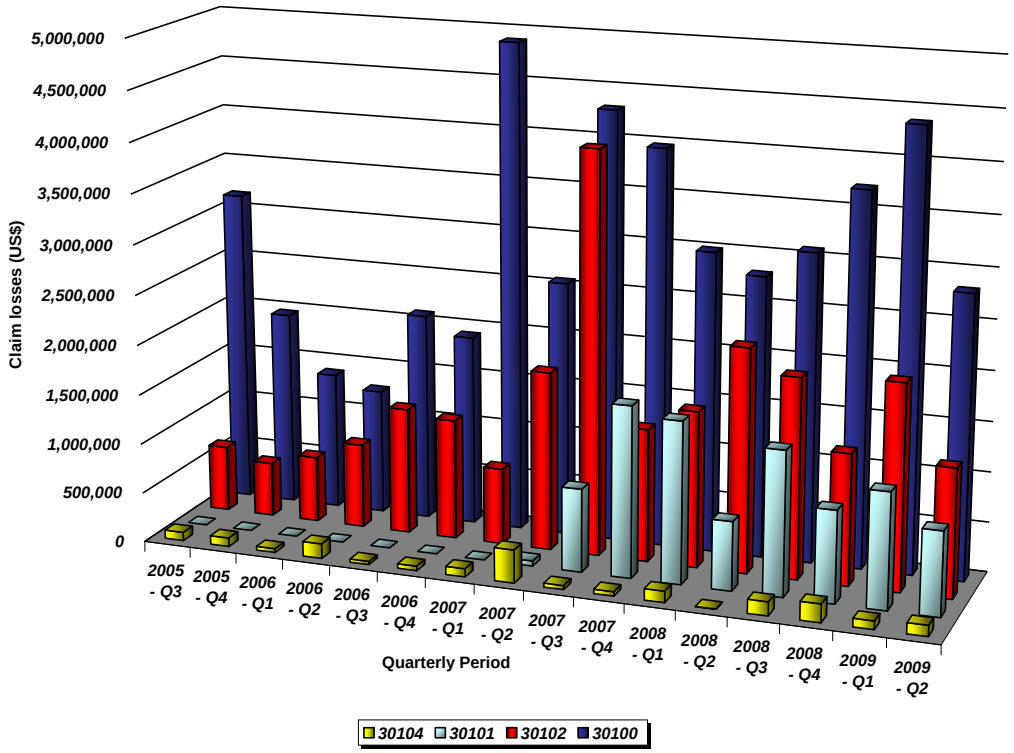


Figure 18
Overseas Top Five Diagnoses – Quarterly (US$)

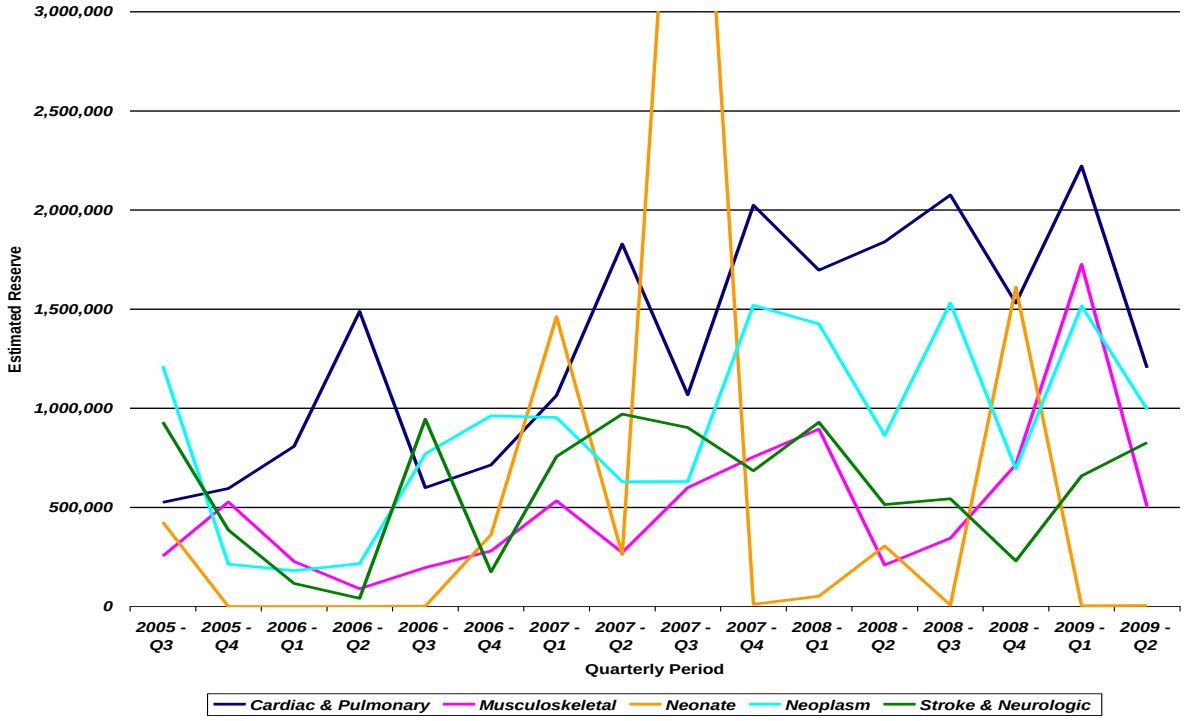
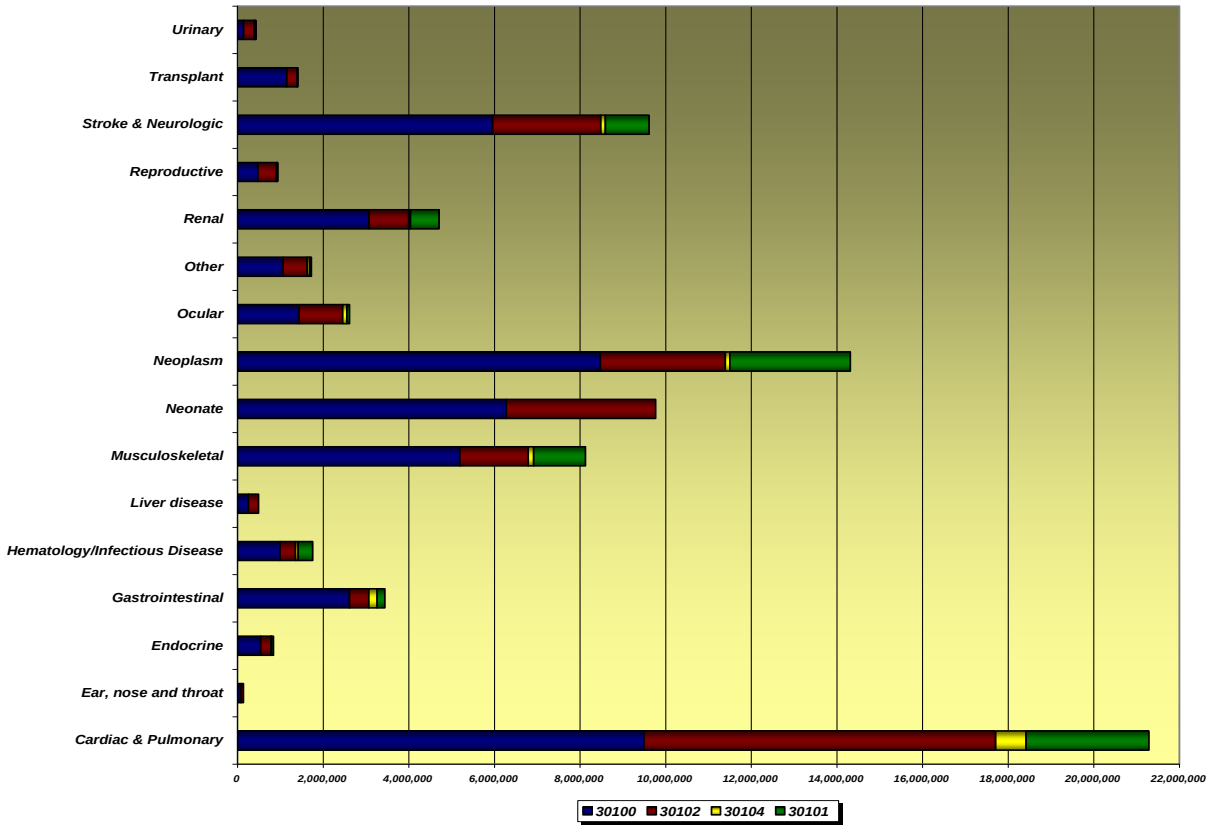


Figure 19
Overseas Historical Group Claim Costs by Diagnosis US$



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 provide a return. 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.

Figures 19 and 20 illustrate loss ratios by business segment for the years ending June 30, 2008, and June 30, 2009. These loss ratios are on a hindsight basis – i.e., for the year ended June 30, 2008 they have been restated from what was reported with the most up-to-date claim losses to date.

Figure 20 illustrates that Group 30100's (CIV, Pen & Gov) 2007/8 combined premium was not enough to cover claim payments and administration expenses. The Pensioners segment (Pen) was the worst performer as claims outpaced premium by 105%. With loss ratios of 85% and 75%, both Groups 30101 and 30104's premium was sufficient to cover claims and expenses, and thus these business segments reported a profit (see Table 4).

Figure 20
2007/8 Premium, Claims, Loss Ratios

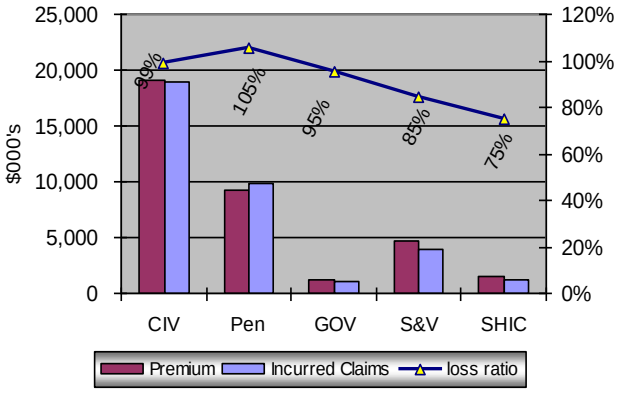
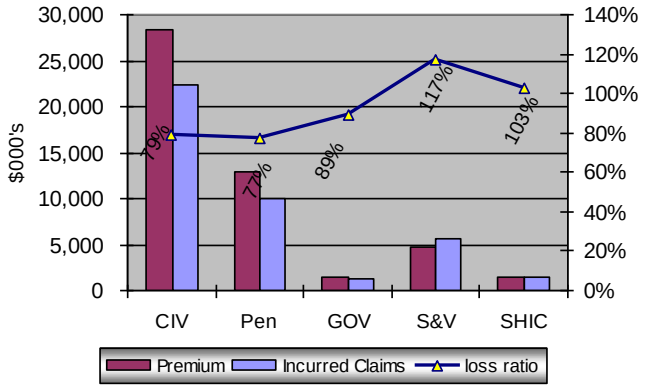


Figure 21
2008/9 Premium, Claims, Loss Ratios



With loss ratios of 117% and 103%, both Group 30101 and 30104's premiums were not sufficient in covering claims and expenses. Thus, these business segments recorded losses resulting from higher utilization, higher CIHSA rates

Effective July 1, 2008, the premium rates for Group 30100 (CIV, Pen & Gov) increased. Thus, as shown in Figure 21, Group 30100's 2008/9 premium was sufficient to cover claim payments and administration expenses. In addition, due to favorable claim experience over what was assumed in the pricing (see Table 3, page 11), these business segments reported positive contributions (see table 4).

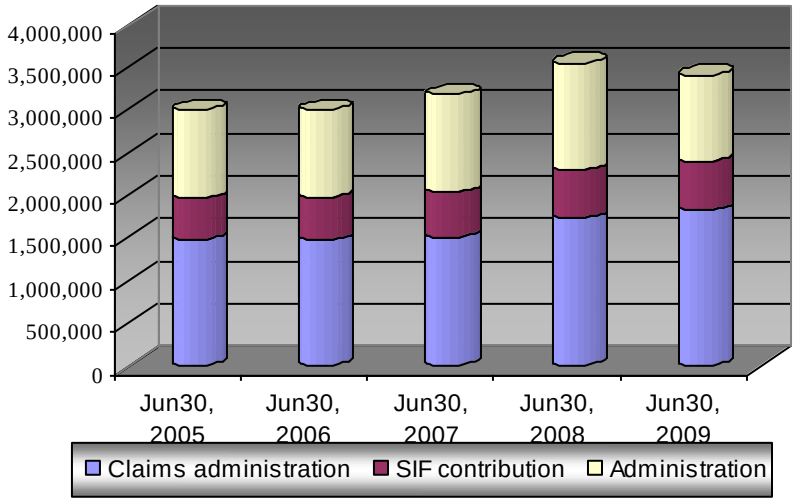
and outdated pricing (i.e. Group 30104 last premium rate increase was March 1, 2007). For the 2009/10 fiscal year, Group 30104 pricing would be reviewed.

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. Expenses attributed to a business segment represent 70% of overall expenditures for the year ending June 30, 2009 compared to the previous year of 65%. This increased share is due to higher fees from our third party administrator which came into effect on January 1, 2009, and a decrease in administration expenses. Administration expenses alone decreased by 19% from the prior year due to cost reductions in various expense items and staff vacancies.

Overall expenditure decreased to $3.4 million or by 3.7% for the year ended June 30, 2009. Prior year expenses were $3.5, $3.2, $3.0 and $3.0 million for the years ending June 30, 2008, June 30, 2007, June 30, 2006 and June 30, 2005, respectively. Figure 22 illustrates overall expenses by category.

Figure 22
Expenses by category



SUMMARY OF OWNERSHIP PERFORMANCE TARGETS

The ownership performance targets (as specified in schedule 5 in the Public Management and Finance Law 2001) for CINICO for the 2008/09 financial year are as follows.

Financial Performance

Financial Performance Measure	2008/9 Actual $	2008/9 Budget* $	Annual Variance $
Revenue from Cabinet	17,730,413	17,385,600	344,813
Revenue from ministries, portfolios, statutory authorities and government companies	30,236,509	30,661,323	(424,814)
Revenue from other persons or organisations	829,609	945,127	(115,518)
Surplus/deficit from outputs	0	0	0
Other expenses	42,987,425	47,441,313	4,453,888
Net Surplus/Deficit	5,809,106	1,550,737	4,258,369
Total Assets	21,115,470	11,292,793	9,822,677
Total Liabilities	12,116,252	13,761,254	1,645,002
Net Worth	8,999,218	(2,468,461)	11,467,679
Cash flows from operating activities	(2,690,742)	2,600,248	(5,290,990)
Cash flows from investing activities	(24,791)	(48,000)	23,209
Cash flows from financing activities	3,000,000	3,000,000	0
Change in cash balances	284,467	5,552,248	(5,267,781)

Financial Performance Ratio	2008/9 Actual	2008/9 Budget*	Annual Variance
Current Assets: Current Liabilities	174%	82%	92%
Total Assets: Total Liabilities	174%	82%	92%

* Budget is inclusive of 2008/9 supplementary budget which included a $1.5million equity injection.

Explanation of Variances

1. Budget was prepared in early 2008 and does not include the impact of a $7 million equity injection received in June 2008. Had the 2008/9 budget been adjusted the total assets and net worth would have been higher.
2. Actual net surplus better than forecast due to better than anticipated overseas claims, expense savings, offset by higher local claims.
3. Total assets are higher than budget due to: A) A $4.7 million receivable for Indigent and S&V claims, which is owed by the Ministry of Health and hasn't been paid as output NG55 has been exhausted. B) The $7.0 million equity injection received in June 2008 (see note 1). Total liabilities are lower than budget, as the budget included July 09's unearned premium, whereas, the July 09 premium wasn't booked until July 09.
4. Net worth higher than budget due to surplus earned in 2008/9 and due to $7 million equity injection received in 2007/8 (see note 1).

Maintenance of Capability

Human Capital Measures	2008/9 Actual	2008/9 Budget*	Annual Variance
Total full time equivalent staff	8	10	(2)
Staff turnover (%)	11%	0%	(11%)
Average length of service (Number)			
Senior management	3.2	4.3	(1.0)
Professional staff	3.2	4.3	(1.0)
Administrative staff	3.7	3.5	0.2
Significant changes to personnel management system	NONE	NONE	N.A.

Physical Capital Measures	2008/9 Actual $	2008/9 Budget* $	Annual Variance $
Value of total assets	21,115,470	11,292,793	9,822,677
Asset replacements: total assets	42%	65%	(23)%
Book value of depreciated assets: initial cost of those assets	23%	28.0%	(5)%
Depreciation: Cash flow on asset purchases	168%	89%	79%
Changes to asset management policies	NONE	NONE	

Major Capital Expenditure Projects	2008/9 Actual $	2008/9 Budget* $	Annual Variance $
Network upgrade	24,791	27,000	2,209

Risk Management

Key risks	Change in risk status from the previous year	Actions taken during 2008/9 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 (CIHSA)	New CIHSA chargemaster in 2009	Continue working with the Cayman Islands Health Services Authority to improve claim submission controls. New chargemaster should limit denials.	Not quantifiable.
Changes in CIHSA's chargemaster driving up the cost of claims.	New CIHSA chargemaster in 2009	Although the increase has resulted in higher local claim expenses, management was able to offset this with favourable experience on the overseas claims	Not quantifiable

Explanation of Variances

Total assets are higher than budget due to a $4.7 million receivable for Indigent and S&V claims, which is owed by the Ministry of Health and hasn't been paid as output NG55 has been exhausted. Also see note 1 on page 32.

Transaction	2008/9 Actual $	2008/9 Budget $	Annual Variance $
Equity Investments into *CINICO*	3,000,000	3,000,000	0
Capital Withdrawals from *CINICO*		0	
Dividend or Profit Distributions to be made by *CINICO.*		0	
Government Loans to be made to *CINICO.*		0	
Government Guarantees to be issued in relation to *CINICO.*	0	2,000,000	2,000,000
Remuneration Payments made to Senior Management	287,231	356,179	68,948

* The $2.0 million guarantee was not necessary as CINICO received a $7 million equity injection in the later part of 2007/8 (see note 1 page 32).

	2008/9 Actual $	2008/9 Budget	Annual Variance
Number of Senior Management	2	3	1

* The CEO resigned in August 2008. The post was filled for 4 months with a temporary contract.

STATEMENT OF OUTPUTS DELIVERED TO CABINET

The Company delivers two outputs to Cabinet; (1) CIN 1, the provision of health insurance for Seaman and Veterans and their dependants (local benefits only), and (2) CIN 2, the provision of health insurance for Civil Servant Pensioners and their dependants. The following is a summary of the performance of those outputs for the year ending June 30, 2009.

CIN 1	**Health Insurance for Seaman & Veteran**		
Description Payment of insurance premiums for Seaman & Veteran and their dependents for insurance coverage by CINICO.			
Measures	**2008/9 Actual**	**2008/9 Budget**	**Annual Variance**
Quantity • Total number of persons insured - premiums fully paid by Cabinet	1,203-1,227	1,120 - 1,188	(83)-(39)
Quality • All eligible Seamen, Veterans and their dependents are insured who met the definition under the Health Insurance Law	98-100%	98-100%	0
Timeliness • Insurance cards issued within 15 days of notification of eligibility	98-100%	98-100%	0
Location • Grand Cayman, Cayman Brac and Little Cayman	n/a	n/a	
Cost (of producing the output) • $333 per person insured per month (premiums fully paid by Cabinet) • $219 per person insured per month (Veteran premiums partially paid by Cabinet)			
Price (paid by Cabinet for the output)	**4,749,227**	**4,500,000**	249,227
Related Broad Outcome:			

Explanation of Variances

Output is over budget due as the number of members covered was higher than what was budgeted.

CIN 2	Health Insurance for Civil Servant Pensioners

Description

Provision of Health Insurance for Civil Servant Pensioners and their dependants

Measures	2008/9 Actual	2008/9 Budget	Annual Variance
Quantity			
Total number of insured persons (Insured = Enrollees + dependants).	1,650-1,710	1,601-1,729	(49)-19
Total number of enrollees	887-913	875-945	(12)-32
Quality			
• All eligible pensioners and their dependents are insured who are deemed to be eligible by the Public Service Pension Board.	98-100%	98-100%	0
Timeliness			
• Insurance cards issued within 15 days of notification of eligibility	98-100%	98-100%	0
Location			
• Grand Cayman, Cayman Brac and Little Cayman	n/a	n/a	
Cost (of producing the output)			
Price (paid by Cabinet for the output) $1,180 per enrollee per month	12,981,186	12,885,600	95,586

Related Broad Outcome:

Explanation of Variances

Although actual membership is below budget, the output is above budget due to retroactive premium adjustments for undisclosed members in 2007/8.

BOARD OF DIRECTORS, MANAGEMENT AND COMMITTEES OF THE BOARD

During the 2008/9 fiscal year, the following members served as directors, management and committees of the Board.

Board of Directors

Sheridan Brooks-Hurst (Chairperson)
Partner
Brooks & Brooks

Tom Clark
Director
HSBC

John Stanley Douglas
Cayman Islands Seafarers Association

Pastor Al Ebanks
Pastor Agape Family Worship Centre

Diane Montoya
Chief Officer
Ministry of Health & Human Services

Dr. Tamer Tadros (Deputy Chairperson)
Surgeon

Charles Watler (effective Aug/08)
Businessman

William Rewalt (deceased Nov/08)
Retired

Management

Gordon Rowell (resigned Aug/08)
Morag Nicol (Oct/08 to Feb/09)
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
Charles Watler*
Carrol Cooper
CINICO CEO (currently vacant)

Risk and Appeals Committee

Carole Appleyard
Tom Clark *
Satina DaCosta
Dr. Kumar
Jo Richards
CINICO CEO (currently vacant)

Executive Committee

Sheridan Brooks-Hurst *
Diane Montoya
CINICO CEO (currently vacant)

** denotes Committee Chairperson*

Effective July 1, 2009, the following persons have been appointed to serve as members of the Board of Directors until June 30, 2010.

Mr. Dale Crowley	Chairman
Mr. Seamus Tivnan	Deputy Chairman
Dr. Ruthlyn Pomares	Member
Mr. Armando Ebanks	Member
Mr. John Douglas	Member (reappointed)
Mr. Carl Brown	Member
Mrs. Darlee Ebanks	Member
Chief Officer to the Ministry of Health or her nominee	

Committees of the Board are as follows:

Audit/Finance Committee
Mr. Seamus Tivnan (Chairman)
Mr. Frank Gallippi (CFO CINICO)
CINICO CEO (currently vacant)
Mr. Carrol Cooper (CFO Ministry of Health)

Risk and Appeals Committee
Dr. Ruthlyn Pomares (Chairperson)
Ms. Carole Appleyard (General Manager CINICO)
CINICO CEO (currently vacant)
Dr. Gerald Smith (Chief Medical Officer)
Dr. John Vlitos (Chief Dental Officer)

Appendix

Audited Financial Statements

For the year ending 30 June 2009

Financial Statements of

Cayman Islands National Insurance Company Ltd.

June 30, 2009

Cayman Islands National Insurance Company Ltd.

Index

Cayman Islands National Insurance Company
Financial Statements
30 June 2009

STATEMENT OF RESPONSIBILITY FOR FINANCIAL STATEMENTS

These Financial Statements have been prepared by the Cayman Islands National Insurance Company in accordance with the provisions of the Public Management and Finance Law (2005 Revision). The Financial Statements comply with generally accepted accounting practice as defined in International Public Sector Accounting Standards and International Financial Reporting Standards.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with Public Management and Finance Law (2005 Revision).

To the best of our knowledge the financial statements are:

(a) complete and reliable;
(b) fairly reflect the financial position as at 30 June 2009 and performance for the year ended 30 June 2009; and
(c) comply with generally accepted accounting practice.

Dale Crowley
Chairman
Cayman Islands National Insurance Company

October 29, 2009

Frank Gallippi
CFO
Cayman Islands National Insurance Company

October 29, 2009

Office of the Auditor General
Cayman Islands Government
3rd Floor, Anderson Square
64 Shedden Road, George Town
Grand Cayman KY1-9000
Cayman Islands

TEL: 345-244-3211
FAX: 345-945-7738

Cayman Islands

E-mail: auditorgeneral@gov.ky

AUDITOR GENERAL'S REPORT

To the Board of Directors of the Cayman Islands National Insurance Company Ltd.

I have audited the accompanying financial statements of the Cayman Islands National Insurance Company Ltd. (the "Company"), which comprise the balance sheet as at June 30, 2009, the statements of income and accumulated deficit, statements of cash flows, and statement of changes in shareholder's equity for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 2 to 18 in accordance with the provisions of section 52(3) of the *Public Management and Finance Law, (2005 Revision).*

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing and opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2009, and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

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

Dan Duguay, MBA, FCGA
Auditor General

October 29, 2009
Cayman Islands

Cayman Islands National Insurance Company Ltd.

Balance sheets
As at June 30, 2009
Amounts stated in Cayman Islands dollars

	Note	June 30, 2009	*June 30, 2008*
Assets			
Cash at bank	4	$ 8,864,034	*$ 8,579,567*
Premiums receivable	5	6,839,328	*3,198,934*
Prepaids and other assets	6	5,352,533	*3,244,817*
Fixed assets	7	59,575	*78,497*
Total assets		21,115,470	*15,101,815*
Liabilities			
Accounts payable	8	5,270	*14,178*
Premiums received in advance		70,049	*73,783*
Accruals and other liabilities	9	215,077	*3,860,270*
Claims payable		733,666	*2,848,217*
Provision for claims incurred	11	11,092,190	*8,115,255*
Total liabilities		12,116,252	*14,911,703*
Shareholder's equity			
Share capital	12	1	*1*
Share premium	12	2,999,999	*2,999,999*
Additional paid-in-capital	13	20,435,840	*17,435,840*
Accumulated deficit		(14,436,622)	*(20,245,728)*
Total shareholder's equity	22	8,999,218	*190,112*
Total liabilities and shareholder's equity		$ 21,115,470	*$ 15,101,815*

Seamus Tivnan — October 29, 2009
Director — Date

Dale Crowley — October 29, 2009
Director — 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, 2008 to June 30, 2009
Amounts stated in Cayman Islands dollars

	Note	June 30, 2009	*June 30, 2008*
Income			
Premium income	14	$ 49,007,697	*$ 35,795,726*
Reinsurance premium	14	(766,565)	*(986,098)*
ASO Fees	15	471,739	*396,586*
Total underwriting income		48,712,871	*35,206,214*
Investment income	19	83,660	*73,766*
Total income		48,796,531	*35,279,980*
Expenses			
Claims paid	10	37,041,762	*36,510,497*
Reinsured claims		(442,694)	*(794,776)*
Movement in provision for claims incurred	11	2,976,935	*(1,818,019)*
Contributions to segregated insurance fund	16, 17	572,070	*561,560*
Claims administration and other expenses		1,820,995	*1,729,244*
Total underwriting expenses		41,969,068	*36,188,506*
Administrative expenses	17, 18	1,018,357	*1,251,029*
Total expenses		42,987,425	*37,439,535*
Net income/(loss) for the year		5,809,106	*(2,159,555)*
Accumulated deficit at beginning of the year		(20,245,728)	*(18,086,173)*
Accumulated deficit at end of the year		$ (14,436,622)	*$ (20,245,728)*

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, 2008 to June 30, 2009
Amounts stated in Cayman Islands dollars

	NOTE	June 30, 2009	June 30, 2008
Cash flows from operating activities			
Net income/(loss) for period		$ 5,809,106	*$ (2,159,555)*
Adjustments for non-cash items:			
Depreciation	7	43,713	*38,226*
Premiums receivable		(3,640,394)	*(628,544)*
Prepaids and other assets		(2,107,716)	*(2,154,557)*
Accounts payable		(8,908)	*(20,288)*
Premiums received in advance		(3,734)	*8,156*
Accruals and other liabilities		(3,645,193)	*1,262,082*
Claims payable		(2,114,551)	*2,542,860*
Provision for claims incurred		2,976,935	*(1,818,019)*
Net cash flows from operating activities		(2,690,742)	*(2,929,639)*
Cash flows from investing activities			
Purchase of fixed assets	7	(24,791)	*(89,116)*
Net cash flows from investing activities		(24,791)	*(89,116)*
Cash flows from financing activities			
Receipt of additional paid-in-capital	13	3,000,000	*8,500,000*
Net cash flows from financing activities		3,000,000	*8,500,000*
Net cash inflow for the year		284,467	*5,481,245*
Cash and cash equivalents at beginning of the year		8,579,567	*3,098,322*
Cash and cash equivalents at end of year		$ 8,864,034	*$ 8,579,567*

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, 2007 to June 30, 2009
Amounts stated in Cayman Islands dollars

	Share capital	Share premium	Additional paid-in-capital	Accumulated deficit	Total Shareholder's Equity
Balance at June 30, 2007	$ 1	$ 2,999,999	$ 8,935,840	$(18,086,173)	$ (6,150,333)
Issuance of shares	-	-	-	-	-
Net loss for year	-	-	-	(2,159,555)	(2,159,555)
Additional paid-in-capital received	-	-	8,500,000	-	8,500,000
Balance at June 30, 2008	1	2,999,999	17,435,840	(20,245,728)	190,112
Issuance of shares	-	-	-	-	-
Net income for year	-	-	-	5,809,106	5,809,106
Additional paid-in-capital received	-	-	3,000,000	-	3,000,000
Balance at June 30, 2009	$ 1	$ 2,999,999	$ 20,435,840	$(14,436,622)	$ 8,999,218

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

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements
June 30, 2009
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 ("Private Insureds"). CINICO employees are also insured by the Company. The Company also provides Administrative Services Only ("ASO") for indigents and advance patients. ASO is also provided for Seafarer and Veteran overseas benefits which came into effect July 1, 2007.

The Company has contracted with a Third Party Administrator ("TPA"), 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 Cayman Centre, George Town, Grand Cayman. At June 30, 2009, the Company employed 8 people (9 people at June 30, 2008).

2 Accounting policies

These financial statements are prepared on the historical cost basis and in accordance with United States Generally Accepted Accounting Principles ("US GAAP"). 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 significant accounting policies are as follows:

Critical accounting estimates and judgements
The development of estimates and the exercise of judgment in applying accounting policies may have a material impact on the Company's reported assets, liabilities, revenues and expenses. The item which may have the most effect on the Company's financial statements is set out below.

The ultimate liability arising from claims made under insurance contracts
The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims.

The provision for claims incurred is necessarily based on estimates due to the fact that the ultimate disposition of claims incurred prior to the balance sheet date, whether reported or not, is subject to the outcome of events that have not yet occurred. Any estimate of future events, consequently, the amounts recorded in respect of unpaid losses may change significantly in the short term. Management engage independent actuaries to assist them in making such estimates, based on the Company's own loss history and relevant industry data.

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.

2 Accounting policies (continued)

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

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

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 statements of income and accumulated deficit.

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 reported but not settled and loss adjustment expenses. The Company records its estimated liability gross of any amounts recoverable under its own reinsurance. Recoverable amounts, under the reinsurance contract, if any, are estimated and reported separately as assets. The reinsured portion, if any, of reserves for losses is estimated in a manner consistent with the estimation of reserves for losses on the reinsured policies.

Cash 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 received 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 premium rate and number of insureds covered under the reinsurance policy.

It is the Company's policy to lapse any policies where the premiums are unpaid for generally around forty five days after the due date.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statements of income and accumulated deficit on a straight-line basis over of the period of the lease.

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

2 Accounting policies (continued)

Income taxes
There is presently no taxation imposed on the Company by the Government of the Cayman Islands. As a result, no tax liability or expense has been recorded in the accompanying financial statements.

2.1 Changes in IFRS

A) Amendments to published standards effective July 1, 2008:

IAS 39 and IFRS 7 – Reclassification of financial assets (effective from January 1, 2008) – permits an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss) out of fair value through profit or loss in certain circumstances. Transfer of an asset from the available for sale category to the loans and receivables category may occur if the entity has the intention and ability to hold the financial asset in the foreseeable future. This amendment does not impact the Company as the Company has not elected to implement this reclassification.

IFRIC 12 – Service concession arrangements (effective for periods beginning after January 1, 2008). This amendment does not impact the Company as the Company has no service concession arrangements in place.

IFRIC 13 – Customer Loyalty Programmes (effective for periods beginning after January 1, 2008). This amendment does not impact the Company as the Company has no customer loyalty programmes in place.

IFRIC 14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for periods beginning after January 1, 2008). This amendment does not impact the Company as the Company has no defined benefit assets and is not impacted by IAS 19.

B) Relevant standards and amendments issued prior to June 30, 2009 but not effective until future periods:

IFRS 8 - Operating Segments (effective from January 1, 2009) – This standard sets out the requirements for disclosure of an entity's operating segments on the same basis as internal reporting used by management for decision making, as well as the disclosures of the entity's products and services, the geographical areas in which it operates and its major customers. This amendment will not impact the Company because the Company is not within the scope of IFRS 8.

IAS 1 – Presentation of Financial Statements (revised and effective January 1, 2009) - results in a new requirement that all changes in equity arising from transactions with owners in their capacity as owners (i.e., owner changes in equity) are presented separately from non-owner changes in equity. In order to do this, an entity will no longer be permitted to present components of comprehensive income (i.e., non-owner changes in equity) in the statement of changes in equity. Instead, a new "statement of comprehensive income" will be required. This revised standard is not expected to impact the Company as all changes in equity arise from transactions with owners in their capacity as owners.

IFRS 1 and IAS 27 (revised and effective January 1, 2009) – allows first time adopters of IFRS 1 to use a deemed cost option for determining the cost of an investment in a subsidiary, jointly controlled entity or associate. This amendment will not impact the Company as the Company has already adopted IFRS in full.

IFRS 2 (Amended and effective January 1, 2009) – clarifies that vesting conditions are performance and service conditions only and that cancellations of share options by parties other than the entity are to be accounted for in the same way as cancellations by the entity. This amendment will not impact the Company as it does not have any share-based payments.

IFRS 3 and IAS 27 (revised and effective July 1, 2009) – the most significant amendments are that acquisition related costs as part of a business combination will now be recognised as an expense in the income statement when incurred and not as goodwill. The contingent consideration must also be recognised and measured at fair value at the acquisition date. The amendment to IAS 27 requires that changes in a parent's ownership interest in a subsidiary that does not result in a loss in control should be accounted for within equity. The amendments will not impact the Company unless a business combination occurs after the effective date.

2 Accounting policies (continued)

2.1 Changes in IFRS (continued)

IAS 23 – Borrowing costs (revised and effective January 1, 2009) – removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The capitalisation of borrowing costs as part of the cost of such assets in therefore, now required. This is not expected to impact the Company, as the Company does not have any borrowing costs.

IAS 32 – Financial instruments puttable at fair value (revised and effective January 1, 2009) – requires the classification of certain puttable financial instruments and financial instruments that impose on the issuer an obligation to deliver a pro rata share of the equity on liquidation as equity. This amendment is not expected to impact the Company, as the Company does not have any puttable financial instruments.

IAS 39 – Eligible hedged items (amended and effective for periods beginning after July 1, 2009) - this amendment is not expected to impact the Company as it has no hedged items.

IFRIC 15 – Real estate sales (effective January 1, 2009) – clarifies accounting for real estate sales. This amendment is not expected to impact the Company as it does not hold any direct investments in real estate.

IFRIC 16 - Hedges of a Net Investment in a Foreign Operation (effective for periods beginning after October 1, 2008) – clarifies which risks can be hedged and by which entities within a Company hedging instruments can be held. This interpretation is not expected to impact the Company as it does not have investments in foreign operations.

IFRIC 17 - Distributions of non-cash assets to owners (effective for periods beginning after July 1, 2009) – provides guidance on how to account for non-cash distributions to owners and when to recognize the dividend payable and how to measure the amount of dividend payable. This interpretation is not expected to impact the Company as it does not distribute non-cash assets to shareholders.

IFRS 7 - Financial Instruments: Disclosures (amended and effective from July 1, 2009). These amendments require enhanced disclosures about fair value measurements and liquidity risk. These amendments will not impact the measurement of the Company's financial assets, but is expected to provide improved disclosures for the users of the financial statements.

3 Management of insurance and financial risk

3.1 Insurance risk

The risk under insurance contracts is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. The very nature of an insurance contract involves randomness and therefore unpredictability. The principal risk that the Company faces is that the actual claim payments exceed the amount of insurance provisions. This could occur for various reasons; for example, the severity and/or frequency of claims may be higher than anticipated, or unit claim costs could be higher than estimated. Any significant delays in the reporting of claims information from service providers will also lead to increased uncertainty. Claim losses are random and the actual number and amount of claims will vary from year to year from the level established using statistical and actuarial techniques.

The Company uses several techniques to mitigate risk surrounding potential high claim losses. For its largest group (Group 30100 - Civil, Servants, Pensioners and Government Entities), reinsurance has been purchased that covers overseas claim losses which exceed US$609,756, up to US$5,000,000 in respect of any one covered person during the policy year. 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 patients 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 weekly basis, CINICO management meets with CMN to discuss large claims.

3 Management of insurance and financial risk (continued)

3.2 Financial risk

Financial risk can be broken down into credit risk, interest rate risk, and foreign currency risk. The Company is exposed to financial risks through its financial assets, financial liabilities, and reinsurance assets; no financial risk is associated with its insurance liabilities. Since the Company's assets and liabilities are short term in nature (less than one year), financial risks are minimal.

Credit risk

The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- cash at bank;
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders.

All of the Company's cash and cash equivalents are held with reputable financial institutions in the Cayman Islands (86%) and Canada (14%). As described in note 3.1, reinsurance is used to manage insurance risk. However, this does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment of the claim. As part of the reinsurance renewal, the Company reviews the creditworthiness of the reinsurer prior to finalization of any contract, and has chosen a reinsurer with excellent credit rating.

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

	June 30, 2009	*June30, 2008*
Cash at bank	$ 8,864,034	*$ 8,579,567*
Reinsurers' share of insurance liabilities	320,898	*419,119*
Amounts due from reinsurers in respect of claims already paid	-	*610,532*
Amounts due from insurance contract holders	6,839,328	*3,198,934*
	$ 16,024,260	*$ 12,808,152*

Cash and cash equivalents above are analysed in the table below using Standard and Poors (S&P) rating (or an equivalent rating when not available from S&P). The concentration of credit risk is substantially unchanged compared to the prior year.

	June 30, 2009	*June 30, 2008*
AAA	-	-
AA	$ 8,589,852	*$ 8,461,665*
A	31,580	*44,728*
BBB	-	-
Below BBB or not rated	242,602	*73,174*
Total cash and cash equivalents bearing credit risk	$ 8,864,034	*$ 8,579,567*

The Company contracts with one reinsurance company. For both the years ending June 30, 2009 and June 30, 2008, the AM Best rating of the Company's reinsurer was A.

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

3.2 Financial risk (continued)

Interest rate risk

None of the Company's insurance products expose it to interest rate risk.

Foreign currency risk

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

3.3 Management of financial risks

The following tables indicate the contractual timing of cash flows arising from assets and liabilities included in the Company's financial statements as of June 30, 2009 and June 30, 2008.

	Carrying amount	No stated maturity	Contractual cash flows (undiscounted)				
			0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>5 yrs
June 30, 2009							
Financial Assets							
Insurance receivables	6,839,328		6,839,328				
Prepaid and other assets	5,031,635		5,031,635				
Cash and cash equivalents	8,864,034		8,864,034				
Total	20,734,997	-	20,734,997	-	-	-	-
Short term insurance liabilities							
Insurance contracts	11,825,856		11,825,856				
Less assets arising from reinsurance contracts held	320,898		320,898				
Total	11,504,958	-	11,504,958	-	-	-	-
Difference in contractual flows	9,230,039	-	9,230,039	-	-	-	-

	Carrying amount	No stated maturity	Contractual cash flows (undiscounted)				
			0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>5 yrs
June 30, 2008							
Financial Assets							
Insurance receivables	3,198,934		3,198,934				
Prepaid and other assets	2,215,166		2,215,166				
Cash and cash equivalents	8,579,567		8,579,567				
Total	13,993,667	-	13,993,667	-	-	-	-
Short term insurance liabilities							
Insurance contracts	10,963,472		10,963,472				
Less assets arising from reinsurance contracts held	1,029,651		1,029,651				
Total	9,933,821	-	9,933,821	-	-	-	-
Difference in contractual flows	4,059,846	-	4,059,846	-	-	-	-

3.3 Management of financial risks (continued)

Sensitivity analysis - insurance contracts

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

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

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

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

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

Sensitivity factor	Description of sensitivity factor applied
Interest rate and investment return	The impact of a change in market interest rates by approximately 1%
Expenses	The impact of an increase in underwriting expenses by 5%
Loss ratios	The impact of an increase in loss ratio's by 5%

	Interest rates		Expenses		Loss ratios	
	+1%	-1%	+5%	-5%	+5%	-5%
Sensitivities as at June 30, 2009						
Impact on Net income/(loss) for the year	79,557	(79,557)	(119,653)	119,653	(2,000,935)	2,000,935
Impact on Shareholders' equity	79,557	(79,557)	(119,653)	119,653	(2,000,935)	2,000,935
Sensitivities as at June 30, 2008						
Impact on Net income/(loss) for the year	*9,526*	*(9,526)*	*(114,540)*	*114,540*	*(1,734,624)*	*1,734,624*
Impact on Shareholders' equity	*9,526*	*(9,526)*	*(114,540)*	*114,540*	*(1,734,624)*	*1,734,624*

4 Cash at bank

	June 30, 2009	*June 30, 2008*
Fixed Deposits	$ 4,034,590	*$ 3,001,199*
Cash at Bank	4,807,073	*5,559,418*
Deposit in transit	22,371	*18,950*
	$ 8,864,034	*$ 8,579,567*

At June 30, 2009, the Company held one fixed deposit earning interest of 0.5% and maturing within 32 days. At June 30, 2008, three fixed deposits were held with interest earned averaging 1.65% per annum and maturities within 30 days.

5 Premiums receivable

	June 30, 2009	*June 30, 2008*
Premiums receivable from related parties	$ 6,829,534	*$ 3,177,985*
Premiums receivable from unrelated entities	13,928	*31,449*
Less: provisions for bad debts	(4,134)	*(10,500)*
	$ 6,839,328	*$ 3,198,934*

Year to date, bad debts of $48,784 (June 30, 2008 - $60,545) have been written off, of which $10,500 had been provided for in 2007/8. It is management's opinion that a provision for bad debts of $4,134 (June 30, 2008 - $10,500) is required at June 30, 2009. All bad debts written off are from unrelated individuals. Once a bad debt is written off coverage to the unrelated individual is terminated.

6 Prepaids and other assets

	June 30, 2009	June 30, 2008
In respect of unrelated entities	$ 424,644	*$ 1,055,367*
In respect of related parties	4,927,889	*2,189,450*
	$ 5,352,533	*$ 3,244,817*

Included in prepaids and other assets in respect of unrelated entities are claims ceded of $320,898 (June 30, 2008 - $1,029,651), prepaid indigent claims of $84,724 (June 30, 2008 - $9,060), TPA fees of $2,817 (June 30, 2008 - $2,817) and other administrative expenses of $16,205 (June 30, 2008 - $13,839).

Included in prepaids and other assets in respect of related parties are amounts related to ASO fees of $237,303 (June 30, 2008 - $99,848), ASO claims receivable of $4,666,719 (June 30, 2008 - $2,062,025), plus other receivables and prepaids from/to Government and administrative expenses of $23,867 (June 30, 2008 - $27,577).

7 Fixed assets

	Office Equipment	Computer & Telecoms Equipment	Leasehold Improvements	Total
Cost at July 1, 2007	$ 17,732	$ 109,821	$ 12,141	$ 139,694
Additions	6,488	15,694	66,934	89,116
Cost at June 30, 2008	24,220	125,515	79,075	228,810
Accumulated depreciation at July 1, 2007	10,992	101,050	44	112,086
Depreciation for period	4,727	7,075	26,425	38,227
Accumulated depreciation at June 30, 2008	15,719	108,125	26,469	150,313
Carrying value at June 30, 2008	$ 8,501	$ 17,390	$ 52,606	$ 78,497
Cost at July 1, 2008	$ 24,220	$ 125,515	$ 79,075	$ 228,810
Additions	-	24,791	-	24,791
Cost at June 30, 2009	24,220	150,306	79,075	253,601
Accumulated depreciation at July 1, 2008	15,719	108,125	26,469	150,313
Depreciation for period	4,078	13,421	26,214	43,713
Accumulated depreciation at June 30, 2009	19,797	121,546	52,683	194,026
Carrying value at June 30, 2009	$ 4,423	$ 28,760	$ 26,392	$ 59,575

8 Accounts payable

	June 30, 2009	*June 30, 2008*
Payable to unrelated entities	$ 5,270	*$ 14,178*

9 Accruals and other liabilities

	June 30, 2009	*June 30, 2008*
In respect of related parties	$ 14,486	*$ 3,607,199*
In respect of unrelated entities	200,591	*253,071*
	$ 215,077	*$ 3,860,270*

Included in accruals and other liabilities in respect of related parties are amounts relating to insurance premiums due of $0 (June 30, 2008 - $3,594,170) also recorded as a receivable and related to future underwriting periods, and administrative expenses of $14,486 (June 30, 2008 - $13,029).

Included in accruals and other liabilities in respect of unrelated entities are reinsurance premiums due of $63,454 (June 30, 2008 - $86,470), and administration expenses and other accruals of $137,137 (June 30, 2008 - $166,601).

10 Claims paid

	June 30, 2009	*June 30, 2008*
Gross US$ claims prior to discount (denominated in KYD$)	$ 18,625,031	*$ 21,164,301*
Net claim savings		
Amount of claim discount realized by CMN	(6,957,102)	*(7,744,757)*
Fees for obtaining discount	1,067,822	*1,148,377*
	(5,889,280)	*(6,596,380)*
Net US$ claims (denominated in KYD$)	12,735,751	*14,567,921*
KYD$ claims	24,306,011	*21,942,576*
	$ 37,041,762	*$ 36,510,497*
Less repricing fees	(1,067,822)	*(1,148,377)*
Claims paid (net of repricing fees)	$ 35,973,940	*$ 35,362,120*

The contract with Care Management Network Inc. (CMN) guarantees the Company a discount of 30% on US$ claims administered by CMN. CMN charges the Company a fee of 16% of the savings. These fees are classified as part of claims paid. During the period ended June 30, 2009, the Company realized net claim savings of $5,889,280 (June 30, 2008 - $6,596,380).

11 Provision for claims incurred

Management has estimated a provision for claims which have been incurred but not yet reported ("IBNR"). While management has estimated IBNR based on all information it has available to it at the time, the ultimate liability may be in excess of, or less than, the amounts provided. Management uses acceptable reserving methods to estimate provisions for claims incurred but not reported; these are periodically reviewed by an independent actuary.

A health claim is payable when an event has occurred that gives rise to a claim payment within the benefits of an insured member's policy while 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.

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	2004/5	2005/6	2006/7	2007/8	2008/9	Total
Estimate of ultimate claims costs:						
At end of reporting month	21,214,700	23,423,289	32,864,983	35,819,622	40,046,000	
One year later	21,214,700	22,827,358	30,779,928	34,402,472	n.a.	
Two years later	20,964,647	22,727,663	30,879,375	n.a.	n.a.	
Current estimate of cumulative claims	20,963,907	22,727,663	30,879,375	34,402,472	40,046,000	
Cumulative payments to date	20,963,907	22,727,663	30,835,304	34,393,817	29,751,889	
Gross liability recognized in the balance sheet		-	44,071	8,655	10,294,111	10,346,837
Allocated loss expenses ("ALE") reserve	-	-	3,797	746	740,810	745,353
Net liability recognized in the balance sheet	-	-	47,868	9,401	11,034,921	11,092,190

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, 2009	*June 30, 2008*
Balance at beginning of year	$ 8,115,255	*$ 9,933,274*
Incurred related to:		
Current year	40,046,000	*35,819,622*
Prior years	(1,299,353)	*(2,085,055)*
	38,746,647	*33,734,567*
Paid related to:		
Current year	29,751,889	*28,291,464*
Prior years	6,222,051	*7,070,656*
	35,973,940	*35,362,120*
ALE Reserve movement	204,228	*(190,466)*
Balance at end of year	$ 11,092,190	*$ 8,115,255*
Change in provision for claims incurred	$ 2,976,935	*$ (1,818,019)*

11 Provision for claims incurred (continued)

For the year ended June 30, 2009 there was a hindsight reserve release of $1,299,353 for the prior year ($2,085,055 for the year ended June 30, 2008). As stated in the beginning of Note 11, IBNR's are estimated with all known information at the time. In hindsight, the June 30, 2008 reserve was conservative due to the following events: (1) For overseas IBNR's, actual medical outcomes on several large inpatient cases turned out better than initially anticipated, (2) For local IBNR's, the initial IBNR was set to approximate the Cayman Island Health Services Authority's receivable. In hindsight several claims were denied for eligibility and late filing.

12 Share capital

Authorized:	June 30, 2009	*June 30, 2008*
1,000,000 unclassified shares of CI$1.00 each	$ 1,000,000	*$ 1,000,000*
Issued and fully paid:		
1 share	$ 1	*$ 1*

The unclassified shares hold all voting rights in the Company. During the year ended June 30, 2004, one share was issued to the Cayman Islands Government at a premium of CI$2,999,999.

13 Additional paid-in-capital

	June 30, 2009	*June 30, 2008*
Additional paid in capital received	$ 20,435,840	*$ 17,435,840*

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

It is the policy of the Company to operate in a manner designed to maintain capitalization at a minimum of $3 million. The Company has recieved additional paid in capital from the Shareholder since inception. In July 2008, the Company received $3.0 million in additional paid-in capital to rectify its breach of statutory net worth requirement resulting from losses from 2007/8. Also in June 2008 and February 2008 the Company received $7,000,000 and $1,500,000, respectively, in additional paid-in-capital to rectify its breach of statutory net worth requirement resulting from 2005/6 and 2006/7 losses. On July 11, 2006, and April 16, 2007, the Company received $3,000,000 and $1,000,000, respectively, in additional paid-in-capital from Government to rectify its 2004/5 breach in statutory net worth requirement. Additional paid-in-capital of $4,455,428 was received in the 2004/5 fiscal year in lieu of an increase in premium to various Government entities, and $480,412 in additional paid-in capital was received in the 2003/4 fiscal year to reimburse the Company for expenses it incurred in the administration of Government plans on an Administrative Service Only basis.

14 Premium Income

Premium income earned by insured type is as follows:

	For the Year Ended June 30, 2009			
	Group 30100	Group 30101	Group 30104	Total
Premium Income	$42,745,956	$ 4,795,541	$ 1,466,200	$ 49,007,697
Reinsurance Premium	(766,565)	-	-	(766,565)
Net Premium	$41,979,391	$ 4,795,541	$ 1,466,200	$ 48,241,132

	For the Year Ended June 30, 2008			
	Group 30100	Group 30101	Group 30104	Total
Premium Income	$29,543,301	$ 4,725,875	$ 1,526,550	$ 35,795,726
Reinsurance Premium	(986,098)	-	-	(986,098)
Net Premium	$28,557,203	$ 4,725,875	$ 1,526,550	$ 34,809,628

14 Premium Income (continued)

Group 30100 includes insurance coverage for civil servants, pensioners and employees of 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 calculated at $6.32 (2007/8 - $8.43) per person per month.

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, 2009 the Company accrued contributions totalling $572,070 (year ended June 30, 2008 - $561,560).

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 year ended June 30, 2009.

	June 30, 2009	*June 30, 2008*
Administrative expenses	$ 90,169	*$ 85,794*
Contributions to segregated insurance fund	572,070	*561,560*
	$ 662,239	*$ 647,354*

18 Key management salaries and other short-term employee benefits

Salaries and other short-term employee benefits for key management (being those executives with the authority to direct the Company's operating policy) of $287,231 (year ended June 30, 2008: $373,638) are included within administrative expenses as reported in the statements of income and accumulated deficit.

19 Investment income & other income

Investment income represents interest earned from the cash and fixed deposits held at various banks. Other income includes income collected for late payments and reinstatement of policies. The Company has received interest on fixed deposits and other income of $83,660 (year ended June 30, 2008 - $73,766).

20 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 Government Pension Plan. Pension expense for the year ended June 30, 2009 is $20,847 (year ended June 30, 2008 - $23,782)

21 Commitments and Contingencies

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

	Amounts due within 1 year	Amounts due after more than 1 year	Total lease commitments
Lease - premises	50,820	-	50,820

In May 2007, the Company signed a three year lease which became effective June 1, 2007.

22 Net worth for regulatory purposes

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

	June 30, 2009	*June 30, 2008*
Share capital	$ 1	*$ 1*
Share premium	2,999,999	*2,999,999*
Additional paid-in-capital	20,435,840	*17,435,840*
Accumulated deficit	(14,436,622)	*(20,245,728)*
Total Shareholder's Equity	$ 8,999,218	*$ 190,112*

At June 30, 2009, the Company's net worth was $8,999,218 and fully compliant with CIMA's minimum capital requirement.

23 Subsequent events

Management have performed a subsequent events review from July 1, 2009, through to October 29, 2009, being the date that the financial statements were available to be issued. Management concluded that there were no material subsequent events which required additional disclosure in these financial statements.