

2010/2011 ANNUAL REPORT



CAYMAN ISLANDS
CINICO
NATIONAL INSURANCE COMPANY

Good Health Should Be Insured.

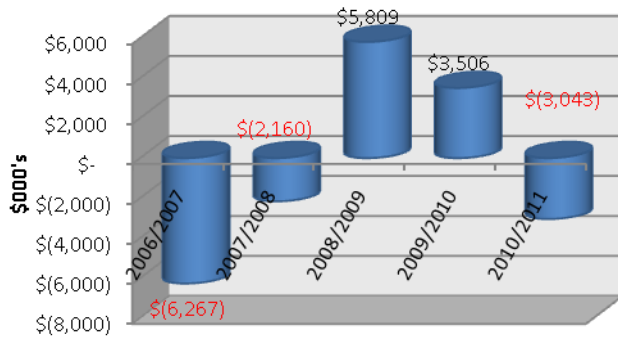


TABLE OF CONTENTS

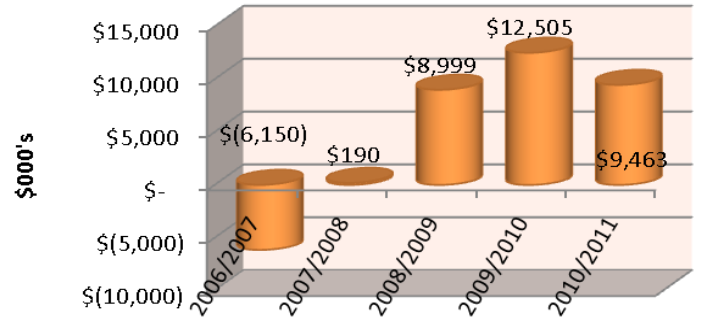
	Page
FIVE YEAR FINANCIAL AND OPERATIONAL HIGHLIGHTS	1
MISSION STATEMENT	2
LETTER FROM THE CHAIRMAN	3
LETTER FROM THE CEO	5
ABOUT CINICO	
✚ Nature & Scope of Activities	8
✚ Organization Chart	10
✚ Business Partners	10
✚ Strategic Goals and Objectives	12
✚ Risk Management	13
✚ Business Environment and Outlook	14
BOARD OF DIRECTORS & COMMITTEES	
✚ Board of Directors	15
✚ Executive Committee	16
✚ Finance/Audit Committee	17
✚ Risk & Appeals Committee	18
✚ CEO Recruitment Committee	19
✚ Other	19
✚ Director & Committee Fees	20
2010/11 OPERATIONAL HIGHLIGHTS	21
FINANCIAL HIGHLIGHTS	26
SUMMARY OF OWNERSHIP PERFORMANCE TARGETS	48
STATEMENT OF OUTPUTS DELIVERED TO CABINET	51
APPENDIX – AUDITED FINANCIALS STATEMENTS	55

FIVE YEAR FIANCIAL AND OPERATIONAL HIGHLIGHTS

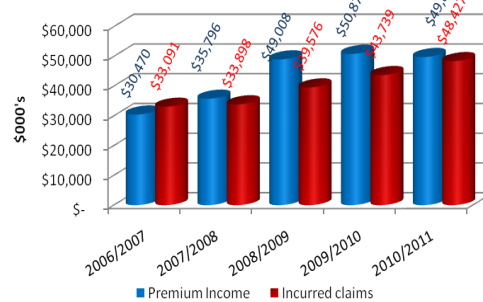
Net Income/(Loss)



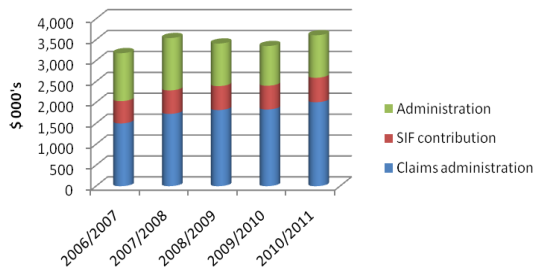
Shareholder's Equity



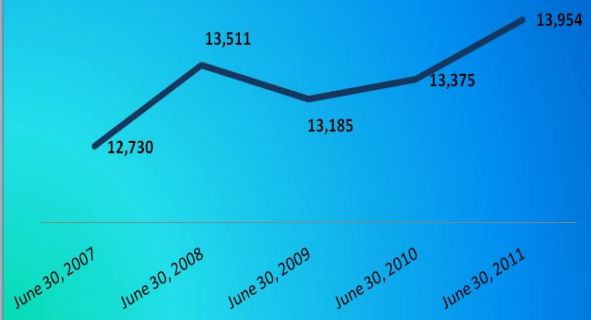
Premium Income versus Claims Incurred



Total Expenses



Membership



MISSION STATEMENT

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



LETTER FROM THE CHAIRMAN

Dear Shareholder,

CINICO continues to work with the Government in meeting their financial goals in cost reductions. As a result, CINICO has provided \$2.9 million in Government premium discounts in 2010/11 and recorded a \$0.5 million provision for a Government claim liability. CINICO did this in spite of the fact that these actions would lead to a reduction in our capital base, and lead to a loss of \$3.0 million in 2010/11. As the CEO reports in his accompanying message, had it not been for these concessions, CINICO would have earned a profit of \$0.3 million in 2010/11.

We continue to face the challenge of assisting Government in meeting their expense targets and as a result provided further premium discounts in the 2011/12 year which amount to \$3.7 million. Combined with 2010/11, overall concessions amounted to \$7.0 million. While we recognize our role in assisting Government to meet its financial targets, we cannot continue to make any further concessions as this would jeopardize our good standing with the Cayman Islands Monetary Authority in addition to posing liquidity problems for the Company which could impact our access to the re-insurance market.

As at June 30, 2011, the Government owes CINICO \$9.9 million. This balance cannot be paid until Government seeks a supplemental appropriation. As you will see in the financial section of this report, \$4.1 million of the overall balance originated from the 2008/9 year. Given the age of the receivable and without a guarantee of payment from the Government, our auditors required that this amount be written-off. A guarantee of payment and a first installment payment was only recently received, hence the delay in the issue of this report and the cause for CINICO not meeting the 2010/11 year-end reporting deadline. It should be noted that we now face a similar issue in the 2011/12 year for unpaid 2009/10 balances.

In relation to our operations, CINICO has undergone some important changes in 2010/11 that will better position the Company in fulfilling its objectives in the years to come.

- Strategic changes were made in the staffing complement of the Company which saw the hiring of a CEO in December 2010 after the post had been vacant for over two years. The CEO along with the Board of Directors has made other changes in the organizational structure of the Company that have and will lead to further improvements in operational performance.
- In June 2011, we wrapped up our review of short listed case management providers, and subsequently in August 2011 selected MMSI (a subsidiary of the Mayo Clinic) to provide overseas case management services.
- In collaboration with our sister company, the Cayman Islands Health Services Authority, we have embarked on the development of the “Electronic Verification

Adjudication System” (EVAS), with an expected implementation date in the first half of 2012.

- Additional changes are highlighted in the section entitled “2010/11 Operational Highlights” within this annual report.

I would like to commend the directors for their hard work and efforts throughout the year. As a Board, we are committed to ensuring that CINICO is successful in the years to come by creating value for our shareholder and the members we serve. We have initiated a strategic planning process and will be using the results of a customer survey to improve our relationship and responsiveness to our members needs. We also look forward to solidifying our strategic partnership with MMSI and to using their expertise to make a real difference in the health of our members and reduce overseas costs. In addition, we continue to press ahead with the full implementation of the EVAS, development of local and overseas provider networks, and implementation of local case management. These are indeed exciting times in the history of CINICO.

Finally, on behalf of the Board of Directors, I would like to congratulate management and the staff of CINICO for their tireless efforts throughout the year.

Scott Cummings
Chairman of the Board

June 2012

LETTER FROM THE CEO

Dear Shareholder,

This is my first year at the helm of CINICO and I am truly honored to be a part of such a unique and dynamic organization. This year has been very challenging as we continue to adapt to a slow economy, an ever changing marketplace, and multiple budgetary constraints. To meet these challenges, we have implemented various operational strategies, strengthen our partnerships with all our stakeholders and acquisitioned a major component the EVAS/CarePay system and the restructuring of agreements in an effort to reposition the Company for future success.

With our customers the main focus of our efforts, we made decisions that would refocus our business model, enhance our customer service and strengthen our commitment to our shareholder.

As shown in the table below, these efforts resulted in a pre-discounted premium profit of \$334,969 (Net income before concessions).

Income:		
Net premium income before concessions	\$	51,901,669
ASO fees, investment and other income		469,681
Total income before concessions		52,371,350
Expenses:		
Claims incurred		48,426,934
Underwriting expenses		2,592,191
Administration expenses		1,017,256
Total expenses		52,036,381
Net income before concessions		334,969
Concessions:		
Civil Servant premium discount		2,842,707
Provision for Government liability		534,836
Total Concessions		3,377,543
Net Loss		\$ (3,042,574)

Operational and Strategic objectives achieved:

- Acquisition of the electronic verification and adjudication system with the Cayman Islands Health Services Authority.
- Upgrading and rebranding of our SHIC plans: Affordable, Challenger & Silver.
- Restructuring of TPA Claims Administration contract.
- Initial Development of both Local and Overseas Networks.

I am very proud of our accomplishments in my first year and personally want to thank the dedicated employees who welcomed me to the CINICO family and whose efforts' made all of our successes this year possible.

As we embark on 2012, we continue to strengthen our commitment to our customer and our shareholder. We have begun to implement a number of changes and development strategies that we feel will strengthen us financially and simultaneously place CINICO in a position to capitalize on opportunities.

Future Plans and Strategies

- Completion of both Local and Overseas Networks
- Complete Case Management RFP
- Introduce Case Management to locally based care
- Develop New Medical Plans
- Develop Post-Retirement Medical Assurance Plan
- Active participation in the Health Cost Review Committee

In closing, I want to express how privileged I am to be a part of this Company and as we reflect on this year, I must reiterate that our many achievements this year are directly attributable to the congruent efforts of the board, management and staff.

My Staff and I thank you for your support through the years and we look forward to continuing to serve the people of the Cayman Islands.

June 2012

ABOUT CINICO

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 overseas 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. On occasion the Company also handles certain overseas referrals in-house, employing its own case rates and network access.

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.

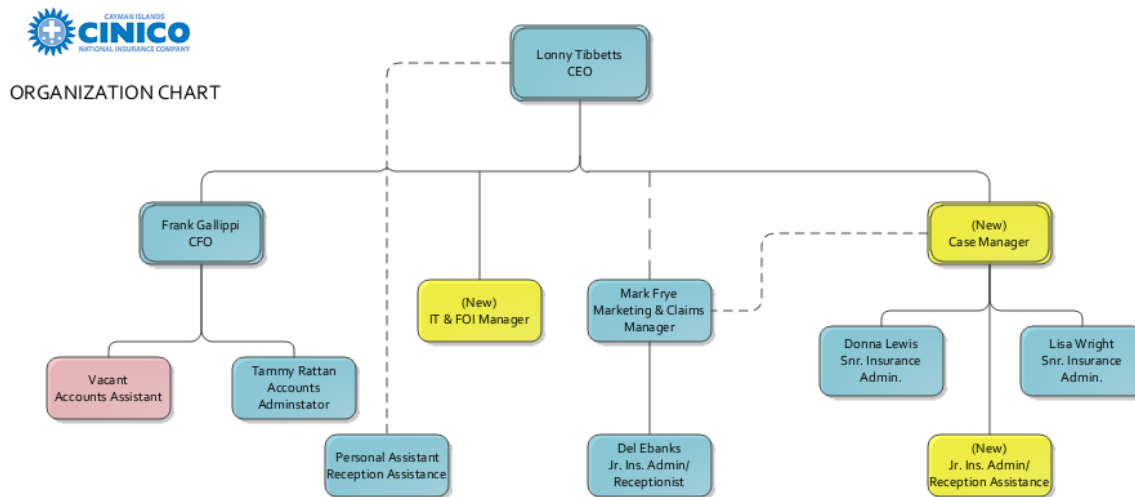
The Company's insurance policies are structured such that the primary network provider is the Cayman Islands Health Services Authority ("CIHSA"). If a member of CINICO is in need of medical care (or dental care for those plans that offer dental coverage) the member must go to CIHSA for treatment. If the medical practitioner (or dental practitioner) has determined that services are unavailable at CIHSA, then approval for treatment by the CINICO complimentary network is sought by the attending practitioner. Medical treatment is approved by the Chief Medical Officer and dental treatment is approved by the Chief Dental Officer. The CINICO complementary network includes other Cayman Islands medical/dental providers, as well as medical providers in over 130 countries around the world which are accessed through CINICO's overseas care management consultant. CIHSA earns a very large share of the Company's claim dollar. For the year ending June 30, 2011, CIHSA's paid claims accounted for 60% of the Company's overall paid claims.

CINICO provides the Cayman Islands Government with a management infrastructure (since the Company has its own Board of Directors and committees of the Board), 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.

As a Class "A" Insurance Company, CINICO is required by CIMA, to maintain a minimum net worth of \$3,000,000. As at June 30, 2011, the Company's capital position was \$9.5 million and fully compliant with CIMA's minimum requirement.

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

Organization chart



Business partners

The Company uses the following service providers:

Simplifi (formerly CBCA) – Based in the United States, Simplifi provides claims administration, eligibility, and other services. Simplifi has been providing services to the Company since 2004.

Canadian Medical Network (CMN) – Based in Canada, CMN provides case management, utilization review, and other medical management services. CMN also provides access to a wide provider network at discounted rates. CMN has been providing services to the Company since August 2005.

Advanced Integrated Systems Ltd. (AIS)

Based in Jamaica, AIS was chosen by CIHSA and CINICO in December 2010 to implement a real-time electronic verification adjudication system (“EVAS”). See section entitled “2010/11 Operational Highlights” on page 21 for further details.

Willis Re Inc. – Based in the United States, Willis Re Inc., is the Company’s broker in procuring and maintaining reinsurance coverage. They have been providing services to the Company since July 2005.

Presidio – Based in the United States, Presidio provides the Company with reinsurance coverage on behalf of the Lloyd’s Syndicate #382. CINICO first acquired reinsurance coverage with Presidio in July 2005. For details on the Company’s 2010/11 reinsurance program, see the section entitled “Reinsurance Premium” on page 41. Presidio also

provides the Company with value added services such as; access to specialty provider networks (transplant, cancer, neonate, etc.), large claim review, hospital bill audits, medical management support program, etc.

Oliver Wyman Actuarial Consulting – Based in the United States, Oliver Wyman Actuarial Consulting has been providing actuarial services to the Company since January 2008.

Turner and Roulstone – Based in the Cayman Islands, Turner and Roulstone has been providing the Company with legal services since the Company's inception.

PriceWaterhouseCoopers (PwC) – Based in the Cayman Islands, PwC has been the Company's external auditor since the Company's inception.

Strategic Goals and Objectives

In the Company's 2010/11 Ownership Agreement the following key strategic goals and objectives (from an ownership perspective) were:

- To provide health insurance to civil servants, pensioners, seamen, veterans and their dependants, and individuals qualifying as elderly (Silver plan), health impaired (Challenger plan) or low income (Affordable plan) residents.
- To administer on behalf of the Ministry of Health, Environment, Youth, Sports and Culture ("Ministry of HEYS&C"), the provision of health benefits to indigents.
- To administer on behalf of the Ministry of HEYS&C, the provision of overseas health benefits to Seaman & Veterans and their dependents.
- To administer on behalf of the Ministry of Finance, Tourism & Development the provision of health benefits to advance patients.
- To advise the Ministry of HEYS&C, 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.
- Upon the completion of a claim administration system, to expand the local claim adjudication expertise within the Company. This includes case management expertise.
- To complete a tender for one company providing claims administration and case management services ("TPA"). The mandate of the TPA would be to assist CINICO in its strategy in setting up a local claims administration and case management infrastructure. This will be achieved over a period of two to three years.
- To finalize and execute the usage of CINICO's own provider network.
- To secure appropriate reinsurance coverage, to minimize company risk and improve claim loss predictability.

During the fiscal year ending June 30 2011, the Company has been compliant in all respects with the achievement of the above goals and objectives, with the exception of:

Expanding local claim adjudication expertise within the Company:

In December 2010, CINICO and the Cayman Islands Health Insurance Authority ("CIHSA") awarded a contract to Advanced Integrated Systems (AIS) to implement an Electronic Verification Adjudication System ("EVAS") which would eliminate having to outsource the claims adjudication function. The system is expected to be fully implemented by the first calendar quarter of 2012. In conjunction with the completion of the implementation of EVAS the Company expects to expand the local claims adjudication expertise by the second calendar quarter in 2012. There is also a plan to add a local case manager by the first quarter of 2012 or sooner.

Making a final case management company selection:

In 2010, the Company tendered for case management services. The evaluations of the tenders were complete by the end of June 30, 2011. The selection of the winning bidder was finalized and accepted by the Central Tenders Committee in September 2011.

To finalize and execute the usage of CINICO's own provider network

The Company plans to complete this initiative by the first calendar quarter of 2012.

Risk Management

Per the 2010/11 Ownership Agreement with the Shareholder, the following key risks have been identified;

Key risks	Change in risk status from previous year	Actions taken in 2010/11 to manage risk	Financial value of risk
Claim losses higher than what can be supported by revenues	Shareholder provided premium discount. (see "2010/11 OPERATIONAL HIGHLIGHTS", "Capital Levels")	Care Management company engaged to manage and control overseas cases. CINICO negotiated contract with a hospital providing cardiovascular services at exceptional rates. Reinsurance arrangement in place to limit the Company's risk to large claims. Weekly review of large claims by GM/claims manager & CMO and monthly by Risk/Appeals Committee. Large claim reviews and forensic audits by Reinsurer (Presidio).	Not quantifiable.
Incomplete or missing claims from our major provider, The Cayman Islands Health Services Authority	Continuing improvements made to HSA's timely filing, better coding,	Working with the Cayman Islands Health Services Authority to improve claim submission controls.	Not quantifiable.
Risk that our reinsurance company will be unable to pay its liabilities		Reinsurance reviewed every year. As part of the review creditworthiness is looked at. Our current reinsurer has an AM Best rating of A.	Approximately \$500k based on average historical amounts.

During the course of the 2011/12 fiscal year, the Company will document a more formal "Risk Management Framework" (RMF) as required by CIMA's rule 9. The RMF requires Board of Directors' sign off, and requires a periodic third party independent review. Management has completed a draft RMF document which will be reviewed by the Finance/Audit and Risk & Appeals Committee, prior to obtaining final signoff and approval by the Board of Directors.

The RMF will document structures, processes and resources within the Company that identify, assess, mitigate and monitor all internal and external sources of risk such as:

- Credit risk
- Insurance underwriting and reinsurance
- Investment risk
- Market risk (including liquidity risk)
- Strategic and tactical risk
- Concentration risk
- Compliance risk
- Operational risk (including outsourcing and business continuity)
- Other risks

Business Environment and Outlook

Management and the Board of Directors are keeping abreast of the general healthcare and Insurance climate in the Cayman Islands and abroad. Several changes will affect the Company in the coming year(s):

- Proposed changes to the insurance law would impose a risk-based approach in determining a company's statutory capital, instead of the current \$3.0 million minimum required for all Class A insurers.
- Under the revision to the Health Insurance Law, benefits for the Standard Health Insurance Contracts (SHIC) would be increased to allow for greater outpatient and inpatient care coverage.
- The proposed on-island construction of the Shetty hospital would certainly decrease the number of overseas referrals. However this would not have an impact on CINICO for quite some time as the facility would be built in phases over a ten year period.
- The review and possible increases to CIHSA's charge master, and the country's standard health fees, would have an impact of increased healthcare costs and thus would affect premium rates.

BOARD OF DIRECTORS AND COMMITTEES

BOARD OF DIRECTORS

Directors are chosen by the shareholder. All Director appointments are subject to the approval of the Cayman Islands Monetary Authority, since the Company is licenced under the Insurance Law. In order to obtain approval a Director must provide appropriate due diligence documentation which may include the completion of a personnel questionnaire form, three letters of reference, police clearance certificate or affidavit, and notarized photographic identification.

Membership of the Board of Directors

It is the intention of the Company to have a Board of Directors with representation from the following areas:

- | | |
|--|---|
| A. Chief Officer of the Ministry of HEYS&C | E. Legal background |
| B. Insurance background | F. Medical background |
| C. Actuarial background | G. Representative from the Seaman & Veterans groups |
| D. Accounting/financial background | H. General |

The membership of the Board of Directors comprises of the following individuals and backgrounds.

Board of Directors' Backgrounds

	Chief Officer	Insurance	Actuarial	Accounting/ Financial	Legal	Medical	Seaman & Veterans rep	General
Scott Cummings ⁽¹⁾					✓			
Seamus Tivnan ⁽²⁾		✓		✓				
Jennifer Ahearn	✓							
Carl Brown		✓						
Armando Ebanks				✓				
Darlee Ebanks								✓
Godfrey McLean							✓	
Dr. Ruthlyn Pomares						✓		

(1) Chairman

(2) Deputy Chairman and Chairman of Finance/Audit Committee

The Board of Directors is currently lacking a director with an actuarial background.

Meetings

The Board is responsible for the strategic direction and overall management of the Company, and may delegate any of their powers to committees consisting of any one or

more of directors as they think fit. The Board of Directors held twelve meetings during the 2010/11 financial year. During the year, the following matters were dealt with at the meetings:

- Approved the 2009/10 Annual Report and Audited Financial Statements.
- Reviewed committee reports.
- Approved Government's request for a 10% discount on the 2010/11 Civil Servant premiums.
- Investigated circumstances arising on the use of a non authorized case management provider – International Health Advisors (“IHA”).
- Approved contract with CIHSA and AIS in the implementation of the Electronic Verification System (“EVAS”).
- Authorized the creation of a CEO selection committee, which met four times, and based on the recommendation of that committee, approved the CEO candidate.
- Received a presentation on the Freedom of Information Act, and the Board's responsibilities under the Act.
- Approved the RFP tender documents for Claims administration and Case management services. And approved the selection of a TPA for claims Administration. The selection of the case management TPA would be made in the 2011/12 financial year.
- Approved quarterly financial statements and reviewed monthly financial highlights.
- Human resource issues.
- Approval of the 2011/12 Reinsurance contract.
- Approved request to discount 2011/12 premium for Civil Servants, Pensioners and Seaman and Veterans.
- Denied request to execute the \$1.4 million budgeted capital withdrawal.

EXECUTIVE COMMITTEE

The Executive Committee is comprised of the Company's Chair, the Chief Officer of the Ministry of HEYS&C, and the Company's CEO. The Committee meets in emergency situations where it is not possible to arrange a Board meeting. The Committee has all of the powers of the Board; however, any decisions of the Committee must be ratified at the next Board meeting.

For the fiscal year ending June 30, 2011, the Committee met one time to deal with the following items: a request from the Shareholder to discount the Company's 2011/12 premium rates for Civil Servants, Seafarer and Veterans, and Pensioners; review the Company's capital position; and decide whether the budgeted capital withdrawal of \$1.4 million should be executed.

Members of the Committee receive no compensation

FINANCE/AUDIT COMMITTEE

Responsibilities

- Advise the Board on all policies for investment of the Company's assets and to ensure that there is compliance with the approved policies.
- Ensure that financial information is being fairly and accurately reported to the Board and, is in compliance with International Financial Reporting Standards ("IFRS").
- Review and recommend to the Board, premium rates and actuarial analysis.
- Review annual financial statements audited by the independent auditors.
- Review monthly financial statements prepared by CFO.
- Review annual proposed budgets prepared by the CFO.
- Review monthly budgets status reports prepared by the CFO.
- Review any management letter points from the independent auditors and implement any recommendations deemed appropriate.

Membership of the Finance/Audit Committee

Seamus Tivnan, Chairman
(Deputy Chairman of the Company's Board of Directors)

Lonny Tibbetts (December 2010 to current)
CEO, CINICO

Frank Gallippi
CFO, CINICO

Carroll Cooper
CFO, The Ministry of HEYS&C

Meetings

The Finance/Audit Committee held three meetings during the 2010/11 financial year; however financial statements are distributed and reviewed monthly via a round-robin review.

The Committee dealt with the following matters during the financial year ending June 30, 2011:

- | | |
|--|--|
| ▪ Reviewed the 2009/10 Annual Report and Audited Financial Statements. | ▪ Reviewed the 2011/12 Budget with a recommendation to the Board. |
| ▪ Reviewed the 2009/10 Annual CIMA return. | ▪ Establish and recommended to the Board, the 2011/12 premium rates for Civil servants, pensioners, Seafarer & Veterans. |
| ▪ Reviewed the 2009/10 Ownership & Purchase Agreements. | ▪ Reviewed the December 31, 2010 Half Year Report. |

- Reviewed the 2009/10 Management Representation letter and report from the Auditor.
- Considered the Shareholder's request for a 10% reduction in the 2009/10's Civil servant premium rates, and made a recommendation to the Board of Directors.
- Reviewed and recommended to the Board, the revised premium rates for SHIC plans.
- Recommended to the Board the selection of the 2011/12 reinsurer and reinsurance coverage.

RISK & APPEALS COMMITTEE

Responsibilities

- Make recommendations to the Board on the suitability of new insured applicants.
- Continual review of all underwritten risks for conformity to any established guidelines.
- Recommend to the Board new eligibility guidelines as needed.
- Recommend new categories of risks to be underwritten by the Company.
- Review the loss control reports from the third party administrator for each insured group.
- Review performance of the third party claims and case management administrator.
- Work closely with those insureds with substantial losses and offer assistance through loss control procedures so an insured can reduce future costs.
- Prepare reports for the presentation to the Executive Committee or the Board of Directors on the overall status of the Company from a loss control standpoint, including detailed reports where necessary.
- Periodically review the large losses.
- Periodically review the insured's satisfaction with the loss control and claims management services provided to the Company.
- Recommend the implementation of the preventative procedures and wellness programs.
- Review appeals from providers or individual claimants.

Membership of the Risk & Appeals Committee

Lonny Tibbetts, Chairman (December 2010 to current)
CEO, CINICO

Carol Appleyard (up to December 2010)
GM, CINICO

Dr. Ruthlyn Pomares
Director

Dr. Gerald Smith
Chief Medical Officer, The Ministry of HEYS&C, CIHSA

Dr. John Vlitos
Chief Dental Officer, CIHSA

Meetings

The Risk & Appeals Committee held nine meetings during the 2010/11 financial year. The following matters were dealt with at these meetings:

- Finalized and recommended to the Board, the RFP document for claims administration and case management.
- Recommended to the Board the selection of the winning bidder for claims management services.
- Reviewed appealed claims.
- Reviewed RFP responses on the case management tender.

Other responsibilities of the Risk & Appeals Committee were informally dealt with at the Management level, in addition to some being handled directly at the Board level. The responsibilities of the Risk and Appeals Committee would be reviewed in 2011/12 to ensure that the appropriate functions are reported at the appropriate levels within the organization.

CEO RECRUITMENT COMMITTEE

Responsibilities

The Board of Directors created this committee for the sole purpose of assisting with the recruiting for the CEO post.

Membership of the CEO Recruitment Committee

Scott Cummings	Chairman
Seamus Tivnan	Deputy Chairman
Armando Ebanks	Director
Dr. Ruthlyn Pomares	Director
Peter Gough	Strategic Advisor in Portfolio of Internal & External Affairs
Marcia Murray	Ministry of HEYS&C Operational Human Resources Manager

Meetings

The CEO Recruitment Committee met four times. The committee screened all CEO candidates and made recommendations to the Board regarding the candidates to be interviewed by the Board in the final round.

OTHER

Along with the Company's CEO and CFO, the Board of Directors authorized Dr. Ruthlyn Pomares to conduct on-site visits of the "short-listed" case management companies from the case management tender. A total of four locations were visited, and five meetings were held with the potential candidates.

DIRECTOR AND COMMITTEE FEES

The table below illustrates the Director and Committee fees paid for the year ended June 30, 2011. Fees are only paid to non-government Directors.

	Fees per Director per meeting	Total Fees Paid
Board of Directors ⁽¹⁾	\$315	\$24,395
Finance/Audit Committee	150	450
Risk & Appeals Committee	150	1,350
CEO Recruitment Committee	150	2,100
Other	315	1,575
Total		\$29,870

(1) Fees for the first two Board meetings were \$350 per meeting, subsequently the Board voted to decrease their fees by 10%, which continues to be in effect for the 2011/12 year. However, subsequent Boards may elect to reinstate the previous \$350 per meeting.

2010/11 OPERATIONAL HIGHLIGHTS

The operational highlights of 2010/11 are as follows:

Staffing

After two years of vacancy, the CEO post was filled in December 2010. However from February 2011, the GM post remains vacant.

As at the date of this report, the current complement of staff is 9 employees, which included 2 vacant positions. In the coming year, the organizational structure and staffing levels will be reviewed in light of the additional functions that will be performed in-house as a result of the “EVAS” initiative and possible increase in the members insured.

Electronic Verification Adjudication System (“EVAS”)

In December 2010, the Company, along with the CIHSA, signed an agreement with Advance Integrated Systems Ltd. (“AIS”), to implement a real-time electronic verification adjudication system (“EVAS”). The implementation is being co-sponsored by the CIHSA. The total contract cost of implementation is estimated at US\$1.372 million, not including travel and any additional consulting fees. CIHSA and the Company are equally sharing the costs.

The EVAS would change how eligibility verification and claims adjudication are performed. CINICO’s insured members would be given a swipe card (“CAREPAY” card), which would be presented at the CIHSA at the time of service. The swipe card would enable

instant verification of eligibility, benefits, provide “real-time” adjudication of the claims, and determine any patient out of pocket expenses if applicable. This would streamline the whole process at both the CIHSA and CINICO and significantly reduce CIHSA’s bad debts.

AIS, CIHSA, and CINICO management have weekly steering committee meetings. To date, all CAREPAY cards have been printed for distribution to members in October 2011. At first, only eligibility verification would be performed at the point of service. Real-time claim adjudication would be fully implemented in the first half of 2012.

The initial implementation phase would employ the EVAS for only CIHSA claims. Subsequently, the EVAS would be rolled out to other local providers, and eventually the EVAS would be used to adjudicate overseas claims (although this can’t be done in real-time). The full integration of the EVAS would ultimately make reliance on the Company’s TPA redundant, creating additional opportunities within the Company, and providing small cost savings and greater control.

RFP Tender for claims administration & case management

In the early part of the fiscal year, the Company issued an RFP for claims administration and case management services, with the aim of replacing the then two TPAs performing these

functions with one company. However, with the EVAS project on board in December 2010, the direction of the tender changed. It was only necessary to contract with a TPA providing case management services, as the EVAS would make the claims administration TPA redundant. Thus, the Company closed out the Tender and awarded the contract for claims administration services to the current TPA – Simplifi. By the end of 2010, a new RFP was issued for case management services only. The Risk & Appeals Committee, along with the CFO, was charged with the task of evaluation the responses from interested companies and recommending the winning bidder. In May 2011, on-site visits were conducted with three companies representing the Risk & Appeals Committee's short-list. A recommendation was made and approved by the Board of Directors. The recommendation was presented and accepted by the Central Tenders Committee (CTC) in September 2011. MMSI has been approved to provide the Company with overseas care management services.

Capital levels

During the fiscal year, management and the Board of Directors have been dealing with liquidity, solvency and minimum required capital levels, in light of aged receivables from government requiring supplementary appropriations, requests from the shareholder to lower premium, and a 2010/11 budgeted capital withdrawal.

At the request of the Shareholder, the Board of Directors has approved premium reductions for the 2010/11 and

2011/12 fiscal years. In turn, the Board of Directors received indemnification coverage, and subsequent to the financial year, the Company received a partial payment for the 2008/9 outstanding balances requiring supplementary appropriation and a guarantee for the remaining balance to be paid by three annual equal installments.

Prior to approving the reductions in premium rates, a reduced benefit plan which fit in with the Shareholder's premium budget, was presented to the Shareholder for illustration purposes. However, the Shareholder was not in a position to reduce Civil Servant benefit levels.

In ensuring the Company remains solvent and above CIMA's minimum capital requirement of \$3.0 million, the Board of Directors denied a 2010/11 budgeted capital withdrawal of \$1.4 million, as the Company has \$9.9 million in outstanding receivables from the Shareholder. See Table 3 on page 30, and the Section entitled "Shareholder's Equity" on page 32 for further details.

International Healthcare Advisors ("IHA")

In the early part of the fiscal year, management brought to the Board of Directors attention the use of IHA for case management services on certain overseas referrals. As CMN is the Company's selected provider for overseas case management, the Board investigated of the circumstances leading to the use of IHA, and decided to discontinue using IHA. The CTC and Auditor General's Office were also advised of a possible violation of the CTC's tendering rules.

However, in the interest of continuity of service to the patient, it was decided that IHA continue to manage any cases in progress up until the conclusion of the case.

For the cumulative years ending June 30, 2010 and June 30, 2011 approximately 5% of the overall overseas referrals were handled by IHA.

Reinsurance contract

Both the 2009/10 and 2010/11 reinsurance experience was favorable to the Company, and very unfavorable to the reinsurance carrier. During these contract years, the Company will receive up to \$3.3 million in claim recoveries, based on a premium of \$1.5 million, for a net gain of \$1.8 million (see section entitled “Reinsurance Claims on page 43). As a result, the reinsurance carrier (Presidio) advised the Company of substantial premium rate increases on the 2011/12 contract and hence, the Company decided to go out to tender.

In March 2011, the Company issued an RFP to determine if it could have received better rates from other reinsurance carriers. Upon review of the bids, the Company awarded the contract to its existing reinsurance carrier (Presidio), as they provided the lowest bid compared with other carriers, and provided many value added services to the Company. Of note, as a result of the tender process, Presidio decreased their bid from the earlier quote.

Audit of overseas claims

During the fiscal year, management met with representatives from the Auditor General’s Office to discuss the scope and approach of a scheduled audit on overseas healthcare costs and protocols. In short, the objective of the audit is to determine if the Company is providing overseas health management services on the most cost effective basis possible.

Due to the complexity and constantly changing dynamics of the overseas health market, the heavy reliance placed on third parties in delivering services, and the little restrictions in terms of choice of the various plans administered by CINICO, the audit is fully supported by the Company as it will: receive valuable and independent recommendations to improve processes and reduce overseas costs; bring to the fore-front the need for change in the selection of overseas providers and the need to be more “hands-on” which in the current environment is challenging due to a staffing complement of eight.

The report, along with management’s comments, was finalized in May 2012 and can be found on the Auditor General’s Office website (www.auditorgeneral.gov.ky).

Standard Health Insurance “(SHIC)” Plan

The Company is proud to report that it is able to keep the SHIC plans at affordable levels. SHIC premium rates have not increased since July 2007, despite increases in overseas utilization and CIHSA’s rates in 2009. However, due to continued increases in utilization and underwriting losses, it was necessary to

increase the premium rates which came into effect on August 1, 2011. With a an increase of 7% for Low Income plans, and 13% for Health Impaired and Elderly plans, the Company feels that the pricing is very competitive.

Along with the increased premium rates, the Company also increased the air ambulance benefit from \$4,000 to \$15,000. This was necessitated as the previous air ambulance benefit was severely insufficient and as a result, in certain circumstances, the patient would be provided temporary indigent coverage for the medical incident thus driving up costs on the indigent plans.

Finally, effective August 1, 2011, the Company changed the name of the plans as follows:

- Affordable – formally Low Income.
- Challenger – formally Health Impaired.
- Silver – formally Elderly.

For quite some time, the Ministry of HEYS&C has been reviewing the current levels of SHIC benefits with an aim to increase them. The Company, along with the local insurance industry has been

involved in discussions on this matter and as a result the Ministry of HEYS&C is near a final proposed benefit structure. At the request of the Ministry, the Company completed a pricing study on the premium impact of the proposed increased benefits. It is expected that the Ministry would introduce the final SHIC benefits in 2011/12, at which time all insurance carriers are to offer this product as their lowest level of coverage.

Civil Servant Summary Plan Document (“SPD”)

The SPD is a document that outlines the terms, conditions, and benefit levels of the Civil Servant Health Plan (also including retired Civil Servants). The SPD has been in existence since the inception of CINICO and bases on the benefit inclusions, is used pay claims. During past years, attempts have been made to finalize the SPD. The Company is pleased to announce that as at the date of the annual report (June 2012), the SPD was finalized and signed-off by the Company and the Portfolio of the Civil Service (POCS).

Moving forward

With the acquisition of the EVAS, and the selection of an overseas case manager, Management will begin the exercise of integrating these strategic initiatives into the operations of the Company. This would include the implementation of a local case management role.

The Company would continue to be actively involved in lowering healthcare costs. This would be achieved by; forging new relationships with local care providers with the aim of lowering costs and lowering the need for overseas referrals; implementing local case management, and in partnership with CIHSA, deliver improved patient care both locally and for returning overseas patients; embarking on the development of an overseas network

specifically designed to maximize discounts based on past utilization and diagnoses trends; participation in the health cost review committee; the development of a post retirement health plan which would limit future governments burden of having to fully fund healthcare costs for retired individuals from certain sectors; working closely with our overseas case management TPA in scrutinizing claims, and ensuring that overseas medical care continues to be pre-authorized and delivered in accordance with industry standards (i.e. Milliman guidelines); and obtain appropriate levels of reinsurance coverage to cap the Company's insurance risk.

In the coming year(s) it is both Management's and the Board's desire in expanding our insured member base. This will be done by attracting other statutory authorities and government companies into the current Civil Servant plan, in addition to developing other products such as creditor life insurance and post retirement medical assurance plans.

FINANCIAL HIGHLIGHTS – TABLE OF CONTENTS

	Page
Cash and cash equivalents	28
Premiums receivable	28
ASO claims and fees receivable	29
Outstanding amounts requiring supplementary appropriation	30
Other receivables and other assets	30
Provision for claims incurred	31
Shareholder's equity	32
Net Income/(loss)	34
Underwriting income/(loss) by business category	36
Loss ratios	38
Premium income	40
Reinsurance premium	41
Claim Losses	
Claims incurred	41
Reinsured claims	43
Per Member Per Month Incurred Claim Costs	44
Expenses	46

INVENTORY OF TABLES

	Page
Table 1: Financial Highlights	28
Table 2: Aging of premiums receivable	29
Table 3: Aging of balances outstanding	30
Table 4: Movement and Breakdown of Shareholder's Equity	32
Table 5: Sources of Net Loss for year ending June 30, 2011	34
Table 6: Sources of Net Income for year ending June 30, 2010	35
Table 7: "Hindsight" underwriting income/(loss) by business category	37
Table 8: Average number of covered lives insured	40
Table 9: Incurred Claim Losses	42

INVENTORY OF GRAPHS

	Page
Figure 1: Hindsight underwriting income/loss by business Category	37
Figure 2: 2009/10 Premium, Claims, Loss Ratios	39
Figure 3: 2010/11 Premium, Claims, Loss Ratios	39
Figure 4: Gross Premium Income by Business Category	40
Figure 5: Group 30100 – Non Pensioners: PMPM claim costs	44
Figure 6: Group 30100 – Pensioners: PMPM claim costs	45
Figure 7: Group 30101 – Seaman & Veterans: PMPM claim costs	45
Figure 8: Group 30104 – SHIC: PMPM claim costs	46
Figure 9: Expenses by category	46

2010/11 FINANCIAL HIGHLIGHTS

Unless otherwise stated, all figures are reported in Cayman Islands currency. The 2010/11 budget reflects the budget approved by the Board and sent to government, which may not be reflective of the budget reported by government.

The financial highlights for the years ended June 30, 2011, June 30, 2010 and the year-ended June 30, 2011 budget are illustrated in Table 1.

Table 1
Financial Highlights

For financial year ending June 30			
	Current year	Current year budget	Prior Year
<i>Balance sheet</i>			
Cash and cash equivalents	\$ 8,835,451	\$ 10,609,109	\$ 13,744,588
Premiums receivable	2,747,005	10,339,328	1,429,230
ASO claims and fees receivable	7,867,157	3,500,000	6,767,721
Other receivables and other assets	3,398,353	2,000,000	1,372,488
Provision for claims incurred	11,753,117	9,513,334	8,870,416
Shareholder's equity	9,462,583	11,742,913	12,505,157
<i>Statement of comprehensive income</i>			
Net income/(loss)	\$ (3,042,574)	\$ 1,168,172	\$ 3,505,939
Premium income	49,815,545	52,242,863	50,869,556
Claims incurred	48,426,933	46,842,711	43,739,305
Total expenses	4,144,284	4,022,488	3,350,602

Cash and cash equivalents

Cash and cash equivalents is comprised of cash at the bank and fixed deposits (cash on hand). For the year ending June 30, 2011, the cash on hand decreased to \$8.8 million from \$13.7 million in the prior year, and is \$1.8 million lower than the projected budget amount. The decrease in cash on hand is due to lower cash flow from operational activities resulting from lower premium, higher claims paid, and larger receivable balances.

Despite the decrease in cash on hand over the prior year, the cash position is fairly strong and represents approximately two months of working capital requirements (prior year – two and a half months).

Premiums receivable

Premiums receivable increased by \$1.3 million from the prior year to \$2.7 million as at June 30, 2011. Despite 2010/11 premium rate decreases to our largest client, the civil service (Group 30100), the increase in premiums receivable is as a result of prior year

receivable balances from the Ministry of HEYS&C which require supplementary budget appropriations prior to settlement. Table 2 below shows the aging of the premiums receivable. As is evident from the table, \$2.1 million, out of the total premiums receivable of \$2.7 million requires supplementary appropriation. A further discussion on these outstanding balances is deferred to the section entitled “outstanding amounts requiring supplementary appropriation”.

Table 2

Aging of premiums receivable						
	Current year		1 year ago	2 years		Total
	46 days to 1		(2009/10)	ago(2008/9)		
	0-45 days	year				
Amounts requiring supplementary budget appropriation						
CIN 1 - Seafarers and Veterans	\$ 614,848	\$ -	\$ 499,830	\$ 757,136	\$	1,871,814
CIN 2- Civil Servant Pensioners		202,896				202,896
<i>Subtotal</i>	<i>\$ 614,848</i>	<i>\$ 202,896</i>	<i>\$ 499,830</i>	<i>\$ 757,136</i>	<i>\$</i>	<i>2,074,710</i>
Others						
Ministries and Portfolios	\$ 549,396	\$ 44,992	\$ 64,001	\$ -	\$	658,389
Private insureds	13,906	-	-	-		13,906
<i>Subtotal</i>	<i>\$ 563,302</i>	<i>\$ 44,992</i>	<i>\$ 64,001</i>	<i>\$ -</i>	<i>\$</i>	<i>672,295</i>
Total	\$ 1,178,150	\$ 247,888	\$ 563,831	\$ 757,136	\$	2,747,005

Compared with budget, the current year premium receivable is \$7.6 million lower. The difference is due to the following reasons. First, the 2010/11 civil service actual premium rates were discounted by ten percent (the budget did not contain a discount). Second, the budget assumed the invoicing of July 2011 premium with an offsetting liability. And finally, the budget assumed a slower-pace in collections from government entities

ASO claims and fees receivables

The Company administers health benefits for Indigents (not including medical services provided at the CIHSA) and overseas health benefits for the Seamen & Veterans plan (Group 30101) on behalf of the government (Ministry of HEYS&C). The funding for these services is provided through the government budget as appropriated under the NGS 55 output (Tertiary Care at Various Overseas Institutions).

For the year ending June 30, 2011, ASO claims and fees receivable has increased by \$1.1 million to \$7.9 million. The majority of the balance, \$3.4 million, relates to receivables from the 2008/9 fiscal year which requires a supplementary appropriation. The remaining balance of \$4.5 million relates to current year outstanding amounts. The next section entitled “outstanding amounts requiring supplementary appropriation” deals with the collection of these balances.

Compared to the budget, the ASO claims and fees receivable as at June 30, 2011 is \$4.4 million greater. The budget assumed that the outstanding amount from 2008/9 would have been collected by the end of the year June 30, 2011.

Outstanding amounts requiring supplementary appropriation

As at June 30, 2011, the Company is owed \$9.9 million from government for Cabinet outputs CIN 1, CIN 2 and NGS 55. Table 3 provides an ageing of these outputs.

Table 3

Aging of balances outstanding				
Year outstanding	2008/9	2009/10	2010/11	Total
<u>Cabinet output</u>				
CIN 1 - S&V local care	\$ 757,136	\$ 499,830	\$ 614,848	\$ 1,871,814
CIN 2 - Pensioner plan			202,896	202,896
NGS 55	3,376,820	6,145	4,484,192	7,867,157
	\$ 4,133,956	\$ 505,975	\$ 5,301,936	\$ 9,941,867
<u>Events subsequent to June 30, 2011</u>				
Appropriation/ payment (NGS55)	\$ (276,354)	\$ -	\$ (3,458,166)	\$ (3,734,520)
Appropriation/payment (Cin 1 & 2)	(757,136)		(35,482)	(792,618)
	\$ (1,033,490)	\$ -	\$ (3,493,648)	\$ (4,527,138)
	\$ 3,100,466	\$ 505,975	\$ 1,808,288	\$ 5,414,729
Government letter of commitment	\$ (3,100,466)			\$ (3,100,466)
Amounts outstanding	\$ -	\$ 505,975	\$ 1,808,288	\$ 2,314,263

Prior to the close of the year, an emergency supplemental budget of \$3.5 million was granted for the 2010/11 NGS 55 output, however only \$3,458,166 was paid subsequent to June 30, 2011. In addition, a \$35k payment was made on the 2010/11 CIN 2 output. The balance of the 2010/11 CIN 2 (\$167k), and NGS 55 (\$1.0 million) would require supplemental appropriation, along with the \$0.6 million CIN 1 output. In addition on March 28, 2012, the Company received the first installment on the 2008/9 receivable. The remaining portion is guaranteed to be paid with three equal installments paid annually commencing with the 2012/13 fiscal year.

After the subsequent payments and guarantee, the Company's receivable balance requiring supplementary budget appropriation, amounts to \$2.3 million. Management and the board are pursuing the collection of the amounts.

Other receivables and other assets

As at June 30, 2011, other receivables and other assets were \$3.4 million, representing an increase of \$ 2 million from the prior year. The increase is solely attributed to an increase in receivables for claim recoveries which the Company is entitled to as per the terms of its Reinsurance treaty with Presidio. Subsequent to June 30, 2011, the Company has collected a majority of the balance.

Provision for claims incurred

Provision for claims incurred has increased from \$8.9 million at June 30, 2010 to \$11.8 million at June 30, 2011. The increase of \$2.9 million is largely driven by overseas provisions which account for approximately sixty-seven percent of the overall total provision for claims incurred. As at June 30, 2011 there were ten large cases with case reserves totaling \$3.5 million, compared with the prior year's four cases, with case reserves totaling \$1.5 million. The average per case, overseas unsettled balance as at June 30, 2011 was \$18,000 and approximately \$11,000 as at June 30, 2010.

The provision for claims incurred, also known as IBNR claims (Incurred But Not Reported), is determined 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 realized in the future. Such assumptions include: the severity of losses, claims utilization factors, claim payment patterns, provider discounts, the outcome of patients' medical condition, length of inpatient stays, etc. As assumptions are used, the ultimate ("hindsight") reserve liability may be in excess of or less than the original estimates. The hindsight reserve liability would only be known with the passage of time, which is usually no greater than one year.

During the course of the year ending June 30, 2011, the outstanding claims from the previous year (2009/10) were fully settled. The hindsight information has shown that the assumptions used in the provision for claims incurred as at June 30, 2010 were conservative, such that the ultimate claim payments were \$3.0 million lower than originally estimated – favorable development. As such, the change in provision for claims incurred for the year ending June 30, 2011, includes a \$3.0 favorable release of provision from the prior year. This release is offset by a \$0.3 million release in reinsurance recoveries, for a net 2009/10 favorable development of \$2.7 million, which is recorded in the year ending June 30, 2011. In comparison, the change in provision for claims incurred for the year ending June 30, 2010, included a \$2.5 million favorable release of provision from the 2008/9 year, which was offset by a \$0.2 million release in reinsurance recoveries, for a net 2008/9 favorable development of \$2.3 million,

The \$3.0 million favorable development of 2009/10 experience is broken down as follows – overseas component of \$2.8 million, and a local component of \$0.2 million. The overseas favorable development relates to better than expected case outcomes, as well as conservative reserving assumptions used in the prior year.

The provision for claims incurred as at June 30, 2011 represents approximately two-and-a-half months of claims (six months for overseas claims and one month for local claims). Last year's provision represented two months of claims (four months for overseas, and one month for local claims). The increase is due to a higher number of overseas unsettled case reserves compared with the prior year. Overseas claims would naturally have a longer settlement time due to the complexity of the cases referred.

The budgeted provision for claims incurred was \$9.5 million or \$2.3 million below the actual amount as at June 30, 2011. The difference is essentially due to a higher number of actual overseas unsettled cases than assumed in the budget.

Shareholder's equity

As a Class "A" Insurance Company, CINICO is required to maintain a minimum of \$3.0 million in shareholder's equity (capital).

Shareholder's equity decreased to \$9.5 million as at June 30, 2011, from \$12.5 million as at June 30, 2010. The decrease is solely as a result of the Company's recorded net loss of \$3.0 million for the year ending June 30, 2011. The net loss is analyzed in the next section.

Table 4 illustrates the components of the shareholder's equity which comprises of an initial capital injection of \$3.0 million, subsequent equity injections of \$20.4 million (from 2005 to 2009) and accumulated losses since inception of \$14.0 million. Up to the year ending June 30, 2008, the accumulated losses were driven by premium rate deficiencies as a result of untimely and improperly coded claims from CIHSA and an increase in overseas claims utilization in the 2007/8 financial year. The net income of \$5.8 million and \$3.5 million for years' ending June 30, 2009 (not shown in table) and June 30, 2010, respectively, was due to good claim experience, timely data, and the correction of the premium rate deficiencies of the past.

Table 4
Movement and Breakdown of Shareholder's Equity

	Share capital & premium	Additional paid-in capital	Accumulated deficit	Total Shareholder's Equity
Balance at June 30, 2009	\$ 3,000,000	\$ 20,435,840	\$ (14,436,622)	\$ 8,999,218
Issuance of shares	-	-	-	-
Net income/(loss) for period	-	-	3,505,939	3,505,939
Additional paid-in-capital received	-	-	-	-
Balance at June 30, 2010	\$ 3,000,000	\$ 20,435,840	\$ (10,930,683)	\$ 12,505,157
Issuance of shares	-	-	-	-
Net income/(loss) for period	-	-	(3,042,574)	(3,042,574)
Additional paid-in-capital received	-	-	-	-
Balance at June 30, 2011	\$ 3,000,000	\$ 20,435,840	\$ (13,973,257)	\$ 9,462,583

It is important that the Company maintain a capital level well in excess of CIMA's minimum \$3.0 million requirement. A safe capital level for the Company would be in the range from \$10 million to \$15 million. This level of capital would provide two to four months of working capital. Insurance can be very unpredictable, and this unpredictability

can lead to adverse claim deviations such that if the Company only maintained the required minimum level of capital, it would risk going below the minimum level in a “bad” claim year and thus would require an immediate equity injection from the Shareholder to rectify its non-compliant position. As the Company’s only shareholder, the government can’t always be relied on to provide equity injections in light of their current budget constraints. In addition, the supplementary budget process can be quite lengthy, as shown by our current experience. Thus prudent risk management would require a “buffer” in the Company’s capital to “weather” bad years, and provide enough time to change strategies to avoid liquidity issues.

The Company’s capital position is not only negatively affected by adverse claim deviations; it can be affected by shareholder priorities and objectives which can be at odds with prudent insurance management. The following are a list of shareholder actions which have strained or will strain the Company’s capital position.

- As discussed in the section entitled “Outstanding amounts requiring supplementary appropriation”, \$6.4 million of the Company’s working capital as at June 30, 2011, is tied up in balances requiring supplementary appropriations, of which \$4.8 million pertains to amounts outstanding greater than one year.
- At the request of the shareholder, the Board of Directors agreed to discount 2010/11 civil servant premium by ten percent, amounting to a strain on capital of \$2.9 million. The Board agreed to this request subject to obtaining indemnification coverage, and a commitment from government in settling the 2008/9 outstanding amounts requiring supplementary appropriation.
- For the 2011/12 budget, the Board of Directors agreed to further premium discounts for civil servants, pensioners and seafarers and veterans estimated at \$3.7 million. In return, the shareholder agreed to provide a letter of guarantee for the 2008/9 outstanding balances of \$4.1 million, and pay the balance over a period of four equal annual installments.
- The 2010/11 budget contained a \$1.4 million capital withdrawal to the shareholder which would have assisted the shareholder in funding the CIN 1 output (insurance for Seafarer and Veterans’ local health benefits). In light of the \$6.4 million outstanding balances from government requiring supplementary appropriation, and the strains on the Company’s capital as discussed in the preceding three points, the Board of Directors decided against executing the capital withdrawal.

In making its decisions, the Board of Directors has weighed carefully their duty to the Company and obligations to the shareholder, and has first and foremost ensured that as a result of the decisions, the Company would remain solvent and above CIMA’s minimum capital requirement of \$3.0 million.

Compared with budget, the closing shareholder’s equity as at June 30, 2011 is \$2.2 million lower than the budgeted shareholders equity of \$11.7 million. The reconciliation of the budget shareholders equity to the shareholder’s equity as at June 30, 2011 is as follows:

Budgeted shareholder's equity at June 30, 2011	\$11.7 million
Difference in 10/11 forecast versus actual	0.6
10/11 capital withdrawal	1.4
10/11 difference in expected income	<u>(4.2)</u>
Actual shareholder's equity as at June 30, 2011	\$ 9.5 million

Net Income/(loss)

For the year ending June 30, 2011, the Company recorded a net loss of \$3.0 million (\$3.5 million net income for the year ending June 30, 2010). The underlying cause of the current year's loss position relates to the ten percent premium rate discount which amounted to \$2.9 million, in addition to a \$0.5 million provision on advance claims on behalf of government (see the second paragraph on page 35 and Note 21 of the Financial Statements).

In developing premium rates, assumptions have to be made on expense levels, claim cost levels, reinsurance, etc. Table 5 illustrates the sources of the loss (or variance to the budget) compared with the premium pricing level assumptions for 2010/11. Table 6 provides same for the year ending June 30, 2010.

Table 5
Sources of Net Loss for year ending June 30, 2011 (\$ millions)

Source of Net loss	Amount	Explanation
Premium deficiency	(\$3.3)	10% discount to Government - \$2.9 million, SHIC premium \$400k
Unfavorable overseas claims	(\$1.2)	Higher number of large claims and utilization, offset by favorable reinsurance recovery
Unfavorable local claims	(\$1.3)	Higher utilization (mostly Seamen and veteran and Pensioners) offset by favorable SHIC utilization.
Advance patient provision	(\$0.5)	Provision for 2 government advance patients
2009/10 reserve release	\$2.7	Net of reinsurance. Local \$0.2 million, overseas \$2.5 million
Expenses and other	\$0.6	Admin expenses and TPA administration fees
Net loss	(\$3.0)	

Table 6
Sources of Net Income for year ending June 30, 2010 (\$ millions)

Source of Net income	Amount	Explanation
2008/9 reserve release	\$2.3	Net of reinsurance. Local \$1.1 million, overseas \$1.2 million
Favorable overseas claims	\$1.7	Civil Service and Pensioner offset by SHIC. Favorable reinsurance recovery
Unfavorable local claims	(\$2.0)	Higher utilization (Seamen and veteran and Civil Service)
2009/10 additional risk premium	\$0.9	Risk premium for adverse claims
Expenses and other	\$0.6	Admin expenses and TPA administration fees
Net income	\$3.5	

The \$3.3 million premium deficiency is primarily driven by the ten percent discount to civil servant premium (\$2.9 million) which was discussed in the section entitled “Shareholder’s equity” on page 32. The premium deficiency also includes a shortfall of the “SHIC” premium, as the 2010/11 budget assumed rate increases which did not transpire until the 2011/12 fiscal year.

The \$0.5 million provision for advance patients relates to two lawsuits filed against the Company by two separate overseas healthcare providers for unpaid medical bills relating to the 2007/8 fiscal year. At that time the Company was acting as an intermediary, on behalf of the Government, by facilitating emergency overseas healthcare services for patients deemed uninsured/underinsured (“Advance patients”). The medical bills were not paid as these were not CINICO’s liabilities/risks and Government did not provide the Company with funding due to budgetary constraints. The Company expects to settle these amounts in the 2011/12 year and negotiate discounted rates and subsequently recover these amounts from Government. After August 2008, the Company has ceased facilitating these services on behalf of Government. Further disclosure is provided in Note 21 of the Financial Statements contained the Appendix.

The claims and expenses component in the net loss is further analyzed in subsequent sections.

The net loss of \$3.0 million for the year ending June 30, 2011, represents a \$6.5 million deterioration from the \$3.5 million net profit earned for the year ended June 30, 2010, mostly as a result in the premium rate deficiency (\$3.3 million) identified in Table 5. The remaining difference is due to worse claim experience over the prior year.

Compared with the budget net income of \$1.2 million, the actual net loss position produces an unfavorable variance of \$4.2 million. Again, this is mostly attributed to the unbudgeted ten percent discount on civil servant premiums.

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 7 illustrates the reported underwriting income/(loss) by business category for the current year, prior year and current year budget.

As discussed in the section entitled “Provision for claims incurred”, the provision for claims incurred or IBNR’s are calculated using various assumptions which may or may not come to fruition. Thus, it is not uncommon for the ultimate claim development in a particular year to vary from the original estimated experience. The ultimate (“hindsight”) claims experience is only known once all claims are submitted by medical providers and settled, this is usually no longer than one year. With hindsight, the 2009/10 experience has developed favorably by \$2.7 million – i.e. the hindsight claim experience is \$2.7 million better than originally estimated. The 2009/10 favorable experience is recorded in 2010/11 results as a decrease in the claims incurred of the current year. Similarly, the 2008/9 experience has developed favorably by \$2.3 million, which is recorded in the 2009/10 results as a decrease in the claims incurred.

In order to provide meaningful year-over-year comparisons of the underwriting results, Table 7 adjusts the “reported” underwriting income for any hindsight claim development not pertaining to that year. This gives a “true” picture of how the plans performed in the year, without the “noise” of reserve releases. Thus, the reported 2010/11 results reverse the favorable adjustment (\$2.7 million) pertaining to the 2009/10 year, such that the adjusted underwriting loss for 2010/11 is \$4.2 million from the reported \$1.5 million. Similarly the 2009/10 reported results are adjusted to: include the favorable 2009/10 “hindsight” development (\$2.7 million) reported in 2010/11, and reverse the 2008/9 favorable claims development (\$2.3 million) which pertains to the 2008/9 year. This yields a hindsight underwriting profit of \$4.9 million for the 2009/10 financial year compared with the reported \$4.4 million.

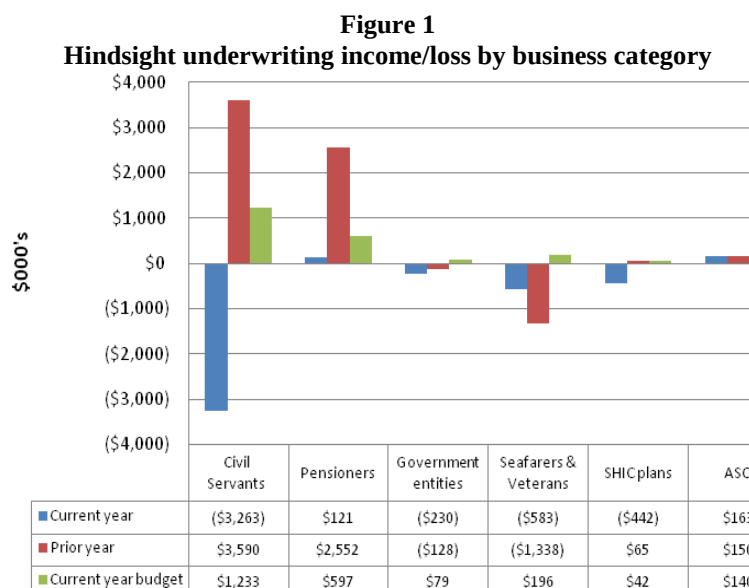
Table 7
“Hindsight” underwriting income/(loss) by business category

Business Category	For financial year ending June 30						
	Current year			Prior year			Budget
	Reported	9/10 Reserve release	Adjusted	Reported	hindsight reserve adjustments (8/9, 9/10)	Prior year Hindsight	
Civil servants	\$ (1,625,368)	\$ (1,637,707)	\$ (3,263,075)	\$ 2,982,834	\$ 606,924	\$ 3,589,758	\$ 1,233,077
Pensioners	1,045,153	(924,646)	120,507	2,156,190	396,090	2,552,280	596,745
Government entities	(144,248)	(86,195)	(230,443)	(147,080)	18,828	(128,252)	79,327
Seamen and veterans	(575,496)	(7,575)	(583,071)	(1,046,847)	(291,436)	(1,338,283)	196,267
SHIC plans	(378,291)	(63,791)	(442,082)	327,099	(261,961)	65,138	42,164
Administrative services only(1)	163,040		163,040	149,548		149,548	139,781
Total Underwriting income/(loss)	\$ (1,515,210)	\$ (2,719,916)	\$ (4,235,126)	\$ 4,421,744	\$ 468,444	\$ 4,890,188	\$ 2,287,361
Administrative expenses	1,017,256		1,017,256	948,797		948,797	1,185,189
Other expenses	534,836		534,836	-		-	-
Investment and other income	24,728		24,728	32,992		32,992	66,000
Net income/(loss)	\$ (3,042,574)	\$ (2,719,916)	\$ (5,762,490)	\$ 3,505,939	\$ 468,444	\$ 3,974,383	\$ 1,168,172
Discounted Civil Servant premium	2,842,707		2,842,707	-		-	-
Other expenses (provision for government advance patients)	534,836		534,836				
Net income/(loss) without discount and government provision	\$ 334,969		\$ (2,384,947)			\$ 3,974,383	\$ 1,168,172

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

Also per Table 7, on a hindsight basis the net loss for the year ended June 30, 2011 is \$5.8 million, compared to a net income of \$4.0 million and net income of \$1.2 million for the prior year and budget respectively. As mentioned previously, the Civil Servant plan was provided a 10% premium rate discount; in addition, the Company set aside a provision for government liabilities on advance patients. The combined total of these items are \$3.4 million. Had the Company not provided a premium discount and not set aside a provision for advance patients, the Company’s would have reported a net income of \$0.3 million.

Figure 1, illustrates the hindsight underwriting income/loss in graphical format.



For the year ending June 30, 2011, the Civil Servant plan (within Group 30100) has incurred an underwriting loss of \$3.3 million versus an underwriting income of \$3.6 million and \$1.2 million for the prior year and budget respectively. The current year underwriting loss is primarily attributed to the \$2.9 million premium discount provided to this plan in addition to unfavorable claim experience.

Claim experience is analyzed in the section entitled “Claims Losses” on page 41.

With an underwriting income of \$0.1 million, the pension segment was \$0.5 million below the budget, and \$2.5 million lower than the prior year’s underwriting income of \$2.6 million. The prior year’s claim experience was exceptional, and as a result, the 2010/11 pension premium rates were reduced by 5%, furthermore the claim experience worsened in the 2010/11 financial year. However, despite the reduction in premium rates, the pension segment still earned an underwriting income in the current year.

Although the underwriting performance of the Seamen and Veterans plan (group 30101 – local benefits only), has improved from a loss of \$1.3 million in the prior year, the segment has incurred a loss of \$0.6 million in the current year despite a premium rate increase of 16% in 2010/11. The negative performance is due to higher local claims as a result of higher utilization. This segment is closed block of business with an average member age of 70 years old. As a result of the demographics of this group, it is expected that claim costs per member would continue to rise in the future, along with premium rates. The unfavorable variance to budget is due to higher than anticipated claim experience.

For the year ending June 30, 2011, the Standard Health Insurance Contract (“SHIC”) plans have incurred an underwriting loss of \$0.4 million compared with a break-even position in the prior year and the budget. Both local and overseas claims utilization has increased over the prior year. Additionally, the budget assumed increases in premium rates which did not take place. Premium rate increases have been affected in the 2011/12 fiscal year.

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. Loss ratios greater than the high eighties, signify a premium rate that is not able to cover administration costs.

Figures 2 and 3 illustrate loss ratios by business segment for the years ending June 30, 2010, June 30, 2011 and the 2010/11 budget. The loss ratios are on a net of reinsurance basis, meaning that reinsurance premium has been subtracted from premiums and reinsurance claim recoveries has been subtracted from claims. In addition the 2009/10 loss ratios are on a hindsight basis meaning that they have been adjusted for any prior year and post year reserve adjustments (see Table 7).

Figure 2 shows that Group 30100’s (CIV, Pen & Gov) and Group 30104’s 2009/10 loss ratios were 82%, 80%, 132% and 80% respectively. With the exception of the “Gov” segment, these loss ratios are considered fairly good and have resulted in those segments earning an underwriting income for the 2009/10 year. However, the loss ratio for Group 30101 was 118%, despite a premium rate increase of 18% effective July 1, 2009. In comparison, the claims per member per month in this group increased by 29% from 2008/9.

Figure 2
2009/10 Premium, Claims, Loss Ratios

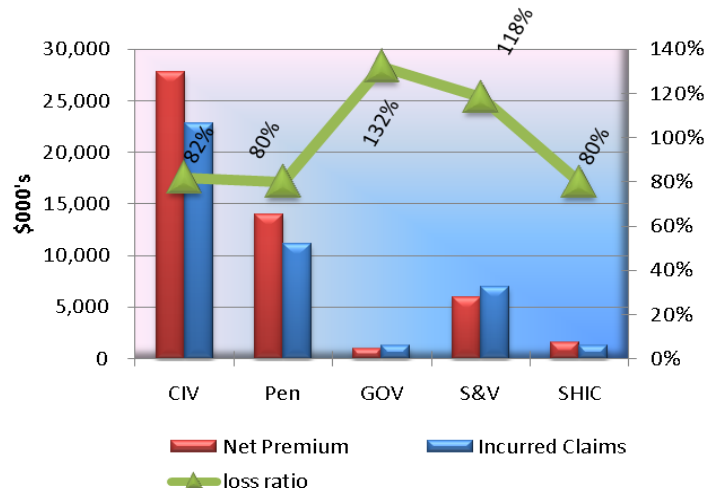
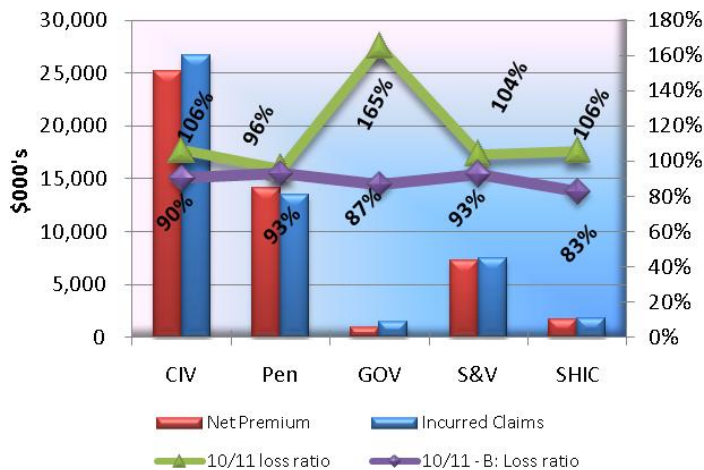


Figure 3
2010/11 Premium, Claims, Loss Ratios



As illustrated in Figure 3, the 2010/11 loss ratios of all business segments were above 100%, with the exception of the Pensioner business segment. In regards to the Civil Servant business segment, the loss ratio of 106% is due to 10% premium rate discount provided to this segment totaling \$2.9 million. The premium rate discount was not budgeted. Had premiums not been discounted, the loss ratio would have been 95%. The Seafarer and Veteran's claim costs slightly outpaced premium leading to a loss ratio of 104%. This is despite a 16% premium rate increase effective July 1, 2010.

The underlying cause of the high loss ratios in all segments is due to the fact that claims have outpaced premium income. Premium rates are set well in advance of the start of the year based on historical claim trends and are not altered during the year. Alternatively, claim experience could develop much differently from the assumptions made for premium rate setting thus resulting in a loss if actual experience develops unfavorably. Both premium and claims are further analyzed in the next sections entitled "Premium Income" and "Claim Losses (page 40 and 41).

Premium income

Premium income is driven by the number of lives covered and the premium rates charged. Table 8 illustrates the average number of covered lives throughout the comparative periods.

Table 8
Average number of covered lives insured

	Current year	Budget	Prior year	% change to budget	% change to prior year
Civil Servants	8,016	7,744	7,868	4%	2%
Pensioners	1,807	1,807	1,726	0%	5%
Government Entities	249	266	260	-6%	-4%
Seamen and Veterans	1,325	1,252	1,256	6%	5%
SHIC plans	1,162	993	994	17%	17%
Total	12,559	12,062	12,104	4%	4%

As illustrated in Table 1 on page 28, overall gross premium income decreased to \$49.8 million for the year ended June 30, 2011 from \$50.9 million in the prior year, representing a decrease of \$1.1 million. Compared with the budget premium income of \$52.2 million, the current year premium income falls short by \$2.4 million. The overriding factor in the decrease in premium income from the prior year and budget is due to the Civil Servant premium rate reduction of 10%, representing \$2.9 million of forgone premium income. This is offset by higher premium income as a result of a higher number of covered lives insured as illustrated in Table 8. The premium rate discount was requested by government and approved after the finalization of the budget.

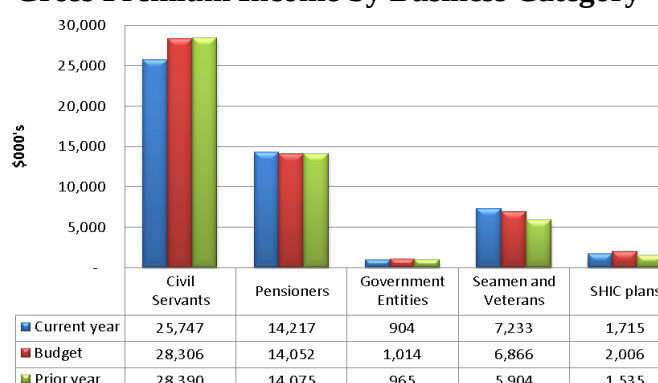
Figure 4 illustrates the gross premium income by business segment for the current year, budget, and prior year. Approximately 82% of gross premium income is attributed to Group 30100 (Civil Servants, Pensioners and Government Entities), compared with the budget of 83% and 87% the year before.

For the year ended June 30, 2011, the Civil Servants' gross premium income fell to \$25.7 million from \$28.4 million from the prior year and budget

respectively. As discussed previously, the decrease is due to the ten percent premium rate reduction, offset by an increase in premium income earned from a higher number of lives covered as illustrated in Table 8.

The current year premium income earned in the Pensioner segment amounted to \$14.2 million, or \$0.1 million higher than budget and the prior year. The increase over the budget and prior year is due a 5% increase in covered lives (Table 8), offset by lower premium income as a result of a reduction in the 2010/11 premium rates, which was also budgeted.

Figure 4
Gross Premium Income by Business Category



Premium income from Government entities retracted by \$0.1 million to \$0.9 million, compared with the budget and the prior year. The decrease is due to a reduction in the number of lives covered throughout the year ending June 30, 2011. Alternatively, premium income from the Seafarers and Veterans plan has increased to \$7.2 million from the budget of \$6.9 million and the prior year premium income of \$5.9 million. Again, these increases are strictly attributed to the increase in the average lives covered during the year ended June 30, 2011. For the comparison with the prior year, the increase in premium income is also due to premium rate increases.

For the year ended June 30, 2011, premium income from the SHIC plans was \$1.7 million, compared with the budget of \$2.0 million and the prior year premium income of \$1.5 million. The decrease over budget is due to an assumed premium rate increase to take effect during the 2010/11 year – the premium rate increase only to effect in the 2011/12 year. Compared with the prior year, the increase in premium income is due to a higher level of membership due to successful open enrolment campaigns, in addition to enhanced processes to avoid lapses in coverage.

Reinsurance premium

The Company has maintained its reinsurance coverage on Group 30100 overseas claims for six years. The premium rate remained the same as in the prior year (\$6.32 per member per month (“PMPM”)), with coverage benefits 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.
- Reinsurer aggregate loss limit – US\$10.5 million (no aggregate loss limit for the year ending June 30, 2009).
- Profit commission sharing component of 35%.

Overall, reinsurance premium increased to \$756,583 for the year ended June 30, 2011 from \$745,536 in the previous year, and budget of \$745,221. The increase is attributed to the higher membership levels in Group 30100.

Claims Losses

Claims Incurred

Table 9 illustrates incurred claim losses by group and location (local versus overseas) for the years ending June 30, 2010, June 30, 2011 and the 2010/11 budget. The figures reported are net of reinsurance recoveries and repricing fees. Additionally, the incurred claims are presented on a “hindsight basis”. For example, for the year ended June 30, 2010, the original reported claims were \$46.1 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 2009/10 claim reserve showed an unexpected favorable development of

\$2.7 million (net of reinsurance), so that the final 2009/10 claims incurred are \$43.4 million compared with the reported figure of \$46.1 million. Therefore, on a comparative basis, claims for the year ended June 30, 2011 increased by \$7.5 million to \$50.9 million from “hindsight” claims incurred of \$43.4 million the year before. (For an explanation of the 2009/10 favorable reserve development of \$2.7 million, refer to the “provision for claims incurred” section on page 31).

As discussed in the “provision for claims incurred” section, the ultimate (“hindsight”) claims incurred amount would be only be known once all claims have been submitted by medical providers and settled, which is likely to take no longer than one year. As such, the 2010/11 total claims incurred estimate is made up of claims incurred in 2010/11 which were paid in the same year, plus an estimate for any claims outstanding. The estimate for claims outstanding, also known as IBNRs (Incurred But Not Reported) is based on actuarial methods and assumptions (see section entitled “provision for claims incurred” on page 31). Table 9, illustrates that \$8.6 million or 17% of the total 2010/11 claims incurred amount of \$50.9 million is made up of IBNR’s. Only in hindsight would we know the accuracy of this amount.

Table 9: Incurred Claim Losses (000’s)

	2009/10			2010/11			Inc/(dec)	2010/11 Budget	Inc/(dec)
	Reported	Hindsight adjustment*	Final	Incurred in 10/11 & paid in 10/11	IBNR	Reported			
Local									
Group 30100	23,330	(209)	23,121	22,306	2,523	24,829	1,708	23,347	1,482
Group 30101	6,995	(8)	6,987	6,514	992	7,506	519	6,365	1,141
Group 30104	682	11	693	958	96	1,054	361	979	75
	31,007	(206)	30,801	29,778	3,611	33,389	2,588	30,691	2,698
Overseas									
Group 30100	14,509	(2,440)	12,069	12,055	4,740	16,795	4,726	15,451	1,344
Group 30101	-	-	-	-	-	-	-	-	-
Group 30104	609	(74)	535	527	234	761	226	672	89
	15,118	(2,514)	12,604	12,582	4,974	17,556	4,952	16,123	1,433
Total									
Group 30100	37,839	(2,649)	35,190	34,361	7,263	41,624	6,434	38,798	2,826
Group 30101	6,995	(8)	6,987	6,514	992	7,506	519	6,365	1,141
Group 30104	1,291	(63)	1,228	1,485	330	1,815	587	1,651	164
	46,125	(2,720)	43,405	42,360	8,585	50,945	7,540	46,814	4,131

* net of reinsurance adjustment of \$303k

Prior year adjustment in reserves*	(2,251)	(2,720)	
ALAE reserve	(135)	202	29
Claim losses per f/s	<u>43,739</u>	<u>48,427</u>	<u>46,843</u>

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)

Per Table 9, incurred claim losses for the year ending June 30, 2011, increased by \$7.5 million (17%) to \$50.9 million from last year. The majority of the increase (\$6.4 million) is attributed to Group 30100, which increased by 18% from the previous year. Group 30101 and Group 30104 also showed increases of \$0.5 million and \$0.6 million, respectively.

Overseas claims incurred for all groups increased by \$5.0 million over the prior year, despite increased usage of local non-CIHSA providers, particularly for imaging and cardiovascular services. Local claims increased by \$2.6 million. The components contributing to the increase in overseas incurred claims are:

- Higher number of referrals – Referrals increased from 749 last year to 843 (17%) for the year ended June 30, 2011.
- Average per case cost of each referral increased from US\$18k last year to US\$23k for the year ended June 30, 2011.
- Higher number of large claims greater than CI\$168k – The current year contained 15 large cases greater than \$168k which amounted to \$7.1 million - two of these cases totaled \$4.3 million alone. Last year contained 11 large cases totaling \$3.8 million

The fundamental causes of the increases in overseas incurred claims is due to the low level of on-island specialists, and an increasing amount of large-dollar-value complicated cases being referred overseas which can be sporadic year after year (Premature babies which could easily cost in excess of US\$ 1.0 million). There is also evidence that suggests that little follow-up is done upon a patient's return from an overseas medical appointment, thus leading to multiple overseas visits. Other factors driving higher overseas costs are: improvements in technology, new and costlier procedures, and medical inflation in the United States. Additional factors driving overall costs (local and overseas) higher are new and costly pharmaceutical drugs; educated membership; physician practice patterns leading to more tests and prescribing more drugs; higher number of covered lives; 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.

Over the next year, the Company would be addressing both local and overseas case management, with an aim to reduce claims incurred and the quality of care being delivered.

Compared with budget, the overall claims incurred ending June 30, 2011, were \$4.1 million higher (9%). The majority of the increase occurred within in Group 30100, \$2.8 million. The budget was calculated based on the historical experience of the past in addition to a trending factor. The 2010/11 year showed a higher growth rate in incurred claims than was assumed in the budget due to the high frequency of large dollar cases (15 cases over \$168k totaling \$7.1 million, versus 11 cases over \$168k last year totaling \$3.8 million). Thus budget trend factor was not sufficient and underestimated the true growth in claims. Another factor in the claims growth is due to the increase in membership over last year. See Table 8 which showed that overall membership as at June 30, 2011 was 4% higher than budget.

Reinsured Claims

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 up to US\$5,000,000, per the agreement term.

For the year ended June 30, 2011, there were four claims which exceeded the reinsurance policy's retention limit. Based on current estimates, the Company expects a reinsurance recovery of \$2.3 million on these claims. This is offset by a \$0.3 million "hindsight"

adjustment in reinsurance recoverable from the prior year, such that the net reinsurance expense recovery for the year ending June 30, 2011 is \$2.0 million.

An amount of \$1.0 million representing reinsurance recoveries for the 2009/10 reinsurance treaty year remains outstanding as at June 30, 2011, however was paid subsequent to June 30, 2011.

The combined reinsurance premium paid for the year ended June 30, 2010 and June 30, 2011 amounted to \$1.5 million. The Company will be recovering \$3.3 million, for a net experience gain on its reinsurance program of \$1.8 million over the two years. However, as a result, the reinsurance provider has increased its premium in the next fiscal year.

Per Member Per Month Incurred Claim Costs

Per member per month (“PMPM”) incurred claim costs show the average monthly incurred claims per insured member (enrollee or dependant). 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 member basis. Figures 5 through 8 illustrate the PMPM monthly average incurred claim costs for the years ending June 30, 2007, 2008, 2009, 2010, 2011 and the 2011 budget for the various Company insured plans. The graphs provide a further breakdown of these costs between local and overseas. The PMPM claim costs do not include reinsurance or repricing fees (which only affect the overseas component). Also of note, the CIHSA fees increased effective March 1, 2008 and again January 1, 2009.

Figure 5

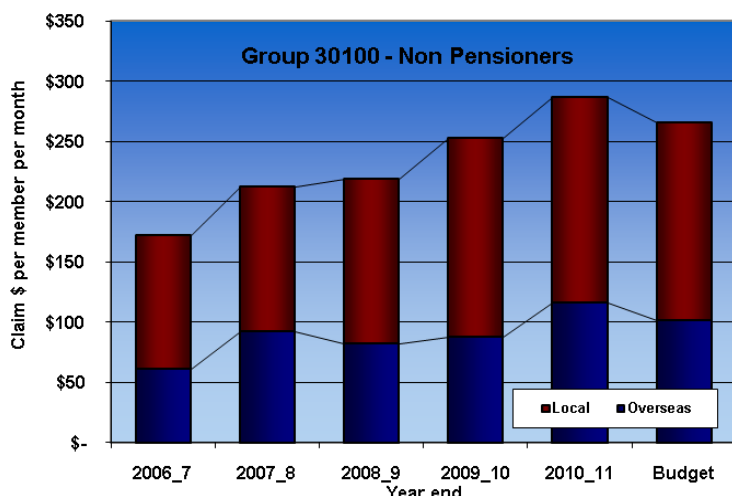


Figure 5 illustrates that the PMPM costs for the Non Pensioners category within Group 30100 continues to climb year after year. PMPM costs have increased by 13% from the prior year to \$287 PMPM, with the largest increase occurring in the overseas segment due to the high frequency of large dollar cases. For the year ending June 30, 2011, the local share of the total PMPM claim costs represented 59% compared with 65% and 62% of last year and budget, respectively.

Figure 6 shows the PMPM costs for the Pensioners category within Group 30100. The June 30, 2011 claim PMPM cost were \$663 compared \$529 and \$587 for last year and budget respectively. Much of this increase is attributed to one large reinsurance case worth approximately \$1.6 million or \$77 PMPM.

Figure 6

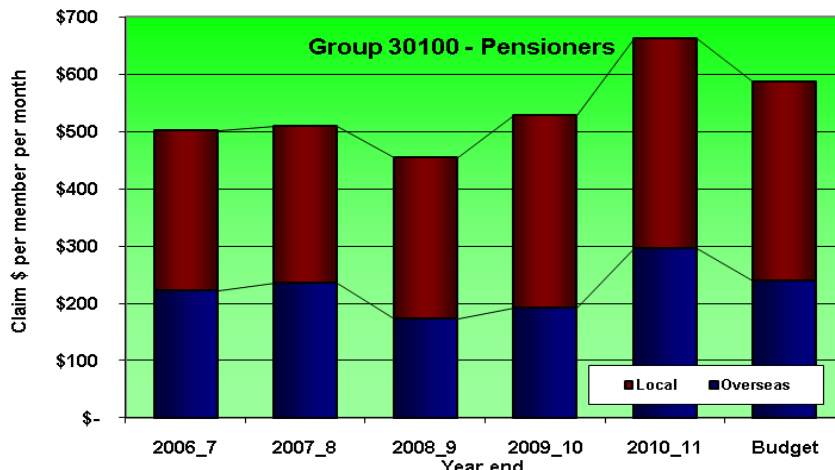


Figure 7 shows that the PMPM costs for the Seamen & Veterans group (30101), has been fairly steady between \$266 and \$278 for the years 2006/7 through 2007/8. However, due to the increase in CIHSA's rates, the monthly average PMPM costs climbed by 31% to \$365 for the 2008/9 year and increased a further 29% so that the monthly average PMPM costs for the 2009/10 year was \$469. The 2010/11 PMPM claim cost saw a 2% increase over 2009/10.

Figure 7

The budget PMPM cost of \$423, was 13% lower than actual as the budget assumed better control of costs with the introduction of local case management and the inclusion of these members into the CAY Health programme. None of these initiatives took place in 2010/11.

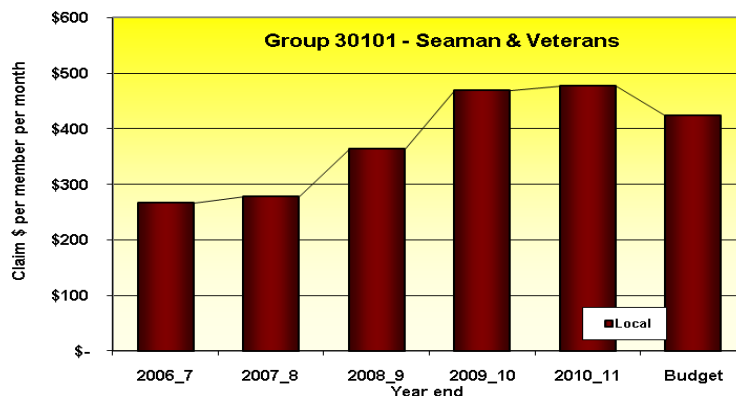
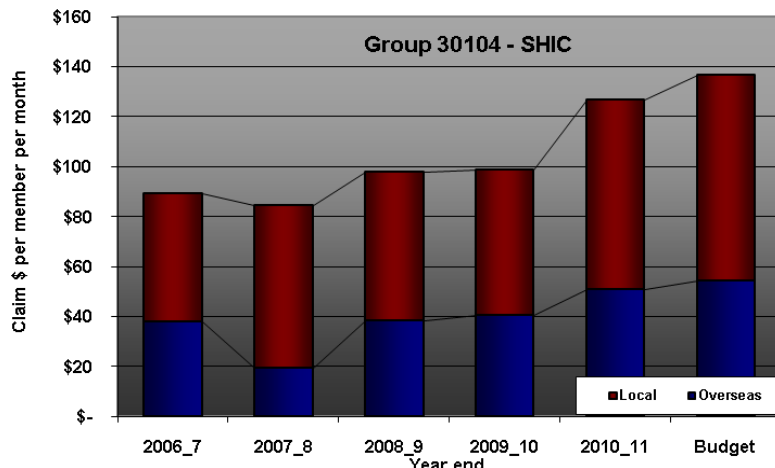


Figure 8 shows that the SHIC plan (Group 30104) PMPM costs increased from \$99 for the year ending June 30, 2010, to \$127 for the year ending June 30, 2011. The increase is due to higher utilization, both locally and overseas. At \$137, the budget PMPM costs was \$10 higher than the actual PMPM costs for the year ending June 30, 2011, as the budget assumed that the long awaited increase in SHIC plan benefits would have taken place in the 2010/11 year. No benefit changes were made in 2010/11 and as such the actual PMPM costs are below the budget.

Figure 8

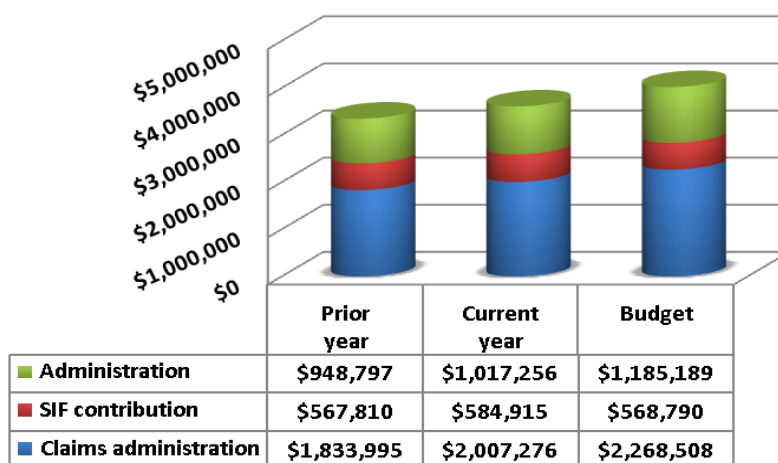


Expenses

Expenses can be divided into two categories: 1) expenses directly attributed to a business segment, such as claims administration fees and contributions to segregated insurance fund, and; 2) administrative expenses. For the year ending June 30, 2011 the Company incurred an additional \$0.5 million relating to a provision for two claims under litigation (the full details were discussed on page 35, and additional disclosure is provided in Note 21 of the Financial Statements).

Figure 9 illustrates overall expenses by category, not including the \$0.5 million provision.

Figure 9
Expenses by category



The majority of expenses (72%) are incurred on costs attributed to a business segment (i.e. SIF contribution and Claims administration costs). Although total expenses increased by 8% over the prior year, they were 11% lower than the budget.

Administration costs are those incurred locally in the operation of the Company's office which includes staff costs. The administration costs remained fairly stable compared with last year, showing a small increase of \$68k and a favorable variance of \$168k to budget. The increase over the prior year is spread out over most expense items, and offset by decreases in expenditure in depreciation, pension expense, and maintenance expenses. The majority of the savings to budget are due to the following items: lower salary costs as a result of vacant posts throughout the year (CEO and GM); lower maintenance and audit expenses as a result of renegotiating contracts; and gains on currency exchange as a result of negotiating favorable exchange rates with the Company's bank; lower marketing and office supplies expenses.

SIF contribution expenses are contributions made to the Indigent Fund for the payment of Indigent claims. All insurance policies in the Cayman Islands incur a monthly charge of \$5 or \$10, depending on whether the policy is for single coverage, or coverage with dependants. For the year ended June 30, 2011 the Company incurred an expenditure of \$584k compared with the prior year and budget of \$568k and \$569k. The variances between the comparative periods are strictly due to differences in the number of members covered.

Claims administration costs are for services rendered by third parties – Simplifi (formerly CBCA), IHA, and CMN. See the section entitled "Vendors/service providers" on page 11 for a description of the services received from these companies. A majority of the fees paid to the TPAs are based on a "per enrollee per month" (PEPM) or "per member per month" (PMPM) basis. The PEPM/PMPM rates have remained the same from the prior year. For the year ending June 30, 2011, claims administration costs were \$2.0 million compared with the prior year and budget of \$1.8 million and \$2.3 million, respectively. The increase over the prior year is due to an increase in members insured and higher case management costs as a result of utilizing IHA. The favorable variance to budget is resulting from assumed various operational changes in the budget that did not transpire. The budget figures assumed that the Company would execute the use of its own networks and as a result show savings in claim "re-pricing" fees (currently recorded as part of claim costs), offset by higher case management fees which are recorded as part of claims administration costs.

As a percentage of premiums, total expenditure (Expense ratio) is 7.2% and 6.6% for the year ending June 30, 2011 and June 30, 2010, respectively. Including claim re-pricing fees, expense ratio is approximately 10%. The industry average for similarly sized companies in the USA is approximately 15%.

SUMMARY OF OWNERSHIP PERFORMANCE TARGETS

The 2010/11 ownership performance targets (as specified in schedule 5 in the Public Management and Finance Law 2010 Revision) for CINICO are as follows (NOTE: The 10/11 budget figures reflect the budget approved by the Board and sent to the government, which may not be reflective of the budget reported by the government).

Financial Performance

Financial Performance Measure	2010/11 Actual \$	2010/11 Budget \$	Annual Variance \$
Revenue from Cabinet	21,030,540	20,865,456	165,084
Revenue from ministries, portfolios, statutory authorities and government companies	27,096,719	29,789,426	(2,692,707)
Revenue from other persons or organisations	1,401,384	1,378,489	22,895
Surplus/deficit from outputs	-	-	-
Other expenses	(52,571,217)	(50,865,199)	(1,706,018)
Net Surplus/Deficit	(3,042,574)	1,168,172	(4,210,746)
Total Assets	23,332,282	26,474,306	(3,142,024)
Total Liabilities	(13,869,699)	(14,731,393)	861,694
Net Worth	9,462,583	11,742,913	(2,280,330)
Cash flows from operating activities	(4,430,106)	763,182	(5,193,288)
Cash flows from investing activities	(479,031)	(16,000)	(463,031)
Cash flows from financing activities	-	(1,424,712)	1,424,712
Change in cash balances	(4,909,137)	(677,530)	(4,231,607)

Explanation of Variances

1. Revenue from ministries, portfolios, statutory authorities and government companies is \$2.7 million lower than budget as 10/11 actual premium to Civil servants were discounted by 10%, which amounted to \$2.9 million.
2. Other expenses is \$1.7 million higher than budget due to higher than expected claims, a provision for two government advance cases under litigation, offset by a favourable 9/10 claim development and better than budget expenses.
3. Actual Net Surplus/Deficit is \$4.2 million lower than budget due to; \$2.9 million premium discount (see note 1), \$2.5 million unfavourable claim experience, and a \$0.5 million provision for a government liability (advance case), offset by \$2.7 million reserve release, and expense savings.
4. Net worth is lower than budget due to lower 2010/11 net income, offset by a higher 10/11 opening position than forecasted in budget, and difference in capital withdrawal (see Note 5)
5. Budget contained a \$1.4 million capital withdrawal for the funding of CIN1. In light of the large government receivable balances, some dating back to 2008/9, the Board of Directors did not approve the withdrawal of funds in order to remain solvent and to ensure capital remains at adequate statutory levels.

Financial Performance (continued)

Financial Performance Ratio	2010/11 Actual	2010/11 Budget	Annual Variance
Current Assets: Current Liabilities	142%	180%	-38%
Total Assets: Total Liabilities	168%	180%	-12%

Maintenance of Capability

Human Capital Measures	2010/11 Actual	2010/11 Budget	Annual Variance
Total full time equivalent staff	8	9	(1)
Staff turnover (%)	0%	0%	0%
Average length of service (Number)			
Senior management	3.3	4.8	(1.5)
Professional staff	3.3	4.8	(1.5)
Administrative staff	5.7	4.9	0.8
Significant changes to personnel management system	Vacant GM	CEO	N.A.

Physical Capital Measures	2010/11 Actual \$	2010/11 Budget \$	Annual Variance \$
Value of total assets	23,332,282	26,474,306	(3,142,024)
Asset replacements: total assets	99%	48%	51%
Book value of depreciated assets: initial cost of those assets	183%	9%	174%
Depreciation: Cash flow on asset purchases	4%	126%	(122)%
Changes to asset management policies	NONE	NONE	N/A.

Major Capital Expenditure Projects	2010/11 Actual \$	2010/11 Budget \$	Annual Variance \$
Furniture, PCs, implementation of electronic adjudication system	479,031	16,000	463,031

Explanation of Variances

1. Number of full time equivalent staff is lower than budget, as the GM position became vacant from February 2011
2. Major capital expenditure projects higher than budget as the actual expenditure includes amounts for the electronic adjudication system which was not budgeted.

Transaction	2010/11 Actual \$	2010/11 Budget \$	Annual Variance \$
Equity Investments into <i>CINICO</i>	-	-	-
Capital Withdrawals from <i>CINICO</i>	-	1,427,712	1,427,712
Dividend or Profit Distributions to be made by <i>CINICO</i> .	-	-	-
Government Loans to be made to <i>CINICO</i> .	-	-	-
Government Guarantees to be issued in relation to <i>CINICO</i> .	-	-	-
Remuneration Payments made to Senior Management	269,367	343,342	73,975

	2010/11 Actual	2010/11 Budget	Annual Variance
Number of Senior Management	2	3	1

* CEO hired on December 2010. Vacant GM post from February 2011.

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, 2011.

Explanation of Variances

Page 51
Cayman Islands National Insurance Company 2010/11 Annual Report

CIN 2	Health Insurance for Civil Servant Pensioners			
Description				
Provision of Health Insurance for Civil Servant Pensioners and their dependants				
Measures	2010/11 Actual	2010/11 Budget	Annual Variance	
	Quantity			
	Total number of insured persons (Insured = Enrollees + dependants).	1,756-1,850	1,763-1,852	7-2
	Total number of enrollees	970-1,013	960-984	(10)-(29)
	Quality	98-100%	98-100%	0
	• All eligible pensioners and their dependents are insured who are deemed to be eligible by the Public Service Pension Board.			
Timeliness	98-100%	98-100%	0	
• Insurance cards issued within 15 days of notification of eligibility				
Location	n/a	n/a		
• Grand Cayman, Cayman Brac and Little Cayman				
Price	14,216,604	14,051,520	(165,084)	
Monthly Premium rate multiplied by coverage enrollee type Monthly Premium rates: Single-\$745 Couple-\$1,491, Single & children - \$1,119, Family - \$1,864.				

Explanation of Variances

Premium (cost to Cabinet) is higher than budget as the number of insured persons was also higher than budget, thus driving increasing the costs.

NGS 55 Tertiary Care at Various Overseas Institutions

The Company also provides services to the Ministry of HEYS&C in the delivery of the NGS 55 output (provision of tertiary health care for indigents, seamen and veterans who are referred for treatment overseas). The scope of services provided by the Company are; eligibility verification, administration of overseas referral, case management, provider discounts, claim payments and statistical data.

The Company administers this program on an “Administrative Services Only” (ASO) basis, meaning that the Company performs the services, and subsequently seeks reimbursement for claims paid and administration expenses incurred, thus taking on no insurance risk. Note, not all of the output is administered by the Company, as the Ministry of HEYS&C also administers a portion of the output and controls the total amount of funds.

The following table illustrates the claim payments made including the administration fees for the 2009/10, and 2010/11 financial year. The table illustrates that the total payments increased by 9.2% over the prior financial year, while the average covered lives increased by 3.1%.

	Financial Year		
	2009/2010	2010/2011	% increase
Payments			
Indigent claim payments	\$ 7,814,642	\$ 8,509,113	8.9%
Seamen & Veterans claim payments	3,625,014	3,916,834	8.1%
Re-pricing & case management fees	968,006	1,151,768	19.0%
Administration fees	438,933	445,151	1.4%
Total	\$ 12,846,595	\$ 14,022,866	9.2%
Average covered lives			
S&V	1,256	1,325	5.5%
Indigents	1,167	1,174	0.6%
Total	2,423	2,499	3.1%

As mentioned in the sections entitled “ASO claims and fees receivable” on page 29, and “Outstanding amounts requiring supplementary appropriation” on page 30, as at June 30, 2011, the Company is carrying a receivable from the Ministry of HEYS&C of \$7.9 million for the financial years 2008/9, 2009/10 and 2010/11. Approximately \$3.7 million of this balance was paid subsequent to June 30, 2011, \$1.1 million (2009/10 and 2010/11) requires a supplementary appropriation, and the remaining \$3.1 million was guaranteed to be paid in three equal annual installments commencing with the 2012/13 fiscal year.

This page is left blank intentionally.

Appendix

Audited Financial Statements

For the year ending 30 June 2011

Financial Statements of

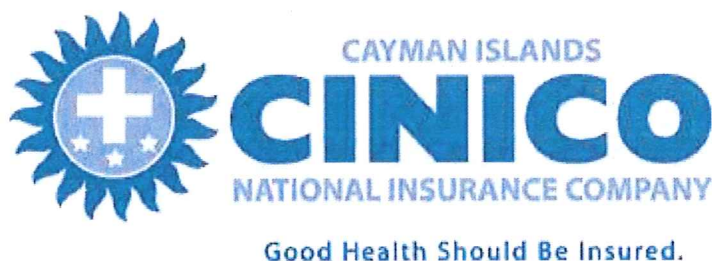
Cayman Islands National Insurance Company Ltd.

June 30, 2011

Cayman Islands National Insurance Company Ltd.

Index

Statement of Financial Position	2
Statements of Comprehensive Income	3
Statements of Cash Flows	4
Statements of Changes in Shareholder's Equity	5
Notes to financial statements	6-21



STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements have been prepared by the Cayman Islands National Insurance Company Ltd. in accordance with the provisions of the *Public Management and Finance Law (2010 Revision)*.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law (2010 Revision)*.

As Chief Executive Officer and Chief Financial Officer, we are responsible for establishing; and have established and maintain a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Cayman Islands National Insurance Company Ltd.

As Chief Executive Officer and the Chief Financial Officer we are responsible for the preparation of the Cayman Islands National Insurance Company Ltd. financial statements and for the judgements made in them.

The financial statements fairly present the statement of financial position, statements of comprehensive income, statements of cash flows and statement of changes in shareholder's equity for the financial year ended 30 June 2011.

To the best of our knowledge we represent that these financial statements:

- (a) are completely and reliably reflect the financial transactions of Cayman Islands National Insurance Company Ltd. for the year ended 30 June 2011;
- (b) fairly reflect the financial position as at 30 June 2011 and performance for the year ended 30 June 2011;
- (c) comply with International Public Sector Accounting Standards and International Financial Reporting Standards under the responsibility of the International Public Sector Accounting Standards Board and the International Accounting Standards Board respectively.

The Office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General and its agent has been provided access to all the information necessary to conduct an audit in accordance with International Standards of Auditing.

Mr. Lonny Tibbetts
CEO
Cayman Islands National Insurance Company

Mr. Frank Gallipi
CFO
Cayman Islands National Insurance Company

June 19, 2012

June 19, 2012

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 statement of financial position as at June 30, 2011, and the statements of comprehensive income, cash flows, and changes in shareholder's equity for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 2 to 21 in accordance with the provisions of section 60(a) of the *Public Management and Finance Law, (2010 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 and for such internal control as management determines as necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on 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 about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion. In rendering my opinion on the financial statements of the Company, I have relied on the work carried out on my behalf by a public accounting firm who performed their work in accordance with International Standards on Auditing.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Alastair Swarbrick, MA (Hons), CPFA
Auditor General

June 19, 2012
Cayman Islands

Cayman Islands National Insurance Company Ltd.

Statement of Financial Position

As at June 30

Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
<u>Assets</u>			
<i>Current</i>			
Cash and cash equivalents	4	\$ 8,835,451	\$ 13,744,588
Premiums receivable	5	2,179,153	1,429,230
Advance claims, ASO claims and fees receivable	5.1	5,334,542	6,767,721
Other receivables and other assets	6	3,398,353	1,372,488
Fixed assets	7	484,316	26,778
<i>Long-term</i>			
Premiums receivable	5	567,852	-
Advance claims, ASO claims and fees receivable	5.1	2,532,615	-
Total assets		23,332,282	23,340,805
<u>Liabilities</u>			
Accounts payable	8	7,820	14,457
Premiums received in advance		231,010	81,254
Accruals and other liabilities	9, 21	824,978	266,742
Claims payable		1,052,774	1,602,779
Provision for claims incurred	11	11,753,117	8,870,416
Total liabilities		13,869,699	10,835,648
<u>Shareholder's equity</u>			
Share capital	12	1	1
Share premium	12	2,999,999	2,999,999
Additional paid-in-capital	13	20,435,840	20,435,840
Accumulated deficit		(13,973,257)	(10,930,683)
Total shareholder's equity	22	9,462,583	12,505,157
Total liabilities and shareholder's equity		\$ 23,332,282	\$ 23,340,805

Mr. Scott Cummings
Chairman

June 19, 2012
Date

Mr. Frank Gallipi
CFO

June 19, 2012
Date

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

Cayman Islands National Insurance Company Ltd.

Statements of Comprehensive Income

For the year from July 1 to June 30

Amounts stated in Cayman Islands dollars

	<u>Note</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Income			
Premium income	14	\$ 49,815,545	\$ 50,869,556
Reinsurance premium	14	(756,583)	(745,536)
ASO Fees	15	444,953	438,834
Total underwriting income		49,503,915	50,562,854
Investment income and other income	19	24,728	32,992
Total income		49,528,643	50,595,846
Expenses			
Claims paid	10	47,598,510	46,993,814
Reinsured claims		(2,054,278)	(1,032,735)
Movement in provision for claims incurred	11	2,882,701	(2,221,774)
Contributions to segregated insurance fund	16, 17	584,915	567,810
Claims administration and other expenses		2,007,276	1,833,995
Total underwriting expenses		51,019,124	46,141,110
Administrative expenses	17,18	1,017,257	948,797
Other expenses	21	534,836	-
Total expenses		52,571,217	47,089,907
Net (loss)/income for the year		(3,042,574)	3,505,939
Total comprehensive income for the year		\$ (3,042,574)	\$ 3,505,939

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 to June 30

Amounts stated in Cayman Islands dollars

	<u>NOTE</u>	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Cash flows from operating activities			
Net income/(loss) for period		\$ (3,042,574)	\$ 3,505,939
Adjustments for non-cash items			
Depreciation	7	21,493	43,202
Premiums receivable		(1,317,775)	5,410,098
Advance claims, ASO claims and fees receivable		(1,099,436)	(1,863,699)
Other receivables and other assets		(2,025,865)	(923,977)
Accounts payable		(6,637)	9,187
Premiums received in advance		149,756	11,205
Accruals and other liabilities		558,236	51,665
Claims payable		(550,005)	869,113
Provision for claims incurred		2,882,701	(2,221,774)
Net cash flows from operating activities		(4,430,106)	4,890,959
Cash flows from investing activities			
Purchase of fixed assets	7	(479,031)	(10,405)
Net cash flows from investing activities		(479,031)	(10,405)
Net cash (outflow) / inflow for the year		(4,909,137)	4,880,554
Cash and cash equivalents at beginning of the year		13,744,588	8,864,034
Cash and cash equivalents at end of the year		\$ 8,835,451	\$ 13,744,588

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

Cayman Islands National Insurance Company Ltd.

Statement of Changes in Shareholder's Equity

Amounts stated in Cayman Islands dollars

	Share capital	Share premium	Additional paid-in-capital	Accumulated deficit	Total Shareholder's Equity
Year ended June 30, 2010					
Balance, beginning of year	<u>\$ 1</u>	<u>\$ 2,999,999</u>	<u>\$ 20,435,840</u>	<u>\$(14,436,622)</u>	<u>\$ 8,999,218</u>
Comprehensive income:					
Net income for the year	-	-	-	3,505,939	3,505,939
Total comprehensive income:	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,505,939</u>	<u>3,505,939</u>
Balance, end of year	<u>\$ 1</u>	<u>\$ 2,999,999</u>	<u>\$ 20,435,840</u>	<u>\$(10,930,683)</u>	<u>\$ 12,505,157</u>
Year ended June 30, 2011					
Comprehensive income:					
Net loss for the year	-	-	-	(3,042,574)	(3,042,574)
Total comprehensive income:	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,042,574)</u>	<u>(3,042,574)</u>
Balance, end of year	<u>\$ 1</u>	<u>\$ 2,999,999</u>	<u>\$ 20,435,840</u>	<u>\$(13,973,257)</u>	<u>\$ 9,462,583</u>

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

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2011

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, 2011, the Company employed 8 people (8 people at June 30, 2010).

2 Accounting policies

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in applying the Company's policies.

Critical accounting estimates and judgements

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

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. See also Note 3.1.

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

The principal accounting policies applied are set out below. These have been consistently applied to all years presented, unless otherwise stated.

Insurance and reinsurance contracts - classification

Insurance and reinsurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

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

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2011

Amounts stated in Cayman Islands dollars

2 Accounting policies (continued)

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.

Insurance/reinsurance assets and liabilities

The Company assesses its insurance/reinsurance assets for impairment on a regular basis, and if there is objective evidence that the insurance/reinsurance asset is impaired, the Company reduces the carrying amount of these assets to their recoverable amounts. The impairment loss is recognised in the statements of comprehensive income. Insurance/reinsurance liabilities are recognised when incurred/due.

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 as well as reserves for losses which have been incurred but not yet reported at the statement of financial position date. The Company records its estimated liability gross of any amounts recoverable under its own reinsurance. Recoverable amounts, under the reinsurance contract, if any, are estimated and reported separately as assets. The reinsured portion, if any, of reserves for losses is estimated in a manner consistent with the estimation of reserves for losses on the reinsured policies.

Cash and cash equivalents

Cash and cash equivalents is comprised of cash and interest bearing deposits with 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. Premiums received in advance are deferred and included in Premiums received in advance in the statement of financial position. Reinsurance premiums ceded are similarly recognized on a pro-rata basis based on the contractual premium rate and number of insureds covered under the reinsurance policy.

It is the Company's policy to lapse any policies where the premiums are unpaid for 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 comprehensive income 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 and the 2008/09 receivable balance due from the government in the amount of \$4,133,956, the carrying amounts of all financial instruments approximate their fair values due to their short-term maturities.

Although the 2008/09 receivable is expected to be collected over a period of four years, management has not discounted the amount to its present value as the difference would not have a material impact to the financial statements.

Fixed assets & depreciation

Fixed assets are carried at cost less depreciation and impairment. Depreciation is calculated on a straight-line basis over their expected useful lives of these assets. The following depreciation rates have been estimated by management to approximate the expected useful life of each class of assets:

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

See also Note 7.

The assets' useful lives are reviewed at each statement of financial position date and adjusted where appropriate.

Income taxes

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

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2011

Amounts stated in Cayman Islands dollars

2 Accounting policies (continued)

Administrative Services Only Fees

Administrative Services Only Fees ("ASO") are recognized as earned on a pro-rata basis over the period for which the services are provided.

Investment income and other income

Investment income and other income are accrued as earned.

Foreign currency translation

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

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

Liability adequacy test

At each statement of financial position date, a liability adequacy test is performed to ensure the adequacy of the loss reserves. In performing this test, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities are used. Any deficiency over the remaining term of insurance contracts is recognized immediately by establishing a provision for losses arising from liability adequacy tests.

2.1 Changes in IFRS

A) Amendments to published standards effective July 1, 2010:

IAS 1 (amendment) – "Presentation of financial statements" – The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. This amendment does not have an impact on the Company's financial statements.

IAS 32 (amendment) – "Classification of rights issues" – Issued in October 2009 and effective for the Company July 1, 2010. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The amended standard does not have any impact on the Company's financial statements.

IAS 36 (amendment) – "Impairment of assets" – This amendment clarifies that the largest cash generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics). The amendment is effective for the Company July 1, 2010 and does not have any impact on the Company's financial statements.

IFRIC 9 – "Reassessment of embedded derivatives," and IAS 39 – "Financial instruments: Recognition and measurement," effective for the Company July 1, 2010. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss category'. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety. These amendments do not have any impact on the Company's financial statements.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2011

Amounts stated in Cayman Islands dollars

2 Accounting policies (continued)

2.1 Changes in IFRS (continued)

IFRIC 19 – “Extinguishing Financial Liabilities with Equity Instruments” – The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Company has applied the interpretation from July 1, 2010 and it does not have any impact on the Company’s financial statements.

B) Relevant standards and amendments issued prior to June 30, 2011, but not effective until future periods:

IAS 1 (amendment) – “Presentation of financial statements” – The amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income, and requires entities to separate items presented into two groups, based on whether or not they may be recycled to profit or loss in the future. This amendment is effective for annual periods starting on or after July 1, 2012, and is not expected to have an impact on the Company as historically, there have been no gains or losses presented in OCI.

IAS 19 – Employee Benefits (Revised). This revised standard makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The main change to the Company will mainly be the increase in the level of disclosures around employee benefits. The new standard is effective for annual periods starting on or after 1 January 2013.

IAS 24 (revised) – “Related party disclosures”, issued in November 2009 – The amendment supersedes IAS 24, ‘Related party disclosures’, issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after January 1, 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Company will apply the revised standard from July 1, 2011. The impact is still being evaluated.

IFRIC 14 (amendments) – “Prepayments of a minimum funding requirement” – The amendments correct an unintended consequence of IFRIC 14, ‘IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction’. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments should be applied retrospectively to the earliest comparative period presented. The Company will apply these amendments for the financial reporting period commencing on July 1, 2011. It is not expected to have any impact on the Company’s financial statements.

IFRS 5 (amendment) – “Non-current assets held for sale and discontinued operations”, effective for the Company July 1, 2010. – The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS still applies, in particular paragraph 15 (to achieve fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The amendment is not expected to have a material impact on the Company.

IFRS 7 (amendment) – “Disclosures – Transfers of Financial Assets” – The amendment, issued in October 2010, changed the required disclosures to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position. The amendment will help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position and will promote transparency in the reporting of transfer transactions, particularly those that involve the securitization of financial assets. An entity shall provide the required disclosures for all transferred financial assets that are not derecognized and for any continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. The impact of the disclosures on the Company’s financial statements when it is adopted will depend on the Company’s financial statements when it is adopted on July 1, 2011 will depend on the Company’s facts and circumstances at the reporting date during the year of adoption.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2011

Amounts stated in Cayman Islands dollars

2 Accounting policies (continued)

2.1 Changes in IFRS (continued)

IFRS 9 – “Financial instruments”, effective for periods beginning after January 1, 2013 – This standard is the first step in the process to replace IAS 39, ‘Financial instruments: recognition and measurement’. The standard specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged from IAS 39. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. The standard also results in one impairment method, replacing the numerous impairment methods in IAS 39 that arise from the different classification categories. The new standard is not effective until 2013, however the International Accounting Standards Board (IASB) has issued an exposure draft that proposes the effective date of IFRS9 be deferred to annual periods beginning on or after January 1, 2015. This amendment is not expected to have a material impact on the Company.

3 Management of insurance and financial risk

3.1 Insurance risk

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

The Company uses several techniques to mitigate risk surrounding potential high claim losses. For its largest group (Group 30100 - Civil, Servants, Pensioners and Government Entities), reinsurance has been purchased that covers overseas claim losses which exceed US\$609,756, up to US\$5,000,000 in respect of any one covered person during the policy year, with an aggregate cap of US\$10,500,000 per year. The Company's Standard Health Insurance Contracts ("SHIC" plans) use a combination of pre-existing condition exclusions, and annual limits to mitigate risk. The Company also employs the services of Care Management Network Inc. ("CMN") to control overseas claim costs. CMN provides case management services with the goal of managing a patient's care path in an economical fashion at each step of the way. CMN also has pre-negotiated contracts with many overseas providers which would allow the Company to realize significant savings. Furthermore, during the current fiscal year on a monthly basis, the Risk and Appeals Committee met to discuss large claims and any disputed claims.

3.2 Financial risk

Financial risk can be broken down into credit risk, market risk (comprising of: interest rate risk, foreign currency risk and other price risk) and liquidity risk. The Company is exposed to financial risks through its financial assets, financial liabilities, and reinsurance assets; no financial risk is associated with its insurance liabilities. With the exception of the \$4.13 million due from government in connection with ASO claims and fees receivable (\$3.37 million) and Premiums receivable (\$0.76 million), which have been agreed to be settled over a four year period, the Company's assets and liabilities are generally 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;
- amounts due from ASO contracts.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2011

Amounts stated in Cayman Islands dollars

3.2 Financial risk (continued)

All of the Company's cash and cash equivalents are held with reputable financial institutions in the Cayman Islands (74%; 89%: 2010) and Canada (26%; 11%: 2010). 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 and AM Best rating of A (Excellent).

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

	June 30, 2011	June 30, 2010
Cash and cash equivalents	\$ 8,835,451	\$ 13,744,588
Reinsurance claims recoveries	3,330,979	1,302,094
Advance claims, ASO claims and fees receivable	7,867,157	6,767,721
Premiums receivable	2,747,005	1,429,230
Other assets	3,241	3,116
Total financial assets	<u>\$ 22,783,833</u>	<u>\$ 23,246,749</u>
Non-financial assets	\$ 548,449	\$ 94,056
Total assets per the statement of financial position	<u>\$ 23,332,282</u>	<u>\$ 23,340,805</u>

Balances past due but not impaired and those that are impaired are analysed in the tables below:

	Neither past due nor impaired	Past due but not impaired	Impaired	Provision for bad debt	Total
As at June 30, 2011:					
Cash and cash equivalents	\$ 8,835,451	\$ -	\$ -	\$ -	\$ 8,835,451
Reinsurers share of insurance liabilities	1,212,262	2,118,717	-	-	3,330,979
Advance claims, ASO claims and fees receivable	-	7,867,157	534,836	(534,836)	7,867,157
Premiums receivable	-	2,747,005	6,749	(6,749)	2,747,005
Other assets	3,241	-	-	-	3,241
Total assets exposed to credit risks	<u>\$10,050,954</u>	<u>\$ 12,732,879</u>	<u>\$ 541,585</u>	<u>\$ (541,585)</u>	<u>\$ 22,783,833</u>

	Neither past due nor impaired	Past due but not impaired	Impaired	Provision for bad debt	Total
As at June 30, 2010:					
Cash and cash equivalents	\$13,744,588	\$ -	\$ -	\$ -	\$ 13,744,588
Reinsurers share of insurance liabilities	1,302,094	-	-	-	1,302,094
Advance claims, ASO claims and fees receivable	-	6,767,721	-	-	6,767,721
Premiums receivable	-	1,429,230	1,400	(1,400)	1,429,230
Other assets	3,116	-	-	-	3,116
Total assets exposed to credit risks	<u>\$15,049,798</u>	<u>\$ 8,196,951</u>	<u>\$ 1,400</u>	<u>\$ (1,400)</u>	<u>\$ 23,246,749</u>

The ageing analysis of financial assets that are past due but not impaired is as follows:

	Up to 45 days	45 to 90 days	> 90	Total
As at June 30, 2011:				
Advance claims, ASO claims and fees receivable	\$ 2,185,593	\$ 845,204	\$ 4,836,360	\$ 7,867,157
Premiums receivable	1,187,856	-	1,559,149	2,747,005
Reinsurance claims due	1,447,390	671,327	-	2,118,717
	<u>\$ 4,820,839</u>	<u>\$ 1,516,531</u>	<u>\$ 6,395,509</u>	<u>\$ 12,732,879</u>

	Up to 45 days	45 to 90 days	> 90	Total
As at June 30, 2010:				
Advance claims, ASO claims and fees receivable	\$ 963,699	\$ 1,223,087	\$ 4,580,935	\$ 6,767,721
Premiums receivable	595,016	6,412	827,802	1,429,230
Reinsurance claims due	-	-	-	-
	<u>\$ 1,558,715</u>	<u>\$ 1,229,499</u>	<u>\$ 5,408,737</u>	<u>\$ 8,196,951</u>

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2011

Amounts stated in Cayman Islands dollars

3.2 Financial risk (continued)

A majority of the amount greater than 90 days is receivable from the Company's shareholder and relates to the 2008/9 financial year. Management does not consider this amount as impaired because the shareholder has committed in writing to settle the amounts over a period of four years. See Note 3.3 for scheduled payments.

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, 2011	June 30, 2010
AAA	\$ -	\$ -
AA	7,904,945	13,164,641
A	309,859	163,923
BBB	-	-
Below BBB or not rated	620,647	416,024
Total cash and cash equivalents bearing credit risk	<u>\$ 8,835,451</u>	<u>\$ 13,744,588</u>

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

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, 2011 and June 30, 2010.

	Contractual cash flows (undiscounted)						
	Carrying amount - \$	No stated maturity	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>5 yrs
June 30, 2011							
Financial Assets							
Cash and cash equivalents	\$ 8,835,451	\$ -	\$ 8,835,451	\$ -	\$ -	\$ -	\$ -
Advance claims, ASO claims and fees receivable	7,867,157	-	5,334,542	844,205	844,205	844,205	-
Premiums receivable	2,747,005	-	2,179,153	189,284	189,284	189,284	-
Other assets	3,241	-	3,241	-	-	-	-
Total	\$ 19,452,854	\$ -	\$ 16,352,387	\$ 1,033,489	\$ 1,033,489	\$ 1,033,489	\$ -
Short term insurance liabilities							
Insurance contracts	\$ 12,805,891	\$ -	\$ 12,805,891	\$ -	\$ -	\$ -	\$ -
Less reinsurance recoveries	(3,330,979)	-	(3,330,979)	-	-	-	-
Other financial liabilities	832,798	534,836	297,962	-	-	-	-
Total	\$ 10,307,710	\$ 534,836	\$ 9,772,874	\$ -	\$ -	\$ -	\$ -
Difference in contractual flows	\$ 9,145,144	\$ (534,836)	\$ 6,579,513	\$ 1,033,489	\$ 1,033,489	\$ 1,033,489	\$ -

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2011

Amounts stated in Cayman Islands dollars

3.3 Management of financial risks (continued)

June 30, 2010	Contractual cash flows (undiscounted)						
	Carrying amount - \$	No stated maturity	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>5 yrs
Financial Assets							
Cash and cash equivalents	\$ 13,744,588	\$ -	\$13,744,588	\$ -	\$ -	\$ -	\$ -
Advance claims, ASO claims and fees receivable	6,767,721	-	6,767,721	-	-	-	-
Premiums receivable	1,429,230	-	1,429,230	-	-	-	-
Of contract holders	3,116	-	3,116	-	-	-	-
Total	\$ 21,944,655	\$ -	\$21,944,655	\$ -	\$ -	\$ -	\$ -
Short term insurance liabilities							
Insurance contracts	\$ 10,473,195	\$ -	\$10,473,195	\$ -	\$ -	\$ -	\$ -
Less reinsurance recoveries	(1,302,094)	-	(1,302,094)	-	-	-	-
Other financial liabilities	281,199	-	281,199	-	-	-	-
Total	\$ 9,452,300	\$ -	\$ 9,452,300	\$ -	\$ -	\$ -	\$ -
Difference in contractual flows	\$ 12,492,355	\$ -	\$12,492,355	\$ -	\$ -	\$ -	\$ -

3.4 Sensitivity analysis - insurance contracts

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

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

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

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

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

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

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

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

Interest rates		Expenses		Loss ratios	
+0.05%	-0.05%	+5%	-5%	+5%	-5%

Sensitivities as at June 30, 2011

Impact on Net income for the year	2,569	(2,569)	(129,610)	129,610	(2,490,777)	2,490,777
Impact on Shareholder's equity	2,569	(2,569)	(129,610)	129,610	(2,490,777)	2,490,777

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2011

Amounts stated in Cayman Islands dollars

3.4 Sensitivity analysis - insurance contracts (continued)

	Interest rates		Expenses		Loss ratios	
	+0.05%	-0.05%	+5%	-5%	+5%	-5%
Sensitivities as at June 30, 2010						
Impact on Net income						
for the year	1,620	(1,620)	(120,090)	120,090	(2,543,478)	2,543,478
Impact on Shareholder's equity	1,620	(1,620)	(120,090)	120,090	(2,543,478)	2,543,478

4 Cash and cash equivalents

	June 30, 2011	June 30, 2010
Fixed Deposits	\$ 5,644,295	\$ 5,001,939
Cash at Bank	3,186,545	8,736,964
Deposit in transit	4,611	5,685
	<u>\$ 8,835,451</u>	<u>\$ 13,744,588</u>

At June 30, 2011, the Company held three fixed deposits earning interest of .125% per annum and maturities within 30 days. At June 30, 2010 four fixed deposits were held with interest earned averaging .125% per annum and maturities within 35 days.

5 Premiums receivable

	June 30, 2011	June 30, 2010
<i>Current</i>		
Premiums receivable from related parties, gross	\$ 2,165,247	\$ 1,420,109
Premiums receivable from unrelated entities, gross	20,655	10,521
Less: provisions for bad debts	(6,749)	(1,400)
	<u>\$ 2,179,153</u>	<u>\$ 1,429,230</u>

During the year ended June 30, 2011, bad debts of \$21,432 (June 30, 2010 - \$29,292) have been written off, of which \$1,400 had been provided for in 2009/10 (2008/9 - \$4,134). It is management's opinion that a provision for bad debts of \$6,749 (June 30, 2010 - \$1,400) is required at June 30, 2011. All bad debts written off are from unrelated individuals. Once a bad debt is written off coverage to the unrelated individual is terminated.

Long-term

Premiums receivable from related parties, gross	\$ 567,852	\$ -
	<u>\$ 567,852</u>	<u>\$ -</u>

The long-term amount receivable is due from the Ministry of Health and is payable within three equal annual installments. See Note 3.2 and 3.3.

5.1 Advance claims, ASO claims and fees receivable

	June 30, 2011	June 30, 2010
<i>Current</i>		
Advance claims	\$ 534,836	\$ -
ASO claims and fees receivable	5,334,542	6,767,721
Less: provisions for bad debts (advance claims)	(534,836)	-
	<u>\$ 5,334,542</u>	<u>\$ 6,767,721</u>
<i>Long-term</i>		
ASO claims and fees receivable	\$ 2,532,615	\$ -
	<u>\$ 2,532,615</u>	<u>\$ -</u>

The long-term amount receivable is due from the Ministry of Health and is payable within three equal annual installments. See Note 3.2 and 3.3.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2011

Amounts stated in Cayman Islands dollars

6 Other receivables and other assets

Components of other receivables and other assets are as follows:

	June 30, 2011	June 30, 2010
Reinsurance claims recoveries	\$ 3,330,979	\$ 1,302,094
Claims administration and other expenses	2,817	2,817
Advance to Employee	-	3,117
Investment income	424	299
Prepaid expenses		
Amounts prepaid for Indigent claims	11,299	7,780
Licence fees	25,000	25,000
Work permit fees	16,388	15,908
Prepaid Rent & Stamp duty on lease	2,508	-
Marketing costs	7,358	7,928
Miscellaneous	1,580	7,545
	<u>\$ 3,398,353</u>	<u>\$ 1,372,488</u>

See Note 17 for disclosure on related party balances.

7 Fixed assets

	System Development Costs	Office Equipment	Computer & Telecoms Equipment	Leasehold Improvements	Total
Cost at July 1, 2009	\$ -	\$ 24,595	\$ 149,931	\$ 79,075	\$ 253,601
Additions	-	765	8,875	765	10,405
Disposals	-	-	-	-	-
Cost at June 30, 2010	<u>-</u>	<u>25,360</u>	<u>158,806</u>	<u>79,840</u>	<u>264,006</u>
Accumulated depreciation at July 1, 2009	-	19,797	121,546	52,683	194,026
Depreciation for period	-	1,785	14,260	27,157	43,202
Disposals	-	-	-	-	-
Accumulated depreciation at June 30, 2010	<u>-</u>	<u>21,582</u>	<u>135,806</u>	<u>79,840</u>	<u>237,228</u>
Carrying value at June 30, 2010	<u>\$ -</u>	<u>\$ 3,778</u>	<u>\$ 23,000</u>	<u>\$ -</u>	<u>\$ 26,778</u>
	System Development Costs	Office Equipment	Computer & Telecoms Equipment	Leasehold Improvements	Total
Cost at July 1, 2010	\$ -	\$ 25,360	\$ 158,806	\$ 79,840	\$ 264,006
Additions	440,156	8,177	30,698	-	479,031
Disposals	-	-	-	-	-
Cost at June 30, 2011	<u>440,156</u>	<u>33,537</u>	<u>189,504</u>	<u>79,840</u>	<u>743,037</u>
Accumulated depreciation at July 1, 2010	-	21,582	135,806	79,840	237,228
Depreciation for period	-	2,568	18,925	-	21,493
Disposals	-	-	-	-	-
Accumulated depreciation at June 30, 2011	<u>-</u>	<u>24,150</u>	<u>154,731</u>	<u>79,840</u>	<u>258,721</u>
Carrying value at June 30, 2011	<u>\$ 440,156</u>	<u>\$ 9,387</u>	<u>\$ 34,773</u>	<u>\$ -</u>	<u>\$ 484,316</u>

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2011

Amounts stated in Cayman Islands dollars

7 Fixed assets (continued)

On December 21, 2010, the Company, along with the Cayman Islands Health Services Authority ("CIHSA"), signed an agreement with Health Adjudication Systems Ltd., to implement a real-time electronic verification and adjudication system ("EVAS"). The implementation of the EVAS is being co-sponsored by the CIHSA. The total implementation costs of the contract is estimated at US\$1.372 million, with approximately \$1.325 million to be capitalized, which does not include travel allowances and consulting fees. CIHSA and the Company would jointly (i.e. 50/50) share in these costs (i.e. the Company's share of the estimated ultimate cost is US\$ 686,000). Per the contract terms, 75% of the Company's share of implementation fees have been paid as at June 30, 2011 and reflected in the Company's accounts. The remaining 25% of the Company's share would be payable upon the completion of the project, which is anticipated to be in early 2012. Other costs are estimated to be approximately CI\$500,000, representing testing, installation, consulting fees, implementation of printing solution, data warehousing, etc. At June 30, 2011, no formal contract(s) has/have been signed in respect of these \$500,000 in other costs; this amount represents management's best estimate of costs to be incurred in the future and are to be borne 100% by CINICO. Once fully implemented, the costs would be depreciated over a period of 5 years which is the term of the licence agreement with the developer.

8 Accounts payable

	June 30, 2011	June 30, 2010
Accounts payable	\$ 7,820	\$ 14,457

Included in accounts payable in respect of unrelated entities are amounts relating to administrative expenses of \$7,820 (June 30, 2010 - \$14,457).

9 Accruals and other liabilities

Components of other receivables and other assets are as follows:

	June 30, 2011	June 30, 2010
Reinsurance premium due	\$ 65,599	\$ 63,815
Audit Fees - Auditor General	8,000	6,350
Audit fees	33,256	33,256
Consultancy fees	20,045	29,285
Insurance expense	4,152	4,376
CBCA/CMN Expenses	23,545	567
Computer Service charges	2,176	772
Maintenance/Utilities & Telecommunications	3,490	2,322
Marketing costs	3,621	4,059
Stale dated cheques	74,610	75,972
Advance claims	534,836	-
Other accruals	51,648	45,968
	<u>\$ 824,978</u>	<u>\$ 266,742</u>

See note 17 for disclosure on related party balances. See Note 21 for disclosure on Advance claims.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2011

Amounts stated in Cayman Islands dollars

10 Claims paid	June 30, 2011	June 30, 2010
Gross US\$ claims prior to discount (denominated in CI\$)	\$ 23,102,319	\$ 23,527,635
Net claim savings		
Amount of claim discount per case management vendors	(9,271,486)	(9,044,208)
Fees for obtaining discount	1,384,482	1,362,192
	<u>(7,887,004)</u>	<u>(7,682,016)</u>
Net US\$ claims (denominated in CI\$)	15,215,315	15,845,619
CI\$ claims	32,383,195	31,148,195
	<u>\$ 47,598,510</u>	<u>\$ 46,993,814</u>
Less repricing fees	(1,384,482)	(1,362,192)
Claims paid (not including repricing fees)	<u>\$ 46,214,028</u>	<u>\$ 45,631,622</u>

The contract with Care Management Network Inc. (CMN) guarantees the Company a discount of 30% on United States dollar claims administered by CMN. These fees are classified as part of claims paid. During the period ended June 30, 2011, the Company realized net claim savings (per case management vendors) of \$7,887,004 (June 30, 2010 - \$7,682,016) and repricing fees were charged at 15% effectively (June 30, 2010 - 15%).

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 before reinsurance, has changed at successive year ends. The bottom half of the table reconciles the cumulative claims to the amount appearing on the statement of financial position.

Reporting year	2006/7	2007/8	2008/9	2009/10	2010/11	Total
<u>Estimate of ultimate claims costs:</u>						
At end of reporting month	32,864,983	35,819,622	40,046,000	46,045,975	51,917,304	
One year later	30,779,928	34,402,472	37,507,064	43,109,341	n.a.	
Two years later	30,879,375	34,448,122	37,462,191	n.a.	n.a.	
Three years later	30,871,999	34,448,671	n.a.			
Current estimate of cumulative claims	30,871,999	34,448,671	37,462,191	43,109,341	51,917,304	
Cumulative payments to date	30,871,999	34,448,671	37,462,191	43,105,847	40,979,752	
Gross liability recognized in the statement of financial position	-	-	-	3,494	10,937,552	10,941,046
Allocated loss expenses ("ALE") reserve	-	-	-	301	811,770	812,071
Net liability recognized in the statement of financial position	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,795</u>	<u>\$ 11,749,322</u>	<u>\$ 11,753,117</u>

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2011

Amounts stated in Cayman Islands dollars

11 Provision for claims incurred (continued)

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

	Year ended June 30, 2011			Year ended June 30, 2010		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Balance at beginning of period	\$ 8,870,416	\$ (1,302,094)	\$ 7,568,322	\$ 11,092,190	\$ (320,898)	\$ 10,771,292
Incurred related to:						
Current period	51,917,304	(2,357,120)	49,560,184	46,045,975	(1,281,926)	44,764,049
Prior periods	(3,022,758)	302,842	(2,719,916)	(2,500,662)	249,191	(2,251,471)
	48,894,546	(2,054,278)	46,840,268	43,545,313	(1,032,735)	42,512,578
Paid related to:						
Current period	40,979,752	-	40,979,752	37,788,058	-	37,788,058
Prior Periods	5,234,276	(25,393)	5,208,883	7,843,564	(51,539)	7,792,025
	46,214,028	(25,393)	46,188,635	45,631,622	(51,539)	45,580,083
ALE Reserve movement	202,183	-	202,183	(135,465)	-	(135,465)
Balance at end of year	\$11,753,117	\$ (3,330,979)	\$ 8,422,138	\$ 8,870,416	\$ (1,302,094)	\$ 7,568,322
Change in provision from claims incurred	\$ 2,882,701			\$ (2,221,774)		

For the period ended June 30, 2011 there was a hindsight reserve release of \$3,022,856 for the prior year (\$2,500,662 reserve release for the year ended June 30, 2010). As stated in the beginning of Note 11, IBNR's are estimated with all known information at the time. In hindsight, the June 30, 2010 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) In addition, there was a change in the method used to estimate outpatient costs, attributable to better information from increased disaggregation, which resulted in a release of prior year reserves.

12 Share capital

Authorized:	June 30, 2011	June 30, 2010
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, 2011	June 30, 2010
Additional paid in capital received	\$ 20,435,840	\$ 20,435,840
	<u>\$ 20,435,840</u>	<u>\$ 20,435,840</u>

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

It is the policy of the Company to operate in a manner designed to maintain capitalization at a minimum of \$3 million.

The 2010/11 budget contained a provision for a \$1.4 million capital withdrawal to the shareholder which was approved by the Board of Directors and the Cayman Islands Monetary Authority ("CIMA"). In light of the material 2008/9 and 2010/11 ASO claims and fees receivables from the shareholder which would require a supplemental budget prior to payment, in order to protect the Company's liquidity position, the Board of Directors decided to cancel the payment of the capital withdrawal in light of the outstanding government receivables. The shareholder has committed in writing to settling the 2008/9 ASO claims and fees receivable over a period of four equal annual installments.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2011

Amounts stated in Cayman Islands dollars

14 Premium Income

Premium income earned by insured type is as follows;

	For the Year Ended June 30, 2011			
	Group 30100	Group 30101	Group 30104	Total
Premium Income	\$ 40,868,370	\$ 7,232,646	\$ 1,714,529	\$ 49,815,545
Reinsurance Premium	(756,583)	-	-	(756,583)
Net Premium	\$ 40,111,787	\$ 7,232,646	\$ 1,714,529	\$ 49,058,962

	For the Year Ended June 30, 2010			
	Group 30100	Group 30101	Group 30104	Total
Premium Income	\$ 43,430,148	\$ 5,904,465	\$ 1,534,943	\$ 50,869,556
Reinsurance Premium	(745,536)	-	-	(745,536)
Net Premium	\$ 42,684,612	\$ 5,904,465	\$ 1,534,943	\$ 50,124,020

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.

Reinsurance premium is calculated at \$6.32 (2009/10 - \$6.32) per person per month.

15 Administrative Services Only Fees

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

16 Contributions to segregated insurance fund

Under Section 5(1) of the Health Insurance Regulations (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 period ended June 30, 2011 the Company accrued contributions totaling \$584,915 (year ended June 30, 2010 - \$567,810).

17 Related party transactions

Related parties comprise of the Cayman Islands Government and its various ministries/portfolios, statutory authorities, and government companies to whom the Company provides health insurance coverage to. In addition, the Company makes claim payments to other Government entities, namely the Health Services Authority, and Cayman Airways. Related party balance and transactions from the balance sheets, and statements of comprehensive income are represented below.

	June 30, 2011	June 30, 2010
Assets		
<u>Current</u>		
Premiums receivable	\$ 2,165,247	\$ 1,420,109
Advance claims, ASO claims receivable and fees receivable	5,334,542	6,767,721
Other receivables and other assets	44,188	44,025
<u>Long-term</u>		
Premiums receivable	567,852	-
Advance claims, ASO claims receivable and fees receivable, net of bad debt	2,532,615	-
	\$ 10,644,444	\$ 8,231,855
Liabilities		
Accruals and other liabilities	\$ 55,349	11,498
Claims payable	711,923	1,512,264
	\$ 767,272	\$ 1,523,762

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2011

Amounts stated in Cayman Islands dollars

17 Related party transactions (continued)

Income		
Premium income	\$ 48,035,838	\$ 49,283,319
ASO Fees	444,953	438,834
	<u>\$ 48,480,791</u>	<u>\$ 49,722,153</u>
Expenses		
Claims paid	\$ 28,766,397	\$ 28,141,798
Contributions to segregated insurance fund	584,915	567,810
Administrative expenses	145,274	129,888
	<u>\$ 29,496,586</u>	<u>\$ 28,839,496</u>

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 \$269,367 (year ended June 30, 2010: \$224,953) are included within administrative expenses as reported in the statement 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 replacement insurance cards and reinstatement of policies. The Company has received interest on fixed deposits and other income of \$24,728 (year ended June 30, 2010 - \$32,992).

20 Pension costs

The Company participates in a defined contribution pension scheme administered by the Cayman Islands Chamber of Commerce. In addition, two employees are continuing to contribute to the defined contribution pension scheme administered by the Public Service Pension Board. Pension expense for the year ended June 30, 2011 is \$28,222 (year ended June 30, 2010 - \$35,819).

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 2010, the Company signed a two year lease which became effective June 1, 2010.

See also Note 7 (EVAS).

The Cayman Islands Government provides medical cost assistance to patients deemed uninsured/underinsured patients ("Advance patients"). CINICO was the guarantor to medical providers for these services up to August 2008, whereby the Company would assist by obtaining overseas care during emergency situations, on behalf of the Government of the Cayman Islands. The services were facilitated through letters of guarantees for payment. Subsequently, the Government would then facilitate payment of the medical services. In February 2011 and May 2011, the Company was served with two separate summonses in the state of Florida. The Company has set a provision totalling \$534,836 inclusive of estimated interest, legal fees and air ambulance costs. While management believes that these amounts should ultimately be paid by the Cayman Island's Government, a liability of \$534,836 has been recorded at June 30, 2011(see Note 9) as the Company is technically liable through the issuance of the guarantees. The Company has also recorded a corresponding receivable from Government, however, in the absence of any formal written commitment from the Government to reimburse the Company, a provision for bad debt has been recorded. Management intends to seek recovery from the Government in due course.

Cayman Islands National Insurance Company Ltd.

Notes to the financial statements

June 30, 2011

Amounts stated in Cayman Islands dollars

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, 2011	June 30, 2010
Share capital	\$ 1	\$ 1
Share premium	2,999,999	2,999,999
Additional paid-in-capital	20,435,840	20,435,840
Accumulated deficit	(13,973,257)	(10,930,683)
	<u>\$ 9,462,583</u>	<u>\$ 12,505,157</u>

At June 30, 2011, the Company's net worth was \$9,462,583 and fully compliant with CIMA minimum capital requirement.

23 Subsequent events

Management have performed a subsequent events review from July 1, 2011 to June 19, 2012, being the date that the financial statements were available to be issued. With the exception of the items listed in the following paragraphs, management concluded there were no additional material subsequent events which required additional disclosure in these financial statements.

On March 28, 2012, the Shareholder settled the first installment (\$1.033 million) of the \$4,133,956 receivable balance. Subsequently, on April 5, 2012, the Shareholder provided the Company with a guarantee to settle the remaining outstanding receivable balance of \$3,100,467 in equal installments of \$1,033,489 over the next three financial years 2012/13, 2013/14 and 2014/15.

In finalizing its 2011/12 budget, the Shareholder requested that CINICO reduce its 2011/12 premium rates from the actuarial calculated rates for the following insurance plans: civil servants, pensioners and Seafarer and Veterans. The reduction in premium rates were estimated to negatively impact the 2011/12 revenues, net income and net worth by \$3.7 million. The Board of Directors has voted to accept the request subject to receiving a written guarantee for the 2008/9 outstanding government receivables. In making this decision, the Board also decided not to approve the \$1.4 million 2010/11 budgeted capital withdrawal (See Note 13). Similarly, in finalizing the 2010/11 budget, the Shareholder requested a 10% premium rate reduction to the Company's actuarial calculated premium rates. The reduction in premium rates negatively impacted the 2010/11 revenues, net loss and net worth by \$2.9 million. The Board of Directors had concerns with the premium rate reduction request and initially declined the request due to the following concerns; director liability issues, acting in the best interests of the Company, and an unpaid 2008/9 government receivable. The director liability issues have been resolved, and the Company has received a partial payment and a guarantee of payment for the 2008/9 outstanding receivables (see above paragraph).

On April 1, 2012 the Company has contracted with MMSI to provide overseas medical case management services which were previously provided by Care Management Network Inc. ("CMN"). CMN continues to provide network access services.