





CAYMAN ISLANDS
CINICO
NATIONAL INSURANCE COMPANY

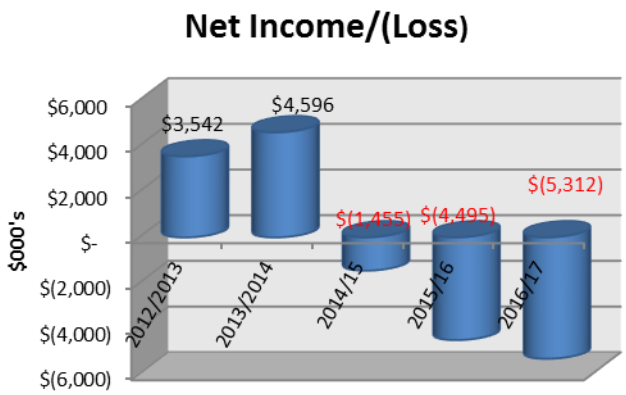
ANNUAL REPORT – 2016/17

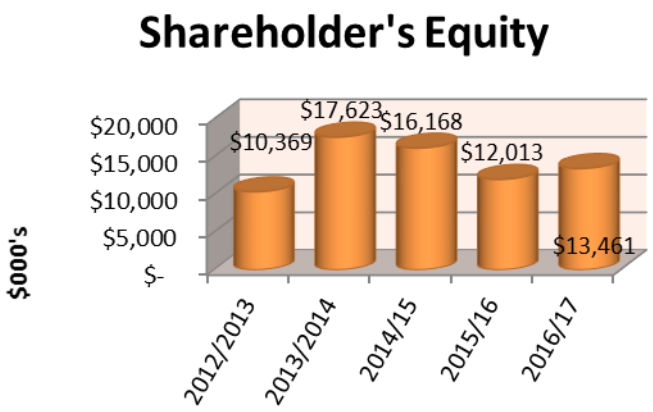


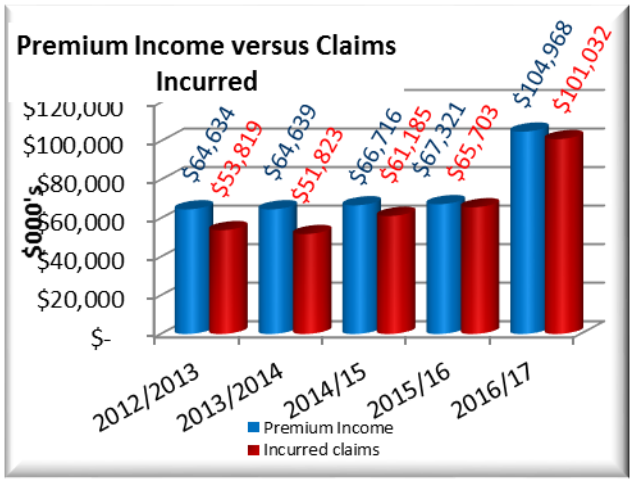
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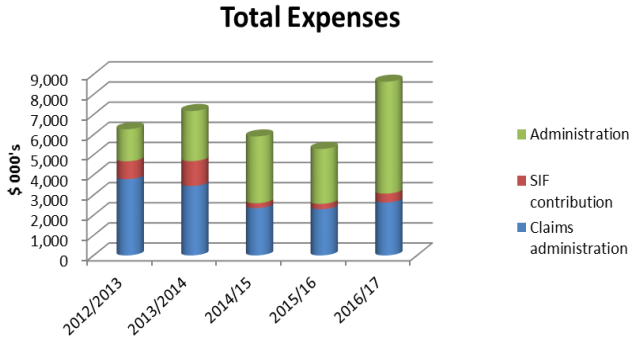
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FIVE YEAR FINANCIAL AND OPERATIONAL HIGHLIGHTS











MISSION STATMENT

The mission of CINICO is to manage our stakeholder's welfare by providing cost effective solutions and sustainable coverage. We will do so through friendly, compassionate and competent service that emphasizes a member's satisfaction, peace of mind and provides a feeling of security. Through our strategic partnership with government we will continue to broaden the scope of our offerings by providing innovative products and services geared towards adding value and protecting against financial risk.

VISION STATMENT

The vision of CINICO is to maintain its strong capital base through broadening the scope of our products and services by exploring opportunities for innovative solutions while sustaining our current operations and activities. We strive to be a leader in the insurance industry in the Cayman Islands through our strategic partnerships with government and our mutual stakeholders. By being client focused and member centered, we endeavor to provide an unparalleled experience as the most trusted partner in insurance for our members through all stages of their life. We will make every effort to be a respected employer sought out as a destination for lifetime employment.

CORE VALUES

Our core value puts the needs of our members first by providing risk based solutions with integrity and honesty in a non-discriminatory and equitable manner.

- We will protect our member's well being by providing affordable solutions against health related risks through sustainable coverage.
- We will bring comfort and security through outstanding customer service and innovative insurance solutions.
- We will value our employees and respect those we serve through financially sound decisions that are compassionate to our members.
- We will work with our stakeholders to provide a holistic approach to health-care which will assist our shareholder in achieving a national vision from health-care and cost containment.
- We will promote national health awareness to achieve a health conscious society.
- We will exceed our members' expectations by providing friendly, compassionate and competent service through teamwork and innovation that will make CINICO an industry leader.

Through our core values we will improve the lives of our members and promote wellness and well-being in our capacity as an insurer.

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 (or Statutory Authorities & Government Companies – "SAGCs"), Seamen & Veterans and their dependents ("Government Insured"), as well as residents of the Cayman Islands who purchase insurance under the Standard Health Insurance Contract as defined in the health insurance law ("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 benefits. The following group categories would be referenced in the financial highlights and analysis:

- Group 30100 - Civil servants, pensioners and various Statutory Authorities & Government Companies (SAGCs);
- Group 30101 - Seamen & Veterans and their dependents;
- Group 30102 - ASO for indigents;
- Group 30103 - Advance patients;
- Group 30104 – Standard Health Insurance Contracts ("SHIC").

CINICO provides the following two outputs to Cabinet:

- **CIN 1** - Provision of health insurance on behalf of the Ministry of Finance and Economic Development ("F&ED"), for access to local health care (non-Tertiary) for the seamen and veterans and their dependents.
- **CIN 2** - Provision of health insurance to retired Civil Servants & their dependents (Group 30100).

In accomplishing its goals and objectives, the Company contracts with various Third Party Administrators ("TPAs") and vendors, however in the 2016/17 period CINICO has provided some of the services in-house. A listing of these vendors/business partners is provided starting on page 12.

The Company maintains reinsurance coverage with Munich Re, which provides specific excess loss reinsurance coverage on a per coverage person basis. The reinsurance coverage covers specific losses in the range from US$700,000 to US$5,000,000 for 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/dental practitioner has determined that services are unavailable at CIHSA, then approval for treatment by the CINICO complimentary network is sought by the attending

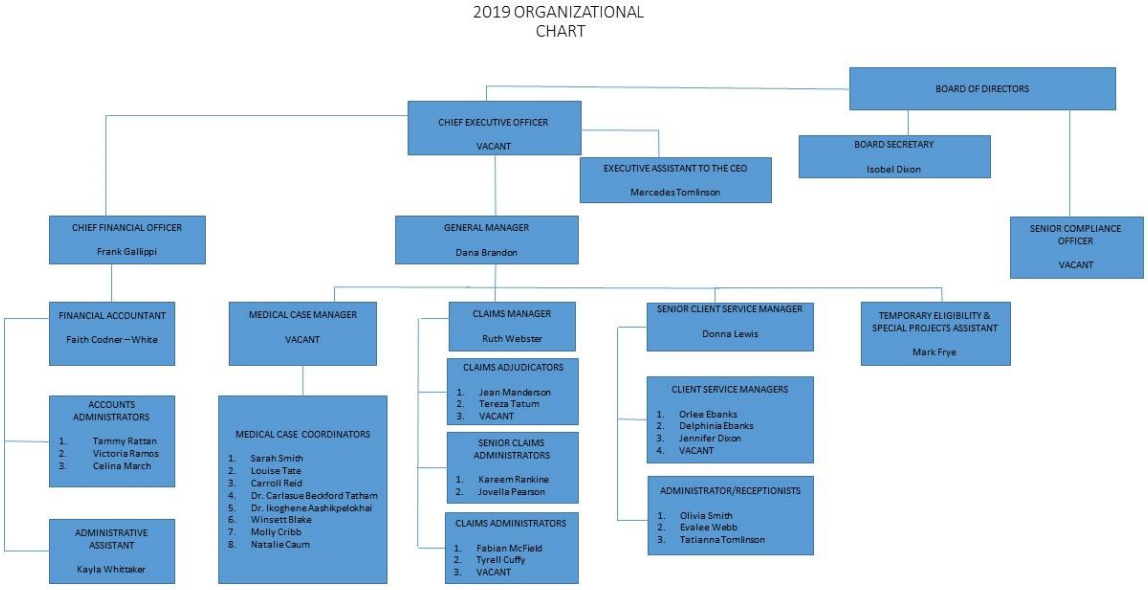
practitioner. Medical treatment is approved by the Chief Medical Officer and dental treatment is approved by the Chief Dental Officer. The CINICO complementary network includes other Cayman Islands medical/dental providers, as well as medical providers in over 130 countries around the world which are accessed through CINICO's overseas care management company. CIHSA earns a very large share of the Company's claim dollar. For the eighteen month year ending December 31, 2017, CIHSA's paid claims (insured segment only) accounted for 63% (56% for the prior year) 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") and the Health Insurance Commission ("HIC"), 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 capital requirement ("MCR") and prescribed capital requirement ("PCR") in accordance with "The Insurance (Capital and Solvency) (Class A Insurers Regulations, 2012". CINICO complies with both the MCR and PCR requirements as at December 31, 2017.

The full regulations are available at the following link:
http://www.cimoney.com.ky/WorkArea/DownloadAsset.aspx?id=2147483742

Who we are



CINICO currently boasts a total staffing complement of 33 employees (30 full time and 3 part-time), ranging in age from 18 to 63 years.

The Medical Case Management Unit which was officially opened in July 2016 consists of 7 medically trained employees – 2 doctors and 5 nurses/midwives. The Claims Unit which opened its doors in February 2017 presently houses 7 staff. The Client Services team which includes the Front Office staff is also comprised of 7 employees, including the one Client Service Manager who runs the Cayman Brac office. The Finance Team which is led Mr. Frank Gallippi as Chief Financial Officer and one of 3 members of the Senior Management team includes a total complement of 5 staff. Additionally, the remainder of the staffing complement is made up of the Chief Executive Officer, Mr. Lonny Tibbetts, and the General Manager, Ms. Dana Brandon who round out the Senior Management team, 1 Compliance Officer, and 3 support staff.

Of the 7 male and 26 female CINICO team, 30 members of staff are Caymanian, while the remaining 3 staff are from Jamaica, Canada, and South Africa. Of this team, nearly 50 percent hold post-secondary academic qualifications ranging from Associates degrees to Medical and Law degrees, as well as CPA qualifications. Additionally, approximately 30 percent of staff holds industry certifications, and 9 members of staff are currently studying towards accounting, case management, or other industry qualifications. CINICO aims to have 100 percent of its staff educated to a minimum of industry certification by the end of 2019.

CINICO also supports several community initiatives annually, including but not limited to the DG5K, the Annual Healthcare Conference, the Brain Tumor Foundation 5K Walk/Run, and the Intertrust

Marathon. Not only do we provide financial sponsorship, but we also proudly boast a volunteerism rate of approximately 50 percent.

What we achieved

The 2016/17 year was a very successful year for CINICO in terms of achieving its long-term strategic goals – insourcing of insurance administration functions, claim payment processing and medical cases management and improved customer service. In order to get an appreciation of the organization, as it stands today, the path at that was taken is described below in chronological order.

Since its inception in 2004, CINICO relied heavily on the use of Third Party Administrators (TPAs) to perform insurance administration functions, air ambulance procurement, overseas referral coordination, case management and access to overseas provider networks. These services amounted to over $5 million per annum.

Restructuring of Operations (2010 to present)

- Restructuring of overseas TPA functions 2010-12:
  - Prior to 2010, one TPA was used for a number of services (coordination of overseas referrals, case management, overseas cost containment, network access and air ambulance. A second TPA was used for claims processing and payment services
  - RFP for network access and cost containment services
    - Mayo Clinic (MMSI) was chosen to coordinate overseas care and monitor parameters to control costs.
    - CMN was retained for cost containment of overseas claims, network access and air ambulance coordination.
    - Result –
      - removed the moral hazard that previously existed in providing both care managements services and access to networks
      - improved overseas care

- Deployment of cost containment strategies via a subsequent RFP (2012/13) for Network Access and cost containment.
    - United Healthcare was chosen for network access
    - ABS was chosen for insurance administration, claims processing and payments
    - Result: Significant improvement in overseas access and improved discounts, although the full potential of the insurance admin/claims processing and payments were not reached

- Creation of a CSM Team (2013)
    - As our business model changed, we deployed a core strategy of a member centric approach and immediately recognized the value of personalized service. This created the post of Client Service manager and we employed 4 persons to perform these services
    - Result – improved customer service

In 2016/17 we have achieved the following:

- Domiciling of Medical Case Management Service (August 2016)
    - At the conclusion of the Mayo/MMSI contract, we created the Medical Case Management Unit (MCMU) and tasked that unit with the co-ordination of all overseas care and air ambulance transfers.
    - The team is staffed with all medical professionals including 2 physicians and 6 licensed nurses.

- Domiciling of Claims Payments and Insurance administration services
    - At the conclusion of the ABS contract (see business partners section below), we contracted with a software company, Hi-Tech, to utilize their Insurance Administration / Claims procession software.

  Result
  - Insourcing the claims processing and Medical case management services has resulted annualized savings of $600k.
  - Increase employment and training opportunities for Caymanians
  - Claim payment turnaround has increased
  - Improved and compassionate service to our members

- Reinsurance
    - Throughout our history we have been continuously lowering our reinsurance costs and coverage.
    - In a 2017 RFP for reinsurance coverage, the market rewarded CINICO's for its achievement of its historical strategies. This reward is evident as the winning bidder offered a premium reduction amounting to an annual savings of US$ 300,000 and at the same time improving coverage.

- CINICO – Member Care Coordination System (MCCS)
    - We recognized that there was a significant amount of information gaps and miscommunications as it relates to our role in the referral process. As a result, we have undertaken the task to create fully customized software that will manage a significant amount of the various aspects of our core functions.

- Developed a complete set of Compliance protocol and created a full-time compliance post
  Result – ensure that CINICO remains compliant with all applicable requirements.

Each phase of the above changes were planned and implemented with considerations for space, staffing resources and budget restraints. For the most part, the changes made were implemented successfully. Whilst we encountered litigation with a former TPA (2012-2013), we emerged stronger and better protected. In both expansions of services, we continue to experience challenges with resources, as medical case management and claims processing are both specialized skills that are not readily available. As such we have hired staff with relevant experience and we have created training programs to develop our staff to ensure we provide both efficient and high quality customer service to all stakeholders.

Business partners

The Company used the following service providers during the 18 month year ended December 31, 2017:

Automated Benefit Services, Inc. (ABS) – Based in the United States, ABS was contracted effective December 2013 to provide claims administration services. ABS also provides CINICO access to a vast array of data analytics and medical case management software systems (VeraRisk, MeDecision etc.) as well as Eligibility management via their in-house system (Luminex) and on-line member/provider portal via Health X. CINICO terminated its relationship with ABS in June 2017, as its services were no longer required given that CINICO achieved its strategic goal of providing in-house claims administration services.

HiTech - Following an open tender process for the provision of a Claim processing and Administration services system which was completed in early 2017, in June 2017 CINICO contracted with HiTech. CINICO leases the Insurance/Claims administration system and performs these services in-house; as such the services of ABS were no longer required.

United HealthCare (UHC) – Based in the United States, UHC was contracted effective January 1st, 2014 to provided CINICO with Network access to US based physicians, facilities and medical vendors. UHC also provides utilization review and care coordination services.

Mayo Clinic Health Solutions (MCHS) – Based in the United States, MCHS (formerly known as MMSI) provides case management, utilization review, and other medical management services for CINICO members who are referred overseas (not including Jamaica). MCHS has been since April 1, 2012. Effective August 2016, the services of MCHS are no longer used as CINICO has developed its own in-house medical case management unit.

Caribbean Health Network (CHN) – Based in Jamaica, CHN provides case management, utilization review, network access and claims review ("scrubbing") services for CINICO members who are referred to the Jamaica network. CHN has been providing these services since 2011.

Willis Re Inc. – Based in the United States, Willis Re Inc., is the CINICO's broker and assists with procuring and maintaining reinsurance coverage. The services have been provided since July 2005.

Munich Re – Based in the Canada, Munich Re provides the CINICO with underwriting reinsurance management and coverage. Munich Re, through its Managing Agent, IRM, provides value-added services such as: 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.

Sinclairs – During the 2016/17 fiscal year, CINICO has been using the legal services of Sinclairs, based in the Cayman Islands.

KPMG - Based in the Cayman Islands, KPMG has been CINICO's external auditor from June 2013. Prior to this date PriceWaterhouseCoopers has provided these services since CINICO's inception.

RONCO – Based in the Cayman Islands, RONCO has been providing the Company with computer network, maintenance and disaster recovery services from October 2011 to June 2017.

MCS – Based in the Cayman Islands, MCS has provided CINICO with computer network, maintenance and disaster recovery services from October 2011 to June 2017.

Netclues – Based in the Cayman Islands, the services of Net Clues have been retained for the redevelopment and ongoing maintenance of CINICO's website and other IT initiatives.

Strategic Goals and Objectives (Ownership Agreement)

In April 2013 CINICO completed a full five year Strategic Plan. Details of the plan can be found on CINICO's website (*https://www.cinico.ky/strategic-plan*).

The Company's 2016/17 Ownership Agreement included the following key strategic goals and objectives (from an ownership perspective):

Strategic Goals

The Company's strategic goals are as follows:

- "To provide affordable health insurance to the residents of the Cayman Islands that facilitates access to quality healthcare";
- "To maintain CINICO's status as a dynamic and financially stable insurance company that supports its stakeholders in a sustainable manner";
- "To identify and evaluate options for broadening the scope of the Company's products and services";
- "To be an "Employer of Choice" recognized as a company providing a high quality work environment".

Objectives/Projects

In respect to each strategic goal, the following projects were identified for completion or commencement in the 2016/17 financial year.
Strategic Goal #1:

- Project 3 - Development of additional health insurance plans: There is a potential scope for expanding the health insurance products to create an additional revenue stream, provide a wider range of products to meet the expressed wishes of Civil Servants and SHIC members, and respond to changing needs in the healthcare market in the Cayman Islands. CINICO would also offer a SAGCs only health insurance plan offering participants' choice of medical providers.
- Project 4 – Development of Non-US Preferred Provider Networks locally and internationally:
- Project 6 – Documentation of Management of Overseas Costs: Update as necessary the policy and procedures manual to reflect how oversight of the costs of overseas care will be implemented and documentation maintained to support this operating procedure.

Strategic Goal #2:

- Project 2 – NGS 55: To implement a new payment protocol regarding the ASO function (NGS 55 output) performed for the Ministry of Health that would mitigate future financial exposure to CINICO.

- Project 3 – Elimination of Premium Discounting: At the request of the Shareholder, CINICO has not increased its premium to the Government plans (Civil Servants, Retired Civil Servants and Seafarer and Veterans) for the last five and a half years ending December 31, 2017. This practice is financially unsustainable. CINICO would engage and work with the Shareholder to eliminate the practice of premium discounting.

- Project 4 – Key quality control measures and internal audit requirements: Identify key quality control measures and internal audit requirements for all parties with whom CINICO contracts for services and establish a reporting protocol.

- Project 5 – Co-ordination of Benefits: Development and implementation of a co-ordination of benefits procedure.

- Project 6 – Subrogation Procedure: Development and implementation of a subrogation procedure.

Strategic Goal #3:

- Project 1 – Preventive Care: Complete the development and promotion of a 'Wellness and Lifestyle management program', which was started in 2015.

- Project 2 – New lines of business: Determination and prioritisation by the Board of which additional lines of business should be pursued, instruction of the appropriate feasibility studies, and early engagement with the sole shareholder on policy and legal considerations for the mission and scope of business of the company.

- Project 3 – Member communication / Enhanced perception: Complete the development and implementation of a program, including improving functionality of CINICO's website, to improve communication to member and enhance their perception of CINICO. (The process commenced in 2015).

Strategic Goal #4:

- Project 1 – Enhanced Quality of Customer Service: Institute a program of customer service training and product / procedures education for CINICO staff.

- Project 2 – Succession Planning and Cross-Training: Continue to maintain the staff training plan which includes a technical education program and "buddy system" of cross training.

The table below provides a status of the various projects.

Strategic Goal/Project	Status
S1, P3	New SAGCs Health Insurance plan developed offering choice of medical providers, with the input of various SAGCs. The rich benefits requested provide better benefits than most of the SAGC's current plans. However this has led to a higher premium which most SAGCs are not willing to pay. Choice insurance plan also available for Civil Servants.
S1, P4	Ongoing. Alliances made with St Luke's of Kansas City, Cleveland Clinic, Cancer Centers of America, Jamaica Networks and various local providers.
S1, P6	Ongoing. Fully implemented in-house Medical Case Management Unit. Fully implemented in-house claims processing. Use of external company for large claim review. Procedures currently being updated to reflect changes in 2016/17.
S2, P2	Service level agreement drafted, however unable to execute with the Ministry of Health. Efforts would continue in 2018.
S2, P3	Incomplete. Premium discounting continues at the request of Shareholder. The premium discounts provided to the Shareholder for 2016/17 and 2018, amounted to $ 11.6 million and $7.5 million respectively. CINICO was able to achieve an increase of 8% for 2018.
S2, P4	Completed. Key measures included as a requirement in the Service Level Agreements with TPAs and service providers. Internal Audit function would be implemented in 2018.
S2, P5	Ongoing. Coordination of benefits to be fully completed upon completion of a robust eligibility system.
S2, P6	Partially completed with the creation of a new medical case management unit who will be proactive in seeking subrogation opportunities.
S3, P1	Partially completed. CINICO needs to actively promote the program, and implement the incentives program.
S3, P2	Not started, however will be pursued in 2018.
S3, P3	This is an ongoing initiative. Items completed; creation of customer service manager posts, redesigned workflow to improve customer service and revamped website. Currently in the works- an interactive medical referral portal.
S4, P1	Started and an ongoing initiative.
S4, P2	Started and an ongoing initiative.

SG = Strategic Goal, P = Project

Risk Management

Per the 2016/17 Ownership Agreement with the Shareholder, the following key risks have been identified**:**

Key risks	Change in status from previous year	Actions taken in 2016/17 to manage risk	Financial value of risk
Claim losses higher than what can be supported by revenues	Implemented in-house medical case management unit (MCMU) Starting phase of a new medical referral software Implemented in-house claims processing putting greater control of claims review within CINICO's hands. Hired experienced claims adjudicators. Reduced Reinsurance rates.	• Utilization of CINICO's in-house Medical Case Management Unit (MCMU) to be more hands on with referrals and patient contact. • MCMU staff contain licensed medical nurses and 2 doctors • Use of medical guidelines software and ongoing training of the MCMU staff • CINICO direct provider contracts. • Overseas discounts with UHC. • Improved control and follow-up of local and overseas referrals. • Reinsurance arrangement in place to limit the Company's risk to large claims. • Weekly concurrent review with UHC on overseas inpatient referrals • Coordination of discharge planning. • Introduction of multiple claim audits in the claim system • Third party concurrent review of large claims • Monthly Risk & Appeals committee meetings • Capital preservation policy	Not quantifiable.
TPAs not delivering against expectations	Contract negotiations and fees in line with performance In-house admin and claims processing in accordance with strategic plan In-house MCMU in accordance with strategic plan.	Weekly meetings with TPA. Ongoing review of TPA output/performance and real-time feedback.	Not quantifiable
Transition to in-house MCMU and claims processing	New CINICO departments	Development of detailed policies and procedures Parallel operations with previous case management company. RFP phase for claim system – in-depth review of claim system to ensure it met CINICO's needs. Review of Hitech SOC 1 report 24 hour support on leased system. Ongoing transition meetings with Hitech Hiring of qualified resources Commencing the development of referral software Implementation of robust claims processing controls	Not quantifiable

Key risks	Change in status from previous year	Actions taken in 2016/17 to manage risk	Financial value of risk
Risk that our reinsurance company will be unable to pay its liabilities	none	Reinsurance reviewed every year. As part of the review creditworthiness is looked at. Our current reinsurer has an AM Best rating of A+ XV stable	Approximately $500k- $1m based on historical amounts.
Non-compliance with regulators	Employment of Compliance officer and review of compliance at the Board level	Documented Corporate Governance, policies and procedures Developed a compliance calendar Implemented a risk and compliance committee	CIMA fines
Risk that government would not honour its liabilities under the ASO agreement (Output NGS 55)		Heightened protocols to monitor expenditure against budget, and take proactive steps to ensure Government payments are met.	$4 million to $8 million
Negative operating cash flow and capital below CIMA's requirements resulting from Shareholder's requirement to discount premium below actuary rates, thus depleting capital and exposing Company to liquidity risk		Enforcement of Company's credit and liquidity risk policy. Aggressive collection of Government outstanding premium. Request for equity injection to meet CIMA's capital requirements Introduction of other cost savings measures – renegotiated various contracts (TPAs and reinsurers)	Premium rate reduction led to a depletion of capital of over $11 million offset with a $7.1 million equity injection.

The Company has prepared a draft "Risk Management Framework" (RMF) as required by CIMA's rule 9. The RMF requires Board of Directors' sign-off, in addition to a periodic third party independent review.

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

Corporate Governance

CINICO is a 100% owned company of the Cayman Islands Government and, as shareholder, appoints the members of the board of directors and its chairman. The board is responsible to carry-out its corporate governance roles and responsibilities in accordance with the Corporate Governance Operational Policy and Procedures Manual in conjunction with applicable Cayman Islands Laws. The board is empowered to appoint the Chief Executive Officer and Chief Financial Officer as well as the chairman and directors of the various board sub-committees in accordance with its corporate governance mandate.

Board of Directors and Committees of the Board
The membership of the board of directors comprises of individuals appointed by the shareholder with relevant background and experience and are approved by the Cayman Islands Monetary Authority. The list of the current board of directors is indicated below.

Committees of the Board:
The Board may from time to time establish sub-committees and delegate specific responsibilities that would otherwise be reserved by the Board. The rationale for the establishment of committees is to deal with matters not outlined or contemplated by the standing committees defined below. In establishing sub-committees the Board shall outline clear parameters and terms of reference outlining its purpose, composition, accountability, meetings and responsibilities. These committees shall operate with the full authority of the Board within the define parameters established and shall serve at the pleasure of the Board.

The Board has three main subcommittees with specific functions delegated to them. These subcommittees and their terms of reference are indicated below:

- Finance & Audit Committee
- Eligibility & Appeals Committee
- Risk & Compliance Committee

Finance & Audit Committee Terms of Reference
The Finance & Audit Committee is concerned with the integrity of CINICO's financial procedures and financial performance. The Finance & Audit Finance Committee assists the Board in fulfilling its oversight responsibilities regarding the integrity of CINICO's accounting and financial reporting and CINICO's internal controls. It also focuses on the financial performance of CINICO, its operating and capital budgets and its adherence to financial policies and procedures as well as any other finance related matter assigned by the Board.

Eligibility & Appeals Committee Terms of Reference
The Eligibility & Appeals Committee's mission is to decide the outcome of appeals received from members regarding medical coverage as well as to make a determination on non-standard eligibility cases referred to the Committee. The authority of the Committee is limited to that expressly granted by the Articles of Association and by resolutions adopted by the Board of Directors or as otherwise outlined in CINICO's corporate governance manuals.

Risk & Compliance Committee Terms of Reference

The Risk & Compliance Committee's mission is to advise the Board on desirable risks to be assumed, to ensure that the assumed risks are adequately underwritten and to identify areas of risk to the Company. The Committee will also monitor the Company's compliance with all relevant laws and regulatory requirements. The Committee will be tasked with the responsibility of ensuring that identified risks are properly and systematically monitored, that the company remains compliant and that steps are taken to mitigate risks. Without limiting the foregoing, the Committee will be concerned with regulatory, contract procurement and termination, compliance, premises security, and IT/Cyber security risks.

Executive Management:

The Board of Directors delegates the day to day management of the Company to its executive management team lead by the Chief Executive Officer and empowers executive management to perform the functions of their office in a manner that will promote the business affairs of CINICO and to advance the strategic goals and vision of the Company. The executive management team consists of:

- The Chief Executive Officer
- The Chief Financial Officer
- The General Manager

Internal Controls and Procedures

The Board of Directors has implemented a number of policies, procedures and controls that govern CINICO's day-to-day operations as an insurance company. These operational procedures ensure that the company remains compliant with the local regulator and Cayman law.

Current Board of Directors, Board Committees & Executive Management

BOARD OF DIRECTORS TERM & EXPERIENCE

	Date Term Expires	Insurance	Accounting / Financial	Legal	Medical	General
Patricia Estwick (1,2)	31ST October, 2020		✓			
Anne Owens (4)	31ST October, 2019		✓			
Janet Sairsingh	31ST October, 2019	✓	✓			
Darlee Ebanks	31ST October, 2019	✓	✓			
Dr. George Meggs (3)	31ST October, 2019				✓	
Mrs. Betty Baraud	31October, 2020					✓
Mr. Roger Corbin	31October, 2020	✓				
Mr. Dwight Merren	31October, 2020		✓			

(1) Chairperson
(2) Chairperson of Finance & Audit Committee
(3) Chairman of Eligibility & Appeals Committee
(4) Chief Officer (or designate) Ministry responsible for CINICO
(5) Chairman of Risk & Compliance Committee (Appointment Pending)

Executive Management

Chief Executive Officer – Lonny Tibbetts
Chief Financial Officer – Frank Gallippi
General Manager – Dana Brandon

Compliance Officers

Armando Ebanks – Compliance Consultant
David Feare – Compliance Officer

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2016/17 FINANCIAL HIGHLIGHTS

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

In the analysis that follows, items referenced as:
Current Year or 2016/17= July 1, 2016 to December 31, 2017 (18-months)
Current Year Budget = July 1, 2016 to December 31, 2017 (18-months)
Prior Year or 2015/16 = July 1, 2015 to June 30, 2016

As the 2016/17 financial year encompasses an 18-month period, figures from the statement of financial performance (income statement) will not be comparable to the 2015/16 financial year which is based on a twelve month period. For some items involving financial performance, comparison is made between the current year and the prior year by annualizing the 18-month December 31, 2017 actual figures (dividing18-month by 1.5).

Financial Performance (Net Income/(Loss))

For the 18 month period ending December 31, 2017, CINICO recorded a net loss of $5.3 million compared with an anticipated budget net loss of $8.6 million, and a prior year net loss of $4.5 million. The net loss position should not come as a surprise since CINICO has been required to keep its insurance premium rates for Government plans, at 2012/13 levels, despite increases in utilization, and medical inflation.

Despite premium rate discounts to government, CINICO was able to outperform the budget expectations by $3.3 million. This was possible by efforts to reduce Third Party Administration (TPA) fees, negotiating lower rates on its reinsurance program, and insourcing the medical management functions and insurance administration/ claims processing functions.

In developing premium rates, assumptions are made on expense levels, claim cost levels, reinsurance, etc. Table 1 illustrates the sources of the profit (or variance to the budget) compared with the premium pricing level assumptions for 18 month year ending December 31, 2017. Table 2 provides same for the year ending June 30, 2016.

Table 1
Sources of Net Income/ (loss) for the 18-month period ending December 31, 2017 ($ millions)

Source of Net profit/(loss)	Amount	Explanation
Favorable incurred overseas claims	$2.1	Favorable in all lines of business (except for SHIC). Mostly repricing fees are favorable due to contract renegotiation with UHC.
Unfavorable incurred local claims	($1.5)	Unfavorable in all lines of business except SHIC. Higher utilization locally offset with lower utilization overseas
Expenses and other	$2.2	Predominantly TPA renegotiated fees, net savings from insourcing TPA functions, higher ASO fees
Risk premium	$3.1	Actuary risk premium for adverse claims deviation (part of non-discounted rates)
Net income (before premium discount and risk premium)	**$5.9**	
Government premium discount	($10.7)	Civil Servants $5.6 million, Pensioners $2.1 million, S&V $3 million. (Rates remain at 2012/13 levels).
Additional Min of Education - provision for doubtful account	($0.5)	Min of Education short payments of premium without supported evidence. Total provision $1m
Net loss	**($5.3)**	

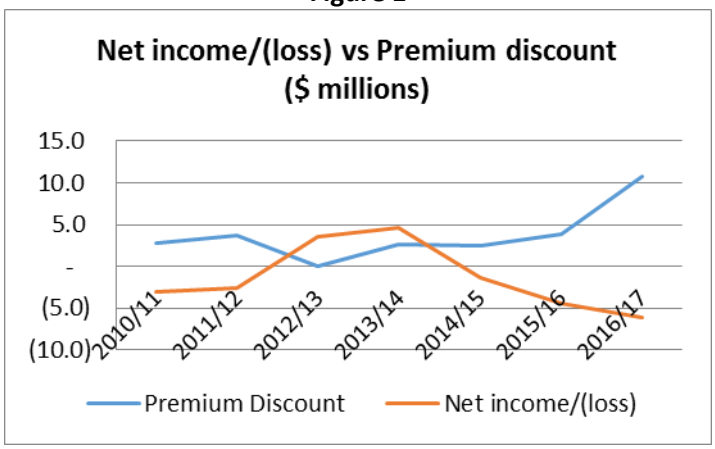
Table 2
Sources of Net income/(loss) for year ending June 30, 2016 ($ millions)

Source of Net loss	Amount	Explanation
Favorable incurred overseas claims	$0.2	Favorable in all lines of business (except for SHIC)
Unfavorable incurred local claims	($3.7)	Unfavorable in all lines of business except Pension. Higher utilization locally (mostly CIHSA)
Expenses and other	$1.0	Predominantly TPA renegotiated fees, and ASO fees line of business
Risk premium	$2.0	Actuary risk premium for adverse claims deviation (part of non-discounted rates)
Net loss (before premium discount and risk premium)	**($0.5)**	
Government premium discount	($3.8)	Civil Servants $1.9 million, Pensioners $1 million, S&V $.9 million. (Rates remain at 2012/13 levels).
Min of Education - provision for doubtful account	($0.5)	Min of Education short payments of premium without supported evidence
Recovery ASO doubtful account	$0.3	11/12 and 12/13 provision for doubtful NGS 55 receivable collected
Net loss	**($4.5)**	

Appendix 1 on page 46 illustrates the net income/(loss) by business category.

The Government premium discounts amounted to $10.7 million and $3.8 million for the 18 month period ending December 31, 2017 and the 12 month year ending June 30, 2016, respectively. Had it not been for the Government premium discounts, CINICO would have made a profit in 2016/17 and a small loss in 2015/16. The graph below illustrates CINICO's performance over the last seven years, including the premium discounts provided to Government.

Figure 1



Since 2010/11 a total of $26.0 million was provided in premium discounts to government. Over the same period, CINICO received equity injections totaling $9.7 million (2013/14: $2.6 million, 2016/17: $7.1 million). CINICO was able to avoid undercapitalization by making reductions to its cost structure, however the cost reductions has reached a limit.

Table 3 below illustrates the financial highlights of various balance sheet and income statement items for the current year, current year budget and prior year.

Table 3
Financial Highlights
For financial year ending*

	Current year	Current year budget	Prior Year
Balance sheet			
Cash and cash equivalents	$ 8,485,899	$ 13,691,663	$ 27,006,921
Premiums receivable	7,854,295	5,000,000	2,204,968
ASO claims and fees receivable	5,267,702	2,500,000	5,681,011
Other receivables and other assets	2,703,556	1,774,403	1,329,317
Provision for claims incurred	10,243,321	11,821,098	21,751,608
Shareholder's equity	13,461,310	7,986,829	11,673,145
Statement of comprehensive income			
Net income/(loss)	$ (5,311,834)	$ (8,585,291)	$ (4,494,675)
Premium income (Gross)	104,967,675	103,441,899	67,321,317
Claims incurred	101,031,707	101,205,552	65,703,292
Administration expenses and fees*	5,562,615	5,089,282	2,724,530

Cash and cash equivalents

Cash and cash equivalents is comprised of cash at the bank and fixed deposits (cash on hand). For the period ending December 31, 2017, the cash and cash equivalents decreased by $18.5 million to $8.5 million. The large decrease is essentially due large government premium receivables as at December 31, 2017, quicker claim payments turnaround resulting from paying claims in house, and the payment of the provision for incurred claims of $21.8 million from the prior year.

All of the Company's cash and cash equivalents are held with reputable financial institutions in the Cayman Islands (2016: 76%; 2016: 99%) and Canada (2017: 24%; 2016: 1%).

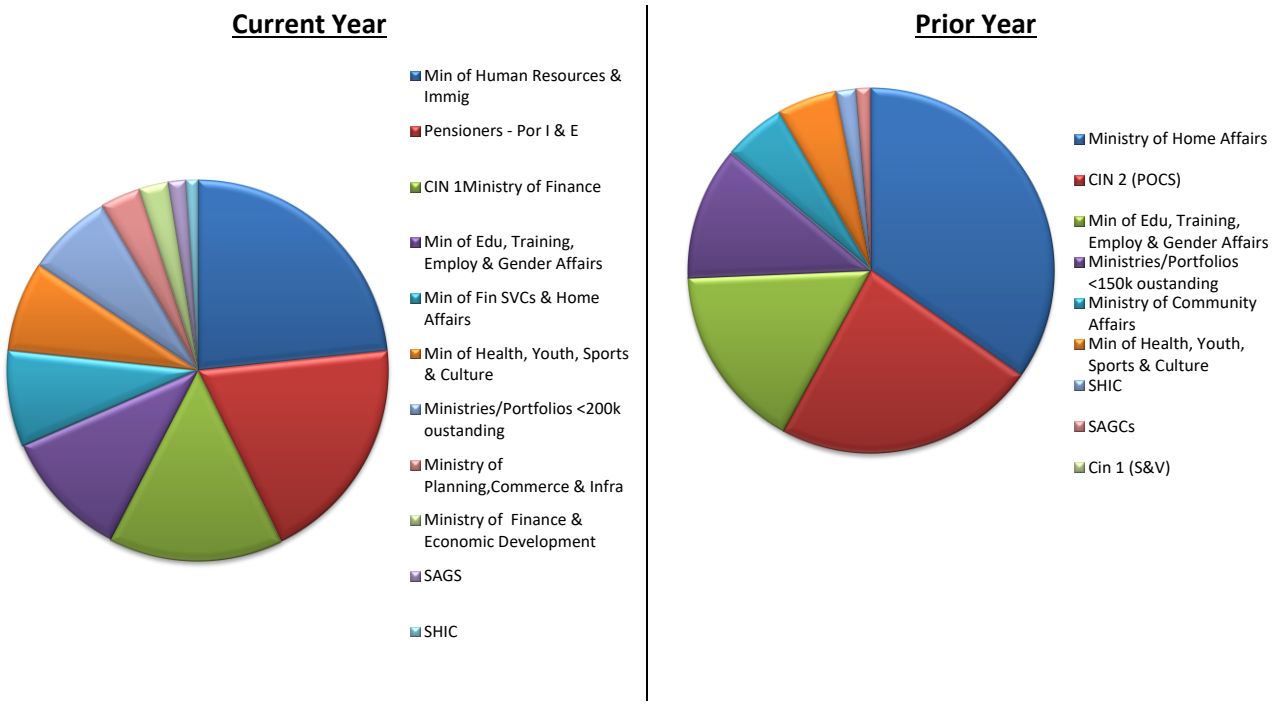
The cash and cash equivalents is $5.2 million below the budget as the budget assumed a lower amount of working capital held in receivables.

Premiums receivable

Premium receivable comprise of amounts owed from the following sources: Ministries, Government outputs (CIN 1 Health Insurance fro Seaman & Veterans- local coverage only excluding Tertiary Care, CIN 2 and premiums owed from SHIC plans (Standard Health Insurance Contracts). The below chart illustrates the proportion of premium receivable among the various groups for the current year and the prior year.

The below pie charts illustrates the composition of receivables for the current year versus the prior year.

Figure 2 – Composition of Premium receivable



As at December 31, 2017, premium receivable was $2.9 million higher than budget, as the budget assumed government would be current with payments. Premiums receivable increased by $5.7 million, to $7.9 million (net of provision *) as at December 31, 2017 compared with the prior year. The increase is attributed to slow payments from various Ministries as illustrated on Table 4 below.

Table 4

Aging of Premium Receivable (prior to provision for doubtful account)

Customer	Premium Outstanding	0-30	31-60	61-90	90+
Min of Human Resources & Immig	2,066,813	512,231	513,835	519,319	521,428
Pensioners - Por I & E	1,720,921	1,723,144	6,423	6,801	(15,447)
CIN 1Ministry of Finance	1,310,288	619,947	619,947	33,466	36,928
Min of Edu, Training, Employ & Gender Affairs	970,222	-	-	76,335	893,887
Min of Fin SVCs & Home Affairs	719,559	355,184	354,987		9,388
Min of Health, Youth, Sports & Culture	678,126	227,391	226,410	226,053	(1,728)
Ministries/Portfolios <200k oustanding	646,765	585,252	15,559	10,476	35,478
Ministry of Planning,Commerce & Infra	301,900	265,155	11,197	7,914	17,634
Ministry of Finance & Economic Development	221,436	221,436			
SAGCs	132,708	134,844	(5,117)	(574)	3,555
SHIC	84,584	72,728	10,854	-	1,002
Grand total	8,853,322	4,717,312	1,754,095	879,790	1,502,125

*Per the above table, the Ministry of Education has an outstanding balance (mostly greater than 1 year) of $970k due to short payments made on premium invoices over a period of 1 year. We have requested on numerous times for support of these short payments, however none has been given. Accounting standards require a provision for the uncollected balance as it is over 1 year, however we consider these balances owing and will continue to pursue collection.

ASO claims and fees receivables

On behalf of the Ministry of Health, Environment, Culture and Housing (HECH), CINICO administers health benefits for Indigents (not including medical services provided at the CIHSA) and overseas health benefits for the Seamen & Veterans plan (Group 30101). The benefits are administered under an "Administrative Services Only" (ASO) plan. Under an ASO plan, the insurance risk is fully borne by the purchaser of services, in this case the Ministry of HECH. CINICO pays the claims and immediately invoices the Ministry of HECH for the full amount plus any administration fees. The funding for these services is provided through the NGS 55 output (Tertiary Care at Various Overseas Institutions). Over the years the budget is consistently under funded, thus leaving CINICO with large receivable balances until a supplementary budget is executed. Furthermore, as depicted in Table 7 on page 32, the membership for this output has seen a drastic increase of 19% from last year, thus driving increases in overall expenditure. Eligibility for indigent status is determined by the department of children and family services.

As at December 31, 2017, the ASO claims and fees receivable was $5.3 million or $0.4 million below the prior year, and $2.8 million above the budget. The budget assumed a quicker payment turnaround time than actual, thus leaving CINICO with a higher receivable in addition to unfunded amounts requiring a supplementary budget. It is estimated that the Ministry of HECH would have to obtain a supplementary budget of $2.7 million.

In CIMA's 2014 inspection of CINICO's operations, CIMA made recommendations that CINICO should not extend credit without a formal service level agreement. CINICO has reached out to the Ministry to work on a collective "ASO" agreement for the 2016/17 year. The aim of the agreement is to limit

CINICO's credit and liquidity exposure, and clearly define the Ministry's payment obligations ahead of time. To date we have not received any feedback on the draft agreement.

Provision for claims incurred

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.

As illustrated in Table 1, the provision for claims incurred has decreased by $11.5 million from the prior year provision of $21.8 million. The prior year provision was higher than usual as it included CIHSA claims which were not invoiced in time prior to the close of the 2015/16 year. The provision for claims incurred is consistent with budget.

The December 31, 2017 represents just approximately 2 months of incurred claims compared with 4 months of last year.

Note 11 of the financial statements provide the IBNR hindsight development starting from the reporting year 2006/7.

Shareholder's equity

As illustrated in Table 1, shareholder's equity increased by $1.8 million to $13.5 million from the prior year. The increase is due to an equity injection* of $7.1 million offset by the current period net loss of $5.3 million.

The current year shareholder's equity was $4.7 million higher than budget, as illustrated below.

	$ millions		
	Budget	**Actual**	**Variance**
Opening shareholder's equity*	$16.6	$11.7	$(4.9)
2016/17 Loss	(8.6)	(5.3)	3.3
2016/17 equity injection	-	7.1	7.1
Closing shareholder's equity	$8.0	$13.5	$5.5

*The difference in the opening shareholder's equity is due to late claims received by CIHSA after the statutory deadline submission requirement of 180 days from the date of service. The CIHSA provided these claims over 1 year after the date of service and advised that due to system glitches they were previously not submitted. The CINICO Board of Directors initially refused these claims. However subsequently, it was agreed by the Ministry of Finance, the Ministry of Health, and CINICO to process these claims subject to receiving an equity injection to cover the shortfall and to ensure compliance with CIMA's capital requirements.

CIMA Capital Requirements

As a Class "A" Insurance Company, CINICO is required to maintain capital levels compliant with "The Insurance (Capital and Solvency) (Class A Insurers Regulations, 2012". The regulations set forth a Minimum Capital Requirement (MCR) and Prescribed Capital Requirement (PCR) through formula driven calculations based on assessing risk and asset factors for various balance sheet items, and maintaining prescribed margins on policy liabilities and net written premium.

The full regulations are available at the following link:
http://www.cimoney.com.ky/WorkArea/DownloadAsset.aspx?id=2147483742

Table 5 illustrates the results of applying the CIMA regulations as at December 31, 2017 and June 30, 2016 respectively.

Table 5
Capital Available in Excess of MCR and PCR

		Year Ending (000's)	
Capital		**December 31, 2017 (18 months)**	**June 30, 2016**
Capital required for			
Assets	A	$ 1,033	$ 451
Policy liabilities	B	$ 8,773	$ 11,276
Subsidiaries - Regulated Financial Institutiions	C	$ -	$ -
Catastrophes - Defualt Method or Model - Generating Method	D	$ -	$ -
Foreign Exchange Risk	E	$ -	$ -
Other (specify)	F	$ -	$ -
Total Minimum Capital Requirement (MCR) is the Square Root of (A^2+B^2+C^2+D^2+E^2+F^2)	1.	$ 8,834	$ 11,285
Total Capital available	2.	$ 12,659	$ 11,394
Prescribed Capital Requirement (PCR)	**3.**	**$ 11,042**	**$ 14,106**
Captial In Excess of PCR (2. Minus 3.)		**$ 1,616**	**$ (2,712)**

The above table illustrates that with available capital of $12.7 million and $11.4 million as at December 31, 2017 and June 30, 2016 respectively, CINICO was above the Minimum Capital Requirement (MCR) of $8.9 million and $11.3 million for the respective years. However as at June 30, 2016, CINICO fell $2.7 million short of the Prescribed Capital Requirement (PCR) which was subsequently rectified with a $7.1 million equity injection in the following year.

Despite being compliant with the capital and solvency regulations, CINICO faces severe strains on its capital during the 2018 fiscal year due to projected losses resulting from Government's requirement to discount insurance premium rates below the market and actuarial calculated premium rates.

It is important that the Company maintain a capital above CIMA's PCR level. This level of capital would provide at a minimum, two 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 level of capital, it would risk going below the PCR level in an "unfavorable" 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 provide equity injections in light of budget constraints. In addition, the supplementary budget process can be quite lengthy.

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.

Total Income

Table 6, illustrates total income by various types of income compared with last year and budget. A majority of the total income is derived from premium income.

Table 6
Breakdown of total income

	Current year	Current year budget	Prior year
Premium income	$ 104,967,675	$ 103,441,899	$ 67,321,317
Reinsurance premium	(1,848,485)	(1,918,978)	(1,446,293)
ASO fees	1,023,862	877,545	571,797
Other income	212,143	40,500	52,384
Total income	**$ 104,355,195**	**$ 102,440,966**	**$ 66,499,205**

The major components of total income are analyzed below.

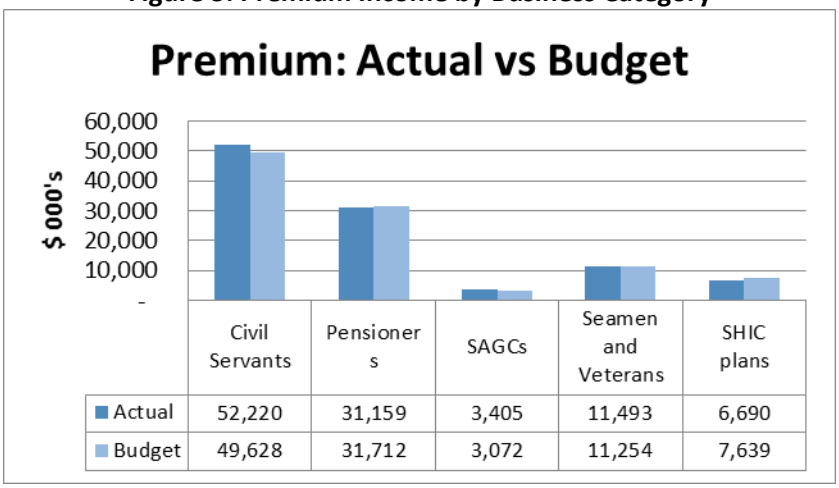
Premium income

Premium income is earned from health insurance plans under the following business categories:

- Group 30100 – Civil Servant and Statutory Authority & Government Companies (SAGS),
- Group 30100 – Pensioners,
- Group 30101 - Seamen and Veterans (local insurance cover only), and
- Group 31304 - SHIC (Standard Health Insurance Contracts.

The graph below illustrates the premium income by insurance plan categories comparing actual to budget.

Figure 3: Premium Income by Business Category



Premium income is driven by the number of lives covered and the premium rates charged (as an example the higher the number of members covered, the greater premium income earned). Table 7 compares the average number of covered lives throughout the comparative periods. Besides

influencing the overall premium income, the number of covered lives also drives the overall claims and claims administration fee expenses.

Table 7
Average number of covered lives insured

	Current year	Budget	Prior year	% change to budget	% change to prior year
Civil Servants	7,889	7,797	7,686	1%	3%
Pensioners	2,217	2,226	2,149	0%	3%
SAGCs	449	404	430	11%	4%
Seamen and Veterans	1,102	1,076	1,077	2%	2%
Indigents	1,476	1,290	1,244	14%	19%
SHIC plans	2,220	1,871	1,974	19%	12%
Total	**15,353**	**14,664**	**14,560**	**5%**	**5%**

The above table shows an increase in covered lives in all categories compared with the budget and the prior year. The largest increases were from the Indigent and the SHIC plans.

Previously mentioned, the premium rates for the government plans (Civil Servants, Pensioners and Seamen and Veterans) remained at 2012/13 levels at the requirement of government, which were below the actuarial calculated rate. This resulted in government receiving a $10.7 million discount on premium for the 18 month period ending December 31, 2017.

As illustrated in Table 6 on page 31, the current year premium income of $105.0 million is approximately $1.5 million above the budget premium income of $103.4 million. The increase in premium income over budget is essentially due to higher number of covered lives and a higher average age (which drives higher premium rates). Most notably, the premium income in the Civil servant, SAGCs, and Seamen and Veteran plans were $2.6 million, $0.3 million and $0.2 million respectively, better than the budget. Civil servant premium is net of a provision of $0.5 million for the Ministry of Education. The premium income from the Pensioner segment lagged $0.6 million behind budget as the average covered lives were below that assumed in the budget. SHIC premium income also lagged behind budget by $1.1 million despite an overall increase in membership from the budget. The budget assumed increases in premium rates, and an older average age demographic, which commands higher premium rates. SHIC premium income is net of bad debts of $0.2 million.

Premium income for the twelve-month period ended June 30, 2016 was $67.2 million. On a prorated basis, this would equate to an 18 month premium income of $100.8 million versus the current year total of $105.0 million. The increase to 2017 stems from increased average covered lives in all business segments (Table 7 above).

Reinsurance premium

The Company uses reinsurance coverage on Group 30100 as part of its risk management strategy to limit its financial exposure on large claims.

The Company's reinsurance coverage is as follows:

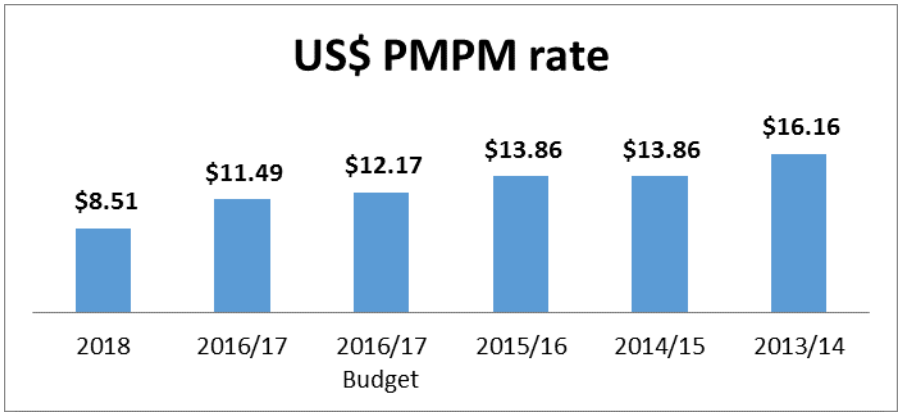
- Coverage for both local and overseas claim losses

- Company retention of US$ 700k (US$ 700k in the prior year, and US$ 600k for 2018) per covered person.
- Reinsurer's liability not to exceed an amount equal to US$5.0 million less the Company's retention of US$ 700k (US$ 700k in the prior year, US$ 600k for 2018) relating to any one covered person per the agreement term.
- Reinsurer aggregate loss limit – US$10.5 million.

Figure 4 below shows that the rate paid for the 18-month year-ending December 31, 2017 was US$ 11.49 PMPM (per member per month), compared to a budget rate of US$ 12.17 PMPM. The graph also shows Management's success in reducing the premium rate year over year. These reductions are due to various changes business strategies (i.e. improve overseas discount rates, insource of medical case management and claims unit). The rate reductions indirectly express the reinsurer's confidence in CINICO's abilities.

Most notable changes occurred in 2014/15 when CINICO was able to achieve a lower rate from the prior year while at the same time including local claims in the retention formula. Further in 2018, CINICO was able to significantly decrease the premium paid, and at the same time reduced its retention from US$700,000 to $600,0000. This will yield a savings of US$ 400k in 2018.

Figure 4
Historical Reinsurance Premium Rate

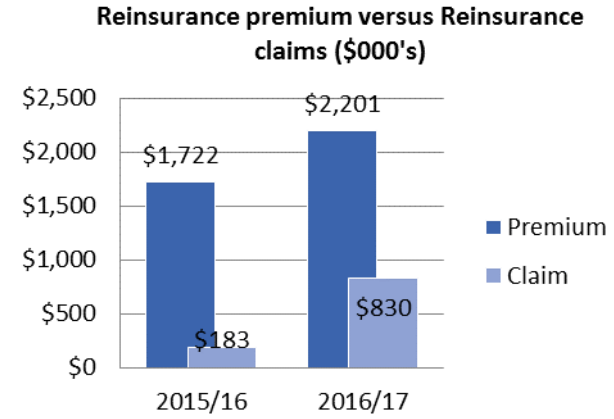


The overall reinsurance premium paid in 2016/17 was $1.9 million and $70k below budget, despite an increase in covered members (Table 7 on page 32). This is attributed to the rate reduction as illustrated in Figure 4 above.

The reinsurance premium paid for the prior year (12 months) was $1.4 million. On a prorated basis, this would equate to an expenditure of $2.2 million for eighteen months. As such the current year shows a reduction of $0.3 million on a prorated basis.

For the 18-month year-ended December 31, 2017, one claim reached US$ 1.5 million. As such the company is entitled to claim on the excess of $0.7 million, which is $0.8 million. For the 12-month year ended June 30, 2016, the company claimed $0.2 million on its reinsurance cover. The below graph depicts the claim recovery against the cost of coverage (reinsurance premium). Although the claim recovery is below the cost of premium, reinsurance is an integral part of controlling risks.

Figure 5



ASO Fees and Other Income

ASO fees are earned on a per member per month (PMPM) basis per each indigent member. For the 18-month period ending December 31, 2017 the fees amounted to $1.0 million (see Table 6 on page 31), compared to a budget of $0.9 million. The increase over budget is due to a higher number of indigents members compared to the budget assumption and as illustrated in Table 7 on page 32.

Other income was $171k over budget. The favorable variance is due to higher fee income on reinstatements, insurance confirmations, interest rate income, and stale dated checks written to income.

TOTAL EXPENSES

For the 18-month year-ended December 31, 2017, total expenses reached $110.3 million, which was $0.7 million above the current year budget. Table 8 shows the distribution of total expenses. A majority of expenses relate to the payment of medical benefits, or incurred claims.

Table 8
Breakdown of total expenses

	Current year	Current year budget	Prior year
Incurred claims*	$ 101,031,707	$ 101,205,552	$ 65,703,292
Contributions to segregated insurance fund	441,810	376,842	267,160
Claims administration and other expenses	2,630,897	4,354,581	2,298,898
Adminsitration expenses	5,562,615	5,089,282	2,724,530
Total expenses	**$ 109,667,029**	**$ 111,026,257**	**$ 70,993,880**

*Incurred claims- the total of claims paid, less reinsurance claims plus IBNR (accrual for claims not received)

An analysis of each component of total expenses is provided below.

Incurred claims

Table 9 displays incurred claim losses by group and location (local versus overseas) for the 12 month year ending June 30, 2016, the 18-month year ending December 31, 2017 and the 18-month budget ending December 31, 2017. 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, 2016, the original reported claims were $65.7 million which included claims incurred and paid during the period, plus an estimate for claims incurred but not reported (claim provision). In hindsight, and one year later, the 2015/16 claim reserve showed a small unfavorable development of $22k (net of reinsurance), so that the final 2015/16 claims incurred are $65.8 million compared with the reported figure of $65.7 million.

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 2016/17 total claims incurred estimate is made up of claims incurred in 2016/17 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 29). Table 9, illustrates that as at December 31, 2017, $9.1 million or 8.9% of the total 2016/17 claims incurred amount of $101.4 million is made up of IBNR's. This represents approximately two months of claims outstanding.

Table 9: Incurred Claim Losses (000's)

	2015/16			2016/17			Annualized 12 mth Inc/(dec)	2016/17 Budget	Inc/(dec)
	Reported	Hindsight adjustment*	Final	Incurred in 16/17 & paid in 16/17	IBNR	Reported			
Local									
Group 30100	37,815	(155)	37,660	55,601	4,545	60,146	2,437	58,885	1,261
Group 30101	9,708	(57)	9,651	13,758	1,123	14,881	270	13,139	1,742
Group 30104	2,496	82	2,578	3,288	266	3,554	(209)	5,276	(1,722)
	50,019	**(130)**	**49,889**	**72,647**	**5,934**	**78,581**	**2,498**	**77,300**	**1,281**
Overseas *									
Group 30100	14,247	225	14,472	17,437	2,597	20,034	(1,116)	22,371	(2,337)
Group 30101	-	-	-	-	-	-	-	-	-
Group 30104	1,472	(9)	1,463	2,274	526	2,800	404	1,467	1,333
	15,719	**216**	**15,935**	**19,711**	**3,123**	**22,834**	**(712)**	**23,838**	**(1,004)**
Total									
Group 30100	52,062	70	52,132	73,038	7,142	80,180	1,321	81,256	(1,076)
Group 30101	9,708	(57)	9,651	13,758	1,123	14,881	270	13,139	1,742
Group 30104	3,968	73	4,041	5,562	792	6,354	195	6,743	(389)
	65,738	**86**	**65,824**	**92,358**	**9,057**	**101,415**	**1,786**	**101,138**	**277**

*includes US$ claims paid to Health City Cayman Islands.

Legend:
Group 30100 - Civil servants, pensioners and SAGCs covered with CINICO
Group 30101 - Seamen & veterans and their dependents
Group 30104 - SHIC plans (Affordable and Silver)

The column entitled "Annualized 12 mth Inc/(dec), compares the increase/(decrease) in incurred claims from 2015/16 to an annualized 2016/17 figure (total 18 month figure divided by 1.5) so that an "apples to apples" comparison between the two years can be made. Using this approach, it reveals that the overall incurred claims increased by $1.8 million or 2.7% from the 2015/16 figure of $65.8 million. Overall the increase can be attributed to the overall increase in membership, which increased 5% (Table 7 on page 32), however there is deviations among between local versus overseas and by Group.

The majority of the increase is attributed to Group 30100, which increased by $1.3 million or 2.5%, compared to a membership increase of 3% (Table 7 on page 32) . Group 30101 increased by $0.3 million or 2.8%, while Group 30104 increased by $0.2 million or 4.8%. As is evident from Table 9 on page 35, there was a $0.7 million or 4.5% decrease in overseas claims, and a $2.5 million (5%) increase in local claims. This is due to better overseas discounts as well as a shift of claims to local providers given the ongoing increase in local services.

Medical costs continue to grow year after year. Factors driving increasing overall claim costs 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.

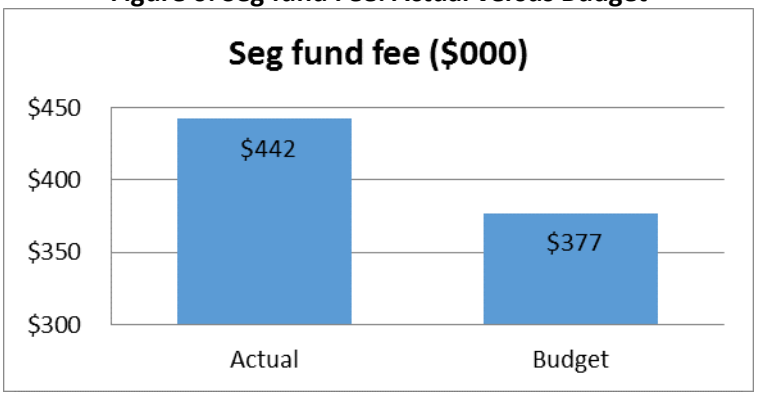
The overall claims incurred for the 18-month year ending December 31, 2017, was $0.3 million or 0.3% above the budget of $101.1 million.

Appendix 1 on page 46 to 49, contains further claims data metrics – loss ratios, and claims paid by provider.

Contributions to segregated fund

Contributions to the segregated insurance fund are mandated under Section 5(1) of the Health Insurance Regulations. The contributions are determined by the number of insurance policies in force – i.e. government requires a $10 monthly fee for every single covered policy in force, and a $20 monthly fee for a single covered policy with dependents. CINICO is only required to submit segregated fund fees on SHIC policies, and SAGCs policies only and is exempted from paying the fees on government policies (Civil Servants, Retired Civil Servants, and Seamen and Veterans. Below is a comparison of the Seg fund fees for the current year versus budget.

Figure 6: Seg fund Fee: Actual versus Budget



The increase of Seg fund fee to budget is due to higher members insured over budget (see Table 7 on page 32).

Claims administration expenses (TPA fees)

Claims administration expenses (TPA fees) are for services rendered by third party administrators (TPAs) –MMSI, ABS, etc. See the section entitled "Business Partners" on page 10 for a description of the services received from these companies. The fees paid to the TPAs are based on a "per member per month" (PMPM) basis, as the membership increases so do the overall expenses.

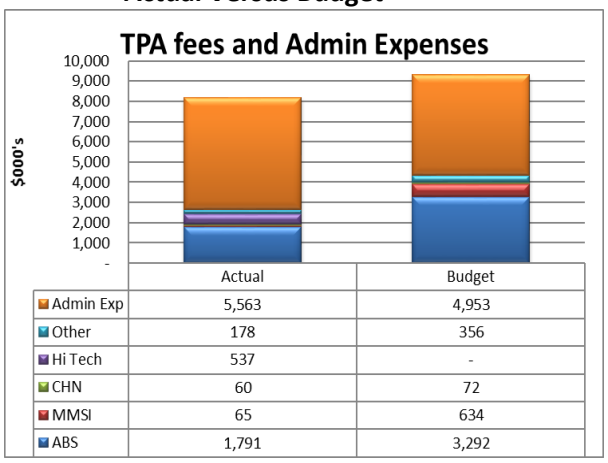
Figures 7 and 8 provide a segregation of the claims administration expenses by type of service.

As described earlier, in 2017 CINICO "insourced" its major TPA functions. In August 2016 all medical case management was fully performed by CINICO, and as such the services of MMSI were no longer required. In June 2017 CINICO assumed the claims administration function, as such the services of ABS were no longer required. CINICO hired additional staff to perform these functions; however the savings in TPA fees far surpassed the additional local expense. The "insourcing" of these functions is estimated to realize projected annualized savings of $0.6 million based in 2018 budget calculations.

For the eighteen month year ending December 31, 2017, TPA fees were $2.6 million compared to a budget of $4.4 million or a reduction of $1.7 million. Compared with the prior year, TPA fees reduced from $2.3 million for the 12 month year ending June 30, 2016 to $1.8 million for the 2016/17 12-month annualized expenditure. The reduction over budget and the prior year is a result of the insourcing initiatives mentioned in the preceding paragraph.

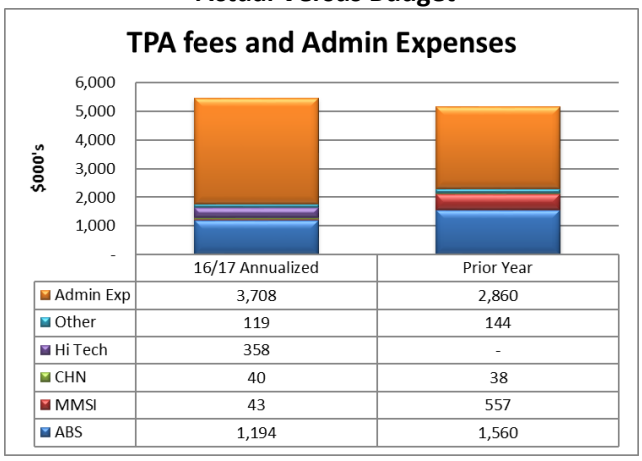
Figure 7 compares for 2016/17 actual TPA fees versus budget by type of fee. It also includes local administration expenses, which increased from over budget due to increases resources required for insourcing the TPA functions. The overall 18-month expenditure of TPA fees and local administration expenses amounted to $8.2 million, compared to a budget of $9.3 million, for a net savings of $1.1 million.

Figure 7: TPA fees and Admin Expenses Actual Versus Budget



	Actual	Budget
Admin Exp	5,563	4,953
Other	178	356
Hi Tech	537	-
CHN	60	72
MMSI	65	634
ABS	1,791	3,292

Figure 8: TPA fees and Admin Expenses Actual Versus Budget



	16/17 Annualized	Prior Year
Admin Exp	3,708	2,860
Other	119	144
Hi Tech	358	-
CHN	40	38
MMSI	43	557
ABS	1,194	1,560

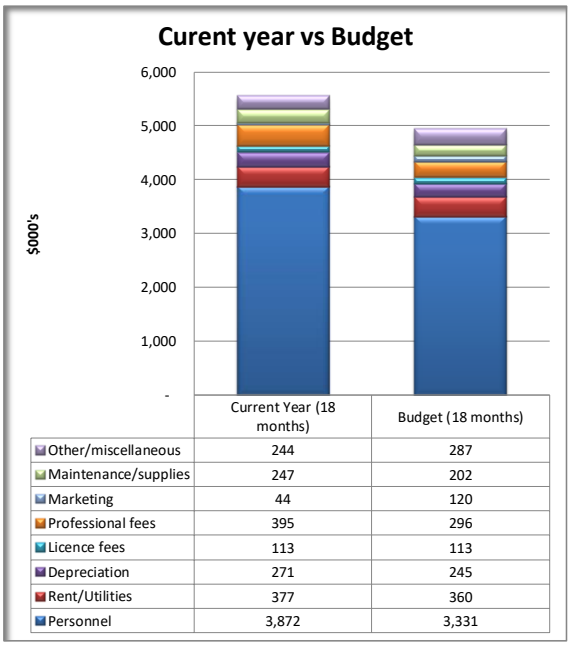
Figure 8 shows that the prior year and 2016/17 annualized TPA fees and Admin expenses were equal at $5.5 million. As 2016/17 was a transition to in-house medical case management and claims administration, 2016/17 expenditures included both TPA fees and additional in-house resources for several months during the transition period.

Administration expenses

Administration expenses are those incurred locally in the operation of the Company's office which includes staff & benefits, rent, depreciation, audit fees, etc.

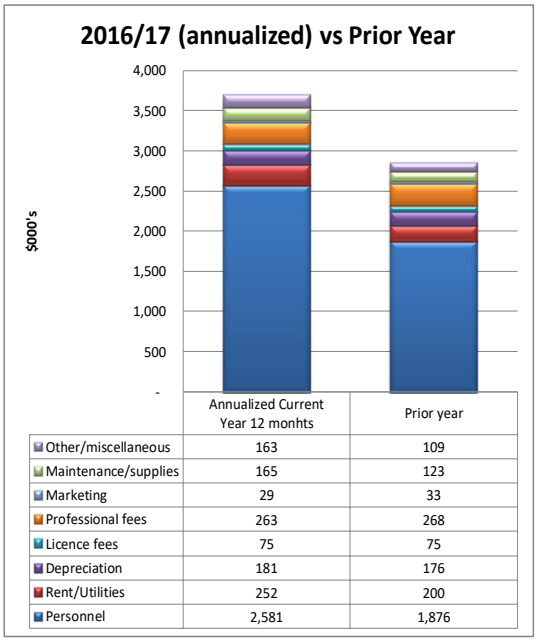
Administration expenses were $0.6 million higher than budget as the transition to in-house claims/medical management led to increases in multiple expense items such as personnel costs, depreciation, IT, office supplies, etc. However as mentioned in the preceding section, overall TPA fees and admin expenses were $1.4 million below budget, in addition the transition to in-house administration is expected to yield annualized savings over $0.6 million compared with the TPA model of paying external fees on a PMPM basis. Figure 9 below compares administration expenses to budget by expense type. Figure 10 compares the annualized 2016/17 12 month expenses to 2015/16 administration expenses by expense type.

Figure 9: Admin Expenses by type



	Current Year (18 months)	Budget (18 months)
Other/miscellaneous	244	287
Maintenance/supplies	247	202
Marketing	44	120
Professional fees	395	296
Licence fees	113	113
Depreciation	271	245
Rent/Utilities	377	360
Personnel	3,872	3,331

Figure 10: Admin Expenses by type

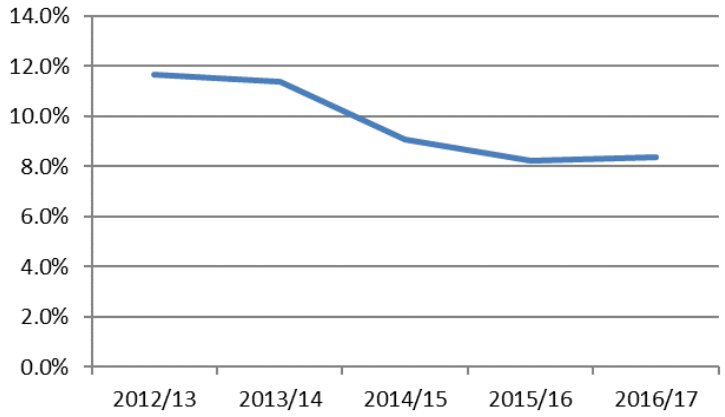


	Annualized Current Year 12 monhts	Prior year
Other/miscellaneous	163	109
Maintenance/supplies	165	123
Marketing	29	33
Professional fees	263	268
Licence fees	75	75
Depreciation	181	176
Rent/Utilities	252	200
Personnel	2,581	1,876

Productivity/Efficiency ratio

Expenses as a percentage of premium provides an indication of the Company's efficiency – or the amount of cents per premium dollar that is expended on overhead and the administration of the insurance policies. Expenses include contribution to segregated fund fees, claims administration expenses (TPA fees) and administration expenses. Premium is net of reinsurance. The graph displays CINICO's productivity ratio for the past five years. The lower the ratio the more efficient a company is. The industry average for similarly sized companies in the USA is approximately 15%. CINICO's productivity ratio was well below the industry average and ranged from 11.7% in 2012/13 declining to 8.4% in 2016/17.

Figure 11
Productivity ratio



SUMMARY OF OWNERSHIP PERFORMANCE TARGETS

The ownership performance targets for CINICO for the 2016/17 financial year are as follows.

Financial Performance

Financial Performance Measure	2016/17 Actual $	2016/17 Budget $	Annual Variance $	Note
Revenue from Cabinet	42,583,939	42,887,492	(303,553)	1
Revenue from ministries, portfolios, statutory authorities and government companies	56,649,327	53,578,144	3,071,183	2
Revenue from other persons or organizations	5,121,929	5,838,831	(716,902)	3
Surplus/deficit from outputs	-	-	-	
Other expenses	109,667,030	110,889,757	1,222,727	4
Net Surplus/Deficit	(5,311,835)	(8,585,290)	3,273,455	5
Total Assets	25,993,098	22,822,795	3,170,303	6
Total Liabilities	12,531,788	14,835,966	2,304,178	
Net Worth	13,461,310	7,986,829	5,474,481	7
Cash flows from operating activities	(25,288,394)	(4,364,782)	(20,923,669)	8
Cash flows from investing activities	(332,627)	(85,500)	(247,127)	8
Cash flows from financing activities	7,100,000	-	7,100,000	7
Change in cash balances	(18,521,022)	(4,450,282)	(14,070,796)	

Notes: Explanation of Variance:

1. Below budget due to CIN 2 membership being below that what was projected in the budget.
2. A majority of the variance to budget ($2.6m) is due to the premium from Civil Servants which were higher as membership counts were higher than budget, and the actual average age of the member was higher than that assumed in the budget (premium driven by age, the older the member, the higher the premium).
3. Unfavourable variance namely from the SHIC line which experience higher than budget doubtful accounts, and a lower average premium.
4. Overall the variance is 1% of budget. The "other expenses" line is made up of the following items

Expense item	Actual $m	Budget $m	Var $m	Explanation
Claims costs	$101.0	$101.2	$0.2	Favourable overseas expenses offset by higher local claims and membership
Segfund fees	0.4	0.4	-	
TPA fees	2.6	4.4	1.7	Renegotiated fees, and insourcing claims processing and medical case management
Admin exp	5.6	5.0	(0.6)	Higher staff count from insourcing TPA functions, offset with savings in TPA fees
Total	**$109.7**	**$110.9**	**$1.2**	

Notes: Financial Performance: Explanation of Variance continued:

5. See section Financial performance on page 24
6. Higher receivables than budget. See section Premiums receivable on page 27.
7.

	$ millions		
	Budget	Actual	Variance
Opening shareholder's equity*	$16.6	$11.7	$(4.9)
2016/17 Loss	(8.6)	(5.3)	3.3
2016/17 equity injection	-	7.1	7.1
Closing shareholder's equity	$8.0	$13.5	5.5

8. The cash flows from operating activities are lower than budget as there is a higher amount of working capital in receivables, in addition there has been a quicker turnaround in claim payments.

Financial Performance Ratio	2016/17 Actual	2016/17 Budget	Annual Variance
Current Assets: Current Liabilities	204%	153%	51%
Total Assets: Total Liabilities	207%	154%	53%

Maintenance of Capability

Human Capital Measures	2016/17 Actual	2016/17 Budget	Annual Variance
Total full time equivalent staff	31	26	6
Staff turnover (%)	20%	0%	(20)%
Average length of service (Number) Senior management Professional staff Administrative staff	 7.0 7.0 3.7	 7.1 7.1 6.2	 0.1 0.1 2.5
Significant changes to personnel management system	None	none	N.A.

Physical Capital Measures	2016/17 Actual	2016/17 Budget	Annual Variance
Value of total assets	$25,993,098	$22,822,795	$3,170,303
Asset replacements: total assets	79%	6%	73%
Book value of depreciated assets: initial cost of those assets	21%	8%	13%
Depreciation: Cash flow on asset purchases	81%	1785%	1684%
Changes to asset management policies	NONE	NONE	N/A.

Major Capital Expenditure Projects	2016/17 Actual $	2016/17 Budget $	Annual Variance $
Set up costs for insurance and claims party administration system set up, establishment of claims administration and Medical Case Management Unit (leasehold improvements, furniture, PCs)	332,627	85,500	(247,127)

Explanation of Variances

Major Capital expenditure projects – Set up costs for Insurance and claims administration system. Although the budget did not include a separate amount for this due to unavailability of figures and a plan at the time, the underlying budget assumption was that the insourcing of TPA functions would only be pursued if there was a net savings of forgone TPA fees less additional expenses.

Other Financial Information

Transaction	2016/17 Actual $	2016/17 Budget $	Annual Variance $
(1) Equity Investments into CINICO	$7,100,000	-	$(7,100,000)
Capital Withdrawals from *CINICO*	-	-	-
Dividend or Profit Distributions to be made by *CINICO.*	-	-	-
Government Loans to be made to *CINICO.*	-	-	-
Government Guarantees to be issued in relation to *CINICO.*	-	-	-
(2)Remuneration Payments made to Senior Management	$673,542	$724,701	$51,159

(1) CIHSA claims submitted over one year after service date, which is outside the requirement by law, to fund capital shortfalls due to premium discounting. Without the injections CINICO would have been non-compliant with CIMA's minimum capital requirements

(2) The original budget was a 12 month figure of $483,134.

	2016/17 Actual	2016/17 Budget	Annual Variance
Number of Senior Management	3	3	

STATEMENT OF OUTPUTS DELIVERED TO CABINET

The Company delivers two outputs to Cabinet; (1) CIN 1, the provision of health insurance for Seaman and Veterans and their dependants (local benefits only), and (2) CIN 2, the provision of health insurance for Civil Servant Pensioners and their dependants. The following is a summary of the performance of those outputs for the 18-month period ending December 31, 2017.

CIN 1	**Health Insurance for Seaman & Veteran**		
Description Provision of Health Insurance (premium) for Seaman & Veteran and their dependents for insurance coverage by CINICO (local coverage only, excluding Tertiary Care).			
Measures	**2016/17 Actual**	**2016/17 Budget**	**Annual Variance**
Quantity			
• Total (average) number of persons insured - premiums fully paid by Cabinet	1,102	1,076	26
• Total number of persons insured – premiums partially paid by Cabinet (Veterans)	13	13	2
Quality			
• All eligible Seamen, Veterans and their dependents are insured who met the definition under the Health Insurance Law	98-100%	100%	0
Timeliness			
• Insurance cards issued within 15 days of notification of eligibility	98-100%	100%	0
Location			
• Grand Cayman, Cayman Brac and Little Cayman	n/a	n/a	
Cost (of producing the output)			
• $577 per person insured per month per month (premiums fully paid by Cabinet)			
• $463 per person insured per month (Veteran premiums partially paid by Cabinet)			
Price (paid by Cabinet for the output)	**$11,424,466**	**$11,175,336**	**$249,130**

Explanation of Variances

Output is higher than budget as the number of members covered was higher than budget thus attracting additional premium.

CIN 2	Health Insurance for Civil Servant Pensioners

Description

Provision of Health Insurance for Civil Servant Pensioners and their dependants

Measures	2016/17 Actual	2016/17 Budget	Annual Variance
Quantity Total average number of insured persons (Insured = Enrollees + dependants).	2,217	2,226	43-(13)
Quality • All eligible pensioners and their dependents are insured who are deemed to be eligible by the Public Service Pension Board.	98-100%	98-100%	0
Timeliness • Insurance cards issued within 15 days of notification of eligibility	98-100%	98-100%	0
Location • Grand Cayman, Cayman Brac and Little Cayman	n/a	n/a	
Price 16/17: Age banded rates: under 18 years(yrs) $162, 18-29yrs $259, 30–39yrs $334, 40–49yrs $439, 50-59yrs $694, 60yrs & over $958)	31,159,473	31,712,156	(552,683)

Explanation of Variances

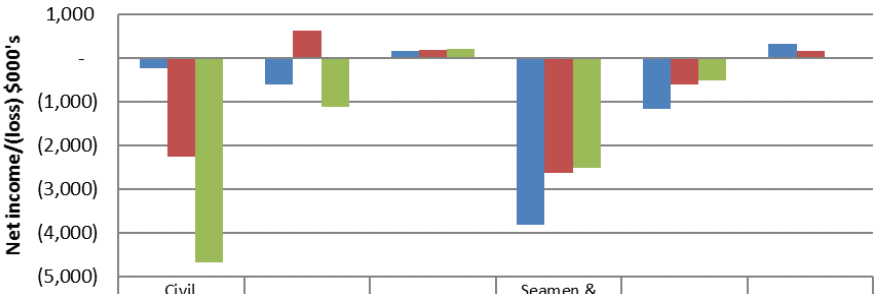
Premium (cost to Cabinet) is lower than budget as the number of insured persons was also lower than budget.

APPENDIX 1
Selected Reporting metrics

Net income/(loss) by business category

Net income/(loss) by business category is calculated by subtracting from premium any expenses directly attributable to a business category such as: claims, claims administration fees and segregated fund fees, administrative expenses are then allocated by business category using appropriate "drivers" of costs. Table 7 shows the net income/(loss) by business category for the current year, prior year and budget.

Net income/(loss) by business category



	Civil Servants	Pensioners	SAGCs	Seamen & Veterans	SHIC plans	ASO (1)
Current year	(221)	(596)	156	(3,820)	(1,152)	320
Prior year	(2,245)	633	191	(2,634)	(599)	159
Current year budget	(4,681)	(1,111)	206	(2,509)	(506)	15

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

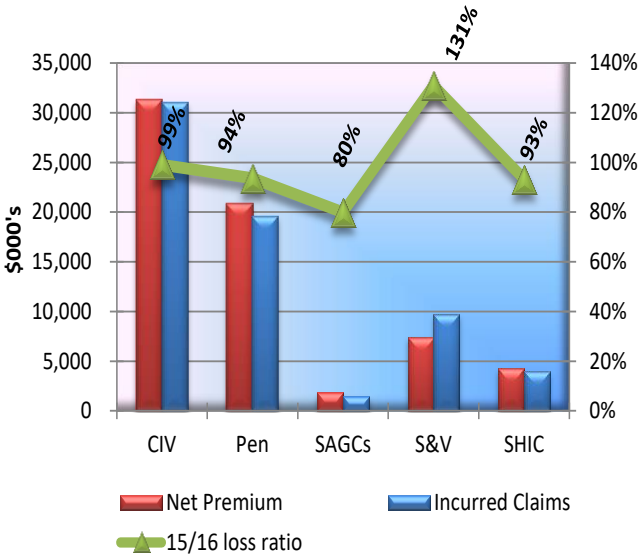
With the exception of the SAGS line of business, all lines incurred a net loss, namely due to premium discounting for the Civil Servants, Pensioners and Seamen & Veterans business lines. SHIC plans earned a net loss namely due to the fact that CINICO insures higher risk members and the premium rate is not reflective of this risk, which is higher than in the private sector.

Loss Ratios

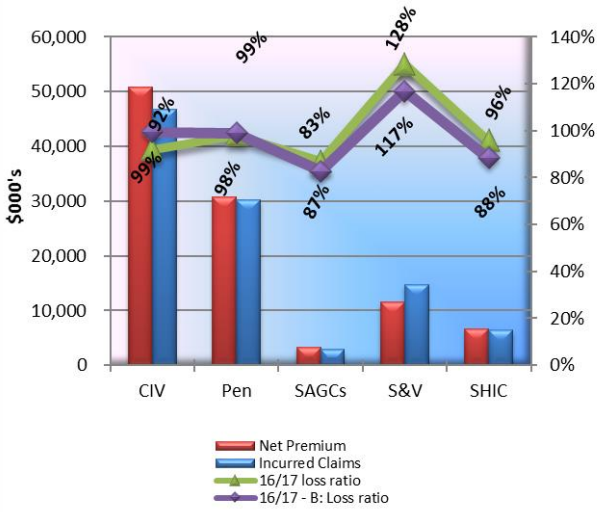
Loss ratios are a measure of the premium's effectiveness in covering claim expenses. A majority of premium income is used to pay for claims, with any excess applied to cover administrative costs and provide a return. The loss ratio is calculated by dividing the claims incurred by the premium income. A loss ratio in excess of 100% means that the premium is not sufficient to cover the claim costs. In addition loss ratios greater than the high eighties imply that the premium rate is not able to cover administration costs.

The graphs below illustrate loss ratios by business segment for the years ending June 30, 2016, December 31, 2017 (18 months) and the 2016/17 budget (18 months). 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.

2015/16 Premium, Claims, Loss Ratios



2016/17 Premium, Claims, Loss Ratios



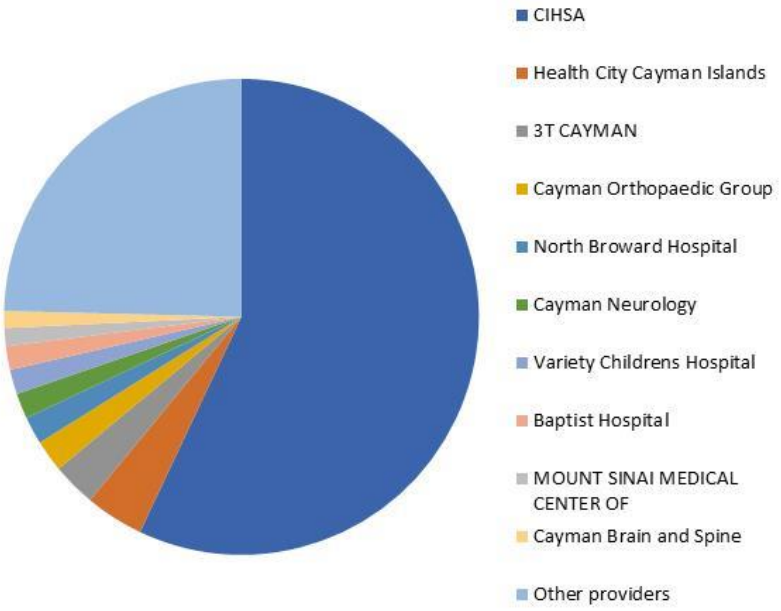
With the exception of the SACs business line all loss ratios were in excess of 90% meaning that the premium was not sufficient to cover claims and expenses thus leading to a loss, as exhibited in the previous section. For all government plans (Civil Servants, Pensioners and Seamen and Veterans) the shortfall in premium is due to premium discounting mentioned earlier.

Claims Paid by Provider

For the 12 month year ending June 30, 2016 a total of $61.6 million was paid to providers/members. For the 18 month year ending December 31, 2017 a total of $111.8 million was paid to providers/members (annualized: $74.5 million). The 2016/17 annualized (12 month) amount represents an increase of 20% over the 2015/16 claim payments. The increase is due to several factors; namely the processing of the claims liability from the prior year, increases in membership, and increase in claims payment turnaround from processing claims in-house.

The below pie charts illustrate the portion of overall claims dollar paid by the top 10 providers.

2015/16 (12 months):
Top 10 provider claim payments



The 2015/16 claim paid by provider chart to the left shows that out of the $61.6 million, CIHSA accounted for $34.7 million or 57% of the total. Other local providers include Health City, 3T Cayman, Cayman Orthopaedic and Cayman Neurology, which account for $6.6 million of payments, or 11%. The top USA provider was North Broward accounting for 2% of the overall share.

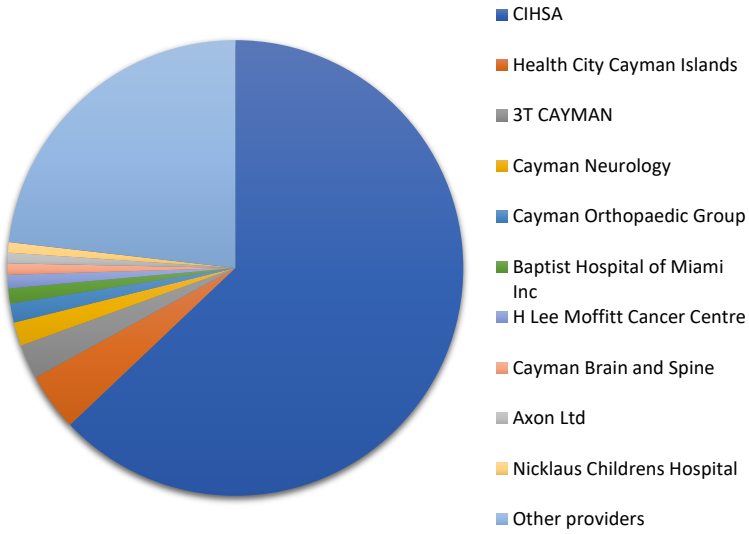
In 2016/17 the share of local providers has increased from 68% to 73%. Out of the top 10 providers, six were local providers and four USA providers.

The pie chart to the right reveals that CIHSA accounted for 63% or $70.4 million of the overall $111.8 million of claims paid for the 18-month period ending December 31, 2016.

Other local vendors within the top 10 such as Health City, 3T Cayman, Cayman Neurology, etc., accounted for 10% or $11.6 million of the overall claims paid.

The USA providers in the top 10 accounted for 27% of the top 10 provider claims paid.

2016/17 (18 months):
Top 10 provider claim payments



Appendix 2

Audited Financial Statements

For the 18-month period ending 31 December 2017

Financial Statements of

Cayman Islands National Insurance Company Ltd.

December 31, 2017

Cayman Islands National Insurance Company Ltd.

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AUDITOR GENERAL'S REPORT

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

Opinion

I have audited the financial statements of Cayman Islands National insurance Company Ltd. (the "Company"), which comprise the statement of financial position as at 31 December 2017, the statements of comprehensive loss, cash flows and changes in shareholders' equity for the 18-month period from July 1, 2016 to December 31, 2017, and notes, comprising significant accounting policies and other explanatory information.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2017, and its financial performance and its cash flows for the 18-month period from July 1, 2016 to December 31, 2017 in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

I have conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to my audit of the financial statements in the Cayman Islands and I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion. In rendering my audit opinion on the financial statements of the Company, I have relied on the work carried out on my behalf by a public accounting firm that performed its work in accordance with International Standards on Auditing.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

AUDITOR GENERAL'S REPORT (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I have undertaken the audit in accordance with the provisions of section 60(1)(a)(ii) of the Public Management and Finance Law (2017 Revision). I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



Sue Winspear, CPFA
Auditor General

25 April 2019
Cayman Islands

CAYMAN ISLANDS
CINICO
NATIONAL INSURANCE COMPANY

Good Health Should Be Insured.

STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements have been prepared by the Cayman Islands National Insurance Company Ltd. in accordance with the provisions of the *Public Management and Finance Law (2017 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 (2017 Revision).*

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

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

The financial statements fairly present the statement of financial position, statement of comprehensive loss, statement of cash flows and statement of changes in shareholder's equity for the 18 month period ended 31 December 2017.

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

(a) are complete and reliably reflect the financial transactions of Cayman Islands National Insurance Company Ltd. for the 18 month period ended 31 December 2017;
(b) fairly reflect the financial position as at 31 December 2017 and performance for the 18 month period ended 31 December 2017;
(c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

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

Dana Brandon
General Manager
Cayman Islands National Insurance Company

Date: April 25, 2019

Frank Gallipi
Chief Financial Officer
Cayman Islands National Insurance Company

Date: APRIL 25, 2019

Cayman Islands National Insurance Company Ltd.

Statement of Financial Position
As at December 31, 2017
Amounts stated in Cayman Islands dollars

	Note		December 31, 2017	June 30, 2016
Assets				
Current				
Cash and cash equivalents	4	$	8,485,899	*27,006,921*
Funds held in escrow			1,681,702	*701,968*
Premiums receivable	5		7,854,295	*2,204,967*
ASO claims and fees receivable	5.1		5,267,702	*5,681,011*
Other receivables and other assets	6		2,284,338	*971,677*
Long-term				
Fixed assets	7		419,218	*357,640*
Total assets			25,993,154	*36,924,184*
Liabilities				
Accounts payable	8		404,837	*469,632*
Premiums received in advance			184,014	*194,141*
Accruals and other liabilities	9		1,548,472	*1,080,397*
Claims payable			151,200	*1,755,262*
Provision for claims incurred	11		10,243,321	*21,751,608*
Total liabilities			12,531,844	*25,251,040*
Shareholder's equity				
Share capital	12		1	*1*
Share premium	12		2,999,999	*2,999,999*
Additional paid-in-capital	13		30,193,251	*23,093,251*
Accumulated deficit			(19,731,941)	*(14,420,107)*
Total shareholder's equity	22		13,461,310	*11,673,144*
Total liabilities and shareholder's equity		$	25,993,154	*36,924,184*

PATRICIA ESTWICK — APRIL 25, 2019

Chairman of the Board of Directors — Date

FRANK GALLIPPI — APRIL 25, 2019

Chief Financial Officer — Date

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

Cayman Islands National Insurance Company Ltd.

Statement of Comprehensive Loss
For the period from July 1, 2016 to December 31, 2017
Amounts stated in Cayman Islands dollars

	Note	December 31, 2017 (18 months)	June 30, 2016 (12 months)
Income			
Premium income	14, 18	$ 104,967,675	*$ 67,321,317*
Reinsurance premium	14	(1,848,485)	*(1,446,293)*
ASO Fees	15, 18	1,023,862	*571,797*
Total underwriting income		104,143,052	*66,446,821*
Investment income and other income	19	212,143	*52,384*
Total income		104,355,195	*66,499,205*
Expenses			
Claims paid	10	113,237,156	*62,715,824*
Reinsured claims	11	(697,162)	*(153,571)*
Movement in provision for claims incurred	11	(11,508,287)	*3,141,039*
Contributions to segregated insurance fund	16, 18	441,810	*267,160*
Claims administration and other expenses		2,630,897	*2,298,898*
Total underwriting expenses		104,104,414	*68,269,350*
Administrative expenses and other expenses	17	5,562,615	*2,992,360*
Provision (release of provision) for contingencies and government debt	21	-	*(267,830)*
Total expenses		109,667,029	*70,993,880*
Net loss for the period/year		(5,311,834)	*(4,494,675)*
Total comprehensive loss for the period/year		$ (5,311,834)	*$ (4,494,675)*

Cayman Islands National Insurance Company Ltd.

Statement of Cash Flows
For the period from July 1, 2016 to December 31, 2017
Amounts stated in Cayman Islands dollars

	Note	December 31, 2017 (18 months)	June 30, 2016 (12 months)
Cash flows from operating activities			
Net loss for the period/year		$ (5,311,834)	*$ (4,494,675)*
Adjustments for non-cash items			
Depreciation	7	271,050	*176,170*
Funds held in escrow		(979,734)	*603,239*
Premiums receivable		(5,649,328)	*1,790,781*
Advance claims, ASO claims and fees receivable		413,309	*(2,202,510)*
Other receivables and other assets		(1,312,661)	*1,249,443*
Accounts payable		(64,795)	*459,306*
Premiums received in advance		(10,127)	*(15,769)*
Accruals and other liabilities		468,075	*246,246*
Claims payable		(1,604,062)	*1,303,354*
Provision for claims incurred		(11,508,287)	*3,141,039*
Net cash flows (to) / from operating activities		(25,288,394)	*2,256,624*
Cash flows from investing activities			
Purchase of fixed assets	7	(332,628)	*(199,440)*
Net cash flows from investing activities		(332,628)	*(199,440)*
Cash flows from financing activities			
Receipt of additional paid-in-capital	13	7,100,000	-
Net cash flows from financing activities		7,100,000	-
Net cash (outflow) / inflow for the period / year		(18,521,022)	*2,057,184*
Cash and cash equivalents at beginning of the year		27,006,921	*24,949,737*
Cash and cash equivalents at end of the period / year		$ 8,485,899	*$ 27,006,921*

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

Cayman Islands National Insurance Company Ltd.

Statement of Changes in Shareholder's Equity
Amounts stated in Cayman Islands dollars

	Share capital (Note 12)	Share premium (Note 12)	Additional paid-in-capital (Note 13)	Accumulated deficit	Total Shareholder's Equity
Balance at June 30, 2015	$ 1	$ 2,999,999	$ 23,093,251	$ (9,925,432)	$ 16,167,819
Year ended June 30, 2016					
Comprehensive income:					
Net loss for the year	-	-	-	(4,494,675)	(4,494,675)
Total comprehensive income:	-	-	-	(4,494,675)	(4,494,675)
Balance, end of year	$ 1	$ 2,999,999	$ 23,093,251	$(14,420,107)	$ 11,673,144
18 month period ended December 31, 2017					
Comprehensive income:					
Additional paid-in-capital received			7,100,000		7,100,000
Net loss for the period	-	-	-	(5,311,834)	(5,311,834)
Total comprehensive income:	-	-	7,100,000	(5,311,834)	1,788,166
Balance, end of period	$ 1	$ 2,999,999	$ 30,193,251	$(19,731,941)	$ 13,461,310

1 Company information

Cayman Islands National Insurance Company Ltd. ("CINICO" or the "Company") was formed on December 18, 2003 under the Cayman Islands Companies Law and was granted a Class A Insurance Licence under the Insurance Law (2003 Revision) on February 1, 2004. The Company was established and is wholly owned by the Cayman Islands Government ("CIG") and the principal activity is the provision of health insurance for Government insureds including civil servants, pensioners, other CIG Statutory Authorities and Companies (including CINICO employees and dependants), seamen & veterans and their dependents ("Government Insureds"). The Company also serves residents of the Cayman Islands ("Private Insureds") by providing benefits under the "Standard Health Insurance Contract" (SHIC) as defined by the Health Insurance Law of the Cayman Islands. In addition, the Company also provides Administrative Services Only ("ASO") for indigents and advance patients. ASO is also provided for Seafarer and Veteran overseas benefits which came into effect July 1, 2007.

Effective June 1, 2017 the Company leased an insurace administration system through Hi-Tech and perfroms in-house claims administration services. Previous to June 1, 2017 the Company had contracted with a Third Party Administrator ("TPA"), Automated Benefit Services ("ABS"), to provide these services. The Company also has a contact with United Healthcare to provide network access to USA facilities and physicians. Effective April 1, 2012, the Company contracted with MMSI to provide overseas case management services. On August 1, 2016, the Company stopped using the services of MMSI. In addition, effective July 1, 2014, CINICO has contracted with Munich Re, to provide specific excess loss reinsurance coverage on a per covered person basis. Prior to July 1, 2014, excess loss reinsurance coverage was provided by Partner Re (formerly known as Presidio).

The Company's registered office is at Cayman Centre, George Town, Grand Cayman. At December 31, 2017, the Company employed 31 permanent staff and 4 temporary staff (23 permanent staff and 3 temporary staff at June 30, 2016).

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 Public Management and Finance Law (Amendment) Law, 2015 section 2(c) was passed on October 15, 2015 to reflect a change in the annual reporting date from June 30 to December 31. The reporting period is for the 18 months commencing July 1, 2016 and ending December 31, 2017.

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

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

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

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

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

Insurance and reinsurance contracts - classification
Insurance and reinsurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Company defines significant insurance risk using historical claims data and conductiing an actuarial analysis of various reinsurance retention limits, to determine the optimum reinsurance retention limit. Under its reinsurance contract, the Company is entitled to any claims in excess of the reinsurance limit which is held or recognized as reinsurace assets. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on policies issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

2 Accounting policies (continued)

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

Claims and provision for claims incurred
Claims paid are recorded based on claims reported to the Company and adjudicated by its third party administrator. The provision for claims incurred is an estimate determined by an independent actuary, using standard actuarial claims projection techniques and includes amounts for all losses reported but not settled and loss adjustment expenses, as well as reserves for losses which have been incurred but not yet reported at the statement of financial position date. The Company records its estimated liability gross of any amounts recoverable under its own reinsurance. Recoverable amounts, under the reinsurance contract, if any, are estimated and reported separately as assets. The reinsured portion, if any, of reserves for losses is estimated in a manner consistent with the estimation of reserves for losses on the reinsured policies.

Cash and cash equivalents
Cash and cash equivalents is comprised of cash and interest bearing deposits with maturities of three months or less at date of acquisition.

Premiums
Premiums are accounted for on a pro-rata basis over the periods covered by the insurance policy. Premiums for privately insured persons are payable monthly in advance on the first day of the month. Premiums for Government insured persons are payable monthly. Premiums received in advance are deferred and included in Premiums received in advance in the statement of financial position. Reinsurance premiums ceded are similarly recognized on a pro-rata basis based on the contractual premium rate and number of insureds covered under the reinsurance policy.

It is the Company's policy to lapse any policies where the premiums are unpaid for 45 days (2016: 45 days) after the due date.

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

Disclosures about fair value of financial instruments
The carrying amounts of all financial instruments approximate their fair values due to their short-term maturities.

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

Office Equipment	5 years
System Development Costs	3 - 5 years
Computer and Telecommunications Equipment	3 years
Leasehold Improvements	over the term of the lease

See also Note 7.

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

2 Accounting policies (continued)

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

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.

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

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

Investment income and other income
Investment income and other income are accrued as earned.

Premium deficiency reserve
Annually, a liability adequacy test is performed to ensure the adequacy of the loss reserves. In performing this test, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities are used. Any deficiency over the remaining term of insurance contracts is recognized immediately by establishing a provision for losses arising from liability adequacy tests. No premium deficiency reserves were required for the period ended December 31, 2017 or the year ended June 30, 2016.

2.1 Changes in IFRS

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

There were no new standards, interpretations or amendments to existing standards that are effective that would be expected to have a significant impact on the Company for the financial period beginning July 1, 2016.

B) New standards, amendments and interpretations issued but not effective for the financial period beginning July 1, 2016 and not early adopted:

A number of new standards and amendments to standards and interpretations are issued but not effective for the financial period beginning July 1, 2016, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

IFRS 9, Financial Instruments with IFRS 4 Insurance Contracts, effective for annual periods beginning on or after January 1, 2018, specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. The standard is not expected to have a significant impact on the Company's financial position or performance. IFRS 9 provides two options for entities that issue insurance contracts being the overlay approach or the deferral approach. The overlay approach provides the option to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets. An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements. The deferral approach is an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following January 1, 2018. The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied. The standard is not expected to have a significant impact on the Company's financial position or performance.

2.1 Changes in IFRS (continued)

IFRS 15, Revenue from Contracts with Customers is effective for periods beginning on or after January 1, 2018. The new standard applies to contracts with customers, however it does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another IFRS, then the guidance on separation and measurement contained in the other IFRS takes precedence. The standard is not expected to have a significant impact on the Company's financial position or performance.

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

Amendments to IAS 16, Clarification of Acceptable Methods of Depreciation and Amortisation, is effective for accounting periods beginning on or after January 1, 2016. The amendment to IAS 16, Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used. This is because such methods reflect factors other than the consumption of economic benefits embodied in the assets. The standard is not expected to have a significant impact on the Company's financial position or performance.

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

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

3 Management of insurance and financial risk

3.1 Insurance risk

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

The Company uses several techniques to mitigate risk surrounding potential high claim losses. For its largest group (Group 30100 - Civil, Servants, Pensioners and Government Entities), reinsurance has been purchased that covers overseas claim losses which exceed US$700,000, up to US$5,000,000 in respect of any one covered person during the policy year, with an aggregate cap of US$10,500,000 per year. The Company's Standard Health Insurance Contracts ("SHIC" plans) use a combination of pre-existing condition exclusions, and annual limits to mitigate risk. In August of 2016 the Company implemented its own department to provide case management service to patients. Prior to that the Company employed the services of MMSI (a division of the Mayo Clinic). The Company uses United Healthcare for the provision of overseas network access. These entities have pre-negotiated contracts with many overseas providers which would allow the Company to realize significant savings.

3 Management of insurance and financial risk (continued)

3.2 Financial risk

Financial risk can be broken down into credit risk, market risk (comprising of: interest rate risk, foreign currency risk and other price risk) and liquidity risk. The Company is exposed to financial risks through its financial assets, financial liabilities, and reinsurance assets. No financial risk is associated with its insurance liabilities. The Company's assets and liabilities are generally short term in nature (less than one year), as such financial risks are minimal.

Credit risk

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

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

All of the Company's cash and cash equivalents are held with reputable financial institutions in the Cayman Islands (2016/17: 65%; 2015/16: 99%) and Canada (2016/17: 35% 2015/16: 1%). As described in Note 3.1, reinsurance is used to manage insurance risk. However, this does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment of the claim. As part of the reinsurance renewal, the Company reviews the creditworthiness of the reinsurer prior to finalization of any contract, and has chosen a reinsurer with an AM Best rating of A (Excellent).

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

	December 31, 2017	*June 30, 2016*
Cash and cash equivalents	$ 8,485,899	*$ 27,006,921*
Funds held in escrow	1,681,702	*701,968*
Premiums receivable	7,854,295	*2,204,967*
Advance claims, ASO claims and fees receivable	5,267,702	*5,681,011*
Reinsurance claims recoveries	703,011	*645,538*
Other assets and receivables	1,581,327	*326,139*
Total financial assets	$ 25,573,936	*$ 36,566,544*
Non-financial assets	$ 419,218	*$ 357,640*
Total assets per the statement of financial position	$ 25,993,154	*$ 36,924,184*

3.2 Financial risk (continued)

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

As at December 31, 2017:	Neither past due nor impaired	Past due but not impaired	Impaired	Provision for bad debt	Total
Cash and cash equivalents	$ 8,485,899	$ -	$ -	$ -	8,485,899
Funds held in escrow	1,681,702	-	-	-	1,681,702
Premiums receivable	-	7,854,295	990,617	(990,617)	7,854,295
Advance claims, ASO claims and fees receivable	-	5,267,702	-	-	5,267,702
Reinsurers share of insurance liabilities	703,011	-	-	-	703,011
Other assets	1,581,327	-	-	-	1,581,327
Total assets exposed to credit risks	$ 12,451,939	$ 13,121,997	$ 990,617	$ (990,617)	$ 25,573,936

As at June 30, 2016:	Neither past due nor impaired	Past due but not impaired	Impaired	Provision for bad debt	Total
Cash and cash equivalents	$ 27,006,921	$ -	$ -	$ -	$ 27,006,921
Funds held in escrow	701,968	-	-	-	701,968
Premiums receivable	-	2,204,967	504,737	(504,737)	2,204,967
Advance claims, ASO claims and fees receivable	-	5,681,011	-	-	5,681,011
Reinsurers share of insurance liabilities	645,538	-	-	-	645,538
Other assets	326,139	-	-	-	326,139
Total assets exposed to credit risks	$ 28,680,566	$ 7,885,978	$ 504,737	$ (504,737)	$ 36,566,544

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

As at December 31, 2017:	Up to 30 days	30 to 60 days	> 60	Total
Advance claims, ASO claims and fees receivable	$ 2,143,513	$ 478,066	$ 2,646,123	$ 5,267,702
Premiums receivable	4,715,112	1,664,363	1,474,820	$ 7,854,295
	$ 6,858,625	$ 2,142,429	$ 4,120,943	$ 13,121,997

As at June 30, 2016:	Up to 30 days	30 to 60 days	> 60	Total
Advance claims, ASO claims and fees receivable	$ 5,128,600	$ 552,411	$ -	$ 5,681,011
Premiums receivable	1,266,754	135,811	802,402	$ 2,204,967
	$ 6,395,354	$ 688,222	$ 802,402	$ 7,885,978

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

	December 31, 2017	*June 30, 2016*
AA	$ 8,012,985	*$ 25,004,711*
A	1,681,702	*701,968*
BBB	134,332	*590,917*
Below BBB or not rated	352,208	*1,411,293*
Total cash and cash equivalents bearing credit risk	$ 10,181,227	*$ 27,708,889*

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

3.2 Financial risk (continued)

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

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

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial and insurance liabilities. The Company is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk may arise from a number of potential areas, such as a duration mismatch between assets and liabilities and unexpectedly high levels of claims, in conjunction with uncollected receivables. The nature of the Company's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risks, have not changed significantly from the prior year.

At December 31, 2017, the Company had cash and cash equivalents of $8,485,899 (2016: $27,006,921). These amounts are highly liquid and are a significant component of the Company's overall liquidity and capital resources. Liquidity forecasts are produced on a regular basis to ensure the liquidity is maintained.

3.3 Management of financial risks

The following tables indicate the contractual timing of cash flows arising from assets and liabilities included in the Company's financial statements as of December 31, 2017 and June 30, 2016.

		Contractual cash flows (undiscounted)					
December 31, 2017	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	$ 8,485,899	$ -	$ 8,485,899	$ -	$ -	$ -	$ -
Funds held in escrow	1,681,702		1,681,702				
Advance claims, ASO claims and fees receivable	5,267,702	-	5,267,702	-	-	-	-
Premiums receivable	7,854,295	-	7,854,295	-	-	-	-
Less reinsurance recoveries	703,011	-	703,011	-	-	-	-
Other assets	1,581,327	-	1,581,327	-	-	-	-
Total	$ 25,573,936	$ -	$ 25,573,936	$ -	$ -	$ -	$ -
Short term insurance liabilities							
Insurance contracts	$ 10,394,521	$ -	$ 10,394,521	-	-	-	-
Other financial liabilities	1,953,309	-	1,953,309	-	-	-	-
Total	$ 12,347,830	$ -	$ 12,347,830	$ -	$ -	$ -	$ -
Difference in contractual flows	$ 13,226,106	$ -	$ 13,226,106	$ -	$ -	$ -	$ -

3.3 Management of financial risks (continued)

		Contractual cash flows (undiscounted)					
June 30, 2016	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	$ 27,006,921	$ -	$ 27,006,921	$ -	$ -	$ -	$ -
Funds held in escrow	701,968		701,968	-	-	-	-
Advance claims, ASO claims and fees receivable	5,681,011	-	5,681,011	-	-	-	-
Premiums receivable	2,204,967	-	2,204,967	-	-	-	-
Reinsurance claim recoveries	645,538	-	645,538	-	-	-	-
Other assets	326,139	-	326,139	-	-	-	-
Total	$ 36,566,544	$ -	$ 36,566,544	$ -	$ -	$ -	$ -
Short term insurance liabilities							
Insurance contracts	$ 23,506,870	$ -	$ 23,506,870	$ -	$ -	$ -	$ -
Other financial liabilities	1,550,029	-	1,550,029	-	-	-	-
Total	$ 25,056,899	$ -	$ 25,056,899				
Difference in contractual flows	$ 11,509,645	$ -	$ 11,509,645	$ -	$ -	$ -	$ -

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

3.4 Sensitivity analysis - insurance contracts (continued)

	Interest rates		Expenses		Loss ratios	
	+0.05%	**-0.05%**	**+5%**	**-5%**	**+5%**	**-5%**
Sensitivities as at December 31, 2017						
Impact on Net income for the year	-	-	(153,635)	153,635	(5,086,443)	5,086,443
Impact on Shareholder's equity	-	-	(153,635)	153,635	(5,086,443)	5,086,443

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

4 Cash and cash equivalents

	December 31, 2017	*June 30, 2016*
Fixed Deposits	$ -	*$ 2,002,495*
Cash at Bank	8,477,973	*24,999,828*
Deposit in transit	7,926	*4,598*
	$ 8,485,899	*$ 27,006,921*

4.1 Funds held in escrow

United Healthcare (UHC) provides the Company with network access to USA facilities and physicians at discounted rates. As part of the agreement with UHC the Company is required to maintain an appropriate level of funds in a client billing account maintained by UHC for the payment of claims.

5 Premiums receivable

	December 31, 2017	*June 30, 2016*
Current		
Premiums receivable from related parties, gross	$ 8,768,738	*$ 2,663,983*
Premiums receivable from unrelated entities, gross	76,174	*45,721*
Less: provisions for bad debts	(990,617)	(504,737)
	$ 7,854,295	*$ 2,204,967*

During the period ended December 31, 2017, bad debts of $222,128 (June 30, 2016 - $135,456) have been written off, of which $9,824 had been provided for in 2015/16 (2014/15 - $13,000). It is management's opinion that a provision for bad debts of $990,617 (June 30, 2016 - $504,737: $494,913 for the Ministry of Education and $9,824 for unrelated individuals) is required at December 31, 2017. All bad debts written off are from unrelated individuals. Once a bad debt is written off coverage to the unrelated individual is terminated.

5.1 ASO claims and fees receivable

	December 31, 2017	*June 30, 2016*
Current		
ASO claims and fees receivable	$ 5,267,702	*$ 5,681,011*
	$ 5,267,702	*$ 5,681,011*

6 Other receivables and other assets

Components of other receivables and other assets are as follows:

	December 31, 2017	*June 30, 2016*
Current		
Claims administration and other expenses	$ 937,937	*$ 35,067*
Reinsurance claims recoveries	703,011	*645,538*
Refund due from provider	378,812	-
Amount on deposit with Cayman Airways and HSA	84,000	*84,000*
Licence fees	75,000	*37,500*
Unallocated claims expense	31,865	*42,958*
Work permit fees	27,512	*8,175*
Maintenance/software costs	10,800	-
Marketing costs	10,139	*3,430*
Prepaid software licences	10,064	*10,846*
Miscellaneous	9,549	*34,585*
Advance to employees	1,000	*1,953*
Insurance expense	622	*6,643*
Amounts prepaid for Indigent claims	-	*54,352*
Prepaid rent	-	*2,484*
Stamp duty on lease	-	*4,146*
	$ 2,280,311	*$ 971,677*

See Note 18 for disclosure on related party balances.

7 Fixed assets

	System Development Costs	Office Equipment	Computer & Telecoms Equipment	Leasehold Improvements	Total
Cost at July 1, 2015	$ 762,413	$ 118,906	$ 309,795	$ 277,511	$ 1,468,625
Additions	48,500	13,901	91,431	45,608	199,440
Disposals	-	-	-	-	-
Cost at June 30, 2016	810,913	132,807	401,226	323,119	1,668,065
Accumulated depreciation at July 1, 2015	620,995	70,023	256,829	186,408	1,134,255
Depreciation for period	64,557	18,485	27,345	65,783	176,170
Disposals	-	-	-	-	-
Accumulated depreciation at June 30, 2016	685,552	88,508	284,174	252,191	1,310,425
Carrying value at June 30, 2016	$ 125,361	$ 44,299	$ 117,052	$ 70,928	$ 357,640
Cost at July 1, 2016	$ 810,913	$ 132,807	$ 401,226	$ 323,119	$ 1,668,065
Additions	179,541	42,181	85,371	25,535	332,628
Disposals	-	-	-	-	-
Cost at December 31, 2017	990,454	174,988	486,597	348,654	2,000,693
Accumulated depreciation at July 1, 2016	685,552	88,508	284,174	252,191	1,310,425
Depreciation for period	91,134	27,836	90,794	61,286	271,050
Disposals	-		-	-	-
Accumulated depreciation at December 31, 2017	776,686	116,344	374,968	313,477	1,581,475
Carrying value at December 31, 2017	$ 213,768	$ 58,644	$ 111,629	$ 35,177	$ 419,218

8 Accounts payable

	December 31, 2017	*June 30, 2016*
Payable to unrelated entities	$ 404,837	*$ 469,532*
Payable to related parties	-	*100*
	$ 404,837	*$ 469,632*

Included in accounts payable in respect of unrelated entities are amounts relating to administrative expenses of $404,837 (June 30, 2016 - $468,967 administrative expenses, $568 pension withholdings). Accounts payable in respect of related entities as at December 31, 2017 is $nil (June 30, 2016: $100 related to pension withholdings).

9 Accruals and other liabilities

Components of accruals and other liabilities are as follows:

	December 31, 2017	*June 30, 2016*
Stale dated cheques	$ 620,394	*$ 439,048*
Accrual to service provier- ABS	335,295	-
Audit fees	210,100	*176,000*
Other accruals	186,335	*80,289*
Indigent fund	48,310	-
Legal Fees	39,459	-
Actuarial fees	35,111	*45,553*
ABS/CMN/MMSI/AIS expenses	30,240	*39,712*
Audit Fees - Auditor General	23,487	*24,080*
Maintenance/Utilities & Telecommunications	15,878	*7,498*
Marketing costs	2,278	*1,300*
Stamp duty	1,332	*720*
Water	253	*219*
Provision for Simplifie lawsuit settlement (Note 21)	-	*252,000*
Computer Service charges	-	*12,278*
Rent	-	*1,700*
	$ 1,548,472	*$ 1,080,397*

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

10 Claims paid

	December 31, 2017 (18 months)	*June 30, 2016 (12 months)*
Net US$ claims (denominated in CI$)	23,271,945	*16,799,524*
CI$ claims	89,965,211	*45,916,300*
Total Claims	$ 113,237,156	*$ 62,715,824*
Less repricing fees	(1,386,973)	*(1,165,659)*
Claims paid (not including repricing fees)	$ 111,850,183	*$ 61,550,165*

11 Provision for claims incurred

Through the use of an independent actuary, management has estimated a provision for claims which have been incurred but not yet reported ("IBNR"). While management has estimated IBNR based on all information it has available to it at the time, the ultimate liability may be in excess of, or less than, the amounts provided. Provisions for claims incurred but not reported are estimated using acceptable reserving methods, all calculations performed by the independent actuary is peer reviewed by the actuarial firm.

A health claim is payable when an event has occurred that gives rise to a claim payment within the benefits of an insured member's policy while 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 Cayman Islands Health Insurance Law to submit any claims within 180 days of date of service (USA providers are required to submit claims within one year of the date of service). Thus, any reserve estimates are normally settled within a year, with the exception noted in the following paragraph.

During the period ended December 31, 2017, the Cayman Islands Health Services Authority ("CIHSA") advised the Company that it failed to submit claims amounting to $2,391,119 (2015: $1,673,768) that related to the June 30, 2016 fiscal year and not submitted within the 180 day requirement. An exception to the 180 day rule was granted by the Company and the Ministry of Finance. As such claims relating to dates of service from July 1, 2014 to June 30, 2015 were processed and settled in June 2017. This information was utilized by the Company in estimating the provision for claims incurred as at June 30, 2016.

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

11 Provision for claims incurred (continued)

Reporting year	2006/7 (12 months)	2007/8 (12 months)	2008/9 (12 months)	2009/10 (12 months)	2010/11 (12 months)	2011/12 (12 months)
Estimate of ultimate claims costs:						
At end of period	32,864,983	35,819,622	40,046,000	46,045,975	51,917,304	54,592,395
One year later	30,779,928	34,402,472	37,507,064	43,109,341	50,357,115	52,377,981
Two years later	30,879,375	34,448,122	37,462,191	43,137,108	50,404,281	51,705,351
Three years to eleven years later	30,871,999	34,448,671	37,462,191	43,136,834	50,371,842	51,705,906
Current estimate of cumulative claims	30,871,999	34,448,671	37,462,191	43,136,834	50,371,842	51,705,906
Cumulative payments to date	30,871,999	34,448,671	37,462,191	43,136,834	50,371,842	51,705,906
Gross liability recognized in the statement of financial position	-	-	-	-	-	-
Allocated loss expenses ("ALE") reserve	-	-	-	-	-	-
Net liability recognized in the statement of financial position	$ -	$ -	$ -	$ -	$ -	$ -

Reporting year	2012/13 (12 months)	2013/14 (12 months)	2014/15 (12 months)	2015/16 (12 months)	2016/17 (18 months)	Total
Estimate of ultimate claims costs:						
At end of period	57,117,961	54,378,735	60,330,760	64,721,391	100,792,561	
One year later	54,624,444	54,230,143	60,330,760	64,469,698	n.a.	
Two years later	54,607,849	54,230,143	60,461,038	n.a.	n.a.	
Three years to eleven years later	54,607,849	54,230,143	n.a.	n.a.	n.a.	
Current estimate of cumulative claims	54,607,849	54,230,143	60,461,038	64,469,698	100,792,561	
Cumulative payments to date	54,607,849	54,230,143	60,462,193	64,450,166	91,051,675	
Gross liability recognized in the statement of financial position	-	-	(1,155)	19,532	9,740,886	9,759,263
Allocated loss expenses ("ALE") reserve	-	-	(131)	806	483,383	484,058
Net liability recognized in the statement of financial position	$ -	$ -	$ (1,286)	$ 20,338	$ 10,224,269	$ 10,243,321

11 Provision for claims incurred (continued)

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

	18 month period ended December 31, 2017			*Year ended June 30, 2016 (12 months)*		
	Gross	Reinsurance	Net	*Gross*	*Reinsurance*	*Net*
Balance at beginning of year	$ 21,751,608	$ (645,538)	$ 21,106,070	*$ 18,610,569*	*$ (750,644)*	*$ 17,859,925*
Incurred related to:						
Current year	100,792,561	(703,011)	100,089,550	*64,721,391*	*(148,500)*	*64,572,891*
Prior year	18,668	5,849	24,517	-	*(5,071)*	*(5,071)*
	100,811,229	(697,162)	100,114,067	*64,721,391*	*(153,571)*	*64,567,820*
Paid: related to:						
Current year	91,051,675	-	91,051,675	*45,999,561*	-	*45,999,561*
Prior year	20,798,508	(639,689)	20,158,819	*15,550,604*	*(258,677)*	*15,291,927*
	111,850,183	(639,689)	111,210,494	*61,550,165*	*(258,677)*	*61,291,488*
Reinsurance provision	-			-		
ALE Reserve movement	(469,333)	-	(469,333)	*(30,187)*	-	*(30,187)*
Balance at end of period/year	$ 10,243,321	$ (703,011)	$ 9,540,310	*$ 21,751,608*	*$ (645,538)*	*$ 21,106,070*
Change in provision from claims incurred	$(11,508,287)			*$ 3,141,039*		

For the period ended December 31, 2017 there was a hindsight reserve increase of $18,668 (June 30, 2016 $Nil). As stated in the beginning of Note 11, IBNR's are estimated with all known information at the time.

12 Share capital

	December 31, 2017	*June 30, 2016*
Authorized:		
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

	December 31, 2017	*June 30, 2016*
Additional paid in capital received	$ 30,193,251	*$ 23,093,251*
	$ 30,193,251	*$ 23,093,251*

Additional paid-in-capital represents additional capital contributions of the Shareholder not made in connection with the issuance of shares. These capital contributions have the same rights and characteristics as share premium and, accordingly, they can be returned/distributed to the Shareholder solely at the discretion of the Board of Directors. For the period ended December 31, 2017 the company received $7,100,000 in additional paid in capital from the shareholder (June 30, 2016: $0).

It is the policy of the Company to operate in a manner designed to maintain capitalisation within CIMA's prescribed capital requirements.

14 Premium income

Premium income earned by insured type is as follows;

	For the 18 Month Period Ended December 31, 2017			
	Group 30100	Group 30101	Group 30104/31304	Total
Premium Income	$ 86,548,212	$ 11,492,933	$ 6,926,530	$ 104,967,675
Reinsurance Premium	(1,848,485)	-	-	(1,848,485)
Net Premium	$ 84,699,727	$ 11,492,933	$ 6,926,530	$ 103,119,190

	For the Year Ended June 30, 2016 (12 months)			
	Group 30100	Group 30101	Group 30104	Total
Premium Income	$ 55,513,406	$ 7,418,014	$ 4,389,897	$ 67,321,317
Reinsurance Premium	(1,446,293)	-	-	(1,446,293)
Net Premium	$ 54,067,113	$ 7,418,014	$ 4,389,897	$ 65,875,024

Group 30100 includes insurance coverage for civil servants, pensioners and employees of Government entities. Group 30101 includes coverage for seamen & veterans, and Group 30104/31304 includes coverage for third party residents under the Standard Health Insurance Plan. With the exception of Group 30104/31304, all plans are to a related party.

Reinsurance premium is calculated at $9.90 (July 1, 2016 to June 30, 2017) and $9.16 (July 1, 2017 to December 31, 2017, (2015/16 - $11.64) per person per month.

15 Administrative Services Only Fees

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

16 Contributions to segregated insurance fund

Under Section 5(1) of the Health Insurance Regulations (2013 Revision), each domestic health insurer is required to pay to a Segregated Insurance Fund $10.00 per month per single insured and $20.00 per month per couple or family insured. For the 18 month period ended December 31, 2017 the Company accrued contributions totaling $441,810 (year ended June 30, 2016 - $267,160).

17 Administrative expenses and other expenses

Components of administrative expenses and other expenses are as follows:

	December 31, 2017 (18 months)	*June 30, 2016 (12 months)*
Salaries	$ 3,295,098	*$ 1,577,190*
Employee benefits	576,408	*298,706*
Professional fees	394,588	*267,800*
Depreciation	271,050	*176,170*
Other/miscellaneous	244,064	*241,199*
Rent	236,608	*121,462*
Maintenance	205,054	*100,769*
Utilities	140,696	*78,436*
Licence fees	112,500	*75,000*
Marketing	44,233	*33,241*
Office supplies	42,316	*22,387*
	$ 5,562,615	*$ 2,992,360*

18 Related party transactions

Related parties comprise of the Cayman Islands Government and its various ministries/portfolios, statutory authorities, and government companies to whom the Company provides health insurance coverage to. In addition, the Company makes claim payments to other Government entities, namely the CIHSA, and Cayman Airways. Payments are also made to Hope Academy which is a related party by way of key management personnel. Related party balances and transactions from the statements of financial position and comprehensive income are represented below.

	December 31, 2017	*June 30, 2016*
Assets		
Current		
Premiums receivable	$ 8,768,738	*$ 2,508,773*
Provision for bad debt	(990,617)	*(504,737)*
Advance claims, ASO claims receivable and fees receivable, net of bad debt	5,267,702	*5,681,011*
Other receivables and other assets	187,134	*140,714*
	$ 13,232,957	*$ 7,825,761*
Liabilities		
Accounts payable	$ -	*$ 100*
Premiums received in advance	-	*40,344*
Accruals and other liabilities	74,351	*38,266*
Claims payable	-	*1,589,140*
	$ 74,351	*$ 1,667,850*
Income		
Premium income	$ 98,207,096	*$ 63,216,202*
ASO Fees	1,023,862	*571,797*
	$ 99,230,958	*$ 63,787,999*
Expenses	18 months	*12 months*
Claims paid	$ 71,250,907	*$ 35,108,080*
Claims paid to Hope Academy	541,300	*140,555*
Contributions to segregated insurance fund	441,810	*267,160*
Claims administration & administrative expenses	623,089	*337,995*
	$ 72,857,106	*$ 35,853,790*

Key employee and director remuneration/compensation are included within administrative expenses as reported in the statement of income and accumulated deficit, and broken down as:

	December 31, 2017 18 months	*June 30, 2016* *12 months*
Short-term employee benefits	$ 644,742	*$ 406,700*
Post-employment benefits	28,800	*16,195*
Director fees	39,100	*27,400*
	$ 712,642	*$ 450,295*

On July 26, 2017, a 2015/16 Claims Reconciliation Agreement (the "Agreement") was reached between the Company and the CIHSA in order to reconcile the claims data from both parties, identifiy sources of differences and agree to a claim figure for the 2015/16 financial year. The Agreement arose due to limitations with claims reporting data between the two entities. As a result of the Agreement, the Company and the CIHSA were able to identify variances in their records and agree upon the total amount of claims paid and claims submitted with dates of service relating to the current financial year. It was also agreed that no further liability exists for the Company for claims with dates of service prior to June 30, 2016, other than that already considered in the provision for claims incurred described in Note 11.

19 Investment income & other income

Investment income represents interest earned from the cash and fixed deposits held at various banks. Other income includes income collected for replacement insurance cards, confirmation of insurance letters, and reinstatement of policies.

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 18 month period ended December 31, 2017 is $212,973 (year ended June 30, 2016 - $100,485).

21 Commitments and Contingencies

	December 31, 2017	*June 30, 2016*
Provision at beginning of period/year	$ 252,000	*$ 252,000*
Change in provision	(252,000)	-
Provision at end of period/year	-	*252,000*

The provision for the year ended June 30, 2016 related to a lawsuit filed against the Company by Simplifi Health Benefit Management, LLC ("Simplifi"). In the lawsuit, Simplifi alleged that the Company did not provide appropriate notice as per the terms of the contract, for the termination of the TPA services provided by Simplifi. The Administrative Services Agreement ("ASA") between the Company and Simplifi provided for an automatic one year renewal of the contract unless either party gave written notice of non-renewal at least 120 days prior to the termination date. The ASA further stated that any notices shall be delivered in person, by certified mail, by commercial overnight courier, or by facsimile. The Company provided timely notification of non-renewal within the required notice period specified in the contract. The Plaintiff sought damages for the period July 1, 2013 to June 30, 2014 in the amount of $1,084,941 plus attorney's fees, which it claims are the lost profits and "reliance damages" for that period. Counsel to the Company has informed Simplifi in writing that the notice of termination was effective under the laws of the State of Ohio, which governed the agreement with Simplifi. On August 2, 2016, the Court issued an Opinion and Order denying the Company's motion for summary judgment holding that there was a factual question requiring a trial on whether Simplifi had actual knowledge of the Company's intention not to renew the ASA. The Court also directed the parties to engage in good faith negotiations to settle the dispute. During the year ended December 31, 2017, the Company settled the lawsuit for $252,000 to avoid future increase in legal costs which would have been eminent had the case gone to trial.

22 Net worth for regulatory purposes

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:

	December 31, 2017	*June 30, 2016*
Share capital	$ 1	*$ 1*
Share premium	2,999,999	*2,999,999*
Additional paid-in-capital	30,193,251	*23,093,251*
Accumulated deficit	(19,731,941)	*(14,420,107)*
	$ 13,461,310	*$ 11,673,144*

As a Class A insurance company the Company is required to maintain capital levels in accordance with the Insurance (Capital and solvency)(Class A Insurers) regulations, 2012 which is a risk based approach in assessing the adequacy of the required capital. The Company has performed the calculations under Schedule 1 to Schedule 3 of the regulation, and for regulatory purposes complies with the Minimum Capital Requirements (MCR) and Prescribed Capital Requirements (PCR), as listed below:

	December 31, 2017	*June 30, 2016*
Available capital	$ 11,890,408	*$ 11,684,746*
Minimum Capital Requirements		
MCR	$ 9,026,460	*$ 11,295,952*
PCR	$ 11,283,075	*$ 14,119,940*

On May 17, 2017, the Cabinet of the Cayman Islands Government authorised the Ministry of Finance and Economic Development to provide an equity injection of $7,100,000 as a result of CIHSA late claims (see note 11). In July 2018, the Company received further additional capital of $4,530,000.

23 Subsequent events

Management have performed a subsequent events review from January 1, 2018 to April 25, 2019, being the date that the financial statements were available to be issued. Management concluded there were no material subsequent events which required additional disclosure in these financial statements.