Annual Report 2009 - 2010

CAYMAN ISLANDS
CINICO
NATIONAL INSURANCE COMPANY









Annual Report

June 30, 2010

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MISSION STATMENT

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

CAYMAN ISLANDS
CINICO
NATIONAL INSURANCE COMPANY





MANAGEMENT STATEMENT

Dear Shareholder,

We are happy to report that for the second straight year in CINICO's short history, CINICO's financial position remains strong. For the year ending June 30, 2010, the Company reported a profit of $3.5 million compared with $5.8 million the year before, and losses the years before that. The profitable position was made possible by favorable underwriting developments from the prior year, in addition to continued low administration expenditure levels. From an operational aspect, the Company's efficiency ratio as measured by expenses to premium is only seven percent compared to a peer average of fifteen percent. Overall claim losses (combined local and overseas) remained reasonably in line with the 2009/10 premium rate assumptions; however, overall claims continue to climb year after year.

As at June 30, 2010, the Company's net worth position (equity) was a very healthy $12.5 million, and well above the Cayman Islands Monetary Authority's $3.0 million minimum requirement. Although not rated by any rating agencies such as AM Best, the Company's net worth position compares with similarly sized companies who have AM Best ratings of B+ or higher. This is an amazing achievement considering that two years ago the Company reported equity of $190k, which attests to the Company's progress, and the Shareholder's commitment to the success of the Company.

In terms of staffing, the Company continues to operate with eight staff and without a CEO since August 2008. Both the CFO and GM have been filling in the CEO's capacity. Although the vacant CEO post translates into expense savings, in the long run it is at the detriment of the Company, as there is no dedicated individual to fully focus and drive the Company's long-term strategy. Despite the lack of a CEO, the Company continued to focus and exceed in achieving its operational and financial goals. Recruitment for the CEO post has commenced and it is expected that the Board will fill the position in the early part of 2011.

As mentioned earlier, claim losses continue to climb year after year. It is also expected that overseas claim losses would continue to grow by approximately ten percent in the coming year. Continued increases in claim losses also require increases in premium rates. However in the coming year, the Company has committed to lowering its premium rates to its largest policyholder, the core government of the Cayman Islands. As a result, it is expected that the Company would realize a loss in the 2010/11 financial year. To compensate for the reduction of premium the Company will be intensifying its focus on claim losses and other expenses. More specifically, the case management and claims administration services are currently under tender with the aim of lowering administration costs and lowering claim costs; the Company would begin to use its own provider networks

with the goal of achieving improved savings and eliminating repricing fees; and the Company would be looking at actively managing chronic cases both overseas and locally with the aim of lowering claim costs.

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

- Proposed changes to the insurance law would impose a risk-based approach in determining a company's statutory capital, instead of the current $3.0 million minimum required for all Class A insurers.
- In collaboration with CINICO, the Cayman Islands Health Services Authority ("CIHSA") is embarking on the procurement of a "National Health Insurance Real Time Adjudication and Eligibility Verification System." As per the RFP issued in October 2010, the goal of implementing the system is on July 1, 2011.
- Under the revision to the Health Insurance Law, benefits for the Standard Health Insurance Contracts (SHIC) would be increased to allow for greater outpatient and inpatient care coverage.
- The proposed on-island construction of the Shetty hospital would certainly decrease the number of overseas referrals. However this would not have an impact on CINICO for quite some time as the facility would be built in phases over a ten year period.
- On September 1, 2010, CIHSA introduced the CayHealth programme. Briefly, the goal of this programme is to improve access to health-care, focus on preventative healthcare, and promote healthy lifestyles. Initially the programme is being test piloted to a segment of the population, and based on the results, could roll out to all residents of the Cayman Islands.

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

Carole Appleyard
General Manager

Frank Gallippi
Chief Financial Officer

MANAGEMENT DISCUSSION AND ANALYSIS

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

Nature and Scope of Activities

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

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

CINICO's principal activity is the provision of health insurance for Government insureds including civil servants, pensioners, other Government entities, Seamen & Veterans and their dependents ("Government Insured"), as well as residents of the Cayman Islands who have low income, impaired health status, or who are elderly ("Privately Insured"). CINICO employees are also insured by the Company. The Company also provides Administrative Services Only ("ASO") for indigents, advance patients and, effective July 1, 2007, ASO coverage for the Seamen & Veterans overseas benefits. The following group categories would be referenced in the financial highlights and analysis:

- Group 30100 - Civil servants, pensioners and other Government entities;
- Group 30101 - Seamen & Veterans and their dependents;
- Group 30102 - ASO for indigents;
- Group 30103 - Advance patients;
- Group 30104 - Low Income, Impaired Health, Elderly, also referred as Standard Health Insurance Contracts ("SHIC").

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

The Company maintains reinsurance coverage with Presidio Excess Insurance Services, Inc. ("Presidio"), an underwriting agent of the Lloyds of London, which provides specific excess loss reinsurance coverage on a per coverage person basis. The reinsurance coverage

remains the same as last year and covers specific losses in the range from US$609,756 to US$5,000,000 for overseas claims on the Group 30100 plan.

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

Strategic Goals and Objectives

In the Company's 2009/10 Ownership Agreement the following key strategic goals and objectives (from an ownership perspective) were:

- To provide health insurance to civil servants, pensioners, seamen, veterans and their dependants, and individuals qualifying as elderly, health impaired or low income residents.
- To administer on behalf of the Ministry of Health, Environment, Youth, Sports and Culture ("Ministry of HEYS&C"), the provision of health benefits to indigents.
- To administer on behalf of the Ministry of HEYS&C, the provision of overseas health benefits to Seaman & Veterans and their dependents.
- To administer on behalf of the Ministry of Finance the provision of health benefits to advance patients.
- To advise the Ministry of HEYS&C, supported by empirical evidence, of recommendations to improvements in the delivery of health care to the population of the Cayman Islands.
- To undertake development of a claim administration system as an alternative to the outsourcing of this function.
- Upon the completion of a claim administration system, to expand the local claim adjudication expertise within the Company. This includes case management expertise.
- To undertake the development of CINICO's own provider network.
- To secure appropriate reinsurance coverage, to minimize company risk and improve claim loss predictability.

During the fiscal year ending June 30, 2010, the Company has been compliant in all respects with the achievement of the above goals and objectives, with the exception of undertaking to developing a claim administration system and the complete implementation and utilization of its own provider network. In regards to the implementation of its own provider network, the Company continues to meet with various health care providers and throughout the year has self-referred cases to these providers and negotiated its own discounts on these referrals. However to date, the Company still relies on overseas networks provided by its TPA (CMN).

Through the open tender process, in June 2010 the Company has invited companies to make proposals that would assist CINICO with the undertaking to developing a claim administration system and the expansion of the local claim adjudication expertise within the Company. Upon evaluation of the proposals, CINICO would select one company that would provide both case management and claims administration services, and which will provide training to CINICO staff on these functions with the aim of becoming redundant over a period of a couple of years. The selection would also be made in light of the initiatives of the "electronic verification system" (EVS) project so that the Company only retains services that do not conflict with the EVS project. It is planned that selection of this company would take place before the end of the calendar year 2010.

Cayman Islands Health Services Authority

The Company's insurance policies are structured such that the primary network provider is the Cayman Islands Health Services Authority ("CIHSA"). If a member of CINICO is in need of medical care (or dental care for those plans that offer dental coverage) the member must go to CIHSA for treatment. If the medical practitioner (or dental practitioner) has determined that services are unavailable at CIHSA, then approval for treatment by the CINICO complimentary network is sought by the attending practitioner. Medical treatment is approved by the Chief Medical Officer and dental treatment is approved by the Chief Dental Officer. The CINICO complementary network includes other Cayman Islands medical/dental providers, as well as medical providers in over 130 countries around the world which are accessed through CINICO's overseas care management consultant. CIHSA earns a very large share of the Company's claim dollar. For the year ending June 30, 2010, CIHSA's paid claims accounted for 61% of the Company's overall paid claims, or 89% of the Company's local paid claims.

Effective January 1, 2009, CIHSA has implemented a new charge master (billing rates and procedure codes) which helped resolve a lot of claim coding issues as its previous charge master was limited which resulted in some denials. Besides higher claim costs, the implication of the new rates is that the Company's 2008/9 claim payments only reflected six months of the new rates, while the 2009/10 claim payments reflected a full twelve months of the new rates.

As reported in previous annual reports, the Company has been challenged with obtaining accurate and timely claim billings from CIHSA, resulting in a large number of denials and causing problems with premium rate setting and reserving. During the 2009/10 fiscal year, CIHSA continued to make improvements in its claim billings. As a result, claim denials are currently at an all time low of fewer than 15%. Further enhancements in CIHSA's claim billings would result in lower denial rates. CIHSA is pursuing these enhancements in the 2010/11 fiscal year.

Capital Position

As a Class "A" Insurance Company, CINICO is required by CIMA, to maintain a minimum net worth of $3,000,000. As at June 30, 2010, the Company's capital position was $12.5 million and fully compliant with CIMA's minimum requirement.

It is important to note that CIMA's requirement of $3,000,000 is just a minimum. In the upcoming year, CIMA would be reviewing its capital requirements and adopt a formula driven model based on the risk profile of the insurance company.

It is essential that the Company maintains a healthy capital level, which would enable it to "ride" out tough times during years of high claim experience, while remaining financially stable.

Financial Highlights

Table 1 shows the financial highlights for the years ended June 30, 2010, June 30, 2009, June 30, 2008 June 30, 2007 and June 30, 2006. It is apparent that through-out these years, the Company has made significant improvements, and as a result, is now a financially sound and stable company.

Table 1
Financial Highlights

	For financial year ending				
	June 30, 2010	**June 30, 2009**	**June 30, 2008**	**June 30, 2007**	**June 30, 2006**
Cash on hand	13,744,588	8,864,034	8,579,567	3,098,322	771,253
Other receivables & prepaids	8,140,209	5,352,533	3,244,817	1,090,259	1,355,098
Reserve liabilities	8,870,416	11,092,190	8,115,255	9,933,274	5,427,461
Equity	12,505,157	8,999,218	190,112	(6,150,333)	(3,883,214)
Claims incurred	43,739,305	39,576,003	33,897,702	33,091,207	23,928,513
Net Income/(loss)	3,505,939	5,809,106	(2,159,555)	(6,267,119)	(3,901,783)

Cash on hand and liquidity

For the year ending June 30, 2010, cash on hand increased to $13.7 million from $8.9 million in the prior year. The cash position represents 1.3 times the current liabilities of $10.8 million as at June 30, 2010, a fairly strong position.

Other receivables and prepaids

For the year ending June 30, 2010, other receivables and prepaids has increased by $2.8 million to $8.1 million. The majority of the balance as at June 30, 2010 relates to

receivables from the Ministry of HEYS&C, for the provision of ASO services on overseas Indigent and Seamen & Veterans benefits of $6.7 million ($4.9 million as at June 30, 2009), and estimated reinsurance claim recoveries of $1.3 million ($0.3 million as at June 30, 2009).

As at August 31, 2010, $3.1 million of the balance outstanding at June 30, 2010 ($6.7 million) was paid by the Ministry of HEYS&C, the remaining balance of $3.6 million relates to outstanding balances from the 2008/9 fiscal year which can only be settled with a supplementary budget which is scheduled by the end of the calendar year.

Reserve liabilities

Reserve liabilities have decreased from $11.1 million at June 30, 2009 to $8.9 million at June 30, 2010. The decrease of $2.2 million is largely due to a 2008/9 reserve liability release of $2.5 million ($1.3 million released in 2008/9 for the 2007/8 year, and $2.1 million released in 2007/8 for the 2006/7 year). This release is offset by a $0.2 million release in reinsurance recoveries, for a net 2008/9 favorable development of $2.3 million.

The estimate of reserve liabilities, also known as IBNR claims (Incurred But Not Reported) is made using accepted actuarial techniques and current claim information available at the time. By its very nature, IBNRs include an element of uncertainty as assumptions must be used based on historical data, which may or may not be repeated in the future. Such assumptions include: the severity of losses, claims utilization factors, claim payment patterns, provider discounts, the outcome of patients' medical condition which are overseas, etc. As assumptions are used, the ultimate ("hindsight") reserve liability may be in excess of or less than the original estimates. The $2.5 million reserve release is broken down into a $1.1 million and $1.4 million release of local and overseas reserve liabilities respectively. The release in the 2008/9 local component of the reserve primarily relates to an estimate made for unpaid denials at June 30, 2009 which in hindsight developed more favorably. The release of the 2008/9 overseas reserve relates to favorable development on opened overseas cases as at June 30, 2009. As reported in June 2009, two of these cases breached the reinsurance limit, however the final outcome was approximately US$500,000 lower, thus resulting in a reserve release in addition to an adjustment to the reinsurance recovery estimate.

The June 30, 2010 reserve liability represents approximately two months of claims (four months for overseas claims and one month for local claims). Last year's reserve liability represented three months of claims. The decrease is due to improvements made by CIHSA in submitting claims and resubmitting denials in a timelier fashion. Overseas claims would naturally have a longer settlement time due to the complexity of the cases referred.

Approximately $2.1 million (24%) of the $8.9 million reserve is represented by nine large unsettled overseas cases (greater than US$100,000). At June 30, 2009, overseas unsettled cases greater than US$100,000 represented $3.0 million (27%) of the total $11.1 million

reserve. The average per case, overseas unsettled balance as of June 30, 2010 was $11,000 and approximately $13,000 as at June 30, 2009.

The $3.0 million increase in reserve liabilities from June 30, 2008 to June 30, 2009 is largely due to a higher number of unsettled large overseas cases, in addition to a slow-down in the local claims processing due to the reprocessing of the numerous denials in the early part of 2009.

Equity

As a Class "A" Insurance Company, CINICO is required to maintain a minimum of $3.0 million in capital. For the years ending June 30, 2005 (amount not shown in Table 1), June 30, 2006, June 30, 2007 and June 30, 2008 the Company failed to meet the minimum requirement due to the historical ongoing problems, namely, the lack of timely claim submissions from CIHSA, improper pricing, and a dramatic increase in overseas utilization during the years ending June 30, 2007 and 2008. As a result, and as illustrated in Table 2, since the inception of the Company, the Shareholder was required to contribute additional paid-in capital of $20.4 million to fund the historical losses and ensure compliance with the $3.0 million minimum capital requirement. With profitability restored, and with a strong equity position, the Company no longer required additional paid-in capital from the Shareholder.

The historical issues surrounding CIHSA's timely claims submissions and improper pricing have been resolved. As a result, the Company recorded profits in both years ending June 30, 2009 and June 30, 2010 leading to year end equity positions of $9.0 million and $12.5 million, respectively. However, as the Company is subject to adverse claim deviations which can compromise equity levels below CIMA's minimum, it is essential to keep the equity position well above the minimum set by CIMA.

Table 2 provides a breakdown and movement of the Company's equity position from June 30, 2005 to June 30, 2010. The movement of equity is driven by historical losses and equity injections.

Table 2
Movement and Breakdown of Shareholder's Equity

	Share capital & premium	Additional paid-in capital	Accumulated deficit	Total Shareholder's Equity
Balance at June 30, 2005	3,000,000	4,935,840	(7,917,271)	18,569
Issuance of shares	-	-	-	-
Net income/(loss) for period	-	-	(3,901,783)	(3,901,783)
Additional paid-in capital received	-	-	-	-
Balance at June 30, 2006	3,000,000	4,935,840	(11,819,054)	(3,883,214)
Issuance of shares	-	-	-	-
Net income/(loss) for period	-	-	(6,267,119)	(6,267,119)
Additional paid-in capital received	-	4,000,000	-	4,000,000
Balance at June 30, 2007	3,000,000	8,935,840	(18,086,173)	(6,150,333)
Issuance of shares		-	-	-
Net income/(loss) for period		-	(2,159,555)	(2,159,555)
Additional paid-in capital received		8,500,000	-	8,500,000
Balance at June 30, 2008	3,000,000	17,435,840	(20,245,728)	190,112
Issuance of shares	-	-	-	-
Net income/(loss) for period	-	-	5,809,106	5,809,106
Additional paid-in-capital received	-	3,000,000	-	3,000,000
Balance at June 30, 2009	3,000,000	20,435,840	(14,436,622)	8,999,218
Issuance of shares	-	-	-	-
Net income/(loss) for period	-	-	3,505,939	3,505,939
Additional paid-in-capital received	-	-	-	-
Balance at June 30, 2010	3,000,000	20,435,840	(10,930,683)	12,505,157

The historical accumulated deficit increased from $11.8 million at June 30, 2006 to $18.1 million at June 30, 2007 and to $20.2 million at June 30, 2008. The accumulated deficit decreased to $14.4 million and $10.9 million at June 30, 2009 and June 30, 2010 respectively. The deficits up to June 30, 2006 were caused by the fact that the initial premium rates charged for the Civil Servants, Pensioners, Government entities and Seamen and Veteran plans, were not sufficient to pay for claims and expenses. The initial premium rates were understated due to untimely information used when setting the premium rates. The deficit levels at June 30, 2007 and June 30, 2008, are essentially due to higher claims losses incurred during those respective years. For the year ending June 30, 2009 and June 30, 2010, the accumulated deficit improved by $5.8 million and $3.5 million respectively, as a result of adequate premium levels, favorable overseas claim experience and expenses offset by unfavorable local claim experience.

Net Income/ (loss)

For the year ending June 30, 2010, the Company recorded a net income of $3.5 million ($5.8 million for the year ending June 30, 2009). The main drivers of the profitable positions in both years are due to adequate premium levels for the insured risk undertaken, favorable overseas claim experience and expenses, offset by unfavorable local claim experience.

In developing premium rates, assumptions have to be made on expense levels, claim cost levels, reinsurance, etc. Table 3 illustrates the sources of profitability compared with the premium pricing level assumptions for 2009/10.

Table 3
Net Income Sources ($ millions)

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

Underwriting income/(loss) by business category

Underwriting income is calculated by subtracting from premium any expenses directly attributable to a business category such as: claims, claims administration fees and segregated fund fees. No allocation is made for "overhead-type" expenditure. Table 4 and Figure 1 illustrates the reported underwriting income/(loss) by business category for the years ended June 30, 2010, 2009, 2008, 2007, and 2006, respectively.

Table 4
Underwriting income/(loss) by business category

	For financial year ending				
Business Category	**June 30, 2010**	**June 30, 2009**	**June 30, 2008**	**June 30, 2007**	**June 30, 2006**
Civil servants	2,982,834	5,115,346	(1,156,747)	(1,661,008)	(2,805,045)
Pensioners	2,156,190	2,744,903	(542,002)	(3,373,003)	(575,743)
Government entities	(147,080)	(22,030)	(390,966)	(231,950)	269,918
Seamen and veterans	(1,046,847)	(895,060)	762,385	(171,195)	344,946
SHIC plans	327,099	(391,117)	217,701	94,596	(310,186)
Administrative services only(1)	149,548	191,761	127,337	118,472	102,657
Total Underwriting income/(loss)	4,421,744	6,743,803	(982,292)	(5,224,088)	(2,973,453)
Administrative expenses	948,797	1,018,357	1,251,029	1,145,591	1,020,775
Investment and other income	32,992	83,660	73,766	102,560	92,445
Net income/(loss)	**3,505,939**	**5,809,106**	**(2,159,555)**	**(6,267,119)**	**(3,901,783)**

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

For the financial years ending June 30, 2006, June 30, 2007, and June 30, 2008, the reported underwriting losses were $3.0 million, $5.2 million, and $1.0 million respectively. For the year ending June 30, 2009 and June 30, 2010 the Company realized an underwriting income of $6.7 million and $4.4 million respectively.

For each year ending June 30, 2007 through 2010, the movement in provision for claims incurred (change in reserves) included a reserve release from the prior year. Table 5 below, presents each year's underwriting income/(loss) and net income/(loss), on a "hindsight" basis (i.e. adjusting for the reserve release in the appropriate year).

Table 5
"Hindsight" Underwriting income/(loss)

	For financial year ending June 30th				
	2010	**2009**	**2008**	**2007**	**2006**
Reported Underwriting Income/(Loss)	**4,421,744**	**6,743,803**	**(982,292)**	**(5,224,088)**	**(2,973,453)**
Adjustments					
Reserve development recorded for prior year (+= unfavorable)	(2,251,471)	(1,421,149)	(1,850,178)	(616,792)	-
Hindsight reserve development	n.a.	2,251,471	1,421,149	1,850,178	616,792
"Hindsight" Underwriting income/(loss)	**2,170,273**	**7,574,125**	**(1,411,321)**	**(3,990,702)**	**(2,356,661)**
Administrative expenses	948,797	1,018,357	1,251,029	1,145,591	1,020,775
Investment income	32,992	83,660	73,766	102,560	92,445
"Hindsight" Net income/(loss)	**1,254,468**	**6,639,428**	**(2,588,584)**	**(5,033,733)**	**(3,284,991)**

Up until the year ending June 30, 2008, the majority of the historical underwriting losses were attributed to Group 30100 which comprises of Civil Servants, Pensioners and Government Entities. The driving factor in these underwriting losses was higher claims utilization and costs which has been outpacing the premium income increases. However, the year ending June 30, 2009 shows a different picture. As a result of an increase in the 2008/9 and 2009/10 premium

rates to better match the insurance risks undertaken, the Company has realized an underwriting income in each of those years.

Figure 1
Underwriting income/loss by business category

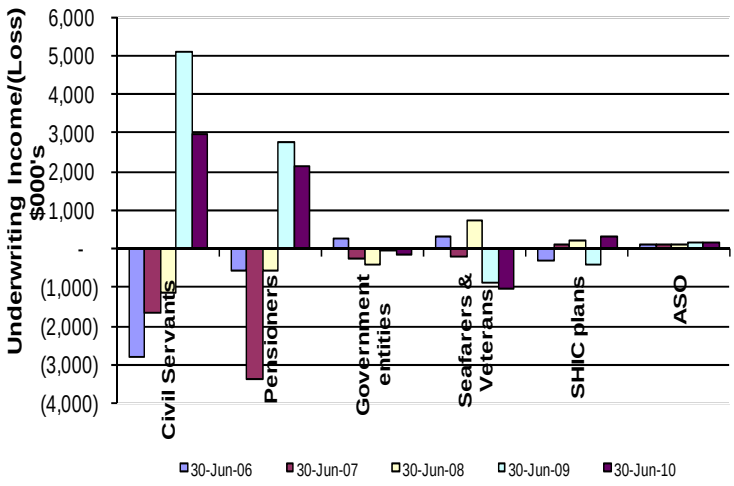


Figure 1 illustrates the historical underwriting ending June 30, 2010, Group 30100 (Civil Servants, Pensioners, and Government entities) shows a combined underwriting income of $5.0 million, compared to $7.8 million the year before. The underwriting income in 2008/9 and 2009/10 were made possible due to premium increases and the favorable overseas claim experience. Since inception (2004/5) to the current year 2009/10, the Company has realized cumulative underwriting losses on Group 30100 of $3.0 million, mainly attributed to the Pension segment. The underwriting loss from the Seamen and Veterans plan (group 30101 – local benefits only), has deteriorated from $0.9 million from the previous year, to a loss of $1.0 million for the year ended June 30, 2010, despite a premium rate increase of 18% in 2009/10. The negative performance is due to higher local claims as a result of higher utilization and higher CIHSA rates (see section entitled "Cayman Islands Health Services Authority" on page 6). The cumulative underwriting losses for this Group since inception amount to $2.2 million.

Throughout the comparative period 2006 to 2010, the Standard Health Insurance Contract ("SHIC") plans have essentially been breaking even, with cumulative losses during the five year period of $62k. Contrary to the Group 30100 plan (Civil Servants, Pensioners and Government entities), which contains no cost sharing, the SHIC plan is more of a traditional insurance plan in that it includes coinsurance, deductibles and the requirement for individuals to pay premium. These factors greatly influence utilization and keep costs down. Although CIHSA's rates have increased, the SHIC premium rates have remained at the same levels since March 1, 2007. In the next fiscal year, the government will require all insurers to offer as a minimum an enhanced SHIC plan which would result in premium increases to match the additional benefits offered.

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

Enrollment Statistical Data

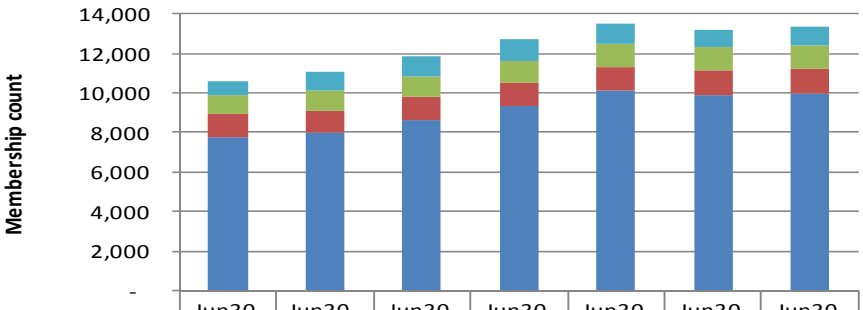
Since the inception of CINICO in 2004 and up to June 30, 2008, membership (enrollees and dependants) has been on an upward trend. Membership has increased by 5% from June 30, 2004 to 11,077 as at June 30 2005; 7% to 11,896 as at June 30, 2006; another 7% to 12,730 as at June 30, 2007; and a further 6%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

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

For the year ending June 30, 2010, overall membership continued its historical upward trend, although at a slower pace. Membership grew by just over 1% to 13,375 members from the prior year. The growth rates by group varied. Membership in the SHIC plan (Group 30104) and the Seaman and Veterans (Group 30101) plan showed the highest growths from the prior year at 12% and 6% respectively. The growth in the SHIC plans is attributed to two successful open enrolment periods, in addition to enhanced processes to keep terminations low. Membership in the Civil Servant plan remained relatively flat compared with the prior year due to the continuation of the hiring freeze introduced the year earlier. Membership in the Indigent plan surprisingly retracted by 1% to 1,179 members, and the growth in the Pension category (former Civil Servants reaching retirement age) continued as with prior years, at 2% versus 4% the year earlier.

Figure 2 below illustrates the membership count by group for each of the years ending from June 30, 2004 to June 30, 2010. Group 30100 accounts for approximately 74% (75% for the prior year) of the total membership as at June 30, 2010.

Figure 2
Membership Count by Group



	Jun30, 2004	Jun30, 2005	Jun30, 2006	Jun30, 2007	Jun30, 2008	Jun30, 2009	Jun30, 2010
Group 30104	653	945	1,054	1,104	1,021	868	976
Group 30102	1,001	999	1,023	1,124	1,179	1,197	1,179
Group 30101	1,179	1,116	1,190	1,185	1,225	1,221	1,290
Group 30100	7,742	8,017	8,629	9,317	10,086	9,899	9,930

The demographics haven't changed much since the prior year as shown in Table 6. Overall females represent 55% of covered members and males represent 45%. The highest portion of female membership is in Group 30102 at 66%. The average age of members is 41.7 years; females 42.7 years and males 40.5 years. Table 6 shows further demographics by group.

Table 6
Average age and Female/Male Ratio

ENROLLMENT STATISTICS				
GROUP		Female	Male	Total
30100 - Non Pension	Count	52%	48%	8,183
	Average age	30.8	30.6	30.7
30100 - Pension	Count	56%	44%	1,747
	Average age	55.1	54.4	54.8
30101 - S&V	Count	50%	50%	1,290
	Average age	68.1	72.4	70.2
30102 - Indigents	Count	66%	34%	1,179
	Average age	65.6	52.7	61.2
30104 - Elderly	Count	60%	40%	267
	Average age	71.9	71.4	71.7
30104 - Impaired	Count	59%	41%	162
	Average age	42.8	39.1	41.3
30104 - Low Income	Count	69%	31%	547
	Average age	42.3	38.9	41.2
Total Count		55%	45%	13,375
Total Average age		42.7	40.5	41.7

Premium Income

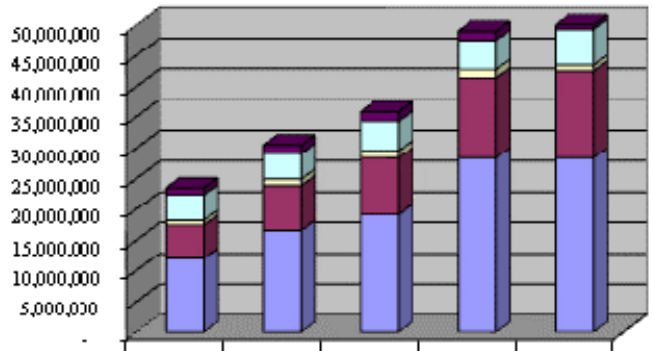
For each of the financial years prior to July 1, 2009, the premium rates for Group 30100 (Civil Servants, Pensioners, and Government Entities) were invoiced based on one weighted average rate per employee regardless of the number of dependants they may have had. From July 1, 2009, the Company has adopted the industry practice of billing different rates of premium based on coverage type, i.e. single, couple, employee and children, and family coverage types, which better reflects the insurance risk undertaken.

Figure 3 illustrates the gross premium income by business segment. Approximately 85% of gross premium income is attributed to Group 30100 (Civil Servants, Pensioners and Government Entities), compared with 87% the year before.

Overall gross premium income increased from $23.5 million at June 30, 2006 to $30.5 million at June 30, 2007 to $35.8 million at June 30, 2008, and to $49.0 million at June 30, 2009. A majority of the increase in the gross premium for the year ending June 30, 2009 is attributed to Group 30100 Civil Servant and Pensioner premiums as a result of premium rate increases of 44% and 32% respectively, which were necessary to correct historical premium rate deficiencies and made in line with the increasing insurance risk undertaken by the Company.

Besides premium rate increases, membership growth (illustrated in Figure 2) was also a contributing factor to the historical increases in gross premium up to June 30, 2008.

Figure 3
Gross Premium Income by Business Category



	Jun30, 2006	30-Jun-07	30-Jun-08	30-Jun-09	30-Jun-10
SHIC plans	1,104,904	1,393,309	1,526,330	1,466,200	1,534,943
Seamen and Veterans	4,175,155	4,152,433	4,725,875	4,795,541	5,904,465
Government Entities	783,376	1,034,749	1,146,002	1,376,906	965,059
Pensioners	5,405,449	7,320,721	9,278,826	12,981,186	14,071,671
Civil Servants	12,008,636	16,566,896	19,118,473	28,387,864	28,390,418

For the year ending June 30, 2010, gross premium income increased by a modest 4% to $50.9 million mainly bolstered by an increase in the gross premium from the Pensioners and Seamen & Veterans ("S&V") groups which both increased by $1.1 million each, from the prior year. These increases were attributed to premium rate increases of 6% and 18% for the Pensioner and S&V groups respectively, in addition to membership growth rates of 2% (Pensioners) and 6% (S&V). Premium income from Government entities retracted by $0.4 million to $1.0 million, due to the termination of the National Roads Authority's coverage midway through the 2008/9 fiscal year. At $28.4 million and $1.5 million respectively, premium income from the Civil Service plan and the SHIC plans remained relatively the same as the prior year.

Reinsurance

The Company has maintained its reinsurance coverage on Group 30100 overseas claims for five years. The premium rate remained the same as in the prior year ($6.32 per member per month ("PMPM")), with coverage benefits as follows:

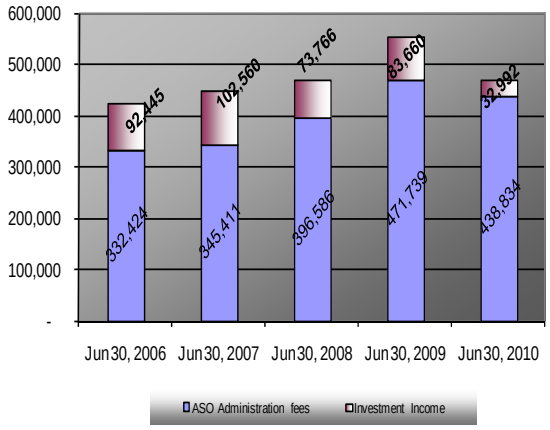
- Reinsurer's liability not to exceed an amount equal to US$5,000,000 less the Company's retention of US$ 609,756 relating to any one covered person per the agreement term.
- Company retention of US$ 609,756 per covered person.
- Reinsurer aggregate loss limit – US$10.5 million (no aggregate loss limit for the year ending June 30, 2009).
- Profit commission sharing component of 35%.

Overall, reinsurance premium decreased to $745,536 for the year ended June 30, 2010 from $766,565 in the previous year. The 3% decrease is attributed to the lower membership levels.

Other Income

The Company earns two types of other income, ASO fees and investment & other income. Figure 4 illustrates the composition of other income for the years ending June 30, 2006, June 30, 2007, June 30, 2008, June 30, 2009 and June 30, 2010.

Figure 4
Other Income



ASO fees decreased by $32,905 to $438,834 for the year ended June 30, 2010. The decrease is attributed to a lower per member per month rate ("PMPM"), from $33 to $31, and slightly lower membership. Despite PMPM rate increases from the Third Party Administrator, the Company was able to lower its PMPM rate due to other administration expense savings. The variations in ASO fees in prior periods are related to changes in membership and PMPM rates.

For the year ended June 30, 2010, investment & other income decreased to $32,992 from $83,660 a year earlier, despite increases in the funds invested. The decrease is attributed to significantly lower interest rates.

Claims Losses

Claims Incurred

Table 7 illustrates incurred claim losses by group and type (local versus overseas) for the years ending June 30, 2009 and June 30, 2010. The incurred claims are presented on a "hindsight basis". For example, for the year ended June 30, 2009, the original reported claims were $40.8 million which included claims incurred and paid during the period, in addition to an estimate for claims incurred but not reported (claim provision). In hindsight, and one year later, the 2008/9 claim reserve showed an unexpected favorable development of $2.3 million (net of reinsurance), so that the final 2008/9 claims incurred are $38.5 million compared with the reported figure of $40.8 million. Therefore, on a comparative basis, claims for the year ended June 30, 2010 increased by $7.6 million to $46.1 million from "hindsight" claims incurred of $38.5 million the year before. (For an explanation of the 2008/9 favorable reserve development of $2.3 million, refer to the "reserve liabilities" section on page 8).

Table 7: Incurred Claim Losses (000's)

	2008/9			2009/10	Inc/(dec)
	Reported	Hindsight adjustment*	Final	Reported	
Local					
Group 30100	20,020	(684)	19,336	23,330	3,994
Group 30101	5,597	(299)	5,298	6,995	1,697
Group 30104	796	(94)	702	682	(20)
	26,413	**(1,077)**	**25,336**	**31,007**	**5,671**
Overseas					
Group 30100	13,666	(942)	12,724	14,509	1,785
Group 30101	-	-	-	-	-
Group 30104	714	(232)	482	609	127
	14,380	**(1,174)**	**13,206**	**15,118**	**1,912**
Total					
Group 30100	33,686	(1,626)	32,060	37,839	5,779
Group 30101	5,597	(299)	5,298	6,995	1,697
Group 30104	1,510	(326)	1,184	1,291	107
	40,793	**(2,251)**	**38,542**	**46,125**	**7,583**
* net of reinsurance adjustment of $249k					
Prior year adjustment in reserves*	(1,421)			(2,251)	
ALAE reserve	204			(135)	
Claim losses per f/s	39,576			43,739	

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

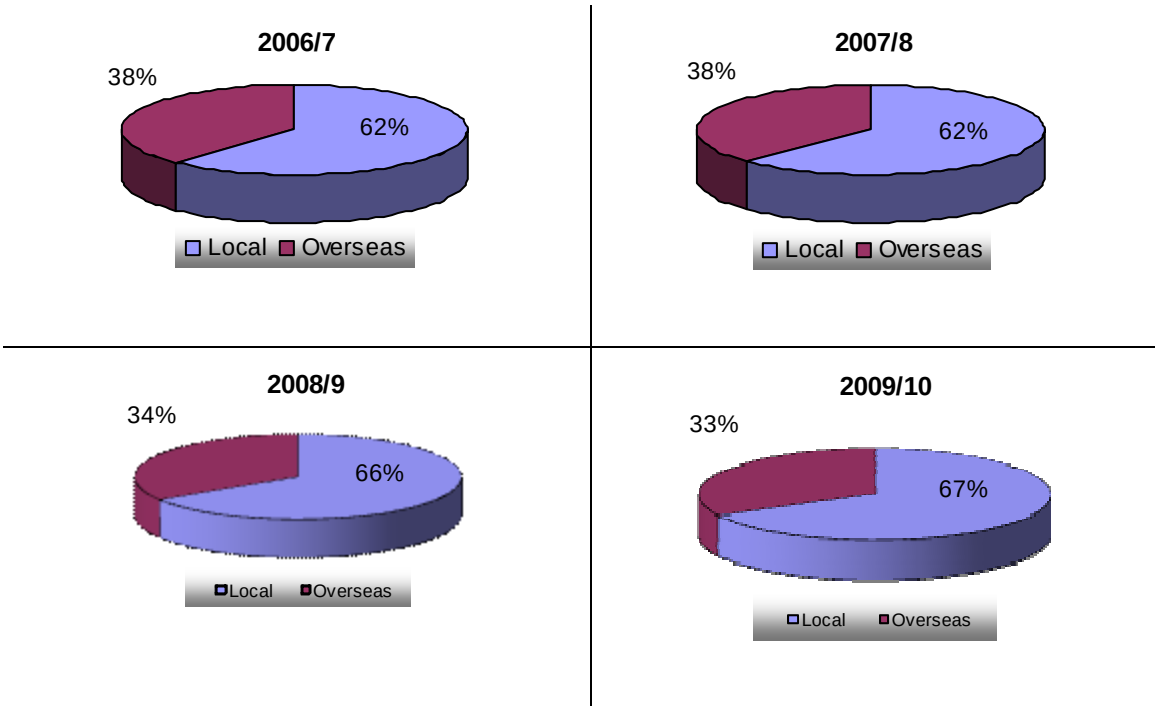
As illustrated in Table 7, incurred claim losses for the year ending June 30, 2010, increased by $7.6 million (20%) to $46.1 million from last year. The majority of the increase ($5.7 million) is attributed to Group 30100 and Group 30101 local incurred losses which increased by 21% and 32%, respectively, from the previous year. As mentioned previously, effective January 1, 2009, CIHSA revised their charge master, adding additional service codes and in some cases increasing rates. For the year ending June 30, 2009, this impacted the claim costs for six months (January 1, 2009 to June 30, 2009), however the full impact (12 months) of the charge master was felt in the 2009/10 year, thus explaining the increase in local claim costs from the prior year. Additionally, the increase in local claim costs is attributed to higher utilization of services. Local claim costs for Group 30104 retracted by 3% for the year ending June 30, 2010; however this is offset by a 26% increase in higher overseas claim losses for this group.

Table 7 also shows that total overseas incurred claims increased from $13.2 million to $15.1 million (net of repricing fees and estimated reinsurance recovery) for the year ending June 30, 2010. A further analysis of the types of overall overseas referrals is provided in Table 8 on page 22 and Table 9 on page 23.

The pie charts shown in Figure 5, illustrate the breakdown of claims incurred between local and overseas claims for the years ending June 30, 2007, 2008, 2009 and 2010.

For the year ending June 30, 2005 (chart not shown) the local claims incurred, as a percent of the overall claims, was 71%. During the following two years (2006/7 and 2007/8), the share of local claims retracted to 62%. The decreasing share of local claims during these years was driven by an increase in overseas referrals resulting from a low level of on-island specialists, and an increasing amount of large-dollar-value complicated cases being referred overseas (i.e. premature babies which could easily cost in excess of US$ 1.0 million). Other factors driving higher overseas costs are: improvements in technology and new costlier procedures, medical inflation in the United States; new and costly pharmaceutical drugs; educated membership; physician practice patterns leading to more tests and prescribing more drugs; general health of the population; and over-utilization, as a result of a plan design which is not cost prohibitive to the members and is free.

Figure 5
Local versus Overseas Incurred Claims



For the year ending June 30, 2009 and June 30, 2010, the local claims share has increased to 66% and 67% respectively. Although the overseas claims continued to climb ($1.9 million over 2008/9 as illustrated in Table 7), and the fundamental causes for growth in overseas referrals remain the same, the local claims costs have grown by a greater amount as shown in Table 7 ($5.7 million over 2008/9). The local claims have grown largely as a result of increases in the CIHSA rates and increases in Group 30101's utilization of local medical services.

Per Member Per Month Incurred Claims Costs

Per member per month ("PMPM") incurred claim costs show the average monthly incurred claims per insured member (enrollee or dependant). It is a better way to analyze overall claims costs and trends, as the analysis is not influenced by changes in membership since it is on a per member basis. Figures 6 through 9 illustrate the PMPM monthly average incurred claim costs for the years ending June 30, 2006, 2007, 2008, 2009 and 2010, for Groups 30100 – Non Pensioners (i.e. active Civil Servants), Group 30100 – Pensioners (retired Civil Servants), 30101 – Seamen and Veterans, and 30104 – SHIC plans. The graphs provide a further breakdown of these costs between local and overseas.

Figure 6

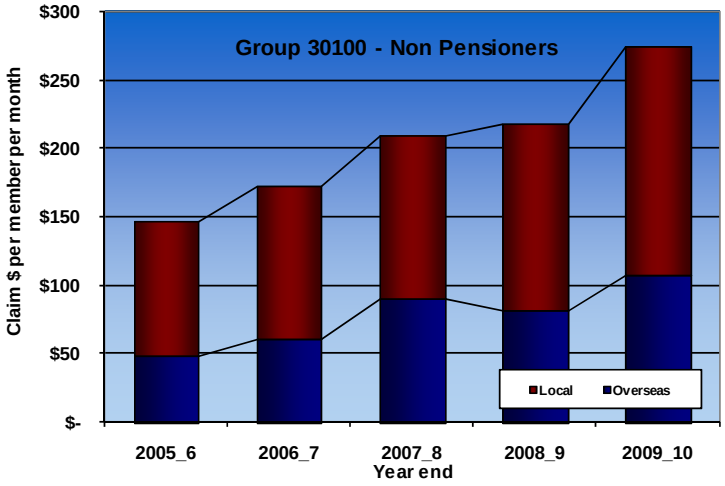


Figure 6 illustrates that the PMPM costs for the Non Pensioners category within Group 30100 continues to climb year after year. PMPM costs have increased from $147 during 2005/6 to $274 for the year ending June 30, 2010, representing an increase of 86% in four years. A large portion of the increase has occurred in the overseas costs. The drivers of the overseas claims were discussed in the previous section on page 19. The largest one-year increase in both local and overseas PMPM costs occurred in 2009/10, with increases over the prior year of 22% and 32% respectively.

Figure 7 shows the PMPM costs for the Pensioners category within Group 30100. It also illustrates a rising trend of costs year after year, with a 27% increase in PMPM costs for the year ending June 30, 2010. Much of this increase is attributed to overseas PMPM costs. The drivers of the increased costs are the same as discussed in Figure 6.

Figure 7

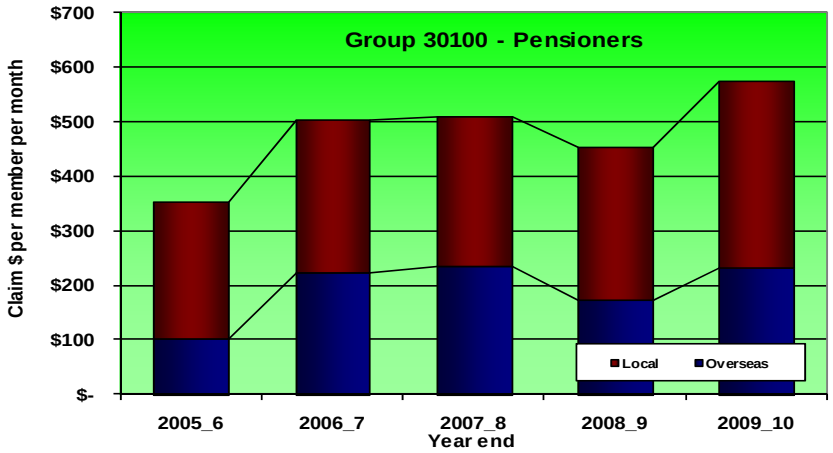
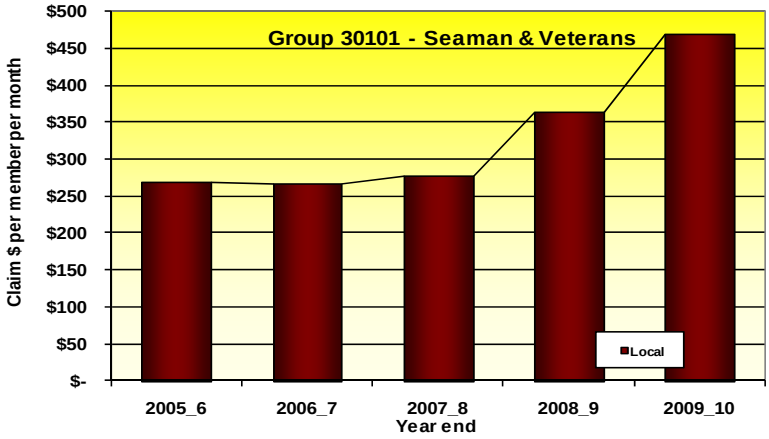


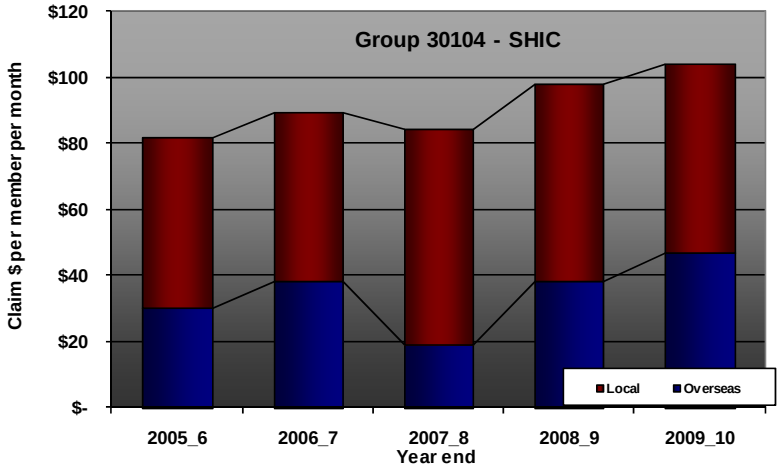
Figure 8 shows that the PMPM costs for the Seamen & Veterans group (30101), has been fairly steady between $268 and $278 for the years 2005/6 through 2007/8. However, due to the increase in CIHSA's rates, and higher utilization due to group demographics, the monthly average PMPM costs climbed by 31% to $364 for the 2008/9 year and increased a further 29% so that the monthly average PMPM costs for the 2009/10 year was $470.

Figure 8



The SHIC plan (Group 30104) membership is relatively small compared with the other groups thus there could be some volatility in PMPM costs year after year. Despite this, as noted with the other groups, overseas claims have been trending upwards with the exception of the 2007/8 year. This group was also affected by the higher CIHSA rates in 2008/9 and 2009/10.

Figure 9



Overseas Claims

Table 8 (Overseas Referral Statistics) provides comparisons on the Company's insured groups' (Group 30100 and 30104) overseas claims by year. The driving factor behind the increase in overseas incurred claims, as shown in Table 7 and Figures 6, 7 and 9, is the 8 % increase in overseas referrals over the prior year and the 43% increases in large overseas cases (cases over US$ 200k). The number of referrals continued to increase despite the relatively flat increase (0.3%) in Group 30100's membership as shown in Figure 2 on page 14 (the Civil servants and Government entity category experienced a 0% decrease, offset by a 2% increase in the Pension category). The number of overseas referrals has kept climbing over the last several years due to the low levels of in-house local specialists, and other factors as discussed on page 19. For the year ending June 30, 2010, the estimated average cost per referred case increased to US$21,000 from US$18,000 the year before.

As illustrated in Table 8, the number of large cases (greater than US$200,000) in 2009/10 has increased by 44%. The dollar amount attributed to these cases has dramatically increased by 43%, from $3.9 million in 2008/9 to $5.5 million in 2009/10. Out of the thirteen large cases in 2009/10, two related to carcinoma/oncology totaling US$2.0 million, and two related to the diagnosis of hematology/infectious disease totaling $1.2 million. The remaining $2.3 million related to diagnoses of cardiovascular, gastrointestinal, musculoskeletal, neurologic and bariatric. Table 8 also shows that there was a significant decrease in neonate (premature baby) cases. In 2009/10, the CIHSA has expanded their technical staffing and capital equipment within their neonatal intensive care unit. Non complicated premature baby cases of twenty six weeks and later would not be required to be sent overseas.

Table 8
Overseas Referral Statistics
(Dollar amounts stated in $USD)

	2008/9[1]	2009/10	% increase/(decrease)
Overall cases referred	729	784	8%
# of cases > US$ 200k	9	13	44%
$ amount of cases> US$200K	3,862,997	5,523,003	43%
Neonates cases (part of cases >US$200K)	10	1	-90%
$ amount - neonates	1,166,425	22,352	-98%

Top 5 Largest diagnosis

2008/9[1]			2009/10		
Diagnosis	***# of cases***	***$***	***Diagnosis***	***# of cases***	***$***
1. Carcinoma/Oncology	70	2,904,506	1. Carcinoma/Oncology	89	3,702,337
2. Cardiovascular	127	2,213,786	2. Cardiovascular	177	3,451,203
3. Musculoskeletol	144	2,042,706	3. Neurologic	95	1,888,391
4. Renal	31	1,374,463	4. Musculoskeletal	122	1,559,029
5. Neurologic	109	1,226,668	5. Hematology/ Infectious Disease	7	1,223,054
	481	***9,762,129***		***490***	***11,824,014***

(1) The statistics reported in Table 8, 9 and Figure 10 relate to; the number, estimated cost, and provider allocation of overseas referrals. The 2008/9 statistics as reported in the 2008/9 annual report, are slightly different than the "hindsight" 2008/9 statistics for the following reason. At the time an overseas referral is made, the case management company (CMN) provides details on the cost, diagnosis, and provider. These estimates are made prior to any medical services being undertaken and are used to manage the case on a cost effective basis. The estimates are also updated on a monthly basis. It is not unusual that when an overseas referral is closed (i.e. all medical services related to the referral have occurred), that the estimate is different from the final outcome. It is also not unusual for an insured person who is referred overseas to decide not to go, thus causing slight differences in the reported number of overseas referrals.

Table 8 also reveals the top 5 overseas diagnosis referrals, on a number of cases basis, and a US dollar basis. It is not surprising that the diagnoses of carcinoma/oncology, cardiovascular neurologic and musculoskeletal continue to be in the top five year after year. This is due to the on-island limited capacity of technology, specialists, and infrastructure required to service these types of cases. CIHSA is addressing the lack of specialists and capital investment in medical equipment. In the near future, CIHSA would be recruiting a cardiologist and oncologist which should decrease the amount of future referrals related to cardiovascular and carcinoma/oncology.

Table 9 breaks down the number of overseas case referrals by diagnosis type, for each year from the year ending June 30, 2006, through June 30, 2010. Overseas referrals increased by 20% and 8% for the year ending June 30, 2009 and June 30, 2010 respectively. The overall growth of referrals from the year ended June 30, 2006 to June 30, 2010 was 126%, and can be attributed to the same reasons discussed on page 19. The largest statistically-significant growth in referrals over the prior year occurred in the diagnoses of cardiovascular and carcinoma/oncology, which experienced increases of 39% and 27% respectively. Overall, the top three number of referrals (Cardiovascular, Musculoskeletal, and Neurologic) represent 50% of the overall 2009/10 referrals on a case basis. Increasing the number of local specialists and the amount of capital resources in these three fields would certainly assist in lowering overall claim costs.

Table 9 also illustrates that there has been a 283% increase in the number of bariatric referrals, which deal with the causes, prevention, and treatment of obesity. There are a few common surgical procedures that provide immediate results and as a result, as members become better educated, it is forecasted the number of bariatric referrals for subsequent years would increase immensely. However, this is not necessarily a bad thing, as addressing obesity would lead to decreases in cases relating to cardiovascular, diabetes, kidney failure, etc.

Table 9
Number of Overseas Referrals by Diagnosis

Diagnosis	2005/6	2006/7	% increase over previous year	2007/8	% increase over previous year	2008/9(1)	% increase over previous year	2009/10	% increase over previous year
Bariatric						6		23	283%
Carcinoma/Oncology	40	49	23%	77	57%	70	-9%	89	27%
Cardiovascular	59	86	46%	117	36%	127	9%	177	39%
Conn Tissue/Auto Immune		3		20	567%	18	-10%	16	-11%
Dental						1		0	
Ear, nose and throat	8	3	-63%	4	33%	6	50%	16	167%
Endocrine	14	10	-29%	27	170%	36	33%	34	-6%
Eye	14	34	143%	45	32%	40	-11%	50	25%
Gastrointestinal	19	25	32%	44	76%	53	20%	46	-13%
General Physical	2	7	250%	4	-43%		-100%	4	
Hematology/Infectious Disease	4	6	50%	12	100%	10	-17%	7	-30%
Integumentary/Dermatology	3	4	33%	4	0%	7	75%	9	29%
Liver				3		1	-67%	5	400%
Musculoskeletal	95	90	-5%	88	-2%	144	64%	122	-15%
Neonate	1	5	400%	8	60%	10	25%	1	-90%
Neurologic	43	66	53%	89	35%	109	22%	95	-13%
Other	15	1	-93%		-100%	17		17	0%
Psychosocial/psychiatric/mental		4		3	-25%	1	-67%	2	100%
Pulmonary	10	7	-30%	16	129%	19	19%	24	26%
Renal		19		26	37%	31	19%	28	-10%
Reproductive	8	9	13%	14	56%	8	-43%	6	-25%
Transplant	3	9	200%	1	-89%	8	700%	7	-13%
Urinary	9	7	-22%	8	14%	7	-13%	6	-14%
	347	**444**	**28%**	**610**	**37%**	**729**	**20%**	**784**	**8%**

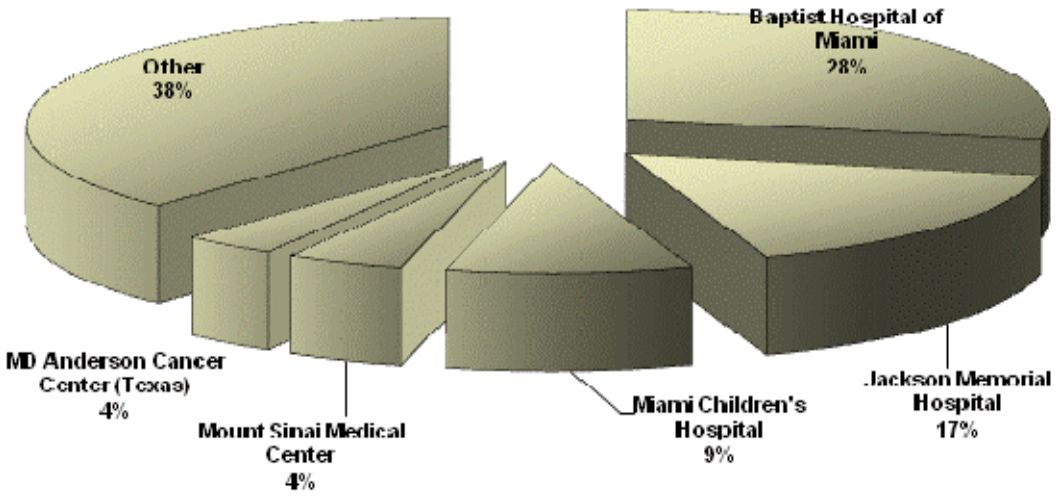
(1) See note 1 under Table 8.

Figure 10 illustrates the relative incurred claim dollars by the top five overseas providers for the years ending June 30, 2010 and June 30, 2009. The selection of the provider is determined by the referring physician, and to some extent CMN and the patient. The patient history with an overseas provider is also considered when a referral is made.

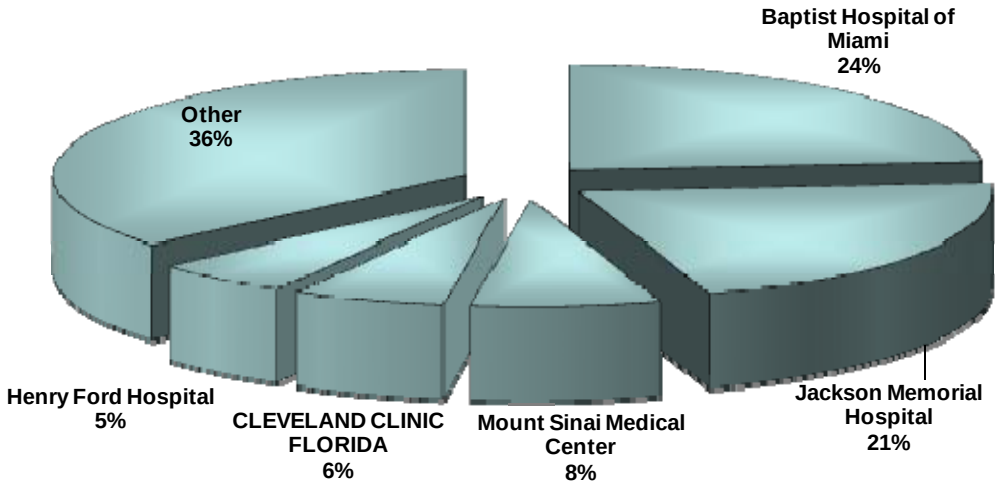
During the year 2009/10, the Baptist Hospital of Miami ("BHM") continued to account for the highest share of the overseas claims dollar at 28%. The referrals to BHM vary by diagnosis, but a majority of these relate to carcinoma/oncology, cardiovascular, and gastrointestinal. Furthermore, BHM receives the majority of overall referrals (32% for 2009/10 versus 27% for 2008/9) for carcinoma/oncology and cardiovascular. Jackson Memorial Hospital ("JMH") accounted for a 17% share of the overseas referrals by claims dollar. Most of the referrals to JMH are catastrophic in nature and thus a high dollar amount. On a number of cases basis, JMH only accounts for 6% of the referrals. Miami Children's Hospital ("MCH") accounted for 9% of the overseas referrals claims dollar which included one large carcinoma/oncology case.

During the 2008/9 year, BMH accounted for a 24% share of the overseas claims dollar; Jackson Memorial Hospital was a close second, and earned 21% of the overseas expenditure. The largest part of BMH's referrals was for carcinoma and cardiovascular cases. JMH's referrals mainly consisted of neonate and neurologic cases.

Figure 10
Top 5 overseas providers' % share of claims dollar



2008/9[1] - Provider Share



Reinsurance

As mentioned earlier, the Company maintains reinsurance coverage on overseas claims for Group 30100, relating to any one covered person exceeding US$609,756 in claims up to US$5,000,000, per the agreement term.

For the year ended June 30, 2010, there were three claims which exceeded the reinsurance policy's retention limit. Based on current estimates, the Company expects a reinsurance recovery of $1.3 million on these claims. This is offset by a $0.3 million decrease in reinsurance recoverable from the prior year, such that the net reinsurance expense recovery for the year ending June 30, 2010 is $1.0 million. The 2008/9 reinsurance recovery included estimates for two neonate cases which eventually turned out favorably and thus not reaching the retention limit.

The reinsurance premium paid for the year ended June 30, 2010 amounted to just over $0.7 million, thus the Company will realize a $0.6 million savings on its reinsurance program this year.

On a "hindsight" basis, for the year ending June 30, 2009, there were two cases which have breached our reinsurance trigger point. The total recoverable amounts totaled $72k.

Further claim analysis

Figures 11 through 14 provide an illustration of the 2009/10 paid claims by membership subgroup, correlating these subgroups with their relative share in total claims paid. A graph is shown for each plan (Group 30100 – Non Pensioners, Group 30100 – Pensioners, Group 30101 – Seamen and Veterans (local claims only), and Group 30104 – SHIC plans).

The "bar", within each the graph represents the average claims paid for a certain percentage of total members (y axis), and the "line" within each graph illustrates the percentage of overall claims paid, this group of members represents. As an example, Figure 11 shows that the Company paid an average of $117,797 in claims for 1% of members within Group 30100 – Non Pensioners. The total claim payments for this subgroup of members represented 37% of the overall claim paid for the entire Group. On the other end, approximately 75% of the membership in Group 30100 – Non Pensioners only account for 15% of the claims. These are the low cost members.

All of the graphs in Figures 11 to 14 are for local and overseas claims with the exception of Group 30101 (Seaman and Veterans), which only includes local claims as the Company does not insure the overseas component.

Figure 11: Group 30100 – Non Pensioners

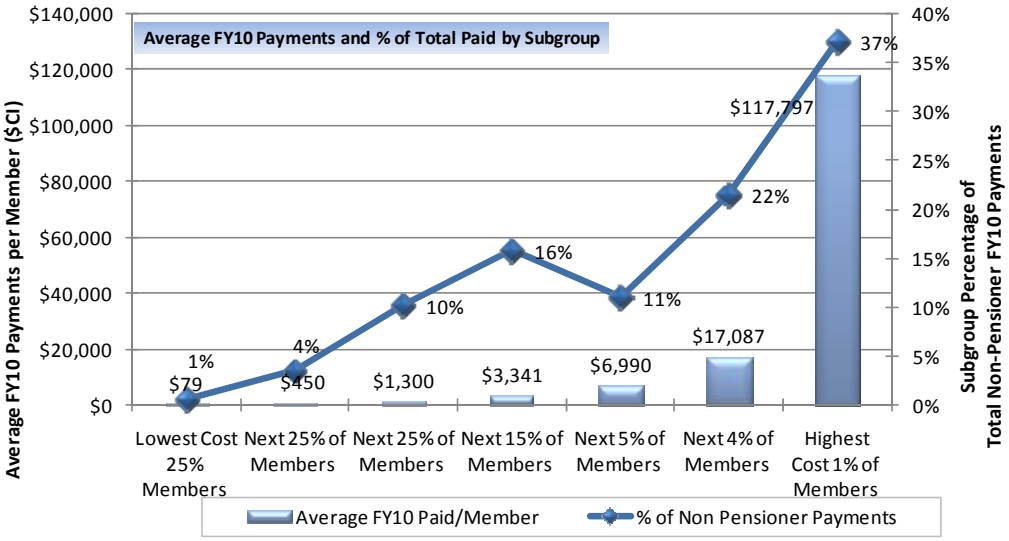


Figure 12: Group 30100 – Pensioners

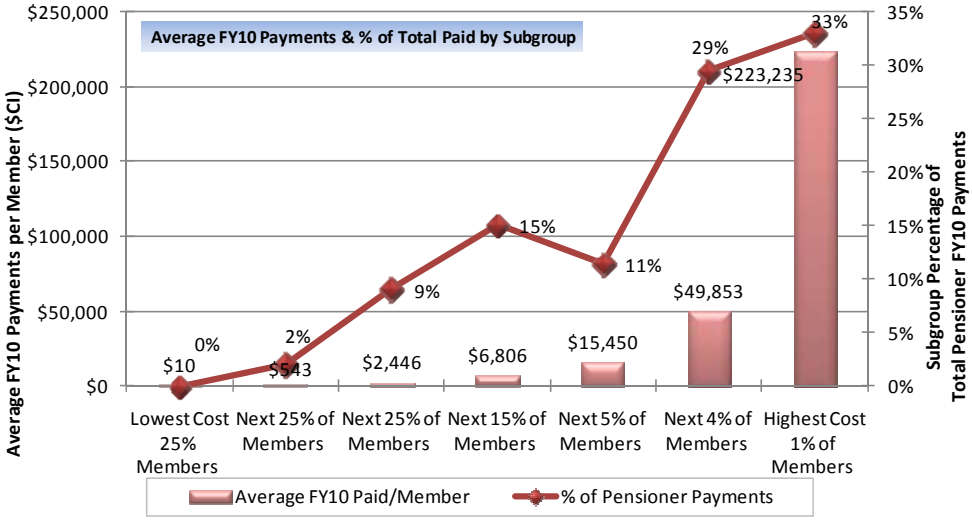


Figure 13: Group 30101 – Seaman & Veterans

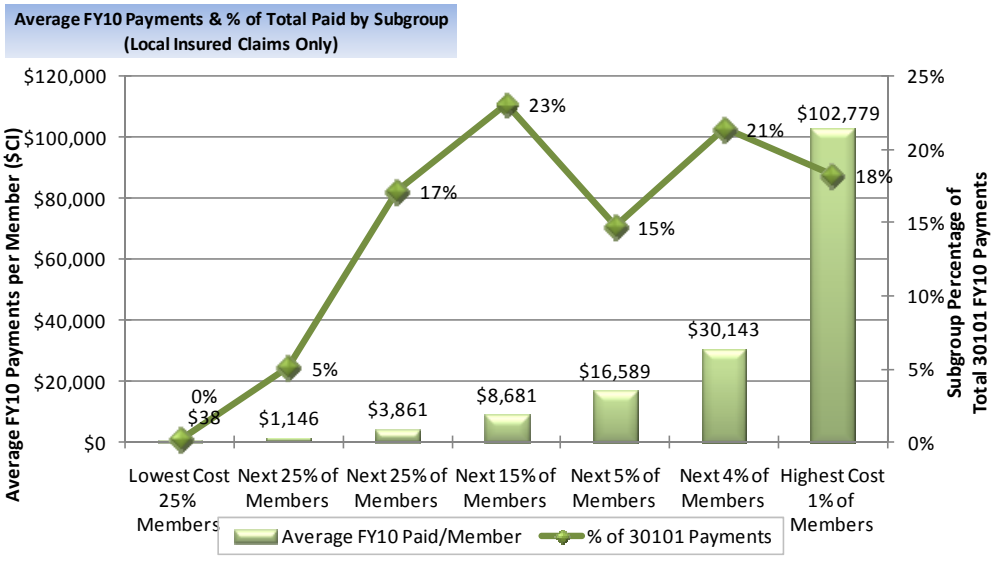
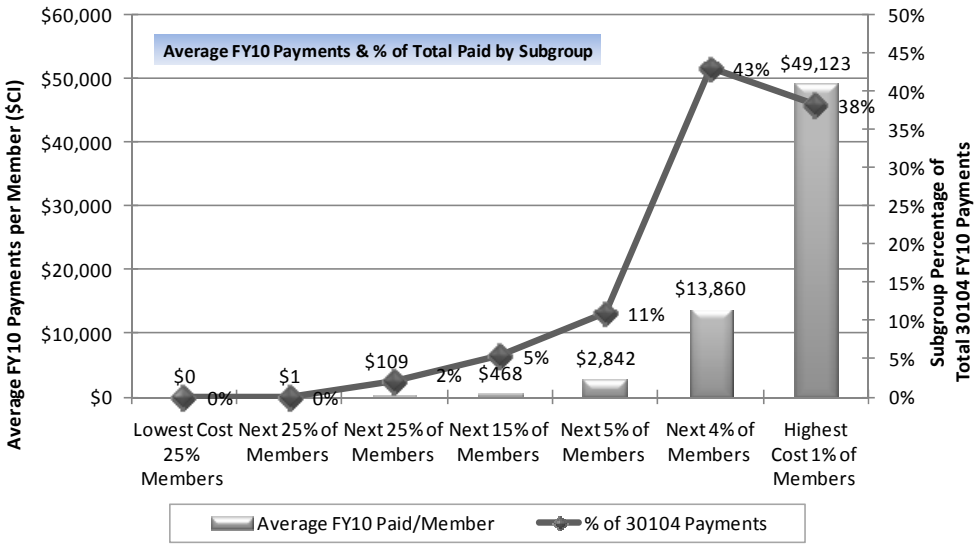


Figure 14: Group 30104 – SHIC plans



Essentially all the graphs show the same pattern, that is, five percent of the members account the majority of the costs within the group. These high cost members have catastrophic events or chronic illnesses. Concentrating efforts on those members with chronic illnesses would yield the best outcome in lowering future claim costs so as to avoid potential costly catastrophic illnesses. This will be achieved with active case management and addressed with the Company's strategic plan.

Figures 15 through 16 provide the historical overseas claim cost development for all Groups (both insured and ASO) as follows:

Figure 15: Top 3 diagnoses – quarterly (US$)
Figure 16: Historical Group claim costs by diagnosis (US$)

Observations of the statistics reported in Figures 15 to 17:

- Figure 15 – The top 3 diagnosis since the third quarter 2005 are Cardiac & Pulmonary, Neoplasm (carcinoma/oncology), and Stroke & Neurologic. As is evident by the graph's trend line, all referrals for these diagnoses are trending upwards. Cardiac & Pulmonary has the largest growth. The large increase in Cardiac & Pulmonary costs in the first calendar quarter of 2010 is due to a higher than average number of referrals in addition to some large case costs.
- Figure 16 - With the exception of group 30104, all groups share the same characteristics as far as the major diagnoses are concerned.

Figure 15
Overseas Top Three Diagnoses – Quarterly (US$)

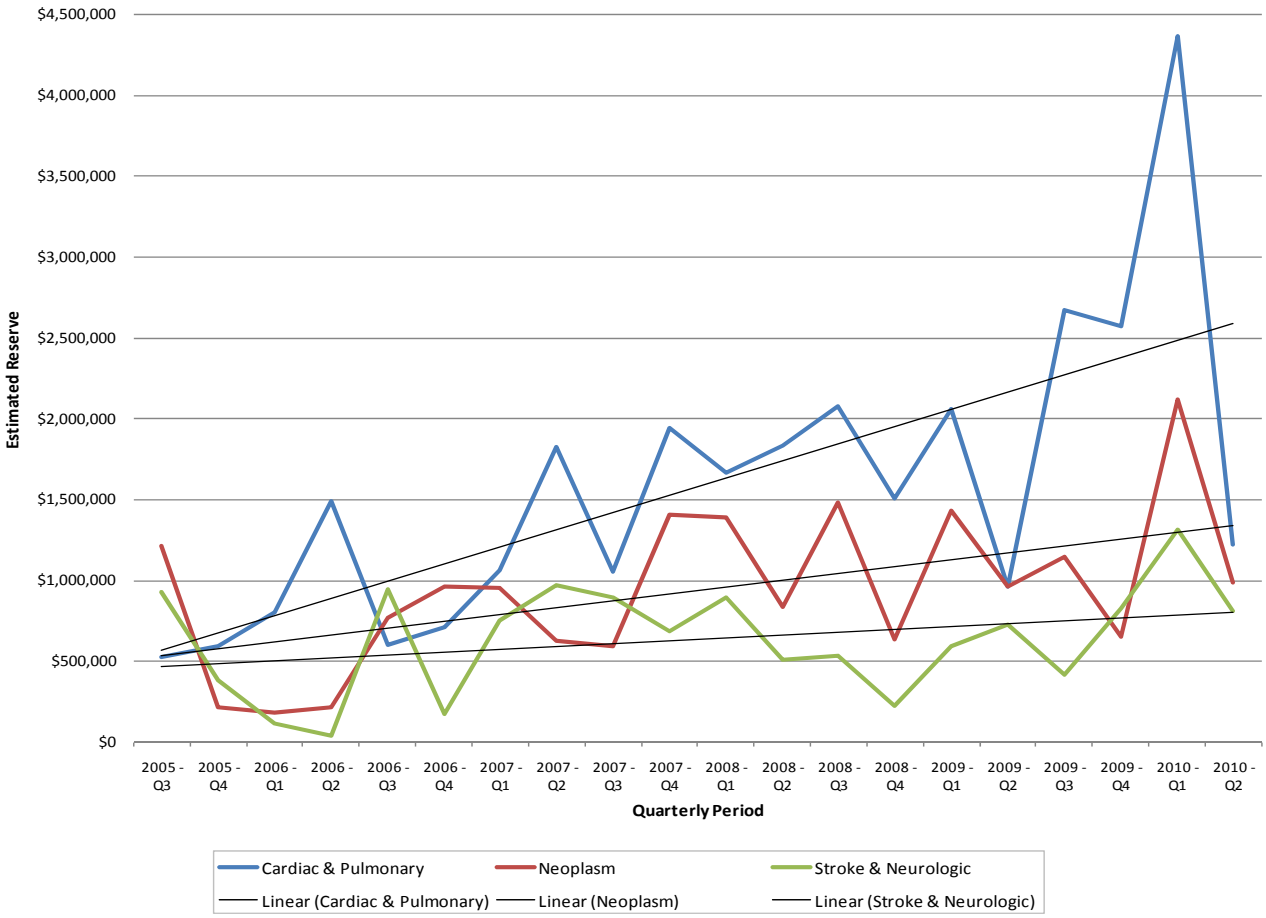
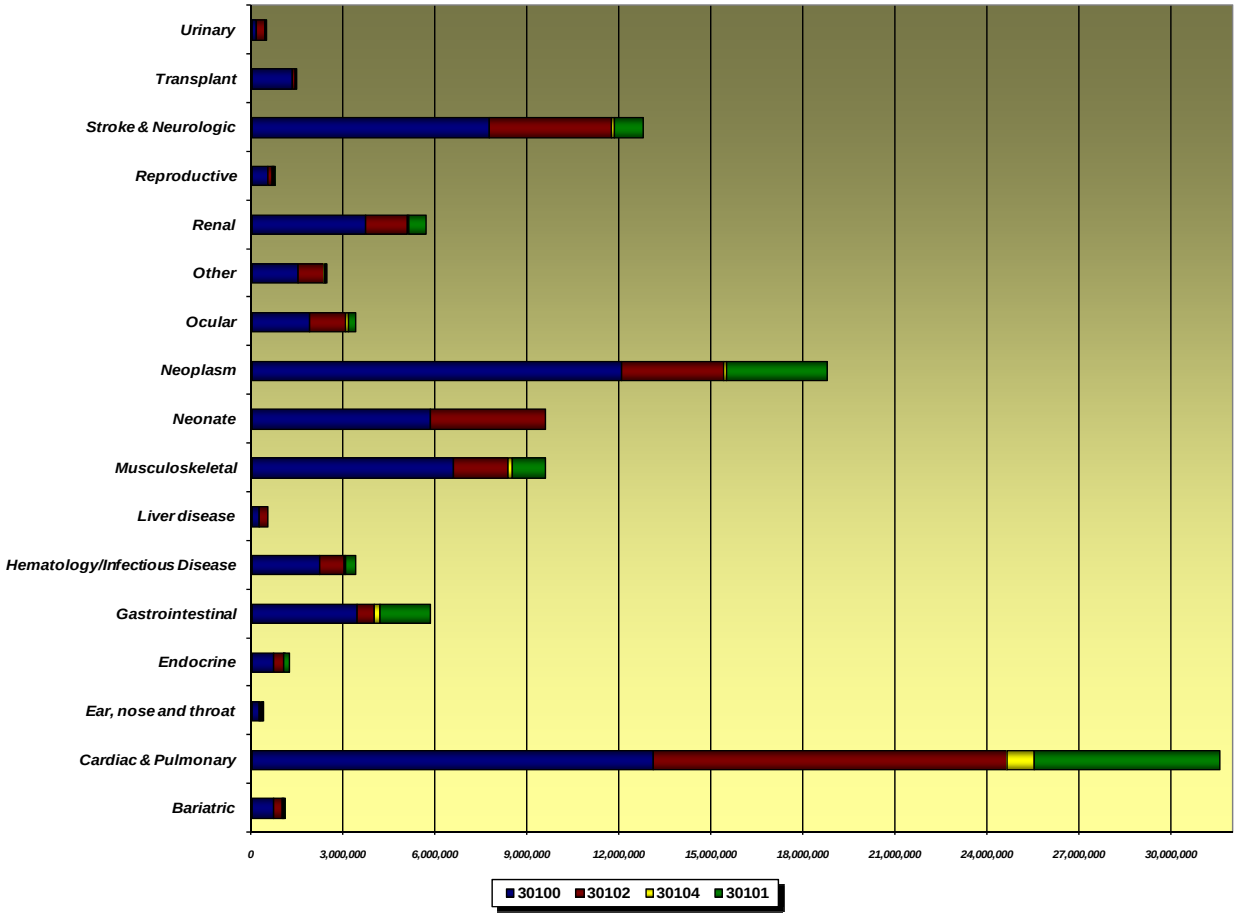


Figure 16
Overseas Historical Group Claim Costs by Diagnosis US$



Loss ratios

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

Figures 17 and 18 illustrate loss ratios by business segment for the years ending June 30, 2009, and June 30, 2010. The 2008/9 loss ratios are on a hindsight basis meaning that they have been adjusted for any prior year reserve adjustments (see Table 7).

Figure 17 illustrates that Group 30100's (CIV, Pen & Gov) and Group 30104's 2008/9 loss ratios were 75%, 73%, 84% and 81% respectively, which are considered fairly good. The favorable loss ratios were due to good claim experience, and 2008/9 premium rate increases for Group 30100. As a result these business segments reported a profit. However, the loss ratio for Group 30101 was 110%, signaling insufficient premium to cover claim cost thus leading to underwriting losses as reported in Table 4.

Figure 17
2008/9 Premium, Claims, Loss Ratios

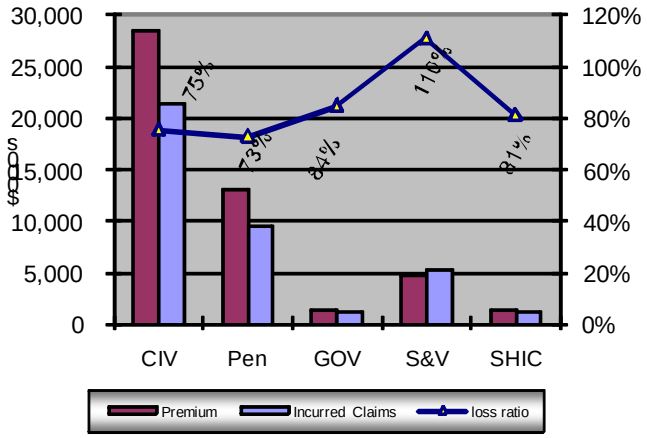
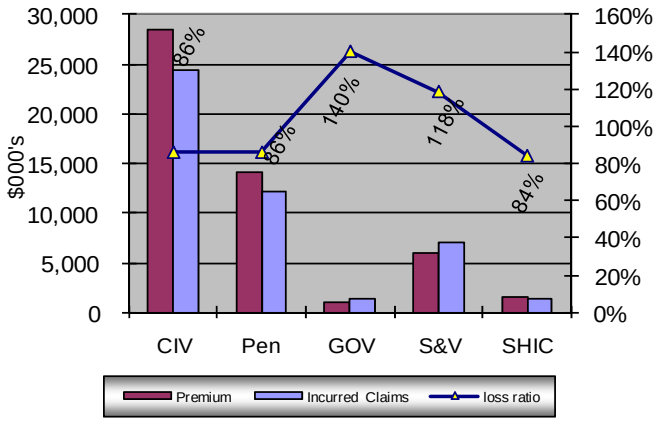


Figure 18
2009/10 Premium, Claims, Loss Ratios



As illustrated in Figure 18, the loss ratios of all business segments deteriorated from the prior year as claims growth outpaced premium increases. However, the loss ratios of the Civil Servant, Pensioner, and SHIC plans of 86%, 86% and 84%, were still low enough to enable the Company to record an underwriting profit in these segments. The loss ratio for Group 30101 continues to be over 100% despite a premium rate increase of 18% effective July 1, 2009. It is evident that the premium rate increase was not enough as PMPM claim costs as reported in Figure 8 increased by 29% thus leading to an underwriting loss.

Expenses

Expenses can be divided into two categories: 1) expenses directly attributed to a business segment, such as claims administration fees and contributions to segregated insurance fund, and; 2) administrative expenses.

Expenses attributed to a business segment represents 72% of overall expenditures for the year ending June 30, 2010 compared to the previous year of 70%. This increased share is due to higher fees from our third party administrator which came into effect on January 1, 2009, coupled with a decrease in administration expenses.

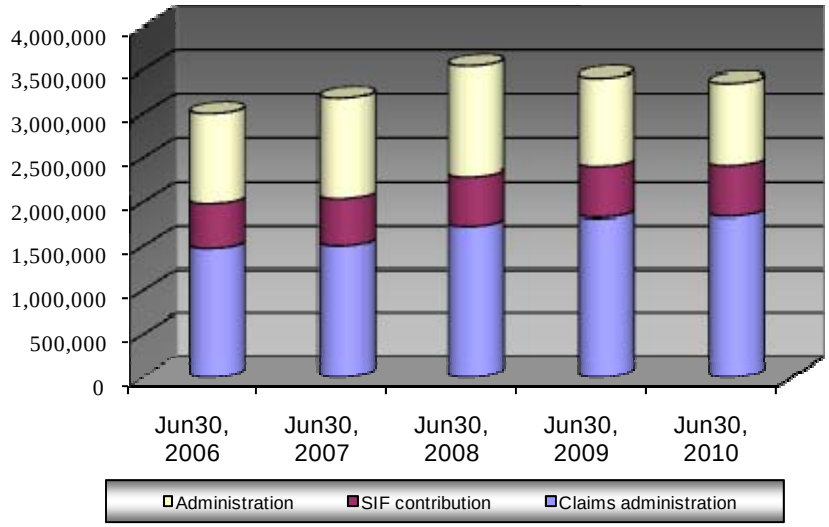
Administration expenses alone decreased a further 7% in 2009/10 after a 19% reduction in the prior year. The reductions are due to cost saving measures in various expense items, in addition to the vacant CEO post.

Overall expenditure retracted by $61k, to $3.3 million for the year ended June 30, 2010. Prior year expenses were $3.4, $3.5, $3.2, and $3.0 million for the years ending June 30, 2009, June 30, 2008, June 30, 2007 and June 30, 2006, respectively.

Total expenditure is 6.6% and 7% of premiums earned for the year ending June 30, 2010 and June 30, 2009, respectively. The industry average for similarly sized companies in the USA is approximately 15%.

Figure 19 illustrates overall expenses by category.

Figure 19
Expenses by category



SUMMARY OF OWNERSHIP PERFORMANCE TARGETS

The ownership performance targets (as specified in schedule 5 in the Public Management and Finance Law 2001) for CINICO for the 2009/10 financial year are as follows.

Financial Performance

Financial Performance Measure	2009/10 Actual $	2009/10 Budget $	Annual Variance $
Revenue from Cabinet	19,927,842	19,699,413	228,429
Revenue from ministries, portfolios, statutory authorities and government companies	29,794,311	30,275,109	(480,798)
Revenue from other persons or organisations	873,693	1,263,103	(389,410)
Surplus/deficit from outputs	0	0	0
Other expenses	47,089,907	50,320,960	3,231,053
Net Surplus/Deficit	3,505,939	916,665	2,589,274
Total Assets	23,340,805	23,365,613	(24,808)
Total Liabilities	10,835,648	14,645,295	3,809,647
Net Worth	12,505,157	8,720,318	3,748,839
Cash flows from operating activities	4,890,959	2,756,444	2,134,515
Cash flows from investing activities	(10,405)	(21,000)	10,595
Cash flows from financing activities	0	0	0
Change in cash balances	4,880,554	2,735,444	2,145,110

Financial Performance Ratio	2009/10 Actual	2009/10 Budget	Annual Variance
Current Assets: Current Liabilities	215%	159%	56%
Total Assets: Total Liabilities	215%	160%	55%

Explanation of Variances

1. Other expenses lower than budget as 9/10 actual includes a $2.3 million actuarial reserve release due to favourable loss development than what was originally anticipated (see section “reserve liabilities” on page 8 of this annual report). In addition other administrative expense finished $0.5 million below budget.
2. Actual net surplus better than budget due to reserve release (note 1) in addition to better than anticipated overseas claims, expense savings, offset by higher local claims and revenues.
3. Total liabilities mostly contain actuarial liabilities (reserves). Total liabilities are better than budget due to lower reserves versus budget. In addition the budget assumes approximately $3.0 million in unearned accrued revenue for future periods also recorded as a receivable, whereas in 9/10. the accrual for future unearned revenue and receivable was not made due to changes in Ministry/Portfolio’s billing structure.
4. Net worth is better than budget due to a higher 9/10 opening position than forecasted in budget, in addition to a better than budget net surplus (see note 2).

Maintenance of Capability

Human Capital Measures	2009/10 Actual	2009/10 Budget	Annual Variance
Total full time equivalent staff	8	11	(3)
Staff turnover (%)	0%	0%	0%
Average length of service (Number) Senior management Professional staff Administrative staff	 5.8 5.8 4.7	 4.1 4.1 3.7	 1.7 1.7 1.0
Significant changes to personnel management system	Vacant CEO	CEO	N.A.

Physical Capital Measures	2009/10 Actual $	2009/10 Budget $	Annual Variance $
Value of total assets	23,340,805	23,365,613	(24,808)
Asset replacements: total assets	39%	57%	(18)%
Book value of depreciated assets: initial cost of those assets	10%	12%	(2)%
Depreciation: Cash flow on asset purchases	415%	216%	199%
Changes to asset management policies	NONE	NONE	N/A.

Major Capital Expenditure Projects	2009/10 Actual $	2009/10 Budget $	Annual Variance $
Furniture, PC, and website upgrade)	10,405	21,000	10,595

Explanation of Variances

1. Number of full time equivalent staff is lower than budget, as the CEO position continues to remain vacant in addition to two new hires for 9/10 which were not recruited due to the budget cuts.
2. Depreciation: Cash flow on asset purchases – CINICO's operations are not capital intensive. The budget assumed additional capital expenditure (furniture, computers, etc) for the vacant CEO post and new hires.

Risk Management

Key risks	Change in risk status from the previous year	Actions taken during 2009/10 to Manage risk	Financial Value of risk
Claim losses higher than what can be supported by revenues	None	Care Management Network Inc., engaged to manage and control overseas cases. CINICO to negotiate its own provider contracts and cut out costs of the "middle man". In addition to managing some overseas referrals in-house. Revision of overseas referral protocols and analysis of the CMO's role. Reinsurance arrangement in place to limit the Company's risk to large claims. Improvement of forecasts through predictive modelling.	Not quantifiable.
Incomplete or missing claims from our major provider, The Cayman Islands Health Services Authority (CIHSA)	Improvements made to HSA's timely filing, better coding, and new chargemaster.	Working with the Cayman Islands Health Services Authority to improve claim submission controls	Not quantifiable.
Changes in CIHSA's chargemaster driving up the cost of claims.	New CIHSA chargemaster in 2009	Although the increase has resulted in higher local claim expenses, management was able to offset this with favourable experience on the overseas claims	Not quantifiable

NOTE: The development of CINICO's premium rates for 2009/10 includes a 7% provision for the increase in the CIHSA chargemaster rates. Every attempt has been made to obtain a reasonable estimate for the increase however this was difficult as a) not enough claims data was available to estimate the true impact prior to calculating the 9/10 budget premium, b) CIHSA was not able to give a definite estimate or projection of the increase, c) the old and new chargemaster codes were not compatible making comparison very difficult.

Transaction	2009/10 Actual $	2009/10 Budget $	Annual Variance $
Equity Investments into *CINICO*	-	-	-
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.*	-	-	-
Remuneration Payments made to Senior Management	224,953	376,030	151,077

	2009/10 Actual $	2009/10 Budget	Annual Variance
Number of Senior Management	2	3	1

* The CEO resigned in August 2008 and the post has been vacant since.

STATEMENT OF OUTPUTS DELIVERED TO CABINET

The Company delivers two outputs to Cabinet; (1) CIN 1, the provision of health insurance for Seaman and Veterans and their dependants (local benefits only), and (2) CIN 2, the provision of health insurance for Civil Servant Pensioners and their dependants. The following is a summary of the performance of those outputs for the year ending June 30, 2010.

CIN 1	**Health Insurance for Seaman & Veteran**		
Description Payment of insurance premiums for Seaman & Veteran and their dependents for insurance coverage by CINICO.			
Measures	**2009/10 Actual**	**2009/10 Budget**	**Annual Variance**
Quantity			
• Total number of persons insured - premiums fully paid by Cabinet	1,225-1,279	1,124 - 1,183	(101)-(96)
• Total number of persons insured – premiums partially paid by Cabinet (Veterans)	19-22	20-30	1-8
Quality			
• All eligible Seamen, Veterans and their dependents are insured who met the definition under the Health Insurance Law	98-100%	98-100%	0
Timeliness			
• Insurance cards issued within 15 days of notification of eligibility	98-100%	98-100%	0
Location			
• Grand Cayman, Cayman Brac and Little Cayman	n/a	n/a	
Cost (of producing the output)			
• $393 per person insured per month (premiums fully paid by Cabinet)			
• $279 per person insured per month (Veteran premiums partially paid by Cabinet)			
Price (paid by Cabinet for the output)	**5,853,171**	**5,389,224**	(463,947)

Explanation of Variances

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

CIN 2	Health Insurance for Civil Servant Pensioners

Description

Provision of Health Insurance for Civil Servant Pensioners and their dependants

Measures	2009/10 Actual	2009/10 Budget	Annual Variance
Quantity			
Total number of insured persons (Insured = Enrollees + dependants).	1,702-1,749	1,711-1,797	9-48
Total number of enrollees	923-970	930-977	7-7
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			
Monthly Premium rate multiplied by coverage enrollee type Monthly Premium rates: Single-$785, Couple-$1,570, Single & children - $1,177, Family - $1,962.	**14,074,671**	**14,310,189**	235,518

Explanation of Variances

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

BOARD OF DIRECTORS, MANAGEMENT AND COMMITTEES OF THE BOARD

During the 2009/10 fiscal year, the following members served as directors, management and committees of the Board.

Board of Directors

Mr. Dale Crowley – Chairman up to June 30, 2010
Mr. Scott Cummings – Chairman effective July 1, 2010
Mr. Seamus Tivnan – Deputy Chairman
Dr. Ruthlyn Pomares – Member
Mr. Armando Ebanks – Member
Mr. John Douglas – Member up to June 30, 2010
Mr. Godfrey Mclean – Member effective July 1, 2010
Mr. Carl Brown – Member
Mrs. Darlee Ebanks - Member
Mrs. Jennifer Ahearn (Chief Officer to the Ministry of Health) - Member

Management

Vacant
President/Chief Executive Officer
CINICO

Frank Gallippi
Chief Financial Officer
CINICO

Carole Appleyard
General Manager
CINICO

Committees of the Board

Audit/Finance Committee
Frank Gallippi
Seamus Tivan* (Director)
Carrol Cooper (CFO Ministry of Health)
CINICO CEO (currently vacant)

Risk and Appeals Committee

Carole Appleyard*
Dr. Ruthlyn Pomares (Director)
CINICO CEO (currently vacant)
Dr. Gerald Smith (Chief Medical Officer)
Dr. John Vlitos (Chief Dental Officer)

** denotes Committee Chairperson*

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Appendix

Audited Financial Statements

For the year ending 30 June 2010

Appendix

Audited Financial Statements

For the year ending 30 June 2010

Financial Statements of

Cayman Islands National Insurance Company Ltd.

June 30, 2010

Cayman Islands National Insurance Company Ltd.

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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 National Insurance Company Ltd. in accordance with the provisions of the *Public Management and Finance Law (2005 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 (2005 Revision).*

As Chairman 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 National Insurance Company Ltd.

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

The financial statements fairly present the statement of balance sheets, statements of income and comprehensive income, statements of cash flows and statement of changes in shareholder's equity for the financial year ended 30 June 2010.

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

(a) are completely and reliably reflect the financial transactions of Cayman National Insurance Company Limited for the year ended 30 June 2010;
(b) fairly reflect the financial position as at 30 June 2010 and performance for the year ended 30 June 2010;
(c) comply with International Public Sector Accounting Standards and International Financial Reporting Standards under the responsibility of the International Public Sector Accounting Standards Board and the International Accounting Standards Board respectively.

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

Mr. Scott Cummings
Chairman
Cayman Islands National Insurance Company

October 11, 2010

Mr. Frank Gallipi
CFO
Cayman Islands National Insurance Company

October 11, 2010

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Cayman Islands

AUDITOR GENERAL'S REPORT

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

I have audited the accompanying financial statements of the Cayman Islands National Insurance Company Ltd. (the "Company"), which comprise the balance sheet as at June 30, 2010, the statement of comprehensive income, statement of cash flow and the statement of changes in shareholder's equity for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 2 to 21 in accordance with the provisions of section 60(a) of the *Public Management and Finance Law, (2005 Revision).*

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

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

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

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

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying my opinion, I draw attention to Note 3.2 of the financial statements. At June 30, 2010, the Government of the Cayman Islands (the Company's sole shareholder) owed the Company $8,195,551 in respect of premiums and ASO claims and fees receivable. Approximately $4.3 million of this amount relates to the 2008/09 fiscal year. The settlement of this 2008/09 amount requires the approval of a supplementary budget by the Legislative Assembly of the Cayman Islands, which has not been approved at the date of issuance of these financial statements.

Alastair Swarbrick, MA (Hons), CPFA
Auditor General

October 11, 2010
Cayman Islands



Cayman Islands National Insurance Company Ltd.

Balance sheets
Amounts stated in Cayman Islands dollars

	Note	June 30, 2010	*June 30, 2009*
Assets			
Cash and cash equivalents	4	$ 13,744,588	*$ 8,864,034*
Premiums receivable	5	1,429,230	*6,839,328*
ASO claims and fees receivable		6,767,721	*4,904,022*
Other receivables and other assets	6	1,372,488	*448,511*
Fixed assets	7	26,778	*59,575*
Total assets		23,340,805	*21,115,470*
Liabilities			
Accounts payable	8	14,457	*5,270*
Premiums received in advance		81,254	*70,049*
Accruals and other liabilities	9	266,742	*215,077*
Claims payable		1,602,779	*733,666*
Provision for claims incurred	11	8,870,416	*11,092,190*
Total liabilities		10,835,648	*12,116,252*
Shareholder's equity			
Share capital	12	1	*1*
Share premium	12	2,999,999	*2,999,999*
Additional paid-in-capital	13	20,435,840	*20,435,840*
Accumulated deficit		(10,930,683)	*(14,436,622)*
Total shareholder's equity	22	12,505,157	*8,999,218*
Total liabilities and shareholder's equity		$ 23,340,805	*$ 21,115,470*

Director — Date: October 11, 2010

Director — Date: October 11 2010

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

Cayman Islands National Insurance Company Ltd.

Statements of Comprehensive Income
For the year from July 1 to June 30
Amounts stated in Cayman Islands dollars

	Note	June 30, 2010	*June 30, 2009*
Income			
Premium income	14	$ 50,869,556	*$ 49,007,697*
Reinsurance premium	14	(745,536)	*(766,565)*
ASO Fees	15	438,834	*471,739*
Total underwriting income		50,562,854	*48,712,871*
Investment and other income	19	32,992	*83,660*
Total income		50,595,846	*48,796,531*
Expenses			
Claims paid	10	46,993,814	*37,041,762*
Reinsured claims	11	(1,032,735)	*(442,694)*
Movement in provision for claims incurred	11	(2,221,774)	*2,976,935*
Contributions to segregated insurance fund	16	567,810	*572,070*
Claims administration and other expenses		1,833,995	*1,820,995*
Total underwriting expenses		46,141,110	*41,969,068*
Administrative expenses	17	948,797	*1,018,357*
Total expenses		47,089,907	*42,987,425*
Net income for the year		3,505,939	*5,809,106*
Other comprehensive income for the year		-	-
Total comprehensive income for the year		$ 3,505,939	*$ 5,809,106*

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

Cayman Islands National Insurance Company Ltd.

Statements of Cash Flows
For the year from July 1 to June 30
Amounts stated in Cayman Islands dollars

	NOTE	June 30, 2010	June 30, 2009
Cash flows from operating activities			
Net income/(loss) for the year		$ 3,505,939	*$ 5,809,106*
Adjustments for non-cash items			
Depreciation	7	43,202	*43,713*
Premiums receivable		5,410,098	*(3,640,394)*
ASO claims and fees receivable		(1,863,699)	*(2,742,149)*
Other receivables and other assets		(923,977)	*634,433*
Accounts payable		9,187	*(8,908)*
Premiums received in advance		11,205	*(3,734)*
Accruals and other liabilities		51,665	*(3,645,193)*
Claims payable		869,113	*(2,114,551)*
Provision for claims incurred		(2,221,774)	*2,976,935*
Net cash flows from operating activities		4,890,959	*(2,690,742)*
Cash flows from investing activities			
Purchase of fixed assets	7	(10,405)	*(24,791)*
Net cash flows from investing activities		(10,405)	*(24,791)*
Cash flows from financing activities			
Receipt of additional paid-in-capital	13	-	*3,000,000*
Net cash flows from financing activities		-	*3,000,000*
Net cash inflow for the year		4,880,554	*284,467*
Cash and cash equivalents at beginning of the year		8,864,034	*8,579,567*
Cash and cash equivalents at end of year		$ 13,744,588	*$ 8,864,034*

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

Cayman Islands National Insurance Company Ltd.

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

	Share capital	Share premium	Additional paid-in-capital	Accumulated deficit	Total Shareholder's Equity
Year ended June 30, 2009					
Balance, beginning of year	$ 1	$ 2,999,999	$ 17,435,840	$(20,245,728)	$ 190,112
Comprehensive income:					
Net income for year	-	-	-	5,809,106	5,809,106
Total comprehensive income	-	-	-	5,809,106	5,809,106
Transactions with shareholder:					
Additional paid-in-capital received	-	-	3,000,000	-	3,000,000
Total transactions with shareholder	-	-	3,000,000	-	3,000,000
Balance, end of year	$ 1	$ 2,999,999	$ 20,435,840	$(14,436,622)	$ 8,999,218
Year ended June 30, 2010					
Comprehensive income:					
Net income for the year	-	-	-	3,505,939	3,505,939
Total comprehensive income	-	-	-	3,505,939	3,505,939
Balance, end of year	$ 1	$ 2,999,999	$ 20,435,840	$(10,930,683)	$ 12,505,157

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

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 as a wholly owned Company of the Government of the Cayman Islands and the principal activity is the provision of health insurance for Government insureds including civil servants, pensioners, other Government entities, seamen & veterans and their dependents ("Government Insureds"), as well as residents of the Cayman Islands who have low income, impaired health status, or who are elderly ("Private Insureds"). CINICO employees are also insured by the Company. The Company also provides Administrative Services Only ("ASO") for indigents and advance patients. ASO is also provided for Seafarer and Veteran overseas benefits which came into effect July 1, 2007.

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

The Company's registered office is at Cayman Centre, George Town, Grand Cayman. At June 30, 2010, the Company employed 8 people (8 people at June 30, 2009).

2 Accounting policies

These financial statements are prepared on the historical cost basis and in accordance with International Financial Reporting Standards ("IFRS"), as defined by International Accounting Standards ("IAS") 1, and International Financial Reporting Interpretations Committee ("IFRIC") interpretations.

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

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

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

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

2 Accounting policies (continued)

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

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

Claims
Claims paid and outstanding claims are recorded based on claims reported to the Company by its third party administrator and case manager and includes amounts for all losses reported but not settled and loss adjustment expenses. The Company records its estimated liability gross of any amounts recoverable under its own reinsurance. Recoverable amounts, under the reinsurance contract, if any, are estimated and reported separately as assets. The reinsured portion, if any, of provision for claims incurred is estimated in a manner consistent with the estimation of the provision for claims incurred for losses on the reinsured policies.

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

Premiums
Premiums are accounted for on a pro-rata basis over the periods covered by the insurance policy. Premiums for privately insured persons are payable monthly in advance on the first day of the month. Premiums for Government insured persons are payable monthly in advance on the last day of the month prior to that being insured. As a result, at the end of any given month, no amounts for unearned premiums are required to be recognized. Premiums received in advance are deferred and included in Premiums received in advance in the balance sheet. Reinsurance premiums ceded are similarly recognized on a pro-rata basis based on the contractual premium rate and number of insureds covered under the reinsurance policy.

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

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

Disclosures about fair value of financial instruments
With the exception of balances in respect of insurance contracts, 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 the expected useful lives of these assets. The following depreciation rates have been estimated by management to approximate the expected useful life of each class of assets:

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

The assets' useful lives are reviewed at each balance sheet date and adjusted where appropriate.

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

2 Accounting policies (continued)

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

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

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

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

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

2.1 Changes in IFRS

A) Amendments to published standards effective July 1, 2009:

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

IAS 1 (revised) – Presentation of Financial Statements (revised and effective January 1, 2009) - results in a new requirement that all changes in equity arising from transactions with owners in their capacity as owners (i.e., owner changes in equity) are presented separately from non-owner changes in equity. In order to do this, an entity will no longer be permitted to present components of comprehensive income (i.e., non-owner changes in equity) in the statement of changes in equity. Instead, a new "statement of comprehensive income" will be required. Comparative information has been represented so that it is in conformity with the Standard.

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

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

IFRS 3 and IAS 27 (revised and effective July 1, 2009) – the most significant amendments are that acquisition related costs as part of a business combination will now be recognised as an expense in the statement of comprehensive income when incurred and not as goodwill. The contingent consideration must also be recognised and measured at fair value at the acquisition date. The amendment to IAS 27 requires that changes in a parent's ownership interest in a subsidiary that does not result in a loss in control should be accounted for within equity. The amendments has not impacted the Company as there were no business combinations after the effective date.

2 Accounting policies (continued)

2.1 Changes in IFRS (continued)

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

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

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

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

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

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

IFRS 7 - Financial Instruments: Disclosures (amended and effective from January 1, 2009). These amendments require enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. These amendments have not impacted the Company as at June 30, 2010 as there are no financial instruments carried at fair value as of this date. However, the Standard may impact the Company on a go-forward basis should it acquire financial instruments.

IAS 38 – Intangible assets (amended and effective for periods beginning after July 1, 2009) – clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful lives. The amendment is not expected to have an impact on the Company as there are no intangible assets.

IFRIC 17 - "Distributions of Non-Cash Assets to Owners" (effective for periods beginning on or after July 1, 2009) clarifies how to measure distributions of assets, other than cash, when an entity pays dividends to its owners. The interpretation states that 1) a dividend payable should be recognised when appropriately authorised, 2) it should be measured at the fair value of the net assets to be distributed, and 3) the difference between the fair value of the dividend paid and the carrying amount of the net assets distributed should be recognised in profit or loss. This interpretation is not expected to impact the Company as it does not distribute non-cash assets to shareholders.

IFRIC 18 - Transfers of Assets from Customers (effective for periods beginning after July 1, 2009) – provides guidance on how any entity should treat items of property, plant and equipment from its customers or cash received from customers for the acquisition or construction of property, plant and equipment. This interpretation is not expected to impact the Company as it does not accept transfers of property, plant and equipment from its customers nor does it receive cash from customers for the acquisition or construction of property, plant and equipment.

2 Accounting policies (continued)

2.1 Changes in IFRS (continued)

B) Relevant standards and amendments issued prior to June 30, 2010, but not effective until future periods:

IAS 1 - Presentation of Financial Statements (amended and effective for periods beginning after January 1, 2010) – provides clarification that the potential settlement of a liability by an issue of equity is not relevant in classifying the liability as current or non-current. The amendment is not expected to have a material impact on the Company.

IAS 24 - Related party disclosures (amended and effective for periods beginning after January 1, 2011) - simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. This amendment may impact the disclosures required in the financial statements, but the impact thereof is yet to be assessed.

IFRS 2 - Share-based Payment (amended and effective for periods beginning January 1, 2010) – incorporates IFRIC 8, "Scope of IFRS 2" and IFRIC 11, "IFRS 2 – Group and treasury share transactions", the amendments also expand on guidance in IFRIC 11 to address the classification of group arrangements. The amendment is not expected to have an impact on the Company as it does not have share-based payments or a group arrangement.

IFRS 5 – Non-current assets held for sale and discontinued operations (amended and effective for periods beginning after January 1, 2010) - specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. The amendment is not expected to have a material impact on the Company.

IFRS 9 – Financial instruments (effective for periods beginning January 1, 2013) – addresses classification and measurement of financial instruments and replaces portions of IAS 39. Financial instruments can only measured at amortized cost or fair value. Equity securities can only be recorded at fair value. An entity can record unrealized and realized gains or losses in other comprehensive income on an instrument by instrument basis and the election to do so is at initial recognition and this election is irrevocable. Dividend income on these equity securities can be recorded in profit and loss. Debt securities can only be recorded at amortized cost if the objective is to hold financial assets for the collection of contractual cash flows and the contractual cash flows represent solely payments of principal and interest, otherwise debt securities must be carried at fair value. An entity can still designate a financial instrument at fair value through profit and loss – however, this is an irrevocable election.

This statement will impact the Company, should it acquire any financial instruments that are carried at fair value, and the Company will assess the classification and measurement of its financial instruments on adoption of the standard prior to 2013, where applicable.

IFRIC 19 - "Extinguishing Financial Liabilities with Equity Instruments" (effective July 1, 2010) clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. This interpretation is not expected to impact the Company.

2.2 Changes in comparatives

Where necessary, comparative amounts have been adjusted to conform to changes in the presentation in the current year. The Company previously presented balances with related parties in every note, where applicable. In the current year, all balances and transactions with related parties are summarised in Note 17. Prepaids and other assets of $5,352,533 presented in the balance sheet at June 30, 2009 was disaggregated into ASO claims receivable and fees receivable ($4,904,022) and Other receivables and other assets ($448,511) to conform to the presentation of these related balances at June 30, 2010. Management believes that these reclassifications result in a more useful and appropriate presentation of the Financial Statements.

3 Management of insurance and financial risk

3.1 Insurance risk

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

The Company uses several techniques to mitigate risk surrounding potential high claim losses. For its largest group (Group 30100 - Civil, Servants, Pensioners and Government Entities), reinsurance has been purchased that covers overseas claim losses which exceed US$609,756, up to US$5,000,000 in respect of any one covered person during the policy year. The aggregate limit of these overseas claims shall not exceed $10,500,000. The Company's Standard Health Insurance Contracts ("SHIC" plans) use a combination of pre-existing conditions, and annual limits to mitigate risk. The Company also employs the services of Care Management Network Inc. ("CMN") to control overseas claim costs. CMN provides case management services with the goal of managing a patient's care path in an economical fashion at each step of the way. CMN also has pre-negotiated contracts with many overseas providers which would allow the Company to realize significant savings. Furthermore, on a monthly basis, the Risk & Appeals Committee meets to discuss large claims and any disputed claims.

3.2 Financial risk

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

Credit risk

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

- cash and cash equivalents;
- reinsurance claims recoveries;
- ASO claims receivable and fees receivable;
- premiums receivable.

All of the Company's cash and cash equivalents are held with reputable financial institutions in the Cayman Islands (89%; 2009: 86%) and Canada (11%; 2009: 14%). As described in note 3.1, reinsurance is used to manage insurance risk. However, this does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment of the claim. As part of the reinsurance renewal, the Company reviews the creditworthiness of the reinsurer prior to finalization of any contract, and has chosen a reinsurer with an AM Best rating of "A" (Excellent).

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

	June 30, 2010	*June 30, 2009*
Cash and cash equivalents	$ 13,744,588	*$ 8,864,034*
Reinsurance claims recoveries	1,302,094	*320,898*
ASO claims receivable and fees receivable	6,767,721	*4,904,022*
Premiums receivable	1,429,230	*6,839,328*
Other assets	3,116	*3,490*
Total financial assets	$ 23,246,749	*$ 20,931,772*
Non-financial assets	94,056	*183,698*
Total assets per the balance sheet	$ 23,340,805	*$ 21,115,470*

3.2 Financial risk (continued)

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

As at June 30, 2010:	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash and cash equivalents	$ 13,744,588	$ -	$ -	$ 13,744,588
Reinsurance claims recoveries	1,302,094	-	-	1,302,094
ASO claims receivable and fees receivable	-	6,767,721	-	6,767,721
Premiums receivable	-	1,427,830	1,400	1,429,230
Other assets	3,116	-	-	3,116
Total assets exposed to credit risks	$ 15,049,798	$ 8,195,551	$ 1,400	$ 23,246,749

As at June 30, 2009:	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash and cash equivalents	$ 8,864,034	$ -	$ -	$ 8,864,034
Reinsurance claims recoveries	320,898	-	-	320,898
ASO claims receivable and fees receivable	-	4,904,022		4,904,022
Premiums receivable	-	6,835,194	4,134	6,839,328
Other assets	$ -	-	-	-
Total assets exposed to credit risks	$ 9,184,932	$ 11,739,216	$ 4,134	$ 20,928,282

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

As at June 30, 2010:	Up to 45 days	45 to 90 days	> 90	Total
ASO claims receivable and fees receivable	$ 963,699	$ 1,223,087	$ 4,580,935	$ 6,767,721
Premiums receivable	595,016	6,412	826,402	1,427,830
	$ 1,558,715	$ 1,229,499	$ 5,407,337	$ 8,195,551

As at June 30, 2009:	Up to 45 days	45 to 90 days	> 90	Total
ASO claims receivable and fees receivable	$ 2,061,117	$ 1,169,065	$ 1,673,840	$ 4,904,022
Premiums receivable	2,496,708	1,406,095	2,936,525	6,839,328
	$ 4,557,825	$ 2,575,160	$ 4,610,365	$ 11,743,350

A majority of the amount greater than 90 days is receivable from the Company's shareholder and relates to the previous financial year. Management does not consider this amount as impaired, because the shareholder has expressed that with the completion of a Supplementary Budget by the end of the 2010 calendar year, the amounts would be settled.

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

	June 30, 2010	*June 30, 2009*
AAA	$ -	*$ -*
AA	13,164,641	*8,589,852*
A	163,923	*31,580*
BBB	-	-
Below BBB or not rated	416,024	*242,602*
Total cash and cash equivalents bearing credit risk	$ 13,744,588	*$ 8,864,034*

The majority of the premiums receivable 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 expose it to interest rate risk.

Foreign currency risk

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

3.3 Management of financial risks

The following tables indicate the contractual timing of cash flows arising from financial assets and liabilities included in the Company's financial statements as of June 30, 2010 and June 30, 2009.

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

		Contractual cash flows (undiscounted)					
June 30, 2009	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	$ 8,864,034		$ 8,864,034				
ASO claims receivable and fees receivable	4,904,022		4,904,022				
Premiums receivable	6,839,328		6,839,328				
Other assets	3,490		3,490				
Total	$20,610,874	$ -	$20,610,874	$ -	$ -	$ -	$ -
Short term insurance liabilities							
Insurance contracts	$11,825,856		$11,825,856				
Less reinsurance recoverable	320,898		320,898				
Other financial liabilities	220,347		220,347				
Total	$11,725,305	$ -	$11,725,305	$ -	$ -	$ -	$ -
Difference in contractual flows	$ 8,885,569	$ -	$ 8,885,569	$ -	$ -	$ -	$ -

3.4 Sensitivity analysis

The following factors are likely to affect the sensitivity of the Company's provision for claims incurred:

- 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 in less than one year.

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

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

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

1 - Related to the contributions to segregated insurance fund, claims administration and other expenses
2 - Related to the absolute percentage change in the claims paid and movement in the provision for claims incurred

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

	Interest rates		Expenses		Loss ratios	
	+1%	-1%	+5%	-5%	+5%	-5%
Sensitivities as at June 30, 2009						
Impact on Net income for the year	*79,557*	*(79,557)*	*(119,653)*	*119,653*	*(2,000,935)*	*2,000,935*
Impact on Shareholder's equity	*79,557*	*(79,557)*	*(119,653)*	*119,653*	*(2,000,935)*	*2,000,935*

4 Cash and cash equivalents

	June 30, 2010	*June 30, 2009*
Fixed Deposits	$ 5,001,939	*$ 4,034,590*
Cash at Bank	8,736,964	*4,807,073*
Deposit in transit	5,685	*22,371*
	$ 13,744,588	*$ 8,864,034*

At June 30, 2010, the Company held four fixed deposits earning interest of 0.125% per annum and maturities within 35 days. At June 30, 2009 one fixed deposit was held with interest earned averaging 0.5% per annum and maturities within 32 days.

5 Premiums receivable

	June 30, 2010	*June 30, 2009*
Premiums receivable, gross	$ 1,430,630	*$ 6,843,462*
Less: provisions for bad debts	(1,400)	*(4,134)*
	$ 1,429,230	*$ 6,839,328*

During the year ended June 30, 2010, bad debts of $29,292 (June 30, 2009 - $48,784) have been written off, of which $4,134 had been provided for in 2008/9. It is management's opinion that a provision for bad debts of $1,400 (June 30, 2009 - $4,134) is required at June 30, 2010. All bad debts written off are from unrelated individuals. Once a bad debt is written off coverage to the unrelated individual is terminated.

See note 17 for disclosure on related party balances.

6 Other receivables and other assets

Components of other receivables and other assets are as follows:

	June 30, 2010	*June 30, 2009*
Reinsurance claims recoveries	$ 1,302,094	*$ 320,898*
Claims administration and other expenses	2,817	*2,817*
Advance to Employee	3,117	-
Investment income	299	*673*
Prepaid expenses	64,161	*124,123*
	$ 1,372,488	*$ 448,511*

See note 17 for disclosure on related party balances.

7 Fixed assets

	Office Equipment	Computer & Telecoms Equipment	Leasehold Improvements	Total
Cost at July 1, 2008	$ 24,220	$ 125,515	$ 79,075	$ 228,810
Additions	375	24,416	-	24,791
Disposals	-		-	-
Cost at June 30, 2009	24,595	149,931	79,075	253,601
Accumulated depreciation at July 1, 2008	15,719	108,125	26,469	150,313
Depreciation for year	4,078	13,421	26,214	43,713
Disposals	-		-	-
Accumulated depreciation at June 30, 2009	19,797	121,546	52,683	194,026
Carrying value at June 30, 2009	$ 4,798	$ 28,385	$ 26,392	$ 59,575

7 Fixed assets (continued)

	Office Equipment	Computer & Telecoms Equipment	Leasehold Improvements	Total
Cost at July 1, 2009	$ 24,595	$ 149,931	$ 79,075	$ 253,601
Additions	765	8,875	765	10,405
Disposals	-		-	-
Cost at June 30, 2010	25,360	158,806	79,840	264,006
Accumulated depreciation at July 1, 2009	19,797	121,546	52,683	194,026
Depreciation for year	1,785	14,260	27,157	43,202
Disposals	-		-	-
Accumulated depreciation at June 30, 2010	21,582	135,806	79,840	237,228
Carrying value at June 30, 2010	$ 3,778	$ 23,000	$ -	$ 26,778

8 Accounts payable

	June 30, 2010	*June 30, 2009*
Accounts payable	$ 14,457	*$ 5,270*

Included in accounts payable in respect of unrelated entities are amounts relating to administrative expenses of $14,457 (June 30, 2009 - $5,270).

9 Accruals and other liabilities

Components of accruals and other liabilities are as follows:

	June 30, 2010	*June 30, 2009*
Reinsurance premium due	$ 63,815	*$ 63,454*
Audit Fees	39,606	*57,720*
Consultancy fees (actuary)	29,285	*11,785*
Insurance expense	4,376	*5,456*
CBCA/CMN Expenses	567	*407*
Computer Service charges	772	*1,030*
Maintenance/Utilities & Telecommunications	2,322	*2,955*
Marketing costs	4,059	*2,135*
Stale dated cheques	75,972	*52,463*
Other accruals	45,968	*17,672*
	$ 266,742	*$ 215,077*

See note 17 for disclosure on related party balances.

10 Claims paid

	June 30, 2010	*June 30, 2009*
Gross US$ claims prior to discount (denominated in CI$)	$ 23,527,635	*$ 18,625,031*
Net claim savings:		
Amount of claim discount realized by CMN	(9,044,208)	*(6,957,102)*
Fees for obtaining discount	1,362,192	*1,067,822*
	(7,682,016)	*(5,889,280)*
Net US$ claims (denominated in CI$)	15,845,619	*12,735,751*
CI$ claims	31,148,195	*24,306,011*
	$ 46,993,814	*$ 37,041,762*
Less repricing fees	(1,362,192)	*(1,067,822)*
Claims paid (net of repricing fees)	$ 45,631,622	*$ 35,973,940*

The contract with Care Management Network Inc. (CMN) guarantees the Company a discount of 30% on United States dollar claims administered by CMN. CMN charges the Company a fee of approximately 16% of the savings. These fees are classified as part of claims paid. During the year ended June 30, 2010, the Company realized net claim savings of $7,682,016 (June 30, 2009: $5,889,280) and repricing fees were charged at 15% effectively (June 30, 2009 - 15%).

11 Provision for claims incurred

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

A health claim is payable when an event has occurred that gives rise to a claim payment within the benefits of an insured member's policy while in force. The lag between the occurrence of a claim and the final payment is normally short term in nature as providers are required by the Health Insurance Law to submit any claims within 180 days of date of service. Thus, any estimates are normally settled within a year.

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

Reporting year	2005/6	2006/7	2007/8	2008/9	2009/10	Total
Estimate of ultimate claims costs:						
At end of reporting year	23,423,289	32,864,983	35,819,622	40,046,000	46,045,975	
One year later	22,827,358	30,779,928	34,402,472	37,507,064	n.a.	
Two years later	22,727,663	30,879,375	34,448,122	n.a.	n.a.	
Three years later	22,727,663	30,871,999	n.a.			
Current estimate of cumulative claims	22,727,663	30,871,999	34,448,122	37,507,064	46,045,975	
Cumulative payments to date	22,727,663	30,871,999	34,447,424	37,505,150	37,788,058	
Health claim liability recognized in the balance sheet	-	-	698	1,914	8,257,917	8,260,529
Allocated loss expenses ("ALE") provisions	-	-	60	108	609,719	609,887
Total liability recognized in the balance sheet	-	-	758	2,022	8,867,636	8,870,416

11 Provision for claims incurred (continued)

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

	Year ended June 30, 2010			*Year ended June 30, 2009*		
	Gross	Reinsurance	Net	*Gross*	*Reinsurance*	*Net*
Balance at beginning of year	$ 11,092,190	$ (320,898)	$ 10,771,292	*$ 8,115,255*	*$ (1,029,651)*	*$ 7,085,604*
Incurred related to:						
Current year	46,045,975	(1,281,926)	44,764,049	*40,046,000*	*(320,898)*	*39,725,102*
Prior years	(2,500,662)	249,191	(2,251,471)	*(1,299,353)*	*(121,796)*	*(1,421,149)*
	43,545,313	(1,032,735)	42,512,578	*38,746,647*	*(442,694)*	*38,303,953*
Paid related to:						
Current year	37,788,058	-	37,788,058	*29,751,889*	-	*29,751,889*
Prior years	7,843,564	(51,539)	7,792,025	*6,222,051*	*(1,151,447)*	*5,070,604*
	45,631,622	(51,539)	45,580,083	*35,973,940*	*(1,151,447)*	*34,822,493*
ALE Reserve movement	(135,465)		(135,465)	*204,228*		*204,228*
Balance at end of year	$ 8,870,416	$ (1,302,094)	$ 7,568,322	*$ 11,092,190*	$ (320,898)	*$ 10,771,292*
Change in provision for claims incurred	$ (2,221,774)			*$ 2,976,935*		

For the year ended June 30, 2010 there was a hindsight provision release of $2,500,662 for the prior policy year ($1,299,353 for the year ended June 30, 2009). As stated in the beginning of Note 11, IBNR's are estimated with all known information at the time. In hindsight, the June 30, 2009 provision was conservative due to the following events: (1) For overseas IBNR's, actual medical outcomes on several large inpatient cases turned out better than initially anticipated, (2) For local IBNR's, the initial IBNR was set to approximate the Cayman Islands Health Services Authority's receivable. In hindsight several claims were denied for eligibility and late filing.

12 Share capital

	June 30, 2010	*June 30, 2009*
Authorized:		
1,000,000 unclassified shares of $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 $2,999,999.

13 Additional paid-in-capital

	June 30, 2010	*June 30, 2009*
Additional paid in capital received	$ 20,435,840	*$ 20,435,840*

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

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

For the 2010/11 financial year, the Board of Directors has approved a $1.4 million capital withdrawal to the shareholder. This transaction has also received approval from Cayman Islands Monetary Authority ("CIMA").

14 Premium Income

Premium income earned by insured type is as follows:

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

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

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

Reinsured premium is calculated at $6.32 (2008/9 - $6.32) per person per month.

15 Administrative Services Only Fees

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

16 Contributions to segregated insurance fund

Under Section 5(1) of the Health Insurance Regulations (2005 Revision), each domestic health insurer is required to pay to a Segregated Insurance Fund $5.00 per month per single insured and $10.00 per month per couple or family insured. For the year ended June 30, 2010, the Company accrued contributions totaling $567,810 (year ended June 30, 2009 - $572,070).

17 Related party balances and transactions

Related party balance and transactions from the balance sheets, and statements of comprehensive income are represented below.

	June 30, 2010	*June 30, 2009*
Assets		
Premiums receivable	$ 1,420,109	*$ 6,829,534*
ASO claims and fees receivable	6,767,721	*4,904,022*
Other receivables and other assets	44,025	*23,867*
	$ 8,231,855	*$ 11,757,423*
Liabilities		
Accruals and other liabilities	$ 11,498	14,486
Claims payable	1,512,264	*161,425*
	$ 1,523,762	*$ 175,911*
Income		
Premium income	$ 49,283,319	*$ 47,495,183*
ASO Fees	438,834	*471,739*
	$ 49,722,153	*$ 47,966,922*
Expenses		
Claims paid	$ 28,141,798	*$ 22,662,561*
Contributions to segregated insurance fund	567,810	*572,070*
Administrative expenses	129,888	*90,169*
	$ 28,839,496	*$ 23,324,800*

18 Key management salaries and other short-term employee benefits

Salaries and other short-term employee benefits for key management (being those executives with the authority to direct the Company's operating policy) of $224,953 (year ended June 30, 2009: $287,231) are included within administrative expenses as reported in the statement of comprehensive income.

19 Investment & other income

Investment income represents interest earned from the cash and fixed deposits held at various banks. Other income includes income collected for replacement insurance cards and reinstatement of policies. The Company has received interest on fixed deposits and other income of $32,992 (year ended June 30, 2009 - $83,660).

20 Pension costs

The Company participates in a defined contribution pension scheme administered by the Cayman Islands Chamber of Commerce. In addition, two employees are continuing to contribute to the defined contribution pension scheme administered by the Public Service Pension Board. Pension expense for the year ended June 30, 2010 is $35,819 (year ended June 30, 2009 - $20,847) and is included in administrative expenses.

21 Commitments and Contingencies

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

	Amounts due within 1 year	Amounts due after more than 1 year	Total lease commitments
Lease - premises	55,440	50,820	106,260

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

22 Net worth for regulatory purposes

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

	June 30, 2010	*June 30, 2009*
Share capital	$ 1	*$ 1*
Share premium	2,999,999	*2,999,999*
Additional paid-in-capital	20,435,840	*20,435,840*
Accumulated deficit	(10,930,683)	*(14,436,622)*
	$ 12,505,157	*$ 8,999,218*

At June 30, 2010, the Company's net worth was $12,505,157 and fully compliant with CIMA minimum capital requirement.

23 Subsequent events

Management have performed a subsequent events review from July 1, 2010 to October 11, 2010, being the date that the financial statements were available to be issued. With the exception of the items listed in the following paragraphs, management concluded there were no additional material subsequent events which required additional disclosure in these financial statements.

As part of the 2010/11 budget process, the Board of Directors has approved a capital withdrawal of up to $1.4 million to the shareholder which will assist the shareholder in meeting its obligations for funding Seafarer and Veterans local insurance benefits. The capital withdrawal was approved and accepted by CIMA.

In finalizing its 2010/11 budget, the shareholder requested that CINICO reduce its 2010/11 premium rates by 10% from its calculated 2010/11 rates which remained the same as the 2009/10 rates. The reduction in premium rates are estimated by management to negatively impact the 2010/11 revenues, and net worth by $2.8 million (unaudited). Furthermore, assuming the claim loss levels remain the same, the reduction in revenues would result in a budgeted loss of $1.6 million (unaudited) compared with a budgeted income of $1.2 million (unaudited). The Board of Directors had concerns with the premium rate reduction request and initially declined the request due to the following concerns; director liability issues, acting in the best interests of the Company, and an unpaid 2008/9 government receivable. As of the date of approval of the financial statements, the director liability issues have been resolved. The Board of Directors believe that there is a strong commitment by the shareholder to settle the 2008/9 receivable through a supplementary budget by the end of 2010, and accordingly the requested premium reduction has been approved.