ANNUAL REPORT 2018

OPENING DOORS TO WELLNESS FOR OUR MEMBERS

FISCAL YEAR ENDING
31 DECEMBER 2018

CAYMAN ISLANDS
CINICO
NATIONAL INSURANCE COMPANY

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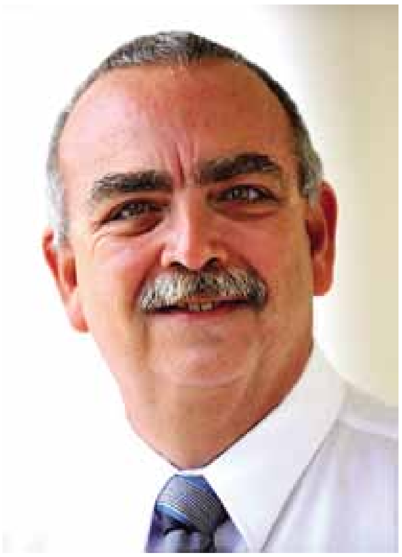
Message from the Minister for Finance and Economic Development



I am pleased to present CINICO's annual report on its performance and achievements for the fiscal year ended 31 December 2018.

As with any organisation operating within the Cayman Islands, the Cayman Islands National Insurance Company (CINICO) has faced its fair share of strategic and operational challenges. However, with the diligence, dedication and hard work of the Board of Directors, management and staff, CINICO continues to strive and make significant improvements.

As the Company's shareholder, Government has committed to pay the actuarially determined premium rates that will enable CINICO to sufficiently cover its claim and operating costs and maintain its compliance with CIMA's capital requirements without "one-off" equity injections by the Government. In the upcoming year, the Government also intends to undertake an assessment of the operations of CINICO to determine whether it is commercially viable and financially affordable in the long term and whether the Government is achieving value for money. The assessment will also look at whether CINICO has the capacity to expand its membership and scope of products and services to the wider public.

The Board of Directors has been working diligently on ensuring that CINICO addresses deficiencies identified by CIMA and ensuring that all regulatory and statutory requirements are met including the establishment of risk management and internal control frameworks, claims management policies and procedures and a credit and liquidity risk policy. The Board has also been focused on ensuring that CINICO has the best available resources to carry out its mandate and operations.

I take this opportunity to thank the Board of Directors, management and staff of CINICO for their achievements during the 2018 financial year and I look forward to celebrating future successes in the years to come.

Roy McTaggart, JP
Minister for Finance & Economic Development
Cayman Islands National Insurance Company
September 30, 2019

Foreword by the Board Chairperson

I am pleased to present this annual report for the fiscal year period ending December 31, 2018.

We have faced a number of challenges this fiscal year, including the termination of our Chief Executive Officer, and we continue to face threats to our sustainability. Nevertheless, due to the dedication of our Board of Directors, management team and employees, we have made some good progress towards our key performance goals.

This report on our performance is structured according to the three performance perspectives that reflect how CINICO strives to be seen by its stakeholders and clients, in relation to delivery of our ongoing operations, which comprises the 80 to 90 percent of expenditures associated with the ongoing core activities and outputs tied to our mandate. The three performance perspectives are:

1. Fiscally responsible, effective and sustainable;
2. Timely, efficient and collaborative; and
3. Representative, capable and competent.

This report also details how we have delivered on the initiatives and projects associated with the strategic goals contained in our 2013-2018 Strategic Plan.

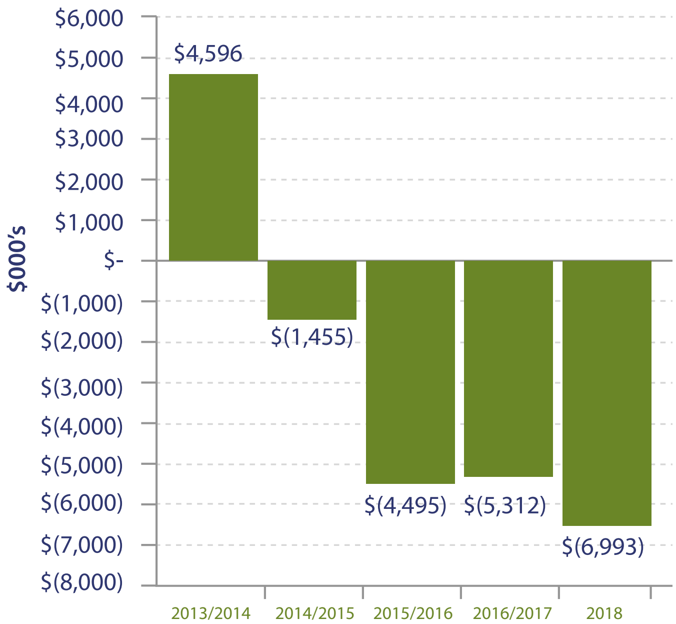
Looking to the future, we commissioned the production of a new strategic plan in late 2018, that identifies a set of innovative, cost-effective and collaborative approaches to opening doors to wellness for our members through all stages of their lives. We also launched a client survey, the results of which we will use to further focus our efforts, directed at better meeting their needs.

Patricia Estwick
Chairperson of the Board of Directors
Cayman Islands National Insurance Company
September 30, 2019

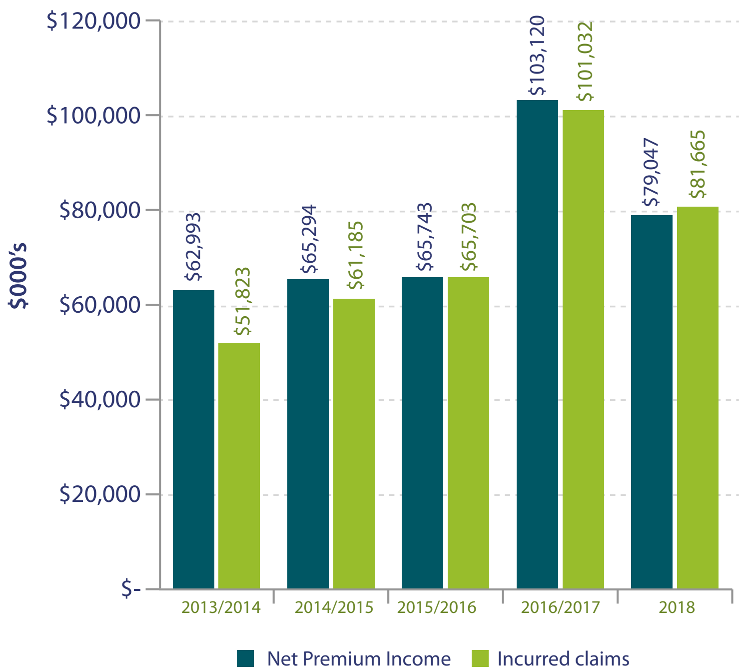
Financial and Operational Highlights

This section of the annual report provides key financial and operational trends for the 2018 fiscal year and the four previous reporting periods.

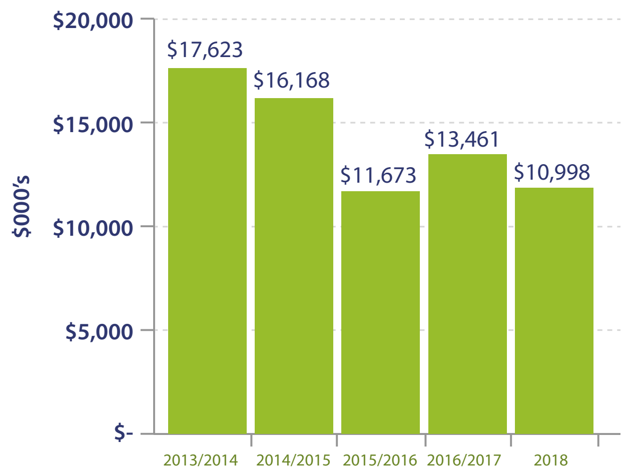
NET INCOME/(LOSS)



NET PREMIUM INCOME VERSUS CLAIMS INCURRED



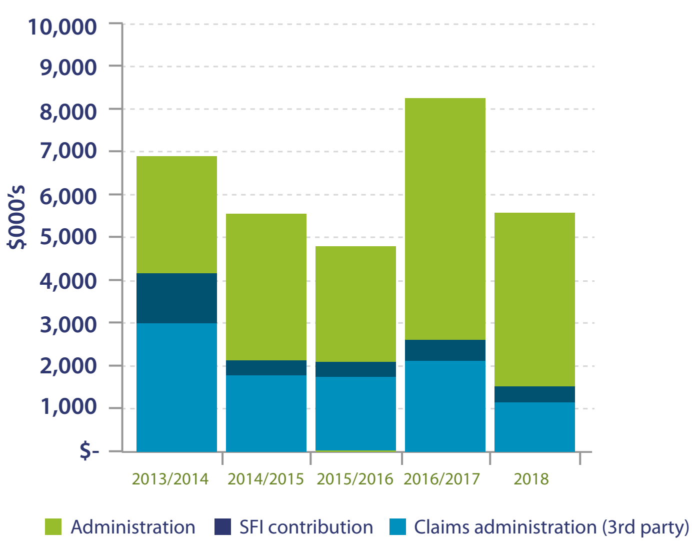
SHAREHOLDER'S EQUITY



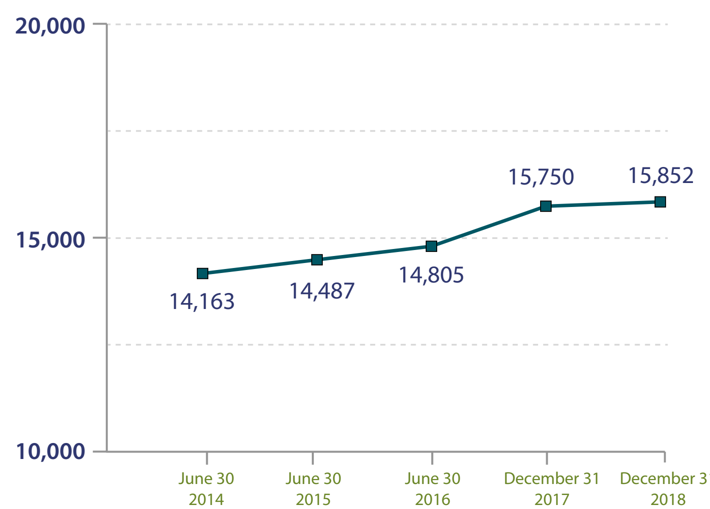
PREMIUM DISCOUNTS -
effect on Net Income ($ millions)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2018
Net Income / (loss) - without discount	$(0.2)	$1.1	$3.5	$7.2	$1.0	$(0.7)	$5.4	$1.0
Net Income / (loss) - after discount	$(3.0)	$(2.6)	$3.5	$4.6	$(1.4)	$(4.5)	$(5.3)	$(6.9)

TOTAL EXPENSES



MEMBERSHIP (AVG)



Since 2004, CINICO has been operating under the general guidelines and role provided by its shareholder. However, in the present, and looking to the future, we face some significant challenges.

While premium rates are actuarially determined, since 2012/13 the shareholder has asked CINICO to charge premium below these rates. In 2018, the premium increased for the first time since 2012/13, although it was still below the actuarial rates. The discounting of premium rates has affected CINICO's cash flows and eroded its capital, with the effect being that CINICO is non-compliant with CIMA's capital requirements. This has resulted in "one-off" equity injections from time to time. Despite these challenges, CINICO has been able to keep its operational costs in check, as evidenced by our productivity ratio.

The premium discounting further impacts CINICO's cash flows during the times the government is unable to promptly reimburse CINICO for claims paid (Indigent and overseas Seafarers and Veterans) on government's behalf, which CINICO bears no insurance risk.

Over the next few years, CINICO will continue to face the effects of higher claims costs, resulting from an aging population and increases in chronic diseases. Related to this issue are the high costs associated with new medical technologies and new drugs. Another challenge is the lack of a diversified portfolio which would allow CINICO to offset the adverse effects of premium discounting, higher claims costs and aging demographics. Meanwhile, ever-increasing regulations require additional resources in an effort to ensure that CINICO remains in compliance.

Finally, there is a need to restore public trust in CINICO's operations following a year in which the CEO was relieved of his duties. This has put additional responsibilities on the management team who have worked with the staff to ensure that morale stayed high.

Organizational Overview

CINICO STRUCTURE AND FUNCTIONS

Cayman Islands National Insurance Company (CINICO) is a government-owned insurance company formed to provide health insurance coverage to civil servants (employees and pensioners) and other residents of the Cayman Islands (CI).

Incorporated by the Cayman Islands Government (CIG) on December 18, 2003 and granted a Class "A" Insurance License on February 1, 2004, CINICO is a wholly owned subsidiary of the CIG.

CINICO provides the CIG with a governance framework (with its own Board of Directors and committees of the Board), management team, and service providers who are experienced in managing the risks related to health insurance plans. As a separate insurance underwriting business, the Company is regulated by the Cayman Islands Monetary Authority ("CIMA"), the Health Insurance Commission, audited by internal Government auditors, the Office of the Auditor General (OAG) and an external auditor.

As a Class "A" Insurance Company, CINICO is required by CIMA to maintain a minimum capital requirement ("MCR") and prescribed capital requirement ("PCR"), in accordance with "The Insurance (Capital and Solvency) Class A Insurers Regulations, 2012".

CINICO's insurance policies are structured such that the primary network provider is the Cayman Islands Health Services Authority (CIHSA or HSA). If a member of CINICO is in need of medical care (or dental care for those plans that offer dental coverage), the member goes to CIHSA for treatment. If the medical practitioner (or dental practitioner) has determined that services are unavailable at the CIHSA, then approval for treatment by the CINICO complimentary network is sought by the attending practitioner. Medical treatment by other local or overseas health providers is approved by the Chief Medical Officer (CMO) and, similarly, dental treatment is approved by the Chief Dental Officer (CDO). The CINICO complementary network includes other Cayman Islands medical/dental providers, as well as medical providers in over 130 countries, which are accessed through CINICO's overseas care management consultant, who works closely with the overseas coordinator at CIHSA.

The largest area of CINICO programming is health insurance coverage for civil servants and pensioners, and their designated dependents. CIG is financially responsible for 100% of the associated costs of most services, and funds this coverage through monthly premium payments to CINICO.

Individuals covered by the Indigent Plan (those individuals without health insurance and who suffer catastrophic illness or injury, or whose medical coverage does not adequately cover a catastrophic illness or injury, or individuals who have been deemed financially indigent by the Government and therefore entitled to support) receive similar health benefits to civil servants, and the Ministry of Health (MOH) provides funding for the associated costs.

Seafarers and Veterans, as well as their dependents, receive the same coverage as civil servants, except that they are required to pay 10% of the cost of all overseas medical services.

The Standard Health Insurance Contract (SHIC) is another insurance plan available to all residents of the Cayman Islands. Members on this plan pay for their coverage through monthly premiums, and the coverage is limited to benefits mandated in the Health Insurance Law.

STAKEHOLDERS

Our key stakeholders are diverse and include:

- Cayman Islands Government
- Cayman Islands Seafarers Association (CISA)
- Cayman Islands Health Services Authority (CIHSA)
- Cayman Islands Civil Service Association (CICSA)
- Chief Dental Officer (CDO)
- Chief Medical Officer (CMO)
- Department of Child & Family Services (DCFS)
- Health City Cayman Islands (HCCI)
- Ministry of Finance and Economic Development
- Ministry of Health (MOH)
- Office of the Auditor General (OAG)
- Oliver Wyman (Health Actuarial Practice)
- Portfolio of the Civil Service (POCS)
- Public Service Pensions Board (PSPB)

GOVERNANCE AND BOARD OF DIRECTORS

Corporate Governance

CINICO is 100% owned by the Cayman Islands Government and, as the shareholder, appoints the members of the Board of Directors and its Chairperson. The Board conducts its corporate governance roles and responsibilities in accordance with the Corporate Governance Operational Policy and Procedures Manual, and in conjunction with applicable Cayman Islands Laws. The Board appoints the Chief Executive Officer and Chief Financial Officer as well as the Chairperson and directors of the various sub-committees of the Board in accordance with its corporate governance mandate.

Board of Directors and Committees of the Board

The membership of the Board of Directors is comprised of individuals appointed by the shareholder, with relevant background and experience, and these appointments are approved by CIMA. The list of the current Board of Directors is indicated below.

Committees of the Board

The Board has four main committees with specific functions delegated to them. These committees are:

- Finance & Audit Committee
- Eligibility & Appeals Committee
- Risk & Compliance Committee
- Human Resources (HR) Committee

The Board establishes sub-committees and delegates specific responsibilities that would otherwise be reserved for the Board. In establishing sub-committees, the Board outlines clear parameters and terms of reference outlining their purpose, composition, accountability, meetings and responsibilities.

Executive Management:

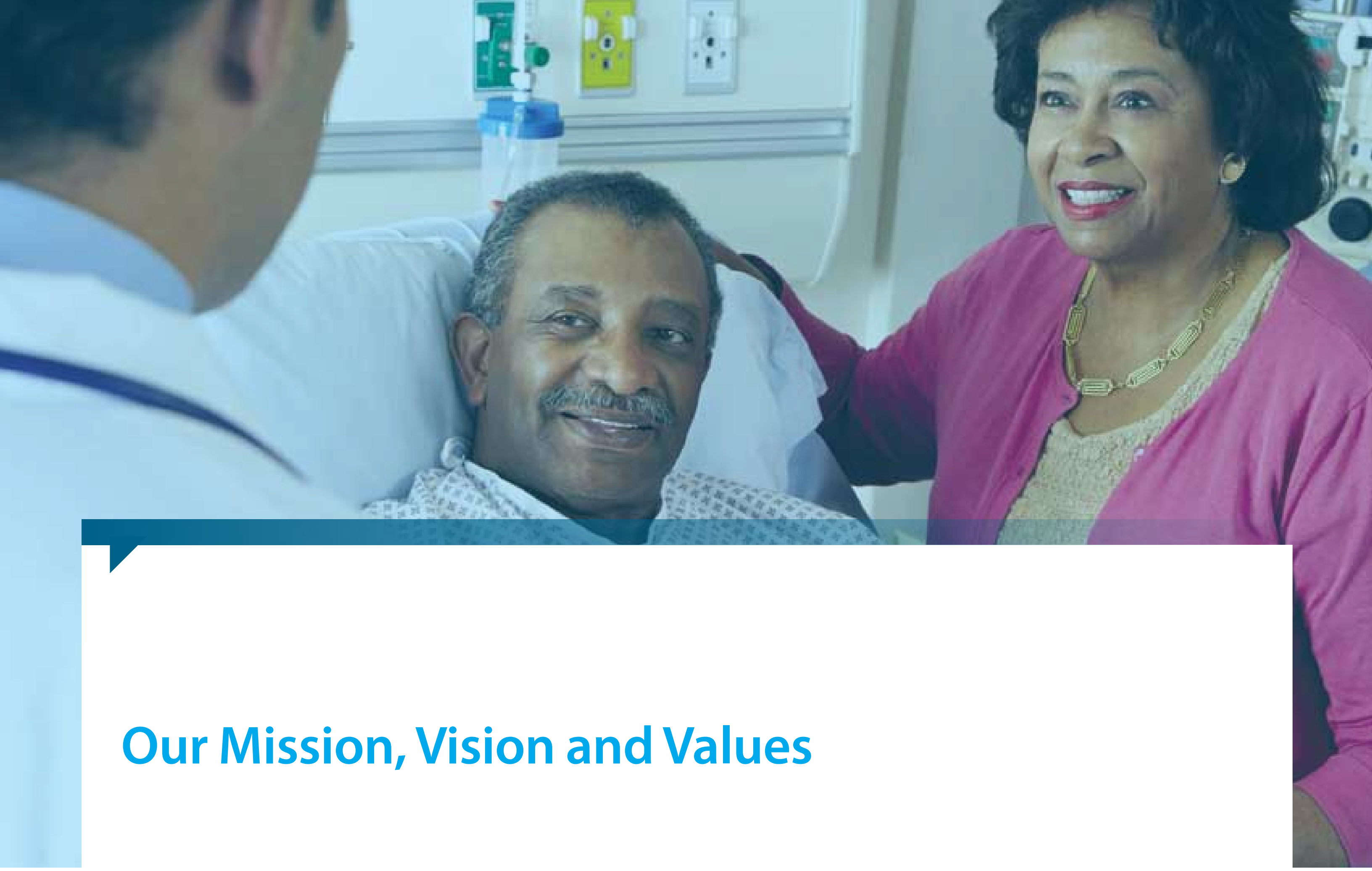
The Board of Directors delegates the day to day management of the Company to its executive management team, led by the Chief Executive Officer, and empowers executive management to perform the functions of their office in a manner that will promote the business affairs of CINICO as well as advance the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

- ***Chief Executive Officer***
  Michael Gayle (effective August 2019)
- ***Chief Financial Officer***
  Frank Gallippi
- ***General Manager***
  Dana Brandon
- ***Compliance Officer***
  David Feare (resigned January 2019)
  Debra Humphreys (assumed the role of Senior Compliance Officer in April 2019)

Current Board of Directors

Name and Committee Roles	Date Term Expires
Patricia Estwick (1,3)	31 October 2020
Anne Owens (5)	31 October 2019
Janet Sairsingh	31 October 2019
Darlee Ebanks	31 October 2019
Dr. George Meggs (4)	31 October 2019
Mrs. Betty Baraud	31 October 2020
Mr. Roger Corbin (2,7)	31 October 2020
Mr. Dwight Merren (5)	31 October 2020

(1) Chairperson
(2) Deputy Chairperson
(3) Chairperson of Finance & Audit Committee
(4) Chairperson of Eligibility & Appeals Committee
(5) Chief Officer (or designate) Ministry of Finance and Economic Development
(6) Chairperson of Risk & Compliance Committee
(7) Chairperson of HR Committee



Our Mission, Vision and Values

Our strategic plan contains a revised mission statement and values statements. We have also identified our vision for the future.

The CINICO mission statement describes the fundamental purpose of our organization and what we provide to our members.

Our vision statement expresses what we aspire to accomplish in the medium to long term future.

Finally, our values reflect what is truly important to our Board, our management team and our staff in terms of our attitude, behaviour and character, as well as how we would like to be seen by our clients and stakeholders.

OUR MISSION

"To provide affordable solutions against health-related risks through sustainable coverage."

OUR VISION

"To open doors to wellness for our members through all stages of their lives."

OUR VALUES

Our core values place the needs of our members first by ensuring that at all times we are:

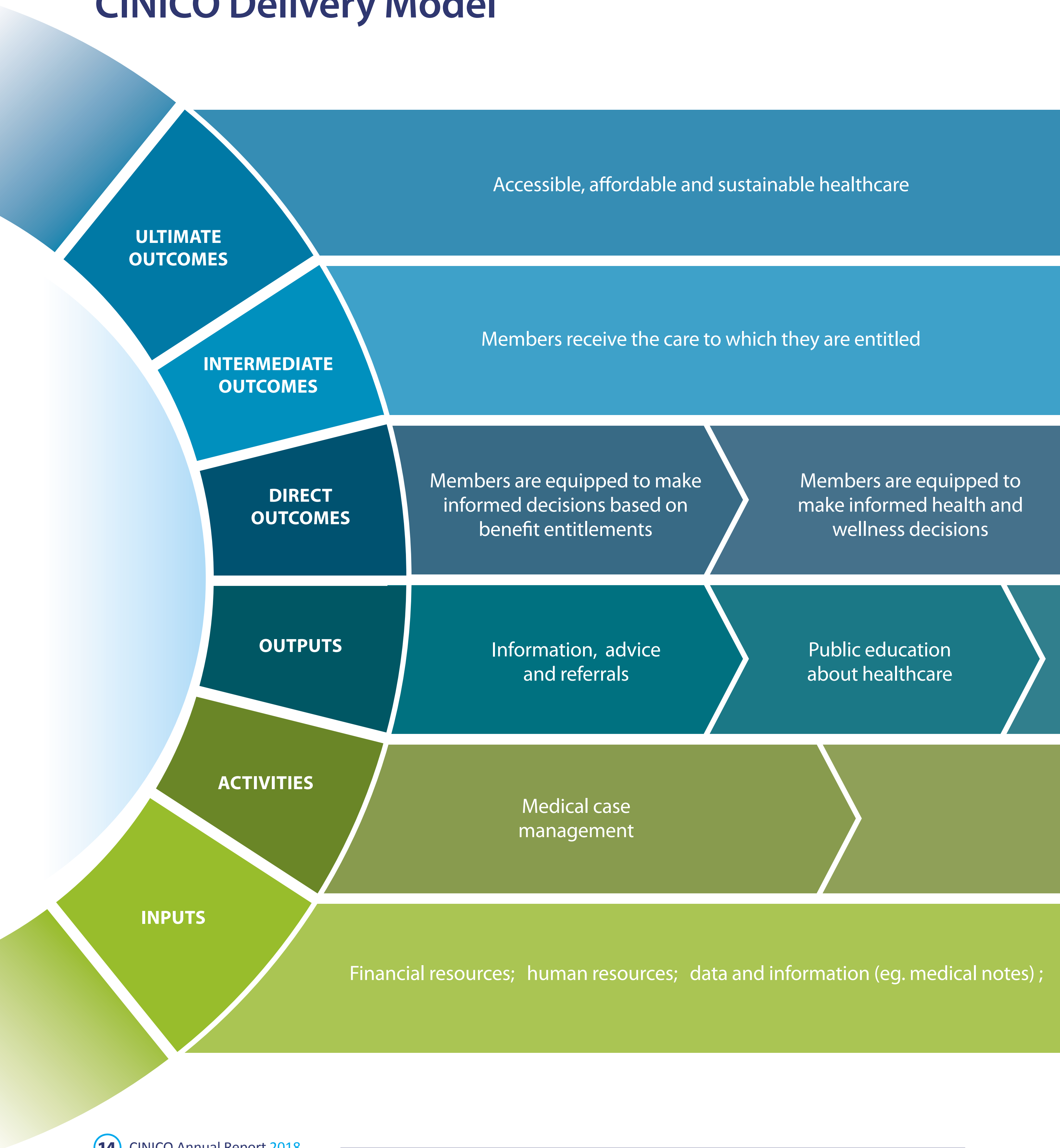
- ***Professional*** **-** We value the contributions of our employees and ensure that they have the tools and knowledge to excel;
- ***Accountable*** **-** We take responsibility for our actions and report results in a transparent manner;
- ***Compassionate*** **-** We provide comfort and peace of mind in our dealings with others;
- ***Collaborative*** **-** We achieve common goals through successful working relationships; and
- ***Ethical*** **-** We conduct ourselves with integrity.

CINICO DELIVERY MODEL

The "delivery model" presented in our strategic plan is comprised of the following elements:

- ***Inputs*** represent the resources and outputs from other parties that are consumed by our activities;
- ***Activities*** describe collections of actions and services which we deliver under our mandate;
- ***Outputs*** are the products generated by our activities;
- ***Direct outcomes*** are the first level of outcomes or impacts– those over which we have the most direct influence with our outputs;
- ***Intermediate outcomes*** comprise the second level of outcomes – those over which we have less influence with our outputs and where the influence may be shared with our stakeholders; and
- ***Ultimate outcomes*** are the highest level outcomes that can be attributed to our outputs and are subject to many influences beyond those of CINICO.

CINICO Delivery Model



Members have an optimal level of health and well-being

Members make informed health and wellness decisions

Members have access to their plan benefits

Core government is equipped to make informed decisions on health care policies and programmes

Referrals

Healthcare data and information

Claims reimbursements

Claims coordination / adjudication

Member support and outreach

enabling infrastructure; policies, guidelines and regulations; referrals; and requests for information

Reporting on CINICO's Performance

PERFORMANCE SUMMARY BY REPORTING PERSPECTIVE

This section of the annual report is structured according to the three performance perspectives that reflect how CINICO strives to be seen by its stakeholders and clients.

The three perspectives are: 1) Fiscally responsible, effective and sustainable; 2) Timely, efficient and collaborative; and 3) Representative, capable and competent.

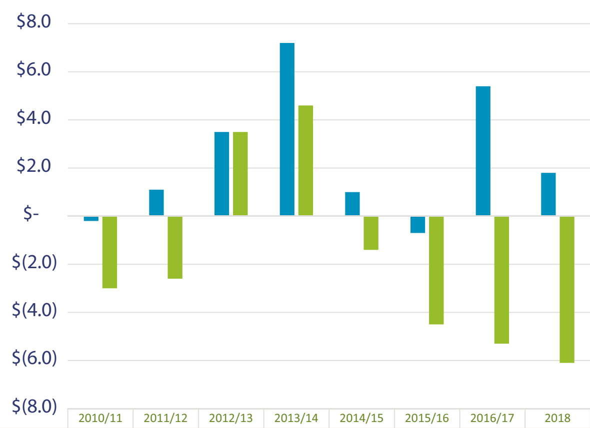
Fiscally responsible, effective and sustainable

CINICO strives to be fiscally responsible, to achieve high level impacts despite resource limitations, and to successfully address challenges to our sustainability.

For the year ending December 31, 2018, CINICO recorded a net loss of $6.9 million compared with a budget net loss of $5.0 million, and a prior year net loss of $5.3 million. The net loss position reflects that CINICO has been required to keep its insurance premium rates for Government plans below actuarial calculated rates – this is despite increases in utilization, and medical inflation.

The Government premium discounts amounted to $7.9 million for the year ending December 31, 2018 and $10.7 million for the 18-month period ending December 31, 2017. Had it not been for the Government premium discounts, CINICO would have made a profit in all years, with the exception being in 2015/16 where a small loss would have been incurred. Figure 1 below illustrates CINICO's performance over the last eight years, including the return provided to government in terms of premium discounts.

FIGURE1: PREMIUM DISCOUNTS - effect on Net Income ($ millions)



	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2018
Net Income / (loss) - without discount	$(0.2)	$1.1	$3.5	$7.2	$1.0	$(0.7)	$5.4	$1.0
Net Income / (loss) - after discount	$(3.0)	$(2.6)	$3.5	$4.6	$(1.4)	$(4.5)	$(5.3)	$(6.9)

For the period 2013/14 to 2015/16, premium rates remained flat at 2012/13 levels. In 2018 premium rates increased, although these were below the actuarial calculated rate. Since 2010/11 CINICO has provided a total of $33.9 million in premium discounts to the government. Over the same period, CINICO has received equity injections totaling $14.3 million (2013/14: $2.6 million, 2016/17: $7.1 million, and 2018: $4.5 million).

CIMA Capital Requirements

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

With available capital of $10.7 million, CINICO is compliant with the MCR of $9.9 million, however has fallen $1.7 million below the PCR, mainly as a result of premium rate discounting. The non-compliance to PCR has been rectified in 2019.

CINICO would continue to face severe strains on its capital in future years if there is a requirement to discount premium below the market and actuarial calculated rates. However for the 2019 and 2020 fiscal years, Government has accepted the actuarial rates.

It is important that the Company maintain its capital above CIMA's PCR level. This level of capital would provide, at a minimum, two months of working capital. Insurance can be very unpredictable, and this unpredictability can lead to adverse claim deviations such that if the Company only maintained the required level of capital, it would risk going below the PCR level in an "unfavorable" claim year and thus would require an immediate equity injection from the Shareholder to rectify its non-compliant position. Thus prudent risk management would require a "buffer" in the Company's capital to "weather" bad years, and provide enough time to change strategies to avoid liquidity issues.

Timely, efficient and collaborative

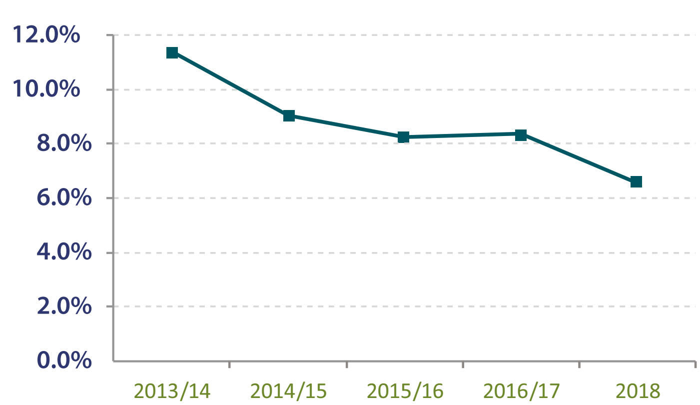
CINICO is committed to providing timely service to our members, seeking out avenues to become as efficient as possible in our service delivery, and to do so by working collaboratively with our stakeholders and delivery partners.

This section of the annual report highlights our service performance in these areas.

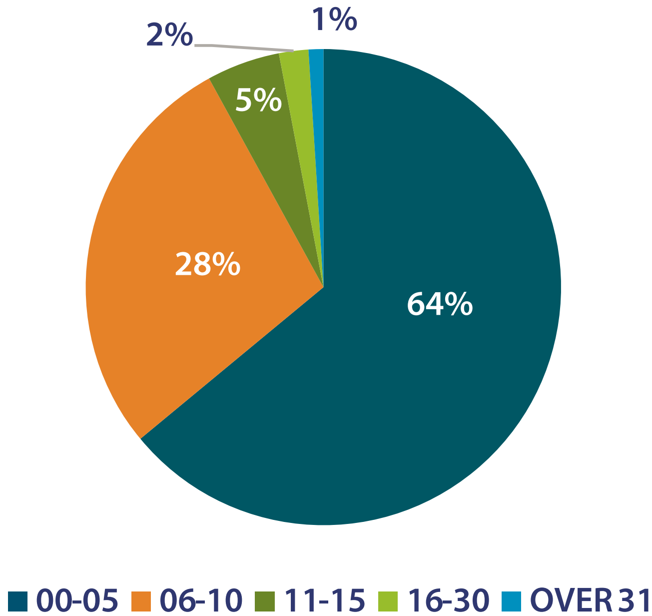
Expenses as a Percentage of Premium (Productivity/Efficiency ratio)

Expenses as a percentage of premium provides an indication of the Company's efficiency – or the amount of cents per premium dollar that is expended on overhead and the administration of the insurance policies. Expenses include contribution to segregated fund fees, claims administration expenses (TPA fees) and administration expenses. Premium is net of reinsurance. The graph below displays CINICO's productivity ratio for the past five years. The lower the ratio the more efficient a company is. The industry average for similarly sized companies in the USA is approximately 15% to 20%. CINICO's productivity ratio was well below the industry average and ranged from 11.4% in 2013/14 declining to 6.7% in 2018.

PRODUCTIVITY/EFFICIENCY RATIO



CLAIM COUNT 2018



Claims Paid by Provider
CINICO works collaboratively with its providers/members to determine the most efficient delivery for its clients, while not compromising quality, and therefore directs clients to local providers where it is appropriate for the levels of service required.

A total of $111.8 million was paid to providers/members for the 18 month year ending December 31, 2017. On a calendar year basis, the 2017 claims paid amounted to $76.3 million and increased by $4.3 million to $80.6 million for the year ending December 31, 2018.

In 2018, the local providers' share of overall claim payments decreased to 67%. The decrease in share was led by the CIHSA. Out of the top 10 providers, six were local providers and four were providers in the United States.

Local vendors within the top 10 providers such as Health City, 3T Cayman, Cayman Neurology, etc., accounted for 14% or $11.0 million of the overall claims paid. HCCI share has increased from the prior year due to increasing referrals from CIHSA, resulting from an increased level of services now available at HCCI.

Claim payment turnaround
In mid-2017, the non-USA claims processing and payment functions were performed in-house. Prior to this date the functions were performed by external TPAs. By performing the claims processing and payment functions locally, CINICO was able to dramatically improve the turnaround time paying claims, to the benefit of our providers and members.

The chart below illustrates that 64% of claims are paid within 5 days; 28% of claims are paid within 6 to 10 days, etc. In 2018, CINICO's average claim payment turnaround period was 6 days.

Representative, Capable and Caring

Overseas referrals and air ambulance
CINICO takes the health of its members very seriously. Through its Medical Case Management Unit (MCMU), CIHSA's referral office and the Chief Medical Officer, CINICO ensures that in instances where care is not available on-island, the member receives the right care at the right time. In 2018, MCMU coordinated 1,594 overseas referrals, with a majority of these to the USA. In some cases the medical condition of the patient is severe such that travel overseas is only possible through an air ambulance. The table below provides statistics on the air ambulance coordination.

2018 AIR AMBULANCE TRANSFERS

	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER	TOTAL
From CI	15	11	6	9	41
To CI	2	3	1	0	6
	17	**14**	**7**	**9**	**47**

CINICO believes that it is important, as a service provider, to have a workforce that is representative of the Caymanian population well-educated and caring. CINICO currently boasts a total staffing complement of 32 employees (30 full-time and two (2) part-time), ranging in age from 18 to 64 years.

The Medical Case Management Unit, which was officially opened in July 2016, consists of five medically trained employees – one doctor and four nurses/midwives. The Claims Unit, which opened its doors in February 2017, presently houses eight staff. The Client Services team, which includes the Front Office staff, is also comprised of seven employees, including the one Client Service Manager who runs the Cayman Brac office. The Finance Team, includes a total complement of five staff, led by Mr. Frank Gallippi, the Chief Financial Officer, who is one of three members of the Senior Management team. The remaining staff complement is made up of the Chief Executive Officer, Mr. Michael Gayle, and the General Manager, Ms. Dana Brandon, who round out the Senior Management team, along with one Senior Compliance Officer, and three support staff.

Of the six male and 26 female CINICO team members, thirty members of staff are Caymanian, while the remaining three staff are from Jamaica, and Canada. Nearly 50 percent of team members hold post-secondary academic qualifications ranging from Associates degrees to Medical degrees, as well as CPA qualifications. Additionally, approximately 30 percent of the staff hold industry certifications, and a few members of staff are currently pursuing accounting, or other industry qualifications. CINICO aims to have 100 percent of its staff educated to a minimum of industry certification by the end of 2020.

CINICO also supports several community initiatives annually, including but not limited to the DG5K, the Healthcare Conference, the Brain Tumor Foundation 5K Walk/Run, the PACCE Walk/Run/Ride and the Intertrust Marathon. Not only does CINICO provide financial sponsorship, but we also proudly boast a volunteerism rate of approximately 50 percent.

In the client satisfaction survey we completed in early 2019, the feedback indicated that we have opportunities to improve how we engage our clients. Specifically, there are opportunities for us to improve how we communicate with our members and how clients are dealt with when they engage CINICO for services. We are, however, doing well when it comes to coordinating overseas care, with improvement needed in communication before, during and after the overseas referral.

Performance Summary – Progress on Strategic Initiatives

This section of our annual report presents the performance results and analysis associated with the initiatives that we planned to execute in support of the strategic goals/objectives contained in our 2013-18 Strategic Plan.

STRATEGIC GOAL/OBJECTIVE	PROJECT/INITIATIVE	STATUS
To provide affordable health insurance to the residents of the Cayman Islands that facilitates access to quality healthcare	Software System Enhancement	A Member Collaborative Care System, in addition to a referral system, have been created. Further testing and revisions are necessary to incorporate the upcoming Cayman Data Protection Law. Completion envisioned in 2019. HR administration software identified, implementation to be completed in 2019. General Ledger upgrade – decided not to pursue at this time. Integration of insurance/claims administration is ongoing.
	Development of additional health insurance plans	New SAGCs Health Insurance plan developed offering choice of medical providers, with the input of various SAGCs. The rich benefits requested provide better benefits than most of the SAGC's current plans. However this has led to a higher premium which most SAGCs are not willing to pay. Choice insurance plan also available for Civil Servants. These will continue to be explored in 2019 and beyond.
	Development of Non-US Preferred Provider Networks locally and internationally	Ongoing. Current alliances made with St Luke's of Kansas City, Cleveland Clinic, Cancer Centers of America, Jamaica Networks and various local providers.
	Documentation of Management of Overseas Costs	Fully implemented in-house Medical Case Management Unit. Fully implemented in-house claims processing. Procedures have been updated and documented.
To maintain CINICO's status as a dynamic and financially stable insurance company that supports its stakeholders in a sustainable manner	To implement a new payment protocol regarding the ASO function (NGS 55 output) performed for the Ministry of Health that would mitigate future financial exposure to CINICO.	Service level agreement drafted and forwarded to the Ministry of Health for execution. However, the Ministry remains unresponsive. Efforts would continue throughout 2019.

STRATEGIC GOAL/OBJECTIVE	PROJECT/INITIATIVE	STATUS
	Elimination of Premium Discounting	Incomplete. Premium discounting continues at the request of Shareholder. Recent efforts made by the Ministry of Finance to approve 2019 actuarial rates.
	Key quality control measures and internal audit requirements	Internal Audit function developed in 2018. Current key quality control measures to be expanded following internal audit report.
	Co-ordination of benefits	Ongoing. Coordination of benefits to be fully completed upon completion of a robust eligibility system.
	Development and implementation of a subrogation procedure	Procedures need to be formalized.
To identify and evaluate options for broadening the scope of the Company's products and services	Complete the development and promotion of a 'Wellness and Lifestyle management program', which was started in 2015.	Put on hold.
	Determination and prioritisation by the Board of which additional lines of business should be pursued, instruction of the appropriate feasibility studies, and early engagement with the sole shareholder on policy and legal considerations for the mission and scope of business of the company.	Not started.
	Continue to develop and implement a program, to improve communication to members and enhance their perception of CINICO. (The process commenced in 2015).	This is an ongoing initiative. Items completed: creation of customer service manager posts, redesigned workflow to improve customer service and revamped website. Currently in the works- an interactive medical referral portal.
To be an "Employer of Choice" recognized as a company providing a high quality work environment	Institute a program of customer service training and product / procedures education for CINICO staff.	Ongoing initiative.
	Continue to maintain the staff training plan which includes a technical education program and "buddy system" of cross training.	Ongoing initiative

Looking Forward

This section of the report reflects information taken from our strategic plan for 2019-24. The plan, which was recently approved by the Board of Directors, contains three strategic objectives and key initiatives in support of these objectives that will be carried out over the next five years.

In our upcoming annual reports we will be reporting on the progress we have made in implementing the initiatives that support these objectives in our "agenda for change," and also how well we are performing in our core business.

ENSURE CINICO'S LONG TERM SUSTAINABILITY

The cost of healthcare is increasing every year due to several factors including, but not limited to, increasing costs for healthcare providers, advances in medical science and technological developments, societal changes and behaviors, an ageing population, and high levels of preventable illnesses. CINICO faces unique obstacles as a government-owned health insurance company to meet these challenges while operating in a regulatory environment designed for private sector insurance providers. Many studies have been done of sustainability issues for the insurance industry around the world, and the Cayman Islands are not unique in facing this challenge.

Because CINICO does not have a diversified portfolio of benefits like other insurance providers in the Cayman Islands, CINICO has been placed in a vulnerable position, given that it has a much high ratio of higher to low health risk insured individuals in its population base. This has been exacerbated by the decision to allow the Statutory Authorities the opportunity to use private sector insurers, further putting CINICO's sustainability at risk.

Premium income is actuarially determined and applied historically on the basis of a cost per member per month. The CIG is required premium discounting without actuarial justification. The method being used for determining the premium discount has led to instability in the operations of CINICO and impacted its profitability.

Over the next five years, therefore, CINICO will be exploring a range of options to ensure our sustainability, such as studying cost containment opportunities, revising the cost of HCCI and outside HSA physician charges, and tightening the cost on unnecessary repeat or indefinite follow-ups. We will also explore putting restrictions on plans and services covered in areas such as physiotherapy and chiropractic treatment, and will undertake measures to detect insurance fraud.

Given that the MOH is planning to conduct a study on health care delivery including payment options, we intend to explore, with key stakeholders, options directed at providing the delivery of such costs in the most efficient and equitable manner possible.

How We Will Achieve This Objective

The ability for CINICO to ensure its sustainability requires a redefinition of its role and its relationship with the CIG. In order to make progress towards our objective of a sustainable financing model for our company, we will need to pursue initiatives that will not only ensure long-term sustainability, but should have the benefit of building stronger relationships with key stakeholders.

During the life of this strategic plan we will continue to:

- Maintain adequate reinsurance coverage in line with CINICO's risk appetite.

Over the next five years we will also plan on successfully undertaking the following initiatives:

- Develop approaches with shareholders and key stakeholders that would eliminate premium discounting and lead to premium income that is more closely aligned with the actuarial determination.
- Establish better ways to engage reputable local/overseas providers, thus achieving value for money.

How We Will Assess Our Progress

We will assess our progress towards long term sustainability by:

- measuring the impacts of our initiatives to eliminate premium discounting;
- developing a suite of performance measures that demonstrate our progress engaging both local and overseas service providers; and
- assessing our success in achieving reductions in the incidence of insurance fraud.

DELIVER AN EXCEPTIONAL CUSTOMER EXPERIENCE ENABLED BY STRONG STAKEHOLDER RELATIONS

Our 2019 member satisfaction survey has been an important part of our strategic planning considerations. In relation to overall client satisfaction, 64% of respondents reported satisfaction with CINICO's services and 23% were dissatisfied. The survey also revealed that although clients generally have a positive view of CINICO, and a majority of these clients like the product, many not know enough about the company. Furthermore, when asked to assess overall performance, clients feel that communication is the most significant service delivery weakness, followed by attention to detail. Another important finding was that the percentage of clients who feel that CINICO is well run, and those who don't, is fairly equal.

We now recognize that we need to improve our overall client satisfaction rating, our communication with members and how we are perceived, and we are committed to addressing these gaps.

Finally, the survey found that there is a great interest in new products which CINICO could make available. At this stage in our development, we feel that we need to continue to enhance the processes, systems, and infrastructure which support our current business lines, and we recognize that we need to work more closely with our stakeholders to maximize the efficiency and effectiveness of our service delivery.

How We Will Achieve This Objective

Continuous improvement of service delivery to our members is a key strategic priority of CINICO.

During the life of this strategic plan we will continue to:

- Maintain a high level of customer service to members on all three islands. While a recent survey of plan members provided an overall good rating of customer service, there are areas for improvement.
- Provide educational material and conduct member education sessions which would focus on better lifestyle choices and achieving better health
- Improve how we engage stakeholders and find more effective ways to ensure that our relationships are healthy.
- Improve the nature and type of data analytics to stakeholders, enabling informed decisions on health care policies and programmes.
- Maintain a high level of responsiveness of MCC.s

Over the next five years we plan to successfully undertake the following initiatives:

- Research and report to the CIG on how to lower healthcare costs within their current plan;
- Update our phone system to promote prompt responses; and
- Finalize and execute annual SPDs.

How We Will Assess Our Progress

We will measure improvement of service delivery to our customers by assessing the degree to which applications processing times, and responses to requests for information, guidance, and advice are within CINICO service standards, and reporting on levels of client satisfaction and also by determine whether we are seeing a lower incidence of complaints. We will also monitor the health of our engagement with stakeholders by conducting an annual survey and using the results of the survey to determine how well we are improving these relationships.

STRENGTHEN OUR STRATEGIC AND OPERATIONAL FOUNDATION FOR DELIVERY

Successful delivery of our mandated responsibilities is dependent on a strong foundation made up of a stable infrastructure, leading edge service delivery tools, engaged and empowered employees, efficient management processes, and robust governance and accountability frameworks. There are a number of areas in which we can strengthen our governance, infrastructure and practices and thus strengthen this foundation for delivery. To identify how we might best address the initiatives that would provide the greatest impact on our operations, we recently documented our service delivery model and assessed how well we are structured internally to manage for optimum results.

For example, given the data that CINICO gathers on the full spectrum of provision of primary health care, its delivery, and the associated costs, our organization is in an advantageous position to provide decision-makers in the various stakeholder groups with data that can assist with:

- strategic planning for risk management and chronic diseases;
- improving services for at risk-groups (i.e. the ageing population);
- identification of areas for action regarding patients with complex medical histories, including those who suffer from multiple conditions; and
- dealing with threats and losses.

CINICO acknowledges that there are significant opportunities to improve how we operate in order to ensure we achieve our objectives. We are committed to the implementation of updated frameworks and practices that provide assurance to senior management and the Board that services are being delivered with due regard to value for money.

How We Will Achieve This Objective

For operational success, CINICO must have an integrated set of management policies, procedures, and practices which ensure that it can deliver quality service to its clients and meet the expectations of the shareholder. We also need to continue to seek clarity related to how CINICO can be a sustainable partner in the Cayman Islands healthcare system.

During the life of this strategic plan, therefore, we will continue to:

- Update our policies and procedures to ensure they provide our staff with a clear understanding of how we are managing for results;
- Carry out extensive staff training and include cross-training of staff for more effective use of our personnel, and ensure that there is a robust succession plan for key positions in the Company.

During the life of this strategic plan we will undertake the following initiatives:

- Develop a business case for the CIG to consider how CINICO could be a more successful and sustainable partner in the healthcare system;
- Institute a study of the governance framework for CINICO;
- Develop and implement risk management and performance measurement policies and frameworks;
- Review the process to ensure the accuracy and timeliness of member data.

How We Will Assess Our Progress

We will measure our progress in relation to this strategic objective through internal audits focused on our management framework which assess how well our planned business improvements are working, and by reporting on employee satisfaction and the degree to which our employees feel that they have an enabling work environment of suitable tools and infrastructure.

CINICO PERFORMANCE MONITORING AND EVALUATION FRAMEWORK

In December 2018, CINICO reactivated a member survey, first conducted in 2012, which will be repeated on an ongoing basis. The results of this survey will enable us to report on a set of qualitative performance indicators which reflect our members' perceptions of our services and the degree to which we have met their needs.

Furthermore, mindful of the need to maintain good relationships with our stakeholders, we carried out a survey in 2018 which provided some very useful input to our strategic planning efforts, and we intend to continue doing so on a regular basis. We will also report on the degree to which we have implemented strategic initiatives that respond to their suggestions.

We will also monitor quantitative indicators related to the timeliness of some of our key services, which will enable us to guide our decision-making and report to the Board and our members through a balanced performance scorecard on our web site as well as in our annual report.

CAYMAN ISLANDS
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Supplementary Information

RISK MANAGEMENT

The 2018 and 2019 Ownership Agreements with the Shareholder identified the following key risks for management by CINICO:

KEY RISKS	CHANGE IN STATUS FROM PREVIOUS YEAR	ACTIONS TAKEN TO MANAGE RISK	FINANCIAL VALUE OF RISK
Claim losses are higher than what can be supported by revenues	Full implementation of In-house case management unit staffed with nurses and one doctor. Included audit protocols and secondary review on claims paid. Reduced Reinsurance rates sought in next renewal. Commenced the development of a case management software and member care collaboration system.	• CINICO direct provider contracts. • Improved overseas discounts as a result of completion of an RFP in 2013. • Utilization of CINICO in-house, Medical Case Management Unit (MCMU). • Audit protocols and secondary review of claims paid. • Review for medical necessity. • Monitoring, control and follow-up of local and overseas referrals through referral system and Apollo guidelines. • Reinsurance arrangement in place to limit the Company's risk to large claims (30100 Group only). • Weekly concurrent review with UHC of overseas inpatient cases. • Coordination of discharge plan both locally and overseas. • Capital preservation policy. • Monthly Risk & Appeals committee meetings. • Quarterly meetings with overseas network provider.	Not quantifiable
TPAs not delivering against expectations	No longer use TPAs for claims adjudication and Case Management.		Not quantifiable
Issues with leased claims system	Starting June 2017 CINICO is adjudicating claims in house through the use of a leased claim system.	• Offsite disaster recovery of data. • Robust contracting with vendor supplying system, stipulating functions, penalties, etc. • Vendor required to take an annual internal controls audit. • 24 hour support. • In-house claims department staffed with experienced claim adjudicators. • 2018 internal audit. • Use of a "ticketing" system to report faults and, weekly meeting with vendor.	Not quantifiable

KEY RISKS	CHANGE IN STATUS FROM PREVIOUS YEAR	ACTIONS TAKEN TO MANAGE RISK	FINANCIAL VALUE OF RISK
Risk that CINICO's reinsurer will be unable to pay its liabilities		• Reinsurance reviewed every year. As part of the review, creditworthiness is looked at. Our current reinsurer has an AM Best rating of A+ XV stable.	Approxi-mately $500k - $1m based on historical amounts
Non-compliance with CIMA's rules and regulations and HIC rules	Employment of Compliance officer. Review of compliance at the Board level.	• Documented Corporate Governance, policies and procedures. • Compliance calendar.	CIMA/HIC fines
Risk that govern-ment would not honor its liabilities under the ASO agreement (Output NGS 55)		• Creation of an ASO Agreement between CINICO and Government. • Frequent monitoring. • Suspension of services to Government, when it becomes apparent that the NGS-55 budget would be exhausted and no guarantee of funds is made.	$4 million to $8 million
Negative operating cash flow and below CIMA's required capital levels, resulting from shareholder's requirement to discount premium rates below actuary rates, thus deplet-ing capital and exposing Company to liquidity risk	Premium rate increase was approved, however not to the level of the actuarial recommended rate.	• Enforcement of Company's credit and liquidity risk policy. • Aggressive collection of Government outstanding premium. • Request for equity injection to meet CIMA's capital requirements. • Immediate suspension of NGS-55 output once budget is exhausted. • Pursue adoption of actuarial premium rates with Government.	Premium rate reduc-tion led to a decrease in capital of $7.8 million in 2018 and $10.9 million in 2019

In 2018, the Company finalized its Risk Management Framework (RMF) as required by CIMA's rule 9.

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

- Credit risk
- Insurance underwriting and reinsurance
- Investment risk
- Market risk (including liquidity risk)
- Strategic and tactical risk
- Concentration risk
- Compliance risk
- Operational risk (including outsourcing and business continuity)
- Other risks – fraud, recruitment, information technology, anti-money laundering

List of Acronyms and Abbreviations

ACRONYM	DESCRIPTION
ASO	Administrative Services Only
CDO	Chief Dental Officer
CI	Cayman Islands
CICSA	Cayman Islands Civil Service Association
CIG	Cayman Islands Government
CIHSA	Cayman Islands Health Services Authority
CIMA	Cayman Islands Monetary Authority
CINICO	Cayman Islands National Insurance Company (Ltd.)
CMO	Chief Medical Officer
CPA	Chartered Professional Accountant
HCCI	Health City Cayman Islands
HECH	(Ministry of) Health Environment Culture and Housing
HSA	(Cayman Islands) Health Services Authority
IBNR	Incurred But Not Reported
MCCs	Medical Case Coordinators
MCR	Minimum Capital Requirement
MOH	Ministry of Health
PCR	Prescribed Capital Requirement
PMPM	Per member per month
POCS	Portfolio of the Civil Service
PSPB	Public Service Pensions Board
RMF	Risk Management Framework
SAGCs	Statutory Authorities & Government Companies
SHIC	Standard Health Insurance Contract
SPD(s)	Summary Plan Document
TPAs	Third Party Administrators

Financial Performance Analysis

Financial Performance (Net Income/ (Loss))

For the year ending December 31, 2018, CINICO recorded a net loss of $6.9 million compared with a budget net loss of $5.0 million, and a prior year net loss of $5.3 million. The net loss position resluted from CINICO being required to keep its insurance premium rates for Government plans below actuarial calculated rates despite increases in utilization and inflation in medical costs. Without premium discounting, which amounted to $7.9 million CINICO would have earned a profit of $1.0 million, as is illustrated in Table 1 below.

In developing premium rates, assumptions are made on expense levels, claim cost levels, reinsurance, etc. Table 1 illustrates the sources of the profit (or variance to the budget) compared with the premium pricing level assumptions for the year ending December 31, 2018. Table 2 provides same for the 18-month period ending December 31, 2017.

Cash and cash equivalents

Cash and cash equivalents is comprised of cash at the bank and fixed deposits (cash on hand). For the year ending December 31, 2018, the cash and cash equivalents increased by $6.7 million to $15.2 million. The large increase is essentially due to improved collections with government premium and ASO claims, offset by quicker claim payments. All of the Company's cash and cash equivalents are held with reputable financial institutions in the CI.

Cash and cash equivalents is $1 million above the budget.

Premiums receivable

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

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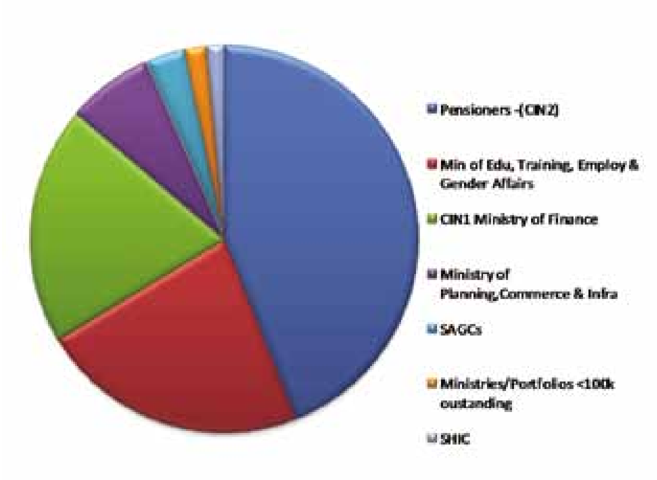
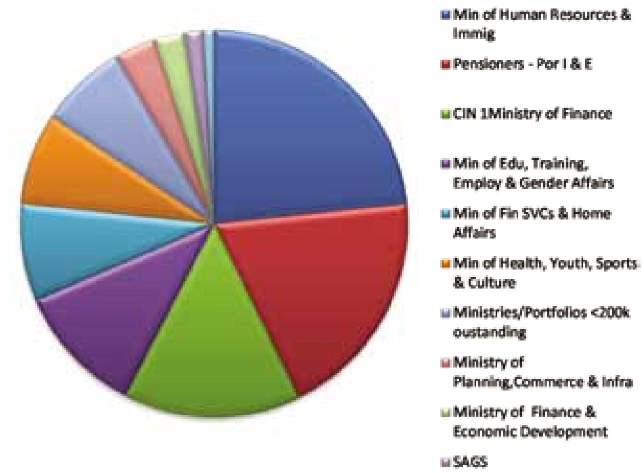
FIGURE 2: COMPOSITION OF PREMIUM RECEIVABLE

Current year



Prior year



As at December 31, 2018, premium receivables were $0.4 million higher than budget. Current premiums decreased by $4.3 million to $3.3 million (net of provision *) compared with the prior year. The decrease is attributed to improved collections, as a large majority of receivables from Government are current.

TABLE 1: SOURCES OF NET INCOME/ (LOSS) FOR THE YEAR ENDING DECEMBER 31, 2018 ($ MILLIONS)

SOURCE OF NET PROFIT/(LOSS)	AMOUNT	EXPLANATION
Unfavorable incurred overseas claims	($4.5)	Unfavorable in all lines of business (includes Health City), offset with lower local utilization.
Favorable incurred local claims	$0.7	Favorable in all lines of business, offset with higher over-seas utilization.
Reserve release	$0.3	2016/17 reserve release (local)
Reinsurance premium	$0.2	lower rates
Expenses and other	$1.9	Predominantly admin expenses, TPA fees and, higher ASO fees
Risk premium	$2.4	Actuary risk premium for adverse claims deviation (part of non-discounted rates)
Net income (before premium discount and risk premium)	**$1.0**	
Government premium discount	($7.9)	Civil Servants $3.8 million, Pensioners $1.8 million, S&V $2.3 million. (Rates increased, however below actuarial requirement).
Net loss	**($6.9)**	

TABLE 2: SOURCES OF NET INCOME/ (LOSS) FOR THE 18-MONTH PERIOD ENDING DECEMBER 31, 2017 ($ MILLIONS)

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

ASO claims and fees receivables

On behalf of the Ministry of Health, Environment, Culture and Housing (HECH), CINICO administers health benefits for Indigents (not including medical services provided at the CIHSA) and overseas health benefits for the Seafarers & Veterans plan (Group 30101). The benefits are administered under an ASO plan. Under an ASO plan, the insurance risk is fully borne by the purchaser of services, in this case the Ministry of HECH. CINICO pays the claims and immediately invoices the Ministry of HECH for the full amount plus any administration fees. The funding for these services is provided through the NGS 55 output (Tertiary Care at Various Overseas Institutions).

Over the years the budget has been consistently underfunded, thus leaving CINICO with large receivable balances until a supplementary budget is executed. To ensure timely payment from the Ministry and prevent unfunded payments, CINICO has reached out to the Ministry to execute an "ASO" agreement. The aim of the agreement is to limit CINICO's credit and liquidity exposure, and clearly define the Ministry's payment obligations ahead of time. To date we have not received any feedback on the draft agreement. The agreement is also required by CIMA, as in a recent inspection, CIMA recommended that CINICO should not extend credit without a formal service level agreement.

The membership for this output has seen a drastic increase of 11% from last year, thus driving increases in overall expenditure (NGS 55 output). Eligibility for indigent status is determined by the Department of Children and Family Services.

As at December 31, 2018, the ASO claims and fees receivable were $3.7 million or $1.5 million below the prior year and $0.5 million below the assumption in the budget. The decrease in the receivable balance is due to improved payment turnaround time from the Ministry.

Provision for claims incurred

The provision for claims incurred, also known as IBNR (Incurred But Not Reported) claims, is determined using accepted actuarial techniques and current claim information available at the time of calculation. By their very nature, IBNRs include an element of uncertainty as assumptions must be used based on historical data, which may or may not be realized in the future. Such assumptions include: the severity of losses, claims utilization factors, claim payment patterns, provider discounts, the outcome of patients' medical condition, length of inpatient stays, etc. As assumptions are used, the ultimate ("hindsight") reserve liability may be in excess of or less than the original estimates. The hindsight reserve liability can only be known with the passage of time, which is usually no greater than one year.

At $10.2 million, the current year provision for claims incurred has remained the same from the prior year provision, and is $2.6 million below the budget.

The December 31, 2018 amount represents two months of incurred claims.

Note 11 of the financial statements provide the IBNR hindsight development commencing from the 2004/5 reporting year.

Shareholder's equity

Shareholder's equity decreased by $2.5 million to $11.0 million from the prior year. The decrease is due to the current year loss of $6.9 million offset by an equity injection of $4.5 million, which was required to meet CIMA's capital requirements.

The current year shareholder's equity was $2.6 million higher than budget, as illustrated in Table 3 below.

TABLE 3: ANALYSIS OF SHAREHOLDER EQUITY

	$ millions		
	Budget	Actual	Variance
Opening shareholder's equity	$13.4	$13.4	$-
2018 Loss	(5.0)	(6.9)	(1.9)
2018 equity injection	-	4.5	4.5
Closing shareholder's equity	$8.4	$11.0	2.6

Total Income

The Table 4 below illustrates total income by various types of income compared with last year and budget. A majority of the total income is derived from premium income.

TABLE 4: BREAKDOWN OF TOTAL INCOME

	CURRENT YEAR	CURRENT YEAR BUDGET	PRIOR YEAR
Premium income	$ 79,970,430	$ 80,193,935	$ 104,967,675
Reinsurance premium	(923,585)	(1,084,459)	(1,848,485)
ASO fees	764,370	716,292	1,023,862
Other income	177,691	54,400	212,143
Total income	**$ 79,988,906**	**$ 79,880,168**	**$ 104,355,195**

The major components of total income are analyzed below.

Premium income

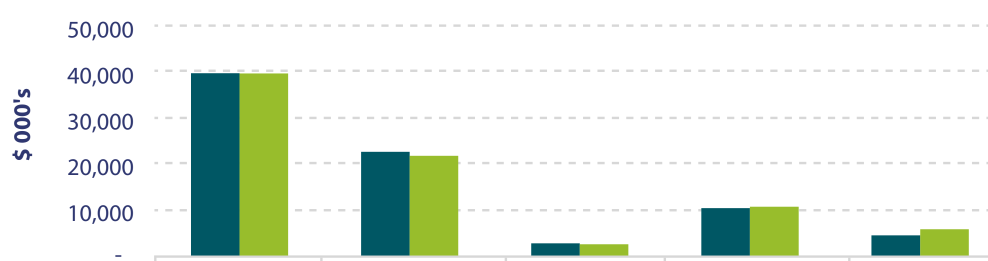
Premium income is earned from health insurance plans under the following business categories:

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

Figure 3 below illustrates the premium income by insurance plan category comparing actual to budget.

FIGURE 3: PREMIUM INCOME BY BUSINESS CATEGORY

Premium: Actual vs Budget



	Civil Servants	Pensioners	SAGCs	Seafarers and Veterans	SHIC plans
Actual	39,907	22,725	2,631	10,310	4,397
Budget	39,706	21,736	2,412	10,641	5,699

TABLE 5: AVERAGE NUMBER OF COVERED LIVES INSURED

	CURRENT YEAR	BUDGET	PRIOR YEAR	% CHANGE TO BUDGET	% CHANGE TO PRIOR YEAR
Civil Servants	8,077	8,067	7,889	0%	2%
Pensioners	2,233	2,236	2,217	0%	1%
SAGCs	492	455	449	8%	10%
Seafarers and Veterans	1,098	1,133	1,102	-3%	0%
Indigents	1,642	1,574	1,476	4%	11%
SHIC plans	2,123	2,286	2,220	-7%	-4%
Total	15,665	15,751	15,353	-1%	2%

Premium income is driven by the number of lives covered and the premium rates charged (as an example the higher the number of members covered, the greater premium income earned). Table 5 compares the average number of covered lives throughout the comparative periods. Besides influencing the overall premium income, the number of covered lives also drives the overall claims and claims administration fee expenses.

The table shows a slight decrease in covered lives compared with the budget. The decrease was led by the SHIC and Seafarers and Veterans plans, offset by increases in SAGCs and Indigents. Compared with the prior year, average covered lives increase by 2% led by large increases in Indigents and SAGCs members.

As mentioned previously, although the premium rates for the government plans (Civil Servants, Pensioners and Seafarers and Veterans) increased from the 2012/13 levels, they were still below the actuarial calculated rate. This resulted in an implied government premium discount of $7.9 million for the year ending December 31, 2018, compared with the implied government discount of $10.7 million for the prior year (18 month period ending December 31, 2017).

The current year premium income of $80 million is approximately $0.2 million below the budget premium income of $80.2 million. The decrease in premium income compared with budget is essentially due to the lower premium from the SHIC and Seafarers and Veterans plans. The SHIC premium was lower than budget as the budget assumed higher premium rates, higher number of members covered, and an older age demographic, which commands higher premium rates. The Seafarers and Veterans premium was lower than budget due to a reduction in the number of covered lives versus budget. The unfavorable premium variances to budget were offset by favorable variances in Group 30100 (Civil Servants, Pensioners, SAGCs) resulting from a higher number of covered lives and a slightly older age demographic over what was assumed in the budget.

The current year premium income is $10.0 million above the prior year annualized premium of $70.0 million (Annualized premium calculated by dividing the 18-month cumulative premium income of $105.0 million by 1.5). The increase can be attributed to increased premium rates, along with slightly higher covered lives in the Civil Servant and SAGCs plans.

Reinsurance premium

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

The Company's reinsurance coverage is as follows:

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

Figure 4 below shows that the rate paid throughout the current year was US$ 8.51 PMPM (per member per month), compared to a budget rate of US$ 10.00 PMPM, and a prior year rate of US$ 11.49. The graph shows Management's success in reducing the premium rate year over year. These reductions are due to various changes in business strategies (i.e. improved overseas discount rates, insourced of medical case management and claims unit). The reductions are also an indication of the reinsurer's confidence in CINICO's abilities.

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

The overall reinsurance premium paid in the current year was $0.9 million, and $0.2 million below budget, despite an increase in covered members. This is attributed to the rate reduction as illustrated in Figure 4 above.

The reinsurance premium paid for the prior year (18 months) was $1.9 million, or $1.3 million annualized. The current year reinsurance expenditure is $400k below the 2016/17 annualized expenditure of $1.3 million and is as a result of a lower premium rate, offset by higher covered lives.

For the year ended December 31, 2018, three claims surpassed the US$ 600k retention, for a reinsurance claim recovery of US$ 210k. For the 18-month year-ended December 31, 2017, one claim reached US$ 1.6 million. As such the company was entitled to a reinsurance recovery of US$ 0.9 million. The graph depicts the claim recovery against the cost of coverage (reinsurance premium). Although the claim recovery is below the cost of premium, reinsurance is an integral part of controlling risks.

FIGURE 4: HISTORICAL REINSURANCE PREMIUM RATE

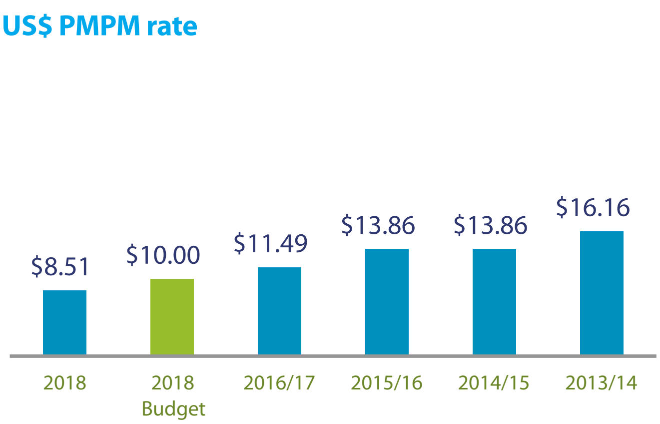
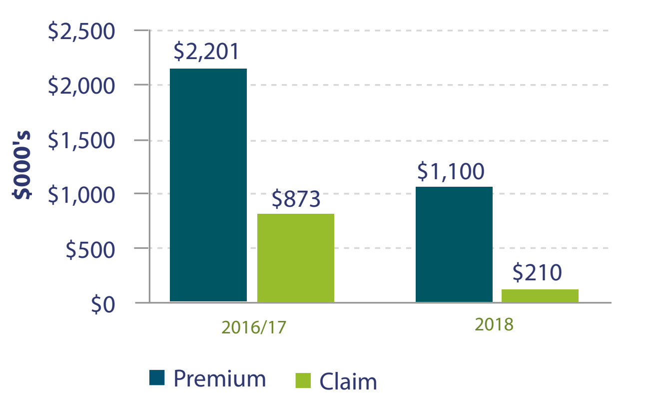


FIGURE 5: REINSURANCE PREMIUM VERSUS REINSURANCE CLAIMS (US$)



ASO Fees and Other Income

ASO fees are earned on a PMPM basis per each indigent member. In the current year, fees at $764k surpassed the budget by $48k as a result of the higher number of indigent members versus the assumption in the budget. The current year fees also surpassed the annualized prior year fees by $82k, due to the higher number of indigents over the prior year.

Other income was $123k better than budget. The favorable variance is due to higher fee income on reinstatements, insurance confirmations, and a write-back of stale dated checks (over 6 years) into income. Compared to last year other income retracted slightly by $34k.

Total Expenses

For the year ending December 31, 2018, total expenses reached $87.0 million, which was $2.1 million above the current year budget. The following table shows the distribution of total expenses by expense type. A majority of the variance to budget relates to higher payments of medical benefits, or incurred claims, offset by savings in administration expenses.

An analysis of each component of total expenses is provided in Table 6 below.

Incurred claims

Table 7 presented below displays incurred claim losses by group and location (local versus overseas) for the 18 month period ending December 31, 2017, the year ending December 31, 2018 and the 2018 budget. The figures reported are net of reinsurance recoveries and repricing fees. Additionally, the incurred claims are presented on a "hindsight basis". For example, for the 18-month period ended December 31, 2017, the original reported claims were $101.4 million which included claims incurred and paid during the period, plus an estimate for claims incurred but not reported (claim provision). In hindsight, and one year later, the 2016/17 claim reserve showed a favorable development of $250k (net of reinsurance), so that the final 2016/17 claims incurred are $101.1 million compared with the reported figure of $101.4 million.

As discussed in the "provision for claims incurred" section, the ultimate ("hindsight") claims incurred amount would only be known once all claims have been submitted by medical providers and settled, which is likely to take no longer than one year. As such, the 2018 total claims incurred estimate is made up of claims incurred in 2018 which were paid in the same year, plus an estimate for any claims outstanding. The estimate for claims outstanding, also known as IBNRs (Incurred But Not Reported) is based on actuarial methods and assumptions (see section entitled "provision for claims incurred"). As at December 31, 2018, $9.7 million or 11.8% of the total 2018 claims incurred amount of $82 million is made up of IBNRs. This represents just over one month of claims outstanding.

TABLE 6: BREAKDOWN OF TOTAL EXPENSES

	CURRENT YEAR	CURRENT YEAR BUDGET	PRIOR YEAR
Incurred claims*	$ 81,665,418	$ 78,659,759	$ 101,031,707
Contributions to segregated insurance fund	307,040	299,264	441,810
Claims administration and other expenses	1,083,546	1,365,609	2,630,898
Adminsitration expenses	3,921,416	4,567,910	5,562,615
Total expenses	**$ 86,981,896**	**$ 84,892,542**	**$ 109,667,030**

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

TABLE 7: INCURRED CLAIM LOSSES (000's)

	2016/17 (18 Months ending Dec 31)			2017 - Calendar Year	2018 - Calendar			2018 less 2017 Calendar Year	2018 Budget	Inc/(dec) - 2018 reported less Budget
	Reported	Hindsight adjustment*	Final	Hindsight	Incurred in 2018 & paid in 2018	IBNR	Reported			
Local										
Group 30100	60,146	(206)	59,940	40,529	42,884	5,130	48,014	7,485	47,472	542
Group 30101	14,880	(147)	14,733	9,942	9,411	960	10,371	429	12,248	(1,877)
Group 30104	3,555	(21)	3,534	2,317	1,905	292	2,197	(120)	2,776	(579)
	78,581	**(374)**	**78,207**	**52,788**	**54,200**	**6,382**	**60,582**	**7,796**	**62,496**	**(1,914)**
Overseas *										
Group 30100	20,033	269	20,329	14,292	16,783	2,888	19,671	5,379	14,691	4,980
Group 30101	-	-	-	-	-	-	-	-	-	-
Group 30104	2,801	(180)	26,621	1,797	1,317	437	1,754	(43)	1,558	196
	22,834	**116**	**22,950**	**16,089**	**18,100**	**3,325**	**21,425**	**5,336**	**16,249**	**5,176**
Total										
Group 30100	80,179	90	80,269	54,821	59,667	8,018	67,685	12,864	62,163	5,522
Group 30101	14,880	(147)	14,733	9,942	9,411	960	10,371	429	12,248	(1,877)
Group 30104	6,356	(201)	6,155	4,114	3,222	729	3,951	(163)	4,334	(383)
	101,415	**(258)**	**101,157**	**68,877**	**72,300**	**9,707**	**82,007**	**13,130**	**78,745**	**3,262**

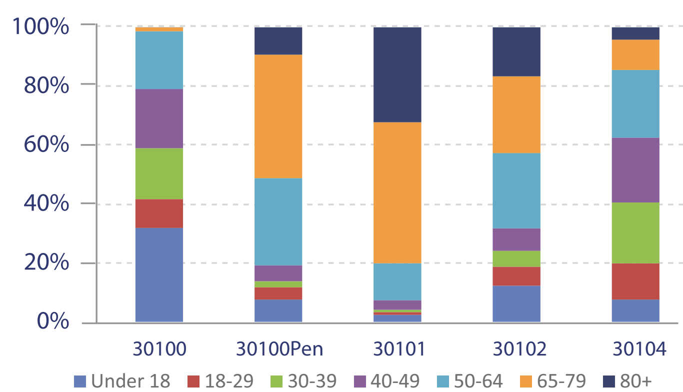
Prior year adjustment in reserves	86						(258)		-	
ALAE reserve	(469)						(84)		67	
Claim losses per f/s	101,032						81,665		78,812	

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

The increase in claims is caused by numerous factors. A portion of the increase is attributed to the growth in membership in Group 30100. This group is comprised of three subcategories which experienced different rates of membership growth. The Civil Servant segment grew by 2%, Pensioners by 1% and SAGCs by 10%.

Claims costs are also driven by the demographics of the individual groups. The membership is aging and the claim costs are correlated to age, in that as one gets older, claim costs typically start rising exponentially. Figure 6 illustrates the age demographics for each group.

FIGURE 6: AGE DISTRIBUTION BY GROUP



Using the age of 50+ as a comparison between groups, Figure 6 illustrates that 21% of Group 30100's members are over 50 years of age; 80% of the Pensioners (Group 30100Pen) are over 50 years of age; 93% of Group 30101's members are over 50 in age (80% of the members are over 65 years of age); 68% of Group 30102's members are over 50 years of age (43% of the members are over 65 years of age); and 37% of Group 30104's members are over 50 years of age (15% of the members are over 65 years of age). As at December 2018, the average age of the members in the groups (including dependants) were; Group 30100 – 33; Group 30100Pen – 60; Group 30101 – 72; Group 30102 – 57; and Group 30104 – 45.

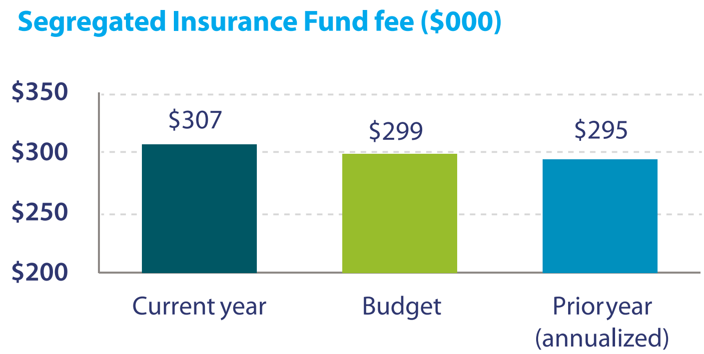
Medical costs continue to grow year after year. Factors driving increasing overall claim costs are new and costly pharmaceutical drugs; educated membership; physician practice patterns leading to more tests and prescribing more drugs; higher numbers of covered lives; general health of the population and chronic disease which is prevalent in our society; higher cancer rates; and over-utilization, as a result of a plan design which is not cost prohibitive to the members and is free.

A majority of the increase in claim costs related to Group 30100, which grew by $12.9 million or 23% from the prior year ($7.8 million increase in local claims, and $5.3 million increase in overseas claims). Besides growth in membership a majority of the increase in the local claims can be attributed to CIHSA's increase in charge master rates.

Contributions to the Segregated Insurance Fund

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

FIGURE 7: SEGREGATED INSURANCE FUND FEE: ACTUAL VERSUS BUDGET



The increase of the Segregated Insurance Fund fee to budget and the prior year is due to higher members insured over budget, particularly with SAGCs.

Claims administration expenses (Third party administration ("TPA") fees)

Claims administration expenses (TPA fees) are for services rendered by third party administrators (TPAs). The fees paid to the TPAs are based on a PMPM basis, in which as the membership increases so do the overall expenses.

Figures 8 and 9 provide a segregation of the claims administration expenses by type of service.

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

For the current year ending December 31, 2018, TPA fees were $1.1 million compared to a budget of $1.4 million representing a reduction of $0.3 million. Compared with the prior year, the current year's TPA fees were $0.3 million below the prior year's annualized expenditure. The reduction over budget and the prior year is a result of the insourcing initiatives mentioned in the preceding paragraph.

Figure 8: TPA fees and Administration Expenses

Figure 8 compares the current year TPA fees versus budget, by type of fee. It also includes local administration expenses (Admin Exp). The current year TPA fees and local administration expenses amounted to $5.0 million, compared to a budget of $5.9 million, for a net reduction of $0.9 million. The reduction is mostly attributed ($0.7 million) to vacant positions.

Figure 9 shows that the current year expenditure ($5.0 million), was $0.2 million below the annualized prior year expenditure ($5.2 million). Total TPA fees decreased, offset by increases in administration expenses. The overall reduction of TPA fees combined with administration expenses was expected as CINICO achieved its goal of providing in-house case management and claims administration functions, at lower costs than outsourcing.

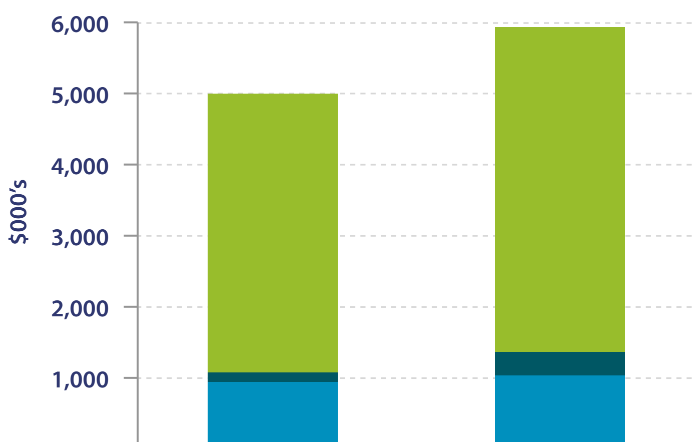
Administration Expenses

Administration expenses are those incurred in the operation of the Company's office which includes personnel costs, rent, depreciation, audit fees, and actuary fees.

Administration expenses were $0.6 million below budget, mainly attributed to personnel costs due to vacant positions. Other favorable variances were achieved in training, travel, actuary fees, depreciation, office supplies, and currency gains. These were offset by unfavorable variances in audit fees, director fees, telephone charges, etc.

FIGURE 8: ACTUAL VERSUS BUDGET

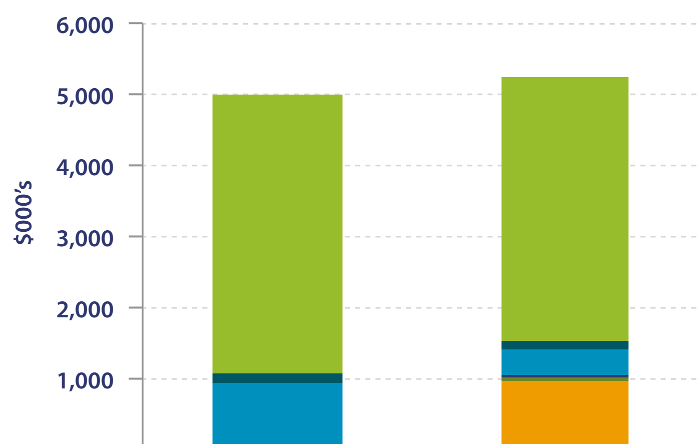
TPA fees and Admin Expenses



	Actual	Budget
Admin Exp	3,926	4,568
Other	132	328
Hi Tech	912	999
CHN	40	38

FIGURE 9: TPA FEES AND ADMINISTRATION EXPENSES CURRENT VERSUS PRIOR YEAR (ANNUALIZED)

TPA fees and Admin Expenses



	Actual	17/18 Annualized
Admin Exp	3,926	3,708
Other	132	119
Hi Tech	912	358
CHN	40	40
MMSI	-	43
ABS	-	970

Appendix 1: Reporting on the Outputs Delivered to Cabinet

SUMMARY OF OWNERSHIP PERFORMANCE TARGETS

The ownership performance targets for CINICO for the 2018 financial year are as follows.

Financial Performance

FINANCIAL PERFORMANCE MEASURE	2018 ACTUAL $000'S	2018 BUDGET $000'S	ANNUAL VARIANCE $000'S	NOTE
REVENUE FROM CABINET	$32,987	$32,322	$665	1
REVENUE FROM MINISTRIES, PORTFOLIOS, STATUTORY AUTHORITIES AND GOVERNMENT COMPANIES	43,303	42,834	469	
REVENUE FROM OTHER PERSONS OR ORGANISATIONS	3,699	4,725	(1,026)	2
SURPLUS/DEFICIT FROM OUTPUTS				
OTHER EXPENSES	86,982	84,893	(2,089)	3
NET SURPLUS DEFICIT	(6,993)	(5,012)	(1,981)	4
TOTAL ASSETS	23,523	23,261	262	
TOTAL LIABILITIES	12,525	14,849	2,324	5
NET WORTH	10,998	8,412	2,586	6
CASH FLOWS FROM OPERATING ACTIVITIES	2,247	(5,780)	8,027	7
CASH FLOWS FROM INVESTING ACTIVITIES	(26)	(139)	112	
CASH FLOWS FROM FINANCING ACTIVITIES	4,530	-	4,530	6
CHANGE IN CASH BALANCES	6,751	(5,919)	12,670	

Notes: Explanation of Variance:

1. CIN 2 higher than budget due to higher average age, offset against below budget CIN1 due to lower membership.
2. Unfavourable variance namely from the SHIC line with lower membership and lower average premium than budget. Offset by favourable reinsurance premium, and other income.
3. Overall the variance is 1% of budget. The "other expenses" line is made up of the following items:

EXPENSE ITEM	ACTUAL $M	BUDGET $M	VAR $M	EXPLANATION
Claims costs	$81.7	$78.7	$(3.0)	Driven by higher membership, and higher utilization versus budget, including lower than expected reinsurance recoveries ($0.7M)
Segfund fees	0.3	0.3	-	
TPA fees	1.1	1.4	0.3	Underutilization of claims admin support, wellness rewards and other vendor services
Admin exp	3.9	4.6	0.7	Predominantly due to vacant posts
Total	**$87.0**	**$85.0**	**$(2.0)**	

4. See section Financial performance
5. Budget assumed higher actuarial liabilities.
6. The equity injection of $4.5 million, was required to meet CIMA'sMCR) and PCR.

	$ millions		
	Budget	Actual	Variance
Opening shareholder's equity	$13.4	$13.4	$-
2018 Loss	(5.0)	(6.9)	(1.9)
2018 equity injection	-	4.5	4.5
Closing shareholder's equity	$8.4	$11.0	2.6

7. The cash flows from operating activities are higher than budget due to improved collections of premium and ASO receivables, offset by lower levels of outstanding claims.

FINANCIAL PERFORMANCE RATIO	2018 ACTUAL %	2018 BUDGET %	ANNUAL VARIANCE %
CURRENT ASSETS : CURRENT LIABILITIES	186%	154%	32%
TOTAL ASSETS : TOTAL LIABILITIES	188%	157%	31%

Maintenance of Capability

HUMAN CAPITAL MEASURES	2018 ACTUAL	2018 BUDGET	ANNUAL VARIANCE
TOTAL FULL TIME EQUIVALENT STAFF EMPLOYED	31	40	(9)
STAFF TURNOVER (%)			
SENIOR MANAGER	33%	0	33%
PROFESSIONAL AND TECHNICAL STAFF	0	0	0
ADMINISTRATIVE STAFF	6.8%	0	6.8%

PHYSICAL CAPITAL MEASURES	2018 ACTUAL $000'S	2018 BUDGET $000'S	ANNUAL VARIANCE $000'S
VALUE OF TOTAL ASSETS	$23,523	$23,261	$262
ASSET REPLACEMENTS: TOTAL ASSETS	9%	0.6%	8.4%
BOOK VALUE OF ASSETS: COST OF THOSE ASSETS	13.8%	17.4%	(3.6)%
DEPRECIATION: CASH FLOW ON ASSET PURCHASES	624%	141.1%	482.9%
CHANGES TO ASSET MANAGEMENT POLICES	None	None	None

MAJOR CAPITAL EXPENDITURE PROJECTS	2018 ACTUAL $000'S	2018 BUDGET $000'S	ANNUAL VARIANCE $000'S
GL, HR admin, and Member care collaboration system	$0	$112	$112

Explanation of Variances
Major Capital expenditure projects – Projects not pursued as budgeted. The HR admin and Member care collaboration system would be pursued in 2019.

Other Financial Information

TRANSACTION	2018 ACTUAL $000'S	2018 BUDGET $	ANNUAL VARIANCE $
(1) Equity Investments into CINICO	$4,530	-	$(4,530)
Capital Withdrawals from CINICO	-	-	-
Dividend or Profit Distributions to be made by CINICO.	-	-	-
Government Loans to be made to CINICO.	-	-	-
Government Guarantees to be issued in relation to CINICO.	-	-	-
(2) Remuneration Payments made to Key Management Personnel	$471	$494	$23
Remuneration Payments made to Senior Management	$413	$449	$36

(1) Equity required to meet CIMA's MCR and PCR. Shortfall in capital resulting from premium discounting of Government plans, below actuarial calculated premium rates.
(2) Senior Management and Board. Favorable variance due to lower than budget Senior management remuneration (vacancy for 3 months) offset by higher than budget Director fees resulting from additional Board meetings.

	2018 ACTUAL	2018 BUDGET	ANNUAL VARIANCE
Number of Senior Management	2	3	1

CINICO is committed to providing timely service to our members, seeking out avenues to become as efficient as possible in our service delivery, and to do so by work collaboratively with our stakeholders and delivery partners.

This section of the annual report highlights our service performance related to the two key outputs we deliver to Cabinet.

Statement of Outputs Delivered to Cabinet

CINICO delivers two outputs to Cabinet:

- CIN 1 - the provision of health insurance for Seafarers and Veterans and their dependents (local benefits only, excluding tertiary care); and
- CIN 2 - the provision of health insurance for Civil Servant Pensioners and their dependents.

The following is a summary of the performance related to the delivery of these outputs for the year ending December 31, 2018.

CIN 1 HEALTH INSURANCE FOR SEAFARERS AND VETERANS

Description

Provision of Health Insurance for Seafarers & Veterans and their dependents for insurance coverage by CINICO (local coverage only, excluding Tertiary Care).

MEASURES	2018 ACTUAL	2018 BUDGET	ANNUAL VARIANCE
Quantity • Total (average) number of persons insured - premiums fully paid by Cabinet	1,082	1,116	(34)
• Total number of persons insured – premiums partially paid by Cabinet (Veterans)	12	13	(1)
Quality • All eligible Seafarers, 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) • $783 per person insured per month per month (premiums fully paid by Cabinet) • $669 per person insured per month (Veteran premiums partially paid by Cabinet)			
Price (paid by Cabinet for the output)	**$10,262,228**	**$10,586,020**	**$(323,792)**

Explanation of Variances

Output is below budget as the number of members covered was lower than budget.

CIN 2 HEALTH INSURANCE FOR CIVIL SERVANT PENSIONERS

Description

Provision of Health Insurance for Civil Servant Pensioners and their dependents.

MEASURES	2018 ACTUAL	2018 BUDGET	ANNUAL VARIANCE
Quantity • Total average number of insured persons (Insured = Enrollees + dependents).	2,236	2,233	(3)
Quality • All eligible pensioners and their dependents are insured who are deemed to be eligible by the Public Service Pension Board and the POCS.	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 • 2018: Age banded rates: under 18 years(yrs) $176, 18-29yrs $280, 30–39yrs $361, 40–49yrs $475, 50-59yrs $751, 60yrs & over $1,036)	22,724,946	$22,623,202	101,744

Explanation of Variances

Premium (cost to Cabinet) is higher than budget as the actual average age of the group was higher than the budget assumption (premium dependent on age).

Audited Financial Statements

Financial Statements of

Cayman Islands National Insurance Company Ltd.

December 31, 2018

Cayman Islands National Insurance Company Ltd.

Index

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CAYMAN ISLANDS

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AUDITOR GENERAL'S REPORT

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

Opinion

I have audited the financial statements of Cayman Islands National insurance Company Ltd. (the "Company"), which comprise the statement of financial position as at 31 December 2018, the statements of comprehensive loss, cash flows and changes in shareholders' equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

AUDITOR GENERAL'S REPORT (continued)

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

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

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

I have undertaken the audit in accordance with the provisions of section 60(1)(a) of the Public Management and Finance Law (2018 Revision). I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Sue Winspear, CPFA
Auditor General

30 September 2019
Cayman Islands

CAYMAN ISLANDS
CINICO
NATIONAL INSURANCE COMPANY

Good Health Should Be Insured.

STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements have been prepared by the Cayman Islands National Insurance Company Ltd. in accordance with the provisions of the *Public Management and Finance Law (2018 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 (2018 Revision).*

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

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

The financial statements fairly present the statement of financial position, statement of comprehensive loss, statement of cash flows and statement of changes in shareholder's equity for the year ended December 31, 2018.

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

(a) are complete and reliably reflect the financial transactions of Cayman Islands National Insurance Company Ltd. for the year ended December 31, 2018;

(b) fairly reflect the financial position as at December 31, 2018 and performance for the year ended December 31, 2018;

(c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

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

Dana Brandon	Frank Gallipi
General Manager	Chief Financial Officer
Cayman Islands National Insurance Company	Cayman Islands National Insurance Company
Date: September 30, 2019	Date: September 30, 2019

Cayman Islands National Insurance Company Ltd.

Statement of Financial Position
As at December 31, 2018
Amounts stated in Cayman Islands dollars

	Note		December 31, 2018		December 31, 2017
Assets					
Current					
Cash and cash equivalents	4	$	15,236,803	*$*	*8,485,899*
Funds held in escrow			238,277		*1,681,702*
Premiums receivable	5		3,539,989		*7,854,295*
Advance claims, ASO claims and fees receivable			3,787,329		*5,267,702*
Other receivables and other assets	6		440,422		*2,284,338*
Long-term					
Fixed assets	7		280,524		*419,218*
Total assets			23,523,344		*25,993,154*
Liabilities					
Accounts payable	8		424,399		*404,837*
Premiums received in advance			198,088		*184,014*
Accruals and other liabilities	9		1,540,820		*1,548,472*
Claims payable			103,545		*151,200*
Provision for claims incurred	11		10,258,172		*10,243,321*
Total liabilities			12,525,024		*12,531,844*
Shareholder's equity					
Share capital	12		1		*1*
Share premium	12		2,999,999		*2,999,999*
Additional paid-in-capital	13		34,723,251		*30,193,251*
Accumulated deficit			(26,724,931)		*(19,731,941)*
Total shareholder's equity	21		10,998,320		*13,461,310*
Total liabilities and shareholder's equity		$	23,523,344	*$*	*25,993,154*

PATRICIA ESTWICK	SEPTEMBER 30, 2019
Chairman of the Board of Directors	Date
FRANK GALLIPPI	SEPTEMBER 30, 2019
Chief Financial Officer	Date

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

Cayman Islands National Insurance Company Ltd.

Statement of Comprehensive Loss
For the period from January 1, 2018 to December 31, 2018
Amounts stated in Cayman Islands dollars

	Note		December 31, 2018 (12 months)		December 31, 2017 (18 months)
Income					
Premium income	14, 18	$	79,970,430	*$*	*104,967,675*
Reinsurance premium	14		(923,585)		*(1,848,485)*
ASO Fees	15, 18		764,370		*1,023,862*
Total underwriting income			79,811,215		*104,143,052*
Investment income and other income	19		177,691		*212,143*
Total income			79,988,906		*104,355,195*
Expenses					
Claims paid	10		81,826,788		*113,237,156*
Reinsured claims	11		(176,221)		*(697,162)*
Movement in provision for claims incurred	11		14,851		*(11,508,287)*
Contributions to segregated insurance fund	16, 18		307,040		*441,810*
Claims administration and other expenses			1,083,546		*2,630,897*
Total underwriting expenses			83,056,004		*104,104,414*
Administrative expenses and other expenses	17		3,925,892		*5,562,615*
Total expenses			86,981,896		*109,667,029*
Net loss for the year/period			(6,992,990)		*(5,311,834)*
Total comprehensive loss for the year/period		$	(6,992,990)	*$*	*(5,311,834)*

Cayman Islands National Insurance Company Ltd.

Statement of Cash Flows
For the period from January 1, 2018 to December 31, 2018
Amounts stated in Cayman Islands dollars

	Note		December 31, 2018 (12 months)		December 31, 2017 (18 months)
Cash flows from operating activities					
Net loss for year/period		$	(6,992,990)	*$*	*(5,311,834)*
Adjustments for non-cash items					
Depreciation	7		165,148		*271,050*
Funds held in escrow			1,443,425		*(979,734)*
Premiums receivable			4,314,306		*(5,649,328)*
Advance claims, ASO claims and fees receivable			1,480,373		*413,309*
Other receivables and other assets			1,843,916		*(1,312,661)*
Accounts payable			19,562		*(64,795)*
Premiums received in advance			14,074		*(10,127)*
Accruals and other liabilities			(7,652)		*468,075*
Claims payable			(47,655)		*(1,604,062)*
Provision for claims incurred			14,851		*(11,508,287)*
Net cash flows from operating activities			2,247,358		*(25,288,394)*
Cash flows from investing activities					
Purchase of fixed assets	7		(26,454)		*(332,628)*
Net cash flows from investing activities			(26,454)		*(332,628)*
Cash flows from financing activities					
Receipt of additional paid-in-capital	13		4,530,000		*7,100,000*
Net cash flows from financing activities			4,530,000		*7,100,000*
Net cash inflow/(outflow) for the year/period			6,750,904		*(18,521,022)*
Cash and cash equivalents at beginning of the year/period			8,485,899		*27,006,921*
Cash and cash equivalents at end of the year/period		$	15,236,803	*$*	*8,485,899*

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

Cayman Islands National Insurance Company Ltd.

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

	Share capital (Note 12)	Share premium (Note 12)	Additional paid-in-capital (Note 13)	Accumulated deficit	Total shareholder's equity
Balance at June 30, 2016	$ 1	$ 2,999,999	$ 23,093,251	$ (14,420,107)	$ 11,673,144
18 month period ended December 31, 2017					
Comprehensive income:					
Additional paid-in-capital received			7,100,000		7,100,000
Net loss for the period	-	-	-	(5,311,834)	(5,311,834)
Total comprehensive income:	-	-	7,100,000	(5,311,834)	1,788,166
Balance, end of period	$ 1	$ 2,999,999	$ 30,193,251	$ (19,731,941)	$ 13,461,310
Year ended December 31, 2018					
Comprehensive income:					
Additional paid-in-capital received			4,530,000		4,530,000
Net loss for the year	-	-	-	(6,992,990)	(6,992,990)
Total comprehensive income:	-	-	4,530,000	(6,992,990)	(2,462,990)
Balance, end of year	$ 1	$ 2,999,999	$ 34,723,251	$ (26,724,931)	$ 10,998,320

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

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

The Company has leased an insurance administration system through Hi-Tech and performs in-house claims adjudication, eligibility maintenance and in-house case management. The Company has also contracted with United Healthcare to provide network access to USA facilities and physicians. In addition, CINICO has contracted with Munich Re, 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 December 31, 2018, the Company employed 31 permanent staff and 3 temporary staff (31 permanent staff and 4 temporary staff at December 31, 2017).

2 Accounting policies

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

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

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

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

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

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

<u>Insurance and reinsurance contracts - classification</u>
Insurance and reinsurance contracts are those contracts that transfer significant insurance risk. As a general guideline, the Company defines significant insurance risk using historical claims data and conducting an actuarial analysis of various reinsurance retention limits, to determine the optimum reinsurance retention limit. Under its reinsurance contract, the Company is entitled to any claims in excess of the reinsurance limit which is held or recognized as 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. Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on policies issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

2 Accounting policies (continued)

Insurance/reinsurance assets and liabilities

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

Claims and provision for claims incurred

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

Cash and cash equivalents

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

Premiums

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

It is the Company's policy to lapse any policies where the premiums are unpaid for 45 days (2017: 45 days) after the due date.

Leases

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

Disclosures about fair value of financial instruments

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

Fixed assets & depreciation

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

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

See also Note 7.

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

2 Accounting policies (continued)

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

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

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

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

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

Premium deficiency reserve
Annually, a liability adequacy test is performed to ensure the adequacy of the loss reserves. In performing this test, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities are used. Any deficiency over the remaining term of insurance contracts is recognized immediately by establishing a provision for losses arising from liability adequacy tests. No premium deficiency reserves were required for the year ended December 31, 2018 or the 18 month period ended December 31, 2017.

2.1 Changes in IFRS

A) New and amended standards adopted and/or early adopted and relevant to the Company:
In the current year there were several new and amended Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB effective for annual reporting periods beginning on or after January 1, 2018.

B) New or revised standards adopted
IFRS 9, Financial Instruments became effective for annual periods beginning on or after January 2018. The IASB issued a temporary exemption for the effective date of implementation of IFRS 9 for insurance companies which meet certain qualifying criteria. This exemption allows the application of IFRS 9 to be deferred until January 1, 2022. At December 31, 2018, the Company meets these qualifying criteria and has therefore deferred implementation of IFRS 9.

IFRS 15, Revenue from Contracts with Customers, and the related Clarifications to IFRS 15, Revenue from Contracts with Customers (hereinafter referred to as "IFRS 15") replaces IAS 18, Revenue, IAS 11, Construction Contracts, and several revenue-related Interpretations. Insurance contracts within the scope of IFRS 4, Insurance Contracts, are not included in the scope of IFRS 15. The contract for the provision of ASO for indigents and advance patients is within the scope of IFRS 15. The guidance within IFRS 15 was applied using a modified retrospective ('cumulative catch-up') approach and had no impact on the total amount or timing of revenue recognised under the ASO contract and, therefore, no adjustment to the opening balance of retained earnings is required as a result of the initial application of IFRS 15.

2.1 Changes in IFRS (continued)

C) New standards, amendments and interpretations issued but not effective for the financial period beginning January 1, 2018 and not early

A number of new standards and amendments to standards and interpretations are issued but not effective for the financial period beginning January 1, 2018, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except the following set out below:

IFRS 17, Insurance Contracts, is effective for annual periods beginning on or after January 1, 2022 with an early adoption being permitted. IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. Management is currently asssessing the impact that this amendment will have on its financial statements.

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

IFRS 16, Leases, was issued in January 2016 and is effective for annual periods on or after January 1, 2019. The new standard primarily affects the accounting by lessees and will result in the recognition of almost all leases on the Statement of Financial Position. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. The Statement of Comprehensive Loss will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years and operating expense is replaced with interest and depreciation. Management is currently assessing the impact that this amendment will have on its financial statements.

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

3 Management of insurance and financial risk

3.1 Insurance risk

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

The Company uses several techniques to mitigate risk surrounding potential high claim losses. For its largest group (Group 30100 - Civil, Servants, Pensioners and Government Entities), reinsurance has been purchased that covers overseas claim losses which exceed US$600,000, up to US$5,000,000 (2017: US$700,000, up to US$5,000,000) in respect of any one covered person during the policy year, with an aggregate cap of US$10,500,000 per year. The Company's Standard Health Insurance Contracts ("SHIC" plans) use a combination of pre-existing condition exclusions, and annual limits to mitigate risk. In August of 2016 the Company implemented its own department to provide case management service to patients. The Company uses United Healthcare for the provision of overseas network access. This entity has pre-negotiated contracts with many overseas providers which would allow the Company to realize significant savings. Furthermore, during the current fiscal year on a monthly basis, the Risk and Appeals Committee meet to discuss large claims and any disputed claims.

3 Management of insurance and financial risk (continued)

3.2 Financial risk

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

Credit risk
The Company has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:
• cash at bank;
• reinsurers' share of insurance liabilities;
• amounts due from reinsurers in respect of claims already paid;
• amounts due from insurance contract holders; .
• amounts due from ASO contracts.

All of the Company's cash and cash equivalents are held with reputable financial institutions in the Cayman Islands (2018: 100%; 2016/17: 65%) and Canada (2018: 0% 2016/17: 35%). As described in Note 3.1, reinsurance is used to manage insurance risk. However, this does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Company remains liable for the payment of the claim. As part of the reinsurance renewal, the Company reviews the creditworthiness of the reinsurer prior to finalization of any contract, and has chosen a reinsurer with an AM Best rating of A (Excellent).

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

	December 31, 2018	December 31, 2017
Cash and cash equivalents	$ 15,236,803	*$ 8,485,899*
Funds held in escrow	238,277	*1,681,702*
Premiums receivable	3,539,989	*7,854,295*
Advance claims, ASO claims and fees receivable	3,787,329	*5,267,702*
Reinsurance claims recoveries	171,496	*703,011*
Other assets and receivables	268,926	*1,581,327*
Total financial assets	$ 23,242,820	*$ 25,573,936*
Non-financial assets	$ 280,524	*$ 419,218*
Total assets per the statement of financial position	$ 23,523,344	*$ 25,993,154*

3.2 Financial risk (continued)

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

As at December 31, 2018:	Neither past due nor impaired	Past due but not impaired	Impaired	Provision for bad debt	Total
Cash and cash equivalents	$ 15,236,803	$ -	$ -	$ -	15,236,803
Funds held in escrow	238,277	-	-	-	238,277
Premiums receivable	-	3,539,989	1,023,251	(1,023,251)	3,539,989
Advance claims, ASO claims and fees receivable	-	3,787,329	-	-	3,787,329
Reinsurers share of insurance liabilities	171,496	-	-	-	171,496
Other assets	268,926	-	-	-	268,926
Total assets exposed to credit risks	$ 15,915,502	$ 7,327,318	$ 1,023,251	$ (1,023,251)	$ 23,242,820

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

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

As at December 31, 2018:	Up to 30 days	30 to 60 days	> 60	Total
Advance claims, ASO claims and fees receivable	$ 3,787,329	$ -	$ -	$ 3,787,329
Premiums receivable	3,507,951	-	32,038	$ 3,539,989
Reinsurance claims recoveries	-	-		-
	$ 7,295,280	$ -	$ 32,038	$ 7,327,318

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

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

	December 31, 2018	December 31, 2017
AA	$ 13,230,940	*$ 8,012,985*
A	238,277	*1,681,702*
BBB	503,836	*134,332*
Below BBB or not rated	1,502,027	*352,208*
Total cash and cash equivalents bearing credit risk	$ 15,475,080	*$ 10,181,227*

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

3.2 Financial risk (continued)

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

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

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

At December 31, 2018, the Company had cash and cash equivalents of $15,236,803 (2017: $8,485,899). These amounts are highly liquid and are a significant component of the Company's overall liquidity and capital resources. Liquidity forecasts are produced on a regular basis to ensure the liquidity is maintained.

3.3 Management of financial risks

The following tables indicate the contractual timing of cash flows arising from assets and liabilities included in the Company's financial statements as of December 31, 2018 and 2017.

		Contractual cash flows (undiscounted)					
December 31, 2018	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	$ 15,236,803	$ -	$ 15,236,803	$ -	$ -	$ -	$ -
Funds held in escrow	238,277		238,277				
Advance claims, ASO claims and fees receivable	3,787,329	-	3,787,329	-	-	-	-
Premiums receivable	3,539,989	-	3,539,989	-	-	-	-
Reinsurance recoveries	171,496	-	171,496	-	-	-	-
Other assets	268,926	-	268,926	-	-	-	-
Total	$ 23,242,820	$ -	$ 23,242,820	$ -	$ -	$ -	$ -
Short term insurance liabilities							
Insurance contracts	$ 10,361,717	$ -	$ 10,361,717	-	-	-	-
Other financial liabilities	1,965,219	-	1,965,219	-	-	-	-
Total	$ 12,326,936	$ -	$ 12,326,936	$ -	$ -	$ -	$ -
Difference in contractual flows	$ 10,915,884	$ -	$ 10,915,884	$ -	$ -	$ -	$ -

3.3 Management of financial risks (continued)

			Contractual cash flows (undiscounted)				
December 31, 2017	Carrying amount -$	No stated maturity	0-1 yr	1-2 yrs	2-3 yrs	3-4 yrs	>5 yrs
Financial Assets							
Cash and cash equivalents	$ 8,485,899	$ -	$ 8,485,899	$ -	$ -	$ -	$ -
Funds held in escrow	1,681,702		1,681,702				
Advance claims, ASO claims and fees receivable	5,267,702	-	5,267,702	-	-	-	-
Premiums receivable	7,854,295	-	7,854,295	-	-	-	-
Reinsurance recoveries	703,011		703,011				
Other assets	1,581,327	-	1,581,327	-	-	-	-
Total	$ 25,573,936	$ -	$ 25,573,936	$ -	$ -	$ -	$ -
Short term insurance liabilities							
Insurance contracts	$ 10,394,521	$ -	$ 10,394,521	$ -	$ -	$ -	$ -
Other financial liabilities	1,953,309	-	1,953,309	-	-	-	-
Total	$ 12,347,830	$ -	$ 12,347,830	$ -	$ -	$ -	$ -
Difference in contractual flows	$ 13,226,106	$ -	$ 13,226,106	$ -	$ -	$ -	$ -

3.4 Sensitivity analysis - insurance contracts

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

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

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

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

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

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

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

3.4 Sensitivity analysis - insurance contracts (continued)

	Interest rates		**Expenses**		**Loss ratios**	
	+0.05%	**-0.05%**	**+5%**	**-5%**	**+5%**	**-5%**
Sensitivities as at December 31, 2018						
Impact on Net income						
for the year	-	-	(69,529)	69,529	(4,092,082)	4,092,082
Impact on Shareholder's equity	-	-	(69,529)	69,529	(4,092,082)	4,092,082

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

4 Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash at Bank	$ 15,236,172	*$ 8,477,973*
Deposit in transit	631	*7,926*
	$ 15,236,803	*$ 8,485,899*

4.1 Funds held in escrow

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

5 Premiums receivable

	December 31, 2018	December 31, 2017
Current		
Premiums receivable from related parties, gross	$ 4,500,025	*$ 8,768,738*
Premiums receivable from unrelated entities, gross	63,215	*76,174*
Less: provisions for bad debts	(1,023,251)	*(990,617)*
	$ 3,539,989	*$ 7,854,295*

During the year ended December 31, 2018, bad debts of $156,563 (18 month period ended December 31, 2017 - $222,128) have been written off. It is management's opinion that a provision for bad debts of $21,015 (December 31, 2017 - $20,395 for unrelated individuals) is required at December 31, 2018. All bad debts written off are from unrelated individuals. Once a bad debt is written off coverage to the unrelated individual is terminated.

6 Other receivables and other assets

Components of other receivables and other assets are as follows:

	December 31, 2018	December 31, 2017
Current		
Reinsurance claims recoveries	$ 171,496	*$ 703,011*
Claims administration and other expenses	14,962	*937,937*
Advance to employees	1,045	*1,000*
Prepaid expenses, deposits, and other receivables		
Amount on deposit with Cayman Airways and HSA	84,000	*84,000*
Refund due from provider	71,846	*378,812*
Unallocated claims expense	38,898	*31,865*
Work permit fees	23,042	*27,512*
Miscellaneous	12,268	*9,549*
Prepaid software licences	10,100	*10,064*
Marketing costs	7,340	*10,139*
Maintenance/software costs	5,425	*10,800*
Insurance expense	-	*622*
Licence fees	-	*75,000*
	$ 440,422	*$ 2,280,311*

See Note 18 for disclosure on related party balances.

7 Fixed assets

	System Development Costs	Office Equipment	Computer & Telecoms Equipment	Leasehold Improvements	Total
Cost at July 1, 2016	$ 810,913	$ 132,807	$ 401,226	$ 323,119	$ 1,668,065
Additions	179,541	42,181	85,371	25,535	332,628
Disposals	-	-	-	-	-
Cost at December 31, 2017	990,454	174,988	486,597	348,654	2,000,693
Accumulated depreciation at July 1, 2016	685,552	88,508	284,174	252,191	1,310,425
Depreciation for period	91,134	27,836	90,794	61,286	271,050
Disposals	-	-	-	-	-
Accumulated depreciation at December 31, 2017	776,686	116,344	374,968	313,477	1,581,475
Carrying value at December 31, 2017	$ 213,768	$ 58,644	$ 111,629	$ 35,177	$ 419,218
Cost at January 1, 2018	$ 990,454	$ 174,988	$ 486,597	$ 348,654	$ 2,000,693
Additions	6,000	5,080	12,691	2,683	26,454
Disposals	-	-	-	-	-
Cost at December 31 2018	996,454	180,068	499,288	351,337	2,027,147
Accumulated depreciation at January 1, 2018	776,686	116,344	374,968	313,477	1,581,475
Depreciation for year	57,310	21,188	62,510	24,140	165,148
Disposals	-	-	-	-	-
Accumulated depreciation at December 31 2018	833,996	137,532	437,478	337,617	1,746,623
Carrying value at December 31 2018	$ 162,458	$ 42,536	$ 61,810	$ 13,720	$ 280,524

8 Accounts payable

		December 31, 2018		December 31, 2017
Payable to unrelated entities	$	418,929	$	*404,837*
Payable to related parties		5,470		-
	$	424,399	$	*404,837*

Included in accounts payable in respect of unrelated entities are amounts relating to administrative expenses of $424,008 (December 31, 2017 - $404,837). Accounts payable in respect of related entities as at December 31, 2018 is $5,470 (December 31, 2017: Nil).

9 Accruals and other liabilities

Components of accruals and other liabilities are as follows:

		December 31, 2018		December 31, 2017
Stale dated cheques		538,908		*620,394*
ABS/MMSI/CHN Expenses		530,071		*365,535*
Audit fees		259,746		*210,100*
Other accruals		110,208		*186,335*
Actuarial fees		37,496		*35,111*
Legal Fees		28,602		*39,459*
Audit Fees - Auditor General		21,726		*23,487*
Maintenance/Utilities & Telecommunications		10,483		*15,878*
Marketing costs		6,626		*2,278*
Stamp duty		624		*1,332*
Water		200		*253*
Indigent fund	$	(3,870)	$	*48,310*
	$	1,540,820	$	*1,548,472*

See note 18 for disclosure on related party balances.

10 Claims paid

		December 31, 2018 (12 months)		December 31, 2017 (18 months)
Net US$ claims (denominated in CI$)		22,136,614		*23,271,945*
CI$ claims		59,690,174		*89,965,211*
Total Claims	$	81,826,788	$	*113,237,156*
Less repricing fees		(1,241,909)		*(1,386,973)*
Claims paid (not including repricing fees)	$	80,584,879	$	*111,850,183*

11 Provision for claims incurred

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

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

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

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

11 Provision for claims incurred (continued)

Reporting year	2004/5	2005/6	2006/7	2007/8	2008/9
Estimate of ultimate claims costs:					
At end of period	21,214,700	23,423,289	32,864,983	35,819,622	40,046,000
One year later	21,214,700	22,827,358	30,779,928	34,402,472	37,507,064
Two years later	20,964,647	22,727,663	30,879,375	34,448,122	37,462,191
Three years to thirteen years later	20,922,107	22,727,663	30,871,999	34,448,671	37,462,191
Current estimate of cumulative claims	20,922,107	22,727,663	30,871,999	34,448,671	37,462,191
Cumulative payments to date	20,922,107	22,727,663	30,871,999	34,448,671	37,462,191
Gross liability recognized in the statement of financial position	-	-	-	-	-
Allocated loss expenses ("ALE") reserve	-	-	-	-	-
Net liability recognized in the statement of financial position	$ -	$ -	$ -	$ -	$ -

Reporting year	2009/10	2010/11	2011/12	2012/13	2013/14
Estimate of ultimate claims costs:					
At end of period	46,045,975	51,926,903	54,560,872	57,282,343	54,378,735
One year later	43,109,341	50,357,115	52,377,981	54,624,444	54,230,143
Two years later	43,137,108	50,404,281	51,705,351	54,607,849	54,230,143
Three years to nine years later	43,136,834	50,371,842	51,705,906	54,607,849	54,230,143
Current estimate of cumulative claims	43,136,834	50,371,842	51,705,906	54,607,849	54,230,143
Cumulative payments to date	43,136,834	50,371,842	51,705,906	54,607,849	54,230,143
Gross liability recognized in the statement of financial position	-	-	-	-	-
Allocated loss expenses ("ALE") reserve	-	-	-	-	-
Net liability recognized in the statement of financial position	$ -	$ -	$ -	$ -	$ -

Reporting year	2014/15	2015/16	2016/17	2018	Total
Estimate of ultimate claims costs:					
At end of period	60,330,760	64,721,391	100,730,282	80,916,008	
One year later	60,330,760	64,526,948	100,605,635	n.a.	
Two years later	60,456,800	64,419,281	n.a.	n.a.	
Three years to five year later	n.a.	n.a.	n.a.	n.a.	
Current estimate of cumulative claims	65,398,580	64,419,281	100,605,635	80,916,008	
Cumulative payments to date	65,382,472	64,404,350	100,465,506	71,229,045	
Gross liability recognized in the statement of financial position	16,108	14,931	140,129	9,686,963	9,858,131
Allocated loss expenses ("ALE") reserve	954	879	7,596	390,612	400,041
Net liability recognized in the statement of financial position	$ 17,062	$ 15,810	$ 147,725	$ 10,077,575	$ 10,258,172

11 Provision for claims incurred (continued)

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

	Year ended December 31, 2018 (12 months)			*18 month period ended December 31, 2017*		
	Gross	Reinsurance	Net	*Gross*	*Reinsurance*	*Net*
Balance at beginning of year	$ 10,243,321	$ (703,011)	$ 9,540,310	*$ 21,751,608*	*$ (645,538)*	*$ 21,106,070*
Incurred related to:						
Current year	80,916,008	(150,821)	80,765,187	*100,792,561*	*(703,011)*	*10,089,550*
Prior year	(232,261)	(25,400)	(257,661)	*18,668*	*5,849*	*24,517*
	80,683,747	(176,221)	80,507,526	*100,811,229*	*(697,162)*	*100,114,067*
Paid related to:						
Current year	71,229,045	-	71,229,045	*91,051,675*	*-*	*91,051,675*
Prior year	9,355,834	(707,736)	8,648,098	*20,798,508*	*(639,689)*	*20,158,819*
	80,584,879	(707,736)	79,877,143	*111,850,183*	*(639,689)*	*111,210,494*
Reinsurance provision	-			*-*		
ALE Reserve movement	(84,017)	-	(84,017)	*(469,333)*	*-*	*(469,333)*
Balance at end of period	$ 10,258,172	$ (171,496)	$ 10,086,676	*$ 10,243,321*	*$ (703,011)*	*$ 9,540,310*
Change in provision from claims incurred	$ 14,851			*$ (11,508,287)*		

For the year ended December 31, 2018 there was a hindsight reserve release of $232,261 (18 month period ended December 31, 2017: hindsight reserve increase of $18,668). As stated in the beginning of Note 11, IBNR's are estimated with all known information at the time.

12 Share capital

	December 31, 2018	December 31, 2017
Authorized:		
1,000,000 unclassified shares of CI$1.00 each	$ 1,000,000	*$ 1,000,000*
Issued and fully paid:		
1 share	$ 1	*$ 1*

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

13 Additional paid-in-capital

	December 31, 2018	December 31, 2017
Additional paid in capital received	$ 34,723,251	*$ 30,193,251*
	$ 34,723,251	*$ 30,193,251*

Additional paid-in-capital represents additional capital contributions of the Shareholder not made in connection with the issuance of shares. These capital contributions have the same rights and characteristics as share premium and, accordingly, they can be returned/distributed to the Shareholder solely at the discretion of the Board of Directors. For the year ended December 30, 2018 the company received $4,530,000 in additional paid in capital for from the shareholder (18 month period ended December 31, 2017: $7,100,000).

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

14 Premium income

Premium income earned by insured type is as follows;

	For the Year Ended December 31, 2018						
	Group 30100		Group 30101		Group 30104/31304		Total
Premium Income	$ 65,106,814	$	10,309,946	$	4,553,670	$	79,970,430
Reinsurance Premium	(923,585)		-		-		(923,585)
Net Premium	$ 64,183,229	$	10,309,946	$	4,553,670	$	79,046,845

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

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

Reinsurance premium is calculated at $7.15 per person per month (July 1, 2016 to June 30, 2017 - $9.90 and July 1, 2017 to December 31, 2017 -$9.16).

15 Administrative Services Only Fees

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

16 Contributions to segregated insurance fund

Under Section 5(1) of the Health Insurance Regulations (2013 Revision), each domestic health insurer is required to pay to a Segregated Insurance Fund $10.00 per month per single insured and $20.00 per month per couple or family insured. For the year ended December 31, 2018 the Company accrued contributions totaling $307,040 (18 month period ended December 31, 2017 - $441,810).

17 Administrative expenses and other expenses

Components of administrative expenses and other expenses are as follows:

		December 31, 2018 (12 months)		December 31, 2017 (18 months)
Salaries	$	2,188,719	*$*	*3,295,098*
Employee benefits		453,900		*576,408*
Professional fees		424,518		*394,588*
Depreciation		165,148		*271,050*
Rent		163,756		*236,608*
Maintenance		140,890		*205,054*
Utilities		111,598		*140,696*
Other/miscellaneous		105,453		*244,064*
Licence fees		75,000		*112,500*
Marketing		64,647		*44,233*
Office supplies		32,263		*42,316*
	$	3,925,892	*$*	*5,562,615*

18 Related party transactions

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

		December 31, 2018 (12 months)		December 31, 2017 (18 months)
Assets				
Current				
Premiums receivable	$	4,500,025	*$*	*8,768,738*
Provision for bad debt		(1,002,235)		*(970,222)*
Advance claims, ASO claims receivable and fees receivable, net of bad debt		3,787,329		*5,267,702*
Other receivables and other assets		107,042		*187,134*
	$	7,392,161	*$*	*13,253,352*
Liabilities				
Accounts payable	$	5,470	*$*	-
Premiums received in advance		8,249		-
Accruals and other liabilities		24,336		*74,351*
	$	38,055	*$*	*74,351*
Income				
Premium income	$	75,525,605	*$*	*98,207,096*
ASO Fees		764,370		*1,023,862*
	$	76,289,975	*$*	*99,230,958*
Expenses				
Claims paid	$	43,840,364	*$*	*71,250,907*
Contributions to segregated insurance fund		307,040		*441,810*
Claims administration & administrative expenses		436,782		*623,089*
	$	44,584,186	*$*	*72,315,806*

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

		December 31, 2018 (12 months)		December 31, 2017 (18 months)
Short-term employee benefits	$	412,522	*$*	*644,742*
Post-employment benefits		19,381		*28,800*
Director fees		58,800		*39,100*
	$	490,703	*$*	*712,642*

19 Investment income & other income

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

20 Pension costs

The Company participates in a defined contribution pension scheme administered by the Cayman Islands Chamber of Commerce. In addition, two employees are continuing to contribute to the defined contribution pension scheme administered by the Public Service Pension Board. Pension expense for the year ended December 31, 2018 is $161,363 (18 month period ended December 31, 2017 - $212,973).

21 Net worth for regulatory purposes

	December 31, 2018	December 31, 2017
Share capital	$ 1	*$ 1*
Share premium	2,999,999	*2,999,999*
Additional paid-in-capital	34,723,251	*30,193,251*
Accumulated deficit	(26,724,931)	*(19,731,941)*
	$ 10,998,320	*$ 13,461,310*

As a Class A insurance company the Company is required to maintain capital levels in accordance with the Insurance (Capital and solvency)(Class A Insurers) regulations, 2012 which is a risk based approach in assessing the adequacy of the required capital. The Company has performed the calculations under Schedule 1 to Schedule 3 of the regulation, and for regulatory purposes complies with the Minimum Capital Requirements (MCR). As shown below, at December 31, 2018 the Company was not in compliance with the Prescribed Capital Requirements (PCR). In April 2019 the Company received an additional capital contribution of $3,100,000. The Company's objectives when managing its working capital is to safeguard the Company's ability to continue as a going concern, through the on-going support from the Government.

	December 31, 2018	December 31, 2017
Available capital	$ 10,699,065	*$ 11,890,408*
Minimum Capital Requirements		
MCR	$ 9,945,533	*$ 9,026,460*
PCR	$ 12,431,916	*$ 11,283,075*

22 Subsequent events

Management has performed a subsequent events review from January 1, 2019 to September 30, 2019, being the date that the financial statements were available to be issued. Management concluded that there were no material subsequent events which required additional disclosure in the financial statements.

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