

KEY INSURANCE COMPANY LIMITED

Unaudited Financial Statements
Six Months Ended 30 June 2016



Key Insurance Company Limited

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Report to the Shareholders
30 June 2016

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The company reported an operating loss of approximately \$19 million for the first six months and \$22m for the second quarter of the 2016 financial year. This under performance is directly linked to an unusual spike in claims incurred during the period amounting to an unprecedented \$142 million.

This unanticipated claims experience has resulted in a review of our risk detection and pricing mechanisms to identify possible weaknesses and effect immediate corrective actions.

A comprehensive review of our operating expenses and budgeting policies are also being undertaken in order to identify possible inefficiencies in all areas of our operating processes in order to improve our cost structure. The company will also continue to implement its cost saving strategies which form part of its business plan for the current financial year.

We are also restructuring our investment portfolio which has been severely impacted by the constant lowering of interest rates in the financial market in order to improve the yields that presently obtain. This will be done within the current guidelines of our investment policy.

Despite the constant lowering of premium rates within the general insurance market, we are confident that the company will meet its premium written targets for the financial year.

We also expect that the actions being taken will result in improvements in the present loss ratio, underwriting ratio and by extension, the profit position of the company before the end of this financial year.


While we do not expect to meet our budgeted profit, we anticipate that the company will post a profit by year end.

At this time, the company has a strong capital base, excellent reinsurance coverage from some of the best reinsurers in the world, significant liquidity and an experienced management team that has excellent relationship with our existing brokers.

It is our intention to continue our current business model and strategies to increase market share in all classes of business that we underwrite for the current financial year as the issues that caused the increased claims experience are addressable. A substantial increase in premiums written will enable the company to post a profit as well as sustain increased profitability for future years.

The Directors acknowledge and thank all our stakeholders who continue to contribute to our continued success in growing the business to achieve a greater market share.

Signed by:



Natalia Gobin-Gunter
Chairman

12 August 2016

Statement of Comprehensive Income
30 June 2016

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(Unaudited)

	Three Months Ended 30 June		Six Months Ended 30 June	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Gross Premium Written	288,154	307,974	486,735	489,136
Reinsurance Ceded	126,359	195,504	201,587	270,114
Net Premiums Written	161,795	112,470	285,148	219,022
Change in unearned premium reserve, net	(18,847)	(7,413)	(24,279)	66,772
Net Premiums Earned	142,948	105,057	260,869	285,794
Commission income	24,072	34,255	37,545	50,031
Commission expense	(28,986)	(30,415)	(44,926)	(44,265)
Claims expense	(747,014)	(81,784)	(803,583)	(146,262)
Reinsurance recoveries	646,576	23,709	661,314	31,122
Administration and other expenses	(94,741)	(76,361)	(180,621)	(142,726)
Underwriting (loss)/profit	(57,145)	(25,539)	(69,402)	33,694
Investment income	8,643	16,465	20,154	31,807
Gains on revaluation of investment properties	10,000	-	10,000	-
Other income	17,172	1,359	20,936	2,988
(Loss)/Profit Before Taxation	(21,330)	(7,715)	(18,312)	68,489
Taxation	(15)	(15)	(30)	(30)
Net (Loss)/Profit After Taxation	(21,345)	(7,730)	(18,342)	68,459
Other Comprehensive Income:				
Items that may be subsequently reclassified to profit or loss:				
Net gain on the revaluation of available for sale investment securities	5,000	-	10,000	-
Other Comprehensive Income	5,000	-	10,000	-
Total Comprehensive Income for the Period	(16,345)	(7,730)	(8,342)	68,459
Earnings per share (dollar per share)	(0.06)	(0.02)	(0.05)	0.21

Balance Sheet
30 June 2016

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	Unaudited June 2016 \$'000	Unaudited June 2015 \$'000	Audited December 2015 \$'000
Assets			
Cash and deposits	652,200	215,018	185,923
Investment securities	384,452	718,968	773,383
Due from policyholders, brokers and agents	109,594	133,540	76,870
Due from reinsurers	813,839	244,591	211,371
Deferred policy acquisition costs	73,143	94,353	70,778
Taxation recoverable	180,224	168,413	171,599
Other receivables	3,114	2,754	3,701
Investment properties	183,100	152,020	173,100
Intangible assets	1,387	1	1,098
Property, plant and equipment	299,641	286,217	281,089
	<u>2,700,694</u>	<u>2,015,875</u>	<u>1,948,912</u>
Liabilities and Equity			
Liabilities			
Bank overdraft	33,004	20,474	150
Other payables	21,003	12,235	26,419
Due to reinsurers	70,932	166,519	96,936
Deferred taxation	14,076	13,071	14,076
Insurance reserves	1,581,443	905,926	930,708
	<u>1,720,458</u>	<u>1,118,225</u>	<u>1,068,289</u>
Equity			
Share capital	235,282	127,327	127,327
Capital reserve	57,371	57,371	57,371
Fair value reserve	253,950	194,321	243,950
Retained earnings	433,633	518,631	451,975
	<u>980,236</u>	<u>897,650</u>	<u>880,623</u>
	<u>2,700,694</u>	<u>2,015,875</u>	<u>1,948,912</u>



Director



Director

Statement of Cash Flows
Six Months Ended 30 June 2016

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Unaudited	2016 \$'000	2015 \$'000
Cash flows from operating activities		
Net (loss)/profit	(18,342)	68,459
Adjustment for:		
Amortisation and depreciation	5,254	4,834
Gain on foreign exchange	(15,034)	(3,063)
Dividend income	(700)	(35)
Interest income	(20,154)	(31,807)
Taxation	30	30
	<u>(48,946)</u>	<u>38,418</u>
Change in operating assets and liabilities		
Due from policyholders, brokers and agents	(31,710)	(65,465)
Deferred policy acquisition costs	(2,365)	(9,732)
Insurance reserves	650,735	37,368
Due to/from reinsurers	(626,840)	(515)
Other assets	587	373
Other liabilities	<u>(5,416)</u>	<u>(6,932)</u>
	<u>(63,955)</u>	<u>(6,485)</u>
Taxation paid	<u>(8,625)</u>	<u>(7,140)</u>
Net cash used in operating activities	<u>(72,580)</u>	<u>(13,625)</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	(24,094)	(2,511)
Proceeds from matured investments	441,000	-
Purchase of investments	(52,257)	7,118
Interest and dividend received	<u>31,821</u>	<u>39,859</u>
Net cash provided investing activities	<u>396,470</u>	<u>44,466</u>
Cash flows from financing activities		
Net proceeds from the issue of shares	<u>107,955</u>	<u>-</u>
Net cash provided by investing activities	<u>107,955</u>	<u>-</u>
Net increase in cash and cash equivalents	431,845	30,841
Effect of changes in exchange rate on cash and cash equivalents	1,771	63
Cash and cash equivalents at the beginning of the period	<u>182,580</u>	<u>160,640</u>
Cash and cash equivalents at the end of the period	<u><u>616,196</u></u>	<u><u>191,544</u></u>

Statement of Changes in Shareholders' Equity
30 June 2016

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Unaudited	Share Capital \$'000	Capital Reserves \$'000	Fair Value Reserves \$'000	Retained Earnings \$'000	Total \$'000
Balance as at 01 January 2015	127,327	57,371	194,321	450,172	829,191
Total comprehensive income for the period	-	-	-	68,459	68,459
Balance as at 30 June 2015	127,327	57,371	194,321	518,631	897,650
Balance as at 01 January 2016	127,327	57,371	243,950	451,975	880,623
Shares issued during the period	107,955	-	-	-	107,955
Total comprehensive income for the period	-	-	10,000	(18,342)	(8,342)
Balance as at 30 June 2016	235,282	57,371	253,950	433,633	980,236

1. Identification and Activities

- (a) Key Insurance Company Limited is registered and domiciled in Jamaica. Its registered office is located at 6c Half Way Tree Road, Kingston 5, Jamaica.
- (b) The company is licenced to operate as a general insurer in Jamaica, under the Insurance Act 2001. Its principal activity is the underwriting of motor, commercial and personal property and casualty insurance.

2. Significant Accounting Policies

The principal accounting policies applied to the preparation of these financial statements are similar to those applied to the audited financial statements for year ended 31 December 2015.

These policies have been consistently applied to all the periods presented unless otherwise stated.

Basis of Preparation

These financial statements have been prepared in accordance with International Accounting Standards 34 - Interim Financial Reporting and have been prepared under the historical cost convention as modified by the revaluation of available for sale investment securities, investment properties and certain property, plant and equipment.

3. Share capital

	2016 \$'000	2015 \$'000
Authorised - 496,000,000 (2015 - 650,000) ordinary shares		
Issued and fully paid - 368,460,863 (2015 - 636,635) ordinary shares at no par value	<u>235,282</u>	<u>127,327</u>

A resolution was passed at a General Meeting on March 21, 2016 that each of the authorised and issued shares of Key Insurance Company Limited be sub-divided into 496 ordinary shares (496 to 1).

On 31 March 2016, the company issued 52,689,903 ordinary shares through an initial public offering at a value of \$119,606,079. Costs associated with the share issue amounted to \$11,651,079.

4. Earned premium

On 01 February 2015, management changed the method of computing earned premium from the 1/24th to the 1/365th method. This accounted for the significant increase in earned premium and net earnings during the first six months of 2015. The change impacted the earned premium due to the fact that short rate transactions accounted for a significant portion of the motor book of business.

5. Capital Management

The primary measure used to assess capital adequacy is the Minimum Capital Test (MCT) which is used by the Financial Services Commission to determine the solvency of the company. The minimum standard stipulated by section 17(4) of the Insurance (Actuaries) (General Insurance Companies) (Amendments) regulations, 2011 is that a General Insurance Company shall have a minimum MCT percentage of 250% (2015 - 250%).

As at 30 June 2016, the company achieved the minimum level of capital based on MCT.

	June 2016	June 2015	December 2015
Actual MCT ratio	<u>377%</u>	<u>409%</u>	<u>347%</u>
Minimum required MCT Ratio	<u>250%</u>	<u>250%</u>	<u>250%</u>

6. Earnings per share

Earnings per share is a profitability ratio used to measure the amount of the company's profit that is available for distribution as dividend. This is computed by dividing the company's net profit from operations after taxation by the number of shares in issue and entitled to dividend at a particular point in time.

As at 30 June 2016, all shares in issue were entitled to dividend.

Directors and Connected Parties Shareholdings
30 June 2016

Directors	Holdings as at 30 June 2016
Sandra Masterton	88,409,444
William Masterton	86,304
Natalia Gobin-Gunter	88,409,445
Andrew-David Gunter	-
Kala Abrahams	88,409,444
Keith Collister	60,970
Carol Collister	-
Stephen Allen	-
Charlton Hylton	7,947
Karla Hylton	-
Senior Managers	
Heather Bowie	5,590
Sophia Phillips	15,605
Treveen Little	93,374
Carlene Isaacs	5,000

Shareholders	Holdings as at 30 June 2016
Natalia Gobin-Gunter	88,409,445
Sandra Masterton	88,409,444
Kala Abrahams	88,409,444
JMMB T1 Equity Fund	43,089,690
Jamaica Money Market Brokers Limited	36,846,000
World Net Investment Company Limited	11,785,254
M F & G Trust and Finance Limited	3,157,012
Rezworth Burchenson	591,216
Marathon Insurance Brokers Limited	591,216
Sameer Younis	591,216
William McConnell	443,925
Derrick Dunn	443,925
Romayne Whyte	390,900
Patrice Francis - Emanuel	353,481