

Key Insurance Company Limited

KEY INSURANCE COMPANY LIMITED

Unaudited Financial Statements

30 September 2017



KEY INSURANCE
COMPANY LIMITED

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30 September 2017

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Key Insurance Company Limited

REPORT TO SHAREHOLDERS For the Nine Month Period Ended 30 September 2017

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The Directors of Key Insurance Company Limited are pleased to present the unaudited financial statements for the third quarter ended September 30, 2017. The company is in its second year of listing on the Junior Market of The Jamaican Stock Exchange. A number of developments of note occurred during the third quarter that shareholders should consider in assessing the performance of the quarter and the nine month period to date, as well as in looking at the prospects in the remainder of 2017 and beyond.

Financial performance

	Three months ended 30 September 2017	Three months ended 30 September 2016	Nine months ended 30 September 2017	Nine months ended 30 September 2016	Audited year ended 31 December 2016
Gross Premiums Written \$'000	372,139	298,361	1,032,845	785,051	1,081,746
Net Premiums Written \$'000	221,276	165,505	636,722	450,653	645,865
Net Premiums Earned \$'000	197,258	135,060	548,179	394,014	534,035
Claims Expenses, net of Recoveries \$'000	(95,491)	30,991	(276,550)	(175,024)	(241,431)
Net (Loss)/ Profit \$'000	(25,729)	84,363	(17,709)	2,275	(42,234)
(Loss)/Earnings Per Share \$	(0.07)	0.25	(0.05)	0.01	(0.12)
Market Share Price \$			4.00	2.49	2.80

The quarter ending September 30, 2017 shows a loss of \$26 million. After recognizing unrealised gains on investment securities of \$15 million, the total loss for the quarter was therefore \$11 million. Key, however achieved for the nine month period total comprehensive income of \$28 million after recognizing unrealized gains on investment securities of \$45 million. These results are after accounting for nonrecurring staff costs of \$36 million.

Personnel Changes

Shareholders were earlier notified of certain changes to our management team during the quarter. Key The Company is a part of an industry that has seen major decline in premium income, resulting in underwriting losses that are normally covered by investment income. The Jamaican investment landscape has undergone many changes in recent years, limiting returns from some traditional investments.

Management has designed a strategic plan, to guide the company's development over the next five years. One of the bold strategic initiatives taken is to aggressively pursue a combined growth and increase operational efficiency path, thereby bolstering the bottom-line results. Cost containment is a pivotal element of this initiative. In this regard, the decision was taken to reorganize the management structure as a result, the positions of two senior managers and another six staff member were realigned to maximize efficiency. The resulting one-off cost of \$36 million were included in administrative expenses for the quarter. Had these costs not occurred, the quarter would have shown a profit of \$10 million.

Going forward the separation will result in cost containment in the order of \$29 million per annum in year one, flowing from lower salaries and other staff related expenses.

Insurance Underwriting

Premium income grew by 25 percent to \$372 million for the quarter to September 30, 2017 and by 32 percent to \$1.03 billion for the nine month period to September 30, 2017. An integral part of the company's risk management strategy is to cede a certain percentage of insurance liabilities to reinsurers. During the period,

Key Insurance Company Limited

REPORT TO SHAREHOLDERS (cont'd)

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For the Nine Month Period Ended 30 September 2017

reinsurance premiums ceded, increased by 14 percent over the comparative period in 2016 and 18 percent for the year to date. Net Premium Earned for the quarter, grew 46 percent compared to 2016 and 39 percent year to date, as we continue our strategy to grow our book of business.

Claim expenses amounted to \$7 million for the quarter. The comparative amount in the previous year of \$228 million resulted from a change in the practice of assessing insurance claims reserves on annual basis at year end to quarterly assessments. In reviewing the adequacy of reserves as of September 2016, some of the amounts booked in prior periods were found to be no longer needed and resulted in a positive outcome. As of this year the change in practice has yielded more consistent results as reflected in the nine month period claim expenses at \$207 million versus \$575 million last year.

Segment Results

Key classifies its operations under two major segments, Motor and Non-Motor Insurance. During the nine month period to September 30, 2017 gross premiums written for the Motor segment increased by 50 percent to \$670 million, realizing an underwriting profit of \$9 million compared to \$21 million in 2016. The Non-Motor segment grew by 7 percent to \$363 million with an underwriting loss of \$81 million compared to \$88 million in 2016. Gross premium income earned continues a positive trend experienced in previous quarters.

Balance Sheet

The company's liquidity continues to be strong. Investment securities have moved to \$691 million from \$165 million in September 2017 and \$507 at the end of 2016. Management took the decision to reposition the portfolio by deploying most of the \$933 million in cash and deposits at the end of September last year. The decline in amounts due from reinsurers to \$275 million in 2017 is primarily due to higher claims from reinsurers in 2016 down from \$514 million.

Shareholders' equity includes fair value reserves of \$350 million compared to \$274 million is due primarily to unrealised gains in securities.

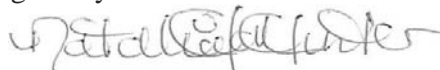
As at 30 September 2017 our MCT stands at 311% which is above the capital adequacy metrics prescribed by the Financial Services Commission.

Outlook

Key is committed to pursuing its strategy agenda of drive growth and increase efficiency. Cost containment is an important element of the agenda. The company expects to achieve gains in cost savings going forward from the adjustments to the management team. The industry experienced a decline in rates for the past 2 to 3 years. Premium rates have however, started to increase following the passage and damage of hurricanes in the region. The reversal in trend may contribute to rebalancing rates to the norm. At the same time, interest rates have declined this year and expectations are that they may decline even further. The dynamics of the investment market will require a different approach to management of funds. The company has revised its strategy to address this condition.

We wish to thank all our stakeholders for their loyal support, with their help, we are confident that we can continue to increase shareholders' return for the remainder of 2017 and beyond.

Signed by:



Natalia Gobin-Gunter

Chairman

November 13, 2017

Key Insurance Company LimitedStatement of Comprehensive Income
Nine Month Period Ended 30 September 2017

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(expressed in Jamaican dollars unless otherwise indicated)

(Unaudited)	Note	3 Months Ended September 30, 2017 \$'000	3 Months Ended September 30, 2016 \$'000	9 Months Ended September 30, 2017 \$'000	9 Months Ended September 30, 2016 \$'000
Gross Premiums Written	5	372,139	298,316	1,032,845	785,051
Reinsurance Ceded		150,863	132,811	396,123	334,398
Net Premiums Written		221,276	165,505	636,722	450,653
Change in unearned premium reserve, net		(24,018)	(30,445)	(88,543)	(56,639)
Net Premiums Earned		197,258	135,060	548,179	394,014
Change in insurance reserves		3,668	3,454	7,275	5,369
Commission income on reinsurance ceded		25,762	24,130	71,284	61,675
Commission expense on premiums written		(38,447)	(29,293)	(102,355)	(74,219)
Claims expense		(7,102)	228,114	(207,351)	(575,469)
Reinsurance recoveries		(88,389)	(197,123) *	(69,199)	400,445 *
Change unexpired risk reserves		0	1,827	9,339	1,827
Administration and other expenses		(136,569)	(100,259)	(328,887)	(280,880)
Underwriting (loss)/profit		(43,819)	65,910	(71,715)	(67,238)
Investment income		10,621	12,735	34,860	32,889
Gains on revaluation of investment properties		-	-	-	10,000
Other income		7,499	5,718	19,206	26,654
(Loss)/Profit before Taxation		(25,699)	84,363	(17,649)	2,305
Taxation		(30)	-	(60)	(30)
Net (Loss)/Profit after Taxation		(25,729)	84,363	(17,709)	2,275
Other Comprehensive Income:			-		
<i>Item that may be subsequently classified to profit or loss:</i>			-		
Net gain on the revaluation of available-for-sale investment securities		14,331	20,271	45,479	20,271
Total Comprehensive (Loss)/Income for the period		(11,398)	104,634	27,770	22,546
(Loss)/Earnings per stock unit	6	(0.07)	0.25	(0.05)	0.01

* Amount restated for reinsurance recovery and comparative purposes - See Note # 7

The notes on pages 7 to 9 are an integral part of these condensed interim financial statements.

Key Insurance Company Limited

Statement of Financial Position

30 September 2017

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(expressed in Jamaican dollars unless otherwise indicated)

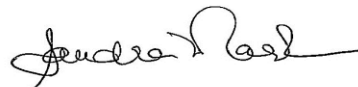
	Note	September 2017 \$'000	Audited 2016 \$'000	September 2016 \$'000
ASSETS				
Cash and deposits		376,924	451,265	932,816
Investment securities		690,818	507,479	164,887
Due from policyholders, brokers and agents		224,323	139,284	147,258
Due from reinsurers		274,569	523,235 *	514,447 *
Deferred policy acquisition costs		126,960	112,401	80,652
Taxation recoverable		192,756	185,023	181,445
Other receivables		14,275	280	469
Investment properties		185,150	185,150	183,100
Intangible assets		3,780	1,149	1,327
Property, plant and equipment		312,435	313,753	298,041
Deferred taxation		866	866	-
		<u>2,402,854</u>	<u>2,419,885</u>	<u>2,504,442</u>
LIABILITIES AND EQUITY				
Liabilities				
Bank overdraft		7,017	1,663	16,399
Other payables		49,098	25,795	26,082
Due to reinsurers		113,051	39,494	170,947
Deferred taxation		-	-	14,076
Insurance reserves		1,190,389	1,337,404	1,260,269
		1,359,556	1,404,356	1,487,773
Equity				
Share capital	3	235,282	235,282	235,282
Capital reserve		57,371	57,371	57,371
Fair value reserves		349,632	304,153	274,221
Retained earnings		401,014	418,723 *	449,795 *
		<u>1,043,299</u>	<u>1,015,529</u>	<u>1,016,669</u>
		<u>2,402,854</u>	<u>2,419,885</u>	<u>2,504,442</u>

Approved for issue on behalf of the Board of Directors on 13 November 2017 signed on its behalf by:



Natalia Gobin Gunter

Chairman



Sandra Masterton

Director

* Amount restated for reinsurance recovery and comparative purposes

The notes on pages 7 to 9 are an integral part of these condensed interim financial statements.

Key Insurance Company Limited

Statement of Changes in Equity
Nine Month Period Ended 30 September 2017
(expressed in Jamaican dollars unless otherwise indicated)

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	Share Capital \$'000	Capital Reserves \$'000	Fair Value Reserves \$'000	Retained Earnings \$'000	Total \$'000
Balance as at 1 January 2016	127,327	57,371	243,950	457,519 *	886,167
Shares issued during the period	107,955	-	-	-	107,955
Total comprehensive income for the period	-	-	20,271	2,275 *	22,546
Transfer between reserves:					
Gains on revaluation of investment properties, transferred from retained earnings	-	-	10,000	(10,000)	-
Balance as at 30 September 2016	<u>235,282</u>	<u>57,371</u>	<u>274,221</u>	<u>449,795 *</u>	<u>1,016,669</u>
Balance as at 1 January 2017	235,282	57,371	304,153	418,723 *	1,015,529
Total comprehensive income for the period	-	-	45,479	(17,709)	27,770
Balance as at 30 September 2017	<u>235,282</u>	<u>57,371</u>	<u>349,632</u>	<u>401,014</u>	<u>1,043,298</u>

* Amount restated for reinsurance recovery and comparative purposes - See Note # 7

The notes on pages 7 to 9 are an integral part of these condensed interim financial statements.

Key Insurance Company Limited

Statement of Cash Flows

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Nine Month Period Ended 30 September 2017

(expressed in Jamaican dollars unless otherwise indicated)

	2017	2016
	\$'000	\$'000
Cash Flows from Operating Activities		
Net (loss)/profit	(17,710)	2,275 *
Adjustment for items not affecting cash:		
Amortisation and depreciation	8,653	7,894
Realised gain on sale of available-for-sale investment securities	(744)	-
Gain on revaluation of investment properties	-	(10,000)
Gain on foreign exchange	(4,139)	(19,551)
Dividend income	(3,704)	(2,087)
Interest income	(30,841)	(32,889)
Taxation	(60)	30
	<u>(48,545)</u>	<u>(54,328)</u>
Change in operating assets and liabilities		
Due from policyholders, brokers and agents	(85,039)	(70,388)
Deferred policy acquisition costs	(14,559)	(9,874)
Insurance reserves	(147,015)	329,562
Due from reinsurers	248,666	(297,531) *
Due to reinsurers	73,557	74,011
Other assets	(13,995)	3,232
Other liabilities	23,303	(337)
	<u>36,374</u>	<u>(25,653)</u>
Taxation paid	<u>(7,673)</u>	<u>(9,876)</u>
Net cash provided by/(used in) operating activities	<u>28,701</u>	<u>(35,529)</u>
Cash Flows from Investing Activities		
Acquisition of property, plant and equipment	(7,256)	(24,566)
Acquisition of intangible asset	(2,710)	(509)
Purchase of investments	(719,499)	(278,555)
Proceeds from disposal and maturity of investments	537,176	907,321
Interest and dividend received	33,529	34,976
Net cash (used in)/provided by investing activities	<u>(158,761)</u>	<u>638,667</u>
Cash Flow from Financing Activity		
Net proceeds from the issue of shares	-	107,955
Net cash provided by financing activity	<u>-</u>	<u>107,955</u>
Net increase in cash and cash equivalents	(130,060)	711,093
Effect of changes in exchange rate on cash and cash equivalents	744	19,551
Cash and cash equivalents at the beginning of the period	<u>445,905</u>	<u>185,773</u>
Cash and cash equivalents at the end of the period	<u><u>316,589</u></u>	<u><u>916,417</u></u>

* Amount restated for reinsurance recovery and comparative purposes

The notes on pages 7 to 9 are an integral part of these condensed interim financial statements.

Key Insurance Company Limited

Notes to the Financial Statements

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30 September 2017

(expressed in Jamaican dollars unless otherwise indicated)

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.
- (c) The company is a public company listed on the Jamaica Stock Exchange.

2. Significant Accounting Policies

The principal accounting policies applied to the preparation of these unaudited financial statements are similar to those applied to the audited financial statements for year ended 31 December 2016.

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

Basis of Preparation

These interim 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.

These financial statements do not include all the information and disclosures required in the annual financial statement and should be read in conjunction with the company's audited financial statements as at and for the year ended 31 December 2016. The accounting policies adopted are consistent with those followed in the preparation of the audited financial statements for the year ended 31 December 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017. The company has not early adopted any other standard, interpretations or amendments that have been issued and are not yet effective.

3. Share capital

	2017	2016
	\$'000	\$'000
Authorised - 496,000,000 ordinary shares		
Issued and fully paid - 368,460,863 ordinary shares at no par value	<u>235,282</u>	<u>235,282</u>

A resolution was passed at a General Meeting on 21 March 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.

Key Insurance Company Limited

Notes to the Financial Statements

30 September 2017

(expressed in Jamaican dollars unless otherwise)

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4. 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) (Amendment) regulations, 2011 is that a general insurance company shall have a minimum MCT percentage of 250% (2016 - 250%).

As at 30 September 2017, the company achieved the minimum level of capital based on MCT.

	September 2017	December 2016
Actual MCT ratio	311%	306% *
Minimum required MCT Ratio	250%	250%

5. Segment Information

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer (CEO) that are used to make strategic decisions.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

The operating segments are Motor and Non-Motor classes of insurance premium written.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit/(loss) before income tax, not including non-recurring gains and losses. Income and expenses that are directly related to segments are reported within those segments. Head office income and expenses are allocated to segments based on gross premium written.

	2017		
	Motor	Non-Motor	Total
	\$'000	\$'000	\$'000
Gross premiums written	670,258	362,588	1,032,846
Reinsurance ceded	50,025	346,099	396,124
Net premiums written	620,233	16,489	636,722
Change in unearned premium reserve, net	(86,954)	(1,589)	(88,543)
Net premiums earned	533,279	14,900	548,179
Underwriting expenses	(524,174)	(95,719)	(619,894)
Underwriting profit/(loss)	9,105	(80,820)	(71,715)
Other Income			99,485
Segment results			27,770
			<hr/>
	2016		
	Motor	Non-Motor	Total
	\$'000	\$'000	\$'000
Gross premiums written	447,554	337,497	785,051
Reinsurance ceded	24,633	309,765	334,398
Net premiums written	422,921	27,732	450,653
Change in unearned premium reserve, net	(52,865)	(3,774)	(56,639)
Net premiums earned	370,056	23,958	394,014
Underwriting expenses	(348,871) *	(112,381)	(461,252) *
Underwriting profit/(loss)	21,185	(88,423)	(67,238)
Other Income			89,784
Segment results			22,546

* Amount restated for reinsurance recovery and comparative purposes - See Note # 7

Key Insurance Company Limited

Notes to the Financial Statements

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30 September 2017

(expressed in Jamaican dollars unless otherwise)

6. Earnings/(Loss) per Share

The calculation of earnings/(loss) per stock unit is based on the net profit for the period attributable to stockholders on the 368,460,863 (2016: 342,752,547 weighted average) issued and fully paid ordinary stock units

7. Prior Year Adjustment

Retained earnings and the results for the prior periods have been restated to recognise reinsurance recovery amounts received during 2017 relating to motor excess of loss for claims closed in the years and period as follows:

Year	\$'000	2016	\$'000
2012	1,631	January - September	10,449
2015	3,913		
2016	<u>14,579</u>		
	<u>20,123</u>		

Key Insurance Company Limited

Shareholdings of Directors, Senior Managers and Connected Parties

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Quarterly Report as at 30 September 2017

Directors	Holdings as at 30 September 2017
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	-
Michael Fraser	-
Dennis Brown	-
Kisha Anderson	-
Senior Managers	
Heather Bowie	5,590
Sophia Phillips	15,605
Treveen Little	93,374
Carlene Isaacs	5,000

Key Insurance Company Limited

List of Top Ten Shareholders
Quarterly Report as at 30 September 2017

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Shareholders	Holdings as at 30 September 2017
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
Charles Edward Dunn	1,152,272
Winston Sylvester Mars	602,000
Rezworth Burchenson & Valerie Burchenson	591,216
Marathon Insurance Brokers	591,216
Derrick Dunn	443,925
William McConnell	443,925
Patrice Francis-Emmanuel	353,481