KEY INSURANCE COMPANY LIMITED
UNAUDITED FINANCIAL STATEMENTS
FOR THE FIRST QUARTER ENDED 31 MARCH 2023

KEY INSURANCE COMPANY LIMITED

Index

Key Insurance Company Limited (KEY or the Company) presents its unaudited financial results for the quarter ended 31 March 2023.

Main Highlights	Q1 2023	Q1 2022
	$Million	$Million
Insurance Revenue	585.0	484.4
Insurance Service Result	(20.4)	10.0
Profit Before Tax	5.3	3.4
Total Assets	3,839.7	3,518.2

Financial Performance

Key recorded a 20.8% increase in insurance revenue in the quarter that ended 31 March 2023. Revenue grew by $100.6 million over the corresponding prior year period. This was largely due to the steady premium growth in the non-motor portfolio, which saw an increase of $64.5 million or 49% over the similar period in 2022. During the quarter ended 31 March 2023, the profit before tax increased by 54.4% over the corresponding period in 2022, growing from $3.4 million in 2022 to $5.3 million in 2023.

The organic increase in insurance revenue is testament to the effectiveness of management's strategic initiatives.

Insurance service expenses increased by $54.2 million or 14.4% due mainly to increased claims; in addition, controlling the 18.4% escalation on claims has been a major focus of the Company.
The Company continues to benefit from the repositioned investment portfolio and the increase in interest rates, which resulted in a 188.1% increase in investment income for the first quarter of 2023 compared to the corresponding period in 2022.

Adoption of New Accounting Standard

KEY adopted IFRS 17 'Insurance contracts' (IFRS 17) effective 1 January 2023, and consequently, these interim financial statements are IFRS 17 compliant and the first such set of published financial statements. The impact of adopting IFRS 17 is discussed in Notes 6 and 7 of the interim financial statements.

Outlook

Despite a challenging economic climate and the risks posed by increased motor claims, reduced capacity in the property insurance market, and the risk of falling interest rates, our Q1 performance highlights the resilience of the Company and its strong potential for growth.

KEY remains committed to executing on our strategic plan, which is focused on increasing revenue and improving profitability. We are prepared to face market challenges head-on and management is continuously assessing the non-motor and motor portfolios to recognize, identify and capitalize on opportunities to optimize operational efficiency and increase profits. Increased customer engagement and strategic relationship building will be seminal to our growth strategy and continued success.

As part of our comprehensive risk mitigation efforts, we continue to vigilantly monitor the local and global markets and remain nimble in order to adjust our strategies as needed, particularly in response to the threat of decreasing interest rates. Overall, KEY continues to place high importance on managing risks, discovering chances for growth, enhancing the customer experience, while emphasizing staying abreast of trends in order to improve our market position, to deliver value to all stakeholders.

KEY INSURANCE COMPANY LIMITED
STATEMENT OF COMPREHENSIVE INCOME
THREE MONTHS ENDED 31 MARCH 2023
(Expressed in Jamaican Dollars unless otherwise indicated)

	Note	**Unaudited** Three Months ended 31 March 2023 $'000	**Unaudited** Three Months ended 31 March 2022 $'000	**Note 7** Year ended 31 December 2022 $'000
Insurance revenue	4	585,014	484,350	2,143,321
Insurance service expenses		(430,391)	(376,206)	(1,669,785)
Net expenses from reinsurance contracts held		(175,049)	(98,152)	(524,899)
Insurance service result		**(20,426)**	**9,992**	**(51,363)**
Net investment income		55,607	19,302	205,915
Net insurance and investment result		**35,181**	**29,294**	**154,552**
Other operating expenses		(29,884)	(25,864)	(82,510)
Profit before taxation		5,297	3,430	72,042
Taxation		(1,766)	(1,143)	(17,744)
Profit after taxation		**3,531**	**2,287**	**54,298**
Other Comprehensive Income:				
Items that may be subsequently reclassified to profit or loss:				
Net loss on revaluation of investment securities		-	(6,950)	(6,708)
		-	(6,950)	(6,708)
Total Comprehensive Income/(Loss)		**3,531**	**(4,663)**	**47,590**
Earnings per stock unit	**5**	**$0.006**	**$0.004**	**$0.100**

The notes on pages 8 to 12 are an integral part of these interim financial statements.

KEY INSURANCE COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2023
(Expressed in Jamaican Dollars unless otherwise indicated)

	Note	Unaudited 31 March 2023 $'000	Unaudited 31 March 2022 $'000	Note 7 31 December 2022 $'000
ASSETS				
Cash and deposits		877,876	1,575,876	844,286
Investment securities		1,435,781	773,099	1,580,943
Due from brokers		280,807	247,388	296,627
Reinsurance contract assets		297,219	78,144	117,137
Taxation recoverable		267,782	203,510	253,799
Other receivables		19,723	21,583	647
Right-of-use asset		20,125	9,161	24,870
Intangible assets		1,350	2,447	1,819
Property, plant and equipment		267,540	228,111	256,903
Deferred taxation		371,512	378,904	371,512
		3,839,715	3,518,223	3,748,543
LIABILITIES				
Liabilities				
Other payables		160,439	256,217	145,554
Lease liability		22,168	9,470	24,407
Insurance contract liabilities		2,384,382	2,035,594	2,309,387
		2,566,989	2,301,281	2,479,348
Equity				
Share capital	3	903,300	903,300	903,300
Capital reserve		57,371	57,371	57,371
Fair value reserves		55,397	55,155	55,397
Retained earnings		256,658	201,116	253,127
		1,272,726	1,216,942	1,269,195
		3,839,715	3,518,223	3,748,543

Approved for issue on behalf of the Board of Directors on 15 May 2023 and signed on its behalf by:

Donald Wehby Chairman

Linval Freeman Director

The notes on pages 8 to 12 are an integral part of these interim financial statements.

KEY INSURANCE COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
THREE MONTHS ENDED 31 MARCH 2023
(Expressed in Jamaican Dollars unless otherwise indicated)

	Share Capital $'000	Capital Reserve $'000	Fair Value Reserves $'000	Retained Earnings $'000	Total $'000
Balance as at 01 January 2022	903,300	57,371	62,105	51,942	1,074,718
Total comprehensive income for the period	-	-	(6,950)	2,287	(4,663)
Balance as at 31 March 2022	903,300	57,371	55,155	54,229	1,070,055
Balance as at 01 January 2023	903,300	57,371	55,397	253,127	1,269,195
Total comprehensive income for the period	-	-	-	3,531	3,531
Balance as at 31 March 2023	903,300	57,371	55,397	256,658	1,272,726

The notes on pages 8 to 12 are an integral part of these interim financial statements.

KEY INSURANCE COMPANY LIMITED
STATEMENT OF CASH FLOWS
THREE MONTHS ENDED 31 MARCH 2023
(Expressed in Jamaican Dollars unless otherwise indicated)

	Unaudited Three Months ended 31 March 2023 $'000	Unaudited Three Months ended 31 March 2022 $'000
Cash Flows from Operating Activities		
Net profit	3,531	2,287
Adjustment for items not affecting cash:		
Amortisation and depreciation	8,974	2,998
Expected credit losses	1,250	1,403
Net gain on foreign exchange	-	(716)
Gain on sale of property, plant and equipment	(1,069)	-
Interest expense	483	184
Interest income	(44,020)	(18,586)
Taxation	1,766	1,143
	(29,086)	(11,287)
Changes in operating assets and liabilities		
Due from brokers	15,820	(2,079)
Insurance contract liabilities	22,590	31,406
Insurance contract assets	(127,677)	50,234
Other assets	(19,076)	(20,189)
Other liabilities	14,885	43,012
	(122,544)	91,097
Interest paid	(483)	(184)
Taxation paid	(13,983)	(961)
Net cash (used in)/provided by operating activities	(137,009)	89,952
Cash Flows from Investing Activities		
Acquisition of property, plant and equipment	(15,633)	(2,048)
Proceeds from disposal of property, plant and equipment	2,652	-
Proceeds from disposal of investment securities	122,870	-
Interest and dividend received	63,432	14,715
Net cash (used in)/provided by investing activities	173,321	12,667
Cash Flows from Financing Activity		
Lease payments	(2,722)	(1,696)
Net cash used in financing activity	(2,722)	(1,696)
Net (decrease)/increase in cash and cash equivalents	33,590	100,923
Effect of changes in exchange rate on cash and cash equivalents	-	716
Cash and cash equivalents at the beginning of the period	844,286	1,474,237
Cash and cash equivalents at the end of the period	**877,876**	**1,575,876**

The notes on pages 8 to 12 are an integral part of these interim financial statements.

1. Identification and Activities

(a) Key Insurance Company Limited (the Company) 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

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 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 statements and should be read in conjunction with the Company's audited financial statements as at and for the year ended 31 December 2022. The accounting policies adopted are consistent with those followed in the preparation of the audited financial statements for the year ended 31 December 2022, except for the adoption of new standard IFRS 17 ‘Insurance Contracts’. The impact of adopting this standard is shown in Notes 6 and 7.

The Company has not early adopted any standard interpretations or amendments that had been issued and is not yet effective.

IFRS 17, ‘Insurance contracts’

IFRS 17 ‘Insurance contracts’ (IFRS 17) was issued as replacement for IFRS 4 ‘Insurance contracts’ and introduces a current measurement model where estimates are re-measured each reporting period. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features (participating investment contracts). The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts.

The Company adopted IFRS 17 on 1 January 2023.

Contracts in scope

The Company issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders. The Company does not issue insurance contracts with direct or indirect participating features, nor any features that should be accounted for separately in accordance with IFRS 17 requirements. Riders, representing add-on provisions to a basic insurance policy that provide additional benefits to the policyholder at additional cost, that are issued together with the main insurance contracts form part of a single insurance contract with all of the cash flows within its boundary. The Company uses reinsurance to mitigate its risk exposures. A reinsurance contract transfers significant risk if it transfers substantially all of the insurance risk resulting from the insured portion of the underlying insurance contracts, even if it does not expose the reinsurer to the possibility of a significant loss.

2. Significant Accounting Policies

Basis of Preparation

IFRS 17, 'Insurance contracts'

Measurement

The Company manages insurance contracts issued by product lines, where each product line includes contracts that are subject to similar risks and are managed together. All insurance contracts within a product line represent a portfolio of contracts. Each portfolio is further disaggregated into groups of contracts that are issued within a calendar year (annual cohorts) and profitability groups: (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; or (iii) a group of remaining contracts.

Portfolios of reinsurance contracts held are assessed for aggregation at the line of business level and are separately identified from portfolios of insurance contracts issued. Applying the grouping requirements to reinsurance contracts held, the Company aggregates reinsurance contracts held concluded within a calendar year (annual cohorts) into profitability groups: (i) contracts for which, at initial recognition, there is no significant possibility of a net gain arising subsequently; and (ii) remaining contracts in the portfolio.

IFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held by the Company. The Company used the Premium Allocation Approach to measure all the insurance contracts issued and reinsurance contracts held, which is a simplified approach compared to the general model in IFRS 17. The Company assumes that no contracts are onerous at initial recognition, unless facts and circumstances indicate otherwise.

The Company defines acquisition cash flows as cash flows that arise from costs of selling, underwriting and starting a group of insurance contracts and that are directly attributable to the portfolio of insurance contracts to which the group belongs. Insurance acquisition cash flows will be allocated to groups of insurance contracts on a systematic and rational basis. Acquisition cash flows will be deferred and recognised over the coverage period of contracts in a group.

The Company will not adjust the Liability for Remaining Coverage for insurance contracts issued and the remaining coverage for reinsurance contracts held for the effect of the time value of money. For the Liabilities for Incurred Claims (LIC), the estimates of future cash flows will be adjusted using the current discount rates to reflect the time value of money and the financial risks related to those cash flows, to the extent not included in the estimates of cash flows. The discount rates reflect the characteristics of the cash flows arising from the groups of insurance contracts, including timing, currency and liquidity of cash flows. The determination of the discount rate that reflects the characteristics of the cash flows and liquidity characteristics of the insurance contracts requires significant judgment and estimation.

An explicit risk adjustment for non-financial risk will be estimated separately from the other estimates. It reflects the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows from non-financial risk as the Company fulfils its insurance contracts. Unless the contracts are onerous, the explicit risk adjustment for non-financial risk will only be estimated for the measurement of the LIC. For reinsurance contracts held, the risk adjustment for non-financial risk represents the amount of risk being transferred by the Company to the reinsurer.

IFRS 17 provides the option to report changes in economic and financial assumptions through other comprehensive income (OCI). The Company did not apply the OCI option to disaggregate insurance finance income or expenses between profit or loss and OCI. The Company did not disaggregate changes in the risk adjustment for non-financial risk between insurance service result and insurance finance income or expenses.

The Company will provide disaggregated qualitative and quantitative information in the notes of the annual financial statements about:

• Amounts recognised in its financial statements from insurance contracts

• Significant judgements, and changes in those judgements, when applying the standard

2. Significant Accounting Policies

Basis of Preparation

IFRS 17, 'Insurance contracts'

Transition

On adoption date, 1 January 2023, the Company adopted IFRS 17 retrospectively. The full retrospective approach was applied to the insurance contracts in force at the transition date. The Company: identified, recognised and measured each group of insurance contracts as if IFRS 17 has always applied; derecognised any existing balances that would not exist if IFRS 17 has always applied; and recognised any resulting net difference in equity.

Accounting estimates

In applying IFRS 17 measurement requirements, the following inputs and methods was used that include significant estimates.

Discount rates

The Company used a bottom-up approach to determine discount rates. Risk-free discount rates were determined using the most appropriate observable rates. An illiquidity premium was selected using a range of approaches including the review of observed Bid-Ask spreads. The Company's claims settlement period did not exceed the period over which observable market prices are available.

Risk adjustment for non-financial risk

Risk adjustments for non-financial risk was determined to reflect the compensation that the Company would require for bearing nonfinancial risk and its degree of risk aversion. The risk adjustments for non-financial risk was determined for the liabilities for incurred claims of all contracts using a confidence level technique. They were allocated to groups of contracts based on an analysis of the risk profiles of the groups.

To determine the risk adjustments for non-financial risk for reinsurance contracts, the Company applied these techniques both gross and net of reinsurance and derived the amount of risk being transferred to the reinsurer as the difference between the two results.

Applying a confidence level technique, the Company estimated the probability distribution of the expected present value of the future cash flows from the contracts annually and calculated the risk adjustment for non-financial risk as the excess of the value at risk at the target confidence level over the expected present value of the future cash flows allowing for the associated risks over all future years. The target confidence level was 75 percent.

3. Share Capital

	2023 $'000	2022 $'000
Authorised - 700,000,000 ordinary stock units		
Issued and fully paid -		
559,323,101 (2022: 559,323,101) ordinary shares at no par value	903,300	903,300

4. Segment Information

Management has determined the operating segments based on the reports reviewed by the General Manager 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 insurance service result, as included in the internal management reports that are reviewed by the Company's General Manager.

Head office income and expenses are allocated to segments based on gross premium written.

	2023		
	Motor	Non-Motor	Total
	$'000	$'000	$'000
Insurance revenue	390,897	194,117	585,014
Insurance service expenses	(359,961)	(70,430)	(430,391)
Net expenses from reinsurance contract held net	(33,876)	(141,173)	(175,049)
Insurance service result	(2,940)	(17,486)	(20,426)

	2022		
	Motor	Non-Motor	Total
	$'000	$'000	$'000
Insurance revenue	354,744	129,606	484,350
Insurance service expenses	(312,748)	(63,458)	(376,206)
Net expenses from reinsurance contract held net	(19,226)	(78,926)	(98,152)
Insurance service result	22,770	(12,778)	9,992

5. Earnings per stock unit

	2023	**2022**
Net profit from operations ($'000)	3,531	2,287
Weighted average number of ordinary stock unit outstanding ('000)	559,323	559,323
Earnings per stock unit	$0.006	$0.004

6. Effects of IFRS 17

Upon adoption of IFRS 17, there were material changes to the presentation and disclosures in the financial statements.

For presentation in the statement of financial position, the Company aggregated insurance contracts issued and reinsurance contracts held, respectively. These are presented separately as follows:

- Portfolios of insurance and reinsurance contracts issued that are assets or liabilities
- Portfolios of reinsurance contracts held that are assets or liabilities

For the presentation in the income statement, the Company reported the following new line items under IFRS 17:

- Insurance revenue
- Insurance service expenses
- Net expenses from reinsurance contracts held
- Insurance service result

Transition

On adoption date 1 January 2023, the presentation of the statements of comprehensive income and financial position was adjusted to reflect the requirements of the standard.

The changes included the restatement of balances in the statement of financial position as at 31 March 2022 and 31 December 2022. The restatements resulted in an increase in retained earnings of $146.9 million primarily due to the deferral of acquisition costs over the life of the insurance policies to which they relate.

7. Impact of IFRS 17 on 31 December 2022 audited results

The Company's 2022 financial statements were audited in accordance with IFRS 4. The adoption and thereafter the effects of IFRS 17 standard, have resulted in changes to the presentation of the balances for said year which have not been audited.