The Lloyd’s Insurance Index started to marginally outperform the insurance sector in the past two weeks as we neared the end of another relatively benign quarter in terms of natural catastrophes. Hence, underwriters have been able to build a comfortable capital buffer to absorb potential Cat losses in H2. A challenging outlook for rates across reinsurance and specialty lines explains the underperformance so far this year. However, investors are now more likely to focus on loss experience in H2, as this will drive the outlook for special dividends. Sector yields are 4.8% without factoring special dividends (which are likely should H2 loss experience align with cat budgets) whilst valuation remains in line with long term returns at 1.5x 2014e PTNAV (range (1.2x-1.8x). We would recommend investing at the lower end of the valuation spectrum through the hurricane season (Catlin (OW), BRIT (OW)) and pick up the sector more broadly nearer Q4 as potential special dividends start to get priced in (Beazley (N), LRE (N), Hiscox (N)). We remain cautious on Amlin (UW).

Figure : JPM Lloyd's Insurers Index

%



Source: J.P. Morgan estimates, Company data.

Figure : JPM Lloyd’s Index relative performance vs SXIP

%



Source: J.P. Morgan estimates, Company data.

* **Lloyd’s Tour and Swiss Re Investor Day**: During our Lloyd's Tour last week underwriters acknowledged worse than expected rate declines during the US renewals but an easing of the rate pressure in the Cat Bond/Alternative market. This was subsequently corroborated by Swiss Re. As such, some underwriting discipline is emerging in property Cat reinsurance lines, albeit rate pressure is spilling over in other classes. This is creating some uncertainty for 2015 and we believe underwriters are likely to make material portfolio changes ahead of the 2015 renewals.
* **Catastrophe events benign:** The main events during Q2 include higher costs for the Costa Concordia wreck removal, US Tornados and a Satellite loss, but overall the second quarter was fairly benign as was Q1. The first hurricane of the season, Hurricane Arthur, a category 2 hurricane, shaved the NC coastline over the long weekend albeit the damage is likely to be well within Q3 catastrophe budgets. As such, so far earnings and capital buffers are healthy, in our view.
* **H1 Results are around the corner** and we expect many insurers will be tuning down their growth expectations for 2015. We expect the H1 focus will be on attritional loss experience in a softening cycle, the build-up of excess capital in a benign claims environment and the outlook for reinsurance vs insurance capacity deployment in 2015. We believe the Lloyd's underwriters are in a favorable position and able to manage the cycle but likely to shrink reinsurance and continue to grow insurance into 2015.

# Lloyd’s Insurers Valuation Sheet

Table : Valuation sheet

$ million

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **LLOYD's** |  | | | **BBG** |  | **Target** | **Mkt cap** | **P/TNAV x** | **P/TNAV x** | **P/TNAV x** | **RTNAV %** | **RTNAV %** | **RTNAV %** |
| **Valuation Metrics** | | **Rec.** | | **RICs** | **Price (p)** | **Price** | **(£m)** | **2013** | **2014E** | **2015E** | **2013** | **2014E** | **2015E** |
| Amlin | | UW | | AML LN | 480 | 390 | 2403 | 1.6x | 1.6x | 1.6x | 21.9% | 13.1% | 10.3% |
| Beazley | | N | | BEZ LN | 262 | 258 | 1367 | 1.5x | 1.7x | 1.6x | 22.5% | 17.9% | 15.0% |
| BRIT | | OW | | BRIT LN | 248 | 256 | 991 | 1.3x | 1.4x | 1.3x | 15.4% | 14.3% | 13.8% |
| Catlin | | OW | | CGL LN | 545 | 580 | 1973 | 1.2x | 1.2x | 1.1x | 16.1% | 11.8% | 13.2% |
| Hiscox | | N | | HSX LN | 735 | 631 | 2339 | 1.8x | 1.8x | 1.7x | 18.0% | 11.5% | 12.7% |
| Lancashire | | N | | LRE LN | 659 | 744 | 1235 | 1.9x | 1.4x | 1.3x | 16.9% | 15.5% | 13.7% |
|  | | |  |  |  |  |  |  |  |  |  |  |  |
| **Wght avg.** | |  | |  |  |  |  | **1.5x** | **1.5x** | **1.5x** | **18.6%** | **13.4%** | **12.8%** |
|  | |  | |  |  |  |  |  |  |  |  |  |  |
| **LLOYD's** | | **Yield %** | | **Yield %** | **P/E x** | **P/E x** | **EPS p** | **EPS p** | **EPS p** | **EPS p** | **DPS p** | **DPS p** | **DPS p** |
| **Valuation Metrics** | | **2013** | | **2014E** | **2014E** | **2015E** | **2013** | **2014E** | **2015E** | **2016E** | **2013** | **2014E** | **2015E** |
| Amlin | | 5.7% | | 5.4% | 12.7x | 15.7x | 59 | 38 | 31 | 30 | 26 | 26 | 26 |
| Beazley | | 11.3% | | 3.5% | 10.1x | 11.4x | 32 | 26 | 23 | na | 25 | 9 | 10 |
| BRIT | | 12.1% | | 7.6% | 10.1x | 9.7x | 25 | 24 | 26 | 27 | 25 | 19 | 19 |
| Catlin | | 6.1% | | 6.0% | 10.7x | 9.0x | 65 | 51 | 60 | 68 | 31 | 33 | 35 |
| Hiscox | | 8.4% | | 3.3% | 16.3x | 14.5x | 65 | 45 | 51 | 54 | 57 | 25 | 27 |
| Lancashire | | 13.1% | | 3.2% | 11.2x | 11.3x | 70 | 59 | 58 | 59 | 105 | 21 | 9 |
|  | |  | |  |  |  |  |  |  |  |  |  |  |
| **Wght avg.** | | **8.6%** | | **4.8%** | **12.4x** | **12.5x** |  |  |  |  |  |  |  |
|  | |  | |  |  |  |  |  |  |  |  |  |  |
| **LLOYD's** | | **TNAV** | | **TNAV** | **TNAV** | **GWP-$m** | **GWP-$m** | **CR %** | **CR %** | **Attr. CR %** | **Attr. CR %** | **Attr. CR %** | **NII %** |
| **Valuation Metrics** | | **2013** | | **2014E** | **2015E** | **2013** | **2014E** | **2013** | **2014E** | **2012** | **2013** | **2014E** | **2013** |
| Amlin | | 288 | | 299 | 303 | 4,085 | 4,368 | 90.0% | 92.3% | 89.5% | 88.9% | 87.9% | 3.2% |
| Beazley | | 150 | | 153 | 167 | 1,970 | 2,061 | 84.1% | 88.9% | 90.8% | 88.1% | 91.0% | 1.0% |
| BRIT | | 162 | | 181 | 189 | 1,963 | 1,985 | 85.3% | 90.5% | 88.6% | 88.2% | 87.4% | 2.2% |
| Catlin | | 435 | | 451 | 479 | 5,309 | 5,543 | 91.3% | 94.1% | 89.0% | 89.2% | 88.9% | 2.7% |
| Hiscox | | 381 | | 404 | 432 | 2,814 | 3,051 | 84.0% | 90.1% | 88.9% | 91.3% | 92.1% | 1.9% |
| Lancashire | | 429 | | 466 | 524 | 680 | 941 | 70.2% | 74.1% | 45.8% | 61.9% | 61.5% | 1.8% |
|  | |  | |  |  |  |  |  |  |  |  |  |  |
| **Wght avg.** | |  | |  |  |  |  | **87.4%** | **91.2%** | **87.5%** | **88.1%** | **88.2%** | **2.3%** |

Source: J.P. Morgan estimates, Company data. CoB 02/07/2014

# Cat Reinsurance Rates & Exposures

|  |  |
| --- | --- |
| Figure : Guy Carpenter Global ROL Index  %    Source: J.P. Morgan estimates, Guy Carpenter | Figure : Guy Carpenter Global ROL Index  %    Source: J.P. Morgan estimates, Guy Carpenter |
| Figure : Property Cat Re rate change by geography  %    Source: J.P. Morgan estimates, Guy Carpenter. | Figure : Property Cat Re rate change by geography  %    Source: J.P. Morgan estimates, Guy Carpenter |
| Figure : Lloyd’s Market by Underwriting Class  %    Source: J.P. Morgan estimates, Company data. | Figure : Lloyd’s Market Geographic Split  %    Source: J.P. Morgan estimates, Company data. |

# Lloyd’s Insurers premium split

Premium split by line of business (2013)

%

|  |  |  |
| --- | --- | --- |
| Figure : Amlin  %    Source: Company reports and J.P. Morgan estimates. | Figure : Beazley  %    Source: Company reports and J.P. Morgan estimates. | Figure : BRIT  %    Source: Company reports and J.P. Morgan estimates. |
| Figure : Catlin  %    Source: Company reports and J.P. Morgan estimates. | Figure : Hiscox  %    Source: Company reports and J.P. Morgan estimates. | Figure : Lancashire  %    Source: Company reports and J.P. Morgan estimates |

# Lloyd’s Insurers premium rankings (% GWP)

Premium split by line of business (2013)

%

|  |  |  |
| --- | --- | --- |
| Figure : Reinsurance  %    Source: Company reports and J.P. Morgan estimates. | Figure : Property Insurance  %    Source: Company reports and J.P. Morgan estimates. | Figure : Casualty Insurance  %    Source: Company reports and J.P. Morgan estimates. |
| Figure : Marine Insurance  %    Source: Company reports and J.P. Morgan estimates. | Figure : Airline Insurance  %    Source: Company reports and J.P. Morgan estimates. | Figure : Energy Insurance  %    Source: Company reports and J.P. Morgan estimates |

# Reinsurance premium split

Reinsurance Premium split by line of business (2013)

%

|  |  |  |
| --- | --- | --- |
| Figure : Amlin  %    Source: Company reports and J.P. Morgan estimates. | Figure : Beazley  %    Source: Company reports and J.P. Morgan estimates. | Figure : BRIT  %    Source: Company reports and J.P. Morgan estimates. |
| Figure : Catlin  %    Source: Company reports and J.P. Morgan estimates. | Figure : Hiscox  %    Source: Company reports and J.P. Morgan estimates. | Figure : Lancashire  %    Source: Company reports and J.P. Morgan estimates |

# Lloyd’s Insurers Geographic premium split

Premium split by geography (2013)

%

|  |  |  |
| --- | --- | --- |
| Figure : Amlin  %    Source: Company reports and J.P. Morgan estimates. | Figure : Beazley  %    Source: Company reports and J.P. Morgan estimates. | Figure : BRIT  %    Source: Company reports and J.P. Morgan estimates. |
| Figure : Catlin  %    Source: Company reports and J.P. Morgan estimates. | Figure : Hiscox  %    Source: Company reports and J.P. Morgan estimates. | Figure : Lancashire  %    Source: Company reports and J.P. Morgan estimates |

Table : Amlin Key data

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Profit and Loss statement** |  |  |  |  |  |  |  | **Ratio Analysis** |  |  |  |  |  |  |  |
| **£ in millions** | **FY11** | **FY12** | **FY13** | **FY14e** | **FY15e** | **FY16e** | **FY17e** | **p** | **FY11** | **FY12** | **FY13** | **FY14e** | **FY15e** | **FY16e** | **FY17e** |
| Gross Written Premiums | 2,304 | 2,406 | 2,467 | 2,545 | 2,624 | 2,708 | 2,799 | Shares Outstanding | 495 | 495 | 499 | 499 | 499 | 499 | 499 |
| % change Y/Y | 6% | 4% | 3% | 3% | 3% | 3% | 3% | EPS(diluted)p | -30.1 | 49.4 | 58.9 | 37.9 | 30.6 | 30.0 | 33.9 |
| Net Written Premiums | 2,013 | 2,059 | 2,107 | 2,192 | 2,255 | 2,323 | 2,396 | % change Y/Y | -168% | -264% | 19% | -36% | -19% | -2% | 13% |
| % change Y/Y | 5% | 2% | 2% | 4% | 3% | 3% | 3% | DPS(p) | 23.0 | 24.0 | 26.0 | 26.0 | 26.0 | 26.0 | 26.0 |
| Net Earned premiums | 1,927 | 1,971 | 2,077 | 2,133 | 2,197 | 2,262 | 2,332 | % change Y/Y | 0% | 4% | 8% | 0% | 0% | 0% | 0% |
| % change Y/Y | 10% | 2% | 5% | 3% | 3% | 3% | 3% | Payout ratio | -76.5% | 48.6% | 44.1% | 68.7% | 84.8% | 86.6% | 76.6% |
| Insurance related expenses | (1,499) | (1,125) | (1,093) | (1,218) | (1,289) | (1,352) | (1,395) | TNAV / share(p) | 242.9 | 259.7 | 288.4 | 299.2 | 302.5 | 305.2 | 311.7 |
| Admin expenses | -69 | -87 | -81 | -62 | -59 | -59 | -59 | JPM TNAV / share(p) | 227.1 | 243.2 | 270.2 | 281.0 | 284.3 | 287.0 | 293.5 |
| Acquisition expenses | (574) | (639) | (696) | (689) | (699) | (708) | (716) |  |  |  |  |  |  |  |  |
| Underwriting profit | (215) | 120 | 207 | 164 | 150 | 142 | 162 | P/E x | -10.4x | 7.7x | 7.8x | 12.7x | 15.7x | 16.0x | 14.1x |
| *Of which Reserve releases* | 113 | 94 | 134 | 116 | 111 | 108 | 114 | Dividend yield | 7.3% | 6.3% | 5.7% | 5.4% | 5.4% | 5.4% | 5.4% |
| Investment income | 41 | 165 | 160 | 93 | 64 | 66 | 69 | P/TNAV x | 1.3x | 1.5x | 1.6x | 1.6x | 1.6x | 1.6x | 1.5x |
| Other income | 9 | 6 | 4 | (3) | (2) | (1) | 1 | RTNAV % | -10.9% | 19.9% | 21.9% | 13.1% | 10.3% | 10.0% | 11.2% |
| Other expenses | (28) | (27) | (50) | (29) | (29) | (29) | (29) | P/JPM TNAV x | 1.4x | 1.6x | 1.7x | 1.7x | 1.7x | 1.7x | 1.6x |
| **Earnings before tax** | **(194)** | **264** | **326** | **226** | **183** | **179** | **202** | **RTNAV %** | **-8.1%** | **14.4%** | **23.3%** | **14.0%** | **11.0%** | **10.7%** | **11.9%** |
| % change Y/Y | -175% | -236% | 23% | -31% | -19% | -2% | 13% |  |  |  |  |  |  |  |  |
| Tax | 44 | (17) | (27) | (34) | (27) | (27) | (30) | Debt / Capital | 37.0% | 37.0% | 34.5% | 33.7% | 33.5% | 33.3% | 32.8% |
| % Tax rate | 22.9% | 6.2% | 8.3% | 15.0% | 15.0% | 15.0% | 15.0% | Equity/ GWP | 61.6% | 62.0% | 68.0% | 68.1% | 66.7% | 0.0% | 0.0% |
| Minorities | (0) | - | - | - | - | - | - | Reserves / GWP | 143% | 130% | 119% | 122% | 125% | 0% | 0% |
| Net Income (Reported) | (150) | 248 | 299 | 192 | 155 | 152 | 172 | TNAV | 1,201 | 1,286 | 1,440 | 1,493 | 1,510 | 1,523 | 1,556 |
| % change Y/Y | nm | nm | 21% | -36% | -19% | -2% | 13% | JPM TNAV | 1,123 | 1,204 | 1,349 | 1,402 | 1,419 | 1,432 | 1,465 |
| **Balance sheet (IFRS)** | **FY11** | **FY12** | **FY13** | **FY14e** | **FY15e** | **FY16e** | **FY17e** | **Ratio Analysis** | **FY11** | **FY12** | **FY13** | **FY14e** | **FY15e** | **FY16e** | **FY17e** |
| **ASSETS** |  |  |  |  |  |  |  | Loss ratio % | 77.8% | 57.1% | 52.6% | 57.1% | 58.7% | 59.8% | 59.8% |
| Intangible assets | 219 | 211 | 239 | 239 | 239 | 239 | 239 | Expense ratio % | 33.4% | 36.8% | 37.4% | 35.2% | 34.5% | 33.9% | 33.2% |
| Investment in associates | 8 | 9 | 13 | 13 | 13 | 13 | 13 | Combined ratio % | 111.2% | 93.9% | 90.0% | 92.3% | 93.2% | 93.7% | 93.1% |
| Investments | 4,080 | 4,205 | 4,369 | 4,607 | 4,805 | 5,015 | 5,205 | Attritional COR % | 87.9% | 89.5% | 88.9% | 87.9% | 89.2% | 89.6% | 89.3% |
| Insurance receivables | 934 | 1,003 | 1,014 | 1,046 | 1,078 | 1,113 | 1,150 | Attritional Loss ratio % | 54.6% | 52.7% | 51.5% | 52.7% | 54.6% | 55.7% | 56.1% |
| Reinsurance assets | 667 | 525 | 388 | 465 | 493 | 509 | 519 | Reserve release % prem | -5.8% | -4.8% | -6.4% | -5.4% | -5.1% | -4.8% | -4.9% |
| Other receivables | 69 | 82 | 88 | 91 | 94 | 97 | 100 | Investment yield % | 0.9% | 3.5% | 3.2% | 2.0% | 1.3% | 1.3% | 1.3% |
| DAC | 208 | 239 | 246 | 254 | 262 | 270 | 279 | Large losses % prem | 3.1% | 1.2% | 3.7% | 2.7% | 2.7% | 2.7% | 2.7% |
| Deferred tax | 27 | 18 | 6 | 6 | 6 | 6 | 6 | Nat Cat % Premiums | 26.0% | 8.0% | 3.9% | 7.1% | 6.4% | 6.2% | 6.0% |
| Cash | 256 | 191 | 165 | 191 | 191 | 191 | 191 |  |  |  |  |  |  |  |  |
| **Total Assets** | **6,502** | **6,517** | **6,573** | **6,957** | **7,225** | **7,498** | **7,748** | **Investment assets** |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | Equities/Property | 7.5% | 10.3% | 15.1% | 15.6% | 15.6% | 15.6% | 15.7% |
| **LIABILITIES** |  |  |  |  |  |  |  | Fixed income | 62.9% | 62.7% | 24.4% | 24.6% | 24.5% | 24.5% | 24.5% |
| Policyholder liabilities | 3,304 | 3,132 | 2,930 | 3,110 | 3,289 | 3,467 | 3,615 | Cash | 5.9% | 4.5% | 4.1% | 4.0% | 3.8% | 3.7% | 3.5% |
| Debt | 400 | 416 | 396 | 396 | 396 | 396 | 396 | Other | 23.7% | 22.5% | 56.4% | 55.8% | 56.0% | 56.3% | 56.3% |
| Subordinated debt |  |  |  |  |  |  |  | **Pretax split** |  |  |  |  |  |  |  |
| Deferred tax liabilities | 42 | 28 | 64 | 64 | 64 | 64 | 64 | Amlin London | 35% | 36% | 35% | 38% | 38% | 0% | 0% |
| Creditors | 219 | 275 | 273 | 282 | 291 | 300 | 310 | Amlin UK | 12% | 13% | 13% | 13% | 13% | 0% | 0% |
| Other liabilities | 1117 | 1174 | 1232 | 1372 | 1436 | 1509 | 1568 | AFU | 2% | 0% | 0% | 0% | 0% | 0% | 0% |
| **Shareholders' equity** | **1420** | **1491** | **1678** | **1732** | **1749** | **1762** | **1795** | Amlin Bermuda | 25% | 24% | 24% | 23% | 22% | 0% | 0% |
| Minorities | 1 | 1 | 1 | 1 | 1 | 1 | 1 | ACI | 24% | 20% | 19% | 18% | 17% | 0% | 0% |
| **TOTAL LIABILITIES** | **6,502** | **6,517** | **6,573** | **6,957** | **7,225** | **7,498** | **7,748** | Others | 3% | 6% | 8% | 9% | 9% | 100% | 100% |

Source: J.P. Morgan estimates, Company data.

Table : Beazley

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **PnL** |  |  |  |  |  |  | **Key Per share data** |  |  |  |  |  |  |
| **$ in millions** | **FY10** | **FY11** | **FY12** | **FY13** | **FY14e** | **FY15e** | **$/p** | **FY10** | **FY11** | **FY12** | **FY13** | **FY14e** | **FY15e** |
|  | $ | $ | $ | $ | $ | $ |  | $ | $ | $ | $ | $ | $ |
| Gross Written Premiums | 1,742 | 1,712.5 | 1,895.9 | 1,970.2 | 2,061.1 | 2,132.6 | Shares Outstanding | 505 | 506 | 501 | 502 | 502 | 502 |
| % change Y/Y | -1% | -2% | 11% | 4% | 5% | 3% | EPS(diluted)p | 26.1 | 7.7 | 25.8 | 32.5 | 26.0 | 22.9 |
| Net Written Premiums | 1,402 | 1,374 | 1,543 | 1,677 | 1,654 | 1,711 | % change Y/Y | 47% | -70% | 234% | 26% | -20% | -12% |
| % change Y/Y | 5% | -2% | 12% | 9% | -1% | 3% | DPS(p) | 10.0 | 7.9 | 16.7 | 24.9 | 9.2 | 9.7 |
| Net Earned premiums | 1,405 | 1,385 | 1,479 | 1,591 | 1,629 | 1,664 | % change Y/Y | 43% | -21% | 111% | 49% | -63% | 5% |
| % change Y/Y | 7% | -1% | 7% | 8% | 2% | 2% | Payout ratio | 38.3% | 102.0% | 64.6% | 76.7% | 35.6% | 42.3% |
| Insurance related expenses | -738 | -851 | -778 | -719 | -826 | -870 | TNAV / share(p) | 124 | 120 | 134 | 150 | 153 | 167 |
| Admin expenses | -119 | -127 | -155 | -188 | -193 | -197 | JPMCTNAV / share(p) | 110 | 108 | 117 | 124 | 142 | 155 |
| Acquisition expenses | -381 | -391 | -409 | -432 | -429 | -438 |  |  |  |  |  |  |  |
| Underwriting profit | 166.4 | 17.2 | 136.6 | 252.1 | 181.4 | 158.8 | P/E x | 4.4x | 17.3x | 6.0x | 6.8x | 10.1x | 11.4x |
| *Of which Reserve releases* | 145 | 187 | 126 | 218 | 204 | 199 | Dividend yield | 8.7% | 5.9% | 10.8% | 11.3% | 3.5% | 3.7% |
| Investment income | 38 | 39 | 83 | 43 | 72 | 64 | P/TNAV x | 0.9x | 1.1x | 1.1x | 1.5x | 1.7x | 1.6x |
| Other income | 28.1 | 28.1 | 24.7 | 36.4 | 30.6 | 30.6 | RTNAV % | 23.5% | 6.9% | 21.1% | 22.5% | 17.9% | 15.0% |
| Other expenses | 19 | (22) | 7 | (19) | (17) | (17) | P/ JPMC TNAV x | 1.0x | 1.2x | 1.3x | 1.8x | 1.9x | 1.7x |
| **Earnings before tax** | **251** | **63** | **251** | **313** | **267** | **236** | JPMC RTNAV % | 23.9% | 6.2% | 20.4% | 26.4% | 19.0% | 15.6% |
| % change Y/Y | 59% | -75% | 301% | 25% | -15% | -12% |  |  |  |  |  |  |  |
| Tax | -34 | 3 | -37 | -49 | -43 | -38 | Debt / Capital | 20% | 20% | 21% | 17% | 17% | 16% |
| % Tax rate | 13.5% | -4.9% | 14.6% | 15.7% | 16.0% | 16.0% | Equity/ GWP | 62% | 63% | 64% | 68% | 66% | 69% |
| Minorities |  |  |  |  |  |  | Reserves / GWP | 232% | 253% | 236% | 232% | 220% | 213% |
| Net Income (Reported) | 217 | 66 | 215 | 264 | 224 | 198 | TNAV | 966 | 933 | 1,097 | 1,247 | 1,265 | 1,385 |
| % change Y/Y | 56% | -70% | 226% | 23% | -15% | -12% | JPMCTNAV | 907 | 890 | 981 | 1,067 | 1,214 | 1,331 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance sheet (IFRS)** |  |  |  |  |  |  | **Ratio Analysis** |  |  |  |  |  |  |
| **$ in millions** | **FY10** | **FY11** | **FY12** | **FY13** | **FY14e** | **FY15e** | **Non-life** | **FY10** | **FY11** | **FY12** | **FY13** | **FY14e** | **FY15e** |
|  | $ | $ | $ | $ | $ | $ |  |  |  |  |  |  |  |
| **ASSETS** |  |  |  |  |  |  | Loss ratio % | 52.4% | 61.4% | 52.6% | 45.2% | 50.7% | 52.3% |
| Intangible assets | 117 | 131 | 115 | 92 | 92 | 92 | Expense ratio % | 35.9% | 37.4% | 38.1% | 38.9% | 38.2% | 38.2% |
| Investment in associates | 7 | 9 | 10 | 8 | 8 | 8 | Combined ratio % | 88.3% | 98.8% | 90.8% | 84.1% | 88.9% | 90.5% |
| Investments | 2,578 | 3,357 | 3,685 | 4,044 | 4,332 | 4,640 | Attritional COR % | 88.6% | 94.3% | 90.8% | 88.1% | 91.0% | 92.2% |
| Insurance receivables | 527 | 559 | 578 | 618 | 649 | 681 | Attritional Loss ratio % | 52.7% | 56.9% | 52.7% | 49.2% | 52.8% | 54.0% |
| Reinsurance assets | 1,035 | 1,198 | 1,187 | 1,178 | 1,237 | 1,299 | Reserve release % prem. | -10.3% | -13.5% | -8.5% | -13.7% | -12.5% | -11.9% |
| Other receivables | 34 | 22 | 32 | 42 | 42 | 42 | Investment yield % | 1.0% | 1.0% | 1.9% | 1.0% | 1.5% | 1.3% |
| DAC | 164 | 160 | 185 | 206 | 216 | 227 | Large losses % Prem. | 1.6% | 2.4% | 0.0% | 0.0% | 1.4% | 1.3% |
| Deferred tax | 10 | 13 | 11 | 9 | 9 | 10 | Nat Cat % Premiums | 8.3% | 15.5% | 8.4% | 9.8% | 9.1% | 8.9% |
| Cash | 1,265 | 650 | 637 | 383 | 410 | 439 |  | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| **Total Assets** | **5,774** | **6,119** | **6,455** | **6,585** | **7,000** | **7,443** | **Investment assets** | 0% | 0% | 0% | 0% | 0% | 0% |
|  |  |  |  |  |  |  | Equities/Property |  |  |  |  |  |  |
| **LIABILITIES** |  |  |  |  |  |  | Fixed income | 56% | 74% | 83% | 80% | 80% | 80% |
| Policyholder liabilities | 4,047 | 4,335 | 4,484 | 4,580 | 4,535 | 4,543 | Cash | 33% | 16% | 7% | 9% | 9% | 9% |
| Debt | 268 | 267 | 315 | 275 | 275 | 275 | Other | 11% | 10% | 10% | 12% | 12% | 12% |
| Subordinated debt |  |  |  |  |  |  | **PBTsplit** | 0% | 0% | 0% | 0% | 0% | 0% |
| Deferred tax liabilities | 91 | 80 | 84 | 65 | 65 | 65 | Marine | 16% | 16% | 18% | 16% | 17% | 17% |
| Creditors | 285 | 366 | 361 | 308 | 750 | 1065 | Pol. Risks & Conti. | 6% | 6% | 6.6% | 6.2% | 6.2% | 6.1% |
| Other liabilities | 0 | 0 | 0 | 19 | 19 | 19 | Property | 21% | 21% | 18% | 19% | 18% | 18% |
| **Shareholders' equity** | **1083** | **1071** | **1212** | **1338** | **1357** | **1477** | Reinsurance | 9% | 9% | 9% | 10% | 11% | 10% |
| Minorities |  |  |  |  |  |  | Specialty lines | 43% | 42% | 42% | 42% | 43% | 44% |
| **TOTAL LIABILITIES** | **5,774** | **6,119** | **6,455** | **6,585** | **7,000** | **7,443** | Other | 4% | 5% | 5% | 6% | 6% | 5% |

Source: J.P. Morgan estimates, Company data.

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Profit and Loss statement** | **2011** | **2012** | **2013** | **2014e** | **2015e** | **2016e** | **2017e** | **Valuation Multiples** | **2011** | **2012** | **2013** | **2014e** | **2015e** | **2016e** | **2017e** |
| **£ in millions, year-end Dec** |  |  |  |  |  |  |  | **p** |  |  |  |  |  |  |  |
| Gross Written Premiums | 1180 | 1148 | 1186 | 1199 | 1240 | 1298 | 1312 | Shares Outstanding | 400.0 | 400.0 | 400.0 | 400.0 | 400.0 | 400.0 | 400.0 |
| % change Y/Y |  | -3% | 3% | 1% | 3% | 5% | 1% | EPS(diluted)p | 25 | 29 | 25 | 24 | 26 | 27 | 30 |
| Net Written Premiums | 975 | 937 | 956 | 962 | 997 | 1045 | 1056 | % change Y/Y |  | 14% | -13% | -2% | 5% | 5% | 10% |
| % change Y/Y |  | -4% | 2% | 1% | 4% | 5% | 1% | DPS(p) | 18 | 93 | 25 | 19 | 19 | 19 | 19 |
| Net Earned premiums | 1004 | 945 | 946 | 953 | 982 | 1028 | 1052 | % change Y/Y |  |  | -73% | -25% | 0% | 0% | 0% |
| % change Y/Y |  | -6% | 0% | 1% | 3% | 5% | 2% | Payout ratio | 72% | 323% | 101% | 77% | 73% | 70% | 63% |
| Insurance related expenses | -604 | -530 | -459 | -510 | -534 | -560 | -566 | TNAV / share(p) | 224 | 161 | 162 | 181 | 189 | 198 | 210 |
| Acquisition expenses | -257 | -243 | -236 | -241 | -249 | -261 | -267 | BV / share(p) | 243 | 176 | 177 | 197 | 204 | 214 | 226 |
| Admin expenses | -124 | -107 | -114 | -114 | -117 | -123 | -126 |  |  |  |  |  |  |  |  |
| Underwriting profit | 19 | 65 | 137 | 89 | 82 | 84 | 94 | P/E x | 8.2 | 7.2 | 8.3 | 10.1 | 9.7 | 9.2 | 8.3 |
| *Of which Reserve releases* | 93 | 0 | -11 | 0 | 27 | 0 | 16 | Dividend yield | 8.7% | 44.9% | 12.1% | 7.6% | 7.6% | 7.6% | 7.6% |
| Investment income | 65 | 83 | 57 | 59 | 63 | 68 | 71 | P/TNAV x | 0.92 | 1.28 | 1.27 | 1.37 | 1.31 | 1.25 | 1.18 |
| Other income | 80 | 28 | 14 | 0 | 0 | 0 | 0 | RTNAV % | 11.2% | 14.9% | 15.4% | 14.3% | 13.8% | 13.9% | 14.6% |
| Other expenses | -60 | -50 | -102 | -40 | -32 | -33 | -33 | P/BV x | 0.85 | 1.17 | 1.16 | 1.26 | 1.21 | 1.16 | 1.10 |
| **Earnings before tax** | 104 | 125 | 106 | 108 | 113 | 119 | 131 | RoE JPMe % | 10.4% | 13.7% | 14.1% | 13.1% | 12.8% | 12.9% | 13.5% |
| % change Y/Y |  | 20% | -15% | 2% | 5% | 5% | 10% |  |  |  |  |  |  |  |  |
| Tax | -3 | -11 | -7 | -10 | -11 | -11 | -13 | Debt / Capital | 20% | 15% | 15% | 14% | 13% | 13% | 12% |
| % Tax rate | 3% | 8% | 6% | 9% | 10% | 10% | 10% | Equity/ GWP | 82% | 61% | 60% | 66% | 66% | 66% | 69% |
| Pref div |  |  |  |  |  |  |  | Reserves / GWP | 301% | 223% | 219% | 234% | 244% | 249% | 258% |
| Net Income (Reported) | 101 | 115 | 100 | 98 | 102 | 108 | 119 | Achilles TNAV | 895 | 642 | 647 | 724 | 755 | 792 | 840 |
| % change Y/Y |  | 14% | -13% | -2% | 5% | 5% | 10% | Achilles BV | 972 | 704 | 710 | 787 | 818 | 855 | 902 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance sheet (IFRS)** | **2011** | **2012** | **2013** | **2014e** | **2015e** | **2016e** | **2017e** | **Ratio Analysis** | **2011** | **2012** | **2013** | **2014e** | **2015e** | **2016e** | **2017e** |
| **£ in millions, year-end Dec** |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **ASSETS** |  |  |  |  |  |  |  | **Non-life** |  |  |  |  |  |  |  |
| Intangible assets | 77 | 62 | 63 | 63 | 63 | 63 | 63 | Attritional Loss ratio % | 56.4% | 51.8% | 51.4% | 50.5% | 51.6% | 52.1% | 51.7% |
| Investment in associates | 15 | 15 | 0 | 0 | 0 | 0 | 0 | Nat Cat % Premiums | 14.4% | 6.2% | 3.2% | 5.8% | 5.6% | 5.4% | 5.2% |
| Investments | 3206 | 2312 | 2280 | 2384 | 2554 | 2717 | 2849 | Large losses % prem. | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Receivables | 521 | 353 | 381 | 385 | 398 | 417 | 422 | Reserve release % prem | -9.5% | -1.7% | -6.0% | -2.7% | -2.9% | -3.0% | -3.2% |
| Reinsurance recoverable | 566 | 414 | 450 | 490 | 529 | 566 | 597 | Loss ratio % | 61.3% | 56.2% | 48.6% | 53.5% | 54.3% | 54.5% | 53.8% |
| Other receivables | 25 | 24 | 40 | 40 | 40 | 40 | 40 | Expense ratio % | 38.3% | 36.8% | 36.8% | 37.0% | 37.1% | 37.1% | 37.1% |
| DAC | 157 | 113 | 126 | 127 | 131 | 138 | 139 | Combined ratio % | 99.6% | 93.0% | 85.3% | 90.5% | 91.4% | 91.6% | 90.9% |
| Deferred tax | 24 | 0 | 6 | 6 | 6 | 6 | 6 | Attritional COR % | 94.7% | 88.6% | 88.2% | 87.4% | 88.7% | 89.2% | 88.8% |
| Cash | 458 | 305 | 312 | 415 | 440 | 467 | 495 | Investment yield % | 3.0% | 2.9% | 2.2% | 2.1% | 2.4% | 2.4% | 2.4% |
| **Total Assets** | **5049** | **3598** | **3657** | **3909** | **4161** | **4413** | **4609** |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | **Investment assets** |  |  |  |  |  |  |  |
| **LIABILITIES** |  |  |  |  |  |  |  | Equities/Property | 4% | 4% | 5% | 6% | 6% | 6% | 5% |
| Policyholder liabilities | 3557 | 2561 | 2594 | 2810 | 3021 | 3228 | 3391 | Fixed income | 79% | 82% | 78% | 74% | 75% | 75% | 75% |
| Debt | 245 | 122 | 123 | 123 | 123 | 123 | 123 | Cash | 15% | 12% | 13% | 15% | 15% | 15% | 15% |
| Subordinated debt (Incl. pref) |  |  |  |  |  |  |  | Other | 3% | 3% | 4% | 5% | 5% | 5% | 5% |
| Deferred tax liabilities | 44 | 23 | 28 | 28 | 28 | 28 | 28 |  |  |  |  |  |  |  |  |
| Creditors | 222 | 176 | 187 | 147 | 157 | 165 | 151 | **NEP split** |  |  |  |  |  |  |  |
| Other liabilities | 2 | 6 | 14 | 14 | 14 | 14 | 14 | Global Markets | 71% | 73% | 75% | 77% | 78% | 78% | 78% |
| **Shareholders' equity** | **972** | **704** | **710** | **787** | **818** | **855** | **902** | Reinsurance | 28% | 26% | 25% | 22% | 21% | 22% | 22% |
| Minorities | **7** | **6** | **1** | **1** | **1** | **1** | **1** | UK | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| **TOTAL LIABILITIES** | **5049** | **3598** | **3657** | **3909** | **4161** | **4413** | **4609** | Other | 1% | 1% | 0% | 1% | 1% | 1% | 1% |

Source: J.P. Morgan estimates, Company data.

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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Profit and Loss statement** | |  |  |  |  |  |  |  | **Valuation Multiples** |  |  |  |  |  |  |  |  |
| **$ in m, year-end Dec** | **FY10** | **FY11** | **FY12** | **FY13** | **FY14e** | **FY15e** | **FY16e** | **FY17e** | **$/p** | **FY10** | **FY11** | **FY12** | **FY13** | **FY14e** | **FY15e** | **FY16e** | **FY17e** |
| Gross Written Premiums | 4,069 | 4,513 | 4,972 | 5,309 | 5,543 | 5,790 | 5,988 | 6,197 | Shares Outstanding | 343 | 344 | 349 | 358 | 358 | 358 | 358 | 358 |
| % change Y/Y | 10% | 11% | 10% | 7% | 4% | 4% | 3% | 3% | EPS(diluted)p | 59.9 | 6.9 | 52.9 | 64.7 | 50.8 | 60.3 | 67.5 | 80.5 |
| Net Written Premiums | 3,318 | 3,835 | 3,834 | 4,052 | 4,000 | 4,172 | 4,304 | 4,443 | % change Y/Y | -39% | -89% | 672% | 22% | -21% | 19% | 12% | 19% |
| % change Y/Y | 5% | 16% | 0% | 6% | -1% | 4% | 3% | 3% | DPS(p) | 26.5 | 28.0 | 29.5 | 31.0 | 33.0 | 35.1 | 37.3 | 39.7 |
| Net Earned premiums | 3,219 | 3,612 | 3,604 | 3,948 | 4,021 | 4,117 | 4,262 | 4,399 | % change Y/Y | 6% | 6% | 5% | 5% | 6% | 6% | 6% | 6% |
| % change Y/Y | 10% | 12% | 0% | 10% | 2% | 2% | 4% | 3% | Payout ratio | 44.2% | 408.6% | 55.8% | 47.9% | 64.9% | 58.1% | 55.3% | 49.3% |
| Ins. related expenses | (1,852) | (2,529) | (2,020) | (2,063) | (2,245) | (2,298) | (2,383) | (2,447) | TNAV / share(p) | 424 | 393 | 405 | 435 | 451 | 479 | 512 | 556 |
| Admin expenses | (356) | (420) | (431) | (435) | (437) | (429) | (430) | (431) | JPM TNAV / share(p) | 405 | 374 | 386 | 414 | 428 | 455 | 486 | 528 |
| Acquisition expenses | (684) | (759) | (796) | (882) | (897) | (875) | (861) | (842) |  |  |  |  |  |  |  |  |  |
| **Underwriting profit** | **327** | **(96)** | **357** | **568** | **443** | **515** | **588** | **678** | P/E x | 6.2x | NM | 8.3x | 7.9x | 10.7x | 9.0x | 8.1x | 6.8x |
| *Of which Reserve releases* | 144 | 103 | 139 | 167 | 80 | 82 | 85 | 88 | Dividend yield | 7.2% | 7.0% | 6.7% | 6.1% | 6.0% | 6.4% | 6.8% | 7.3% |
| Investment income | 205 | 248 | 158 | 124 | 156 | 152 | 162 | 160 | P/TNAV x | 0.9x | 1.0x | 1.1x | 1.2x | 1.2x | 1.1x | 1.1x | 1.0x |
| Other income | (10) | 13 | (7) | (15) | 11 | 11 | 11 | 11 | RTNAV % | 16% | 2% | 14% | 16% | 12% | 13% | 14% | 15% |
| Other expenses | (116) | (94) | (169) | (245) | (219) | (222) | (227) | (223) | P/JPM TNAV x | 0.9x | 1.1x | 1.1x | 1.2x | 1.3x | 1.2x | 1.1x | 1.0x |
| **Earnings before tax** | **406** | **71** | **339** | **432** | **392** | **456** | **534** | **627** | RTNAV JPMe % | 14% | 2% | 15% | 21% | 12% | 14% | 15% | 16% |
| % change Y/Y | -33% | -83% | 377% | 28% | -9% | 16% | 17% | 17% |  |  |  |  |  |  |  |  |  |
| Tax | (25) | 11 | 10 | 4 | (39) | (46) | (80) | (94) | Debt / Capital | 32% | 39% | 24% | 22% | 21% | 20% | 19% | 18% |
| % Tax rate | 6.2% | -15.5% | -3.0% | -0.9% | 10.0% | 10.0% | 15.0% | 15.0% | Equity/ GWP | 70.2% | 60.0% | 58.8% | 60.1% | 59.8% | 60.1% | 0.0% | 0.0% |
| Pref div | (44) | (44) | (44) | (44) | (44) | (44) | (44) | (44) | Reserves / GWP | 136.4% | 143.3% | 134.5% | 126.4% | 125.6% | 122.1% | 0.2% | 0.2% |
| Net Income (Reported) | 337 | 38 | 305 | 392 | 309 | 367 | 410 | 489 | TNAV | 2,236 | 2,099 | 2,305 | 2,565 | 2,688 | 2,855 | 3,053 | 3,316 |
| % change Y/Y | -34% | -89% | NM | 29% | -21% | 19% | 12% | 19% | JPM TNAV | 2,137 | 1,995 | 2,195 | 2,441 | 2,554 | 2,711 | 2,899 | 3,152 |
| **Balance sheet (IFRS)** | **FY10** | **FY11** | **FY12** | **FY13** | **FY14e** | **FY15e** | **FY16e** | **FY17e** | **Ratio Analysis** | **FY10** | **FY11** | **FY12** | **FY13** | **FY14e** | **FY15e** | **FY16e** | **FY17e** |
| **ASSETS** |  |  |  |  |  |  |  |  | **Non-life** |  |  |  |  |  |  |  |  |
| Intangible assets | 716 | 717 | 720 | 720 | 720 | 720 | 720 | 720 | Loss ratio % | 57.5% | 70.0% | 56.0% | 52.3% | 55.8% | 55.8% | 55.9% | 55.6% |
| Investment in associates |  |  |  |  |  |  |  |  | Expense ratio % | 35.4% | 35.0% | 38.4% | 39.1% | 38.3% | 36.8% | 35.4% | 33.8% |
| Investments | 5,371 | 6,325 | 6,300 | 6,926 | 7,488 | 7,667 | 7,908 | 8,160 | Combined ratio % | 93.0% | 105.0% | 94.4% | 91.3% | 94.1% | 92.6% | 91.3% | 89.5% |
| Receivables | 1,322 | 1,679 | 1,838 | 1,845 | 2,015 | 2,204 | 2,361 | 2,533 | Attritional COR % | 87.6% | 85.0% | 89.0% | 89.2% | 88.9% | 88.4% | 87.2% | 85.5% |
| Reinsurance recoverable | 1,229 | 1,217 | 1,503 | 1,480 | 1,480 | 1,480 | 1,480 | 1,480 | Attritional Loss ratio % | 52.2% | 50.0% | 50.6% | 50.1% | 50.6% | 51.6% | 51.8% | 51.7% |
| Other receivables |  |  |  |  |  |  |  |  | Res. release % prem | -4.5% | -2.9% | -3.9% | -4.2% | -2.0% | -2.0% | -2.0% | -2.0% |
| DAC | 354 | 398 | 464 | 490 | 490 | 490 | 490 | 490 | Investment yield % | 2.0% | 3.0% | 2.0% | 2.7% | 1.4% | 1.6% | 1.7% | 1.6% |
| Deferred tax |  |  |  |  |  |  |  |  | Large losses % prem. | 3.0% | 1.5% | 2.3% | 2.1% | 3.0% | 2.6% | 2.5% | 2.5% |
| Cash | 2,650 | 2,063 | 2,474 | 2,291 | 1,920 | 1,920 | 1,920 | 1,920 | Nat Cat % Premiums | 6.8% | 21.3% | 7.0% | 4.3% | 4.2% | 3.7% | 3.6% | 3.4% |
| **Total Assets** | **12,082** | **12,959** | **14,041** | **14,555** | **14,921** | **15,278** | **15,668** | **16,082** |  |  |  |  |  |  |  |  |  |
| **LIABILITIES** |  |  |  |  |  |  |  |  | **Investment assets** | - | - | - | - | - | - | - | - |
| Policyholder liabilities | 5,549 | 6,467 | 6,686 | 6,709 | 6,965 | 7,069 | 7,210 | 7,356 | Equities/Property |  |  |  |  |  |  |  |  |
| Debt |  |  |  |  |  |  |  |  | Fixed income | 57.0% | 71.9% | 63.9% | 65.7% | 67.8% | 68.1% | 68.6% | 69.1% |
| Sub debt (Incl. pref) | 683 | 681 | 682 | 683 | 683 | 683 | 683 | 683 | Cash | 33.0% | 24.6% | 28.2% | 25.7% | 20.4% | 20.0% | 19.5% | 19.1% |
| Deferred tax liabilities | 237 | 202 | 185 | 140 | 140 | 140 | 140 | 140 | Other | 9.9% | 3.5% | 7.9% | 8.6% | 11.8% | 11.8% | 11.8% | 11.8% |
| Creditors |  |  |  |  |  |  |  |  | **NEP split** | - | - | - | - | - | - | - | - |
| Other liabilities | 2,755 | 2,901 | 3,566 | 3,830 | 3,818 | 3,905 | 3,956 | 3,960 | London/UK originating | 57.1% | 51.9% | 50.8% | 46.6% | 44.3% | 42.7% | 41.3% | 39.9% |
| **Shareholders' equity** | **2,858** | **2,708** | **2,922** | **3,193** | **3,316** | **3,483** | **3,681** | **3,944** | Catlin Bermuda | 12.3% | 12.2% | 10.5% | 10.9% | 11.2% | 11.0% | 10.4% | 9.8% |
| Minorities |  |  |  |  |  |  |  |  | Catlin US | 17.4% | 18.9% | 21.0% | 22.8% | 24.1% | 25.3% | 27.0% | 28.7% |
| **TOTAL LIABILITIES** | **12,082** | **12,959** | **14,041** | **14,555** | **14,921** | **15,279** | **15,669** | **16,083** | International | 13.2% | 17.1% | 17.7% | 19.7% | 20.5% | 20.9% | 21.3% | 21.6% |

Source: J.P. Morgan estimates, Company data.

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Profit and Loss statement** |  |  |  |  |  |  | **Valuation Multiples** |  |  |  |  |  |  |
| **£ in millions** | **FY12** | **FY13** | **FY14e** | **FY15e** | **FY16e** | **FY17e** | **p** | **FY12** | **FY13** | **FY14e** | **FY15e** | **FY16e** | **FY17e** |
| Gross Written Premiums | 1,566 | 1,699 | 1,778 | 1,893 | 1,973 | 2,058 | Shares Outstanding | 394 | 350 | 318 | 318 | 318 | 318 |
| % change Y/Y | 8% | 9% | 5% | 6% | 4% | 4% | EPS adj (diluted) p | 50.9 | 64.9 | 45.0 | 50.7 | 54.5 | 56.6 |
| Net Written Premiums | 1,268 | 1,371 | 1,432 | 1,539 | 1,613 | 1,692 | % change Y/Y | 856% | 27% | -31% | 13% | 7% | 4% |
| % change Y/Y | 8% | 8% | 4% | 8% | 5% | 5% | DPS incl sp. (p) | 56.0 | 57.0 | 24.6 | 26.6 | 28.6 | 29.7 |
| Net Earned premiums | 1,199 | 1,283 | 1,393 | 1,510 | 1,593 | 1,670 | % change Y/Y | 229% | 2% | -57% | 8% | 7% | 4% |
| % change Y/Y | 5% | 7% | 9% | 8% | 5% | 5% | Payout ratio | 110.0% | 87.8% | 54.6% | 52.5% | 52.5% | 52.5% |
| Insurance related expenses | -539 | -519 | -639 | -691 | -731 | -766 | TNAV / share(p) | 332 | 381 | 404 | 432 | 462 | 493 |
| Admin expenses | -199 | -253 | -275 | -297 | -316 | -335 | JPM TNAV / share(p) | 282 | 331 | 388 | 415 | 443 | 473 |
| Acquisition expenses | -284 | -306 | -340 | -367 | -387 | -406 |  |  |  |  |  |  |  |
| **Underwriting profit** | **162** | **205** | **138** | **156** | **159** | **162** | P/E x | 12.7x | 11.8x | 16.3x | 14.5x | 13.5x | 13.0x |
| *Of which Reserve releases* | 152 | 140 | 106 | 106 | 106 | 106 | Dividend yield | 11.0% | 8.4% | 3.3% | 3.6% | 3.9% | 4.0% |
| Investment income | 92 | 60 | 38 | 39 | 49 | 51 | P/TNAV x | 1.5x | 1.8x | 1.8x | 1.7x | 1.6x | 1.5x |
| Other income | 14 | 21 | 22 | 24 | 25 | 26 | RTNAV % | 16.6% | 18.0% | 11.5% | 12.7% | 12.8% | 12.5% |
| Other expenses | (66) | (41) | (30) | (30) | (30) | (30) | P/ JPM TNAV x | 1.8x | 2.0x | 1.9x | 1.8x | 1.7x | 1.6x |
| Earnings before tax | 218 | 245 | 168 | 189 | 202 | 209 | JPM RTNAV % | 15.2% | 19.6% | 12.4% | 13.3% | 13.3% | 13.0% |
| % change Y/Y | 1176% | 13% | -31% | 12% | 7% | 4% |  |  |  |  |  |  |  |
| Tax | -9 | -7 | -18 | -19 | -20 | -20 | Debt / Capital | 16% | 13% | 14% | 13% | 12% | 11% |
| % Tax rate | 4.3% | 2.8% | 10.7% | 10.3% | 9.8% | 9.4% | Equity/ GWP | 88.0% | 82.9% | 76.4% | 76.4% | 78.2% | 79.7% |
| Minorities |  |  |  |  |  |  | Reserves / GWP | 165.8% | 153.8% | 145.2% | 137.9% | 135.2% | 133.4% |
| Net Income (Reported) | 208 | 238 | 150 | 169 | 182 | 189 | TNAV | 1,309 | 1,337 | 1,286 | 1,375 | 1,470 | 1,567 |
| % change Y/Y | 877% | 14% | -37% | 13% | 7% | 4% | JPM TNAV | 1,112 | 1,162 | 1,234 | 1,318 | 1,409 | 1,504 |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Balance sheet (IFRS)** |  |  |  |  |  |  | Ratio Analysis |  |  |  |  |  |  |
| **£ in millions** | **FY12** | **FY13** | **FY14e** | **FY15e** | **FY16e** | **FY17e** | **Non-life** | **FY12** | **FY13** | **FY14e** | **FY15e** | **FY16e** | **FY17e** |
| **ASSETS** |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Intangible assets | 70 | 73 | 73 | 73 | 73 | 73 | Loss ratio % | 45.0% | 40.5% | 45.9% | 45.7% | 45.9% | 45.9% |
| Investment in associates | 9 | 8 | 8 | 8 | 8 | 8 | Expense ratio % | 41.6% | 43.6% | 44.2% | 43.9% | 44.1% | 44.4% |
| Investments | 2,406 | 2,585 | 3,189 | 3,306 | 3,454 | 3,630 | Combined ratio % | 86.5% | 84.0% | 90.1% | 89.7% | 90.0% | 90.3% |
| Loans & rec. incl. ins. rec. | 492 | 493 | 516 | 550 | 573 | 597 | Attritional cor % | 88.9% | 91.3% | 92.1% | 91.7% | 91.9% | 92.0% |
| Reinsurance assets | 540 | 459 | 453 | 458 | 468 | 482 | Attritional Loss ratio % | 47.3% | 47.7% | 47.9% | 47.8% | 47.8% | 47.6% |
| Other receivables |  |  |  |  |  |  | Reserve release % prem | -12.7% | -10.9% | -7.6% | -7.0% | -6.7% | -6.4% |
| DAC | 166 | 198 | 207 | 220 | 229 | 239 | Investment yield % | 3.1% | 1.9% | 1.2% | 1.2% | 1.4% | 1.5% |
| Deferred tax | 26 | 32 | 32 | 32 | 32 | 32 | Large losses % Prem | 1.7% | 2.3% | 2.7% | 2.6% | 2.6% | 2.5% |
| Cash | 658 | 564 | 590 | 629 | 655 | 683 | Nat Cat % Premiums | 8.7% | 1.4% | 2.9% | 2.4% | 2.2% | 2.1% |
| **Total Assets** | **4,386** | **4,436** | **5,093** | **5,302** | **5,519** | **5,773** |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  | **Investment assets** | - | - | - | - | - | - |
| **LIABILITIES** |  |  |  |  |  |  | Equities/Property | 6.2% | 7.1% | 7.6% | 7.9% | 8.2% | 8.4% |
| Policyholder liabilities | 2,597 | 2,613 | 2,582 | 2,610 | 2,666 | 2,746 | Fixed income | 71.8% | 74.6% | 73.8% | 73.4% | 73.2% | 73.2% |
| Debt | 0 | 0 | 0 | 0 | 0 | 0 | Cash | 22.0% | 18.2% | 18.6% | 18.7% | 18.6% | 18.4% |
| Subordinated debt |  |  |  |  |  |  | Other |  |  |  |  |  |  |
| Deferred tax liabilities | 138 | 76 | 76 | 76 | 76 | 76 | **Pretax split** |  |  |  |  |  |  |
| Creditors |  |  |  |  |  |  | London market | 34.7% | 33.2% | 32.6% | 31.7% | na | na |
| Other liabilities | 273 | 337 | 1077 | 1168 | 1234 | 1312 | UK & Europe | 38.1% | 38.8% | 38.8% | 39.1% | na | na |
| **Shareholders' equity** | **1378** | **1409** | **1358** | **1447** | **1542** | **1639** | International | 25.7% | 26.4% | 28.1% | 28.7% | na | na |
| Minorities |  |  |  |  |  |  | Other | 1.5% | 1.6% | 0.5% | 0.5% | na | na |
| **Total Liabilities** | **4,386** | **4,436** | **5,093** | **5,302** | **5,519** | **5,773** | Check |  |  |  |  |  |  |

Source: J.P. Morgan estimates, Company data.

Table : Lancashire

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Profit and Loss statement (IFRS)** | |  |  |  |  |  |  |  | **Valuation Multiples** |  |  |  |  |  |  |  |  |
| **$ in millions, year-end Dec** | **FY10** | **FY11** | **FY12** | **FY13** | **FY14e** | **FY15e** | **FY16e** | **FY17e** | **$/p** | **FY10** | **FY11** | **FY12** | **FY13** | **FY14e** | **FY15e** | **FY16e** | **FY17e** |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gross Written Premiums | 689 | 632 | 724 | 680 | 941 | 956 | 971 | 987 | Shares Outstanding | 152 | 157 | 161 | 181 | 181 | 181 | 181 | 181 |
| % change Y/Y | 9.8% | -8.2% | 14.6% | -6.2% | 38.5% | 1.5% | 1.6% | 1.6% | EPS(diluted)p | 120.8 | 75.4 | 81.1 | 69.8 | 58.7 | 58.5 | 58.8 | 60.5 |
| Net Written Premiums | 650 | 565 | 576 | 558 | 796 | 811 | 825 | 839 | % change Y/Y | -9% | -38% | 7% | -14% | -16% | 0% | 1% | 3% |
| % change Y/Y | 12.6% | -13.0% | 1.9% | -3.2% | 42.7% | 1.9% | 1.7% | 1.7% | DPS (p) | 10 | 9 | 9 | 10 | 9 | 9 | 9 | 9 |
| Net Earned premiums | 614 | 575 | 583 | 568 | 828 | 840 | 845 | 861 | DPS incl special (p) | 101 | 60 | 66 | 105 | 21 | 9 | 9 | 9 |
| % change Y/Y | 3.3% | -6.5% | 1.4% | -2.5% | 45.8% | 1.4% | 0.6% | 1.8% | % change Y/Y | 12.6% | -40.5% | 10.2% | 58.7% | -80.1% | -57.1% | 0.0% | 0.0% |
| Insurance related expenses | (166) | (182) | (174) | (188) | (323) | (332) | (331) | (335) | Payout ratio | 83.3% | 79.4% | 81.4% | 150.1% | 35.5% | 15.3% | 15.2% | 14.7% |
| Admin expenses | (62) | (71) | (78) | (85) | (114) | (114) | (114) | (114) | TNAV / share(p) | 541 | 547 | 529 | 429 | 466 | 524 | 583 | 644 |
| Acquisition expenses | (106) | (112) | (119) | (126) | (176) | (179) | (180) | (185) | JPMC TNAV / share(p) | 485 | 493 | 482 | 405 | 435 | 479 | 529 | 580 |
| Underwriting profit | 280 | 209 | 211 | 169 | 215 | 215 | 220 | 227 |  |  |  |  |  |  |  |  |  |
| *Of which Reserve releases* | 100 | 155 | 27 | 16 | 28 | 31 | 31 | 31 | P/E x | 4.3x | 8.7x | 9.7x | 11.5x | 11.2x | 11.3x | 11.2x | 10.9x |
| Investment income | 87 | 51 | 45 | 43 | 37 | 40 | 37 | 36 | Dividend yield | 19.5% | 9.1% | 8.4% | 13.1% | 3.2% | 1.4% | 1.4% | 1.4% |
| Other income | (0) | (9) | 12 | 32 | - | - | - | - | P/NAV x | 1.0x | 1.3x | 1.5x | 1.9x | 1.4x | 1.3x | 1.1x | 1.0x |
| Other expenses | (28) | (33) | (31) | (26) | (35) | (35) | (35) | (35) | RTNAV % | 24.3% | 16.0% | 16.5% | 16.9% | 15.5% | 13.7% | 12.3% | 11.4% |
| **Earnings before tax** | **339** | **219** | **237** | **219** | **216** | **220** | **222** | **228** | JPMC P/TNAV x | 1.1x | 1.5x | 1.6x | 2.0x | 1.5x | 1.4x | 1.2x | 1.1x |
| % change Y/Y | -12.7% | -35.6% | 8.3% | -7.6% | -1.1% | 1.9% | 0.5% | 2.9% | JPMC RTNAV % | 21.7% | 14.3% | 15.1% | 15.5% | 14.1% | 12.7% | 11.5% | 10.8% |
| Tax | (8) | (6) | (2) | 4 | (6) | (10) | (10) | (10) | Debt / Capital | 10.3% | 9.4% | 16.2% | 20.6% | 18.9% | 17.2% | 0.0% | 0.0% |
| % Tax rate | 2.5% | 2.9% | 0.8% | -1.7% | 2.7% | 4.7% | 4.6% | 4.6% | Equity/ GWP | 186.8% | 209.8% | 191.6% | 214.8% | 169.5% | 185.6% | 201.2% | 216.7% |
| Minorities |  |  |  |  |  |  |  |  | Reserves / GWP | 76.6% | 94.1% | 77.4% | 194.9% | 144.6% | 145.0% | 146.9% | 149.8% |
| Net Income (Reported) | 331 | 212 | 235 | 223 | 210 | 210 | 211 | 218 | TNAV | 1,287 | 1,327 | 1,387 | 1,283 | 1,418 | 1,596 | 1,776 | 1,961 |
| % change Y/Y | -14.2% | -35.9% | 10.7% | -5.3% | -5.5% | -0.1% | 0.6% | 2.9% | % change Y/Y | -6.7% | 3.1% | 4.6% | -7.6% | 10.6% | 12.6% | 11.2% | 10.4% |
|  |  |  |  |  |  |  |  |  | JPMC TNAV | 1,467 | 1,490 | 1,533 | 1,428 | 1,564 | 1,721 | 1,900 | 2,085 |
| **Balance sheet (IFRS)** |  |  |  |  |  |  |  |  | **Ratio Analysis** |  |  |  |  |  |  |  |  |
| **$ in millions, year-end Dec** | **FY10** | **FY11** | **FY12** | **FY13** | **FY14e** | **FY15e** | **FY16e** | **FY17e** | **Non-life** | **FY10** | **FY11** | **FY12** | **FY13** | **FY14e** | **FY15e** | **FY16e** | **FY17e** |
| **ASSETS** |  |  |  |  |  |  |  |  | Loss ratio % | 27% | 32% | 30% | 33% | 39% | 40% | 39% | 39% |
| Intangible assets |  |  |  | 177 | 178 | 178 | 178 | 178 | Expense ratio % | 27% | 32% | 34% | 37% | 35% | 35% | 35% | 35% |
| Investment in associates | 0 | 51 | 82 | 65 | 65 | 65 | 65 | 65 | Combined ratio % | 54% | 64% | 64% | 70% | 74% | 74% | 74% | 74% |
| Investments | 1,719 | 1,713 | 1,875 | 2,016 | 2,577 | 2,691 | 2,790 | 2,881 | Attritional COR % | 51% | 53% | 46% | 62% | 61% | 65% | 65% | 65% |
| Insurance receivables |  |  |  |  |  |  |  |  | Attritional Loss ratio % | 24% | 22% | 12% | 25% | 26% | 30% | 30% | 30% |
| Reinsurance assets | 44 | 85 | 89 | 209 | 172 | 172 | 173 | 173 | Reserve rel % prem | -16% | -27% | -5% | -3% | -3% | -4% | -4% | -4% |
| Other receivables | 284 | 277 | 230 | 319 | 475 | 689 | 1,017 | 1,521 | Investment yield % | 4% | 2% | 2% | 2% | 1% | 1% | 1% | 1% |
| DAC | 61 | 61 | 68 | 74 | 36 | 36 | 36 | 37 | Large losses % prem | 5% | 9% | 10% | 7% | 6% | 3% | 3% | 3% |
| Deferred tax | 6 | 8 | 0 | 6 | 8 | 8 | 8 | 8 | Nat Cat % Premiums | 15% | 29% | 13% | 4% | 10% | 10% | 10% | 10% |
| Cash | 513 | 312 | 296 | 403 | 657 | 834 | 886 | 943 |  |  |  |  |  |  |  |  |  |
| **Total Assets** | **2,627** | **2,508** | **2,639** | **3,268** | **4,168** | **4,672** | **5,152** | **5,805** | **Investment assets** |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  | Equities/Property | 0.0% | 0.0% | 0.0% | 0.7% | 0.6% | 0.6% | 0.6% | 0.6% |
| **LIABILITIES** |  |  |  |  |  |  |  |  | Fixed income | 78.1% | 86.8% | 88.9% | 84.5% | 85.3% | 85.9% | 86.4% | 86.9% |
| Policyholder liabilities | 528 | 595 | 561 | 1,324 | 1,361 | 1,386 | 1,426 | 1,478 | Cash | 21.9% | 13.2% | 11.1% | 14.7% | 13.9% | 13.3% | 12.8% | 12.4% |
| Debt | 129 | 128 | 259 | 332 | 331 | 331 | 331 | 331 | Other | 0.0% | 0.0% | 0.0% | 0.2% | 0.2% | 0.2% | 0.2% | 0.2% |
| Subordinated debt |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Deferred tax liabilities |  |  |  |  |  |  |  |  | **UW result split (excl Cath)** |  |  |  |  |  |  |  |  |
| Creditors |  |  |  |  |  |  |  |  | Property | 48.1% | 32.6% | 62.8% | 96.0% | 100.5% | 85.4% | 83.4% | 80.1% |
| Other liabilities | 684 | 458 | 432 | 151 | 881 | 1182 | 1443 | 1859 | Energy | 32.0% | 35.6% | 61.2% | 56.1% | 23.4% | 36.0% | 36.8% | 38.3% |
| **Shareholders' equity** | **1287** | **1327** | **1387** | **1460** | **1595** | **1774** | **1953** | **2138** | Marine | 6.4% | 17.2% | -1.1% | -14.9% | 4.2% | 5.0% | 5.0% | 5.3% |
| Minorities |  |  |  |  |  |  |  |  | Aviation | 13.5% | 14.7% | 14.3% | 8.8% | 19.1% | 18.9% | 19.0% | 18.8% |
| **TOTAL LIABILITIES** | **2,627** | **2,508** | **2,639** | **3,268** | **4,168** | **4,672** | **5,152** | **5,805** |  |  |  |  |  |  |  |  |  |

Source: J.P. Morgan estimates, Company data.

**Companies Discussed in This Report** (all prices in this report as of market close on 04 July 2014)  
Amlin (AML.L/480p/Underweight), BRIT plc (BRIT.L/248p/Overweight), Beazley Plc (BEZG.L/262p/Neutral), Catlin (CGL.L/545p/Overweight), Hiscox (HSX.L/735p/Neutral), Lancashire (LRE.L/659p/Neutral)

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|  |  |  |  |
| --- | --- | --- | --- |
|  | **Overweight** (buy) | **Neutral** (hold) | **Underweight** (sell) |
| J.P. Morgan Global Equity Research Coverage | 45% | 43% | 11% |
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| IB clients\* | 75% | 66% | 54% |

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