

# Foundations of Commercial Lines

Understanding Insurance Industry Financial Measures  
Part 1- Financial Statements



# Why do we evaluate financials?

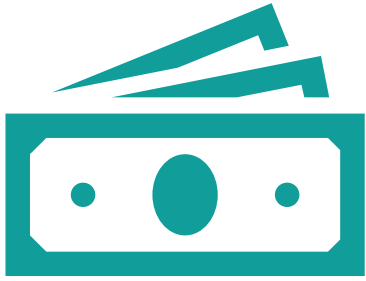
## Internal reasons

- To gauge the company's performance, sometimes across multiple business units or divisions
- To plan for the future - Where is the company heading?

## External reasons

- Financial statement information is used by:
  - **Creditors** - to determine credit worthiness
  - **Investors** - to determine a good investment
  - **Suppliers** - to establish a good relationship
  - **Competitors** - to assess any advantages or disadvantages in comparison
  - **Others** - anyone assessing the stability of a company
    - Everest uses financials to check the stability of companies that we insure and reinsure

# Financial statements



**Income statement**



**Balance sheet**

# Balance sheet

- **Assets and liabilities**
  - Snapshot - at a moment in time
- **Assets**
  - Usually shown on the left side of the page
  - Listed in order of decreasing liquidity
  - Total assets = current assets + fixed assets
- **Liabilities**
  - Usually shown on the right side of the page
  - Liabilities = current liabilities + long-term debt
  - Includes shareholder's equity
- **Why is it called a balance sheet?**
  - Assets = liabilities + shareholder's equity

*\*This document is for educational purposes only. The data shown is illustrative and does not represent the latest information from Everest.*

## XYZ Corporation September 2022

### Balance Sheet

#### Assets

Cash & Short-Term Investments	8,938
Short-Term Receivables	1,649
Inventories	1,401
Other Current Assets	507
Total Current Assets	12,494

Net Property, Plant & Equipment	5,929
Total Investments and Advances	602
Intangible Assets	4,584
Deferred Tax Assets	135
Other Assets	412
Total Assets	24,156

#### Liabilities & Shareholders' Equity

ST Debt & Curr. Portion LT Debt	354
Accounts Payable	1,179
Income Tax Payable	287
Other Current Liabilities	3,864
Total Current Liabilities	5,684

Long-Term Debt	9,144
Provision for Risks & Charges	82
Deferred Tax Liabilities	495
Other Liabilities	7,575
Total Liabilities	22,981

Common Equity	1,170
Total Shareholders' Equity	1,170
Accumulated Minority Interest	6
Total Equity	1,176
Total Liabilities & Shareholders' Equity	24,156

# Income statement

- Measures performance over a period of time
- $\text{Income} = \text{revenues} - \text{expenses}$

## XYZ Corporation

September 2022

### Income Statement

Sales	24,720
Cost of Goods Sold (COGS)	19,105
<b>Gross Income</b>	<b>5,615</b>
SG&A Expense	1,755
<b>EBIT (Operating Income)</b>	<b>3,860</b>
Nonoperating Income - Net	1,026
Interest Expense	175
Unusual Expense - Net	-1,070
Income Taxes	1,262
<b>Net Income</b>	<b>4,518</b>

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Thank you for completing this module.

For more, please complete part 2 of  
[Foundations of Commercial Lines:  
Understanding Insurance Industry Financial Metrics.](#)