ANNUAL REPORT 2019

RESILIENCE IS A CHOICE.

FM Global

Commercial
Property Insurance

FM Global is a leading commercial property insurance company that forms long-term partnerships with its clients to support risk management objectives through a unique combination of engineering, underwriting and claims services. We work to ensure our clients' business continuity by safeguarding their properties with seamless, worldwide coverage and property loss prevention engineering solutions.

INDUSTRY RATINGS

Rating Agency	*Financial Strength*	*Rating Outlook*
AM Best	**A+** (Superior)	Stable
Fitch	**AA** (Very Strong)	Stable
S&P Global	**A+**	Stable

For additional ratings information, view "Industry Ratings" at fmglobal.com.

Throughout the year, we continued to make noteworthy progress on initiatives that directly benefit our clients.

19.85
YEARS 2019 AVERAGE CLIENT TENURE

66%
CLIENTS INSURED WITH FM GLOBAL FOR 10+ YEARS

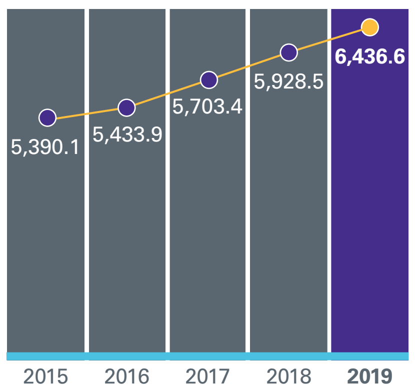
39%
CLIENTS INSURED WITH FM GLOBAL FOR 20+ YEARS

Astute planning and a concentrated focus on business fundamentals, combined with excellent client engagement, were critical in returning us to profitability in 2019. It was incumbent upon us to develop a plan that would return a positive financial result and to execute that plan. We were disciplined in its execution, and our results validated these efforts.

In addition to the companywide commitment, our financial rebound was driven by some good fortune with respect to natural hazards, which resulted in a combined ratio of 80.6%, and pretax operating income from insurance operations of US$854 million; a notable improvement from the prior year. Combined with the outstanding performance of our investment portfolio, our surplus increased to US$14.6 billion—demonstrating further evidence of our financial strength and stability.

Throughout the year, we continued to make noteworthy progress on initiatives that directly benefit our clients. As part of our persistent commitment to cyber risk assessment, prevention and control, we began performing evaluations on industrial control systems at client locations. The FM Global Cyber Lab in Norwood, Massachusetts, USA, was established to further understand evolving cyber risks and how to mitigate them. We opened an innovation studio inside the FM Global Learning Center, also in Norwood, and an Electrical Hazards Laboratory at the FM Global Research Campus in West Glocester, Rhode Island, USA—all with a goal to provide our clients with the information and tools they need to make sound, confident risk improvement decisions.

TOTAL GROSS PREMIUM
IN FORCE, US$M



With a knowledge of core and specialized skills, our employees will build successful careers and preserve our standing as a knowledge and industry leader.

2019 Premium Trends

From an industry perspective, following the extreme worldwide natural disasters of the past two years, coupled with subpar investment returns, the insurance marketplace fully expected pricing, terms and conditions to improve in 2019. This started to occur in the first half of the year and built momentum as the year progressed.

Supported by the marketplace, our consolidated gross in-force premium grew by 8.6%, a favorable result reflecting the strength of our client relationships.

Our large commercial property business grew at a rate of 8.4% to US$5.05 billion. Correspondingly, AFM, positioned in the commercial property middle market, grew by a slightly lower rate of 8% to US$1.07 billion.

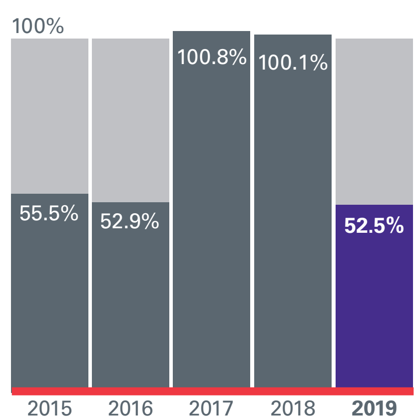
On a consolidated basis, FM Global (large commercial property) and AFM (middle-market property) are the sources of 95% of our overall premium in force, with Mutual Boiler Re and FM Global Cargo representing the balance. All business lines showed top-line premium growth, generating a positive outcome.

Loss Trends

Our consolidated loss ratio for 2019 was 52.5%, significantly lower than our ratios of 100.8% and 100.1% from 2017 and 2018, respectively. We benefited from a relatively quiet year for natural hazards and were marginally affected by the major storms that did occur, as well as positive development of previous years' natural hazard loss reserves. The resulting natural disaster loss ratio of 8.4% was better than projected, lowering the five-year average from 29.4% to 28%. Consistent with findings in recent years, clients who chose to implement our risk improvement recommendations fared significantly better than clients who did not.

Our 2019 risk loss ratio, a measure of losses predominantly from fire, explosion and mechanical/electrical breakdown, decreased significantly from the prior-year ratio of 52.5% to 42.3%, though still higher than we had projected and marred by a pair of large losses early in the year. Fire remains the most significant risk exposure to our policyholders; and working cooperatively with our clients to assess their risk and support their risk improvement efforts remains our top priority. We thank our clients for their efforts to become resilient and specifically to reduce their fire risk. As evidence of their diligence, our clients installed 108.6 million square feet (10.1 million square meters) of ceiling sprinklers worldwide in 2019.

LOSS RATIO



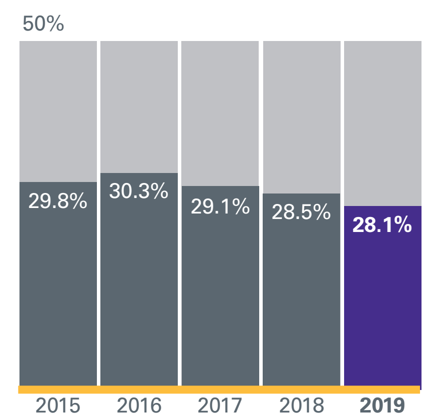
Expense Trends

Our 2019 expense ratio was 28.1%, an improvement from last year's figure of 28.5%. Always a priority, this metric is a gauge of our ability to provide value to our clients. With our adoption of agile principles now complete, we continue to improve efficiencies through innovation and automation, and can deliver technology-driven products and services to our clients to meet their needs as they emerge.

92%
OF POLICIES DELIVERED TO CLIENTS ON OR BEFORE EFFECTIVE DATE

97%
OF POLICIES DELIVERED TO CLIENTS WITHIN 30 DAYS OF INCEPTION

EXPENSE RATIO



Investments

2019 was a year of very strong investment performance for FM Global. Asset markets delivered extraordinary returns, and our strategy to increase diversification and reduce expected volatility generated excellent results for the investment portfolio. Our focus on long-term strategic asset allocation, portfolio construction and security selection continues to add significant value to FM Global's investment portfolio. All asset classes generated strong returns, including U.S. and international equities, fixed income and alternatives, as cash returns were marginally lower with a drop in short-term money market rates. The primary strategic goal for the investment portfolio continues to be to generate optimal risk-adjusted returns in a prudent manner, with liquidity and risk management as important underlying considerations.

These results added significantly to our surplus, demonstrating our continued focus on the role investments play in helping grow the surplus, further strengthening our financial position over the long run.

INDUSTRY AND PUBLIC RECOGNITION

MANSFIELD AWARD FOR CLAIMS EXCELLENCE
Insurance News, Australia

CYBER SECURITY PRODUCT OF THE YEAR
CIR Magazine

#512
FORTUNE 1000 LIST
of America's largest companies

We will continue to focus on fundamentals, while expanding innovation in those areas where it provides the greatest benefit to our clients.

CORPORATE GOVERNANCE

FM GLOBAL BOARD OF DIRECTORS

ADVISORY BOARDS

- Atlanta/Dallas
- Canada
- Chicago/St. Louis
- Cleveland
- Europe
- New York
- San Francisco
- Washington, D.C./Philadelphia

RISK MANAGEMENT EXECUTIVE COUNCILS

- Canada
- Central
- Eastern
- EMEA
- Western

Our Leadership and Governance

In 2019, Colin Day, retired chief executive at Essentra plc, retired from our board. I want to thank him for his many contributions over the past five years.

I would also like to thank our board of directors, eight advisory boards and five risk management executive councils for their oversight and support in providing the best property risk management products and services to our policyholder-owners.

Our Workforce

In 2019, our employees demonstrated they are among the most dedicated in the industry—and their hard work is reflected in our results. We are committed to their continued development and success. Our employee retention rate of 94% and average employee tenure of 12.1 years are affirmation that this priority is well founded as we develop the workforce needed for us to thrive in the future.

With this mindset, we made several key appointments in human resources, as we perpetuate a culture of inclusion that links our actionable commitment to diversity with business strategy. Ultimately, we want to ensure all employees have the opportunity to develop themselves and continue to succeed. This resolve will also make us a stronger and better organization.

With the aging of our workforce—including many of our company's top management and most experienced employees—succession planning is a top-of-mind issue. We continue to fine-tune our approach to acquiring and developing the best people to take us into the future.

Throughout the company, our goal is to create and enhance working environments where our people are engaged and encouraged to keep their skills sharp. With a knowledge of core and specialized skills, our employees will build successful careers and preserve our standing as a knowledge and industry leader.

94%
AVERAGE EMPLOYEE RETENTION

12.1
YEARS AVERAGE EMPLOYEE TENURE

2020 Forecast and Landscape

We knew at the beginning of 2019 that our return to profitability would require hard work, discipline and dedication. The blueprint for success in 2020 is the same: We will continue to focus on fundamentals, while expanding innovation in those areas where it provides the greatest benefit to our clients.

Risk identification, risk assessment and cost-effective risk improvement are the mainstays of our business strategy, new initiatives, product enhancements and process improvements. As a mutual organization, we make decisions with the intent to help our clients be more resilient. Our business model still resonates after 185 years because we have clients who continue to choose resilience over commodity insurance coverage.

Our people are the engine that drives FM Global's success. Their dedication to best practices, the pride they take in their work and their attention to the needs of our clients—particularly at critical touch points such as the immediate aftermath of a loss—speak volumes. We are deeply grateful to our clients and our people for the strides we made together in 2019 and the stability of FM Global as we enter 2020.

Thomas A. Lawson
Chairman and Chief Executive Officer

RESILIENCE IS A CHOICE.

In business, making the right choices can be the difference between success and failure. At FM Global, we believe that resilience is one of the most important choices a company can make. Choosing risk improvement. Choosing to be prepared. And choosing the right insurance company can make all the difference. Fortunately for us, our clients feel the same way. *Here are a few of their stories.*

CHOOSING A CULTURE OF RISK AWARENESS

Day and night.

That's how CFO Pieter-Jan Sonck describes Beaulieu International Group's insurance program since partnering with FM Global in 2016.

"The way we approach insurance, the way we set priorities, how we approach risk improvement from a strategic point of view—the difference is day and night," he explains.

< Pieter-Jan Sonck, chief financial officer; Karine Van Daele, group risk and insurance manager; and Erwin De Deyn, chief legal officer

The most vulnerable sites identified through FM Global's Locations Predisposed analytics tool are **15x more likely to experience a significant loss.**

Beaulieu International Group (B.I.G.) can trace its roots back to 1959 when it began as a regional flooring, textile and later a polypropylene provider with production facilities in Belgium and France.

The B.I.G. business model and insurance were much simpler back then. Acquisition and rapid extension into the USA, Russia, China and other countries since 2012 have turned B.I.G. into a global supplier of floor coverings, semi-finished engineered products as well as raw materials. Today, the Group has 29 plants in 17 countries, 5,000 employees and more than €2 billion in sales.

But the impressive growth left B.I.G. with an array of insurance carriers, a tangled administrative process, and inconsistent risk management and operating procedures across its manufacturing footprint.

"We wanted more added value from our property insurer," Sonck explains.

That's when B.I.G. turned to FM Global.

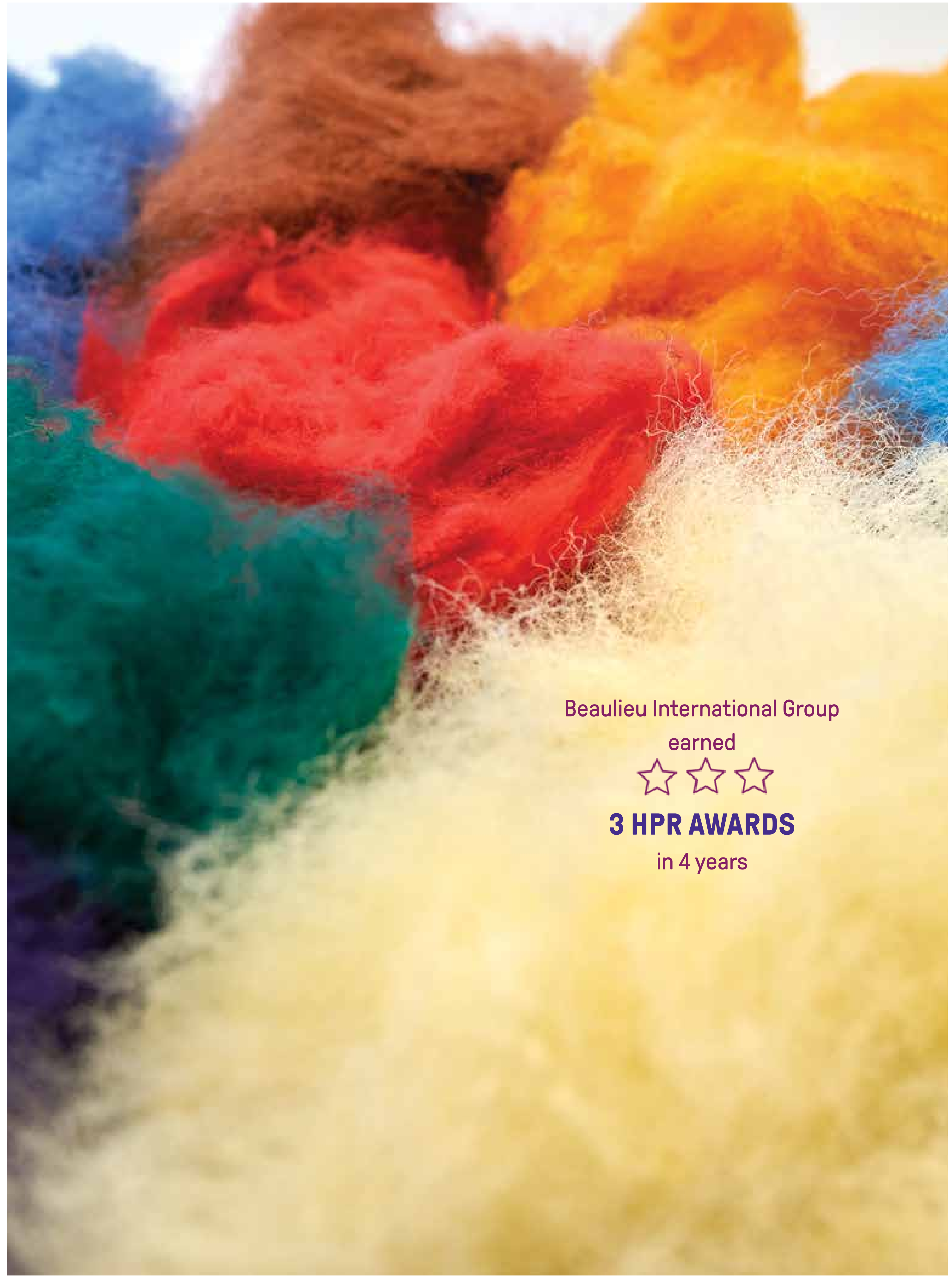
Through its World*Reach*® network, FM Global was able to offer coverage under one policy for all of B.I.G.'s facilities worldwide. FM Global's specialized chemical operations, analytics tools and research-based recommendations helped B.I.G. identify vulnerabilities and prioritize risk improvement.

"All our plants now have the same coverage and the coverage is centrally managed by us, which has made our insurance program much more efficient," adds Karine Van Daele, B.I.G.'s group risk and insurance manager. "FM Global also has helped us to better organize ourselves, develop a loss prevention structure and create a culture of risk awareness in our plants."

And with that structure in place, B.I.G. went to work.

In just four years, B.I.G. completed 76% of FM Global's human element recommendations and 56% of the physical recommendations. B.I.G. worked with FM Global engineers to develop unique solutions for its rack storage warehouses and has made plans to add sprinklers to a critical production facility in Russia.

Through FM Global's analytics tool, B.I.G. identified four locations in the most need of risk improvement. All four are no longer in the bottom tier, which indicated a higher likelihood of loss. On the other end of the spectrum, B.I.G. now has four locations that have earned FM Global's Highly Protected Risk (HPR) award.



Beaulieu International Group earned

3 HPR AWARDS

in 4 years

"Ultimately, we make the improvement not for FM Global, but for us."

– Karine Van Daele, group risk and insurance manager

"We're always evolving, trying to improve every one of our business processes, and FM Global allowed us to take a very big jump in our approach to risk," says Erwin De Deyn, chief legal officer. "FM Global made us aware of a lot of exposures, and we've noticed a major shift in culture since FM Global came on board."

In addition to completing open recommendations, B.I.G. has embraced many of the tools FM Global has to offer. B.I.G. has utilized FM Global's Business Risk Consulting team to examine its internal supply chain, the company's Cyber Risk Assessment to understand its cyber exposures and FM Global's client portal, *My*Risk®, to quantify location-level risks.

And when FM Global's field engineers visit, the B.I.G. plant manager, local engineers, Van Daele and the company's lead technical expert are all in attendance.

"FM Global makes recommendations because they are in the best interest of the plant," Van Daele explains. "Ultimately, we make the improvement not for FM Global, but for us."

< Erwin De Deyn, chief legal officer, and Karine Van Daele, group risk and insurance manager

ROAD TO RESILIENCE

US$780 million.

That's how much revenue truck manufacturer Navistar could expect to lose if just one of its stamping presses went down.

The presses turn sheet metal into the components that make up Navistar's commercial trucks, including its signature International® brand, at its facility in Escobedo, Mexico.

"Without the stamping presses, we don't make trucks," says Karen Golden, Navistar's director, global facilities & risk management.

< Bill McMenamin, president, financial services and treasurer; Karen Golden, director, global facilities & risk management; Marguerite Burke, risk manager; Toni Herwaldt, director, risk management; Walter Borst, executive vice president and chief financial officer

9 in 10
business leaders say
equipment failure risk
is a major concern*

With the help of FM Global, Navistar built a contingency plan that reduced that loss expectancy from US$780 million to just US$5 million. Several other exposures, all with loss expectancies over US$100 million, were also addressed to help ensure that Escobedo, Navistar's most critical production facility, stayed productive.

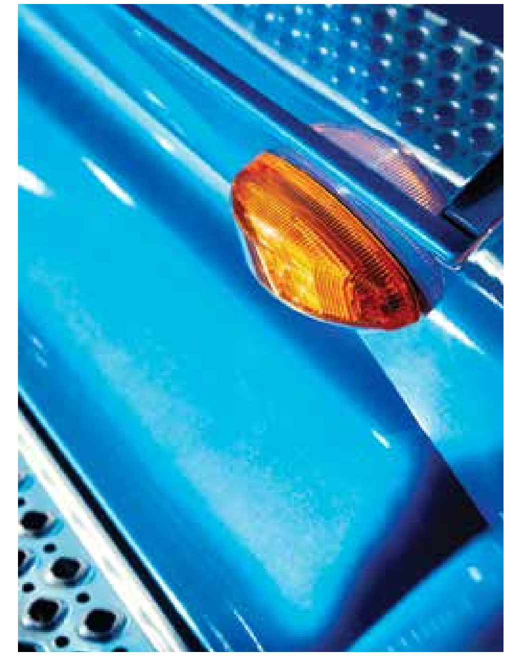
"We moved the stamping process to Escobedo to bring most of our truck production under one roof," Golden explains. "But not all of the maintenance and contingency programs we had in place moved with the presses, so FM Global helped us recreate them in Escobedo."

The contingency planning brought into focus the importance of Escobedo and the stamping presses in particular. Escobedo is a massive 400,000 square foot (37,000 square meter) facility with an additional 400,000 square feet (37,000 square meters) of storage. The facility manufactures the vast majority of the roughly 240,000 trucks Navistar produces every year, handling everything from component production to painting and assembly.

The presses were moved to Escobedo to gain efficiencies and eliminate the need to ship parts from other Navistar facilities. But the move created vulnerabilities. If just one machine broke down, parts production would stop. The presses are large, unique pieces of machinery and can take up to a year to replace, which could idle the entire factory.

"The loss expectancies associated with FM Global's equipment breakdown recommendations, particularly the business interruption cost of losing the presses, really helped us understand the risk and drive those risk improvements at the local level," Golden adds.

Navistar contracted with local third-party providers who could stamp parts in the event the Escobedo presses were down, and built other contingency plans that greatly reduced the risk. Navistar also added maintenance programs and regularly scheduled inspections to reduce the risk of equipment failure even further.



* *FM Global survey, "When failure is not an option: Fortune 500 companies weigh in on equipment failure."*

"Escobedo is incredibly important to Navistar," explains Bill McMenamin, president, financial services and treasurer. "We're committed to making sure all our facilities are designed and maintained to the highest level so we can continue to produce quality vehicles for our clients. The partnership with FM Global is very important to us in managing our overall risk."

Navistar's commitment to managing risk goes well beyond the stamping presses in Escobedo. Crucial areas of that facility are being retrofitted with sprinklers, and sprinkler protection is being designed into the facility's expansion plans.

Navistar uses FM Global's Plan Review services whenever it builds or expands at any of its locations, including its bus production facility in Tulsa, Oklahoma, USA, and its diesel engine plant in Huntsville, Alabama, USA. FM Global's Business Risk Consulting team has helped Navistar identify weaknesses in both its internal and external supply chains. And, as Navistar's business has evolved to include electric and other alternative fuels in addition to diesel, FM Global has been there to help.

"As our business changes," Golden says, "FM Global has helped us adapt."

"As our business changes, FM Global has helped us adapt."

– Karen Golden, director, global facilities & risk management

WE CHOSE TO PROTECT THE MAGIC.

72 YEARS OF TRUST

It has been called the happiest place on earth.

It may also be the most resilient.

Resilience has been part of The Walt Disney Company story since well before Alice went through the looking glass or Peter Pan took on Captain Hook.

In the mid-1940s Walt Disney wanted to build a theme park. It would be a place where families could bring their children and experience a bit of magic. But for the park to be the happiest place on earth, Walt believed that safety had to come first.

As such, the company set out to find a business partner that could help make the park a reality. It discovered a little company that offered the odd combination of engineering and insurance. Today, that company is FM Global.

< Joe Mannetta, director, real estate operations, loss prevention & business continuity planning; Tim East, executive director, risk management; Steve Wilder, senior vice president, enterprise risk management; Chris Park, manager, fire prevention & protection; and Sharon Antinoja, director, risk finance & corporate insurance

FM Global performs field engineering inspections in **143 countries**

Disneyland Resort opened in 1955 and helped catapult Disney into an entertainment giant. It also launched a long-term relationship with FM Global that continues to deliver resilience from Adventureland to Tomorrowland.

"There have been only three risk managers at Disney since the 1940s and I had the privilege of meeting the first one," explains Steve Wilder, The Walt Disney Company's senior vice president, enterprise risk management. "He told me the story about how the relationship with FM Global started. I've never forgotten it."

And Disney has never forgotten the importance of building its parks, hotels and attractions to the highest standards.

"We believe that nothing is more important than our reputation, that almost every loss is preventable and that every cast member is part of the risk management process," Wilder adds. "FM Global has helped us achieve that."

From Disneyland in Anaheim, California, USA, to the opening of Walt Disney World in Orlando, Florida, USA, in 1971, FM Global engineers were there. And as Disney expanded its theme park magic to other parts of the world and built its entertainment empire through acquisitions of companies like Capital Cities/ABC and Twenty-First Century Fox, Inc., FM Global has continued to be an important partner.

"Whenever we do anything with the buildings, the parks, the hotels, FM Global is integrated into the entire design process," says Sharon Antinoja, director, risk finance & corporate insurance. "We really think of FM Global as part of our company."

Not that keeping up with everything Disney Imagineers dreamed up was easy. The iconic geodesic sphere at Epcot, the giant picture window overlooking the South China Sea at the Hong Kong Disneyland Hotel and a host of one-of-a-kind park attractions all came with their own unique engineering challenges.

"We believe that nothing is more important than our reputation."

– Steve Wilder, senior vice president, enterprise risk management

“In Pandora – The World of Avatar at Disney’s Animal Kingdom in Orlando, we created floating mountains that appear on the horizon,” says Tim East, executive director, risk management. “And they’re designed to withstand hurricane-strength winds.”

But in a lot of ways, Disney’s risks are much like those faced by any other company. FM Global engineers have helped Disney design for earthquakes in California. They helped Disney demonstrate the need for sprinklers in television control rooms in South America, the value of building to highly protected risk standards in Asia and tackled drainage issues in Shanghai.

“All of our design people in France, Shanghai and the U.S. know their FM Global field engineer personally,” East says. “At the hotels and the attractions, they work with us to solve problems.”

Working together to solve problems has allowed the Disney and FM Global partnership to grow stronger. Just what Walt hoped for all those years ago.

“Trust,” Wilder says. “That’s what it comes down to. We trust one another to do the right thing.”

FM Global products and services are available around the world.
The countries listed below represent those where we regularly serve our clients.

AMERICAS

- Antigua and Barbuda
- Argentina
- Aruba
- Bahamas
- Barbados
- Bolivia
- Bonaire, St. Eustatius, and Saba
- Brazil
- Canada
- Cayman Islands
- Chile
- Colombia
- Costa Rica
- Curaçao
- Dominica
- Dominican Republic
- Ecuador
- El Salvador
- Grenada
- Guatemala
- Honduras
- Jamaica
- Mexico
- Nicaragua
- Panama
- Paraguay
- Peru
- St. Kitts and Nevis
- St. Lucia
- St. Maarten
- St. Vincent and the Grenadines
- Suriname
- Trinidad and Tobago
- Turks and Caicos Islands
- United States
- Uruguay
- Venezuela

EUROPE, MIDDLE EAST AND AFRICA

- Albania
- Algeria
- Angola
- Armenia
- Austria
- Azerbaijan
- Bahrain
- Belgium
- Bosnia and Herzegovina
- Botswana
- Bulgaria
- Burkina Faso
- Cameroon
- Croatia
- Cyprus
- Czech Republic
- Denmark
- Egypt
- Estonia
- Finland
- France
- Gabon
- Georgia
- Germany
- Ghana
- Greece
- Hungary
- Iceland
- Ireland
- Israel
- Italy
- Jordan
- Kazakhstan
- Kenya
- Kuwait
- Kyrgyzstan
- Latvia
- Lebanon
- Liechtenstein
- Lithuania
- Luxembourg
- Macedonia
- Madagascar
- Malta
- Montenegro
- Morocco
- Mozambique
- Namibia
- Netherlands
- Norway
- Oman
- Poland
- Portugal
- Qatar
- Romania
- Russia
- Saudi Arabia
- Senegal
- Serbia
- Slovakia
- Slovenia
- South Africa
- Spain
- Sweden
- Switzerland
- Tanzania
- Tunisia
- Turkey
- Ukraine
- United Arab Emirates
- United Kingdom

ASIA/PACIFIC

- Australia
- Bangladesh
- Brunei
- Cambodia
- China
- Hong Kong
- India
- Indonesia
- Japan
- Laos
- Macau
- Malaysia
- Mongolia
- New Zealand
- Pakistan
- Philippines
- Singapore
- South Korea
- Sri Lanka
- Taiwan
- Thailand
- Vietnam

In addition to its large-risk property insurance line of business, the FM Global Group comprises a number of other key business operations. Several of those are described in this section.

AFM specializes in commercial property insurance for the middle market. AFM provides tailored underwriting expertise and property loss control engineering through a select international network of broker partners. The organization has office locations in Australia, Canada, France, Germany, the Netherlands, Spain, the United Kingdom and throughout the United States, and it offers coverage in more than 70 countries.

FM Global Cargo provides cargo insurance coverage, automated certificate issuance and risk engineering services tailored largely to the international trade and transportation needs of FM Global and AFM clients.

Corporate Insurance Services (CIS) is FM Global's wholly owned brokerage operation, maintaining relationships with a variety of U.S. domestic insurers, Lloyd's of London, excess and surplus lines insurers, and specialty companies.

FM Global Emergency Response Consultants is an emergency services training organization providing comprehensive training for emergency response personnel and those responsible for organizing, managing and/or directing emergency response activities.

FM Approvals offers worldwide third-party testing and certification services for loss prevention products used in commercial and industrial property risk mitigation applications. The FM APPROVED certification mark is globally accepted by regulators and supports decisions about which products will best reduce property risk and help to make businesses more resilient.

Mutual Boiler Re provides boiler and machinery insurance in North America, specializing in mechanical, electrical and pressure systems breakdown treaty reinsurance and support services to the commercial property insurance marketplace. Today it works with nearly 300 insurance companies, providing coverage to their policyholders.

The tables on page 32 provide a summary of FM Global's investment portfolios as of the end of 2019, including asset allocations and net asset values.

2019 was a year of very strong investment performance for FM Global. Asset markets delivered extraordinary returns, and our strategy to increase diversification and reduce expected volatility in the revised asset allocation framework generated excellent results for the investment portfolio. Our focus on long-term strategic asset allocation, portfolio construction and security selection continued to add significant value to FM Global's investment portfolio. The updated asset allocation framework, as implemented in 2019, is designed to generate comparable expected returns similar to prior years' policy framework, but at a reduced target risk and increased diversification. The primary strategic goal for the investment portfolio continues to be to generate optimal risk adjusted returns in a prudent manner, with focus on quality, liquidity and risk management as important underlying considerations.

The financial markets environment in 2019 was extremely positive during most of the year, coming out of a market dislocation at the end of 2018. The overall economic and bottom-up fundamentals remained strong as the U.S. Federal Reserve eased monetary policy during the year. The change in course by the U.S. Federal Reserve supported asset markets and helped navigate and offset the volatility from the U.S.-China trade negotiations. Markets gained additional momentum in the fourth quarter as a phase one breakthrough in the U.S.-China trade negotiations gridlock became highly likely and eventually a phase one agreement was reached with the deal to be signed in early 2020.

All asset classes in the FM Global investment portfolio generated strong returns, including U.S. and international equities, fixed income and private and liquid alternatives. Cash returns were marginally lower with a reduction in short-term money market and policy rates. The investment portfolio results contributed significantly to FM Global's surplus growth, along with the insurance business activities for the year. The investment results demonstrate FM Global's continued focus on the role investments play in helping grow the surplus, further strengthening FM Global's financial position and leadership in the property insurance business over the long run.

Investment selection and asset allocation strongly contributed to the performance of the investment portfolio. The year started with lower equity and risk asset valuations, coming out of a volatile fourth quarter in 2018, but asset prices surged during the course of 2019 and markets finished the year at relatively high valuations with earnings remaining moderate to flat. 2019 also saw the momentum increasing in the upcoming 2020 U.S. presidential elections and the impact on the financial markets. The long-term focus on generating the optimal risk adjusted return allowed FM Global to take advantage of the market's performance in 2019 and make asset allocation changes as necessary per market conditions. In addition, the approach also enabled FM Global to invest in longer horizon strategic alternative investments. The portfolio construction strategy allowed FM Global to generate a strong annual return for the investment portfolio in 2019 and build a strong base for long-term investments that increases the probability of stable returns in future years.

FM Global's equity allocations were higher at year-end 2019 at 44.0% as compared to 40.5% at year-end 2018. The increase in equity allocations was largely due to net additions in global equities with diversification into international equities during the year and strong equities performance for the year. Municipal fixed income and short-term money market funds and cash allocation percentages were lower year on year.

Total fixed income percentage allocations remained relatively steady during the year; however there were changes within the portfolio construction of the overall fixed income portfolio, with increased diversification. Within the updated asset allocation framework, the transition for most of the year included measured additions to the opportunistic fixed income bucket, adding to the overall strong performance of the total fixed income portfolio. The opportunistic fixed income allocation finished the year close to 3% of total investment assets.

The alternative assets portfolio construction stayed on course per the strategic path as updated in 2018. There was a marked increase in investments and commitments to direct funds as the portfolio transitioned further from a focus on fund of fund investments to direct fund investments. The portfolio construction diversification continued further with selective private equity, private credit, real estate and infrastructure investments in the private alternatives bucket and global macro and multi-strategy hedge fund investments in the absolute return bucket.

† All financial values in U.S. dollars.

The short-term cash and money market investments amount and percentage allocation were lower in 2019 by 2.5% points. There was continued focus to have the optimal level of assets invested in a reduced volatility market environment, while maintaining adequate liquidity for business and operations requirements.

In summary, the investment portfolio asset allocations ended 2019 with an overweight to global equities, neutral weight for fixed income, and marginally underweight alternatives; as the private alternatives funds started to have new capital deployed, and underweight cash and short-term investments, as per the investment portfolio target asset allocations framework. Overall, strong portfolio performance resulted from sound bottom-up security level analysis-based process and top-down global macro considerations applied at the asset class and portfolio levels.

From a strategic perspective at the total portfolio level, there was continued increased focus on long-term strategic portfolio construction, asset allocation and risk management as markets entered 2019 after a volatile period in the fourth quarter of 2018. The primary strategic goal for investments continues to be to generate optimal risk adjusted returns for an overall high quality and liquid portfolio; while managing downside risks in a prudent manner and maintaining strong liquidity for business cashflow requirements, as necessary, to enable FM Global to preserve and grow surplus over the long term. Investments continue to play a key role in building FM Global's financial position and leadership in the property insurance business.

Real Estate

Hobbs Brook Management ("HBM") invests in and manages real estate assets on behalf of FM Global throughout the United States. In addition, HBM provides functional support to FM Global's business operations globally. The investment and management of commercial assets provides an additional element of portfolio diversification for FM Global; it also provides a cost-effective approach in meeting FM Global's ongoing real estate needs. In 2019, HBM managed 3.4 million ft^2 (316,000 m^2) of commercial properties, which produced $125.0 million in total revenue and $47.0 million in cash flow.

Pretax Contribution to Surplus (in millions) †	2019	2018
Investment income	$ 427	$ 393
Realized gains	940	940
Unrealized gains / (losses)	1,198	(1,608)
Total	$ 2,565	$ (275)

As of December 31 Holdings (in millions) †	2019 Total	Percentage	2018 Total	Percentage
Equities:				
Equity securities	$ 7,909		$ 6,968	
Other – equity funds	400		–	
Total equities	$ 8,309	44.0%	$ 6,968	40.8%
Debt securities:				
Taxable debt securities	$ 6,134		$ 5,498	
Municipal debt securities	1,611		1,604	
Total debt securities	$ 7,745	41.0%	$ 7,102	41.6%
Other – alternative investments:				
Private equity	$ 368		$ 305	
Hedge funds	564		559	
Total other – alternative investments	$ 932	5.0%	$ 864	5.1%
Short-term funds and cash	1,888	10.0%	2,136	12.5%
Total	$ 18,874	100.0%	$ 17,070	100.0%

† All financial values in U.S. dollars.

The management of FM Global is responsible for establishing and maintaining adequate internal control over financial reporting and for the preparation and integrity of the accompanying financial statements and other related information in this report. The consolidated financial statements of the Company and its subsidiaries, including the notes to consolidated financial statements, were prepared in accordance with U.S. generally accepted accounting principles and include judgments and estimates, which, in the opinion of management, are applied on an appropriate basis. The Company maintains a system of internal and disclosure controls intended to provide reasonable assurance that assets are safeguarded from loss or material misuse, that transactions are authorized and recorded properly, and that the accounting records may be relied upon for the preparation of the financial statements. This system is tested and evaluated regularly for adherence and effectiveness by the Company's staff of internal auditors.

The audit committee of the Board of Directors, which comprises directors who are not employees of the Company, meets regularly with management and the internal auditors to review the Company's financial policies and procedures, its internal control structure, the objectivity of its financial reporting and the independence of the Company's independent public accounting firm. The internal auditors have free and direct access to the audit committee, and they meet periodically, without management present, to discuss appropriate matters.

Because of inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements and even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are also subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

These consolidated financial statements are subject to an evaluation of internal control over financial reporting conducted under the supervision and with the participation of management, including the chief executive officer and chief financial officer. Based on that evaluation, conducted under the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, management concluded that its internal control over financial reporting was effective as of December 31, 2019 and December 31, 2018.

Thomas A. Lawson
Chairman and
Chief Executive Officer

Kevin S. Ingram
Executive Vice President and
Chief Financial Officer

The Board of Directors and Policyholders of Factory Mutual Insurance Company and Subsidiaries

We have audited the accompanying consolidated financial statements of Factory Mutual Insurance Company and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in policyholders' surplus and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of New Accounting Standard

As discussed in Note 1 to the financial statements, the Company changed its method for accounting for the recognition of equity securities in 2019. Our opinion is not modified with respect to this matter.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Factory Mutual Insurance Company and Subsidiaries at December 31, 2019 and 2018, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2015-09, *Financial Services – Insurance (Topic 944): Disclosures about Short-Duration Contracts* requires that the short-duration insurance contract disclosures for years prior to 2019 presented in Note 6 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the FASB who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Boston, Massachusetts
February 25, 2020

Ernst & Young LLP

CONSOLIDATED BALANCE SHEETS

(in thousands)

December 31	2019	2018
Assets		
Investments:		
Debt securities	$ 7,745,200	$ 7,101,700
Equity securities	7,908,900	6,968,400
Other securities	1,331,700	864,300
Real estate	632,200	605,000
Total Investments	17,618,000	15,539,400
Cash and cash equivalents	1,959,200	2,207,800
Recoverable from reinsurers	2,025,700	1,516,800
Premium receivable	1,146,500	877,900
Prepaid reinsurance premium	328,900	283,900
Premises and equipment	562,000	502,000
Other assets	1,413,500	1,279,700
Total Assets	$ 25,053,800	$ 22,207,500
Liabilities		
Unpaid losses and loss adjustment expenses	$ 5,508,200	$ 6,286,200
Reserve for unearned premium	2,955,900	2,618,600
Current and deferred income taxes	727,900	356,300
Other liabilities	1,279,100	1,119,500
Total Liabilities	10,471,100	10,380,600
Policyholders' surplus		
Accumulated other comprehensive income / (loss)	(753,800)	1,335,300
Retained earnings	15,336,500	10,491,600
Total Policyholders' surplus	14,582,700	11,826,900
Total Liabilities and Policyholders' surplus	$ 25,053,800	$ 22,207,500

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands)

Year ended December 31	2019	2018
Gross premium earned	$ 6,084,900	$ 5,499,200
Ceded premium earned	(1,874,000)	(1,607,400)
Net premium earned	4,210,900	3,891,800
Investment-related income	561,600	525,100
Fee-related income	80,000	70,300
Total revenue	4,852,500	4,487,200
Net losses and loss adjustment expenses	2,207,800	3,893,900
Insurance-related expenses	1,148,900	1,076,100
Investment-related expenses	220,600	211,600
Fee-related expenses	56,400	56,400
Total losses, loss adjustment and other expenses	3,633,700	5,238,000
Income / (loss) from operations	1,218,800	(750,800)
Net realized investment gains	939,500	940,100
Net unrealized investment gains on equity securities	951,100	–
Income before income taxes	3,109,400	189,300
Income tax expense	630,100	27,900
Net income	$ 2,479,300	$ 161,400

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

Year ended December 31	2019	2018
Net income	$ 2,479,300	$ 161,400
Other comprehensive income / (loss):		
Increase / (decrease) in net unrealized appreciation on investments, net of income tax expense of $53,200 in 2019 and income tax benefit of $332,400 in 2018	193,300	(1,275,300)
Change in benefit plan assets and liabilities, net of income tax expense of $1,100 in 2019 and $12,700 in 2018	(700)	46,900
Foreign currency translation adjustment, net of income tax expense of $12,100 in 2019 and income tax benefit of $21,900 in 2018	83,900	(134,600)
Other comprehensive income / (loss)	276,500	(1,363,000)
Comprehensive income / (loss)	$ 2,755,800	$ (1,201,600)

CONSOLIDATED STATEMENTS OF CHANGES IN POLICYHOLDERS' SURPLUS

(in thousands)

Year ended December 31	2019	2018
Retained earnings at beginning of year	$ 10,491,600	$ 10,841,400
Adoption of new accounting pronouncements	2,365,600	(511,200)
Net income	2,479,300	161,400
Retained earnings at end of year	15,336,500	10,491,600
Accumulated other comprehensive income at beginning of year	1,335,300	2,187,100
Adoption of new accounting pronouncements	(2,365,600)	511,200
Other comprehensive income / (loss)	276,500	(1,363,000)
Accumulated other comprehensive income / (loss) at end of year	(753,800)	1,335,300
Policyholders' surplus at end of year	$ 14,582,700	$ 11,826,900

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

Year ended December 31	2019	2018
Operating activities		
Net income	$ 2,479,300	$ 161,400
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	85,000	75,000
Increase in premium receivable	(268,600)	(133,000)
(Decrease) / increase in unpaid losses and loss adjustment expenses	(778,000)	204,300
Increase in reserve for unearned premium	337,300	270,700
(Increase) / decrease in recoverable from reinsurers	(508,900)	414,500
Increase in current and deferred income taxes	334,500	222,800
Net realized investment gains	(939,500)	(940,100)
Net unrealized investment gains on equity securities	(951,100)	–
Increase in prepaid reinsurance premium	(45,000)	(1,900)
Other	413,200	(48,600)
Net cash provided by operating activities	158,200	225,100
Investing activities		
Net (purchases) / sales of short-term investments	(18,600)	127,500
Purchases of debt, equity and other securities	(6,972,900)	(4,967,900)
Sales and maturities of debt, equity and other securities	7,010,000	5,087,200
Capital expenditures	(237,300)	(99,100)
Other	(188,000)	200
Net cash (used) / provided by investing activities	(406,800)	147,900
(Decrease) / increase in cash and cash equivalents	(248,600)	373,000
Cash and cash equivalents at beginning of year	2,207,800	1,834,800
Cash and cash equivalents at end of year	$ 1,959,200	$ 2,207,800

See accompanying notes.

Note 1. Significant Accounting Policies

Basis of Presentation
The consolidated financial statements are stated in U.S. dollars and have been prepared on the basis of U.S. generally accepted accounting principles, which differ in some respects from statutory accounting practices prescribed or permitted by the State of Rhode Island and Providence Plantations, Department of Business Regulation, Insurance Division. On the basis of statutory accounting practices, consolidated policyholders' surplus was $13,707,700 and $11,241,300 at December 31, 2019 and 2018, respectively; net income / (loss) for the respective years then ended was $1,474,500 and $(103,200).

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of management's estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

The Company provides comprehensive lines of property coverage and supporting services for industrial and institutional properties throughout the world.

Principles of Consolidation
The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions were eliminated in consolidation.

Reclassification
Certain amounts reported in the notes to the 2018 Consolidated Financial Statements have been reclassified to conform to the 2019 presentation.

Cash Equivalents
Cash equivalents are short-term, highly liquid investments that are both readily convertible into known amounts of cash and so near to maturity that they present insignificant risk of changes in value due to changing interest rates. Cash equivalents include money market funds carried at fair value and debt securities purchased with maturities of three months or less at acquisition and are carried at amortized cost, which approximates fair value. The effect of changes in foreign exchange rates on cash balances were immaterial.

Investments
Effective January 1, 2019, equity securities continued to be carried at fair value with the unrealized appreciation or depreciation reported in the Consolidated Statements of Income. Prior to January 1, 2019, the net unrealized appreciation or depreciation, net of taxes, of these securities were recorded as a component of other comprehensive income with gains or losses recorded in the Consolidated Statements of Income when the equity securities were sold or were other-than-temporarily impaired.

Debt securities are classified as available-for-sale and are stated at fair value with the unrealized appreciation or depreciation, net of tax, reported directly in other comprehensive income. The cost of securities sold is based upon the specific identification method.

The amortized cost of debt securities is adjusted for amortization of premium and accretion of discounts to maturity, or in the case of mortgage and asset-backed securities, over the estimated life of the security adjusted for anticipated prepayments. This amortization and accretion is included in investment-related income. For mortgage and asset-backed debt securities, the Company recognizes income using a constant effective yield based on anticipated prepayments over the economic life of the security. The mortgage and asset-backed debt securities are accounted for under

Note 1. Significant Accounting Policies *(continued)*

the retrospective method and prepayment assumptions are based on market expectations. When actual prepayments differ significantly from anticipated prepayments, the effective yield is recalculated to reflect actual payments to date and anticipated future payments, and any resulting adjustment is included in investment-related income.

Other securities consist primarily of partnerships and alternative investments, which are accounted for under the equity method. As a result of the timing of the receipt of valuation data from the investment managers, these investments are generally reported on up to a three-month lag. Changes in the Company's equity in the net assets of these investments are included in income as net realized investment gains.

Impairments in debt securities deemed to be other than temporary are segregated into credit risk and non-credit risk impairments. Credit risk impairments are reported as a component of income before income taxes. Non-credit risk impairments are recognized in other comprehensive income. Securities are reviewed for both quantitative and qualitative considerations in the determination of impairments.

Under a securities lending program with an agent, the Company has temporarily loaned certain debt securities. Borrowers of these securities must deposit with the agent an amount of cash and/or securities equal to 102 percent of the loaned securities' fair value for U.S. currency-denominated securities or 105 percent of the loaned securities' fair value for foreign-denominated securities. The portion of collateral received in securities is held in trust by the agent. The portion of collateral received in cash is invested by the agent in high-quality, short-term investments. The Company continues to receive the interest on the loaned debt securities as the beneficial owner, and the loaned debt securities are included in the investment portfolio of the Company. The cash collateral and the obligation to return that collateral are included in other assets and other liabilities, respectively, on the Consolidated Balance Sheets.

In the normal course of business, the Company has investments in variable interest entities (VIEs) primarily as a passive investor in residential mortgage-backed securities, commercial mortgage-backed securities, and private equity limited partnerships issued by third party VIEs. The Company is not the primary beneficiary of these VIEs. The Company's maximum exposure to loss with respect to these investments is limited to the investment carrying values included in the Company's Consolidated Balance Sheets and the unfunded commitments related to partnerships and private equity investments. The Company has unfunded commitments of $681,900 and $443,800 as of December 31, 2019 and 2018, respectively.

Income Taxes

The Company files consolidated U.S. and foreign income tax returns as required by law. The income tax expense is based on income before taxes reported in the Consolidated Financial Statements. Deferred income taxes are provided, when appropriate, for the effects of temporary differences in reporting income and expenses for tax and financial reporting purposes. Deferred income taxes are also provided for unrealized appreciation or depreciation of investments, for pension and postretirement liabilities and for foreign currency translations.

The Company's tax returns for tax years 2015 – 2017 are currently under examination by the IRS. The statute of limitations for examination of tax years 2015 and later is still open.

Deferred Costs

Premium taxes and commissions, the principal business acquisition costs, are deferred to the extent recoverable and are amortized over the period during which the related premium is earned. Deferred costs are included in other assets.

Certain pre-rental and other expenses incurred by the Company's real estate limited liability corporation subsidiaries are deferred and amortized over the lives of the various tenant leases.

Note 1. Significant Accounting Policies *(continued)*

Real Estate and Premises and Equipment

Premises and equipment are stated at net book value, and depreciation is recorded on a straight-line basis over the estimated useful lives of the respective assets. Upon retirement or sale, the cost of the asset disposed of and its related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in net realized investment gains. The net book value of the Company's investments in land and buildings is included in real estate, whereas the net book value of the Company's occupied land and buildings, furniture, fixtures, and equipment is included in premises and equipment.

Unpaid Losses and Loss Adjustment Expenses

Liabilities for unpaid losses and loss adjustment expenses are based on case estimates or reports from ceding companies. Estimates of incurred-but-not-reported (IBNR) reserves are based on historical experience and management analysis.

Although the above-described amounts are based on estimates, management believes recorded liabilities for unpaid losses and loss adjustment expenses are reasonable to cover the ultimate settlement cost of losses incurred. These estimates are continually reviewed and adjustments to such estimates are reflected in current operations.

Premium

The Company issues term premium policies. The term premium is earned on a daily pro-rata basis over the life of the policy, which is typically one year. Unearned premium is the amount of unexpired written premium related to policies in force.

Translation of Foreign Currency

The Company translates the financial statements of its foreign operations into U.S. dollars from the functional currency applicable for each foreign unit, which is the currency of the country representing the primary economic environment in which each operation conducts business. Foreign currency balances are re-measured to the respective functional currencies, and the resulting foreign exchange gains or losses are reflected in earnings. Functional currency assets and liabilities are then translated into U.S. dollars at the exchange rates in effect at the end of the period, while income and expenses are translated at average rates. Foreign currency translation adjustments are recorded as a separate component of the Consolidated Statements of Comprehensive Income, net of income taxes.

Reinsurance

In the normal course of business, the Company seeks to reduce losses that may arise from catastrophes or other events by reinsuring certain levels of risk with other insurance enterprises. Reinsurance premium and losses and loss adjustment expenses ceded under these arrangements are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts.

Retirement Income Plans and Postretirement Benefit Plans Other than Pensions

Noncontributory retirement income plans cover the vast majority of employees. The Company's funding policy is generally to contribute the net periodic pension cost each year, as determined pursuant to the guidance in *Compensation – Employee Benefits (ASC 715)*. However, the contribution for any year will not be less than the minimum required contribution, nor greater than the maximum tax-deductible contribution allowed in each country with plans in place.

The Company provides certain health care and life insurance benefits for retired employees and their dependents. The plans are contributory, with retiree contributions adjusted annually, and contain other cost-sharing features, such as deductibles and coinsurance. Current service and interest costs of postretirement health care and life insurance benefits are expensed on an accrual basis.

Note 1. Significant Accounting Policies *(continued)*

Investment-Related and Fee-Related Income

Investment-related income primarily consists of interest and dividends from the Company's investment portfolio and income from leased office space, which is earned as services are provided, or over the term of applicable leases. Fee-related income primarily consists of fees for ancillary services, which is earned as the Company completes performance obligations.

Recent Accounting Pronouncements Adopted

In February 2018, the FASB issued ASU 2018-02, *Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which permits recognition of a reclassification adjustment between accumulated other comprehensive income (AOCI) and retained earnings for stranded tax amounts related to the reduced corporate tax rate enacted under the Tax Cuts and Jobs Act of 2017. As permitted under its provisions, the Company early adopted the accounting guidance effective for the year ended December 31, 2018. The impact from early adoption resulted in a net increase to AOCI and a reduction to retained earnings of $511,200.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes existing revenue recognition guidance with a single model, unless a contract is within the scope of another standard. Under the new guidance, companies must allocate the total contract price to distinct contract components on a stand-alone selling price basis and recognize revenue upon fulfillment of each performance obligation and provide additional disclosures. The FASB subsequently issued ASU 2015-14, which deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2018. The Company has adopted this standard as of January 1, 2019. Substantially all of the Company's revenue is derived from insurance contracts, leases and financial instruments, which are outside the scope of the standard. There were no changes required for revenue within the scope of the standard, therefore adoption of the standard has no impact on the Company's Consolidated Financial Statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 requires equity investments to be measured at fair value, with changes in fair value recognized in net income. Previously, the Company's equity securities were classified as available-for-sale and changes in fair value were recorded in other comprehensive income. The Company has adopted this ASU effective January 1, 2019. Upon adoption of this ASU, cumulative net unrealized gains on equity securities of $2,365,600, net of deferred income taxes of $624,600, were reclassified from accumulated other comprehensive income into retained earnings. Prior periods have not been restated.

Note 1. Significant Accounting Policies *(continued)*

Accounting Standards Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes existing lease guidance. Under the new guidance, lessees are to recognize in the statement of financial position a right-of-use asset and a lease payments liability that represent the right to use the underlying asset and the related obligations over the lease term. The update is effective for annual reporting periods beginning on or after December 15, 2020. The Company is evaluating the impact that the adoption will have on its financial statements and related disclosures.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities*. ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium. The update is effective for annual reporting periods beginning on or after December 15, 2019. The Company has determined the adoption will not have a material impact on its financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The guidance eliminates, adds and modifies certain disclosure requirements for fair value measurements as part of the FASB's disclosure framework project. ASU 2018-13 also eliminates the requirement for entities to disclose the amount of, and reasons for, transfers between Level 1 and Level 2 of the fair value hierarchy. The update is effective for annual reporting periods beginning on or after December 15, 2019. The Company has determined the adoption will not have a material impact on its financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits- Defined Benefit Plans (Subtopic 715-20)*. ASU 2018-14 eliminates the requirement for certain disclosures related to defined benefit pensions that are no longer cost effective, while clarifying the specific requirements of disclosures and adding other relevant disclosure requirements as applicable. The update is effective for annual reporting periods ending after December 15, 2021. The Company is evaluating the impact that the adoption will have on its financial statements and related disclosures.

(in thousands)

Note 2. Investments

Debt and Equity Securities

The following is a summary of securities at December 31, 2019:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. Treasury securities and obligations of U.S. government agencies	$ 1,325,400	$ 47,000	$ (3,500)	$ 1,368,900
Obligations of states and political subdivisions	1,550,000	63,900	(1,300)	1,612,600
Mortgage and asset-backed securities:				
Agency	1,228,800	29,800	(900)	1,257,700
Commercial	195,300	6,400	(200)	201,500
Other mortgage and asset-backed securities	328,200	6,700	(200)	334,700
U.S. corporate securities	1,528,700	78,200	(6,400)	1,600,500
Foreign government securities	942,800	14,400	(2,600)	954,600
Other debt securities	410,000	4,900	(200)	414,700
Total debt securities	7,509,200	251,300	(15,300)	7,745,200
Equity securities:				
Consumer discretionary	389,800	763,200	(2,600)	1,150,400
Consumer staples	239,200	340,500	(5,000)	574,700
Energy	152,500	148,500	(3,100)	297,900
Financials	329,600	484,400	(900)	813,100
Health care	451,700	393,900	(800)	844,800
Industrials	205,600	268,000	(800)	472,800
Information technology	157,800	929,200	(800)	1,086,200
Mutual funds (international and emerging markets)	1,604,800	348,700	(4,300)	1,949,200
All other sectors	436,500	291,400	(8,100)	719,800
Total equity securities	3,967,500	3,967,800	(26,400)	7,908,900
Total debt and equity securities	$ 11,476,700	$ 4,219,100	$ (41,700)	$ 15,654,100

(in thousands)

Note 2. Investments *(continued)*

The following is a summary of securities at December 31, 2018:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
U.S. Treasury securities and obligations of U.S. government agencies	$ 1,138,900	$ 25,000	$ (17,800)	$ 1,146,100
Obligations of states and political subdivisions	1,586,600	21,500	(8,700)	1,599,400
Mortgage and asset-backed securities:				
Agency	1,123,300	13,200	(21,600)	1,114,900
Commercial	163,800	600	(2,600)	161,800
Other mortgage and asset-backed securities	292,900	3,400	(2,200)	294,100
U.S. corporate securities	1,442,400	20,900	(41,700)	1,421,600
Foreign government securities	931,400	6,900	(1,600)	936,700
Other debt securities	433,100	700	(6,700)	427,100
Total debt securities	7,112,400	92,200	(102,900)	7,101,700
Equity securities:				
Consumer discretionary	563,100	602,300	(12,700)	1,152,700
Consumer staples	385,300	285,000	(11,700)	658,600
Energy	212,600	129,500	(8,400)	333,700
Financials	545,200	397,500	(6,500)	936,200
Health care	477,700	336,800	(25,400)	789,100
Industrials	291,900	220,400	(4,500)	507,800
Information technology	342,200	698,000	(11,700)	1,028,500
Mutual funds (international and emerging markets)	892,300	172,500	(23,500)	1,041,300
All other sectors	267,600	254,900	(2,000)	520,500
Total equity securities	3,977,900	3,096,900	(106,400)	6,968,400
Total debt and equity securities	$ 11,090,300	$ 3,189,100	$ (209,300)	$ 14,070,100

During the years ended December 31, 2019 and 2018: purchases of debt securities were $3,540,000 and $3,314,200, respectively; purchases of equity securities were $2,858,500 and $1,536,800, respectively; proceeds from the sale of debt securities were $3,033,500 and $2,280,000, respectively; and proceeds from the sale of equity securities were $3,726,100 and $2,570,700, respectively.

The gross realized gains and (losses) on sales of debt and equity securities totaled $953,400 and $(88,000) in 2019, and $1,071,900 and $(47,000) in 2018.

(in thousands)

Note 2. Investments *(continued)*

The net gains and losses recognized on equity securities during the period ending December 31, 2019 totaled $1,798,300. Of this balance, $847,200 is related to securities sold during the period and $951,100 is related to unrealized gains and losses on equity securities still held.

The amortized cost and fair value of debt securities at December 31, 2019 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 211,900	$ 213,200
Due after one year through five years	2,611,900	2,672,900
Due after five years through ten years	2,633,600	2,757,400
Due after ten years	299,500	307,800
Subtotal	5,756,900	5,951,300
Mortgage and asset-backed securities	1,752,300	1,793,900
Total debt securities	$ 7,509,200	$ 7,745,200

The Company has temporarily loaned certain debt securities with a fair value of $163,200 and $109,000 at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, the Company held total collateral values of $166,500 and $111,400 related to these securities, of which cash collateral included in other assets and other liabilities were $73,600 and $87,200, respectively.

Included in the Company's debt security portfolio are securities with unrealized losses deemed to be temporary. The total unrealized loss on these securities was $15,300 (fair value of $1,097,400) at December 31, 2019, and $102,900 (fair value of $3,886,700) at December 31, 2018. The amount of loss that existed for 12 months or more was immaterial for both 2019 and 2018. In reaching its conclusion that these impairments are temporary, the Company considered issuer-specific circumstances as well as the fact that the Company does not intend to sell these securities and it is unlikely that the Company will be required to sell before they recover in value or mature.

Included in the Company's equity security portfolio at December 31, 2018 were securities with unrealized losses deemed to be temporary. The total unrealized loss on these securities was $106,400 (fair value of $921,200). At December 31, 2019, the unrealized losses of $26,400 (fair value of $332,000) on equity securities have been recognized through net income in accordance with ASU 2016-01.

During the years ended December 31, 2019 and 2018, net realized investment gains on other securities were $54,700 and $45,100, respectively.

Credit Risk

All debt security investments have credit exposure to the extent that a counterparty may default on an obligation to the Company. To manage credit risk, the Company focuses on high-quality debt securities, reviews the credit strength of all companies in which it invests, limits its exposure in any one investment and monitors the portfolio quality.

Note 3. Fair Value

The valuation techniques required by the *Fair Value Measurements (ASC 820)* guidance are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions determined by the Company.

(in thousands)

Note 3. Fair Value *(continued)*

These two types of inputs create the following fair value hierarchy:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Significant inputs to the valuation model are unobservable.

The Company retains independent pricing vendors to assist in valuing invested assets. In compliance with the *ASC 820* guidance, the Company conducted a review of the primary pricing vendor, validating that the inputs used in that vendor's pricing process are deemed to be market-observable as defined in the standard.

When available, the Company uses quoted market prices to determine the fair value of investment securities, and they are included in Level 1.

When quoted market prices are unavailable, the Company uses quotes from independent pricing vendors based on recent trading activity and other relevant information. Debt securities are priced by an independent vendor using evaluated market pricing models that vary by asset class. These models incorporate available trade, bid, and other market information, and for structured securities also incorporate cash flow and, when available, loan performance data. The pricing models apply available market information through processes such as benchmark curves, benchmarking of similar securities, and sector groupings. The vendors also integrate observed market movements, sector news and relevant credit information into the evaluated pricing applications and models. These investments are included in Level 2 and are primarily comprised of debt securities.

The Company did not hold any assets classified as Level 3 in 2019 or 2018.

The following table presents the Company's invested assets measured at fair value as of December 31, 2019:

Invested Assets, at Fair Value	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Debt securities	$ 7,745,200	$ 14,000	$ 7,731,200
Equity securities	7,908,900	7,908,900	–
Total	$ 15,654,100	$ 7,922,900	$ 7,731,200

The following table presents the Company's invested assets measured at fair value as of December 31, 2018:

Invested Assets, at Fair Value	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Debt securities	$ 7,101,700	$ –	$ 7,101,700
Equity securities	6,968,400	6,968,400	–
Total	$ 14,070,100	$ 6,968,400	$ 7,101,700

(in thousands)

Note 3. Fair Value *(continued)*

All debt securities are measured at fair value and are classified as Level 2 with the exception of certain short-term securities, which were priced using quoted market prices and therefore classified as Level 1. See Note 2 for a breakout of debt securities by category.

All equity securities are priced using quoted market prices and classified as Level 1. See Note 2 for a breakout of equity securities by category.

There were no transfers of securities between Levels 1 and 2 in 2019 or 2018. Securities lending collateral held at December 31, 2019 and 2018 is classified as Level 1.

Note 4. Membership Credit

In 2016 and 2017, the Company's Board of Directors approved a membership credit to eligible policyholders that renewed their policies during the membership credit periods of June 30, 2016 through June 29, 2017 and June 30, 2017 through June 29, 2018, respectively, in the form of a premium offset at the time of policy renewal. The membership credit is earned over the related policy renewal terms. The impact of membership credit for the year ended 2019 was a reduction to earned premium of $47,100. The impact of membership credit for the year ended 2018 was a reduction to gross written premium of $215,300 and a reduction to earned premium of $355,600.

Note 5. Reinsurance

The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from potential reinsurer insolvencies. While such evaluations are intended to minimize the Company's exposure, the ultimate collection of reinsurance recoverable depends on the financial soundness of the individual reinsurers. The reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible.

The effect of reinsurance on written premium is as follows:

	Year ended December 31	
	2019	2018
Gross written premium	$ 6,438,200	$ 5,789,000
Ceded written premium	(1,959,400)	(1,692,400)
Net written premium	$ 4,478,800	$ 4,096,600

Ceded losses and loss adjustment expenses incurred for the years ended December 31, 2019 and 2018 were $1,084,400 and $465,500, respectively.

(in thousands)

Note 6. Unpaid Losses and Loss Adjustment Expenses

Activity in the net liability for unpaid losses and loss adjustment expenses (LAE) is summarized as follows:

	Year ended December 31	
	2019	2018
Gross unpaid as of January 1	$ 6,286,200	$ 6,081,900
Less: unpaid reinsurance recoverable	1,362,900	1,754,200
Net unpaid as of January 1	4,923,300	4,327,700
Net incurred related to:		
Current year	2,653,100	4,012,800
Prior years	(445,300)	(118,900)
Total net incurred	2,207,800	3,893,900
Net paid related to:		
Current year	956,700	1,123,100
Prior years	2,509,200	2,175,200
Total net paid	3,465,900	3,298,300
Gross unpaid as of December 31	5,508,200	6,286,200
Less: unpaid reinsurance recoverable	1,843,000	1,362,900
Net unpaid as of December 31	$ 3,665,200	$ 4,923,300

The 2019 and 2018 decreases in net incurred on insured events for prior years were due to the reduction of incurred-but-not-reported (IBNR) reserves based on actual experience and decreases on a small number of individual losses.

The Company's liability is categorized as either continuing (commercial property) or discontinued lines of business (asbestos, environmental and other mass tort-related claims, which applies to business that is in runoff).

In establishing the liability for continuing losses and LAE, there is uncertainty in management's estimates that may cause these estimates to differ from ultimate payments. In establishing the liability for unpaid losses and LAE related to discontinued lines of business, management considers facts currently known and the current state of the law and coverage litigation. Liabilities are recognized for known claims (including the cost of related litigation) when sufficient information has been developed to indicate the involvement of a specific insurance policy and management can reasonably estimate the Company's liability. Liabilities have also been established to cover additional exposures on reported and IBNR claims. Developed case law and adequate claims history typically does not exist for the discontinued lines of business, primarily because significant uncertainty exists about the outcomes of coverage litigation and whether past claims experience will be representative of future claims experience.

The Company is the subject of various asserted and unasserted claims and lawsuits covering a wide variety of claims-related issues that arise out of the normal course of its business activities. Contingent liabilities arising from litigation and other matters are not considered material in relation to the consolidated financial position or operations of the Company.

The following disclosures reflect only commercial property insurance from the Company's continuing book of business and excludes other short-duration lines of business that are considered immaterial and discontinued lines of business.

The Company's liability is segmented into three major categories: reserves for reported claims (estimates made by claims adjusters), IBNR representing reserves for unreported claims and supplemental reserves for reported claims, including LAE.

(in thousands)

Note 6. Unpaid Losses and Loss Adjustment Expenses *(continued)*

In addition to discussions with claims representatives, the Company generally uses the cumulative incurred development method to establish IBNR loss reserves. This method assumes that the future change (adverse or redundant) in cumulative incurred losses will be consistent with historical patterns.

LAE reserves represent management's estimate of future expenses for investigating and settling claims. The LAE reserve is based on a historical ratio of actual loss adjustment expenses paid in comparison to the actual loss payments.

There have been no significant changes to the methodology used to establish IBNR during 2019 or 2018.

Due to the short-tail nature of commercial property insurance, the disclosures below reflect the undiscounted information as of December 31, 2019 and for each of the four previous accident years.

All amounts have been translated from the local currency to U.S. dollars using the December 31, 2019 foreign exchange rates for all years presented to isolate changes in foreign exchange from loss development.

The Company compiles and aggregates its claims data by grouping claims according to the year in which the claim occurred (accident year). With respect to the cumulative number of reported claims, the amount represents the accumulation of individual claims which is measured by individual claimant. Individual claims that do not result in a liability are excluded from the calculation of the cumulative claim frequency.

	Incurred Losses and LAE, Net of Reinsurance, as of December 31,					As of December 31, 2019	
Accident Year	2015	2016	2017	2018	2019	IBNR	Cumulative Reported Claims
	Supplemental and Unaudited						
2015	$1,948,400	$1,647,200	$1,608,100	$1,620,200	$ 1,630,800	$ 1,300	8,621
2016		2,153,800	1,987,000	1,940,200	1,927,300	5,200	9,059
2017			4,004,600	3,944,700	3,861,500	28,300	11,307
2018				3,860,500	3,484,200	74,900	10,979
2019					2,524,600	179,600	8,067
Total					$ 13,428,400		

	Cumulative Paid Losses and LAE, Net of Reinsurance, as of December 31,				
Accident Year	2015	2016	2017	2018	2019
	Supplemental and Unaudited				
2015	$542,000	$1,302,700	$1,527,400	$1,577,100	$ 1,620,900
2016		708,700	1,543,000	1,841,900	1,896,300
2017			1,037,500	2,782,300	3,604,300
2018				1,084,200	2,655,700
2019					864,600
Total					$ 10,641,800
Unpaid Losses and LAE Prior to 2015, Net of Reinsurance					$ 24,000
Total Unpaid Losses and LAE, Net of Reinsurance					$ 2,810,600

(in thousands)

Note 6. Unpaid Losses and Loss Adjustment Expenses *(continued)*

The following disclosure presents the average annual payout of incurred claims by age, net of reinsurance, as of December 31, 2019:

	Average Annual Percentage of Payments on Incurred Claims by Age, Net of Reinsurance				
Years	1	2	3	4	5
	Supplemental and Unaudited				
	32.4%	45.1%	16.9%	2.9%	2.7%

The following is a reconciliation of the information in this disclosure to the consolidated gross liability for unpaid losses and LAE reported in the financial statements:

	As of December 31, 2019
Commercial property	$ 2,810,600
Other short-duration insurance lines of business	43,400
Unpaid losses and LAE, net of reinsurance	$ 2,854,000
Commercial property	$ 1,247,100
Reinsurance recoverable on unpaid losses and LAE	$ 1,247,100
Discontinued lines of business	$ 1,378,100
Foreign exchange	29,000
Other gross unpaid losses and LAE	$ 1,407,100
Total gross unpaid losses and LAE	$ 5,508,200

Note 7. Real Estate and Premises and Equipment

Real estate and premises and equipment at December 31, 2019 and 2018 are summarized as follows:

	2019	2018
Land and buildings	$ 1,491,300	$ 1,440,300
Furniture, fixtures, and equipment	602,600	499,400
Accumulated depreciation	(899,700)	(832,700)
Total	$ 1,194,200	$ 1,107,000

During 2019 and 2018, depreciation expense for real estate and premises and equipment was $85,000 and $75,000, respectively.

(in thousands)

Note 8. Leases

In connection with its various operating offices located throughout the world, the Company leases office space, automobiles, and equipment. These leases are classified as operating leases.

Future minimum lease payments at December 31, 2019, under operating leases with terms of one year or more are, in aggregate, $302,100. The future minimum lease payments for each of the five succeeding years from 2020 to 2024 are $44,900, $42,000, $38,500, $30,000, and $30,000, respectively.

During 2019 and 2018, rent expense for all operating leases was $57,200 and $54,200, respectively.

Note 9. Income Taxes

The Tax Cuts and Jobs Act was enacted on December 22, 2017. The Act reduced the U.S. federal corporate tax rate from 35 percent to 21 percent as of January 1, 2018, requiring companies to revalue their deferred tax balances, pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously not recognized by the Company, and created new taxes on certain foreign source earnings. A net tax expense amount of $6,200 and $6,900 has been recognized with respect to the Act, which is included as a component of the income tax expense on the Consolidated Statements of Income, for the years ended December 31, 2019 and 2018, respectively.

The Act subjects a U.S. shareholder to current tax on Global Intangible Low-Taxed Income (GILTI) earned by certain foreign subsidiaries. The effect of GILTI on income tax is immaterial and is reported in the tax effect of foreign operations.

The following is the current and deferred income tax expense for the years ended December 31, 2019 and 2018:

	2019	2018
Current income tax expense	$ 406,000	$ 76,000
Tax expense due to change in tax law	6,200	6,900
Deferred income tax expense / (benefit)	217,900	(55,000)
Total income tax expense	$ 630,100	$ 27,900

A reconciliation of income tax expense computed at U.S. Federal statutory tax rates to the income tax expense as included in the accompanying Consolidated Statements of Income follows for the years ended December 31, 2019 and 2018:

	2019	2018
Income tax expense at U.S. Federal statutory tax rate	$ 652,900	$ 39,800
Tax effect of:		
Nontaxable investment income	(19,100)	(20,100)
Tax expense due to change in tax law	6,200	6,900
Effect of foreign operations	(4,800)	15,100
Other	(5,100)	(13,800)
Actual income tax expense	$ 630,100	$ 27,900

(in thousands)

Note 9. Income Taxes *(continued)*

The significant components of the net deferred tax liability at December 31, 2019 and 2018 are as follows:

	2019	2018
Deferred tax liabilities:		
Deferred acquisition costs	$ (12,700)	$ (14,300)
Unrealized appreciation	(838,400)	(597,200)
Deferred tax on foreign income	(4,200)	(50,100)
Other	(63,200)	(34,700)
Total deferred tax liabilities	(918,500)	(696,300)
Deferred tax assets:		
Unpaid claims discounting	14,000	20,100
Unearned premium reserve	89,200	78,400
Compensation accruals	61,100	48,100
Benefit plan expenses	21,900	25,300
Unrealized investment losses	27,400	57,800
Tax credits	25,800	14,800
Deferred foreign losses	41,900	95,100
Unrelieved foreign tax	43,400	43,700
Other	39,500	42,600
Total deferred tax assets	364,200	425,900
Valuation allowance	(90,700)	(84,100)
Net deferred tax assets	273,500	341,800
Net deferred tax liability	$ (645,000)	$ (354,500)

At December 31, 2019 and 2018, the Company established a valuation allowance for its foreign subsidiary's unrelieved foreign tax, foreign net operating losses and discretionary reserves in jurisdictions with insufficient evidence of future income. The amounts at December 31, 2018 included an additional valuation allowance for the recognition of future expenses of a benefit plan.

Income tax paid during 2019 and 2018 was $311,600 and $241,000, respectively. In addition, the Company received income tax refunds of $20,200 during 2019 and $436,000 in 2018.

Note 9. Income Taxes *(continued)*

The calculation of the Company's tax liability involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across its global operations. A tax benefit is recognized when it is more likely than not that the position will be sustained on examination, on the basis of technical merits. The Company records unrecognized tax benefits as liabilities in accordance with *ASC 740* and adjusts these liabilities when its judgement changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from the Company's current estimate of the unrecognized tax benefit. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

The Company's unrecognized tax benefits are immaterial and it does not expect any material changes within 12 months of the reporting date.

Included in other assets on the Consolidated Balance Sheets are current income taxes recoverable of $154,500 and $183,900 at December 31, 2019 and 2018, respectively.

Note 10. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions

The Company sponsors certain noncontributory retirement income plans. For the vast majority of employees, the benefits are generally based on years of service and the average of the highest consecutive 60 months of the employee's compensation within the 120 months prior to retirement. The Company's funding policy is to maintain a sufficiently funded level to ensure benefit security and to vary contribution levels as appropriate to business conditions. The Company also has supplemental retirement plans that are noncontributory defined benefit plans covering certain employees.

The Company provides health care and life insurance benefits for certain retired employees and their dependents. Employees hired on or after January 1, 2000, and employees that were active employees on January 1, 2000 and had not reached the age of 30 as of January 1, 2000 are not eligible for retiree medical benefits. Eligibility of other employees hired prior to January 1, 2000 and retiring subsequent to that date depends on whether they meet certain age and service requirements at retirement. The plan is generally contributory, with retiree contributions adjusted annually. Certain retirees transitioned to the individual Medicare market effective January 1, 2014 and January 1, 2019. Certain other retirees will transition on January 1, 2020. Retirees and dependents enrolled in the individual Medicare market participate in a Retiree Health Reimbursement Account.

(in thousands)

Note 10. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions *(continued)*

Obligations and funded status are as follows:

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Benefit obligations	$ 3,281,400	$ 2,886,200	$ 187,300	$ 169,200
Fair value of plan assets	3,154,700	2,761,500	154,500	133,500
Funded status, end of year	$ (126,700)	$ (124,700)	$ (32,800)	$ (35,700)

The accumulated benefit obligations for the pension and supplemental benefit plans were $2,791,700 and $2,457,600, at December 31, 2019 and 2018, respectively.

The net amounts recognized in other assets and other liabilities are as follows:

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Asset	$ 208,500	$ 157,200	$ 10,300	$ –
Liability	(335,200)	(281,900)	(43,100)	(35,700)
Total	$ (126,700)	$ (124,700)	$ (32,800)	$ (35,700)

Pretax amounts included in accumulated other comprehensive income are as follows:

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Net actuarial loss	$ 776,600	$ 774,900	$ 39,400	$ 44,300
Prior service cost / (credit)	6,600	7,300	(13,900)	(17,300)
Net transition asset	(100)	(200)	–	–
Total	$ 783,100	$ 782,000	$ 25,500	$ 27,000

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for pension and supplemental benefit plans with an accumulated benefit obligation in excess of plan assets are as follows:

	Dec. 31, 2019	Dec. 31, 2018
Projected benefit obligation, end of year	$ 385,300	$ 267,500
Accumulated benefit obligation, end of year	316,400	218,300
Fair value of plan assets, end of year	53,300	–

The projected benefit obligation and fair value of plan assets for pension and supplemental benefit plans with a projected benefit obligation in excess of plan assets are as follows:

	Dec. 31, 2019	Dec. 31, 2018
Projected benefit obligation, end of year	$ 734,400	$ 629,600
Fair value of plan assets, end of year	399,300	347,700

(in thousands)

Note 10. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions *(continued)*

Other changes in plan assets and benefit obligations recognized in the Consolidated Statements of Comprehensive Income are as follows:

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Current year actuarial loss / (gain)	$ 28,300	$ 13,300	$ (1,400)	$ (2,300)
Amortization of actuarial loss	(26,600)	(44,900)	(3,500)	(3,300)
Prior service credit	–	–	–	(19,900)
Amortization of prior service cost	(700)	(900)	3,400	(1,700)
Amortization of net transition asset	100	100	–	–
Total recognized in other comprehensive loss / (income)	1,100	(32,400)	(1,500)	(27,200)
Net periodic benefit cost	36,900	61,600	(100)	4,200
Total recognized in net periodic benefit cost and other comprehensive loss / (income)	$ 38,000	$ 29,200	$ (1,600)	$ (23,000)

The net periodic benefit cost consists of service costs and other periodic benefit costs, which include interest expense, expected return on assets, and amortization of gains and losses. The other periodic benefit components represent a benefit of $43,500 and $28,900 in 2019 and 2018, respectively, and are included as part of total losses, loss adjustment and other expenses on the accompanying Consolidated Statements of Income.

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2020 are as follows:

	Pension and Supplemental Benefits	Other Benefits
Actuarial loss	$ 47,500	$ 900
Prior service cost / (credit)	600	(3,400)
Net transition asset	(100)	–
Total	$ 48,000	$ (2,500)

Assumptions

Weighted-average assumptions used to determine benefit obligations are as follows:

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Discount rate	3.21%	4.08%	3.10%	4.06%
Rate of compensation increase	4.27%	4.52%	4.15%	4.36%

Assumed health care cost trend rates:

	Other Benefits	
	Dec. 31, 2019	Dec. 31, 2018
Initial rate	6.80%	6.81%
Ultimate rate	4.96%	5.00%
Years to ultimate	4 years	5 years

(in thousands)

Note 10. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions *(continued)*

Weighted-average assumptions used to determine net periodic benefit cost are as follows:

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2019	Dec. 31, 2018	Dec. 31, 2019	Dec. 31, 2018
Discount rate	4.08%	3.46%	4.06%	3.50%
Expected long-term return on plan assets	6.75%	6.72%	6.50%	6.50%
Rate of compensation increase	4.52%	4.52%	4.36%	4.39%

Assumed health care cost trend rates:

	Other Benefits	
	Dec. 31, 2019	Dec. 31, 2018
Initial rate	6.81%	6.89%
Ultimate rate	5.00%	5.00%
Years to ultimate	5 years	6 years

Pension and Supplemental Benefit Plan Assets

The Company's pension and supplemental benefit plan asset allocation and target allocation are as follows:

	Target Allocation	Percentage of Plan Assets	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2018
Asset Class			
Equity securities	56%	74%	59%
Debt securities	32	21	31
Cash equivalents	2	3	6
Other	10	2	4
Total	100%	100%	100%

Target allocations were adjusted in late 2019. Transition to the new allocations is expected to occur during 2020.

The maturities of debt securities are as follows:

	Dec. 31, 2019	Dec. 31, 2018
Maturity range	0 – 52 years	0 – 40 years
Weighted-average maturity	17.62 years	16.73 years

(in thousands)

Note 10. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions *(continued)*

The fair value measurements of pension and supplemental benefit plan assets at December 31, 2019, are as follows (refer to Note 3 for the valuation techniques):

Asset Class	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Equity securities (a):			
Consumer discretionary	$ 202,100	$ 202,100	$ –
Consumer staples	86,700	86,700	–
Energy	68,000	68,000	–
Financials	227,200	227,200	–
Health care	166,400	166,400	–
Industrials	123,800	123,800	–
Information technology	237,400	237,400	–
Mutual funds	1,123,100	882,800	240,300
All other sectors	112,000	112,000	–
Total equity securities	2,346,700	2,106,400	240,300
Debt securities (b):			
U.S. Treasury securities and obligations of U.S. government agencies	189,000	–	189,000
Mortgage and asset-backed securities			
Agency	59,900	–	59,900
Other mortgage and asset-backed securities	10,100	–	10,100
U.S. corporate securities	266,000	–	266,000
Mutual funds	138,900	–	138,900
Total debt securities	663,900	–	663,900
Cash equivalents	93,100	93,100	–
Total	$ 3,103,700	$ 2,199,500	$ 904,200

(a) Includes common stocks and equity mutual funds of which $65,600 were on loan under a securities lending program as of December 31, 2019.

(b) Includes $49,400 of debt securities that were on loan under a securities lending program as of December 31, 2019.

The total collateralized value of these loaned securities for both items (a) and (b) was $117,700 and consisted of $85,100 in Level 1 short-term and money market investments and $32,600 in Level 2 government agency debt securities.

Pension assets as of December 31, 2019 include $51,000 of private equity partnerships and hedge funds measured at fair value using net asset value (NAV).

(in thousands)

Note 10. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions *(continued)*

The fair value measurements of pension and supplemental benefit plan assets at December 31, 2018, are as follows (refer to Note 3 for the valuation techniques):

Asset Class	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Equity securities (a):			
Consumer discretionary	$ 187,600	$ 187,600	$ –
Consumer staples	84,300	84,300	–
Energy	71,900	71,900	–
Financials	215,300	215,300	–
Health care	155,900	155,900	–
Industrials	104,600	104,600	–
Information technology	217,900	217,900	–
Mutual funds	495,300	290,000	205,300
All other sectors	86,500	86,500	–
Total equity securities	1,619,300	1,414,000	205,300
Debt securities (b):			
U.S. Treasury securities and obligations of U.S. government agencies	358,800	–	358,800
Mortgage and asset-backed securities			
Agency	72,700	–	72,700
Other mortgage and asset-backed securities	18,000	–	18,000
U.S. corporate securities	282,700	–	282,700
Mutual funds	126,400	–	126,400
Total debt securities	858,600	–	858,600
Cash equivalents	160,200	160,200	–
Total	$ 2,638,100	$ 1,574,200	$ 1,063,900

(a) Includes common stocks and equity mutual funds of which $125,500 were on loan under a securities lending program as of December 31, 2018.

(b) Includes $132,600 of debt securities that were on loan under a securities lending program as of December 31, 2018.

The total collateralized value of these loaned securities for both items (a) and (b) was $263,500 and consisted of $150,400 in Level 1 short-term and money market investments and $113,100 in Level 2 government agency debt securities.

Pension assets as of December 31, 2018 include $123,400 of private equity partnerships, hedge funds and a real estate partnership measured at fair value using net asset value (NAV).

(in thousands)

Note 10. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions *(continued)*

Other Postretirement Benefit Plan Assets

The Company's other postretirement benefit plan asset allocation and target allocations are as follows:

Asset Class	Target Allocation Dec. 31, 2020	Percentage of Plan Assets Dec. 31, 2019	Dec. 31, 2018
Equity securities	90%	96%	87%
Cash equivalents	10	4	13
Total	100%	100%	100%

The fair value measurements of other postretirement benefit plan assets at December 31, 2019 and 2018, consisting of all Level 1 assets, are as follows (refer to Note 3 for the valuation techniques):

Asset Class	Dec. 31, 2019	Dec. 31, 2018
Equity securities:		
Consumer discretionary	$ 24,000	$ 19,200
Consumer staples	10,700	9,300
Energy	8,400	7,000
Financials	14,700	13,200
Health care	20,800	17,000
Industrials	11,200	9,200
Information technology	30,400	22,700
Mutual funds	16,100	11,400
All other sectors	11,200	7,400
Total equity securities	147,500	116,400
Cash equivalents	7,000	17,100
Total	$ 154,500	$ 133,500

Note 10. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions *(continued)*

Pension and Postretirement Plans Asset Investment Narrative

The investment policy of the pension and postretirement plans specify the types of securities that may be used, the limits on the amount of the asset classes and subclasses, and the general principles used in managing the plans' assets. The overriding objective is to optimize plan surplus and long-term total return of plan assets within constraints established to control risk and volatility. The asset allocation is segregated within three primary asset classes representing the first layer of asset allocation. The broad categories are equities, fixed income, and cash and cash equivalents. The broad equities allocation also includes limits within domestic small cap and international equities categories, and lower thresholds for private equity and real estate. The current approved ranges for the three asset classes in the U.S. pension fund, which is also the largest of the retirement plans, are as follows:

Asset Class	Range
Equities	50 – 80%
Fixed income	10 – 50%
Cash and cash equivalents	0 – 15%

The portfolio construction is based on prudent investment principles including diversification of securities and ongoing analysis of the fundamental and valuation factors underlying the securities owned, and external funds managed.

The equities allocation includes individual common stocks, equity mutual funds and a small allocation to private equity partnerships as well. All equity investments are based on fundamental analysis of investment variables, including earning prospects, cash flow, balance sheet strength, competitive positioning and other factors. Diversification is emphasized with specific size limits on individual stocks, international-oriented mutual funds, small capitalization-oriented funds and private equity investments. Investment returns are benchmarked against standard indices including S&P 500 and MSCI global stock indices.

The fixed income allocation consists of debt securities, including individual securities, primarily in the high-grade taxable subcategory, debt mutual funds, as well as an outside managed portfolio of U.S. high-yield bonds. Debt securities are actively managed, using best practice investment disciplines and provide a lower risk, high quality complement to the total pension investment portfolio.

The cash and cash equivalent category includes short-term investments, defined as debt securities with a maturity of less than one year, and are held primarily for liquidity purposes and secondarily to reduce duration of fixed income securities when warranted by interest rate levels. Capital preservation is the primary consideration of investment in this asset class; therefore, only the highest quality investments are used. This is principally money market funds and commercial paper carrying the highest quality ratings.

(in thousands)

Note 10. Retirement Income Plans and Postretirement Benefit Plans Other than Pensions *(continued)*

Expected rate of return assumptions are created based on assessments of long-term behavior of asset classes. As part of the process, historical relationships are considered. Using a three- to five-year outlook, estimates of numerous variables are combined to gauge economic growth potential. Corporate cash flows are correlated with economic growth but also reflect productivity and profit margin trends, with positive cash flow trends driving favorable return to equity owners. Fixed income returns are expected to produce lower returns with a lower level of volatility compared to equities.

Cash Flows

Employer Contributions	Pension and Supplemental Benefits	Other Benefits
2018	$ 6,000	$ –
2019	8,900	–
2020 (expected)	17,200	–

Contributions by participants to the other benefit plans were $1,600 and $1,400 for the years ended December 31, 2019 and 2018, respectively.

Benefit Payments	Pension and Supplemental Benefits	Other Benefits	Other Benefits (Government Subsidy)
2018	$ 105,500	$ 12,800	$ 900
2019	178,100	12,200	800

During 2019, the Company completed a voluntary lump sum window program for certain terminated vested participants in the pension plan. Lump sum payments made in connection with this program totaled $73,100 and resulted in a release of $83,400 of projected benefit obligations. The $10,300 accounting gain will be amortized and recognized in the Consolidated Income Statement over fourteen years beginning in 2020.

Estimated Future Payments	Pension and Supplemental Benefits	Other Benefits	Other Benefits (Government Subsidy)
2020	$ 105,600	$ 12,300	$ 500
2021	110,800	12,200	400
2022	114,100	11,800	400
2023	118,900	11,400	400
2024	123,100	11,000	300
2025 – 2029	706,400	50,500	1,300

The Company also sponsors a 401(k) savings plan whereby eligible employees may elect annually to contribute from 1 percent to 50 percent of their base pay on a pretax or after-tax basis. Employee contributions are restricted to Internal Revenue Service limits. The Company matches pretax and after-tax contributions up to 6 percent of the employee's base pay. Company contributions to the plan were $22,500 in 2019 and $22,100 in 2018.

(in thousands)

Note 11. Components of Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income by component, net of income tax, for the year ended December 31, 2019 are as follows:

	Unrealized Appreciation on Investments in Debt Securities	Benefit Plan Assets and Liabilities	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income/(Loss)
Balance at January 1, 2019	$ 2,357,200	$ (639,800)	$ (382,100)	$ 1,335,300
Other comprehensive income / (loss) before reclassifications	216,700	(22,300)	83,900	278,300
Amount reclassified from accumulated other comprehensive (loss) / income	(23,400)	21,600	–	(1,800)
Net current period other comprehensive income / (loss)	193,300	(700)	83,900	276,500
Adoption of ASU 2016-01	(2,365,600)	–	–	(2,365,600)
Balance at December 31, 2019	$ 184,900	$ (640,500)	$ (298,200)	$ (753,800)

The following are reclassifications out of accumulated other comprehensive income to net income for the year ended December 31, 2019:

Unrealized appreciation of investments in debt securities:		
Net realized investment gains	$ 29,700	
Other than temporary impairment losses	–	
Total before tax	29,700	
Income tax expense	(6,300)	
Net of tax	$ 23,400	
Amortization of benefit plan amounts:		
Actuarial losses	$ (30,100)	(a)
Prior service cost	2,700	(a)
Net transition asset	100	(a)
Total before tax	(27,300)	
Income tax benefit	5,700	
Net of tax	$ (21,600)	

(a) These accumulated other comprehensive income components are included in the computation of net periodic cost (see Note 10).

(in thousands)

Note 11. Components of Accumulated Other Comprehensive Income *(continued)*

The changes in accumulated other comprehensive income by component, net of income tax, for the year ended December 31, 2018 are as follows:

	Unrealized Appreciation on Investments in Debt and Equity Securities	Benefit Plan Assets and Liabilities	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income
Balance at January 1, 2018	$ 3,014,400	$ (578,200)	$ (249,100)	$ 2,187,100
Other comprehensive (loss) / income before reclassifications	(568,000)	6,800	(134,600)	(695,800)
Amount reclassified from accumulated other comprehensive (loss) / income	(707,300)	40,100	–	(667,200)
Net current period other comprehensive (loss) / income	(1,275,300)	46,900	(134,600)	(1,363,000)
Reclassification adjustment for stranded tax items	618,100	(108,500)	1,600	511,200
Balance at December 31, 2018	$ 2,357,200	$ (639,800)	$ (382,100)	$ 1,335,300

The following are reclassifications out of accumulated other comprehensive income to net income for the year ended December 31, 2018:

Unrealized appreciation of investment in debt and equity securities:		
Net realized investment gains	$ 1,032,900	
Other than temporary impairment losses	(137,900)	
Total before tax	895,000	
Income tax expense	(187,700)	
Net of tax	$ 707,300	
Amortization of benefit plan amounts:		
Actuarial losses	$ (48,200)	(a)
Prior service cost	(2,600)	(a)
Net transition asset	100	(a)
Total before tax	(50,700)	
Income tax benefit	10,600	
Net of tax	$ (40,100)	

(a) These accumulated other comprehensive income components are included in the computation of net periodic cost (see Note 10).

Note 12. Subsequent Events

Subsequent events were evaluated through February 25, 2020, the date the Consolidated Financial Statements were available to be issued. No material transactions occurred after the balance sheet date that would impact the Consolidated Financial Statements.

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