2022 was a year marked with significant uncertainty and volatility in the financial markets, as geopolitical developments, soaring inflation, and a steady series of federal funds rate hikes led to unprecedented detraction in parallel across equities and fixed income markets. Market sentiment shifted repeatedly from positive to negative throughout the year as economic data points were absorbed and investors attempted to gauge the Federal Reserve's response to evolving inflation, growth, and employment trends. Rapidly rising interest rates, increasing recession fears and stubborn inflation all contributed to the markets' and asset values decline, driving significant multiple contraction. Both equities and fixed income ended the year with meaningfully negative returns, a highly unusual outcome not seen in more than fifty years. S&P 500 experienced its worst calendar year return since 2008, and U.S. Treasury bonds delivered their worst return on record going back to the 1920s.

In the face of these external challenges, FM Global's investments portfolio demonstrated relative resilience.
FM Global's investment strategy is set on long term portfolio construction, based on strategic allocations providing optimal diversification, and diligent focus on downside risk management. The long-term portfolio construction framework as updated in 2019, includes investments in public markets, and private and liquid alternatives. Asset allocation adjustments, relative outperformance from internally managed U.S. equity large cap strategy and resilient absolute return and private alternatives performance helped dampen the downside impact from global markets. While the equity and fixed income correlations reversed in 2022, reducing the diversification effect, the alternatives allocation in private markets and liquid strategies contributed positively to diversification. The liquid alternatives allocations provided the necessary and as expected risk management with strong positive absolute returns, dampening the downside impact from the public equities and fixed income markets.

Dedicated focus on optimal risk management was essential and contributed positively on a relative basis. The alternatives allocation served as a critical source of diversification relative to public markets holdings and helped to buffer the impact of concurrent stock and bond drawdowns with more stable return outcomes. While overall investment return was negative, given the broad markets performance, FM Global's investment strategy resulted in appreciably better surplus protection compared to a traditional diversified portfolio comprising stocks and bonds alone could have produced.

Financial markets experienced marked turbulence over the year, as both equity and fixed income assets struggled under the weight of stubborn inflation and aggressive monetary policy tightening. Equity and fixed income markets began their decline early in the year, as the after-effects of COVID-related monetary and fiscal accommodations and persistent inflation carried over from 2021, stirring apprehension that the Federal Reserve would soon begin hiking interest rates. Russia's invasion of Ukraine in February heightened geopolitical risks, sending energy prices soaring, feeding volatility and casting uncertainty on prospects for global growth. Many of the high-growth stocks of 2021 came under increased selling pressure as market participants began to factor in the impact of potentially higher rates and slower growth on the valuation of long-duration growth companies.

The Federal Reserve's decision to hike rates in March was the first in a series of increasingly aggressive rate hikes that dominated financial markets throughout the year. As the year progressed, markets oscillated between optimism that inflation might subside enough to allow the Fed to slow its pace of tightening, and pessimism in response to Fed affirmations of its commitment to beat inflation, even at the expense of an economic contraction. Hopes of a soft landing gained some footing mid-year, but stocks declined further, and yields rose sharply in August with the realization that the hiking cycle was far from over. The U.S. dollar reached a 20-year high in September, and the S&P 500 index hit its low for the year in October. Towards the end of the year, the Fed finally began to suggest that the pace of rate hikes could shift lower, yet continued to stress its resolve to bring inflation down to 2%.

Equities allocation transitioned cautiously in the first half to an underweight position, as expectations for growth began to deteriorate. We maintained our quality bias in core fixed income, but overall fixed income was held at an underweight position throughout the year given the rising rate and inflation environment and our view of a limited opportunity set in core fixed income. Private high grade and opportunistic credit originations, benefiting from higher yields, healthy bottom-up fundamentals and for certain part of the portfolio, shorter duration, were prudently scaled up. The alternatives portfolio was distinctly additive to overall portfolio results. The private markets allocation produced positive returns throughout 2022 despite severe public markets headwinds. The absolute return portfolio also benefited from careful portfolio construction and employing high conviction managers that were able to capitalize on market volatility, delivering results that surpassed traditional public markets and the broad hedge fund universe as well. The multi-assets bucket includes global asset allocation strategies, broad markets exposure including through sector exchange traded funds, and a liquidity sleeve through short duration high quality fixed income strategies. Money market yields moved sharply higher through the year, restoring cash as a viable investment option and leading to a modestly higher cash position.

The investment portfolio ended the year with an underweight to fixed income and slight underweight to equities, balanced by an overweight in alternatives. While the transition to a slower pace of hiking has provided some relief, uncertainty remains around the duration of sustained higher rates and the ability of companies to manage through challenging financial and economic conditions in the coming year.

At the total portfolio level, we remain vigilant to changing market conditions, with continuous focus on investing optimally to support long-term surplus growth while managing risk and liquidity needs. Our portfolio remains well-positioned with diversified exposures and strategic and tactical positioning to capitalize on opportunities and lessen any potential downside market impacts. With this approach, FM Global Investments continues to play a key role in preserving and growing FM Global's financial position and leadership in the property insurance business.

## Real Estate

Hobbs Brook Real Estate ("HBRE") invests in and manages real estate assets on behalf of FM Global Investment Management throughout the United States. Additionally, HBRE's Construction Management Department provides functional support to FM Global's business operations globally to meet ongoing real estate requirements. The investment and management of commercial assets provides an additional element of diversification for FM Global's investment portfolio. The acquisition, construction, development and areas asset management departments of HBRE work to optimize returns and align the real estate investment portfolio with FM Global standards in risk mitigation. In 2022, HBRE managed 4.7 million $ft^2$ (437,000 $m^2$) of commercial properties, which produced $167.1 million† in total revenue and $71.9 million† in cash flow. In May 2022 HBRE onboarded new leadership with the hiring of a new President & CEO, who is working closely with FM Global Investment leadership to develop optimal asset-level and portfolio strategies.

| Pretax Contribution to Surplus (in millions) † | 2022 | 2021 |
|---|---|---|
| Investment income | $ 446 | $ 358 |
| Realized gains | 508 | 1,576 |
| Unrealized (losses) / gains | (3,374) | 396 |
| Total | $ (2,420) | $ 2,330 |

| As of Dec. 31, Holdings (in millions) † | 2022 Total | 2022 Percentage | 2021 Total | 2021 Percentage |
|---|---|---|---|---|
| Equities: | | | | |
| Equity securities | $ 9,771 | | $ 10,894 | |
| Other – equity funds | 146 | | 487 | |
| Total equities | $ 9,917 | 44.1% | $ 11,381 | 46.7% |
| Debt securities: | | | | |
| Taxable debt securities | $ 6,864 | | $ 7,483 | |
| Municipal debt securities | 1,386 | | 1,665 | |
| Total debt securities | $ 8,250 | 36.7% | $ 9,148 | 37.5% |
| Other – alternative investments: | | | | |
| Private equity | $ 1,211 | | $ 1 ,027 | |
| Hedge funds | 845 | | 879 | |
| Other alternative investments | 125 | | 104 | |
| Total other – alternative investments | $ 2,181 | 9.7% | $ 2,010 | 8.2% |
| Short-term funds and cash | 2,132 | 9.5% | 1,840 | 7.6% |
| Total | $ 22,480 | 100.0% | $ 24,379 | 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, 2022 and December 31, 2021.

Malcolm C. Roberts

**Malcolm C. Roberts**
President and Chief Executive Officer

K. S. Ingram

**Kevin S. Ingram**
Senior Executive Vice President
and Chief Financial Officer

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

We have audited the consolidated financial statements of Factory Mutual Insurance Company and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, 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 (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### 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 2022 presented in Note 6 be presented to supplement the financial statements. Such information is the responsibility of management and, 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 of America, 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 27, 2023

Ernst & Young LLP

## CONSOLIDATED BALANCE SHEETS
(in thousands)

| Dec. 31, | 2022 | 2021 |
|---|---|---|
| Assets | | |
| Investments: | | |
| Debt securities | $ 8,250,500 | $ 9,147,800 |
| Equity securities | 9,770,700 | 10,893,700 |
| Other securities | 2,326,800 | 2,497,000 |
| Real estate | 1,067,100 | 982,400 |
| Total investments | 21,415,100 | 23,520,900 |
| Cash and cash equivalents | 2,132,000 | 1,839,900 |
| Recoverable from reinsurers | 2,902,200 | 3,077,400 |
| Premium receivable | 1,557,500 | 1,406,100 |
| Prepaid reinsurance premium | 386,000 | 362,900 |
| Premises and equipment | 643,700 | 535,500 |
| Other assets | 1,697,200 | 1,417,800 |
| Total assets | $ 30,733,700 | $ 32,160,500 |
| Liabilities | | |
| Unpaid losses and loss adjustment expenses | $ 6,500,800 | $ 7,064,200 |
| Reserve for unearned premium | 3,942,900 | 3,762,100 |
| Current and deferred income taxes | 239,300 | 632,200 |
| Other liabilities | 1,572,400 | 1,332,900 |
| Total liabilities | 12,255,400 | 12,791,400 |
| Policyholders' Surplus | | |
| Accumulated other comprehensive loss | (1,145,400) | (541,700) |
| Retained earnings | 19,623,700 | 19,910,800 |
| Total policyholders' surplus | 18,478,300 | 19,369,100 |
| Total liabilities and policyholders' surplus | $ 30,733,700 | $ 32,160,500 |

See accompanying notes.

(in thousands)

| Year ended Dec. 31, | 2022 | 2021 |
|---|---|---|
| Gross premium earned | $ 7,941,400 | $ 7,601,000 |
| Ceded premium earned | (2,168,600) | (2,096,700) |
| Net premium earned | 5,772,800 | 5,504,300 |
| Investment-related income | 603,000 | 482,000 |
| Fee-related income | 78,900 | 78,800 |
| Total revenue | 6,454,700 | 6,065,100 |
| Net losses and loss adjustment expenses | 2,877,600 | 3,111,100 |
| Insurance-related expenses | 1,511,500 | 1,411,900 |
| Investment-related expenses | 364,800 | 203,500 |
| Fee-related expenses | 65,600 | 65,500 |
| Total losses, loss adjustment and other expenses | 4,819,500 | 4,792,000 |
| Income from operations | 1,635,200 | 1,273,100 |
| Net realized investment gains | 507,800 | 1,576,400 |
| Net unrealized investment (losses) / gains on equity securities | (2,570,200) | 633,100 |
| (Loss) / income before income taxes | (427,200) | 3,482,600 |
| Income tax (benefit) / expense | (131,500) | 640,200 |
| Net (loss) / income | $ (295,700) | $ 2,842,400 |

See accompanying notes.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

| Year ended Dec. 31, | 2022 | 2021 |
|---|---|---|
| Net (loss) / income | $ (295,700) | $ 2,842,400 |
| Other comprehensive income: | | |
| Change in net unrealized appreciation on investments in debt securities (available for sale), net of income tax benefit of $171,800 in 2022 and $49,300 in 2021 | (631,500) | (188,300) |
| Change in benefit plan assets and liabilities, net of income tax expense of $69,000 in 2022 and $78,400 in 2021 | 242,300 | 296,700 |
| Foreign currency translation adjustment, net of income tax benefit of $19,800 in 2022 and $3,100 in 2021 | (214,500) | (76,000) |
| Other comprehensive (loss) / income | (603,700) | 32,400 |
| Comprehensive (loss) / income | $ (899,400) | $ 2,874,800 |

## CONSOLIDATED STATEMENTS OF CHANGES IN POLICYHOLDERS' SURPLUS
(in thousands)

| Year ended Dec. 31, | 2022 | 2021 |
|---|---|---|
| Retained earnings at beginning of year | $ 19,910,800 | $ 17,068,400 |
| Adoption of new accounting pronouncements | 8,600 | – |
| Net (loss) / income | (295,700) | 2,842,400 |
| Retained earnings at end of year | 19,623,700 | 19,910,800 |
| Accumulated other comprehensive loss at beginning of year | (541,700) | (574,100) |
| Other comprehensive (loss) / income | (603,700) | 32,400 |
| Accumulated other comprehensive loss at end of year | (1,145,400) | (541,700) |
| Policyholders' surplus at end of year | $ 18,478,300 | $ 19,369,100 |

See accompanying notes.

(in thousands)

| Year ended Dec. 31, | 2022 | 2021 |
|---|---|---|
| **Operating activities** | | |
| Net (loss) / income | $ (295,700) | $ 2,842,400 |
| Adjustments to reconcile net (loss) / income to net cash provided by operating activities: | | |
| Depreciation | 109,600 | 104,800 |
| Increase in premium receivable | (151,400) | (67,600) |
| (Decrease) / increase in gross unpaid losses and loss adjustment expenses | (563,400) | 1,359,200 |
| Increase in gross reserves for unearned premium | 180,800 | 325,400 |
| Decrease / (increase) in recoverable from reinsurers | 175,200 | (596,000) |
| Decrease in current and deferred income taxes | (481,900) | (290,200) |
| Net realized investment gains | (507,800) | (1,576,400) |
| Net unrealized investment losses / (gains) on equity securities | 2,570,200 | (633,100) |
| (Increase) / decrease in prepaid reinsurance premium | (23,100) | 8,100 |
| Other | 375,000 | (5,600) |
| Net cash provided by operating activities | 1,387,500 | 1,471,000 |
| **Investing activities** | | |
| Net sales of short-term investments | 10,100 | 6,600 |
| Purchases of debt, equity and other securities | (12,897,300) | (11,809,600) |
| Sales and maturities of debt, equity and other securities | 11,973,400 | 10,678,000 |
| Capital expenditures | (158,300) | (243,500) |
| Other | (23,300) | 30,200 |
| Net cash used by investing activities | (1,095,400) | (1,338,300) |
| Increase in cash and cash equivalents | 292,100 | 132,700 |
| Cash and cash equivalents at beginning of year | 1,839,900 | 1,707,200 |
| Cash and cash equivalents at end of year | $ 2,132,000 | $ 1,839,900 |

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, Department of Business Regulation, Insurance Division. On the basis of statutory accounting practices, consolidated policyholders' surplus was $17,560,400 and $17,858,300 at December 31, 2022 and 2021, respectively; net income for the respective years then ended was $1,337,900 and $1,542,200.

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 2021 consolidated financial statements have been reclassified to conform to the 2022 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 an insignificant risk of changes in value due to changing interest rates. Cash equivalents include money market funds and debt securities purchased with maturities of three months or less at acquisition, and are carried at fair value.

### Investments

Equity securities are carried at fair value, with the unrealized appreciation or depreciation reported on the Consolidated Statements of Income.

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 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 of partnerships, hedge funds, equity funds and other 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.

## **Note 1.** Significant Accounting Policies *(continued)*

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.

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 on the Company's Consolidated Balance Sheets and the unfunded commitments related to partnerships and private equity investments. The Company has unfunded commitments of $664,700 and $875,500 as of December 31, 2022 and 2021, 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 on 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 – 2018 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 on the Consolidated Balance Sheets.

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.

### 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 owned and occupied land and buildings, furniture, fixtures and equipment are 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 the 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.

## **Note 1.** Significant Accounting Policies *(continued)*

### 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, 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 healthcare 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 healthcare and life insurance benefits are expensed on an accrual basis.

### 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.

### Derivatives

The Company began to use derivatives during 2022 with the intent to manage certain economic risks inherent to the investment portfolios. There were no material transactions that occurred during the year ended December 31, 2022. The Company expects to utilize derivatives to mitigate investment related risks. These risks include market risk and interest rate risk. The Company has not designated any derivative contracts as accounting hedges under *Derivatives and Hedging (ASC 815)*, but instead the derivatives are classified as economic hedges. The positions are marked to fair value at the end of each reporting period and the related gain or loss is included in investment-related income on the Consolidated Statements of Income. The fair value of derivative assets and derivative liabilities are reported as other assets or other liabilities on the Consolidated Balance Sheets.

### Leases

Under *Leases (ASC 842)*, the Company determines if an arrangement is or contains a lease at inception. For variable payment leases or leases with a term of 12 months or less, the Company does not recognize a right-of-use asset or lease liability. The Company's operating and finance leases are recognized on the Consolidated Balance Sheets as premises and equipment, and other liabilities.

## **Note 1.** Significant Accounting Policies *(continued)*

Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating and finance lease right-of-use assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Many of the Company's lease agreements contain renewal options; however, the Company does not recognize right-of-use assets or lease liabilities for renewal periods unless it is determined that the Company is reasonably certain of renewing the lease at inception or when a triggering event occurs. Certain lease agreements contain rent escalation clauses, abatements, capital improvement funding or other lease concessions.

In determining its right-of-use assets and lease liabilities, the Company applies a discount rate to the minimum lease payments within each lease agreement. ASC 842 allows the Company to utilize a discount rate framework based on the risk-free rate. The risk-free rate is the respective sovereign/treasury rate for the specified maturity term of the lease. The Company uses the retrospective government bond rates as the risk-free rate for the specified maturity term of the lease and adds a corporate credit spread to arrive at the discount rate. The corporate credit spread is determined by taking into consideration the comparable credit spread, the maturity term of the lease and the risk factors inherent to the specific geographic location. For the measurement and classification of its lease agreements, the Company groups lease and non-lease components into a single lease component for all underlying asset classes. Variable lease payments include payments for non-lease components of maintenance costs.

### Recent Accounting Pronouncements Adopted

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 adopted this standard as of January 1, 2021. The adoption did not have an effect on the Company's consolidated financial statements and the related disclosures have been modified accordingly.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.* ASU 2018-15 aligns the accounting for implementation costs incurred in a software hosting arrangement (i.e., a cloud computing arrangement) that is a service contract with the guidance for capitalizing implementation costs incurred to develop or obtain internal-use software. Accordingly, the updated guidance requires an entity to determine whether these costs should be expensed as incurred or capitalized. The updated guidance also requires the entity to amortize the capitalized implementation costs as an expense over the term of the hosting arrangement. The update is effective for annual reporting periods beginning after December 15, 2020. The Company adopted this standard as of January 1, 2021. The adoption did not have a material impact on the Company's consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* which supersedes existing lease guidance. Under the new guidance, leases are to be recognized in the statement of financial position as 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 guidance is required to be applied using the modified retrospective approach for all leases existing as of the effective date and provides for certain practical expedients. The Company adopted ASU 2016-02 and related amendments as of January 1, 2022. The Company has also elected a package of practical expedients, under which an entity need not reassess whether any expired or existing contracts are or contain leases, the lease classification for any expired or existing leases, or initial direct costs for any existing leases. The Company also elected not to separate lease and non-lease components. The adoption of this ASU on January 1, 2022 resulted in an increase of $8,600 to beginning retained earnings.

(in thousands)

## **Note 1.** Significant Accounting Policies *(continued)*

### Accounting Standards Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 amends the guidance on the impairment of financial instruments. The updated guidance amends the current other-than-temporary impairment model for available-for-sale debt securities by requiring the recognition of impairments relating to credit losses through an allowance account and limits the amount of credit loss to the difference between a security's amortized cost basis and its fair value. This guidance also applies a new current expected credit loss model for determining credit-related impairments for financial instruments measured at amortized cost, such as reinsurance recoverable.

The Company will adopt this standard as of January 1, 2023. The adoption will not have a material impact on the Company's consolidated financial statements.

## **Note 2.** Investments

### Debt and Equity Securities

The following is a summary of securities at December 31, 2022:

| | 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 | $ 1,400,500 | $ 32,700 | $ (122,000) | $ 1,311,200 |
| Obligations of states and political subdivisions | 1,427,100 | 5,400 | (49,900) | 1,382,600 |
| Mortgage and asset-backed securities: | | | | |
| Agency | 1,333,200 | 25,700 | (145,400) | 1,213,500 |
| Commercial | 240,500 | – | (19,500) | 221,000 |
| Other mortgage and asset-backed securities | 439,000 | 1,000 | (19,100) | 420,900 |
| U.S. corporate securities | 2,037,600 | 24,600 | (171,000) | 1,891,200 |
| Foreign government securities | 809,100 | – | (41,000) | 768,100 |
| Bond funds | 804,100 | – | (121,700) | 682,400 |
| Other debt securities | 387,300 | – | (27,700) | 359,600 |
| Total debt securities | 8,878,400 | 89,400 | (717,300) | 8,250,500 |
| Equity securities: | | | | |
| Communication services | 386,900 | 241,000 | (43,200) | 584,700 |
| Consumer discretionary | 332,400 | 281,200 | (66,900) | 546,700 |
| Consumer staples | 210,900 | 223,600 | (2,100) | 432,400 |
| Energy | 95,700 | 194,200 | (100) | 289,800 |
| Financials | 331,900 | 257,000 | (5,500) | 583,400 |
| Healthcare | 502,800 | 395,200 | (27,500) | 870,500 |
| Industrials | 206,600 | 267,300 | (12,400) | 461,500 |
| Information technology | 431,700 | 865,600 | (35,100) | 1,262,200 |
| Mutual funds (international and emerging markets) | 4,509,300 | 231,900 | (455,300) | 4,285,900 |
| Foreign | 209,200 | 10,400 | (25,900) | 193,700 |
| All other sectors | 166,100 | 102,900 | (9,100) | 259,900 |
| Total equity securities | 7,383,500 | 3,070,300 | (683,100) | 9,770,700 |
| Total debt and equity securities | $ 16,261,900 | $ 3,159,700 | $ (1,400,400) | $ 18,021,200 |

(in thousands)

## **Note 2.** Investments *(continued)*

The following is a summary of securities at December 31, 2021:

| | 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 | $ 1,435,100 | $ 35,700 | $ (12,600) | $ 1,458,200 |
| Obligations of states and political subdivisions | 1,616,900 | 59,300 | (3,600) | 1,672,600 |
| Mortgage and asset-backed securities: | | | | |
| Agency | 1,287,900 | 31,200 | (7,500) | 1,311,600 |
| Commercial | 256,400 | 6,900 | (900) | 262,400 |
| Other mortgage and asset-backed securities | 363,800 | 4,300 | (1,400) | 366,700 |
| U.S. corporate securities | 1,899,600 | 74,200 | (9,600) | 1,964,200 |
| Foreign government securities | 698,000 | 9,200 | (5,300) | 701,900 |
| Bond funds | 889,500 | 4,800 | (12,200) | 882,100 |
| Other debt securities | 525,000 | 7,000 | (3,900) | 528,100 |
| Total debt securities | 8,972,200 | 232,600 | (57,000) | 9,147,800 |
| Equity securities: | | | | |
| Communication services | 281,500 | 569,500 | (8,100) | 842,900 |
| Consumer discretionary | 339,000 | 633,700 | (14,500) | 958,200 |
| Consumer staples | 178,700 | 250,900 | (3,300) | 426,300 |
| Energy | 103,500 | 103,700 | (3,900) | 203,300 |
| Financials | 290,600 | 424,300 | (300) | 714,600 |
| Healthcare | 490,000 | 423,300 | (7,600) | 905,700 |
| Industrials | 247,300 | 328,700 | (2,500) | 573,500 |
| Information technology | 346,900 | 1,469,500 | (700) | 1,815,700 |
| Mutual funds (international and emerging markets) | 3,316,600 | 630,400 | (49,900) | 3,897,100 |
| Foreign | 132,500 | 21,500 | (2,400) | 151,600 |
| All other sectors | 209,900 | 195,800 | (900) | 404,800 |
| Total equity securities | 5,936,500 | 5,051,300 | (94,100) | 10,893,700 |
| Total debt and equity securities | $ 14,908,700 | $ 5,283,900 | $ (151,100) | $ 20,041,500 |

During the years ended December 31, 2022 and 2021, purchases of debt securities were $8,743,800 and $7,175,200, respectively; purchases of equity securities were $3,791,800 and $3,773,200, respectively; proceeds from the sale of debt securities were $8,368,900 and $6,326,400, respectively; and proceeds from the sale of equity securities were $2,836,100 and $3,468,300, respectively.

The gross realized gains and (losses) on sales of debt and equity securities totaled $749,000 and ($359,900) in 2022, and $1,282,900 and ($71,700) in 2021.

The net gains and (losses) recognized on equity securities during the years ended December 31, 2022 and 2021, totaled ($2,038,800) and $1,809,700, respectively. At December 31, 2022, $531,400 is related to securities sold during the period and ($2,570,200) is related to unrealized losses on equity securities still held. At December 31, 2021, $1,176,600 is related to securities sold during the period and $633,100 is related to unrealized gains on equity securities still held.

The amortized cost and fair value of debt securities at December 31, 2022, 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.

(in thousands)

## **Note 2.** Investments *(continued)*

| | Amortized Cost | Fair Value |
|---|---|---|
| Due in one year or less | $ 283,600 | $ 280,700 |
| Due after one year through five years | 2,764,400 | 2,647,400 |
| Due after five years through ten years | 2,514,400 | 2,313,900 |
| Due after ten years | 1,303,300 | 1,153,100 |
| Subtotal | 6,865,700 | 6,395,100 |
| Mortgage and asset-backed securities | 2,012,700 | 1,855,400 |
| Total debt securities | $ 8,878,400 | $ 8,250,500 |

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 $717,300 (fair value of $7,540,100) at December 31, 2022, and $57,000 (fair value of $3,381,500) at December 31, 2021. The unrealized loss position that existed for 12 months or more was $336,700 (fair value of $2,075,400) at December 31, 2022, and was $20,200 (fair value of $562,500) at December 31, 2021. In reaching its conclusion that these impairments are temporary, the Company considered market conditions and 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.

During the years ended December 31, 2022 and 2021, net realized investment gains on other securities were $148,100 and $452,900, respectively.

### Credit Risk

All debt security investments have credit exposure to the extent that a counter party 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.

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 and utilize assumptions or judgement.

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 the 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.

(in thousands)

## **Note 3.** Fair Value *(continued)*

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.

For certain Level 3 securities, valuations are developed using discounted cash flow models that require the use of unobservable inputs, where the significant unobservable input is the discount rate. These valuations are determined by independent third-party valuation vendors and are reviewed to ensure reasonableness.

The following table presents the Company's invested assets measured at fair value as of December 31, 2022:

| Invested Assets, at Fair Value | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Debt securities | $ 8,250,500 | $ – | $ 8,064,300 | $ 186,200 |
| Equity securities | 9,770,700 | 9,770,700 | – | – |
| Total | $ 18,021,200 | $ 9,770,700 | $ 8,064,300 | $ 186,200 |
| **Other Items Measured at Fair Value** | | | | |
| Cash equivalents | $ 180,100 | $ 174,200 | $ 5,900 | $ – |
| Other assets (1) | 1,500 | 1,500 | – | – |
| Other liabilities (1) | 600 | 600 | – | – |

(1) Other assets at fair value represent variation margin receivable for futures and exchange-traded options at fair value. Other liabilities represent variation margin payable for futures.

The following table presents the Company's invested assets measured at fair value as of December 31, 2021:

| Invested Assets, at Fair Value | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Debt securities | $ 9,147,800 | $ 14,200 | $ 9,133,600 | $ – |
| Equity securities | 10,893,700 | 10,893,700 | – | – |
| Total | $ 20,041,500 | $ 10,907,900 | $ 9,133,600 | $ – |
| **Other Items Measured at Fair Value** | | | | |
| Cash equivalents | $ 20,900 | $ 11,800 | $ 9,100 | $ – |

In 2022, the Company's Level 3 investment activity included the following: purchases of $185,000, sales of ($22,700), paydowns of ($1,000), net losses of ($5,000), and transfers in of $29,900. There were no transfers out of Level 3 during the period. Transfers into Level 3 were primarily due to changes in the observability of pricing inputs.

Level 1 securities include money market funds, equities and the Company's derivative positions in exchange-traded futures and exchange-traded options. See Note 2 for a breakout of equity securities by category.

All debt securities are measured at fair value and are classified as Level 2 with the exception of certain short-term securities held at December 31, 2021, which were priced using quoted market prices and therefore classified as Level 1. Cash equivalent positions in debt securities that are purchased with maturities of three months or less at acquisition are also classified as Level 2. See Note 2 for a breakout of debt securities by category.

(in thousands)

## **Note 4.** Policyholders' Credits

In 2021, the Company's Board of Directors approved a membership credit to eligible policyholders with renewal or anniversary dates from January 1, 2022 through December 31, 2022 in the form of a premium offset at the time of policy renewal. The impact of the membership credit for the year ended 2022 was a reduction to earned premium of $334,500.

In 2022, the Company's Board of Directors approved a resilience credit to provide eligible policyholders with additional financial means to invest in climate resilience. The resilience credit will be applied as a premium offset against policies with renewals or anniversaries between October 1, 2022, and September 30, 2023. The impact of the resilience credit for the year ended 2022 was a reduction to earned premium of $64,600.

## **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 Dec. 31, | |
|---|---|---|
| | 2022 | 2021 |
| Gross written premium | $ 8,895,100 | $ 7,959,200 |
| Ceded written premium | (2,279,700) | (2,160,300) |
| Net written premium | $ 6,615,400 | $ 5,798,900 |

Ceded losses and loss adjustment expenses incurred for the years ended December 31, 2022 and 2021, were $1,086,800 and $1,574,300, respectively.

## **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 Dec. 31, | |
|---|---|---|
| | 2022 | 2021 |
| Gross unpaid as of January 1 | $ 7,064,200 | $ 5,705,000 |
| Less: unpaid reinsurance recoverable | 2,851,000 | 2,194,400 |
| Net unpaid as of January 1 | 4,213,200 | 3,510,600 |
| | | |
| Net incurred related to: | | |
| Current year | 2,717,300 | 3,354,900 |
| Prior years | 160,300 | (243,800) |
| Total net incurred | 2,877,600 | 3,111,100 |
| | | |
| Net paid related to: | | |
| Current year | 662,500 | 816,900 |
| Prior years | 2,562,500 | 1,591,600 |
| Total net paid | 3,225,000 | 2,408,500 |
| | | |
| Gross unpaid as of December 31 | 6,500,800 | 7,064,200 |
| Less: unpaid reinsurance recoverable | 2,635,000 | 2,851,000 |
| Net unpaid as of December 31 | $ 3,865,800 | $ 4,213,200 |

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

The 2022 increase in net incurred on insured events for prior years was due to adverse development on a small number of individual losses. The 2021 decrease in net incurred on insured events for prior years was due to the reduction of IBNR reserves based on actual experience.

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 do 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 disclosures below 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 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 2022 or 2021.

Due to the short-tail nature of commercial property insurance, the disclosures below reflect the undiscounted information as of December 31, 2022, 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, 2022 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.

(in thousands)

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

| | Incurred Losses and LAE, Net of Reinsurance, as of Dec. 31, | | | | | As of Dec. 31, 2022 | |
|---|---|---|---|---|---|---|---|
| Accident Year | 2018 | 2019 | 2020 | 2021 | 2022 | IBNR | Cumulative Reported Claims |
| | Supplemental and Unaudited | | | | | | |
| 2018 | $3,825,000 | $3,446,600 | $3,325,400 | $3,308,600 | $ 3,408,800 | $ 20,100 | 10,291 |
| 2019 | | 2,483,100 | 2,435,400 | 2,424,400 | 2,478,800 | 20,900 | 8,741 |
| 2020 | | | 3,165,800 | 2,980,700 | 3,041,500 | 45,000 | 8,271 |
| 2021 | | | | 3,136,600 | 2,892,000 | 25,900 | 6,602 |
| 2022 | | | | | 2,511,800 | 471,900 | 4,448 |
| Total | | | | | $ 14,332,900 | | |

| | Cumulative Paid Losses and LAE, Net of Reinsurance, as of Dec. 31, | | | | |
|---|---|---|---|---|---|
| Accident Year | 2018 | 2019 | 2020 | 2021 | 2022 |
| | Supplemental and Unaudited | | | | |
| 2018 | $1,077,300 | $2,630,900 | $3,072,000 | $3,243,600 | $ 3,380,700 |
| 2019 | | 853,300 | 2,195,200 | 2,256,200 | 2,397,200 |
| 2020 | | | 1,146,100 | 2,384,900 | 3,091,200 |
| 2021 | | | | 602,200 | 2,127,000 |
| 2022 | | | | | 389,600 |
| Total | | | | | $ 11,385,700 |
| Unpaid losses and LAE prior to 2018, net of reinsurance | | | | | $ 212,300 |
| Total unpaid losses and LAE, net of reinsurance | | | | | $ 3,159,500 |

The following disclosure presents the average annual payout of incurred claims by age, net of reinsurance, as of December 31, 2022:

| | Average Annual Percentage of Payments on Incurred Claims by Age, Net of Reinsurance | | | | |
|---|---|---|---|---|---|
| Years | 1 | 2 | 3 | 4 | 5 |
| | Supplemental and Unaudited | | | | |
| | 28.0% | 48.3% | 12.9% | 5.4% | 4.0% |

The following is a reconciliation of the information in this disclosure to the consolidated gross liability for unpaid losses and LAE reported on the Consolidated Balance Sheets:

| | As of Dec. 31, 2022 |
|---|---|
| Commercial property | $ 3,159,500 |
| Other short-duration insurance lines of business | 72,300 |
| Foreign exchange | (76,800) |
| Unpaid losses and LAE, net of reinsurance | $ 3,155,000 |
| Commercial property | $ 2,083,000 |
| Reinsurance recoverable on unpaid losses and LAE | $ 2,083,000 |
| Discontinued lines of business | $ 1,262,800 |
| Other gross unpaid losses and LAE | $ 1,262,800 |
| Total gross unpaid losses and LAE | $ 6,500,800 |

(in thousands)

## Note 7. Real Estate and Premises and Equipment

Real estate and premises and equipment at December 31, 2022 and 2021, are summarized as follows:

| | 2022 | 2021 |
|---|---|---|
| Land and buildings | $ 2,163,300 | $ 1,874,600 |
| Furniture, fixtures and equipment | 766,800 | 730,100 |
| Accumulated depreciation | (1,219,300) | (1,086,800) |
| Total | $ 1,710,800 | $ 1,517,900 |

During 2022 and 2021, depreciation expense for real estate and premises and equipment was $109,600 and $104,800, respectively.

## Note 8. Leases

In connection with its various operating offices located throughout the world, the Company leases office space, automobiles, and equipment. These leases provide the right to use the underlying asset and require lease payments for the lease term, however, the Company has elected to only recognize a right-of-use (ROU) asset and corresponding lease liability for office space in accordance with ASC 842. The Company's office lease portfolio consists of multiple operating leases and a single finance lease which expire at various dates through 2048.

The components of lease expense were as follows for the year ended December 31, 2022:

| | 2022 |
|---|---|
| Operating lease cost: | |
| Fixed rent expenses | $ 45,400 |
| Finance lease cost: | |
| Amortization of ROU asset | 3,500 |
| Interest expense | 3,000 |
| Short-term lease cost | 13,700 |
| Total net lease cost | $ 65,600 |

Supplemental cash flow information related to the Company's leases was as follows for the year ended December 31, 2022:

| | 2022 |
|---|---|
| Operating cash flow from operating leases | $ 47,800 |
| Operating cash flow from finance lease | 4,100 |
| ROU assets obtained in exchange for operating lease liabilities | 200,300 |
| ROU assets obtained in exchange for finance lease liability | 97,400 |

(in thousands)

## **Note 8.** Leases *(continued)*

The following table presents the lease balances on the Company's Consolidated Balance Sheets, weighted average remaining lease term, and weighted average discount rates related to the Company's leases as of December 31, 2022:

**Operating leases:**

| | |
|---|---|
| Assets: | |
| ROU assets from operating leases | $ 169,600 |
| Liabilities: | |
| Operating lease liabilities – current | 41,500 |
| Operating lease liabilities – non-current | 142,200 |
| Total operating lease liabilities | $ 183,700 |
| Weighted average remaining lease term | 6.68 |
| Weighted average discount rate | 2.44% |

**Finance lease:**

| | |
|---|---|
| Asset: | |
| ROU asset from finance lease | $ 93,800 |
| Liability: | |
| Finance lease liability – current | 4,300 |
| Finance lease liability – non-current | 92,000 |
| Total finance lease liability | $ 96,300 |
| Weighted average remaining lease term | 25.87 |
| Weighted average discount rate | 3.33% |

As of December 31, 2022, the future minimum lease payments for the Company's lease liabilities for each of the years ending December 31, were as follows:

| | Operating Leases | Finance Lease |
|---|---|---|
| 2023 | $ 55,100 | $ 4,300 |
| 2024 | 51,900 | 4,400 |
| 2025 | 43,300 | 4,500 |
| 2026 | 26,000 | 4,600 |
| 2027 | 22,100 | 4,800 |
| Thereafter | 50,900 | 131,500 |
| Total lease payments | 249,300 | 154,100 |
| Less: future interest expense | 65,600 | 57,800 |
| Total lease liabilities | $ 183,700 | $ 96,300 |

## **Note 9.** Income Taxes

The Inflation Reduction Act (IRA) was enacted on August 16, 2022, and included a new corporate alternative minimum tax (CAMT). The IRA and the CAMT come into effect for tax years beginning after 2022. The Company will recognize the effect of the CAMT when applicable.

(in thousands)

## **Note 9.** Income Taxes *(continued)*

The following is the current and deferred income tax (benefit) / expense for the years ended December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Current income tax expense | $ 126,200 | $ 926,000 |
| Deferred income tax benefit | (257,700) | (285,800) |
| Total income tax (benefit) / expense | $ (131,500) | $ 640,200 |

A reconciliation of income tax (benefit) / expense computed at U.S. Federal statutory tax rates to the income tax expense as included on the Consolidated Statements of Income follows for the years ended December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Income tax (benefit) / expense at U.S. Federal statutory tax rate | $ (89,800) | $ 731,300 |
| Tax effect of: | | |
| Nontaxable investment income | (18,800) | (15,300) |
| Effect of foreign operations | 24,900 | (14,700) |
| Tax credits | (35,000) | (80,300) |
| Other | (12,800) | 19,200 |
| Actual income tax (benefit) / expense | $ (131,500) | $ 640,200 |

The significant components of the net deferred tax liability at December 31, 2022 and 2021, are as follows:

| | 2022 | 2021 |
|---|---|---|
| Deferred tax liabilities: | | |
| Deferred acquisition costs | $ (19,600) | $ (19,200) |
| Unrealized appreciation | (341,500) | (1,032,000) |
| Deferred foreign income | (38,000) | (53,500) |
| Operating lease ROU asset | (58,200) | – |
| Benefit plan expenses | (68,900) | (7,800) |
| Other | (68,100) | (126,200) |
| Total deferred tax liabilities | (594,300) | (1,238,700) |
| Deferred tax assets: | | |
| Unpaid claims discounting | 20,100 | 20,900 |
| Unearned premium reserve | 120,800 | 116,900 |
| Compensation accruals | 88,300 | 86,400 |
| Operating lease liability | 59,500 | – |
| Mixed service costs | 2,000 | 396,600 |
| Research & experimental expenditures | 40,800 | – |
| Unrealized investment losses | 44,600 | 36,800 |
| Tax credits | 30,000 | 43,400 |
| Unrelieved foreign tax | 36,300 | 39,900 |
| Deferred foreign losses | 15,600 | 17,600 |
| Unrealized foreign exchange | 23,000 | 2,800 |
| Other | 13,500 | 13,600 |
| Total deferred tax assets | 494,500 | 774,900 |
| Valuation allowance | (55,200) | (71,800) |
| Net deferred tax assets | 439,300 | 703,100 |
| Net deferred tax liability | $ (155,000) | $ (535,600) |

## **Note 9.** Income Taxes *(continued)*

At December 31, 2022 and 2021, 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.

Income tax paid during 2022 and 2021 was $360,900 and $920,900, respectively. In addition, the Company received income tax refunds of $12,000 during 2022 and $7,500 during 2021.

The Company invests in partnerships which make equity investments in projects eligible to receive historic, energy, low-income housing and new market tax credits, collectively referred to as investment tax credits. The investments are accounted for under the equity method and reported within other assets on the Consolidated Balance Sheets. The tax credits, when realized, are recognized as a reduction of tax expense under the flow-through method, at which time the corresponding equity investment is written-down to reflect the remaining value of the future benefits to be realized. For the years ended December 31, 2022 and 2021 the Company recognized investment tax credits of $37,900 and $90,800, respectively. The equity investment write-down is reflected within net realized investment gains on the Consolidated Statements of Income. There are no investment tax credit carry forwards at December 31, 2022 or 2021.

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 judgment 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 not material 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 $333,000 and $121,500 at December 31, 2022 and 2021, 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 healthcare 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 transitioned 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, 2022 | Dec. 31, 2021 | Dec. 31, 2022 | Dec. 31, 2021 |
| Benefit obligations | $ 2,722,400 | $ 3,825,000 | $ 140,400 | $ 192,600 |
| Fair value of plan assets | 3,037,400 | 3,830,200 | 152,500 | 194,300 |
| Funded status, end of year | $ 315,000 | $ 5,200 | $ 12,100 | $ 1,700 |

During 2022 and 2021, the overall decreases in the Company's global pension and other postretirement benefit plan obligations were primarily due to increases in discount rates.

The accumulated benefit obligations for the pension and supplemental benefit plans were $2,369,500 and $3,189,000 at December 31, 2022 and 2021, respectively.

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

| | Pension and Supplemental Benefits | | Other Benefits | |
|---|---|---|---|---|
| | Dec. 31, 2022 | Dec. 31, 2021 | Dec. 31, 2022 | Dec. 31, 2021 |
| Asset | $ 621,700 | $ 466,100 | $ 45,700 | $ 56,100 |
| Liability | (306,700) | (460,900) | (33,600) | (54,400) |
| Total | $ 315,000 | $ 5,200 | $ 12,100 | $ 1,700 |

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

| | Pension and Supplemental Benefits | | Other Benefits | |
|---|---|---|---|---|
| | Dec. 31, 2022 | Dec. 31, 2021 | Dec. 31, 2022 | Dec. 31, 2021 |
| Net actuarial loss | $ 241,600 | $ 547,400 | $ 100 | $ 8,000 |
| Prior service cost / (credit) | 4,400 | 5,300 | (3,700) | (7,100) |
| Total | $ 246,000 | $ 552,700 | $ (3,600) | $ 900 |

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, 2022 | Dec. 31, 2021 |
|---|---|---|
| Projected benefit obligation, end of year | $ 306,600 | $ 524,200 |
| Accumulated benefit obligation, end of year | 247,500 | 384,000 |
| Fair value of plan assets, end of year | – | 63,300 |

(in thousands)

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

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, 2022 | Dec. 31, 2021 |
|---|---|---|
| Projected benefit obligation, end of year | $ 306,600 | $ 524,200 |
| Fair value of plan assets, end of year | – | 63,300 |

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

| | Pension and Supplemental Benefits | | Other Benefits | |
|---|---|---|---|---|
| | Dec. 31, 2022 | Dec. 31, 2021 | Dec. 31, 2022 | Dec. 31, 2021 |
| Current year actuarial gain | $ (268,100) | $ (285,400) | $ (5,500) | $ (26,500) |
| Amortization of actuarial loss | (37,700) | (63,500) | (2,400) | (2,100) |
| Amortization of prior service cost / (credit) | (900) | (1,000) | 3,400 | 3,400 |
| Total recognized in other comprehensive income | (306,700) | (349,900) | (4,500) | (25,200) |
| Net periodic benefit cost / (income) | 45,600 | 81,100 | (5,500) | (4,700) |
| Total recognized in net periodic benefit cost / (income) and other comprehensive income | $ (261,100) | $ (268,800) | $ (10,000) | $ (29,900) |

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 $79,600 and $48,500 in 2022 and 2021, respectively, and are included as part of total losses, loss adjustment and other expenses on the Consolidated Statements of Income.

### Assumptions

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

| | Pension and Supplemental Benefits | | Other Benefits | |
|---|---|---|---|---|
| | Dec. 31, 2022 | Dec. 31, 2021 | Dec. 31, 2022 | Dec. 31, 2021 |
| Discount rate | 5.41% | 2.87% | 5.29% | 2.69% |
| Rate of compensation increase | 4.65% | 4.20% | 4.60% | 4.13% |

Assumed healthcare cost trend rates:

| | Other Benefits | |
|---|---|---|
| | Dec. 31, 2022 | Dec. 31, 2021 |
| Initial rate | 6.55% | 5.86% |
| Ultimate rate | 4.56% | 4.95% |
| Years to ultimate | 7 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, 2022 | Dec. 31, 2021 | Dec. 31, 2022 | Dec. 31, 2021 |
| Discount rate | 2.87% | 2.58% | 2.69% | 2.25% |
| Expected long-term return on plan assets | 6.55% | 6.54% | 6.00% | 6.00% |
| Rate of compensation increase | 4.20% | 4.21% | 4.13% | 4.14% |

Assumed healthcare cost trend rates:

| | Other Benefits | |
|---|---|---|
| | Dec. 31, 2022 | Dec. 31, 2021 |
| Initial rate | 5.86% | 5.87% |
| Ultimate rate | 4.95% | 4.96% |
| 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 | |
|---|---|---|---|
| Asset Class | Dec. 31, 2023 | Dec. 31, 2022 | Dec. 31, 2021 |
| Equity securities | 50% | 56% | 59% |
| Debt securities | 39 | 31 | 32 |
| Cash equivalents | 2 | 1 | 2 |
| Other | 9 | 12 | 7 |
| Total | 100% | 100% | 100% |

The maturities of debt securities are as follows:

| | Dec. 31, 2022 | Dec. 31, 2021 |
|---|---|---|
| Maturity range | 0 – 99 years | 0 – 60 years |
| Weighted-average maturity | 19.36 years | 23.99 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, 2022, are as follows (refer to Note 3 for the valuation techniques):

| Asset Class | Total | Level 1 | Level 2 |
|---|---|---|---|
| Equity securities: | | | |
| Communication services | $ 15,000 | $ 15,000 | $ – |
| Consumer discretionary | 22,600 | 22,600 | – |
| Consumer staples | 14,500 | 14,500 | – |
| Energy | 12,100 | 12,100 | – |
| Financials | 43,500 | 43,500 | – |
| Healthcare | 33,900 | 33,900 | – |
| Industrials | 40,900 | 40,900 | – |
| Information technology | 42,000 | 42,000 | – |
| Materials | 10,700 | 10,700 | – |
| Mutual funds | 479,800 | 329,800 | 150,000 |
| Foreign | 22,600 | 22,600 | – |
| All other sectors | 7,500 | 7,500 | – |
| Total equity securities | 745,100 | 595,100 | 150,000 |
| Debt securities: | | | |
| U.S. treasury securities and obligations of U.S. government agencies | 153,900 | – | 153,900 |
| Mortgage and asset-backed securities | | | |
| Agency | 13,800 | – | 13,800 |
| Commercial | 900 | – | 900 |
| Residential | 200 | – | 200 |
| Other mortgage and asset-backed securities | 2,200 | – | 2,200 |
| U.S. corporate securities | 252,500 | – | 252,500 |
| Mutual funds | 265,300 | – | 265,300 |
| Foreign | 400 | – | 400 |
| Total debt securities | 689,200 | – | 689,200 |
| Common collective trusts | 1,204,400 | – | 1,204,400 |
| Cash equivalents | 17,500 | 17,500 | – |
| Total | $ 2,656,200 | $ 612,600 | $ 2,043,600 |

Pension assets as of December 31, 2022, include $381,200 of partnerships and hedge funds measured under the equity method 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, 2021, are as follows (refer to Note 3 for the valuation techniques):

| Asset Class | Total | Level 1 | Level 2 |
|---|---|---|---|
| Equity securities: | | | |
| Communication services | $ 19,300 | $ 19,300 | $ – |
| Consumer discretionary | 26,200 | 26,200 | – |
| Consumer staples | 15,700 | 15,700 | – |
| Energy | 5,800 | 5,800 | – |
| Financials | 47,400 | 47,400 | – |
| Healthcare | 33,900 | 33,900 | – |
| Industrials | 43,300 | 43,300 | – |
| Information technology | 54,000 | 54,000 | – |
| Materials | 11,400 | 11,400 | – |
| Mutual funds | 747,600 | 476,000 | 271,600 |
| Foreign | 30,500 | 30,500 | – |
| All other sectors | 11,000 | 11,000 | – |
| Total equity securities | 1,046,100 | 774,500 | 271,600 |
| Debt securities: | | | |
| U.S. treasury securities and obligations of U.S. government agencies | 163,400 | – | 163,400 |
| Mortgage and asset-backed securities | | | |
| Agency | 9,500 | – | 9,500 |
| Commercial | 600 | – | 600 |
| Residential | 100 | – | 100 |
| Other mortgage and asset-backed securities | 9,300 | – | 9,300 |
| U.S. corporate securities | 352,700 | – | 352,700 |
| Mutual funds | 345,700 | – | 345,700 |
| Foreign | 500 | – | 500 |
| Total debt securities | 881,800 | – | 881,800 |
| Common collective trusts | 1,574,900 | – | 1,574,900 |
| Cash equivalents | 76,000 | 76,000 | – |
| Total | $ 3,578,800 | $ 850,500 | $ 2,728,300 |

Pension assets as of December 31, 2021, include $251,400 of partnerships and hedge funds measured under the equity method 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 allocation are as follows:

| | Target Allocation | Percentage of Plan Assets | |
|---|---|---|---|
| | Dec. 31, 2023 | Dec. 31, 2022 | Dec. 31, 2021 |
| Asset Class | | | |
| Equity securities | 90% | 84% | 85% |
| Cash equivalents | 10 | 16 | 15 |
| Total | 100% | 100% | 100% |

The fair value measurements of other postretirement benefit plan assets at December 31, 2022 and 2021, consisting of all Level 1 assets, are as follows (refer to Note 3 for the valuation techniques):

| Asset Class | Dec. 31, 2022 | Dec. 31, 2021 |
|---|---|---|
| Equity securities: | | |
| Communication services | $ 11,900 | $ 19,200 |
| Consumer discretionary | 12,700 | 20,700 |
| Consumer staples | 10,900 | 10,800 |
| Energy | 8,000 | 5,200 |
| Financials | 12,600 | 15,700 |
| Healthcare | 18,700 | 19,700 |
| Industrials | 8,700 | 11,400 |
| Information technology | 27,900 | 38,500 |
| Mutual funds | 12,000 | 15,500 |
| All other sectors | 4,200 | 8,000 |
| Total equity securities | 127,600 | 164,700 |
| Cash equivalents | 24,900 | 29,600 |
| Total | $ 152,500 | $ 194,300 |

### Pension and Postretirement Plans Asset Investment Narrative

The investment policy of the pension and postretirement plans specify the broad asset classes used by the pension plan for investment purposes and the general principles used in managing the plans' assets. The strategic asset allocation framework includes the asset classes that may be used and the ranges for each of the asset classes and sub-classes. The overriding objective for managing pension investments is to optimize plan surplus and long-term total return of plan assets within constraints established to control risk and volatility. The strategic asset allocations and ranges were updated for 2022 and are segregated across five primary asset categories. The broad categories are equities, fixed income, alternatives, multi-assets, and cash and cash equivalents. The equities allocation includes ranges for U.S. and international equities categories. The fixed income allocation includes long duration and opportunistic fixed income. The alternatives asset allocation includes absolute return and private investments. The current approved ranges for the five asset categories in the U.S. pension fund, which is also the largest of the retirement plans, are as follows:

| Asset Class | Range |
|---|---|
| Equities | 35 – 65% |
| Fixed income | 25 – 60% |
| Alternatives | 0 – 20% |
| Multi-Assets | 0 – 20% |
| Cash and cash equivalents | 0 – 20% |

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

The portfolio construction is based on prudent investment principles, including diversification across asset classes and across external fund managers, and liability risk management with long term considerations. Institutional investment firms are employed to manage the investments and generally perform ongoing analysis of the fundamental, technical and valuation factors underlying the securities owned.

The equities allocation includes separately managed accounts with individual common stocks, and equity commingled and mutual funds with active and passive implementations. Diversification has been emphasized with measured allocations across equity strategies with different styles and capitalization ranges, managed by investment managers, and include U.S. and international equities. Investment returns are benchmarked and monitored against standard indices, including S&P 500, Russell U.S. indices, and MSCI global stock indices.

The fixed income allocation consists of professionally managed long duration debt investment strategies held in separately managed accounts and commingled trusts, as well as mutual funds and opportunistic fixed income strategies, managed by institutional investment managers and teams. Debt securities are actively managed, using best practice investment disciplines and for the majority of the fixed income portfolio, provide a high-quality long duration complement to the total pension investment portfolio.

The alternatives allocation includes private equity; private credit; real assets, including real estate and infrastructure; and absolute return liquid alternatives strategies.

The multi-assets allocation incorporates diversified strategies across various asset classes and includes global tactical asset allocation and a dynamic pension management strategy with a focus on asset liability management.

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 the 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 allocation primarily includes money market funds, commercial paper carrying the highest quality ratings, and cash.

Expected rate of return assumptions are created based on assessments of long-term behavior and performance expectations of asset classes. As part of the process, historical relationships of asset classes and risk-free rates are considered. The analysis incorporates historical returns and long-term forward-looking return assumptions for the strategic asset allocations framework and mix, along with the baseline risk-free rate. The long-term expected rate of return is adjusted based on structural moves, if any, in the underlying market conditions, or any material changes to the strategic asset allocation mix. The expected return for the plan blends the return assumptions for the strategic asset allocation mix, including equities and other growth assets, and fixed income allocations, along with a nominal allocation to cash and cash equivalents.

### Cash Flows

| Employer Contributions | Pension and Supplemental Benefits | Other Benefits |
|---|---|---|
| 2021 | $ 4,600 | $ – |
| 2022 | 5,000 | – |
| 2023 (expected) | 4,200 | – |

(in thousands)

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

Contributions by participants to the other benefit plans were $700 for each of the years ended December 31, 2022 and 2021.

| Benefit Payments | Pension and Supplemental Benefits | Other Benefits | Other Benefits (Government Subsidy) |
|---|---|---|---|
| 2021 | $ 110,200 | $ 11,200 | $ 400 |
| 2022 | 118,300 | 11,200 | 400 |

| Estimated Future Payments | Pension and Supplemental Benefits | Other Benefits | Other Benefits (Government Subsidy) |
|---|---|---|---|
| 2023 | $ 123,500 | $ 11,700 | $ 400 |
| 2024 | 128,000 | 11,200 | 300 |
| 2025 | 133,100 | 10,900 | 300 |
| 2026 | 139,100 | 10,600 | 300 |
| 2027 | 145,900 | 10,600 | 300 |
| 2028 – 2032 | 836,300 | 47,300 | 1,000 |

The Company also sponsors a 401(k) savings plan whereby eligible employees may elect annually to contribute from 1% to 50% 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% of the employee's base pay. Company contributions to the plan were $26,800 in 2022 and $25,700 in 2021.

## Note 11. Components of Accumulated Other Comprehensive Loss

The changes in accumulated other comprehensive loss by component, net of income tax, for the year ended December 31, 2022, are as follows:

| | Unrealized Appreciation on Investments in Debt Securities | Benefit Plan Assets and Liabilities | Foreign Currency Translation Adjustment | Accumulated Other Comprehensive Loss |
|---|---|---|---|---|
| Balance at January 1, 2022 | $ 137,300 | $ (438,000) | $ (241,000) | $ (541,700) |
| Other comprehensive (loss) / income before reclassifications | (733,900) | 212,600 | (214,500) | (735,800) |
| Amount reclassified from accumulated other comprehensive loss | 102,400 | 29,700 | – | 132,100 |
| Net current period other comprehensive (loss) / income | (631,500) | 242,300 | (214,500) | (603,700) |
| Balance at December 31, 2022 | $ (494,200) | $ (195,700) | $ (455,500) | $ (1,145,400) |

(in thousands)

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

The following are reclassifications out of accumulated other comprehensive loss to net income for the year ended December 31, 2022:

| | | |
|---|---|---|
| Unrealized appreciation of investments in debt securities: | | |
| Net realized investment losses | $ (129,300) | |
| Other than temporary impairment losses | (500) | |
| Total before tax | (129,800) | |
| Income tax benefit | 27,400 | |
| Net of tax | $ (102,400) | |
| | | |
| Amortization of benefit plan amounts: | | |
| Actuarial losses | $ (40,100) | (a) |
| Prior service cost | 2,500 | (a) |
| Total before tax | (37,600) | |
| Income tax benefit | 7,900 | |
| Net of tax | $ (29,700) | |

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

The changes in accumulated other comprehensive loss by component, net of income tax, for the year ended December 31, 2021, are as follows:

| | Unrealized Appreciation on Investments in Debt Securities | Benefit Plan Assets and Liabilities | Foreign Currency Translation Adjustment | Accumulated Other Comprehensive Loss |
|---|---|---|---|---|
| Balance at January 1, 2021 | $ 325,600 | $ (734,700) | $ (165,000) | $ (574,100) |
| Other comprehensive (loss) / income before reclassifications | (164,900) | 246,800 | (76,000) | 5,900 |
| Amount reclassified from accumulated other comprehensive loss | (23,400) | 49,900 | – | 26,500 |
| Net current period other comprehensive (loss) / income | (188,300) | 296,700 | (76,000) | 32,400 |
| Balance at December 31, 2021 | $ 137,300 | $ (438,000) | $ (241,000) | $ (541,700) |

(in thousands)

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

The following are reclassifications out of accumulated other comprehensive loss to net income for the year ended December 31, 2021:

| | | |
|---|---|---|
| Unrealized appreciation of investments in debt securities: | | |
| Net realized investment gains | $ 32,500 | |
| Other than temporary impairment losses | (2,700) | |
| Total before tax | 29,800 | |
| Income tax expense | (6,400) | |
| Net of tax | $ 23,400 | |

| | | |
|---|---|---|
| Amortization of benefit plan amounts: | | |
| Actuarial losses | $ (65,600) | (a) |
| Prior service cost | 2,400 | (a) |
| Total before tax | (63,200) | |
| Income tax benefit | 13,300 | |
| Net of tax | $ (49,900) | |

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

## **Note 12.** Subsequent Events

Subsequent events were evaluated through February 27, 2023, the date the Company's consolidated financial statements were available to be issued. No material transactions occurred after the balance sheet date that would impact the Company's consolidated financial statements.