Annual Report **2015**

MUTUAL SUCCESS

FM Global

CONTENTS

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

Industry Ratings

Rating Agency	*Financial Strength*	*Rating Outlook*
A.M. Best	A+ (Superior)	Stable
Fitch	AA (Very Strong)	Stable
Standard & Poor's	A+	Stable

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

EXECUTIVE MESSAGE

THANKS TO THE DILIGENT EFFORTS OF OUR CLIENTS and their client service teams, 2015 was one of our best years on record. We achieved our financial objectives and accomplished our business goals. We streamlined our business processes to be more efficient, and made significant progress in improving our products and services. Despite an extremely competitive marketplace, we maintained a strong client base and exceeded our new business sales targets. On top of this very positive outcome, we issued our eighth membership credit to our policyholders. All in all, it was a tremendously successful year.

Our combined ratio of 85.3 percent was exemplary for the third consecutive year, and the combination of strong underwriting performance and investment results increased our surplus by 3.8 percent to US$11 billion.

These outstanding financial results substantiate the enduring strength of our mutual business model, our balance sheet and the trusted partnerships we have formed with our clients, brokers, reinsurers and World*Reach*® partners. This intricate relationship network is further cemented by a deep bench strength of highly engaged, knowledgeable employees solely focused on delivering the highest quality insurance products and services available—fulfilling our promise to help keep our clients resilient.

A shared commitment to business resilience underpins the risk management partnerships we have with our clients.

Review of 2015

In April 2015, our board of directors approved a membership credit of US$465 million to eligible policyholders renewing between June 30, 2015 and June 29, 2016. This marks our third consecutive membership credit and our eighth overall. By the end of June 2016, we will have provided nearly US$3 billion in total membership credit to our mutual owners since the program began in 2001. The membership credit process embodies the core value of our mutual structure. Our clients' dedication and focus on increasing the resilience of their business reduces the frequency and severity of losses, making it possible for us to share the benefits of our positive financial results. Despite the inherent volatility of the business, we have consistently issued a membership credit whenever conditions make it possible.

A shared commitment to business resilience underpins the risk management partnerships we have with our clients. In 2015, clients made excellent progress in improving physical and human element risk, gaining significant ground in reducing critical risk exposures. Internally, we continued to optimize our processes and technologies to bring greater efficiencies, expand capabilities and innovate products and services—further differentiating our product in a highly competitive marketplace. Among these efforts, we continued to focus on solutions to mitigate principal risk exposures (fire, flood, boiler and machinery) and emerging risks.

Flood continues to be a worldwide concern, and it remains one of the world's most costly natural hazards. Our global flood-mapping footprint is nearly complete, and our ongoing research and product testing allows us to devise new ways to combat this growing global business threat. As our clients break ground in new markets, many of which are vulnerable to flood, we've forged influential relationships to increase the availability of FM Approved loss prevention products worldwide.

We've been developing our unique understanding of risk for nearly two centuries, and are using this foundation to unlock the value of data analytics to help our clients through predictive modeling. Predictive analytics, coupled with our research and field engineering data, will provide a more definitive understanding of which client locations are more likely to incur a loss, and where to take action to improve the risk.

The FM Global Resilience Index is the first data-driven tool to rank the supply chain resilience of 130 countries and territories around the world. First launched in 2014, the index aggregates nine drivers of resilience into three factors—economic, risk quality and the supply chain itself. Executives are able to prioritize their supply chain risk management and investment efforts and generate powerful insights about risk and opportunities in the supply chain to help guide their strategy. In 2015, the FM Global Resilience Index was recognized by *Business Insurance* magazine with an innovation award.

We continue to lead the market in contract certainty, particularly as it relates to timeliness of policy delivery. In 2015, 88 percent of master policies were delivered on or before the effective date of the contract, and 96 percent were delivered within 30 days.

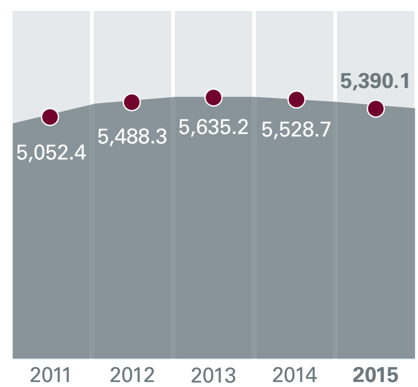
2015 Premium Trends

For the third successive year, the lack of insured natural disasters, combined with new and abundant forms of alternative reinsurance capacity and strong balance sheets, created a highly competitive marketplace. Even with these challenging market conditions, we retained 95 percent of our clients and exceeded our new business goals, which reinforces the value placed in our mutual business model and focus on loss prevention. Despite this strong performance, due to the continued strengthening of the U.S. dollar, our overall gross in-force premium decreased by 2.5 percent.

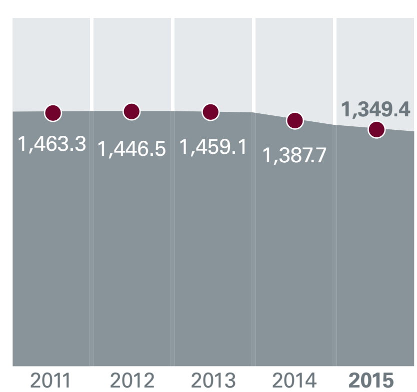
Affiliated FM, which was rebranded in 2015 to AFM, also experienced a decline in premium, reflecting the ongoing competitive nature of middle-market business.

On a consolidated basis, FM Global (large commercial property) and AFM (middle-market property) represent 95.8 percent of our overall in-force premium, with Mutual Boiler Re and FM Global Cargo representing the balance. Consolidated net premium earned decreased by 1.1 percent to US$4 billion, excluding the impact of 12 months of the membership credit.

TOTAL GROSS PREMIUM IN FORCE, US$M



NON-NORTH AMERICA GROSS PREMIUM IN FORCE, US$M



Loss Trends

Our consolidated loss ratio for 2015 was 55.5 percent, which includes an increase of US$125 million to our discontinued lines loss reserves—legacy company contracts representing third-party liability insurance and reinsurance business placed prior to 1984. With this increase, we continue to be very conservatively reserved.

Our loss ratio, excluding membership credit and discontinued reserve increase, was 46.4 percent. There has been a general decline in natural disasters worldwide over recent years, and claims activity from natural disasters remains historically low. That said, our 14.7 percent loss ratio from natural disasters was slightly higher than in 2014, but still well below our five-year average of 22.3 percent.

Our 2015 risk loss ratio of 28.9 percent was below our 2014 ratio of 31.6 percent, and our five-year average of 30.9 percent. Risk losses stem predominantly from fire and explosion, hazards that typically occur at locations without automatic ceiling sprinkler protection.

Expense Trends

Our 2015 expense ratio was 29.8 percent, reflecting the impact of the membership credit, coupled with the decrease in net premium earned. As a mutual company, we are committed to delivering high-quality services worldwide, balanced by careful expense management. To maintain this delicate balance, a designated business process improvement team continues to identify and implement solutions that bring about efficiencies. We are ramping up our efforts to better leverage technology, including developing mobile solutions that streamline the way we deliver our products and services. Our latest advance in client technology solutions is the *My*Risk® mobile app, which provides fast and easy access to account-specific data from various portable devices.

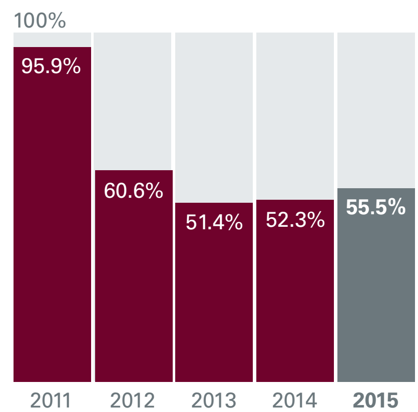
Employee Trends

Against a backdrop of very strong client retention and recent growth in new client acquisition, our workforce has remained relatively flat over the past three years. As our clients continue to expand across the globe, our goal is to effectively support localized needs while striking the right balance of staffing resources to achieve maximum efficiency.

FM Global prides itself on maintaining a stable, well-educated workforce. Due to the essential nature of engineering in our service delivery, in 2015, our field engineers spent nearly 536,000 hours visiting more than 68,000 client locations. To enhance their skills and expertise, they also dedicated nearly 35,000 hours to basic, intermediate and advanced classroom training.

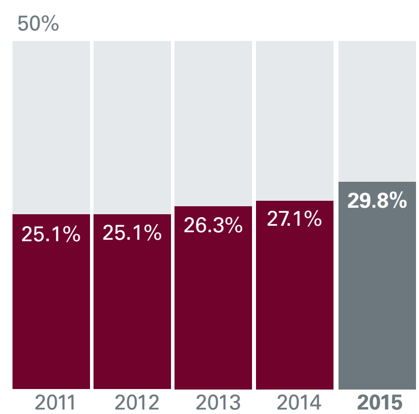
Average employee tenure is 12.5 years, and employee turnover rate averages about 6 percent each year. In 2015, we made some significant changes in executive leadership, and this created a domino effect in leadership changes across the company. These changes have had a positive effect on our organizational structure, tapping into our succession planning and opening up new opportunities for internal advancement.

LOSS RATIO



Includes additional reserves for discontinued lines of business

EXPENSE RATIO



Investments and Surplus

Our investment portfolio produced a 1.53 percent return. Discussion and quantified breakdown of the results is provided in the Investment Report section beginning on page 24. In summary, bond and stock returns remained low, reflecting persistent low interest rates and numerous global economic challenges—moderate U.S. GDP growth; deceleration and structural change in China's economy; and volatility in commodities and currency exchange rates. Even in a volatile investment market, FM Global's approach puts a greater emphasis on longer-term, multiyear results. While 2015 returns were below previous trend-line returns from both stocks and bonds, the intrinsic value from investing in quality credits and equities should accrue to quality-oriented portfolios in the future.

Leadership and Governance

Our board of directors, eight advisory boards and five risk management executive councils form the structural backbone of our mutual governance. In this important consultative role, they ensure our clients will always be front and center in determining FM Global's long-term strategy. We are grateful for their support and oversight. In 2015, we welcomed Daniel L. Knotts, chief operating officer at RR Donnelley, to our board of directors. Three of our board members announced their retirement. We extend our thanks to Walter Galvin, John Paloian and Alfred Verrecchia for all their contributions.

Our mutuality and strong specialty focus are unique to FM Global, and these core strengths are what differentiate us in our market.

Industry Recognition

The quality and value of our products and services continue to be recognized by independent, third-party industry ratings agencies, analysts and media channels worldwide. In 2015, A.M. Best and Fitch reaffirmed our ratings at A+ and AA, respectively, and we have an A+ interactive rating from Standard & Poor's, with a Stable outlook. An independent study conducted by *Advisen* among risk managers ranked FM Global "highest" in property claims management. Similarly, we were the number one choice by corporate insurance buyers according to a survey conducted by *StrategicRISK*. We were also pleased to be acknowledged by *Global Finance* magazine as the "world's best supply chain insurance provider."

2016 Forecast and Landscape

The low interest rate environment over the last several years has encouraged the entry of new sources of capital into the insurance market, and the relatively benign period of catastrophe loss has resulted in significant strengthening of industry balance sheets. This combination produced a very competitive marketplace in 2015 and is likely to continue into 2016. Although competitors attempt to replicate our successful business model, our mutuality and strong specialty focus are unique to FM Global, and these core strengths are what differentiate us in our market. Our mutual status allows us to gain inimitable insight into our client needs—driving us ever forward as a market leader, and establishing new inroads for tomorrow's industry standards.

As we look to 2016, our course remains steady, but we will aggressively pursue our strategic goals, with a focus on building an agile, innovative and diverse workforce, combined with flawless execution of our business model. We believe data analytics will open new doors to helping our clients drive down their cost of risk and remain resilient. Internally, we'll continue to focus on process improvement to keep internal operating costs to a minimum, while achieving optimal results. Given our strong surplus, we'll continue to explore new ways to invest our capital into products and services that most benefit our clients, and will be introducing an enhanced version of the world-leading FM Global Advantage® policy that will include more than a dozen enhancements.

Finally, our strong client retention rate and superior financial results are positive indicators of a healthy, thriving organization. Behind those results, of course, are the individuals who make it happen. Our success would not be possible without a knowledgeable, dedicated workforce solely focused on meeting the needs of our clients. They are the best of the best, and in order to retain them, we are committed to providing them with the skills and resources they need to flourish. It's our employees who make FM Global unique and special, and it's both a pleasure and a privilege to lead such an experienced and talented organization.

Thomas A. Lawson
President and Chief Executive Officer

Shivan S. Subramaniam
Chairman of the Board

MUTUAL SUCCESS

The sole purpose of FM Global is to protect the property of our policyholder-owners. For more than 180 years, we have specialized in fulfilling their property risk management needs. At the center of the relationship with all our clients is the shared belief that the majority of property loss is preventable, not inevitable; and that when loss does occur, our priority is to respond promptly and restore our clients' business operations as quickly as possible. The long-standing relationships we have with our clients attest to our time-tested business model, the reliability of our engineering-based risk management solutions, efficient risk transfer and expeditious claims management.

Our mutual success is based on trust. Our policyholders are FM Global's primary stakeholders. They value the relationship because they know we share common risk management objectives. In the following pages, senior leaders from three major corporations discuss how our companies worked together to respond to major loss events or reduce their risk of future losses. *We thank them and their companies for their participation.*

CLIENT PROFILES

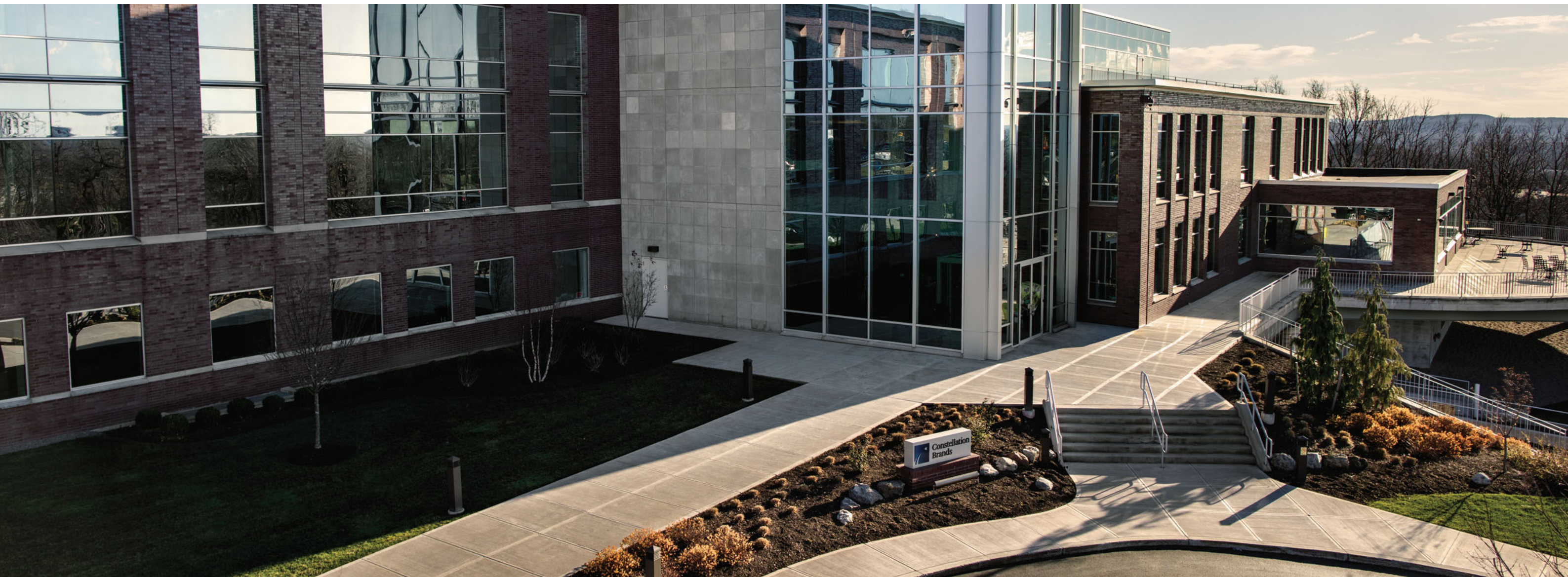
Constellation Brands (NYSE: STZ and STZ.B) is a leading international producer and marketer of beer, wine and spirits, with operations in the United States, Canada, Mexico, New Zealand and Italy. Since its founding in 1945 (as Canandaigua Industries Company), Constellation Brands has lived by a set of values that has shaped its culture and the way it does business. Today, these values serve as the directional compass that guides its business strategies and future growth. In 2014, Constellation was one of the top-performing stocks in the S&P 500® Consumer Staples Index. Constellation is the number-three beer company in the United States, with high-end, iconic imported brands, including Corona Extra, Corona Light, Modelo Especial, Negra Modelo, and Pacifico, and the standout craft beer brewery, Ballast Point. Constellation is also the world's leader in premium wine, including Robert Mondavi, Simi, Clos du Bois, Kim Crawford, Rex Goliath, Mark West, Franciscan Estate, Ruffino and Jackson-Triggs. The company's premium spirits brands include SVEDKA Vodka and Black Velvet Whisky. Headquartered in Victor, New York, USA, Constellation Brands' vision and mission is to elevate life with every glass raised and to build brands that people love.

Mercy is the seventh-largest Catholic health care system in the United States and serves millions annually. Headquartered in St. Louis, Missouri, USA, Mercy includes 45 acute care and specialty (heart, children's, orthopedic and rehab) hospitals, more than 700 physician practices and outpatient facilities, 40,000 co-workers and more than 2,000 Mercy Clinic physicians in Arkansas, Kansas, Missouri and Oklahoma. Mercy also has outreach ministries in Louisiana, Mississippi and Texas. The Mercy health system was founded by the Sisters of Mercy in 1986, but its heritage goes back more than 185 years. Since its creation, Mercy has pioneered a new model of care, relentlessly pursuing its goal to get health care right. Everywhere and every way that Mercy serves, it delivers a transformative health experience.

Modine Manufacturing Company (NYSE: MOD) has been leading the way in thermal management systems and components since 1916. Headquartered in Racine, Wisconsin, USA, with operations in North America, South America, Europe, Asia and Africa, Modine specializes in thermal management systems and components, bringing highly engineered heating and cooling technology and solutions to diversified global markets. With more than 2,200 patents over the life of the company, Modine is a trailblazer in the field. Modine products are used in light-, medium- and heavy-duty vehicles, heating, ventilation and air conditioning equipment, off-highway and industrial equipment and refrigeration systems. The customer-focused company pursues market leadership by delivering exceptional quality, ingenuity and value. Modine is growing its core business of thermal management with superior technical solutions in systems, products and services—coupled with a cost-competitive structure.

“The best strategy is to understand the potential impact of a catastrophic event and then build it into our way of thinking.”

– David Klein, chief financial officer, Constellation Brands



CONSTELLATION BRANDS, INC.

"Our job is to drive value for our shareholders, so maintaining productivity is essential," says David Klein, chief financial officer at Constellation Brands. "And the way to do that is to create as much cash flow as you can with the assets you have while taking an acceptable amount of risk. A comprehensive understanding of the risks that are inherent at our physical plants helps us to optimize return and minimize risk."

To gain that understanding, the company asked FM Global to do a business impact analysis (BIA). "The BIA takes an in-depth look at our financial exposures, operational priorities and continuity strategies. "The analysis defined our key concerns, strengthened our resilience, and focused us on where to invest our resources to reduce risk."

Protecting share of mind

"The wine industry is very fragmented, so there is a lot of competition. Our challenge," Klein adds, "is to stay top-of-mind for our consumers and to provide high-quality products at every price point. If our product is not on shelves, someone else's will be. We would lose that share of mind with the consumer. It's really hard to say that we would get that consumer back if we were out of production for a long time."

"Prior to the BIA," says Klein, "we spent a fair amount of effort evaluating how we could reduce our overall costs through consolidation in our wine business. While we realized a substantial financial benefit as a result of that decision, we also created a big risk by relying on a few facilities for much of our production."

A proactive partnership

"One valuable result of the BIA was to create a checklist of items to address before a catastrophic event," Klein continues. "The process also opened our eyes to a few concerns that we hadn't noticed. For instance, our wineries require cooling capacity, and we discovered that we didn't have backup generators on site. FM Global identified those risks and provided alternatives. With or without the BIA, we would have come to an understanding that we had risks in some areas. However, we wouldn't have had the quantification to justify capital expense for key areas to assure our sustained productivity and profitability."

"FM Global recognized the magnitude of this loss and went to work immediately to resolve it to get us back on our feet."

– Gary Pulsipher, president, Mercy Hospital Joplin

MERCY HOSPITAL

On May 22, 2011, an EF5 multiple-vortex tornado tore into Joplin, Missouri, USA at 5:41 p.m. It destroyed St. John's Regional Medical Center, the Mercy Hospital facility in the heart of the city. "There was so much that needed to be sorted out all at once," recalls Lynn Britton, Mercy's president and chief executive officer. "We had our workforce, co-workers and physicians to be concerned about—plus our patients and the broader community." Two days after the catastrophe, Mercy leaders announced that 2,200 Joplin employees would stay on the payroll indefinitely as they worked to rebuild the hospital. That bold resolve stirred Joplin residents and businesses—and inspired a citywide recovery.

The unique role of a hospital

"FM Global recognized the magnitude of this loss and went to work immediately to resolve it to get us back on our feet," says Gary Pulsipher, president of Mercy Hospital Joplin. "It was a show of faith and a confidence builder, knowing they were going to be with us through the process of figuring out what we needed to do. Within a week, FM Global presented us with a significant down payment toward what the claim would ultimately cost, which was a meaningful sign of cooperation and concern. We quickly acquired a technologically advanced Army-style MASH unit and, within a week, the mobile hospital was fully operational."

In January of 2012, Mercy broke ground at what would become the new Mercy Hospital Joplin campus. The state-of-the-art facility opened its doors in early 2015. "FM Global's engineering services were vital to the development of the complex—we relied heavily on their expertise," Pulsipher continues. "Their engineers draw from an expansive knowledge of companies all over the world and know the best way to design facilities."

"The new hospital," he adds, "is protected with storm-resistant features that include fortified safe zones, hurricane-rated windows in critical areas, a concrete and brick exterior, and numerous other improvements. We chose to apply unprecedented standards to areas where people can't quickly escape, protecting all of our patients to the highest degree. It's part of understanding the unique role of a hospital—what it is, what it does and whom it serves."

Rebuilding and resiliency

The Mercy experience provides a constructive lesson for corporations—and municipalities—that are ravaged by natural disasters. Michael McCurry, Mercy's executive vice president and chief operating officer, observes that "the communities that make it back and don't lose a lot of the population are those that immediately decide to rebuild. The longer you are in that no-man's land and don't know what you are going to do, the more likely it is that people resolve to move out of the community." McCurry says he is proud of the role Mercy played in Joplin's recovery—and is "grateful for our partnership with FM Global."

"That became our collective focus—not to worry about that pile of rubble that used to be our operations or about the rebuild, but to get into a temporary location and get back to business."

– Margaret Kelsey, vice president,
legal and corporate communications
Modine Manufacturing Company

MODINE MANUFACTURING COMPANY

Since 1916, Modine Manufacturing Company has specialized in thermal management solutions, bringing heat transfer technology to the vehicular segment, producing components and systems for vehicles and other off-highway products, and building HVAC components and equipment for mostly commercial buildings. In 2005, it diversified its portfolio with the acquisition of Airedale International Air Conditioning Limited, a world leader in the design and manufacture of innovative, high-efficiency cooling solutions, which was established in 1974. In 2013, a major fire destroyed the Airedale factory in Rawdon, a village in Leeds, U.K.

Getting back to business

"Mitigating and minimizing risk is at the core of our conservative values," says Margaret Kelsey, vice president, legal and corporate communications at Modine. "That philosophy served us well in the wake of the blaze, as we immediately launched the recovery process. We have business interruption coverage under our insurance policy, and FM Global made it very clear that it was in everyone's best interest to get our operations at Airedale up and running as fast as possible. That became our collective focus—not to worry about that pile of rubble that used to be our operations or about the rebuild, but to get into a temporary location and get back to business."

"FM Global's goal was to move Airedale into a temporary facility within an eight-week time frame. It was really quite amazing how fast that happened," she says. "To find the building, get the lease done, get our equipment in, and get back up and running again was a remarkable accomplishment. The temporary facility was critical for us, not only to get back to production but to get our employees engaged again."

"Four months later, our manufacturing output from Airedale was back to its prefire levels. The Rawdon site was cleared, and by January 2016 we had a new fully operational, highly protected facility."

A bright future for Airedale

Modine's partnership with FM Global was pivotal. "Anthony Cole, our operations director at Airedale, recently told me that he thinks Airedale would have gone under without that collaborative support," Kelsey relates. "And we knew that livelihoods and businesses in the area depended on us bouncing back. Nobody would wish a fire like this upon anybody. But the best thing that can happen is that you rise out of it, and you say, 'We're going to be better.' And I know we will be."

BUSINESS OPERATIONS

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

AFM specializes in commercial property insurance for the middle market. AFM provides tailored underwriting expertise and property loss control engineering through a select international network of broker partners. The organization has office locations in Australia, Canada, France, Germany, Italy, the Netherlands, the United Kingdom and throughout the United States, and it offers coverage in more than 60 countries.

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

Mutual Boiler Re provides boiler and machinery insurance in North America, specializing in mechanical, electrical and pressure systems breakdown treaty reinsurance and support services to the commercial property insurance marketplace. Today it works with more than 200 insurance companies, providing coverage to their policyholders.

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

FM Approvals provides third-party certification of property loss prevention products and services. More than 500 categories are represented, including roofing and building material, cleanroom material and electrical and fire protection equipment. FM Approvals also offers complimentary online resources dedicated to property loss prevention.

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

FM GLOBAL AROUND THE WORLD

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

North America

Bahamas
Canada
Costa Rica
Dominican Republic
El Salvador
Guatemala
Honduras
Jamaica
Mexico
Nicaragua
Panama
Trinidad and Tobago
United States

South America

Argentina
Bolivia
Brazil
Chile
Colombia
Ecuador
Paraguay
Peru
Uruguay
Venezuela

Europe, Middle East and Africa

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

Asia/Pacific

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

FINANCIAL INFORMATION

FINANCIAL INFORMATION

INVESTMENT REPORT

Following several years of relatively strong returns from stocks and bonds, both of these primary asset classes produced low returns in 2015. Specifically, the S&P 500 stock index returned 1.38 percent for the year, while FM Global's primary bond index (a customized Barclays high grade aggregate with a duration at year end of 4.7 years), returned 1.46 percent.

The tables on page 25 show key measures of FM Global's investment portfolios, including asset class weights and returns relative to benchmarks. Return on total assets at 1.53 percent compared to benchmark 1.22 percent. This was the result of modest outperformance in most of the stock and bond categories, as detailed in the table. Bond/stock asset allocation had a relatively small impact, reflecting returns from the two asset classes being quite close, as noted above.

Key economic developments during the year included the following:

- The U.S. economy exhibited satisfactory progress, notably with employment conditions improving, with an average 225,000 new jobs added monthly, and wage gains moving up over 2 percent.
- Relatedly, in December, the first move to less U.S. monetary accommodation occurred with the Federal Reserve targeted funds rate raised ¼ percentage point.
- Commodity prices moved substantially lower, including oil, reflecting both an increase in supply and moderation in demand. This has been disruptive to many related industries and commodity sensitive economies.
- China experienced slowing economic growth, along with a needed evolution from infrastructure building and exports toward consumption and services expansion.
- Economic progress in Europe remained subdued.
- Currency volatility was well above normal trend, reflecting the above and adding to instability.
- Geo-political tensions increased.

Given the above, financial markets generally weakened in late 2015, and stock weakness has continued into 2016. The base case remains that the global economy will not fall to recessionary type conditions in 2016, but the alternative case skews in that direction. Earnings at the larger, publicly traded companies that comprise the majority of the worlds stock indices, to date are generally being sustained at positive levels of return on capital (with the clear exception of energy companies). Regarding financial asset prices, FM Global's investment group views equity valuation of earnings/cash flow to be in the range of fair value, considering the expectation of continued low interest rates.

The Company remains focused on the intermediate/long-term horizon in its investing. This, along with a very strong balance sheet position, supports a relatively large weight to equities, at 48 percent of total managed investment assets. As has been the case historically, the company believes equities will outperform bonds over time (plus stocks have tax advantages, with a lower corporate tax rate on stock dividends and deferral of capital gains).

In addition to providing functional support to FM Global's business operations, the real estate group manages 3.4 million ft.^{2} (316,000 m^2) of investment properties. These real property assets provide an additional element of portfolio diversification. They also provide a cost-effective approach in meeting FM Global's ongoing real estate needs, while enhancing the value of its properties. For 2015, commercial properties produced $99.9 million in revenue and $27.1 million in cash flow.

† All financial figures in U.S. dollars.

Rates of Return	2015 Portfolio	2015 Benchmark	2014 Portfolio	2014 Benchmark
Total managed investment portfolio	1.53%	1.22% [1]	7.09%	7.93% [1]
Debt securities				
Investment-grade taxable bonds	1.57%	1.46% [2]	5.30%	5.14% [2]
Municipal bonds*	5.15%	4.62% [3]	7.47%	6.80% [3]
High-yield bonds	-3.72%	-4.61% [4]	3.04%	2.51% [4]
Equity securities – total	0.94%	0.68% [5]	10.57%	11.64% [5]
Internally managed stock portfolio	1.49%	1.38% [6]	13.23%	13.69% [6]
Outside managed stocks, mostly international	-2.33%	-1.61% [7]	-4.67%	-3.87% [7]

[1] Weighted S&P 500 Plus Global Stock Index (48%), Custom Barclays Index (45%), T Bill (7%)
[2] Custom Barclays Index
[3] Barclays Muni 2-12 Year
[4] Merrill Lynch U.S. High-Yield Master II Constrained Index
[5] S&P 500 Index (89%) plus MSCI All World ex. U.S. (11%)
[6] S&P 500
[7] MSCI All World ex. U.S.

* Taxable equivalent return.

Pretax Contribution to Surplus (in millions) †	2015	2014
Investment income	$ 326	$ 327
Realized gains	264	346
Unrealized (losses) gains	(330)	412
	$ 260	$1,085

As of December 31 Holdings (in millions) †	2015 Total	2015 Percentage	2014 Total	2014 Percentage
Equity securities	$ 7,063	47.8%	$ 6,992	48.1%
Taxable debt securities	3,851	26.1	3,795	26.1
Municipal debt securities	1,825	12.3	1,728	11.9
Short-term funds	1,215	8.2	1,214	8.3
Alternative investments (private equity, hedge funds)	827	5.6	812	5.6
Total	$ 14,781	100.0%	$ 14,541	100.0%

† All financial figures in U.S. dollars.

MANAGEMENT'S STATEMENT ON **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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 footnotes, were prepared in accordance with accounting principles generally accepted in the United States of America and include judgments and estimates, which, in the opinion of management, are applied on an appropriately conservative 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, 2015 and December 31, 2014.

Thomas A. Lawson
President and
Chief Executive Officer

Jeffrey A. Burchill
Senior Vice President – Finance
Chief Financial Officer

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

We have audited the accompanying consolidated financial statements of Factory Mutual Insurance Company and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in policyholders' surplus, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Factory Mutual Insurance Company and Subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

Boston, Massachusetts
February 26, 2016

CONSOLIDATED **BALANCE SHEETS**

(in thousands)

December 31	2015	2014
Assets		
Investments:		
Debt securities (including $449,500 and $288,800 of securities on loan under a securities lending program)	$ 5,676,100	$ 5,457,600
Equity securities	7,062,700	7,082,100
Other securities	827,200	811,500
Real estate	592,600	545,200
Total Investments	14,158,600	13,896,400
Cash and cash equivalents	1,296,900	1,333,700
Recoverable from reinsurers	1,341,700	1,373,000
Premium receivable	605,400	670,200
Prepaid reinsurance premium	240,800	274,900
Premises and equipment	382,900	376,500
Other assets	878,600	886,700
Total Assets	$ 18,904,900	$ 18,811,400
Liabilities		
Unpaid losses and loss adjustment expenses	$ 3,901,500	$ 3,872,200
Reserve for unearned premium	2,419,200	2,467,600
Current and deferred income taxes	703,200	995,900
Other liabilities	844,500	829,300
Total Liabilities	7,868,400	8,174,000
Policyholders' surplus		
Accumulated other comprehensive income	1,246,000	1,584,700
Retained earnings	9,790,500	9,052,700
Total Policyholders' surplus	11,036,500	10,637,400
Total Liabilities and Policyholders' surplus	$ 18,904,900	$ 18,811,400

See accompanying notes.

CONSOLIDATED **STATEMENTS OF INCOME**

(in thousands)

Year ended December 31	2015	2014
Gross premium earned	$ 5,458,200	$ 5,667,900
Ceded premium earned	(1,448,200)	(1,614,200)
Net premium earned	4,010,000	4,053,700
Membership credit	(430,900)	(437,100)
Net premium earned after membership credit	3,579,100	3,616,600
Investment-related income	435,400	429,000
Fee-related income	64,000	62,500
Total revenue	4,078,500	4,108,100
Net losses and loss adjustment expenses	1,985,400	1,890,300
Insurance-related expenses	1,033,400	945,300
Investment-related expenses	179,900	164,600
Fee-related expenses	53,100	50,700
Total losses, loss adjustment and other expenses	3,251,800	3,050,900
Income from operations	826,700	1,057,200
Net realized investment gains	358,200	365,100
Other than temporary impairment losses	(94,000)	(19,500)
Income before income taxes	1,090,900	1,402,800
Income tax expense	353,100	446,400
Net income	$ 737,800	$ 956,400

See accompanying notes.

CONSOLIDATED STATEMENTS OF **COMPREHENSIVE INCOME**

(in thousands)

Year ended December 31	2015	2014
Net income	$ 737,800	$ 956,400
Other comprehensive loss:		
(Decrease) increase in net unrealized appreciation on investments in debt and equity securities, net of income tax benefit of $110,500 for 2015 and income tax expense of $139,500 for 2014.	(219,600)	272,600
Benefit plan assets and liabilities, net of income tax expense of $6,700 for 2015 and income tax benefit of $116,800 for 2014.	7,000	(218,200)
Foreign currency translation adjustment, net of income tax benefit of $42,400 for 2015 and $18,000 for 2014.	(126,100)	(89,600)
Other comprehensive loss	(338,700)	(35,200)
Comprehensive income	$ 399,100	$ 921,200

CONSOLIDATED STATEMENTS OF CHANGES IN **POLICYHOLDERS' SURPLUS**

(in thousands)

Year ended December 31	2015	2014
Retained earnings at beginning of year	$ 9,052,700	$ 8,096,300
Net income	737,800	956,400
Retained earnings at end of year	9,790,500	9,052,700
Accumulated other comprehensive income at beginning of year	1,584,700	1,619,900
Other comprehensive loss	(338,700)	(35,200)
Accumulated other comprehensive income at end of year	1,246,000	1,584,700
Policyholders' surplus at end of year	$11,036,500	$10,637,400

See accompanying notes.

CONSOLIDATED STATEMENTS OF **CASH FLOWS**

(in thousands)

Year ended December 31	2015	2014
Operating activities		
Net income	$ 737,800	$ 956,400
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	61,600	55,400
Decrease (increase) in premium receivable	64,800	(57,300)
(Decrease) increase in reserve for unearned premium	(57,400)	8,700
Increase (decrease) in unpaid losses and loss adjustment expenses	29,300	(67,300)
Decrease in recoverable from reinsurers	31,300	177,800
(Decrease) increase in current and deferred income taxes	(160,600)	44,500
Net realized investment gains	(264,200)	(345,600)
Decrease in prepaid reinsurance premium	34,100	63,200
Other	104,400	(4,600)
Net cash provided by operating activities	581,100	831,200
Investing activities		
Net purchases of short-term investments	(65,500)	(43,400)
Purchases of debt, equity and other securities	(4,391,700)	(3,761,700)
Sales and maturities of debt, equity and other securities	3,935,500	3,410,000
Capital expenditures	(104,100)	(165,700)
Other	7,900	12,800
Net cash provided by operating activities	(617,900)	(548,000)
(Decrease) increase in cash and cash equivalents	(36,800)	283,200
Cash and cash equivalents at beginning of year	1,333,700	1,050,500
Cash and cash equivalents at end of year	$ 1,296,900	$ 1,333,700

See accompanying notes.

Note 1. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements are stated in U.S. dollars and have been prepared on the basis of U.S. generally accepted accounting principles, which differ in some respects from statutory accounting practices prescribed or permitted by the State of Rhode Island and Providence Plantations, Department of Business Regulation, Insurance Division. On the basis of statutory accounting practices, consolidated policyholders' surplus was $10,546,700 and $10,141,800 at December 31, 2015 and 2014, respectively; net income for the respective years then ended was $651,400 and $803,800.

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 2014 Notes to Consolidated Financial Statements have been reclassified to conform to the 2015 presentation.

Cash and Cash Equivalents

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

Investments

Management determines the appropriate classification of debt securities at the time of purchase. All equity and debt securities are classified as available-for-sale and are stated at fair value.

The amortized cost of debt securities is adjusted for amortization of premiums 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.

Note 1. Significant Accounting Policies *(continued)*

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

The cost of securities sold is based upon the specific identification method. Unrealized appreciation or depreciation of debt and equity securities, net of tax, is reported directly in other comprehensive income.

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

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

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

Income Taxes

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

The Internal Revenue Service (IRS) has completed its examination of the Company's Federal income tax returns through 2012. There are no current IRS examinations in process.

Note 1. Significant Accounting Policies *(continued)*

Deferred Costs

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

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

Real Estate and Premises and Equipment

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

Unpaid Losses and Loss Adjustment Expenses

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

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

Premiums

The Company issues term premium policies. The term premium is earned on a prorata basis over the life of the policy.

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 that cause unfavorable underwriting results by reinsuring certain levels of risk with other insurance enterprises. Reinsurance premium and losses and loss adjustment expenses ceded under these arrangements are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contract.

Note 1. Significant Accounting Policies *(continued)*

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.

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

Investment 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.

Accounting Standards Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes existing revenue recognition guidance with a single model, unless a contract is within the scope of another standard. Under the new guidance, companies must allocate the total contract price to distinct contract components on a standalone selling price basis and recognize revenue upon fulfillment of each performance obligation and provide additional disclosures. The FASB subsequently issued ASU 2015-14, which defers the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2018. The Company is evaluating the impact, if any, that adoption will have on its consolidated financial position, results of operations, and related disclosures.

In May 2015, the FASB issued ASU 2015-09, *Disclosures about Short-Duration Contracts*, which applies to all insurance entities that issue short-duration contracts as defined in ASC 944, Financial Services – Insurance. The update requires an insurance entity to provide additional disclosures for its short-duration insurance contracts, including the presentation of incurred and paid claims development tables by accident year. The update is effective for annual reporting periods beginning after December 15, 2016. The Company is evaluating the impact that adoption will have on its financial statement disclosures.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 requires equity investments to be measured at fair value, with changes in fair value recognized in net income. The update is effective for annual reporting periods beginning after December 15, 2017. The Company is evaluating the impact that adoption will have on its financial statements and related disclosures.

(in thousands)

Note 2. Investments

Debt and Equity Securities

The following is a summary of securities at December 31, 2015:

	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	$ 769,600	$ 15,700	$ (3,000)	$ 782,300
Obligations of states and political subdivisions	1,736,100	65,900	(2,600)	1,799,400
Mortgage and asset-backed securities				
Agency	740,000	23,900	(4,900)	759,000
Commercial	169,200	700	(3,100)	166,800
Residential	3,500	5,400	–	8,900
Other mortgage and asset-backed securities	168,600	900	(900)	168,600
U.S. Corporate securities	1,214,400	31,300	(33,200)	1,212,500
Foreign government securities	424,800	4,900	(700)	429,000
Other debt securities	347,100	4,000	(1,500)	349,600
Total debt securities	5,573,300	152,700	(49,900)	5,676,100
Equity securities:				
Consumer discretionary	533,900	532,400	(13,700)	1,052,600
Consumer staples	255,700	293,700	(1,100)	548,300
Energy	284,300	168,600	(7,800)	445,100
Financials	553,700	386,500	(7,000)	933,200
Health care	515,400	426,400	(1,800)	940,000
Industrials	402,500	267,500	(20,600)	649,400
Information technology	349,700	599,900	(3,800)	945,800
Mutual funds (international and emerging markets)	835,200	240,500	(27,300)	1,048,400
All other sectors	362,800	141,500	(4,400)	499,900
Total equity securities	4,093,200	3,057,000	(87,500)	7,062,700
Total debt and equity securities	$ 9,666,500	$ 3,209,700	$ (137,400)	$12,738,800

(in thousands)

Note 2. Investments *(continued)*

The following is a summary of securities at December 31, 2014:

	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	$ 613,700	$ 16,800	$ (3,100)	$ 627,400
Obligations of states and political subdivisions	1,628,800	67,800	(2,400)	1,694,200
Mortgage and asset-backed securities				
Agency	712,700	29,300	(3,200)	738,800
Commercial	142,000	3,800	(2,000)	143,800
Residential	4,200	5,800	–	10,000
Other mortgage and asset-backed securities	191,200	2,500	(1,000)	192,700
U.S. corporate securities	1,155,500	49,300	(11,700)	1,193,100
Foreign government securities	558,700	21,300	–	580,000
Other debt securities	266,100	12,200	(700)	277,600
Total debt securities	5,272,900	208,800	(24,100)	5,457,600
Equity securities:				
Consumer discretionary	492,200	432,500	(1,600)	923,100
Consumer staples	329,500	328,000	(1,100)	656,400
Energy	333,300	246,200	(8,900)	570,600
Financials	479,300	421,300	(500)	900,100
Health care	473,000	439,300	(900)	911,400
Industrials	363,900	287,300	(6,800)	644,400
Information technology	307,900	646,900	–	954,800
Mutual funds (international and emerging markets)	769,500	275,700	(6,900)	1,038,300
All other sectors	315,800	171,400	(4,200)	483,000
Total equity securities	3,864,400	3,248,600	(30,900)	7,082,100
Total debt and equity securities	$ 9,137,300	$ 3,457,400	$ (55,000)	$ 12,539,700

During the years ended December 31, 2015 and 2014, purchases of debt securities were $3,127,600 and $2,471,000, respectively. Purchases of equity securities were $1,182,300 and $1,166,600, respectively.

In addition, during the years ended December 31, 2015 and 2014, proceeds from the sale of debt securities were $2,677,800 and $2,207,300, respectively. Proceeds from the sale of equity securities were $1,113,300 and $1,051,500, respectively.

The gross realized gains and (losses) on sales of debt and equity securities totaled $358,400 and $(48,000), and $314,100 and $(26,600) in 2015 and 2014, respectively.

(in thousands)

Note 2. Investments *(continued)*

The amortized cost and fair value of debt securities at December 31, 2015 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in one year or less	$ 194,500	$ 195,900
Due after one year through five years	1,631,100	1,670,100
Due after five years through 10 years	2,052,300	2,080,600
Due after 10 years	614,100	626,200
	4,492,000	4,572,800
Mortgage and asset-backed securities	1,081,300	1,103,300
Total debt securities	$ 5,573,300	$ 5,676,100

Under a securities lending program with an agent, the Company has temporarily loaned certain debt securities with a fair value of $449,500 and $288,800 at December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, the Company held total collateral values of $459,100 and $295,200 related to the securities lending program, of which cash collateral included in other assets and other liabilities were $118,000 and $48,400, respectively.

Included in the Company's debt security portfolio are securities with unrealized losses deemed to be temporary. The total unrealized loss on these securities was $49,900 (fair value of $1,860,200) at December 31, 2015, and $24,100 (fair value of $990,800) at December 31, 2014. The amount of loss that existed for 12 months or more was immaterial for both 2015 and 2014. In reaching its conclusion that these impairments are temporary, the Company considered issuer specific circumstances as well as the fact that the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell before they recover in value or mature.

Included in the Company's equity security portfolio are securities with unrealized losses deemed to be temporary. The total unrealized loss on these securities was $87,500 (fair value of $785,200) at December 31, 2015 and $30,900 (fair value of $395,200) at December 31, 2014. The amount of loss that existed for 12 months or more was immaterial for both 2015 and 2014. In reaching its conclusion that these impairments are temporary, the Company considered the duration and severity of the decline as well as the near term prospects of the issuer. The Company believes these securities will appreciate over time, and the Company has the ability and intent to hold these securities until such time.

During the years ended December 31, 2015 and 2014, net realized investment gains on other securities were $47,800 and $77,600, respectively.

Credit Risk

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

(in thousands)

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.

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

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

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

In infrequent circumstances, the pricing is not available from the pricing vendor, and is based on significant unobservable inputs. In those circumstances, the investment security is classified in Level 3.

The following table presents the Company's invested assets measured at fair value as of December 31, 2015:

Invested Assets, at Fair Value	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities	$ 5,676,100	$ 30,800	$ 5,645,300	$ –
Equity securities	7,062,700	6,976,800	85,900	–
Total	$ 12,738,800	$ 7,007,600	$ 5,731,200	$ –

(in thousands)

Note 3. Fair Value *(continued)*

The following table presents the Company's invested assets measured at fair value as of December 31, 2014:

Invested Assets, at Fair Value	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities	$ 5,457,600	$ 55,700	$ 5,401,900	$ –
Equity securities	7,082,100	6,993,300	88,800	–
Total	$ 12,539,700	$ 7,049,000	$ 5,490,700	$ –

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

All equity securities are priced using quoted market prices and classified as Level 1 with the exception of certain mutual funds which are priced by the manager using other observable inputs and therefore classified as Level 2. See Note 2 for a breakout of equity securities by category.

There were no transfers of securities between Levels 1 and 2 in 2015 or 2014.

Securities lending collateral held at December 31, 2015 and 2014 consists of highly liquid investments, which are classified as Level 1 in the fair value hierarchy.

Note 4. Membership Credit

The Company's Board of Directors approved a membership credit to eligible policyholders for 2015 and 2014. These policyholders were eligible for the membership credit at anniversary or renewal of their policies. If renewed, the membership credit was recorded as a reduction of net premium earned at the anniversary or renewal date.

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 recoverables depends on the financial soundness of the individual reinsurers. The reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible.

The effect of reinsurance on written premium is as follows:

	Year ended December 31	
	2015	2014
Gross written premium	$ 5,472,600	$ 5,676,600
Ceded written premium	(1,457,800)	(1,466,200)
Net written premium	$ 4,014,800	$ 4,210,400

(in thousands)

Note 5. Reinsurance *(continued)*

Ceded losses and loss adjustment expenses incurred for the years ended December 31, 2015 and 2014, were $488,400 and $582,700, respectively.

Note 6. Unpaid Losses and Loss Adjustment Expenses

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

	Year ended December 31	
	2015	2014
Gross unpaid as of January 1	$ 3,872,200	$ 3,939,500
Less: unpaid reinsurance recoverables	1,243,700	1,358,000
Net unpaid as of January 1	$ 2,628,500	$ 2,581,500
Net incurred related to:		
Current year	1,933,000	2,093,600
Prior year	52,400	(203,300)
Total incurred	1,985,400	1,890,300
Net paid related to:		
Current year	743,900	880,300
Prior year	1,210,100	963,000
Total paid	1,954,000	1,843,300
Gross unpaid as of December 31	3,901,500	3,872,200
Less: unpaid reinsurance recoverables	1,241,600	1,243,700
Net unpaid as of December 31	$ 2,659,900	$ 2,628,500

As a result of changes in estimates of insured events related to prior years, the provision for losses and loss adjustment expenses increased by $52,400 and decreased by $203,300 in 2015 and 2014, respectively. The increase in 2015 was primarily attributable to the reserve strengthening for asbestos and environmental due to the Company's exposure analysis. The decrease in 2014 was due to the reduction of incurred-but-not-reported (IBNR) reserves based on actual experience and decreases on a small number of individual losses.

In establishing reserves for property losses there is uncertainty in management's estimates that cause these estimates to differ from ultimate payments. In establishing the liability for unpaid losses and loss adjustment expenses related to asbestos, environmental and other mass tort-related claims, which applies only to business that is now in runoff, 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 both known and unasserted claims. Estimates of the liabilities are reviewed continuously. Developed case law and adequate claim history do not exist for such claims, primarily because significant uncertainty exists about the outcomes of coverage litigation and whether past claim experience will be representative of future claim 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.

(in thousands)

Note 7. Real Estate and Premises and Equipment

Real estate and premises and equipment at December 31, 2015 and 2014 are summarized as follows:

	2015	2014
Land and buildings	$ 1,250,200	$ 1,812,000
Furniture, fixtures and equipment	392,000	354,700
Accumulated depreciation	(666,700)	(615,000)
Total	$ 975,500	$ 921,700

During 2015 and 2014, depreciation expense for real estate and premises and equipment was $61,600 and $55,400, 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 are classified as operating leases.

Future minimum lease payments at December 31, 2015, under operating leases with terms of one year or more, are in aggregate $160,500. The future minimum lease payments for each of the five succeeding years from 2016 to 2020 are $37,200, $32,400, $26,100, $18,000 and $12,700, respectively.

During 2015 and 2014, rent expense for all operating leases was $42,300 and $43,500, respectively.

Note 9. Income Taxes

The following is the current and deferred income tax expense/(benefit) for the years ended December 31, 2015 and 2014:

	2015	2014
Current income tax expense	$ 383,000	$ 462,700
Deferred income tax benefit	(29,900)	(16,300)
Total income tax expense	$ 353,100	$ 446,400

A reconciliation of income tax expense computed at U.S. Federal statutory tax rates to the income tax expense as included in the accompanying consolidated statements of income follows for the years ended December 31, 2015 and 2014:

	2015	2014
Income tax expense at U.S. Federal statutory tax rate:	$ 381,800	$ 491,000
Tax effect of:		
Nontaxable investment income	(37,000)	(35,700)
Effect of foreign operations	3,600	(10,200)
Other	4,700	(1,300)
Actual income tax expense	$ 353,100	$ 446,400

(in thousands)

Note 9. Income Taxes *(continued)*

The significant components of the net deferred tax liability at December 31, 2015 and 2014 are as follows:

	2015	2014
Deferred tax liabilities:		
Deferred acquisition costs	$ (23,800)	$ (22,100)
Unrealized appreciation	(1,037,000)	(1,140,000)
Deferred foreign income	(30,200)	(34,000)
Benefit plan expenses	(5,200)	(13,300)
Other investment items	(19,800)	(33,700)
Other	(48,400)	(56,100)
Total deferred tax liabilities	(1,164,400)	(1,299,200)
Deferred tax assets:		
Unpaid claims discount	49,500	58,500
Unearned premium reserve	126,200	129,200
Compensation accruals	83,500	75,500
Unrealized investment losses	86,600	76,200
Unrealized foreign tax	26,300	23,100
Tax credits	30,200	34,000
Other	85,200	46,500
Total deferred tax assets	487,500	443,000
Valuation allowance	(26,300)	(23,100)
Net deferred tax assets	461,200	419,900
Net deferred tax liability	$ (703,200)	$ (879,300)

The Company has established a valuation allowance for its foreign subsidiary's unrelieved foreign tax.

The Company has not recognized a deferred tax liability for the undistributed earnings of certain of its wholly owned foreign subsidiaries that arose in 2015 and prior years, because the Company does not expect those unremitted earnings to reverse and become taxable to the Company in the foreseeable future and the determination of the amount of the unrecognized deferred tax liability related to the undistributed earnings is not practicable. As of December 31, 2015, the undistributed earnings of these subsidiaries were approximately $264,000.

Income tax paid during 2015 and 2014 was $535,000 and $419,200, respectively. In addition, the Company received income tax refunds of $28,500 and $29,200 during 2015 and 2014, respectively.

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

(in thousands)

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

The Company sponsors noncontributory retirement income plans covering 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. Generally, the Company's funding policy is to maintain a sufficiently funded level to ensure benefit security and to vary contribution levels as appropriate to business conditions. The Company also has supplemental retirement plans that are noncontributory defined benefit plans covering certain employees.

The Company provides health care and life insurance benefits for certain retired employees and their dependents. Employees not eligible for benefits under pre-merger plan provisions, under age 30 as of January 1, 2000, or hired after January 1, 2000, are ineligible for benefits. Other employees may become eligible if they meet certain age and service requirements. The plan is generally contributory, with retiree contributions adjusted annually, and contains other cost-sharing features, including deductibles and coinsurance

Obligations and funded status are as follows:

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Fair value of plan assets	$ 2,498,400	$ 2,553,100	$ 145,600	$ 156,900
Benefit obligations	2,443,900	2,444,100	186,900	192,200
Funded status, end of year	$ 54,500	$ 109,000	$ (41,300)	$ (35,300)

The accumulated benefit obligations for the pension and supplemental benefits plans were $2,127,800 and $2,112,500, at December 31, 2015 and 2014, respectively.

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

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Asset	$ 216,800	$ 258,000	$ –	$ –
Liability	(162,300)	(149,000)	(41,300)	(35,300)
Total	$ 54,500	$ 109,000	$ (41,300)	$ (35,300)

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

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Net actuarial loss	$ 723,100	$ 731,200	$ 50,800	$54,600
Prior service cost	700	800	8,200	9,900
Total	$ 723,800	$ 732,000	$ 59,000	$ 64,500

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, 2015	Dec. 31, 2014
Projected benefit obligation, end of year	$ 144,800	$ 133,900
Accumulated benefit obligation, end of year	121,700	112,900
Fair value of plan assets, end of year	–	–

(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 plans with a projected benefit obligation in excess of plan assets are as follows:

	Dec. 31, 2015	Dec. 31, 2014
Projected benefit obligation, end of year	$ 391,300	$ 133,900
Fair value of plan assets, end of year	244,300	–

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

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Current year actuarial loss (gain)	$ 50,200	$ 343,700	$ 300	$ 28,500
Amortization of actuarial loss	(58,300)	(34,000)	(4,100)	(1,400)
Current year prior service cost	–	–	–	–
Amortization of prior service cost	(100)	(200)	(1,700)	(1,600)
Total recognized in other comprehensive loss (income)	(8,200)	309,500	(5,500)	25,500
Net periodic benefit cost	54,800	20,300	5,800	3,400
Total recognized in net periodic benefit cost and other comprehensive loss (income)	$ 46,600	$ 329,800	$ 300	$ 28,900

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2016 are as follows:

	Pension and Supplemental Benefits	Other Benefits
Actuarial loss	$ 43,700	$ 4,600
Prior service cost	100	1,700
Total	$ 43,800	$ 6,300

Assumptions

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

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Discount rate	4.28%	3.99%	4.33%	4.00%
Expected return on plan assets	7.19	7.20	6.00	6.00
Rate of compensation increase	4.54	4.52	4.42	4.41

(in thousands)

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

Assumed health care cost trend rates:

	Other Benefits	
	Dec. 31, 2015	Dec. 31, 2014
Initial rate	7.44%	7.47%
Ultimate rate	5.00%	5.00%
Years to ultimate	6 years	6 years

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

	Pension and Supplemental Benefits		Other Benefits	
	Dec. 31, 2015	Dec. 31, 2014	Dec. 31, 2015	Dec. 31, 2014
Discount rate	3.99%	4.72%	4.00%	4.75%
Expected long-term return on plan assets	7.20	7.28	6.00	6.00
Rate of compensation increase	4.52	4.55	4.41	4.41

Assumed health care cost trend rates:

	Other Benefits	
	Dec. 31, 2015	Dec. 31, 2014
Initial rate	7.47%	7.50%
Ultimate rate	5.00%	5.00%
Years to ultimate	6 years	7 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, 2016	Dec. 31, 2015	Dec. 31, 2014
Equity securities	64%	66%	64%
Debt securities	28	21	18
Cash equivalents	5	8	13
Other	3	5	5
Total	100%	100%	100%

The maturities of debt securities are as follows:

	Dec. 31, 2015	Dec. 31, 2014
Maturity range	0-55 years	0-55 years
Weighted-average maturity	13.68 years	13.94 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, 2015, are as follows (refer to Note 3 for the valuation techniques):

Asset Class	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities (a):				
Consumer discretionary	$ 192,600	$ 192,600	$ –	$ –
Consumer staples	89,300	89,300	–	–
Energy	101,300	101,300	–	–
Financials	204,200	204,200	–	–
Health care	164,000	164,000	–	–
Industrials	111,100	111,100	–	–
Information technology	195,600	195,600	–	–
Mutual funds	482,900	306,300	176,600	–
All other sectors	118,100	118,100	–	–
Total equity securities	1,659,100	1,482,500	176,600	–
Debt securities (b):				
U.S. treasury securities and obligations of U.S. government agencies	141,600	–	141,600	–
Mortgage and asset-backed securities				
Agency	62,500	–	62,500	–
Residential	1,000	–	1,000	–
Other mortgage and asset-backed securities	28,100	–	28,100	–
U.S. corporate securities	181,700	–	181,700	–
Mutual funds	100,000	–	100,000	–
Other debt securities	7,000	–	7,000	–
Total debt securities	521,900	–	521,900	–
Cash equivalents	194,700	194,700	–	–
Other (c)	122,700	5,900	–	116,800
Total	$ 2,498,400	$ 1,683,100	$ 698,500	$ 116,800

(a) Includes common stocks and equity mutual funds of which $215,900 were on loan under a securities lending program as of December 31, 2015.

(b) Includes $118,500 of debt securities that were on loan under a securities lending program as of December 31, 2015. The total collateralized value of these loaned securities for both items (a) and (b) was $341,800 and consisted of $236,100 in Level 1 short-term and money market investments and $105,700 in Level 2 government agency debt securities.

(c) Includes private equity partnerships and one real estate partnership.

(in thousands)

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

The change in the fair value of the Level 3 Plan investments during 2015 was as follows:

	Other Investments
Balance at January 1, 2015	$ 107,400
Realized gain	300
Unrealized gain relating to instruments still held at the reporting date	8,000
Purchases, sales, issuances and settlements (net)	1,100
Balance at December 31, 2015	$ 116,800

The fair value measurements of pension and supplemental benefit plan assets at December 31, 2014, are as follows (refer to Note 3 for the valuation techniques):

Asset Class	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities (a):				
Consumer discretionary	$ 190,600	$ 190,600	$ –	$ –
Consumer staples	87,800	87,800	–	–
Energy	131,900	131,900	–	–
Financials	205,400	205,400	–	–
Health care	183,100	183,100	–	–
Industrials	112,800	112,800	–	–
Information technology	167,900	167,900	–	–
Mutual funds	456,900	258,400	198,500	–
All other sectors	121,900	121,900	–	–
Total equity securities	1,658,300	1,459,800	198,500	–
Debt securities (b):				
U.S. treasury securities and obligations of U.S. government agencies	88,200	–	88,200	–
Mortgage and asset-backed securities				
Agency	68,100	–	68,100	–
Residential	1,800	–	1,800	–
Other mortgage and asset-backed securities	30,300	–	30,300	–
U.S. corporate securities	145,300	–	145,300	–
Mutual funds	107,600	–	107,600	–
Other debt securities	8,500	–	8,500	–
Total debt securities	449,800	–	449,800	–
Cash equivalents	330,100	330,100	–	–
Other (c)	114,900	7,500	–	107,400
Total	$ 2,553,100	$ 1,797,400	$ 648,300	$ 107,400

(in thousands)

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

(a) Includes common stocks and equity mutual funds of which $150,400 were on loan under a securities lending program as of December 31, 2014.

(b) Includes $47,300 of debt securities that were on loan under a securities lending program as of December 31, 2014. The total collateralized value of these loaned securities for both items (a) and (b) was $202,100 and consisted of $163,300 in Level 1 short-term and money market investments and $38,800 in Level 2 government agency debt securities.

(c) Includes private equity partnerships and one real estate partnership.

The change in the fair value of the Level 3 Plan investments during 2014 was as follows:

	Other Investments
Balance at January 1, 2014	$ 94,200
Realized gain	–
Unrealized gain relating to instruments still held at the reporting date	14,600
Purchases, sales, issuances and settlements (net)	(1,400)
Balance at December 31, 2014	$ 107,400

Other Postretirement Benefit Plan Assets

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

	Target Allocation	Percentage of Plan Assets	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2014
Asset Class			
Equity securities	90%	94%	94%
Cash equivalents	10	5	5
Debt and other	–	1	1
Total	100%	100%	100%

The maturities of debt securities are as follows:

	Dec. 31, 2015	Dec. 31, 2014
Maturity range	–	0-1 years
Weighted-average maturity	–	0.75 years

(in thousands)

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

The fair value measurements of other postretirement benefit plan assets at December 31, 2015, are as follows (refer to Note 3 for the valuation techniques):

Asset Class	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities:				
Consumer discretionary	$ 21,600	$ 21,600	$ –	$ –
Consumer staples	11,900	11,900	–	–
Energy	10,700	10,700	–	–
Financials	14,000	14,000	–	–
Health care	20,500	20,500	–	–
Industrials	14,500	14,500	–	–
Information technology	19,700	19,700	–	–
Mutual funds	14,600	14,600	–	–
All other sectors	9,600	9,600	–	–
Total equity securities	137,100	137,100	–	–
Debt securities:				
U.S. corporate securities	–	–	–	–
Total debt securities	–	–	–	–
Cash equivalents	7,700	7,700	–	–
Other (a)	800	800	–	–
Total	$ 145,600	$ 145,600	$ –	$ –

(a) Includes real estate partnership.

(in thousands)

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

The fair value measurements of other postretirement benefit plan assets at December 31, 2014, are as follows (refer to Note 3 for the valuation techniques):

Asset Class	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities:				
Consumer discretionary	$ 23,100	$ 23,100	$ –	$ –
Consumer staples	12,200	12,200	–	–
Energy	15,000	15,000	–	–
Financials	15,200	15,200	–	–
Health care	22,600	22,600	–	–
Industrials	16,300	16,300	–	–
Information technology	18,600	18,600	–	–
Mutual funds	12,400	12,400	–	–
All other sectors	12,200	12,200	–	–
Total equity securities	147,600	147,600	–	–
Debt securities:				
U.S. corporate securities	100	–	100	–
Total debt securities	100	–	100	–
Cash equivalents	8,000	8,000	–	–
Other (a)	1,200	1,200	–	–
Total	$ 156,900	$ 156,800	$ 100	$ –

(a) Includes real estate partnership.

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

Pension and Postretirement Plan Asset Investment Narrative

The investment policy of the Pension and Postretirement Plan specifies the types of securities that may be used, limits on the amount of the asset classes and subclasses, and general principles used in managing the plan's assets. The overriding objective is to maximize long-term total return of plan assets within constraints established to control risk and volatility. Three primary asset classes represent the first layer of asset allocation, these being equity securities, debt securities and cash equivalents. Since equity securities are expected to provide the highest long-term total return, exposure to equities is emphasized. Current approved ranges for the three asset classes are as follows:

Asset Class	Range
Equity securities	50-80%
Debt securities	10-50%
Cash equivalents	0-15%

Equity securities include individual common stocks as well as equity mutual funds and private equity partnerships. All equity investments are based on fundamental analysis of investment variables, including earning prospects, cash flow, balance sheet strength, competitive positioning and other factors. Diversification is emphasized, with specific size limits on individual stocks, international-oriented mutual funds, small capitalization-oriented funds and private equity. Investment returns are benchmarked against standard indices including the S&P 500 and MSCI global stock indices. In the taxable Postretirement Plan, equities are more heavily weighted based partly on favorable tax considerations.

Debt securities include individual securities, primarily in the high-grade taxable subcategory, debt mutual funds, as well as an outside managed portfolio of U.S. high-yield bonds. Debt securities are actively managed, using many of the same investment disciplines as in the Company's general account. These disciplines include an intermediate-term duration, diversification of securities, and ongoing analysis of the fundamental and valuation factors underlying the securities owned.

Short-term investments, defined as debt securities with a maturity of less than one year, are held primarily for liquidity purposes. Safety of principal is the primary consideration of investment in this asset class, and so only the highest quality investments are used. This will principally be money market funds and commercial paper carrying the highest quality ratings.

Expected rate of return assumptions are created based on assessments of future behavior of asset classes. As part of the process, historical relationships are considered. Using a three- to five-year outlook, estimates of numerous variables have been combined to gauge economic growth potential. Corporate cash flows are correlated with economic growth but also reflect productivity trends, with positive cash flow trends driving favorable return to equity owners. Debt security returns are expected to approximate their historical relationship with equity securities and produce somewhat lower returns with a lower level of volatility.

(in thousands)

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

Cash Flows

Employer Contributions	Pension and Supplemental Benefits	Other Benefits
2014	$ 42,900	$ –
2015	12,500	–
2016 (expected)	14,900	–

Contributions by participants to the other benefit plans were $4,400 and $3,500 for the years ended December 31, 2015 and 2014, respectively.

Benefit Payments	Pension and Supplemental Benefits	Other Benefits	Other Benefits (Government Subsidy)
2014	$ 72,600	$ 12,300	$ 1,200
2015	74,300	11,100	1,200

Estimated Future Payments	Pension and Supplemental Benefits	Other Benefits	Other Benefits (Government Subsidy)
2016	$ 85,100	$ 11,500	$ 1,200
2017	89,900	11,800	1,200
2018	99,900	12,000	1,200
2019	102,000	12,200	1,300
2020	108,100	12,300	1,300
2021-2025	619,700	60,900	6,100

The Company also sponsors a 401(k) savings plan whereby eligible employees may elect annually to contribute from 1 percent to 50 percent of their base pay on a pretax or after-tax basis. Employee contributions are restricted to Internal Revenue Service limits. The Company matches pretax and after tax contributions up to 6 percent of the employee's base pay. Company contributions to the plan were $20,200 in 2015 and $19,700 in 2014.

(in thousands)

Note 11. Components of Accumulated Other Comprehensive Income

The changes in accumulated other comprehensive income by component, net of income tax, for the period ended December 31, 2015 are as follows:

	Unrealized Appreciation on Investments in Debt and Equity Securities	Benefit Plan Asset and Liabilities	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income
Balance at January 1, 2015	$ 2,232,900	$ (522,900)	$ (125,300)	$ 1,584,700
Other comprehensive income before reclassifications	(75,000)	(34,900)	(126,100)	(236,000)
Amount reclassified from accumulated other comprehensive income	(144,600)	41,900	–	(102,700)
Net current period other comprehensive income (loss)	(219,600)	7,000	(126,100)	(338,700)
Balance at December 31, 2015	$ 2,013,300	$ (515,900)	$ (251,400)	$ 1,246,700

The following are reclassifications out of accumulated other comprehensive income to net income for the period ended December 31, 2015:

Unrealized appreciation of investment in debt and equity securities:		
Net realized investment gains	$ 310,400	
Other than temporary impairment losses	(94,000)	
Total before tax	216,400	
Income tax expense	(71,800)	
Net of tax	$ 144,600	
Amortization of benefit plan amounts:		
Prior service costs	$ (1,800)	(a)
Actuarial losses	(62,400)	(a)
Total before tax	(64,200)	
Income tax benefit	22,300	
Net of tax	$ (41,900)	

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

(in thousands)

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

The changes in accumulated other comprehensive income by component, net of income tax, for the year ended December 31, 2014 are as follows:

	Unrealized Appreciation on Investments in Debt and Equity Securities	Benefit Plan Asset and Liabilities	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income
Balance at January 1, 2014	$ 1,960,300	$ (304,700)	$ (35,700)	$ 1,619,900
Other comprehensive income before reclassifications	457,200	(242,400)	(89,600)	125,200
Amount reclassified from accumulated other comprehensive income	(184,600)	24,200	–	(160,400)
Net current period other comprehensive income (loss)	272,600	(218,200)	(89,600)	(35,200)
Balance at December 31, 2014	$ 2,232,900	$ (522,900)	$ (125,300)	$ 1,584,700

The following are reclassifications out of accumulated other comprehensive income to net income for the year ended December 31, 2014:

Unrealized appreciation of investment in debt and equity securities:		
Net realized investment gains	$ 287,300	
Other than temporary impairment losses	(19,500)	
Total before tax	267,800	
Income tax expense	(83,200)	
Net of tax	$ 184,600	
Amortization of benefit plan amounts:		
Prior service costs	$ (1,800)	(a)
Actuarial losses	(35,400)	(a)
Total before tax	(37,200)	
Income tax benefit	13,000	
Net of tax	$ (24,200)	

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

Note 12. Subsequent Events

Subsequent events were evaluated through February 26, 2016, the date the consolidated financial statements were available to be issued. No material transactions occurred after the balance sheet date that would impact the consolidated financial statements.

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