FM Insurance Europe S.A.

EU Taxonomy Report

31 December 2022

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Disclosures under Article 8 of the EU Taxonomy Regulation for FM Insurance Europe S.A.

FM Insurance Europe S.A. (“FMIE” or the “Company”) was incorporated on 9 December 2016 and is organised under the “Commercial Companies” laws of the Grand Duchy of Luxembourg, as a public limited liability company (Société Anonyme) and is a wholly owned subsidiary of Factory Mutual Insurance Company (“FMIC” or the “parent company”), a company organised under the laws of the State of Rhode Island, United States of America. “FM Global” is the communicative name for FMIC and its subsidiaries.

The Company is authorised by the Ministry of Finance and supervised by the CAA to establish insurance activities headquartered in the Grand Duchy of Luxembourg and to underwrite policies throughout the European Economic Area (“EEA”) via branches established in Belgium, France, Germany, Italy, The Netherlands, Spain, and Sweden and on a freedom of services basis in the remaining member states. The Company is also authorised by the Swiss Financial Market Supervisory Authority (“FINMA”) to establish insurance activities and underwrite policies in Switzerland via a Swiss branch.

This report covers sustainability related information on the investments and underwriting activities of FMIE in accordance with Article 8 of European Regulation (EU) 2020/852 (the “EU Taxonomy Regulation”) and related metrics as of 31 December 2022.

For the period from 1 January 2021 to 31 December 2022, EU Taxonomy Regulation and Commission Delegated Regulation (EU) 2021/2178 (“Disclosures Delegated Act”) require insurance and reinsurance undertakings to disclose the proportion of their total assets of exposures to Taxonomy-eligible and non-eligible economic activities, as well as the proportion of Taxonomy-eligible and non-eligible non-life insurance economic activities.

The eligibility factor is not an indicator of environmental performance or sustainability of an activity. Eligibility only indicates that the activities, we understand, have the potential to contribute to the defined environmental objectives of climate change mitigation or climate change adaptation based on our interpretation of what is provided under Commission Delegated Regulation (EU) 2021/2139 (the "Climate Delegated Act"), regardless of whether or not technical screening criteria defined has been met.

The sustainability related indicators presented below have various limitations and provide only our understanding of the scope of the activities that would qualify for further sustainability assessment via the technical screening criteria, to the extent we are able to do that.

This report should be read in conjunction with the financial information as published in the Financial Statements and Solvency and Financial Condition Report of the Company for the year ended 31 December 2022, and FM Global‘s Task Force on Climate-related Financial Disclosures (“TCFD”) report which also cover the year ended 31 December 2022. It is important to understand that FMIE’s approach to compliance with EU Taxonomy Regulation has to be assessed by reference to the approach of its parent company.

A. Contextual information

FM Global believes that the majority of loss is preventable, and that loss prevention and property conservation are integral to sustainability. We have a shared purpose of loss prevention and risk management to make businesses, communities, and the world more resilient.

For nearly 200 years, what today constitutes FM Global has been at the forefront of commercial property insurance. As a mutual company we focus on the needs of our policyholders, who are our primary stakeholders. Through our advanced research, engineering and data driven capabilities, we develop products and services that aim to help our clients understand their climate risks and how to reduce and mitigate their property exposure.

FM Global continues to evaluate climate change and its evolving risk. In 2022, we advanced our climate resilience capabilities with the launch of a suite of new climate resilience products. We also engage beyond our clients to apply our knowledge in support of the broader global community.

In 2022, FM Global appointed a chief sustainability officer (CSO) to support the development and execution of our long term Environmental, Social and Governance (ESG) strategy. We also established an ESG Steering Committee comprised of business and functional subject matter experts within FM Global.

Our client resilience strategy is evolving with a particular focus on science-based knowledge and solutions that enable adaptation to, and protection against, climate risk. Our strategy is to:

- Mitigate climate risk in our underwriting portfolio
- Develop new climate-related products and services
- Manage climate risk and engage in climate-related opportunities in our investment portfolio
- Strengthen the resilience of our facilities and manage the impact of our operations
- Support climate resilience in our communities through philanthropic support
- Advance climate-related knowledge and innovation through research and development
- Accelerate, where possible, the renewables ecosystems

B. Investments

FM Global continually evaluates potential risk, return, and diversification opportunities across assets to inform our investment strategy with the goal of protecting and optimally growing the surplus for the long-term benefit and protection of our policyholders.

Climate-related risks are recognised as a component of the broader set of investment risks embedded within financial assets. We are taking a prudent approach to assessing and incorporating climate risk considerations within our investment portfolio to ensure alignment with our long-term investment strategy. We work with several high-quality investment firms that have a commitment to allocating resources and expertise to climate risk analytics, and to the integration of environmental risk factors alongside other fundamental and technical inputs within their investment decision-making processes.

Beyond the measurement and integration of climate risk, we believe that important investment opportunities will arise related to the transition to a lower-carbon economy with the development of innovative technologies and solutions across a wide range of assets. We selectively explore strategies that are focused on the transition to a lower carbon economy, and believe that such investments can incorporate the quality, innovation and long-term growth characteristics that are well aligned with our overall investment strategy, contributing to long-term stability and resilience.

As the understanding of climate impact across our markets matures, our strategy in this area will evolve. Overall, we see the incorporation of climate risks in the management of our portfolio as prudent and additive to portfolio resilience, consistent with our overarching principle to invest in a strategic manner focused on long-term growth and protection of surplus for the benefit and protection of our policyholders.

Taxonomy-eligible assets

In line with the EU Taxonomy Regulation, our assessment is that the covered assets (i.e. investments subject to review) include investments in debt instruments, equity instruments and cash at bank and in hand, but exclude exposure to central governments, central banks or supranational issuers.

The EU Taxonomy Regulation limits the scope of possible Taxonomy-eligible assets to financial and non-financial undertakings subject to Article 19a or 29a of Directive 2013/34/EU, as amended. Additionally, cash at bank and in hand are treated as non-eligible. On this basis and also considering that FMIE is primarily investing in undertakings from non-EU countries, which are not subject to Article 19a or 29a of Directive 2013/34/EU, as amended, our assessment is that the proportion of the Company's investments subject to the Taxonomy eligibility assessment is minimal.

The table below summarises the relevant metrics we have used to calculate the Taxonomy-eligible assets. Based on the assessment of the Company's covered assets, representing 71.7% of the total investments and cash at bank and in hand as of 31 December 2022, we calculate that the proportion of exposures in scope for Taxonomy-eligibility assessment represented 0.3% of the covered assets.

	In % of total assets
Total investments and cash at bank and in hand	100.0%
Proportion of exposures to central governments, central banks or supranational issuers	(28.3%)
Covered assets	**71.7%**

	In % of total assets
Proportion of exposures to cash at bank and in hand, treated as non-eligible by the EU Taxonomy	25.8%
Proportion of exposures to financial and non-financial undertakings from non-EU countries not subject to Articles 19a and 29a of Directive 2013/34/EU	73.9%
Proportion of exposures to non-financial undertakings subject to Articles 19a and 29a of Directive 2013/34/EU:	
a) *Proportion of the funding economic activities that are Taxonomy-eligible*	0.0%
b) *Proportion of the funding economic activities that are not Taxonomy-eligible*	0.3%
Covered assets	**100.0 %**

For assurance purposes, the Taxonomy eligibility assessment for investments was made based on the NACE code associated with the activity of the investees. FMIE has performed the assessment using public information disclosed by investees as well as database information that FMIE has access to.

Effective 1 January 2024, Taxonomy-eligibility will need to be assessed for alignment based on the technical screening criteria as laid out in the Climate Delegated Act, the "Do no significant harm" principle and minimum safeguards for upcoming EU Taxonomy Regulation disclosures. It is expected that using the technical screening criteria to perform the alignment assessment for each eligible investment may generate a different result.

C. Underwriting

FM Global believes that climate risk presents a choice – resilience or disruption – and that by seeking to proactively partner with our clients to address the risk of climate change, we can help keep their businesses and communities going and growing strong. We continue to study the effects of natural hazards to develop solutions to mitigate climate risk and leverage technology, innovation, and our engineering expertise to assist expand climate resilience in our client's businesses and global communities. In 2022, to help our policyholders and partners take more control in this ever-changing environment, we introduced a suite of climate resilience products to assess climate risk and prioritise improvements.

To better understand climate-related risk, FM Global has more than 125 researchers, scientists and engineers dedicated to evaluating the potential for natural and technological catastrophes, developing innovative methods and tools to predict and prevent property damage, and providing technically sound and cost-effective loss prevention engineering solutions to clients.

We believe that one of the greatest impacts FM Global can have in the face of climate change is to help policyholders identify, assess, and manage climate exposure, by preparing them for potential adverse financial impacts and minimising uncertainty and potential business disruption.

The management of climate-related risk is consistent across the FM Global Group. The inventory of risks developed at group level is shared with the local risk management committees and adopted by all operations teams who can supplement the inventory with local information, as necessary.

FM Global uses a physics-based data and analytics model to understand how climate change is affecting natural perils – the same approach taken by climate research institutions. The methodology considers relevant scientific data on factors such as rainfall, ground motion, windspeed and terrain to provide a comprehensive view of a property's exposure to climate risk as well as prioritized opportunities to improve climate resilience. This physics-based model links the science-based data with location specifics from our engineering site visits to calculate total insured value and business interruption.

Climate change is a complex and evolving issue that requires ongoing monitoring and adaptation. As we continue to develop our resilience strategy, we collect and analyse climate-related data to support risk management. Our climate risk model leverages the latest advancements in analytics, including artificial intelligence and machine learning to enable continuous evolution and improvement.

FM Global reduces loss potential through a collaborative effort with our policyholders to improve their resilience. We provide loss prevention engineering guidance to clients for their large insured locations on an all-risk basis, including natural hazards perils that are affected by climate change such as wind, flood, and wildfire. Based on physical site assessments and/or remote aerial imagery, our loss prevention engineers make recommendations for clients to reinforce their facilities against loss and help harden their facilities against loss.

FM Global self-insures our own properties, using the same models and tools to assess our risk as we do our clients' properties. At our FM Global locations, we conduct regular field engineering risk assessments that are used for our client facilities and implement initiatives to enhance the environmental sustainability and resilience of our operations.

Taxonomy-eligible underwriting economic activities

Annex II of the Climate Delegated Act defines Taxonomy-eligible as the underwriting activities belonging to the non-life insurance lines of business listed below:

- medical expense insurance
- income protection insurance
- worker's compensation insurance
- motor vehicle liability insurance
- other motor insurance
- marine, aviation, and transport insurance
- fire and other damages to property insurance; and
- assistance,

to the extent that the insurance policy terms provide coverage of risks related to the climate-related perils defined in the same regulation (i.e., temperature, wind, water and solid-mass related perils).

In addition, the reinsurance of eligible insurance activities can also be counted for Taxonomy-eligibility.

FMIE writes commercial property insurance and reinsurance for large industrial and commercial companies with locations based in the EEA and in Switzerland.

Although limitations currently exist with respect to the extraction of the part of the premium allocated to the coverage of climate-related perils, FMIE can confirm that its assessment is that the totality of the gross written premium for the year ended 31 December 2022 pertained to all-risk policies issued in the context of Taxonomy-eligible lines of business includes coverage of one or more of the climate-related perils identified by the Climate Delegated Act.

Due to constraints of the currently disclosed underwriting eligibility indicator, the Company does not regard it as an appropriate metric for the sustainability of the Company's underwriting activities but, rather, sees it as a means to assist the determining the scope for further assessment. Using the technical screening criteria to perform the eligibility assessment for each individual policy would likely generate a different split between eligible and non-eligible underwriting economic activities.

Effective 1 January 2024 Taxonomy-eligibility will need to be assessed for alignment based on the technical screening criteria as laid out in the Climate Delegated Act, the "Do no significant harm" principle and minimum safeguards for upcoming EU Taxonomy Regulation disclosures.