Property/Casualty Insurers
U.S., Canada, and U.K.
Full Rating Report

Factory Mutual Insurance Company

And Its Subsidiaries

Ratings

Company	IFS Rating
Factory Mutual Insurance Co.	AA
Affiliated FM Insurance Co.	AA
Appalachian Insurance Co.	AA
FM Insurance Company, Ltd.	AA
FM Global de Mexico, S.A.	AA

Rating Outlook

Stable

Financial Data

Factory Mutual Insurance Company

Financials	Date	$ Mil.
Net Income	12/31/09	839.5
Equity	12/31/09	6,262.1
Debt and Hybrids	12/31/09	—

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Related Research

Applicable Criteria
- *Non-Life Insurance Rating Methodology, March 24, 2010*
- *Insurance Rating Methodology, Dec. 29, 2009*

Other Research
- *U.S. Property/Casualty Insurance Review and Outlook 2009–2010, Dec. 8, 2009*

Rating Rationale

- The ratings of Factory Mutual Insurance Company (Factory Mutual) reflect the company's exceptional capital position, long-term excellent underwriting results, and strong competitive position in the commercial property market for highly protected risks. Fitch Ratings believes the company's ability to incorporate engineering expertise into insurance products and underwriting processes is unparalleled and differentiates the company from its competitors.
- During 2009, Factory Mutual and its affiliates' (collectively referred to as FM Global) statutory surplus increased 35% to $6.2 billion as a result of increased underwriting income and investment-related gains. As such, Fitch expects FM Global's capital adequacy levels under the agency's economic capital model, Prism, to increase and remain supportive of the company's current ratings.
- Fitch believes FM Global's high-quality fixed-income portfolio provides ample liquidity to meet its policyholder obligations. At year-end 2009, the company had approximately $1.0 billion of cash and short-term securities.
- FM Global maintains an investment portfolio with an above average allocation to equities relative to property/casualty peers whose portfolios tend to be weighted more heavily to fixed-income securities. The company's long-term total return philosophy has enabled the company to grow book value over the years, but provides greater near-term uncertainty of investment portfolio returns.
- In 2009, the company experienced a return to very favorable underwriting results as it benefited from a drop in catastrophe and other large losses. FM Global's long-term operating performance continues to be strong and supportive of the current rating level. FM Global's cumulative three- and five-year calendar year combined ratios on a statutory basis through year-end 2009 were 78% and 77%, respectively.

Key Rating Drivers

- FM Global maintains higher exposure to equity market risk than the industry and an extended period of equity market declines would have a considerably negative impact on capital and would lead to a consideration of a negative rating action. However, Fitch believes the company's fixed-income portfolio is of high quality and will continue to support the relatively short-duration liabilities generated by its property insurance reserves.
- FM Global has historically maintained a wide margin of underwriting outperformance over comparably rated peers that has represented a positive factor in the company's ratings. Negative pressure on the ratings would result from a severe deterioration in long-term results, to the point where the combined ratio differential no longer existed.
- Fitch believes upward potential for FM Global's ratings are limited due to the company's high current ratings along with its profile as a commercial property insurer with underwriting volatility inherent in its book of business. Consistent levels of strong capital associated with higher rating levels over a multiyear period would be needed for consideration of upward movement in the company's ratings.

Key Rating Issues

Capitalization Rebounds as Surplus Grows with Strong Year-End Results

Due to the high-severity events the company insures and the inherently volatile operating results that correspond to writing such business, Fitch considers FM Global's strong capitalization to be a key factor supporting its rating.

In 2009, FM Global's statutory surplus increased by $1.6 billion, or 35%, to $6.2 billion as a result of higher underwriting income and investment-related gains. Based on its performance under Fitch's economic capital model, Prism, FM Global's available capital exceeded targeted capital at the 'AAA' level at year-end 2006, 2007, and 2008. Fitch believes that FM Global's Prism score will remain supportive of the company's ratings.

FM Global continues to use a reasonable amount of operating leverage. Fitch notes that the company's operating leverage ratios steadily declined from 2002–2007 as growth in surplus outpaced growth in premiums. At Dec. 31, 2009, the company's ratio of net premiums written to statutory surplus was 0.54x, which is below the five-year average of 0.56x. Fitch believes FM Global's operating leverage remains conservative and supportive of the current rating level.

Capitalization

($ Mil.)

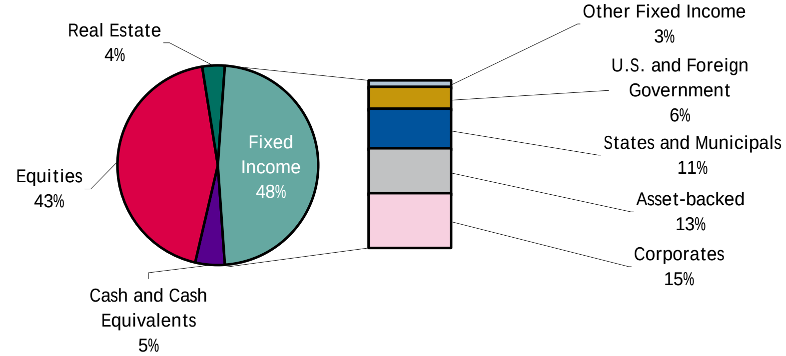
	2009[a]	2008	2007	2006	2005
Beginning of Period Surplus	4,734	5,771	5,018	4,205	3,534
Net Income	1,037	(559)	954	684	605
Unrealized Gains	684	(688)	(109)	133	90
Paid in Capital/Surplus	—	—	—	—	—
Dividends to Stockholders	—	—	—	—	—
Other Changes	(252)	211	(91)	(4)	(24)
Total Changes	1,469	(1,036)	753	813	671
End of Period Surplus	6,204	4,734	5,771	5,018	4,205
Dividend Payout (%)	—	(0.1)	—	—	0.1
Net Premium Written/Policyholders' Surplus (x)	0.49	0.56	0.48	0.57	0.63
Net Leverage (x)	1.26	1.53	1.32	1.53	1.66
Gross Leverage (x)	N.A.	1.97	1.68	2.03	2.28
NAIC Risk-Based Capital Ratio (%)	404	395	357	379	355
Non-Investment-Grade Bonds/Policyholders' Surplus (%)	2.6	2.3	2.3	2.4	3.9
Unaffiliated Common Stock/Policyholders' Surplus (%)	52.3	55.3	79.8	85.2	84.3
Investment in Affiliates/Policyholders' Surplus (%)	—	—	—	—	—

[a]Fitch estimate based on individual company data. N.A. – Not available. Note: Statutory accounting principles.
Source: Factory Mutual Insurance Company and affiliates.

FM Global's year-end 2009 NAIC risk-based capital (RBC) ratio was 405%. Fitch views the company's RBC ratio as being higher than many comparably rated peers but believes that the ratio generally fails to adequately capture the underwriting volatility inherent in the company's core insurance products.

FM Global manages its capital by examining catastrophe exposure using a deterministic approach relative to capital and by evaluating growth in total insured values (TIV) relative to growth in surplus. The company uses location-based insured data to determine its exposure in catastrophe-prone areas. As such, the company performs a ground-up analysis and does not rely solely on catastrophe model simulations to determine its potential shock losses.

Investment Portfolio
(Totaled $9.6 Bil., as of Dec. 31, 2009)



Source: Factory Mutual Insurance Co. and Subsidiaries on a U.S. GAAP basis.

FM Global Remains Exposed to Above Average Equity Market Risk

FM Global's investment portfolio is managed on a total return basis with a long-term investment horizon. The company invests in fixed-income securities to support the relatively short-duration liabilities generated by its property insurance reserves and equities to support surplus growth. As a result, FM Global is significantly overweighted in common stock investments relative to the industry.

At Dec. 31, 2009, Fitch estimates FM Global's surplus exposure to unaffiliated equities on a GAAP basis was approximately 61%. Given the high correlation of the portfolio to the Standard & Poor's 500 Index, Fitch believes the company remains exposed to potential surplus volatility in the near to intermediate term. Additionally, Fitch believes that FM Global's higher than industry average allocation to equities is reasonable in the long term, while recognizing that investment returns will tend to fluctuate year to year.

The company did not have any significant hedges in place at year-end 2009 to protect the value of its equity portfolio, although in the past it has used futures and options contracts to hedge this risk.

Due to the nature of the company's insureds and the high-limit policies the company writes, FM Global's operating cash flow can be volatile, although recent operating cash flow has been strong due to the company's favorable underwriting results.

Liquidity
(%)

	2009[a]	2008	2007	2006	2005
Public Bonds/Total Bonds	95.8	97.6	97.4	97.7	97.6
Total Investment-Grade Public Bonds/Total Public Bonds	97.5	97.7	97.7	97.9	96.5
Below Investment-Grade Public Bonds/Total Public Bonds	2.5	2.3	2.3	2.1	3.5
Liquid Assets to Liabilities	166.7	152.7	173.8	176.3	169.2
Cash Inflows ($ Mil.)	3,094	3,022	3,023	3,095	2,743
Cash Outflows ($ Mil)	2,467	2,498	2,444	2,323	1,954
Cash Flow Ratio	125.4	121.0	123.7	133.2	140.4

[a]Fitch's estimate based on individual company data. Note: Statutory accounting principles.
Source: Factory Mutual Insurance Company and affiliates.

FM Global takes very little credit risk in its bond portfolio, which is high quality and liquid. At Dec. 31, 2009, approximately 98% of the portfolio consisted of publicly traded investment-grade bonds, which translates into statutory surplus exposure to below investment-grade bonds of 2%.

Strong Long-Term Results, despite Inherent Volatility

FM Global's operating performance over the long term has been very strong despite catastrophe losses, reflecting the company's underwriting expertise, expense efficiencies, and generally favorable market conditions. Fitch believes that there is a significant amount of inherent volatility in FM Global's year-to-year operating performance because of the company's large book of property insurance and its corresponding exposure to both natural and manmade catastrophe-related losses. Given this potential volatility, Fitch believes that FM Global's underwriting results are best viewed on a cumulative basis over a relatively long-time horizon.

Operating Performance

($ Mil.)

	2009[a]	2008	2007	2006	2005
Net Premium Written Excluding Membership Credit	3,028	2,652	2,772	2,851	2,648
% Change in Net Premium Written Excluding Membership Credit	14.1	(4.3)	(2.8)	7.7	15.9
Membership Credit	—	360	341	—	—
Net Premiums Earned Net of Membership Credit	3,026	2,703	2,740	2,719	2,601
Net Underwriting Gain	994	37	822	666	589
Net Investment Income	242	247	242	219	177
Operating Income	1,236	283	1,062	884	767
Realized Gains	16	(527)	215	99	74
Policyholders' Dividends	—	—	—	—	—
Income Taxes	219	315	323	299	236
Net Income	1,037	(559)	954	684	605

[a]Fitch's estimate based on individual company data. Note: Statutory accounting principles.
Source: Factory Mutual Insurance Company and Affiliates.

The Reported and Cumulative Combined Ratios table below shows the company's reported annual combined ratios for the 2000–2009 period, as well as three-, five-, and 10-year cumulative combined ratios.

FM Global's has returned historically strong underwriting results as represented in the cumulative three- and five-year calendar year combined ratios on a statutory basis through year-end 2009 of 78% and 77%, respectively.

Reported and Cumulative Statutory Combined Ratios

(%)

	2009[a]	2008	2007	2006	2005	2004	2003	2002	2001	2000
Reported	67.1	99.0	69.7	74.4	76.9	74.5	66.5	72.1	112.9	98.8
Cumulative 2000–2009	77.8	79.5	76.3	77.6	78.3	78.7	80.4	89.7	106.4	—
Cumulative 2005–2009	77.2	80.0	73.6	75.6	76.9	—	—	—	—	—
Cumulative 2007–2009	78.2	84.3	69.7	—	—	—	—	—	—	—

[a]Fitch's estimate based on individual company data. Note: Statutory accounting principles. 2001 Reported Combined Ratio and 2001 and subsequent cumulative combined ratios exclude 2001's $237 million membership credit. 2004, 2007, and 2008 reported combined ratios as well as 2004, 2007, and 2008 cumulative combined ratios include membership credits of $316 million in 2004, $341 million in 2007, and $360 million in 2008.
Source: Factory Mutual Insurance Company and affiliates.

FM Global's 2009 GAAP basis pretax operating income and net income were $991 million and $839 million, respectively. These results reflect a year that saw decreases in both risk and catastrophe losses as accident year underwriting results were FM Global's most favorable in the past 10-year period. However, the company also reported $232 million in adverse loss reserve development related to discontinued asbestos and environmental business, which added 7.1 points to the 2009 calendar year loss ratio.

Excluding the $232 million increase in asbestos reserves in 2009, the GAAP combined ratio would be 62.5%.

Operating and Underwriting Ratios

(%)

	2009[a]	2008	2007	2006	2005
Return on Assets	10.2	2.8	10.4	9.6	9.6
Return on Surplus	19.0	(10.6)	17.7	14.8	15.6
Loss Ratio	41.9	77.6	44.6	51.3	53.4
Expense Ratio	25.3	21.5	25.1	23.1	23.6
Combined Ratio	67.1	99.1	69.7	74.4	76.9

[a]Fitch's estimate based on individual company data. Note: Statutory accounting principles.
Source: Factory Mutual Insurance Company and affiliates.

From 2000 through 2008, natural catastrophe losses and losses from the events of Sept. 11, 2001, contributed an average of 15 points annually to FM Global's combined ratio. In 2009, catastrophe losses contributed only 10.9 points to the loss ratio, down from 20 points in 2008, producing underwriting results reminiscent of other recent benign catastrophe years in 2006 and 2007. In 2005, the company had $613 million of net catastrophe losses, including $509 million related to Hurricanes Katrina, Rita, and Wilma.

FM Global has paid five membership credits to policyholders since 2001, including $237 million in 2001, $316 million in 2004, $341 million in 2007, $360 million in 2008, and $420 million in 2010/2011. Fitch's expectation is that the company will continue to pay membership credits in the future depending on a variety of factors, including the company's underwriting trends, surplus levels, and market conditions. Fitch viewed the 2001 membership credit as more "one-time" in nature because it was intended to compensate policyholders for expense savings the company recognized after completing its 1999 merger.

Peer Analysis

FM Global has built a strong franchise in the commercial property lines market for highly protected risks.

Relative to other similarly rated 'AA' companies, FM Global is much smaller in size and more narrowly focused on large commercial accounts that require extensive engineering and loss prevention services. However, Fitch views FM Global's market share and competitive positioning in its key lines of business to be better than those of its peers.

Market Share Based on 2009 Direct Premiums Written

		Largest Competitors in Line		
Business Line	2008 Ranking	No. 1	No. 2	No. 3
Boiler and Machinery	No. 2	FM Global (27%)	AIG (19%)	Travelers (9%)
Fire and Allied Lines	No. 3	AIG (14%)	Assurant (9%)	FM Global (8%)

Note: Statutory data.
Source: Highline Data.

Fitch believes that FM Global has a strong and unique franchise, largely derived from its engineering capabilities and loss prevention services that are difficult for competitors to replicate. The organization employs more than 1,800 engineers, who are engaged in a wide variety of roles. Fitch considers FM Global the industry leader in incorporating engineering expertise into insurance products and underwriting processes.

Additionally, Fitch believes that the company's mutual company status insulates it somewhat from concerns about volatility in short-term financial results. Fitch believes that these factors contribute to the company's willingness and ability to consistently provide large limit capacity throughout changes in cyclical market conditions. Fitch views this as a key competitive advantage.

FM Global has significantly outperformed similarly rated companies on a long-term basis and continued this trend in 2009 as the company produced a GAAP combined ratio of 69.6%, which is 13 points below the peer median for the year. The company's average combined ratio of 78.1% for the five-year period through 2009 was roughly 11 points below the peer median, although its volatility of 12.2% is higher than the peer median of 7.0%. When looking at its performance over a longer period, from 2000–2009, FM Global's average combined ratio of 81.5% is still 13 points better than its peers in the 'AA' category.

FM Global conducts onsite loss prevention and engineering reviews on the majority of its larger policyholder sites, and Fitch believes that these reviews have a significant positive effect on the company's underwriting results. Additionally, Fitch believes that FM Global's strong underwriting results are due in part to the extensive engineering and loss prevention studies the company conducts at its state-of-the-art engineering test facility. Fitch views FM Global's ability to conduct these studies and the insights they bring to the company's underwriting processes as key competitive advantages.

Additionally, given the short-tail nature of FM Global's business, the company has comparatively little reserving risks relative to its peers.

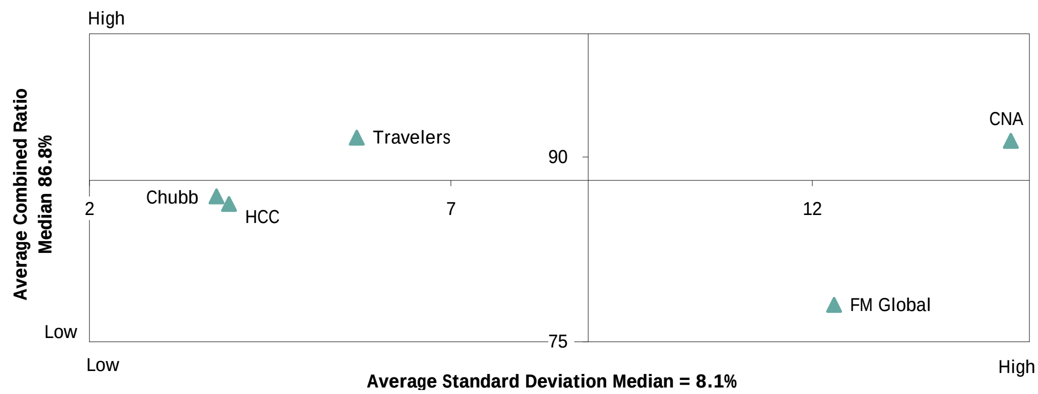
Statutory Leverage Comparison

	2008			
	RBC Ratio (%)	NPW/PHS (x)	Net Leverage (x)	Gross Leverage (x)
FM Global	395	0.56	1.53	1.69
Chubb	250	0.78	2.72	2.80
HCC	241	0.64	2.31	2.52
PartnerRe	109	1.25	5.64	6.14
Travelers	289	0.98	3.56	3.65

NPW – Net premiums written. PHS – Policyholders' surplus. Note: U.S. property and casualty subsidiaries only, risk-based capital ratio (RBC) is for the lead company in each group.
Source: 2008 combined statutory financial statements, Fitch Ratings.

Relative to peers, FM Global has a stronger NAIC RBC ratio and lower operating leverage. However, Fitch believes these measures' usefulness in evaluating FM Global's capital adequacy are limited since they fail to fully capture the potential earnings volatility from catastrophes, other large losses such as fires and explosions, and the company's higher exposure to equity market risk. As such, Fitch believes the results from its capital model, Prism, more appropriately reflect the company's capital adequacy.

2005–2009 Combined Ratio Analysis



Source: 10-K filings with SEC for all companies, excluding FM Global and FM Global's GAAP financial statements.

Company Profile

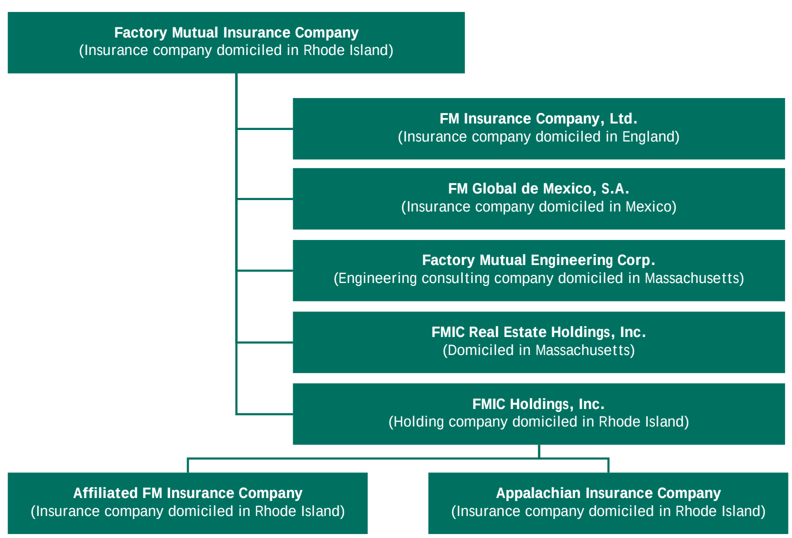
Ownership Structure

FM Global operates in more than 130 countries.

Factory Mutual is a mutual insurance company that specializes in providing engineered loss prevention services and high-limit commercial property coverage to its member clients. The company has a 13-member board of directors, who are elected by policyholders for three-year terms. Eleven of the current directors are affiliated with FM Global policyholders.

The company's primary domestic insurance subsidiaries are Affiliated FM Insurance Company (Affiliated FM) and Appalachian Insurance Company (Appalachian). The organization conducts operations internationally through its U.K.-domiciled subsidiary, FM Insurance Company, Ltd. (FMI), which has branch offices worldwide, and FM Global de Mexico S.A. de C.V. (FM Global Mexico).

Simplified Organizational Chart



Source: FM Global.

Affiliated FM writes its own new and renewal business for smaller middle-market clients, while Appalachian writes some excess and surplus (E&S) business directly and assumes business under an intercompany reinsurance pooling agreement. Terms of the intercompany agreement call for premiums, losses, loss adjustment expenses, and underwriting expenses to be shared among the three companies based on their relative contribution to combined surplus. Factory Mutual's pooling percentage is 86%, whereas Affiliated FM's pooling percentage is 12% and Appalachian's is 2%. Fitch has used a group rating approach to refer financial strength from Factory Mutual to Affiliated FM and Appalachian because of the pooling agreement.

FMI writes property insurance and, like its U.S.-based parent, focuses on providing comprehensive commercial property coverage that requires significant engineering expertise. Fitch's rating on FMI reflects support provided by Factory Mutual in the form of a policy level guaranty and reinsurance contracts between the two companies. The rating also reflects Fitch's view that FMI is a core component of the organization's strategy of providing engineered loss prevention services and insurance coverage on a global basis.

FM Global has roughly 5,800 policyholders worldwide and insures approximately 32% of the Fortune 1,000 companies.

Individual Company Data

($ Mil.)

			2009			
Company	State of Domicile	Country or States Licensed In	Net Premium Written	Surplus/ SH Funds	Total Assets	NAIC RBC Ratio
Factory Mutual Insurance Company	Rhode Island	U.S. (all states), Canada	2,585	6,203	10,015	404
Affiliated FM Insurance Company	Rhode Island	U.S. (all states), Canada	381	828	1,621	876
Appalachian Insurance Company	Rhode Island	Rhode Island, operates on a surplus lines basis in other states.	60	143	221	691

SH – Shareholder. RBC – Risk-based capital. Note: Statutory accounting principles.
Source: Individual company statements.

FM Global Mexico was created in late 2008 to provide coverage for Factory Mutual's current insureds that have locations in Mexico. Previously, this business was written by fronting companies for Factory Mutual in Mexico. The rating of FM Global Mexico is dependent upon reinsurance agreements between FM Global Mexico and Factory Mutual.
Throughout the remainder of this report, Fitch refers to Factory Mutual, Affiliated FM, Appalachian, FMI, and FM Global Mexico collectively as FM Global. Data shown throughout the report is taken from the combined Factory Mutual Insurance Company and affiliates' statutory annual statement unless otherwise noted.

Key Historical Events

FM Global was formed in mid-1999 through the merger of Allendale Mutual Insurance Company, Protection Mutual Insurance Company, and Arkwright Mutual Insurance Company. Prior to the merger, these companies shared an engineering research facility and participated in various reinsurance agreements with one another.

Products

FM Global's products provide large limit property insurance to commercial entities. The company's policies generally provide protection against property losses, including losses caused by fires and plant explosions, and natural catastrophes such as hurricanes and earthquakes. The company also writes specialized lines of coverage that protect against equipment and machinery failures and corresponding business interruption losses.

Fitch believes that there is a high degree of operating risk associated with FM Global's products because of the extensive engineering and loss prevention services underlying the products and their underwriting. However, in comparison with other companies that write commodity-like products, Fitch believes that FM Global faces less transaction-oriented operating risk.

Target Markets

FM Global's target markets include industrial properties such as pulp and paper plants, as well as other manufacturing and warehousing facilities. These properties typically have large loss exposures and policies covering these properties often have high loss limits and high policy deductibles.

Fitch believes that FM Global's target market generates comparatively less operating risk for the company than a focus on many other target markets would generate. These markets typically require a high degree of loss prevention services and consistent large-limit capacity. As a result, Fitch believes that FM Global's target market provides the company with "stickier" business that is somewhat less price sensitive than more commodity-oriented commercial line markets.

In 2009, approximately 63% of the organization's premiums written was derived from insured property in the U.S. and 37% was derived from insured property outside the U.S. The organization's market penetration is lower internationally than it is domestically.

Distribution Channels

Fitch believes that FM Global's distribution methods generate comparatively little operating risk. The company uses direct distribution to market its products and Fitch believes that this provides the company with a high degree of cost-effective operational control over its distribution. FM Global also relies on brokers to source its business and this distribution channel presents more operating risk for the company because of the relative lack of control. The operations staff is composed of engineers and underwriters, and its members complement the company's distribution channels and have a significant amount of client interaction.

Financial Analysis

Profitability

See the Key Rating Issues section.

Investments and Liquidity

See the Key Rating Issues section.

Reinsurance Protection and Credit Quality

Fitch believes that FM Global's reinsurance programs provide adequate protection against the large losses the company could face and that the credit quality of the company's reinsurers is good. FM Global has a significant amount of exposure to natural and manmade catastrophic losses from its large book of property insurance. As a result, Fitch believes that reinsurance is a very important component of FM Global's risk management process.

FM Global evaluates its reinsurance needs on an individual location basis, and purchases facultative reinsurance on specific lines of business and when policyholders request coverage limits that generate concentration risks that it is unwilling to accept. The company uses modeling software commonly used in the insurance industry to estimate its losses from potential catastrophes and to manage its aggregate exposures.

FM Global uses vendor-produced models to simulate natural catastrophes and their effect on the company's insured exposures and to estimate potential losses. Fitch believes that the quality and resolution of exposure data used in these simulations is a key factor in the

Reinsurance Recoverables

($ Mil.)

	2008	2007	2006	2005	2004
Paid Losses	145	184	168	134	187
Unpaid Losses	518	479	909	1,064	456
Incurred But Not Reported Losses	495	372	417	521	642
Unearned Premium	314	338	323	287	297
Total Recoverable	1,472	1,373	1,818	2,006	1,582
Affiliates	11	9	10	10	8
Pools and Associations	356	268	324	422	474
Net Recoverables	1,105	1,096	1,483	1,574	1,099
Total Recoverables/Policyholders' Surplus (%)	31.1	23.8	36.2	47.7	44.8
Net Recoverables/Policyholders' Surplus (%)	23.3	19.0	29.6	37.4	31.1
Provision for Reinsurance	24	31	29	25	25
Total Recoverables/PHS + Provision for Re) (%)	30.9	23.7	36.0	47.4	44.4
Net Recoverables/PHS + Provision for Re) (%)	23.2	18.9	29.4	37.2	30.9

PHS – Policyholders' surplus. Note: Statutory accounting principles.
Source: Factory Mutual Insurance Company and affiliates.

models' effectiveness. Fitch also believes that the quality of the data FM Global uses in these processes is enhanced by the engineering inspections it does at its insured properties.

FM Global's excess of loss reinsurance program consists of a per risk program and a catastrophe program. The per risk program provides the company with coverage on losses in excess of $150 million, and the company's catastrophe reinsurance program provides coverage on losses in excess of $250 million. The company also purchased additional California and Pacific Northwest earthquake coverage in late 2008.

FM Global uses a diverse mix of financially sound reinsurers and Fitch believes the overall credit quality of the company's reinsurance recoverable is strong.

15 Largest Reinsurance Recoverables at Year-End 2008

($ 000)

Reinsurer Group Name	Fitch IFS Rating	Recoverable	Collateral	Net Recoverable
Endurance Group	A	84,676	2,922	83,770
Swiss Re Group	NR	79,716	4,153	75,597
XL Capital	A	77,829	14,837	71,597
Berkshire Hathaway	AA+	69,995	0	69,995
Everest Re	AA–	56,025	0	56,025
Ecra Pool	NR	43,917	0	43,917
ACE Ltd	AA–	43,338	0	43,338
Lloyds of London	NR	38,384	0	38,384
Aspen Ins Ltd	NR	36,299	3,872	35,941
Munich Re	AA–	34,587	203	34,496
Allstate	A+	31,983	0	31,983
Fairfax Financial Holdings	BBB	28,218	651	27,567
Hannover Group	A+	27,941	1,474	26,472
Gerling Group	NR	37,352	14,355	22,997
Allianz Group	AA	18,637	427	18,210
Total Largest 15 Recoverables		**708,897**	**42,894**	**680,545**

IFS – Insurer financial strength. NR – Not rated.
Source: ScheduleF.com, Fitch.

FM Global's largest reinsurance recoverable is from Mutual Marine Insurance, Inc. (MMI). This recoverable is derived from a discontinued book of marine business where MMI acted as the underwriting manager for a group of companies. FM Global effectively wrote the business on a direct basis and then ceded the portion in excess of its pool participation to these pool participants. FM Global has $171 million in collateral related to this recoverable, which reduces its exposure.

At year-end 2009, approximately 86% of the company's reinsurance recoverable on paid losses was current. In addition, approximately 35% of the amounts past due were less than 90 days past due.

Reserve Adequacy and Development

Fitch believes that FM Global's loss reserves are adequate and that the company follows a disciplined approach when establishing reserves. Fitch also believes that the relatively short duration of FM Global's reserves reduces reserve uncertainty. The vast majority of the company's loss reserves tend to develop into paid losses within three years.

Fitch uses a reserve adequacy model and reported paid loss and incurred loss data from Schedule P data to estimate ultimate accident year losses and required accident year reserves. Fitch views its model as a tool to project directional indicators of possible outcomes rather than precise predictions and believes that the model provides a reasonable basis for assessing reserve adequacy. Using FM Global's year-end 2008 data, Fitch's model estimates an immaterial deficiency using paid loss data and case-incurred data.

Reserve development related to current business was significantly favorable in the most recent five-year period, while slightly offset by asbestos reserve strengthening in 2009 and 2006.

Reserves

($ Mil.)

	2009[a]	2008	2007	2006	2005
Loss Reserves	2,024	2,342	2,051	2,188	2,116
Loss Adjustment Expense Reserves	263	225	205	186	167
Asbestos and Discontinued Lines Reserves Adverse Development	232	—	—	150	—
Other Adverse (Favorable) Reserve Development	(216)	(439)	(102)	(93)	(209)
Adverse (Favorable) Reserve Development/Premiums Earned (%)	0.5	(16.3)	(3.7)	2.1	(8.0)
Adverse (Favorable) Reserve Development/Policyholders' Surplus (%)	0.3	(9.3)	(2.0)	1.4	(5.9)

[a]Fitch's estimate based on individual company data. Note: Statutory accounting principles.
Source: Factory Mutual Insurance Company and affiliates.

Unfavorable development on asbestos-related reserves generated adverse reserve development in three of the past six years including a $232 million strengthening in 2009. Despite these unfavorable developments, FM Global has still been able to produce strong calendar year underwriting results over that six-year period.

Fitch believes that FM Global's reserves for asbestos-related claims are strong and, unlike many of its peers, FM Global has been able to bolster its asbestos reserves while still generating strong calendar year profitability. The company's gross and net survival ratios based on three-year average paid asbestos losses were 9.6x and 13.5x, respectively, at year-end 2009. Fitch also believes that FM Global is solidly reserved for environmental claims. At year-end 2009, the company's gross and net survival ratios based on three-year paid environmental losses were 8.0x and 15.1x, respectively.

Capitalization

See the Key Rating Issues section.