

Best's Rating Report



FM GLOBAL GROUP

Johnston, Rhode Island



A+

EFFECTIVE: OCTOBER 6, 2009

FM GLOBAL GROUP
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BEST'S FINANCIAL STRENGTH RATING
Based on our opinion of the group's Financial Strength, it is assigned a Best's Financial Strength Rating of A+ (Superior). The group's Financial Size Category is Class XV.

RATING UNIT MEMBERS

FM Global Group		(AMB# 18502):		
AMB#	COMPANY	BEST'S FSR		POOL %
04067	Factory Mutual Insurance Co	A+	g	86.00
00103	Affiliated FM Insurance Co	A+	g	12.00
02345	Appalachian Insurance Co	A+	g	2.00
86513	FM Insurance Company Limited	A+	g	

RATING RATIONALE

Rating Rationale: The group rating applies to Factory Mutual Insurance Company and its two wholly owned U.S. subsidiaries, Affiliated FM Insurance Company and Appalachian Insurance Company, which are also members of an intercompany pooling arrangement. The group rating also applies to FM Insurance Company Limited, a U.K.-based subsidiary, which is integral to the group's global business strategy and receives significant support from its parent, Factory Mutual Insurance Company. The rating reflects FM Global's very strong capitalization, solid operating performance, benefits from the group's loss prevention technology and property conservation, and market leadership position in the commercial property market. These factors are somewhat offset by the recurrence of sizable membership credits and ongoing exposure and susceptibility to future acts of

terrorism as well as natural catastrophes. Furthermore, the group maintains high, although manageable, common stock leverage, which adds some volatility to the group's balance sheet, as seen in 2008. The outlook reflects A.M. Best's view that the group's capitalization will remain more than supportive of the current rating, growing through strong earnings and its leadership position in providing property coverages worldwide.

FM Global is a market leader among providers of commercial property insurance in the U.S., serving a significant number of Fortune 1000 companies worldwide, many of which have been with FM Global for more than 25 years. The group's ability to consistently retain more than 90% of its policyholders is a result of its stable capacity, unmatched engineering, global reach, loss prevention technology, shared commitment (with its policyholders) to property preservation and the strategic use of membership credits. While FM Global remains susceptible to natural and man-made catastrophe losses, the group has taken a number of steps to limit the magnitude of such losses via careful engineering, higher deductibles and attachment points as well as a strong reinsurance program. The group's combined ratio jumped to uncharacteristically high levels during 2008 due to increased storm losses. The 2008 membership credit also added approximately 11 points to the combined ratio. Nonetheless, underwriting results remained profitable in 2008.

FM Global maintains relatively high common stock leverage which led to a sharp drop in surplus in 2008 as the equity markets plummeted. However, given the group's conservative underwriting leverage, solid earnings and strong cash flows, the impact on FM Global's risk-based capitalization was not material. The group's surplus rebounded during 2009 as both investment markets and operating earnings improved.

Under the U.S. Terrorism Risk Insurance Act of 2006 (TRIA), FM Global is required to offer terrorism coverage to its clients as it relates to "certified" acts of terrorism caused by a foreign terrorist. According to FM Global, approximately 50% of its insureds are opting to buy terrorism coverage. Despite this rather high take-up ratio, the group's exposure to terrorism is moderate given its client profile, most of which are manufacturing companies located outside major urban areas. Further, many of FM Global's insured properties are horizontal in nature, i.e., facilities that are spread out over a wide area, much like a campus environment, thus limiting the damage

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expected from a terrorist action. The group carefully monitors its total insured values (TIV) at or near landmark, trophy and target properties. In addition, FM Global's deductibles under TRIA are more than supported by FM Global's current level of capitalization. A.M. Best's evaluation of FM Global's capitalization takes into account a stress test for both natural and man-made catastrophes.

Best's Financial Strength Rating: A+

Outlook: Stable

FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
10/06/09	A+	04/18/07	A+
12/19/08	A+	05/05/06	A+
12/27/07	A+	02/04/05	A+

KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data					
	Direct Premiums Written	Net Premiums Written	Pretax Operating Income	Net Income	Total Admitted Assets	Policyholders' Surplus
2004	2,538,478	2,285,193	770,648	555,227	7,599,835	3,532,791
2005	2,801,112	2,648,015	766,705	605,486	8,689,477	4,204,219
2006	3,176,357	2,850,693	883,899	683,686	9,953,049	5,016,705
2007	3,036,327	2,771,973	1,061,708	953,534	10,746,841	5,770,508
2008	2,800,566	2,652,385	283,152	-558,845	9,444,575	4,734,211

Period Ending	Profitability			Leverage			Liquidity	
	Comb. Ratio	Inv. Yield (%)	Pretax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall (%)	Oper. Cash-flow (%)
2004	74.5	2.7	33.0	90.0	0.6	1.8	188.0	140.9
2005	76.9	2.5	29.5	90.5	0.6	1.7	194.8	140.2
2006	74.4	2.7	32.5	90.6	0.6	1.5	202.8	133.2
2007	69.7	2.6	38.7	86.5	0.5	1.3	217.3	123.3
2008	99.1	2.8	10.5	63.1	0.6	1.5	201.6	121.0
5-Yr	79.0	2.6	28.8	...	...	...	...	...

(*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings. Within several financial tables of this report, this group is compared against the Commercial Property Composite.

BUSINESS REVIEW

Over the past century, and until mid-1999, the Factory Mutual System had consolidated from an original 40 companies down to three: Allendale Mutual, Arkwright Mutual and Protection Mutual. Effective July 2, 1999, these three remaining companies merged, with the surviving entity, Allendale Mutual, changing its name to Factory Mutual Insurance Company. Other insurance companies within the group are Affiliated FM Insurance Company, Appalachian Insurance Company, FM Insurance Company Ltd. (U.K.), Risk Engineering Insurance Company Ltd. (Bermuda), and New Providence Mutual Ltd. (Bermuda); all of which operate under the name FM Global. Business is produced both on a direct basis and through brokers.

FM Global remains one of the prominent underwriters of highly protected risks (HPR) within the commercial property market and is widely recognized throughout the industry for its extensive loss control, risk management and engineering capabilities. FM Global is afforded a distinct competitive advantage over most insurers by virtue of its professional property engineering expertise, inspection and loss prevention services, training and research. These bundled professional services add significant value to FM Global's policyholders by assisting in the identification, assessment and management of property risks. In addition to providing global insurance products and value-added services, FM Global also is known for its captive-like orientation and its focus on long-term business partnerships which, in some cases, span more than 100 years. In fact, many of the group's largest policyholder organizations are also members of FM Global's board of directors, advisory boards and risk management executive councils, which reinforces its understanding of the needs of its clients. A majority of FM Global's policyholders maintain worldwide operating facilities and are typically large industrial companies operating in varied manufacturing and servicing industries.

Insurance coverage provided includes all-risk policies and policies providing fire and extended coverage, boiler and machinery, difference in conditions, ocean cargo or any combination of these lines of coverage. Business interruption insurance is also offered as a supplement to these lines of coverage. With the implementation of TRIA in November 2002, FM Global was required to offer full limits terrorism coverage to all its insureds. The group's deductible under TRIA was nearly \$500 million in 2008. Also under TRIA, FM Global is financially responsible for 15% of losses above its deductible.

Insurance activities are conducted in the U.S. and Canada through its three U.S. operating companies and two Canadian branch offices. Factory Mutual Insurance Company is the lead carrier in the FM Global Group. Affiliated FM Insurance Company specializes in underwriting small and mid-sized highly protected risks as well as better quality non-HPR accounts of all sizes. In addition, Affiliated FM writes associated coverage, including boiler and machinery and ocean cargo. Appalachian Insurance Company writes coverage on a surplus-lines basis.

FM Global's U.K.-based subsidiary, FM Insurance Company Limited, serves its clients outside North America from its Windsor-based headquarters, utilizing branch offices in France, Belgium, Italy, Germany, Sweden, Singapore, Hong Kong and Australia. Effective January 1, 2004, FM Insurance Company Limited retains roughly 35% of its premium volume, net of third-party facultative reinsurance, with the remainder ceded to Factory Mutual Insurance Company. In addition, Factory Mutual Insurance Company provides FM Insurance Company Limited with stop-loss reinsurance above a combined ratio of 125%.

In the U.S., members of the FM Global Group operate under an intercompany pooling arrangement, effective January 1, 1999. Under this agreement, each company agrees to pool premium earned, loss and loss adjustment expenses incurred, other underwriting expenses incurred and credit risk for uncollectible reinsurance for non-Canadian business. Effective January 1, 2005, the participation percentages are Factory Mutual Insurance Company, 86%; Affiliated FM Insurance Company, 12%; and Appalachian Insurance Company, 2%. A similar pooling arrangement is in effect for Canadian business, but does not include credit risk for uncollectible reinsurance. Effective January 1, 2005, the participations for the Canadian portfolio are Factory Mutual Insurance Company, 81% and Affiliated FM Insurance Company, 19%.

2008 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Allied Lines	993,272	959,669	36.2	41.3	301,543
Fire	696,414	661,152	24.9	92.2	597,509
Inland Marine	706,722	546,775	20.6	82.9	475,803
Boiler & Mach.	304,792	402,851	15.2	110.1	427,170
Com'l MultiPeril	70,529	57,994	2.2	50.2	24,942
All Other	28,837	23,945	0.9	-94.5	739,752
Totals	2,800,566	2,652,385	100.0	72.1	2,566,721

Geographical breakdown of direct premium writings (\$000): California, \$344,865 (12.3%); Texas, \$177,186 (6.3%); New York, \$141,207 (5.0%); Florida, \$121,337 (4.3%); Pennsylvania, \$100,989 (3.6%); 51 other jurisdictions, \$1,538,074 (54.9%); Canada, \$331,626 (11.8%); Aggregate Alien, \$45,282 (1.6%).

FINANCIAL PERFORMANCE

Overall Earnings: Prior to 2008, solid operating returns had been posted since 2002, largely the result of underwriting profits and modest levels of net investment income. Strong returns have followed underwriting earnings that outpaced net investment income by approximately 3.5 times. Strong underwriting earnings have been the result of the group's strong loss control procedures, low expense ratio and favorable market conditions. In the years immediately prior to 2002, results were negatively impacted by reserve strengthening on discontinued operations and severe price competition. Despite current soft market conditions, operating profits are expected to remain strong due to FM Global's adherence to conservative risk management and pricing strategies. Total returns were negatively impacted in 2008 due to

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elevated storm losses as well as significant investment losses related to the group's large common stock portfolio. Ultimately, 2008 was the first time since 2001 where the group's underwriting earnings did not significantly outpace investment income. Results improved in 2009 on favorable underwriting earnings and improved investment results.

The group's investment yield lags its industry peers as invested assets are skewed towards common stock holdings that represent approximately 40% of its overall invested assets. This is in contrast to the majority of its industry peers whose investment portfolios tend to be concentrated in long-term bond holdings. However, the group's investment return measure over a five-year period (inclusive of capital gains) compares favorably to its peer composite. While FM Global's elevated investment leverage added to earnings volatility in 2008, it has generally boosted overall long-term return measures.

PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2004	33.0	21.8	74.5	67.4	19.1	12.8	90.4	80.4
2005	29.5	18.0	76.9	70.1	16.5	10.3	93.6	83.2
2006	32.5	17.7	74.4	66.3	29.1	16.8	83.0	70.7
2007	38.7	15.7	69.7	60.9	30.9	12.9	81.8	68.6
2008	10.5	-23.7	99.1	89.9	13.7	-8.0	96.5	86.3
5-Yr	28.8	8.1	79.0	71.0	21.9	8.5	89.1	77.9

Underwriting Income: Between 2002 and 2007, FM Global produced excellent underwriting results, reflective of rising rates and tightening terms and conditions. The group's 1999 merger brought together three former competitors which ultimately produced very significant expense savings. The group's expense ratio is below the property industry composite. Favorable underwriting results since 2001 have led the company to provide three membership credits totaling in excess of \$1 billion.

Underwriting results fell in 2008 due to large natural catastrophe and risk losses that led to a rise in the loss ratio. Further impacting results were the membership credits issued to existing policyholders, totaling approximately \$360 million and adding 11 points to the combined ratio. Nevertheless, underwriting results remained profitable in 2008 and further improved in 2009 on reduced loss experience.

In 2006 and 2007, the group's U.K. operations penetrated its stop-loss treaty with Factory Mutual Insurance Company as its combined ratio reached its 125% attachment point. In 2008, the U.K. company had a small underwriting loss, but it did not penetrate the stop-loss treaty.

Despite reduced underwriting results in 2008, A.M. Best expects FM Global's historically strong underwriting results to continue over the near term despite the soft pricing environment and the potential variability in operating results that comes with writing a large property-exposed book of business. This assumption is based on the group's historically strong risk management culture.

The group's underwriting performance remains exposed to future acts of terrorism. Under the TRIA extension, FM Global's retention (deductible) was nearly \$500 million for 2009, plus another 15% of all certified losses in excess of this deductible. Somewhat more than 50% of FM Global's policyholders have accepted the terrorism coverage offered by the group under TRIA. However, a vast majority of these exposures are represented by "horizontal" or campus-like risks that are generally not exposed to total loss. The group purchases no additional terrorism reinsurance outside of TRIA.

UNDERWRITING EXPERIENCE

Period Ending	Net Underw Income (\$000)	Loss Ratios			Expense Ratios				
		Pure Loss	LAE	Loss & LAE	Net Comm.	Other Exp.	Total Exp.	Div. Pol.	Comb. Ratio
2004	608,820	43.6	4.9	48.5	3.4	22.6	25.9	0.0	74.5
2005	588,585	50.0	3.4	53.4	2.4	21.2	23.6	0.0	76.9
2006	666,197	47.5	3.8	51.3	3.1	19.9	23.1	0.0	74.4
2007	821,475	39.8	4.8	44.6	1.8	23.3	25.1	0.0	69.7
2008	36,217	72.1	5.5	77.6	1.7	19.8	21.5	0.0	99.1
5-Yr	...	50.8	4.5	55.2	2.5	21.3	23.8	...	79.0

Investment Income: The group's five-year total return on invested assets is worse than its industry composite average due to exceptionally high investment losses in 2008. Prior to 2008, favorable total investment returns had been driven by capital gains from the group's substantial equity portfolio. Capital gains turned positive during 2009, reflecting improvement in the capital markets. Net investment income generally has grown annually due to reinvestment of strong cash flows into fixed income securities. However, FM Global's investment yields are typically low, reflecting the group's elevated level of common equity holdings.

INVESTMENT INCOME ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Net Inv. Income	Realized Capital Gains	Unrealized Capital Gains	Inv. Inc. Growth (%)	Inv. Yield (%)	Total Return (%)	Inv. Inc. Growth (%)	Inv. Yield (%)
2004	165,867	57,336	139,455	18.2	2.7	5.9	11.9	2.8
2005	177,364	74,432	90,366	6.9	2.5	4.8	10.3	2.8
2006	218,955	99,046	132,763	23.4	2.7	5.5	28.7	3.4
2007	241,650	215,277	-109,329	10.4	2.6	3.8	17.7	3.7
2008	246,552	-526,554	-688,474	2.0	2.8	-10.3	-15.7	3.2
5-Yr	...	...	...	11.3	2.6	1.3	8.5	3.2

INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2008 Inv. Assets (\$000)		—% of Invested Assets—		Annual % Change
	2008	2007	2008	2007	
Long-term bonds	3,733,506	45.7	39.1	45.7	-2.0
Stocks	2,616,127	32.0	47.3	32.0	-43.2
Affiliated Investments	936,537	11.5	9.5	11.5	1.4
Other Inv Assets	884,247	10.8	4.1	10.8	123.9
Total	8,170,417	100.0	100.0	100.0	-16.1

2008 BOND PORTFOLIO ANALYSIS

Asset Class	% of Total Bonds	Mkt. Val to Stmt Val (%)	Avg. Maturity (Yrs)	Class 1-2 (%)	Class 3-6 (%)	Struc. Secur. (%)	Struc. Secur. (% of PHS)
Other	46.9	0.6	14.9	99.3	0.7	...	...
Corporates	43.7	-5.1	6.7	94.8	5.2	1.7	0.7
Total all bonds ..	100.0	-0.6	10.7	97.4	2.6	0.8	0.7

CAPITALIZATION

Capital Generation: Solid surplus growth has been achieved annually from 2002 through 2007 through operating earnings and capital gains related to the common stock investment portfolio. Strong capital growth has occurred despite the issuance of approximately \$1.0 billion in membership credits since 2004. While surplus fell 18% in 2008 due to sizable capital losses on the large common stock portfolio, operating earnings and capital gains led to surplus growth in 2009. Going forward, the group's surplus growth may be constrained due to the group's large exposure to the equity markets.

CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Source of Surplus Growth					
	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax	Change in PHS	PHS Growth (%)
2004	770,648	196,790	-5,083	-262,859	699,496	24.7
2005	766,705	164,798	-333	-259,742	671,428	19.0
2006	883,899	231,808	-333	-302,889	812,486	19.3
2007	1,061,708	105,948	-333	-413,521	753,803	15.0
2008	283,152	-1,215,028	-333	-104,088	-1,036,297	-18.0
5-Yr	3,766,111	-515,683	-6,413	-1,343,099	1,900,916	...

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Overall Capitalization: Despite the 18% decline in surplus during 2008, FM Global continues to maintain a strong level of capitalization as evidenced by Best's Capital Adequacy Ratio (BCAR). This favorable capital position is reflective of the group's conservative underwriting leverage, slightly offset by FM Global's high common stock leverage. Although the group maintains exposure to natural and man-made catastrophe losses, this risk is mitigated through an extensive risk management program and reinsurance utilization to reduce net exposures to reasonable levels.

Barring any unusual events, capitalization is expected to remain strong over the near term. This assumes a normalized level of natural catastrophes, absence of a major terrorist event and continued improvement in the equity markets.

QUALITY OF SURPLUS (\$000)

Period Ending	Year-End PHS	—% of PHS—			—Dividend Requirements—		
		Cap. Stock/Contrib. Cap.	Other	Unassigned Surplus	Stockholder Divs	Div. To POI (%)	Div. To Net Inc. (%)
2004	3,532,791	...	0.0	100.0	-333	0.0	0.1
2005	4,204,219	...	0.0	100.0	-333	0.0	0.1
2006	5,016,705	...	0.0	100.0	-333	0.0	0.0
2007	5,770,508	...	0.0	100.0	-333	0.0	0.0
2008	4,734,211	...	0.0	100.0	-333	0.1	-0.1

Underwriting Leverage: FM Global's underwriting leverage has generally improved since 2002 as surplus growth has outpaced increases in underwriting commitments. Despite growth in net premium volume, the corresponding increase in risk exposure relative to total insured values (TIV) has risen by less than 10% annually in more recent years. Although a drop in surplus in 2008 negatively impacted FM Global's leverage measures, leverage remains conservative and below industry composite norms.

LEVERAGE ANALYSIS

Period Ending	—Company—				—Industry Composite—			
	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.	NPW to PHS	Res. to PHS	Net Lev.	Gross Lev.
2004	0.6	0.6	1.8	2.5	0.4	0.4	1.3	2.0
2005	0.6	0.5	1.7	2.3	0.4	0.3	1.2	1.9
2006	0.6	0.5	1.5	2.1	0.4	0.3	1.2	1.8
2007	0.5	0.4	1.3	1.7	0.4	0.3	1.1	1.7
2008	0.6	0.5	1.5	2.0	0.5	0.4	1.4	2.2

Current BCAR: 248.7

PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	—DPW—		—GPW—		—NPW—		—NPE—	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2004	2,538,478	-11.2	2,759,117	-9.8	2,285,193	-14.7	2,334,485	-8.4
2005	2,801,112	10.3	3,016,267	9.3	2,648,015	15.9	2,601,032	11.4
2006	3,176,357	13.4	3,404,590	12.9	2,850,693	7.7	2,719,395	4.6
2007	3,036,327	-4.4	3,271,307	-3.9	2,771,973	-2.8	2,740,365	0.8
2008	2,800,566	-7.8	3,039,507	-7.1	2,652,385	-4.3	2,702,742	-1.4
5-Yr CAGR	...	-0.4	...	-0.1	...	-0.2	...	1.2
5-Yr Chg	...	-2.0	...	-0.7	...	-1.0	...	6.0

Reserve Quality: The group has reported favorable loss reserve development in the most recent accident years driven by the recognition of redundancies in property lines of business.

FM Global's discontinued operations pertain to direct casualty business cancelled in 1978, assumed treaty reinsurance cancelled in 1986 and business assumed through past participation in the Mutual Marine Office Pool. According to A.M. Best's estimates, FM Global ranks in the top 30 in the nation with approximately 0.2% historical market share in commercial lines that are potentially exposed to asbestos and environmental claims. FM Global reported approximately \$520 million in net A&E reserves at year-end 2008, approximately 70% of this amount pertaining to asbestos liabilities. The group's net A&E reserves represent approximately 20% of its overall loss reserve base and roughly 10% of consolidated surplus. A considerable portion of the group's potential A&E liability stems from its discontinued assumed

reinsurance business, which poses more uncertainty than primary business due to its reliance on ceding companies for claims information. Also, claim payments tend to develop more slowly than for primary insurers. The group maintains a centralized claims unit that continues to evaluate, monitor and process claims.

LOSS & ALAE RESERVE DEVELOP.: CALENDAR YEAR (\$000)

Calendar Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to Orig. (%)	Develop. to PHS (%)	Develop. NPE (%)	Unpaid Reserves @12/08	Unpaid Res. to Develop. (%)
2003	1,715,760	1,842,537	7.4	4.5	72.3	696,752	37.8
2004	1,884,882	1,763,313	-6.4	-3.4	75.5	711,710	40.4
2005	2,186,388	2,084,857	-4.6	-2.4	80.2	722,789	34.7
2006	2,267,326	1,919,942	-15.3	-6.9	70.6	750,294	39.1
2007	2,141,205	1,702,006	-20.5	-7.6	62.1	952,933	56.0
2008	2,446,709	2,446,709	...	...	90.5	2,446,709	100.0

LOSS & ALAE RESERVE DEVELOP.: ACCIDENT YEAR (\$000)

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '08	Develop. to Orig. (%)	Unpaid Reserves @12/08	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
2003	622,480	522,516	-16.1	10,906	32.5	54.6
2004	667,777	564,124	-15.5	14,958	38.0	63.9
2005	1,141,670	953,121	-16.5	11,079	55.2	78.8
2006	873,030	684,511	-21.6	27,505	41.4	64.5
2007	902,997	708,813	-21.5	202,639	40.5	65.7
2008	1,493,776	1,493,776	...	1,493,776	94.3	115.8

ASBESTOS & ENVIRONMENTAL (A&E) RESERVE ANALYSIS

Year	—Company—				—Industry Composite—				
	Net A&E Reserve (\$000)	Reserve Retention (%)	Net IBNR (%)	Survival Ratio (3yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)	Survival Ratio (3yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)
2004	493,467	42.7	51.9	...	4.5	...	...	1.4	...
2005	490,933	44.3	48.2	...	0.6	...	...	1.0	...
2006	658,691	54.6	66.9	22.3	7.5	4.2	8.0	0.5	1.0
2007	622,604	57.8	61.6	21.1	-0.1	2.7	8.5	0.7	0.7
2008	521,577	46.5	58.6	13.7	-2.1	1.8	7.4	0.3	0.5

Reinsurance Utilization: Aggregate per risk and catastrophe reinsurance programs are utilized by FM Global to limit its exposure to severe losses, including catastrophes. Due to the complexity of its exposures, FM Global focuses extensively on risk management and maintains gross and net catastrophe exposures, as measured by the group's estimated maximum foreseeable loss (MFL) analysis, that are moderate.

The group's net retention of unaffiliated gross premium has steadily risen in recent years to more than 75%. The increase in this ratio reflects FM Global's ability to retain a higher level of risk than its peers given the group's strong capital position. Although the group has a block of reinsurance recoverables from unrated international reinsurers, such recoveries are backed by letters of credit or other forms of collateral. Further, its remaining reinsurance recoveries are from highly rated reinsurers and total recoverables are a reasonable 30% of surplus.

CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	—Company—				—Industry Composite—			
	Ceded Reins. Total	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)	Bus. Ret. (%)	Reins. Recov. to PHS (%)	Ceded Reins. to PHS (%)	
2004	2,376,693	73.9	44.2	67.3	49.0	44.8	69.8	
2005	2,707,628	78.3	46.8	64.4	50.3	48.5	71.6	
2006	2,681,476	76.0	35.4	53.5	49.5	37.2	61.7	
2007	2,237,990	75.5	23.0	38.8	50.1	30.8	56.6	
2008	2,227,890	77.3	30.5	47.1	47.3	44.4	80.7	

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2008 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates.....	77,322	...	15,145	...	92,467
Foreign Affiliates.....	4,802	778	5,397	...	10,977
US Insurers	289,939	238,140	206,991	-1,895	733,175
Pools/Associations.....	133,585	222,797	1	-22,814	333,569
Other Non-US.....	234,855	33,030	101,681	-3,111	366,455
Total (ex US Affils).....	663,181	494,745	314,070	-27,820	1,444,176
Grand Total.....	740,503	494,745	329,215	-27,820	1,536,643

* Includes Commissions less Funds Withheld

INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Period Ending	Company						Industry Composite	
	Class 3-6 Bonds	Real Estate/Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv. Lev.	Affil. Inv.	Class 3-6 Bonds	Common Stocks
2004	3.2	0.0	2.3	84.5	90.0	12.1	1.3	38.9
2005	3.9	0.0	2.2	84.4	90.5	11.5	1.3	40.4
2006	2.4	0.0	2.9	85.3	90.6	10.5	1.4	38.4
2007	2.3	0.0	4.3	79.8	86.5	16.0	1.7	35.9
2008	2.3	...	5.5	55.3	63.1	19.8	2.1	20.8

LIQUIDITY

FM Global's balance sheet is sound with invested assets exceeding liabilities by comfortable margins. Current and quick liquidity measures compare favorably to industry composite norms and are enhanced by strong underwriting and operating cash flows. With the implementation of higher deductibles and attachment points, as well as ongoing rate adequacy, and engineering and loss control initiatives, cash flows from underwriting and operations have remained strong over a five-year period. Given the group's large equity exposure, A.M. Best is somewhat concerned that should cash flow turn negative, the group could be forced to sell some of its equity (or bond portfolio) at suppressed prices. However, this concern is largely mitigated by the group's strong cash flows. Ultimately, A.M. Best expects cash flows from operations to remain very strong in the medium term.

LIQUIDITY ANALYSIS

Period Ending	Company				Industry Composite			
	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)
2004	75.9	158.6	188.0	11.1	80.0	156.9	218.6	12.9
2005	80.0	164.6	194.8	11.2	85.5	160.4	222.2	12.6
2006	77.5	173.5	202.8	10.3	86.0	165.6	227.9	12.4
2007	81.2	182.1	217.3	9.1	87.5	168.3	232.1	13.7
2008	59.3	156.4	201.6	9.1	61.1	136.8	209.9	19.8

CASH FLOW ANALYSIS (\$000)

Period Ending	Company						Industry Composite	
	Underw Cash Flow	Oper. Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper. Cash Flow (%)	Underw Cash Flow (%)	Oper. Cash Flow (%)	
2004	824,145	719,718	-210,896	153.5	140.9	125.2	127.9	
2005	909,155	786,586	40,081	155.0	140.2	117.1	119.8	
2006	826,881	771,743	-81,142	141.3	133.2	121.2	124.7	
2007	755,277	571,858	-445,307	137.2	123.3	118.3	118.2	
2008	334,345	523,440	476,054	114.1	121.0	108.6	114.9	

HISTORY

FM Global traces its origins back to the formation of the Factory Mutual System in the 1800s. Allendale Mutual Insurance Company, a founding member of the Factory Mutual System, commenced operations in 1835 under the name Manufacturers Mutual Fire Insurance Company and was formed in Providence, Rhode Island. After several consolidations and renamings, the name Allendale Mutual was adopted in July 1971. On July 2, 1999, the two other remaining Factory Mutual companies, Arkwright Mutual and Protection

Mutual, merged into Allendale Mutual, with the latter changing its name to Factory Mutual Insurance Company. Factory Mutual owns 100% of the stock of the Appalachian Insurance Company, formed in 1941; Affiliated FM Insurance Company, formed in 1949; and FM Insurance Company Ltd., formed in the U.K. in 1963.

MANAGEMENT

Administration of the group's day-to-day affairs is under the direction of Shivan S. Subramaniam, chairman and chief executive officer. Mr. Subramaniam was previously chairman of the board, president and chief executive officer of the former Allendale Mutual. Having joined Allendale in 1974, Mr. Subramaniam had served as senior vice president and chief financial officer, then as executive vice president, before assuming the office of president in 1992. He was subsequently elected to the position of chief executive officer in 1993 and then to chairman of the board in March 1995. Appointed president and chief executive officer effective with the 1999 merger that formed FM Global, he was elected chairman of the board in 2002.

REINSURANCE

Due to the size and complexity of its risks, FM Global utilizes facultative and excess-of-loss treaty reinsurance to reduce its exposure to significant loss events. In examining its exposure to catastrophes, all of FM Global's accounts are individually evaluated (on a location basis) based on maximum foreseeable loss (MFL) estimates.

The group utilizes facultative reinsurance when a policyholder's coverage requirements are outside FM Global's underwriting criteria. In addition to facultative reinsurance, the group maintains excess-of-loss protection of \$450 million excess of its \$150 million per risk retention and \$1,300 million excess of its \$250 million per catastrophe retention.

CONSOLIDATED BALANCE SHEET

(at December 31, 2008)

ADMITTED ASSETS (\$000)

	12/31/08	12/31/07	'08%	'07%
Bonds.....	3,733,506	3,810,922	39.5	35.5
Common stock.....	2,616,127	4,606,447	27.7	42.9
Cash & short-term invest.....	569,436	93,383	6.0	0.9
Real estate, offices.....	2,455	2,538	0.0	0.0
Other non-affil inv asset.....	262,559	251,522	2.8	2.3
Investments in affiliates.....	934,082	921,125	9.9	8.6
Total invested assets.....	8,118,165	9,685,937	86.0	90.1
Premium balances.....	432,657	527,388	4.6	4.9
Accrued interest.....	52,252	50,097	0.6	0.5
All other assets.....	841,501	483,419	8.9	4.5
Total assets.....	9,444,575	10,746,841	100.0	100.0

LIABILITIES & SURPLUS (\$000)

	12/31/08	12/31/07	'08%	'07%
Loss & LAE reserves.....	2,566,721	2,256,083	27.2	21.0
Unearned premiums.....	1,425,348	1,475,704	15.1	13.7
Conditional reserve funds.....	24,494	31,371	0.3	0.3
All other liabilities.....	693,801	1,213,175	7.3	11.3
Total liabilities.....	4,710,363	4,976,334	49.9	46.3
Total policyholders' surplus.....	4,734,211	5,770,508	50.1	53.7
Total liabilities & surplus.....	9,444,575	10,746,841	100.0	100.0

Best's Rating Report

CONSOLIDATED SUMMARY OF 2008 OPERATIONS (\$000)

Statement of Income	12/31/08	Funds Provided from Operations	12/31/08
Premiums earned.....	2,702,742	Premiums collected.....	2,708,511
Losses incurred	1,948,187	Benefit & loss related pmts	1,653,103
LAE incurred	148,001	LAE & undrw expenses paid	720,560
Undrw expenses incurred	570,028	Div to policyholders	302
Div to policyholders	309	Undrw cash flow	334,545
Net underwriting income	36,217	Investment income.....	312,568
Net investment income	246,552	Other income/expense ...	382
Other income/expense ...	382	Pre-tax cash operations	647,495
Pre-tax oper income ...	283,152	Income taxes pd (recov)...	124,056
Realized capital gains.....	-526,554	Net oper cash flow.....	523,440
Income taxes incurred	315,443		
Net income.....	-558,845		

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The company information appearing in this pamphlet is an extract from the complete company report prepared by the A.M. Best Company.

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