

Best's Rating Report



FM GLOBAL GROUP

Factory Mutual Insurance Co	A+
Affiliated FM Insurance Co	A+
Appalachian Insurance Co	A+
FM Insurance Company Limited	A+



Best's Rating Report

Associated With: Factory Mutual Insurance Company

FM GLOBAL GROUP

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RATING RATIONALE

Rating Rationale: The ratings reflect the superior level of risk-adjusted capitalization and historically excellent underwriting and operating performance of Factory Mutual Insurance Company and its subsidiaries (collectively, FM Global or the group), as well as the benefits gained from the group's innovative loss prevention process and approach to property conservation, and its market leadership position in the commercial property market. These factors are somewhat offset by the group's significant exposure and susceptibility to natural and man-made catastrophes. Furthermore, the group maintains elevated common stock leverage, which, while manageable, adds some volatility to the group's overall earnings and balance sheet. The outlooks reflect A.M. Best's view that the group's capitalization will remain more than supportive of the current ratings driven by strong earnings and its leadership position in providing property coverages worldwide.

While FM Global remains susceptible to catastrophe losses, the group has taken a number of steps to limit the magnitude of such losses via intensive engineering review, higher deductibles and attachment points as well as a strong reinsurance program. The group's underwriting criteria place a significant emphasis on loss prevention, and the group maintains close relationships with its insureds to foster awareness and adoption of the research undertaken by FM Global's large research and engineering staff.

The group's operating results were impacted in 2011 and, to a much lesser extent, in 2012 by increased natural hazard losses that occurred on both its domestic and international book as a result of the unusual frequency and severity of global natural catastrophes. Management expects to occasionally experience years with above-average losses due to the nature of its property coverages and has worked to build up a sizable capital base over the past ten years to absorb these occasional "shock" years without significant deterioration of risk-adjusted capital.

While FM Global maintains relatively high common stock leverage, this is offset by the group's conservative underwriting leverage, solid earnings and strong cash flows. As a result, the elevated common stock leverage does not have a material impact on FM Global's risk-adjusted capital level.

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 (premium) credits.

While the ratings for the members of FM Global are stable, future positive rating actions may result from the group's continued strong underwriting and operating performance for an extended period. However, negative rating actions could result if underwriting and operating performance falls markedly short of A.M. Best's expectation along with weakening the group's overall risk-adjusted capitalization.

RATING UNIT MEMBERS

FM Global Group (AMB# 018502):

AMB#	COMPANY	BEST'S FSR	POOL %
004067	Factory Mutual Insurance Co	A+	86.00
000103	Affiliated FM Insurance Co	A+	12.00
002345	Appalachian Insurance Co	A+	2.00
086513	FM Insurance Company Limited	A+	

KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data							
	Direct Premiums Written	Net Premiums Written	Pre-tax Operating Income	Net Income	Total Admitted Assets	Policyholders' Surplus		
2011	3,177,979	3,042,469	-369,293	-32,075	12,029,919	6,431,612		
2012	3,535,702	3,365,663	751,222	712,258	13,571,874	7,525,122		
2013	3,577,815	3,276,644	953,705	799,753	14,968,378	9,153,455		
2014	3,441,729	3,288,769	1,002,214	803,774	16,291,711	10,141,846		
2015	3,422,594	3,267,817	730,625	680,696	16,910,776	10,546,654		
Period Ending	Profitability			Leverage		Liquidity		
	Comb. Ratio	Inv. Yield (%)	Pre-tax ROR (%)	NA Inv Lev	NPW to PHS	Net Lev.	Overall Liq. (%)	Oper. Cash flow (%)
2011	120.2	2.3	-12.6	73.3	0.5	1.3	216.4	107.9
2012	84.2	2.2	22.7	72.5	0.4	1.2	225.6	110.2
2013	78.2	2.1	29.6	76.2	0.4	1.0	259.6	120.2
2014	76.2	2.0	31.5	74.5	0.3	0.9	267.6	128.4
2015	86.5	2.0	22.4	72.6	0.3	0.9	269.8	120.0
5-Yr	88.5	2.1	19.3	...	...	...	...	...

(*) Within several financial tables of this report, this company is compared against the Commercial Property Composite.

(*) Data reflected within all tables of this report has been compiled through the A.M. Best Consolidation of statutory filings.

BUSINESS PROFILE

FM Global is one of the largest underwriters of highly protected risk (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 assist FM Global's policyholders in the identification, assessment and management of property risks. In addition to providing global

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insurance products and value-added services, FM Global is also known for its captive-like orientation and its focus on long-term business partnerships which, in some cases, span more than 100 years. 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. Business is produced on a direct basis and through brokers.

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 the U.S. government reinsurance of terrorism exposures in November 2002, FM Global was required to offer terrorism coverage to all its insureds with full limits. The group's deductible under the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) is \$586 million in 2015, with the group also financially responsible for 20% of losses above its deductible. If TRIPRA lapses, insureds will be subject to a significantly lower terrorism coverage sublimit.

Insurance activities are conducted in the U.S., Canada, and Asia-Pacific through Factory Mutual Insurance Company (FMIC), the lead U.S. carrier and ultimate parent. Additional insurance activities are conducted in the U.S. and Canada through two U.S. operating companies and two Canadian branch offices. FMIC is the lead carrier in the FM Global Group. Affiliated FM 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 writes coverage on a surplus lines basis.

FM Global's U.K.-based subsidiary, FM Insurance Company Limited ("FM Insurance"), serves clients outside North America from its U.K.-based headquarters, utilizing branch offices in France, Belgium, Italy, Germany, Spain, Sweden, Switzerland, Australia, and New Zealand. Effective January 1, 2009, FM Insurance retains roughly 40% of its premium volume, net of third-party facultative reinsurance, with the remainder ceded to FMIC. In addition, FMIC also provides FM Insurance with stop-loss reinsurance above a combined ratio of 125%. Nearly half of FM Insurance's coverage is related to the foreign operations of its U.S. insureds. Beginning in 2013, FM Global's Asia-Pacific business began transitioning to FMIC paper from that of FM Insurance. All of the aforementioned business has been transferred.

Risk Engineering Insurance Company Limited (REICL) is incorporated in Bermuda and its ultimate parent is Factory Mutual Insurance Company. REICL is registered in Bermuda as a Class 3A insurer under the Bermuda Insurance Act 1978, as amended (the "Insurance Act"). REICL provides facultative reinsurance to its parent and affiliates.

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 net premiums earned, net loss and loss adjustment expenses incurred, and other underwriting expenses incurred. Effective January 1, 2005, the participation percentages are FMIC, 86%; Affiliated FM, 12%; and Appalachian, 2%.

TOTAL PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW		Reinsurance —Prem Assumed—		Reinsurance —Prem Ceded—	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2011	3,177,979	7.7	375,555	27.3	511,065	19.6
2012	3,535,702	11.3	395,275	5.3	565,314	10.6
2013	3,577,815	1.2	503,397	27.4	804,568	42.3
2014	3,441,729	-3.8	609,152	21.0	762,112	-5.3
2015	3,422,594	-0.6	705,016	15.7	859,793	12.8
5-Yr CAGR	...	3.0	...	19.0	...	15.0

Period Ending	NPW		NPE	
	(\$000)	(% Chg)	(\$000)	(% Chg)
2011	3,042,469	7.9	2,938,927	5.2
2012	3,365,663	10.6	3,306,387	12.5
2013	3,276,644	-2.6	3,226,260	-2.4
2014	3,288,769	0.4	3,182,318	-1.4
2015	3,267,817	-0.6	3,259,464	2.4
5-Yr CAGR	...	3.0	...	3.1

2015 BY-LINE BUSINESS (\$000)

Product Line	DPW		Reinsurance —Prem Assumed—		Reinsurance —Prem Ceded—	
	(\$000)	(%)	(\$000)	(%)	(\$000)	(%)
Inland Marine	1,190,266	34.8	193,771	27.5	360,427	41.9
Allied Lines	941,031	27.5	157,329	22.3	268,869	31.3
Boiler & Mach	528,329	15.4	275,687	39.1	90,660	10.5
Fire	656,616	19.2	76,447	10.8	150,778	17.5
Com'l MultiPeril	80,592	2.4	...	...	11,315	1.3
All Other	25,760	0.8	1,782	0.3	-22,256	-2.6
Total	3,422,594	100.0	705,016	100.0	859,793	100.0

Product Line	NPW		Business Retention (%)
	(\$000)	(%)	
Inland Marine	1,023,610	31.3	74.0
Allied Lines	829,492	25.4	75.5
Boiler & Mach	713,356	21.8	88.7
Fire	582,285	17.8	79.4
Com'l MultiPeril	69,277	2.1	86.0
All Other	49,798	1.5	180.8
Total	3,267,817	100.0	79.2

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BY-LINE RESERVES (\$000)

Product Line	2015	2014	2013	2012	2011
Inland Marine	536,091	341,873	505,105	861,408	957,330
Allied Lines	274,188	242,940	209,269	231,802	361,040
Boiler & Mach	210,640	224,694	277,692	310,146	274,358
Fire	657,912	700,580	529,747	561,029	584,954
Com'l MultiPeril	11,618	44,052	30,585	47,723	37,848
All Other	884,878	814,286	850,156	708,669	761,965
Total	2,575,326	2,368,425	2,402,555	2,720,777	2,977,494

GEOGRAPHIC BREAKDOWN BY DIRECT PREMIUM WRITINGS (\$000)

	2015	2014	2013	2012	2011
California	441,226	458,470	493,763	498,225	422,121
Canada	360,333	346,037	396,871	383,411	369,610
Texas	251,844	251,212	248,626	256,152	216,934
Aggregate Alien	226,836	115,435	70,777	60,578	50,932
New York	159,117	187,365	194,554	192,451	163,302
Florida	147,807	146,459	147,179	166,807	142,124
Illinois	116,791	121,001	126,589	122,279	108,957
Pennsylvania	114,729	123,062	124,181	127,001	111,414
Washington	105,026	99,701	105,301	105,440	103,938
Massachusetts	83,258	93,508	99,235	86,375	92,564
All Other	1,415,627	1,499,479	1,570,738	1,536,982	1,396,085
Total	3,422,594	3,441,729	3,577,815	3,535,702	3,177,979

RISK MANAGEMENT

FM Global's board, working in conjunction with senior management, has established risk tolerances that limit the group's exposure to loss from a variety of factors. The senior officer responsible for enterprise risk management (ERM) reports annually to the board on the group's risk tolerance and risk management framework. Risks have been identified in four broad categories: exposure; investment; regulatory/reputation; and operational. Meetings are held every six months to review risk metrics and risk management activities within the management staff of the company.

An important part of the group's ERM strategy is embedded in multiple levels of internal controls designed to ensure adherence and compliance in implementing the group's business model. These controls are integral to FM Global's day-to-day activities, and are monitored and managed by a cross-functional, corporate management team. Processes and procedures are established and audited regularly in all areas of operation based on a variety of factors, including geography, specialty operations, discipline areas and staff functions. In addition to traditional top-down reviews, regular operations reviews have been instituted to provide an assessment of activities. Additionally, the group's internal audit department evaluates and tests the system of internal controls.

Business continuity plans have been developed for all major sites, and incident command team leaders have been appointed for each of these sites. As part of the group recovery/action planning efforts, the group has documented the response to three broad scenarios: 1) lack of access to the IT

infrastructure; 2) lack of access to the building; and 3) lack of employees to staff a facility, and periodically tests the planned responses to ensure continuity of availability and responsiveness to customer needs.

Catastrophe Exposure and Management: 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 that are moderate, as measured by the group's estimated maximum foreseeable loss (MFL) analysis.

The group's net retention of approximately 75% reflects FM Global's ability to retain a higher level of risk than its peers given the group's strong capital position and low underwriting leverage. Although the group has a block of reinsurance recoverables from unrated captive 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 represent a reasonable 15% of surplus.

OPERATING PERFORMANCE

Operating Results: Historically, FM Global has produced strong operating returns, driven by solid underwriting earnings along with sound and steady investment income. The group's underwriting earnings have resulted from the group's persistent loss control procedures, low expense ratio and (particularly in prior years) favorable market conditions. As market conditions have softened, operating profits have remained strong due to the group's adherence to conservative risk management and pricing strategies. The group generated significant underwriting profits in four of the past five years, with favorable (albeit diminished) operating results in those years. An increased number of large natural hazard losses in 2011 drove the increased loss ratio in that year, bringing underwriting and operating results to a ten-year low. In 2012, the group produced strong operating earnings despite being impacted by Superstorm Sandy, its single largest aggregated net loss. With the exception of 2011, the group has produced strong operating results annually since 2002, primarily due to its strong market position, highly protected risk expertise, and strong risk management capabilities.

While the group's income benefits from its consistent generation of investment income, investment yields slightly lag the average of its peer group. This is primarily the result of FM Global's above-average investment allocation to common equities, which have a lower dividend yield than the average yield on the bonds that comprise a larger percentage of the portfolios of its industry peers. While FM Global's elevated investment leverage adds to earnings volatility with generally below average total return on invested assets, it has generally boosted overall long-term return measures. As a result, the group's total returns on revenue and surplus, which include capital gains and losses, strongly and consistently outperform its peer composite.

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PROFITABILITY ANALYSIS (\$000)

Period Ending	Company			
	Pre-tax Operating Income	After-tax Operating Income	Net Income	Total Return
2011	-369,293	-188,757	-32,075	-350,148
2012	751,222	566,608	712,258	1,118,554
2013	953,705	613,966	799,753	1,604,135
2014	1,002,214	640,190	803,774	1,056,571
2015	730,625	505,145	680,696	510,878
5-Yr Total	3,068,473	2,137,152	2,964,406	3,939,990

Period Ending	Company			Industry Composite		
	Pre-tax ROR (%)	Return on PHS (%)	Operating Ratio (%)	Pre-tax ROR (%)	Return on PHS (%)	Operating Ratio (%)
2011	-12.6	-5.2	111.7	3.0	1.6	95.9
2012	22.7	16.0	76.7	7.3	4.4	93.8
2013	29.6	19.2	69.9	10.8	11.1	89.6
2014	31.5	11.0	67.1	13.8	7.6	86.4
2015	22.4	4.9	77.0	14.0	4.1	86.9
5-Yr Avg	19.3	9.4	79.9	9.7	5.7	90.6

Underwriting Results: FM Global has typically produced strong underwriting results, reflecting strong risk management capabilities, adequate rates and careful management of terms and conditions. Solid underwriting results in recent years have led the company to periodically provide membership credits, which allow its policyholders to benefit from these favorable results and which encourage the long-term and stable relationship between the group and its customers. Most recently, the group announced approximately \$465 million in membership credits for renewals between June 30, 2016, and June 29, 2017. The group also issued \$465 million in membership credits between June 30, 2015, and June 29, 2016. The recent announcement of credits for the 2016 – 2017 policy year marks a fourth consecutive year of membership credit issuance.

In 2011, underwriting results declined significantly as the group posted a number of large natural hazard losses which added nearly 53 points to its combined ratio. In 2012, the group's underwriting performance was strong despite the impact of Superstorm Sandy, which added nearly 13.5 points to the group's combined ratio and is the group's largest aggregated loss from a single event. The improved results were driven by a decrease in loss frequency and severity, even considering the Sandy-related losses. Excluding 2011, strong underwriting results have largely been due to a reduced number of weather-related losses. A.M. Best expects FM Global's historically strong underwriting results to continue over the near term despite soft market conditions 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 TRIPRA extension, FM Global's retention (deductible) is \$586 million for 2015, plus 20% of all certified losses in excess of this deductible. Nearly 60% of FM Global's policyholders have accepted the

terrorism coverage offered by the group under TRIPRA. However, a vast majority of these exposures are represented by horizontal or campus-like risks that are generally not exposed to a total loss. The group purchases no additional terrorism reinsurance outside of TRIPRA. However, should TRIPRA expire, management has devised a plan to minimize the potential impact from a terrorist event.

UNDERWRITING EXPERIENCE

Period Ending	Net Undrw Income (\$000)	—Loss Ratios—			—Expense Ratios—			Div. Pol.	Comb. Ratio	Comb. Ratio
		Pure Loss	Loss & LAE	Net LAE	Other Exp.	Total Exp.				
2011	-618,323	91.8	3.5	95.3	3.0	21.8	24.8	0.0	120.2	102.8
2012	507,998	56.8	3.0	59.8	2.9	21.6	24.4	0.0	84.2	100.9
2013	690,775	47.6	3.0	50.6	3.3	24.3	27.5	0.0	78.2	96.0
2014	729,468	46.8	3.6	50.4	2.9	22.9	25.8	0.0	76.2	93.0
2015	438,188	54.4	3.6	58.1	3.0	25.4	28.4	0.0	86.5	94.0
5-Yr Total/Avg	1,748,106	58.9	3.3	62.3	3.0	23.2	26.2	...	88.5	97.4

BY-LINE LOSS RATIO

Product Line	2015	2014	2013	2012	2011	5-Yr Avg
Inland Marine	55.3	27.0	43.3	94.3	153.2	69.9
Allied Lines	29.6	29.1	20.9	24.2	67.8	33.8
Boiler & Mach	38.1	37.7	45.3	52.9	55.1	45.5
Fire	99.7	106.0	64.8	64.4	94.4	84.8
Com'l MultiPeril	6.1	62.4	46.6	59.1	82.8	50.4
All Other	235.4	98.9	894.5	136.1	60.4	275.5
Total	54.4	46.8	47.6	56.8	91.8	58.9

DIRECT LOSS RATIO BY STATE

	2015	2014	2013	2012	2011	5-Yr Avg
California	11.0	-1.5	24.5	34.3	36.6	20.8
Canada	58.1	92.6	50.5	64.9	50.5	63.1
Texas	80.4	27.3	18.8	45.1	91.7	51.3
Aggregate Alien	34.8	0.6	29.9	-71.3	441.3	57.0
New York	22.9	58.1	112.9	297.3	147.3	128.1
Florida	16.2	8.5	7.7	24.0	14.3	14.3
Illinois	61.4	11.4	47.8	45.3	45.5	42.6
Pennsylvania	63.1	113.9	30.2	32.3	42.7	56.4
Washington	24.0	22.3	10.0	14.2	7.8	15.6
Massachusetts	66.4	41.9	22.3	138.6	40.3	61.4
All Other	51.0	41.6	50.8	70.8	120.0	65.8
Total	45.2	39.6	43.3	68.3	88.8	56.3

Investment Results: FM Global's investment yields have declined slightly over the current five-year period and are somewhat below industry composite results, reflecting the group's elevated level of common equity holdings. Total investment returns (including capital gains) also lag the group's peer composite with volatility caused by capital gains and losses on the group's substantial equity portfolio, rising and falling with shifts in the equity market. Over the five-year period, the group's net investment income has increased, primarily driven by growth in the invested asset base as a result of favorable

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operating income and positive cash flows offset by modest dividend income on the group's increasing equity holdings and declines in interest yields on the group's long-term bonds. As such, despite the increase in invested assets, the group's overall yield declined on its bond portfolio while a greater percentage of its investment holdings produced minimal income on the year.

INVESTMENT GAINS (\$000)

Year	Company			Unrealized Capital Gains
	Net Inv Income	Realized Capital Gains	Unrealized Capital Gains	
2011	249,610	156,682	-318,074	
2012	249,194	145,650	406,297	
2013	265,364	185,787	804,381	
2014	291,048	163,584	252,798	
2015	309,090	175,551	-169,818	
5-Yr Total	1,364,306	827,253	975,584	

Year	Company				Industry Composite	
	Inv Inc Growth (%)	Inv Yield (%)	Return on Inv Assets (%)	Pre-tax Invest Total Return (%)	Inv Inc Growth (%)	Inv Yield (%)
2011	-0.4	2.3	3.7	0.7	-44.6	2.3
2012	-0.2	2.2	3.5	8.9	8.3	2.5
2013	6.5	2.1	3.6	13.3	-11.7	2.2
2014	9.7	2.0	3.2	6.3	-0.2	2.2
2015	6.2	2.0	3.2	2.1	2.2	2.1
5-Yr Avg	4.5	2.1	3.4	6.2	-14.3	2.3

BALANCE SHEET STRENGTH

Capitalization: FM Global continues to maintain a superior level of risk-adjusted capitalization as calculated using 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 elevated common stock leverage. Although the group maintains exposure to natural and man-made catastrophe losses, these risks are mitigated through an extensive risk management program and reinsurance utilization which reduce net exposures to levels in line with the group's capital level.

The group has achieved solid surplus growth through operating earnings. However, the group's surplus growth may continue to be constrained from time to time due to the large exposure to equities. The majority of the group's surplus growth is the result of strong underwriting earnings along with steady investment income. In 2011 the group's policyholders' surplus declined by nearly 8% primarily driven by the group's large underwriting loss and unrealized capital losses. The group's surplus subsequently increased in each of the last four years, driven by strong operating earnings coupled with capital gains. Based on the group's history, the expectation is that underwriting profits will continue to favorably impact surplus over the medium term with

results dipping in select years under heightened loss experience. Barring any unusual events, risk-adjusted 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 stabilization of equity markets.

Current BCAR: 347.4

CAPITAL GENERATION ANALYSIS (\$000)

Year	Source of Surplus Growth			
	Pre-tax Operating Income	Realized Capital Gains	Income Taxes	Unrealized Capital Gains
2011	-369,293	156,682	-180,537	-318,074
2012	751,222	145,650	184,614	406,297
2013	953,705	185,787	339,739	804,381
2014	1,002,214	163,584	362,025	252,798
2015	730,625	175,551	225,480	-169,818
5-Yr Total	3,068,473	827,253	931,321	975,584

Year	Source of Surplus Growth			
	Net Contrib. Capital	Other Changes	Change in PHS	% Chg in PHS
2011	-333	-179,817	-530,298	-7.6
2012	-333	-24,711	1,093,511	17.0
2013	-333	24,531	1,628,333	21.6
2014	-333	-67,849	988,390	10.8
2015	-333	-105,737	404,808	4.0
5-Yr Total	-1,663	-353,582	3,584,745	8.7

QUALITY OF SURPLUS (\$000)

Year	Surplus Notes	Other Debt	Contributed Capital	Unassigned Surplus
	2011	1,250	6,430,362
2012	1,250	7,523,872
2013	1,250	9,152,205
2014	1,250	10,140,596
2015	1,250	10,545,404

Year	Year-End PHS	Conditional Reserves	Adjusted PHS
	2011	6,431,612	40,400	6,472,012
2012	7,525,122	31,530	7,556,652
2013	9,153,455	49,222	9,202,678
2014	10,141,846	61,572	10,203,418
2015	10,546,654	95,260	10,641,914

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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.
2011	0.5	0.5	1.3	1.8	0.6	0.4	1.8	2.7
2012	0.4	0.4	1.2	1.7	0.6	0.5	1.9	3.0
2013	0.4	0.3	1.0	1.3	0.6	0.4	1.8	2.6
2014	0.3	0.2	0.9	1.2	0.5	0.4	1.6	2.5
2015	0.3	0.2	0.9	1.2	0.4	0.3	1.4	2.3

CEDED REINSURANCE ANALYSIS (\$000)

Period Ending	Company				Industry Composite			
	Ceded Reins. Total	Bus. Ret. (%)	Reins. to PHS (%)	Ceded Reins. to PHS (%)	Bus. Ret. (%)	Reins. to PHS (%)	Ceded Reins. to PHS (%)	
2011	2,977,344	85.6	30.3	46.3	49.4	51.0	96.5	
2012	3,196,438	85.6	27.8	42.5	51.4	61.7	107.2	
2013	3,088,818	80.3	19.6	33.7	50.7	44.1	85.5	
2014	2,709,554	81.2	14.7	26.7	50.1	44.1	84.6	
2015	2,861,073	79.2	15.4	27.1	44.5	40.9	82.8	

2015 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
Foreign Affiliates.....	11,233	...	60,072	-224	71,081
US Insurers	217,514	194,583	240,575	-165	652,507
Pools/Associations.....	65,319	279,945	249	-5,910	339,603
Other Non-US.....	232,331	140,210	189,305	-945	560,901
Total (ex US Affils)	526,397	614,738	490,201	-7,244	1,624,092

* Includes Commissions less Funds Withheld

Loss Reserves: The group has reported favorable loss reserve development across most accident years driven by the recognition of redundancies in property lines of business, with some adverse development occasionally recorded for asbestos & environmental (A&E) losses. Strengthening of A&E reserves were seen in 2007, 2009, 2013, and in 2015. There was also some strengthening in 2015, albeit very minor, on the 2008 - 2011 accident years.

According to A.M. Best's estimates, FM Global ranks among the top 30 largest carriers in the United States in terms of its potential exposure to asbestos and environmental claims, with an historical market share (based on net premiums) of 0.2%. FM Global reported approximately \$735 million in net A&E reserves at year-end 2015, with 83% of this amount pertaining to asbestos liabilities. The group's net A&E reserves represent approximately 30% of its overall loss reserve base and roughly 7% 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 '15	Develop. to Orig. (%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @12/15	Unpaid Res. to Develop. (%)
2010	2,215,835	2,245,907	1.4	0.4	80.4	823,463	36.7
2011	2,817,077	3,019,126	7.2	3.1	102.7	835,637	27.7
2012	2,569,692	2,732,434	6.3	2.2	82.6	876,955	32.1
2013	2,275,582	2,175,562	-4.4	-1.1	67.4	948,821	43.6
2014	2,233,649	2,309,284	3.4	0.7	72.6	1,224,808	53.0
2015	2,439,315	2,439,315	...	...	74.8	2,439,315	100.0

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

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '15	Develop. to Orig. (%)	Unpaid Reserves @12/15	Acc. Yr Loss Ratio	Acc. Yr Comb. Ratio
2010	1,051,786	893,021	-15.1	9,807	55.0	82.6
2011	1,764,472	1,723,601	-2.3	12,174	101.4	126.2
2012	1,289,314	1,186,413	-8.0	41,318	59.2	83.7
2013	917,425	840,874	-8.3	71,866	42.8	70.4
2014	1,082,789	1,060,732	-2.0	275,987	56.1	81.9
2015	1,214,507	1,214,507	...	1,214,507	56.1	84.5

ASBESTOS & ENVIRONMENTAL (A&E) RESERVE ANALYSIS

Year	Company				Industry Composite				
	Net A&E Reserve (\$000)	Reserve Retention (%)	Net IBNR Mix (%)	Survival Ratio (3 yr)	Comb. Ratio Impact (1 yr)	Comb. Ratio Impact (3 yr)	Survival Ratio (3 yr)	Comb. Ratio Impact (1 yr)	Comb. Ratio Impact (3 yr)
2011	576,950	49.1	71.3	XX	-0.3	XX	XX	-0.1	XX
2012	518,439	48.5	71.9	XX	-0.2	XX	XX	0.1	XX
2013	671,275	55.9	77.6	15.6	5.7	1.8	16.6	1.5	0.5
2014	649,711	56.5	74.6	15.6	0.6	2.0	16.7	0.2	0.6
2015	735,096	54.2	78.3	21.1	3.6	3.3	19.8	0.9	0.9

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 since 2002. Given the group's historically strong cash flows and solid risk-based level of capitalization, FM Global is largely protected against the need to liquidate any investments at a loss in order to meet its cash needs. A.M. Best expects cash flows from operations to remain strong in the medium term.

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LIQUIDITY ANALYSIS

Company					Industry Composite					Bonds (000)				
Period Ending	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	Quick Liq. (%)	Current Liq. (%)	Overall Liq. (%)	Gross Agents Bal. to PHS (%)	2015	2014	2013	2012	2011	
2011	69.6	158.6	216.4	8.5	49.3	114.4	182.5	21.4	5,377,000	5,012,895	4,820,940	4,486,648	4,293,044	
2012	72.6	159.9	225.6	7.6	53.2	112.2	173.3	23.9	US Government	9.5	9.6	8.6	6.6	
2013	96.5	197.0	259.6	6.0	55.0	123.0	180.4	22.6	Foreign Government	9.7	11.1	10.6	10.3	
2014	102.3	200.3	267.6	6.6	61.1	125.0	189.1	19.2	Foreign - All Other	9.5	6.2	6.8	4.4	
2015	103.1	202.6	269.8	5.9	59.3	125.3	198.8	17.6	State/Special Revenue - US	45.0	45.5	46.6	50.2	
									Industrial & Misc - US	26.3	27.6	27.4	28.6	
									Private Issues	3.6	4.0	4.5	5.0	
									Public Issues	96.4	96.0	95.5	95.0	

CASH FLOW ANALYSIS (\$000)

Company					Industry Composite					Bond Quality (%)				
Year	Underw Cash Flow	Oper Cash Flow	Net Cash Flow	Underw Cash Flow (%)	Oper Cash Flow (%)	Underw Cash Flow (%)	Oper Cash Flow (%)	Class 1	2015	2014	2013	2012	2011	
2011	36,925	240,355	123,390	101.2	107.9	101.2	105.5	Class 2	85.3	86.3	85.5	86.8	87.8	
2012	207,679	335,774	-18,551	106.5	110.2	100.2	104.6	Class 3	9.7	8.1	8.9	8.1	7.9	
2013	709,481	612,764	57,783	127.0	120.2	99.1	102.4	Class 4	2.1	2.0	1.8	1.4	1.4	
2014	820,491	768,002	160,821	135.3	128.4	120.4	123.0	Class 5	2.1	2.4	2.3	2.3	2.0	
2015	761,723	618,199	196,520	129.6	120.0	105.9	106.7	Class 6	0.7	1.1	1.5	1.3	0.9	
5-Yr Total	2,536,298	2,575,093	519,963	...	...	...	...	Class 6	0.0	0.0	0.0	0.0	0.0

INVESTMENT LEVERAGE ANALYSIS (% OF PHS)

Company					Industry Composite					INVESTMENTS - EQUITIES				
Period Ending	Class 3-6 Bonds	Real Estate/Mtg.	Other Invested Assets	Common Stocks	Non-Affil. Inv. Lev.	Affil. Inv.	Class 3-6 Bonds	Common Stocks	2015	2014	2013	2012	2011	
2011	3.1	...	10.7	59.5	73.3	20.6	1.6	27.7	Stocks (000)	7,429,166	7,393,185	6,748,956	5,223,893	4,422,709
2012	3.2	...	9.8	59.6	72.5	20.6	1.9	34.5	Unaffiliated Common	86.4	86.4	87.1	85.8	86.5
2013	3.1	...	8.8	64.3	76.2	18.4	1.9	40.7	Affiliated Common	13.6	13.6	12.8	14.2	13.5
2014	3.0	...	8.5	63.0	74.5	19.2	2.0	42.0	Unaffiliated Preferred	...	...	0.0	...	...
2015	2.8	...	9.0	60.9	72.6	19.0	2.0	37.9						

INVESTMENTS - MORTGAGE LOANS & REAL ESTATE

	2015	2014	2013	2012	2011
Mortgage Loans & Real Estate (000)	...	31	31	11,927	1,498
Property Occupied by Co	...	100.0	100.0	100.0	100.0

INVESTMENTS - SECURITIES

Current Year Distribution of Bonds By Maturity	Years					Yrs-Avg Maturity
	0-1	1-5	5-10	10-20	20+	
Government	0.2	5.5	7.0	0.2	4.7	11
Gov't Agencies & Muni	0.7	10.0	14.0	6.8	9.6	12
Industrial & Misc	9.5	15.3	13.7	0.6	2.3	5
Total	10.4	30.7	34.6	7.7	16.6	9

INVESTMENTS - OTHER INVESTED ASSETS

	2015	2014	2013	2012	2011
Other Inv Assets (000)	2,958,473	2,640,929	2,286,885	2,154,497	2,083,358
Cash	16.5	14.4	17.0	18.3	17.2
Short-Term	17.9	16.7	11.9	9.7	12.6
Schedule BA Assets	61.5	66.5	66.6	65.1	61.3
All Other	4.0	2.4	4.5	6.9	8.8

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

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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 Limited, formed in the U.K. in 1963.

MANAGEMENT

Administration of the group's day-to-day affairs and strategic and operational direction is led by Thomas A. Lawson, president and chief executive officer. Mr. Lawson joined the mutual insurance company in 1979 and in 2009 was appointed executive vice president before being named to his current role in 2014. Shivan S. Subramaniam, former chairman and CEO, continues to chair FM Global's board of directors. In addition, Jonathan W. Hall, who joined FM Global in 1980, serves as chief operating officer and oversees FM Global's insurance operations and insurance staff functions.

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 \$1,230 million excess of its \$250 million per-risk retention and \$1,000 million excess of its \$500 million per-catastrophe retention.

CONSOLIDATED BALANCE SHEET

(at December 31, 2015)

ADMITTED ASSETS (\$000)

	12/31/15	12/31/14	'15%	'14%
Bonds	5,377,000	5,012,895	31.8	30.8
Common stock	6,420,627	6,387,431	38.0	39.2
Cash & short-term invest	1,018,360	821,841	6.0	5.0
Other non-affil inv asset	946,679	875,418	5.6	5.4
Investments in affiliates	2,001,972	1,949,424	11.8	12.0
Real estate, offices .....	...	31	...	0.0
Total invested assets.....	15,764,639	15,047,039	93.2	92.4
Premium balances	617,382	670,899	3.7	4.1
Accrued interest	62,397	60,273	0.4	0.4
All other assets.....	466,358	513,500	2.8	3.2
Total assets.....	16,910,776	16,291,711	100.0	100.0

LIABILITIES & SURPLUS (\$000)

	12/31/15	12/31/14	'15%	'14%
Loss & LAE reserves	2,575,326	2,368,425	15.2	14.5
Unearned premiums.....	1,781,598	1,773,245	10.5	10.9
Conditional reserve funds	95,260	61,572	0.6	0.4
All other liabilities.....	1,911,938	1,946,623	11.3	11.9
Total liabilities	6,364,122	6,149,865	37.6	37.7
Capital & assigned surplus.....	1,250	1,250	0.0	0.0
Unassigned surplus.....	10,545,404	10,140,596	62.4	62.2
Total policyholders' surplus.....	10,546,654	10,141,846	62.4	62.3
Total liabilities & surplus.....	16,910,776	16,291,711	100.0	100.0

CONSOLIDATED SUMMARY OF 2015 OPERATIONS (\$000)

Statement of Income	12/31/15	Funds Provided from Operations	12/31/15
Premiums earned.....	3,259,464	Premiums collected.....	3,336,398
Losses incurred	1,774,066	Benefit & loss-related pmts	1,561,368
LAE incurred	118,429	LAE & undrw expenses paid	1,012,883
Undrw expenses incurred	928,346	Div to policyholders	424
Div to policyholders	435	Undrw cash flow	761,723
Net underwriting income	438,188	Investment income.....	367,055
Net investment income	309,090	Other income/expense	-16,652
Other income/expense	-16,652	Pre-tax cash operations	1,112,126
Pre-tax oper income ...	730,625	Income taxes pd (recov)...	493,927
Realized capital gains.....	175,551	Net oper cash flow.....	618,199
Income taxes incurred	225,480		
Net income.....	680,696		

Best's Rating Report

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A Best's Rating Report from the A.M. Best Company showcases the **opinion** from the leading provider of insurer ratings of a company's financial strength and ability to meet its obligations to policyholders, as well as its relative credit risk.

The A.M. Best Company is the oldest, most experienced rating agency in the world and has been reporting on the financial condition of the insurance companies since 1899.

A Best's Financial Strength Rating is an **independent opinion** of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations.

The Financial Strength Rating **opinion** addresses the relative ability of an insurer to meet its ongoing insurance policy and contract obligations. The rating is not assigned to specific insurance policies or contracts and does not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. The rating is **not a recommendation** to purchase, hold or terminate any insurance

policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

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