

Best's Rating Report



AFFILIATED FM INSURANCE COMPANY

Johnston, Rhode Island



A+

EFFECTIVE: September 23, 2011

Ultimate Parent: Factory Mutual Insurance Company

AFFILIATED FM INSURANCE COMPANY
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BEST'S FINANCIAL STRENGTH RATING
Based on our opinion of the consolidated Financial Strength of the property/casualty members of FM Global Group, which operate under a group structure, each group member is assigned a Best's Financial Strength Rating of A+ (Superior). The company is assigned the Financial Size Category of Class XV, which is the Financial Size Category of the group.

RATING RATIONALE

Rating Rationale: The group rating assigned to Affiliated FM Insurance Company reflects its strategic role and importance to the group, common ownership and management, and the explicit support provided through an intercompany reinsurance pooling arrangement whereby the company retains 12% of the group's pooled premiums, losses and expenses.

The following text is derived from the report of FM Global Group.

The rating reflects FM Global's very strong capitalization, historically solid operating performance, benefits gained from the group's loss prevention technology and approach to property conservation, as well as its market leadership position in the commercial property market. These factors are somewhat offset by ongoing exposure and susceptibility to natural catastrophes and future acts of terrorism. 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.

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 2011 due to increased natural hazard losses that occurred on both its domestic and international book as a result of the unusual frequency and severity of natural catastrophes that occurred during the year throughout the world. Nevertheless, management expects to occasionally experience years with heavy 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 more than comfortably absorb these occasional "shock" years.

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 impact on FM Global's risk-based capitalization from its investment leverage is not material.

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 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

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current level of capitalization. Moreover, policies that provide terrorism coverage maintain a significantly lower sublimit for terror losses in the event TRIA is non-renewed. Regardless, A.M. Best's evaluation of FM Global's capitalization takes into account a stress test for both natural and man-made catastrophes.

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.

Best's Financial Strength Rating: A+ g

Outlook: Stable

FIVE-YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
09/23/11	A+ g	12/19/08	A+ g
10/01/10	A+ g	12/27/07	A+ g
10/06/09	A+ g	04/18/07	A+ g

KEY FINANCIAL INDICATORS (\$000)

Period Ending	Statutory Data							
	Direct Premiums Written	Net Premiums Written	Pre-tax Operating Income	Net Income	Total Admitted Assets	Policy- holders' Surplus		
2006	601,838	347,268	128,573	79,243	1,275,125	571,992		
2007	609,312	333,678	156,150	100,981	1,361,223	675,505		
2008	619,896	336,173	62,796	32,903	1,470,532	695,535		
2009	667,556	381,758	176,810	115,391	1,621,717	828,214		
2010	690,363	347,670	128,127	86,442	1,915,425	933,362		
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 (%)
2006	74.1	5.1	39.4	5.6	0.6	1.8	182.5	168.0
2007	69.7	5.4	47.5	4.2	0.5	1.5	199.9	136.3
2008	98.0	5.1	19.4	4.2	0.5	1.6	190.9	123.5
2009	66.0	4.6	48.7	11.6	0.5	1.4	206.1	147.4
2010	77.7	3.8	38.2	48.6	0.4	1.4	196.7	139.6
5-Yr	76.8	4.7	38.9	...	...	...	...	...

(* Data reflected within all tables of this report has been compiled from the company-filed statutory statement. Within several financial tables of this report, this company is compared against the Commercial Property Composite.

BUSINESS REVIEW

The following text is derived from the report of FM Global Group.

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 (Factory Mutual). Other insurance companies within the group are Affiliated FM Insurance Company (Affiliated FM), Appalachian Insurance Company (Appalachian), 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 terrorism coverage to all its insureds with full limits. The group's deductible under TRIA is \$523 million in 2011. Also under TRIA, FM Global is financially responsible for 15% of losses above its deductible. If TRIA lapses, insureds will be subject to a significantly lower sublimit under its terrorism coverage.

Insurance activities are conducted in the U.S. and Canada through its three U.S. operating companies and two Canadian branch offices. Factory Mutual 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 its clients outside North America from its Windsor-based headquarters, utilizing branch offices in France, Belgium, Italy, Germany, Sweden, Switzerland, Singapore, Hong Kong and Australia. Effective January 1, 2004, FM Insurance retains roughly 35% of its premium volume, net of third-party facultative reinsurance, with the remainder ceded to Factory Mutual. In addition, Factory Mutual also provides FM Insurance with stop-loss reinsurance above a combined ratio of 125%. Nearly two-thirds of FM Insurance's coverage is related to the foreign operations of its domestic insureds.

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, 86%; Affiliated FM, 12%; and Appalachian, 2%. A similar pooling arrangement is in effect for Canadian business, but does not include credit risk for uncollectible reinsurance. Effective January 1, 2004, the participations for the Canadian portfolio are Factory Mutual, 81% and Affiliated FM, 19%.

2010 BUSINESS PRODUCTION AND PROFITABILITY (\$000)

Product Line	—Premiums Written—		% of Total NPW	Pure Loss Ratio	Loss & LAE Res.
	Direct	Net			
Fire	229,637	187,730	54.0	26.4	71,788
Inland Marine	183,735	138,378	39.8	58.5	69,733
Allied Lines	141,120	105,207	30.3	102.4	96,046
Com'l MultiPeril	71,883	57,713	16.6	25.1	15,329
Ocean Marine	19,424	19,452	5.6	39.5	17,568
Boiler & Mach	42,948	1,014	0.3	808.8	8,916
All Other	1,616	-161,824	-46.5	64.7	139,204
Totals	690,363	347,670	100.0	47.0	418,584

Geographical breakdown of direct premium writings (\$000): California, \$103,150 (14.9%); New York, \$65,353 (9.5%); Washington, \$48,666 (7.0%); Texas, \$43,268 (6.3%); Florida, \$27,962 (4.1%); Aggregate Alien, \$397 (0.1%); other jurisdictions, \$302,673 (43.8%); Canada, \$98,895 (14.3%).

FINANCIAL PERFORMANCE

The following text is derived from the report of FM Global Group.

Overall Earnings: Historically solid operating returns have been driven by underwriting earnings that have outpaced investment income by roughly 2.5-to-1 over a five-year period. Overall strong underwriting earnings have been the result of the group's persistent loss control procedures, low expense ratio and (particularly in prior years) favorable market conditions. As market

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conditions have softened, operating profits have remained strong due to FM Global's adherence to conservative risk management and pricing strategies. Return measures improved in 2009 from the prior year on favorable underwriting and investment results. A number of large risk losses led to a reduction in underwriting earnings in 2010 while an increased number of large natural hazard losses increased the group's loss ratio, bringing underwriting results to a five-year low in 2011.

The group's investment yield lags its industry peers as invested assets are skewed towards common stock holdings that represent slightly more than 35% 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. While FM Global's elevated investment leverage added to earnings volatility in 2008, it has generally boosted overall long-term return measures. Nonetheless, the group's overall investment returns, which include capital gains and losses, lag its peer composite.

PROFITABILITY ANALYSIS

Period Ending	Company				Industry Composite			
	Pre-tax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pre-tax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2006	39.4	15.2	74.1	58.9	25.6	16.4	86.5	74.7
2007	47.5	16.1	69.7	52.1	29.4	13.0	82.3	70.0
2008	19.4	3.8	98.0	79.8	13.0	-10.6	97.9	87.3
2009	48.7	15.7	66.0	50.1	27.8	18.2	81.2	71.7
2010	38.2	12.0	77.7	60.8	30.0	12.4	86.1	69.9
5-Yr	38.9	12.4	76.8	60.1	25.1	9.9	86.9	74.8

Underwriting Income: FM Global has largely produced excellent underwriting results, reflective of adequate 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. Overall favorable underwriting results since 2001 have led the company to provide five membership credits totaling nearly \$1.5 billion, including a \$420 million membership credit that was issued between June 30, 2010, and June 29, 2011.

Underwriting results fell in 2008 due to large natural hazard (catastrophe) and risk losses (non-catastrophic) 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 improved in 2009 on reduced loss experience. Boosting underwriting earnings in 2009 was the lack of a membership credit that boosted premium earnings on the year. Underwriting results fell in 2010 due to a number of large risk losses as well as the issuance of a membership credit. Underwriting results fell further in 2011 as the group posted multiple large natural hazard losses. Nonetheless, 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) is \$523 million for 2011, 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 a total loss. The group purchases no additional terrorism reinsurance outside of TRIA. However, should TRIA expire, management has devised a plan to minimize the potential impact from a terrorist event.

UNDERWRITING EXPERIENCE

Period Ending	Net Underw Income (\$000)	Loss Ratios		Expense Ratios		Total Exp.	Div. Pol.	Comb. Ratio	
		Pure Loss	Loss & LAE	Net Comm.	Other Exp.				
2006	79,707	47.5	3.8	51.3	2.4	20.3	22.7	0.1	74.1
2007	98,319	39.8	4.8	44.6	-10.5	35.5	25.1	0.1	69.7
2008	4,074	72.1	5.5	77.6	-14.0	34.4	20.3	0.1	98.0
2009	119,194	37.8	4.0	41.8	-16.8	40.8	24.0	0.1	66.0
2010	71,681	47.0	3.7	50.7	2.4	24.5	26.9	0.1	77.7
5-Yr	...	48.5	4.3	52.9	-7.4	31.2	23.8	0.1	76.8

Investment Income: FM Global's investment yields are typically low, reflecting the group's elevated level of common equity holdings. Total investment returns 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. Net investment income has largely remained flat since 2007. Impacting investment income growth is modest dividend income on the group's increasing equity holdings and declines in interest yields on the group's long-term bonds. Further, a large portion of the group's 2010 invested asset purchases were in alternative investments that did not yield interest (or dividend) income. As such, despite the increase in invested assets in 2010, investment earnings fell as the group's overall yield declined on its bond portfolio while a greater percentage of its investment holdings produced no income on the year. While FM Global's equity holdings increased in 2011, overall dividend income growth was modest on the year. The increase in the group's equity holdings was nearly half from unrealized gain and half from new purchases.

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 (%)
2006	49,600	352	1,359	27.6	5.1	5.3	14.7	3.1
2007	57,869	910	-504	16.7	5.4	5.4	18.2	3.4
2008	58,906	-3,892	-6,688	1.8	5.1	4.2	-3.6	3.4
2009	57,673	910	3,925	-2.1	4.6	5.0	-9.5	3.0
2010	56,654	4,982	19,434	-1.8	3.8	5.5	76.6	4.9
5-Yr	...	...	...	6.8	4.7	5.1	18.2	3.6

INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2010 Inv. Assets (\$000)	—% of Invested Assets—		Annual % Change
		2010	2009	
Long-term bonds	1,118,440	65.8	81.4	4.1
Stocks	322,948	19.0	7.5	227.8
Other Inv Assets	258,094	15.2	11.2	74.9
Total	1,699,482	100.0	100.0	28.7

2010 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)
States, terr & poss..	1.5	3.3	7.5	100.0	...	...	...
Special Revenue.....	21.7	3.7	19.7	100.0	...	1.9	0.5
Corporates.....	57.5	7.2	7.3	98.7	1.3	32.9	24.6
Total all bonds..	100.0	5.5	10.1	99.2	0.8	19.3	25.1

CAPITALIZATION

The following text is derived from the report of FM Global Group.

Capital Generation: The group has achieved solid surplus growth through operating earnings. While capital gains derived from the equity portfolio have been a historical contributor to surplus growth, sizable capital losses in 2008 led to the drop in surplus that year. Going forward, 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 underwriting earnings. As 2011 underwriting results are likely to produce a

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modest loss on the year, surplus growth is expected to be fairly small given the group's historically modest overall investment earnings. Nonetheless, 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.

CAPITAL GENERATION ANALYSIS (\$000)

Period Ending	Source of Surplus Growth						PHS Growth (%)
	Pre-tax Operating Income	Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax	Change in PHS	PHS	
2006	128,573	1,710	-508	-47,044	82,731	16.9	
2007	156,150	406	-508	-52,536	103,513	18.1	
2008	62,796	-10,580	-508	-31,679	20,030	3.0	
2009	176,810	4,835	1,093	-50,059	132,679	19.1	
2010	128,127	24,416	417	-47,813	105,148	12.7	
5-Yr	652,456	20,788	-13	-229,130	444,101	...	

Overall Capitalization: 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, these risks are 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. (%)
2006	571,992	49.2	...	50.8	-508	0.4	0.6
2007	675,505	41.7	...	58.3	-508	0.3	0.5
2008	695,535	40.5	...	59.5	-508	0.8	1.5
2009	828,214	34.2	...	65.8	-508	0.3	0.4
2010	933,362	30.4	...	69.6	-508	0.4	0.6

Underwriting Leverage: Leverage remains conservative and below industry composite norms. FM Global's underwriting leverage has improved over a five-year period as surplus growth has outpaced increases in underwriting commitments. While net written premium growth has remained flat over a five-year period, in force policies have grown over this period. Given soft market conditions, such growth has not resulted in an overall growth in premium volume. Nonetheless, the leverage of TIV to surplus has significantly decreased over the past ten years.

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.
2006	0.6	0.6	1.8	2.8	0.4	0.3	1.2	1.9
2007	0.5	0.5	1.5	2.2	0.4	0.3	1.2	1.9
2008	0.5	0.6	1.6	2.2	0.5	0.4	1.5	2.4
2009	0.5	0.5	1.4	1.9	0.4	0.3	1.3	2.0
2010	0.4	0.4	1.4	1.9	0.4	0.3	1.3	1.9

Current BCAR: 330.3

PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW		GPW		NPW		NPE	
	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)	(\$000)	(% Chg)
2006	601,838	16.0	603,790	16.1	347,268	4.6	326,327	4.6
2007	609,312	1.2	612,023	1.4	333,678	-3.9	328,844	0.8
2008	619,896	1.7	622,939	1.8	336,173	0.7	324,329	-1.4
2009	667,556	7.7	670,770	7.7	381,758	13.6	363,402	12.0
2010	690,363	3.4	693,706	3.4	347,670	-8.9	335,487	-7.7
5-Yr CAGR	...	5.9	...	5.9	...	0.9	...	1.5
5-Yr Chg	...	33.0	...	33.4	...	4.7	...	7.5

Reserve Quality: The group has reported favorable loss reserve development in its past nine 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 a 0.2% historical market net premiums share in commercial lines that is potentially exposed to asbestos and environmental claims. FM Global reported approximately \$631 million in net A&E reserves at year-end 2010, approximately 85% 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 '10	Develop. to Orig. (%)	Develop. to PHS (%)	Develop. to NPE (%)	Unpaid Reserves @12/10	Unpaid Res. to Develop. (%)
2005	286,672	323,559	12.9	7.5	103.7	136,676	42.2
2006	334,382	295,235	-11.7	-6.8	90.5	136,977	46.4
2007	321,388	262,658	-18.3	-8.7	79.9	137,334	52.3
2008	386,755	341,119	-11.8	-6.6	105.2	146,041	42.8
2009	352,707	291,966	-17.2	-7.3	80.3	174,098	59.6
2010	389,750	389,750	...	...	116.2	389,750	100.0

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

Accident Year	Orig. Loss Reserves	Developed Reserves Thru '10	Develop. to Orig. (%)	Unpaid Reserves @12/10	Acc. Yr Loss Ratio	Acc. Yr Comb Ratio
2005	133,762	135,768	1.5	8,212	60.8	84.2
2006	107,551	91,476	-14.9	301	26.7	49.5
2007	130,475	88,572	-32.1	357	38.5	63.6
2008	207,634	157,635	-24.1	8,707	80.3	100.7
2009	140,901	99,004	-29.7	28,057	34.5	58.6
2010	215,652	215,652	...	215,652	67.0	94.0

ASBESTOS & ENVIRONMENTAL (A&E) RESERVE ANALYSIS

Year	Net A&E Reserve (\$000)	Company				Industry Composite			
		Reserve Retention (%)	Net IBNR (%)	Survival Ratio (3yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)	Survival Ratio (3 yr)	Comb Ratio Impact (1 yr)	Comb Ratio Impact (3 yr)
2006	129,037	40.4	59.4	...	10.0	...	...	0.5	...
2007	131,371	42.6	59.4	...	0.2	...	...	0.7	...
2008	118,705	42.0	57.8	17.4	-0.3	3.3	7.4	0.3	0.5
2009	133,173	48.8	72.8	23.3	5.9	2.1	7.7	0.6	0.5
2010	116,953	48.9	73.4	12.1	-1.8	1.4	7.8	0.7	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 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 leverage. 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 approximate total recoverables are a reasonable 20% of surplus.

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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 (%)	
2006	549,053	57.5	70.9	96.0	44.5	43.8	72.7	
2007	491,231	54.5	52.3	72.7	46.1	36.9	67.1	
2008	448,427	54.0	47.8	64.5	44.4	53.1	94.7	
2009	411,079	57.2	34.2	49.6	50.1	34.5	66.9	
2010	432,919	50.3	31.2	46.4	55.5	29.0	57.7	

2010 REINSURANCE RECOVERABLES (\$000)

	Paid & Unpaid Losses	IBNR	Unearned Premiums	Other Recov*	Total Reins Recov
US Affiliates.....	59,537	...	18,395	...	77,932
Foreign Affiliates.....	1,763	504	1,572	...	3,839
US Insurers.....	87,624	86,891	40,046	...	214,561
Pools/Associations.....	11,251	17,169	1	...	28,421
Other Non-US.....	18,397	6,491	19,202	...	44,090
Total (ex US Affils).....	119,035	111,055	60,821	...	290,911
Grand Total.....	178,572	111,055	79,216	...	368,843

* 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	
2006	0.8	...	...	4.8	5.6	...	1.4	42.4
2007	0.0	...	...	4.1	4.2	...	1.3	40.0
2008	0.2	...	...	4.0	4.2	...	1.3	23.0
2009	0.1	...	...	11.5	11.6	...	1.4	26.3
2010	1.0	...	13.0	34.6	48.6	...	1.8	31.0	

LIQUIDITY

The following text is derived from the report of FM Global Group.

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 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. Heightened loss activity in 2011 led to increased loss payments and a reduction in cash flow measures relative to prior years. Despite the increased 2011 loss activity, A.M. Best expects cash flows from operations to remain 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 (%)
2006	9.1	160.2	182.5	17.0	69.4	151.9	220.4	13.7
2007	14.1	174.1	199.9	13.5	69.9	154.3	223.9	15.2
2008	27.2	169.6	190.9	13.9	43.9	121.8	199.7	22.1
2009	31.5	178.1	206.1	12.8	54.2	139.9	216.7	18.1
2010	43.2	184.8	196.7	12.1	56.8	147.0	210.9	15.6

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 (%)
2006	161,068	162,154	9,193	184.2	168.0	115.4	118.7
2007	97,738	104,232	-43,933	141.3	136.3	117.1	116.2
2008	65,969	77,803	151,477	123.5	123.5	108.7	113.5
2009	101,152	135,147	-20,521	139.0	147.4	111.7	115.7
2010	125,828	118,468	-11,948	153.3	139.6	125.6	138.6

HISTORY

The company was incorporated on May 6, 1949, under the laws of Rhode Island and began active operations on June 1, 1950. Paid-in capital of \$11,250,000 consists of 72,500 preferred shares at \$100 par value each and 80,000 shares of common stock at \$50 par value each. The company has 200,000 preferred and 100,000 common shares authorized. Administrative offices were moved from Providence to Johnston, Rhode Island, in mid-1973.

MANAGEMENT

Affiliated FM Insurance Company is a wholly owned subsidiary of FMIC Holdings, Inc., which is a wholly owned subsidiary of Factory Mutual Insurance Company, Johnston, Rhode Island. Factory Mutual Insurance Company is the surviving entity after a merger between Allendale Mutual, Arkwright Mutual and Protection Mutual, effective July 2, 1999. Prior to the merger, these three companies collectively formed the Factory Mutual System.

Administration of the company'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.

Officers: Chairman and Chief Executive Officer, Shivan S. Subramaniam; Vice Chairman, Antonius R. H. Bosman; Executive Vice Presidents, Jonathan W. Hall, Thomas A. Lawson; Senior Vice President and Secretary, John J. Pomeroy; Senior Vice Presidents, Gerardo L. Alonso, Carol G. Barton, Jeffrey A. Burchill, Brion E. Callori, Chris Johnson, Paul E. LaFleche, Michael C. Lebovitz, Jeanne R. Lieb, Enzo Rebula; Treasurer, William A. Mekrut.

Directors: Antonius R. H. Bosman, Frank T. Connor, Walter J. Galvin, John A. Luke, Jr., Jonathan D. Mariner, Gracia C. Martore, Christine M. McCarthy, Robert J. O'Toole, John R. Paloiian, David Pulman, Edward J. Rapp, Graham B. Spanier, Shivan S. Subramaniam, James C. Thyen, Alfred J. Verrecchia.

REGULATORY

An examination of the financial condition is being made as of December 31, 2008, by the insurance department of Rhode Island. The 2010 annual independent audit of the company was conducted by Ernst & Young, LLP. The annual statement of actuarial opinion is provided by John Dawson, Senior Consulting Actuary, Ernst & Young, LLP.

Territory: The company is licensed in the District of Columbia, Guam, Northern Mariana Islands, Puerto Rico, U.S. Virgin Islands and all states. It is also licensed in all Canadian provinces and territories.

REINSURANCE

The following text is derived from the report of FM Global Group.

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.

Best's Rating Report

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 \$700 million excess of its \$250 million per risk retention and \$1 billion excess of its \$250 million per catastrophe retention.

BALANCE SHEET

ADMITTED ASSETS (\$000)

	12/31/10	12/31/09	'10%	'09%
Bonds	1,118,440	1,074,841	58.4	66.3
Preferred stock .....	...	3,357	...	0.2
Common stock	322,948	95,160	16.9	5.9
Cash & short-term invest	124,404	136,352	6.5	8.4
Other non-affil inv asset	121,734	125	6.4	0.0
Total invested assets	1,687,527	1,309,835	88.1	80.8
Premium balances	113,025	106,287	5.9	6.6
Accrued interest	11,956	11,108	0.6	0.7
All other assets	102,919	194,486	5.4	12.0
Total assets	1,915,425	1,621,717	100.0	100.0

LIABILITIES & SURPLUS (\$000)

	12/31/10	12/31/09	'10%	'09%
Loss & LAE reserves	418,584	377,837	21.9	23.3
Unearned premiums	271,345	259,162	14.2	16.0
Conditional reserve funds	8,270	6,454	0.4	0.4
All other liabilities	283,865	150,049	14.8	9.3
Total liabilities	982,064	793,503	51.3	48.9
Capital & assigned surplus	283,986	283,061	14.8	17.5
Unassigned surplus	649,376	545,153	33.9	33.6
Total policyholders' surplus	933,362	828,214	48.7	51.1
Total liabilities & surplus	1,915,425	1,621,717	100.0	100.0

SUMMARY OF 2010 OPERATIONS (\$000)

Statement of Income	12/31/10	Funds Provided from Operations	12/31/10
Premiums earned	335,487	Premiums collected	361,894
Losses incurred	157,801	Benefit & loss related pmts	105,368
LAE incurred	12,262	LAE & undrw expenses paid	130,367
Undrw expenses incurred	93,403	Div to policyholders	331
Div to policyholders	341	Undrw cash flow	125,828
Net underwriting income	71,681	Investment income	56,069
Net investment income	56,654	Other income/expense	-208
Other income/expense	-208	Pre-tax cash operations	181,689
Pre-tax oper income	128,127	Income taxes pd (recov)	63,221
Realized capital gains	4,982	Net oper cash flow	118,468
Income taxes incurred	46,667		
Net income	86,442		

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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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