Best's Rating Report

Affiliated FM

AFFILIATED FM INSURANCE COMPANY

Johnston, Rhode Island

Financial Strength Rating
AM BEST
A+ Superior

A+
EFFECTIVE: October 1, 2010

Ultimate Parent: Factory Mutual Insurance Company
AFFILIATED FM INSURANCE COMPANY
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AMB#: 000103 **NAIC#: 10014**
Ultimate Parent#: 004067 **FEIN#: 05-0254496**

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 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 and have continued to remain profitable through 2010.

FM Global maintains relatively high common stock leverage which led to an 18% 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 has since rebounded 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

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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 current level of capitalization. Further, 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.

Best's Financial Strength Rating: A+ g **Outlook: Stable**

FIVE YEAR RATING HISTORY

Date	Best's FSR	Date	Best's FSR
10/01/10	A+ g	12/27/07	A+ g
10/06/09	A+ g	04/18/07	A+ g
12/19/08	A+ g	05/05/06	A+ g

KEY FINANCIAL INDICATORS ($000)

	Statutory Data					
Period Ending	Direct Premiums Written	Net Premiums Written	Pretax 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

	Profitability			Leverage			Liquidity	
Period Ending	Comb. Ratio	Inv. Yield (%)	Pretax 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 $551 million in 2010. 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)

	Premiums Written		% of Total	Pure Loss	Loss & LAE
Product Line	Direct	Net	NPW	Ratio	Res.
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%); other jurisdictions, $302,673 (43.8%); Canada, $98,895 (14.3%); Aggregate Alien, $397 (0.1%).

FINANCIAL PERFORMANCE

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

Overall Earnings: Overall strong returns have followed underwriting earnings that outpaced net investment income by slightly more than 2.5 times over a five-year period. Strong underwriting earnings have been the result of the group's strong loss control procedures, low expense ratio and (in prior years) favorable market conditions. As market conditions have softened, overall operating profits have remained strong due to FM Global's adherence to conservative risk management and pricing strategies. Total returns were negatively impacted in 2008 due to 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. Return measures improved in 2009 on favorable underwriting and investment results. A number of large risk losses led to a reduction in underwriting earnings in 2010 relative to the prior year; nonetheless, underwriting results are expected to remain positive on the year.

The group's investment yield lags its industry peers as invested assets are skewed towards common stock holdings that represent approximately 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 — despite the marked improvement in 2009 — lag its peer composite. The ongoing volatility within the equity markets is expected to negatively impact investment returns in 2010.

PROFITABILITY ANALYSIS

	Company				Industry Composite			
Period Ending	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio	Pretax ROR (%)	Return on PHS	Comb. Ratio	Oper. Ratio
2006	39.4	15.2	74.1	58.9	24.3	16.5	86.4	75.2
2007	47.5	16.1	69.7	52.1	27.4	13.1	83.4	72.0
2008	19.4	3.8	98.0	79.8	12.2	-10.3	97.7	87.7
2009	48.7	15.7	66.0	50.1	24.9	17.9	83.5	74.3
2010	38.2	12.0	77.7	60.8	…	…	…	…
5 -Yr	38.9	12.4	76.8	60.1	…	…	…	…

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. Favorable underwriting results since 2001 have led the company to provide four membership credits totaling nearly $1.5 billion including a $420 million membership credit that is being issued between June 30, 2010 and June 29, 2011.

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 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 from the prior year in 2010 due to a number of large risk (non-catastrophic) losses and will also be impacted (during the second half of the year) by the issuance of a membership credit.

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. Since 2008, the U.K. company has written to an underwriting profit.

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 $551 million for 2010, 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

		Loss Ratios			Expense Ratios				
Period Ending	Net Undrw Income ($000)	Pure Loss	LAE	Loss & LAE	Net Comm.	Other Exp.	Total Exp.	Div. Pol.	Comb. Ratio
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. Although total investment returns also lag the group's peer composite, they have benefited in select years under capital gains on the group's substantial equity portfolio and similarly suffered when the equity markets drop. Net investment income has generally grown annually due to reinvestment of strong cash flows into fixed income securities. Net investment income did fall somewhat in 2009 on the group's reduced dividend income while total investment returns improved on the year as the investment market rebounded somewhat. Although net investment income in 2010 is expected to be largely unchanged from the prior year, total investment returns may be negatively impacted under continued volatility within the equity marketplace.

INVESTMENT INCOME ANALYSIS ($000)

	Company						Industry Composite	
Period Ending	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	13.8	3.1
2007	57,869	910	-504	16.7	5.4	5.4	16.0	3.4
2008	58,906	-3,892	-6,688	1.8	5.1	4.2	-0.8	3.4
2009	57,673	910	3,925	-2.1	4.6	5.0	-9.5	3.1
2010	56,654	4,982	19,434	-1.8	3.8	5.5	…	…
5-Yr	…	…	…	6.8	4.7	5.1	…	…

INVESTMENT PORTFOLIO ANALYSIS

Asset Class	2010 Inv. Assets ($000)	% of Invested Assets 2010	% of Invested Assets 2009	Annual % Change
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)
Governments	19.2	3.4	7.8	100.0	…	…	…
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 and have also negatively impacted surplus accretion in 2010. Nonetheless, such losses are unlikely to reach 2008 levels and a modest increase in surplus is likely to occur in 2010. Going forward, the group's surplus growth may continue to be constrained from time to time due to the large exposure to equities. 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)

	Source of Surplus Growth					
Period Ending	Pretax Operating Income	Total Inv. Gains	Net Contrib. Capital	Other, Net of Tax	Change in PHS	PHS Growth (%)
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)

		% of PHS			Dividend Requirements		
Period Ending	Year-End PHS	Cap. Stock/ Contrib. Cap.	Other	Unassigned Surplus	Stock-holder 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. 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. Further, the leverage of TIV to surplus has significantly decreased over the past ten years.

LEVERAGE ANALYSIS

	Company				Industry Composite			
Period Ending	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	0.4	1.3	2.0
2007	0.5	0.5	1.5	2.2	0.4	0.3	1.3	1.9
2008	0.5	0.6	1.6	2.2	0.5	0.4	1.6	2.5
2009	0.5	0.5	1.4	1.9	0.5	0.3	1.3	2.0
2010	0.4	0.4	1.4	1.9	…	…	…	…

Current BCAR: 264.4

PREMIUM COMPOSITION & GROWTH ANALYSIS

Period Ending	DPW ($000)	DPW (% Chg)	GPW ($000)	GPW (% Chg)	NPW ($000)	NPW (% Chg)	NPE ($000)	NPE (% 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 eight 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 $667 million in net A&E reserves at year-end 2009, approximately 85% of this amount pertaining to asbestos liabilities. The group's net A&E reserves represent approximately 25% 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

	Company						Industry Composite		
Year	Net A&E Reserve ($000)	Reserve Reten-tion (%)	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)
2006	129,037	40.4	59.4	…	10.0	…	…	0.5	…
2007	131,371	42.6	59.4	…	0.2	…	8.5	0.7	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	…	…	…

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 21% of surplus.

CEDED REINSURANCE ANALYSIS ($000)

Period Ending	Ceded Reins. Total	Company: Bus. Ret. (%)	Company: Reins. Recov. to PHS (%)	Company: Ceded Reins. to PHS (%)	Industry Composite: Bus. Ret. (%)	Industry Composite: Reins. Recov. to PHS (%)	Industry Composite: Ceded Reins. to PHS (%)
2006	549,053	57.5	70.9	96.0	46.9	42.9	71.7
2007	491,231	54.5	52.3	72.7	49.0	38.6	68.2
2008	448,427	54.0	47.8	64.5	47.7	54.5	95.2
2009	411,079	57.2	34.2	49.6	51.5	34.9	67.0
2010	432,919	50.3	31.2	46.4	...	...	...

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: Class 3-6 Bonds	Company: Real Estate/ Mtg.	Company: Other Invested Assets	Company: Common Stocks	Company: Non-Affil. Inv. Lev.	Company: Affil. Inv.	Industry Composite: Class 3-6 Bonds	Industry Composite: Common Stocks
2006	0.8	...	...	4.8	5.6	...	1.6	42.8
2007	0.0	...	...	4.1	4.2	...	1.4	39.8
2008	0.2	...	...	4.0	4.2	...	1.5	23.1
2009	0.1	...	...	11.5	11.6	...	1.6	25.8
2010	1.0	...	13.0	34.6	48.6	...	...	...

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. Ultimately, A.M. Best expects cash flows from operations to remain very strong in the medium term.

LIQUIDITY ANALYSIS

Period Ending	Company: Quick Liq. (%)	Company: Current Liq. (%)	Company: Overall Liq. (%)	Company: Gross Agents Bal. to PHS (%)	Industry Composite: Quick Liq. (%)	Industry Composite: Current Liq. (%)	Industry Composite: Overall Liq. (%)	Industry Composite: Gross Agents Bal. to PHS (%)
2006	9.1	160.2	182.5	17.0	66.6	151.4	217.4	13.8
2007	14.1	174.1	199.9	13.5	67.6	153.0	220.3	15.5
2008	27.2	169.6	190.9	13.9	41.8	121.3	196.8	22.7
2009	31.5	178.1	206.1	12.8	51.6	139.5	213.8	18.4
2010	43.2	184.8	196.7	12.1	...	...	...	...

CASH FLOW ANALYSIS ($000)

Period Ending	Company: Underw Cash Flow	Company: Oper. Cash Flow	Company: Net Cash Flow	Company: Underw Cash Flow (%)	Company: Oper. Cash Flow (%)	Industry Composite: Underw Cash Flow (%)	Industry Composite: Oper. Cash Flow (%)
2006	161,068	162,154	9,193	184.2	168.0	116.0	118.5
2007	97,738	104,232	-43,933	141.3	136.3	115.0	114.4
2008	65,969	77,803	151,477	123.5	123.5	108.4	112.7
2009	101,152	135,147	-20,521	139.0	147.4	110.5	115.0
2010	125,828	118,468	-11,948	153.3	139.6	...	...

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 Alonso, Carol Barton, Jeffrey A. Burchill, Brion Callori, Chris Johnson, Paul E. LaFleche, Jeanne R. Lieb, Enzo Rebula; Treasurer, William A. Mekrut.

Directors: Antonius R. H. Bosman, Walter J. Galvin, John A. Luke, Jr., Jonathan D. Mariner, Gracia C. Martore, Christine M. McCarthy, Robert J. O'Toole, John R. Paloian, 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 2009 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.

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 $550 million excess of its $150 million per risk retention and $1,050 million 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
Premiums earned	335,487
Losses incurred	157,801
LAE incurred	12,262
Undrw expenses incurred	93,403
Div to policyholders	341
Net underwriting income	71,681
Net investment income	56,654
Other income/expense	-208
Pre-tax oper income	128,127
Realized capital gains	4,982
Income taxes incurred	46,667
Net income	86,442

Funds Provided from Operations	12/31/10
Premiums collected	361,894
Benefit & loss related pmts	105,368
LAE & undrw expenses paid	130,367
Div to policyholders	331
Undrw cash flow	125,828
Investment income	56,069
Other income/expense	-208
Pre-tax cash operations	181,689
Income taxes pd (recov)	63,221
Net oper cash flow	118,468

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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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